

# Deloitte.

Access Economics



## **Shopping through gritted teeth**

Retail Forecasts August 2017  
Public Executive Summary

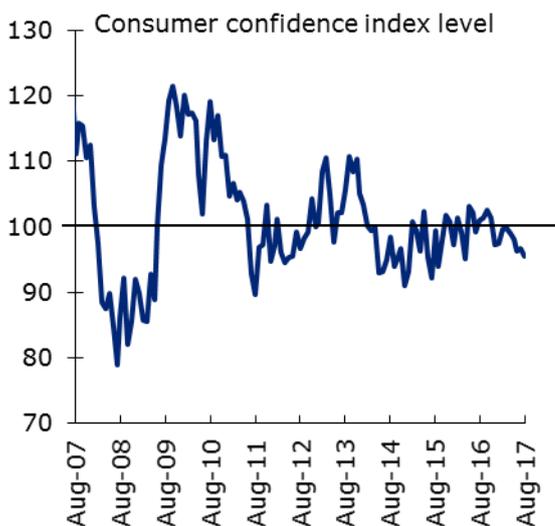
Released 12<sup>th</sup> September 2017

# Shopping through gritted teeth

Recent months have seen consumer sentiment drift down but over the same time **retail spending growth has picked up**. Strengthening employment outcomes including a rebound in full time jobs growth, as well as continued wealth gains from housing are providing the basis for spending to lift.

**But consumers aren't happy** - consumer sentiment is at a low point with concerns over financial risks and despite improvements in unemployment expectations and an increase in business confidence.

**Chart 1: Consumer confidence index**



Source: Westpac-Melbourne Institute

And in the face of oncoming competition from the likes of Amazon, widespread aggressive discounting to lure in the consumer dollar and rising energy prices, it's likely that **retailers aren't so happy either**.

**Retail spending to get squeezed in the new services economy.** The movement in retail spending is not necessarily proportionate with income growth – retail spending is just one part of overall consumer spending. And as the needs, preferences and demographics of consumers change over time, so does the relative importance of each of consumer spending's many components.

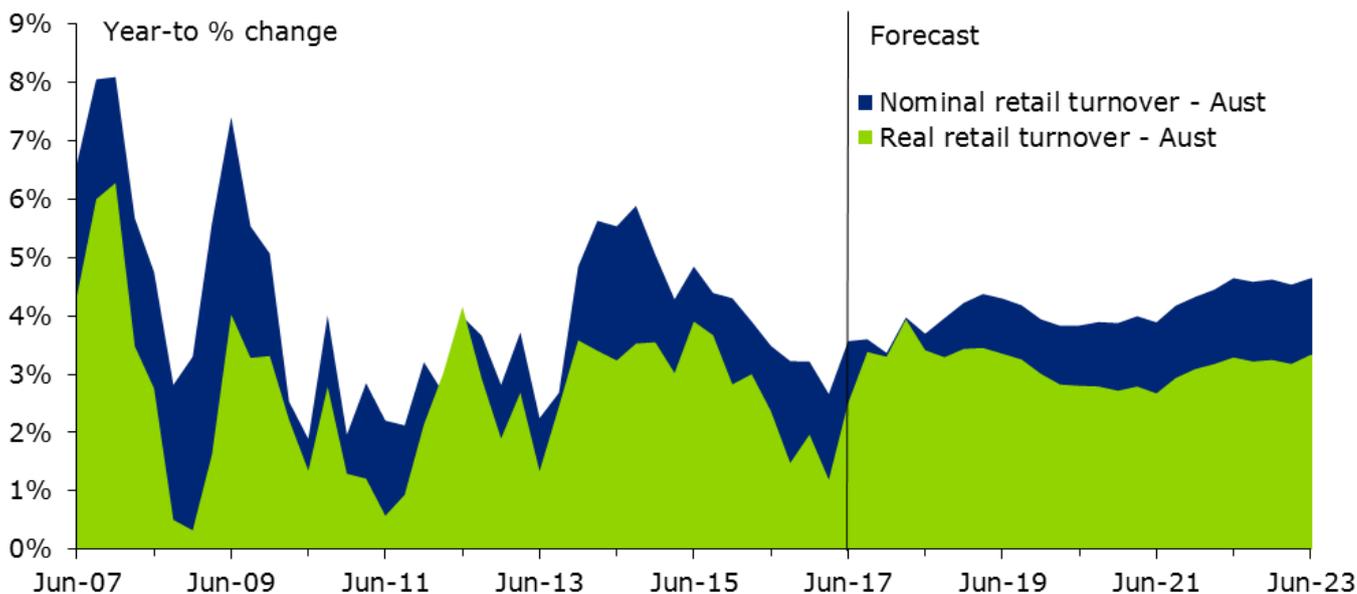
The next few years is likely to see services become a more important part of many consumers' budgets, squeezing retail into a smaller slice of the consumer spending pie. The full issue of Retail Forecasts includes a special feature article which explores the broad trends of consumer and retail spending.

# National Outlook

**Overall, real (inflation-adjusted) retail turnover growth was 2.5% for the year to June 2017.** This result comes as the June quarter sees the highest quarter on quarter growth for retail spending since the March quarter in 2013. However, that quarterly growth comes off a relatively low base, representing a recovery from the March 2017 quarter trough. Overall, the last financial year has been a struggle for retailers, with threats from Amazon, record-low wage growth and housing risks all keeping the outlook still modest for 2017-18 as well.

Total nominal retail spending came to 3.6% over the year to June 17, and is expected to stay steady at 3.6% over the year to June 2018. However, more of the growth next year may come from volume growth with prices increasingly under pressure – particularly in non-food categories.

**Chart 2: Nominal and real Australian retail turnover**



Source: ABS 8501.0, Deloitte Access Economics

## Key changes since last issue

**Jobs growth swings back to full time.** Between December 2016 and July 2017, full-time jobs rose by 1.9%, while part-time jobs grew by just 1.3%. This is a substantial turnaround when compared with 2016, during which the absolute number of full-time jobs declined.

**Spending surprised on the upside in the June quarter.** Real retail turnover over the June quarter was 1.5%, which is the highest real growth result since the March quarter in 2013, and follows a subdued start to 2017 for retail spending growth.

# Economic influences

**Global growth is driven by Asia.** The world economy's growth is at an 18 month high, with China and India contributing significantly to the acceleration. Rapid growth in major Asian economies is associated with more retail spending because it provides an opportunity for the Australian economy to strengthen (via a lift in export demand) and for visitor retail spending to increase (via growth in international students and tourists).

**The Australian dollar has strengthened in the short term.** The \$A has gained some ground through the first half of 2017, largely due to lifts in mining commodity prices. This provides some price advantage to imports which become relatively cheaper, and will help to keep retail inflation subdued. However, the \$A is likely to drift downwards over the next couple of years, erasing this advantage.

**Employment gains are on the rise but underemployment is high as well.** Jobs growth in 2017 is strengthening, primarily driven by some recovery in full-time job numbers. Indeed, the first seven months of 2017 have seen full-time jobs growth outpace part-time jobs. However, the proportion of part-time jobs is still high (around a third of total employment), which is associated with significant underemployment. The underemployment rate is now 9.3%, which means almost one tenth of workers would prefer more hours of work than what they currently have.

**Stagnant wages are keeping downward pressure on price growth.** Wage growth in Australia remains negligible, currently sitting at its lowest point in history at 1.9% over the year to June. Prices are growing slowly as well, at just 1.9% over the year on average. However retail prices are growing even slower, at just 1.0% over the year to June.

**Australian interest rates are expected to stay low.** The US is expected to continue its slow grind in raising interest rates, and the rest of the world is beginning to follow suit. But interest rates in Australia remain at their lowest level in history. The RBA is unlikely to raise interest rates this year, due to risks around Australia's housing market, household debt and commodity price volatility.

**House prices continue to add to Australians' wealth.** The continuation of record low interest rates continues to fuel double digit house price growth in Melbourne, Canberra and Sydney. This is still having some positive effect on retail spending, albeit lower than when housing market risks were less concerning to homeowners. Consumers are now more cautious about housing wealth, particularly as Australia's already high household debt faces upside risks if and when interest rates rise. Higher mortgages will take a chunk out of disposable income over time.

**A convergence of spending growth across the States is starting to occur** as Queensland and Western Australia see the beginning of a turnaround, and risks around the housing market in Victoria and NSW become more of a concern. South Australia and Tasmania continue to drive in the slow lane as demographic challenges limit growth, while the Northern Territory's continued reliance on major projects keeps its growth prospects minimal in the short term when such project are lacking..

# Retail spend trends

**The worst may be over.** Chart 2 shows that retail spending on a month-to-month basis improved significantly over the June quarter. This could well be the start of a retail recovery after three months of negative turnover growth in the last year. Chart 3 shows we forecast solid retail turnover growth over the next four quarters, as labour market outcomes improve across Australia, which would lock in the recent strong gains.

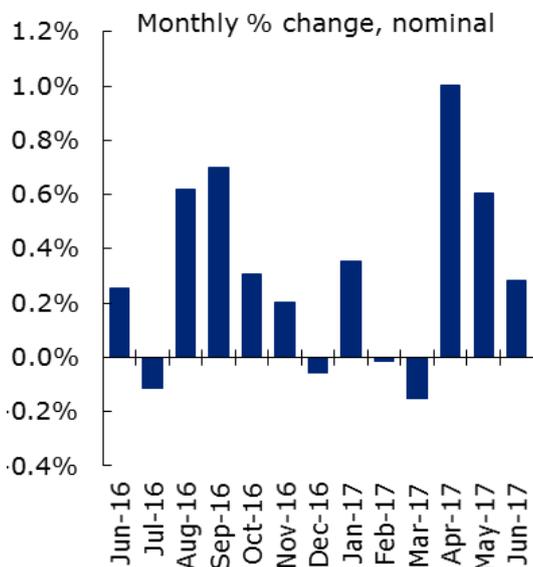
**Volumes improve while prices struggle.** Retail price growth is minimal, at 1.0% over the year to June 2017. Intense competition is keeping all retailers focused on delivering customer value at the least cost possible. The entry of Amazon and other international online retailers into the market over the coming years will only put further downward pressure on prices.

**Catered food wins out against supermarkets.** The trade-off between saving time and saving money has leaned into catered food's favour over the past year, with a lower rate of price growth for this sector than for supermarkets. Catered food spending grew by 3.3% over the year to June 2017 in real terms, compared to just 1.2% real spending growth for supermarkets.

**Household goods are back on top,** outpacing all other non-food retail categories in the year to June 2017, with 5.8% real turnover growth. On the other side of the spectrum, real turnover growth for department stores remains weak over the past year at 1.3%.

**Energy prices put pressure on retail margins.** The average price of electricity in Australia grew by 116.4% over the ten years to June 2017, and 7.8% over the last year alone. This adds further pressure to retailer margins, as intense competition keeps prices down. On the bright side for retail costs, retail wage growth is growing even slower than the record low average wage growth across the economy.

**Chart 3: Monthly retail turnover**



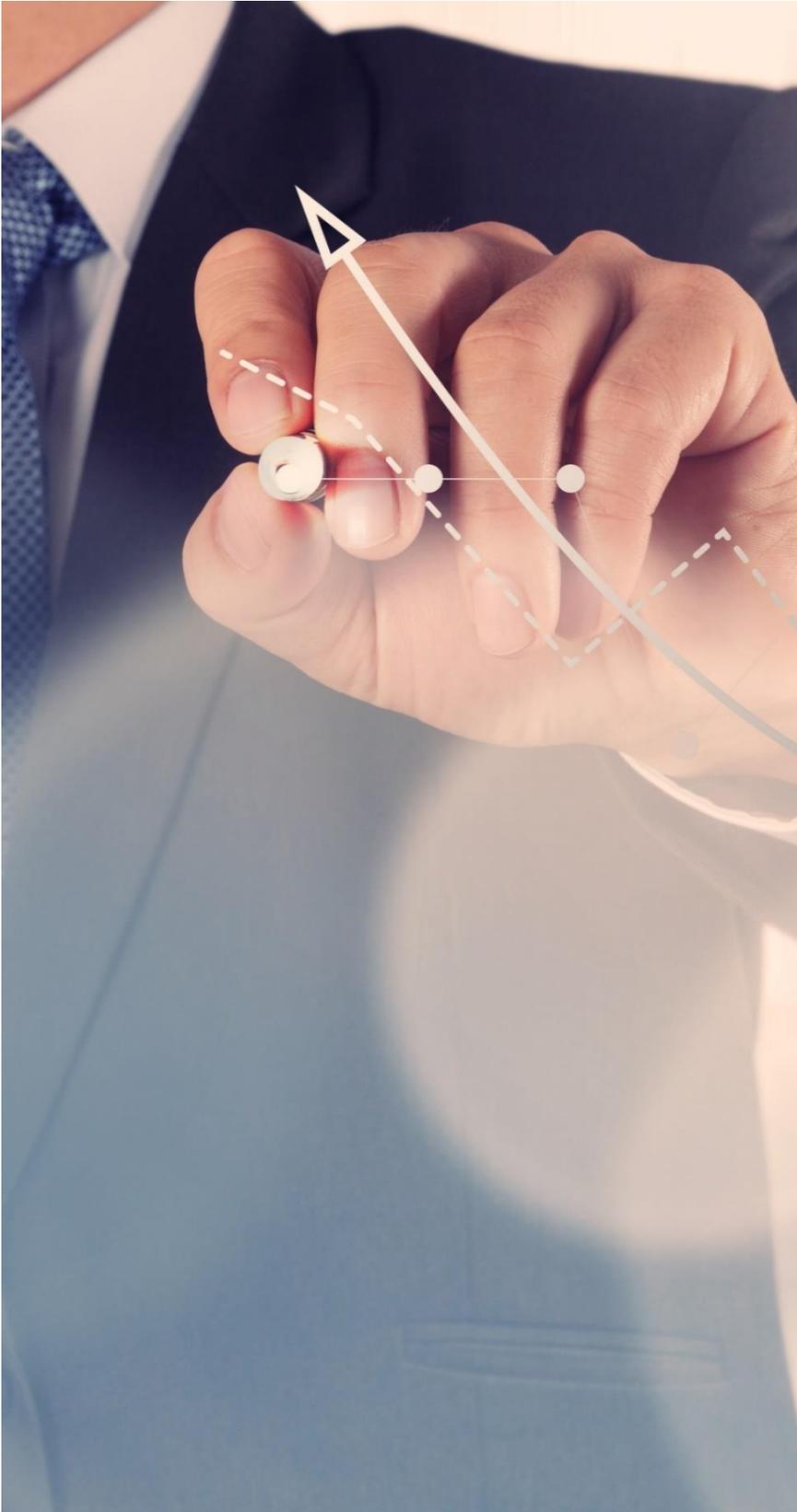
Source: ABS 8501.0

**Chart 4: Quarterly retail turnover**



Source: ABS 8501.0, Deloitte Access Economics

# 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.



**David Rumbens**

Partner

*Macroeconomic Policy and  
Forecasting*

[drumbens@deloitte.com.au](mailto:drumbens@deloitte.com.au)

+61 3 9671 7992



**Adelaide Timbrell**

Senior Economist

*Retail Analysis and Forecasting*

[atimbrell@deloitte.com.au](mailto:atimbrell@deloitte.com.au)

+61 3 9671 8785

## **Retail Forecasts purchase options**

Retail forecasts is available for purchase via our website:

<https://www.deloitteaccesseconomics.com.au>

Annual standard hard copy or electronic subscription: \$2,860 or \$792 for a single issue.

Annual standard hard copy or electronic subscription including detailed consumer spending forecasts: \$9,548 or \$2,860 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.



### Retail Forecasts

Shopping through gritted teeth  
August 2017



### Global Powers of Luxury Goods 2017

The new luxury consumer



### Technology in retail

From centre stage to supporting player  
2016/17



### Retailers' Christmas Survey 2016

Stocking up for Christmas



### Global Powers of Retailing

The art and science of customers 2017



### The Future of Exchanging Value

Cryptocurrencies and the trust economy

# Deloitte.

## Access Economics

### Contact us

#### Deloitte Access Economics

ACN: 149 633 116  
8 Brindabella Circuit  
Brindabella Business Park  
Canberra Airport ACT 2609  
Tel: +61 2 6263 7000  
Fax: +61 2 6263 7004

Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website

[www.deloitte.com/au/deloitte-access-economics](http://www.deloitte.com/au/deloitte-access-economics)

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 200,000 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 6000 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).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2017 Deloitte Touche Tohmatsu