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Retail Forecasts

Consumer led recovery

May 2021

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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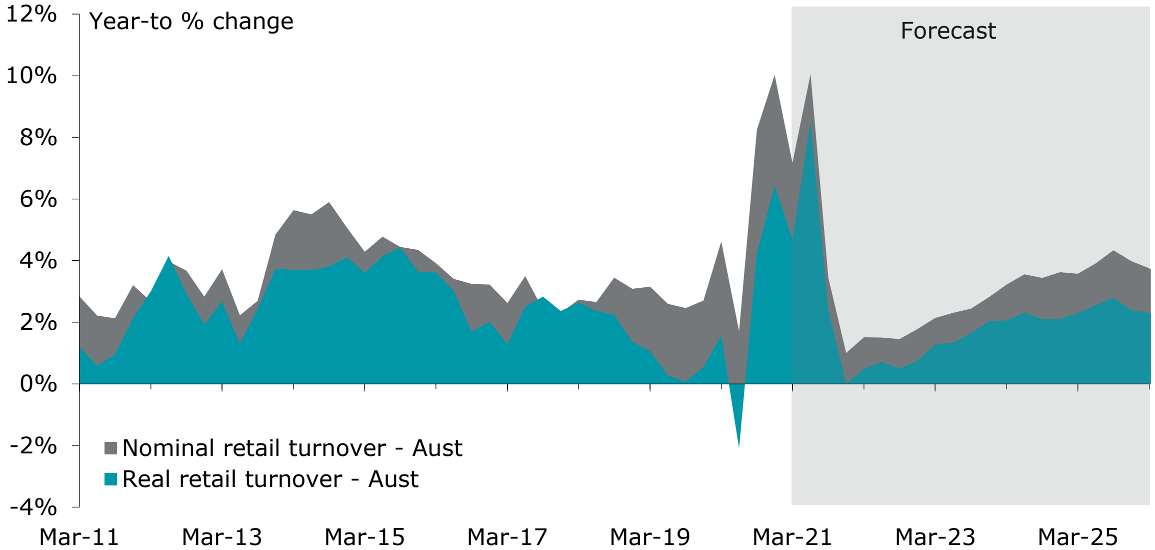
The National Accounts data which confirmed that Australia's economy has grown past pre-COVID levels also showed consumer spending lifting in the early part of 2021. And so it needs to - this year's Federal budget is predicated on that lift in consumer spending continuing, drawing down savings. An astonishing 5½% real spending growth in 2021-22 is needed to meet Budget expectations. While a strong target, the signs so far are that consumers are willing and able to play their part in Australia's economic recovery.

But the next shift in consumer spending has some retailers under pressure in 2021. Australian consumers have more options for spending with the easing of restrictions and a need for social contact supporting eating out and other activities at the expense of other retail spending. But with international borders still closed for another year and city-wide lockdowns still happening, overall, retailers can expect sales to remain well above pre-COVID levels as consumers' options remain constrained.

National retail turnover outlook

Retailers started 2021 on a softer note after a record year in 2020. Retail turnover volumes fell 0.5% over the March quarter but remain 4.7% higher than the previous year. After benefiting from captured consumers who had little else to spend on, retailers are now facing a year where competition for spending dollars is starting to heat up. Overall, real retail spending is expected to rise 5.9% in 2020-21 before slowing to 0.9% in 2021-22.

Chart 1: Nominal and real Australian retail turnover



Source: ABS Cat 8501.0, Deloitte Access Economics

The easing of restrictions has resulted in the next shift in consumer spending, with many consumers shifting their spending patterns back towards social activities. Nothing highlights this shift more than the performance of food related retailing in early 2021. The strongest performing category over the March quarter was restaurant and café spending as consumers reveled in the ability to eat out and socialise. At the same time, supermarket and other specialised food retailing fell back to the pack.

The shift in spending behaviour is less prominent for non-food retailers. All non-food retailing slowed over the March quarter, but sales remain elevated compared to a year prior. With international travel still off the cards and some hesitancy around domestic travel given uncertainty around borders, consumers are still looking to retail to spend their money.

Looking forward retailers will need to rely on households drawing on savings as income growth stalls. Wage growth remains muted though overall employment growth is expected to be strong, putting some pressure on wages. There was positive news in the Federal Budget, as well as a raft of expenditure on social programs and infrastructure (though absent is the estimated over $100 billion provided in direct support through JobKeeper and JobSeeker supplements). Luckily the war chest of savings built up over the past six months is starting to be drawn down providing some buffer for household spending.

On the other hand, we are not snapping back to an open society (with Melburnians back in home detention in late May/early June). Consumers still face restrictions from international borders and ongoing outbreaks which may mean retailers still get a strong share of overall consumer spending.

Key changes since last issue

Overall, the retail outlook has improved slightly since the last issue of *Retail Forecasts* on the back of a solid consumer spending outlook. Consumer spending is expected to grow at a faster 3.2% in 2021-22 (compared to the 3.0% forecast last quarter) as confidence lifts and households draw down on savings. While retailers will have to compete for consumer dollars, the closed international borders until June 2022 provide some support for the sector. This has resulted in a small upward revision in total retail spending in 2021-22 from 0.6% to 0.9%.

The shift back to eating out is occurring faster than originally expected as consumers look to catch up on social activities and spend time outside the home. Spending on cafes over the March quarter was much stronger than initial estimated, and this trend is continuing into the June quarter. This has resulted in a revision to our retail spending forecasts over the coming quarters. Café spending is expected to perform more strongly than estimated last quarter at the expense of supermarket spending which is expected to weaken further.

Economic headlines

Economic headlines

Macroeconomic environment

Global economic growth is showing signs of recovery after a year of severe economic downturn**. The global recovery may accelerate sharply from here. The International Monetary Fund (IMF) forecasts global growth of 6.0% in 2021**, with the strength of the expected rebound supported by widespread vaccine dissemination. For several countries, including the United States, United Kingdom and Europe there will be a sweet spot of a boost from opening up economies combined with ongoing government support. However, there are signs of easing of government support in China. Overall, there are still risks facing the global outlook, but underlying global economic momentum from the 2nd half of 2021 will be extremely strong.

Australia's economy is also roaring forward in 2021, aided by rising export prices, lower costs (via lower interest rates on our foreign debt) and elevated consumer and business confidence. GDP is expected to grow to 4.3% in 2021, driven by a recovery in private consumption and investment as restrictions ease. While the economy is not out of the clear entirely, there are positive signs for Australia's post-COVID resilience and strength into 2021.

The general rule for economic and spending growth across states and territories is **the bigger the loss in 2020, the bigger the potential for a bounceback in 2021**. Loosening restrictions across the country, along with growing business and consumer confidence was supporting a rebound especially in states impacted the most – Victoria and NSW. That was the theory anyway, though Victoria's 4th lockdown has thrown a spanner in the works. At the time of writing it's not known how big that spanner is. It's still likely true that Victoria has the greatest capacity for growth in 2021, having experienced the largest fall in 2020, but the current lockdown in Victoria is a reminder that the path to recovery will not be a straightforward one.

Business confidence in the first quarter of 2021 remained at strong levels driven by expectations of positive economic conditions throughout the year. The NAB Business Confidence Index remains well above long term averages reaching record levels in February before a pullback in wholesale and manufacturing slightly weakened March results. This level of business confidence is expected to provide a strong foundation for recovery into 2021, especially with forecast capacity utilisation and capital expenditure exceeding pre-COVID levels.

A surge in good news for the Australian economy has reaped a stronger than expected Federal budget position. In particular, better news on iron ore prices and labour market recovery is a notable plus for the Feds, while robust consumer spending and booming house prices are good news for the states. January data was showing that the 2020-21 deficit to date was already $15 billion less than expected. Recent news is positive but looking forward the Budget is still not as healthy as desired. The efforts to repair the economy have been relatively successful but there will still be an eventual need for Budget repair. That will be a large task, likely at some cost to the economy.

The RBA maintained its accommodative position throughout the first half of 2021. Financial markets are feeling upbeat about the future with expectations of faster than expected inflation, and this is flowing into bond yields with the 10-year rate reaching 1.7% in early April. Despite this, **the RBA remains confident in keeping interest rates low for some time** given wages remain muted which is likely to keep a lid on underlying inflation pressures.

Australia's vaccine rollout began in late February but logistical challenges and health concerns have seen vaccination numbers lower than the Government's target. By late April, two million Australians were vaccinated - far below the 4 million target set for March. **While Melbourne's lockdown has finally sharpened the focus on vaccinations, Australia is still lagging well behind other countries.**

Household buying power

Employment surpassed the pre-COVID peak in March 2021 before falling in April as a result of the end of JobKeeper, although it was less disruptive than some had feared. For the month of April, the employee jobs index fell by 0.2% and total hours worked fell by 0.7%. Despite a tapering in April, there is still very significant momentum in the labour market. **Labour demand is high with job advertisements and vacancies well above their pre-COVID levels which should support employment growth over 2021-22**. This is also the working assumption in the Federal budget, which is targeting an unemployment rate of 5.0% by June 2022.

Industries that were significantly impacted by the pandemic are regaining activity. Despite the risk to employment levels as JobKeeper ends in March, strong economic activity and the rollout of vaccines is expected to see employment growth in industries that were largely inhibited due to COVID restrictions. Arts, recreation, accommodation and food services are expected to see employment growth above 8% for 2021 as easing restrictions spur demand for entertainment and domestic travel. Other industries however face dimmer prospects with ongoing restrictions to international travel impacting international education, international tourism, and some elements of rental and hiring services.

While jobs ads and vacancies are running hot, there is still spare capacity in the labour market which is keeping a lid on wages growth. Wage growth remained at 0.6% over the March quarter, with wages up just 1.5% from a year ago. While there are indications of recovery, wage growth still sits below pre-COVID levels and far below rates leading into the 2008 financial crisis. That said, there are many pockets of labour shortages in areas reliant on international migrants, and that is likely to create issues for many businesses over the next year.

Household may feel a pinch in their pockets as the fiscal stimulus tap is turned down and disposable income softens. Over the March quarter household disposable income was still strong, growing by 3.4%, with the driver shifting from government support to employment growth. The recent Federal Budget included support for middle income households by extending the tax offset which should provide a cushion to households that may be impacted the most by the removal of fiscal stimulus. However, we do expect disposable income growth to slow for the remainder of the year, given the withdrawal of fiscal support.

Consumer confidence maintains a high level supported by optimism in the labour market and the return towards a pre-COVID lifestyle. The Westpac-Melbourne Institute Index of Consumer Sentiment increased 6.2% from March to 118.8 in April – its highest level since August 2010.

Rising consumer confidence has supported a decline in the savings rate. The precautionary actions of consumers last year saw much higher than average savings rates among households - a peak in the June quarter of 2020 of 22.0% of income saved ('normal' is 5% or less). Consumers ended the year with cash to burn and more opportunities to spend it with restrictions significantly eased. This spending appetite and ability resulted in a fall in the savings rate to 11.6% in the March quarter of 2021. This remains still well above the pre-COVID rate, with further falls anticipated in the year ahead, and a rundown of the existing stock of savings to support consumer spending over the year ahead.

Sustained demand, low borrowing costs and growing confidence has seen house prices continue to grow. National dwelling prices rose 5.8 % for the first quarter of 2021 based on very low interest rates and a recovery in consumer confidence as COVID-19 restrictions were eased. Home lending has continued to soar in the early months of 2021 and residential approvals are 47% higher than the corresponding month last year as many take advantage of the last stages of Homebuilder. Looking forward, there is an expected tapering in housing approvals with the removal of fiscal stimulus and very weak population growth.

Population and migration growth are set to remain very much in the slow lane in 2021, meaning fewer people (compared to pre-COVID trends) are going to be demanding services. International borders remain firmly closed which has resulted in falling net overseas migration for the first time since 1916. To highlight the size of the population gap, Federal Budget estimates indicate the Australian population will be 25.88 million by the end of 2022, down more than 1 million from forecasts in 2019-20.

Continued signs of recovery in consumer confidence combined with an opening of many consumer services is feeding a rise in spending. Over the 2021 financial year household consumption is expected to rise 0.8%, and this is set to continue into the 2022 financial year as the combination of rising employment and easing restrictions is sparking consumers to spend. Household consumption is expected to be lift 3.2% over 2021-22 - growth not seen since 2011-12. This is a relatively cautious expectation with the hit to disposable income, limited population growth and the ongoing vaccine rollout placing risks on the 5.5% rise over 2021-22 projected in the Federal Budget.

Retail headlines

Retail spending was relatively soft in the early months of 2021 with the next shift in the pattern of consumer spending underway, heavily favouring services. Overall, retail trade volumes fell 0.5% in the March quarter pulled down by contractions in industries that boomed last year. But this dip is still modest relative to 2020's gains for retailers, such that sales volumes over 2020-21 are expected to grow a hefty 5.9% - the highest growth seen in a decade. That compares with growth of just 0.8% expected for broader consumer spending in 2020-21 – retail has clearly won a greater share of the consumer wallet.

After such a surge, weaker retail growth is forecast for 2021-22, rising 0.9%. At the same time overall household consumption is expected to grow by 3.2%, suggesting spending will substituted away from retail, losing some of the market share of consumer spending it has gained.

Retail prices picked up in the early months of 2021. A **combination of greater household spending and lingering overseas supply chain disruptions in some segments of retail put upward pressure on retail prices**. Against that, some of the sectors which experienced higher inflationary pressures in 2020, notably food and household goods retailing, are now seeing prices stabilising as demand weakens and stock levels are smoothed.

While there was a decline in sales in the March quarter, a pick-up in retail spending is expected into the June quarter with April data indicating some improvement in sales. Retail sales values in April were up by 1.1%. A bounce back in food retailing, after weak results in February and March, is driving this growth supported by strong growth in cafes, restaurants and takeaway food services.

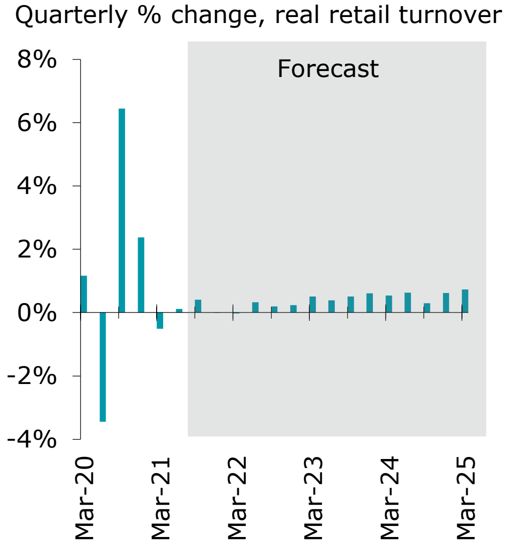
Momentum in state retail spending shifted from the end of last year. Victoria, New South Wales, Queensland, Western Australia and the Northern Territory saw decelerating retail activity in the March quarter following a surge in 2020 as temporary lockdowns over the period disrupted spending. Despite this, accelerating spending in mid-to-late 2020 dominates the 2020-21 forecast, with retail spending across the states expected to rise year on year. **All states but Victoria are expected to have retail spending growth above 4% for 2020-21** with the big winners being Western Australia, Queensland and New South Wales. Growth is set to ease after this spike into 2021-22, returning towards pre-pandemic spending habits as consumers spread their spending more broadly in an era of fewer restrictions.

Industries saw a tapering in activity over the quarter with easing restrictions benefitting retail spending on café, restaurant and takeaway food services the most. Café spending saw sales volumes grow over the March quarter to now sit above pre-COVID levels, with growth forecast to reach 4.6% for 2020-21. Other industries saw weaker results over the March quarter, but despite this setback growth is expected to be solid for the year with apparel and household goods posting double digit gains in 2020-21. **The scale at which retail spending surged in 2020-21 means the sector is anticipated to have a weaker 2021-22**. Non-food industries are expected to experience most of the slowdown, falling 0.8% over the year, while food retailing is expected to post another 2.4% gain driven by the recovery in catered food.

While retail spending forecasts for 2020-21 remain strong, **the next shift in consumer spending brings a likely reversion to normal patterns of spending,** creating some headwinds for growth in the sector into 2021-22. Removal of the coronavirus supplement and the end of JobKeeper will likely put downward pressure on spending as consumers maintain spending by drawing down on savings. Also, with the easing of interstate border restrictions, it is likely to see retail spending redistributed towards other industries including travel and recreation. Retail spending is expected to grow by 5.9% in 2020-21 before decelerating to 0.9% growth in 2021-22.

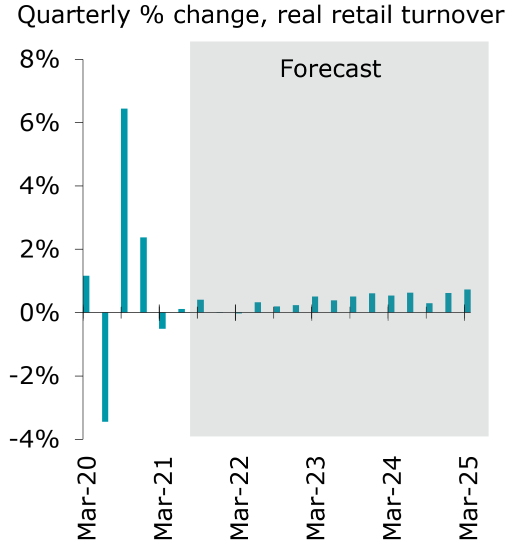
Overall retail sector profitability has been relatively strong but will likely face headwinds over the balance of 2021. JobKeeper provided critical support for retail businesses throughout 2020 with Deloitte's Retailers' Christmas Survey 2020 finding 74% of retailers indicated it helped avoid redundancies. With these support measures no longer available, there is potential for a catch up in retail insolvencies. However, insolvencies remain relatively low, with 79 retail businesses filing for insolvency in the year to April 2021, lower than levels seen in over the same period in 2019 (192 insolvencies).

Chart 2: Retail monthly turnover growth (nominal)



Source: ABS Cat 8501.0

Chart 3: Retail quarterly turnover growth (real)



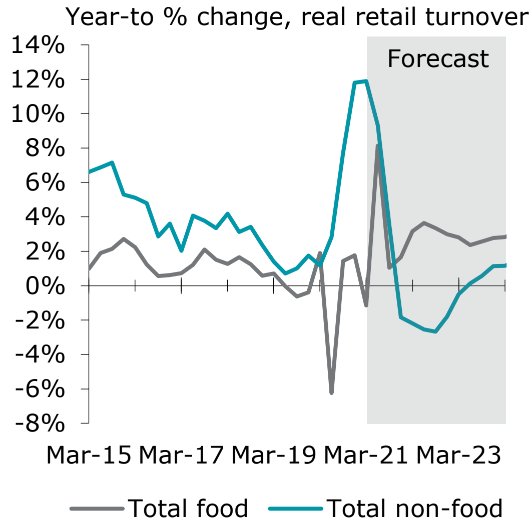
Source: ABS Cat 8501.0, Deloitte Access Economics forecasts

Retail category forecasts

Retail category forecasts

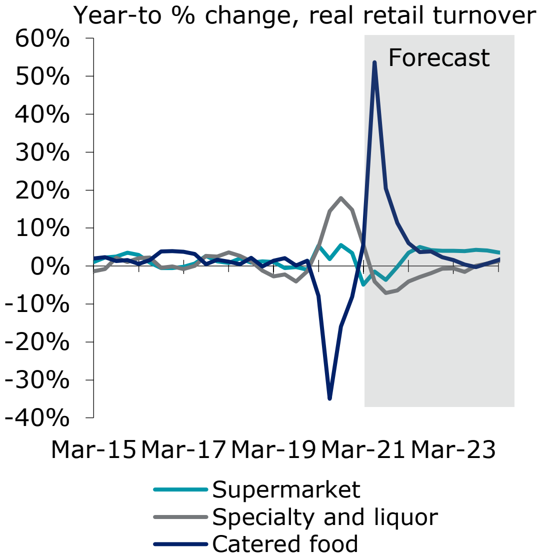
Easing restrictions and a gradual opening of the economy has led to a reversal in spending patterns compared to those in the peak of the pandemic. Overall, catered foods, department and discount department stores, and other retailing started off on a stronger footing in the first quarter of 2021. On the contrary, categories that boomed last year were not as lucky with supermarkets, specialty foods and liquor, apparel and household goods all contracting over the March quarter. The next shift in consumer spending is already underway and likely to continue for the rest of 2021. But, removal of fiscal stimulus, weak population growth and the implementation of additional lockdowns - as Victoria has recently shown – creates broader headwinds for the retail sector into the remainder of the year.

Chart 4: Food and non-food retailing



Source: ABS Cat 8501.0, Deloitte Access Economics

Chart 5: Supermarket, specialty and catered food retailing



Source: ABS Cat 8501.0, Deloitte Access Economics

Supermarket retailing

Supermarket spending started 2021 relatively weak as the easing of restrictions supported consumers social eating habits at the expense of at home consumption. Supermarket retail spending volumes fell 2.7% in the March quarter and were down 4.9% compared to the previous year – around when the pandemic triggered stockpiling behaviour.

Over the March quarter the story for perishables and non-perishables was relatively similar and there was little differentiation in consumer supermarket spending other than an overall fall. Sales values fell across perishables, non-perishables and other products over the quarter reflecting an overall drop in spending from the December quarter. Where non-perishables were the big winners in the March quarter 2020, as the lockdown begun, spending across the categories has appeared to even out, indicating that consumers supermarket purchasing behaviour is stabilising.

Supermarket spending in April mimicked pre-pandemic consumer spending behaviour. Supermarkets saw spending values rise 1.1% in April after falling in the March quarter. This shift indicates some stabilisation for supermarket sales after the weakness through the March quarter.

Over the June quarter supermarket sales volumes are still expected to experience some turbulence. Spending is forecast to contract in the June quarter by 0.3% and expected to return to pre-pandemic rates of growth in the September and December quarters as consumers normalise their spending.

However, another full lockdown for Melbourne may have resulted in a surge in sales over May/June as Victorians are squeezed for spending options and forced to return to home cooking.

Overall, the dominant theme for supermarket spend in 2021 is one of consolidation after a strong sales performance in 2020. Supermarket sales over the year to December 2021 are forecast to fall 0.2%. Stronger sales growth will return in 2022 as supermarkets move forward from the volatility COVID fashioned, though the challenges associated with weaker population growth still remain.

Specialty food and liquor retail

Specialty food and liquor retail sales weakened over the March quarter after experiencing a surge in spending throughout 2020. Retail volumes fell over the March quarter by 2.7% with eased restrictions supporting foot traffic away from bottle shops and specialty food stores. While sales in the sector have eased, specialty food retail is still up 5.6% from last year - an indication consumers may be upholding spending habits they picked up over 2020.

Over the quarter, a significant proportion of the fall in specialty food and liquor came from the hit to liquor retailers. Nominal sales of liquor fell 3.9%, continuing its downward momentum from the December quarter. The ability to dine and wine out and have a pint at the local pub saw demand for off-premises sales pushed further down in the early months of the year. On the other hand, nominal sales in specialty food maintained its modest growth throughout the quarter up 0.5%.

The downward trajectory in specialty food retailing and liquor from its pandemic peak will likely continue for the remainder of 2021 as spending options continue to grow. Projections for specialty food over the year see sales volumes fall 6.4% in the year to December 2021.

Catered food

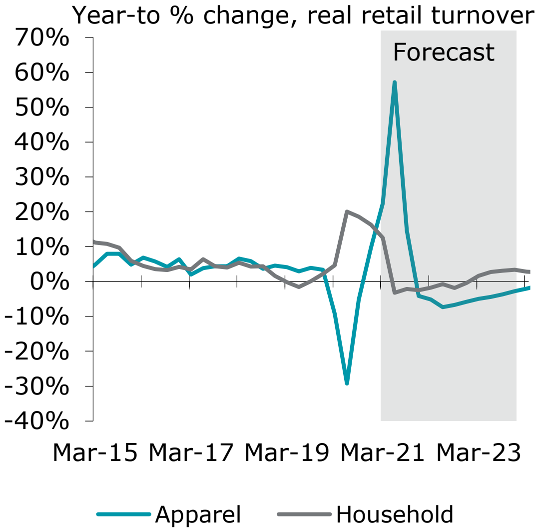
The appetite to spend on catered food held strong in early 2021 with consumers showing a desire to catch up for lost time over 2020. Catered food grew 5.8% over the March quarter, slightly eased from its peak growth rate late last year, however still firing on all cylinders. Eased restrictions and campaigns to restart the catered economy encouraged consumers to continue spending in cafes and restaurants in the new year. Most states saw rises across the quarter with the standout being Victoria as its strong café and restaurant culture returned blazing after major lockdowns.

Cafes, restaurants and catering services were the true drivers of the positive result with sales values growing by 10.8% over the quarter, sustaining momentum from the previous quarter. Takeaway food services values also experienced a rise, up 1.3% (weaker than December quarter results).

An industry that bore the brunt of the lockdown and restrictions is still making headway into April. Catered food saw growth of 2.3% over the month supported mainly by a rebound in takeaway services growing 4.4%, while cafes, restaurants and catered services continued their rise growing 0.6%.

The rest of 2021 appears relatively positive for catered food. While spending will face a setback in May/June due to the lockdown in Victoria, setbacks through the year are hoped to be far more short-lived than in 2020. Catered food sales are expected to rise 1.1% in the year to December 2021, performing relatively well compared to other retail categories. However, the positive outlook is still shadowed by the ground needed to make a full recovery.

Chart 6: Apparel and household goods



Source: ABS Cat 8501.0, Deloitte Access Economics

Chart 7: Department and other retailing

Source: ABS Cat 8501.0, Deloitte Access Economics

Department stores and discount department stores

Department and discount department stores came off their high from last year, returning to the modest growth seen before the pandemic. During the March quarter, department and discount department store sales grew 0.6% with the strength towards the end of last year - driven by bolstered demand and festive activities - falling away as consumers spend their income elsewhere. Compared to March 2020, sales volumes were up 12.4% as restrictions limited department store spending last year.

The growth seen across the country in department and discount department stores was held up by remaining lagging demand in Victoria and South Australia. The end of extended periods of lockdown and restrictions saw Victorians continue to spend their income at department stores into the new year - with sales values up 5.8%. Other states including NSW, Queensland and WA, who experienced surges at the end of the last year, saw falls in sales.

Beyond the current volatility, department and discount department stores will once again face the challenges they did before 2020, with strong competition from pure play online retailers and marketplaces. As consumers turned to online shopping and retailers were forced to transform their operations, innovation in the digital market took off – leaving department stores playing catch up. Over the year to December 2021, sales volumes are expected to decline 1.4% with department and discount department stores facing one of the weaker projections for the year, coming off a strong performance in 2020.

Apparel

Apparel stores experienced the inevitable descent from extraordinary sales levels seen late last year with a contraction in sales over the March quarter of 2021. The mad rush consumers undertook in the second half of last year meant by early 2021, wardrobes were full, and pockets were a little lighter, leading sales volumes to fall 0.7% in the March quarter. With the pandemic forcing apparel stores to close their doors last year, growth to March 2021 was up 22.4%, highlighting the extent to which apparel took a hit from the lockdown despite a migration online.

A large driver for the contraction in real spending on apparel was the significant rise in prices over the quarter – at a scale not seen across other retail categories. While the volume of sales fell, the value of sales was up 1.7% over the March quarter. The rise in prices is most likely due to higher levels of consumer demand paired with retailers cutting back on discounts and promotions that were used to kick start spending.

Besides the rise in prices, a tightening in clothing spending also contributed to the weaker apparel store sales performance, while footwear and other personal accessory retailing was up for the quarter. Clothing stores saw nominal sales across the country fall 0.5% and although Victorians and South Australians provided a cushion to clothing spending, it was not enough to support a continuation of growth into 2021. By contrast, footwear and other personal accessory retailing saw sales up by 6.3% over the March quarter.

Apparel sales rebounded slightly in the month April, with clothing have a positive start to the June quarter and supporting growth for apparel stores.

A slowing in apparel spending is expected to remain into the rest of 2021. Sales volumes are expected to fall 4.2% in the year to December 2021 making it one of the worst performers across retail categories. Changes to individuals' work and social habits over the lockdown is having a material impact on apparel spending behaviour, with less work clothes and more leisure wear. As well as this, the slowing in population growth, minimal travel (as international borders remain closed) and weaker income growth is expected to limit discretionary spending on apparel into the future.

Household goods

Household goods retailers were less fortunate in the new year with investment in the home becoming less of a priority in a world without lockdowns. Over the March quarter, household goods sales volumes fell 1.7% after experiencing a spending surge in the peak of the pandemic lockdown. The ability for consumers to work and socialise outside the home has seen demand shift away from these retailers into other categories including catered food and broader spending on services. That said, household goods spending is still up 12.5% for the year to March 2021.

Within the sector, the surge in spending in 2020 for electric and electronic goods and hardware, building and garden supplies, resulted in an offsetting decline in sales over the March quarter by 4.6% and 0.1% respectively. Furniture, floor coverings, housewares and textile goods retailing saw an increase in sales of 1.2% for the quarter, though it was not enough to support growth in household goods overall.

Recent monthly results indicate a rebound in household goods spending into the next quarter. Nominal sales rose 1.5% in the month of April, however predictions are that this will not remain for the rest of 2021.

After consumer spent significant time and money on their home in 2020, a contraction in household goods retailing is expected throughout 2021, declining 2.5% in the year to December 2021 (though sales will still be well up on pre-COVID levels). Larger investments like those into the home, tend to be less frequent and therefore growth may not gain its momentum back until late into 2022. Nevertheless, a booming property market and more time in the home will provide underlying support for household goods sales in the future.

Other retailing

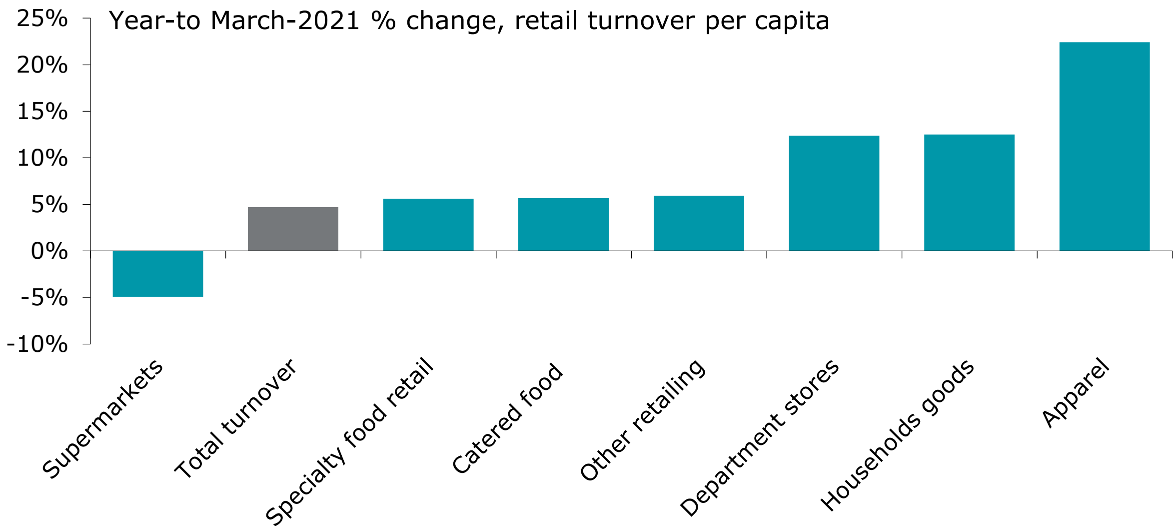
From the beginning of the year to March, growth in other retail goods was up 0.4%, slowing slightly as consumers redirect their spending to different areas of spending that were restricted during the pandemic. Given earlier strong spending, sales in other retailing were still up 5.9% in the year to March 2021.

Over the March quarter, growth in pharmaceutical, cosmetic and goods toiletry retailing supported the positive result for other retailing, with nominal sales up 2.7%. Meanwhile, into the new year, households were stocked up with all the toys, recreational goods and books that entertained them over the 2020 lockdown. As a result, nominal sales of other recreational goods and newspaper and book retailing fell by 3.5% and 1.9% respectively over the March quarter.

Other retailing contained its positive start to the year growing 1.7% into April, supporting expectations for another quarter of growth to June. Growth was driven mainly by a rebound in newspaper and book (up 12.2%) and other recreational goods retailing (8.3%) after a weaker March quarter.

Despite an expected pick-up in growth for the June quarter, the rest of the year may be relatively weak, with broader spending options available. For the remainder of the year sales volumes to December 2021 are expected to fall by 0.3%.

Chart 8: Real retail turnover per capita, by category



Source: ABS Cat 8501.0, Deloitte Access Economics

Online retailing

Despite indications spending behaviour is returning to pre-pandemic norms, the boost online sales received throughout 2020 held strong early into the year. Consumers directed 9.8% of their spending in the retail sector online through the March quarter, still well above levels seen before the pandemic. Where the overall retail sector saw a contraction in nominal sales over the March quarter, online retailing rose 0.9%. The restrictions and lockdowns enforced last year meant both retailers and consumers had to innovate and adapt by migrating online and while the economy continues to reopen, consumers demand for online purchases remained. Compared to March 2020, online sales were up a stunning 37.4%.

Both food and non-food online retailing maintained their strength in the early months of 2021, with non-food making a notable positive start to the year. Over the March quarter, online non-food sales accounted for 14.7% of total non-food sales, slightly down on last quarter but still above pre-lockdown levels. Online food sales improved their position compared to the end of last year, with online food sales accounting for 5.6% of all food sales.

While there may still be some time before the levels of online sales replicate those seen at the peak of the pandemic, the continued strength in the proportion of online sales in April (9.4%) despite a fall in overall online nominal sales, indicates retailers can expect the trend towards higher levels of online shopping to continue.

Special feature: The good, the bad, and the uncertain

Special feature: The good, the bad, and the uncertain

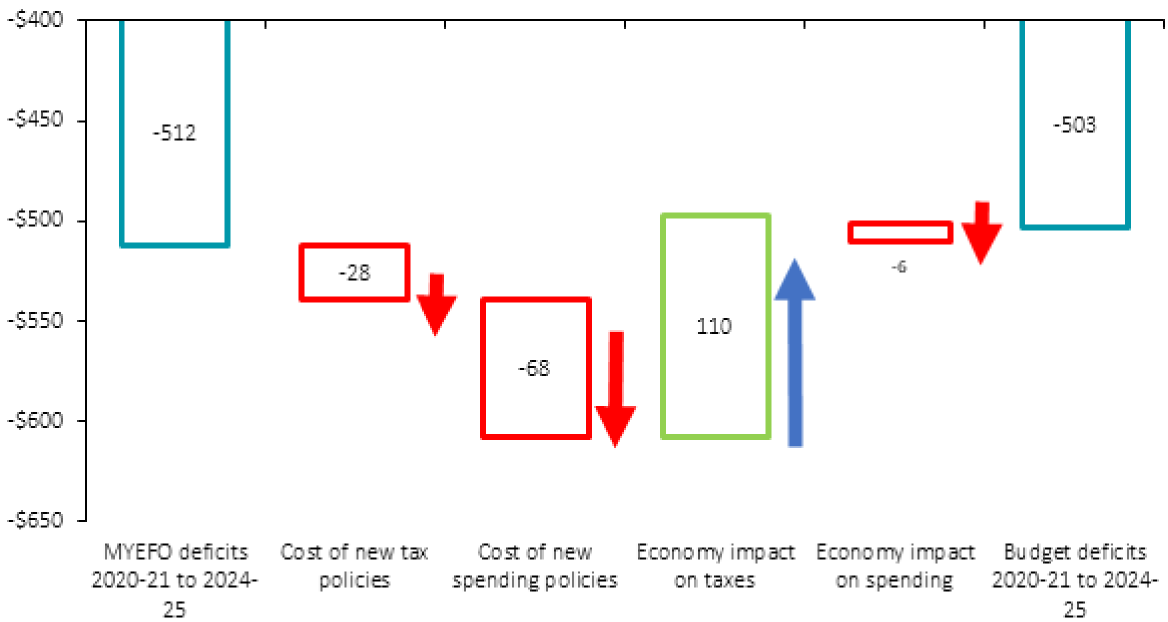
The Federal budget had both good and bad news for retailers as the government focuses on the economic recovery ahead. While there is lot of good economic news, some structural issues remain and are likely to create headwinds for spending in the years ahead. Importantly, confidence and vaccines are critical to the success of the economy moving forward, including the outlook for retail.

The good news

The economic recovery to date has been stronger than expected which has been good news all around. The impact of the recession on both consumer confidence and household income was limited, in large part because of the extraordinary fiscal and monetary support which was provided, and this has supported spending activity.

But importantly for the Federal government, the economic recovery has already delivered more money into its coffers through a higher than expected tax take and lower than expected support payments. Overall, the good news on the economy has resulted in an additional $110 billion inflow to government revenue over the forward estimates compared to what was estimated in late 2020 (in the mid-year economic and fiscal outlook).

Chart 9: Changes in government finances since the mid-year economic and fiscal outlook



Source: Deloitte Access Economics, Federal Budget

And this extra revenue flowing into government has quickly been spent. Indeed, all of the additional upside and more has been shelled out to support the economic recovery. Spending has focused on supporting business investment and key areas such as health and childcare. But there has also been some money flowing back towards consumers, which could make its way into retail shops.

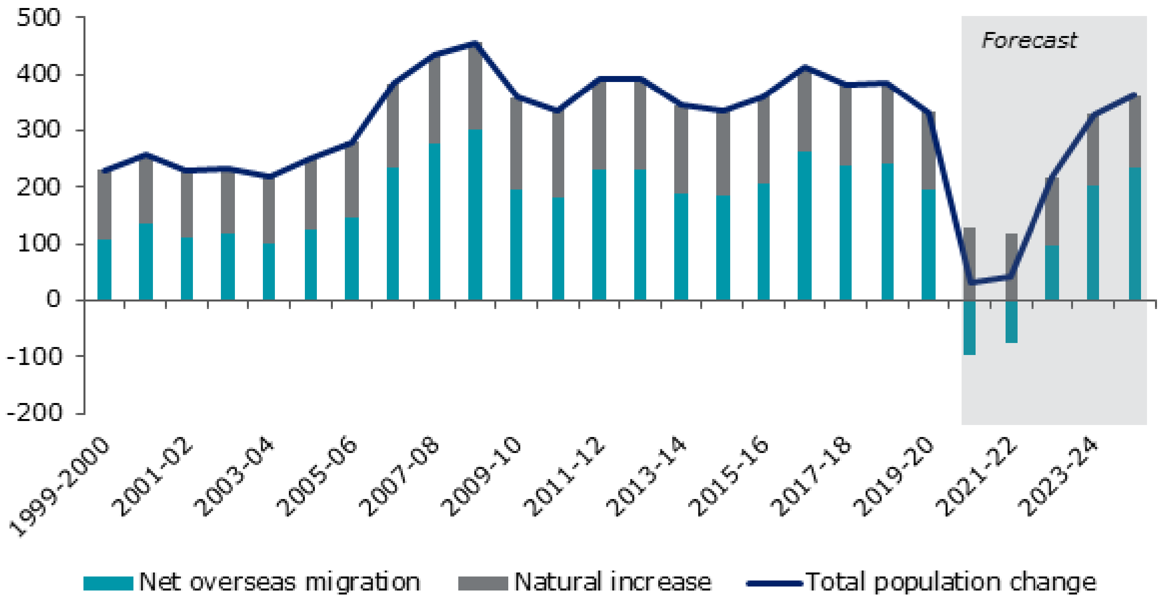
A major support policy for consumers is the low and middle income tax offset, which has been extended a further year. This will provide certain middle income earners with a second year of “super-charged” tax rate cuts, with households set to receive lump sum payments at the end of June 2021 and June 2022. Treasury estimates the policy will benefit around 10 million Australians at a cost of $7 billion to the budget bottom line.

The bad news

A key part of Australia’s economic recovery has been its ability to contain the virus through international border closures and lockdowns. Domestic lockdown measures have been relaxed in 2021 (though the path is not straight forward as Melbourne’s lockdown over May/June shows) and this is supporting a rebound in domestic economic activity. But unfortunately international borders look like they will remain shut until mid-2022.

There has been a reason for closing the borders, but also a heavy cost. Closed international borders keep Australia well short of our economic and social potential and are bad news for retailers and the economy more generally. International migration accounted for around 60% of population growth over the past 10 years. With borders closed this driver of growth has effectively stopped, with net overseas migration expected to decline in 2020-21 and 2021-22. To put this in context, net overseas migration hasn’t detracted from population growth since 1946.

Chart 10: Components of population change, 000’s



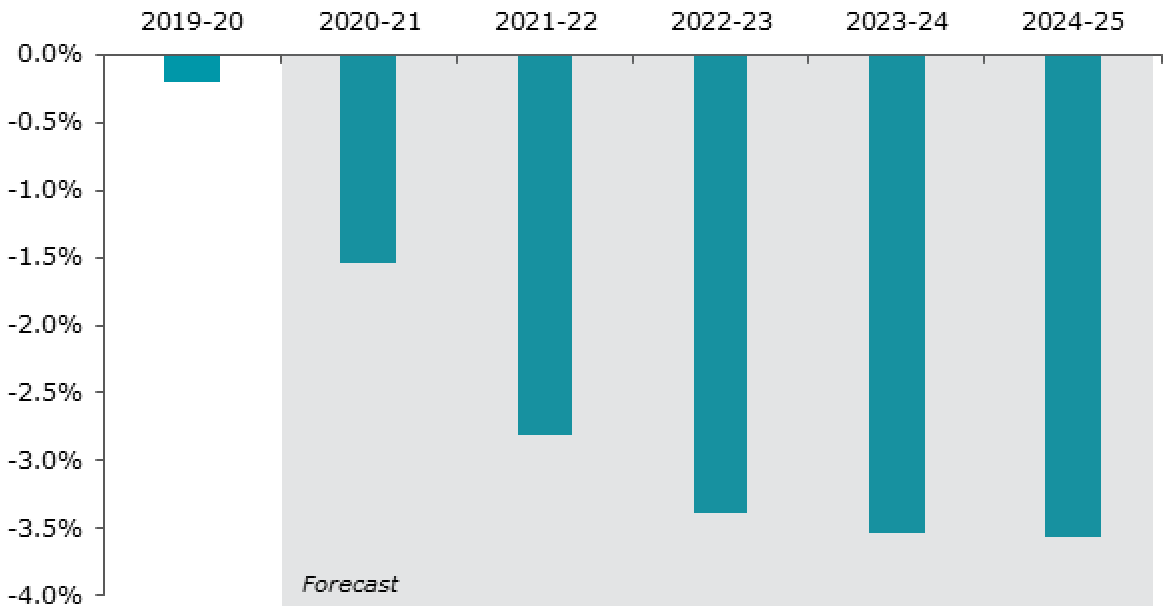
Source: Deloitte Access Economics, Federal Budget

By June 2025, the government expects there will be almost a million fewer people in Australian than was expected pre-COVID. This has effectively slammed the brakes on a key driver of retail spending.

Fewer people into the country means fewer people spending at retail and hospitality venues. Population growth accounted for over 65% of retail volume growth over the past 10 years. And while retail spending is benefiting from a shift in spending behaviour under lockdowns and restrictions, this gap in people by June 2025 is likely to weigh on total spending potential.

These costs of closed borders (among many others) need to be kept in mind when assessing the tipping point – the point where vaccinations have reached such a level that the cost of keeping international borders closed outweighs the cost of opening them.

Chart 11: Difference in the size of the population relative to pre-COVID forecasts



Source: Deloitte Access Economics, Federal Budget

The uncertain

The Federal government's outlook for consumer spending is solid, despite the headwinds from population flows. The budget contains a somewhat heroic prediction of a surge in consumer spending in 2021-22 (5½% real growth) to support GDP growth, but thereafter GDP growth is expected to moderate. A lot of this outlook is based on some critical assumptions about spending behaviour. In particular, there is **an implicit assumption that households keep spending despite real wages (wages less inflation) flatlining over the forward estimates**.

Chart 12: Real wage growth

Source: Deloitte Access Economics, Federal Budget

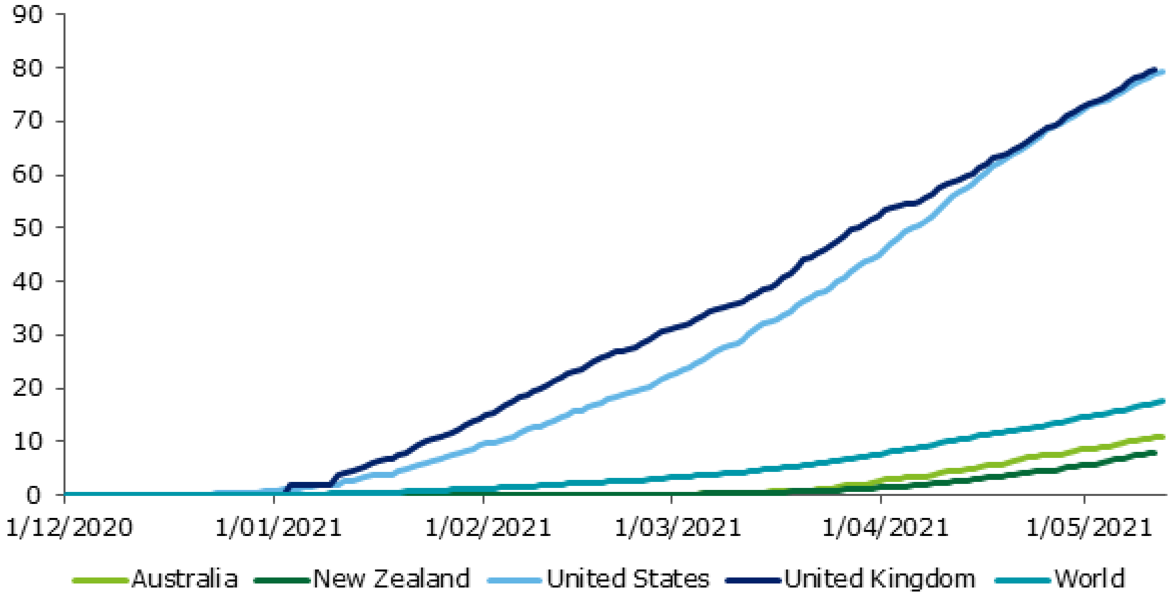
Households need to draw down on their savings for spending growth to continue at strong rates. And a big part of this will be driven by how confident consumers remain.

To date, consumer confidence has rallied strongly since collapsing in mid-2020. A critical driver of the rebound in confidence has been Australia's ability to contain outbreaks and ease restrictions. But as recent events haves shown, lockdowns are still an arm of policy. And while restrictions don't always hurt the retail sector as a whole given the essential nature of some spending activity, the impact on confidence is a bigger risk and one that could have a broad based impact on the outlook.

Lockdowns are also likely to have a bigger impact on household incomes than previously experienced. The end to JobKeeper means that businesses have to decide if they retain their staff and pay them despite closing up shop. And without the COVID JobSeekeer supplement, those who end up losing a job are facing a much lower level of income support.

Vaccines are expected to play an important role in minimising further lockdowns and eventually enabling Australia to open international borders. But while Australia performed well in containing the virus last year, the vaccine rollout has gotten off to a very slow start.

Chart 13: Vaccine doses per 100 people



Source: Deloitte Access Economics, Our world in data

Forecast tables

Forecast tables

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

% change	History 2018-19	2019-20	Forecasts 2020-21	2021-22	2022-23	2023-24	2024-25	5 yr avg to 19-20	5 yr avg to 24-25
Volumes									
Food retailing									
Supermarket retail	0.7%	1.5%	0.6%	1.1%	4.0%	3.8%	2.9%	1.2%	2.5%
Specialty food and liquor retail	-1.2%	3.5%	8.1%	-5.2%	-1.2%	1.1%	2.6%	1.3%	1.1%
Catered food	1.4%	-10.4%	4.6%	9.9%	2.0%	1.2%	3.6%	-0.6%	4.3%
Total food	0.6%	-1.3%	2.4%	2.4%	2.9%	2.8%	3.1%	0.8%	2.7%
Non-food retailing									
Dep't stores and discount dep't stores	1.2%	-0.2%	7.1%	1.8%	-1.9%	0.2%	0.3%	2.0%	1.5%
Apparel	3.8%	-8.0%	18.0%	-1.1%	-5.5%	-2.4%	-1.1%	2.3%	1.6%
Households goods	1.0%	6.7%	10.4%	-1.8%	0.5%	3.0%	2.4%	4.5%	2.9%
Other retailing	2.4%	1.8%	7.3%	-0.4%	-0.8%	0.8%	1.5%	2.7%	1.7%
Total non-food	2.0%	1.7%	10.2%	-0.8%	-1.2%	1.1%	1.3%	3.2%	2.1%
Total turnover	1.2%	0.0%	5.9%	0.9%	1.0%	2.0%	2.3%	1.9%	2.4%
Prices									
Food retailing									
Supermarket retail	3.7%	5.1%	4.3%	2.1%	1.9%	2.3%	2.5%	2.8%	2.6%
Specialty food and liquor retail	3.7%	5.1%	4.3%	2.1%	1.9%	2.3%	2.5%	2.8%	2.6%
Catered food	1.9%	1.5%	1.5%	1.6%	1.7%	1.0%	1.8%	1.8%	1.5%
Total food	3.2%	4.3%	3.6%	1.9%	1.9%	2.0%	2.3%	2.5%	2.3%
Non-food retailing									
Dep't stores and discount dep't stores	-0.9%	-0.1%	0.1%	-0.5%	0.3%	0.2%	0.0%	-1.5%	0.0%
Apparel	-0.2%	0.6%	-0.1%	2.6%	1.0%	0.5%	-0.1%	-0.6%	0.8%
Households goods	-0.5%	0.1%	2.7%	-1.1%	-0.9%	-0.9%	0.0%	-1.0%	0.0%
Other retailing	1.5%	3.0%	2.6%	-0.5%	-0.7%	-0.8%	-0.5%	1.4%	0.0%
Total non-food	0.1%	1.1%	1.9%	-0.2%	-0.4%	-0.5%	-0.2%	-0.2%	0.1%
Total turnover	1.8%	2.9%	2.7%	1.0%	0.9%	1.0%	1.3%	1.3%	1.4%
Values									
Food retailing									
Supermarket retail	4.4%	6.7%	4.8%	3.3%	6.0%	6.2%	5.5%	4.0%	5.2%
Specialty food and liquor retail	2.4%	8.9%	12.5%	-3.1%	0.7%	3.5%	5.2%	4.2%	3.8%
Catered food	3.3%	-9.1%	6.3%	11.7%	3.8%	2.1%	5.5%	1.1%	5.9%
Total food	3.9%	2.9%	6.1%	4.3%	4.8%	4.9%	5.5%	3.3%	5.1%
Non-food retailing									
Dep't stores and discount dep't stores	0.3%	-0.3%	7.1%	1.3%	-1.6%	0.4%	0.3%	0.4%	1.5%
Apparel	3.6%	-7.5%	17.9%	1.5%	-4.6%	-1.9%	-1.2%	1.6%	2.4%
Households goods	0.5%	6.9%	13.4%	-2.9%	-0.4%	2.1%	2.4%	3.5%	2.9%
Other retailing	4.0%	4.9%	10.1%	-0.9%	-1.5%	0.0%	1.0%	4.1%	1.7%
Total non-food	2.1%	2.8%	12.2%	-1.0%	-1.6%	0.5%	1.1%	2.9%	2.3%
Total turnover	3.1%	2.9%	8.9%	1.9%	1.9%	3.0%	3.6%	3.1%	3.9%

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 other specialised food retailing (4129).

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 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).

Table 2: Retail turnover growth, by State

Real % change	History 2018-19	2019-20	Forecasts 2020-21	2021-22	2022-23	2023-24	2024-25	5 yr avg to 19-20	5 yr avg to 24-25
Australia	1.2%	0.0%	5.9%	0.9%	1.0%	2.0%	2.3%	1.9%	2.4%
NSW	0.5%	-1.7%	7.1%	0.2%	0.7%	1.8%	2.2%	1.7%	2.4%
VIC	3.0%	-0.9%	0.6%	4.2%	1.0%	2.9%	2.1%	2.8%	2.2%
QLD	1.9%	2.8%	8.8%	0.0%	2.2%	1.9%	2.6%	1.8%	3.1%
SA	0.3%	-0.6%	4.7%	-0.5%	-0.2%	1.8%	2.7%	1.9%	1.7%
WA	-1.3%	2.1%	9.7%	-1.4%	0.2%	1.2%	2.1%	0.4%	2.4%
TAS	1.8%	2.8%	7.8%	-1.1%	-0.1%	0.4%	1.5%	3.0%	1.7%
NT	-3.4%	0.2%	9.0%	0.8%	-0.5%	0.5%	1.2%	-0.5%	2.2%
ACT	1.7%	0.9%	9.1%	-0.4%	0.5%	1.8%	2.9%	2.7%	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.

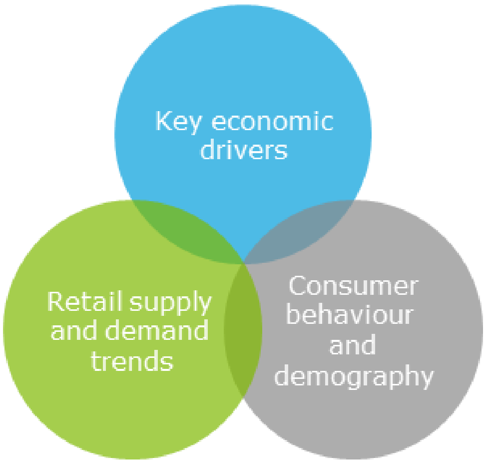
For publication and subscription information, please see https://www2.deloitte.com/au/en/pages/finance/articles/dae-publications-subscribe.html and analysis

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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Exploring the latest trends and innovations in retail

Global State of the Consumer Tracker
Establishing the road to a global consumer recovery in the era of COVID

CFO Sentiment Edition 10
Confidence bounces back

Retailers' Christmas Survey 2020
Stepping out of the bubble

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

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. 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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