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Roy Morgan Retail Sales outlook for 2024

By Roy Morgan's Retail & Consumer Trends Expert Laura Demasi

Despite the intense cost of living pressures on households over 2023 the much-feared consumer spending 'cliff' did not come to pass with retail sales steadied by record population growth, continued strong employment, and the dwindling remains of record household savings.

With 2024 set to be another uncertain year, Roy Morgan unveils its retail sales forecast and steps through some of the factors that will shape how the year might unfold.

Population growth continues to be the key factor holding up retail:

Australia's population grew by 2.4% in the 12 months to June 2023¹, adding 518,100 people to our population from overseas migration. This record growth did much of the heavy lifting in helping the country avoid recession. While the intake of migrants is set to scale down in 2024², this boost to the population will continue to help steady retail demand.

Record low ANZ-Roy Morgan Consumer Confidence will likely persist until consumers feel certainty that the cycle of rate rises has ended but some green shoots are appearing:

2023 marked an unprecedented year for ANZ-Roy Morgan Consumer Confidence as it hovered at recessionary lows, spending 31 straight weeks below 80³.

As we ring in 2024 the Index is starting to climb back up over 80⁴, following the announcement of lower-than-expected ABS official inflation for November⁵ and again in January, now at 3.4%, inspiring hope of rate cuts coming sooner rather than later.

31% of mortgage holders – or 1.49 million Australians – are 'At Risk' of Mortgage Stress⁶:

The majority of mortgages on fixed terms rolled out in 2023⁷ without triggering some of the worst-case scenarios around defaults and fire sales but 'Mortgage stress' is still hovering at concerning levels seen only a handful of times since the GFC.

The latest Roy Morgan Mortgage Stress indicator shows that 1,609,000 mortgage holders were 'At Risk' of 'mortgage stress' in the three months to January 2024, following the November increase lifting rates to 4.35%. This represents a new record high total for mortgage holders considered 'At Risk' of mortgage stress, beating the previous record highs above 1.56 million in August and September 2023. The number of Australians 'At Risk' of mortgage stress has increased by 802,000 since May 2022, when the RBA began a cycle of interest rate increases.

Meanwhile, the number of mortgage holders considered 'Extremely At Risk' of mortgage stress is now numbered at 994,000 (19.8% of mortgage holders), which is significantly above the long-term average over the last 10 years of 14.3%.

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Interest rates rise aren't affecting everyone, there are still cohorts with spending power

Around 34% of Australians are mortgage holders, with the remaining two thirds split between those who rent and those who own their homes outright. The latter group of home-owners represent around 34% of the population - a significant cohort whose spending power is unaffected.

In addition, many young adults are also free from the burden of market rents and mortgages eating into their discretionary spending - with just over half of young men (54 per cent) and 47 per cent of young women aged 18 to 29 years old still living under the same roof as their parents.

(The Melbourne Institute HILDA Survey 2024)

Despite cost-of-living pressures over 2023, Australians are back to holidaying, as travel continues on the road to reclaiming its share of wallet

The Roy Morgan Holiday & Travel survey indicates Australians spent \$52 billion on leisure travel in the 12 months to September 2023, putting it on track to reclaim its share of wallet and away from big ticket retail. close to the annual pre-covid spend of \$63 billion (though some of the increase in spend is a result of higher prices, particularly international travel).

Australian retailers will face increasing price pressure from the phenomenal rise of ultra cheap retail platforms Shein and Temu – who now have more than 2 million Australian customers each month

The surprising rise of multicategory online Chinese retailers Shein and Temu is creating a new market for ultra cheap, low quality, throw-away goods that few could have predicted would gain traction in Australia.

Roy Morgan Retail data shows more than that close to 800,000 Australians buy from Shein each month, resulting in an estimated \$1.09 \$1 billion in annual sales, and a staggering 1.26 million people are buying bought from Temu each month over the Oct-Dec 2023 quarter, putting it on track to hit around \$1.49 \$1.3 billion in an annual sales should those current customer numbers hold.

While these platforms have redefined the very concept of 'cheap' with scores of clothing and household items under \$20, the longevity of such businesses built on aggressive loss-making customer acquisition remains unknown.

Shifting trust in Retail

Thanks to much goodwill built up over the pandemic, Retail is the most trusted sector led by Woolworths and Coles who finished first and second in Roy Morgan's Most Trusted Brand Awards for 2023

However, in recent months a shift is underway, with distrust rising as consumers struggling with the cost of living ask questions about the role of big retail, particularly supermarkets, in driving inflation amid publicity of high profits, growing government scrutiny and media coverage of the sudden departure of Woolworths' CEO. As a result, careful monitoring of distrust – and managing it - will be critical in 2024.

Roy Morgan preliminary forecast for retail sales growth is 1.2% for 2024

A continued flattening of retail sales is forecast for the next 12 months. The first ABS retail sales figures available for the year, January 2024, show retail sales up 1.1% on January 2023, and up 1.1% month, already kicking off the flattening trend.

In line with the usual seasonal trend, an uptick of \$20 billion is forecast for the second half of the year which is driven by Christmas sales and now Black Friday sales in November.

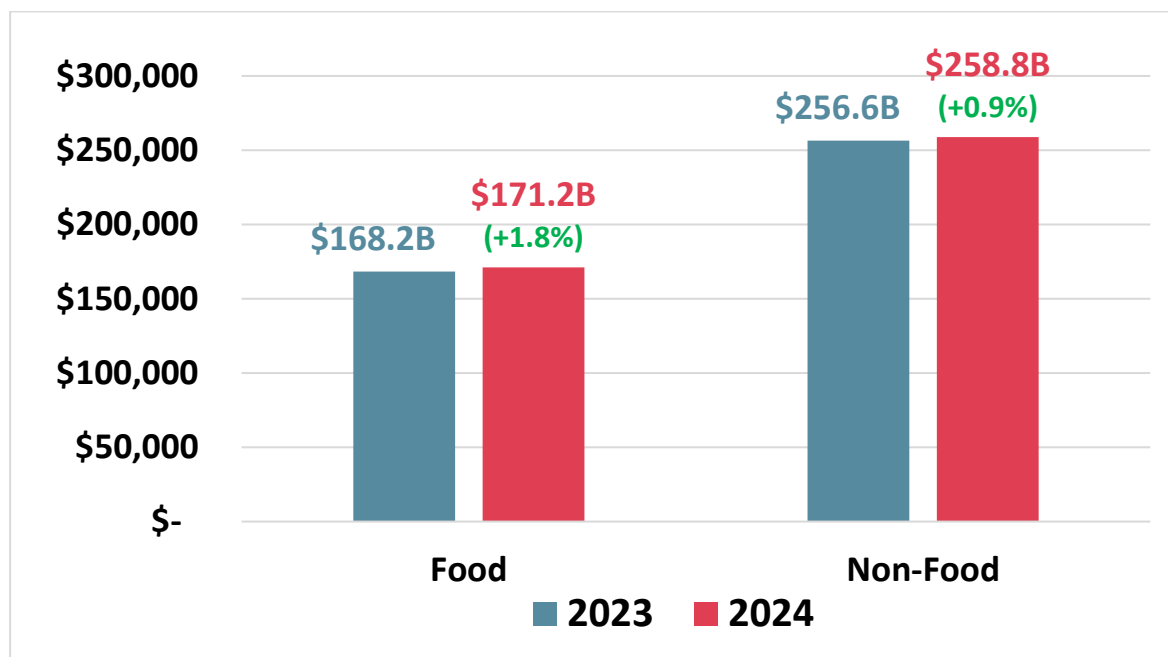
However, the second half of the year may see further growth thanks to some factors that could potentially boost the spending power of consumers.



These include a continued drop in inflation, likely interest rate cuts⁸, stage 3 tax cuts (even as modified, now set to boost middle income earners), a drop in electricity prices (thanks to the 50% drop in the wholesale cost of energy finally flowing down to retail prices from July⁹).

One of the key factors to look out for in 2024 as consumers continue to deal with high interest rates and lingering inflation is that spending growth on the Food category (which comprises about 40% of total monthly retail sales and is regarded as non-discretionary spending) is set to grow at twice the rate of the Non-Food categories (discretionary spending) during 2024.

Retail sales forecast (Food & Non-Food) – Original Figures in \$ billions (2023 vs. 2024)



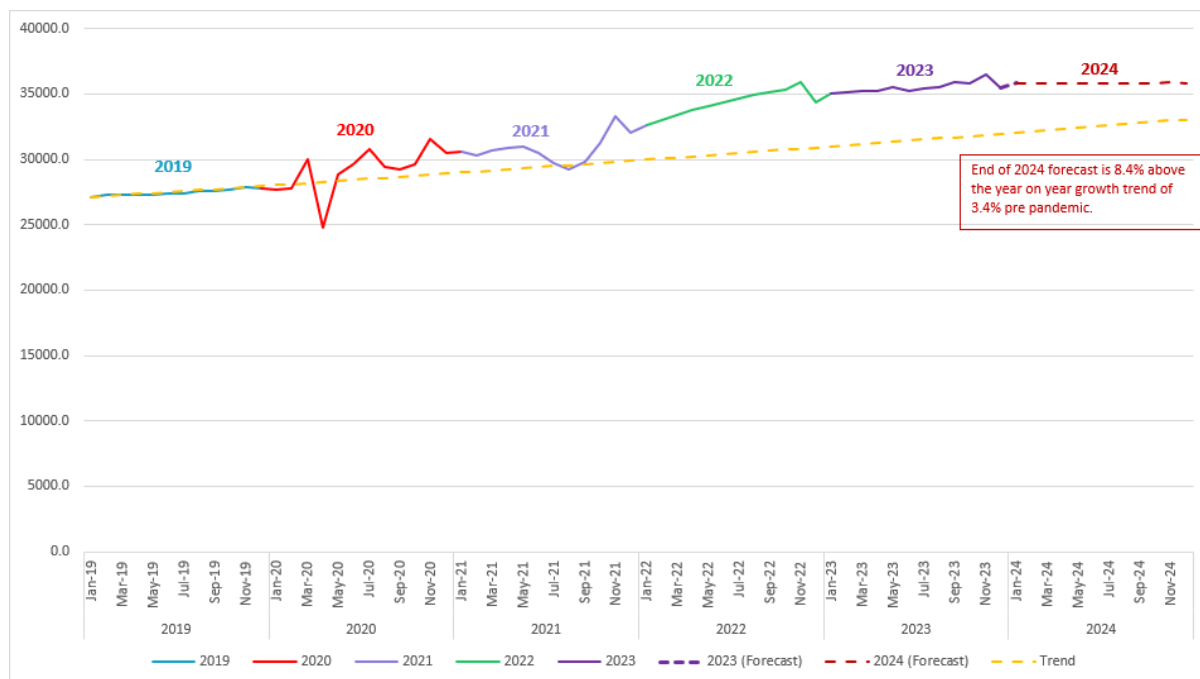
Note: "Non-Food" includes the discretionary spending categories of Household goods retailing, Clothing, footwear and personal accessory retailing, Department stores, Other retailing and Cafes, restaurants and takeaway food services.

By the end of 2024 Retail sales are still likely to be sitting above the pre-covid trend

Roy Morgan's preliminary retail forecast for 2024 sees the year ending with retail sales still about 8.4% higher than the pre-pandemic trend; based on retail sales growing at the normal rate of 3.4% each year, which is the annual average growth rate from 2010-2023, excluding the much higher pandemic years (2020-22).



ABS Retail Sales – Seasonally Adjusted comparison (2019-2024) – \$ billions



How does Roy Morgan forecast retail sales?

Roy Morgan has forecast retail sales for decades, based on a proprietary statistical predictive model that draws on a range of different inputs that influence spending.

These inputs include historical spending data from the Australian Bureau of Statistics (ABS) over the last 25 years and incorporate other critical factors such as population growth, income, unemployment, inflation (current and the RBA's annual inflation forecast released quarterly forecast), and of course interest rates.

To understand more about how Roy Morgan forecasts monthly retail sales as well as the underling research and data behind that power these forecasts, ask Roy Morgan.

To learn more about Roy Morgan's retail sales forecast data, call (+61) (3) 9224 5309 or email askroymorgan@roymorgan.com.

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About Roy Morgan

Roy Morgan is Australia's largest independent Australian research company, with offices in each state, as well as in the U.S. and U.K. A full-service research organisation, Roy Morgan has over 80 years' experience collecting objective, independent information on consumers.



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Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	Percentage Estimate			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
5,000	±1.4	±1.2	±0.8	±0.6
20,000	±0.7	±0.6	±0.4	±0.3
50,000	±0.4	±0.4	±0.3	±0.2

¹ ABS: National, state and territory population release (June 2023), <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release>

² SMH: Australia's migrant intake blew out to 510,000. Students are central to the plan to halve that (December 11, 2023), <https://www.smh.com.au/politics/federal/australia-s-migrant-intake-blew-out-to-510-000-students-are-central-to-the-plan-to-halve-that-20231210-p5eqcg.html>

³ ANZ-Roy Morgan Consumer Confidence Rating (October 3, 2023): <https://www.roymorgan.com/findings/9330-anz-roy-morgan-consumer-confidence-october-3>

⁴ ANZ-Roy Morgan Consumer Confidence Rating (January 23, 2024): <https://www.roymorgan.com/findings/9400-anz-roy-morgan-consumer-confidence-january-23>

⁵ ABS: Monthly Consumer Price Index Indicator (November 2023); <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/monthly-consumer-price-index-indicator/nov-2023>

⁶ Roy Morgan monthly 'mortgage stress': 'Mortgage stress continued to ease in November despite the RBA raising interest rates on Melbourne Cup Day'; <https://www.roymorgan.com/findings/mortgage-stress-november-2023>

⁷ The Guardian: \$15,000 more a year: Australia's homeowners brace as interest rate hikes bring 'mortgage cliff' closer. "Along with the 880,000 expiring fixed loans in 2023, there are a further 450,000 due to expire in 2024 and beyond." (June 8, 2023). <https://www.theguardian.com/australia-news/2023/jun/08/15000-more-a-year-homeowners-brace-as-interest-rate-hikes-bring-mortgage-cliff-closer>

⁸ Yahoo Finance AU: Economists tip RBA interest rate cuts in 2024 - here's when (January 15, 2024): <https://au.finance.yahoo.com/news/economists-tip-rba-interest-rate-cuts-in-2024---heres-when-232236143.html>

⁹ ABC News: The cost of supplying energy has halved, but it'll be a while before your bills reflect that. This is why (November 25, 2023): "The wholesale price of electricity has come down 50 per cent," Buckley says. "This should, all things being equal, lead to lower electricity prices from July 1 next year." <https://www.abc.net.au/news/2023-11-25/energy-prices-have-dropped-why-bills-are-still-high/103146556>

