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Retail Forecasts

A chill in the air

August 2026

Deloitte Access Economics

Retail Forecasts is produced quarterly and provides analysis of current retail spending and the economic drivers that influence this. It includes ten year forecasts of retail sales by major category and of key economic drivers.

The economic shadows from the first half of 2026 are starting to loom over Australian retailers. A cocktail of higher interest rates, a softening labour market, real wages going backwards, and now falling house prices is providing an unwanted headache for households which isn't going away overnight.

While spending has held up well so far, supported by strong end of financial year discounting, the medium-term outlook looks subdued. Growth in real retail turnover is expected to slow from 2.8% in 2025-26, to 1.5% in 2026-27 as the economic realities quell household spending.

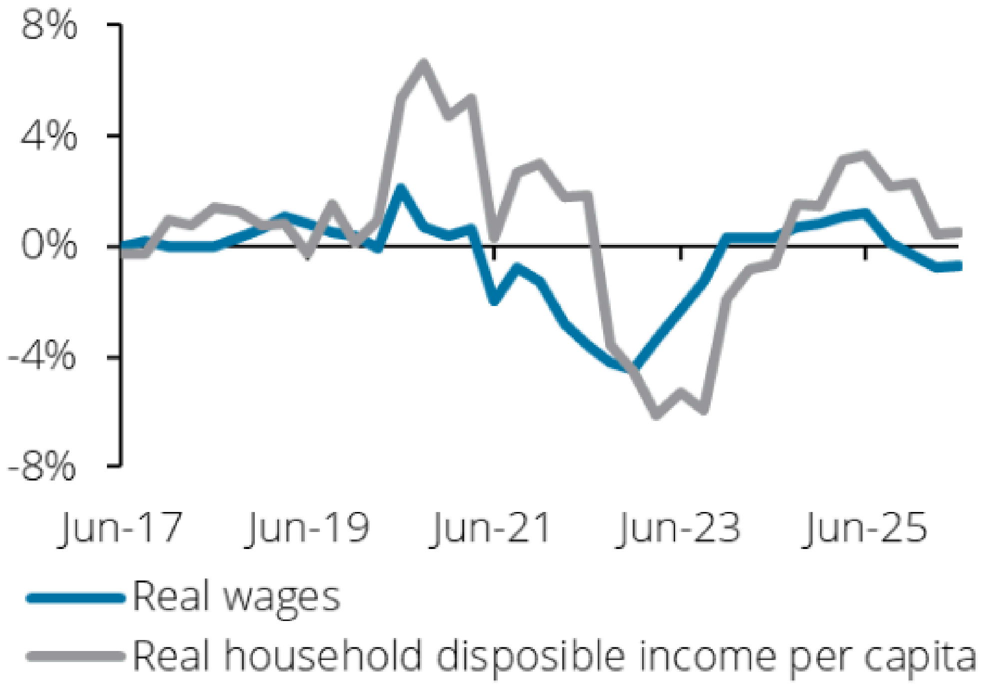
The economic consequences of events over the first half of 2026 are starting to come home to roost for Australian households.

A combination of domestic price pressures and energy cost increases due to the conflict in the Middle East mean that inflation is still running too hot. Yet despite three consecutive interest rate hikes in the first half of this year, the RBA does not forecast inflation will return to target until mid-2027.

The realities of this situation are starting to show up for households. There has been a weakening in the labour market, with the unemployment rate rising to 4.5% in July. Meanwhile the rising cost-of-living is outpacing wage growth. The result – wages declined by 0.7% in real terms over the year to June. Meanwhile, a combination of rising mortgage costs and the Federal Budget's tax changes are causing housing prices to soften.

With price pressures set to linger, many of these trends are likely to continue in the short-term. This paints a bleak outlook for both the economy and household finances. While still positive, growth in real household disposable income per capita is trending downwards. Reflecting this, consumer sentiment remains weak, despite having lifted from the historic lows seen immediately after the outbreak of the Middle East conflict.

Chart 1: Growth in real wages and household disposable income, year to

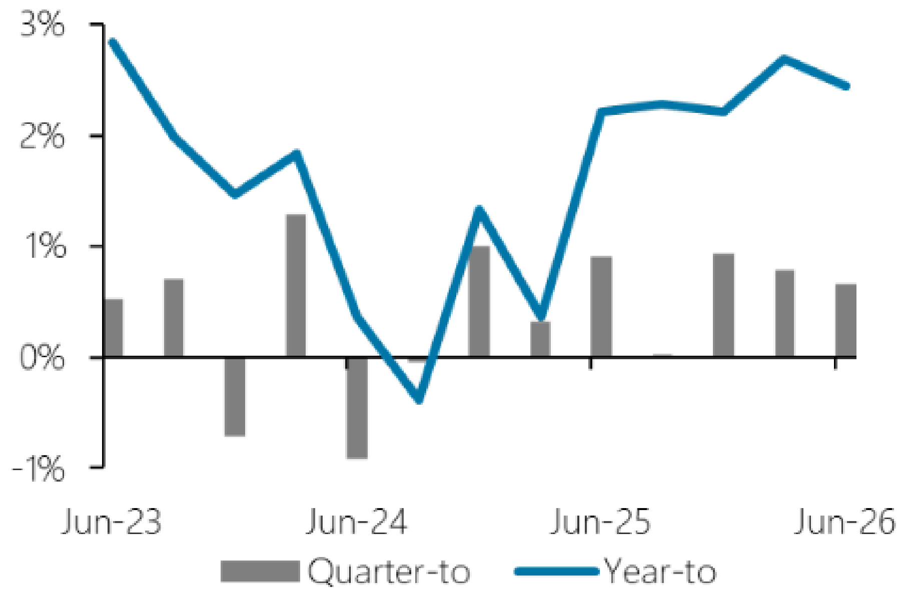


Source: Australian Bureau of Statistics

The positive for retailers is that, for now at least, household spending has been relatively resilient in the face of these economic headwinds. The ABS Monthly Household Spending Indicator showed that consumer spending increased by 0.7% in real terms in the June quarter, down from the 0.8% growth in the March quarter and 0.9% in December 2025. A gradual slowdown, rather than abrupt halt in spending.

However, digging into the data there are signs of some cracks emerging. While headline spending was relatively strong in June, the strength was uneven and supported by heavy end of financial year (EOFY) discounting.

Chart 2: Quarterly change in real household spending



Source: Monthly Household Spending Indicator

Most of the strength in spending in June was in non-retail categories. For example, Transport spending performed well due to a combination of strong EV sales as households adjust their spending behaviour in response to rising fuel prices, and a recovery in air travel following disruptions due to the Middle East conflict. In contrast, growth in retail turnover was more modest, with heavy discounting for EOFY sales events supporting marginal volumes growth in June.

In part this reflects the return of the value conscious consumer. Deloitte's Retail Report show that 66% of Australian's are changing shopping behaviour due to cost-of-living pressures – either spending less overall or switching products to cheaper options. Searching for value is not the same as being cheap though – product quality still ranks first in what matters most for consumers when making purchasing decisions.

The emergence of AI is supporting consumers in their search for value. The special feature in this report notes that a growing number of consumers are using AI to inform spending decisions. AI is making online shopping faster and more convenient by bringing price, delivery and product fit into view earlier in the process. These trends further support the continued rise in online shopping (up 14% in 2025). However, basket sizes are down, while the average household is purchasing from an increasing number of retailers.

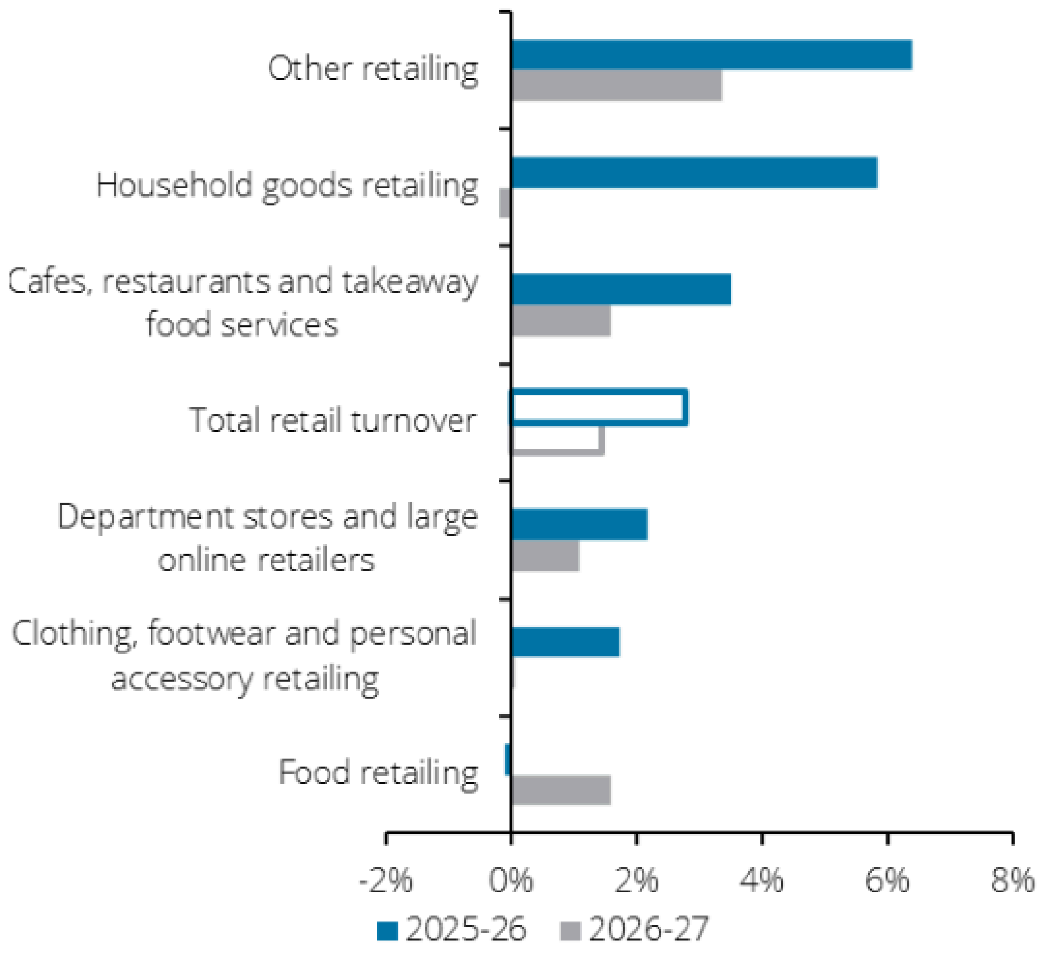
The implication of this is that price competition is becoming more intense than ever in the retail sector and brand loyalty is decreasing. In a world where widespread comparison is made easy, price is the dominant signal. Because of this, it is expected that the rising use of AI will provide a deflationary force on consumer prices over the medium-term.

Looking ahead, a moderation in household spending is expected in the September quarter as mid-year discounts unwind, cost-of-living pressures continue to build and the impact of the recent softening in house prices feeds through to consumer spending decisions.

Discretionary spending is likely to bear the brunt of the slow down as households delay, trade down or pull back on non-essential spending. Overall, discretionary spending growth is expected to slow from 1.9% in 2025-26 to 0.7% in 2026-27. Non-discretionary spending will not be immune to the spending pinch though and is expected to decrease from 2.6% to 1.7% over the same period.

For the retail sector, 2026 looks like being a year of two halves. Volumes were supported in the June quarter by strong discounting which helped entice consumers to bring forward spending. But this combined with the growing financial pressures on household finances is likely to weigh on demand over the second half of the year as prices normalise.

Chart 3: Real growth in retail turnover by category, annual % change



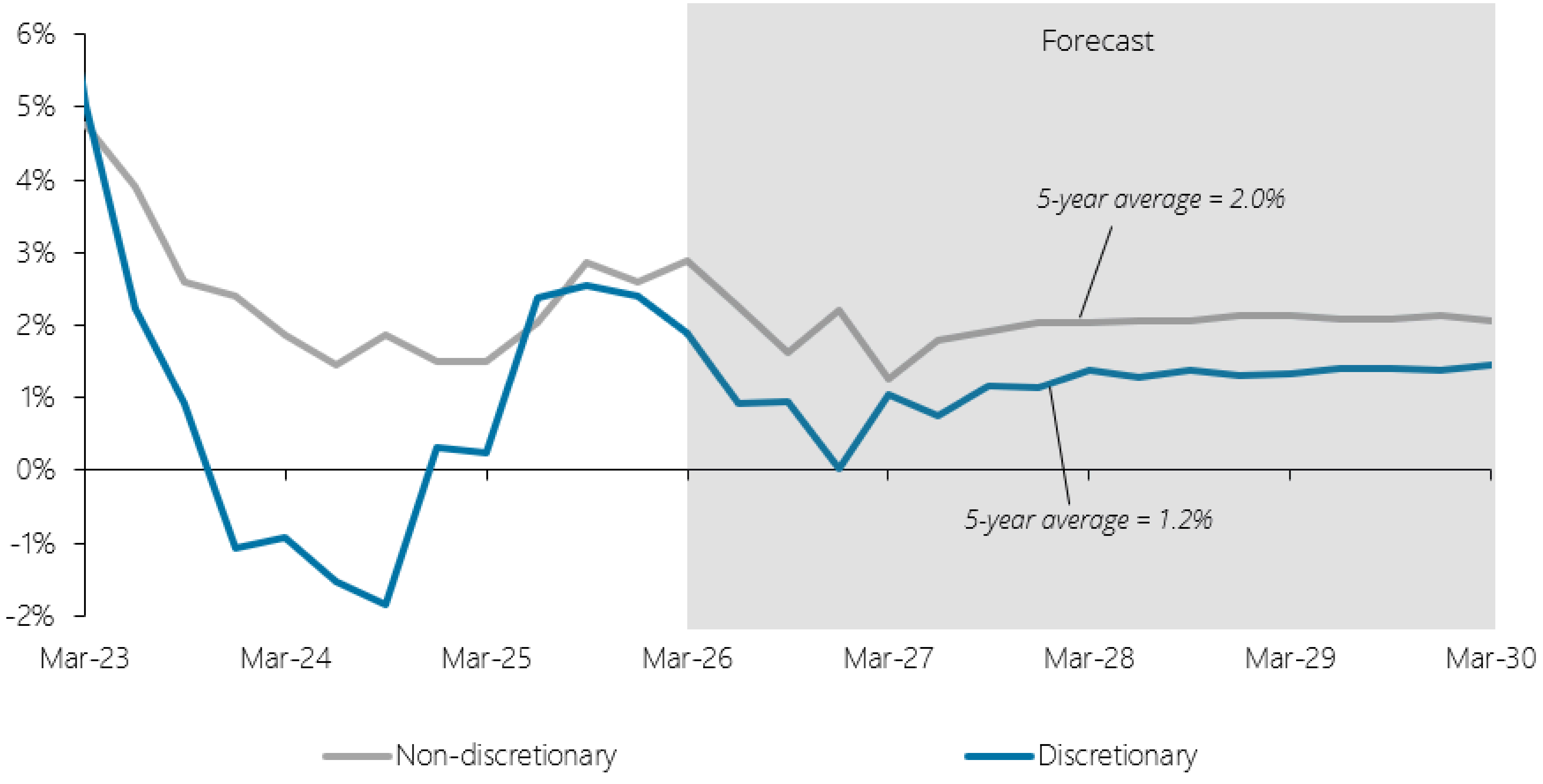
Source: Deloitte Access Economics

In aggregate growth in real retail turnover is forecast to slow from 2.8% in 2025-26 to 1.5% in 2026-27. This aligns with the findings from Deloitte's Retail Report. While most retailers (77%) still expect to see sales growth this holiday season, optimism has eased from last year, with the share expecting robust 5–10% growth down by around a third (from 25% to 16%), while those bracing for an outright decline have nearly doubled (from 8% to 15%).

The outlook is clouded by substantive risks around both the path of the Middle East conflict as well as the domestic economic environment. More persistent inflation could lead to interest rates going than currently anticipated. This or a more prolonged downturn in the housing market would amplify the pressures on household budgets.

There are opportunities as well, principally the potential for AI to drive an acceleration in productivity growth across the economy which would support increases in real income growth across Australia.

Chart 4: Discretionary and non-discretionary volumes, year to change



Source: Deloitte Access Economics, ABS National Accounts.

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.

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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.

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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.

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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.

For any publication or subscription queries please contact us via phone, email or visit us online:
+61 3 9667 5070
daesubscriptions@deloitte.com.au

Contacts

David Rumbens
Partner and Lead Author
Deloitte Access Economics
drumbens@deloitte.com.au
+61 434 671 039

Andy Crossley
Associate Director
Deloitte Access Economics
ancrossley@deloitte.com.au
+61 396 717 383

Alana Atkins
Senior Consultant
Deloitte Access Economics
alatkins@deloitte.com.au
+61 733 087 190

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