

**Deloitte.**



**Retail Forecasts  
Sprint to Christmas  
Public Executive Summary**

December 2022

**Deloitte  
Access Economics**

# Public executive summary

## Sprint to Christmas

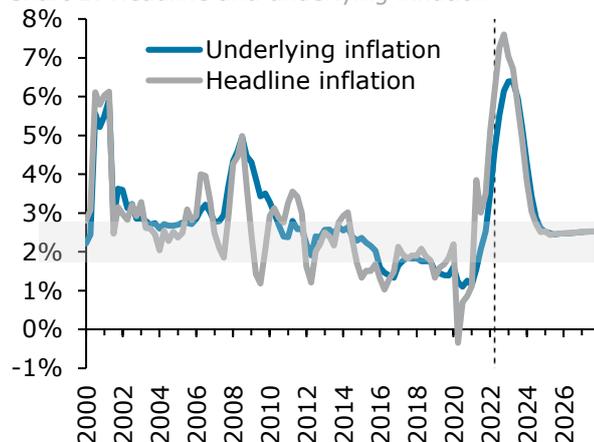
*The holiday season is here but price rises across many goods and services are creating a surge in the cost of living. While Australians are expected to spend more over the December quarter it may not be more presents under the tree, but rather more expensive ones.*

Australian retailers have traded relatively well over the past 12 months off the back of the post-pandemic recovery. However, the outlook for retailers is changing fast and they are sprinting to Christmas before consumer caution takes hold. The domestic and global economic environment is souring as higher inflation and interest rates increase cost of living pressures.

While there are signs that some of the sources of inflation are now reversing (for example, fuel prices decreasing as global oil prices softened) inflation is expected to rise further, peaking in the December quarter at 7.6% over the year.

Underlying inflation is also anticipated to reach a 20 year high at the end of 2022. As prices increase across most goods, consumers will find it hard to avoid the impact on the household budget.

Chart 1: Headline and underlying inflation



Source: Deloitte Access Economics; Australian Bureau of Statistics 6401.0.

Further adding to the rising cost of living are increases in interest rates, raising the cost of servicing home loans, particularly for those

taking on large mortgages in recent years. Seven rate rises in a row will pack a punch on consumer spending – it is only a matter of time.

With prices growing consumers have been reducing their rate of savings in order to maintain their spending habits. However, consumers will only be happy to dip into their savings for so long – some pullback in spending will need to come.

Internationally, spending patterns have already begun to shift away from non-discretionary spending. The US, which has likely now passed the peak in its inflation, is seeing this consumer shift. The latest data from the US Census Bureau shows nominal retail trade decreased by 1.3% over the September quarter.

Similar patterns have also been seen in the UK, with the proportion of income spent on housing increasing with a simultaneous reduction in savings and investment, and spending on recreation. Subsequently retail sales volumes declined by -1.1% and -3.0% over the June and September quarters respectively.

Another indicator of the turning tide is the growing disconnect between consumer sentiment and retail spending. Of late the two measures have diverged with retail spending increasing as consumer sentiment has plummeted. It feels like it will only be a matter of time before the sharp drop in sentiment is also reflected in consumer behaviour.

End of year events and the holiday season are expected to throw the retail sector a lifeline. Year-to December growth in retail sales is expected to be 2.7%, with prices anticipated to increase by 7.6% and nominal retail sales growing by 10.4%.

The outlook for the holiday season is reflected in the [Deloitte Retailers' Holiday Survey](#) which highlights the expectations of Australia's leading retailers for the holiday season and beyond.

Facing slowing growth, maintaining margins (albeit not increasing them) over the holiday period will be key for retailers. For the most part retailers are expected to continue passing on price increases on to consumers.

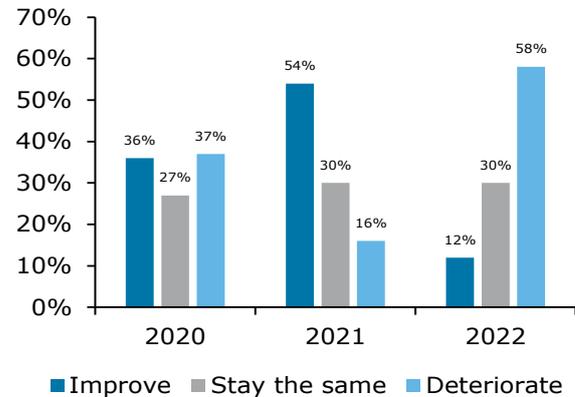
Ring in the new year retailers are expected to face a difficult six months. As both a cost of living and mortgage rate squeeze cloud the horizon, retailers are growing pessimistic about the state of the consumer in 2023. Some 58% of respondents expect that consumer confidence will deteriorate through 2023.

Retailers are also facing stiff competition as consumers switch to higher spending on services rather than goods. This is evidenced by the difference between total consumer spending growth and real retail growth.

These impacts are already being seen in some retail categories. Sales volumes over the September quarter decreased for supermarkets (-0.8%), speciality food and liquor (-0.1%), household goods (-1.8%) and other retailing (-0.5%). The cost of living squeeze, low consumer confidence and switch back to services spending may be at their fiercest for retailers in the first half of 2023. An economic recession is defined as two quarters of decline in real GDP. Well, we may see two quarters of decline in real retail sales in the first half of 2023 – a retail recession. Sales volumes are anticipated to decrease by 0.2% and 0.4% over the March and June quarters of 2023, respectively. Few retail categories are expected

to be spared, with a wide sweeping reduction in demand anticipated.

Chart 2: What is your expectation of consumer confidence in the next 12 months?



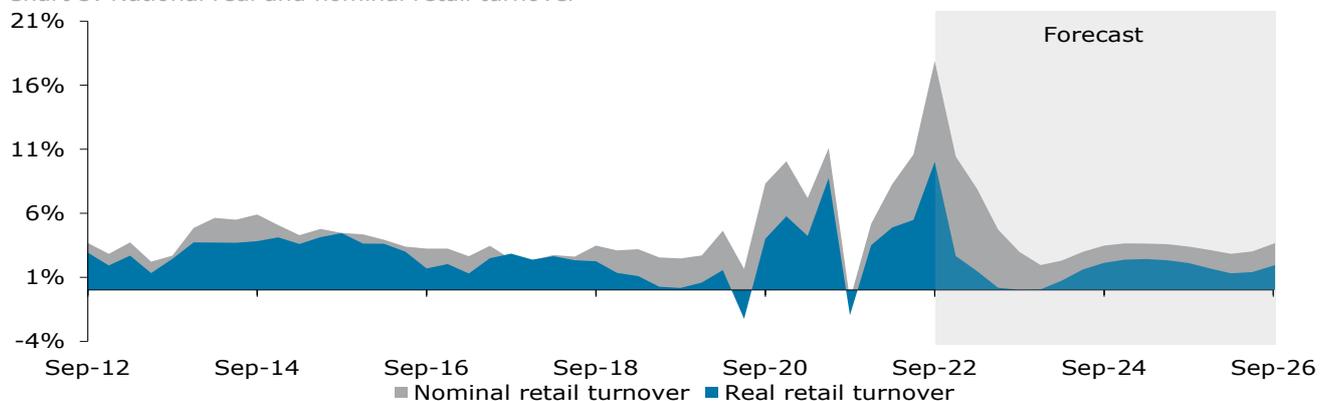
Source: Deloitte's Retailers' Holiday Survey.

That tougher period at the start of 2023 is expected to be felt across both the food and non-food retail sectors. The volume of retail food sales may reach a low point over the year to September 2023, with growth of just 0.2% at that point, before then starting to move up again (more sales volume growth and less price growth).

With a higher discretionary sales element, non-food retail sales may fare worse. On these forecasts the low point for total real non-food sales comes over the year to December 2023, at -0.4% at that point. Improvement then comes through as real wages growth kicks in and interest rates have levelled out.

Chart 3 shows total retail sales bottoming at zero real growth over the year to December 2023, with top line (nominal) sales growth at 1.9% at that low point – a more sombre 2023 after a sprint to Christmas this year.

Chart 3: National real and nominal retail turnover



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

# 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.

For any publication or subscription queries please contact us via phone, email or visit us online:

**+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



**Shannon Davidson**

Manager, Deloitte Access Economics  
[sdavidson@deloitte.com.au](mailto:sdavidson@deloitte.com.au)



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

#### About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 300,000 professionals are committed to becoming the standard of excellence.

#### About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 9,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at [www.deloitte.com.au](http://www.deloitte.com.au).

Member of Deloitte Touche Tohmatsu Limited

© 2022 Deloitte Touche Tohmatsu

#### Disclaimer

Deloitte Access Economics provides assessments of current macro conditions in Australia and internationally, forecasts for the Australian economy and analysis of current policies, and the longer term economic planning framework. We undertake client work in specialised fields such as taxation, superannuation, tourism, communications, transport, energy, macroeconomic policy, immigration, health, education, econometric modelling and the policy environment for specific industries. This includes the finance sector, particularly superannuation, banking and insurance.

While every effort has been made to ensure the accuracy of this document, the uncertain nature of economic data, forecasting and analysis means that Deloitte Access Economics is unable to make any warranties in relation to the information contained herein. Deloitte Access Economics, its employees and agents disclaim liability for any loss or damage, which may arise as a consequence of any person relying on the information contained in this document. We remind clients that *Employment Forecasts'* easy-to-read style often simplifies and adds emphasis to make its point.

The views in this publication are those of the authors and do not represent the view of Deloitte Touche Tohmatsu or any of its affiliates (Deloitte). You should not rely on the information in this publication.

This publication is provided as general information only and does not consider your specific objectives, situation or needs. You should not rely on the information in this publication or disclose it or refer to it in any document. We accept no duty of care or liability to you or anyone else regarding this publication and we are not responsible to you or anyone else for any loss suffered in connection with the use of this publication or any of its content.