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Retail Forecasts
Six degrees of shopping in 2020

May 2020

Deloitte Access Economics

Retail Forecasts is produced quarterly and provides analysis of current retail spending and important changes to the economic drivers that influences this. It includes ten-year forecasts of retail sales by major category and of key economic drivers. The supplementary Detailed Consumer Spending data provides ten-year forecasts of detailed Household Final Consumption Expenditure categories and detailed Retail Sales categories

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Australian retailers are facing the fight of their life in 2020. Consumer confidence slumped for a period, job losses have soared, and spending behavior has been tipped on its head. But it's also been extremely volatile across the sector - many retailers have benefited from stockpiling and a shift towards at-home spending, while others have faced significant drops in demand. The easing of restrictions and large fiscal stimulus program provide some support for the coming quarter. But as the population engine splutters and stimulus measures come to an end, retail is likely to face headwinds on the long recovery path ahead.

National retail turnover outlook

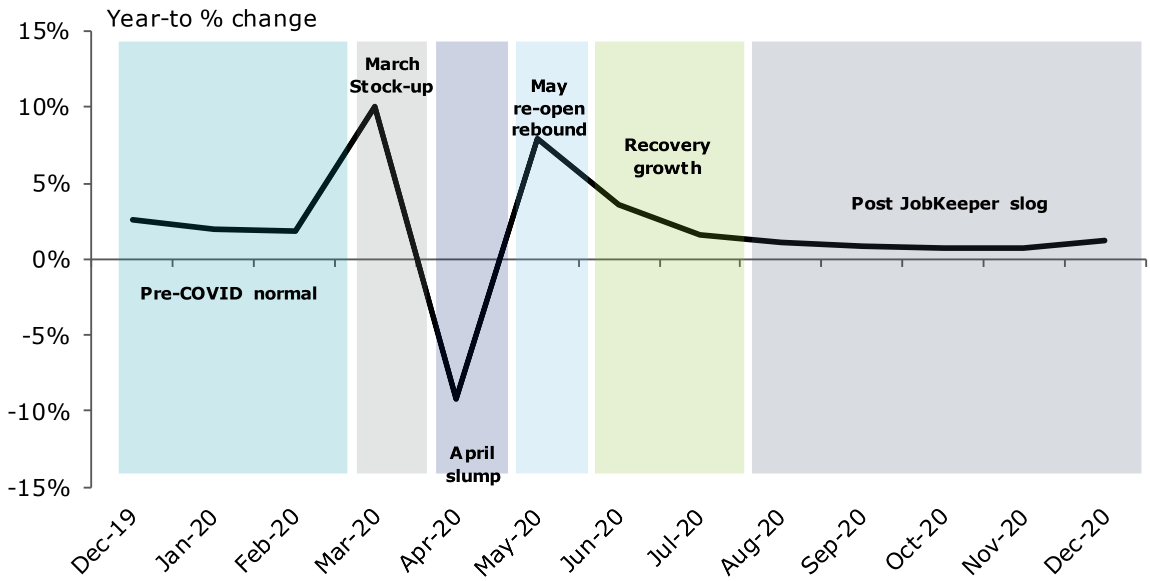
2020 has been a tumultuous year for retailers, and we're not even halfway through. Across the whole sector we expect calendar 2020 to register a fall in real retail sales of 1.4%, which would make it the worst year for retail on record.

But while the average is dire, there may not be many retailers performing at the average – many will far much worse while supermarkets, pharmacies and hardware amongst others have been experiencing a golden run. There have also been significant swings in ability and willingness to spend during 2020, and those swings may continue as the year goes on. This means that one month's trading experience in 2020 may be a terrible guide to how the year as a whole pans out (making life hard for stock purchasers and supply chains).

Rather than one dominant economic theme, there may be six phases to retail spending in 2020:

- **A pre-COVID normal** – remember January/February. Hardly normal as the country was dealing with devastating bushfires, and some borders were starting to close. However, for most retailers trading was in a familiar pattern with modest growth from month to month.
- **March stock-up** – as COVID led to widespread restrictions, consumers entered a massive stocking-up cycle, with the extra spending on essentials masking a sharp decline in much discretionary spending. This culminated in the strongest monthly growth in retail sales on record.
- **April slump** – the stock up phase tapers off, so supermarket and related spending comes back down, while the downturn in discretionary (particularly cafes/restaurants and apparel) only got worse. The results – the worst fall in monthly retail sales on record.
- **May re-open rebound** – as health concerns abated and consumers were given the green light to go back to shopping centres, retail spending appears to have one again picked up sharply. This has been helped by some pent-up demand, and a lot of government support, cushioning the blow which might otherwise have been seen on consumer incomes.
- **Recovery growth** – tempering the re-open frenzy a 'COVID normal' period where sales are buoyed by an improving economy (picking up from a very deep trough), which continues to benefit from support (JobKeeper, deferral of mortgages, access to super etc.).
- **Post JobKeeper slog** – September is already flashing red for many retailers as the intended end to JobKeeper, and therefore the significant support many businesses (including retailers of course) have been receiving. While there may end up being some tapering of support rather than a hard close, we will likely be moving to a period where the economy has to operate under its own steam, but also likely without the support of much population growth. That may see the last phase for retail in 2020 as a fairly sombre one, leaving many retailers to dream of the support they received when COVID was at its peak.

Chart 1: Retail phases in 2020

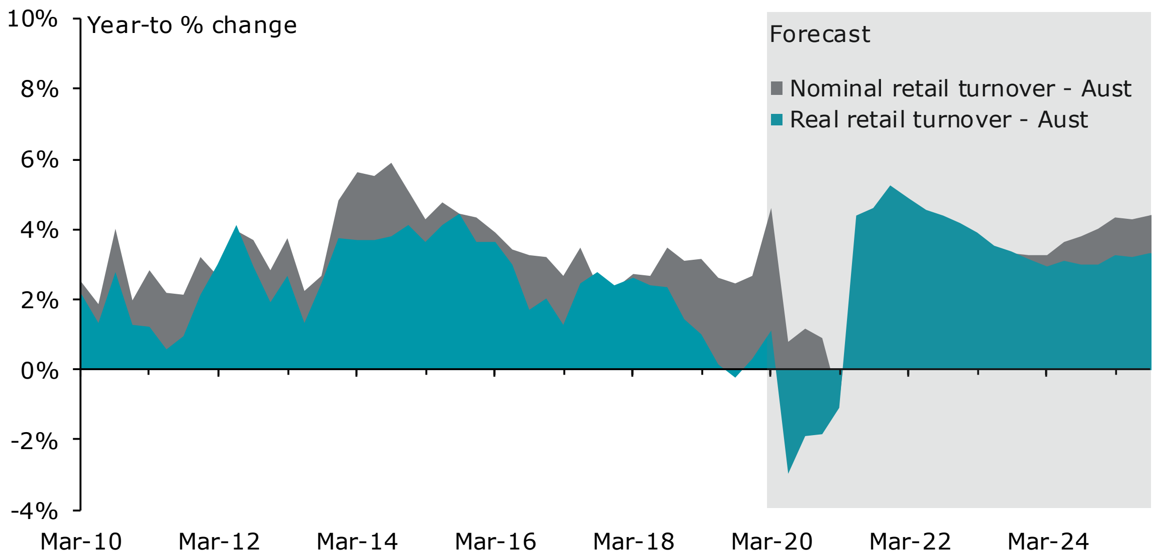


Source: ABS Cat 8501.0, Deloitte Access Economics

As we move from re-open rebound in May to recovery growth in June, consumers are re-opening their wallets, if remaining somewhat cautious. Combined with the very deep April slump, this is likely to result in a 4.0% drop in spending in the June quarter, before a fragile recovery through the second half of the year.

The recovery path for retail spending is precarious. Short-term risks from rising unemployment and reduced willingness to spend will linger, especially as fiscal stimulus programs are unwound in September. More worryingly is the longer-term risk from weak population growth. Migration has been an important support for retail spending over the past decade, but with borders closed there is potential for this tailwind for growth to turn into a headwind.

Chart 2: Nominal and real Australian retail turnover



Source: ABS Cat 8501.0, Deloitte Access Economics

Economic headlines

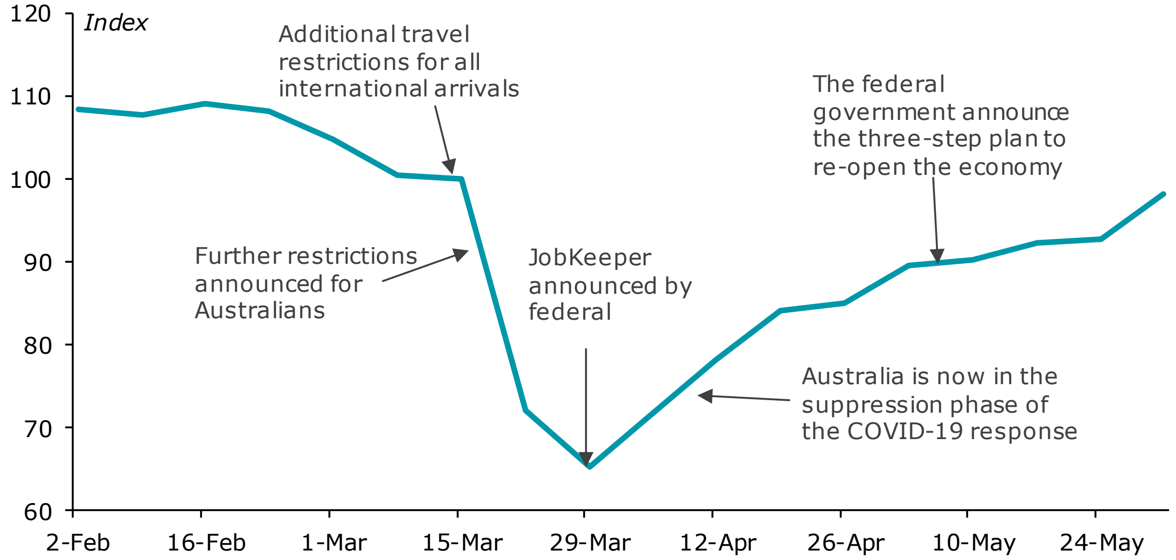
Economic headlines

Macroeconomic environment

Already weak when 2020 began, **the outlook for global economic growth has gone from bad to worse to disastrous**. Travel bans and supply chain disruptions brought an initial wave of COVID-19 fueled destruction. As the scope of the virus expanded authorities the world over began to react to the unfolding crisis, closing borders and forcing people indoors, away from schools and workplaces wherever possible. Much global economic activity was shut down, leading to a rapid climb in unemployment and an expected contraction in economic growth in 2020, despite unprecedented fiscal stimulus and record low interest rates. While global economic growth is expected to rebound in 2021, the extent to which economies can recover will depend on the speed at which business and consumer confidence returns, as well as restricting further outbreaks as countries reopen their economies, travel and trade.

Australia has not escaped the COVID-19 crisis. Our infection and death rates are comparatively low, but the economy has nosedived. GDP shrunk by 0.3% in the March quarter, and for the first time since the Global Financial Crisis, consumer spending went backwards, sliding 1.1%. Unemployment rose in April, although this change was overshadowed by a large drop in monthly hours worked and a decline in labour force participation. Business and consumer confidence fell to record lows, and the RBA expects negative inflation for the June quarter. These shockwaves were not felt evenly with Australia's accommodation and food services, and arts and recreation sectors particularly hard hit, disproportionately impacting younger people.

Chart 3: Australian consumer confidence



Nor has any state or territory been immune to the COVID-19 crisis, although some have fared worse than others. Victoria has shown itself to be especially vulnerable as a service focused economy, reliant on domestic and international tourism, international education, the arts, major events and hospitality. At the same time, the Victorian government has been the slowest to ease restrictions.

While income has been supported, household wealth has looked fragile, increasing risks around the elevated level of debt. Financial market turmoil as investors grappled with the COVID-19 outbreak wiped out all of the ASX gains from 2019, though much of that has since come back with the ASX200 up 31% to the end of May from its March low. With unemployment rising and investors nervous, the property market is also showing signs of decline. Much of Australia's debt load, sitting at 186.8% of disposable income in December 2019, is related to housing debt. While low interest rates support serviceability of this high debt levels, the rise in unemployment combined with potentially weak property markets pose a risk to defaults going forward.

Overall, Australia’s economy is set to go backwards significantly in 2020. **With GDP expected to decline again over the June quarter, Australia will likely enter its first recession in 28 years**. And while unemployment is expected to improve as the economy continues to open up, it will take time for the labour market to fully heal. Government focus on supporting the recovery through investment programs and targeted stimulus measures provides some support, as does the RBA’s lower for longer interest rate position. While the outlook for June remains dire, we are slightly more optimistic than the RBA about the hit to household spending. But it may still be a long road back for the Australian economy over the coming years.

Household buying power

Recessions hurt household spending. As unemployment increases, take-home income falls, while financial insecurity and declining wealth lead households to save a greater proportion of their disposable income. However fiscal stimulus can partially counterbalance spending cuts, and when loosely targeted, fiscal stimulus can even increase the buying power for some households, as it has done through COVID-19.

The COVID-19 pandemic has impacted employment and wage growth, two major components of take-home income. Even before the current crisis, wage growth had been low for years. Employment was strong but is now falling – fast. Between March and April 2020, Australia’s unemployment rate rose from 5.2% to 6.2%. Yet, this statistic conceals the full labour market impact for it omits any individual who worked zero hours but received JobKeeper. Similarly, the change in unemployment overlooks Australia’s participation rate falling from 66% to 63%. Instead, the enormous 9.2% decline in monthly hours worked is far more revealing. Weak labour market indicators, combined with Australia’s contractionary GDP growth, suggest that wage growth will weaken further (or go negative) in 2020.

However, household income levels have found some support from fiscal stimulus measures. The Australian Treasury estimate that 3.5 million workers will receive the $1500 a fortnight JobKeeper payment from their employer, in some instances increasing the incomes of eligible workers who were earning less than $1500 a fortnight before COVID-19. The increase in JobSeeker, $750 cash payments (received by 6.8 million Australians) and early access to superannuation have also had a positive impact on take home income, particularly for youth. Indeed, more than one third of those who’ve received early access to superannuation have been under the age of 30. Furthermore, many households benefitted from the Government’s temporary free childcare program, six months freeze on evictions and indirectly through a range of tax relief policies for businesses. State governments have also joined in with rent relief packages, while Western Australia froze several household expenses, such as utilities and public transport fares, until July 2021.

These fiscal policies have undoubtedly helped to support take home income amid rising unemployment. Between 14 March and 2 May, ABS payroll data shows that 7.3% of jobs were lost, but that total wages paid only fell 5.4%. While lower wages imply that household buying power has fallen, some Australians have been hurt more than others. Middle aged Australians, who are less likely to be receiving social welfare payments than other age groups, have suffered the biggest wage cuts. Conversely, younger and older Australians are more likely to have been working less hours and earning lower wages. Consequently, these age groups have endured higher job losses but lower falls in total wages paid and are more likely to have received a wage boost from JobKeeper.

COVID19’s damage to Australia’s population growth is set to be the biggest medium term risk to household spending. Historically, Australia’s economy has benefitted from strong population growth, particularly overseas migration which accounts for more than two thirds of population growth. Yet, relative to a net intake of 239,600 migrants in 2018-19, Deloitte predicts a 27% fall in 2019-20 and a 77% decline in 2020-21. Australia’s population growth is also set to contract following a decline in births, which historically fall during a recession, perhaps more so in the current crisis given people’s health concerns. In general, a smaller than expected population means less households and therefore less household spending.

The population’s propensity to save is also a key driver of household spending. Amidst the COVID-19 pandemic, households have feared for their health, jobs and incomes, sending consumer confidence to record lows. Similarly, households are likely feeling less wealthy given the early substantial decline in financial markets and fragile house prices. Combined, these effects pushed households to save 5.5% of their income in the March quarter, up from 3.5%. **The savings rate is expected to stay high throughout the June quarter**, as demonstrated by the ABS household impacts survey from mid-April which found that 53% of those who received the Government’s $750 cash payment had not yet spent it.

Retailers are seeing the emergence of new classes of shoppers – an income hit cohort and an anxious cohort, with different motivations for spending and saving. Anxious households are expected to save a higher proportion of their income, cautious of an unclear economic outlook and uncertainty in future labour, property and financial markets. At the same time, many households have suffered large income hits following job losses and wage cuts, including JobKeeper recipients that were previously earning more than $1500 a fortnight. Existing savings may be run down in these households, as they juggle meeting immediate payments while negotiating mortgage, rent and utility deferrals.

Retail headlines

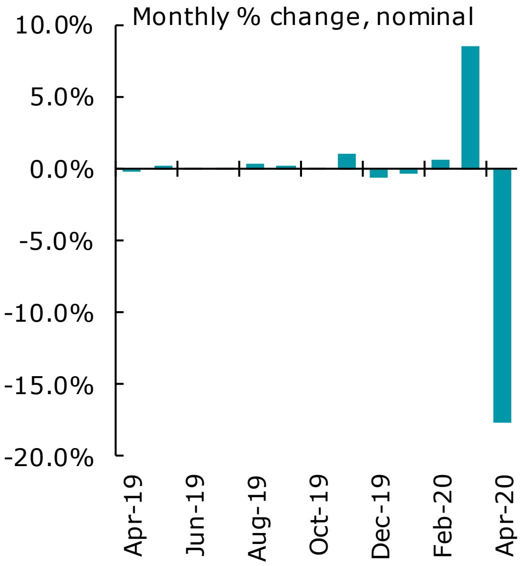
Retail turnover, in volume terms, rose 0.7% during the March quarter, the strongest quarter of growth since June 2018. The pandemic brought unprecedented retail demand in some categories and disastrous declines in others. From early March, food retail was sent into a frenzy, with consumers racing to stock their pantries with supermarket products, also benefitting specialty food and liquor stores. Each of these retail categories also benefitted from a shift to working from home and the closure of cafes, bars and restaurants. Other retail, which includes pharmaceuticals, cosmetic and toiletry goods, also performed well. In other categories, COVID-19 spelled disaster. Record low consumer confidence combined with virus fears and social distancing requirements sent apparel sales spiraling. The second worst performing category was catered food, which dived amidst plummeting foot traffic, event cancellations and venue closures.

The retail outlook for the June quarter is much worse, with total retail volumes expected to contract by 4.0%. Food retail categories are likely to exhibit the steepest fall due to lower levels of stocking up after strong growth in March. Non-food retail categories will also spearhead the decline since Australians, who were told to stay home, mostly limited their shopping to essential items, particularly in April.

Looking forward, retail spending is expected to improve through the September and December quarters. However, elevated levels of unemployment will continue to drag on discretionary spending as many households are income constrained or remain nervous. In addition, the rollback of fiscal support measures and impacts of closed borders on population growth will remain key risks to the outlook. Overall, retail spending is expected to decline 1.4% over the year, the weakest result on record.

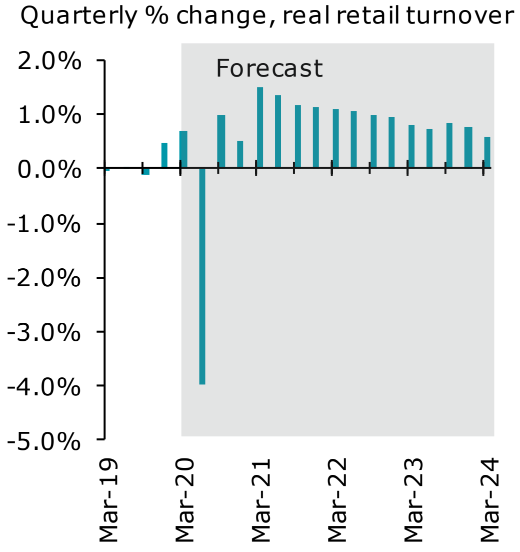
Our special feature draws on Deloitte’s *State of the Consumer Tracker*, which reports consumer survey responses across 13 countries. Already it is clear that anxiety has risen and consumers are altering spending patterns. But Australians’ short-term financial confidence has been bolstered by fiscal support, placing confidence higher than for many of our global counterparts. In addition, forced temporary store closures have accelerated the growth of online spending, and many consumers are looking to spend more of their dollars locally.

Chart 4: Retail monthly turnover growth (nominal)



Source: ABS Cat 8501.0

Chart 5: Retail quarterly turnover growth (real)



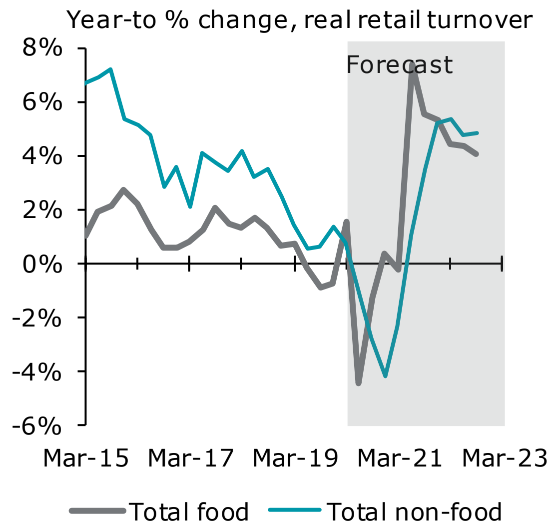
Source: ABS Cat 8501.0, Deloitte Access Economics

Retail category forecasts

Retail category forecasts

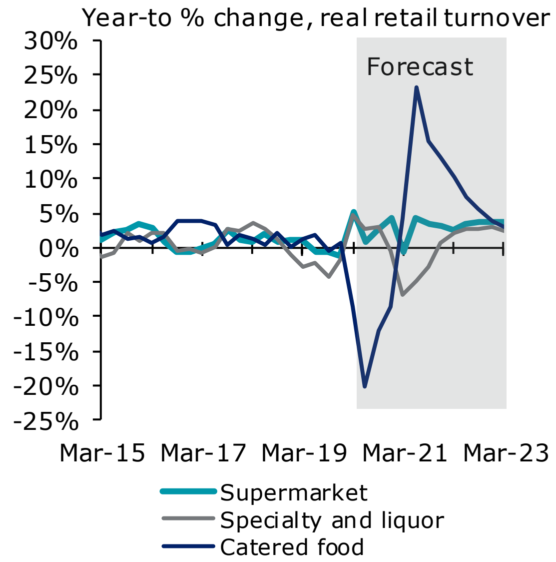
Bushfires and a pandemic led household spending to crash, soar or meander across different retail categories through the March quarter. Lockdown restrictions brought despair to apparel retailers, cafes, bars and restaurants, but stocking up and home improvements lifted demand for supermarket retail, specialty food and liquor, household goods and other retail. Looking forward to the June quarter, spending is forecast to contract in almost all retail categories. Food retail growth is expected to fall from a March high, as households stop stocking up and catered food stays down, while non-food retail is forecast to decrease, particularly in April when lockdown restrictions peaked. The exception is household goods, which is predicted to rise alongside an increase in time spent at home. Although retail will begin a recovery in the second half of the year, this will be constrained by lower levels of employment, confidence and wealth.

Chart 6: Food and non-food



Source: ABS Cat 8501.0, Deloitte Access Economics

Chart 7: Food categories



Source: ABS Cat 8501.0, Deloitte Access Economics

Supermarket retailing

Supermarket sales grew 6.3% in the March quarter, when consumers begun stocking up on household staples amidst supply chain disruption and lockdown fears. Panic buying caused goods like pasta, flour, hand sanitiser and toilet paper to fly off shelves so quickly that supermarkets introduced product purchase limits and priority shopping hours for the elderly and people with disabilities. To cope with the increased demand, supermarkets hired thousands of additional workers, many of whom had recently lost jobs from sectors like the airline industry. Then virus numbers grew, and lockdown fears became a reality, sparking more frenzy. Supermarket turnover rose 23% between February and March but non-perishables jumped an enormous 39%. Growth in the other sub-categories was also strong. Revenue from perishable goods climbed 22% and all other products, which includes cleaning products, medicines, toiletries and toilet paper, leapt 30%.

Yet, panic buying was never going to last. Once households had stocked up, supermarket spending fell, with non-perishable goods, perishable goods, and all other product revenue dropping by 24%, 25% and 25% respectively between March and April. While revenue fluctuations in recent months have been partially impacted by higher prices following drought, bushfires and supply chain impacts, revenue has mostly moved in line with supermarket sales.

In the short term, supermarket spending is likely to moderate as households deplete their inventories and stocking up stops. Relative to strong growth in March, June quarter sales are expected to fall by 4.7%, below average retail spending growth at -4.0%. However, forecasts predict positive year to growth for the June quarter. Over 2020, supermarket spending will face pressure from reduced population growth, but budget conscious households are likely to turn to eating in rather than take away and restaurant food, providing some support for the segment. Overall, supermarket sales volumes are expected to increase 3.2% in 2020, recording the second strongest growth across all categories.

Specialty food and liquor retail

Specialty food and liquor also experienced a COVID-19 fueled frenzy as sales grew 5.8% across the March quarter. Increased sales contributed to a 30.3% revenue increase between February and March. This growth exceeded the increase in supermarket spending and was split evenly between liquor retailing and other specialised retailing, which rose 30.2% and 30.5% respectively.

In addition to households stocking up, spending on specialty food and liquor is expected to have risen because of people spending more time at home. By eating and drinking out less, especially on weekends, households have substituted café, bar and restaurant spending for at home drinking and dining, sometimes choosing to create higher quality meals and therefore paying higher prices for specialty produce. The ABS household impacts survey also found that 14.4% of people have increased their alcohol consumption, compared to 9.5% of people drinking less.

Relative to outstanding growth in March, specialty food and liquor sales are expected to fall 1.9% through the June quarter, before finishing the year 2.5% higher than in 2019. This would be a great result through the pandemic, though there exists downside risk, whereby households could opt for cheaper products from supermarkets if wage reductions, job losses, decreased wealth and low consumer confidence have a large enough impact on household spending.

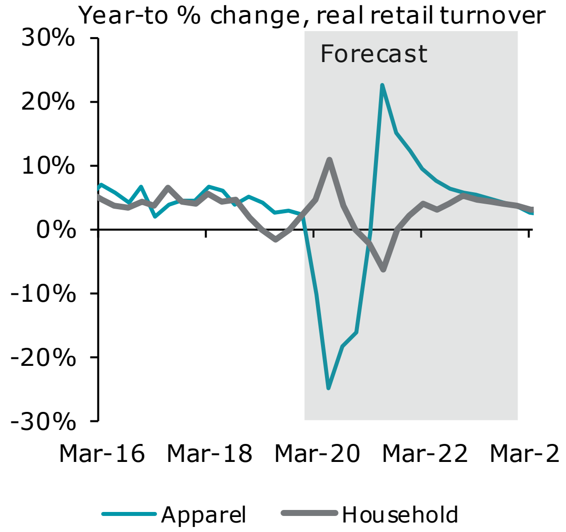
Catered food

There was a calamitous 8.4% decline over the March quarter in volume sold across cafes, restaurants and takeaway. Due to COVID-19 restrictions, revenue between February and March fell 22.9%. Both sub-categories, cafes and restaurants, and takeaway, endured strong losses with cafes and restaurant revenue down 30.3% and takeaway, 13%. This trend continued into April, when spending levels crashed to around half the level of April 2019.

Catered food’s demise has been driven by mandated dine-in restaurant shutdowns, vanishing tourism, cancelled events and a shift to working from home where possible, which has disrupted those establishments that service workers and commuters each day. With less time spent commuting and less activities available outside the home, households have had more time to cook and less opportunities to buy a drink or meal. In response, many businesses have tried to reduce their losses by pivoting to takeaway, but DIY cocktail kits, BYO containers of tap beer and fancier dinner options haven’t stopped takeaway turnover falling. Indeed, the ABS household survey found that more than 29% of people have decreased their takeaway consumption and only 13.8% demanded more.

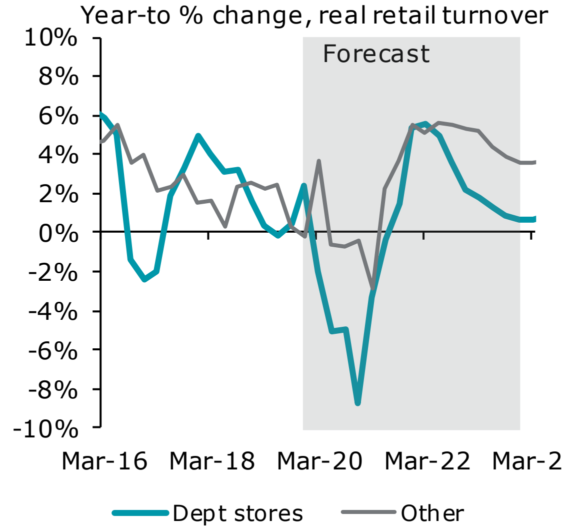
As restrictions continue to loosen and businesses reopen, catered food spending will rebound, although venue capacity limits and persisting working from home behaviors will slow a recovery. While some will flock to cafes and restaurants, eager for their first dining out experience in months, other parts of the population are likely to be more hesitant, fearful of contracting COVID-19 or contributing to further outbreaks. Even if restrictions end sooner than expected, poorly performing economic indicators like wage growth, employment, consumer confidence, wealth and household debt, may encourage frugality, leading households to spend less on catered food. As a result, catered food sales are expected to be the second worst performing retail category of 2020, with forecasts predicting a 12.1% fall.

Chart 8: Apparel and household goods



Source: ABS Cat 8501.0, Deloitte Access Economics

Chart 9: Department and other retailing



Source: ABS Cat 8501.0, Deloitte Access Economics

Department stores and discount department stores

Record low consumer confidence combined with COVID-19 shutdowns drove a 5.2% drop in department store sales over the March quarter. The decline in sales was accompanied by monthly revenue fluctuations, with revenue falling 2.8% in January, rising 3.8% in February, before finally tumbling 8.9% in March as COVID-19 took hold of the economy and non-essential shopping plunged.

Department store spending fell amidst social distancing restrictions and Australia's border shutdowns, which dramatically reduced the number of international tourist arrivals, particularly from high spending Asian countries like China. Some department stores, like David Jones continued trading, while others, like Myer, shut up shop. Furthermore, department store spending is primarily discretionary and is generally influenced by consumer confidence and feelings of financial security, both of which have become much more fragile.

However, department store spending has already begun to recover in May. CBD foot traffic rose quickly once COVID-19 cases slowed and the Federal Government's public messaging expressed confidence in having contained the virus. Credit card research found that in the week ending 24 May, department store spending per person was 36% higher than in an average week. Department store spending is also likely to have been buoyed by fiscal stimulus and early access to superannuation.

Looking forward, department store spending is expected to suffer from reduced employment, confidence and wealth. These impacts add to existing pain, whereby department stores were already suffering from a shift to online retail. David Jones, which observed a 35.8% fall in March and April sales, has already flagged that it will accelerate its move to reduce floor space by 20% by 2025 by closing some of its 48 stores. The company has also announced that it will sell property, including its Melbourne CBD menswear store. Slower population growth, resulting from lower net overseas migration and birth rates, will hurt department store spending further. With overall sales expected to fall 5.2% in 2020, it's possible that other market participants will rethink future revenue forecasts amidst economic pressures and structural shifts to online retail.

Apparel

Clothing, footwear and personal accessory sales contracted in the March quarter for the first time since September 2018. More importantly, the fall wasn't small as sales plummeted an enormous 12.1%. The first wave of COVID-19 damage came in February when supply chains were disrupted and international travel restrictions drove a decline in international tourist arrivals, particularly from China, who often rank as Australia's biggest tourism spenders.

Then the situation worsened. Stores shut and shopping centre traffic dried up to the extent that apparel turnover fell 22.6% between February and March. Decreased consumer confidence, reduced household income and wealth and an unwillingness or inability to venture out and shop led April turnover to plunge to around half the level of April 2019.

Apparel spending has since improved but the influence of fiscal stimulus, particularly JobKeeper should not be understated. For the week ending 15 May, Commonwealth Bank spending data reveals a 17% fall over the year in clothing, footwear and personal accessories, which, relative to April's 60% fall, represents a substantial improvement. However, this improvement is not expected to stem retail losses, with apparel sales forecast to decline 8.8% over the June quarter. Research by AlphaBeta also suggests that the Government's granting of early superannuation access had a significant impact, with almost two thirds of superannuation withdrawn during the COVID-19 pandemic having been spent on clothing, alcohol and takeaway. Similarly, apparel retailers believe that recent growth in discretionary online spending, including fashion and sneakers, is strongly correlated with the higher wages of some young Australians.

If economic activity doesn't pick up enough by September, when JobKeeper and other support payments are scheduled to expire, many retailers are likely to struggle. Low confidence, employment, wage growth, and wealth point to a tough future. Indeed, apparel spending is forecast to be the worst performing retail category in 2020, with sales expected to plummet 17.4%.

Household goods

Spending on household goods offered another positive retail news story in the March quarter with sales up 2.2%. As social activities ground to a halt and mobility was restricted to essential travel, Australians stayed home tending to their gardens, making home improvements, cleaning, and upgrading entertainment systems. Following the lead of supermarkets, the country's biggest household hardware chain, Bunnings Warehouse, even introduced product purchase limits. The sudden shift to working from home also sparked demand for electronics and home office equipment. As a result, revenue climbed 9.1% between February and March, moving in the opposite direction to apparel and department stores.

Delving deeper into revenue growth between February and March shows a 17.4% increase in hardware, building and garden supplies and an 11.3% increase in electrical and electronic goods retailing. Conversely, furniture, floor coverings, houseware and textiles fell 5.6%. Supply chain disruptions and a weaker Australian dollar may have increased product prices in some sub-categories more than others, but revenue growth across these categories should mostly reflect an increase (or decrease) in sales.

In future months, household goods spending is likely to wane once people return to other activities and the effect of irregular home improvements and one-off purchases subsides. The usual economic drivers of household goods spending, including property market activity, alongside take-home income, and consumer confidence, are expected to remain weak, leading to an expected 6.1% increase in household sales over the June quarter before a 5.8% decline in September. Overall, sales growth is forecast to finish the year 4.7% higher than in 2019.

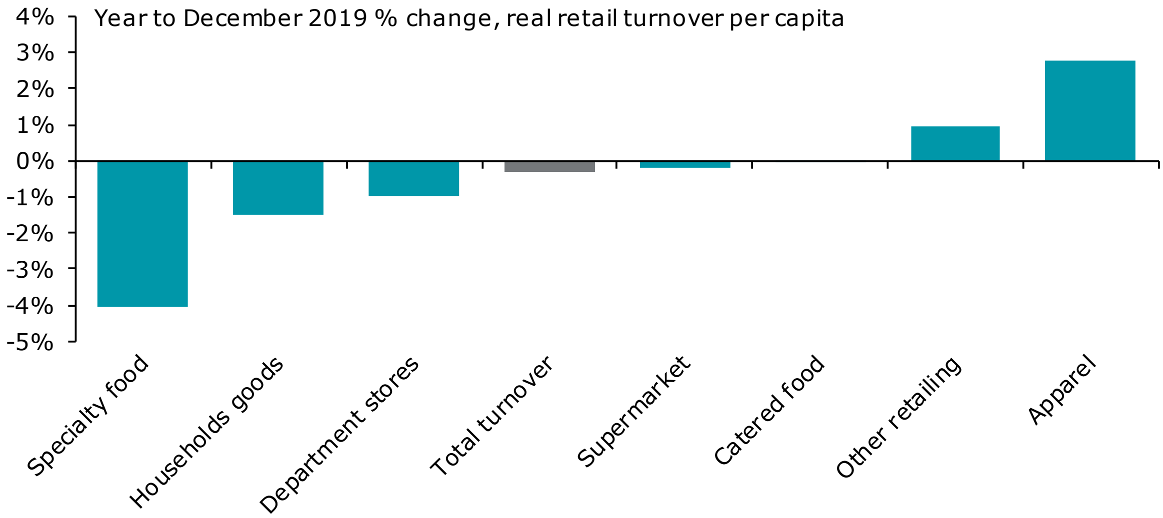
Other retailing

Other retailing spending also rose throughout the March quarter to be 3.9% higher than the December 2019 quarter. The broad category includes newspapers and books, pharmaceutical, cosmetic and toiletry goods, other recreational goods, and misfits like stationery, antiques, flowers and commission-based buying and selling.

Growth in other retailing was predominantly driven by pharmaceuticals, cosmetics and toiletry goods. In line with supermarket frenzies, product supply concerns and health worries more generally, Australian households raced to chemists and other stores to stock up on medicines and other items they perceived to be essential. The March quarter also brought strong growth in other recreational goods spending. Within this subcategory, an increase in time spent at home is expected to have increased demand for toys and games, and entertainment media, outweighing declining demand for sports and camping goods. On the other hand, newspaper and book retailing turnover fell 7.1% between February and March, although the sub-category has been in decline for many years. Declining print publication sales and increased competition from online book retailers (for books) and supermarkets (for newspapers) had previously driven revenue to fall 5.6% in the December 2019 quarter. These trends are likely to have been accelerated by the COVID-19 lockdown.

Moving forward, other retail spending will vary within each sub-category. Demand for pharmaceuticals, cosmetics and toiletry goods is expected to stay strong, although March panic buying may bring a delayed dip in spending. Spending on other, less essential goods, like toys and streaming services, could fall as households limit discretionary spending. Longer term trends away from bookstores and newsagents are likely to continue. Overall, other retailing is expected to fall 3.9% in the June quarter, climbing 0.5% over the full year of 2020.

Chart 10: Real retail turnover per capita, by category



Source: ABS Cat 8501.0, Deloitte Access Economics

Online retail

Online retailing continues to grow as consumers opt for services that provide greater convenience. Online retail turnover as a percentage of total Australian retail turnover had been trending upwards, rising from 5.7% in March 2019 to 6.6% in February 2020. However, reduced access to bricks and mortar stores during COVID-19 quickly accelerated the shift towards online retail. As a percentage of total Australian retail turnover, online retail rose to 7.1% in March 2020, before climbing steeply to 10.0% by April. Within two months, online retail had captured an additional 4.3% of retail market share.

This growth was partly driven by purchases associated with major events. According to Australia Post, the 2020 Easter was the biggest period in online shopping history. Similarly, year on year growth in the week leading up to Mother's Day skyrocketed 91%. The largest increase was within fashion accessories, arts and crafts and beauty, which all grew by more than 130% year on year in the week leading up to Mother's Day.

The rate of online sales growth experienced during COVID-19 is not expected to continue. People like browsing and shopping, and once restrictions ease and health concerns are alleviated, consumers are expected to mostly return to bricks and mortar stores. However, COVID-19 will have convinced parts of the population that online purchases and delivery services are a viable option and at times, more efficient, accelerating the longer-term trend already seen towards online shopping.

Special feature:
State of the Consumer

Special feature: State of the Consumer

The global impact of COVID-19 has been both rapid and severe. The rapidly changing global economic environment has increased uncertainty. As a result, anxiety has risen, confidence has plummeted, and consumers are altering spending patterns. Australians' short-term financial confidence has been bolstered by fiscal support, placing confidence higher than many of our global counterparts. Forced temporary store closures have accelerated the growth of online spending, although this growth is focused around essential – non-discretionary – items. This special feature explores these trends which have been identified through Deloitte's *State of the Consumer Tracker*, with survey data collected across countries over April and May.

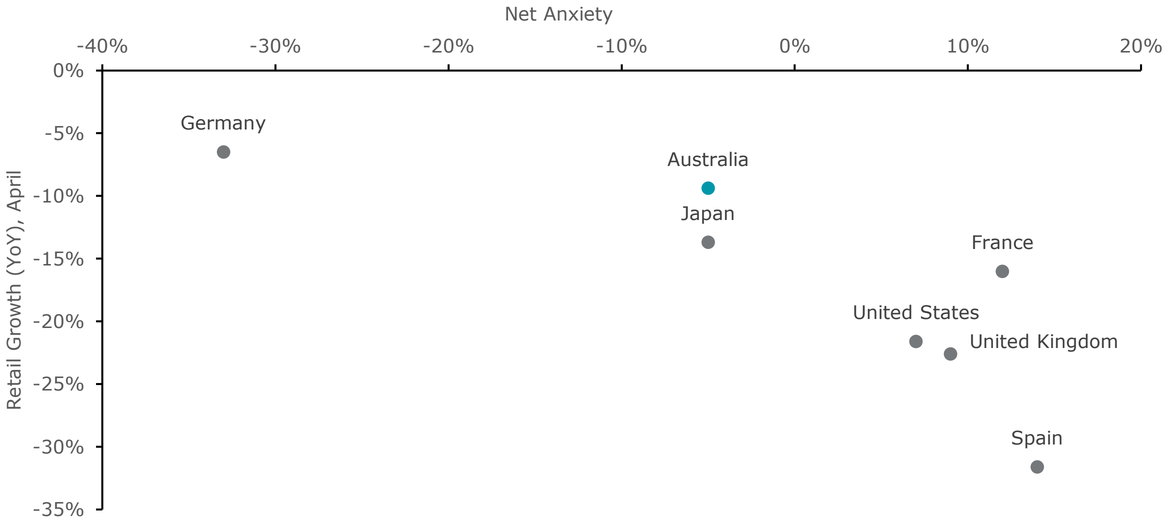
Australians are relatively confident

The State of the Consumer tracker is a biweekly survey of consumers that spans across several countries. The first wave included 13 countries, which has since been increased to 17. The survey focuses on consumers' confidence levels, their spending intentions in the coming weeks on a range of discretionary and non-discretionary items, how they intend to make these purchases and the factors impacting upon these decisions. The first of four waves took place on April 19, with subsequent waves taking place May 3, May 16 and May 30. The special feature highlights the results from waves 1 through 3.

COVID-19 has had widespread impacts on the confidence of consumers around the globe. Australia's current net anxiety score was the third lowest amongst surveyed countries, which in part reflects Australia's strong progression in combating COVID-19. **Indeed, 44% of Australian respondents were concerned for their physical wellbeing, which is a significant proportion, but 10% lower than the average across other survey countries.**

Relatively stronger confidence in Australia has translated to better retail spending growth. Australian retail spending was much stronger in March and April compared to many other major economies around the globe. The growth in March was driven primarily by stocking up of essential items. While Australian retail spending weakened in the month of April, falling to rates similar to that of the United States and the United Kingdom, in year-to figures it remains solid. In general, there is a clear linkage between low levels of anxiety and a better retail performance. This highlights the need to continue to monitor confidence measures as a source of insight into future spending trends.

Chart 11: Anxiety and retail spending

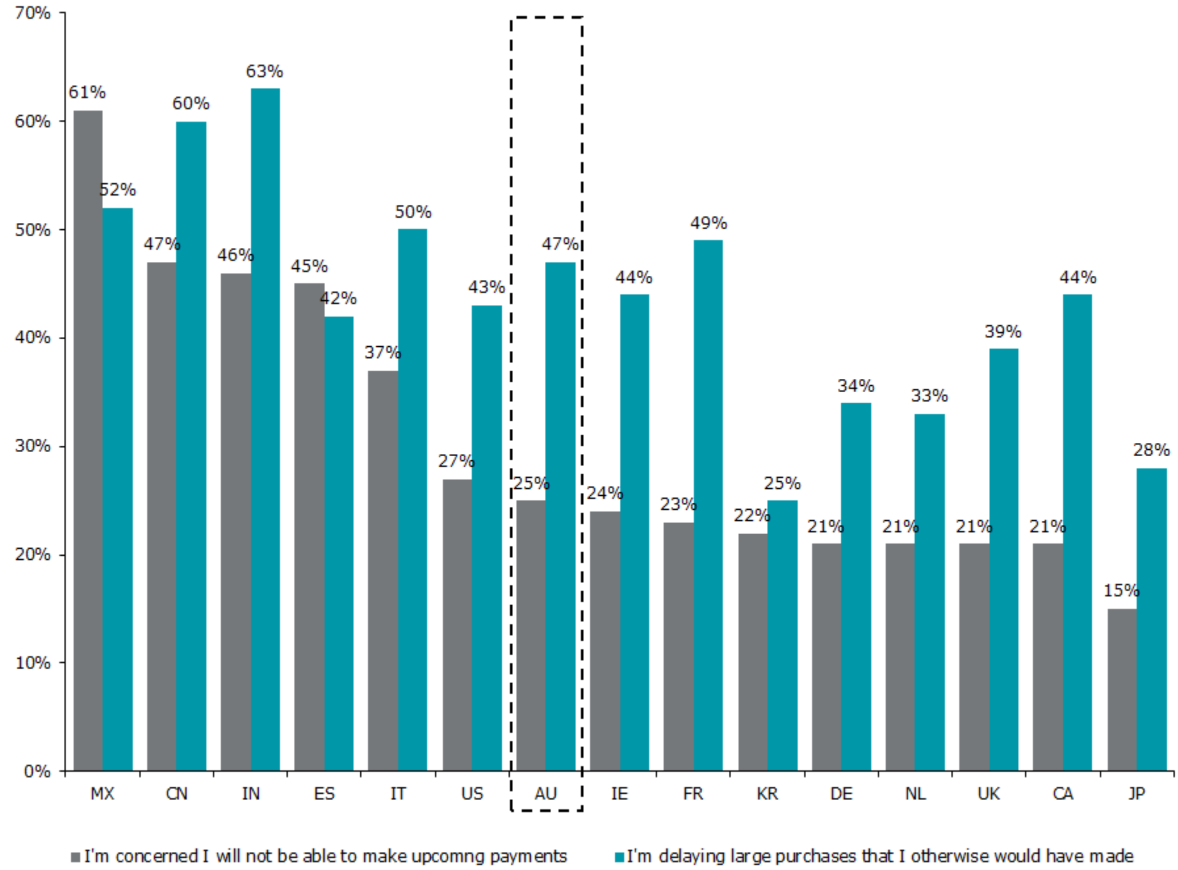


Source: Deloitte Insights, various statistical agencies

Australians have a concerning outlook regarding their financial position, which should give retailers cause for concern about how well spending will hold up over the balance of 2020. **On average, some 25% of Australian respondents stated that they are concerned about making upcoming payments, while 47% stated that they intended to delay large purchases that they would have otherwise made**. Australia's ability to contain the spread of the virus and the implementation of fiscal support programs (JobKeeper, JobSeeker and various others) have likely supported Australian's confidence in their current financial position. Yet the high level of uncertainty suggests this hasn't been enough to maintain expenditure on large items.

More broadly, the increased financial uncertainty and anxiety has had widespread impacts on global retail expenditure. Countries, such as Japan, that are currently expressing low levels of financial uncertainty are better positioned to recover in the coming months. Whereas countries, such as Mexico, that have relatively high levels of financial uncertainty will struggle in their recovery over the coming months, as the increased uncertainty will stifle consumer spending.

Chart 12: Financial concerns by country



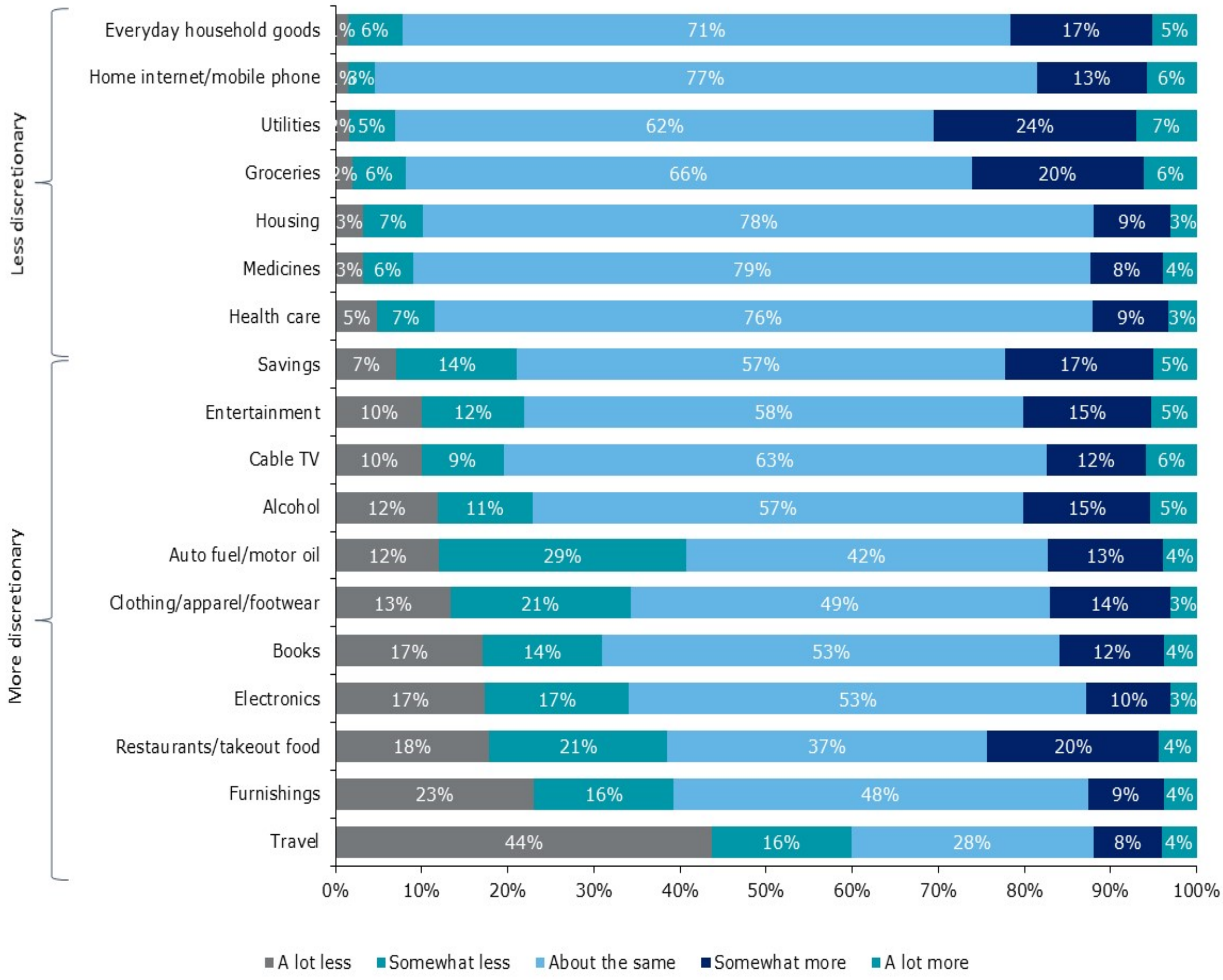
Source: Deloitte Insights

Only room for essentials

Increased uncertainty and a lower willingness to spend is likely to hurt demand for some products and services more than others. Consumers report that those products seen as discretionary – or non-essential – are likely to experience the greatest falls over the coming weeks, while essential items are less likely to experience to same pressure. On average, 33% of survey respondents indicated they were going to pull back on spending for more discretionary items, compared to just 8% for less discretionary items. That is not to say consumers can't be enticed to spend, with 40% stating that if they were to find a good deal on a non-essential item that they would buy it.

As with many aspects within the Australian economy, the greatest impact is within those areas subject to government restrictions. As a result of international travel bans and heavy restrictions on domestic travel, 60% stated that they expected to spend less over the next four weeks on travel. Restrictions on dining out has led to large decreases in spending intent, with 39% expecting to spend less.

Chart 13: Spending intent - Australia



Source: Deloitte Insights

Interestingly, although spending at restaurants/takeout food ranks third highest for those that have expressed an intent to decrease spending, it also ranks third highest for those that intend to increase spending. This may reflect different cohorts of consumers – one cohort who remain income constrained and need to cut back, and another cohort who have been nervous about spending, but may look to increase their spend as venues open up and health concerns abate.

Although the peak of stocking up on essentials has passed, few expressed an intent to reduce their spending on groceries over the next 4 weeks. While 8% of Australian respondents stated they intended to decrease spending, while 26% stated they would further increase their spending on groceries. The continued increase in expenditure on groceries is likely a result of ongoing restrictions on dining out; forcing people to prepare more of their meals at home. As venues open up and health concerns abate, spending on groceries is expected to fall.

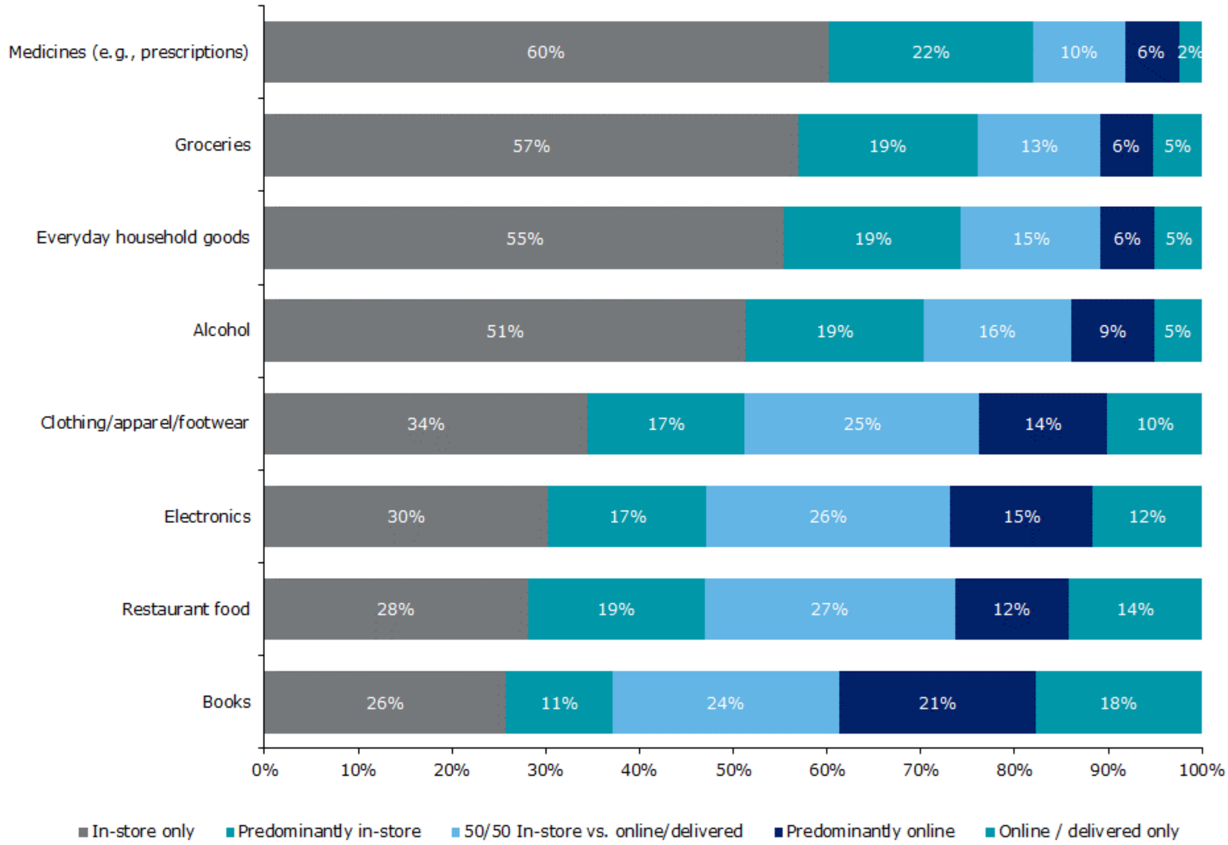
One aspect that is resonating with Australian consumers is the need to support local industry. Nearly half of respondents stated they are buying more locally sourced items, even if those items cost more. Total online sales grew by 6.3% for domestic merchants in the month of March, while it fell by 4.3% for international merchants. Across each of the industries in NAB’s March retail spending report, international merchants saw larger falls in comparison to their domestic counterparts.

Safe at home

Since the beginning of the pandemic, online spending has grown rapidly driven by two main components; convenience and concern. A strong trend towards increased online spending was well underway prior to the COVID-19 outbreak, up 24% in the year to February 2020. But with many store fronts closed and increased anxiety about COVID-19, this trend has accelerated. The Easter weekend – 10 to 12 April – was the biggest period in online shopping history for Australians.

Despite health concerns being a factor for many, it may not be the primary driver of increased online spending. The majority of respondents agreed they felt safe going to the store right now despite the current outbreak, while only 17% stated they did not feel safe. Instead, it is likely the increased convenience under this high-risk environment that is supporting growing demand for online spending.

Chart 14: Mode of purchase - Australia



Source: Deloitte Insights

Willingness to shop in-store is highest for more essential items, while it is lowest for less essential items that can be easily purchased online and delivered. This is partly driven by the timeliness of need. Those items that are needed with the smallest delay – such as medicines and groceries - will provide additional (time-based) incentives to shop instore, as many do not have the capacity to wait for the delivery of these goods. Nearly all (92%) of respondents expect that most of their medicine purchases will be conducted instore, but this falls to 89% for groceries and 61% for books. Mobility data from Google also highlights similar trends, with the greatest fall in mobility in those areas of non-essential spending as people aim to avoid unnecessary risks surrounding exposure to others.

Bridging the gap between online and instore retailing is click and collect services. For those opting into these services, 41% stated it was due to it being cheaper than paying for the goods to be delivered, 35% stated that it was quicker than shopping in store and 35% flagged safety as a driver of using the service. Again, one of the aspects driving the use of this service was convenience, with 33% stating that they were using these services due to the ability to quickly see what was in stock.

For retailers this acceleration in online spending has provided a significant opportunity, but one which has come with some teething problems in ramping up delivery very quickly. Given that a higher share of spending online is likely to be a post-COVID feature, there is a strong incentive for retailers to work through these issues quickly to capture market share.

Forecast tables

Forecast tables

Table 1: Retail sales forecasts by category: volume, price and value

	History		Forecasts					5 yr avg	5 yr avg
% change	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**to 18-19**	**to 23-24**
Volumes									
Food retailing									
Supermarket retail	1.7%	0.7%	1.1%	2.6%	3.2%	3.7%	3.4%	1.3%	2.8%
Specialty food and liquor retail	2.9%	-1.2%	0.4%	-2.4%	0.7%	2.6%	1.8%	0.4%	0.6%
Catered food	0.9%	1.4%	-7.1%	0.5%	11.4%	3.7%	3.2%	2.2%	2.3%
Total food	1.6%	0.6%	-1.1%	1.5%	4.9%	3.6%	3.2%	1.4%	2.4%
Non-food retailing									
Dep't stores and discount dep't stores	3.8%	1.2%	-1.0%	-4.4%	4.3%	2.2%	0.8%	2.6%	0.4%
Apparel	5.3%	3.8%	-7.6%	-4.9%	10.9%	5.5%	3.1%	4.8%	1.4%
Households goods	4.5%	1.0%	4.3%	-1.4%	2.2%	4.4%	3.4%	5.2%	2.6%
Other retailing	1.6%	2.4%	0.8%	-0.4%	5.0%	5.1%	3.7%	3.1%	2.8%
Total non-food	3.6%	2.0%	0.4%	-2.1%	4.7%	4.5%	3.1%	4.1%	2.1%
Total turnover	2.5%	1.2%	-0.5%	-0.1%	4.8%	4.0%	3.1%	2.6%	2.3%
Prices									
Food retailing									
Supermarket retail	1.2%	3.7%	5.1%	3.3%	0.0%	0.4%	1.0%	2.4%	2.0%
Specialty food and liquor retail	1.2%	3.7%	5.1%	3.3%	0.0%	0.4%	1.0%	2.4%	2.0%
Catered food	1.9%	1.9%	2.1%	1.3%	0.4%	0.8%	1.1%	1.9%	1.1%
Total food	1.4%	3.2%	4.4%	2.8%	0.0%	0.5%	1.1%	2.3%	1.7%
Non-food retailing									
Dep't stores and discount dep't stores	-3.4%	-0.9%	0.0%	-1.1%	-1.6%	-0.7%	-0.3%	-1.8%	-0.7%
Apparel	-2.9%	-0.2%	-0.3%	-4.9%	1.1%	0.5%	0.2%	-1.0%	-0.7%
Households goods	-2.7%	-0.5%	0.7%	0.1%	-3.1%	-2.2%	-1.4%	-1.3%	-1.2%
Other retailing	1.0%	1.5%	3.4%	-0.8%	-3.8%	-1.8%	-0.8%	0.8%	-0.8%
Total non-food	-1.7%	0.2%	1.4%	-1.2%	-2.5%	-1.5%	-0.8%	-0.7%	-0.9%
Total turnover	0.0%	1.8%	3.0%	1.1%	-1.1%	-0.3%	0.3%	0.9%	0.6%
Values									
Food retailing									
Supermarket retail	2.9%	4.4%	6.2%	6.0%	3.2%	4.1%	4.4%	3.7%	4.8%
Specialty food and liquor retail	4.1%	2.4%	5.5%	0.7%	0.6%	3.0%	2.8%	2.7%	2.5%
Catered food	2.8%	3.3%	-5.2%	1.8%	11.9%	4.5%	4.4%	4.2%	3.5%
Total food	3.1%	3.9%	3.2%	4.3%	4.9%	4.1%	4.2%	3.7%	4.1%
Non-food retailing									
Dep't stores and discount dep't stores	0.3%	0.3%	-1.1%	-5.5%	2.7%	1.5%	0.5%	0.7%	-0.4%
Apparel	2.3%	3.6%	-7.6%	-9.9%	12.1%	6.0%	3.3%	3.8%	0.8%
Households goods	1.7%	0.5%	5.1%	-1.4%	-1.0%	2.1%	2.0%	3.8%	1.4%
Other retailing	2.6%	4.0%	4.2%	-1.3%	1.0%	3.2%	2.8%	3.9%	2.0%
Total non-food	1.9%	2.1%	1.8%	-3.2%	2.1%	3.0%	2.3%	3.4%	1.2%
Total turnover	2.5%	3.1%	2.6%	1.0%	3.7%	3.6%	3.4%	3.6%	2.9%

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
Catered food: 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
Other retailing: Includes newspaper and book retailing (4244), other recreational goods retailing ◦Sport and camping equipment retailing (4241),

Table 2: Retail turnover growth, by State

Real % change	History 2017-18	2018-19	Forecasts 2019-20	2020-21	2021-22	2022-23	2023-24	5 yr avg to 18-19	5 yr avg to 23-24
Australia	2.5%	1.2%	-0.5%	-0.1%	4.8%	4.0%	3.1%	2.6%	2.3%
NSW	3.0%	0.6%	0.6%	-2.3%	-1.0%	5.1%	4.0%	3.3%	1.3%
VIC	4.4%	3.0%	3.0%	-0.5%	-0.3%	5.4%	4.3%	3.9%	2.4%
QLD	0.9%	1.9%	1.9%	1.9%	0.2%	3.8%	3.7%	1.5%	2.3%
SA	3.1%	0.4%	0.4%	-1.5%	0.0%	3.6%	3.1%	2.8%	1.1%
WA	0.0%	-1.3%	-1.3%	1.0%	1.6%	5.6%	4.4%	0.2%	2.3%
TAS	2.6%	1.8%	1.8%	1.3%	-1.0%	3.0%	3.2%	3.0%	1.6%
NT	0.9%	-3.4%	-3.4%	-1.7%	1.7%	4.7%	3.1%	-0.6%	0.9%
ACT	2.1%	1.7%	1.7%	1.1%	1.9%	5.0%	4.3%	3.1%	2.8%

Detailed consumer spending data for more than 30 categories of consumer expenditure is also available for purchase, as an add-on to Retail Forecasts. The data is provided in terms of volumes, values and prices, and reported nationally and for each State/Territory, with ten years of forecasts.

For publication and subscription information, please see https://www.economics.deloitte.com.au and analysis

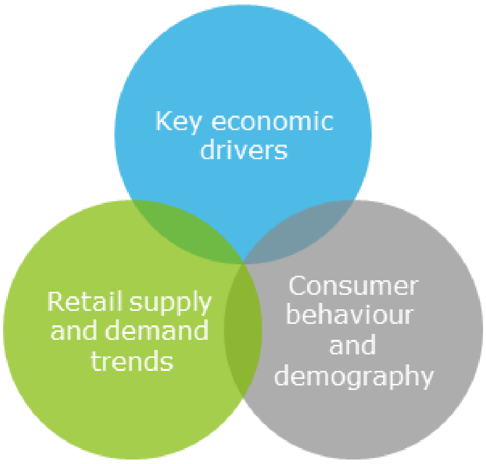
Our retail forecasting and analysis capabilities

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 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 tailored retail categories

We can analyse a specific product or place

- Regional economic profiling and forecasting, with a focus on the retail sector
- 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 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.

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Finding the recipe for Christmas success

Our team

Deloitte Access Economics has a team with strong experience in forecasting and retail market analysis for diverse client groups.

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Our publications

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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.

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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.

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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.

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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. The accompanying Detailed Consumer Spending provides ten-year forecasts of detailed Household Final Consumption Expenditure categories and detailed Retail Sales categories.

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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