



Six degrees of shopping in 2020

Retail Forecasts May 2020

Public Executive Summary

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National Outlook

Australian retailers are facing the fight of their life in 2020. Consumer confidence slumped for a period, job losses have soared, and spending behavior has been tipped on its head. But it's also been extremely volatile across the sector - many retailers have benefited from stockpiling and a shift towards at-home spending, while others have faced significant drops in demand. The easing of restrictions and large fiscal stimulus program provide some support for the coming quarter. But as the population engine splutters and stimulus measures come to an end, retail is likely to face headwinds on the long recovery path ahead.

2020 has been a tumultuous year for retailers, and we're not even halfway through. Across the whole sector we expect calendar 2020 to register a fall in real retail sales of 1.4%, which would make it the worst year for retail on record.

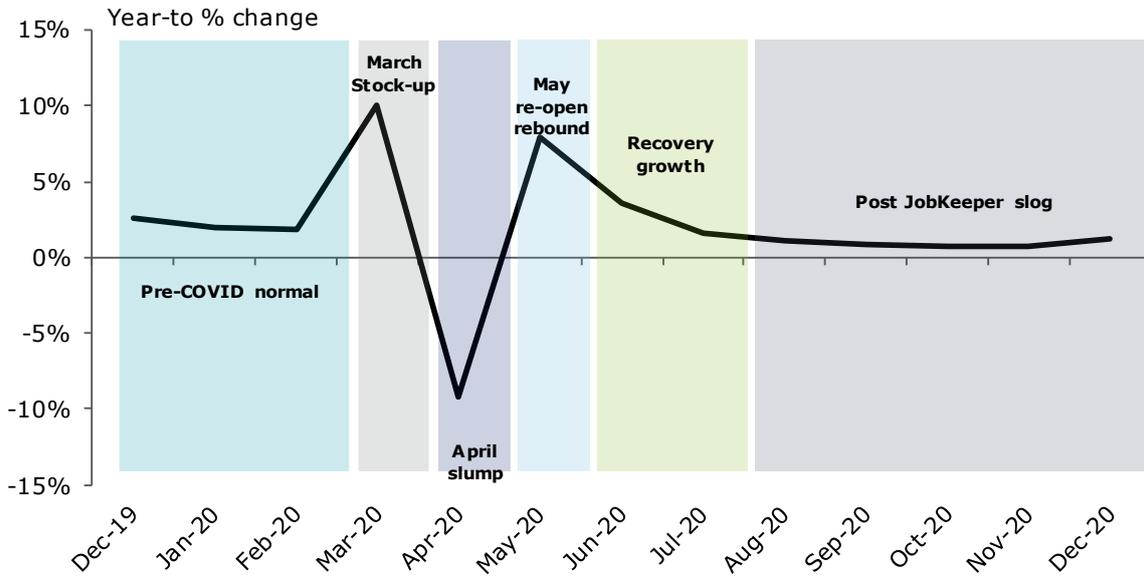
But while the average is dire, there may not be many retailers performing at the average – many will far much worse while supermarkets, pharmacies and hardware amongst others have been experiencing a golden run. There have also been significant swings in ability and willingness to spend during 2020, and those swings may continue as the year goes on. This means that one month's trading experience in 2020 may be a terrible guide to how the year as a whole pans out (making life hard for stock purchasers and supply chains).

Rather than one dominant economic theme, there may be six phases to retail spending in 2020:

- **A pre-COVID normal** – remember January/February. Hardly normal as the country was dealing with devastating bushfires, and some borders were starting to close. However, for most retailers trading was in a familiar pattern with modest growth from month to month.
- **March stock-up** – as COVID led to widespread restrictions, consumers entered a massive stocking-up cycle, with the extra spending on essentials masking a sharp decline in much discretionary spending. This culminated in the strongest monthly growth in retail sales on record.
- **April slump** – the stock up phase tapers off, so supermarket and related spending comes back down, while the downturn in discretionary (particularly cafes/restaurants and apparel) only got worse. The results – the worst fall in monthly retail sales on record.
- **May re-open rebound** – as health concerns abated and consumers were given the green light to go back to shopping centres, retail spending appears to have one again picked up sharply. This has been helped by some pent-up demand, and a lot of government support, cushioning the blow which might otherwise have been seen on consumer incomes.
- **Recovery growth** – tempering the re-open frenzy a 'COVID normal' period where sales are buoyed by an improving economy (picking up from a very deep trough), which continues to benefit from support (JobKeeper, deferral of mortgages, access to super etc.).

- Post JobKeeper slog** – September is already flashing red for many retailers as the intended end to JobKeeper, and therefore the significant support many businesses (including retailers of course) have been receiving. While there may end up being some tapering of support rather than a hard close, we will likely be moving to a period where the economy has to operate under its own steam, but also likely without the support of much population growth. That may see the last phase for retail in 2020 as a fairly sombre one, leaving many retailers to dream of the support they received when COVID was at its peak.

Chart 1: Retail phases in 2020



Source: ABS Cat 8501.0, Deloitte Access Economics

Economic and retail trends

Australia has not escaped the COVID-19 crisis. Our infection and death rates are comparatively low, but the economy has nosedived. GDP shrunk by 0.3% in the March quarter, and for the first time since the Global Financial Crisis, consumer spending went backwards, sliding 1.1%. Unemployment rose in April, although this change was overshadowed by a large drop in monthly hours worked and a decline in labour force participation. Business and consumer confidence fell to record lows, and the RBA expects negative inflation for the June quarter.

The COVID-19 pandemic has impacted employment and wage growth, two major components of take-home income. Even before the current crisis, wage growth had been low for years. Employment was strong but is now falling – fast. Between March and April 2020, Australia’s unemployment rate rose from 5.2% to 6.2%. Yet, this statistic conceals the full labour market impact for it omits any individual who worked zero hours but received JobKeeper. Similarly, the change in unemployment overlooks Australia’s participation rate falling from 66% to 63%. Instead, the enormous 9.2% decline in monthly hours worked is far more revealing.

Fiscal policies have undoubtedly helped to support take home income amid rising unemployment. Between 14 March and 2 May, ABS payroll data shows that 7.3% of jobs were lost, but that total wages paid only fell 5.4%.

COVID19’s damage to Australia’s population growth is set to be the biggest medium term risk to household spending. Historically, Australia’s economy has benefitted from strong population growth, particularly overseas migration which accounts for more than two thirds of population growth. Yet, relative to a net intake of 239,600 migrants in 2018-19, Deloitte predicts a 27% fall in 2019-20 and a 77% decline in 2020-21. Australia’s population growth is also set to contract following a decline in births, which historically fall during a recession, perhaps more so in the current crisis given people’s health concerns. In general, a smaller than expected population means less households and therefore less household spending.

Retail turnover, in volume terms, rose 0.7% during the March quarter, the strongest quarter of growth since June 2018. The **pandemic brought unprecedented retail demand in some categories and disastrous declines in others.** From early March, food retail was sent into a frenzy, with consumers racing to stock their pantries with supermarket products, also benefitting specialty food and liquor stores. Each of these retail categories also benefitted from a shift to working from home and the closure of cafes, bars and restaurants. Other retail, which includes pharmaceuticals, cosmetic and toiletry goods, also performed well. In other categories, COVID-19 spelled disaster. Record low consumer confidence combined with virus fears and social distancing requirements sent apparel sales spiraling.

The retail outlook for the June quarter is much worse, with total retail volumes expected to contract by 4.0%. Food retail categories are likely to exhibit the steepest fall due to lower levels of stocking up after strong growth in March. Non-food retail categories will also spearhead the decline since Australians, who were told to stay home, mostly limited their shopping to essential items, particularly in April. Looking forward, retail spending is expected to improve through the September and December quarters. However, elevated levels of unemployment will continue to drag on discretionary spending as many households are income constrained or remain nervous. In addition, the rollback of fiscal support measures and impacts of closed borders on population growth will remain key risks to the outlook. **Overall, retail spending is expected to decline 1.4% over the year, the weakest result on record.**

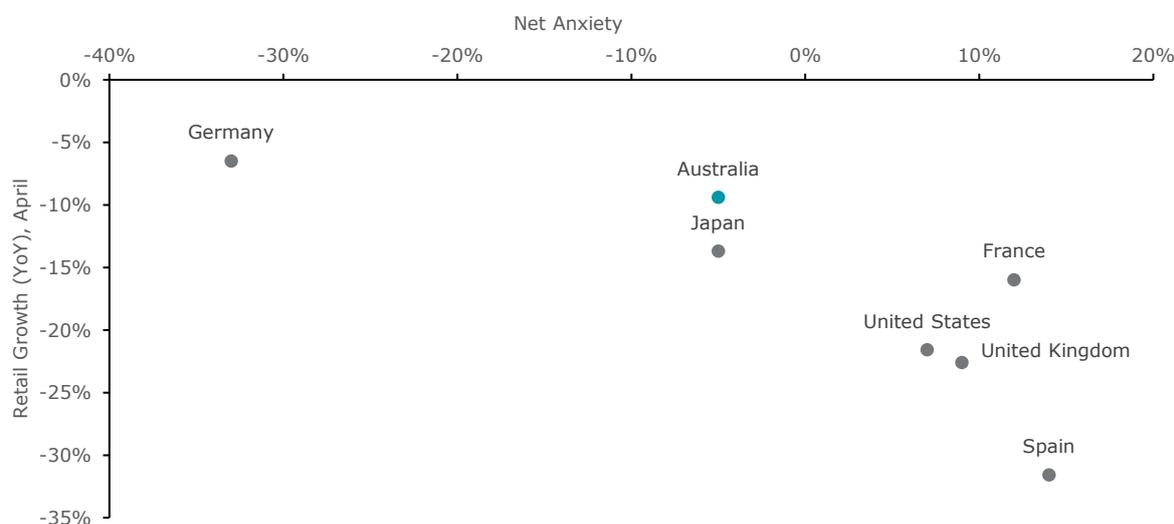
State of the Consumer

The State of the Consumer tracker is a biweekly survey of consumers that spans across several countries. The first wave included 13 countries, which has since been increased to 17. The survey focuses on consumers' confidence levels, their spending intentions in the coming weeks on a range of discretionary and non-discretionary items, how they intend to make these purchases and the factors impacting upon these decisions. The first of four waves took place on April 19, with subsequent waves taking place May 3, May 16 and May 30. The special feature highlights the results from waves 1 through 3.

COVID-19 has had widespread impacts on the confidence of consumers around the globe. Australia's current net anxiety score was the third lowest amongst surveyed countries, which in part reflects Australia's strong progression in combating COVID-19. **Indeed, 44% of Australian respondents were concerned for their physical wellbeing, which is a significant proportion, but 10% lower than the average across other survey countries.**

Relatively stronger confidence in Australia has translated to better retail spending growth. Australian retail spending was much stronger in March and April compared to many other major economies around the globe. The growth in March was driven primarily by stocking up of essential items. While Australian retail spending weakened in the month of April, falling to rates similar to that of the United States and the United Kingdom, in year-to figures it remains solid. In general, there is a clear linkage between low levels of anxiety and a better retail performance. This highlights the need to continue to monitor confidence measures as a source of insight into future spending trends.

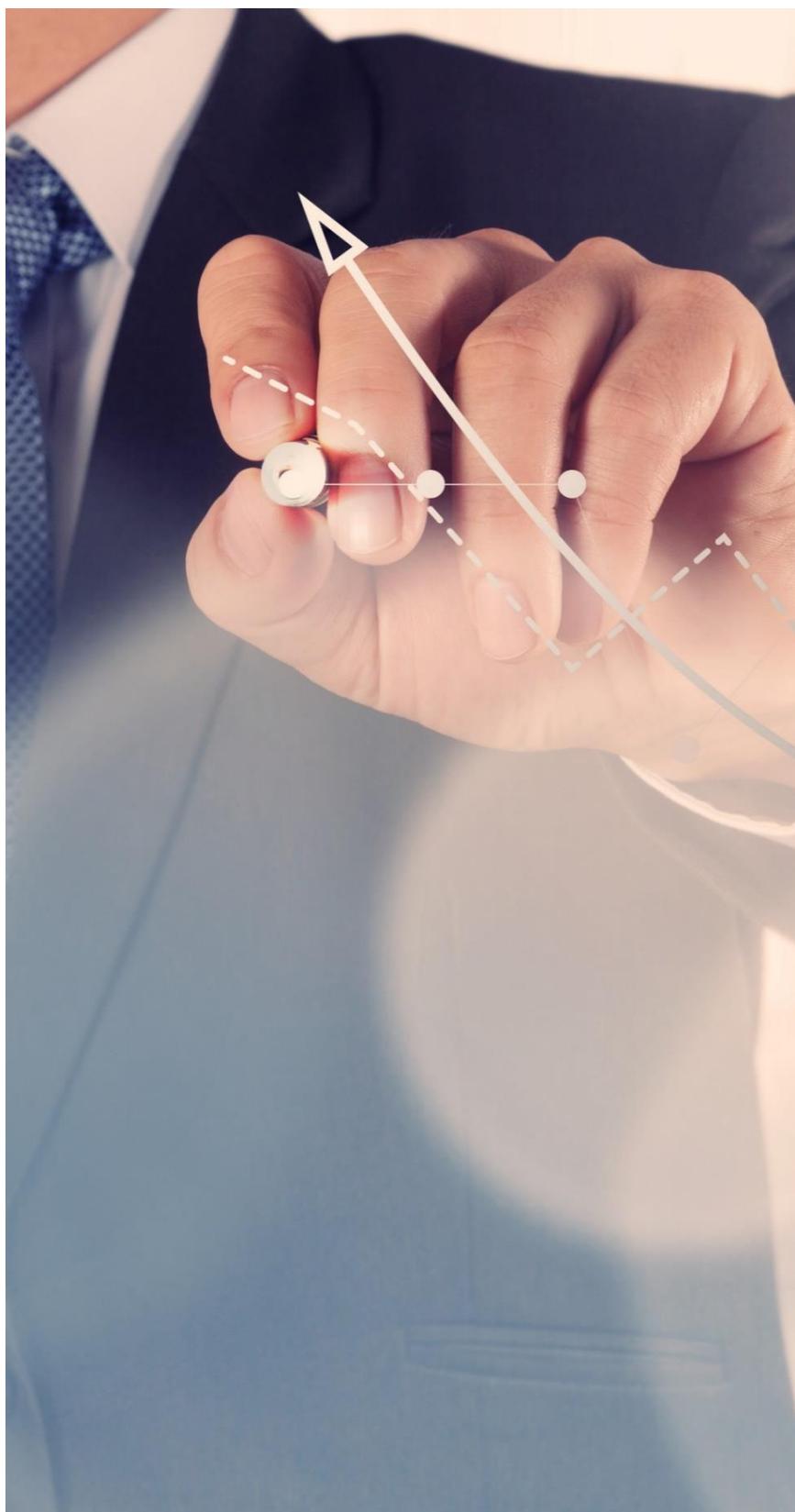
Chart 2: Anxiety and retail spending



Source: Deloitte Insights, various statistical agencies

Australians have a concerning outlook regarding their financial position, which should give retailers cause for concern about how well spending will hold up over the balance of 2020. **On average, some 25% of Australian respondents stated that they are concerned about making upcoming payments, while 47% stated that they intended to delay large purchases that they would have otherwise made.** Australia's ability to contain the spread of the virus and the implementation of fiscal support programs (JobKeeper, JobSeeker and various others) have likely supported Australia's confidence in their current financial position. Yet the high level of uncertainty suggests this hasn't been enough to maintain expenditure on large items.

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.

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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

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- 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.



Global Powers of Retailing 2019



Global State of the Consumer Tracker

Establishing the road to a global consumer recovery in the era of COVID



CFO Sentiment Edition 7
Global headwinds take their toll



Retailers' Christmas Survey 2019
Finding the recipe for Christmas success

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