Retail Health Index June 2025

KPMG Australia

Contents

Tariff Headwinds

Welcome to the latest edition of KPMG Australia's Retail Health Index© (RHI). The RHI provides data-driven insights on the current and future health of Australia's retail sector from the perspective of businesses operating in the sector.

In our previous edition, we expected the index to cruise into positive territory in the second quarter of 2025. Unfortunately, this recovery has faced an unexpected roadblock in the first quarter of 2025, as consumer confidence plummeted in response to the global uncertainty created by the change in trade policy by the new US Administration. The escalation of trade tensions has emerged at a delicate point in Australia's economic cycle, just as domestic conditions and the mood of consumers were beginning to improve following the first interest rate cut in nearly five years.

Our latest forecast continues to suggest that the medium-term outlook for the sector remains positive. The index is anticipated to tip just above zero in the June quarter, although this is slightly below our earlier projected recovery path. The RHI has been kicked down the road a little as consumption and confidence retreat in the face of increased economic uncertainty.

After months of tightening their belts, Australians should soon start to feel better about their finances. With interest rates dropping, and the cost-of-living pressures softening, there is more room in the budget for the nice-to-haves. On top of that, as the labour market remains resilient and wages start to catch up, families are likely to feel a little bit more confident and secure in opening their wallets and spending.

Key economic takeaways

- Households continue to be cautious with their spending. Retail volumes barely grew in the March quarter of 2025 and retail spending per capita encountered a minor dip following two consecutive quarters of growth.
- Consumer sentiment dropped sharply following US tariff announcements, with forward-looking expectations weakening across both financial and economic indicators, highlighting elevated uncertainty.
- Cost pressures continue to be elevated, as both input costs and wage growth have yet to slow down sustainably.
- Retail performance deteriorated modestly in early 2025, with insolvencies reaching record levels and employment growth weakening.
- More and more Australians are choosing to shop online. However, households are staying savvy, looking for deals and keeping their budgets tight; resulting in more activity but lower average spending per household.

The Trump Card

- Unsurprisingly, the announcement of global tariffs to right-size the US trading relationships with its international trading partners not only caught the eye of Australian suppliers to US retailers, who are staring down the barrel of increased final prices for the goods they sell directly or indirectly to US consumers, it also caught the eye of Aussie consumers, who have a keen sense of opportunity in an increasingly volatile global marketplace.
- So, what's the problem? Even ignoring the fundamental question as to whether tariffs are good or bad policy, the more immediate challenge for Australian retailers is the uncertainty that the policy creates, torpedoing (at least for the moment) a recovery in consumer (and retailer) confidence.
- From a consumer perspective, the headlines scream an increase in economic risk, so they batten down the hatches and pare back spending.
- From a retailer perspective, the red flags apply to supply chain security PLUS a cloud over how, when, and where they should invest capital to grow markets and market share.
- In many respects, while consumer confidence can come and go, the more important measure for the sector is retailer confidence around investment decisions for the next five or ten years. At best, we may see a pause in investment decisions; at worst, we may see key investments shelved until there are clearer signs of geopolitical uncertainty stabilising.
- In the short term, all this means is that the predicted retail recovery which was starting to gain traction has dropped back a gear while consumers (and retailers) adopt a wait-and-see approach.
- Our overall perspective, however, remains positive. Momentum is still going forward. Every interest rate drop definitely helps, so our glass is half full.

We hope you enjoy reading our KPMG RHI report and if you would like to know more about how KPMG can help your business, please contact us.

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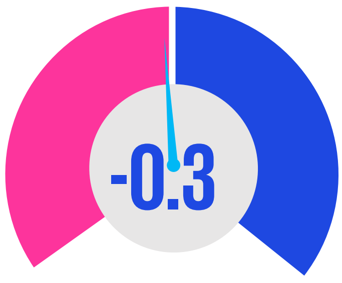
Retail performance dashboard



KPMG Retail Health Index

KPMG Retail Health Index Components

- -0.76 Producer Price Index
- -0.35 Wage Price Index
- 0.97 Consumer Sentiment
- -0.77 Volume

Spending indicators

106B Retail sales *+0.03% q/q*

+1.1%

+0.3% Retail turnover per capita (q/q)

Consumer sentiment

5.2% Household Saving Ratio

+1.02% Household Spending (q/q)

27.3B Population *+0.4% q/q*

Cost indicators

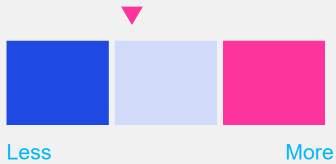
+0.9% Producer Price Index

+0.9% Wage Price Index

0.63 Foreign Exchange (AUD/USD)

0.9% CPI index (Inflation)

Global Supply Chain Pressure Index



Performance indicators

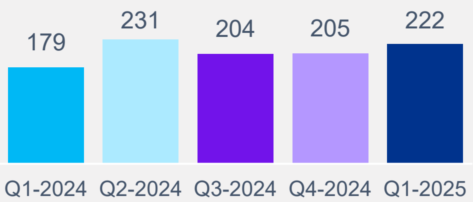
1.36M Australians work in retail

329,000 Vacancies

37M Hours worked

+4.8% Online Sales

Insolvencies



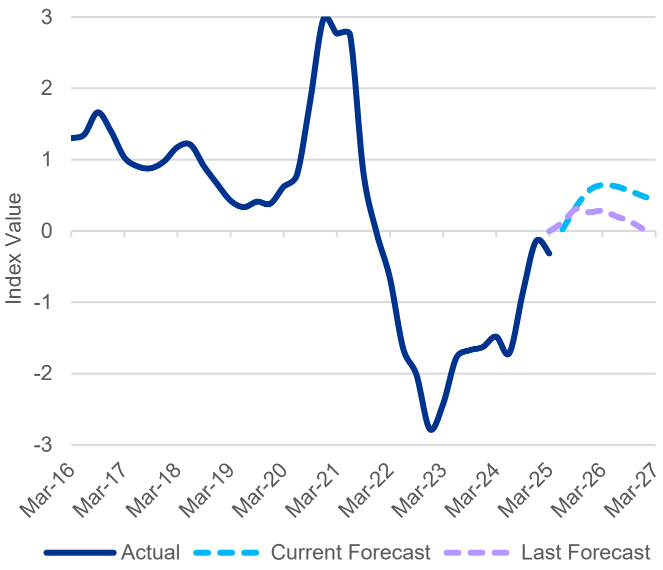
Note: All figures are as of the March quarter 2025, except for the Population data (June quarter 2024).

Retail Health Index

KPMG's Retail Health Index© (RHI) faced a setback in its recovery, mainly due to elevated cost pressures and stagnant retail turnover. Consumer sentiment would have offset these challenges following the first interest rate cut in almost five years, if not for the trade war.

FIGURE 1

Retail Health Index, Actual and Forecast



Source: KPMG's calculation

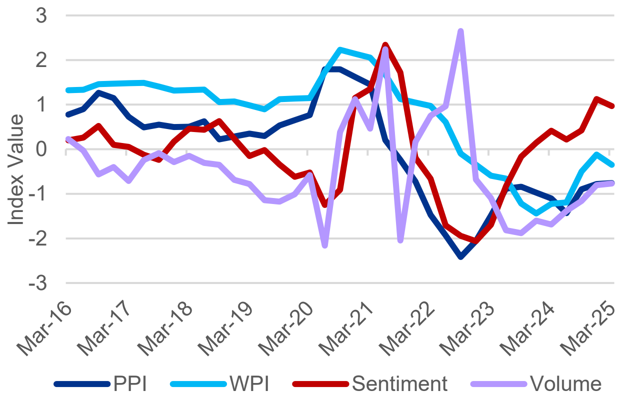
The RHI experienced a minor setback on its pathway to recovery in healthy retail conditions. Between the December quarter 2024 and the March quarter 2025, the KPMG RHI fell by 0.17 index points, declining to -0.32.

The escalation of trade tensions has emerged at a delicate point in Australia's economic cycle, just as domestic conditions and the mood of consumers were beginning to improve. In addition, Cyclone Alfred in Queensland and Northern New South Wales is likely to have weighed on household spending in the March quarter 2025.

Our latest forecast continues to suggest that the medium-term outlook for the sector remains positive. Easing inflation, lower interest rates, rising household consumption, and a resilient labour market will continue to support the health of the retail sector. The index is anticipated to tip just above zero in the June quarter, although this is slightly below our earlier projected recovery path.

FIGURE 2

KPMG RHI by Component Factors



Source: KPMG's calculation

In the March quarter 2025, three out of four components of the Retail Health Index (RHI) were still negative. Despite improvements in the Producer Price Index (PPI) and sales volumes, continued pressures from wages and consumer sentiment led to a downward trend in the sector's recovery trajectory for this quarter.

- **Producer Price Inflation (PPI):** Slightly improved from -0.78 in the December quarter 2024 to -0.76 in the March quarter 2025, showing a slowdown in price growth from 78% to 76% above its historical average. This as a result added 0.01 index points to the improvement in RHI.
- **Wage Price Index (WPI):** Declined from -0.12 in the December quarter 2024 to -0.35 in March quarter 2025, indicating an increase in wage growth from 12% to 35% above its historical average. WPI was the main factor behind the RHI deterioration this quarter, contributing more than half to the decline.
- **Consumer Sentiment:** Decreased from 1.13 in the December quarter 2024 to 0.97 in the March quarter 2025, contributing 0.53 index points to the RHI, down from 0.61 in the previous quarter. The fall in consumer sentiment was a second largest factor influencing the fall in the RHI this quarter.
- **Sales Volume:** Improved slightly from -0.81 in the December quarter 2024 to -0.77 in the March quarter 2025, reducing its negative impact on the RHI. Its contribution to RHI remained negative at around -0.20 index points, attributing 4% to the RHI quarterly change.

Spending indicators

Despite further easing in cost-of-living pressures, the US tariff shock has dampened household spending momentum in the March 2025 quarter by lowering consumer sentiment.

Retail sales

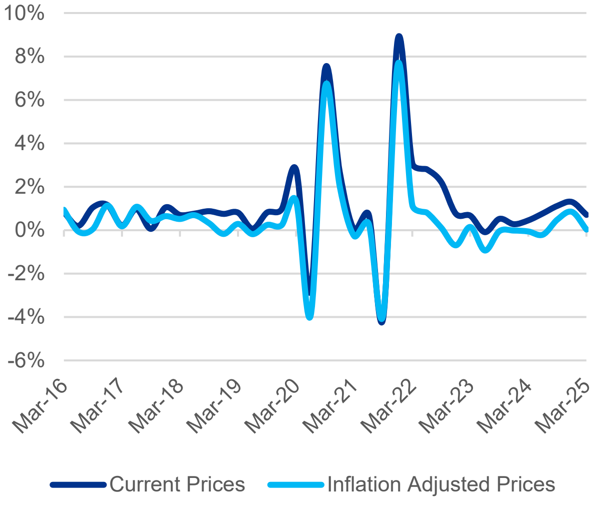
Households are struggling to maintain the spending momentum observed in previous quarters, impacting retail sales growth in early 2025.

In volume terms, quarterly retail sales in the March quarter were effectively unchanged compared to the previous quarter, noticeably weaker than the growth rates observed in the December quarter and September quarter 2024, when volumes rose by 0.8% q/q and 0.5% q/q respectively. Over the year, retail volumes still increased 1%, maintaining the same growth as the previous quarter.

Retail turnover in current dollars rose 0.7% this quarter, a clear moderation from the 1.3% and 1.1% gains recorded in the final two quarters of 2024. The softer outcome appears to reflect a normalisation in discretionary spending patterns after a period of strong promotional activity in late 2024.

FIGURE 3

Retail Turnover, Current and Inflation Adjusted Prices, Quarterly Change (%)

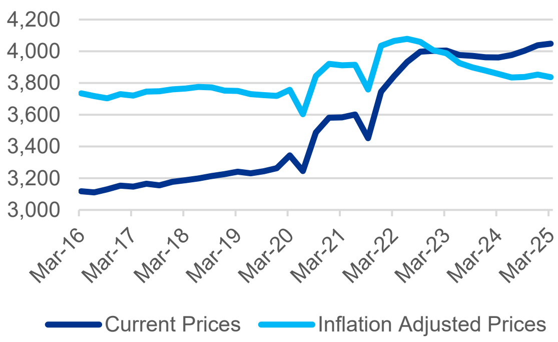


Source: ABS, Haver, KPMG

On a per capita basis, retail volumes declined by 0.4% q/q in the March quarter, reversing the growth recorded over the previous two quarters. Compared to the same quarter last year, per capita retail volumes are 0.5% lower and 5.9% below the peak reached in the June quarter of 2022. Despite this, they are still 3.2% above the pre-pandemic level observed in the December quarter of 2019.

FIGURE 4

Retail Turnover per Capita, Australia, Current Prices and Inflation Adjusted Prices ($)



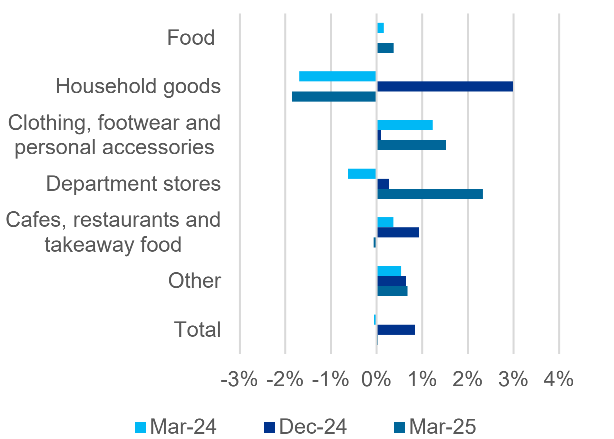
Source: ABS, Haver, KPMG

The higher frequency monthly retail turnover slowed broadly in April 2025, declining by 0.1% m/m in seasonally adjusted terms, following a 0.3% lift in March. The weather had a significant impact on retail trade in the recent month. In Queensland, retail activity rebounded in April after ex-Tropical Cyclone Alfred had kept many people indoors during March. In contrast, the warmer weather in April across the country appears to have led people to delay restocking their winter wardrobes.

The downturn was broad-based, reflecting subdued household spending despite falling interest rates and modest improvements in real incomes. Industry results were mixed, with sharp falls in clothing and department stores (both -2.5%) partly offset by gains in café, restaurants and takeaway food services (+1.1%), other retailing (+0.7%) and household goods (+0.6%).

FIGURE 5

Inflation Adjusted Sales by Category, Quarterly Change (%)



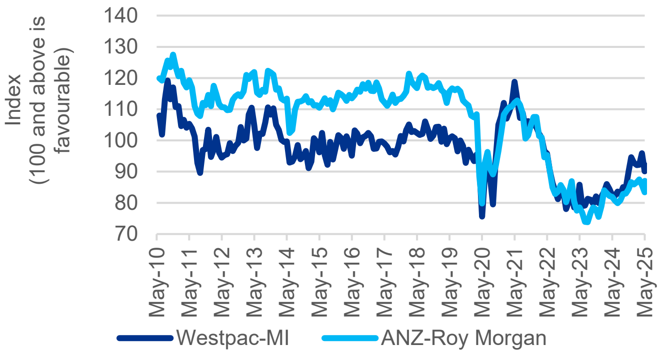
Source: ABS, Haver, KPMG

Consumer sentiment

Consumer sentiment has experienced a reversal of fortunes as a deteriorating global outlook and intensifying tariff dispute weigh heavily on household confidence. The Westpac–Melbourne Institute Consumer Sentiment Index showed a slight recovery in May after April's sharp decline, which occurred after the reciprocal tariff announcements made by US President Trump on 2 April. Prior to the announcement, the index printed at 95.9 in March 2025, its highest level in since April 2022 following the first interest rate cut in nearly five years.

FIGURE 6

Consumer Sentiment



Source: Westpac, Melbourne Institute

The breadth and severity of the new tariff regime, including a 10% levy on Australian exports to the US, caught markets off guard and triggered a substantial sell-off in global equities. With the trade war remaining unresolved, there is a material risk that sentiment will decline further in coming months.

Weakness in confidence was broad-based across the survey's subcomponents. Most components improved in May, though all remain below the levels before the levels before the tariff announcement.

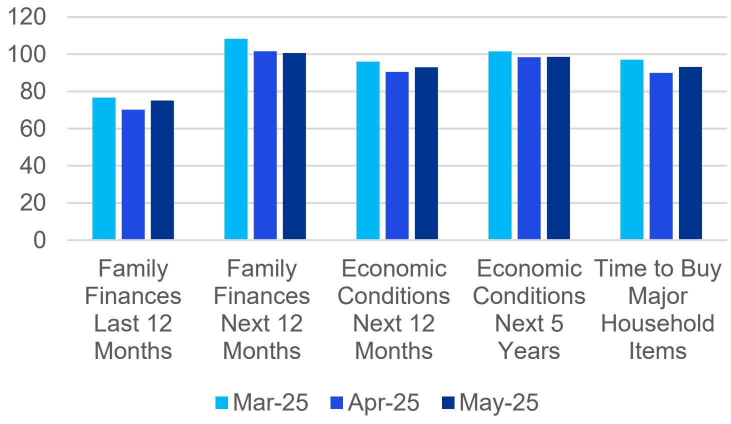
Many households are feeling worried about their personal finances. The 'family finances compared to a year ago' sub-index rose to 75.1, up from 70.2 in April. However, it remains at its lowest level since the introduction of Stage 3 tax cuts in July of last year.

Short-term expectations around the macroeconomic outlook also indicates a growing sense of unease. The the 'economic outlook over the next 12 months' sub-index remains well below favourable levels, while the 'economic outlook over the next 5 years' sub-index remained largely stable in the 'net pessimistic' territory, standing at 98.6.

This caution after the 'reciprocal tariffs' announcements has also translated into weaker sentiment around discretionary spending in April, prompting a wait-and-see approach. However, since May, consumers seem slightly less pessimistic about spending. The 'time to buy a major household item' sub-index edged up to 93.2. This sub-index has shown the most significant year-over-year improvement, rising 21.9%, driven by moderating inflation and reduced concerns over the cost of living.

FIGURE 7

Westpac–Melbourne Institute Consumer Sentiment by Component

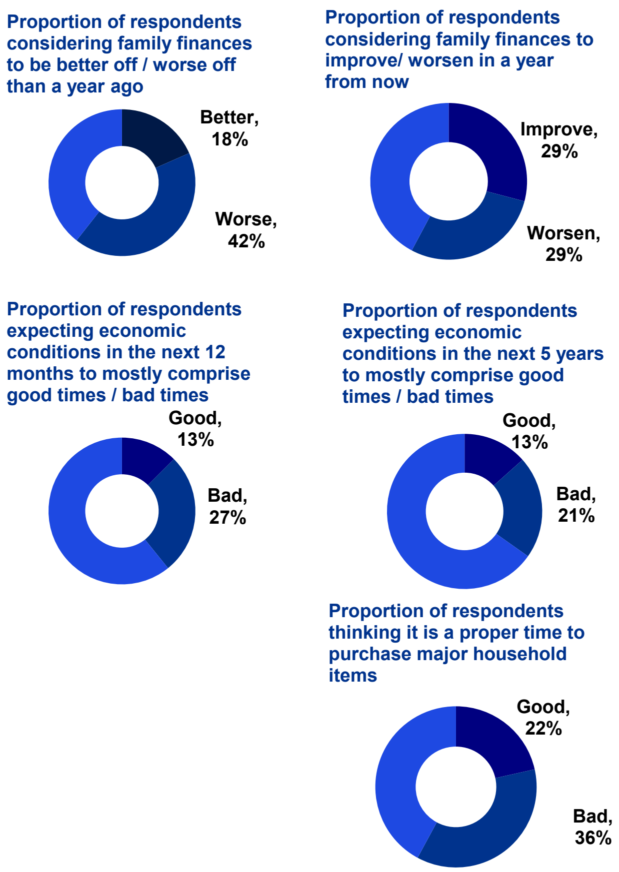


Source: Westpac, Melbourne Institute

A similar picture emerges from the ANZ–Roy Morgan Consumer Confidence Index, which averaged 87.6 over the four weeks to 2 June, down from a 2025 peak of 89.8 recorded on 23 February. The fall was most pronounced in forward-looking subindices, with both financial and economic confidence now below their averages for the second half of 2024.

FIGURE 8

ANZ–Roy Morgan Survey of Consumer Confidence, May 2025



Source: ANZ, Roy Morgan

Household spending

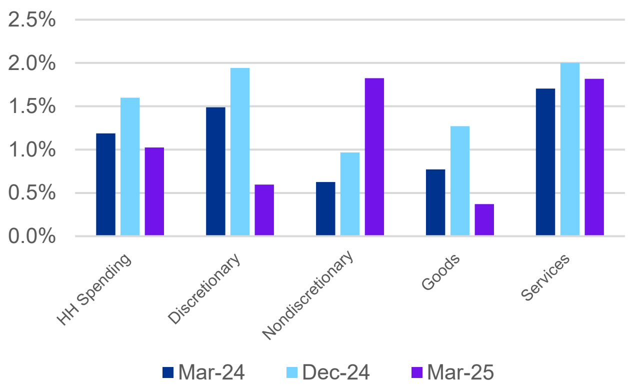
Quarterly household spending increased by 1% in the March quarter 2025. This growth was significantly lower compared to the previous quarter and the same period last year, most likely because of Cyclone Alfred impacting the nation's northeast. Once adjusted for inflation, household consumption remained flat in the March quarter 2025.

The slowdown in household spending growth occurred across both discretionary and goods expenditures, increasing at only one-third of the rate observed in the previous quarter.

In a more detailed breakdown of expenditure classes, expenditures for alcoholic beverages and tobacco fell 5.9% q/q, while spending on hotels, cafes, and restaurants fell by 1.2% q/q. Offsetting these were increases in spending on miscellaneous goods and services, up 1.5% q/q; recreation and culture, up 0.9%; and food, up 0.4% q/q.

FIGURE 9

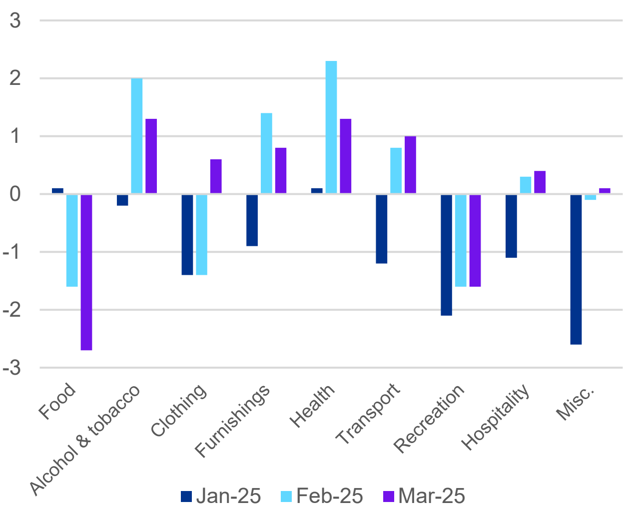
Household Spending by Special Aggregates, Quarterly Change (%)



Source: ABS, Haver, KPMG.

FIGURE 10

Household Spending by Category, Monthly Change (%)



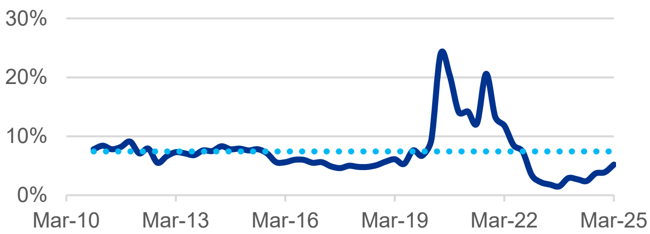
Source: ABS, Haver, KPMG

In nominal terms, household spending declined by 0.3% m/m in March 2025, following five consecutive months of gains. Goods-related expenditure edged up by 0.1% m/m, supported by higher spending on food, household appliances and tools, motor vehicles, and recreational goods. However, this was outweighed by a 0.7% m/m fall in services spending, driven by weaker outlays on accommodation, transport services, vehicle maintenance, and health. The latest Commbank Household Spending Insights shows that utilities spending continues to trend lower over the year, potentially reflecting lingering effects of government electricity rebates introduced at the start of FY25.

Australia's household saving ratio rose to 5.2% in March quarter 2025, up from 3.9% in December quarter 2024, as gross disposable income grew by 2.4%, outpacing nominal household spending (1.0%).

FIGURE 11

Household Savings Ratio, Australia (%)



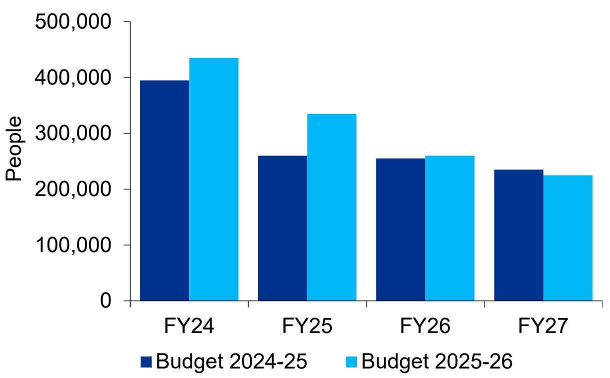
Source: ABS, Haver, KPMG

Population

Australia's population expanded by 484,000 people or 1.8% over the 12 months to 30 September 2024, largely driven by Net Overseas Migration, which contributed 78% of the total increase. The 2025–26 Federal Budget projects that net overseas migration will remain strong in FY25 and FY26 compared to last year's expectations, before stabilising to a more consistent level starting in FY27.

FIGURE 12

Net Overseas Migration Targets by Year, Commonwealth May 2024 Budget



Source: Commonwealth Treasury

Cost indicators

Cost pressures remain elevated in early 2025, yet underlying inflation risks persist amidst uncertain trade policies.

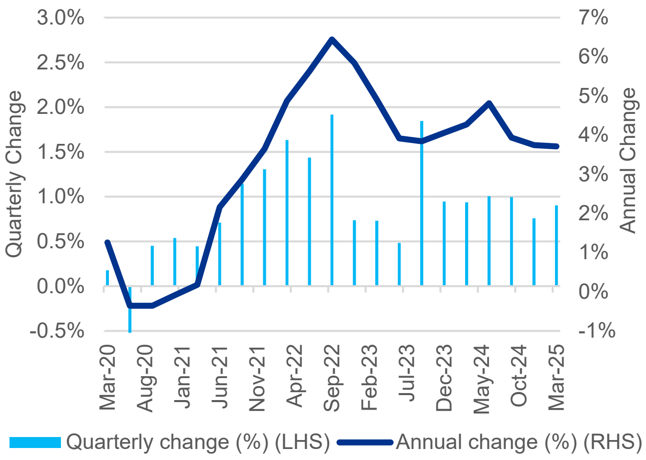
Producer Price Index

Australia's final demand Producer Price Index (PPI) rose by 3.7% over the year to March 2025, matching the annual rate recorded in the December quarter but remaining the slowest pace of annual growth in three years. On a quarterly basis, producer prices increased by 0.9% q/q in the March quarter, slightly above the 0.8% rise seen in the prior quarter.

Nevertheless, the data reveals broad-based cost increases across key sectors. Property operators recorded a 1.1% rise, supported by firm demand and elevated residential rental prices. Other transport equipment manufacturing prices surged 7.3%, reflecting higher labour costs and currency depreciation. Tertiary education prices rose by 3.5%, largely due to CPI-linked adjustments, while wage increases in the sector were more restrained relative to 2024.

FIGURE 13

Producer Price Indexes, Final Demand, Quarterly and Annual Percentage Change (%)



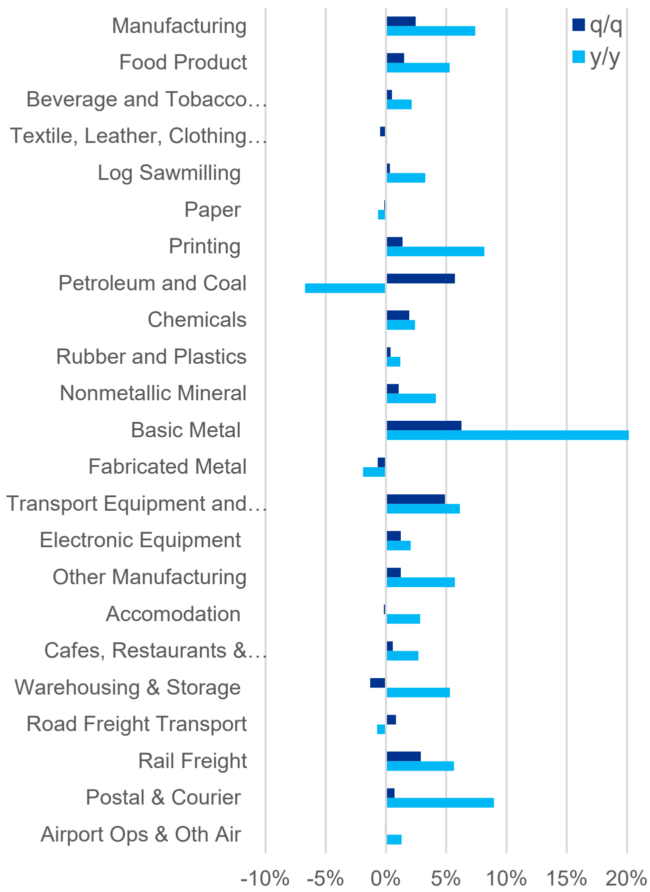
Source: ABS, Haver, KPMG

Upstream input prices into manufacturing rose 3.9% q/q and were 8.2% higher over the year, indicating persistent cost pressures in production. Warehousing and storage services prices declined 1.3% q/q but remained up 5.3% y/y, while freight transport services saw further increases, with road and rail costs rising 0.8% and 2.9% q/q respectively, driven by higher labour, diesel and fuel costs.

Rental, hiring, and real estate service prices continued to rise, supported by strong demand for industrial property. Non-residential property operator prices increased 1.3% q/q, with industrial rents continuing to climb amid a shortage of warehouse and distribution space. Office rents also strengthened across most states during the quarter. These developments point to ongoing pass-through of upstream cost pressures, particularly for businesses exposed to logistics and supply chain infrastructure.

FIGURE 14

Producer Price Index, Output Price Growth by Selected Industry Sectors, March Quarter 2025



Source: ABS, Haver, KPMG

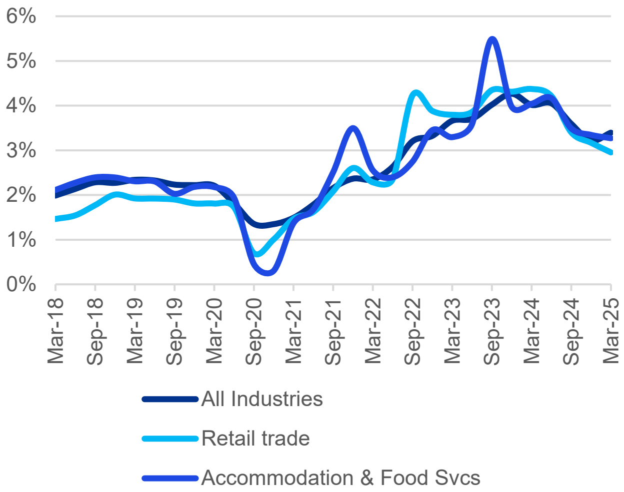
Wages

Annual wage growth ticked up for the first time since the June quarter 2024, with the Wage Price Index (WPI) increasing by 0.9% in the March quarter 2025, up from 0.7% in December. This lifted annual growth to 3.4%, compared to 3.2% previously, though still below the 4.0% recorded a year earlier.

Both the quarterly and annual outcomes exceeded market expectations of 0.8% and 3.2% respectively. The stronger-than-expected result was driven by a larger contribution from public sector jobs covered by enterprise agreements.

FIGURE 15

Wage Price Index by Selected Industry, Annual Change (%)



Source: ABS, Haver, KPMG

While private sector wage growth held steady at 3.3%, public sector wage growth increased to 3.3% from 2.9% influenced by administrative adjustments linked to the Stage 3 Aged Care Work Value Case, the Early Childhood Education and Care Worker Retention Payment, and regular March quarter salary reviews.

In contrast to the broader wage acceleration, the Retail sector experienced a slowdown in annual wage growth, decreasing from 3.2% in the December quarter of 2024 to 3.0% in the March quarter of 2025. This was the lowest year-on-year increase since the June quarter of 2022. Wages growth in the Accommodation and Food Services sector remained at approximately 3.3% during the same period. Together, the Retail Trade and Accommodation and Food Services sector contributed just 0.01 percentage point to aggregate wage growth.

International trade

Global trade tensions

The recent turn in US trade policy towards a more mercantilist approach has amplified uncertainty in the global system, particularly for firms involved in cross-border investment and export planning.

In Australia's case, a baseline tariff of 10% is expected to be moderated by several exemptions, bringing the effective average increase to around 7.6%, considerably lower than the barriers faced by many other trading partners.

Scenario	Australia Weighted Average Tariff
Original Proposal	10.0%
Including 125% Tariff on China	7.8%
Adjusted for Implementation Pauses	7.8%
Adjusted for Pauses and Targeted Discounts (e.g. electronics)	7.6%

Source: KPMG - Trade Tariff Turmoil Analysis (as of 17 April 2025)

Australia's direct export exposure to the United States remains limited, with the US accounting for around 5% of total exports. However, the broader risk lies in the indirect effects of US trade policy on global growth. Should demand weaken in major economies such as China, Japan, or the European Union, the implications for Australian exports could be significant. A slowdown in these markets would weigh heavily on the external sector, particularly for goods and services tied closely to global industrial and consumer cycles.

Agriculture stands out as particularly vulnerable, given it represents around 20% of Australia's exports to the US. Sectors such as beef, wine and dairy now face increased costs and reduced competitiveness in the American market. Manufacturing, especially pharmaceuticals, along with segments of the retail supply chain, are also exposed, notably for firms linked to tariff-affected jurisdictions like Canada, Mexico and China. Australian e-commerce businesses that export directly to US consumers are also likely to encounter higher costs and tighter regulatory barriers.

Foreign exchange

The Australian dollar faces considerable challenges against the US dollar in early 2025. The AUD/USD exchange rate began the year around 0.623 in January, lingering near five-year lows as sustained US dollar strength was underpinned by robust US economic data. Concurrently, persistent uncertainty regarding China's economic trajectory and related implications for commodity prices continued to weigh on the Australian dollar.

By early March, the exchange rate recovered to AUD/USD 0.635, reflecting some easing in US dollar strength amid emerging concerns about the US economic outlook. However, market sentiment generally remained cautious. From April, the Australian dollar strengthened further against the US dollar, driven by optimism across Asian currency markets, as speculation intensified about an impending trade agreement between the US and Taiwan. Given Australia's strong economic linkages to the Asian region, this positive momentum drove the Australian dollar to surpass USD 0.649 in May, marking its highest level since December.

FIGURE 16

Exchange Rate, AUD vs USD vs CNY

Source: RBA, Haver, KPMG

Supply chains

While supply chain conditions were initially stable, retail businesses are now dealing with increased complexity from changing trade regulations, potentially leading to higher retail inflation in the coming quarters.

The Global Supply Chain Pressure Index (GSCPI), which combines freight costs and manufacturing data to assess logistics stress, saw a slight increase in May, rising to 0.19 from -0.29 in April. This shift marks a transition from nearly six months of below-average pressure (except February 2025) to slightly above-average pressure.

According to the New York Fed, cross-border goods flows have yet to be materially disrupted by the current tariff landscape. Current supply chain stress levels remain significantly lower than those experienced during the COVID-19 pandemic, when the New York Fed index peaked at 4.44 in December 2021.

FIGURE 17

Global Supply Chain Pressure Index (GSCPI)

Source: Federal Reserve Bank of New York, Liberty Street Economics, KPMG

Nevertheless, Australian e-commerce firms appear to be more concerned about the logistic outlook. A recent industry survey conducted by shipping platform Interparcel[1] on 27 March 2025, highlights growing cost pressures and logistical challenges. Drawing responses from 382 small and medium-sized Australian online retailers across a range of sectors, the survey found that 44.41% of respondents were engaged in international shipping. Among them, 40.16% sourced products from China, exposing them directly to the rising tariff burden, while 24.40% identified the US as a key export market.

Nearly 38% of firms reported that the new tariffs had already affected their operations. A key concern relates to the removal of the De Minimis exemption in the US, which previously allowed shipments under USD 800 to enter duty-free without formal customs clearance. Under the revised regime, all goods originating from China or Hong Kong, regardless of shipment value, will be subject to import duties and full processing. The closure of this cost-saving loophole marks a significant shift for Australian retailers reliant on lean, low-cost logistics for US-bound deliveries.

[1] Interparcel. (2025, March 27). US tariff changes affecting SME businesses. https://au.interparcel.com/blog/shipping-advice/us-tariffs-affecting-sme-businesses

Performance indicators

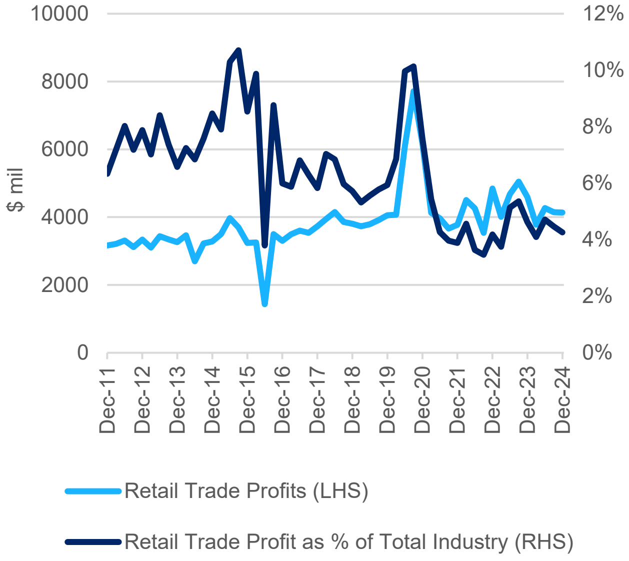
Retail performance deteriorated modestly in early 2025, as insolvencies climbed to record levels and employment growth weakened despite rising online sales.

Profitability

The retail sector has experienced a moderate decline in its relative contribution to overall profitability, with its share of total profits falling from 4.5% in September quarter 2024 to 4.3% in December quarter 2024. This decline was driven by a 0.1% contraction in retail sector margins, alongside a 4.8% increase in aggregate profitability across all industries during the quarter.

FIGURE 18

Retail Sector Profit before Income Tax



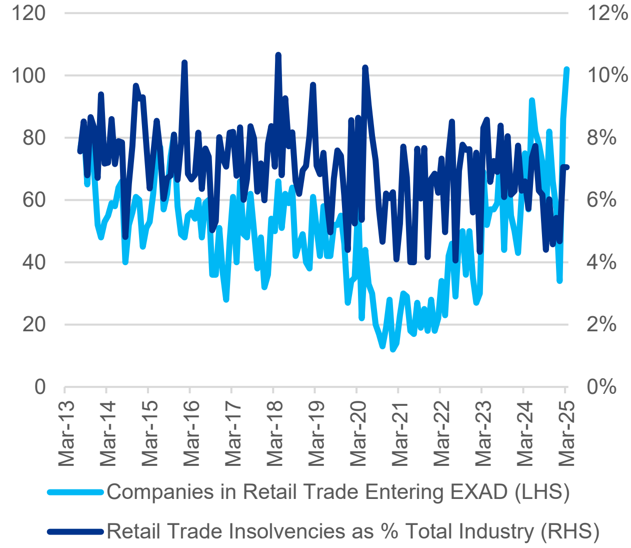
Insolvency

Corporate insolvencies have risen notably in early 2025, with the Australian Securities and Investments Commission (ASIC) reporting a surge in companies entering External Administration and Controller Appointments (EXAD). The retail sector was the fourth most affected industry this quarter with a total of 222 retail businesses entered administration in the March quarter, the highest number recorded for any March quarter since data collection began. While high, retail sector insolvencies only accounted for 7% of total insolvencies, much lower than the historical averages.

Cumulative retail collapses in FY25 have now reached 804, including first, subsequent and transitional appointments. With the current trajectory, insolvencies are likely to exceed the full-year total of 963 recorded in FY24. Recent collapses have included high-profile names such as Ally Fashion, Jeanswest, Designerex, Tuchuzy and Mosaic Brands Group.

FIGURE 19

Number of Companies Entering External Administration & Controller



Source: ABS, Haver, KPMG

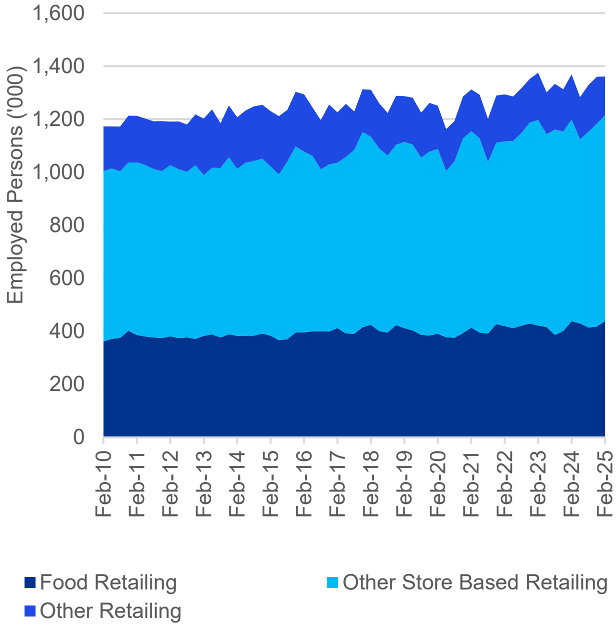
Employment

Retail sector employment rose marginally in the three months to the February quarter 2025, with an increase of just over 1,300 people. This represents less than 5% of the 31,100 jobs added in the November quarter during the peak holiday trading period. Total retail employment remained steady at approximately 1.36 million.

Employment outcomes across sub-sectors were mixed. Food retailing recorded a quarterly gain of 20,400 jobs, while other store-based retailing added 12,700 positions. These increases were offset by a decline of 31,800 jobs in other retailing categories, resulting in broadly flat net employment across the sector.

FIGURE 20

Retail Sector Employment, Australia ('000)

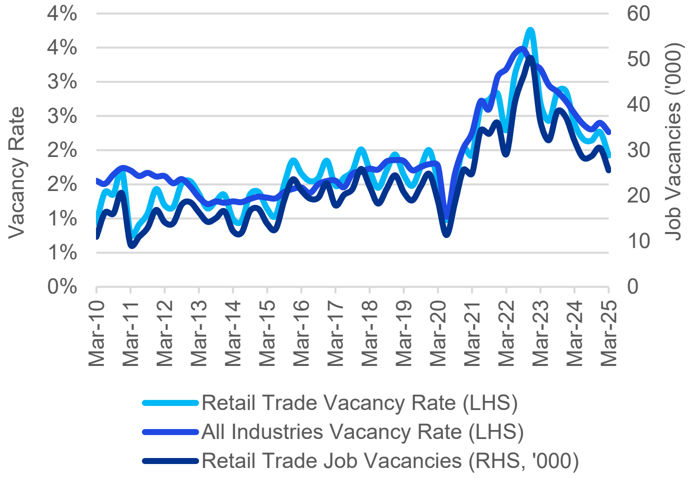


Source: ABS, Haver, KPMG

Job vacancies in retail fell by 4,900 in the March quarter 2025, the sharpest decline since March 2024, following a modest increase of 1,800 in the previous quarter. The job vacancy rate in retail trade declined by 0.3 percentage points, while the all-industries rate fell by 0.1 percentage points. Despite this, the retail sector remains tighter than the broader labour market, with its vacancy rate running below the all-industry average for the fifth consecutive quarter.

FIGURE 21

Job Vacancies Rate, Australia

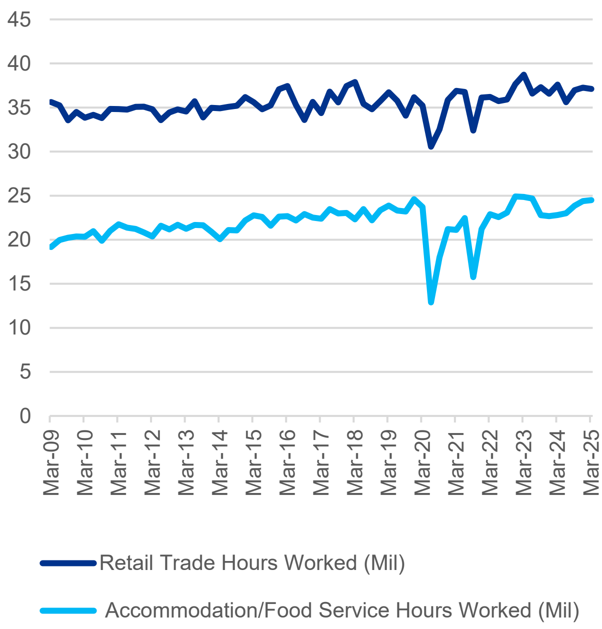


Source: ABS, Haver, KPMG

In terms of labour utilisation, retail hours worked fell by 140,000 in the March quarter compared to December, while Accommodation and Food Services recorded a rise of 114,000 hours. Year-on-year, retail hours worked were down by nearly 50,000, while Accommodation and Food Services increased by 169,000, highlighting the ongoing divergence in labour demand across consumer-facing sectors.

FIGURE 22

Hours Worked, Australia



Source: ABS, Haver, KPMG

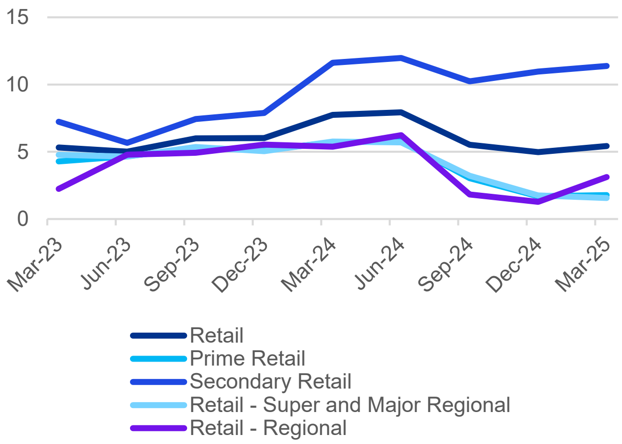
Retail real assets

The retail sector real assets shares a cautious outlook with the retail sector overall, as the uncertainty surrounding global trade policy weighed on market sentiment. National retail vacancy rate rose to 5.4% in the March quarter, up 0.4 percentage points from the December quarter, reflecting softness across certain asset classes.

Despite this, trading conditions have continued to improve since the second half of 2024. Vacancy rates in prime, super regional and major regional retail centres have declined compared to 12 months ago, reflecting improving tenant demand amidst a gradual recovery in economic conditions. In contrast, vacancy in secondary retail has remained broadly unchanged.

FIGURE 23

Vacancy rates across retail property subsectors (%)

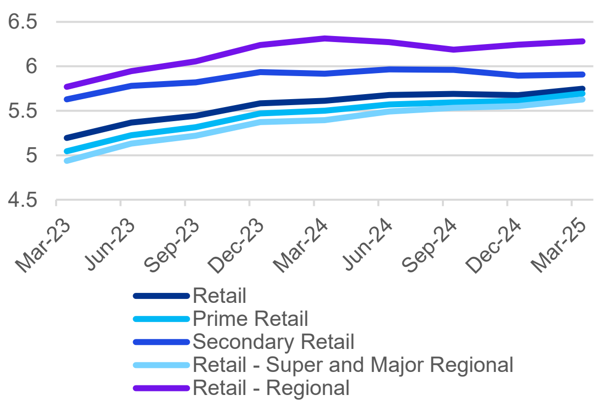


Source: KPMG, MSCI/PCA

Capitalisation rates have largely stabilised, with the pace of increases slowing relative to 2024. In the March quarter 2025, the average capitalisation rate across the retail sector reached 5.7%, 13 basis points higher than a year earlier. Importantly, yields in regional retail have compressed over the same period, reflecting renewed investor interest.

FIGURE 24

Capitalisation rates across retail property subsectors (%)

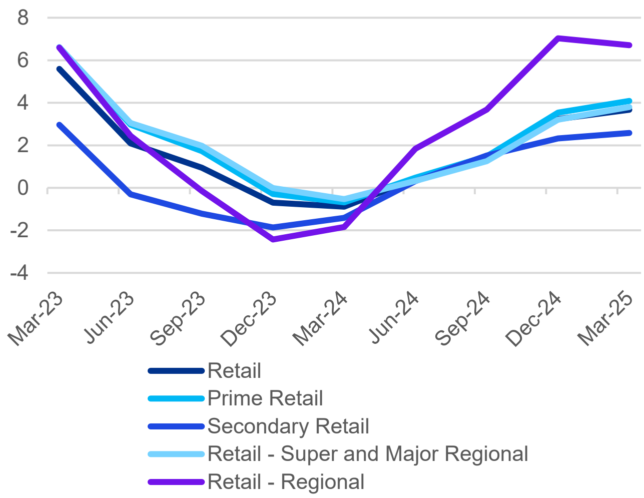


Source: KPMG, MSCI/PCA

Investment performance has strengthened, with total returns for the retail sector reaching 3.7% in the March quarter 2025. This marks the fourth consecutive quarter of positive returns, following a period of weakness in late 2023 and early 2024.

FIGURE 25

Total returns across retail property subsectors (%)

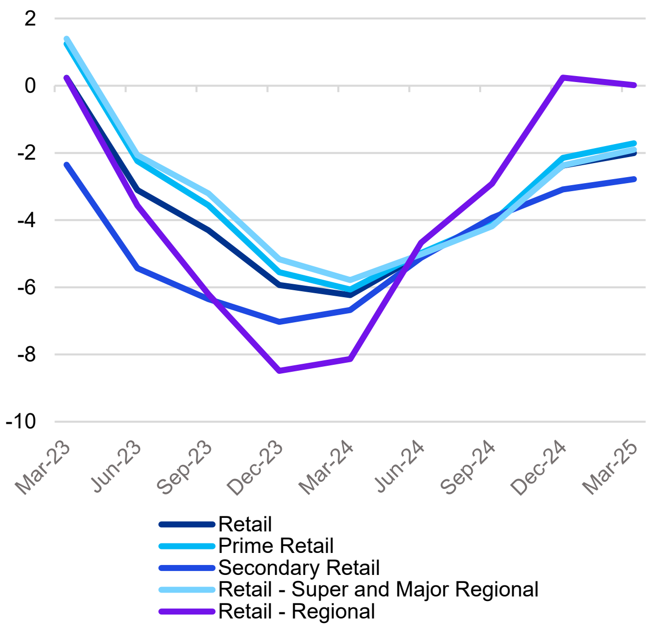


Source: KPMG, MSCI/PCA

Despite resilient income returns, capital growth for the sector remains negative. While capital growth remains in negative territory at -2.0%, this represents a substantial improvement from -6.2% a year earlier.

FIGURE 26

Capital growth across retail property subsectors (%)



Source: KPMG, MSCI/PCA

E-commerce indicators

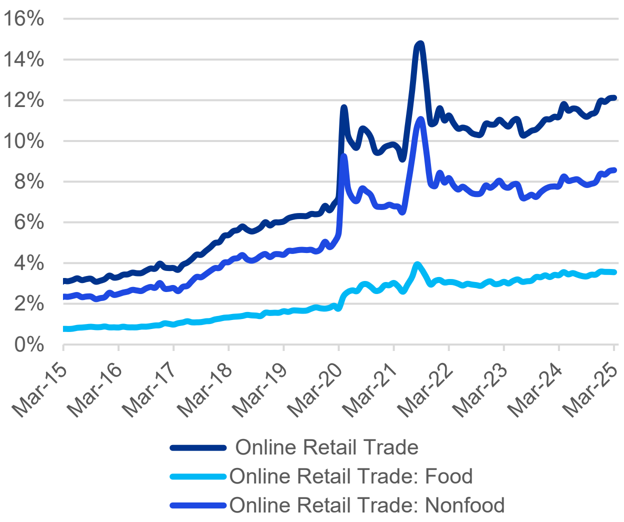
Online retail sales

One factor contributing to rising insolvencies in the retail sector is the continued shift in consumer behaviour, marked by the growth of online shopping and a growing preference for large shopping centres over traditional strip retail precincts. This trend is reflected in the 4.8% q/q increase in seasonally adjusted online retail sales in the March quarter 2025, rising by $620.7 million to reach $13.43 billion, up from $12.81 billion in the December quarter. Consequently, the share of online sales as a proportion of total retail turnover rose from 11.6% to 12.1% over the same period.

Online food retailing increased marginally, accounting for 8.9% of total food retail turnover in the March quarter, up from 8.8% in the previous quarter. Online non-food retailing recorded stronger growth, rising to 14.1% of total non-food sales from 13.4% in December and 13.2% in the September quarter.

FIGURE 27

Online retail sales by type as a proportion of Total Sales (%)



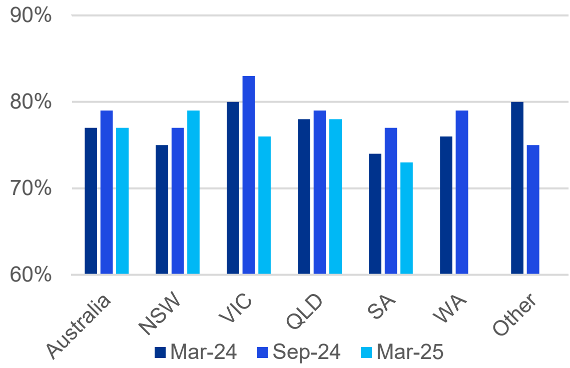
Source: ABS, Haver, KPMG

Online shopping behaviour

According to the University of Sydney's bi-annual Transport Opinion Survey (TOPS), 77% of Australians reported making an online purchase in the six months to March 2025. This figure was broadly unchanged from the same period a year earlier but was 7 percentage points higher than the corresponding period in 2023.

FIGURE 28

Proportion of TOPS Respondents by State who made an online purchase in the previous 4-weeks (%)



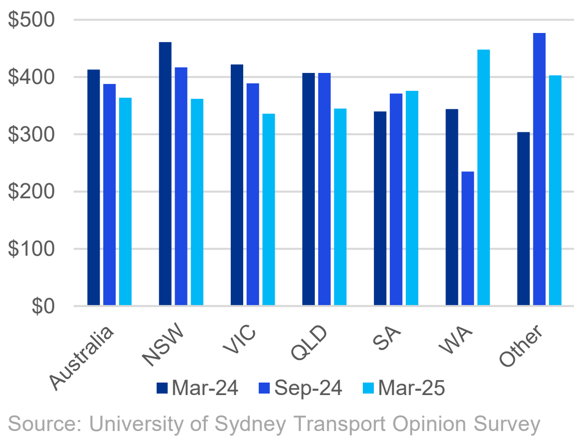
Notes: Data for WA and 'Other' were not reported for March 2025.

Source: University of Sydney Transport Opinion Survey (TOPS), KPMG.

The survey also showed that Australians spent an average of $364 online in the past four weeks, slightly below $388 spent in September 2024 and $413 in March 2024, suggesting some pullback in discretionary spending amid ongoing cost-of-living pressures. Consumers in Western Australia recorded the highest average spend at $448, followed by shoppers in ACT, Tasmania, and the Northern Territory, who averaged $403. In contrast, average online spending declined across New South Wales, Victoria and Queensland, where shoppers spent $362, $336 and $345 respectively, each more than $50 lower over the four-week period compared to the prior survey.

FIGURE 29

Average online spend per TOPS Respondent by State during the previous 4-weeks ($)



Source: University of Sydney Transport Opinion Survey (TOPS), KPMG

Technical appendix

The KPMG Retail Health Index (RHI) provides an assessment of the health of the Australian retail sector based on households and producers' data available at a quarterly frequency. It represents the common component of series covering consumer behaviour and retailer's production.

A leading framework for the construction of an economic index from multiple time series is the so-called factor model. The factor model suggests the existence of a small number of unobserved series, called factors, which drive the co-movements of the observed economic time series. Leading applications of the framework includes the New York's FED Weekly Economic Activity Index.

In our application, we assume that there is a single factor, RHI_t, that drives co-movements of the retail variables, X_t

$$X_t = \Lambda RHI_t + \epsilon_t,$$

where Λ captures the factor loadings and ϵ_t refers to the idiosyncratic dynamics.

And the common method for estimating the unobserved factors is by principal components. In other words, principal component analysis is a dimensionality reduction method that is often used to reduce the dimensionality of large data sets, by transforming a large set of variables into a smaller one that still contains most of the information in the large set of variables. That is, principal components are constructed components from linear combinations of variables which best explain the variance in the data.

The RHI is computed as the first principal component of four quarterly variables: retail volume, the producer price index (PPI), the retail sector wage price index (WPI), and the Westpac–Melbourne Institute's consumer sentiment index. These data are then transformed to year-on-year growth terms. All transformed series are then standardised to have a mean of zero and a standard deviation of one. Furthermore, the growth rates of wages and prices are reversed for the purpose of interpretation, i.e. higher wages and costs mean the retail sector is not doing so well.

Table T.1 below shows the respective weights of each variable on the RHI, and the total variance explained by the RHI.

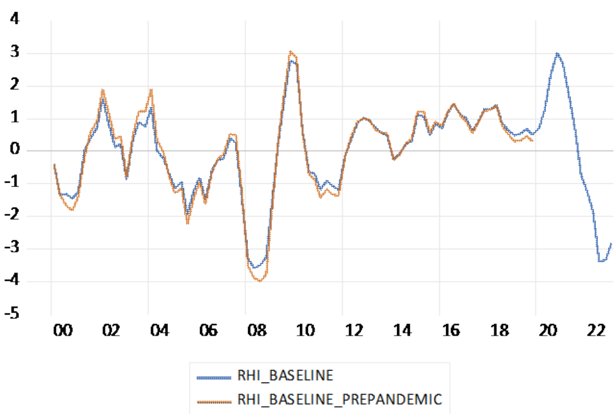
Table T.1 – RHI Weights

Variables	Weights	
	Baseline	Baseline Pre-pandemic
Producer Price Index	0.64	0.64
Wage Price Index	0.48	0.47
Consumer Sentiment	0.54	0.57
Retail Sales Volumes	0.24	0.22
Total Variance Explained	0.49	0.48

Source: KPMG

The first column provides the weights using the full sample between the March quarter 1999 to the March quarter 2023. The second column shows the weights using the pre-pandemic sample for the baseline, which are little changed from the full sample weights. The pre-pandemic RHI, as a result, remains quite similar to the full sample one (Chart T.1).

Chart T.1 – RHI Baseline & Pre-pandemic Baseline



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