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Who benefits from online disruption?

Retail Forecasts May 2018
Public Executive Summary

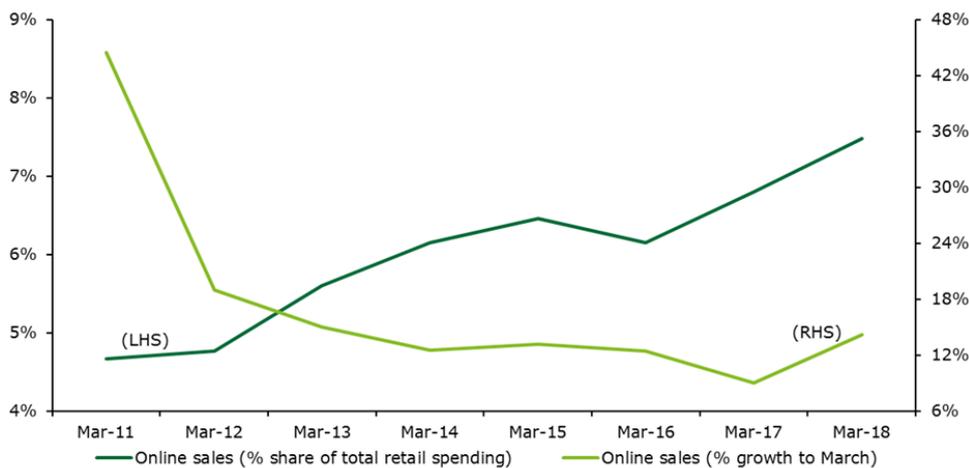
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Who benefits from online disruption?

Technology is changing the nature of retailing. While sales growth remains strong across much of the sector, an increasingly large amount of this is happening online. For Australia over the past decade, this has introduced a significant degree of additional competition into the market, and the rapid nature of online disruption carries further challenges for the retail sector as a whole.

Amid an increasingly competitive sector, it is consumers who are the primary beneficiaries of better service, more accessible products and lower prices. But technology has also created some great opportunities for domestic retailers who can expand their service offerings outside traditional retailing channels.

Chart 1: Online sales growth and share of total retailing



Source: NAB Online Retail Sales Index, March 2011 - 2018

Despite a clear moderation in the rate of growth, spending online continues to significantly outpace that experienced by traditional bricks and mortar retailers. With more retailers opening up or improving their online channels, consumers have responded and picked up the pace of their online switch.

While older generations have been slower to embrace digital options, a reversal to this trend may be on the cards. The increasing online presence of the over 65s cohort provides opportunities to major food retailers in particular, which account for almost a third of their online spending.

Brand is starting to play a larger role in the sector, as new technology such as voice enabled ordering creates new paths to purchase, increasing the footprint of online spending. It also creates a new problem for retailers - how to ensure customers ask for your brand? With only one in four brands adding meaningful value to consumers lives, retailers will need to become more strategic about creating value for their customers or risk losing market share.

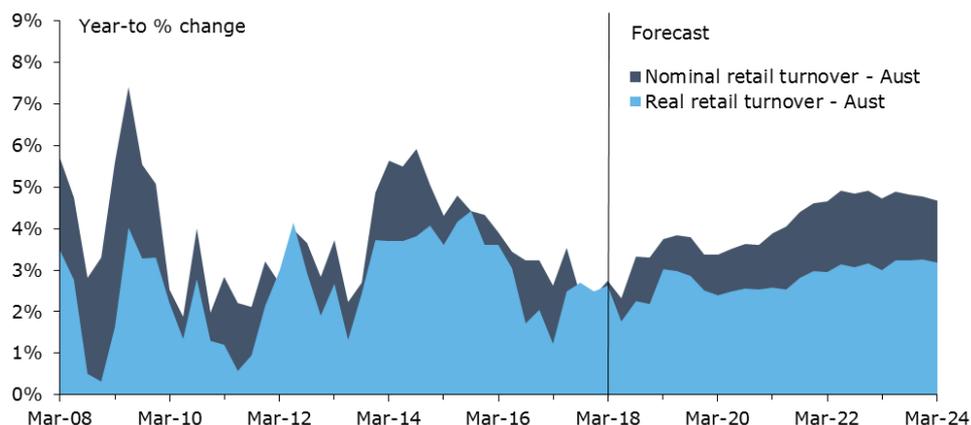
More detail on the impact of online retailing on the sector is available in our full Retail Forecasts publication.

National Outlook

Retail sales continue to be supported by solid growth for non-food volumes, with food spending lagging behind. Real retail turnover expanded 2.6% in the year to March 2018, driven by a 4.4% gain in non-food spending over the same period (compared to 1.1% growth for food spending). Categories closely tied to the housing market have benefited from rising property prices, weak household incomes have limited spending on food.

Looking forward, the recent food/non-food discrepancy is expected to unwind as property prices cool and wages start to pick up. Overall real retail turnover is expected to lift modestly from 2.4% growth in 2017-18 to 2.6% growth in 2018-19.

Chart 2: Nominal and retail Australian retail turnover



Source: ABS 8501.0, Deloitte Access Economics

Key changes since last issue

Employment has started off the year slowly and wage growth is taking some time to show its face. Employment growth over the year has decelerated from a peak of 3.6% in January to 2.7% in April. Meanwhile, wage growth remains stuck at 2.1% in the opening quarter of the year.

The housing market is well and truly cooling in 2018. National house price growth slowed to 0.2% over the year to April 2018, after booming over the last three years. Tighter lending criteria is keeping a lid on demand, while supply growth remains solid.

The Federal Budget provided some welcome news for Australian consumers and retailers. Income tax cuts are estimated to put around \$13.4 billion back into consumer pockets over the coming four years. This is a welcome development of household budgets amid an environment of weak wage growth, and retailers are likely to be a major beneficiary of consumers' improved income position.

Economic influences

Global growth is edging higher. The global economy ended 2017 strongly, with broad-based improvement across the US, Europe, and Asia. This trend has continued into 2018, with global growth set to accelerate to around 3.7% this year. Unemployment rates have edged towards their lowest rates since the GFC, but inflation and wage growth still remain modest. Chinese growth continues to slow but still remains a big contributor to global economic growth, with the consumer market becoming a stronger driver of activity. There are some warning signs however, with European economic activity now starting to slow as political developments in Italy cause concern for the euro area, while US-led trade skirmishes may blow-out to a larger trade war (and the economic stagnation that would generate).

The Australian dollar has softened and remains under downward pressure. After nearing US\$0.80 in the early months of 2018, the Aussie dollar has run out of steam in recent months. We expect the \$A to continue 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. This will put upward pressure on import prices, weighing on already tight retailer margins.

Wages to pick up while job growth slows. Employment growth in 2017 was surprisingly strong, with the economy adding over 400,000 jobs. Despite the strong employment performance, wage growth has remained subdued in the opening months of 2018. We expect wage growth to edge higher through the year as the labour market tightens a little. At the same time, job growth will be slower in 2018 after the stellar year last year. Stronger wages would be excellent news for retail spending, allowing for a broad based pick up in spending power (not just for the cohort newly in work).

Australian interest rates on hold for some time longer. The strength of the US economy has the Federal Reserve raising interest rates at a slow and steady pace in 2018, but other major advanced economies remain on the sidelines due to subdued inflation pressures. In Australia, interest rates remain at their lowest level in history. The RBA is set to maintain its 'hold mode' until at least late 2018, likely into early 2019, amid receding housing market risks, subdued inflation, and stretched household budgets.

Some cost of living pressures are building. Record low wage growth has weighed on household budgets, further exacerbated by rising costs for some key area of spending. Power prices, housing rentals, and other non-discretionary costs, such as health and child care, have risen ahead of wage growth in recent years. If these trends continue in 2018, it will leave less room for discretionary spending.

The housing market continues to lose steam. The housing market has slowed further in the opening months of 2018– especially in Sydney, where things had been hottest – and that trend will continue through the rest of the year. The slowdown in the housing market means an end to surging wealth experienced over the past few years, potentially resulting in households saving more of their income rather than spending on discretionary items.

Retail spend trends

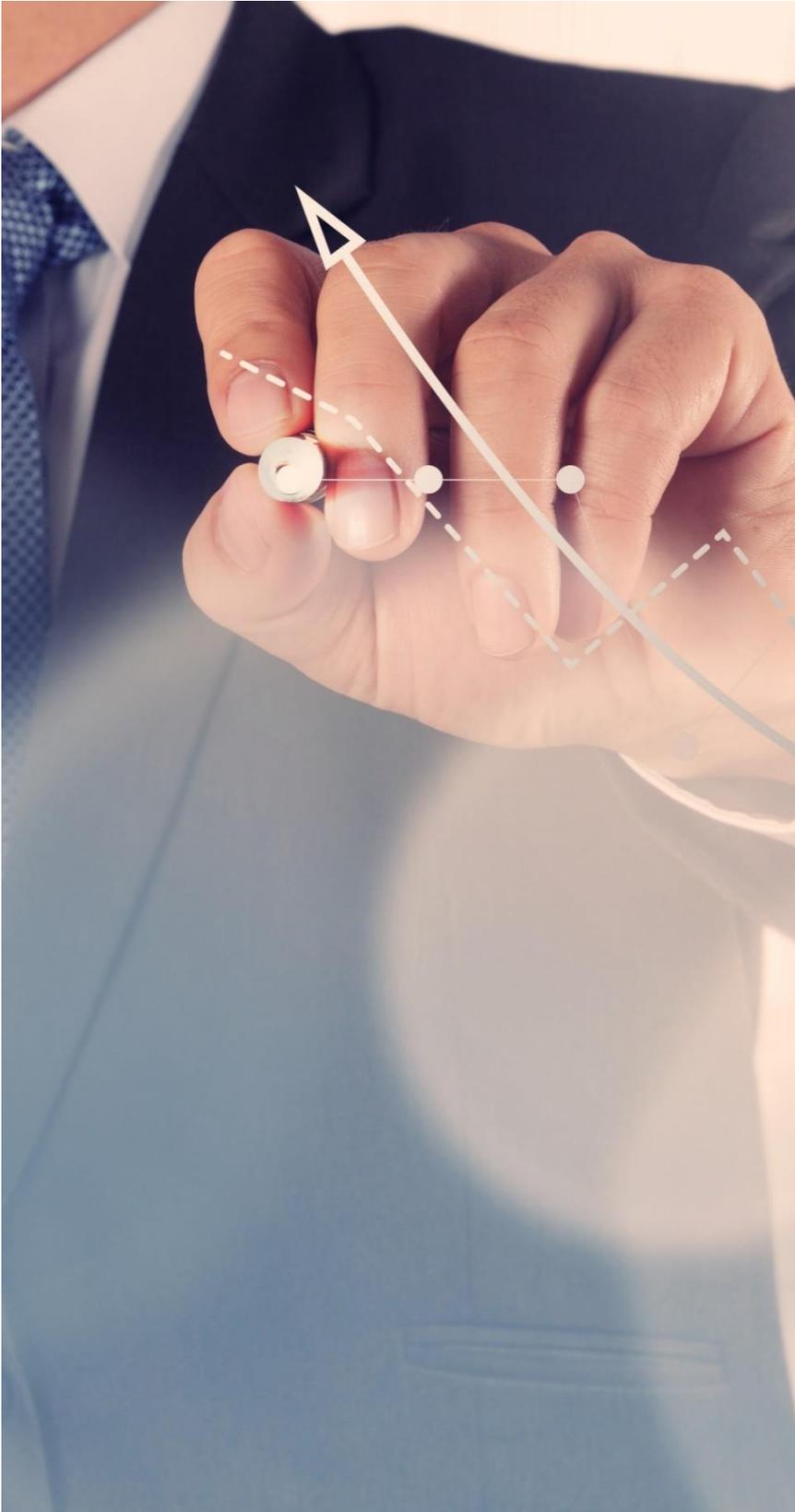
Retail spending started the year on shaky ground, with nominal retail sales expanding 0.6% over the March quarter following December quarter's 1.1% rise. A relatively strong performance in February was supported by better than expected tourism spending, but spending growth has then eased again, with a late summer crimping change of season fashion spending.

Food consumption continues to underperform spending on non-food items. Consumer spending on food is highly linked to income, and despite strong employment growth, wages remain subdued. Meanwhile, household wealth has been boosted from rising property prices, and this is supporting spending on household goods. This story has been playing out for some time. But with the property market already cooling and wage growth starting to show signs of life, food retailers may get a stronger share of the retail pie in coming years.

Competition and rising operating costs are putting pressure on retailer margins. The greater entry of overseas retailers and increasing penetration of online platforms has resulted in an abundance of choice for Australian consumers. This is especially the case for household goods and apparel, both of which have faced price deflation amid the fierce competition. Combined with high energy costs, retailer profits have been constrained through most of 2017. The outlook indicates more of the same, with the additional complication of a rising wage bill.

Demand for retail space is solid, but the growth of online spending poses a risk to the future. The greater entry of international brands to Australia's retail landscape is supporting demand, keeping a lid on vacancy rates and supporting rental return. However, there is some weakness in the investment pipeline as demand softens. Instead, major retailers are looking for prime real estate for flagship stores and combined retail and dining precincts. This trend will likely accelerate in the future as consumers shift further towards online platforms, reducing demand for sub-prime retail space.

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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Report with retail forecasts data:

\$2,799 for an annual subscription or \$1,399 for a single issue.

Report with retail forecasts data and detailed consumer spending 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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