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# Retail Forecasts

## Red light, green light

February 2023

Deloitte Access Economics

*Retail Forecasts is produced quarterly and provides analysis of current retail spending and the economic drivers that influence this. It includes ten year forecasts of retail sales by major category and of key economic drivers.*

# Contents

# Executive summary

## Red light, green light

*Retailers need to prepare for two futures. The first future is right now – it's one where consumer sentiment is weak and retail sales in real terms are going backwards. That was the reality of the final quarter of 2022, and much of 2023 may see a similar environment. The other future is a brighter one – it's one where migrants and tourists are back in big numbers and consumers have regained spending power (and their mojo). That future is not now but it may be with us as soon as the end of 2023, so Australian retailers should also have an eye to growth.*

The last issue of *Retail Forecasts* warned of the risk of retail recession.

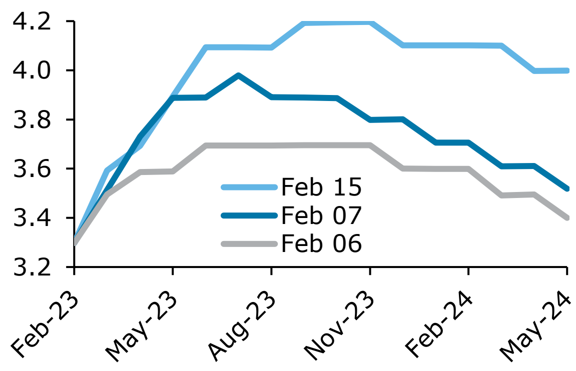
However, it turns out that our predictions were not negative enough. What was seen as a risk to retail sales in the first half of 2023 became a reality for retailers in the December quarter of 2022.

On a quarterly basis nominal retail turnover increased by 0.9% in the December quarter. With retail prices increasing by 1.1%, it meant that retail sales volumes fell by 0.2% over the quarter. There was also a significant wedge between food (up 1.6%) and non-food (down 2.3%) real sales performance in the December quarter.

The weak consumer environment continues early in 2023.

Notably, the RBA has been on the warpath, raising the cash rate in February and talking tough about multiple further rate rises to come. Accordingly, market expectations for the cash rate have ratcheted up significantly in the past two weeks. Latest market expectations indicate the cash rate could peak at 4.2% in the second half of this year.

Chart 1: Interest rate market expectations



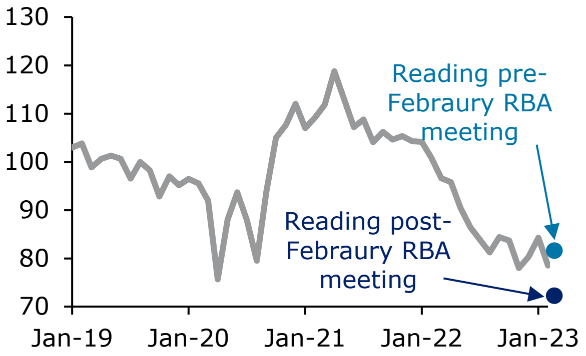

Source: RBA

Higher interest rates will take a chunk more out of disposable income for consumers, increasing the proportion of mortgage holders at risk of mortgage stress.

Its perhaps not surprising then that consumer sentiment has dived once again.

As well as lower sentiment overall, it may also mean a change in the pattern of spending, with more cash-strapped consumers shifting to the value end.

Chart 2: Consumer sentiment




Source: Westpac & the Melbourne Institute.

The Deloitte Global State of the Consumer Tracker shows Australian consumers are increasingly undertaking cost saving measures to combat rising prices and increasing pressure on household budgets. Compared to September 2022, more consumers are purchasing low-cost meats (35% up from 30%) and mostly store brand products (27% up from 22%).

The likelihood is that the tight consumer environment continues for much of 2023. That means there is every chance that real retail spending continues to go backwards over the first half of 2023. Real turnover is expected to pick up in the second half but result in weak growth for 2023 (+0.1%). Prices are predicted to moderate to 3.8%, resulting in nominal retail trade of 3.9% over the calendar year.

Non-food sectors are anticipated to experience the brunt of the retail slowdown as consumers prioritise non-discretionary items. As a result, real non-food sales are expected to see a contraction (-3.0%) while food retailing stays afloat (+2.8%) over 2023.

**Green light, go.**

The other future is a growth environment, where consumers are confident again and seeing gains in real disposable income.

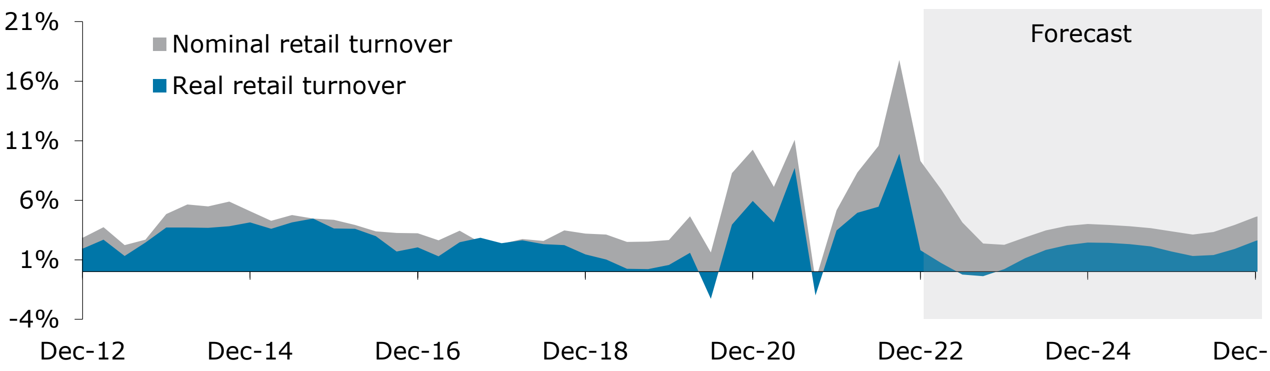
The retail sector should see this future by 2024, or even by late 2023, so retailers can already start planning in earnest.

Features of this environment should include:

- **Real wage growth** – average wages growth is now steadily lifting but the prospect of real wage growth (wage growth faster than prices growth) by early 2024 is mostly due to price growth moderating (the benefits of the bitter medicine the RBA is administering now).
- **Population growth** – should be at or very close to pre-COVID rates by the end of 2023.
- **More tourists** – as Australia's largest source of tourists, the reopening of China is significant, and will likely shift the dial on overall tourist numbers and their associated retail spend by late 2023 (see feature article on China).
- **Housing sector picking up pace again** – while higher finance costs are likely to constrain housing activity in 2023, that sector may turn up again after interest rates have peaked – we are still not building enough houses to meet underlying needs. Household goods spending tends to be complementary with housing activity.

Stoked by non-food and food retail increasing by 2.4% and 1.5% respectively, real retail turnover is expected to bounce back in 2024 (+1.9%). The 2024 environment is also one where price growth would be far more constrained.

Chart 3: National real and nominal retail turnover




Source: Deloitte Access Economics, Australian Bureau of Statistics 8501.

## Key forecast tables

Retail sales forecasts by category: volume, price and value

| % change | History 2020-21 | 2021-22 | Forecasts 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5 yr avg to 21-22 | 5 yr avg to 26-27 |
|---|---|---|---|---|---|---|---|---|---|
| **Volumes** | | | | | | | | | |
| *Food retailing* | | | | | | | | | |
| Supermarket retail | 0.3% | 0.1% | -0.4% | 1.3% | 1.5% | 2.0% | 1.4% | 0.8% | 1.2% |
| Specialty food and liquor retail | 7.5% | -0.5% | -2.6% | 0.5% | 2.5% | 1.3% | 2.0% | 2.4% | 0.7% |
| Cafes, restuarants and takeaway | 3.9% | 7.1% | 18.5% | 3.5% | 2.0% | 1.5% | 2.5% | 0.6% | 5.6% |
| Total food | 2.0% | 1.6% | 3.8% | 1.8% | 1.7% | 1.8% | 1.8% | 0.9% | 2.2% |
| *Non-food retailing* | | | | | | | | | |
| Dep't stores and discount dep't stores | 6.0% | -1.5% | 9.4% | -0.9% | 2.4% | 0.3% | 1.7% | 1.9% | 2.6% |
| Apparel | 18.0% | 8.2% | 12.7% | -0.4% | 3.3% | 2.2% | 3.8% | 5.4% | 4.3% |
| Households goods | 10.5% | 0.6% | -4.1% | -1.2% | 3.6% | 1.2% | 4.4% | 4.7% | 0.8% |
| Other retailing | 7.4% | 10.0% | 0.6% | 0.0% | 2.6% | 1.6% | 3.5% | 4.6% | 1.7% |
| Total non-food | 10.1% | 4.6% | 1.9% | -0.6% | 3.1% | 1.4% | 3.7% | 4.4% | 1.9% |
| Total turnover | 5.7% | 3.0% | 2.9% | 0.7% | 2.4% | 1.6% | 2.7% | 2.5% | 2.0% |
| **Prices** | | | | | | | | | |
| *Food retailing* | | | | | | | | | |
| Supermarket retail | 4.7% | 3.4% | 6.5% | 1.1% | 2.0% | 2.6% | 3.0% | 3.6% | 3.1% |
| Specialty food and liquor retail | 4.7% | 3.4% | 6.6% | 1.4% | 1.5% | 1.9% | 2.2% | 3.6% | 2.7% |
| Cafes, restuarants and takeaway | 2.1% | 3.0% | 5.9% | 2.3% | 1.8% | 1.8% | 1.8% | 2.1% | 2.7% |
| Total food | 4.1% | 3.3% | 6.3% | 1.5% | 1.9% | 2.3% | 2.6% | 3.2% | 2.9% |
| *Non-food retailing* | | | | | | | | | |
| Dep't stores and discount dep't stores | 0.3% | -0.3% | 5.8% | 1.8% | 0.6% | 0.7% | 0.7% | -0.9% | 1.9% |
| Apparel | 0.5% | -0.9% | 5.7% | 2.9% | 0.3% | -0.1% | -0.4% | -0.6% | 1.7% |
| Households goods | 3.4% | 3.9% | 7.4% | 3.2% | 1.4% | 1.7% | 2.3% | 0.8% | 3.2% |
| Other retailing | 3.2% | 2.4% | 5.4% | 2.3% | 1.3% | 1.0% | 1.2% | 2.2% | 2.2% |
| Total non-food | 2.5% | 2.1% | 6.1% | 2.7% | 1.1% | 1.0% | 1.3% | 0.8% | 2.4% |
| Total turnover | 3.3% | 2.7% | 6.2% | 2.0% | 1.5% | 1.7% | 2.0% | 2.1% | 2.7% |
| **Values** | | | | | | | | | |
| *Food retailing* | | | | | | | | | |
| Supermarket retail | 4.9% | 3.4% | 6.1% | 2.4% | 3.5% | 4.7% | 4.5% | 4.5% | 4.2% |
| Specialty food and liquor retail | 12.4% | 2.9% | 3.8% | 1.9% | 4.0% | 3.2% | 4.2% | 6.2% | 3.4% |
| Cafes, restuarants and takeaway | 6.3% | 10.4% | 25.3% | 5.9% | 3.8% | 3.3% | 4.4% | 2.8% | 8.6% |
| Total food | 6.2% | 5.0% | 10.4% | 3.3% | 3.7% | 4.2% | 4.4% | 4.2% | 5.2% |
| *Non-food retailing* | | | | | | | | | |
| Dep't stores and discount dep't stores | 6.3% | -1.6% | 15.6% | 0.9% | 3.0% | 1.0% | 2.4% | 1.0% | 4.6% |
| Apparel | 18.5% | 7.5% | 18.7% | 2.5% | 3.6% | 2.1% | 3.4% | 4.9% | 6.1% |
| Households goods | 14.2% | 4.6% | 2.9% | 2.0% | 5.0% | 2.9% | 6.8% | 5.6% | 3.9% |
| Other retailing | 10.9% | 12.7% | 6.1% | 2.3% | 3.9% | 2.6% | 4.7% | 7.0% | 3.9% |
| Total non-food | 12.8% | 6.9% | 8.0% | 2.1% | 4.2% | 2.4% | 5.0% | 5.3% | 4.3% |
| Total turnover | 9.2% | 5.9% | 9.3% | 2.7% | 3.9% | 3.4% | 4.7% | 4.7% | 4.8% |

**Category definitions in terms of ANZSIC classes**

Supermarket retail: Includes supermarket and grocery stores (4110) and non-petrol sales (convenience stores) of selected Fuel retailing (4000).
Specialty food and liquor retail: Includes liquor retailing (4123), fresh meat, fish and poultry retailing (4121), fruit & vegetable retailing (4122) and other specialised food retailing (4129).

Cafes, restuarants and takeaway: Includes cafes and restaurants (4511), takeaway food services (4512) and catering services (4513).
Department stores and discount department stores: Includes department stores (4260).
Apparel: Includes clothing retailing (4251), footwear retailing (4252), watch and jewellery retailing (4253) and other personal accessory retailing
Household goods retailing: Includes furniture retailing (4211), floor coverings retailing (4212) , houseware retailing (4213), manchester and other textile goods retailing (4214), electrical, electronic and gas appliance retailing (4221), computer and computer peripheral retailing (4222), other electrical and electronic goods retailing (4229), hardware and building supplies retailing (4231) and garden supplies retailing (4232).

Other retailing: Includes newspaper and book retailing (4244), other recreational goods retailing ◦Sport and camping equipment retailing (4241), entertainment media retailing (4242), toy and game retailing (4243), pharmaceutical, cosmetic and toiletry goods retailing (4271), stationery goods retailing (4272), antique and used goods retailing (4273), flower retailing (4274), other-store based retailing n.e.c (4279), non-store retailing (4310) and retail commission-based buying and/or selling (4320).

Real retail sales growth, by State

| Real % change | History 2020-21 | 2021-22 | Forecasts 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5 yr avg to 21-22 | 5 yr avg to 26-27 |
|---|---|---|---|---|---|---|---|---|---|
| Australia | 5.7% | 3.0% | 2.9% | 0.7% | 2.4% | 1.6% | 2.7% | 2.5% | 2.0% |
| NSW | 6.9% | 0.2% | 4.3% | 0.4% | 2.3% | 1.4% | 2.3% | 2.1% | 2.1% |
| VIC | 0.5% | 7.3% | 3.6% | 0.4% | 2.0% | 0.9% | 3.0% | 2.0% | 2.0% |
| QLD | 8.4% | 3.0% | 1.8% | 0.9% | 2.8% | 2.8% | 3.3% | 2.3% | 2.3% |
| SA | 4.0% | 1.8% | 1.6% | 0.4% | 2.4% | 1.7% | 1.8% | 1.6% | 1.6% |
| WA | 9.5% | 4.1% | 1.1% | 1.5% | 2.6% | 1.7% | 2.7% | 1.9% | 1.9% |
| TAS | 7.5% | 0.9% | -0.1% | 1.4% | 2.7% | 1.6% | 1.5% | 1.4% | 1.4% |
| NT | 7.5% | -1.7% | -2.8% | 1.1% | 2.8% | 1.5% | 1.7% | 0.9% | 0.9% |
| ACT | 8.7% | -4.1% | 5.3% | 0.2% | 2.1% | 1.7% | 1.7% | 2.2% | 2.2% |

Real income and consumption growth

| Real % change | History 2020-21 | 2021-22 | Forecasts 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5 yr avg to 21-22 | 5 yr avg to 26-27 |
|---|---|---|---|---|---|---|---|---|---|
| Labour income | 2.1% | 1.2% | 2.9% | 1.9% | 2.3% | 2.4% | 2.5% | 2.4% | 2.4% |
| H'hold disposable income | 4.8% | 1.7% | -1.9% | 1.0% | 3.1% | 2.3% | 2.4% | 3.0% | 1.4% |
| Consumer spending | 1.1% | 3.7% | 5.4% | 0.7% | 1.8% | 2.7% | 2.6% | 1.2% | 2.6% |
| Retail turnover | 5.7% | 3.0% | 2.9% | 0.7% | 2.4% | 1.6% | 2.7% | 2.5% | 2.0% |

# Economic drivers

## Interest rate rises to date (and more coming through) will put the clamps on Australian households in 2023

China's reopening has paved the way for faster-than-anticipated global growth through 2023. The International Monetary Fund (IMF) has accordingly revised its estimated for global growth upwards from 2.7% to 2.9% in 2023. Despite this upwards revision, this still sits well below the historical average of 3.9%.

The priority among most economies remains bringing inflation under control, with many central banks continuing to raise their interest rates. While there are indications interest rates have cooled demand and inflation in many economies, the full impacts of rate rises to date will still take some time to come through.

Lower fuel and other commodity prices have resulted in falling headline inflation. However, underlying inflation is yet to peak in many countries, raising concern that inflation has become somewhat embedded (and providing the impetus for more central bank action this year).

While a global recession doesn't appear on the cards, we are still likely to see only slow growth from most developed economies.

In Australia the RBA Governor has dubbed this a "narrow path" – bring inflation under control without doing too much economic damage (noting that some damage is inevitable).

While Australian consumers were resilient through much of 2022, spending has pulled back of late with more households entering mortgage stress.

With more rate increases anticipated it's unsurprising that consumer confidence has once again taken a dive. The impact of inflationary pressures, interest rate rises and depleting wealth is anticipated to have Australian households counting their pennies this year.

**Inflation**

Inflation continues to be the hot topic of conversation for 2023, with prices rising throughout 2022 to reach a 30-year high. In December 2022 annual headline inflation rose to 7.8% – the highest level of inflation since 1990 – while underlying inflation, as measured by trimmed mean, kept pace rising by 6.9% at the end of 2022.

While prices are anticipated to increase further - albeit at a slowing pace – it is expected that inflation peaked in December 2022. This expectation is largely because global supply chain pressures have eased and global energy prices are coming down – favourable developments which will work their way through Australia's supply chains.

Housing remains the largest source of inflation, contributing on average around one-third of price growth over the last four quarters. Within that figure, around 25% of inflation over the last year was attributable to new dwelling construction by owner-occupiers. Unfortunately, as inflation in residential building costs has decelerated, higher household gas and electricity bills have picked up.

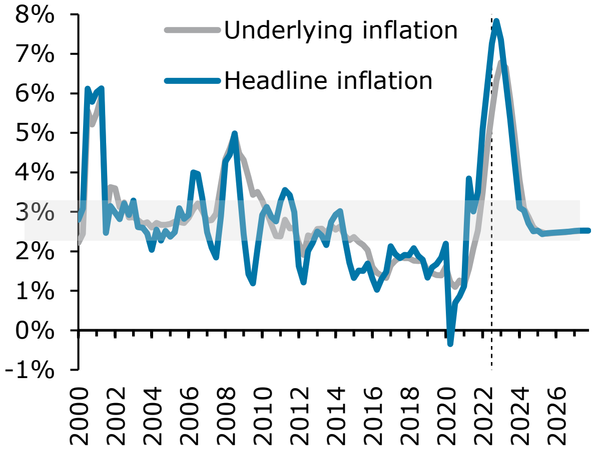
There are signs that the inflation story is broadening. Service prices grew faster in the December quarter (2.1%) than goods prices (1.6%), the first time this has occurred since December 2020. In year-end terms, good prices have still increased faster (9.5%) than services prices (5.5%).

For Australia's inflation problem, the December 2022 numbers may be as bad as it gets. The Reserve Bank has been on an inflation warpath since May 2022. Yet, it still had very little influence on inflation numbers. But that story starts to change in 2023.

Global energy prices and supply chain disruptions have eased considerably from their peak in early 2022 and are now acting to pull prices down.

At home, a moderation in consumer demand is also expected to put downward pressure on prices.

Chart 4: Headline and underlying inflation (% annual change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 6401.0.

The key risk to the inflation outlook is not that inflation won't come down, but that even as it comes down it remains stuck above the Reserve Bank's target rate – having become embedded through services costs and wages.

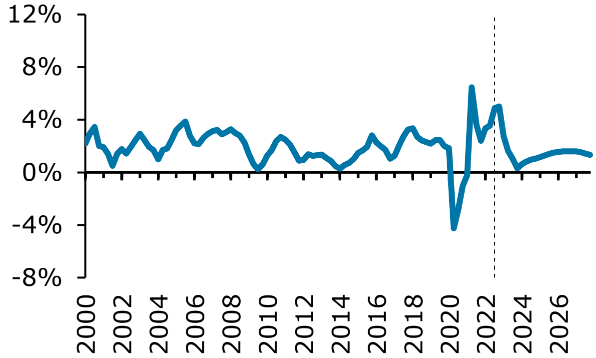
The Reserve Bank's interest rate rises in 2023 are all added insurance to avoid inflation getting stuck on its downward trajectory (even though there will be further economic damage as a result).

**Employment**

The labour market remains tight following rapid job gains in 2022. The jobs success story means there are more than 200,000 fewer Australians unemployed now than before the onset of COVID and the underutilisation rate has fallen to its lowest point since early 1980. However, a turning point has been reached, and we are seeing the unemployment rate starting to track up.

Interest rates pack a punch in slowing the rate of economic growth. Deloitte Access Economics expects employment to grow by 1.3% in 2023 – much slower than the 4.0% experienced in 2022. Indeed, while the labour market remains tight, demand for workers has been trending downward for the better part of the last six months with a 7.5% fall in job vacancies.

Chart 5: Annual change in total employment (%)




Source: Deloitte Access Economics; Australian Bureau of Statistics 6202.0.

That downward trend was apparent in the ABS' January Labour Force data. It shows employment decreased by 11,500 people nationally in seasonally adjusted terms, alongside an increase in the unemployment rate to 3.7%.

While care should be taken not to read too much into a single month of data – especially since there was a higher than usual number of unemployed people expecting to start a job – the unemployment rate in January 2023 is already above the rate forecast by the Reserve Bank of Australia (RBA) for the June quarter of 2023.

**Wages**

Wage growth is heading up, as one would expect given how tight labour market conditions have been. But wage growth is still contained – there is no real evidence we have entered a price-wage spiral.

The wage price index (WPI) grew by 0.8% in the December quarter of 2022. This is slightly below the September quarter's result (+1.0%) which captured the first instances of higher pay for employees whose salaries and wages are set on a financial year basis.

The December wage uptick is 3.3% higher than the same period the year prior and marks the highest annual growth in hourly wages since December 2012.

The acceleration in wage growth was concentrated in the private sector, where businesses with employees on individual arrangements have far greater flexibility to respond to contemporary labour market conditions.

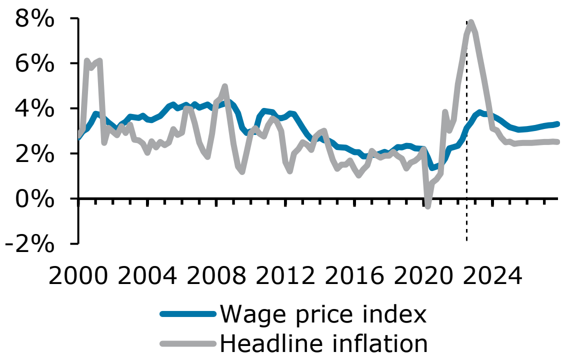
Private wages grew 3.6% over the year to September 2022, more than one percentage point faster than in the public sector (2.5%).

Just above one in five jobs in the private sector recorded a pay increase in the December quarter of 2022, with the average increase being 4.0%. Both the proportion of private sector jobs receiving a wage increase, and the size of the average increase, represent highs over at least the last decade.

Unfortunately, however for spending power, wage growth remains completely outpaced by growth in consumer prices. Reflecting the elevated level of inflation in the year to December 2022 real wages decreased by 4.5% - the largest contraction on record.

Deloitte Access Economics forecasts wage growth to rise to 3.8% in 2023 and remain elevated at 3.5% in 2024.

Chart 6: WPI and headline inflation (% annual change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 6401.0 & 6345.0.

The irony is that as the unemployment rate edges up over the next year, employees may move back to a position where they actually see real wage growth by early 2024. Most of the action on this front will be from inflation receding back to a more sustainable level (thanks to the bitter medicine the RBA is currently administering).

**Population**

Population growth is normally the bedrock of retail sales growth. Despite that, retail sales generally performed well over the COVID period when international borders were closed, benefiting from government stimulus and a shift away from services spending.

But retailers understand those population foundation are important and on that front the past year has brought good news. The COVID-19 population slow down appears behind us – Australia's population grew 1.1% in the year to June 2022 – the fastest annual rate since mid-2020.

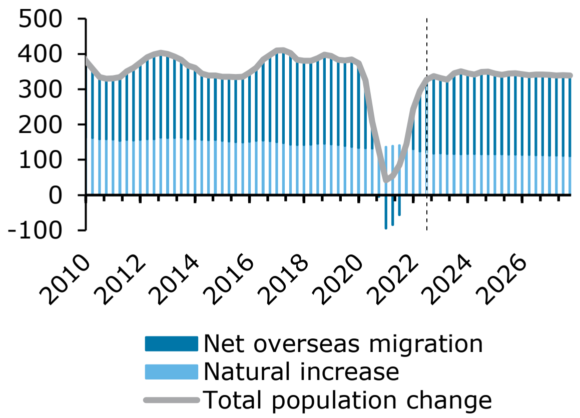
Despite a relatively rapid population rebound, the pandemic will leave a permanent hole in the size of Australia's population. By calendar year 2025 Deloitte Access Economics estimates there will be some 567,000 fewer people living in Australia than there otherwise would have been if the pandemic had not occurred. That view is broadly consistent with the forecasts released as part of the Federal Government's Population Statement 2023 in early January.

The recent uptick in Australia's population growth was underpinned by positive net overseas migration during the end of 2021 and first half of 2022.

After a modest increase of 29,000 during the December quarter of 2021 when international borders were still largely closed across the country, some 155,900 people were added to the Australian population via net overseas migration in the first half of 2022.

We expect these trends to continue, with the return of skilled migrants, students and tourists through 2023. By 2024, Australia's population growth should be once again play its role as the foundation for a decent rate of retail sales growth – underpinning the retail rebound from that time.

Chart 7: Year-to population change by component (000s)




Source: Deloitte Access Economics; Australian Bureau of Statistics 3101.0.

**Wealth**

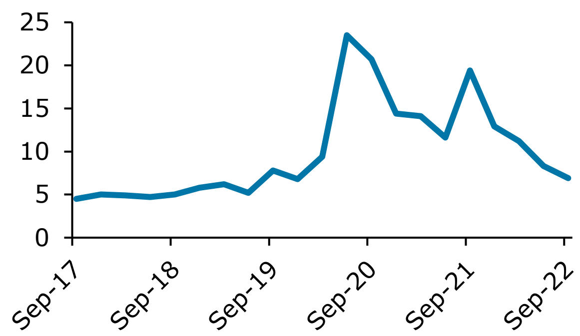
Household wealth decreased for the second consecutive quarter in September 2022 – the first time this has occurred since 2011. The 1.9% decrease was almost entirely driven by falls in house prices which took their largest dip since December 2008. House prices have on average continued to fall through late 2022 and into early 2023.

While the stock market largely declined through 2022, Australian and global shares improved near the end of 2022 as investors anticipated the inflationary peak. While this increased household wealth it wasn't enough to balance the impact of the housing market.

Thus far the reduction in household wealth has not noticeably flowed through to spending behaviour. Further decreases in the housing market coupled with increasing mortgage costs are however expected to impact consumers' willingness to spend.

The household savings ratio has continued to track down to 6.9% - more consistent with what was seen pre-COVID. As noted by the RBA during its February board minutes the stockpile of Australian savings accumulated during the pandemic is estimated to be higher than many other advanced economies and will likely allow consumers an additional buffer as prices and interest rate rise.

Chart 8: Household savings ratio (%)




Source: Australian Bureau of Statistics 5206.0.

However, the stockpile of savings is unlikely to be evenly distributed. It's likely many of those facing sharply higher mortgage rates may not have built up a large enough reserve. That may not mean widespread defaults, but for those households it may mean a sharp reduction in other spending.

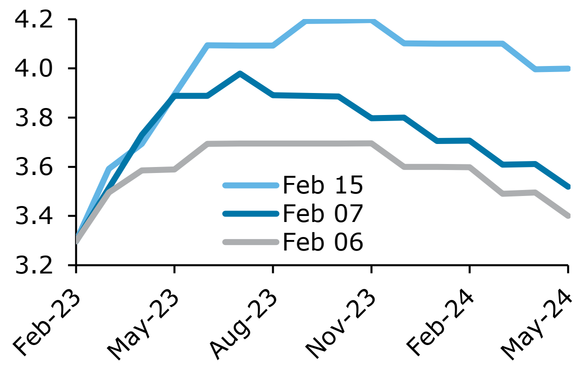
**Interest rates**

The RBA's February meeting saw another increase in the official cash rate – rising by 25 basis point to 3.35%. This marks the ninth consecutive increase in the official cash rate with further increases anticipated.

Notes from the February meeting indicate the board was considering two options, raising the cast rate by either 25 basis points or 50 basis points. This is in contrast to the meeting notes from December which indicated the RBA was considering a pause in interest rate increases.

Following the February increase market expectations have increased significantly with the current expectation that the cash rate could peak at 4.2% in the second half of this year.

Chart 9: RBA cash rate expectations (%)




Source: RBA

The impact of further rate rises on consumer spending will therefore be a dominant economic theme in the first half of 2023. A tight labour market combined with built up savings have somewhat insulated household spending from interest rate rises. However, as savings deplete, there will need to be bigger pullback in consumer spending.

Consumer restraint will be heightened by the expiration of fixed term mortgages. Currently one third of outstanding mortgages are fixed term. Over this year alone the RBA anticipates 800,000 fixed term mortgages will expire. The expiration of these loans is expected to have a considerable impact on households with the cash rate currently sitting more than 300 basis points higher than when the bulk of these loans were fixed.

Prior to the most recent rate increase many mortgage holders were already under mortgage stress from the rate rises seen to date. Roy Morgan estimated some 1.1 million households were in this category at end 2022 (equivalent to [23.9%] of mortgage holders), the highest it has been since 2013. Further rate rises and the expiry of fixed rate loans will both amplify that share in 2023.

**Consumer sentiment**

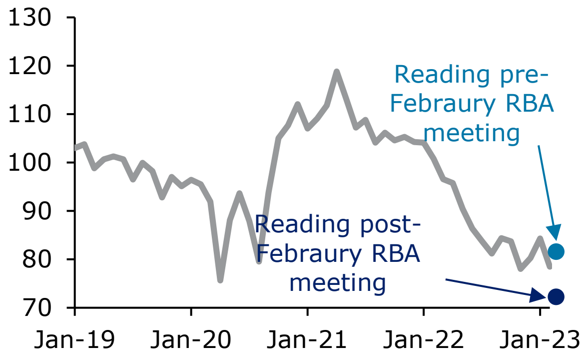
Consumer sentiment continues to foreshadow bleaker times. While consumer sentiment rose in January (no bad news from the RBA because they didn't meet), the index reacted swiftly to the 25-basis point increase in February falling by 6.9%.

February's survey was taken on either side of the RBA's rate rise, providing an indication of how increasing interest rates are affecting consumer sentiment. Sentiment for those surveyed prior to the rate rise showed little movement compared to January, however those surveyed after showed a sharp fall in sentiment (from 83.5 to 74.8).

Consumers are becoming increasingly pessimistic about their financial position, with 'family finances vs a year ago' falling by 8%, now sitting at the same levels as the early 1990s. Unsurprisingly, mortgage holders bore the brunt of the RBA rate increase experiencing a sharp decrease in February (-14.4% compared to January). This marks the most pessimistic responses have been in the survey's history (beginning in the mid-1970s).

The index also indicates consumers are expecting challenging year ahead for the economy. The 'economic outlook, next 12 months' sub-index falling 7.7% to 75.1. Expectations showed a particularly sharp deterioration following the RBA rate increase, falling 12% between pre- and post-RBA samples (from 82.1 to 70).

Chart 10: Consumer sentiment




Source: Westpac & the Melbourne Institute.

# Retail forecasts

## Retail spending sours earlier than anticipated

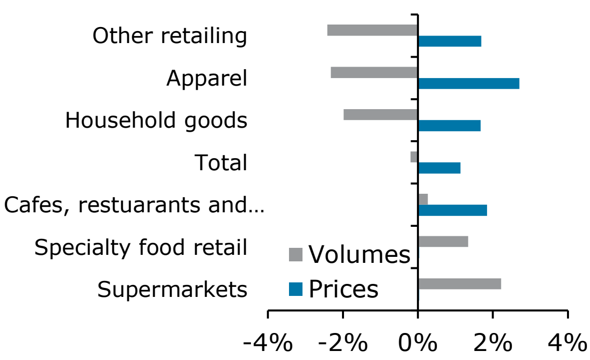
The retail slowdown has come a little faster than expected with end of year sales not enough to stave off consumer caution.

Retail turnover in the December quarter was kept afloat by rising prices (+1.1%) as sales volumes fell by 0.2%. This marks the first decrease in real turnover since September 2021.

The impact was most pronounced for discretionary goods, with retail turnover declining in Apparel (-2.3%), Other retail (-2.4%), and Department stores (-2.9%) over the quarter. This points to shifts in consumer spending: a pivot towards essential goods as households experience tighter budgets and consumers preferencing spending on discretionary services (such as travel). Both of which leave discretionary goods out in the cold.

In contrast, both Food (+2.2%) and Cafes, restaurants and takeaway (+0.3%) experienced growth in real turnover. Food was also the only category to not experience price growth over the quarter. While this will provide some reprieve as other household essentials such as the mortgage and electricity become more expensive, food prices are still tracking significantly above pre-pandemic levels (+16.0%) and prices this time last year (+8.4%).

Chart 11: Retail growth, Dec-22, (volume and price) by category



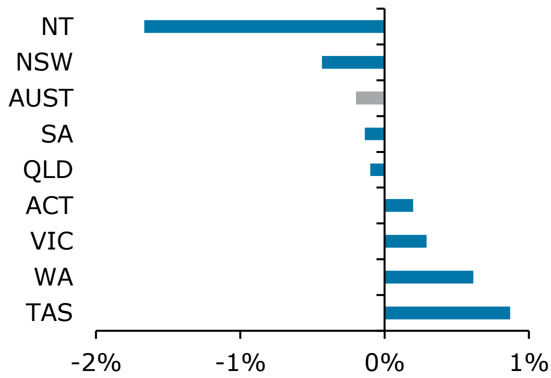

Source: Australian Bureau of Statistics 8501.0.

The strong increase in food prices over the past year results from numerous factors, with the war in Ukraine having led to a global shortfall in wheat stocks, extreme flooding on the east coast depleting fruit and vegetable supplies, and strong global demand for agricultural commodities forcing domestic prices higher.

However, there is evidence that retail price pressures are beginning to ease, with the increase in retail prices trailing both headline (2.1%) and underlying (2.1%) inflation for the quarter. This reflects slower growth in the price of goods compared to the price of services, and the impact of end of year sales (including Black Friday, Cyber Monday, and Boxing Day).

State retail sales performance over the December quarter was mixed. Several states recorded positive growth, led by Tasmania (0.9%), Western Australia (0.6%), and Victoria (0.3%). However, multiple states also reported negative growth in retail turnover for the December quarter, with turnover in the Northern Territory declining substantially by 1.7%.

Chart 12: Real quarterly retail growth, Dec-22 by state



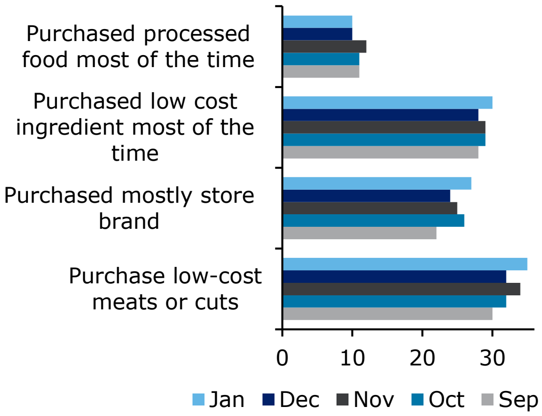

Source: Australian Bureau of Statistics 8501.0.

While the disconnect between consumer spending and sentiment persisted for most of 2022, falling retail turnover indicates a changing tide.

Consumers have already begun changing their spending habits with an increasing proportion of Australians undertaking cost saving measures. According to Deloitte's Global State of the Consumer Tracker the proportion of consumers purchasing low-cut meats increased to 35% in

January 2023 (up from 30% in September 202). Similarly, the proportion of consumers mostly purchasing store brand products increased to 27% (up from 22% in September).

Chart 13: Australians undertaking cost saving measures (% of surveyed)




Source: Deloitte's Global State of the Consumer Tracker.

Frugality may also be appearing outside the Supermarket sector with households also choosing cheaper alternatives for household goods. Wesfarmers' Managing Director recently indicated their data and feedback pointed to consumers continuing to spend across key value items with consumers being more value conscious.

Restraint is likely to be a dominant theme for consumers in 2023. Retail spending is likely to be hit on a number of fronts – an increasing proportion of the household budget servicing mortgages and utilities costs, a continued decline in real wage growth, and poor consumer sentiment encouraging some consumers to save rather than spend (when they have the option to do so).

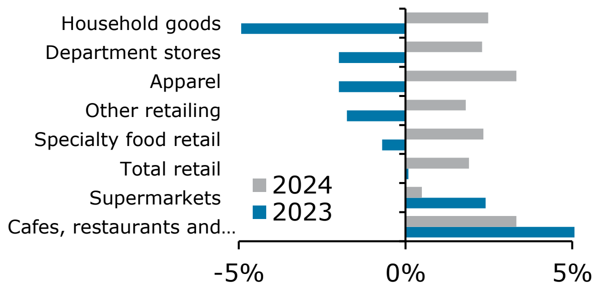
The impact of these pressures is reflected in the latest consumer sentiment indicators. While consumer sentiment did experience a short boost over the Christmas period, the Westpac-Melbourne Institute Index of Consumer Sentiment fell 6.9% in the latest February 2023 data. This saw the index reach its' weakest level in three months, yet again approaching the historic low of 78 seen in November 2022.

These negative drivers mean that there is every chance that real retail spending continues to go backwards over the first half of 2023. Real turnover is expected to pick up in the second half but result in weak growth for 2023 (+0.1%). Prices are predicted to moderate to 3.8%, resulting in nominal retail trade of 3.9% over the calendar year.

But retailers should also start preparing now for the green light on retail sales coming in 2024. As real wages growth turns from negative to positive, population growth gets back into full swing and housing sector activity starts rising again, there will be renewed impetus for non-food retail spending.

Chart 14 shows that a sharp turnaround is expected across non-food categories, and particularly household goods. At the same time, a looser consumer spending environment may be less good news for supermarkets and other retailers of essentials.

Chart 14: Real retail growth, 2023 and 2024 calendar years by category




Source: Deloitte Access Economics

# Supermarkets

**National real supermarket turnover (volumes, seasonally adjusted)**

| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **2.2%** | **-1.0%** | **-0.4%** | **1.3%** |

Supermarkets rebounded in the December quarter, with the volume of retail spending recording growth of 2.2%. This was the first period to record growth since the quarter to September 2021, reversing a pattern of four consecutive quarters of declining sales volumes. This likely reflects the tighter consumer environment with a pull-back in more discretionary spending, to the benefit of supermarkets.

That said, 2022 has been a tough year in the supermarket business with negative real sales growth over the year to December 2022 (-1.0%). Cafes and restaurant have won back considerable market share in the food spend over that time.

Prices remained unchanged from the previous quarter. While this will provide some reprieve for consumers Supermarket prices are still 8.4% higher than December 2021.

Managing prices pressures has been a key challenge for supermarkets in 2022. Higher energy prices and global supply chain pressures have pushed up the price of some commodities – particularly grains. That has been compounded by domestic floods which further pushed up food prices, particularly in the September quarter. But some offset has come in the December quarter as some food prices scale back post-floods, cancelling out price growth in the quarter.

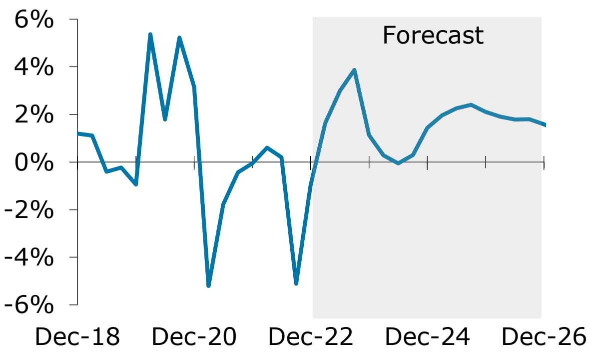
2023 is presenting challenges for retail spending but the essential nature of much supermarket spending provides some insultation from a tightening household budget.

Consumers have already begun to swap to cheaper cost alternatives to save money. Deloitte's Global State of the Consumer Tracker shows the number of consumers only buying essential groceries increased from 27% to 33% between September 2022 and January 2023.

Of course, as higher interest rates bite further and affect the spending capacity of households, some may need to go a step further and reduce the number of groceries purchased.

Deloitte's Global State of the Consumer Tracker indicates this has already begun. In September 2022 approximately 17% of consumers bought less food than they wanted. This proportion has been steadily increasing, reaching 21% of consumers in January 2023.

Chart 15: Real supermarket turnover (year-to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0.

Looking forward, real supermarket sales growth is expected to return to positive territory through 2023. This will be supported by a more modest rate of price growth than we have seen in 2022.

# Speciality food and liquor

**National real speciality food and liquor turnover (volumes, seasonally adjusted)**

| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **1.3%** | **-3.6%** | **-2.6%** | **0.5%** |

Real retail turnover in the Speciality food and liquor increased by 1.3% in the December quarter, as Australians celebrated a return to a lockdown free Christmas period. However, this short-term boost did not offset a very difficult year, as the data over the year to December 2022 showed a 3.6% real sales decline.

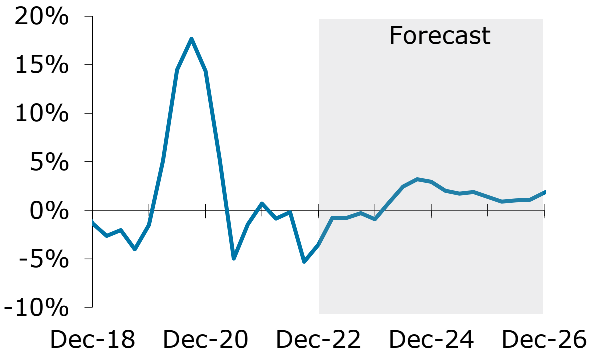
For much of 2022 consumers prioritised experiences (and subsequently services). In terms of the food sector this meant if consumers could dine out, they would. This left much to be desired for the Speciality foods and liquor sectors.

Despite cost-of-living pressures rising, Speciality foods and liquor sectors are not anticipated to reap the rewards of consumers becoming more frugal to the same extent as supermarkets may do.

The sector sits in a difficult position of generally being at the more discretionary and higher cost end of food retail.

With an increasing number of mortgage holders rolling off fixed rate loans, 2023 will see more households feeling the pinch. In adjusting to lower spending capacity some consumers may bypass Speciality foods and liquor as many consumers forego even the small luxuries.

Chart 16: Real speciality food and liquor turnover (year- to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0.

The changes in spending patterns as consumers preference budget-friendly items is anticipated to result in a fall in real turnover for the sector. Contractions in real turnover are anticipated through the first three quarters of 2023.

This is anticipated to result in a reduction in real turnover of 2.6% in 2022-23. However, reprieve is anticipated from the last quarter of 2023, as we get closer to the point where real wage growth is positive once again, setting the scene for a stronger performance for the sector over calendar 2024.

# Cafes, restaurants and takeaway

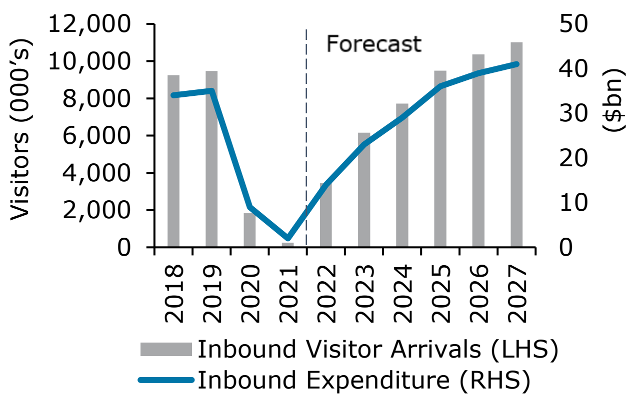
**National real cafes, restaurants and takeaway turnover (volumes, seasonally adjusted)**

| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **0.3%** | **20.6%** | **18.5%** | **3.5%** |

Cafes, restaurants and takeaway has been the retail rebound story over 2022, reclaiming its share of consumer wallet as Australia opened up again, but then going above and beyond that.

Real retail spending on hospitality was up 0.3% in the December quarter, consolidating a substantial annual rise of 20.6% in the year to December. That brought spending in the sector to 17% *above* pre-COVID levels.

Chart 17: International visitor numbers (000s) and expenditure ($bn)

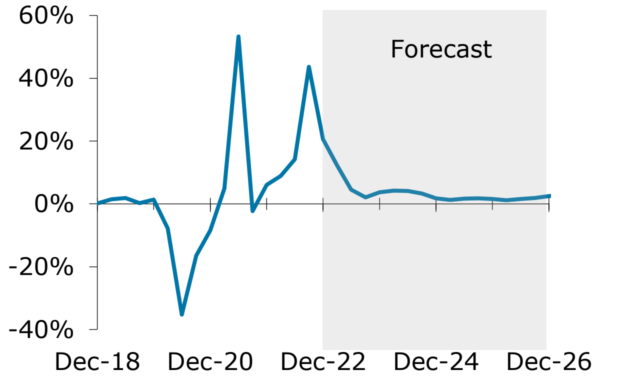



Source: Tourism Research Australia.

There is some further upside for this component of retail spend, including in the cash-strapped environment of 2023. A further boost to the sector is expected as travel returns to pre-pandemic trends. Although domestic tourism spend often acts as a competitor for general retail spend, it generates significant expenditure for cafes, restaurants and takeaway, as a high proportion of tourism expenditure is directed towards eating out and drinking. Forecasts from Tourism Research Australia (TRA) show a further significant recovery for international tourism with visitor numbers returning to 2019 levels by 2025. However, total visitor expenditure (which includes both international and domestic expenditure) is expected to recover faster, surpassing pre-pandemic levels in real terms by 2023, and totalling $227.7 billion (nominal) by 2027.

Cafes, restaurants and takeaway is expected to further benefit in the second half of the year from the return of a key group of consumers - Chinese tourists. In 2019, Chinese tourists spent $10.4 billion in Australia. This declined to only $0.1 billion in 2021 as a result of border closures. On relatively conservative estimates, the return of Chinese tourists could generate an additional $4 billion in retail spend in 2023.

Chart 18: Real hospitality turnover (year- to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0.

Increased tourism is anticipated outweigh the impact of growing domestic consumer caution, bolstering the sector through 2023. Overall, calendar 2023 might see a further 5.5% lift in hospitality spending in real terms – not bad against a backdrop of basically zero real growth for the retail sector as a whole in 2023.

# Household goods

**National real household goods turnover (volumes, seasonally adjusted)**

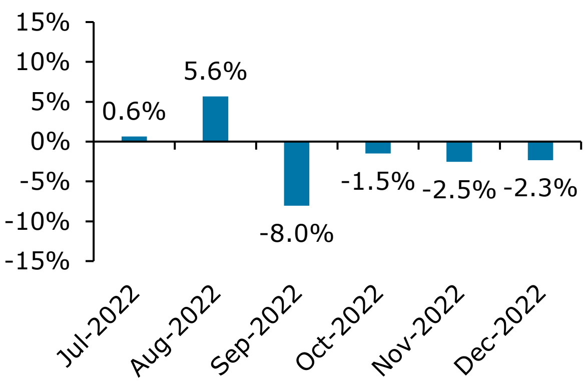
| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **-2.0%** | **-6.9%** | **-4.1%** | **-1.2%** |

After a stunning sales performance when Australians were locked down, the household goods category has had a shocker through 2022. Not only have Australians had many more options for their discretionary spending, interest rate rises have stalled the housing sector, and the associated consumer durables purchases which often accompany moving house and renovations.

The sector saw declining sales volumes over the December quarter, down 2.0%, following a comparable decrease over the September quarter (-1.8%). This pattern has contributed to a sales volume overall decline of 6.9% in the year to December 2022.

The prices for household goods increased by 1.7% over the December quarter – higher than average price increases in the retail sector. Compared to the same period last year the price of household goods has increased by a very strong 8.3%.

Chart 19: Private sector housing approvals (monthly % change)



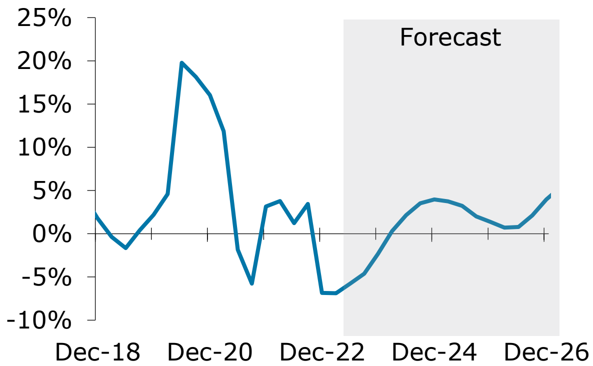

Source: Australian Bureau of Statistics 8731.0

The decline in sales volumes is affected by the more subdued housing market. The number of approvals for private sector houses fell by another 2.3% in December 2022, following declines over September to November.

Additionally, rising cost of living pressures have reduced consumers' appetites for home improvements, particularly as the home value generated through alterations has proven inconsistent over recent months.

Looking ahead to the March quarter, sales volumes for household goods are expected to decline by a further 1.8% as rising interest rates continues to feed through to household budgets and shattered consumer confidence. Real turnover for the 2022-23 financial year is forecast to contract by 4.1%.

Chart 20: Real household goods retailing (year-to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0

This pattern may continue through much of 2023, at least until interest rates are seen to have clearly peaked and perhaps started to fall. That could kick start additional housing activity and therefore herald a shift back to robust sales growth through 2024. Household goods is a sector which can turn from famine to feast very quickly.

# Apparel

**National real apparel turnover (volumes, seasonally adjusted)**

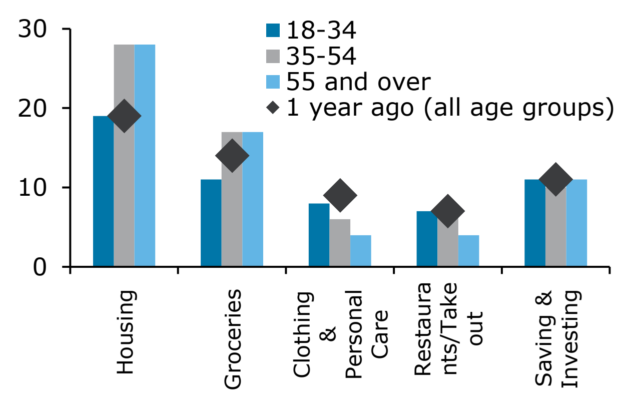
| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **-2.3%** | **9.0%** | **12.7%** | **-0.4%** |

Consumer spending on apparel faced significant headwinds in the December quarter, with real retail turnover declining by 2.3%. But this comes after apparel spending had been on a massive tear through most of 2022. Despite the quarterly decline sales volumes still increased by 9.0% over the year to December 2022.

Not only did apparel see strong growth in sales volumes, there was a general shift up in prices as well, which is uncommon for a sector which has generally seen little ability to push up prices. But in 2022, costs have been passed through to consumers (at least to some degree) with apparel prices up 2.7% in the December quarter and 5.5% over the year.

But 2023 may not be such a strong story for apparel. Apparel sales are being pinched as consumers face economic uncertainty and the rising cost of living, along with the transition back towards a higher share of spending on services.

Chart 21: Australian consumers' planned share of spending over the next four weeks (%)

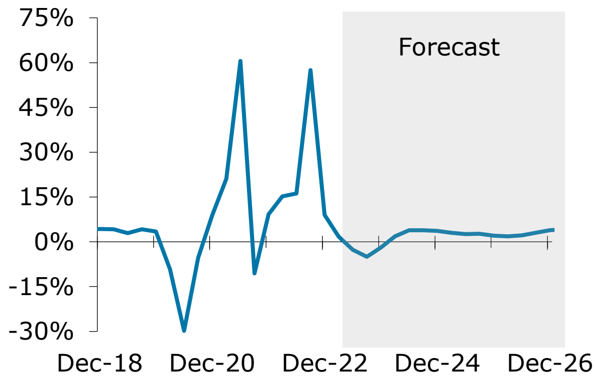



Source: Deloitte's Global State of the Consumer Tracker.

Equally many consumers are also become more cautious and budget conscious. Data from Deloitte's Global State of the Consumer Tracker shows a broad sweeping reduction in the proportion of spending allocated to apparel compared to the year prior. Sales may likely suffer in 2023 if consumers view wardrobe refreshes as a luxury rather than a necessity.

That means consumer spend on apparel in real terms many continue to fall over the first half of 2023.

Chart 22: Real apparel retailing (year-to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0

It is anticipated that the sector will return to growth in the second half of 2023, and that growth could quickly become robust again in 2024 as real wage growth drives renewed consumer spending power.

# Department and discount department stores

**National real department and discount department store turnover (volumes, seasonally adjusted)**

| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **-2.9%** | **7.1%** | **9.4%** | **-0.9%** |

In what was a poor quarter for retail, the department store sector came in lagging the field. Department store sales fell by 2.9% in real terms.

For the sector the December quarter may be a turning point in performance. The decline came after a stunning period of growth. In the September 2022 quarter real retail turnover had increased by 2.7% - one of the largest gains of any retail category. Annual real turnover increased for the year to December by 7.1%, a very robust year despite tailing off in the last few months.

Unfortunately for department stores 2023 may bear closer resemblance to the end of 2022 than the robust sales performance earlier in the year. Consumers are suffering a significant real wage decline, and with increasing pressure from interest rate rises on household budgets, 2023 may see more consumers opting out of discretionary spend.

There may also be different effects across the department store sector. Discount department stores are expected to see some benefit from the shift in consumption patterns as consumers seek less expensive options.

Typically, it is expected that the RBA's interest rates hikes will take six to twelve months to fully flow through to consumer spending. This means that the December data may only account for the very start of the RBA's rate hike regime, with plenty more still to come through. That's without including the further rate rises foreshadowed in 2023 which haven't yet occurred.

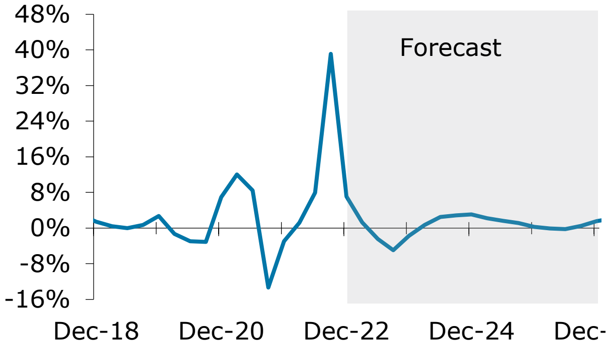
Further declines in Department store sales volumes are anticipated in the first half of 2023 and only very modest growth in the second half. This reflects growing consumer concerns over household budgets, with more discretionary spending under pressure as the cost of living continues to increase. In a poor quarter for retail turnover volumes, the Department Stores category was the worst performers, with the volume of spend falling by 2.9%. Contrastingly The December quarter also saw prices in Department Stores increased by 6.3% all by 0.6%, a sharp end to a period of consistent increases over 2022 as part an annual increase in 13.8% in the year to end December.

The decline in quarterly sales volumes likely results from the pressure of interest rate rises on household budgets, with consumers increasingly opting out of discretionary luxury spend and reducing turnover for department stores. There is a silver lining for the sector with the potential for discount department stores to benefit from consumers becoming more value conscious.

However, within the sector major players remain optimistic, with the David Jones chief executive stating that while rate rises were putting household budgets under pressure, shoppers were still keen on in-store experiences in 2023.

More broadly, as 2023 moves into 2024 the macro environment for discretionary spending is expected to start turning more supportive again, so department stores can begin anticipating a strong growth environment emerging not too far down the track.

Chart 23: Real Department and discount department stores retailing (year-to change)




Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0

# Other retailing

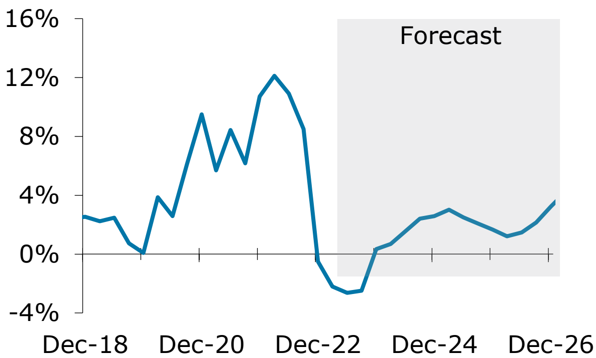
**National real other retailing turnover (volumes, seasonally adjusted)**

| Dec-22 growth (quarter) | Dec-22 growth (year to) | 2022-23 growth | 2023-24 growth |
|---|---|---|---|
| **-2.4%** | **-0.5%** | **0.6%** | **0.0%** |

Sales volumes in Other retail continued to decline in the December quarter, falling by 2.4%. This followed a decline in the September quarterly data (-0.1%), a significant reversal given the sector had shown very strong sales growth over 2020, 2021 and the first half of 2022.

Not helping the sector is prices increasing by 1.7% over the December quarter, leading to price growth of 6.4% over the past year.

Chart 24: Real Other retail spending (year-to change).



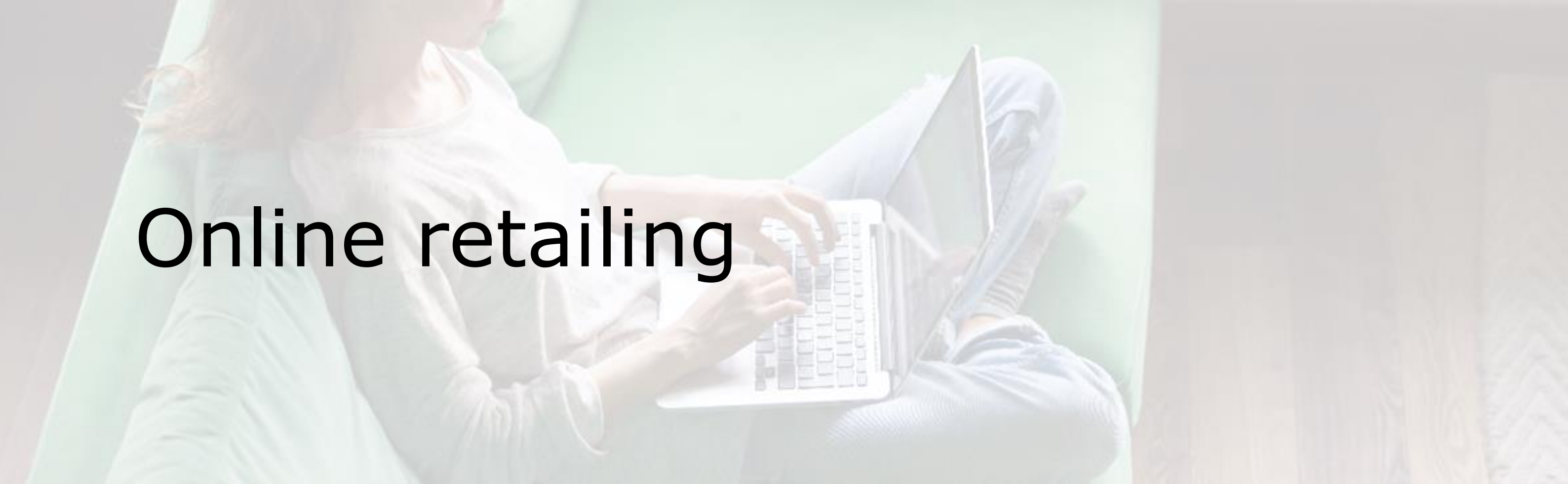

Source: Deloitte Access Economics; Australian Bureau of Statistics 8501.0

The recent sales performance reflects the squeeze on household budgets, with consumers opting to cut back on non-essential items. The most recent NAB Consumer Sentiment survey had respondents reporting cancelling or cutting back on subscriptions of newspapers, magazines, and audio books (22%), or streaming services such as Netflix or Foxtel (24%) over the previous three months.

The NAB Consumer Stress Index also increased in Q4 2022, with stress associated with the rising cost of living climbing to a four year high. This pattern is expected to continue over the coming months, as the real wage and mortgage interest rate squeeze becomes tighter.

Of the sectors included within Other retail, pharmacies represent an outlier, and are not expected to fall victim to the same shifts in consumer spending patterns. Sales at pharmacies are typically non-discretionary essential purchases, and are often prioritised by consumers given their medical importance. Additionally, pricing is regulated by the Pharmaceutical Benefits Scheme, preventing significant price rises which could affect consumer behaviour.

The expectation is that Other retail will follow the trend of general retail and experience a dip in sales volumes in the early part of 2023. Stronger periods of sales growth may need to wait until mid 2024.



# Online retailing

**National nominal online turnover (values, seasonally adjusted)**

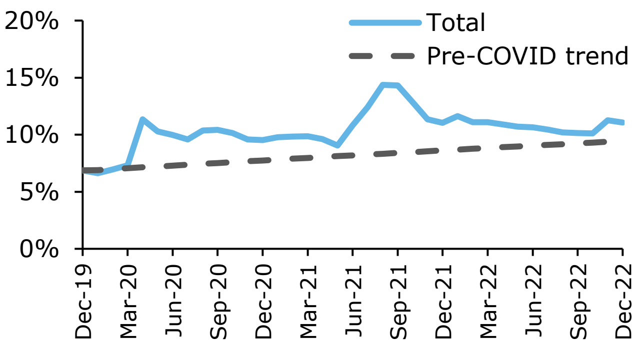
| Online retail % of retail sales Dec-22 (quarter) | Dec-22 growth (quarter) | Dec-22 growth (year-to) |
|---|---|---|
| **11.1%** | **6.9%** | **7.8%** |

The echo of Covid-19 lockdowns continued to influence consumer behaviour through 2022. Online retail was of course a major beneficiary of restrictions on consumers, and the more open environment has resulted in the online retail share of sales gradually drifting down through 2022.

This share of total retail spend has declined from a peak of 14% recorded in September 2021, with consumers increasingly opting to return to brick-and-mortar stores while shopping behaviours begin to "normalise". Research by NAB predicted that the growth of online retail will slow over the coming months as consumers begin to allocate more of their discretionary income to services.

However, despite this downturn online shopping now accounts for a significantly greater share of retail spend relative to the pre-Covid period, in which online retail reached a high of 7.3% in March 2020. Current levels are also significantly above the pre-Covid trend for December 2022, which anticipated online spend accounting for 9.4% of total retail expenditure.

Chart 25: Online retailing as a share of total retailing, Australia



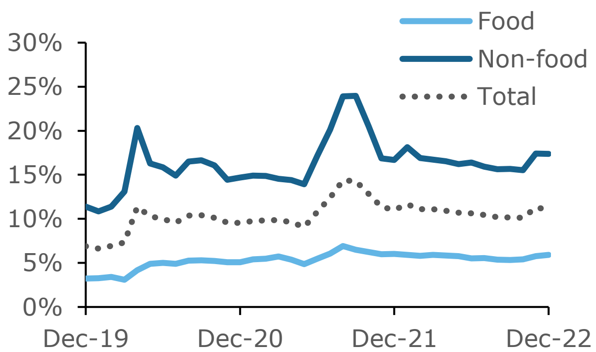

Source: Australian Bureau of Statistics 8501.0

Late in 2022 there has been a shift back up in the online share of retail sales. The online food share of retail spend rose from 5.3% in the September quarter, to account for 5.9% of total retail spend in the December quarter.

Similarly, the online share of non-food purchases rose from 15.7% in the September quarter to 17.4% in December data. The growing influence of largely online-specific sales events such as Black Friday and Cyber Monday have played a significant role in this growth. That however, suggests we may see some pullback in online spending through the March 2023 quarter.

Evidence from the NAB Online Retail Sales Index indicates declines in December monthly online spend were near uniform, with only two retail categories (takeaway food and media) recording growth. Weakness in the monthly result was more pronounced in homewares and appliances, fashion, and department stores, which make up about half the index. However, in year-on-year terms, media, takeaway food, department stores, and games and toys exhibited strong growth.

Chart 26: Online retailing as a share of total retailing, Australia




Source: Australian Bureau of Statistics 8501.0

# Feature – China’s reopening

## China’s reopening marks a turning point for the world, but what does this mean for Australia?

China's announcement on January 8th to end 1,063 days of self-imposed isolation from the world marked a turning point for the country, and for the world. The strict zero COVID policy saw China’s economy grow by a meagre 3% in 2022 – a far cry from the 6.1% growth in 2019 and its worst performance so far in half a century.

China’s reopening is expected to not only provide a much-needed boost to its domestic growth but also brighten the global economic outlook. The IMF has revised its global growth forecast upward by 0.2 percentage points, citing China’s full opening as one of the primary drivers. It also noted that China and India are likely to become the key drivers of global growth in 2023, accounting for almost half of total growth. The Economist estimates that China is likely to be responsible for at least two-thirds of global growth in early 2024.

The reopening of China also has significant implications for Australia, a country with which it shares long-standing trading relationships. China’s grand reopening is expected to boost the demand and prices of key commodities such as base metals, coal, crude oil, and LNG, many of which are Australia’s key exports. The return of Chinese tourists and students, with pent-up demand for travel and discretionary spending, is also expected to greatly benefit Australia’s tourism and education exports and present upside potential for Australia’s city centres and major retail destinations.

**Commodities exports**

As supply of most commodities remains extremely tight, the re-emergence of China as a world-leading importer of crude oil, LNG, iron ore and copper has added notable upward pressure to commodity prices. The price of crude oil, for instance, rose by 10% during January compared to mid-December levels. Further increases in the oil price are expected due to higher demand for oil following the return to normal travel and transportation behaviour in China, which according to Goldman Sachs, could boost global oil consumption by 1.5 to 2 million barrels per day.

Copper prices have also surged by 10% to a high of $9,000 in January, a level not seen since June of last year. The spot price of benchmark 62% iron ore, as assessed by commodity price reporting agency Argus, rose by over 7% since the start of January, partly driven by the surge in China’s iron ore imports during January. However, China’s reopening is unlikely to drive further and sustainable growth in iron ore and copper prices throughout 2023, as the outlook for the Chinese property sector remains grim, and new construction activity is relatively muted. The outlook for LNG demand growth on the other hand remains particularly strong due to growing industrial activity in China.

Being a significant trade partner of China and a major exporter of key commodities, Australia is set to be a big beneficiary from China’s reopening. However, higher export revenues are likely to come with the risk of global inflation reigniting. The added inflationary pressures from higher commodities prices following China’s reopening could prompt the RBA to raise interest rates further to sustainably contain inflation.

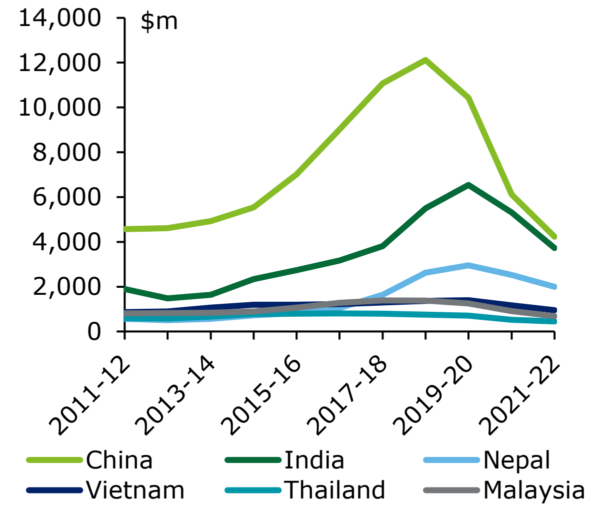
**Education exports**

The return of international Chinese students is likely to provide a significant boost to Australian education exports. This sector has been severely impacted by the international travel ban and strict border control measures. Prior to the pandemic, in 2019, education exports accounted for 8% of all total exports ($A40 billion). However, that figure has rapidly dropped to around 3.5% ($A22 billion) for the 12 months to September 2022.

Education exports include tuition fees and consumption of goods and services by overseas students. From 2018-19 to 2021-22, overseas students’ expenditure on goods and services in Australia nearly halved (-45%). With research from Victoria University showing that about 36% of international students’ expenses are typically allocated to retail and hospitality spending, this translates to a sizable loss of revenue for retail outlets and hospitality venues across the country.

The fall in education exports was most noticeable for China, where education exports fell by 65% between 2018-19 and 2021-22, while that for India, Nepal, and Vietnam only fell by 32%, 24% and 30% respectively. Prior to 2021-22, China was by far the largest importer of education from Australia, often contributing twice as much as India, the next largest importer, to total education exports. However, the closed border and self-isolation policy from China have significantly reduced that gap, with China now leading by only 12%.

Chart 27: Education exports by country

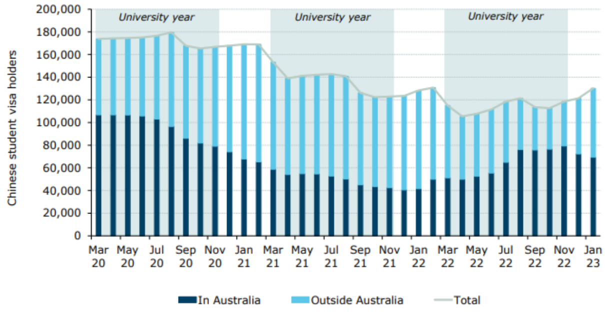



Source: Australia Bureau of Statistics

While there has been a significant increase in student arrivals since the reopening of Australia's international borders in 2021, Chinese students have been returning at a much slower rate than those from other countries. November 2022 data shows that there were 613,000 foreign students in Australia, 20% lower than the level observed in 2019. Chinese students, on the other hand, were 27% lower than 2019 levels.

With over 63,000 Chinese student visa holders still located outside of Australia's border as of January 2023, the reopening of China is estimated to bring an influx of at least 50,000 Chinese students to Australia. The stronger return of Chinese students is expected to provide a significant boost to education exports through increased spending on tuition fees and more domestic consumption of housing, food, retail goods and services.

Chart 28: Chinese student visa holders inside and outside of Australia

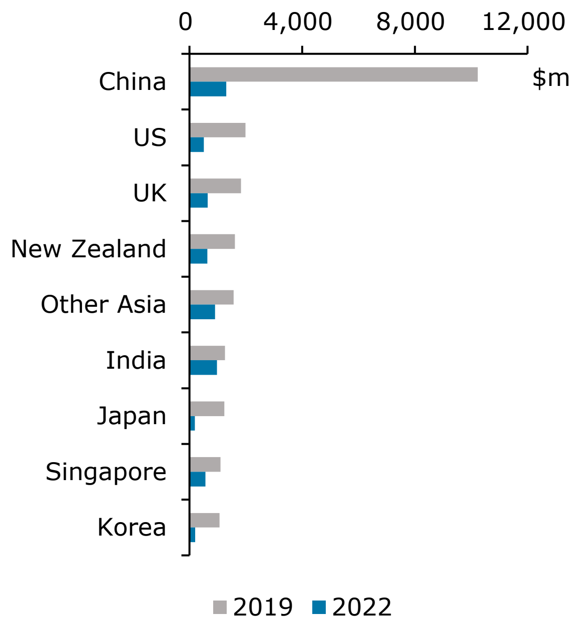



Source: ANZ Research, Department of Education

**Tourism**

Australia was a popular holiday destination for Chinese tourists prior to COVID-19, with over 1.4 million short-term visitors from China recorded in 2019. However, the closure of borders devastated the Australian tourism industry, resulting in just 13,880 short-term arrivals from China during December 2022, a fraction of the number recorded in December 2019 (111,800), and a total of 90,000 short-term arrivals throughout 2022.

Chart 29: Tourist spending in Australia




Source: Tourism Research Australia

Chinese tourists' spending in Australia has also drastically fallen, dropping from over $A10 billion in the year ending September 2019 to just slightly over $A1 billion in the year ending September 2022, representing an almost 90% decrease.

The reopening of China and the return of Chinese tourists bring enormous upside potential for Australian tourism, given that Chinese tourists spend more than three times as much as an average visitor per trip. JPMorgan estimates that a full tourism recovery with China could add as much as 0.5 percentage points to Australia's GDP growth.

The influx of Chinese visitors with pent-up demand for goods and services consumption should also give a significant boost to Australian retail sector, which may help to partly offset the squeeze coming through domestic consumer spending. This is particularly relevant since international tourists spending on shopping, gifts and souvenirs, and food and beverage products during 2021-22 was still less than a fifth of what it used to be pre-COVID. The arrival of Chinese tourists with excess savings to draw on is likely to speed up recovery in those markets.

However, a full reboot of Chinese tourism is expected to still take some time due to challenges in securing flights out of China, rising flight prices and delays in getting passports and visas. Low rental vacancy rates in Australia at present may also act as another constraint. Tourism Research Australia forecasts that it will not be until 2026 that visitor arrivals from China return to pre-pandemic levels.

# Appendix

## Our publications

### Budget Monitor

*Budget Monitor* is a key source of independent private sector projections of Federal budget trends in Australia. Budgets are analysed and projections made, including detailed estimates of future spending and revenue levels. *Budget Monitor* is prepared twice a year, prior to the Mid-Year Review and to the Federal Budget itself.

### Business Outlook

*Business Outlook* is a quarterly publication aimed at those who require depth of detail about the business environment, analysing prospects across 22 industries and each of the Australian States and Territories. It provides facts, figures and forecasts on Australian and world growth prospects, interest rates and exchange rates, wages and prices, exports and imports, jobs and unemployment, taxes and public sector spending. These forecasts strengthen and enhance your strategic planning capacity.

### Employment Forecasts

*Employment Forecasts* is released quarterly and provides forecasts and commentary for each industry, plus white collar, blue collar and office demand index (where the latter draws on the 'office intensity' of each industry). There are three levels of data available: state, city and CBD. *Employment Forecasts* is particularly useful in the analysis of property market demand.

### Investment Monitor

*Investment Monitor* is a quarterly publication that provides detailed data on major business and government investment projects in Australia. Project investment is a key source of future economic growth. It lists individual Australian construction and investment projects with a gross fixed capital expenditure of $20 million or more. Projects are listed by State, sector and status of each project. Suppliers will appreciate the project updates, while economists benefit from one of the most comprehensive breakdown of investment prospects available in Australia.

### Retail Forecasts

*Retail Forecasts* is a quarterly publication that provides an analysis of current retail sales and consumer spending, and the important economic drivers that influence them. It includes ten-year forecasts of retail sales by major category and of key economic drivers.

### Tourism and Hotel Market Outlook

*Tourism and Hotel Market Outlook* is an annual publication that provides insight into the issues facing the Australian tourism and hotel sectors, including in-depth analysis of recent trends and their underlying drivers across the domestic and international tourism markets. The *Tourism and Hotel Market Outlook* publication includes analysis of ten of the country's major hotel markets (including all capital cities) and forecasts growth in supply, occupancy, room rate and revenue per available room (RevPAR) across the ten major Australian tourism markets.

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