



Bounding into Christmas

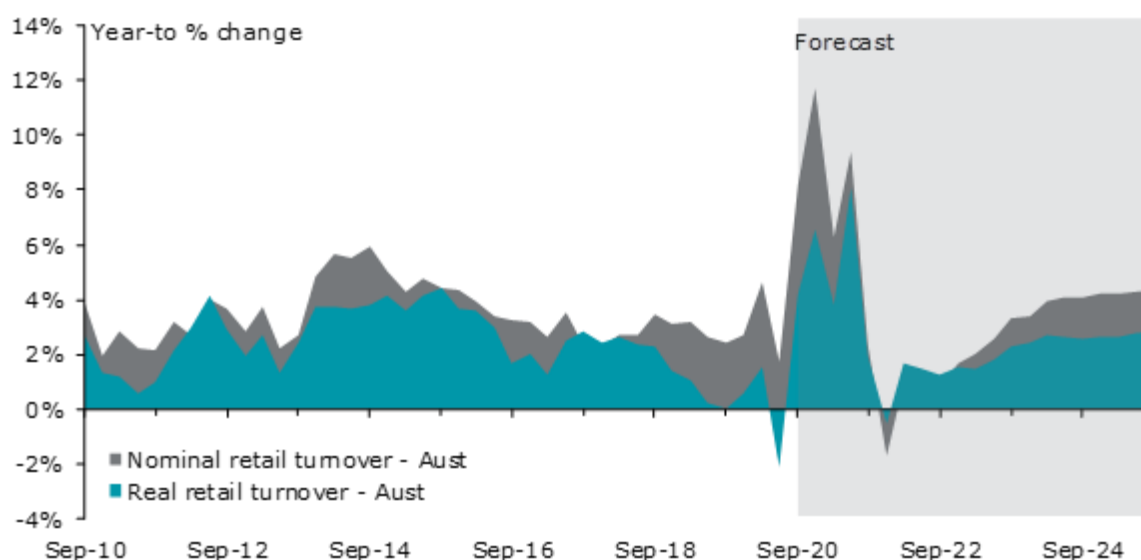
Retail Forecasts November 2020
Public Executive Summary
Released 15 December 2020

National Outlook

Retail spending has weathered the COVID-19 storm remarkably well to date. After a significant drop in spending in the June quarter, the September quarter rebound has more than made up for it with retail sales sitting well above pre-COVID levels. But not everyone is benefiting, with clothing, café spending and department stores lagging behind. For those retailers who miss out during Christmas, it could be time to close up shop in the new year as headwinds start to weigh on spending in 2021.

While experiencing great volatility through the year, overall retail spending has been an area of strength for the Australian economy through COVID-19. With restrictions easing and a measure of pent up demand unleashed, retailers experienced a 6.5% surge in spending volumes over the September quarter. Retail's strong performance is due in part to opportunity – consumers aren't able to spend as much on travel and other services – as well as changing preferences – consumers are spending more on home-centric goods.

Chart 1: Retail phases in 2020



Source: ABS Cat 8501.0, Deloitte Access Economics

But not all retailers are benefiting from the boom in spending. The [Deloitte Retailers' Christmas Survey](#) indicated a clear polarisation in Christmas spend expectations, with the record number of retailers expecting sales above 5% tempered by a substantial number of retailers expecting sales to fall by more than 5%. While spending on food and household goods are well above pre-COVID levels, clothing, department stores and cafes are all lagging behind. Retailers that underperform could end up closing up shop in the new year.

Despite the difficult conditions for many retailers, the number of insolvencies in the sector has dropped significantly in 2020 so far. In 2019, nearly 500 retailers entered external administration by October, while in 2020 this dropped to around 300. This suggests that if 2020 were similar to last year, an additional 200 retailers (on top of the existing 300) would likely have entered external administration by now, and a further 150 would do so before the end of the year. The Christmas period is critical in any year, but for businesses facing significant disruption to operating conditions and relying on stimulus measures and relief that is slowly fading, a miss in sales could be the final nail in the coffin.

Economic and retail trends

The Australian economy continues to strengthen as restrictions ease but there is a tough road ahead to revive the economy from the repercussions of the nationwide lockdowns. Following the 7.3% contraction in June quarter, **GDP rose 3.3% over the September quarter, officially ending the recession**. However, the recovery still has a way to go to get to pre-COVID levels with GDP down 3.8% through the year.

The number of people employed has recovered three-quarters of the plunge it took earlier this year, with national employment increased by 648,000 people from May to October (up 5.3%). However, there is still some room to catch-up, as hours worked in October were still 3.8% lower than in March. Victoria is a stellar standout from the states, with employment rising 2.5% and hours worked up 5.6% in October as restrictions ease. However, this comes off a very low base with employment levels still remaining 3.6% below October 2019 levels.

Broader consumer spending rebounded in the September quarter, up 7.9% over the quarter but still down 6.5% through the year. Most notably, **household consumption rebounded in all states and territories in the September quarter, except Victoria**. National household consumption (excluding Victoria) increased by 11.0% in the September quarter, but is still down by 3.1% throughout the year. Victorian household consumption fell 1.2% in the September quarter, is down by 16% throughout the year.

National retail spending rebounded strongly in the September quarter as restrictions eased. Quarterly retail volumes rose 6.5% in the September quarter, following the drop of 3.5% in the June quarter. **Victoria is the only state that has not recovered yet after two quarters of decline**, while New South Wales led the pack with an 11.6% rebound. The double-digit gains in New South Wales could be a good sign for Victorian retailers in December as the first quarter with limited restrictions since the crisis began.

Sales in retail categories that were struck hardest by forced closures and reduced consumer confidence have begun improving. Catered food and apparel sales skyrocketed in the September quarter after tumbling in June. But these two categories remain well below September 2019 sales levels, while home-centric spending such as household goods and supermarkets remain elevated.

Australian retail sales continued strong momentum into the December quarter. Nominal retail sales rose 1.4% in October 2020, which is 7.1% higher when compared to October 2019. Apparel sales led the uptick, followed closely by cafes, restaurants and takeaway food services. Underpinning the rise is reopening of retail stores in Victoria, which led to a boost to all retail industries in the state except food retailing. Despite the rise of 5.1% from September, Victorian retail sales remain 5.8% below October 2019.

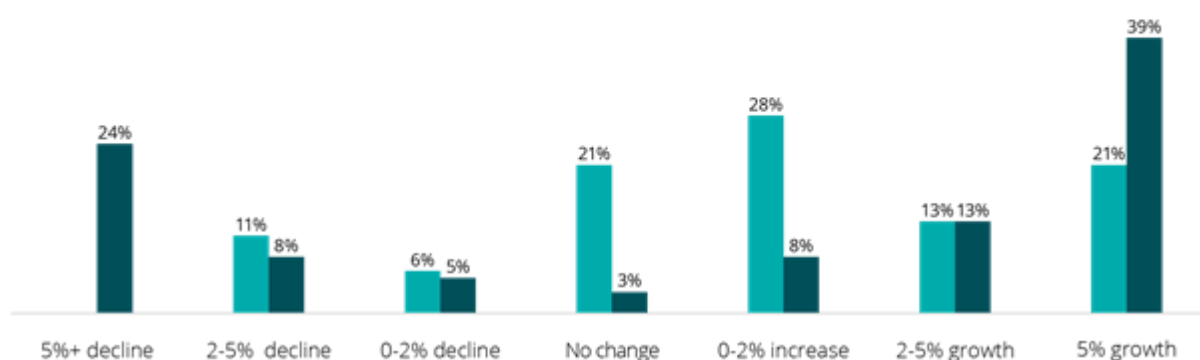
Looking to 2021, retail spending is expected to grow 2.8% as the economic recovery continues. However, there are **some risks to this outlook**. Fiscal stimulus will be dropping off in early 2021, and international borders are expected to reopen in the latter half of 2021. While open borders are a good sign for the economic recovery, there is a risk that retail spending loses some of the gain in share of wallet as spending behaviours revert to a post-COVID normal.

Deloitte Retailers' Christmas survey

Retailers are polarised when it comes to revenue growth expectations heading into the all-important Christmas trading period. Deloitte surveyed a number of executives and senior management of retailers operating in Australia in the lead up to the Christmas period ([link](#)). For the first time since the survey began, more respondents (39%) expected growth over 5% compared to all other categories of growth expectations. This is a substantial increase on last year, with just 21% of respondents expecting growth of over 5%. However, the second largest bucket are those expecting a decline in revenue of over 5%, a substantial deterioration compared to last year where no respondent expected such large declines.

Chart 2: Do you expect Christmas sales to exceed the previous Christmas trading period?

● 2019 ● 2020



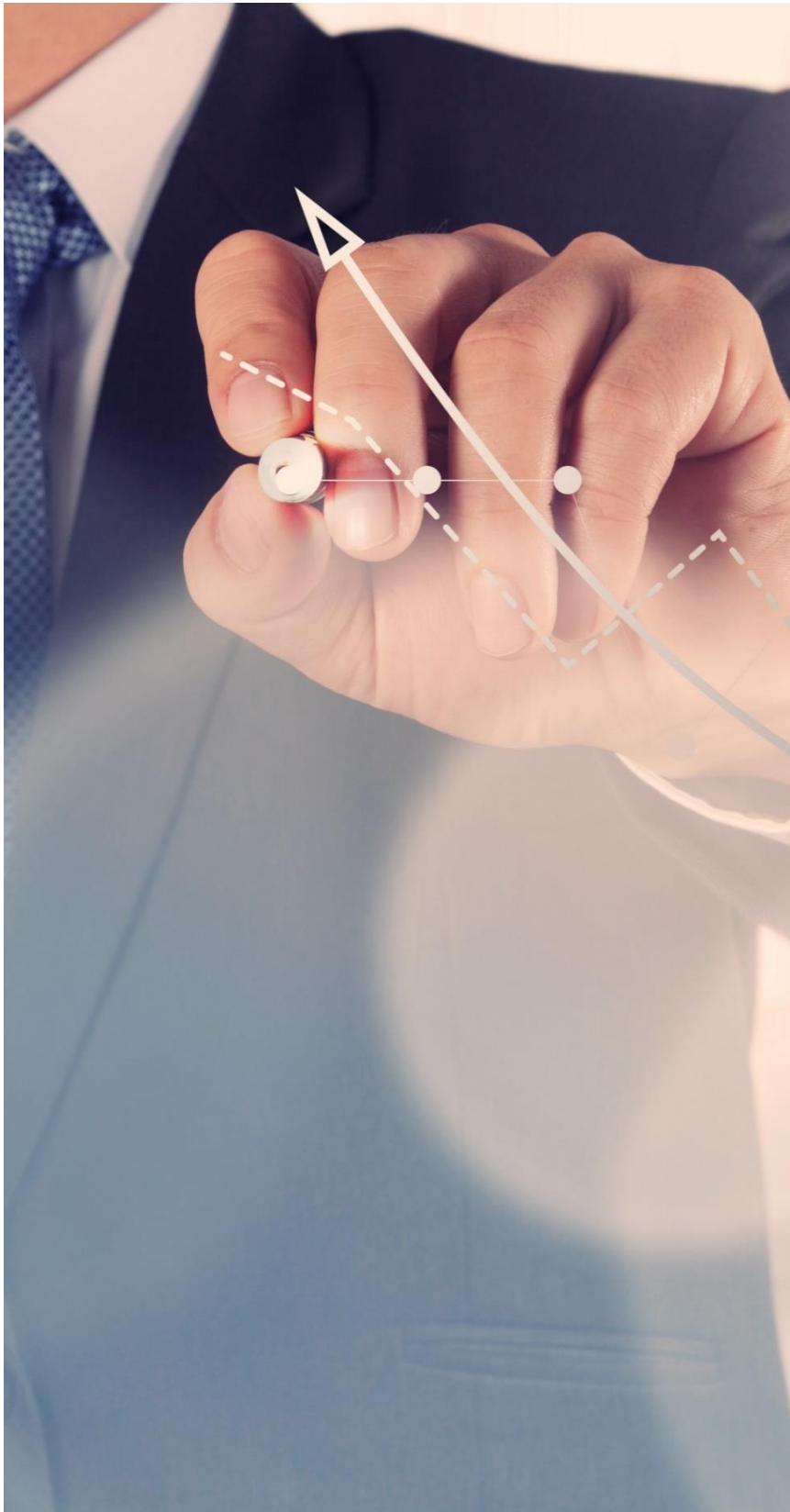
Source: Deloitte Retailers' Christmas Survey 2020

This illustrates the volatile environment that retailers are operating in through COVID. While some retailers experienced supercharged demand for their products, others are facing some of the toughest operating conditions at the hands of restrictions and weakening household budgets. This is clear in retail sales data heading into Christmas, with sales in supermarkets and household goods surging ahead while clothing and catered food lags. This divergence is expected to continue into 2021 until restrictions are eased further and borders opened.

Unfortunately, the surge in sales is not expected to come with a surge in profits. Around 40% of respondents expect margins to increase compared to last Christmas period, up slightly from last year's 35%. This still remains well below expectations between 2014 and 2018, reflecting the competitive nature of the retail environment in Australia.

Retailers have benefited from a number of cost relief measures, but these are tapering off creating difficulty for some businesses heading into 2021. In November, 16% of retailers experienced an increase in operating expenses, but 37% expected higher operating expenses for the month ahead. If Christmas period sales underwhelm, this could result in an uptick of businesses closing up shop in early 2021.

What is Retail Forecasts?



Retail Forecasts, produced quarterly, provides detailed analysis of current retail sales and consumer spending, and the important economic drivers which influence them.

Included are National retail forecasts, retail category forecasts and State retail forecasts, as well as the broader income and non-income influences of retail spending.

An annual subscription includes four quarterly reports plus Excel spreadsheets including 10 year forecasts and charts.

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

Contact us

We are happy to respond to any inquiries in relation to the publication or our forecasts.



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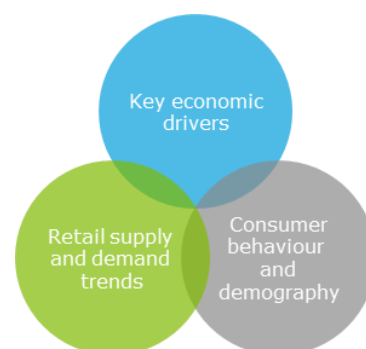
\$2,799 for an annual subscription or \$1,399 for a single issue.

Report with retail forecasts data and detailed consumer spending forecasts: \$9,899 for an annual subscription or \$4,949 for a single issue.

Our retail forecasting and analysis capabilities

Retail forecasts and analysis are a key focus of our macroeconomics practice.

Deloitte Access Economics specialises in research of the movements of key drivers in the Australian economy. By combining this wealth of knowledge with research on consumer behaviour and the retail market, we can analyse current retail supply and demand characteristics, forecast future movements and make informed recommendations for retail development, investment and strategy. At Deloitte Access Economics, we draw on our highly reputable research into key drivers of retail demand to provide insights to clients. These drivers include the following:



- **Consumer behaviour:** Consumers' changing preferences and needs
- **Consumer sentiment:** How consumers react to economic changes
- **Household income and debt:** Current and future insights on disposable income
- **Population and socio-demographics:** How the population is likely to change over time
- **Technological influences:** The effect of technology and the internet on retail
- **Macroeconomic influences:** How the economy at the state, national and world level affects the retail market.

Our project experience

Deloitte Access Economics has delivered a range of insights for the retail sector, including:

- Economic contribution work for a number of major retail stakeholders
- Competition policy analysis for major retailers
- Price and productivity analysis at a category level for major retailers
- Analysis of Australian online retailing for major stakeholders in the retail sector
- Mobile Nation: opportunities and strategies for retail for Australian Mobile Telecommunications Association
- Monthly economic briefs for a major retailer (ongoing work over several years)
- Monthly retail trade briefs for a major retail stakeholder (ongoing work over several years)
- Commentary on key drivers of retail sector performance, delivered to a number of clients as reports and/or presentations
- Economic outlook commentary, as it relates to the retail sector.

Our core capabilities

We can forecast retail turnover

- Retail turnover forecasting, at national, state or regional level if required, based on ABS, Household Final Consumption Expenditure and MarketInfo categories

We can analyse a specific product or place

- Regional economic profiling and forecasting, with a focus on retail
- Consumer product pricing, competition and performance analysis
- Shopping centres and retail precinct competition and performance analysis
- Economic impact analysis for major retail developments or decisions

We can contextualise retail trends using our economic knowledge

- Commentary on retail performance, growth and trends within an economic context
- Consumer behaviour and consumption habits analysis
- Digital influence analysis of retail and consumer products
- Retail trends analysis and forecasts, in terms of both supply and demand trends

Drawing on the above, we can help with forward planning

- Network planning for retailers and centre owners
- Strategic planning for retail sector decision-makers
- Scenario planning for retail sector decision-makers

Our publications

Below are examples of Deloitte’s recent published retail research. Please click the icons to see more on each publication.



The Retail Rundown
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 9
Up for the COVID challenge



Retailers’ Christmas Survey 2020
Stepping out of the bubble



The Weekly Economic Briefing
Personal views of two of Deloitte’s most highly respected economists on topical financial and economic issues



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

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