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Retail Forecasts

Retail recession arrives

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Deloitte
Access Economics



Executive summary

Retail recession arrives

The retail recession is here – Australia has now had two consecutive quarters of real retail turnover decline. This is no surprise given the mounting cost of living pressures on households and weaker economic environment.

2023 is indeed a tough year for retailers but it is not all bad news. Migrants (particularly international students) are returning in big numbers and bringing with them more spending. Inflation is also gradually edging down, such that 2024 may see real wage growth to once again drive spending at a more healthy pace.

The retail recession we've been foreshadowing for numerous of issues of Retail Forecasts has finally arrived.

Real retail turnover fell by 0.6% over the March quarter, locking in the retail recession after the 0.3% decline in the December quarter of 2022.

This isn't a surprise. High inflation and rising interest rates have eroded the purchasing power of consumers. Consumer sentiment, in response, is now at historically pessimistic levels.

Consumer caution is expected to extend further than goods, with consumers anticipated to also pull back on services, which could result in a broad based "consumer recession" also occurring during 2023.

One good thing for consumers, and a sign of the challenging consumer landscape, is that retail price growth is easing faster than expected, and faster than broader inflation. Headline inflation over the March quarter was 1.4% while trimmed mean CPI was 1.2%, both much higher than the 0.6% retail price growth. In part the more modest retail price growth comes down to discounting. This has been particularly apparent in apparel and department stores, with both

categories seeing average prices decline in the March quarter (by 1.1% and 1.2% respectively).

Indeed, it's not a uniform picture across the retail landscape. Over the past six months food sales (including cafes and restaurants) in real terms have continued to grow – by a healthy 1.7% over that time. Non-food retail on the other hand has been in the dog house, with sales volumes falling by 3.7%. All major components of non-food retail have taken a tumble.

Two quarters of negative retail sales have been confirmed, and we're very likely to see a third in the June quarter of 2023. The cost of living crunch is still hurting consumers, as is the mortgage and rental squeeze. On that front, potential further rate rises from the RBA may still remain in play for a few more months. The Fair Work Commission decision locking in a high rate of wage growth (5.75%) for one-fifth of Australian workers has potential to entrench higher inflation expectations.

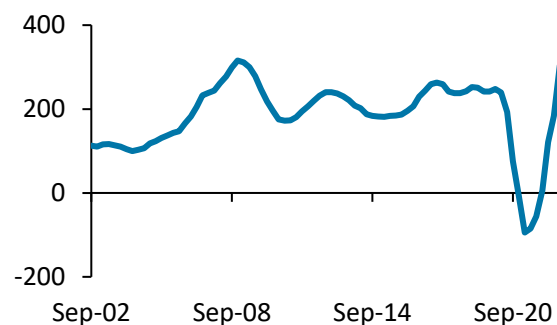
But there is also some good news that could help bust Australia out of a retail recession: population growth.

Expectations of future migration numbers have been upgraded, with the Federal Budget showing

net overseas migration of 400,000 in 2022-23, and an expected 315,000 in 2023-24.

The further return of migrants (especially students coming back for Semester 2) could be the boost needed to get retail sales back to overall growth later in 2023.

Chart 1: Net Overseas Migration '000s (annual change)

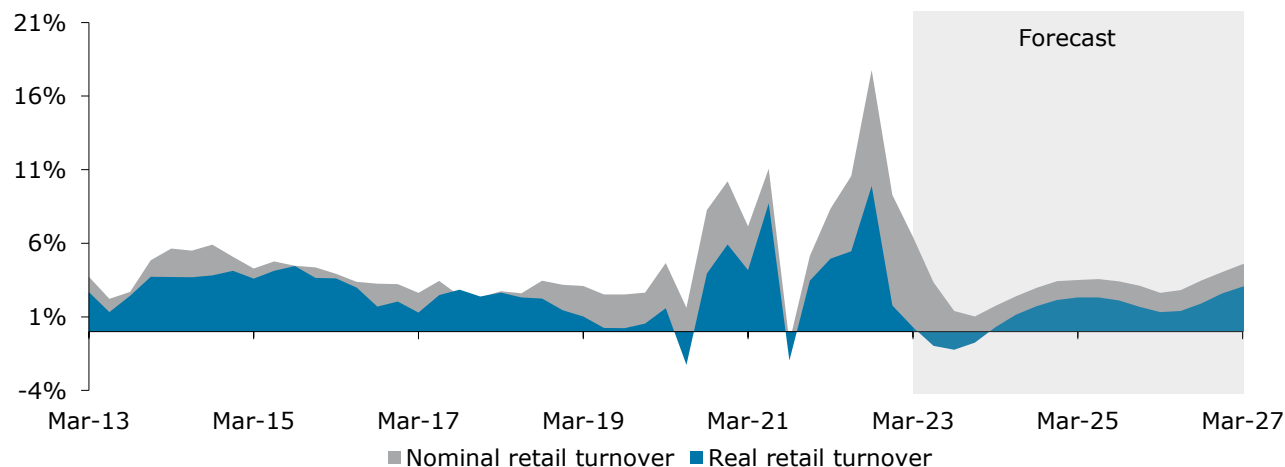


Source: Australian Bureau of Statistics National, State and Territory population

Our forecasts reflect this: total real retail turnover is expected to rise from -0.7% across calendar year 2023 to 1.3% in calendar 2024. This return to growth would be spurred by more people and also more open wallets. As inflation continues to track down there is expected to be a point in 2024 where real wage growth becomes positive again.

Real retail growth of 1.3% in 2024 would not be a boom (indeed it's still below the expected rate of population growth). But it is better than the recent picture of going backwards, and the

Chart 2: National real and nominal retail turnover



Source: Deloitte Access Economics, Australian Bureau of Statistics 8501.0.

anticipation of sales growing once again may allow consumer and retailer sentiment to start improving towards the end of 2023.

This could indeed make for a jolly Christmas for many retailers.

Until then, it'll be important for retailers to identify customer bases less affected by the rising cost of living.

According to Finder, younger generations are being disproportionately impacted by higher cost of living, with 89% and 90% of Gen Y and Gen Z consumers reducing their spending, compared to only 59% of Baby Boomers.

This phenomenon is supported by the [Deloitte Global State of the Consumer Tracker](#). As a portion of their overall expenditure, younger Australians are increasingly spending more on housing and groceries compared to one year ago, but less on clothing. Lower relative clothing spend is especially true for those aged 35-54, as this demographic is now spending substantially more on housing (accounting for 28% of their spending now compared to 20% a year ago).

In particular older Australians and those without mortgages are less likely to feel the cost of living pinch and maintain their current spending patterns. This provides a golden cohort for retailers to see through the retail woes.

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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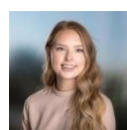
+61 3 9667 5070

daesubscriptions@deloitte.com.au



David Rumbens

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



Shannon Cutter

Manager, Deloitte Access Economics
scutter@deloitte.com.au



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