

## **Retail Forecasts**

Gearing up for the inflation challenge

Public Executive Summary

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**Deloitte**  
Access **Economics**

The retail rollercoaster continued as we ended 2021. What's different now is the decision to shop is back in consumers' hands – that means confidence is key. On that note December 2021 was rough...but it didn't last and indicators are already showing retail sales picking up again. Retailers will need to prepare themselves for some channel shift of spending back to services, but for now the key issues are a supply side squeeze.

The retail sales rollercoaster continues, with a surge in sales over Sep-21 to Nov-21 as restrictions eased, only for retail sales to once again pull back sharply over Dec-21 amid the Omicron wave. All of that shows up as a surge in real retail sales of 8.2% in the December quarter. **But, Omicron was a momentum buster for retail spending**, which is consolidating at around its late 2021 levels.

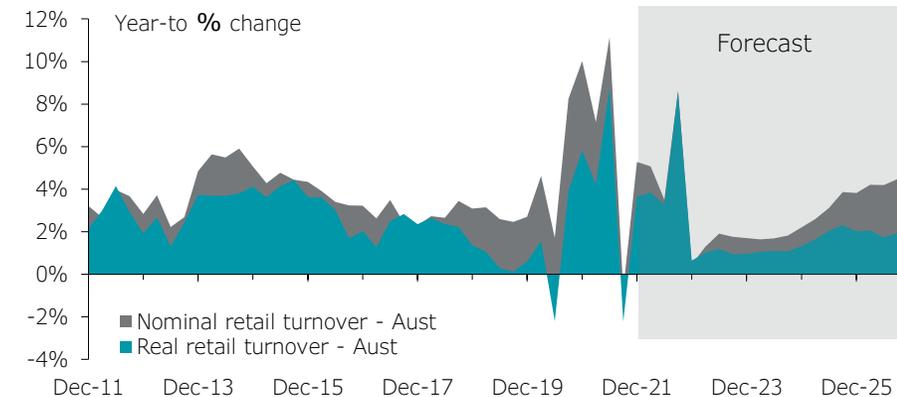
The environment has changed – we are now living with the virus (less government restrictions; more individual decision making) and that means also **shopping with the virus**.

The remainder of 2022 should see a more consistent level of spending for retail, supported by consumers' significant war chest of savings accumulated over the pandemic, as well as strong labour market conditions.

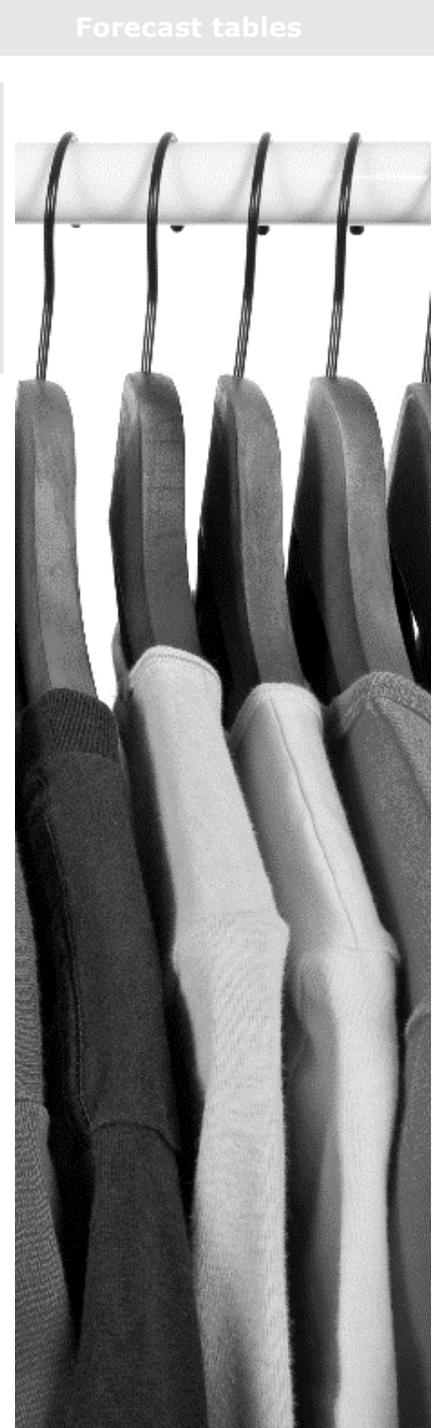
But retail sales may see a smaller than usual proportion of those consumer spending gains over 2022, with a stronger shift away from retail to other areas of consumer spending. According to Deloitte's [Global State of the Consumer Tracker](#) consumers' spending intentions in recreation and entertainment, restaurants, transportation, saving and investing, and leisure travel have all improved since November 2021, though spending on electronics and home furnishings have dipped.

Hence, while retail outperformed total consumer spending through much of the pandemic, the forecast period sees the opposite occurring.

Retail turnover growth (real and nominal)



Real food and non-food retailing



While the demand side of the equation is generally supportive, the larger immediate challenges for retailers may be on the supply side, dealing with an inflationary environment.

While the channel shift to greater services spending is a potential headwind, retailers may not be thinking about this just yet with the sector facing some larger challenges on the supply side - access to staff, access to goods and managing inflationary pressure.

**Retailers are struggling to find enough workers**, and the right workers, in one of the tightest labour markets the economy has seen for some time. Deloitte's [CFO Sentiment](#) survey showed 93% of all CFOs rated 'talent' as their biggest challenge. And even if businesses have enough staff on the books, Omicron has been fashioning absences from work, which saw hours worked tumble in January.

The other big pressure is coming from supply chains. The **sophistication of the supply chains the retail sector relies on have been tested over the pandemic**, and it has led to delays in stock and deliveries, and cost increases which have put a squeeze on some retailers' margins. That creates a balancing act for many retailers between passing on price rises to consumers and maintaining profits margins on the one hand, and absorbing some of that cost increase and maintaining demand on the other. The extent of competition within each segment will be important in how that pricing decision plays out.

**Imported price pressure is also likely to add to the equation.** A 12.5% increase in transport costs was already a big contributor to CPI growth over the past year, and one of the business consequences of the Ukraine conflict may be further escalation in energy costs. Such escalation may further push up the cost of imported goods for Australian retailers.

### Key changes since last issue

The December quarter retail sales result was stronger than previously predicted, with a spending boom over Sep-Nov 2021 as restrictions were eased. Despite the Omicron outbreak sneaking in towards the end of the year and spreading very rapidly across Australia it is expected spending will get back on track quite quickly and so the March quarter of 2022 is now expected to show a sales decline of 0.2% (previously -1.1%).

The forecast retail sales growth for 2021-22 as a whole has increased from 0.6% to 2.2%, held up by a strong December quarter and the modest expected contraction in March quarter.

Given the strength of labour market conditions and build-up of household savings, estimates for retail sales growth over 2022-23 have been revised upwards from 1.8% to 2.8%. This is still expected to be a slower growth rate than overall consumer spending, with some channel shift back to services.



## Deloitte CFO Sentiment Survey | Edition 12: Resilient in the face of uncertainty

Despite facing a significant number of economic and operational risks, Australian Chief Financial Officers (CFOs) have entered 2022 with optimism. Almost 1 in 4 CFOs (the highest share) reported being 'highly optimistic' as Australia enters 2022 with another 58% reporting being 'optimistic'. And the story appears to be the same over in the US with the [2022 Retail Industry Outlook](#) revealing retail executives are optimistic despite pressures from prices. There are some concerns still looming over CFOs heads though. Australian CFOs see risks about the continuation of low interest rates as weighing on the outlook (driven by higher inflation), rising cost of inputs and the value of the Australian dollar (with the risk of a decline if Australian interest rates rise much more slowly than global rates).

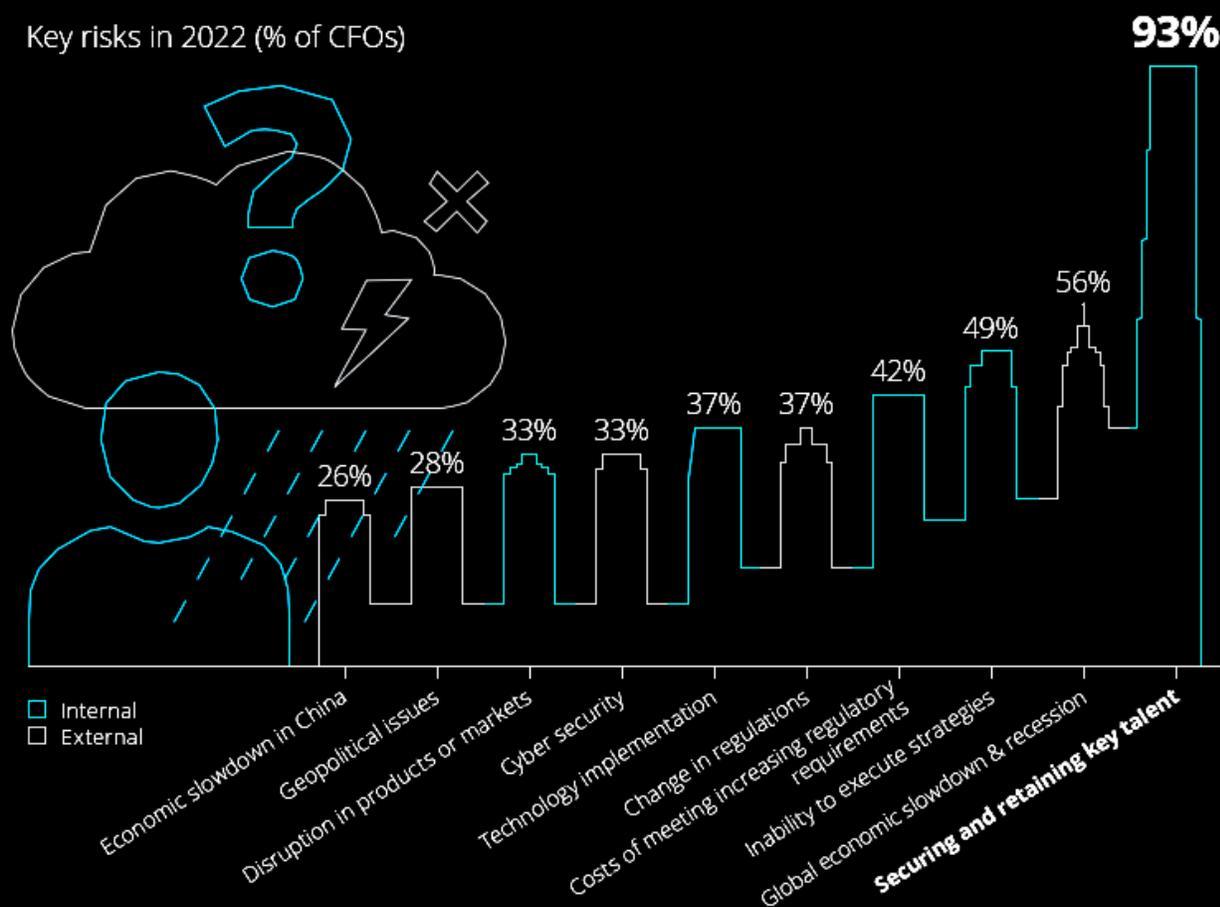
A lack of talent and skills appears to be the universal cloud over business heads. 93% of CFOs surveyed agreed that securing and retaining key talent will be a risk to their businesses in 2022. And while this is not a new phenomenon, the level of concern has only intensified and surpassed other risks in the economy. This is also a risk being felt in other countries as well. US Retail executives see labour shortages as a leading concern over the coming months, especially when they are in competition with the flexibility of the economy - 70% believing it will hamper retail growth in 2022.

While talent is at the forefront of CFOs minds, there are still other risks at play. One being the economic slowdown in China which has moved up the priority list over the last six months. Overall, 91% of CFOs rated uncertainty levels as being higher than normal. But is COVID the new normal? Despite the high levels of uncertainty, CFOs are still looking to take risks on their balance sheets, which has been helped along by low interest rates, but it is also likely they are adapting to the current environment.

Going forward, the focus for CFOs shifts to strategy and foresight and ESG related actions are at the top of the list. However it appears Australian CFOs face some barriers to driving the change consumers desire. Firstly, a lack of resources and skills, and secondly, the difficulty in measuring the return on investment of ESG actions.

CFOs are seeing the short term as a tipping point for some key economic variables. Interest rate expectations have changed dramatically over the past year. At the start of 2022, almost three quarters of CFOs surveyed expect rates to rise. A key related question is how long increased inflation pressure will last for, with most economic forecasts expecting that inflation rates will be lower in 2023 than 2022.

Key risks in 2022 (% of CFOs)



## Our publications



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## **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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