

Corporate and Investment Banking



Consume This Newsletter

Volume 3 – Jan 2023

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Welcome to the *Consume This* Newsletter

This publication gives you the latest news in the Consumer Goods and Services Sector and shares some of our key insights and findings. We consistently highlight consumer priorities, constraints and new patterns that emerge and are likely here to stay long after we recover from this pandemic. With the *Consume This* content, we share our views on how retail and related sectors are being shaped by the current and other events in this fast-changing world.



Load-shedding: the new normal?

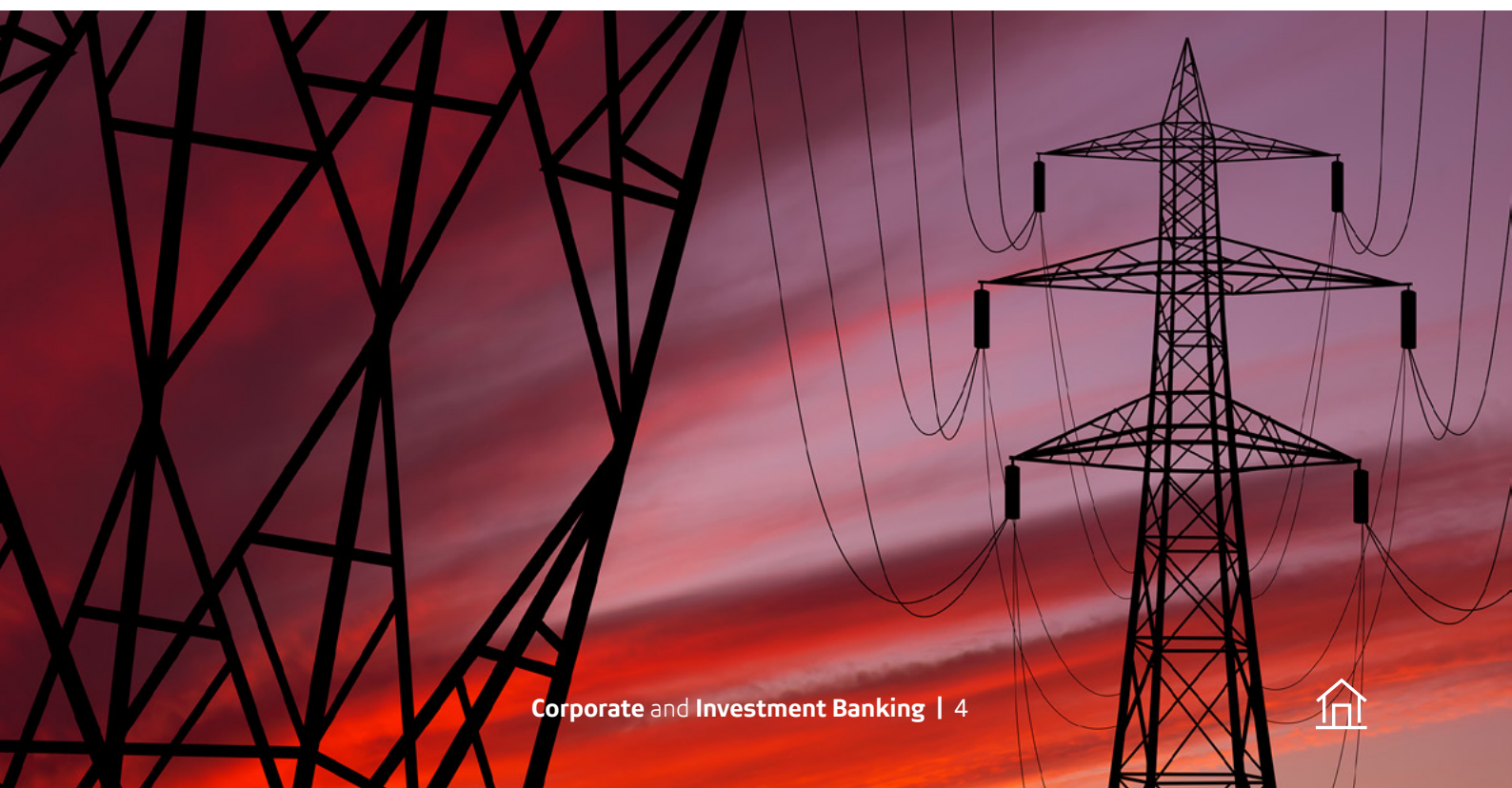
When days are dark, renewable charges you...

South Africa is facing an unprecedented energy crisis and Stage 6 load-shedding was implemented within the first month of the year. In 2022, we saw load-shedding implemented 57% of the year, compared to 21% in 2021. Eskom has warned the country to brace for prolonged load-shedding at potentially escalating stages due to diesel shortages, budget constraints, as well as their ongoing struggle with breakdowns and the sabotage of infrastructure.

Businesses and households alike are forced to address the energy shortfalls at their own cost. The ongoing energy crisis and elevated levels of load-shedding are having a profound impact on South Africa's economy and society at large, making it difficult for businesses to plan, operate and trade at normal levels. This is adding abnormal costs to business, including the inability to pass on the impact of inflation and the costs of dealing with load-shedding to the consumer in full.

We are increasingly witnessing the devastating impact that load-shedding is having on business production right through the supply chain. Shoprite recently reported that they spent a staggering R560 million on diesel to operate generators across its South African supermarket store base to continue trade during load-shedding. In addition, TFG reported a loss of approximately 120 000 trading hours for the first two months of 2023. This represents 9.4 times the lost trading hours over the same period in the previous financial year and approximately 345 000 trading hours over an 11-month period.

Sustained, lengthy power cuts by Eskom are also affecting water pumping systems, which have disrupted supplies and prompted high water consumers such as food producers to invest in storage facilities. Libstar has announced that it is considering recycling water to reduce waste and ensure a steady supply amid sustained load-shedding after reporting a 12% drop in annual earnings.





Regardless of the size of the business and/or location, Stage 1 load-shedding can shut down operations if there is no backup for business continuity. Load-shedding contributes to the drop in monthly income, foot traffic and overall performance of business. Some of the challenges faced by small businesses are:

- Loss of production when a business relies heavily on electricity to run the machinery and equipment.
- Loss of income where customers tend to postpone their shopping, resulting in a drop in foot traffic and sales.
- Theft and burglary due to poor mobile network performance and alarm system failure.

Furthermore, the South African Poultry Association (SAPA) has also reported an impact on their manufacturing process resulting in farmers' inability to get chickens through the slaughter process, thereby impacting their ability to supply restaurants and food retailers due to constant power cuts. SAPA members have had to cull over 10 million 10-day-old chicks due to disruptions caused by constant disruptions due to persistent load-shedding.



Absa partners with TiAuto to power up TiAuto stores

"It is an established fact that in 2022 alone, South Africa had more than 200 days of Eskom load-shedding and that South Africa has had non-stop, continuous load-shedding for at least the past 60 days or so," says Professor Bonke Dumisa, one of South Africa's foremost economists and jurists. This dark reality is wreaking havoc for all South Africans on a daily basis, adding to an already volatile landscape and mounting increased economic pressures. Business owners have been heavily impacted and will continue to be heavily impacted by load-shedding for the foreseeable future. Apart from the direct impact on businesses' ability to trade, one should also recognise the impact on their clients, the consumers on whom they rely, as well as the impact on supply chains, which are inevitable. However, most businesses that can afford to are considering alternative options in energy generation to keep producing and trading.

One of Absa's longstanding corporate clients, TiAuto Investments Proprietary Limited ("TiAuto"), recently took the step to embark on an alternative electricity solution, with the clear objective to reduce electricity cost and minimise the impact of load-shedding. TiAuto is the holding company of South Africa's best-loved brands in retail and wholesale wheels, tyres and automotive-related products and services. The company is also South Africa's largest consumer tyre retailer. The business embarked on a green solar project to install solar systems at their corporate-owned retail stores in a two-phased approach during the last quarter of 2022.



Let's go together.

Tiger
Wheel & Tyre





TiAuto has a retail division of 152 retail stores under the name of Tiger Wheel & Tyre and Tyres & More. As part of phase one, solar systems were installed in their corporate-owned retail sites. Their leased premises, where landlords allow an installation on their premises, forms part of the phase 2 rollout; this phase 2 is currently underway.

TiAuto's motive for the project was supported by additional costs and revenue detraction across their stores as a result of load-shedding. While all stores have generators, the impact on traffic congestion often resulted in consumers reducing movement during load-shedding periods. Further to this, the cost of running a generator for a day is inhibitive for many businesses. The cost of diesel is extraordinary, and the company cites that the increase in consumption has been astronomical.

By way of example, the cost of diesel compacting Q4 2021 to Q4 2022 saw a 775% increase and add to this basic maintenance on the generator fleet, which must be done every 200 running hours at a cost of over R500 000 on the national fleet, together with any unforeseen breakdown of generators as well as damage to sensitive electrical equipment, is running into millions every year. TiAuto, therefore, implemented a grid-tied solar solution with the Tiger Wheel & Tyre Fourways site being the pilot site for installation.

Absa is a proud partner to TiAuto in their initiative through our understanding of their needs, as well as by putting together a competitive solution to assist in the funding, from which they have successfully installed solar systems to 16 of the owned stores in phase 1.

It is Absa's ambition to continue to support our client base and serve our society's economic needs by being the bank that enables strategies in all areas of their business needs, albeit under pressure or in a posture of growth.

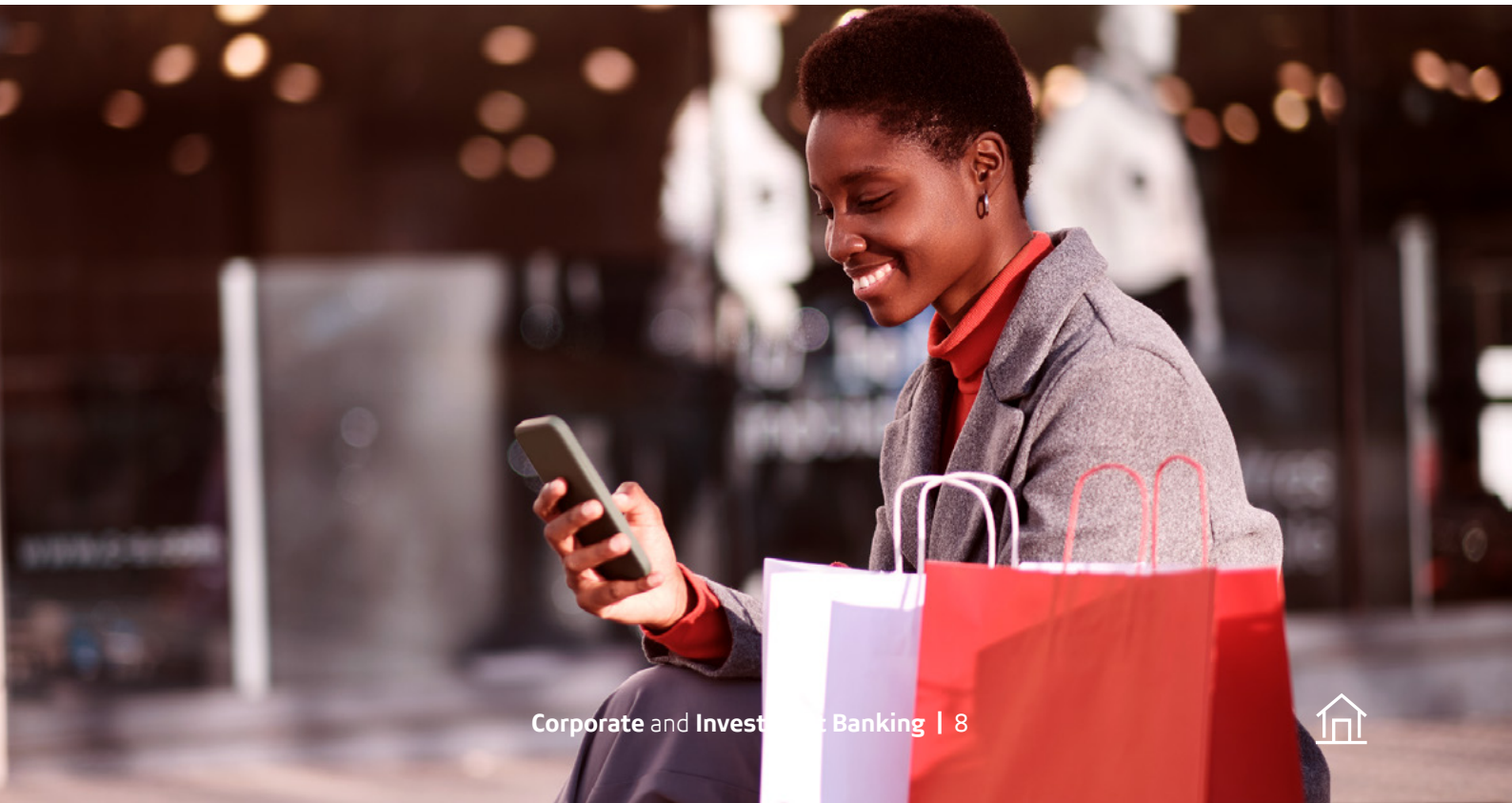


January merchant spend analysis¹

The effect of inflation and interest rate hikes

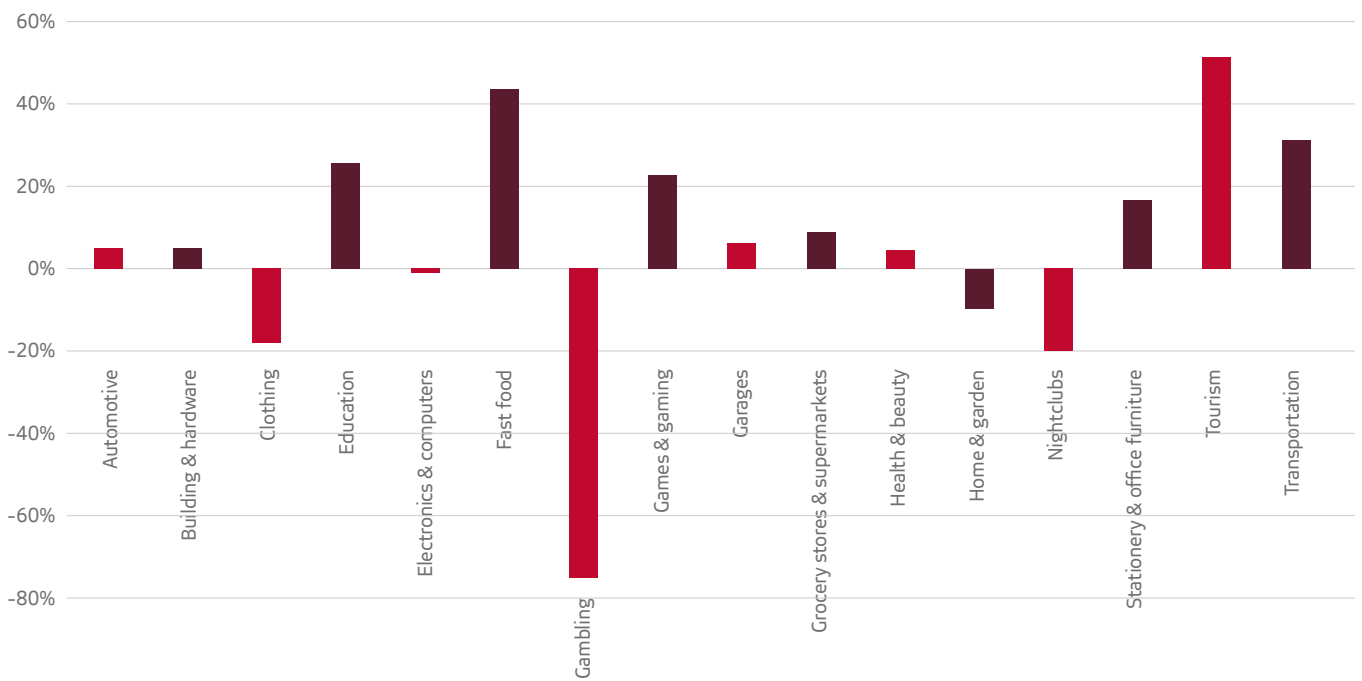
When comparing spending in January 2022 and 2023, we note the decline in spending especially on the non-essentials. Spending on gambling showed the biggest decline followed by home and gardening, which is a clear indication that consumers are forced to choose between needs and wants.

YTD January	2021-2022	2023	CAGR	Full year 2022
Automotive	24%	6%	15%	13%
Building and Hardware	9%	6%	7%	6%
Clothing	27%	-19%	1%	1%
Education	155%	22%	76%	30%
Electronics and Computers	12%	-1%	5%	10%
Fast Food	41%	44%	42%	57%
Gambling	94%	-73%	-28%	-9%
Games and Gaming	125%	21%	65%	72%
Garages	32%	6%	18%	19%
Grocery Stores and Supermarkets	9%	11%	10%	8%
Health and Beauty	-5%	5%	0%	17%
Home and Garden	8%	-12%	-3%	0%
Nightclubs	511%	-20%	121%	22%
Stationery and Office Furniture	55%	17%	35%	23%
Tourism	126%	51%	85%	80%
Transportation	32%	29%	30%	105%





Merchant spend % change per category



¹ MSA data as at 13/02/2023

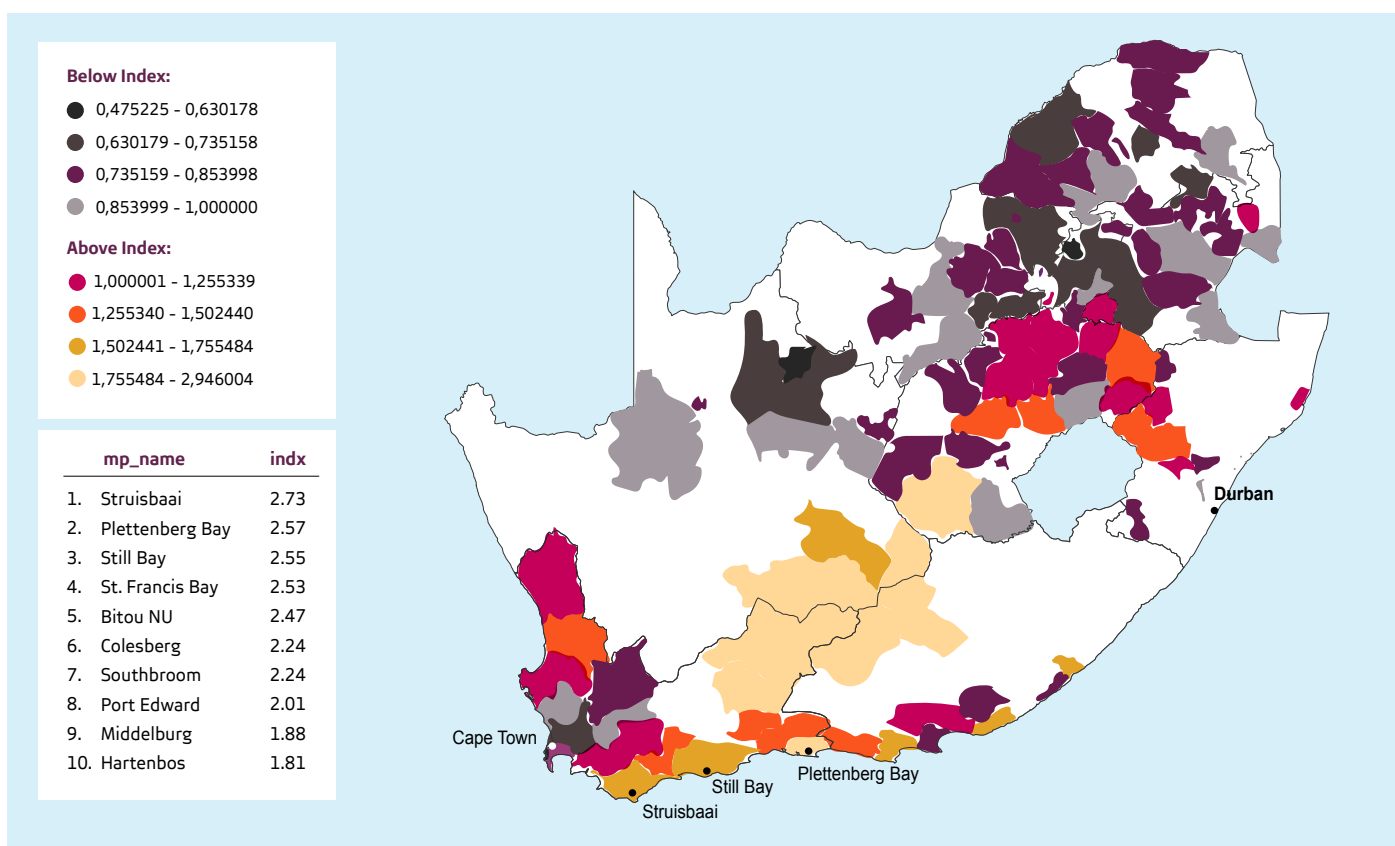


Festive travel report back²

Top versus bottom performing metros over the festive season

1. Top-performing towns

This table shows the highest indexing towns over the festive period from 16 December 2022 to 8 January 2023.



Insights:

Coastal towns benefit most from festive season holidaymakers. The Southern Cape's traditional tourist towns maintain their status. Identifying thorough fare towns could be lucrative seasonal investments.

Key observations:

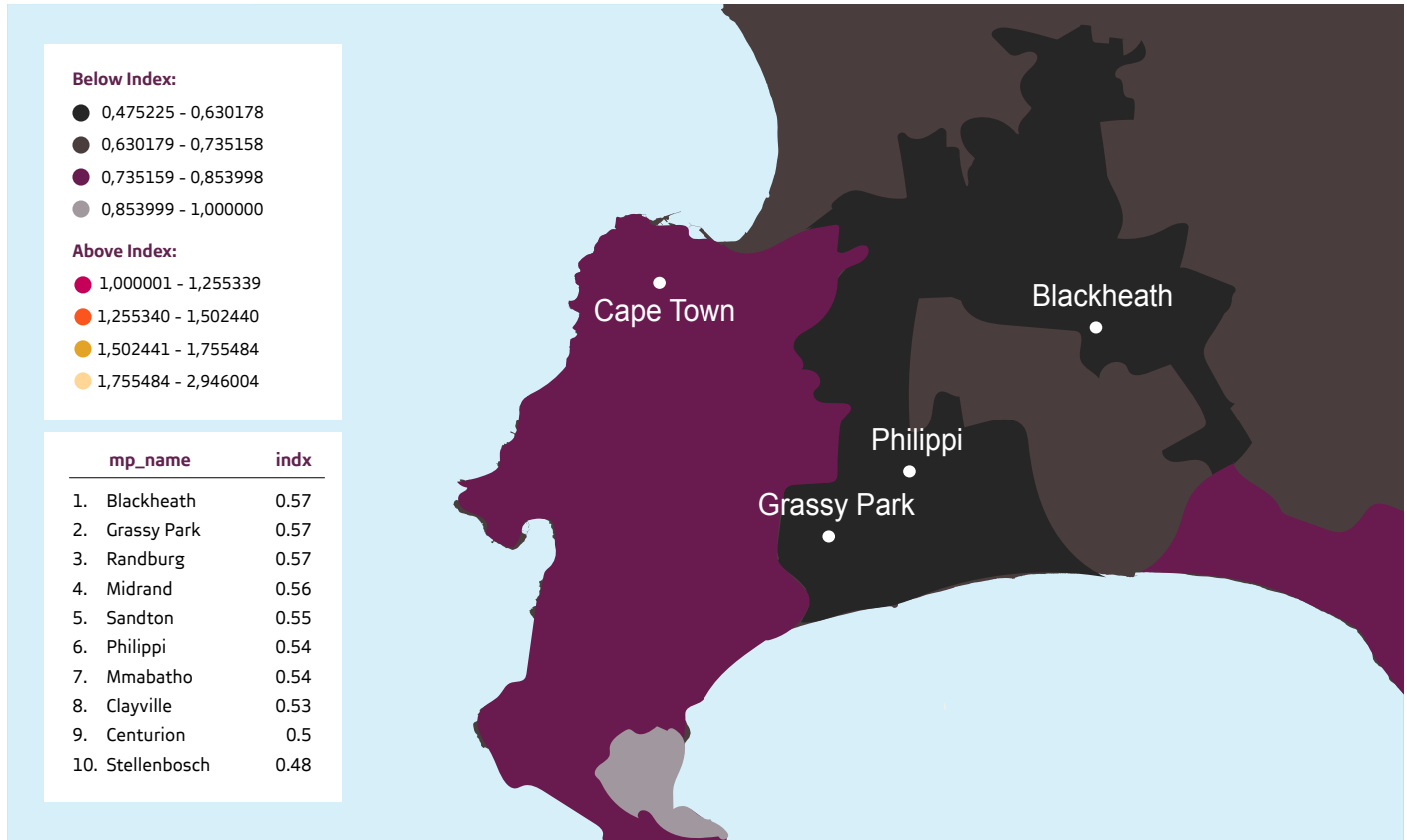
Middelburg and Colesberg at ninth and sixth respectively most likely indicate the stop-over and fuel stops en route to holiday destinations. Of the remaining eight top towns, two towns (Southbroom and Port Alfred) are in KwaZulu-Natal, and the remaining are in the Southern Cape. Southbroom and Port Alfred are adjacent towns and create a hub of festive season holidaymakers. Similarly, Plettenberg Bay creates a hub with BitouNU, which includes Keurbooms and Nature's Valley. The top four on the top 10 list all see over 2.5 times the average visitation during the holiday period compared to the two months before. Hartenbos at 10 on the list sees an 80% increase in visitation.

² IRL Consulting – www.irlconsult.com



2. Bottom-performing towns

This table shows the highest-indexed towns over the festive period from 16 December 2022 to 8 January 2023.



Insights:

Cape Town and Johannesburg are the most affected by the festive season. They make up nine of the bottom 10. There may not be means to maintain visitation in the festive season, but it does provide an indication of where coastal towns should be marketing to attract holidaymakers and where there is a risk of retail oversupply.

Key observations:

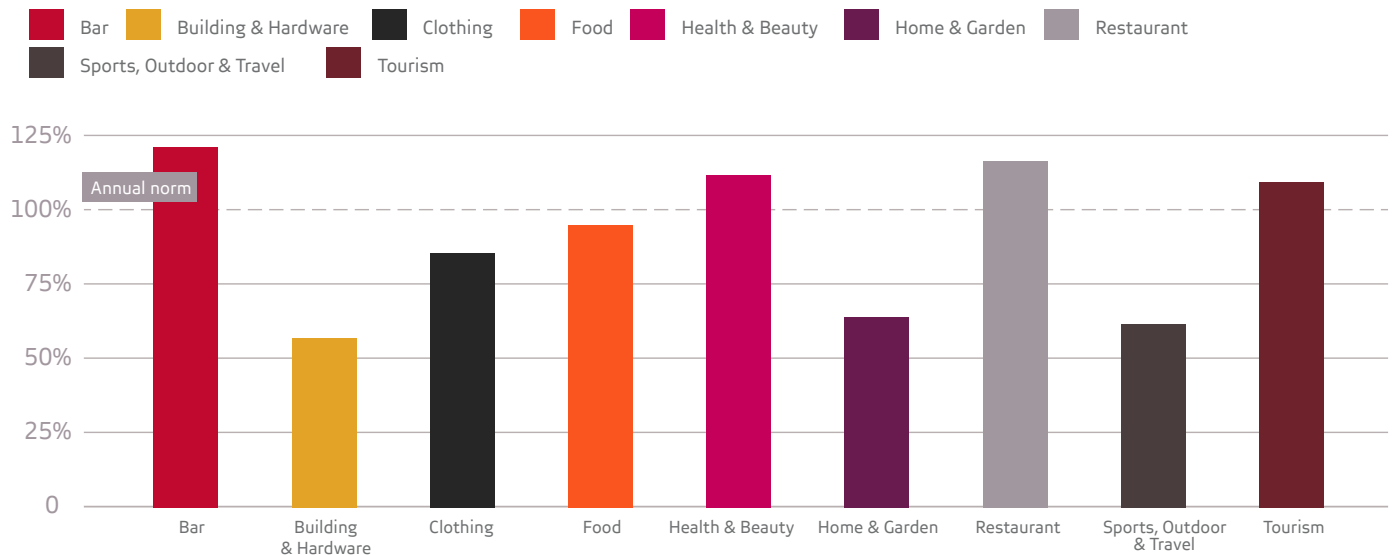
We see the four Gauteng towns under indexing for the period of the festive season – Randburg, Sandton, Midrand and Clayville. We also noticed four Western Cape towns on the list. Stellenbosch (most likely explained by a student exodus), Blackheath, Grassy Park and Philippi. The last exodus town is Mmabatho, just outside Mahikeng (most likely explained by student exodus). The nine worst indexing towns saw more than a 50% decrease in footfall for the holiday period, i.e., over 50% of the regular visitors or residents do not visit during the holiday season.



POI visitation in top-performing towns

Plettenberg Bay

This chart shows how category visitation over the festive period, from 16 December 2022 to 8 January 2023, performed compared to any other time in Plettenberg Bay.



Key observations:

Plettenberg Bay over-indexes in the festive season in Tourism (106%), Bars (117%), Restaurants (112%) and Health and Beauty (106%). We see below-average visitation to Building and Hardware, Clothing, Home and Garden and Sports and Outdoor. Food falls just short of the average. This suggests that residents in the Plettenberg Bay area are also not grocery shopping in town as much.

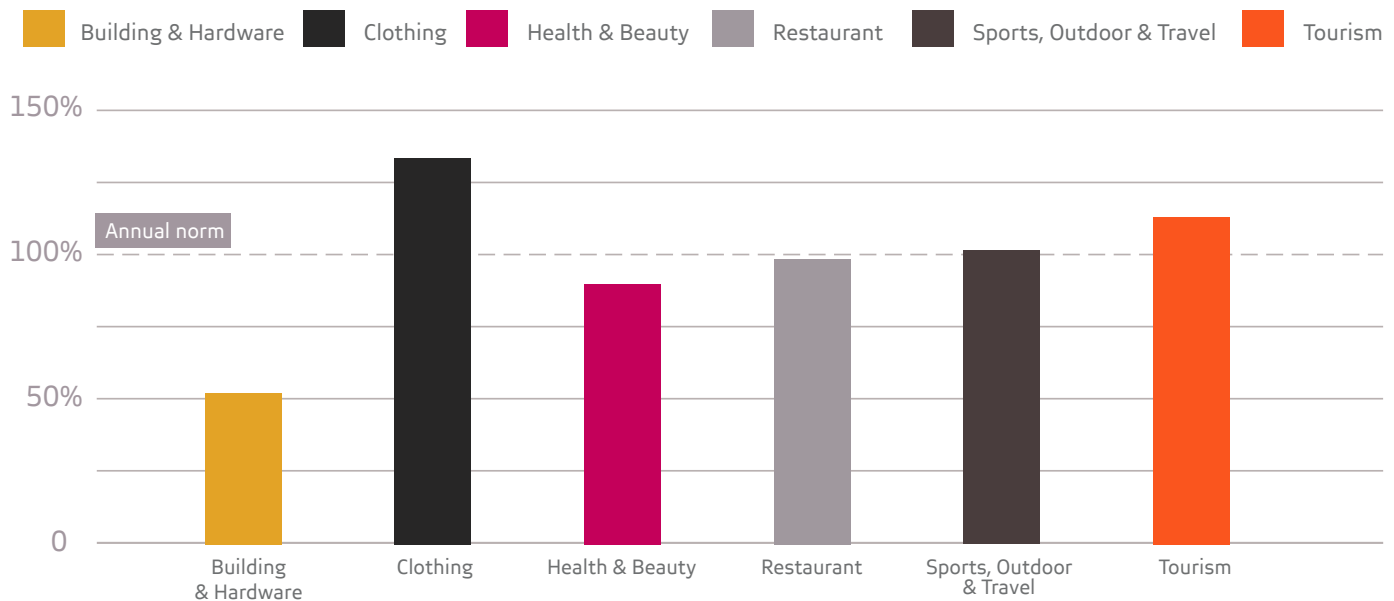
Insights:

The influx to hotels in the Tourism category shows that visitors to Plettenberg Bay are tourists, and this reflects in increased Bar and Restaurant categories. Health and Beauty is the biggest category winner in Plettenberg Bay.



Struisbaai

This chart shows how category visitation over the festive period, from 16 December 2022 to 8 January 2023, performed, compared to any other time in Struisbaai.



Key observations:

Plettenberg Bay over-indexes in the festive season in visitation to clothing outlets. Most significantly during the festive season in Struisbaai at 133%, Tourism is 10% above the average. Sports, Outdoors and Travel is on par with the average, Restaurant and Health and Beauty are marginally below. The under-index on Restaurant and Bar visitation, despite an increase in footfall to Struisbaai, suggests that festive tourists either pass through or self-cater more.

Insights:

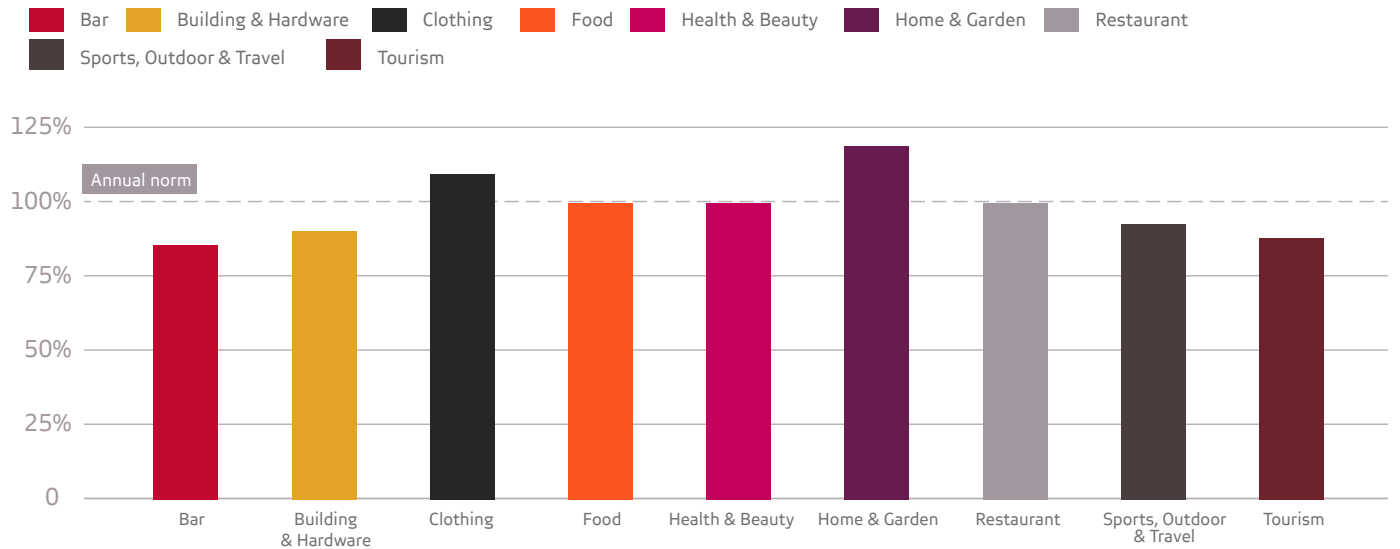
Struisbaai is under-catered for in the Food and Bar categories. The Tourism category being only marginally above the benchmark could indicate that tourists are visiting the coastal town during the day while having accommodation in the neighbouring game reserves; alternatively, Struisbaai is consistently used as a holiday town.



POI visitation in bottom-performing towns

1. Sandton

This chart shows how category visitation over the festive period, from 16 December 2022 to 8 January 2023, performed, compared to any other time in Sandton.



Key observations:

Bars, Building and Hardware, Sports, Outdoor and Travel and Tourism all fell below the benchmark in the festive season. Home and Garden and Clothing both over-index on the annual norm despite the visitation exodus. Food, Restaurant and Health and Beauty are marginally lower than the norm, suggesting that the remaining population took advantage of the quieter town.

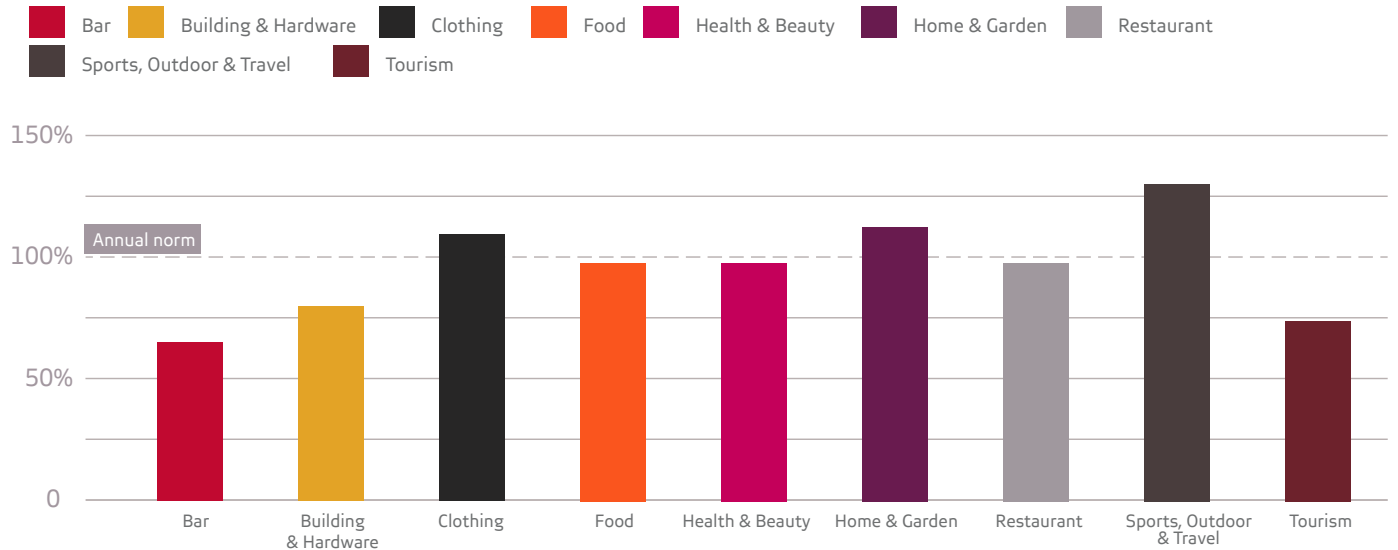
Insights:

Those who remained in Sandton over the festive season appear to have used "holiday money" for home/garden improvements and clothes shopping. Key categories, despite lower visitation, did not suffer disproportionately in the festive season.



2. Midrand

This chart shows how category visitation over the festive period, from 16 December 2022 to 8 January 2023, performed, compared to any other time in Midrand.



Key observations:

As with Sandton, Midrand still benefitted from high Home and Garden and Clothing visitation despite the visitation exodus in the festive season. Sports and Outdoor are well used, suggesting that visitors use quieter times and home holidays to maximise sporting recreation. Food and Restaurant are still very well supported despite the festive season exodus.

Insights:

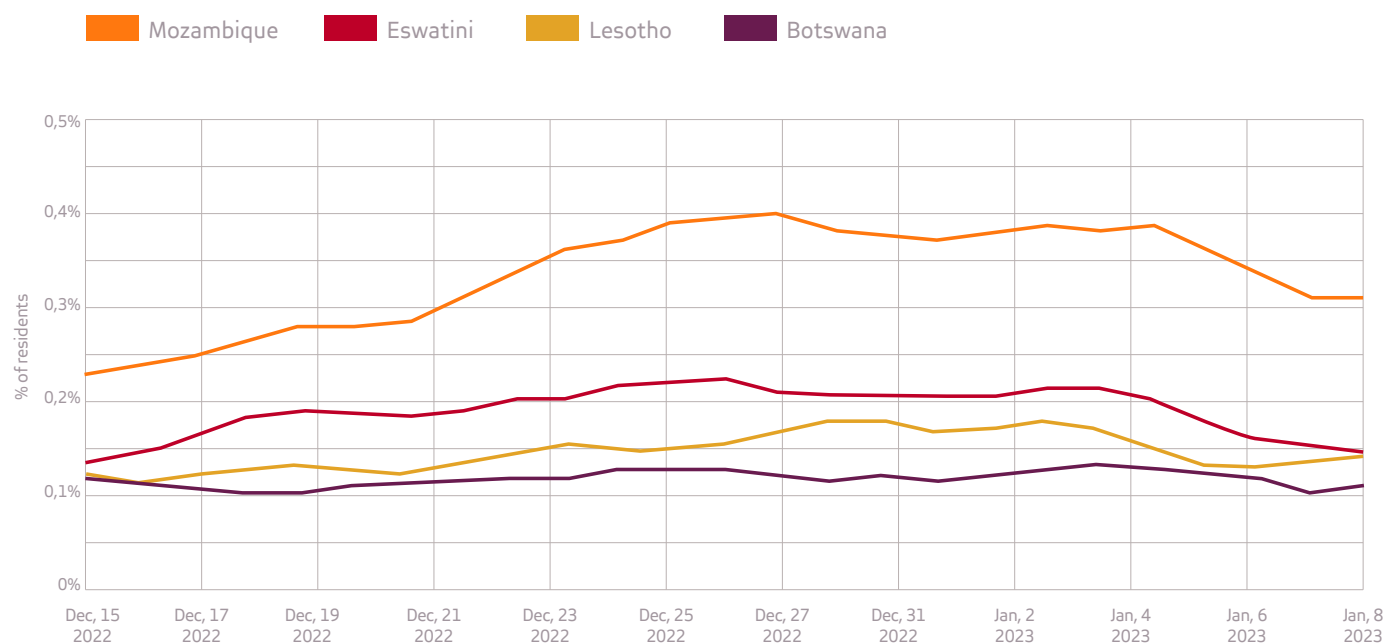
Midrand, like Sandton and Randburg, is very well supported by the remaining residents and visitors. This also suggests that there is scope for additional clothing, restaurant and food outlets.



Analysis and outputs/festive season intercountry travelling

1. South Africa

This graph shows the top destinations for South African residents by day to the bordering countries, excluding Zimbabwe. The dates for the festive season are 16 December 2022 to 8 January 2023.



Key observations:

Mozambique and Eswatini experience a steady stream of devices leaving South Africa from 15 December. Lesotho, on the other hand, maintains a steady positive trend, but peaks only after Christmas before slowing directly after New Year. Botswana is interesting as it appears to maintain a stable trend of South African devices through the period. This is largely maintained even after the early January peak. The devices leaving South Africa begin to decline in early January 2023 but remain marginally above the early December norm.

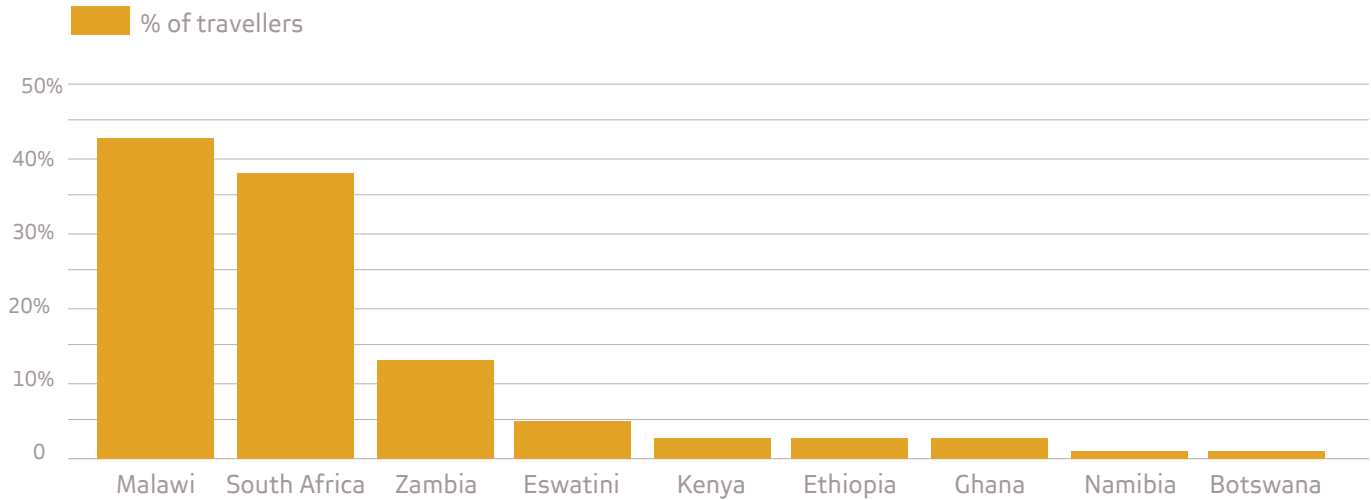
Insights:

There is a common trend pattern for devices leaving South Africa in the festive period to neighbouring countries. This travel is most likely road transportation. There is a far more even distribution of destination countries than other countries in the sample. This suggests that South Africans have an ability to travel for holiday but also that South Africa is a sought-after work destination for migrant workers. An interesting study would be to unpick tourism from migratory workers to ascertain the balance between devices leaving South Africa.



2. Mozambique

This graph shows the percentage of travellers leaving Mozambique to visit a selection of 10 African countries. Nationality of travellers is not considered, only that Mozambique is the country most present in during the period. The dates for the festive season are 16 December 2022 to 8 January 2023.



Key observations:

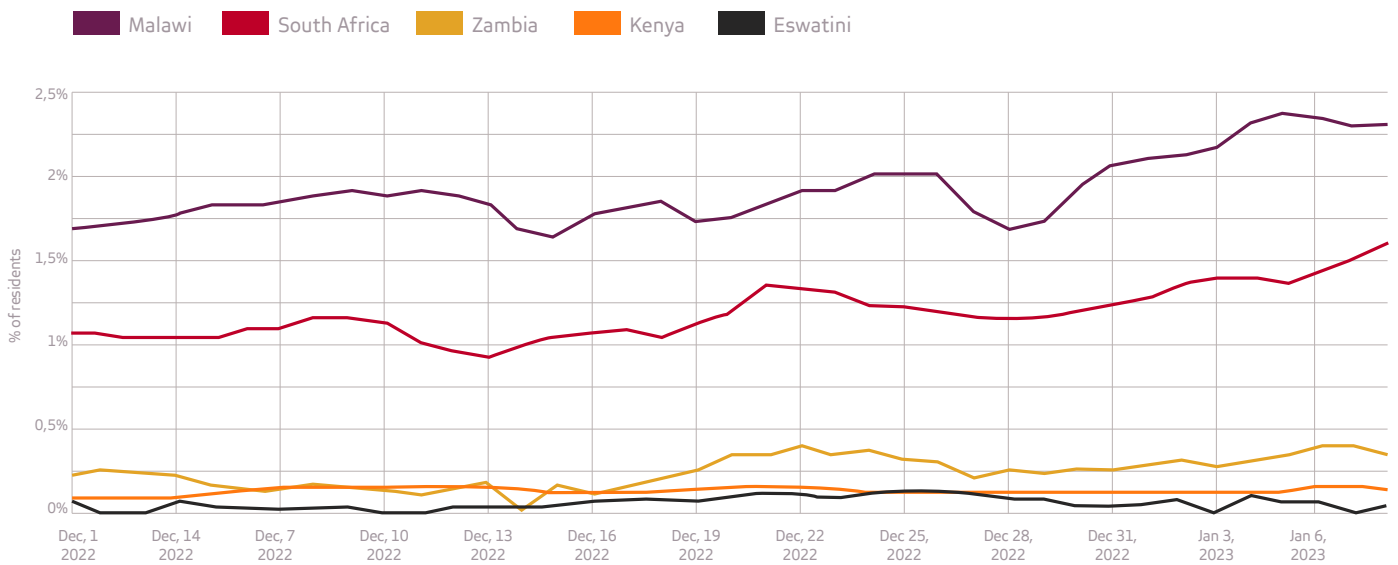
Interestingly, Mozambique has 38% of devices visiting South Africa, but most travellers visit Malawi (42%). After Zambia at 12%, there appears to be very little significant travel away from Mozambique. There is a clear connection between Mozambique and Malawi. Whether this is migratory work force- or tourism-related does need to be investigated. Given the extent of the shared border, this is not unexpected.

Insights:

South Africa is net positive for travellers with Mozambique. As with South Africa, Mozambican travellers appear to rely on bordering countries – this suggests roads as the means of transport for the festive season.



This graph shows the top destinations for Mozambican residents by day. We have selected bordering countries.



Key observations:

Malawi, sharing a significant border, sees the majority of travelling devices from Mozambique. The increasing trend of devices slows mid-December, suggesting that the Mozambique holiday period begins early December. There is a spike again through the week of Christmas. The majority of devices leaving Mozambique into Malawi is after New Year.

There is a steady stream of Mozambican devices entering South Africa through the festive season. Interestingly, there is a mid-December slump in devices entering South Africa. There is a spike in the week before Christmas that declines before the New Year. Following the New Year, Mozambican devices entering South Africa begins a positive trend – in January, 84% of devices leaving Mozambique are into South Africa – which could be a returning migrant work force. Zambia is the only other country with consistent visits from Mozambican devices. Again, there is a travel spike in the week before Christmas. There is another spike just after New Year, yet not as sustained to the Christmas period, but reaching the same percentage of travellers.

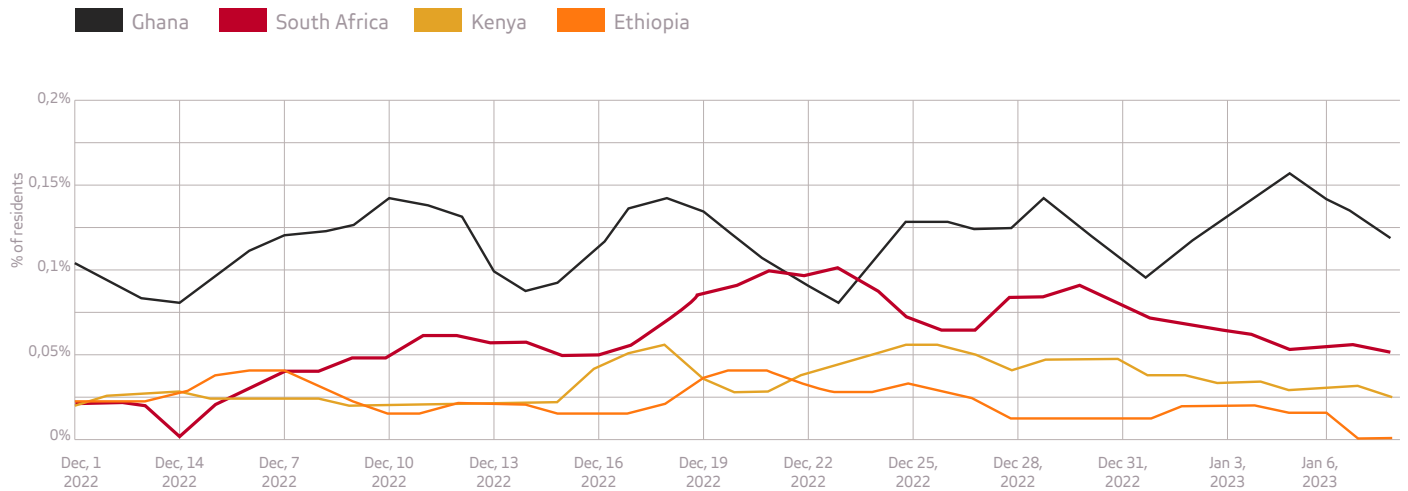
Insights:

It appears that Malawi and South Africa are key festive season destinations for Mozambique, but both locations are more significant in the new year, suggesting that holidays are not the driving factor behind visits, but perhaps work.



3. Nigeria

This graph shows the top destinations for Nigerian residents by day. We have selected bordering countries.



Key observation:

There is a cyclical travel pattern from Nigeria to Ghana almost weekly. Interestingly, there is a dip in devices leaving Nigeria for Ghana just before the Christmas week. Nigerian devices visiting South Africa have a sustained spike from mid-December to just before Christmas, and a smaller spike in the build-up to New Year's. There is a relatively stable travel trend to both Ethiopia and Kenya – both with minor spikes in mid-December in Christmas, before declining travel into the New Year.

Insights:

The cyclical nature of travel to Ghana could suggest routine travel. More investigation is required, but this may be due to work – this is supported by the dip in travel just before Christmas. South Africa appears to be more of a tourist destination with travel peaking in high tourist season.



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