

Non-durables boost retail confidence index

With the contraction in sales figures across almost all sectors of the market, the Q1 2009 result of the Bureau for Economic Research shows a slight increase in retail business confidence in the quarter, said Derek Engelbrecht, retail and consumer products sector leader at Ernst & Young, Tuesday 7 April 2009.

This increase in confidence is a result of stronger than expected sales among non-durable goods during the quarter, increasing from 57 index points to 80 points, this is in stark contrast to the mood in the semi-durable sector where the confidence levels deteriorated sharply to 38 index points from its previous level of 66 points. The sentiment among retailers of durable goods remained depressed at 30 index points.

Engelbrecht said that retailers across the spectrum are actively cutting down on their inventory levels as they expect conditions to deteriorate further.

“The decrease in inventory levels across most sectors is having an adverse effect on both the wholesale and manufacturing sectors as even with current sales levels being maintained, the other sectors will see a decline in sales in the short term,” he says.

“With the ratio of present inventory to expected demand regarded as too high in all sub-sectors, retailers are cutting their orders to get back to more sustainable levels,” he comments.

He added that apart from the durable goods sector and the non-consumer wholesale goods, the rate increase in both the purchase and selling prices slowed considerably raising the prospect of lowered inflation.

“The knock-on effect of this is that we are likely to see downward pressure on profit margins in the retail and wholesale sectors,” he said.

“At the same time we are seeing workforce reduction in some sectors, mostly with the aim of cutting back costs to restore profitability,” Engelbrecht adds.

At the moment the only part of the retail sector that still has a positive attitude is that which supplies the basic commodities required and this is a direct result of people redirecting their family budgets towards basic necessities and away from luxury goods.

Should economic conditions decline further it is likely that even this sector will come under pressure and that current high confidence levels will not be sustainable, he concluded.