



**Jobs are kicking goals but retail is
still on the bench**

Retail Forecasts November 2017
Public Executive Summary

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Jobs are kicking goals but retail is still on the bench

The Australian economy has seen a surge of jobs. Employment growth in Australia has come a long way since last year, when annual employment growth was below 1%. Indeed, the economy has seen a net addition of around 356,000 jobs over the past year alone. This improvement indicates that the economy is once again strengthening, with businesses having the confidence to hire again after a weak period last year. And as the labour market tightens, wage growth is creeping up from record lows.

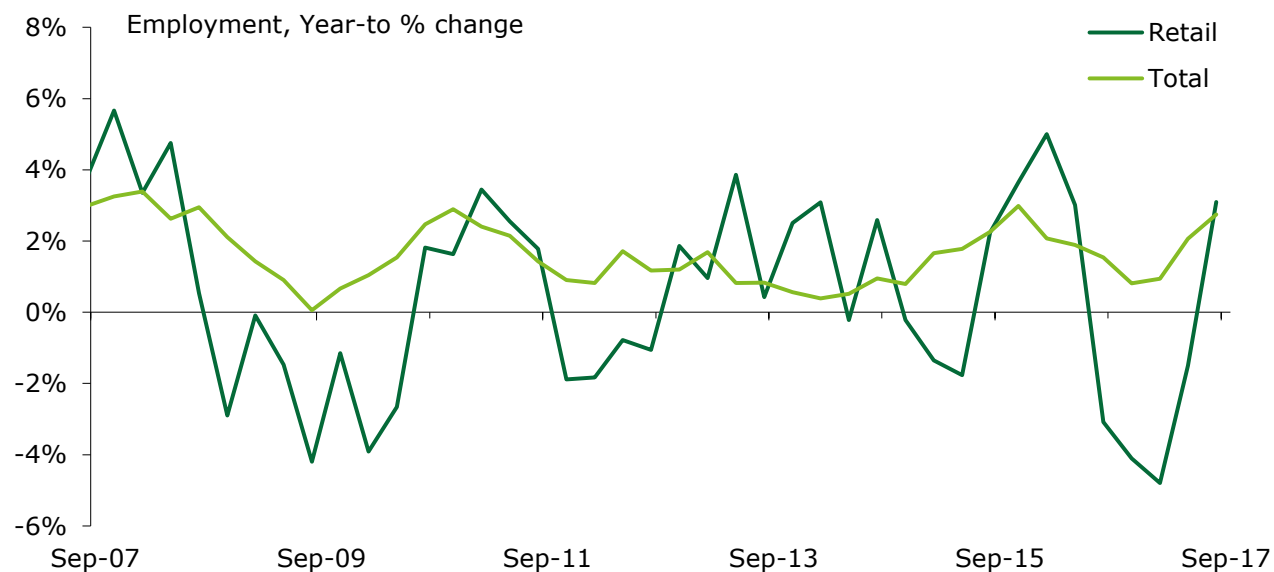
But you wouldn't necessarily know about in Australia's retail sector.

But retail employment and wages are struggling to keep up with other industries, as low turnover growth and intense competition forces operators across the sector to cut costs. Just as retail price growth is well below the wider economy, retail wage growth and employment growth is trailing behind as well.

Since 2012, employment in the retail industry has grown by 3.7% which is roughly half of total employment growth across all industries at 7.3%. This gap is a more recent phenomenon, as retail used to be one of the big job generators across the Australian economy. Chart 1 compares the recent growth path of retail industry employment and total Australian employment.

More detail on retail employment and wage trends is available in our full Retail Forecasts publication.

Chart 1: Employment growth, retail sector versus all sectors

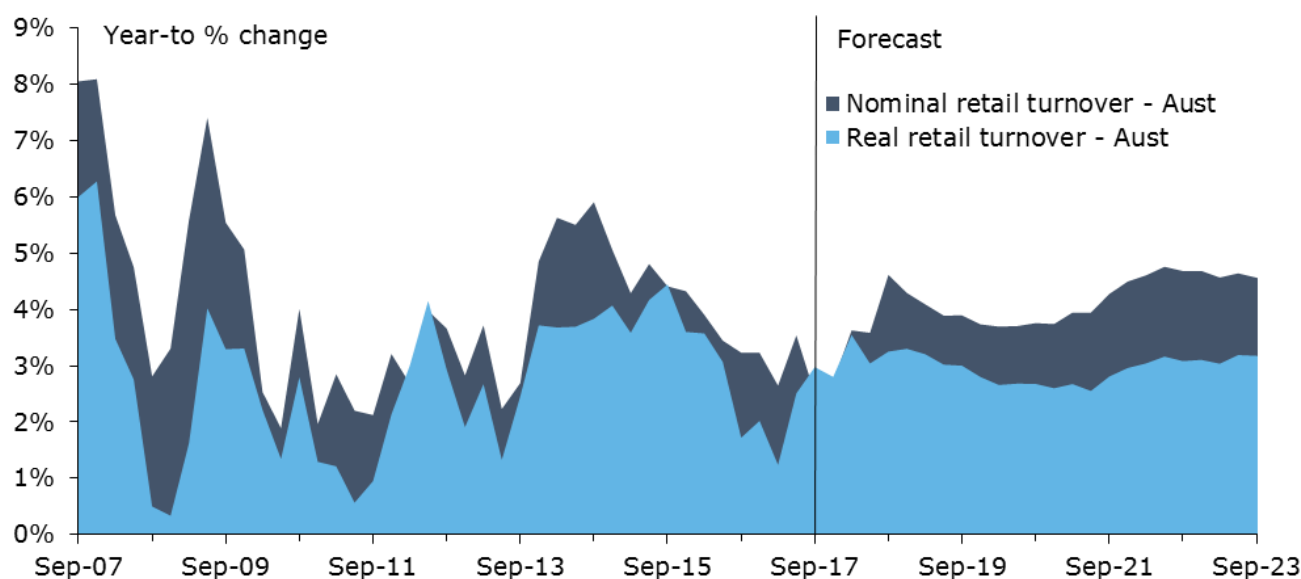


Source: ABS 6291.0, Deloitte Access Economics

National Outlook

Price growth is taking a break as intense competition takes hold (particularly in non-food retail). Real retail turnover growth for the year ended September 2017 was 3.0%, while prices dipped by 0.5%. Shaky sales growth throughout 2017 is indicative of fragile consumer confidence, continuing underemployment and wealth risks for homeowners.

Chart 2: Nominal and retail Australian retail turnover



Source: ABS 8501.0, Deloitte Access Economics

Key changes since last issue

Retail went backwards in July and August. In seasonally adjusted terms, September was a slight improvement in retail sales after sales fell in the months of July and August.

Wage growth may have stopped falling but is still weak. Wage price growth in Australia remains negligible, currently sitting near series lows at 2.0% over the year ending September. Prices are growing slowly as well, at just 1.8% over the year on average.

Amazon has arrived. Amazon's official Australian launch occurred on Tuesday 5th December. The Australian Amazon site offers free delivery across Australia of Amazon goods and Amazon Marketplace items (sold by third party sellers). About half of the items sold on Amazon websites worldwide are through the Amazon Marketplace platform. The established sector can stop shadow boxing and now face off against this competitive threat.

Economic influences

Global growth is improving. The recovery in advanced economies continues, with improvements notable in the Eurozone and Japan. Unemployment rates have edged towards their lowest rates since the GFC, although inflation still remains generally modest. China has outperformed expectations, with stimulus in 2016 still helping to fuel strong growth a year later, while India continues to grow strongly, aided by its favourable demographics. 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 Australia dollar has eased a little. The \$A has moved back closer to \$US 75c in recent times with disappointing wage price inflation as well as softer iron ore prices contributing to the modest decline. The weakening dollar will put upward pressure on import prices, potentially pushing up retail price inflation or compressing margins. From here, the \$A is likely to drift down compared to the \$US, but only very slowly.

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 advanced world is increasingly following suit. But interest rates in Australia remain at their lowest level in history. The RBA still looks set in 'hold mode' amid a slowing housing market, unthreatening inflation and a stretched consumer.

The housing market is showing weakness. While it may be too early to definitively call a change to Australia's major house price boom (centred in Sydney and Melbourne), there are signs of a cooling market. Positive wealth effects have been a driver of retail spending. However, with more caution around the housing market, this effect may start to dissipate. Australia's high household (mortgage) debt also crimp retail spending, particularly as consumers also struggle with rising non-discretionary costs, such as energy prices.

And the consumer is still feeling the pinch. 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. Granted there are some reprieves, such as falling communication prices, but overall the consumer is stretched. This is likely a factor behind the recent slowdown in retail and a falling household savings rate.

Retail spending is becoming more uniform across the States as retail spending growth slows in the previously robust eastern States. While the resource States are still facing challenges, particularly in Western Australia and the Northern Territory, Queensland is less pressured. Annual retail spending growth in New South Wales and Victoria has slowed significantly in recent months, towards the more modest growth seen in the slower population growth jurisdictions of South Australia and Tasmania. The ACT is also witnessing a significant retail slowdown after a strong period..

Retail spend trends

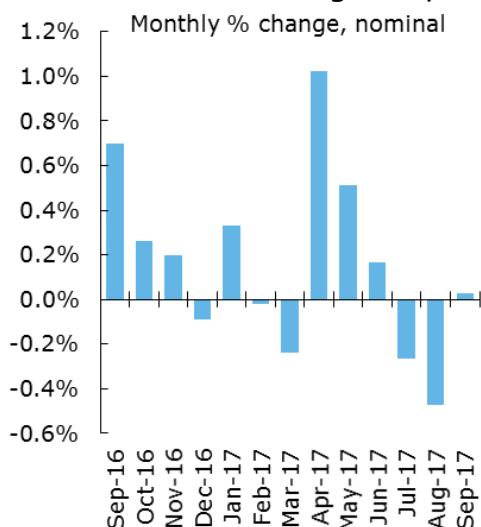
Supermarkets are expected to beat out catered food in the coming year. Strong growth in catered food has been helped by online platforms, tourism demand, emerging health food chains and other supply improvements. However, risks around household wealth may push consumers back to supermarkets. And in response to intense competition between supermarket operators, all supermarkets are pressured to deliver better value for money for customers, by squeezing margins to stem the tide on any input cost pressure, while also keeping up service to customers.

Pharmacy growth is charging ahead. The proportion of residents over 65 year of age in Australia has climbed from 6.4% to 6.9% in the last five years alone, according to the latest ABS Census. Older residents consume more pharmaceutical goods than younger Australians. The introduction and in some cases rapid expansion of discount chemists has put downward pressure on prices, and has simultaneously allowed consumers to purchase more chemist products.

Retail profitability isn't as bad as we think, but there are still threats. Despite harsh rhetoric in the market, retailer profits are holding up relatively well in light of increased competition, consumer budget pressure and rising input costs. Yet those threats are mounting, and promises of increased competition in the future (from more international retailers, further shifts to online retail and Amazon) will keep retailers on their toes.

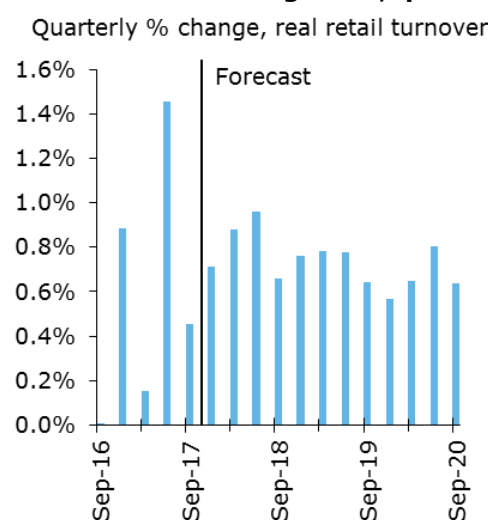
Demand for retail space remains solid despite online disruption. This is in part due to the number of new large-scale international entrants setting up operations in Australia. As a result, vacancy rates were reported to be as low as 1.5%. Growth in rental prices of retail space has therefore remained resilient at a time where retail spending growth is low. Sydney's Pitt Street Mall is the seventh most expensive retail location in the world, with rental costs reported to have reached \$14,367 per sq.m¹.

Chart 3: Nominal retail growth, monthly



Source: ABS 8501.0

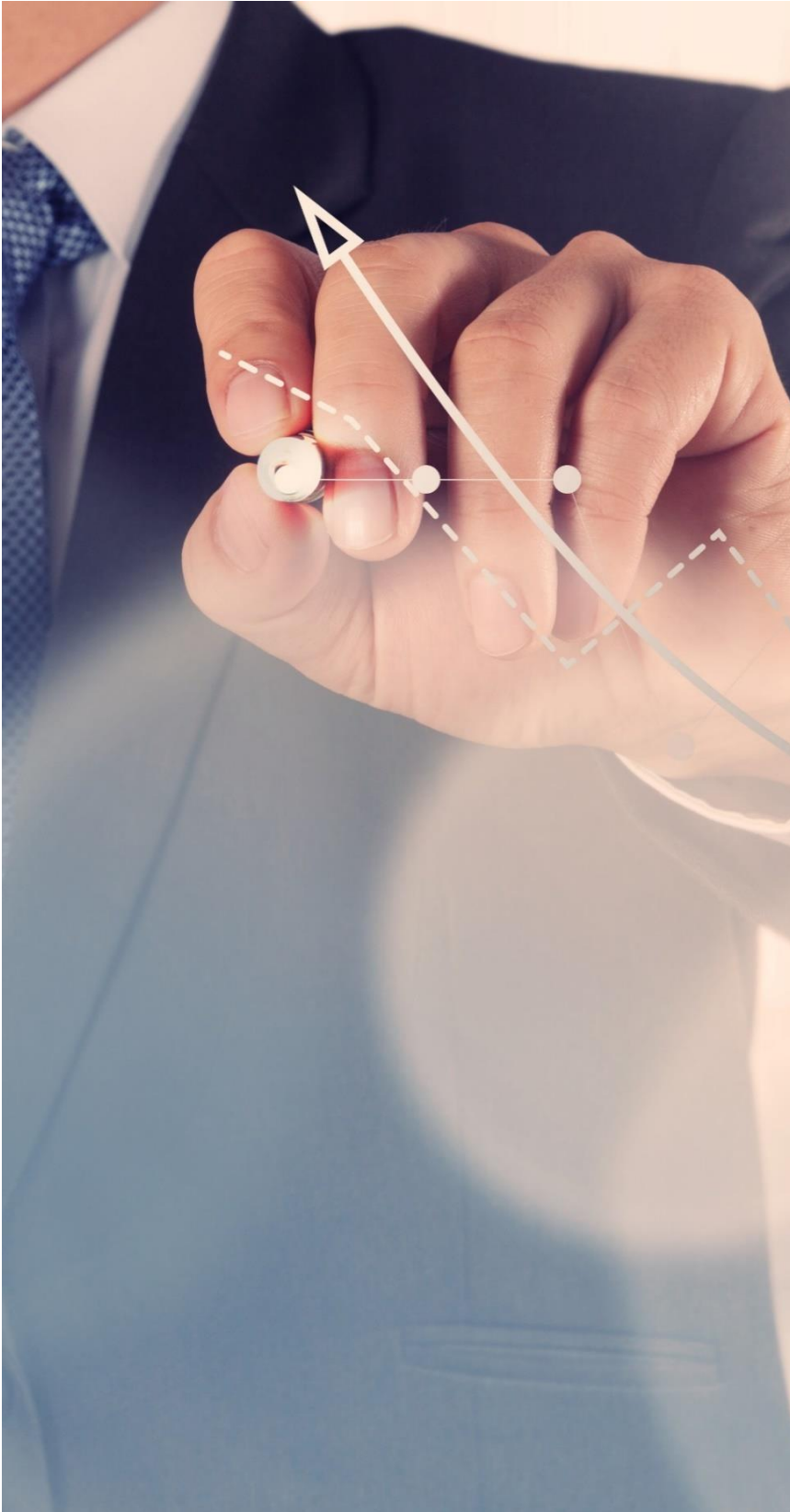
Chart 4: Real retail growth, quarterly



Source: ABS 8501.0, Deloitte Access Economics

¹ Cushman and Wakefield, Main Streets Across the World 2017

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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<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

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November 2017



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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www.deloitte.com/au/deloitte-access-economics

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