



Consumer led recovery

Retail Forecasts May 2021

Public Executive Summary

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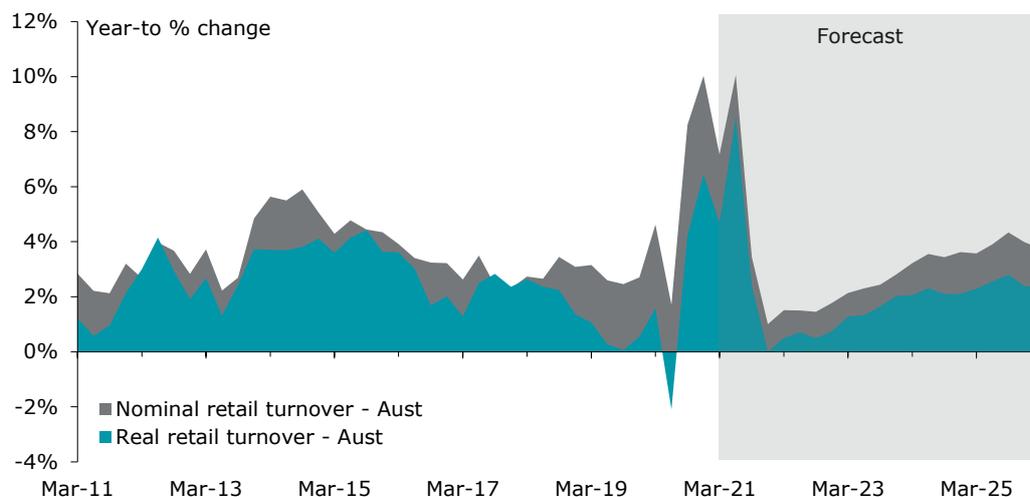
National Outlook

The National Accounts data which confirmed that Australia's economy has grown past pre-COVID levels also showed consumer spending lifting in the early part of 2021. And so it needs to - this year's Federal budget is predicated on that lift in consumer spending continuing, drawing down savings. An astonishing 5½% real spending growth in 2021 22 is needed to meet Budget expectations. While a strong target, the signs so far are that consumers are willing and able to play their part in Australia's economic recovery.

But the next shift in consumer spending has some retailers under pressure in 2021. Australian consumers have more options for spending with the easing of restrictions and a need for social contact supporting eating out and other activities at the expense of other retail spending. But with international borders still closed for another year and city-wide lockdowns still happening, overall, retailers can expect sales to remain well above pre-COVID levels as consumers' options remain constrained.

Retailers started 2021 on a softer note after a record year in 2020. Retail turnover volumes fell 0.5% over the March quarter but remain 4.7% higher than the previous year. After benefiting from captured consumers who had little else to spend on, retailers are now facing a year where competition for spending dollars is starting to heat up. Overall, real retail spending is expected to rise 5.9% in 2020-21 before slowing to 0.9% in 2021-22.

Chart 1: Nominal and real Australian retail turnover



Source: ABS Cat 8501.0, Deloitte Access Economics

The easing of restrictions has resulted in the next shift in consumer spending, with many consumers shifting their spending patterns back towards social activities. The strongest performing category over the March quarter was restaurant and café spending as consumers revealed in the ability to eat out and socialise. At the same time, supermarket and other specialised food retailing fell back to the pack. The shift in spending behaviour is less prominent for non-food retailers

Looking forward retailers will need to rely on households drawing on savings as income growth stalls. Luckily the war chest of savings built up over the past six months is starting to be drawn down providing some buffer for household spending. On the other hand, and with Victoria's recent lockdown the most recent case in point, we are not necessarily snapping back to an open society. Consumers still face restrictions from international borders and ongoing outbreaks which may mean retailers still get a strong share of overall consumer spending.

Economic and retail trends

Australia's economy is roaring forward in 2021, aided by rising export prices, lower costs (via lower interest rates on our foreign debt) and elevated consumer and business confidence. GDP is expected to grow to 4.3% in 2021, driven by a recovery in private consumption and investment as restrictions ease. While the economy is not out of the clear entirely, there are positive signs for Australia's post-COVID resilience and strength into 2021.

Employment surpassed the pre-COVID peak in March 2021 before falling in April as a result of the end of JobKeeper, although it was less disruptive than some had feared. For the month of April, the employee jobs index fell by 0.2% and total hours worked fell by 0.7%. Despite a tapering in April, there is still very significant momentum in the labour market. **Labour demand is high with job advertisements and vacancies well above their pre-COVID levels which should support employment growth over 2021-22.**

While jobs ads and vacancies are running hot, there is still spare capacity in the labour market which is keeping a lid on wages growth. Wage growth remained at 0.6% over the March quarter, with wages up just 1.5% from a year ago. While there are indications of recovery, wage growth still sits below pre-COVID levels and far below rates leading into the 2008 financial crisis. That said, there are many pockets of labour shortages in areas reliant on international migrants, and that is likely to create issues for many businesses over the next year.

Consumer confidence maintains a high level supported by optimism in the labour market and the return towards a pre-COVID lifestyle. The Westpac-Melbourne Institute Index of Consumer Sentiment increased 6.2% from March to 118.8 in April – its highest level since August 2010.

Rising consumer confidence has supported a decline in the savings rate. The precautionary actions of consumers last year saw much higher than average savings rates among households - a peak in the June quarter of 2020 of 22.0% of income saved ('normal' is 5% or less). Consumers ended the year with cash to burn and more opportunities to spend it with restrictions significantly eased. This spending appetite and ability resulted in a fall in the savings rate to 11.6% in the March quarter of 2021.

Retail spending was relatively soft in the early months of 2021 with the next shift in the pattern of consumer spending underway, heavily favouring services. Overall, retail trade volumes fell 0.5% in the March quarter pulled down by contractions in industries that boomed last year.

All states but Victoria are expected to have retail spending growth above 4% for 2020-21 with the big winners being Western Australia, Queensland and New South Wales. Growth is set to ease after this spike into 2021-22, returning towards pre-pandemic spending habits as consumers spread their spending more broadly in an era of fewer restrictions.

Industries saw a tapering in activity over the quarter with easing restrictions benefitting retail spending on café, restaurant and takeaway food services the most. Café spending saw sales volumes grow over the March quarter to now sit above pre-COVID levels, with growth forecast to reach 4.6% for 2020-21. Other industries saw weaker results over the March quarter, but despite this setback growth is expected to be solid for the year with apparel and household goods posting double digit gains in 2020-21.

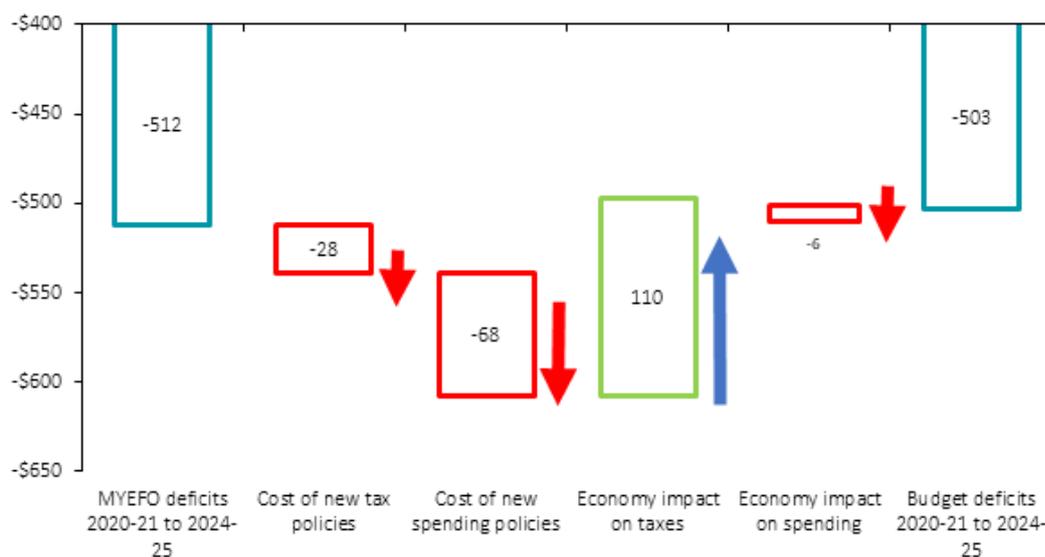
While retail spending forecasts for 2020-21 remain strong, **the next shift in consumer spending brings a likely reversion to normal patterns of spending**, creating some headwinds for growth in the sector into 2021-22. Removal of the coronavirus supplement and the end of JobKeeper will likely put downward pressure on spending as consumers maintain spending by drawing down on savings. Also, with the easing of interstate border restrictions, it is likely to see retail spending redistributed towards other industries including travel and recreation. Retail spending is expected to grow by 5.9% in 2020-21 before decelerating to 0.9% growth in 2021-22.

The good, the bad, and the uncertain

The Federal budget had both good and bad news for retailers as the government focuses on the economic recovery ahead. **While there is lot of good economic news, some structural issues remain** and are likely to create headwinds for spending in the years ahead. Importantly, confidence and vaccines are critical to the success of the economy moving forward, including the outlook for retail.

The economic recovery to date has been stronger than expected which has been good news all around. But importantly for the Federal government, the economic recovery has already delivered more money into its coffers through a higher than expected tax take and lower than expected support payments. **And this extra revenue flowing into government has quickly been spent.** Indeed, all of the additional upside and more has been shelled out to support the economic recovery. But there has also been some money flowing back towards consumers, which could make its way into retail shops.

Chart 2: Changes in government finances since the mid-year economic and fiscal outlook



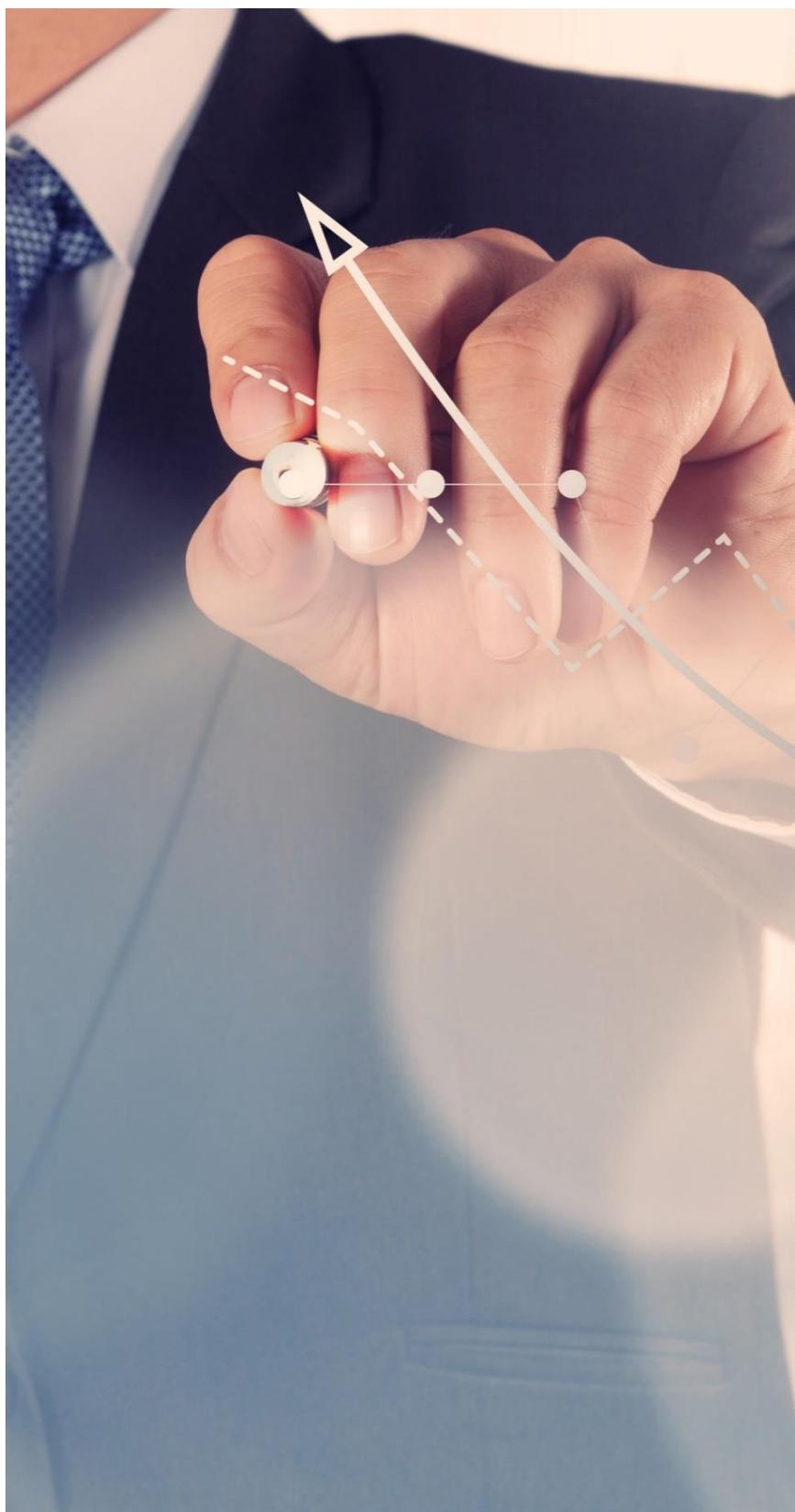
Source:

Deloitte Access Economics, Federal Budget

The budget contains a somewhat heroic prediction of a surge in consumer spending in 2021-22 (5½% real growth) to support GDP growth, but thereafter GDP growth is expected to moderate. A lot of this outlook is based on some critical assumptions about spending behaviour. In particular, there is **an implicit assumption that households keep spending despite real wages (wages less inflation) flatlining over the forward estimates.**

Households need to draw down on their savings for spending growth to continue at strong rates. And a big part of this will be driven by how confident consumers remain. To date, consumer confidence has rallied strongly since collapsing in mid-2020. But as recent events have shown, lockdowns are still an arm of policy. And while restrictions don't always hurt the retail sector as a whole given the essential nature of some spending activity, the impact on confidence is a bigger risk and one that could have a broad based impact on the outlook.

What is Retail Forecasts?



Retail Forecasts, produced quarterly, provides detailed analysis of current retail sales and consumer spending, and the important economic drivers which influence them.

Included are National retail forecasts, retail category forecasts and State retail forecasts, as well as the broader income and non-income influences of retail spending.

An annual subscription includes four quarterly reports plus Excel spreadsheets including 10 year forecasts and charts.

The accompanying Detailed Consumer Spending provides ten year forecasts of detailed Household Final Consumption Expenditure categories and detailed Retail Sales categories.

Contact us

We are happy to respond to any inquiries in relation to the publication or our forecasts.



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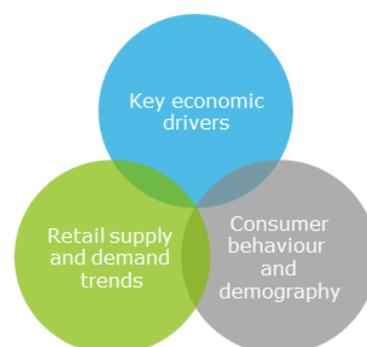
\$2,799 for an annual subscription or \$1,399 for a single issue.

Report with retail forecasts data and detailed consumer spending forecasts: \$9,899 for an annual subscription or \$4,949 for a single issue.

Our retail forecasting and analysis capabilities

Retail forecasts and analysis are a key focus of our macroeconomics practice.

Deloitte Access Economics specialises in research of the movements of key drivers in the Australian economy. By combining this wealth of knowledge with research on consumer behaviour and the retail market, we can analyse current retail supply and demand characteristics, forecast future movements and make informed recommendations for retail development, investment and strategy. At Deloitte Access Economics, we draw on our highly reputable research into key drivers of retail demand to provide insights to clients. These drivers include the following:



- **Consumer behaviour:** Consumers' changing preferences and needs
- **Consumer sentiment:** How consumers react to economic changes
- **Household income and debt:** Current and future insights on disposable income
- **Population and socio-demographics:** How the population is likely to change over time
- **Technological influences:** The effect of technology and the internet on retail
- **Macroeconomic influences:** How the economy at the state, national and world level affects the retail market.

Our project experience

Deloitte Access Economics has delivered a range of insights for the retail sector, including:

- Economic contribution work for a number of major retail stakeholders
- Competition policy analysis for major retailers
- Price and productivity analysis at a category level for major retailers
- Analysis of Australian online retailing for major stakeholders in the retail sector
- Mobile Nation: opportunities and strategies for retail for Australian Mobile Telecommunications Association
- Monthly economic briefs for a major retailer (ongoing work over several years)
- Monthly retail trade briefs for a major retail stakeholder (ongoing work over several years)
- Commentary on key drivers of retail sector performance, delivered to a number of clients as reports and/or presentations
- Economic outlook commentary, as it relates to the retail sector.

Our core capabilities

We can forecast retail turnover

- Retail turnover forecasting, at national, state or regional level if required, based on ABS, Household Final Consumption Expenditure and MarketInfo categories

We can analyse a specific product or place

- Regional economic profiling and forecasting, with a focus on retail
- Consumer product pricing, competition and performance analysis
- Shopping centres and retail precinct competition and performance analysis
- Economic impact analysis for major retail developments or decisions

We can contextualise retail trends using our economic knowledge

- Commentary on retail performance, growth and trends within an economic context
- Consumer behaviour and consumption habits analysis
- Digital influence analysis of retail and consumer products
- Retail trends analysis and forecasts, in terms of both supply and demand trends

Drawing on the above, we can help with forward planning

- Network planning for retailers and centre owners
- Strategic planning for retail sector decision-makers
- Scenario planning for retail sector decision-makers

Our publications

Below are examples of Deloitte’s recent published retail research. Please click the icons to see more on each publication.



The Retail Rundown
Exploring the latest trends and innovations in retail



Global State of the Consumer Tracker
Establishing the road to a global consumer recovery in the era of COVID



CFO Sentiment Edition 10
Confidence bounces back



Retailers’ Christmas Survey 2020
Stepping out of the bubble



The Weekly Economic Briefing
Personal views of two of Deloitte’s most highly respected economists on topical financial and economic issues



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