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Retail Forecasts Onwards and upwards

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Deloitte
Access Economics

Executive summary

Onwards and upwards

After falling back into a retail recession in the middle of 2024, retailers should breathe a sigh of relief that Australia is back in black. However, current economic conditions remain challenging with economic growth stagnant. Consumers have so far chosen to save some of their tax cuts, much to the horror to retailers. But there has been a notable uptick in retail spend in October, as well as improving consumer sentiment – which is a promising sign that the long awaited consumer recovery is around the corner in 2025. While there are undoubtedly risks to the year ahead, retailers should be prepared for growth: we anticipate a better 2025 and 2026 for retailers, with real retail sales growth expected to strengthen from -0.3% in 2024 to 2.1% in 2025 and 2.5% in 2026.

Two retail recessions later, retailers have only **just gotten back to black**. The retail industry has been hit hard and fast by weaker economic conditions, with the consumer slowdown evident in dwindling sales volumes and high discounting activity.

September quarterly retail data did show real (inflation adjusted) sales growth of 0.5%. But that was only the second quarter of positive real growth in the last two years. Real retail turnover was still a full 1.4% lower in September 2024 compared to September 2022.

To be fair, the current performance of the broader economy has also been weak; this story is not just isolated to retailers. **Real annual GDP growth fell to its slowest annual rate (1.0%) – excluding the pandemic – since the early 1990s recession.**

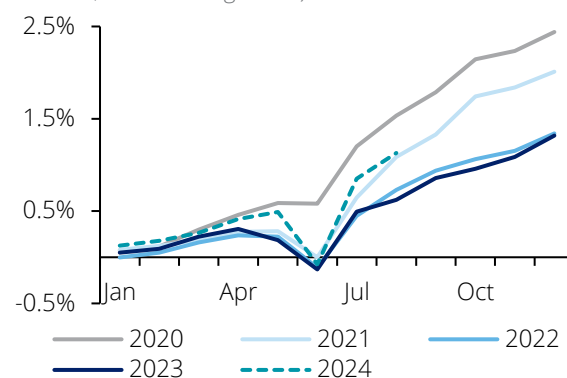
Underlying inflation also remains too high at 3.5% in the year to September 2024, with persistent drivers of inflation like rents unlikely to ease anytime soon.

Even the RBA seem surprised at how much consumers have pulled back their spending this year. In the November Statement of Monetary Policy, the RBA noted that “household consumption growth was unexpectedly weak over the first half of the year; timely indicators suggest it has since picked up but by less than expected.”

Part of the story has been an uptick in savings since tax cuts started making their way to consumers in July. Whether consumers would save or spend their extra

dollars was always a key uncertainty in unpacking the retail outlook. But data on the September quarter clearly confirms that consumers have opted at least in part to build up their savings buffers and pay down mortgages as opposed to spending; data from CBA below shows a sharp rise in their offset and redraw account balances since July.

Chart 1: Additional repayments (YTD change in offset and redraws, % of housing credit)



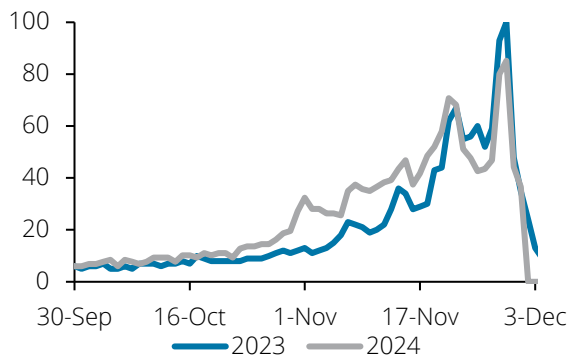
Source: Commonwealth Bank of Australia.

But there are good reasons that retailers should be looking forward to 2025. The October monthly retail trade data was strong, with nominal retail turnover 0.6% higher over the month – rising in nominal terms for the third straight month.

This uplift was particularly strong for discretionary retail categories like Household goods and Other retailing,

which the ABS attributes to earlier than usual discounting. This can be seen neatly in Google search trends data, which shows a much earlier uplift in searches for “Sales” in 2024 compared to 2023.

Chart 2: Australian Google search trends for “Sales” in the lead up to Black Friday



Source: Google Trends

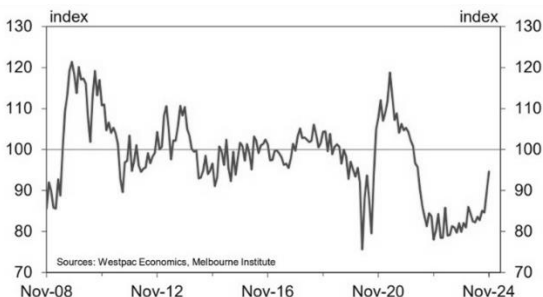
Note: 2023 data has been shifted back 5 days, to align Black Friday in each series. The search data above is for the 'shopping' category.

Yes, part of this may be a pull-forward of spending that would have otherwise occurred in November. But the notable uptick in October does also demonstrate that consumers are starting to shift from saving to spending – especially if there are good deals as well.

And encouragingly, there has also been a notable uplift in consumer sentiment in recent months: a critical driver of willingness to spend.

The Westpac-Melbourne Institute Consumer Sentiment Index rose 5.3% in November to 94.6, the highest index level since April 2022. Of particular note was the 'economic outlook [on] next 12 months' sub-index, which rose to 100.9. **Passing the 100 threshold means that Australians have a net positive view on the short-term outlook for the economy for the first time since the end of 2021.**

Chart 3: Westpac-Melbourne Institute Consumer Sentiment Index



Source: Westpac, Melbourne Institute.

This is a critical shift in the consumer story that retailers have been looking forward to for some time.

Consumers need to first feel confident with their own finances and the economy *before* they start to loosen the purse strings.

Interest rate cuts – whenever they may be next year – will also play a role. Consumers are looking to the RBA for a signal that the outlook is improving, and the first rate cut may be the green 'go' light consumers need to see before feeling comfortable letting loose.

As a result, real retail turnover is expected to lift by 2.1% in 2025 and 2.5% in 2026 as consumers get their spending groove back on.

Household goods is expected to see the strongest growth in 2025 by some margin – but this is in part to recuperate from heavy drops in spending across 2022 to 2024. Supermarkets and Cafes, restaurants and takeaway are also expected to see stronger sales in 2025 as conditions improve. **But like any good recovery story, there are also risks on the road ahead.**

For retailers specifically, the uncertain timing around when consumers will shift from saving to spending will make it harder to plan for the year ahead. The 'discount dilemma' has also been a recurring challenge: retailers cannot sustainably discount forever, yet it still feels like a necessary evil to get consumers through to door.

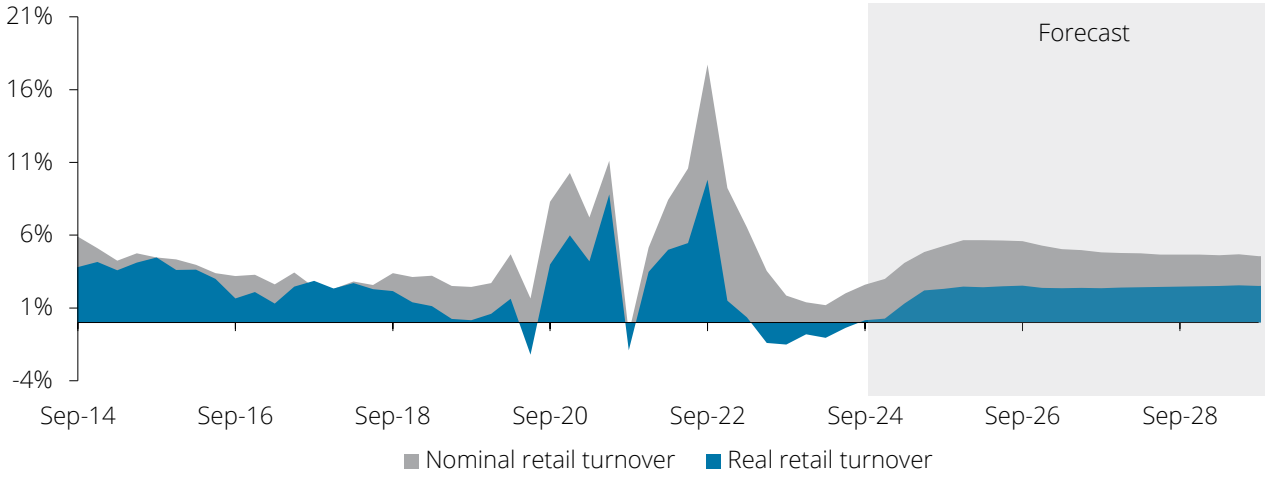
More broadly, there are also new uncertainties popping onto the macroeconomic agenda. The impacts of a Trump presidency in the US and then also the uncertainty that accompanies the upcoming domestic Federal election may introduce a few bumps in 2025.

Importantly, these should not overshadow the fact that a consumer recovery *is* on the cards for 2025 and beyond.

Retailers should have the following four imperatives front of mind as they navigate the year ahead:

1. Consumers segments may diverge further as they respond to the recovery in different ways
2. Consumers are likely to continue to prioritise *trust*, even as cost of living pressures fade
3. Retailers will need to invest in their workforce to stay competitive and relevant, and
4. Productivity should undoubtedly be front and centre in preparing for a year of growth.

Chart 4: National real and nominal retail turnover



Source: Deloitte Access Economics, ABS Retail Trade.

Appendix

Our publications

Budget Monitor

Budget Monitor is a key source of independent private sector projections of Federal budget trends in Australia. Budgets are analysed and projections made, including detailed estimates of future spending and revenue levels. *Budget Monitor* is prepared twice a year, prior to the Mid-Year Review and to the Federal Budget itself.

Business Outlook

Business Outlook is a quarterly publication aimed at those who require depth of detail about the business environment, analysing prospects across 22 industries and each of the Australian States and Territories. It provides facts, figures and forecasts on Australian and world growth prospects, interest rates and exchange rates, wages and prices, exports and imports, jobs and unemployment, taxes and public sector spending. These forecasts strengthen and enhance your strategic planning capacity.

Employment Forecasts

Employment Forecasts is Deloitte Access Economics' flagship labour market analysis and forecasting publication. Produced quarterly, *Employment Forecasts* provides detailed forecasts and commentary on employment in Australia across industries, detailed occupations, and regions, including insights by white collar, blue collar and human services worker classifications.

Investment Monitor

Investment Monitor is a quarterly publication that provides detailed data on major business and government investment projects in Australia. Project investment is a key source of future economic growth. It lists individual Australian construction and investment projects with a gross fixed capital expenditure of \$20 million or more. Projects are listed by State, sector and status of each project. Suppliers will appreciate the project updates, while economists benefit from one of the most comprehensive breakdown of investment prospects available in Australia.

Retail Forecasts

Retail Forecasts is a quarterly publication that provides an analysis of current retail sales and consumer spending, and the important economic drivers that influence them. It includes ten-year forecasts of retail sales by major category and of key economic drivers.

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