



**Ageing consumers: will retailers
still love me when I'm 64?**

Retail Forecasts February 2018
Public Executive Summary

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Ageing consumers: will retailers still love me when I'm 64?

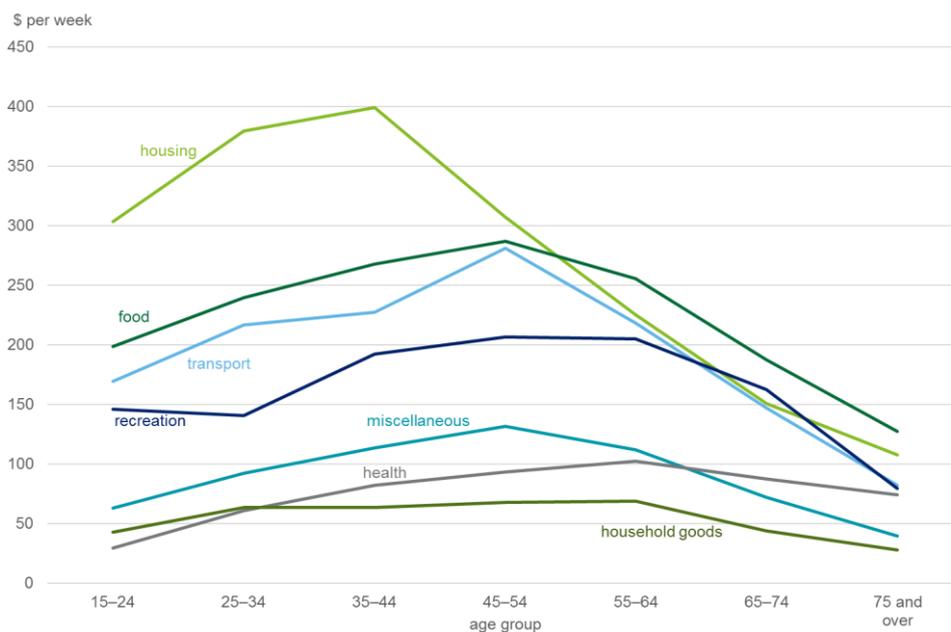
Population ageing will be (and probably has already been) a drag on retail spending. As the overall population gets older, the average Australian will be a lower spender than they used to be. The overall impact on retail spending, though, will be partly offset by the rising number of people in the 65+ age group. And that provides some opportunity – growing numbers of people in the 65+ age cohort, which has historically complained it is ignored by retailers.

All major categories of spending lose out as people get into their senior years, yet some do relatively better than others. Not surprisingly, health spending holds up pretty well as people age, although only a small portion of this is retail-related. From a retail perspective, the biggest losers from population ageing are food and clothing retailers.

The silver lining is that retirees are richer than they used to be, so the market for retiree retail spending is getting bigger – in terms of both the number of consumers and their wallet size. We can expect that to continue, with retiring baby boomers having done very well out of the share market, and especially the housing market, over their lifetime.

More detail on the effect of our ageing population on retail spending is available in our full Retail Forecasts publication.

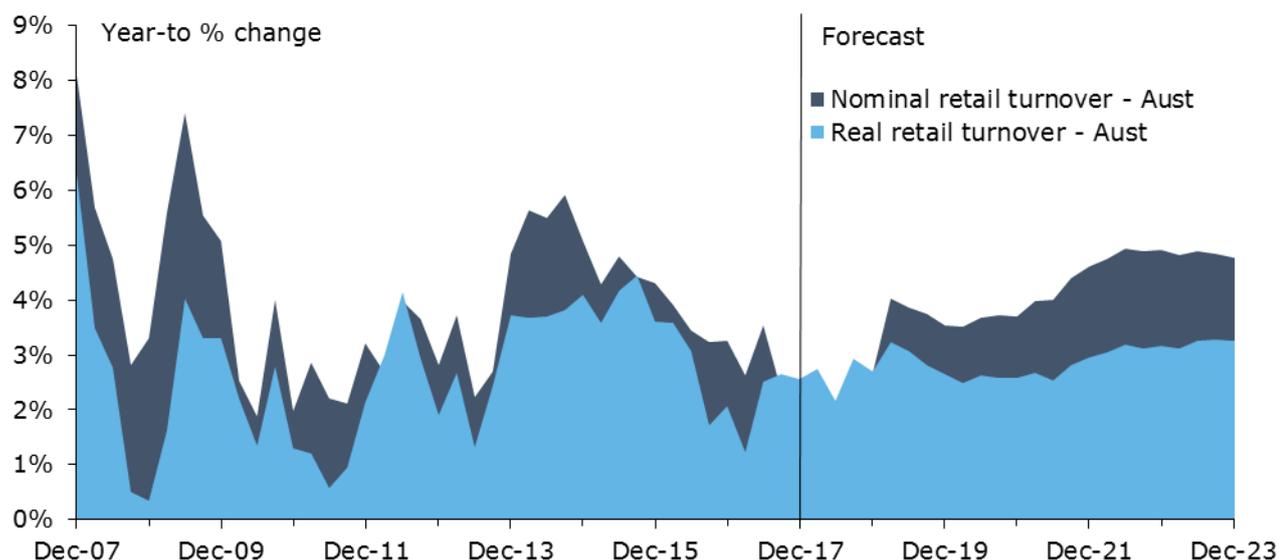
Chart 1: Weekly consumer spending by category and age



National Outlook

Retail sales growth will only improve modestly in 2018, after a fairly tough 2017. This reflects the combination of slightly better household income growth but weaker growth in wealth. On top of that, ongoing strong competition in the retail sector – already present before Amazon entered the Australian market in December 2017 – will likely keep a lid on prices and margins.

Chart 2: Nominal and retail Australian retail turnover



Source: ABS 8501.0, Deloitte Access Economics

Key changes since last issue

Retailers report that business conditions remained below average in late 2017 and into early 2018. This is in stark contrast to most other industries, where conditions are strong. And little wonder. Consumers have been wearing very low growth in incomes for the past few years, and have had to reduce the amount they save from their weekly salary to fund growth in their spending. And retailers' pricing power has been low – which is reflected in very low consumer price inflation in discretionary goods and services.

Wage growth may have stopped falling, but it is still weak. Wage price growth is currently sitting just above record lows at 2.1% over the year to December.

Consumer prices are growing slowly as well, at just 1.9% over the year. But in the retail sector, price growth actually went backwards over the course of 2017. The prices of household goods and services fell 0.8% over the year to December, clothing and footwear prices tumbled by 3%, and food prices were broadly flat, dipping by a slight 0.2%.

Economic influences

Global growth is improving. Growth in the global economy is the highest it has been in a number of years. The recovery in advanced economies continues, with improvements notable in the Eurozone and Japan, while the United States economy is now running at around full capacity. China's economy continues to slow very gradually, led by the industrial sector, although the Chinese consumer market continues to grow strongly. India experienced an economic dip in 2017, yet we think 2018 will be a better year for the second-most-populous economy in Asia. As well as supporting a more buoyant economic environment at home, strong growth in major Asian economies generates positives for Australian retail via the channels of higher international education and tourism demand in Australia.

The Australian dollar has risen a little, but will likely ease back. After falling to about US\$0.75 in late 2017, the Aussie dollar has been trading in a range close to US\$0.80 in early 2018. The stronger dollar will put downward pressure on import prices, potentially improving retail margins. But from here we expect the \$A to drift down compared to the \$US, if only very slowly, as short term US interest rates overtake those in Australia and as Australia's commodity export prices ease.

Wage growth should pick up, although jobs growth will slow. After a stellar year of jobs growth in 2017 amid record low wage growth, we expect wage growth to edge higher in 2018 as the labour market tightens a little. This would be good news for retail spending, as households would see some improvement in their budgets. But wage growth won't be robust, as there is still quite a bit of slack in the labour market.

Australian interest rates are likely to stay steady. The US will likely continue its slow grind in raising interest rates, although other major advanced economies will keep interest rates extremely low. So too in Australia interest rates remain at their lowest level in history. The RBA still looks set in 'hold mode' until at least late 2018, amid receding housing market risks, unthreatening inflation and a stretched consumer.

Cost of living pressures will probably continue. Amid record low wage growth, consumers have been hit by rising cost of living pressures. Australia's energy crisis has seen continued strong rises in electricity prices, with other non-discretionary costs, such as health and child care rising ahead of wage growth in recent years. Some of these trends are likely to continue in 2018, hitting consumers' hip pockets and leaving less room for discretionary spending.

The housing market may cool further. The heat is coming out of Australia's housing markets – especially in Sydney, where things had been hottest – and that trend may continue through 2018. That would mean consumers see less improvement in their wealth, and they would likely choose to save more of their income as a result. That means their spending on retail would be crimped.

Retail spend trends

The last months of 2017 saw shaky retail turnover growth, and we expect the start of 2018 to be slow.

Department stores are likely to see the least growth of any retail category this year, as consumers continue to shift from the “one stop shop” and further into online, specialty and international options.

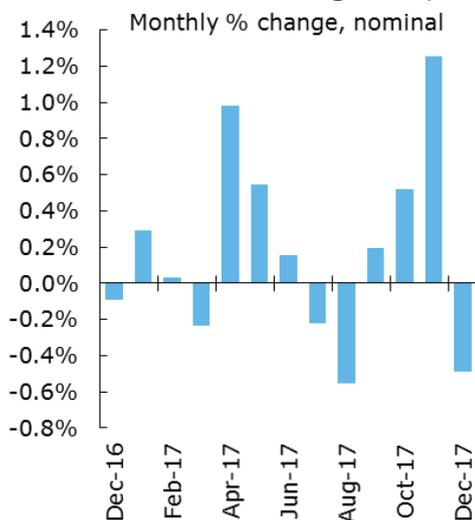
After a period of structural change in the apparel market, driven by the entry of major international fast-fashion houses and online retailers, **consumers appear to be no longer in “hype” mode**. Any future improvement in supply would see softened results compared to recent years, since the wealth effects of the housing price boom are wearing off, and consumers are increasingly under pressure from non-retail living costs (electricity, rental and mortgage costs, and education, to name a few).

Intense competition within the supermarket sector may lure customers away from increased spending on catered food. By focusing on value-for-money and customer convenience (in the form of more pre-made meal options and grocery delivery services), supermarkets are becoming more direct competitors of takeaway food retailers, potentially absorbing part of the spending growth from that market.

Despite a number of publicised insolvencies in the retail sector, retail profits across Australia are holding up relatively well on average. Key risks this year for retail profits include a rise in interest rates (which could constrain consumer budgets) and intensifying competition from international entrants.

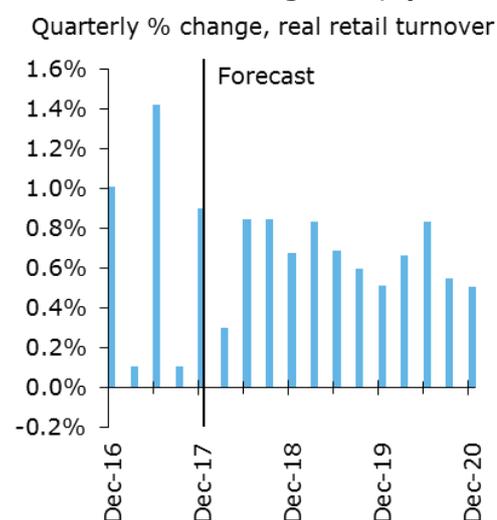
Despite challenges and disruptive forces in the retail sector, the demand for retail space within the Australian market remains solid, in part due to the number of new large-scale international entrants setting up operations in Australia. As a result, vacancy rates were reported to be as low as 1.5% in 2017. Growth in rental prices of retail space has therefore remained resilient even while consumer retail spending growth is low.

Chart 3: Nominal retail growth, monthly



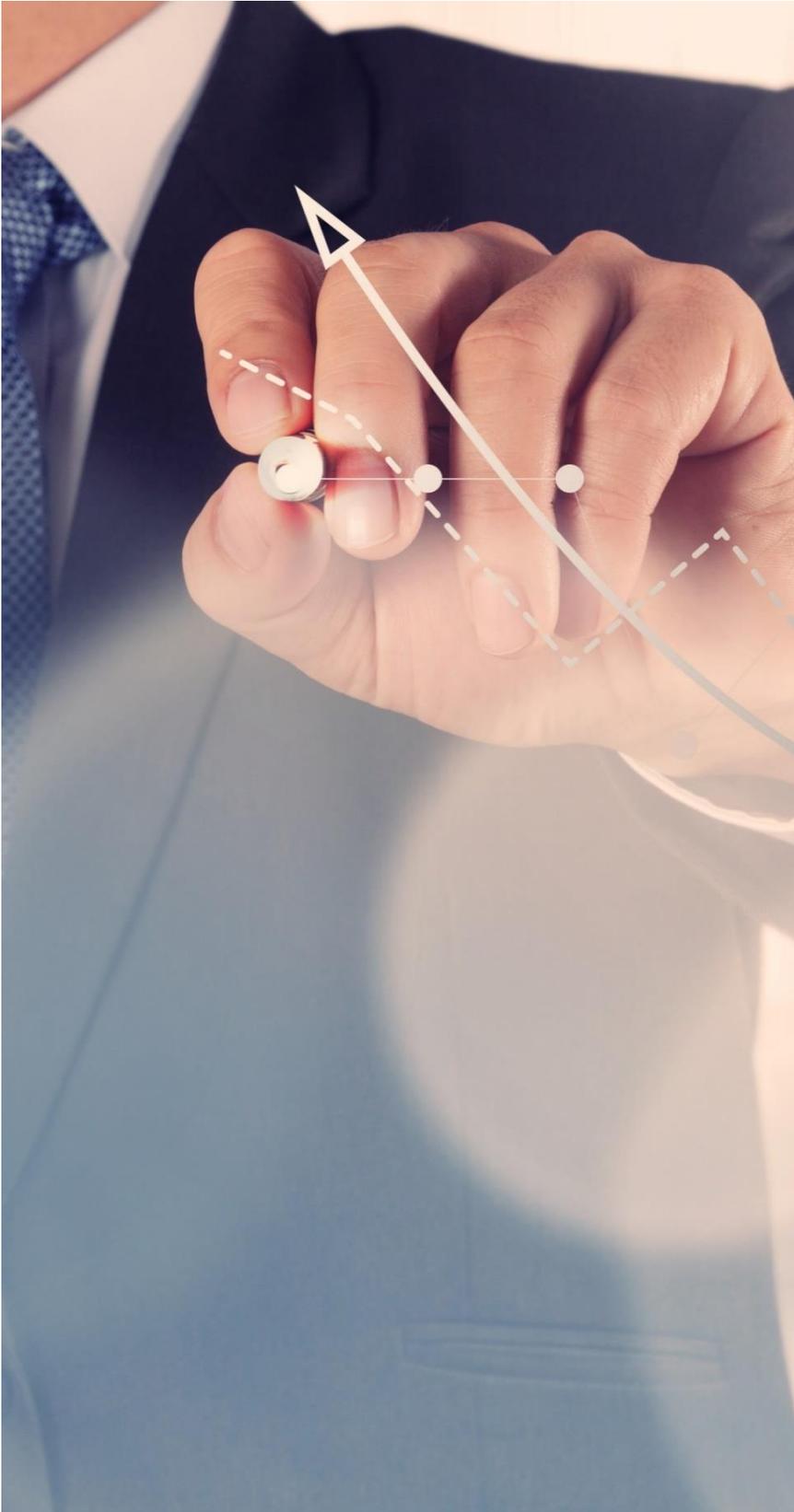
Source: ABS 8501.0

Chart 4: Real retail growth, quarterly



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.



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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

- 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



Global Powers of Luxury Goods 2017

The new luxury consumer



Retail Trends Vol. 2

A guide to virtual and augmented reality 2017



Retailers' Christmas Survey 2017

Can Santa handle the heat this season?



Global Powers of Retailing

The art and science of customers 2017



Customer loyalty

A relationship, not just a scheme
Deloitte Consumer Review

Deloitte.

Access Economics

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