Retail Health Index March 2025

KPMG Australia

Contents

Executive summary

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 last edition, the KPMG RHI indicated momentum had shifted positively and the prospect of normal retail conditions was on the horizon.

The latest KPMG RHI suggests this upward trajectory is continuing and the index may move into positive territory in Q2 2025. Good news, of course, but retailers are not out of the woods yet.

The index rose by 0.57 points, from -0.87 in Q3 to -0.3, driven by the lowest wage growth since 2022, easing inflation, stronger consumption, and a boost in consumer sentiment ahead of the February 2025 rate cut.

Key takeaways

- Per capita retail volumes recorded its first positive increase since Q2 2022, potentially signalling the end of the retail recession? Let's see.
- Consumer sentiment remains a touch below neutral territory, although with the first rate cut already occurring in February 2025, it is likely to kick up further as the year progresses. We are not out of the woods however, as consumers remain cautious, with geopolitical uncertainty weighing heavily on confidence levels and household savings rates remaining anaemic.
- While cost pressures have eased due to global supply chain conditions returning to pre-pandemic levels, they remain a key concern for Australian retailers. Geopolitical concerns and evolving trade policies remain top of mind, and many are focused on investing in the benefits of artificial intelligence (AI), automation and digitalisation to de-risk their supply chain structures.
- The retail sector's wages growth slows in line with broader wage moderation.
- The AUD remains relatively weak, driving up costs for imported goods and services, including electronics, apparel and homewares, and transport and supply chain expenses via higher fuel costs. It is likely these higher import costs will be challenging to pass on to consumers given significant sensitivities to cost-of-living pressures. A weaker dollar, on the other hand, might provide some tailwinds for retailers that have exposure to inbound tourism.

NRF steals the show in NYC

Every January, around 40,000 people from across the globe gather in the cold in NYC to discuss the latest trends impacting the consumer and retail sector. It literally is a 'Big Show', and it brings together the best of breed across the industry.

So, what are this year's key takeaways?

- Many retailers are worried about the world. Geopolitical tension, tariffs, inflation, immigration and the new US global agenda are the hot topics around the water cooler.
- The AI conversation has shifted from *promise* to *deliverable* and there is a general feeling that the AI hype is starting to translate to real use cases across the value chain.
- The shift to a blended reality for retailers continues where digital, data and physical interact to create efficient and engaging experiences for the customer, e.g. smart carts, smart payments, data-driven personalisation.
- Integrated payment and returns technology has an increasing focus to improve customer experience, while AI processes are enhancing loss prevention.
- Rising costs and global trade shifts are disrupting the flow of goods, leading to a need for more agile and efficient solutions driving supplier collaboration, use of data and simplifying global sourcing.
- Outside the US, European retailers lead sustainability by adopting resale models, promoting repairability, and creating products with longer lifespans. Customers are far more accepting and even demanding of products and companies that adopt a circular economy model.

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 Health Index

KPMG's Retail Health Index© (RHI) continues to trend towards the light! The recent improvement is due to easing wage pressures and a rebound in consumer confidence helped by the first cut to the RBA cash rate in 51 months.

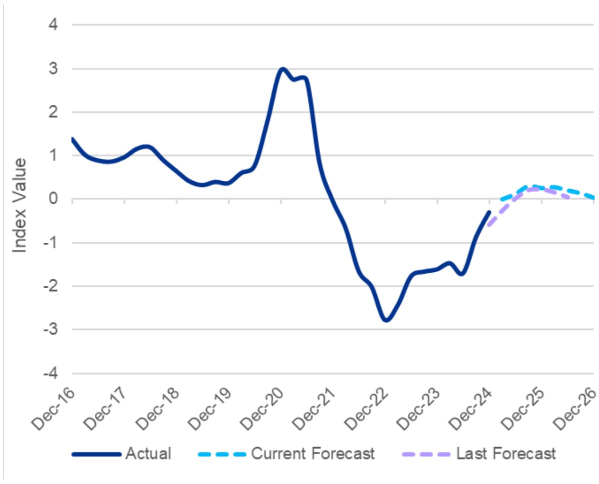
Recovery heading in the right direction

Between Q3 and Q4 2024, the KPMG Retail Health Index (RHI) rose by 0.57 points, improving from -0.87 to -0.30, reflecting the next step towards a positive retail sector.

Our latest forecasts indicate that short-term headwinds are gradually easing, with retail conditions expected to normalise by mid-2025. While the medium-term outlook is healthier than we have seen for a while, it remains well below the pre-pandemic period.

FIGURE 1

Retail Health Index, Actual and Forecast



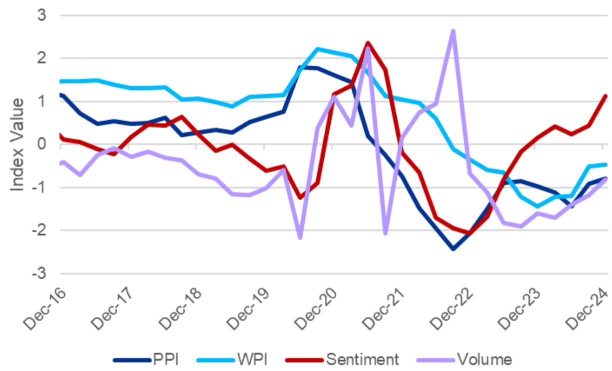
Source: KPMG's calculation

At the individual component level, Australian consumer confidence is strengthening as inflationary pressures have moderated substantially, leading to an expectation of multiple interest rate cuts coming down the pipeline over 2025. Other measures such as the Stage 3 tax cuts, energy rebates, and other States and Commonwealth Government cost-of-living relief initiatives are expected to support spending and retail.

In Q4 2024, annual wage growth slowed to 3.2%, the lowest increase since Q3 2022. This followed a decline to 3.6% in Q3 2024, after four consecutive quarters of wage growth at or above 4.0%. This moderation suggests some rebalancing in labour market pressures, noting that this moderation will also lead to a more sustainable wages growth outlook for the sector.

FIGURE 2

KPMG RHI by Component Factors



Source: KPMG's calculation

In December 2024, three of the four components of the Retail Health Index (RHI) remained in negative territory. The overall impact of improved consumer confidence and spending outweighs cost pressures, reinforcing the sector's recovery trajectory.

- **Producer Price Inflation (PPI):** Declined from -0.90 in Q3 2024 to -0.79 in Q4 2024, indicating a slowdown in price growth from 90% above its historical average to 79%. This deceleration added 0.08 index points to the quarterly RHI change, with PPI's overall contribution improving from -0.58 to -0.51 index points.
- **Wage Price Index (WPI):** Improved from -0.50 in Q3 2024 to -0.46 in Q4 2024, reflecting a reduction in wage growth from 50% to 46% above its historical average. This contributed -0.22 index points to the Q4 2024 RHI, a slight improvement from the -0.24 index point contribution in Q3 2024.
- **Consumer Sentiment:** Increased significantly from 0.43 in Q3 2024 to 1.13 in Q4 2024, contributing 0.62 index points to the RHI, up from 0.24 in the previous quarter. Sentiment was the largest driver of RHI improvement, accounting for 68% of the quarterly change (+0.39 index points).
- **Sales Volume:** Improved from -1.17 in Q3 2024 to -0.81 in Q4 2024, reducing its negative impact on the RHI. Its contribution remained negative at -0.20 index points but improved from -0.28 in Q3 2024.

Spending indicators

Household spending has risen for the first time in almost two years, as cost-of-living measures spur on retail sales and inflationary pressures continue to ease.

Retail sales

In a year of persistent high inflation, elevated interest rates and the cost-of-living crisis, the retail sector in 2024 managed to gain momentum and finish the year in a stronger position compared to when it started. Quarterly retail sales volumes increased by 1.0% in Q4 2024, following a 0.5% rise in Q3 2024, which contrasts with declines of 0.3% in Q1 and 0.2% in Q2.

Current dollar retail spending in Q4 2024 increased by 1.4% y/y compared to Q4 2023 as Australians actively participated in Cyber Monday and Boxing Day sales. However, festive spending in 2024 was relatively weak, with December retail turnover falling by 0.1% m/m following monthly increases of 0.5% in October and 0.7% in November.

FIGURE 3

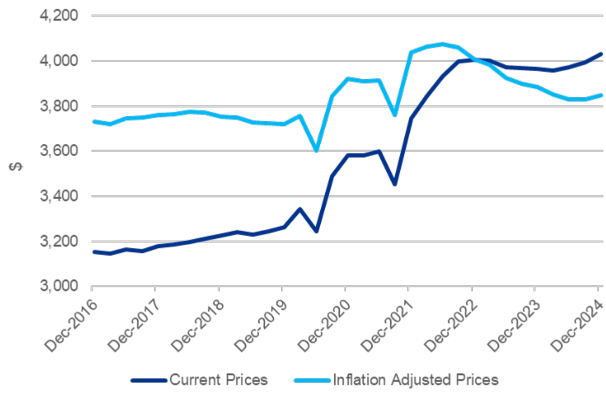
Change in Retail Turnover, Australia, Current and Inflation Adjusted Prices, Quarterly

Source: ABS, Haver, KPMG

Retail volumes on a per capita basis recorded growth, increasing by 0.5% q/q in the December quarter, the first time after nine straight quarters of declines. Despite that, overall retail volumes per capita remained 5.6% below their Q2 2022 peak, and 0.9% lower than Q4 last year.

FIGURE 4

Retail Turnover per Capita, Australia, Current Prices and Inflation Adjusted Prices

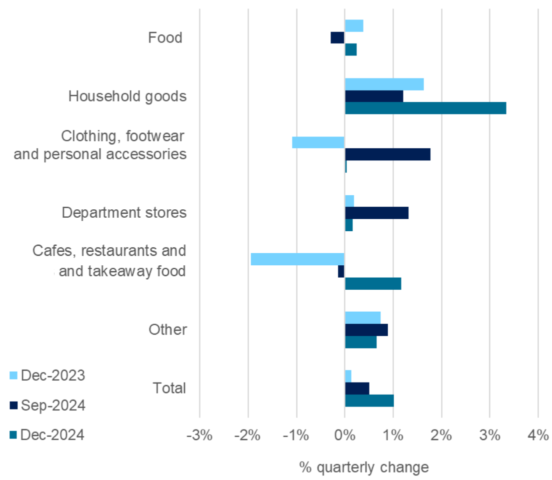


Source: ABS, Haver, KPMG

Household goods recorded the strongest growth in Q4 (3.3% q/q), marking the third consecutive quarter of expansion above 1.0%. Food sales increased by 0.3% following two consecutive quarters of contraction. Likewise, cafes, restaurants, and takeaway food rebounded by 1.2% after two quarters of negative growth. However, Clothing, Footwear, Personal Accessories, and Department Stores declined by over 1 percentage point, reversing previous gains.

FIGURE 5

Change in Quarterly Inflation Adjusted Sales by Category, Australia



Source: ABS, Haver, KPMG

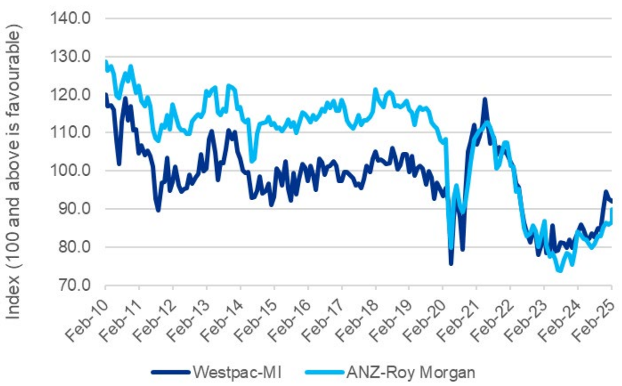
Consumer sentiment

Australian consumer confidence saw a material improvement through the second half of 2024, but momentum has stalled since December 2024. Sentiment remains a touch below 'favourable' territory, reflecting ongoing cautious spending behaviour.

The Westpac–Melbourne Institute Consumer Sentiment Index rose to 92.2 in February, showing little change over the past three months. The muted response points to a larger-than-usual financial 'hangover' post-Christmas, with cost-of-living pressures remaining a key concern.

FIGURE 6

Consumer Sentiment



Persistent pressures on household finances and a more uncertain global geopolitical backdrop since the start of 2025 have weighed against a 'cautiously optimistic' consumer mood.

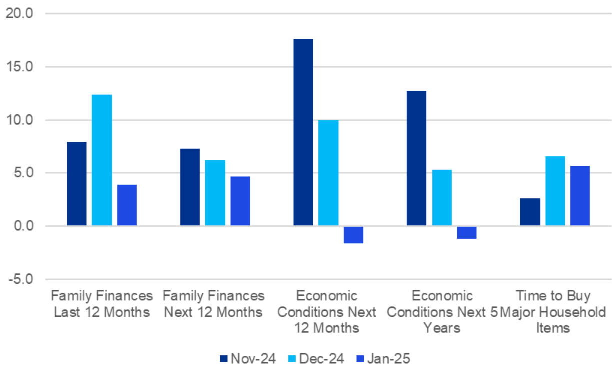
Much of this caution stems from renewed pressure on household finances. The 'family finances vs a year ago' sub-index declined by 2.6 index points in February to 75.1, down 9.1 points from its December peak, though still 11.9 points above its May 2024 low. The retracement suggests the temporary boost from tax cuts and fiscal support measures may be fading. The pullback has been most pronounced among lower-income households, females, and younger consumers (aged 18–24).

Forward-looking sentiment remains more resilient. While concerns persist regarding the broader economic outlook, optimism around personal finances has firmed. The 'finances, next 12 months' sub-index remains in expansionary territory at 105, with optimists continuing to outnumber pessimists. The index edged up 0.6 index points in February, holding near three-year highs.

Economic expectations over both the next 12 months and five years ticked higher in February (+1.4 and +0.9 index points month-on-month, respectively), though both remain below 100, indicating net pessimism. Notably, expectations had turned positive in November 2024, just ahead of the US election result, but have since retreated by 6–8 index points. This suggests that geopolitical uncertainty continues to weigh on sentiment despite domestic factors providing some support.

FIGURE 7

Westpac–Melbourne Institute Consumer Sentiment by Component, Quarterly Change



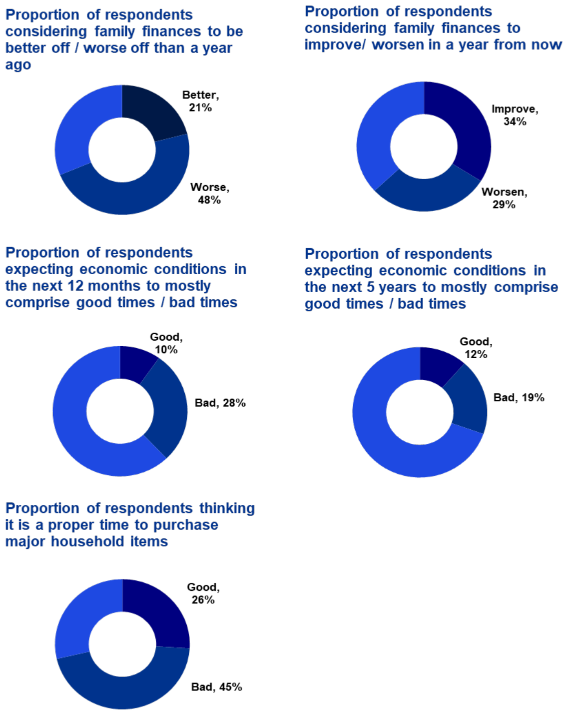
Source: Westpac, Melbourne Institute

The ANZ–Roy Morgan Consumer Confidence index lifted to 89.8 in February 2025, materially higher than the average seen in 2024.

Notably, the net balance for 'time to buy a major household item', a key retail indicator remained relatively unchanged in February 2025 compared to three months earlier. In February 2025, only 25.3% of respondents believed it was a proper time to purchase major household items, while 44.3% of respondents felt otherwise.

FIGURE 8

ANZ–Roy Morgan Survey of Consumer Confidence, Feb 2025



Source: ANZ, Roy Morgan

Household spending

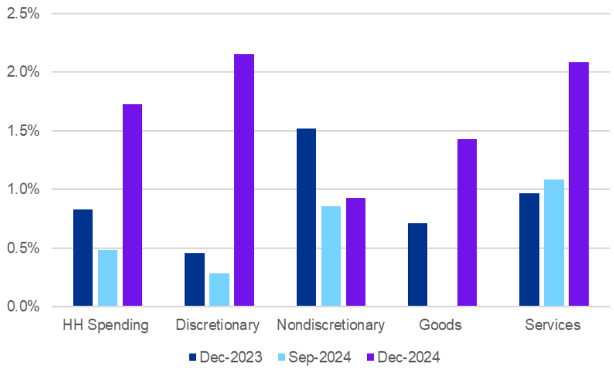
Nominal household spending, seasonally adjusted, increased by 1.7% q/q in Q4 2024, the largest quarterly growth rate since early 2023. All spending categories saw higher growth compared to the previous quarter.

Discretionary goods increased by 2.2% q/q in Q4 2024, the highest growth in the past eight quarters. Non-discretionary goods grew by 0.9%, showing little change from Q3 2024 but below the 1.0% growth in Q2 2024.

Both goods and services expenditures rose this quarter. Household spending on goods increased by 1.4% q/q, the strongest rise in the past two years. Spending on services rose by 2.1% in Q4 2024, doubling the growth of the previous quarter and Q4 2023, but still below the Q4 2021 peak of 18.6%.

FIGURE 9

Household Spending by Special Aggregates (q/q growth), Australia

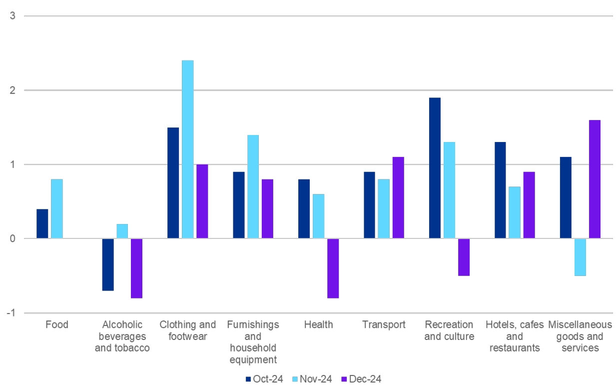


Source: ABS, Haver, KPMG

Following upwardly revised increases of 0.8% in November and 1.0% in October 2024, household spending in December grew by a more modest 0.4% month-over-month in seasonally adjusted current dollar terms. Spending growth in December was evenly distributed between goods and services, with goods spending increasing by 0.4% and services by 0.3%.

FIGURE 10

Household Spending by Category (m/m growth), Australia



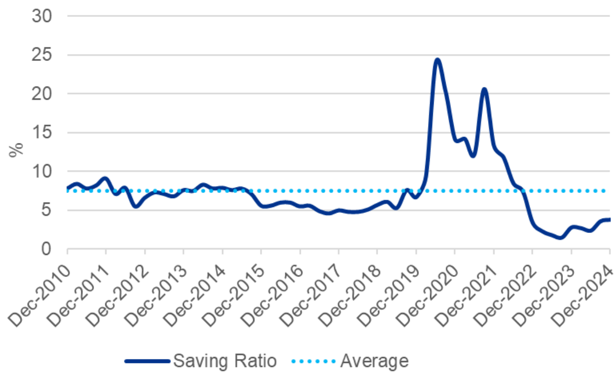
Source: ABS, Haver, KPMG

In December 2024, food spending remained unchanged, while spending on alcoholic beverages and tobacco, health, recreation, and culture declined by approximately 0.5%. In contrast, spending on clothing and footwear, furnishings and household equipment, transport, and hotels, cafes, and restaurants increased by around 1.0%.

Australia's household saving ratio rose to 3.8% in Q4 2024, up from 3.6% in Q3, as gross disposable income grew by 1.4%, outpacing nominal household spending (1.2%).

FIGURE 11

Household Savings Ratio, Australia



Source: ABS, Haver, KPMG

Population

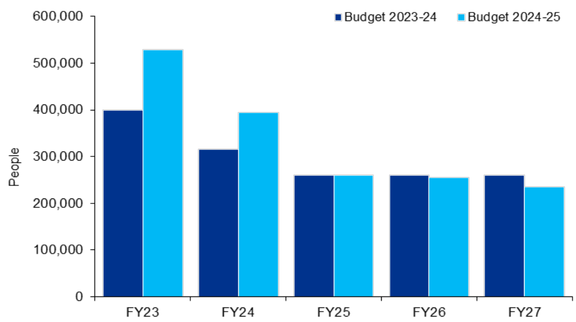
Australia's population grew 2.1% in the year to 30 June 2024, according to the latest figures from the Australian Bureau of Statistics (ABS). Net Overseas Migration (NOM) accounted for 81% of the 552,000 increase, while natural increase contributed 19%.

As outlined in the 2024 Treasury Population Statement, population growth is expected to moderate from the pandemic-driven 2.5% surge in 2022–23 to 2.1% in 2023–24 and further to 1.6% in 2024–25.

International student arrivals fell by 25%, declining from 278,000 in 2022–23 to 207,000 in 2023–24. In November 2024, arrivals totalled 32,570, which is 1,980 fewer than the same month in 2023 and 14.9% below pre-pandemic levels in November 2019.

FIGURE 12

Net Overseas Migration Targets by Year, Commonwealth May 2024 Budget



Source: Federal Budget

Cost indicators

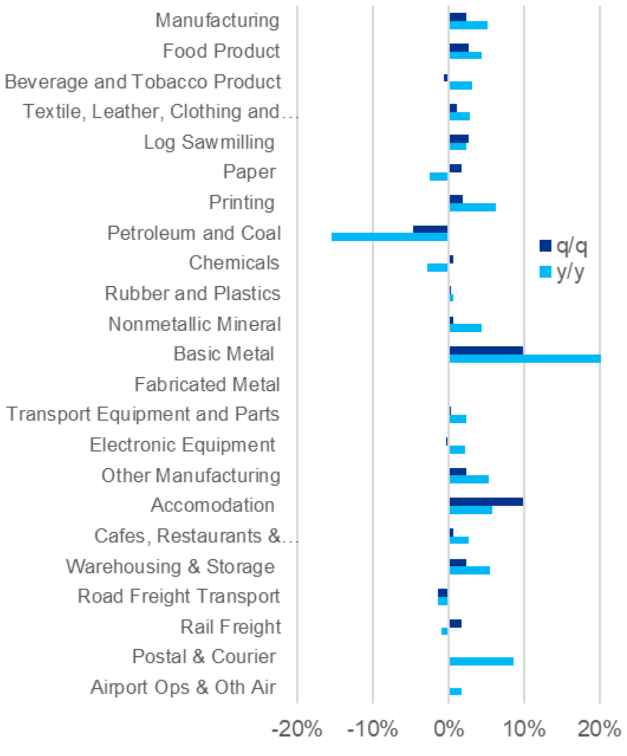
Cost pressures are easing with softer producer and wage price growth, but supply chain constraints and a narrow foreign exchange range still impact pricing dynamics.

Producer Price Index

While price pressures remain in the economy, producer price inflation continued to ease in Q4 2024, with the Producer Price Index (PPI) rising 0.8% q/q, down from 1.0% in Q3 and undershooting market expectations. On an annual basis, PPI growth moderated to 3.7%, marking the softest increase since 2022.

FIGURE 13

Producer Price Index, Output Price Growth by Selected Industry Sectors, December Quarter 2024



Source: ABS, Haver, KPMG

While producer costs have eased somewhat on an aggregate level, sectoral cost dynamics vary. Input prices to manufacturing surged by 1.4% q/q and 5.0% y/y in Q4 2024, up from 0.5% q/q and 3.8% y/y in the prior quarter. The increase was largely driven by metal ore mining, which spiked 9.2% q/q and over 20% y/y, adding to pricing pressures for downstream industries.

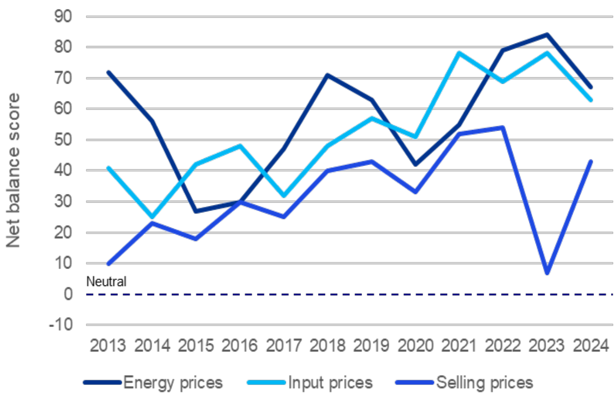
In the services sector, warehousing and storage services prices rose 2.3% q/q, reflecting strong demand as supply chains continue to normalise. Rail freight transport services costs also increased (+1.7%), driven by rising labour and operational expenses. However, the overall transport, postal, and warehousing sector saw a partial offset from a 1.5% decline in road freight transport services, as lower fuel costs from previous quarters filtered through.

Rental, hiring, and real estate services prices climbed further in Q4, primarily driven by non-residential property operators (+0.8%). Industrial rents continued to rise as demand for warehouse and distribution centre space outstripped supply. This trend suggests ongoing cost pass-through for businesses reliant on logistics infrastructure and supply chains.

According to the AI Group Industry Outlook 2025, input costs remain a critical concern, with 68% of businesses anticipating further increases over the year, while only 5% expect any decline. Similarly, energy prices are expected to remain a key challenge, with 71% of firms forecasting continued increases throughout 2025, 25% predicting stability, and just 4% expecting a reduction. These pressures suggest sustained cost inflation across industries, reinforcing the need for strategic cost management and supply chain resilience in the year ahead.

FIGURE 14

Expectations for Business Pricing, 2013–2025



Source: AI Group Industry

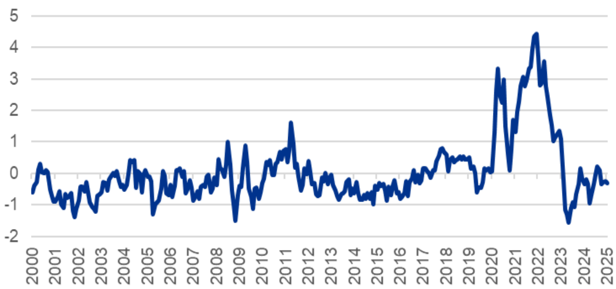
Supply chains

Following severe disruptions caused by the COVID-19 pandemic, global supply chain conditions have normalised, with the index now firmly within pre-pandemic ranges.

The Global Supply Chain Pressure Index (GSCPI), which integrates transportation cost data and manufacturing indicators to assess global supply chain conditions, declined to -0.31 in January, down from -0.24 in December. The GSCPI measures standard deviations from its historical average, with negative values indicating that supply chain pressures are below typical levels.

FIGURE 15

Global Supply Chain Pressure Index (GSCPI)



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

The Baltic Exchange's dry bulk sea freight index, which tracks global shipping rates for vessels transporting dry bulk commodities, has fallen from 1,965 in September 2024 to 930 in January 2025 as larger vessel rates dip. This indicates lower shipping rates and potential economic slowdown in related industries.

FIGURE 16

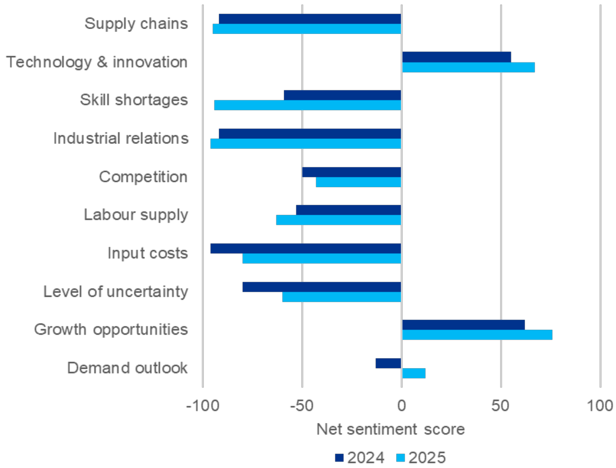
Baltic Exchange Dry Index (Jan-04-85=1000)

Source: The Baltic Exchange, KPMG

Although global supply chain conditions have returned to pre-pandemic levels, sentiment among Australian industry leaders remains pessimistic. According to the AI Group Industry Outlook 2025, supply chain sentiment remains deeply negative, with a net balance of -95. Despite improvements since the pandemic disruptions, industry leaders are increasingly concerned that geopolitical tensions and trade wars could cause these challenges to reappear in 2025. 44% of businesses are adjusting operations, while 40% are renegotiating supplier contracts to contain costs.

FIGURE 17

Industry Leaders' Sentiments for 2024 and 2025



Source: AI Group Industry

The KPMG 'Top Risks to Australian Business 2024–25' analysis highlights retailers' shift towards automation and digitalisation, with robotics and AI streamlining warehousing and fulfilment to drive efficiency. Cyber security investments are accelerating as businesses embrace digital supply chains. In response to US–China trade tensions, retailers are increasingly sourcing from Vietnam, India, and Japan to diversify risk.

Meanwhile, consumer demand for sustainability is reshaping investment decisions, with a growing push for carbon-neutral shipping and eco-friendly sourcing.

New sustainability reporting framework

The Australian Government has enacted mandatory sustainability reporting, with the Treasury Laws Amendment Bill receiving Royal Assent on 17 September 2024 and taking effect from 1 January 2025. The legislation introduces a phased compliance framework, initially targeting large businesses (>$500 million revenue), expanding to medium-sized firms (>$200 million) by 2026, and covering businesses with $50 million+ revenue by 2027.

Wages

The latest Wage Price Index (WPI) data confirms that wages growth is past its peak. The WPI rose 0.7% q/q in Q4 2024, with the quarterly growth being the lowest since Q1 2022. Over 2024, the WPI increased 3.2% and the annual increase in wages was the lowest since Q1 2022.

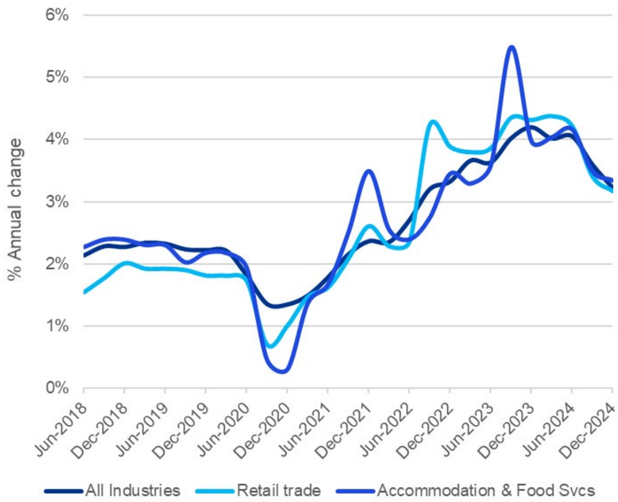
Private sector annual growth (3.3%) was the lowest since June 2022. The decline in growth reflects the slowing economy, although with CPI down to 2.4%, the figures at least represent modest real wage growth.

In line with the broader deceleration, the retail sector recorded a pullback in annual wage growth, easing from 3.4% in Q3 to 3.2% in Q4 2024, the lowest year-on-year increase since Q2 2022 (+2.4%). Similarly, the Accommodation and Food Services sector saw annual wage growth decline from 3.5% to 3.3% over the same period.

At the industry level, retail trade accounted for 4% of total quarterly wage growth, while the accommodation and food services sector made no contribution (0%), reflecting weaker wage momentum. The latter also posted the lowest quarterly wage increase at +0.1%.

FIGURE 18

Annual Growth in Wage Price Index by Selected Industry



Source: ABS, Haver, KPMG

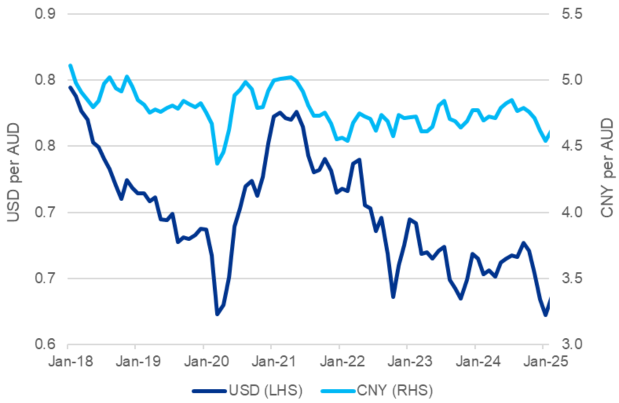
These declines are largely attributable to the Fair Work Commission's decision to moderate increases in the national minimum wage and modern award wages, which fell from 5.75% in 2023/24 to 3.75% in 2024/25. This policy shift, coupled with broader labour market dynamics, suggests that wage growth is increasingly aligning with a cooling inflationary environment.

Foreign exchange

The Australian Dollar (AUD) has fallen to levels last seen during the 2020 pandemic and the 2008 global financial crisis, adding to cost pressures for retailers already managing weak consumer demand and rising operational expenses. As of early March 2025, the AUD is trading at 0.620 USD, below the narrow range of 0.636–0.677 seen in 2024.

FIGURE 19

Exchange Rate, AUD vs USD vs CNY



Source: RBA, Haver, KPMG

A weaker AUD is driving up import costs, particularly for discretionary goods such as electronics, apparel, and homewares. Similarly, fuel costs have risen due to a weaker AUD, increasing transport and supply chain expenses. As consumer spending remains cautious, it will affect the ability of retailers to pass on these higher costs; therefore further tightening profit margins.

The weak AUD also impacts travel retailers by reducing demand for overseas travel due to rising costs for accommodation, dining, and shopping abroad.

On the upside, retailers with strong domestic supply chains or exposure to inbound tourism may also see relative advantages. However, for much of the sector, the sustained depreciation of the AUD reinforces an already challenging operating environment, requiring strategic cost management and pricing adjustments to maintain profitability.

Performance indicators

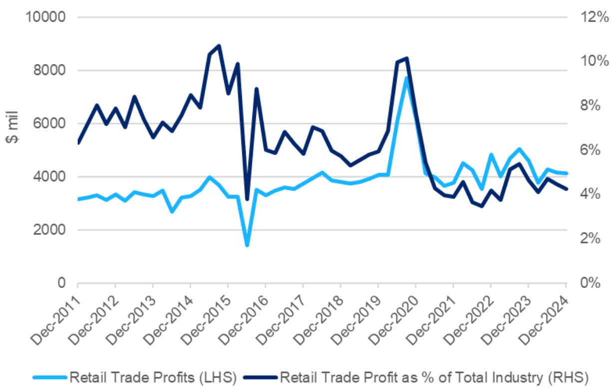
Retail margins softened slightly, but property fundamentals strengthened, with rising employment and improved productivity in the retail market.

Profitability

The retail sector has experienced a slight decline in its relative contribution to overall profitability, with its share of total profits falling from 4.5% in Q3 2024 to 4.3% in Q4 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 20

Retail Sector Profit Before Income Tax



Source: ABS, Haver, KPMG

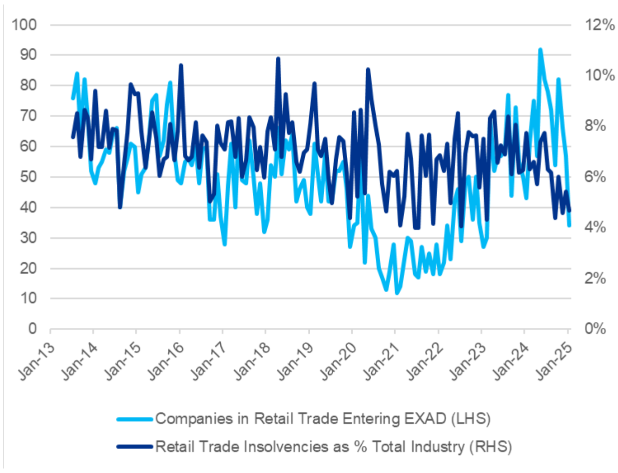
Insolvency

The Australian Securities and Investments Commission (ASIC) reported a 46% increase in business failures in 2024 compared to 2023, with companies entering External Administration & Controller Appointments (EXAD) rising from 9,227 to 13,451. The retail sector was the fifth hardest hit, following Construction, Accommodation and Food Services, Other Services, and Professional/Scientific/Technical Services, with 819 businesses affected.

Nevertheless, the retail sector has been showing signs of improvement since H2 2024. The retail sector's share of total insolvencies since H2 was much lower than the levels recorded seen in 2023 and H1 2024, with its share of total insolvencies falling to low-5% compared to high-6% in the earlier period.

FIGURE 21

Number of Companies Entering External Administration & Controller Appointments (EXAD)



Source: ABS, Haver, KPMG

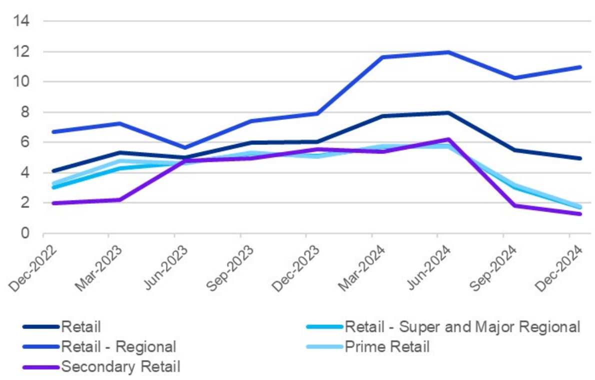
Retail real assets

Despite profitability headwinds in traditional retail, investment in retail property and logistics infrastructure remains robust, with capital inflows favouring large-scale transactions and logistics-driven assets. This suggests that investors in the retail sector remain optimistic with the positive momentum.

Current trading conditions have seen a noticeable improvement. The vacancy rate fell sharply to 4.9% in Q4 2024 from the recent peak of 7.9% in the Q2 2024.

FIGURE 22

Vacancy Rates Across Retail Property Subsectors (%)

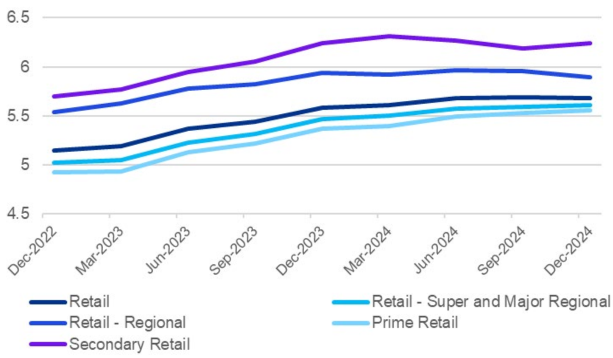


Source: KPMG, MSCI/PCA

Capitalisation rates have risen in the past 12 months, from 5.6 in Q4 2023 to 5.7 in Q4 2024, suggesting investors continue to demand a higher return for retail property in general due primarily to higher capital costs. However, capitalisation rates have appeared to stabilise, with the rates increasing at a lower pace compared than last year.

FIGURE 23

Capitalisation Rates Across Retail Property Subsectors (%)



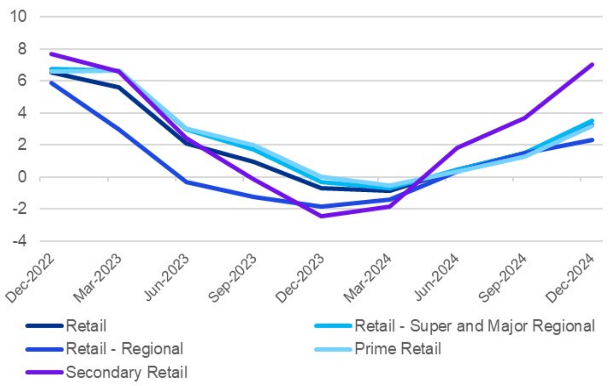
Source: KPMG, MSCI/ PCA

Investment performance has improved over recent quarters. Total returns for the retail sector was at 3.2% in Q4 2024, doubling the growth of 1.5% in Q3. This marked the third consecutive quarter of positive returns after the sector experienced negative returns in the December quarter of 2023 and the March quarter of 2024.

Regional centres recorded the biggest increase in total returns, with total returns growing by 7% in Q4 2024. National chains are looking to suburban and regional locations to expand their activity to meet the growing population in these shopping centres.

FIGURE 24

Total Returns Across Retail Property Subsectors (%)



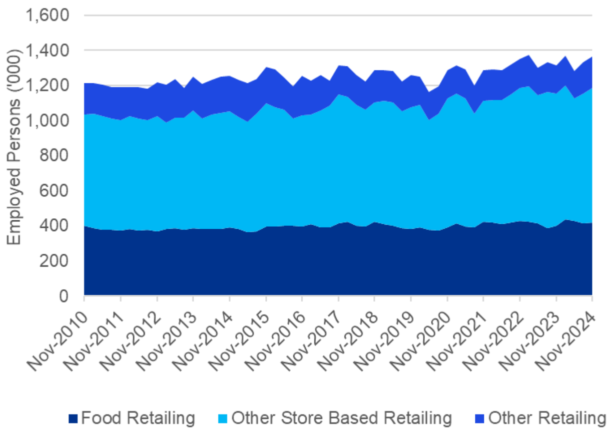
Source: KPMG, MSCI/ PCA

Employment

Total employment in the retail sector saw a slight increase in the three months leading up to November 2024, with an addition of over 33,000 people. This brought the overall employment in the sector to around 1.37 million. Employment trends continue to fluctuate across subsectors. After three consecutive quarters of contraction, food retailing recorded a quarterly increase of 4,000 workers in November 2024. Meanwhile, other store-based retailing added just over 28,000 jobs, though this was a slower pace of growth compared to the 45,000 jobs added in the previous quarter.

FIGURE 25

Retail Sector Employment, Australia ('000)

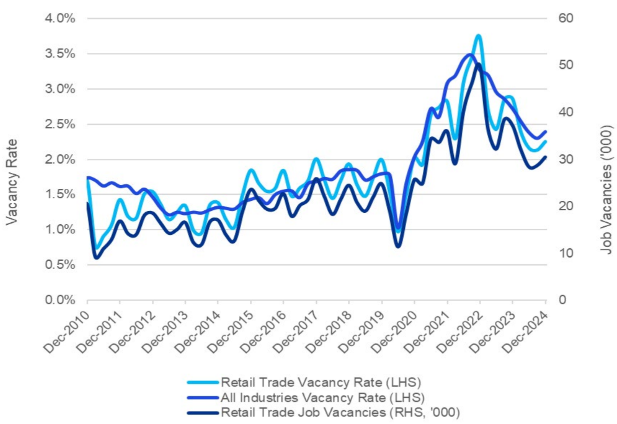


Source: ABS, Haver, KPMG

Job vacancies in the retail sector rose by 1,800 in Q4 2024, marking the largest increase of the year, in line with seasonal demand during the festive period. The job vacancy rate for both Retail Trade and All Industries increased by 0.1 percentage points this quarter. However, the retail sector remains tighter than the broader labour market, with its vacancy rate running below the all-industry level for four consecutive quarters.

FIGURE 26

Job Vacancies, Australia



Source: ABS, Haver, KPMG

Labour productivity

KPMG has estimated a proxy measure of labour productivity, calculated using real Industry Gross Value Added (GVA) and hours worked.

Labour productivity in the Retail sector, which had been in decline through late 2023, has now entered a recovery phase, increasing by 1.3% y/y in Q4 2024.

In the Accommodation & Food Services sector, labour productivity dropped back to late 2023 levels after experiencing a strong rebound in the first half of 2024. Nonetheless, the Accommodation & Food industry's gross value added (IGVA) per hour worked remains well above the historical average of the past decade.

FIGURE 27

Labour Productivity Estimates, Australia

AI to lift productivity

According to the KPMG Global Tech Report, which surveyed 2,450 technology executives, a substantial 74% indicated that artificial intelligence (AI) is enhancing the productivity of their knowledge workers and overall business performance.

However, the full potential of AI has yet to be realised at scale, with just 31% reporting significant benefits. Additionally, there remains notable anxiety within the workforce regarding AI, which necessitates focused efforts on education and upskilling to mitigate these concerns and fully leverage AI's capabilities in the industry.

E-commerce indicators

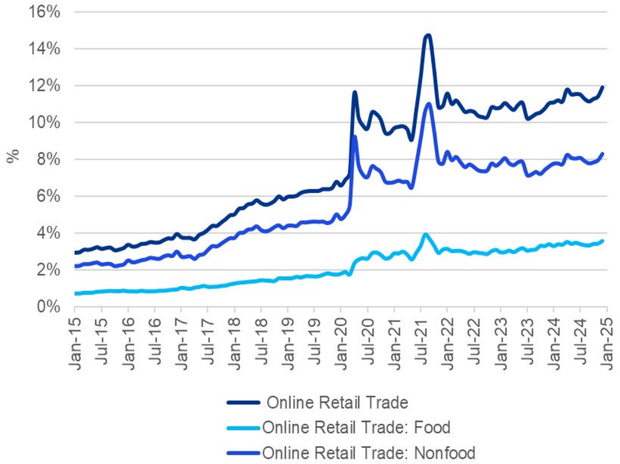
Online retail sales

Seasonally adjusted online retail sales rose 3.4% ($415.7 million) in Q4 2024, reaching $12,801 million, up from $12,356 million in Q3. As a result, the proportion of online sales to total retailing increased from 11.3% to 11.6% q/q because of Black Friday and Cyber Monday.

Online food retailing increased to 8.8% of total food retail sales in Q4 2024, up from 8.5% in Q3 2024, matching its share in Q2 2024. Online non-food retailing rose to 13.3% in Q4 2024, from 13.2% in Q3 2024, but it was still below the Q2 2024 share of 13.6%.

FIGURE 28

Online Retail Sales by Type as a Proportion of Total Sales



Source: ABS, Haver, KPMG

Australia Post's January 2025 Quarterly eCommerce Report reports that 7.6 million households shopped online during the 2024 peak season (Nov–Dec), a 2.4% y/y increase. Parcel deliveries totalled nearly 103 million, reflecting rising demand for convenience and speed in online retail. Growth was strongest in Health & Wellness (+20.5%), Athleisure (+15.8%), and Tools & Garden (+14.6%).

Regional areas saw notable gains, led by NT (+12.4%), TAS (+11.4%), and SA (+8.9%), while express delivery demand surged in urban centres such as Richmond (VIC) and Sydney (NSW). Cyber sales weekend (29 Nov–2 Dec) delivered a 7.8% y/y uplift, with retailers extending discount periods to manage logistics pressures.

Increasing omnichannel adoption

The latest Australian Retail Outlook report highlights increasing omnichannel adoption, a strategy that provides a seamless shopping experience across all channels, including instore, mobile, and online, with 85% of Australians alternating between online and instore shopping. AI-driven recommendations are expected to shape 40% of purchases by 2025, while virtual reality adoption in fashion and home retail is projected to rise by 20%, that looks to enhance shopping engagement and boost sales. Advances in autonomous delivery and hyperlocal fulfilment centres are expected to lower logistics costs by 12%, making same-day delivery a viable standard.

FIGURE 29

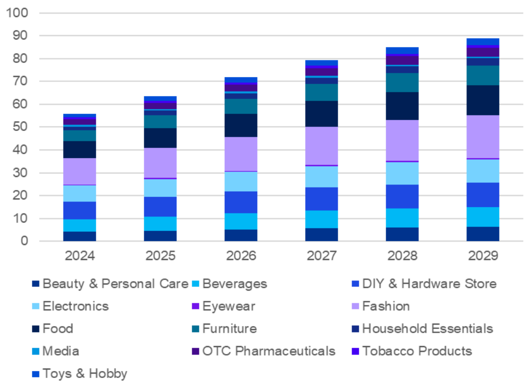
Parcel Volume in Peak Season 2024 (November and December) Compared to 2023 by States, Australia

Source: Australia Post

According to Statista Market Insights, revenue in Australia's e-commerce market is projected to reach $67.6 billion in 2025, up nearly 14% from $59.4 billion in 2024. User penetration is set to climb from 69.2% in 2025 to 84.4% by 2029, with an average revenue per user (ARPU) of $3,470.

FIGURE 30

Revenue in E-commerce Market, Australia



Source: Statista Market Insights

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 retailers' 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 datasets, 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.

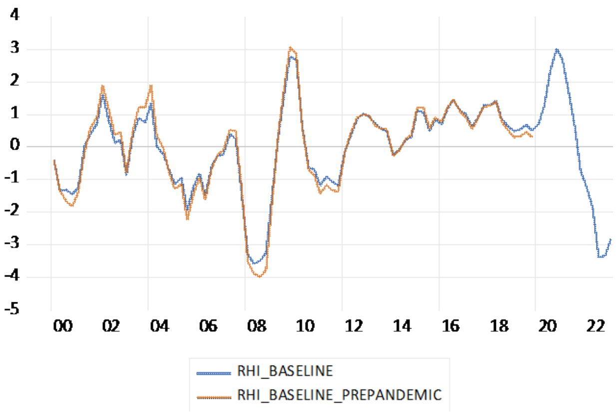
Table T.1 – RHI Weights

Variables	Weights	
	Baseline	Baseline Pre-pandemic
Producer Price Index	0.64	0.64
Wage Price Index	0.47	0.47
Consumer Sentiment	0.56	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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