



**Retail Risk Review:**  
**China, Housing and Amazon**  
Retail Forecasts May 2017  
Public Executive Summary

Released 14<sup>th</sup> June 2017

# Retail Risk Review: China, Housing and Amazon

**Risk is on the rise.** The world is changing faster than ever before and whether it's technology, politics, economic movements or competition, the shocks are more varied and uncertain than ever before. Big downside risks for Australian retail profits would come from China's economy stumbling badly and/or domestic house prices shifting down sharply. By contrast, a major US-China tariff war might not have a big consequence for retail. Significant upside potential exists in a maturing boom in Asia which would see the region's rising middle class consumers power a new set of opportunities for Australia.

**One retail risk is known – Amazon.** That creates a series of challenges for existing retailers – get set for heightened competition with **online retailing to shift up further**. An effective omni-channel strategy, as well as strong brand equity and excellent customer service will be crucial to keeping shoppers in-store. **Prices will get squeezed** – with intense competition comes lower prices and Amazon has the scale to absorb very low profit margins in most of its products. The bigger the retailer, the more of a threat Amazon's entry will be. On the other hand, **small players will thrive** with a chance to leverage Amazon's role as a consolidated marketplace.

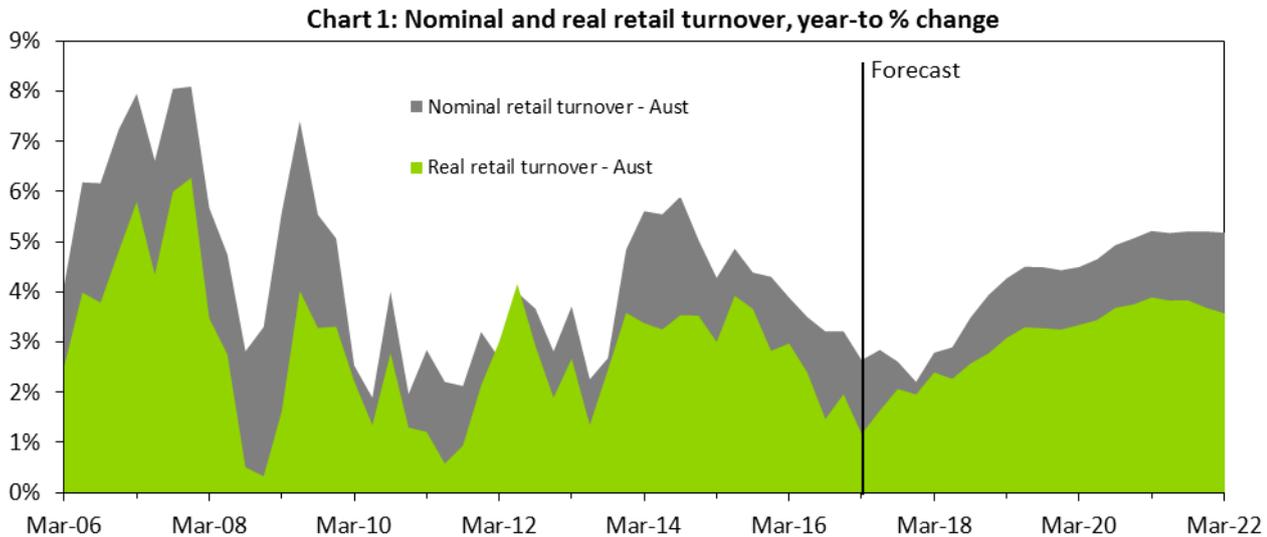
The full issue of Retail Forecasts includes a special feature article which delves into the effects of Amazon and other potential economic events on Australia's retail sector.

# National Outlook

**Overall, real (inflation-adjusted) retail turnover growth was 1.2% for the year to March 2017.** In real terms, the latest quarter has been a low for Australian retail spending growth. That said, 2016-17 has clearly been a tough year for retailers, with the challenges likely to remain in 2017-18, before labour income growth drives better spending growth.

We expect total nominal retail spending to come in at 3.0% in 2016-17, with this moderating to 2.6% in 2017-18. However, more of the growth next year may come from volume growth with prices increasingly under pressure – retail volume growth in 2016-17 is expected to be 1.6%, rising to 2.2% in 2017-18.

See Chart 1 below for our forecasts of nominal and real retail turnover.



Source: ABS 8501.0, Deloitte Access Economics

## Key changes since last issue

**Retail turnover contracted in the months of December, February and March (in inflation and seasonally adjusted terms).** The first months of 2017 have been a hard time for Australian retailers, as consumers tighten their wallets. However, this may be the low point, given solid domestic population growth and an improving global economy to support local job prospects.

**Amazon confirms plans to enter Australian retail market.** While the online superstore has been available for Australian consumers already, the expansion of distribution infrastructure in Australia will mean that Amazon is a much more significant part of Australia's retail landscape. This is expected to have a significant effect on a number of retail categories.

**Employment growth is bouncing back** and the unemployment rate is holding firm... for now. Part-time employment is more prevalent than ever before, while blue-collar jobs are stagnant.

# Economic influences

**Global economic growth is promising – especially in Asia.** A multitude of Government measures have kept the Chinese economy growing relatively strong, at least in the short term. Another key emerging Asian economy, India, is also bucking expectations by pulling through the recent demonetisation reforms in good shape. The US economy is also doing well, with the recent moves up in US interest rates supported by growth in business spending and an optimistic growth outlook going forward.

**Cheap credit continues to stimulate spending.** Since the turn of the current decade, interest and exchange rates in Australia have fallen notably. That's provided lower costs to a range of sectors, particularly for tourism and international education. These sectors are important for retail spending, since they both bring in a significant number of international shoppers to our shores.

**House prices won't stop soaring.** Another key effect of cheap credit is its ability to turn cheap mortgages into expensive ones. When people in Sydney and Melbourne start talking about moving to London because housing is more affordable there, you have a problem. Of course for retail the surge in house prices has provided significant support over recent years, with the wealth effect supporting a declining savings rate and stronger consumer confidence amongst homeowners. But many others are being left with eye-watering mortgages to chase the housing they might have more comfortably afforded just a couple of years ago. Those higher debts to service will eat into retail spending capacity going forward, and also create macroeconomic risks, about which the Reserve Bank is increasingly becoming more vocal.

**Wage growth is dragging down inflation.** Pumped up wealth from the housing market may be keeping consumer spending afloat, but it isn't enough to offset the impact of record low wage growth. And when wages aren't growing, it means CPI inflation is also subdued.

**All the new jobs are for part-timers.** Jobs growth is steady in aggregate terms, but the ubiquity of the part-time job (which now accounts for 33% of jobs nationwide) is associated with rising underemployment.

**The nation's resource rich 'sunbelt' (WA, QLD, NT) is still struggling despite an improvement in China's economy** – with Western Australia being particularly hard hit by current conditions. That combination still leaves the wider growth trends of the moment favouring Australia's south and east over its north and west. Overall Australian growth therefore remains still very much an ACT / New South Wales / Victoria story. Yet this too shall pass ... Queensland should get a real leg up from a surge of gas exports while, looking further ahead, rising export earnings will eventually help tilt the growth pendulum back somewhat, with narrowing State differentials from 2018 onwards.

# Retail spend trends

**Retail growth is all upward from here.** Discretionary spend has pulled back, which has constrained retail growth at the start of 2017. However, the March quarter may form the low point in the current retail spending cycle. An improvement in food spending is expected to fill the gap left by discretionary retail in the short term, while population growth and international influences will support non-food spend over time.

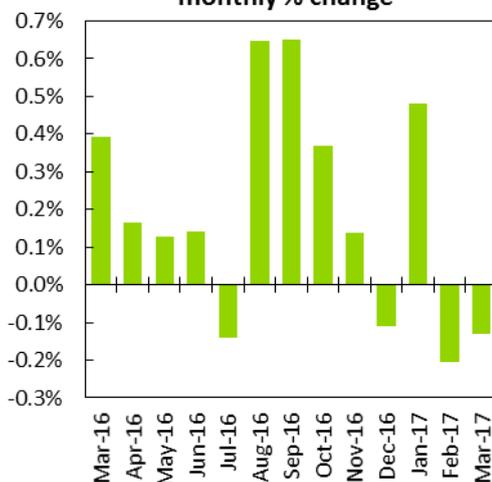
**Catered food keeps going strong.** When consumer preferences move away from goods and on to experiences, catered food wins out. Catered food spending grew by 4.0% over the year to March 2017, beating out all other retail categories. Café and restaurant expenditure by the more social crowd, combined with rapidly growing technology in the takeaway online platform space is driving this relatively strong growth.

**Apparel is past its peak.** After bucking the trend over recent months, apparel spending growth has weakened at the start of 2017. The hype of international fashion house entries has faded and all that remains is fierce price competition. This has proved too much for a number of major fashion retailers across the nation, with Topshop Topman most recently added to the list.

**Small retailers are big online.** Over the last twelve months, small-to-medium enterprises (SMEs) have been a key driver of online retail sales growth. While total online retail sales growth was 9.0% for the year to March 2017, it is estimated that SME retail growth was in the order of 23%. Online retailing now accounts for around 7.3% of total retail spending.

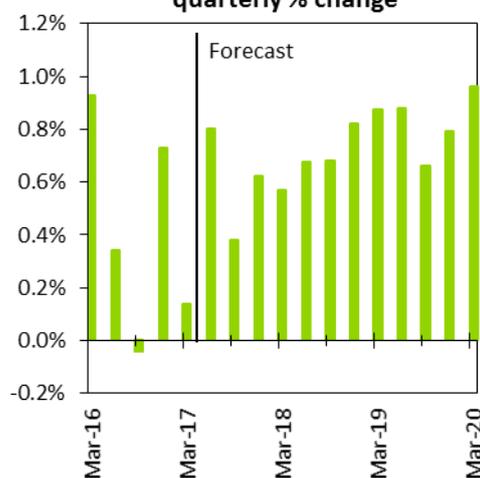
**Luxury goods are in the limelight.** Australian luxury retail has tourists (and particularly tourists from Asia) to thank for strong growth in luxury retail spending over recent years. Revenue in Australian luxury retailing is expected to continue growing well over 2017-18. The 2017 edition of Deloitte's Global Powers of Luxury Goods report summarises the key trends in luxury retailing worldwide, and is available [here](#).

**Chart 2: Nominal retail turnover, monthly % change**



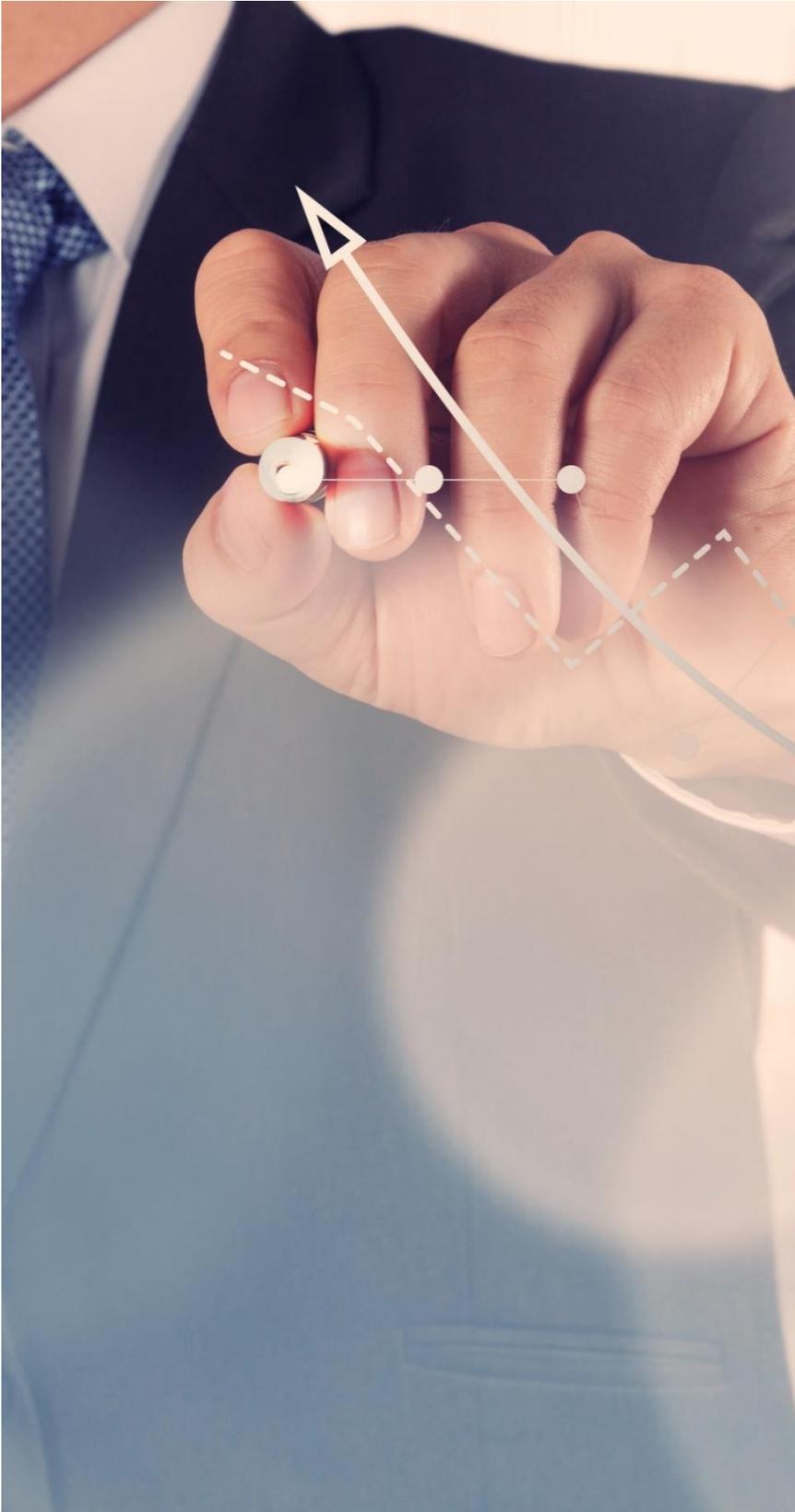
Source: ABS 8501.0

**Chart 3: Real retail turnover, quarterly % change**



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**

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**  
Retail Risk Review  
May 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