Retail Forecasts
Retail's turning point
Public Executive Summary
September 2022
Retailers are edging closer to a turning point in retail spending. Firstly, high price growth means that prices are becoming the key driver of sales growth for the sector, rather than volumes. Secondly, as we revert towards pre-COVID spending patterns we’re likely to see growth in spending on services once again exceed growth in spend on goods. For now though, retailers are concerned about having enough labour in such a tight labour market, and that makes it the perfect time to focus on actions to retain and attract talent.

Retail is still riding the post pandemic high as consumer demand remained strong through H1 2022. Real retail spending grew 1.4% through the June quarter, after an already strong start to 2022, and that left real sales growth up 5.5% over the year.

This spending spree has been particularly centred around discretionary categories including department stores, apparel and catered food. Consumers growing desire to eat out and engage in experiences supported an 8.6% increase in spending at restaurants, cafes and takeaway food, while winter outfit refreshes likely supported the 3.9% increase in apparel spending over the quarter.

But cracks are starting to show as the economy face a number of challenges. Domestically, there has been broad-based price growth, especially in retail, fuelled by global supply chain disruptions and supply shortages. There are also higher interest rates to deal with and severe capacity constraints in some areas of the economy.

Retail prices increased 4.8% through the year to the June quarter with the largest price rises seen in food and household goods, the categories where consumers are reining in their spending.

Indeed on a quarterly basis, the turning point for overall retail price growth to exceed sales volume growth has already been reached. This occurred in both the March and June quarters of 2022.

The price pinch will continue to be seen in retail over the next 12 months. Sales volume growth is expected to come in at 3.0% through the year to December 2022, and retail price growth is expected to peak at a much higher 5.9% at the same point. Having prices as the main driver of nominal (value) retail sales, or top line revenue, is relatively unfamiliar for retail, as price growth has been traditionally lower than sales volume growth.

The larger retail categories have already passed this turning point. Excluding the impacts of the numerous lockdowns and restrictions, at-home food (supermarkets and speciality food and liquor) saw a significant difference between price and volume growth starting in the March quarter this year and it is expected to balloon in the September quarter.
Consumers pent-up demand for discretionary retail is still expected to weather the inflation challenge in the near term and support volume growth for a little longer. The volume of spending at cafes and restaurants is expected to jump 42.8% over the year, after a lockdown impacted September quarter last year.

But price growth for these categories is creeping upwards, and as consumers rein in their discretionary retail spending, most non-food categories are likely to reach their turning point in annual price vs volume growth in the 2022 December quarter.

While supply side drivers have cooled it will still take some time for year-to-year growth to come down to normal levels, though this is expected by late 2023. Even then, it is likely retail price growth will sit just above the historic trend going forward due to higher food prices, a stronger inflation environment compared to the decade prior and higher wage growth.

But a slowdown in price growth will be little help against another turning point for retailers when consumers shift further towards more services spending over H2 2022 and H1 2023. The services spending tap is now well and truly turned on and this is likely to see overall consumer spending growth outpace retail growth over the year to the December quarter.

This trend is likely to continue through next year with the 2023 June quarter likely to see the largest gap between year-to growth in retail volumes and overall consumer spending.

Retailers are also facing significant challenges on the supply side. Australia is now operating at close to full employment with the lowest unemployment rate for nearly 50 years. While the employment growth which has driven this is a great driver of retail spending, it also means that businesses are struggling to find enough staff. Retail job vacancies have more than doubled since May 2019, with no sign of slowing down and these positions aren’t being filled.

Employment in the retail industry is lower than in May last year, down 1.2%. This is despite employment increasing 2.9% across the economy over the same period.

Important, the industry is missing a key component of its workforce: migrants. In 2019, 7.6% of the retail workforce were either permanent or temporary visa holders. And while temporary migration is likely to bounce back faster than permanent, it is unclear if and when temporary net overseas migration will return to its pre-pandemic levels. As a result, retailers are looking for ways to plug these staffing shortages and fast.
Beyond migration, the **higher share of casual and part-time workers** in the retail workforce is likely also weighing on the industry’s ability to retain workers. About 12.1% of the retail workforce changed jobs in the year to February 2022 and although retail has historically accounted for a larger share of all job changes, the key challenge is that retail employment has not increased over the same period.

Increasing pay is often the go-to method of attracting and retaining workers, but the retail sector in particular has faced mounting input price pressures that have left little room for wage increases.

However, there a number of workforce strategies retailers can use to attract and retain workers in this current tight labour market.

- **Start by reviewing and addressing attrition drivers** within your control and understanding the underlying causes leading to high attrition rates. Look at trends in attrition and review exit data while engaging with your workforce to prioritise action areas and experiment with interventions.
  - **Challenge old orthodoxies on how work is performed** and how talent is sourced. Innovate on methods to improve productivity including labour-less stores, digital enablement and automation.
  - **Make your organisation more irresistible to current and future team members**. Adopt strategies from the Simply Irresistible workforce framework to attract, engage, retain and excite the 21st Century workforce.
  - **Look to the future to design work that appeals to a young retail workforce and next generation of retail leaders.** Millennials and Gen Zs are not passive – they are driving the change they want to see in the world and leaning on their values to make career choices. The shift toward climate action and stakeholder capitalism is resonating especially with this cohort.
Special feature

Managing the labour force challenge and rethinking retailer’s workforce strategy

The post-pandemic recovery has been positive for retailers, but it has also brought its challenges. Alongside high inflation and interest rate hikes, Australian retailers are also facing labour shortages. **Australia is now essentially operating at full employment** with the unemployment rate at a near 50 year low and labour force participation at a record high. While this lack of spare capacity is a good sign for spending, it means that businesses are struggling to find enough staff. In the latest CFO Sentiment Survey, 90% of CFOs agreed that securing and retaining key talent was their key concern.

The retail industry is not immune and is struggling with widespread staff shortages. According to ABS data, there were **over 40,000 job vacancies within the retail industry in May 2022** and an even greater 51,000 vacancies in hospitality. Retail job vacancies have more than doubled since May 2019, with no sign of slowing down, but these positions aren’t being filled.

Importantly, the industry is missing a key component of its workforce: **migrants**. In 2019, there were 93,000 migrants, that is temporary and permanent visa holders, employed in the retail industry, making up 7.6% of the retail workforce. Notably, retail and hospitality have a large reliance on temporary migrants compared to other industries – particularly international students.

Employment in the retail industry is lower than in May last year, down 1.2%. This is despite employment increasing 2.9% across the economy over the same period. By sector, furniture, recreational goods and motor vehicle retailers have seen the biggest falls in employment between May 2019 (pre-COVID) and May 2022. Furniture retailing employment is only 80% of May 2019 levels.

The closure of international borders had a severe impact on migrant arrivals, especially students. The number of student and temporary skilled visas granted in 2020-21 were nearly half the numbers in 2018-19. There were 350,000 international students in Australia in June 2022, only 65% of June 2019 levels. This is a significant barrier for the retail industry, who are unable to tap into a key cohort of workers they relied on before the pandemic.
However retail may be in a better position than some industries due to its dependence on temporary migration more than permanent. The number of international student arrivals increased from close to zero in June 2021 to nearly 30,000 in June 2022 as borders reopened late last year, and as such it is likely that temporary migration will bounce back faster than permanent migration. But it’s unclear if and when international students will return to their pre-pandemic levels. As a result, retailers are looking for ways to plug these staffing shortages and fast – before shortages start to become business critical.

Beyond migration, the structure and characteristics of the retail workforce are likely also weighing on the industry’s ability to attract, and retain, workers. Historically the retail workforce has had a higher share of casual and part-time workers. Overall this may help with attraction, but it can also make it hard to secure staff. With less entitlements tying these workers to retail jobs than full-time workers and high transferability of skills between retail jobs, workers are more likely to shift between employment, particularly now as the competition for retail workers ramps up.

About 12.1% of the retail workforce changed jobs in the year to February 2022, compared to 9.5% across all industries, although retail has historically accounted for a larger share of all job changes. The key challenge is that retail employment has not increased over the same period. So while the scale of people changing jobs and shifting out of the retail industry is somewhat normal, the industry isn’t filling its open positions.

Some 44% of retailers surveyed by the ABS in June 2022 are looking to increase staff numbers and 36% are expecting to increase staff hours over the next three months. This was much higher than the industry averages at 27% and 19% respectively, meaning retail, even more than many other sectors, need workers (and soon).

Generally, businesses can attract workers in a tight labour market by increasing wages. But the retail sector in particular has faced mounting input price pressures, leaving little room for wage increases. Only 26% of retailers were planning to increase wages or salaries to attract and retain staff, lower than the 30% average across all industry respondents.

However, there are other workforce strategies retailers can use to attract and retain workers in this current tight labour market. Deloitte’s Human Capital team is active in advising retailers on such strategies.

**Start by reviewing and addressing attrition drivers within your control.** While churn is particularly high for retail due to the tight labour market and a highly casualised workforce, there are opportunities for retailers to reduce unwanted attrition. It starts by understanding the underlying causes leading to high attrition rates.

- Look at trends in attrition to identify workforce segments with high turnover. Trends could include role type, demographic data, shift length, roster scheme, or specific stores with above average workforce churn.
- Review exit data (e.g. exit interviews, post-exit follow up interviews or store manager commentary)
- Engage and listen to current team members of highly impacted workforce segments to identify reasons for leaving. Common concerns include a lack of flexibility in rosters or work hours; minimal training investment; isolation in shift activities with little to no interactions with other team members; a lack of diversity and support to complete new duties/tasks leading to highly repetitive workdays; outdated work policies; and few incentives/perks below manager level.
- Listen to the feedback and prioritise action areas
- Experiment with interventions to address pain points and assess engagement and attrition changes.
- Calculate the return on investment and scale successful new work practices into other stores or business areas

**Challenge old orthodoxies on how work is performed and how talent is sourced.** The tight labour market has accelerated innovation in how work is performed with greater investment in labour-less stores; digital enablement of work activities and automation to improve long term productivity. Additionally, retailers and other industries are tapping into talent that has previously been ‘hidden in plain sight’ with an increase in refugee employment programs bringing talent into stores, fulfilment centres and corporate roles, as well new flexible work practices to increase women’s workforce participation.

**Make your organisation more irresistible to current and future team members.** Deloitte’s research on how to attract, engage, retain and excite the 21st Century workforce led to the
development the Simply Irresistible workforce framework. The framework defines five main factors and underlying attributes that work together to drive engagement and make organisations “simply irresistible” to the workforce—both prospective and current employees. Many of these factors have been used by global retailers to improve their workforce and customer experience. Zente Ton, the MIT business professor studied the difference between "good jobs" and "bad jobs" in her research on the retail sector. Her book ‘The Good Jobs Strategy’ provides examples of companies that design jobs for higher value that outperform their competitors.

The difference Zente Ton explains is the ‘good jobs’ design that includes elements such as investments in cross skilling, more generous rostering to foster friendships and the ability for staff to cover for each other, to rearrange the store and to provide service to customers, standardised processes and empowered decision authorities and more diversity in work activities.

As Ton summarises, “The good jobs strategy – the combination of operations and investment in employees – allows companies to make more money than their competitors do, to create jobs that give dignity and respect to their employees, and to provide low prices and excellent service to customers”.\(^1\)

Further, Deloitte’s Global 2022 Gen Z and Millennial survey suggests looking to the future to design work that appeals to a young retail workforce and next generation of retail leaders. Millennials and Gen Zs are not passive – they are driving the change they want to see in the world and leaning on their values to make career choices. The shift toward climate action and stakeholder capitalism is resonating with Millennials and Gen Z. They remain unimpressed with businesses’ impact on society, but they may be starting to feel more optimistic about business leaders’ intentions.\(^2\) Pay is the number one reason Millennials and Gen Zs have left their employers over the last two years, closely followed by feeling that the job was detrimental to their mental health and that they were feeling burnt out. However, when they have chosen a new job their top reasons have been good work/life balance, learning and development opportunities with a high salary or other financial benefits coming in at number three.

While the labour market is expected to remain tight, there are actions retailers can take to retain and excite the talent they have and attract new talent – with an eye to the future labour market changes.

### Figure 1 Simply Irresistible: Engaging the 21st Century Workforce

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Cross-organisation collaboration and communication

Source: Deloitte

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1 Ton, Z. The Good Jobs Strategy: How the smartest companies invest in employees to lower costs and boost profits”. MIT Sloan School of Management

2 The Deloitte Global 2022 Gen Z and Millennial Survey
Our publications

**Budget Monitor**

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