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# Retail Forecasts Pincer Movement

May 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.*

# Executive summary

## Pincer movement

*Events over the first half of 2026 mean Australian retailers are facing a simultaneous attack from both flanks – rising costs and weakening demand. The Middle East conflict is pushing up costs as the prices of key inputs including fuel, energy, plastics and fertiliser increases. At the same time, the rising cost of living is once again squeezing household budgets, dampening the outlook for consumer spending. In this context retail sector growth is set to moderate. In our baseline scenario retail turnover is expected to grow by 1.8% in 2026, down from 2.3% in 2025. Yet the risks are to the downside and should the crisis in the Middle East extend and amplify, consumer spending could see very little growth over the rest of 2026.*

Australian retailers entered 2026 with a note of caution. After a strong end to 2025 rising inflation threatened to dampen demand and lead to more moderate growth in 2026. A few months on, this caution has turned to dread with retailers facing pressures from all sides.

**The start of the Middle East conflict in late February and the enduring closure of the Strait of Hormuz have caused significant disruption to global trade flows.** Global prices have soared for a range of products including oil, gas and fertiliser.

In some cases, the impact of this has been seen in Australia immediately. Automotive fuel prices were up 32.8% in March, impacting a key input underpinning the distribution of retail goods. In other cases, it will take time for the effects to feed-through supply chains. For example, impacts to fertiliser markets will have a lagged impact on agriculture production and food prices.

**An analysis using ABS Input Output (IO) tables indicates that the Middle East conflict could lead to a 2.1% increase in the Australian retail cost base (excluding the direct impacts to the fuel retailing sector) all else equal.** That is, on top of the inflation we have been experiencing anyway. This can be broken down into:

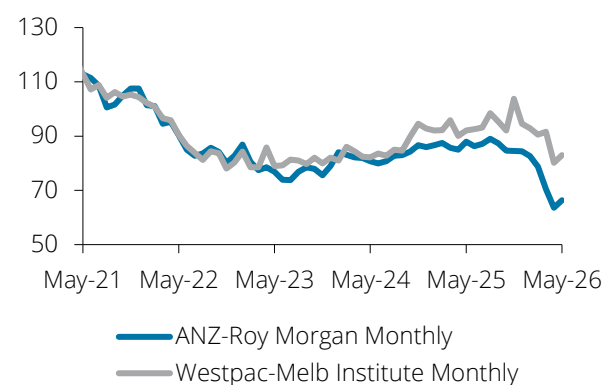
- **A 3.1% increase in the cost of goods sold across the sector.** With increases seen in Other agriculture (+4.6%) goods and services and Wholesaling (+4.4%) driving this.
- **A 2.0% increase in retail operating costs,** driven by higher fuel, electricity and transport-related expenses.

Note that these results do not account for second order impacts, or broader cost increases impacting the sector, such as rising wage costs.

In addition to cost growth, demand side pressures are threatening to bite. Rising inflation pushed the Reserve Bank of Australia (RBA) to hike interest rates for the third consecutive time in May and has led to increasingly gloomy forecasts around the outlook for economic growth and real wages.

In turn, **recent months have seen some of the worst consumer sentiment readings on record** with households increasingly worried around the outlook for their finances. The Westpac Consumer Sentiment Index fell 12.5% in April before recovering slightly in May. The ANZ-Roy Morgan Customer Confidence Index paints an equally bleak picture, falling to 66.4 in May – the eighth lowest reading since the index began in 1973.

Chart 1: Consumer sentiment index



Source: ANZ-Roy Morgan, Westpac-Melb Institute.

Note: ANZ-Roy Morgan reflects a monthly average to May 17.

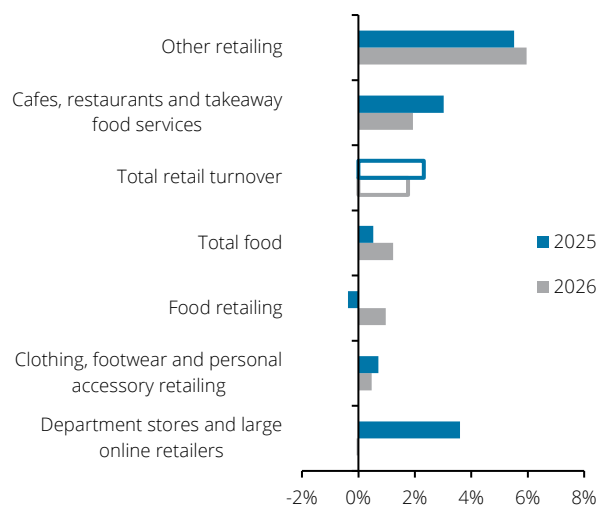
**The extent to which weak sentiment translates into lower spending is a key uncertainty. Spending held up well initially in March.** Nominal household spending grew by 1.6% in the month, although much of the increase was down to higher fuel prices rather than stronger underlying household demand.

**By April, there were clearer indications that weak sentiment was beginning to weigh on spending.** The Commonwealth Bank of Australia (CBA) reported a 1.2% monthly decline in spending in April, with National Bank of Australia (NAB) recording a 1.1% fall. Notably, NAB reported declines across both discretionary and non-discretionary categories, suggesting that household pull backs may not be contained to discretionary categories.

It is likely that these pressures on the sector will continue to build in the coming months as the effects of the Middle East conflict spread and the impact of the RBA's rate increases feed through to mortgage and borrowing costs. And while households can lean on the savings buffers that they built through 2025, these will be eroded as household budgetary pressures bite.

**The baseline forecasts presented in this report, based on market expectations that oil prices will gradually reduce from recent highs over the course of 2026, see real retail turnover expected to grow by 1.8% in 2026, down from 2.3% in 2025.**

Chart 2: Real growth in retail turnover by category



Source: Deloitte Access Economics

Non-discretionary categories like Food and Other retailing (a large component of which is chemist and pharmaceutical spending) are expected to see stronger growth as consumers focus their spending on essentials. However, most categories are expected to

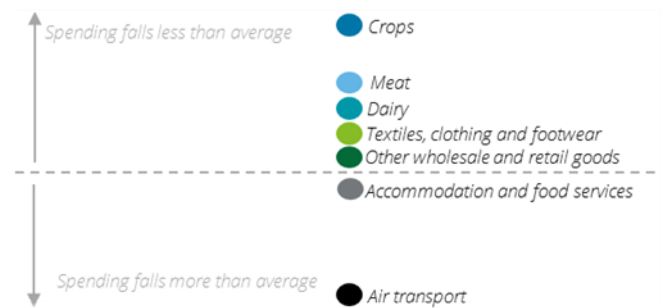
see growth moderate, with the biggest slowdowns seen in Department stores and Household goods retailing.

There is a risk though that if there is a further escalation in the situation in the Middle East, and the Strait of Hormuz remains closed for an extended period, global trade disruption could continue for longer than currently expected. The result being higher input prices and possible shortages of certain goods. This would have knock-on impacts for the outlook for inflation, interest rates and economic growth.

To reflect this, an "escalation" scenario has been modelled that sees oil prices increase to \$150/barrel in the second half of 2026 to consider the possible impacts of this on the Australian economy. **In the escalation scenario real GDP growth is anticipated to fall by 1.5% over the year to the December quarter of 2026, compared to growth of 1.8% in the baseline forecasts.**

The downturn in the escalation scenario would be strongest in parts of the economy particularly exposed to the Middle East shock (e.g., Air Transport via jet fuel prices), as well as discretionary categories that are relatively easier to cut back on (e.g., Accommodation and food services).

Chart 3: Reduction in domestic consumption by product relative to overall reduction in consumption

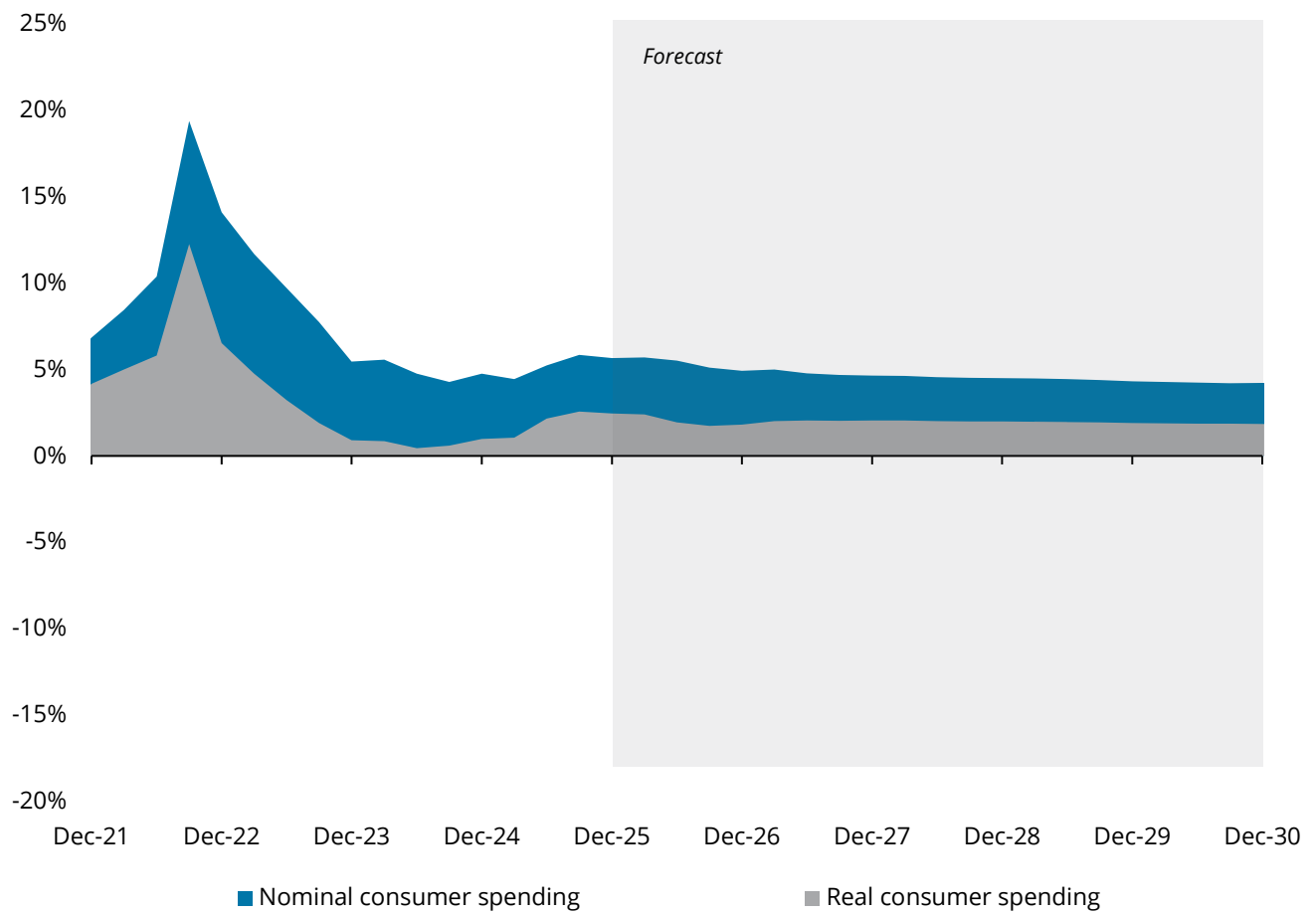


Source: Deloitte Access Economics

Overall, while there is uncertainty around the scale of many of the impacts to come for the retail sector, some things are clear. Cost pressures are building, spending is starting to slow, and consumers are once again shopping around for value.

In this context retailers need to be agile; planning for future scenarios, managing cost pressures effectively, and making strategic decisions around pricing based on the market environment. Where costs and margins can be managed effectively to maintain competitive pricing there will be opportunities to build market share and revenues despite wider pressures on the sector.

Chart 4: Real and nominal consumer spending, year to change



Source: Deloitte Access Economics, ABS National Accounts.

# 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

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### 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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+61 3 9667 5070

[daesubscriptions@deloitte.com.au](mailto:daesubscriptions@deloitte.com.au)



#### **David Rumbens**

Partner, Deloitte Access Economics  
[drumbens@deloitte.com.au](mailto:drumbens@deloitte.com.au)  
+61 434 671 039



#### **Andy Crossley**

Deloitte Access Economics  
[ancrossley@deloitte.com.au](mailto:ancrossley@deloitte.com.au)  
+61 396 717 383



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