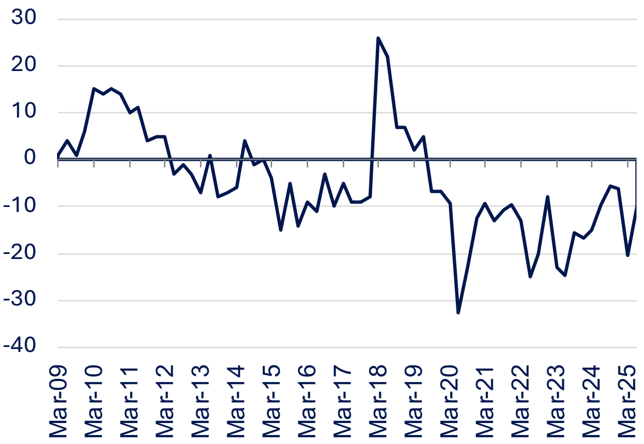
From our **Fund Manager's Desk**

Authors: Lieketseng Pitse / Senior Equity Analyst
Khumbelo Nevhorwa / Senior Equity Analyst

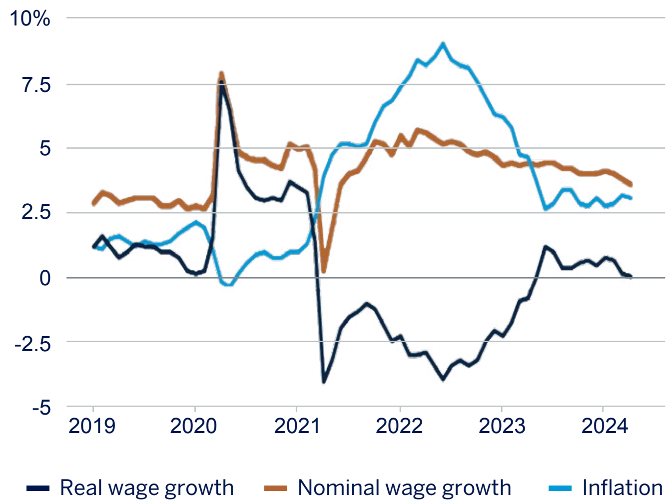
State of the South African consumer

Over the past decade, South Africa's economic growth has remained sluggish, largely due to insufficient infrastructure investment and persistent load shedding. These challenges have dampened business confidence, discouraged investment, and stifled employment, credit, and wage growth. Consequently, consumer confidence has weakened, as reflected in the FNB BER index. This report explores the current state of the South African consumer, highlighting key trends and identifying which businesses are best positioned to succeed in this challenging environment.

CONSUMER CONFIDENCE INDEX



INFLATION VS WAGE GROWTH



Source: FNB/BER Consumer Confidence Index, SARB, Economic Policy Institute

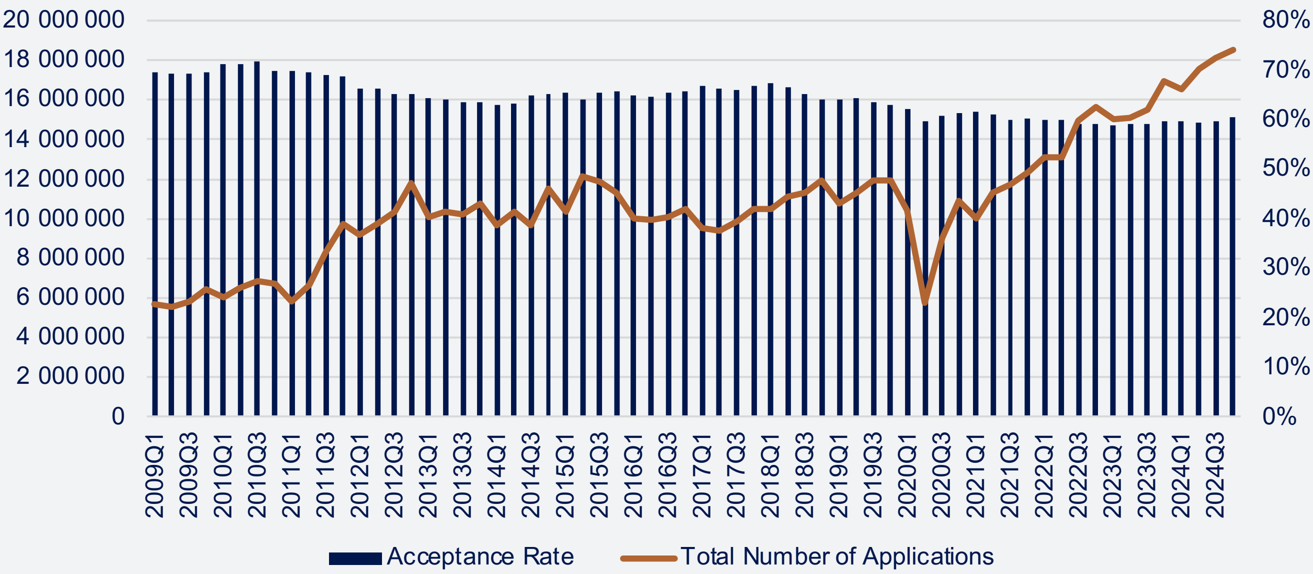
Credit appetite and consumer affordability

Consumers' demand for credit often reflects their financial position—whether it's for asset purchases like homes and vehicles, or for short-term needs like credit cards and overdrafts. Inflation and interest rates play a key role in shaping this appetite, as they directly impact consumers' debt-to-income ratios. Higher interest rates and inflation reduce affordability, while lower rates improve it. Understanding this dynamic is essential for banks and retailers when evaluating credit decisions.

Credit application trends:

The graph below illustrates sustained credit demand across both banks and retailers. Over the past 15 years, credit applications have grown at an average annual rate of 8.02%, despite a 0.23% annual decline in the employment rate and nominal wage growth averaging 5.4%. This trend suggests growing consumer reliance on credit - either for asset purchases or, more concerningly, to meet everyday expenses.

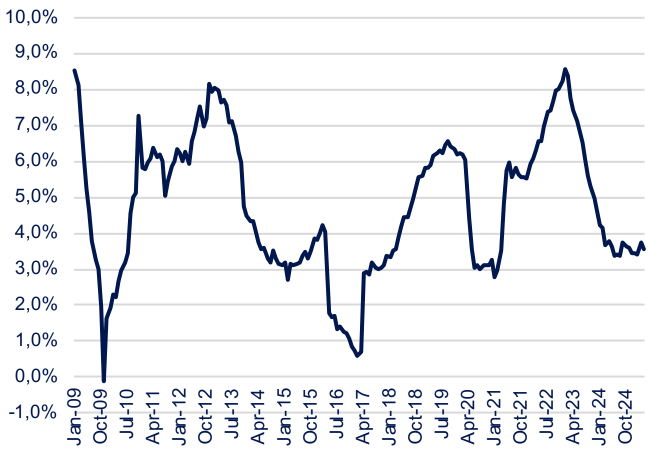
RETAIL CREDIT APPLICATION



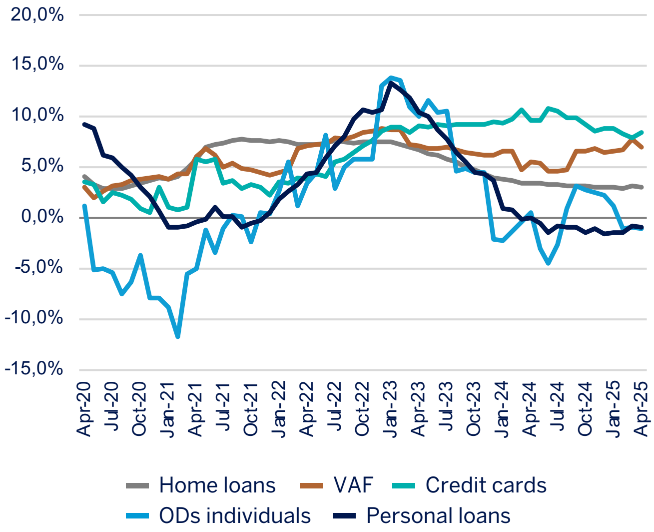
Source: NCR credit quarterly data

Retail credit growth:

RETAIL CREDIT GROWTH



RETAIL CREDIT GROWTH BY PRODUCT



Source: BA900

According to SARB data, credit growth in South Africa remains subdued, with a year-on-year increase of just 4.2% from April 2024 to April 2025. This muted growth reflects weak employment trends, elevated interest rates, and low consumer confidence.

Although SARB has cut interest rates by 75 basis points so far this year (with a further 25 basis points expected in Q3), the total 100 bps in projected cuts—bringing the repo rate to a neutral 7%—has not significantly improved consumer disposable income. These rate cuts largely normalise borrowing conditions in line with inflation but are unlikely to enhance credit affordability without real wage growth or further monetary easing.

How are credit providers responding?

Lenders remain cautious, especially in unsecured credit:

- / Personal loans and overdrafts have seen reduced issuance since 2020 due to high risk.
- / Credit cards are growing more rapidly, partly due to new entrants like Capitec and the appeal of ongoing non-interest revenue from revolving credit.

On the secured side:

- / Vehicle and asset finance (VAF) is currently the fastest-growing segment.
- / Home loans remain weak, suppressed by high interest rates since 2023. That said, the ongoing rate-cutting cycle could spur a moderate recovery.

Consumer credit demand outlook

We believe demand for credit will keep rising, especially if nominal wage growth stays weak. Unsecured lending will remain important as consumers look for ways to meet their short-term financial needs. However, with lenders tightening access to credit—particularly in the unsecured segment—many households are being forced to cut back on spending.

How are retailers responding?

Consumer Staples and Discretionary

Over the past decade, South Africa has experienced modest economic growth, leading to a decline in consumer disposable income. To remain competitive in this challenging environment, consumer-facing companies have had to adopt innovative strategies. In the following section, we will assess key approaches being implemented by both consumer staple and consumer discretionary companies in South Africa as they adapt to the current economic landscape.

1/ Consumer Staples

TECHNOLOGICAL INNOVATION | LOYALTY PROGRAMS

Source: Boxer Results Presentation

Source: Shoprite Results Presentation

Retail Loyalty Programs: A strategic advantage for retailers and consumers

Over the years, retailers have developed loyalty programs as powerful tools to engage and retain customers throughout their entire shopping journey. These programs go beyond simply selling products—they sell a lifestyle. With the integration of artificial intelligence (AI) and machine learning (ML), retailers can now personalise the shopping experience, enhance service delivery, and optimise their supply chains. A standout example of this success is Shoprite Holdings, which has leveraged loyalty programs to redefine the food retail experience.

Key benefits of retail loyalty programs

- Alternative Revenue Streams: By understanding customer preferences, retailers can develop private label products with attractive margins tailored to their target market. Loyalty card data also enables the promotion of lifestyle-oriented offerings such as financial services, entertainment, and other non-retail products—opening up multiple income streams through one platform.

- Improved Operational Efficiency: Loyalty programs support more effective marketing and promotions, such as member-only discounts. These exclusive deals not only drive customer retention but also strengthen partnerships with suppliers, supporting strategies like Everyday Low Prices (EDLP).

- Enhanced Working Capital Management: Efficient operations and supply chains are vital for keeping products both affordable and accessible. For instance, Shoprite supports small businesses through Enterprise Supplier Development initiatives by offering financing options like CreditX, ensuring consistent stock levels at optimal quantities.

- Personalised Customer Engagement: Loyalty programs allow retailers to tailor their offerings based on buying patterns, deepening their connection with customers. For example, Clicks reports that ClubCard members account for approximately 82% of its sales—a clear indication of the impact of personalised engagement.

2/ Consumer Discretionary

Retail Liaison Commission (RLC):

Since Consumer Discretionary spending primarily includes non-essential goods and services, consumers tend to cut back on them and/or replace them with value substitutes during tough economic periods. Nevertheless, retail companies must continue operating through all phases of the economic cycle. This has resulted in disproportionate growth in value retailers, reflecting a broader shift in consumer spending patterns in South Africa.

A significant portion of consumers remains unbanked and underserved. In response to this challenge, retailers have expanded their value-added services, with a particular emphasis on enhancing FinTech product and service offerings.

Fintech

CREDIT

mr price money

- / 6 – 24 revolving facilities
- / Start-up (3 to 4 months term) for 'new customers'
- / Big ticket items fixed pay down payment.

INSURANCE

mr price insurance

OUTSURANCE

SHOPRITE

- / Family Funeral Plan
- / Device Cover
- / Lost Card Protection Plan

TELECOMS - MOBILE VIRTUAL NETWORK OPERATOR (MVNO)

mr price cellular

mr price mobile

Power CELL

- / Increased affordability for consumer – quality and value for the customer.
- / For business – improves sales volumes (promotional key driver) at better margins.

Survival of the most agile in a tough environment:

In the current economic environment, consumer-focused industries—including retail, banking, and insurance—are encountering significant challenges. South Africa's official unemployment rate remains elevated; simultaneously, real wage growth has been modest, leading to constrained consumer purchasing power. Consequently, businesses are competing for a limited and stagnant market share, intensifying competition across sectors.

Who is the ultimate winner?

In our view, companies that combine innovation, strategic marketing investment, and operational efficiency are best positioned to succeed. Over time, those that win a larger share of the client's wallet consistently outperform.

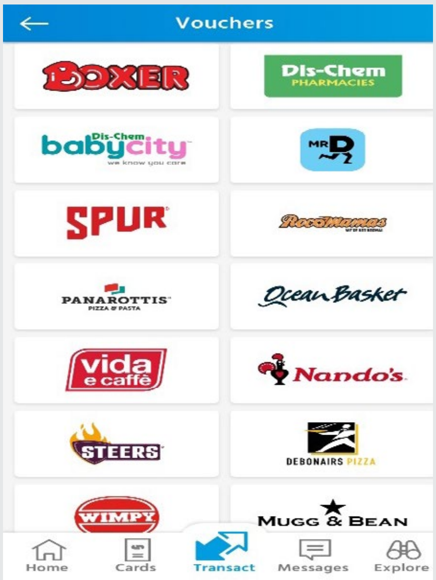
Key trends that you need to win

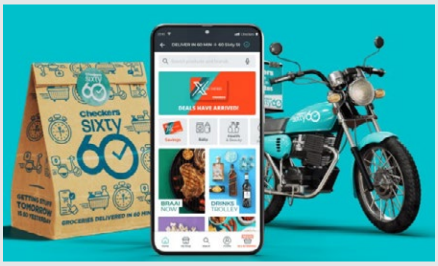
PARTNERSHIPS

/ Reward cards – Increase loyalty and share of wallet from client.

/ Partnerships across Retailers and Banks – Increase volumes and data gathering accross both brands.

TECHNOLOGICAL INNOVATION





/ Banking applications – value-added services such as vouchers, airtime, travel, money transfer, electricity etc. – increase alternative revenue lines.

/ Last mile delivery – simplicity and increased convenience.

PRIVATE LABEL

/ Promotions and Discounts - Increased affordability for consumer (quality and value for the customer).

/ Cost Efficiency – improves sales volumes (promotional key driver) at better margins.

Source: Co. websites and presentations

Conclusion

In summary, the South African consumer landscape is shaped by economic headwinds, cautious lending practices, and evolving retail strategies. Businesses that demonstrate agility and innovation — particularly through technology and loyalty programs — are more likely to thrive. Understanding consumer behaviour, managing credit risk, and optimising operational efficiency will be critical for companies aiming to capture a greater share of the consumer wallet in this constrained environment.

It's Personal.

MelvilleDouglas
Standard Bank Group