Deloitte.

Retail Forecasts

Rain Check?

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Deloitte
Access Economics

Executive summary

Rain check?

Tariff turmoil. Extreme weather. Worsening consumer confidence. You'd forgive the retail sector for sensing a rain check on the retail recovery. Following two consecutive quarters of strong growth in real turnover, growth over the March quarter came in at a measly 0.03%. But the rot may not have set in – consumer confidence has picked up, the sunshine state is living up to its name again, and economic conditions are still poised to support increased spending through 2025. Untapped spending capacity suggests consumers have the ability to spend more, however their willingness and confidence is holding them back. As interest rates moderate and real wage growth continues, that willingness is anticipated to increase. This is expected to see real retail sales growth rebound of 1.7% in 2025 – a return to respectable growth after two dire years.

Following a strong end to 2024, the cheers have dissipated. Retail growth stagnated in the March 2025 quarter, coming in at 0.03%, and showed little improvement in April as monthly nominal turnover decreased by 0.1%. This all leaves one wondering whether the retail recovery has taken a rain check?

In short, the sales result certainly doesn't inspire confidence that the retail recovery is in full swing. However, the detailed results give less reason to panic.

The quarter succumbed to the effects of Queenslanders reducing spending on discretionary goods in the midst of Ex-Tropical Cyclone Alfred. When excluding Queensland, sales volumes actually *increased* by 0.2% over the quarter.

Additionally, playing havoc with confidence in April 'Liberation Day' sent consumers, and financial markets, into panic. The Westpac-Melbourne Institute Consumer Sentiment Index moved down by 6% in April to 90.1. However, since then there has been evidence of both financial markets and consumer sentiment rebuilding. As markets stabilised and uncertainty cleared, the consumer sentiment index edged back up by 2.2% in May to 92.1.

The 90-day pause on some of the more substantial tariffs has provided some calm for financial markets and consumers. However, with further tariffs mooted on steel and aluminium, and potentially flagged for pharmaceuticals and movies, and with the 90-day pauses to expire, the global trading environment remains particularly opaque.

But it may not be entirely bad news. The broader impact of trade diversions away from the US may well impact retailers here. In particular, Australia is heavily dependent on imports from China and Southeast Asia to supply clothing and footwear, electronics and furniture and homewares. In contrast, Australia is far less dependent on imports for food.

Analysis on the effect of tariffs on Australian trade undertaken by the RBA indicates the impact is likely to be relatively small, with prices rather than volumes likely to see the greatest change. Some of those price impacts may be favourable, via lower import prices, but a big drop in global commodity prices does risk leaving a hole in national income.

To understand the sectorial impacts of the tariffs on Australia, Deloitte Access Economics has undertaken global trade modelling. In the scenario modelled, the US levies a tariff of 10% on all countries except China (which has an 55% additional tariff levied). Steel and aluminium receive a 50% tariff, and transport manufactures receive 25%. All services are exempt, as are pharmaceutical, electronic and communications equipment. In this case it is assumed that no country retaliates against the US.

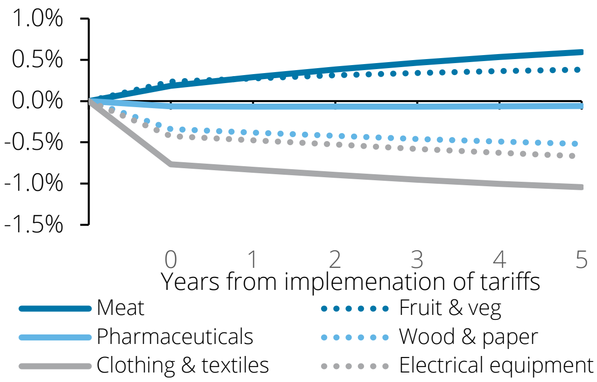
This modelling shows a short term dividend as Australia benefits from cheaper imports diverted from the US.

The impact on prices is expected to be more pronounced for non-food goods. Clothing and textiles (-1.1%) and Electrical equipment (-0.8%) are forecast to have the largest price deviations from the baseline. This reflects most of our non-food imports originating in China and South East Asia where supply chains are generally quite efficient and geographically localised. In contrast, when Australia does import food items they generally originate from other developed countries with supply chains that potentially span multiple continents (and so some food prices may rise).

With cheaper non-food imports available, the volume of imports for electrical equipment, and clothing and textiles in particular is expected to increase.

All of this is to say that Australian consumers may not necessarily be worse off in the short term from the trade disruption – some goods coming into Australia may become cheaper, and the variety of goods may increase.

Chart 1 Deviation in price of imports of selected products as a result of a stylised tariff scenario



Source: Deloitte Access Economics

On the domestic front, underlying conditions for retail spending are trending in a good direction. Households have been buoyed by strong employment and real wage growth. Unemployment remained steady at 4.1% in April, and wages growth was supported by new enterprise agreements and aged care award reforms.

The gradual recovery in economic activity is likely to provide support to private sector wages in the second half of 2025, resulting in the Wage Price Index growing by 3.3% on average in 2024-25 and remaining at that pace through 2025-26. Moderating inflation is subsequently expected to result in real wage growth of 0.9% in 2024-25.

Additionally, disposable incomes are expected to continue rising, aided by the continuation of the interest rate cutting cycle in May, and extended cost-of-living relief announced through the Federal budget, an election campaign, and some State budgets.

With inflation comfortably within the RBA's target band, and anticipated to remain there, we anticipate an additional two rate cuts in 2025, and further easing next year.

There also appears to be some untapped capacity for spending. CBA reports that, over the financial year to date, the marginal propensity to consume the additional income from the Stage 3 tax cuts has come in at 38% - suggesting plenty of room to increase spend.

Keeping this untapped capacity constrained is consumers' willingness to spend. Uncertainty in global markets has been a factor in keeping consumers cautious.

This constrained willingness is has shown up in the latest savings rate figures, with the household savings rate jumping from 3.9% in December 2024 to 5.2% in March 2025.

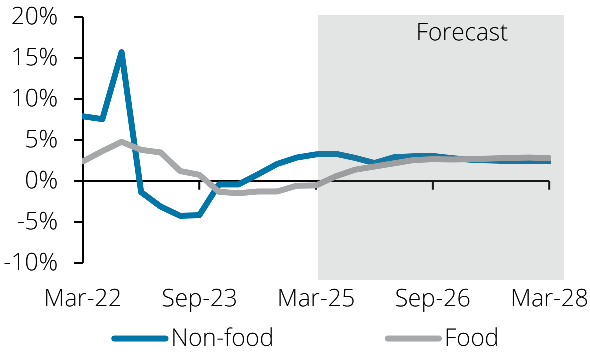
Part of this caution reflects economic hangovers from the pandemic. While inflation is easing, that does not mean prices are falling. Rather, they are rising at a slower pace than they were. The extended period of cost-of-living pain has forced many households to limit their spending, and a small gain in real incomes does not take them far from the brink.

Some of these changes – more frugal behaviours such as buying generic brands, cooking more at home or cutting back on non-essentials – are likely to be long lasting. According to the Deloitte ConsumerSignals approximately one third of consumers are purchasing store brands, a trend that's been relatively unchanged over the past two years.

The tone for spending over the coming year is likely to be set by the balance between increasing capacity to spend (increasing wages and lower cost of borrowing) and shaky confidence (influenced by tariffs and financial market gyrations).

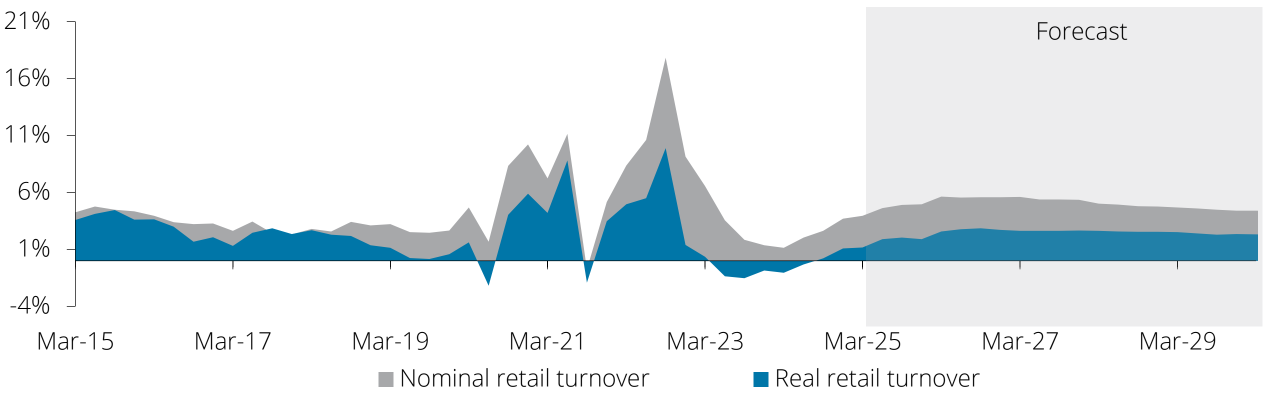
As a result, real sales growth in 2025 is expected to remain contained. Retail volumes are expected to increase by 1.7% over 2025 - a marked improvement from 2024 (0.0%) and 2023 (-0.9%) but still below the 5-year pre-pandemic average (2.3%). Improving economic conditions are expected to drive stronger gains in retail spend thereafter. This is expected to result in real retail sales growth accelerating into 2026 (2.7%) and 2027 (2.6%).

Chart 2 Year-to growth in real turnover, Food and Non-food retail



Source: Deloitte Access Economics, ABS Retail Trade

Chart 3: National real and nominal retail turnover



Source: Deloitte Access Economics, ABS Retail Trade.

At least in the shorter term improving finances are expected to benefit discretionary categories where there may be more price moderation, with non-food categories expected to see real growth of 2.9% in 2025. That compares with food retail sales which may only see real growth of 0.8% in 2025. However, as frugal behaviours gradually subside, food retail spending is then expected to see stronger growth in 2026 (2.5%).

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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