Retail Forecasts

Retail's turning point

September 2022

Deloitte Access Economics

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

Contents

Executive summary

Retail's turning point

Retailers are edging closer to a turning point in retail spending. Firstly, high price growth means that prices are becoming the key driver of sales growth for the sector, rather than volumes. Secondly, as we revert towards pre-COVID spending patterns we're likely to see growth in spending on services once again exceed growth in spend on goods. For now though, retailers are concerned about having enough labour in such a tight labour market, and that makes it the perfect time to focus on actions to retain and attract talent.

Retail is still **riding the post pandemic high** as consumer demand remained strong through H1 2022. Real retail spending grew 1.4% through the June quarter, after an already strong start to 2022, and that left real sales growth up 5.5% over the year.

This spending spree has been particularly centred around discretionary categories including department stores, apparel and catered food. Consumers growing **desire to eat out and engage in experiences** supported an 8.6% increase in spending at restaurants, cafes and takeaway food, while **winter outfit refreshes** likely supported the 3.9% increase in apparel spending over the quarter.

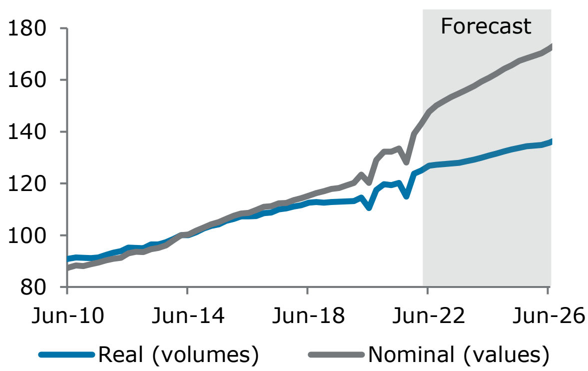
But cracks are starting to show as the economy face a number of challenges. Domestically, there has been **broad-based price growth**, especially in retail, fuelled by global supply chain disruptions and supply shortages. There are also higher interest rates to deal with and severe capacity constraints in some areas of the economy.

Retail prices increased 4.8% through the year to the June quarter with the largest price rises seen in food and household goods, the categories where consumers are reining in their spending.

Indeed on a quarterly basis, **the turning point for overall retail price growth to exceed sales volume growth has already been reached**. This occurred in both the March and June quarters of 2022.

The price pinch will continue to be seen in retail over the next 12 months. Sales volume growth is expected to come in at 3.0% through the year to December 2022, and retail price growth is expected to peak at a much higher 5.9% at the same point. Having **prices as the main driver of nominal (value) retail sales**, or top line revenue, is relatively unfamiliar for retail, as price growth has been traditionally lower than sales volume growth.

Chart 1 Real and nominal retail turnover (Index 100 = 2014)



Source: ABS Cat 8501.0, Deloitte Access Economics

The larger retail categories have already passed this turning point. Excluding the impacts of the numerous lockdowns and restrictions, at-home food (supermarkets and speciality food and liquor) saw a significant difference between price and volume growth starting in the March quarter this year and it is expected to balloon in the September quarter.

Consumers pent-up demand for **discretionary retail is still expected to weather the inflation challenge in the near term** and support volume growth for a little longer. The volume of spending at cafes and restaurants is expected to jump 42.8% over the year, after a lockdown impacted September quarter last year.

But price growth for these categories is creeping upwards, and as consumers rein in their discretionary retail spending, most **non-food categories are likely to reach their turning point** in annual price vs volume growth in the **2022 December quarter.**

While supply side drivers have cooled it will still take some time for year-to price growth to come down to normal levels, though this is expected by late 2023. Even then, it is likely retail price growth will sit just above the historic trend going forward due to higher food prices, a stronger inflation environment compared to the decade prior and higher wage growth.

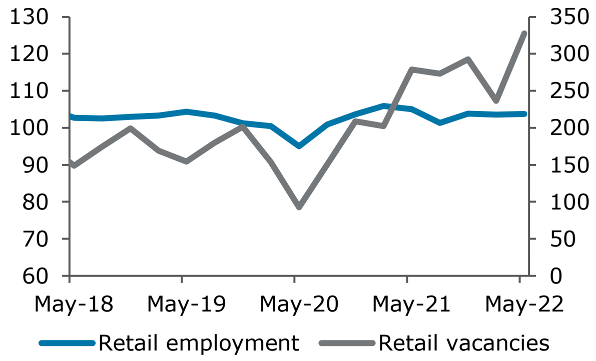
But a slowdown in price growth will be little help against another turning point for retailers when consumers **shift further towards more services spending over H2 2022 and H1 2023**. The services spending tap is now well and truly turned on and this is likely to see overall consumer spending growth outpace retail growth over the year to the December quarter.

This trend is likely to continue through next year with the 2023 June quarter likely to see the largest gap between year-to growth in retail volumes and overall consumer spending.

Retailers are also facing significant challenges on the supply side. **Australia is now operating at close to full employment** with the lowest unemployment rate for nearly 50 years. While the employment growth which has driven this is a great driver of retail spending, it also means that businesses are struggling to find enough staff. **Retail job vacancies have more than doubled since May 2019**, with no sign of slowing down and these positions aren't being filled.

Employment in the retail industry is lower than in May last year, down 1.2%. This is despite employment increasing 2.9% across the economy over the same period.

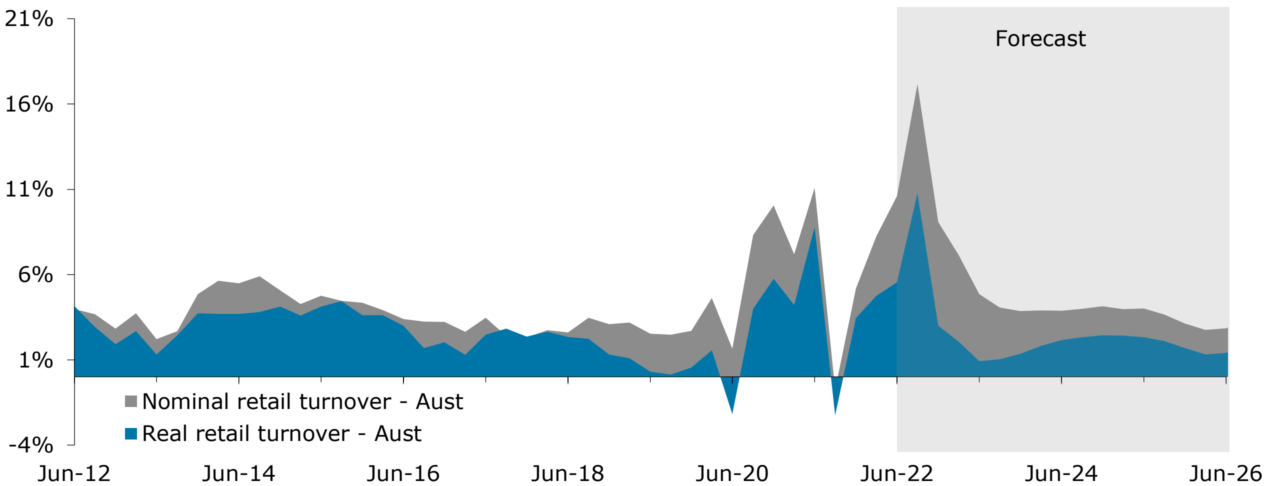
Chart 2 Retail employment and vacancies (Index: 2014 = 100)



Source: ABS Cat 6202.0, ABS Cat 6354.0

Importantly, the industry is missing a key component of its workforce: migrants. In 2019, 7.6% of the retail workforce were either permanent or temporary visa holders. And while **temporary migration is likely to bounce back faster than permanent**, it is unclear if and when temporary net overseas migration will return to its pre-pandemic levels. As a result, retailers are looking for ways to plug these staffing shortages and fast.

Chart 3 Real and nominal retail turnover growth (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Beyond migration, the **higher share of casual and part-time workers** in the retail workforce is likely also weighing on the industry's ability to retain workers. About 12.1% of the retail workforce changed jobs in the year to February 2022 and although retail has historically accounted for a larger share of all job changes, the key challenge is that retail employment has not increased over the same period.

Increasing pay is often the go-to method of attracting and retaining workers, but the retail sector in particular has faced mounting input price pressures that have left little room for wage increases.

However, there a number of workforce strategies retailers can use to attract and retain workers in this current tight labour market.

- Start by **reviewing and addressing attrition drivers** within your control and understanding the underlying causes leading to high attrition rates. Look at trends in attrition and review exit data while engaging with your workforce to prioritise action areas and experiment with interventions.
- **Challenge old orthodoxies on how work is performed** and how talent is sourced. Innovate on methods to improve productivity including labour-less stores, digital enablement and automation.
- Make your organisation more **irresistible to current and future team members**. Adopt strategies from the Simply Irresistible workforce framework to attract, engage, retain and excite the 21st Century workforce.
- Look to the future to **design work that appeals to a young retail workforce and next generation of retail leaders**. Millennials and Gen Zs are not passive – they are driving the change they want to see in the world and leaning on their values to make career choices. The shift toward climate action and stakeholder capitalism is resonating especially with this cohort.

Figure 1 Simply Irresistible: Engaging the 21st Century Workforce

Meaningful work	Support management	Positive work environment	Growth opportunity	Trust in leadership
Autonomy	Clear and transparent goals	Flexible work environment	Training and support on the job	Mission and purpose
Select-to-fit	Coaching	Humanistic workplace	Facilitated talent mobility	Continuous investment in people
Small, empowered teams	Investment in development of managers	Culture of recognition	Self-directed, dynamic learning	Transparency and honesty
Time for slack	Agile performance management	Fair, inclusive and diverse work environment	High impact learning culture	Inspiration
Cross-organisation collaboration and communication				

Source: Deloitte

Key forecast tables

Retail sales forecasts by category: volume, price and value

% change	History 2020-21	2021-22	Forecasts 2022-23	2023-24	2024-25	2025-26	2026-27	5 yr avg to 21-22	5 yr avg to 26-27
Volumes									
Food retailing									
Supermarket retail	0.3%	-0.1%	-2.1%	1.0%	1.5%	1.3%	1.9%	0.8%	0.7%
Specialty food and liquor retail	7.5%	-0.6%	-2.6%	2.3%	2.4%	1.3%	1.8%	2.4%	1.0%
Catered food	3.9%	7.1%	18.7%	1.6%	2.3%	1.8%	2.8%	0.4%	5.3%
Total food	2.0%	1.5%	3.0%	1.4%	1.9%	1.4%	2.1%	0.9%	2.0%
Non-food retailing									
Dep't stores and discount dep't stores	6.0%	-1.3%	11.1%	1.3%	2.2%	0.6%	1.6%	1.9%	3.3%
Apparel	18.0%	7.9%	15.2%	1.8%	3.4%	2.8%	3.6%	5.1%	5.3%
Households goods	10.5%	0.4%	0.0%	2.0%	3.0%	1.2%	3.4%	4.6%	1.9%
Other retailing	7.4%	9.9%	4.0%	1.8%	2.8%	2.3%	3.4%	4.6%	2.9%
Total non-food	10.1%	4.5%	5.2%	1.8%	2.9%	1.8%	3.2%	4.3%	3.0%
Total turnover	5.7%	2.9%	4.1%	1.6%	2.4%	1.6%	2.7%	2.5%	2.5%
Prices									
Food retailing									
Supermarket retail	4.7%	3.5%	5.5%	2.7%	2.6%	2.5%	2.6%	3.6%	3.2%
Specialty food and liquor retail	4.7%	3.5%	5.5%	2.7%	2.6%	2.5%	2.6%	3.6%	3.2%
Catered food	2.2%	2.9%	5.7%	4.0%	2.6%	2.4%	2.3%	2.1%	3.4%
Total food	4.1%	3.3%	5.4%	3.1%	2.6%	2.5%	2.5%	3.3%	3.2%
Non-food retailing									
Dep't stores and discount dep't stores	0.2%	-0.5%	5.1%	1.2%	0.3%	0.2%	0.1%	-1.0%	1.4%
Apparel	0.4%	-0.6%	5.5%	1.2%	0.4%	0.2%	0.2%	-0.6%	1.5%
Households goods	3.4%	4.1%	6.1%	1.8%	0.4%	0.0%	0.0%	0.8%	1.6%
Other retailing	3.3%	2.5%	3.5%	1.3%	0.8%	0.7%	0.6%	2.2%	1.4%
Total non-food	2.4%	2.3%	4.8%	1.5%	0.5%	0.3%	0.3%	0.8%	1.5%
Total turnover	3.3%	2.8%	5.1%	2.3%	1.6%	1.4%	1.4%	2.1%	2.4%
Values									
Food retailing									
Supermarket retail	4.9%	3.4%	3.3%	3.8%	4.2%	3.8%	4.5%	4.5%	3.9%
Specialty food and liquor retail	12.4%	2.9%	2.8%	5.0%	5.1%	3.8%	4.5%	6.1%	4.2%
Catered food	6.4%	10.4%	25.3%	5.7%	5.0%	4.3%	5.1%	2.6%	8.8%
Total food	6.2%	4.9%	8.5%	4.5%	4.5%	4.0%	4.7%	4.2%	5.2%
Non-food retailing									
Dep't stores and discount dep't stores	6.2%	-1.6%	16.6%	2.5%	2.5%	0.9%	1.7%	0.9%	4.7%
Apparel	18.4%	7.6%	21.2%	3.1%	3.8%	3.0%	3.8%	4.5%	6.7%
Households goods	14.2%	4.6%	6.0%	3.8%	3.4%	1.3%	3.4%	5.5%	3.6%
Other retailing	10.9%	12.7%	7.6%	3.2%	3.7%	2.9%	4.1%	6.9%	4.3%
Total non-food	12.8%	7.0%	10.2%	3.3%	3.5%	2.1%	3.5%	5.2%	4.5%
Total turnover	9.2%	5.9%	9.3%	3.9%	4.0%	3.1%	4.1%	4.7%	4.9%

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).

Real retail sales growth, by State

Real % change	History 2020-21	2021-22	Forecasts 2022-23	2023-24	2024-25	2025-26	2026-27	5 yr avg to 21-22	5 yr avg to 26-27
Australia	5.7%	2.9%	4.1%	1.6%	2.4%	1.6%	2.7%	2.5%	2.5%
NSW	6.9%	0.0%	5.3%	1.7%	2.5%	1.6%	2.8%	1.7%	2.8%
VIC	0.5%	7.5%	4.6%	1.4%	2.3%	1.7%	2.6%	2.8%	2.5%
QLD	8.4%	3.1%	2.8%	1.8%	2.8%	1.9%	2.8%	3.4%	2.4%
SA	4.0%	1.8%	2.8%	1.3%	1.5%	0.8%	1.8%	1.7%	1.6%
WA	9.5%	4.2%	2.1%	1.4%	2.2%	1.7%	2.9%	2.8%	2.1%
TAS	7.5%	0.8%	1.9%	1.4%	1.2%	0.4%	1.3%	3.1%	1.3%
NT	7.5%	-1.9%	0.5%	2.0%	1.9%	2.2%	2.5%	0.6%	1.8%
ACT	8.7%	-4.4%	6.1%	2.3%	2.4%	1.6%	1.7%	1.7%	2.8%

Real income and consumption growth

Real % change	History 2020-21	2021-22	Forecasts 2022-23	2023-24	2024-25	2025-26	2026-27	5 yr avg to 21-22	5 yr avg to 26-27
Labour income	1.5%	1.2%	0.3%	2.3%	2.4%	2.6%	2.8%	2.2%	2.1%
H'hold disposable income	4.2%	1.6%	-1.6%	1.7%	3.1%	2.1%	1.9%	2.8%	1.4%
Consumer spending	1.0%	3.3%	5.0%	2.7%	2.5%	2.3%	2.2%	1.1%	2.9%
Retail turnover	5.7%	2.9%	4.1%	1.6%	2.4%	1.6%	2.7%	2.5%	2.5%

Economic drivers

Downside risks are weighing on the domestic economy which will likely constrain consumer spending

Prospects for the global economy continue to deteriorate due to high inflation, tightening monetary conditions, and increasing economic uncertainty. The IMF has marked the global economic outlook as "Gloomy and More Uncertain" in its latest update and has lowered its estimate of global growth down for the fourth time in a row to 2.9% for 2023. Much of this is in response to revisions around global inflation.

Global supply chain disruptions as a result of the pandemic have led to supply shortages in energy and agriculture commodities. These supply shortages have been exacerbated by the war in Ukraine. These impacts saw **fuel prices more than double** since mid-2020 and **global food prices increase** since early 2021. However, there are now increasing signs that global supply disruptions have eased over the past few months.

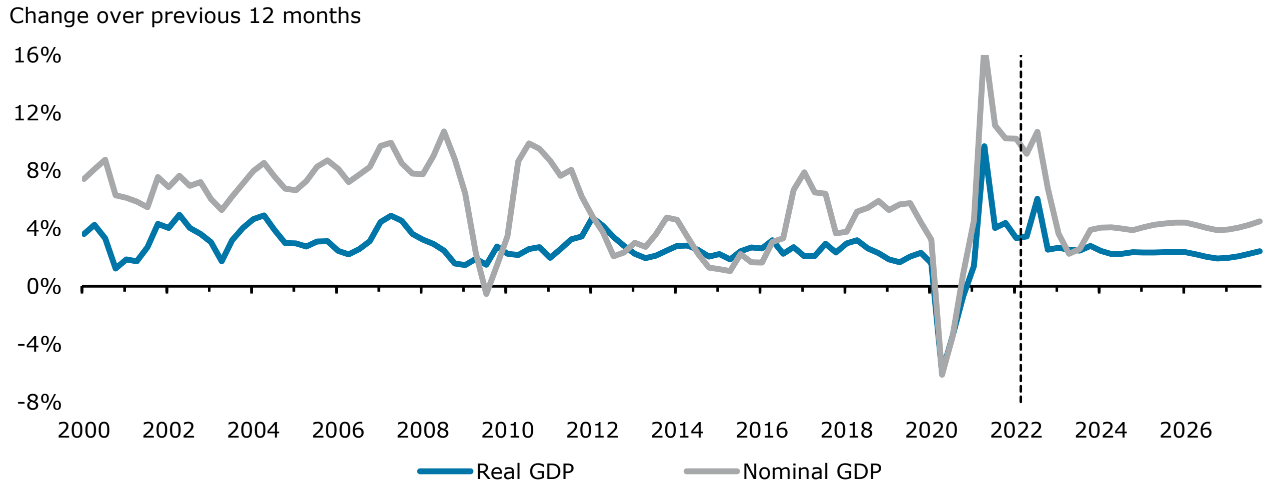
The weakening outlook is particularly pronounced for advanced economies. Reduced purchasing power and tighter monetary policy in the US, Europe and UK has seen the IMF revise growth down to 1.4% for advanced economies in 2023. There is widespread alarm about **a recession in the US, though it may still be avoided. Avoiding a recession may be a taller order in the UK and Europe**, with the Bank of England predicting that the UK economy may now contract for five quarters in a row.

The continuation of the COVID zero-policy in China and the deepening real estate crisis means China's economy is likely to fall short of its official growth target of around 5.5% in 2022. The country's unemployment rate remains high – particularly for young people – and consumer confidence continues to weaken. Australia has weathered slowdowns in China before however the implications of **further manufacturing and transport disruptions in China present downside risks** to Australia's retail sector.

Domestically, Australia's economy is battling rising prices, increasing borrowing costs and generally weaker confidence, but is doing relatively well. Despite the outlook being clouded with uncertainty, **the largest component of economic growth, consumer spending, is expected to remain strong over 2022-23**.

Consumer spending is forecast to run ahead of growth in the overall economy with 5.0% growth expected for 2022-23. Much of that growth will be driven by greater spending in areas restricted by the pandemic including entertainment, consumer services, and travel.

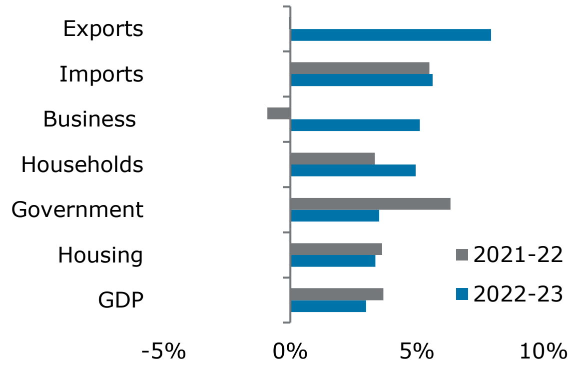
Chart 4 Australian economic growth



Source: ABS Cat 5206.0, Deloitte Access Economics

However, once consumers' pent-up demand runs through, the spending outlook is clouded by higher interest rates such that growth in consumer spending is expected to broadly rise in line with Australian GDP growth beyond 2022-23.

Chart 5 Growth in the components of GDP



Source: ABS Cat 5206.0, Deloitte Access Economics

Australia's export performance is expected to be strong over 2022-23, supported particularly by strong commodity prices, which are providing a boost to overall national income.

However, the **economic outlook is dominated by concerns around higher inflation and interest rates**. That combination means we are likely past the peak of this economic cycle, with GDP growth expected to moderate to 3.0% over 2022-23, down from 3.7% in 2021-22. Business investment will be pressured by supply constraints, interest rate rises and slowing global growth, and may grow by only 0.9% over 2022-23. And government spending is also expected to slow as stimulatory spending is pulled back.

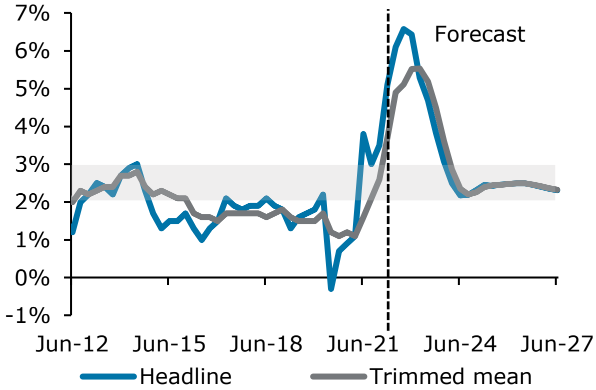
Despite a weaker outlook, the growth expected for Australia over 2022-23 is more than double the growth expected for the US, placing us as a **likely top economic performer amongst advanced economies in these uncertain times**.

Inflation

Australia's annual inflation continues to rise, and it is the cause of much of the economy's uncertainty. Headline CPI inflation increased 1.8% through the June quarter and 6.1% over the year, a record increase since the turn of the century. The story was similar for underlying inflation, which excludes generally volatile items including food, up 1.5% through the June quarter and 4.9% over the year.

Prices for non-discretionary goods and services continue to outpace that of discretionary. Further growth in food (up 5.9%), fuel (up 13.1%) and housing (up 9.0%) prices were the main components of the 7.6% increase in discretionary goods and services. This means there is **little opportunity for households to avoid a cost-of-living squeeze.**

Chart 6 CPI annual change, headline and underlying



Source: ABS Cat 6401.0, Deloitte Access Economics

More specifically for retailers, **goods inflation remains ahead of services inflation**, as global commodity and input cost rises are passed on to consumers. Over the June quarter goods inflation made the largest contribution on record to total inflation, accounting for 79%.

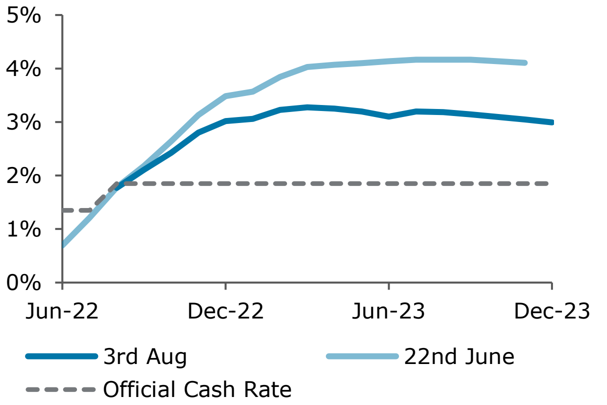
Inflation is expected to peak at between 7% and 8% by the end of the year. Producer prices are still increasing and the expected re-introduction of the full fuel excise at the end of September means some price pressures will likely worsen in the short term, before improving.

However, there are **signs that some of the sources of inflation, especially goods, are now reversing**. Oil prices have fallen 27% since early June and the New York Federal Reserve's global supply chain pressure index fell to its lowest level in more than 12 months in June. Hence retailers can expect imported inflation to significantly moderate over the next 12 months. Hence, Chart 6 suggests that CPI inflation will come down relatively quickly over 2023 after the peak rate of annual inflation is reached.

Underlying these expectations is the assumption that **inflation does not become entrenched in the broader economy**. The Reserve Bank notes that domestic factors remain under pressure with a high proportion of firms reporting skill shortages and significant capacity constraints in some sectors, including retail and hospitality. Wages growth is expected to lift, but not to the extent to create a sustained high level of domestic inflation. August saw the third consecutive 50 basis point increase in the RBA cash rate, now up to 1.85%, and the fourth consecutive cash rate increase in 2022. This series of rate rises will help to ease local demand and allows a path to slow price growth without sending the economy into reverse – but it is a delicate path.

With much of the heavy lifting done over the past four months, the RBA could be looking to slow or pause rate rises over the coming months as they monitor global supply side indicators and early evidence that domestic demand may be slowing. Back in June, the market expected the cash rate to peak at 4.3% late in 2023, but more recently this expected peak in the cash rate had dropped to 3.3%, and rate cuts were priced in from early next year. That suggests the **broader market does now see both an inflation and interest rate peak in sight**.

Chart 7 30 Day Interbank Cash Rate Futures Implied Yield Curve



Source: ASX

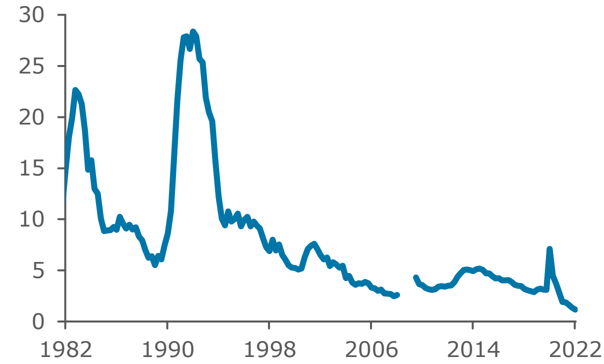
Employment

While higher prices are driving caution, job security is likely boosting consumers' spending intentions. The Australian labour market continues to tighten, with the unemployment rate falling to a new historic low of 3.4% in July. The number of people employed has grown by a stunning 400,000 people over the past 12 months and the labour force participation rate was recently at a record high of 66.8%.

While employment has been rising, that hasn't stopped the **level of job vacancies also moving higher**. Since the start of the pandemic, job vacancies in the arts and recreation service industry and the accommodation and food service industry have grown by over 250%. The recovery in demand in these sectors is not being supported by adequate labour.

There are now **more job vacancies in the economy than unemployed people than**, 0.97 unemployed people per job vacancy. For businesses, it means competition for labour is the greatest it's ever been, and for employees it means increased bargaining power around wages and working conditions (including embedding the flexibility to work from home in many white collar workplaces).

Chart 8 Unemployed people per job vacancy



Source: ABS Cat 6354.0, ABS Cat 6202.0

Most industries are reporting skill shortages and CFOs rate securing and retaining talent as their #1 concern (CFO Sentiment) In some sectors there is still a degree of underemployment being reported, for example retail and hospitality. That said the number of unemployed people per job vacancy in these industries is still far below pre-pandemic levels.

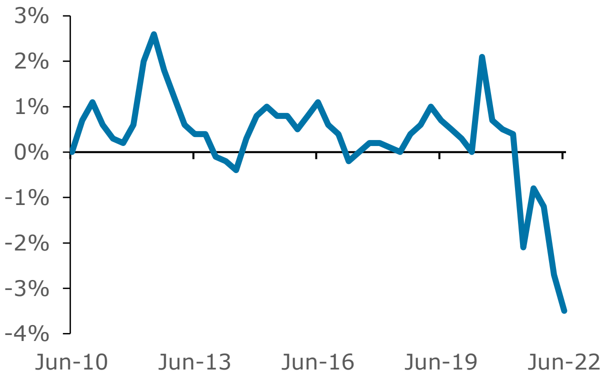
The tightness in the labour market is expected to continue through to the end of 2022 consistent with the broader strength in the economy and pent-up demand for labour. The Federal government's Jobs and Skills Summit will include a focus on how permanent migration can plug some of the gaps in Australia's labour supply.

Wages

Give the labour market strength, **wages growth is now picking up**. The private sector saw wages increase 2.7% through the year to the June quarter and as such is currently leading the charge. Most of this was likely driven by the renegotiation of enterprise agreements which are linked to CPI. Overall the quarter saw a higher proportion of private sector workers receive wage increases compared to recent June quarters and the average increase in private sector workers hourly wages was the largest since June 2012, 3.8%. And for many of those working in the public sector, stronger wage rises are expected over the coming quarter as award wages are increased in line with the Fair Work Commission's Annual Wage Review decision earlier in the year – 5.2% increase in the minimum wage and 4.6% increase in award wages.

However overall wage movements in the June quarter were still modest when considering the state of inflation and the historic tightness in the labour market. The overall Wage Price Index (WPI) rose 0.7% over the June quarter, and 2.6% over the year, meaning **real wages (wage growth minus price growth) dived further in the red**, down 3.5% over the year.

Chart 9 Real wage growth (year-to % change)



Source: ABS Cat 6345.0, ABS Cat 6401.0

Some of the stagnation in wages may be due to **businesses leveraging bonuses and discretionary payments** rather than locking in higher base pay for their employees. WPI including bonuses increased 3.1% in the year to the June quarter. The September WPI release should shed some further light on business' use of bonuses, capturing any greater than usual end of financial year pay outs.

Population

Retailers in Australia are accustomed to a healthy rate of population growth helping to increase the size of the domestic market over time – a key underlying source of growth for the retail sector. This tap was effectively turned off during 2020, with the population declining for the first time since World War I. However, population growth did start to trickle back for Australia in late 2021.

Australia's key source of population growth, **net overseas migration, became positive in the December 2021 quarter**, with an additional 30,000 people added to the population. And although this is a step in the right direction, it isn't really enough for retailers to rejoice just yet, with the number being under half that seen before the pandemic. It will likely take up to a further 12 months for net overseas migration to return in sufficient numbers, a by-product of slow visa processing and the decision time frame for people for international moves.

Currently, for every permanent or long-term arrival in Australia there are 0.9 departures – well above the ratio of 0.65 departures per arrival seen prior to the pandemic. Despite this ratio being elevated, there are still more people arriving permanently or long-term in Australia than there are leaving – a strong indication that net overseas migration in Australia was positive through the first half of 2022.

The medium-term outlook for Australia's labour supply remains heavily dependent on the return of migration. With international borders open, working holiday maker visa holders increased for the first time since the pandemic, albeit marginally. An increase in flights to Australia should help slow (and eventually reverse) the decline in other temporary visa holders' categories in Australia as new arrivals pick up speed.

The increase in net overseas migration is expected to continue over the coming financial year with population growth forecast to be 1.1% over 2022-23.

Household wealth

Declines in household wealth could result in negative impacts on consumer sentiment and spending.

Household savings moved up sharply through the pandemic, but some households have dipped into this to support spending over the first half of 2022. Increasingly however, the rising cost of living will lead to a pullback in spending (rather than financing the same level of spending out of existing savings). This is especially a likelihood for **those at the margin who likely didn't see a significant rise in their savings over the pandemic** but face the same increasing prices for food, fuel and housing. Deloitte's Global State of the Consumer Tracker showed that in August, close to half of low-income Australians were concerned about their level of savings.

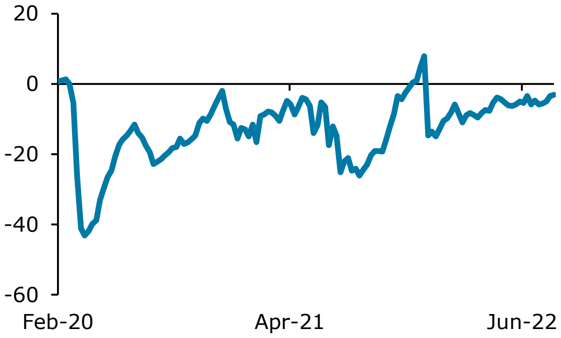
Households may also be feeling **weaker sentiment due to declining home values**. House prices have fallen 5.9% in Sydney and 3.8% in Melbourne over the quarter to August and across the country they are expected to cool further, especially with further rate rises on the horizon and the expiry of many fixed rate mortgages over the coming year.

Feeling wealthy is often linked to consumer sentiment, and sentiment is at its lowest level since the start of the pandemic. While this is of some concern for spending, at present it doesn't seem to be translating through significantly, with earlier wealth gains over 2020 and 2021 no doubt still providing some assurance to consumers.

Spending trends

Retail mobility, heavily disrupted over the pandemic, is **almost back to pre-COVID levels.** Google Mobility data indicates retail mobility in Australia remains about 3% below baseline in early August. However it still remains below pre-COVID levels due to a permanent shift of some spending online. **Consumers have also been spending more on average per visit in store** (limiting their movements to achieve the same spending outcome).

Chart 10 Australian retail mobility (Index 100=2020)



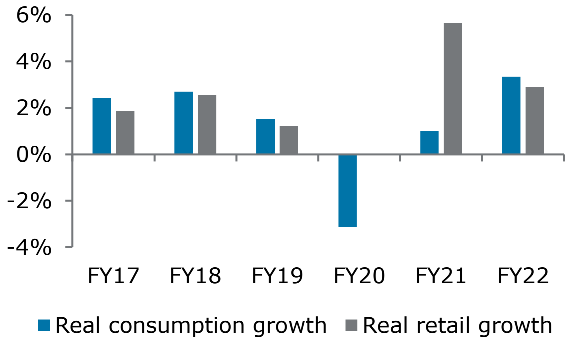
Source: Google Mobility

Demand for **retail spaces has a mixed outlook but is expected to recover** alongside the return to the office. Sydney Central Business District (CBD) retail vacancy rates, that is the number of unoccupied retail spaces relative to all available retail spaces, was down to around 6.9% in H1 2022, compared to 17.4% nationally. Other CBDs are still seeing a higher than usual number of unoccupied retail spaces, likely as lingering pandemic caution weighs on retailers renewing their leases, but over the next 12 months retailers are expected to reset and capitalise on increasing leasing options.[1]

While foot traffic for shopping increases, so does consumers' appetite for travel. Tourism spending does present competition for retail, but **domestic tourism also supports some areas of retail**. In the 2022 March quarter, tourism related shopping expenditure was up 22% and eating out was up 23% compared to the 2020 March quarter. The bigger threat to local retail spending is Australians undertaking international travel. But sentiment around international travel is a little weaker than for domestic, with domestic travel expected to be 8% greater than 2019 levels in 2023 while international tourism may still require the next two to three years to fully get back on its feet.

Over the last five years, **retail has been a strong focus of households' spending**. Over 2020-21, the pandemic restricted consumers' service-related spending, and as a result a significant amount of demand flowed to goods. For retail this meant spending growth outpaced growth in overall consumer spending. However, with lockdowns a thing of the past and consumers looking to make up for lost time, it is likely growth in total consumer spending will outpace retail over the next two years.

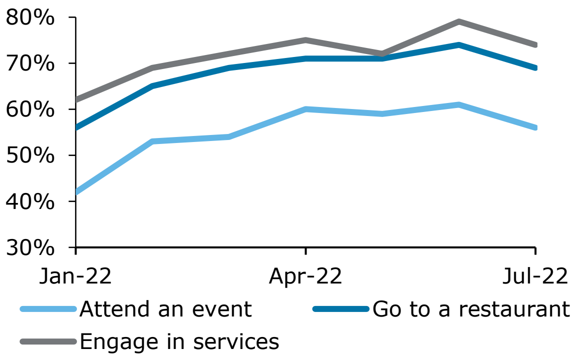
Chart 11 Real consumption and retail turnover



Source: ABS Cat 5206.0, ABS Cat 8501.0

In many respects, consumer behaviour is one of caution, with Deloitte's Global State of the Consumer Tracker showing a pull-back in consumers' willingness to visit stores, events and services over July after rising since the beginning of the year. Some of this could likely be a result a decrease in sentiment to spend in these generally discretionary categories as the cost of living squeeze grows. However, there is also likely some influence from the winter flu season and spike in COVID cases over the month.

Chart 12 Households' willingness to undertake activities



Source: Deloitte State of the Consumer Tracker

[1] CBRE (2022), Australian CBD Retail Vacancy H1 2022

Retail forecasts

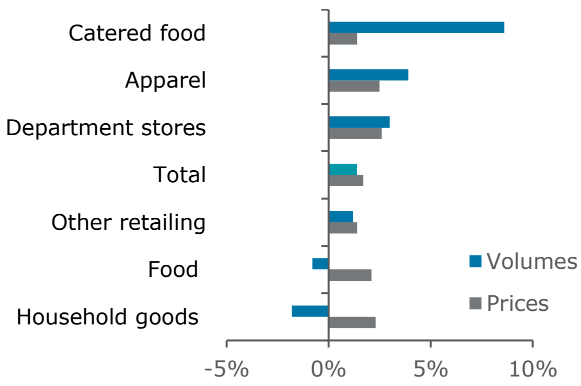
Retail spending is facing up to the inflation odds, with the sector seeing a turning point where price pressures take hold

The **cost-of-living challenge couldn't take the wind out of retail's sails** over the 2022 June quarter. After an already strong start to the year, real retail spending grew 1.4% in the June quarter - that is, the volume of spending increased 1.4%. It appears consumers' pent-up demand was sufficiently strong that spending remained relatively unphased by the increasing inflation concerns and the reported drop in consumer confidence. All in all, this meant real spending volumes were up 5.5% over the year to the June quarter.

This spending spree was particularly centred around discretionary categories including department stores, apparel and catered food. Consumers growing **desire to eat out and engage in experiences** supported an 8.6% increase in spending at restaurants, cafes and takeaway food, while **winter outfit refreshes** likely supported the 3.9% increase in apparel spending over the quarter.

On the other hand, consumers reined in their spending on household goods and food, most likely a result of relatively large price increases for these categories over the year.

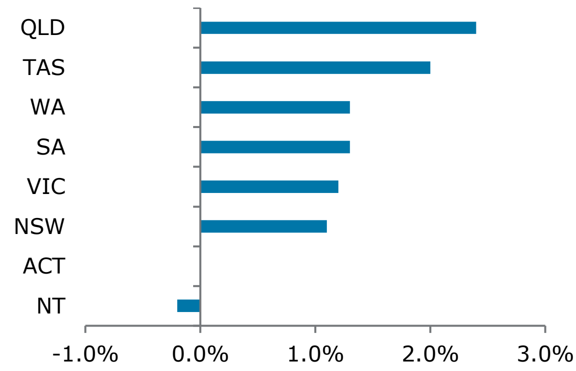
Chart 13 Retail turnover (quarterly change), June 2022



Source: ABS Cat 8501.0

There was a relatively strong retail result across the country for the June quarter, with six States recording increases to retail volume turnover. Momentum continued from the March quarter across all States (though not the two Territories), with Queensland the front runner seeing 2.4% growth.

Chart 14 Retail turnover (% quarterly change)



Source: ABS Cat 8501.0

Retail prices increased a further 1.7% over the June quarter, and 4.8% through the year. Prices at department and apparel stores saw the strongest increase over the June quarter up 2.6% and 2.5% respectively. Catered food reported the weakest price growth (+1.4%) likely due to their greater service component, which has seen slower price growth, compared to other areas of retail.

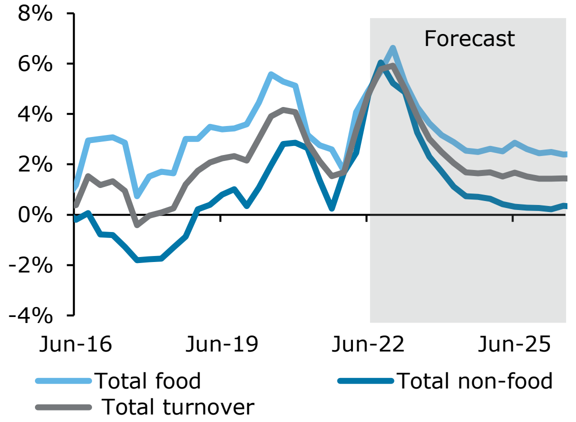
It is important to note that **much of the activity over the June quarter likely occurred in the early months**. The value of retail sales grew a modest 0.2% through the month of June even when considering the rise in retail prices, and that leads us to the September quarter.

The price pinch is expected to take a greater hold over retail in the next 12 months. Sales volume growth is expected to come in at 3.0% through the year to December 2022, and retail price growth is expected to peak at a much higher 5.9% at the same point. Having **prices as the main driver of nominal (value) retail sales**, or top line revenue, is relatively unfamiliar for retail, as price growth has been traditionally lower than sales volume growth.

But the **larger retail categories have already passed this turning point**. Significant price rises for food and household goods have contributed to a slowdown in the volume of spending at these retailers. Excluding the impacts of the numerous lockdowns and restrictions, at-home food (supermarkets and speciality food and liquor) saw a significant difference between price and volumes growth starting in the March quarter this year. This is expected to balloon in the September quarter with prices upward of 6% through the year but volumes around 4% in the red. Household goods retailers are expected to see the greatest difference in the December quarter where volume growth over the year shifts negative while price growth over the same period is at 6.6%.

Consumers pent-up demand for particular COVID impacted **discretionary retail is still expected to weather the inflation challenge** in the near term and support volume growth for a little longer.

Chart 15 National retail turnover deflator (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

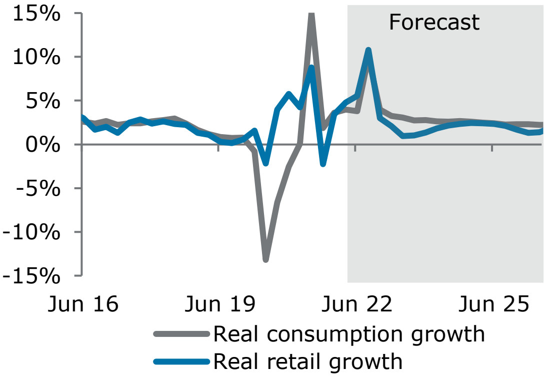
Real spending at department stores and on apparel is expected to remain strong in the September quarter. And the volume of spending at cafes and restaurants is expected to jump 42.8% over the year, after a lockdown impacted September quarter last year.

But price growth for these categories is creeping upwards, and soon consumers are expected to somewhat rein in their discretionary retail spending. As a result most non-food categories are likely to reach the turning point in price vs volume growth in the December quarter, except for apparel which may see this occur in the March quarter next year.

While supply side drivers have cooled it will still take some time for year-to price growth to come down to normal levels, though this is expected by late 2023. Even then, it is likely retail price growth will sit just above the historic trend going forward due to higher food prices, a stronger inflation environment compared to the decade prior and higher wage growth.

But even as retail prices start to cool, households spending demand is likely to have already gone elsewhere. Consumers are expected **shift more of their spending towards service-related activities over H2 2022 and H1 2023**, presenting another turning point for retailers. Historically, growth in consumer spending has been met by similar movements in retail spending which has a large goods component. However the service spending tap is now well and truly turned on, and this is likely to see total consumer spending growth outpace retail growth over the year to the December quarter.

Chart 16 Real consumption and retail growth (year-to change)



Source: ABS Cat 8501.0, ABS Cat 5206.0, Deloitte Access Economics

This trend is likely to continue through next year with the 2023 June quarter likely when year-to growth in retail volumes is expected to be the furthest from growth in total consumer spending.

Supermarkets

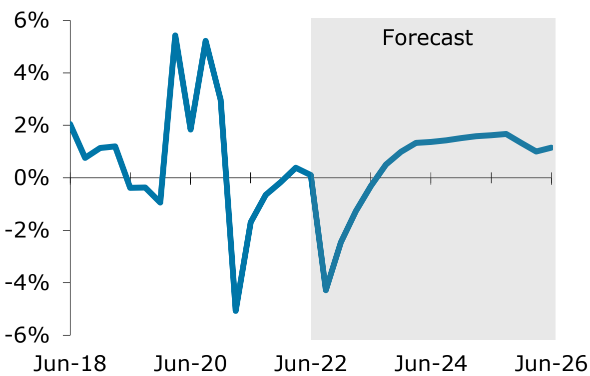
National real supermarket turnover (volumes, seasonally adjusted)

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
-0.7%	**0.1%**	**-2.1%**	**1.0%**

Supermarkets **fell victim to both consumers' preference for service-related spending and rapid rises in food prices** over the 2022 June quarter. The volume of retail spending in supermarkets dipped 0.7% in the June quarter, leaving the category down 1.9% since the start of 2022. Consumers remain drawn to eating out and catching up on all the social experiences they missed out on over the last two years. Spending at cafés, restaurants and on takeaway food led the food component of household's retail spending in the June quarter.

More importantly however, households are facing significant increases to their supermarket bill as supermarket prices continue their climb. Over the year to June 2022, **supermarket prices increased 5.4%**, fuelled both by a combination of a 13% increase in transportation costs and a 5.9% increase in food prices. While food is considered an essential item, consumers appear to more **frugal filling their supermarket baskets**. And this is likely to continue with cafes and restaurants having further room to rebound.

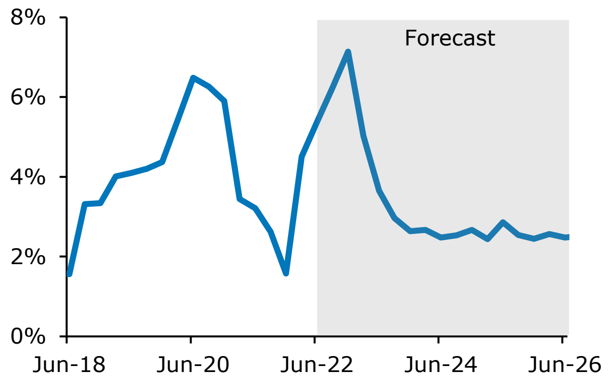
Chart 17 Real supermarket turnover (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Despite global food prices coming of their peak, the flow on impacts throughout the supply chain mean supermarkets are still forecast to see prices 5.5% higher in 2022-23.

Chart 18 Supermarket price deflator (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

With higher prices and the channel shift to service and travel related spending, supermarkets are expected to see the volume of supermarket spending per capita spend contract 3.2% over the next financial year. And with the upward trend in population growth relatively subdued, total **supermarket spending volumes are expected to contract 2.1% over 2022-23**. Once migration starts to pick up further through 2023-24 and price pressures also ease, supermarket sales volumes are expected to grow once again (by 1.0% over 2023-24).

Supermarkets may **not see their top line revenue numbers dip to the same degree**. The value of supermarket spending over 2022-23 is expected to grow 3.3%, driven by the expected 5.5% price growth.

Going forward, **a higher rate of food price growth may become more of the norm**. Residual pandemic impacts and extreme weather as a result of climate change are generally expected to drive food inflation up over the medium to long term. For supermarkets, this may see the growth in the volume of spending sit slightly below that in the years prior to the pandemic.

Speciality food and liquor

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

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
-0.9%	**-0.4%**	**-2.6%**	**2.3%**

Speciality **food and liquor retailers are not short of challenges** at the moment. High food price growth, reduced household purchasing power and a shift to experience and service-related spending may mean spending less on discretionary, and luxury, food and take-home alcohol.

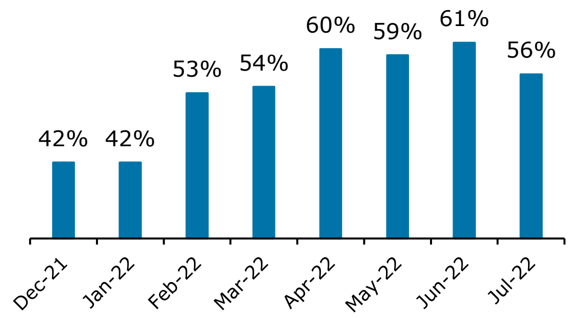
The volume of spending on speciality foods and liquor fell 0.9% in the June quarter, and most of this fall likely came from a **pullback in speciality food purchases** with the nominal amount of spending on speciality foods dropped 1.6% over the June quarter.

In terms of liquor, alcohol stores are expected to be facing stiff competition from the local pub and bars. Deloitte's Global Consumer Tracker shows sentiment to attend events and venues was the strongest it has been since the start of the pandemic in June (although sentiment in July was likely influenced by the winter flu season and spike in COVID cases). But given **liquor hasn't seen the same drop in spending as speciality foods**, it could be that some of the drinking at home trends picked up over the pandemic could be here to stay.

The concern around the rising prices of essential items, including food, means households are more likely then to opt out of their gourmet food purchases, and taking their dollar further by switching to cheaper alternatives. This likely means more **food related purchases are likely to be occurring at supermarkets** than speciality stores over the coming financial year.

This is most likely to be a trend amongst low and middle income customers. Households on higher incomes, who may not be feeling the strain of higher inflation and may not be exposed to higher borrowing costs, may continue to purchase from specialty retailers.

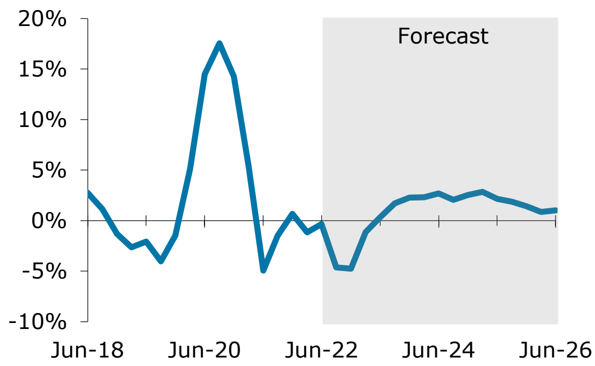
Chart 19 Willingness to attend events/venues



Source: Deloitte Global State of the Consumer Tracker

Overall, speciality food and liquor is expected to have a see the volume of spending decline 2.6% over 2022-23 with **higher food prices and stronger sentiment for social eating and drinking expected to persist** through until next year.

Chart 20 Real speciality food and liquor turnover (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Catered food

National real catered food turnover (volumes, seasonally adjusted)

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
8.6%	**14.4%**	**18.7%**	**1.6%**

Social eating appears to be a top priority for consumers in 2022, and hence the cafes and restaurants sector is a key beneficiary. The volume of spending at cafes, restaurants and takeaway food services reached record levels in the June quarter, 14% higher than pre-COVID levels. This is despite growing cost of living pressures and general economic uncertainty.

After a mammoth March quarter, **real catered food spending jumped another 8.6% over the June quarter, contributing 82% to the increase in total real retail spending**. And this is even considering restaurants and cafes have been operating normally since the start of the year. Majority of this came from increases in cafés, restaurants and catering services with the nominal value of spending up 11.6%. However takeaway food services still saw nominal spending up 7.7%.

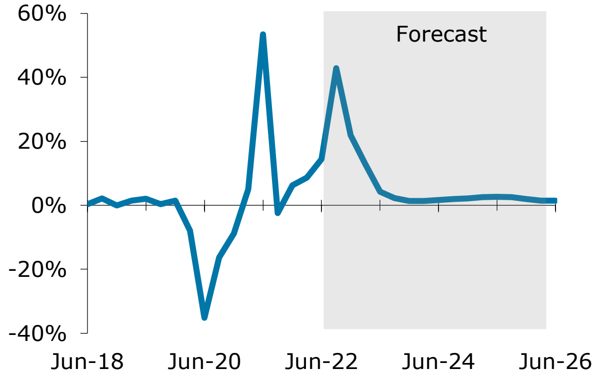
The question is whether this momentum can continue? And there is every chance of some further strong growth through to the start of 2023. Consumers are still undertaking their pent-up birthday dinners, anniversaries and other celebrations through social eating events.

And while tourism spending does present competition for retail, domestic tourism also supports some areas of retail. **Tourism related expenditure on eating out was up 23%** in the 2022 March quarter compared to the same period in 2020 and it is likely to keep rising[2].

Then there is the scale of inflation across consumers' food choices. Over the June quarter catered food prices increased 1.4%, high in historic terms but low when compared to the 2.1% increase in supermarket prices. So with the **price of supermarket items rising faster** than catered food prices, it's no surprise consumers are **comfortable continuing to eat out over eating in**.

These factors lead to expectations that spending on catered food is to jump ahead of the rest of retail over 2022-23, forecast to increase 18.7%.

Chart 21 Real catered food retailing (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

But **catered food may also soon bite the inflation bullet** as the cost of their workforce, a large portion of their expenses, starts to increase.

Catered food price growth is expected to peak at 6.1% (year-to) early in 2023, which is likely to be around the time pent-up catered food spending starts to wear off. As such, **2023-24 is expected to be considerably more subdued** for catered food sales growth.

[2] Australian Trade and Investment Commission (2022), National Visitor Survey

Household goods

National real household goods turnover (volumes, seasonally adjusted)

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
-1.8%	**1.1%**	**0.0%**	**2.0%**

Household goods may be staring down a bleaker tunnel over the next year. Consumers have shifted their spending interests elsewhere and this is being exacerbated by significant rises in the price of household goods and a slowdown in housing investment.

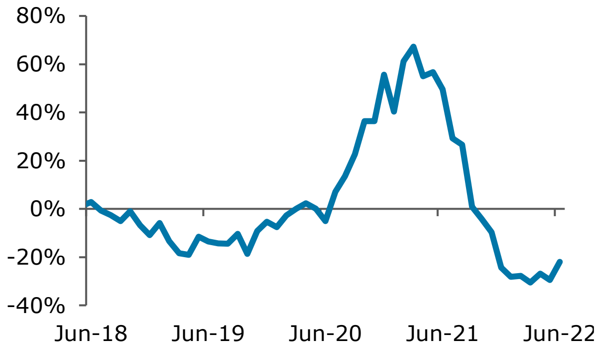
The volume of spending on household goods dropped 1.8% over the June quarter, mainly from a slowdown in electrical and electronic goods spending and furniture. However, spending volumes remain around 10% above the pre-COVID trend (prior to Dec 2019), so consumers are still a long way from having moved on from this category of spending.

Prices remain a key headwind for the category. Household goods have been quite susceptible to global supply chain and manufacturing bottlenecks, squeezed by rising transportation and input costs. Retailers have had little choice but to pass these costs on to consumers with household good prices jumping 7.3% in the year to the June quarter, greater than essential items like food. And this pressure on prices may linger through to December.

Then there are the developments in the housing market. Compared to last year, dwelling building approvals are down 22% with reduced borrowing capacity and weaker prospects around house prices. House prices have fallen 5.9% in Sydney and 3.8% in Melbourne over the quarter to August. Given borrowing costs are still likely on their upward trajectory, and the market is cooling from its pandemic buying frenzy, it is likely that **housing investment, and the associated spending on household goods, may fall further**.

The volume of household goods spending over 2022-23 is expected to remain at similar levels to 2021-22. Overall not a step backwards but it still would place the category at the bottom of the typical discretionary spending retail categories.

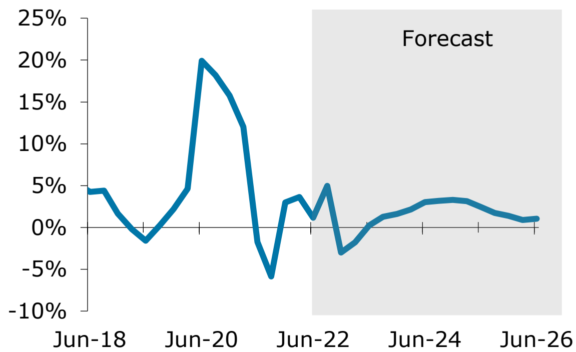
Chart 22 Dwelling approvals private (year-to change)



Source: ABS Cat 8731.0

But, where a stagnation or decline in volumes would be critical to household goods retailers prior to the pandemic, as prices on average declined year on year, the current price rises are still expected to see the nominal value of spending up 5.8% over 2022-23.

Chart 23 Real household goods retailing (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Apparel

National real apparel turnover (volumes, seasonally adjusted)

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
3.9%	**15.8%**	**15.2%**	**1.8%**

Winter wardrobe refreshes have kept demand for clothing and other apparel up over the June quarter after taking a significant hit over the last two COVID-disrupted years, making it **one of the strongest performers in 2022 so far**.

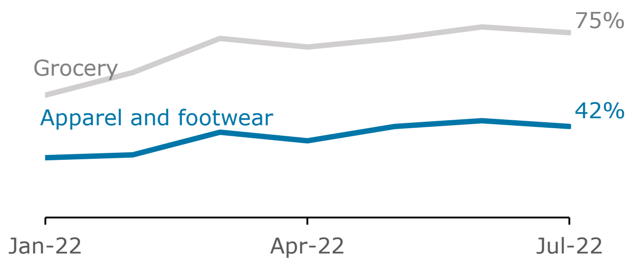
Over the June quarter, real spending on apparel rose by 3.9% and by 15.8% over the year. Footwear and accessories had a slightly stronger quarter than clothing in June, with nominal sales up 6.8% and 6.4% respectively. This keeps apparel spending well above pre-COVID levels.

Consumers have a lot of shopping to catch up on. With no more lockdowns expected around the corner and an **ongoing return to offices, events and holidaying, consumers have returned to apparel stores in force,** and this is expected to continue going into a seasonally busy apparel spending season.

Relatively slower price growth is another force that may be supporting consumer demand for apparel. Clothing and footwear prices have increased 1.6% over the year to the June quarter of 2022. And while this is historically high with the category seeing declining price growth historically, it is the second lowest by CPI category (behind communications) and substantially lower than the 6.1% overall inflation rate. This relatively lower price growth may make consumers more comfortable spending on apparel compared to other categories as they are able to get more 'bang for their buck' than other areas of retail.

Deloitte's Global State of the Consumer Tracker reported some 42% of Australian respondents thought apparel prices went up in July, compared to a much higher 75% for grocery.

Chart 24 Share of consumers perceiving higher prices relative to the previous month (Australia)

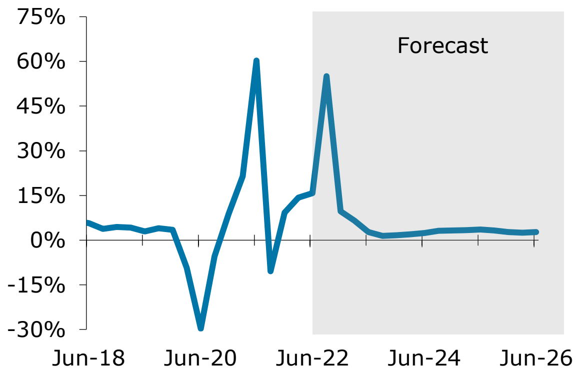


Source: Deloitte Global State of the Consumer Tracker

Apparel spending is likely to slow but remain positive over the coming months as some of the pent-up post-pandemic demand wears off. Growth in the volume of apparel spending over 2022-23 is forecast to be another double-digit figure, 15.2%. However after such a stellar run, growth over 2023-24 may be more modest.

There are still risks weighing over apparel. **If cost of living pressures continue to rise** more than expected, clothing sales may one of the areas where consumer spending slides.

Chart 25 Real apparel retailing (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Department and discount department stores

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

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
3.0%	**8.2%**	**11.1%**	**1.3%**

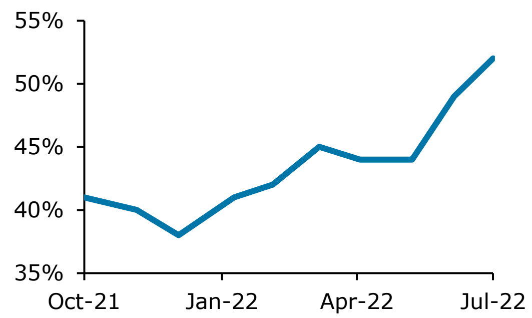
Like other areas of discretionary retailing, **department and discount stores have continued to see consumers' dollars flow their way**. The volume of retail spending at department and discount department stores increased 3.0% over the June quarter, keeping well above its pre-COVID trend. The category is also likely being supported by consumers flight to value as the rising cost of living sees consumers switch to private label and cheaper alternatives at discount stores. Overall spending at department and discount department stores is expected to remain strong until around the end of the year.

However, the current inflationary environment appears to be weighing on the category, feeling the pinch from price rises across a broad range of items. **Prices at department stores increased 2.5% over the year to the June quarter, where historically prices have been declining by a similar magnitude.** This rapid price growth in department and discount department stores is likely to hamper consumer spending intentions especially when coupled with **consumers' weakening appetite for larger and luxury purchases** after pent up demand dries up.

Deloitte's Global State of the Consumer Tracker reported a **gradual deterioration in consumers' willingness to make large purchases**. In December 2021, only some 38% of respondents reported wanting to delay larger purchases, compared to 52% in July 2022.

This **hesitation is likely to come into play around the time prices reach their peak** next quarter. At this point, department and discount department retailers are likely to see the **number of units sold stagnate but the value of spending (top line revenue) continue to grow** due to higher prices.

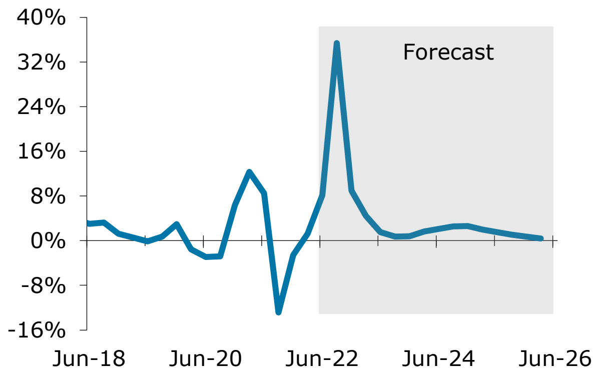
Chart 20 Share of consumers willing to delay large purchases (Australia)



Source: Deloitte Global State of the Consumer Tracker

For 2022-23 though, the volume of spending at department and discount department stores is expected to grow by a healthy 11.1%, making up for the lost ground over lockdowns. However the momentum in spending is expected to subside through the course of 2022-23.

Chart 21 Real department and discount department stores retailing (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics

Other retailing

National real other retailing turnover (volumes, seasonally adjusted)

Jun-22 growth (quarter)	Jun-22 growth (year to)	2022-23 growth	2023-24 growth
1.2%	**10.9%**	**4.0%**	**1.8%**

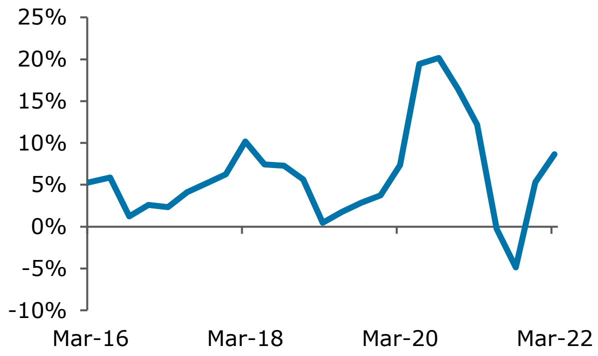
Other retailing **continues to see spending flow its way even after the pandemic buzz has passed**. Consumers spending on other retailing was up 1.2% over the June quarter. And while there is a portion of other retailing that is more non-discretionary, especially in relation to pharmaceuticals and toiletries, there is still appetite to buy up other discretionary items like recreational goods.

Pharmaceuticals, cosmetics and toiletry goods retailing remained the main driver over the quarter with nominal spending up 3.3%, helped by a **worse cold and flu season** and demand for **cosmetics as consumers social calendars begin to fill up**. Other recreational goods and newspaper and book retailing also saw nominal values up 2.4% and 9.8% respectively as recreational activities continue to draw interest.

Prices for the other retailing category are not expected to jump to the same degree as some others. Over the June quarter, **prices for other retailing were up 4.2% through the year, and this is likely close to their peak**. While recreational goods have seen price rises in line with other categories, pharmaceutical prices are likely to be influenced by the Pharmaceutical Benefits Scheme (PBS). The PBS Safety Net means more consumers are eligible for prescription discounts later in the year and as a result, price rises for pharmaceuticals are likely to be lower through to the end of the year.

Going forward, other retailing is a category that is likely to **benefit from increasing social and tourism related spending**. Households spending on goods related to recreation and culture increased 8.3% through the year to the March quarter and this trend continued through the month of June. With domestic tourism and recreational holidaying expected to recover to pre-COVID levels in 2023, there is still expected to be **demand for recreational goods**.

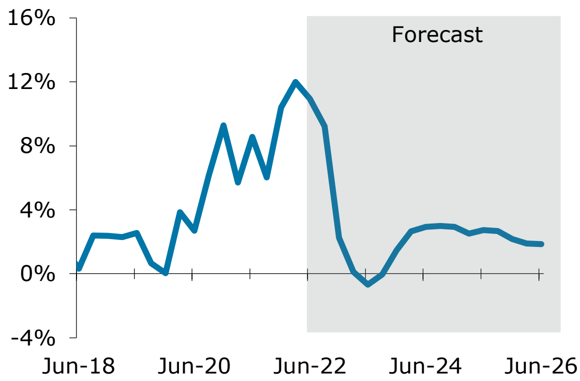
Chart 26 Household consumption on goods related to recreation and culture



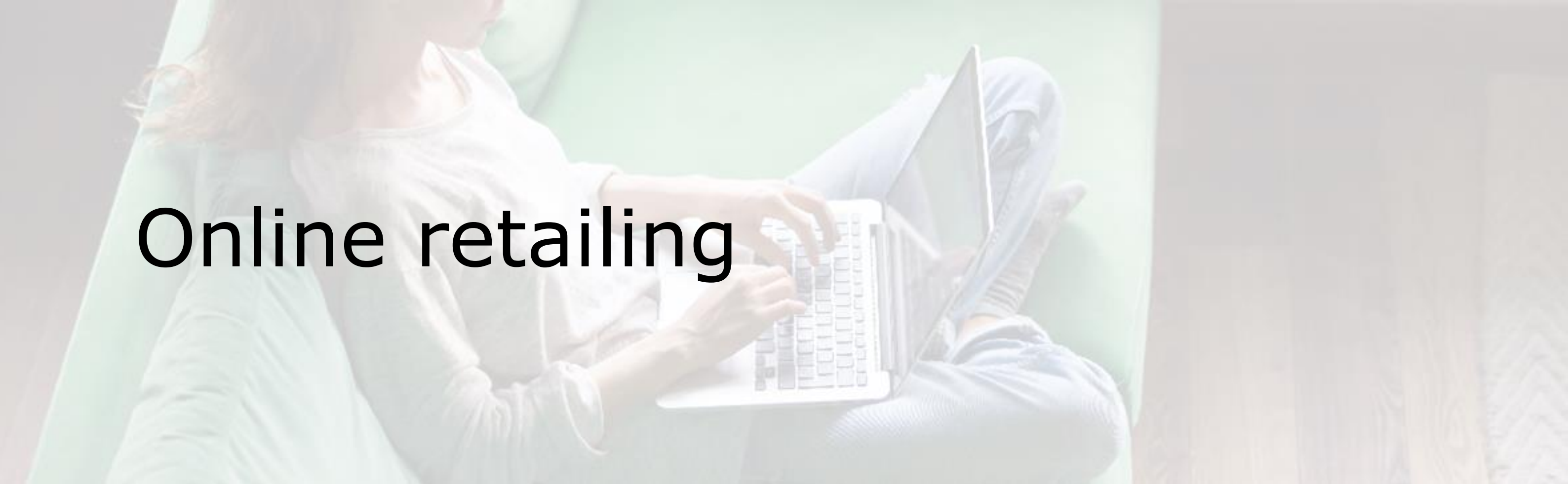
Source: ABS Cat 5206.0

The volume of spending on other retailing goods is forecast to grow 4.0% over 2022-23, after an already strong 2021-22. However, this momentum is expected to slow through the course of 2022-23.

Chart 27 Real other retail spending (year-to change)



Source: ABS Cat 8501.0, Deloitte Access Economics



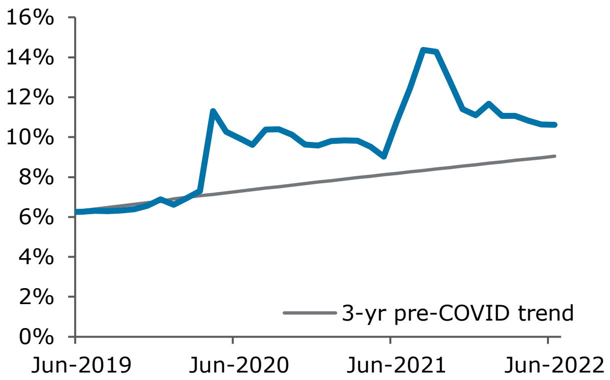
Online retailing

National nominal online turnover (values, seasonally adjusted)

Online retail % of retail sales Jun-22 (quarter)	Jun-22 growth (quarter)	Jun-22 growth (year-to)
10.6%	**-2.1%**	**21.0%**

Shoppers continued to undertake more of their spending in person as the economy gets back to normal, but overall it appears **online spending habits remain strong**. 10.6% of all retail spending in the June quarter was undertaken online, only a 0.1% drop from the March quarter. The majority of the fall was due to a decline in the share of non-food retailing undertaken online down to 12.5%, while the share of food retailing online remained relatively stable around 7.8%.

Chart 28 Online share of retail (sa, % of total retailing)

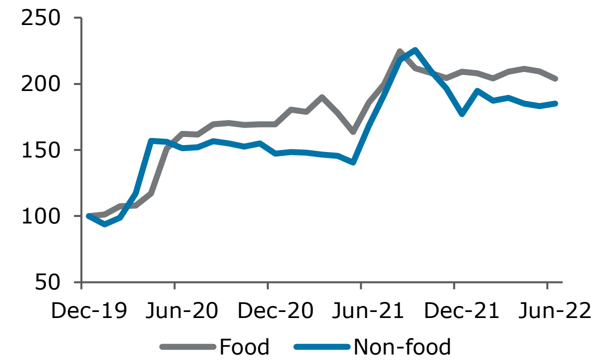


Source: ABS Cat 8501.0, Deloitte Access Economics

The shift away from online spending saw the value of nominal spending decline over the June quarter, down 2.1%. This likely impacted those that operate solely online and going forward these retailers may need to focus on keeping customers interested when there are other channels available. Some large solely online retailers reported lower earnings results over FY22, likely unable to sustain the influx of online demand seen over the pandemic.

It is interesting that if spending remained on the path seen in the three years prior to COVID, online spending could have accounted for around 9% of all retail spending. It is clear that COVID has sped up the adoption of online retailing but the extent to which some of these **online spending habits are embedded will determine whether this share remains above its pre-COVID trend.**

Chart 29 Monthly nominal online retailing (sa, Index December 2019 = 100)



Source: ABS Cat 8501.0

Overall however foot traffic continues to return and while demand for retail spaces has a mixed outlook, it is still expected to recover. While city CBDs are still looking at higher than usual number of unoccupied retail spaces, except for Sydney, over the next 12 months retailers are expected to reset and capitalise on increasing leasing options.[3]

Overall, **consumers are likely to demand more omni-channel offerings from retailers** with both a digital and physical presence supporting a growing number of services and capabilities like click and collect.

[3] CBRE Australia (2022), Australian CBD Retail Vacancy H1 2022

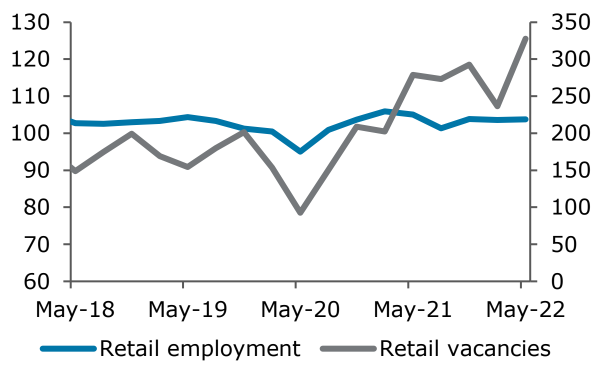
Special feature

Managing the labour force challenge and rethinking retailer’s workforce strategy

The post-pandemic recovery has been positive for retailers, but it has also brought its challenges. Alongside high inflation and interest rate hikes, Australian retailers are also facing labour shortages. **Australia is now essentially operating at full employment** with the unemployment rate at a near 50 year low and labour force participation at a record high. While this lack of spare capacity is a good sign for spending, it means that businesses are struggling to find enough staff. In the latest CFO Sentiment Survey, **90% of CFOs agreed that securing and retaining key talent was their key concern.**

The retail industry is not immune and is struggling with widescale staff shortages. According to ABS data, there were **over 40,000 job vacancies within the retail industry in May 2022** and an even greater 51,000 vacancies in hospitality. Retail job vacancies have more than doubled since May 2019, with no sign of slowing down, **but these positions aren’t being filled.**

Chart 30 Retail employment and vacancies (Index: 2014 = 100)

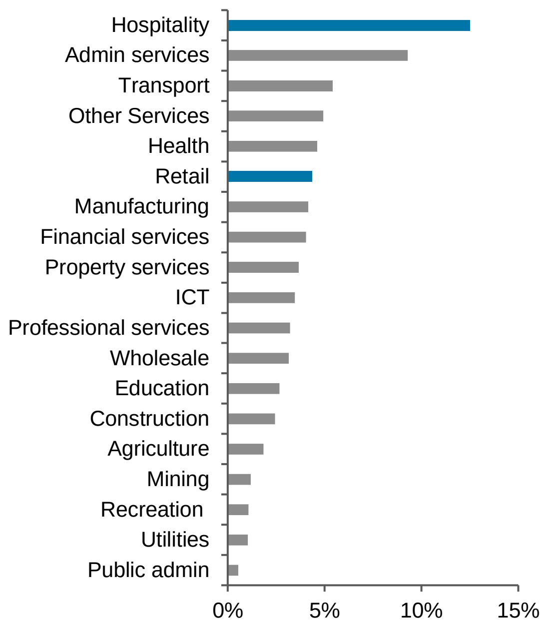


Source: ABS Cat 6291.0, ABS Cat 6354.0

Employment in the retail industry is lower than in May last year, down 1.2%. This is despite employment increasing 2.9% across the economy over the same period. By sector, furniture, recreational goods and motor vehicle retailers have seen the biggest falls in employment between May 2019 (pre-COVID) and May 2022. Furniture retailing employment is only 80% of May 2019 levels.

Importantly, the industry is missing a key component of its workforce: **migrants**. In 2019, there were 93,000 migrants, that is temporary and permanent visa holders, employed in the retail industry, making up 7.6% of the retail workforce. Notably, retail and hospitality have a large reliance on temporary migrants compared to other industries – particularly international students.

Chart 31 Temporary migrant share of workforce



Source: ABS Cat 6250.0, ABS Cat 6291.0

The closure of international borders had a severe impact on migrant arrivals, especially students. The number of student and temporary skilled visas granted in 2020-21 were nearly half the numbers in 2018-19. There were 350,000 international students in Australia in June 2022, only 65% of June 2019 levels. This is a significant barrier for the retail industry, who are unable to tap into a key cohort of workers they relied on before the pandemic.

However retail may be in a better position than some industries due to its dependence on temporary migration more than permanent. The number of international student arrivals increased from close to zero in June 2021 to nearly 30,000 in June 2022 as borders reopened late last year, and as such it is likely that **temporary migration will bounce back faster than permanent migration**. But it's unclear if and when international students will return to their pre-pandemic levels. As a result, retailers are looking for ways to plug these staffing shortages and fast – **before shortages start to become business critical**.

Beyond migration, the structure and characteristics of the retail workforce are likely also weighing on the industry's ability to attract, and retain, workers. **Historically the retail workforce has had a higher share of casual and part-time workers.** Overall this may help with attraction, but it can also make it hard to secure staff. With less entitlements tying these workers to retail jobs than full-time workers and high transferability of skills between retail jobs, workers are more likely to shift between employment, particularly now as the competition for retail workers ramps up.

About **12.1% of the retail workforce changed jobs in the year to February 2022**, compared to 9.5% across all industries, although retail has historically accounted for a larger share of all job changes. The key challenge is that retail employment has not increased over the same period. So while the scale of people changing jobs and shifting out of the retail industry is somewhat normal**, the industry isn't filling its open positions**.

Some 44% of retailers surveyed by the ABS in June 2022 are looking to increase staff numbers and 36% are expecting to increase staff hours over the next three months. This was much higher than the industry averages at 27% and 19% respectively, **meaning retail, even more than many other sectors, need workers (and soon).**

Generally, businesses can attract workers in a tight labour market by increasing wages. But the retail sector in particular has faced mounting input price pressures, leaving little room for wage increases. **Only 26% of retailers were planning to increase wages or salaries** to attract and retain staff, lower than the 30% average across all industry respondents.

However, there are other **workforce strategies retailers can use to attract and retain workers** in this current tight labour market**.** Deloitte's Human Capital team is active in advising retailers on such strategies.

Start by reviewing and addressing attrition drivers within your control. While churn is particularly high for retail due to the tight labour market and a highly casualised workforce, there are opportunities for retailers to reduce unwanted attrition. It starts by understanding the underlying causes leading to high attrition rates.

- Look at trends in attrition to identify workforce segments with high turnover. Trends could include role type, demographic data, shift length, roster scheme, or specific stores with above average workforce churn.
- Review exit data (e.g. exit interviews, post-exit follow up interviews or store manager commentary)
- Engage and listen to current team members of highly impacted workforce segments to identify reasons for leaving. Common concerns include a lack of flexibility in rosters or work hours; minimal training investment; isolation in shift activities with little to no interactions with other team members; a lack of diversity and support to complete new duties/tasks leading to highly repetitive workdays; outdated work policies; and few incentives/perks below manager level.
- Listen to the feedback and prioritise action areas
- Experiment with interventions to address pain points and assess engagement and attrition changes.
- Calculate the return on investment and scale successful new work practices into other stores or business areas

Challenge old orthodoxies on how work is performed and how talent is sourced. The tight labour market has accelerated innovation in how work is performed with greater investment in labour-less stores; digital enablement of work activities and automation to improve long term productivity. Additionally, retailers and other industries are tapping into talent that has previously been 'hidden in plain sight' with an increase in refugee employment programs bringing talent into stores, fulfilment centres and corporate roles, as well new flexible work practices to increase women's workforce participation.

Make your organisation more irresistible to current and future team members. Deloitte's research on how to attract, engage, retain and excite the 21st Century workforce led to the development the **Simply Irresistible workforce framework**. The framework defines five main factors and underlying attributes that work together to drive engagement and make organisations "simply irresistible" to the workforce—both prospective and current employees. Many of these factors have been used by global retailers to improve their workforce and customer experience. Zente Ton, the MIT business professor studied the difference between "good jobs" and "bad jobs" in her research on the retail sector. Her book 'The Good Jobs Strategy' provides examples of companies that design jobs for higher value that outperform their competitors.

The difference Zente Ton explains is the 'good jobs' design that includes elements such as investments in cross skilling, more generous rostering to foster friendships and the ability for staff to cover for each other, to rearrange the store and to provide service to customers, standardised processes and empowered decision authorities and more diversity in work activities.

As Ton summarises, "The good jobs strategy – the combination of operations and investment in employees – allows companies to make more money than their competitors do, to create jobs that give dignity and respect to their employees, and to provide low prices and excellent service to customers".[4]

Further, Deloitte's Global 2022 Gen Z and Millennial survey suggests **looking to the future to design work that appeals to a young retail workforce and next generation of retail leaders**. Millennials and Gen Zs are not passive – they are driving the change they want to see in the world and leaning on their values to make career choices. The shift toward climate action and stakeholder capitalism is resonating with Millennials and Gen Z. They remain unimpressed with businesses' impact on society, but they may be starting to feel more optimistic about business leaders' intentions.[5] Pay is the number one reason Millennials and Gen Zs have left their employers over the last two years, closely followed by feeling that the job was detrimental to their mental health and that they were feeling burnt out. However, when they have chosen a new job their top reasons have been good work/life balance, learning and development opportunities with a high salary or other financial benefits coming in at number three.

While the labour market is expected to remain tight, there are actions retailers can take to retain and excite the talent they have and attract new talent – with an eye to the future labour market changes.

Figure 2 Simply Irresistible: Engaging the 21st Century Workforce

Meaningful work	Support management	Positive work environment	Growth opportunity	Trust in leadership
Autonomy	Clear and transparent goals	Flexible work environment	Training and support on the job	Mission and purpose
Select-to-fit	Coaching	Humanistic workplace	Facilitated talent mobility	Continuous investment in people
Small, empowered teams	Investment in development of managers	Culture of recognition	Self-directed, dynamic learning	Transparency and honesty
Time for slack	Agile performance management	Fair, inclusive and diverse work environment	High impact learning culture	Inspiration
Cross-organisation collaboration and communication				

Source: Deloitte

[4] Ton, Z. The Good Jobs Strategy: How the smartest companies invest in employees to lower costs and boost profits". MIT Sloan School of Management

[5] The Deloitte Global 2022 Gen Z and Millennial Survey

Appendix

Our publications

Budget Monitor

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

Business Outlook

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

Employment Forecasts

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

Investment Monitor

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

Retail Forecasts

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

Tourism and Hotel Market Outlook

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

For any publication or subscription queries please contact us via phone, email or visit us online:

+61 3 9667 5070
daesubscriptions@deloitte.com.au

David Rumbens

Partner, Deloitte Access Economics
drumbens@deloitte.com.au
+61 434 671 039

Victoria Holt

Senior Analyst, Deloitte Access Economics
vholt@deloitte.com.au