



Retail Forecasts

Retail recession - the sequel

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Deloitte
Access Economics

Executive summary

Retail recession – the sequel

Bad news for retail – we're back with a repeat of 2023: retail recession – the sequel. All the hallmarks of an economic horror show are still there (high cost of living, increasing insolvencies, elevated interest rates and a weakening labour market). The only reprieve is that this may be the shorter and shallower version of last year's retail recession, with retailers well prepared to weather the storm. There is also now some sunshine piercing through the economic clouds in the form of cost of living relief, tax cuts and (eventually) interest rate cuts. As a result, we anticipate a better 2025 and 2026 for retailers, with real retail sales growth expected to strengthen from -0.3% in 2024 to 1.5% in 2025 and 1.5% in 2026.

Some retailers could be forgiven for thinking financial analysts in Australia are bonkers for only now contemplating 'might Australia go into recession'?

Indeed, the evidence shows that Australia's retail sector has already effectively been in recession for the last year and a half.

The June quarter 2024 data confirmed that after a brief lift into positive sales growth, the retail sector has again slumped back into recession – the 2024 sequel to retail's 2023 horror show.

The indicators don't make pretty reading. In six of the last seven quarters, real retail spending has declined. On a per capita basis the statistics only look worse. **Real per capita retail spending has contracted for the last eight quarters** and is now 2.5% lower than June 2023 and 6.3% lower than June 2022.

These dire indicators are consistent with the **poor state of the Australian economy more generally**. GDP growth is slow, labour market weakness is becoming more apparent (particularly in consumer facing industries such as Retail and Hospitality) and business insolvencies are rising - the number of companies entering external administration for the first time increased by 44% in July 2024 compared to July 2023.

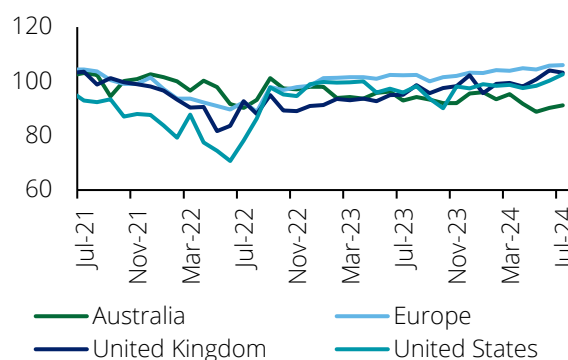
The latest data shows that real GDP growth over the past year (to March) came in at 1.1%, the slowest annual growth seen outside the pandemic since the early 1990s. Half of that GDP aggregate comes from private

consumer spending which has followed a similar trajectory – growing 1.3% over the past year. While these figures are already poor, it's the one-third of consumer spending which goes to retailers that is going backwards, with growth of -0.6% in real spending over the year to June.

[Deloitte's ConsumerSignals'](#) Financial Wellbeing Index shows while the United Kingdom, United States and Europe have all seen financial wellbeing on an upward trajectory over the past year, Australia has stayed pretty consistently pessimistic.

The gloomy mood is reflected in some of the sub-indexes in which a high proportion of Australians are concerned about their savings (54%), are delaying large purchases (54%) and have indicated they are in a worse financial position than a year ago (45%).

Chart 1: Financial Wellbeing Index (indexed to April 2020)



Source: Deloitte Consumer Signals. The higher the index number the greater the level of consumer financial wellbeing.

But there are some rays of sunshine poking through the dark clouds for retailers. Cost of living relief is being rolled out to households in the form of energy bill relief, and tax cuts have boosted household disposable income. The anticipation of some of these measures has supported a better retail sales performance through the months of May and June.

The period from now to Christmas is still expected to be a difficult one for retailers, but perhaps less of a slog than it has been. As with most horror sequels, the characters are generally more prepared, and the plots generally more predictable.

Retailers are getting used to seeing a consumer group which on average is cautious and value conscious, but where a cohort (generally older and mortgage free) does still have money to spend. A tight focus on cost control, and periodic swing to discounting, remains the mantra. Technology investment is being further explored to drive efficiencies, with retailers' hiring intentions dropping back.

Looking forward we still anticipate cost of living support and moderating inflation to stimulate higher levels of consumer confidence and stoke consumer spending. As a result, 'retail recession – the sequel' is expected to be short and shallow.

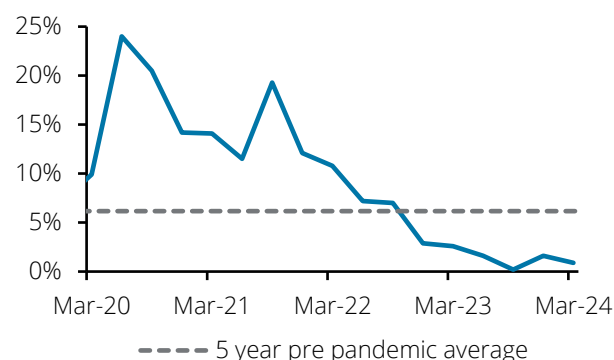
Similarly, 2025 and 2026 are expected to show further improvement – heading back to more solid growth. Real retail turnover is expected to increase by 1.5% in both 2025 and 2026.

Non-food spending is expected to be a bigger driver of retail sales going forward. Consumers have delayed or cut back on discretionary non-food purchases during

2023 and 2024, and the two years ahead should provide some catch-up spending (especially for Household goods). Food retailing is expected to record relatively stable growth over the next few years, though slightly below non-food retailing growth.

As well as a lift in spending, many consumers will also be looking to rebuild savings, building back the savings buffer that many have lost.

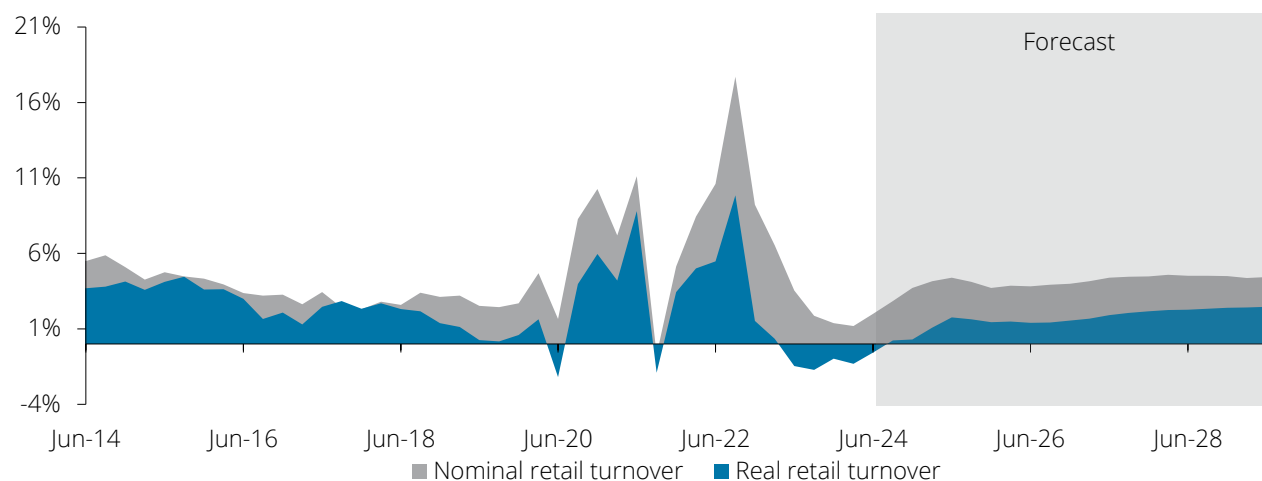
Chart 2: Household savings ratio



Source: ABS National Accounts.

The stronger real retail sales growth will be supported by price moderation, as broader inflation tracks down. Retail prices may move from above normal gains of 4.3% in 2023 and 2.8% in 2024, to more normal price growth rates of 2.6% in 2025 and 2.4% in 2026. Retail price moderation may be helped over the coming months if the Australian dollar tracks higher. Exchange rate forecasting is fraught, but with many central banks already cutting rates (and the US Federal Reserve about to cut), the Reserve Bank's signalling of continued high interest rates in Australia for the next six months could also mean a lift in the Australian dollar.

Chart 3: 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 released quarterly and provides forecasts and commentary for each industry, plus white collar, blue collar and office demand index (where the latter draws on the 'office intensity' of each industry). There are three levels of data available: state, city and CBD. *Employment Forecasts* is particularly useful in the analysis of property market demand.

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.

Tourism and Hotel Market Outlook

Tourism and Hotel Market Outlook is an annual publication that provides insight into the issues facing the Australian tourism and hotel sectors, including in-depth analysis of recent trends and their underlying drivers across the domestic and international tourism markets. The *Tourism and Hotel Market Outlook* publication includes analysis of ten of the country's major hotel markets (including all capital cities) and forecasts growth in supply, occupancy, room rate and revenue per available room (RevPAR) across the ten major Australian tourism markets.

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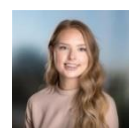
+61 3 9667 5070

daesubscriptions@deloitte.com.au



David Rumbens

Partner, Deloitte Access Economics
drumbens@deloitte.com.au
+61 434 671 039



Shannon Cutter

Deloitte Access Economics
scutter@deloitte.com.au



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