KPMG

Retail Health Index September 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 previous edition, we expected the index would move into positive territory by the June quarter 2025. Unfortunately, this milestone was not reached, as weaker economic growth and heightened global uncertainty – driven by changes to US trade policy – played a key role in slowing the momentum for the sector's return to a favourable performance environment.

Despite the slow transition, progress has been made with the RHI making solid gains. End-of-financial-year promotions, easing inflation, and lower interest rates supported retail activity in the June quarter. While households remained value-conscious and focused on essentials, improvements in income and the resilient labour market have continued to help restore confidence.

Looking ahead, we expect the recovery to be maintained through the September quarter and beyond, with the index (hopefully) returning to positive territory next quarter. Further progress is likely as both headline and core inflation now look to be sustainably within the target band, allowing the RBA to continue to lower the interest rates. Softer cost-of-living pressures and restored consumer confidence should also support the sector. On a global front, many bilateral trade deals with the US and its major trading partners have been achieved which will then at least put much of the uncertainty around trade policy in the rear-view mirror.

Key economic takeaways

- Retail sales edged up 0.3% q/q in June, marking the fourth straight gain, though per capita volumes remain 6% below the 2022 peak.
- The latest consumer sentiment data shows a tentative improvement in August after the third rate cut this year, with the index rising to 98.5. While still a touch below the favourable range, this marks a rebound after earlier declines driven by a weakening global outlook and escalating tariff disputes.
- Cost indicators moderated but still remain elevated compared to historic levels. Final demand producer price index rose only 0.7% q/q and 3.4% y/y, its slowest annual pace in four years. Supply chain costs were uneven, with manufacturing up 1.7% q/q and rail freight down 2.2% q/q. Wage growth remains steady at 3.4% y/y.
- Profitability improved, but insolvencies in the sector climbed to 1,152 cases in FY25, the highest in a decade, underscoring persistent cash-flow pressures on smaller retailers. In the last 12 months, Mosaic Brands, one of Australia's largest retailers by footprint, closed down all stores by May 2025.
- Online spending in FY25 concluded on a strong note. Total online spending reached $13.8b in the June quarter (+9.7% y/y), lifting its share of total retail turnover to 12.2%, from 11.6% a year ago.

Cautious optimism

'It's like walking across a frozen lake – you're hopeful the ice will hold, but you still tread carefully with each step.'

- There are early signs of cautious optimism emerging in Australia's retail sector. Consumer sentiment and retail sales are trending upward, buoyed by the prospect of further interest rate cuts following August's adjustment. Inflation appears to be stabilising within the RBA's target range, offering a more predictable economic backdrop for retailers heading into the final quarter of the year. Electricity prices are an outlier as they rose 13.1% in the 12 months to July 2025.
- Globally, the noise surrounding US tariffs – which has been dominating headlines over the past six months – has begun to subside. While concerns remain about the broader implications of Trump's tariff hikes on global trade, Australia's general tariff rate holding at 10% offers some breathing room. In response, many Australian retailers are accelerating efforts to diversify their supply chains beyond China, seeking greater resilience and flexibility. This strategic shift introduces new cost pressures and operational complexity.
- As reporting season wraps up, early indicators suggest that most retailers showed an improved performance in the second half of the financial year. However, this wasn't unanimous and for some their share price has been heavily penalised, where it is evident margin pressure and elevated supply chain costs remain persistent challenges. At the same time, investment in generative AI is gaining traction across the sector. Retailers are exploring AI-driven solutions to enhance customer service, streamline back-office operations, and support smarter buying decisions – positioning gen AI as a key enabler of future competitiveness.
- Despite the improving demand outlook, the fundamentals of the market remain unchanged: it's highly competitive, and Australian consumers are as savvy as ever. International players continue to expand their footprint, leveraging aggressive discounting, gamified experiences, and sophisticated loyalty programs to capture market share.
- In short, while the retail landscape is evolving, the path forward demands agility, innovation, and a sharp focus on operational efficiency.

We are passionate about the retail and consumer market and hope you enjoy reading our KPMG RHI report. If you would like to know more about how KPMG can help your business, please contact us.

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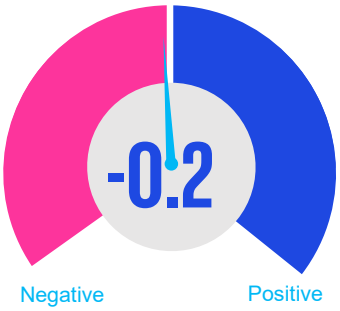
KPMG Australia

Retail performance dashboard



KPMG Retail Health Index

KPMG Retail Health Index Component Contribution

-0.38	-0.17	0.49	-0.15
Producer Price Index	Wage Price Index	Consumer Sentiment	Volume

Spending indicators

$106b
Retail sales
+0.3% q/q

-1.9% Consumer sentiment *(q/q)*

+0.6%
Retail turnover per capita (q/q)

5.2%
Household Saving Ratio

+1.0%
Household Spending (q/q)

27.4m
Population
+0.3% q/q

Cost indicators

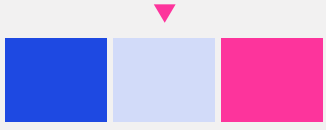
+0.7%
Producer Price Index *(q/q)*

+0.8%
Wage Price Index *(q/q)*

0.654
Foreign Exchange (AUD/USD)

0.7%
CPI index (Inflation *q/q*)

Global Supply Chain Pressure Index



Performance indicators

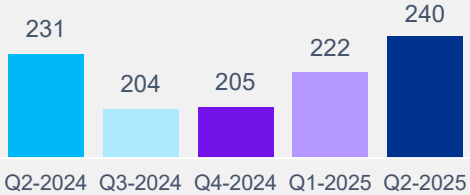
1.34m
Australians work in retail

332,000
Vacancies

37m
Hours worked

+2.4% Online sales *(q/q)*

Insolvencies



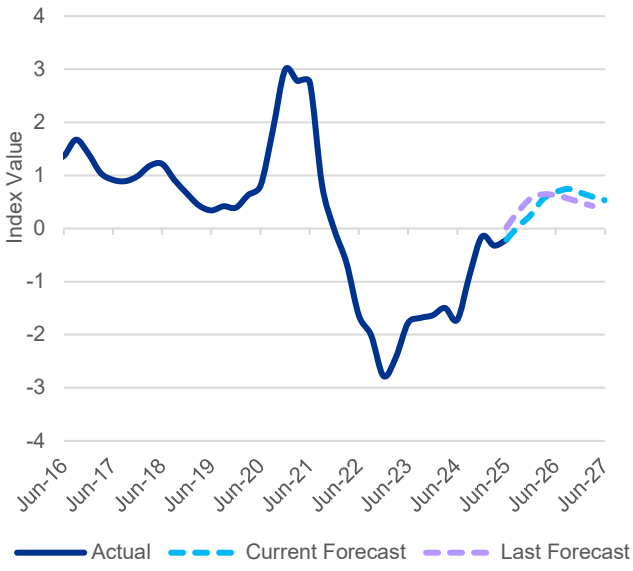
Note: All figures are as of the June quarter 2025, except for the Foreign Exchange (July 2025), Saving rate (March quarter 2025) and Population data (December quarter 2024).

Retail Health Index

KPMG's Retail Health Index© (RHI) strengthened in the June quarter, with easing cost pressures and firmer sales volumes improving sector health, while subdued sentiment tempered the pace of recovery.

FIGURE 1

Retail Health Index, Actual and Forecast



Source: KPMG's calculation

Between the March and the June quarter 2025, the KPMG Retail Health Index rose by 0.11 points, from -0.32 to -0.21, signalling a slow but steady recovery in retail conditions. The momentum was supported by easing cost pressures and an improvement in retail sales volumes. These contributions were partially offset by the downward pressure from subdued consumer sentiment and elevated wage growth.

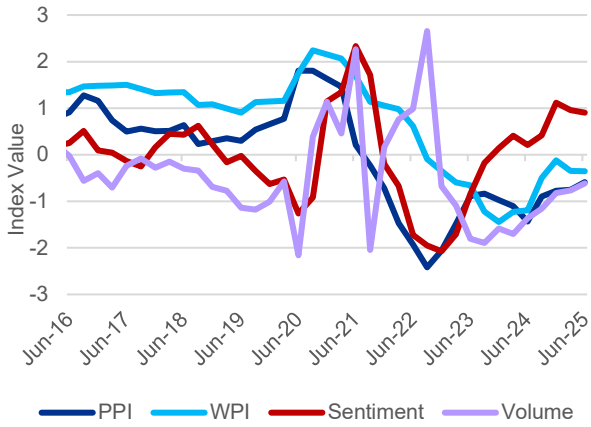
Producer Price Index (PPI) growth moderated in the June quarter 2025, with cost pressures from supply chains and upstream inputs beginning to ease, reducing one of the main drags on retailers' margins. Wage Price Index (WPI) was flat but labour costs remain elevated and continue to squeeze profitability.

Consumer sentiment fell slightly between the March quarter and the June quarter 2025, signalling that households remain wary about their finances and are limiting discretionary purchases.

By contrast, volumes ticked higher, suggesting that end-of-financial-year sales and selective discounting were enough to lift overall spending, even in the face of subdued confidence.

FIGURE 2

KPMG RHI by Component Factors



Source: KPMG's calculation

While three components remained in negative territory, the sector showed signs of gradual recovery:

- **Producer Price Index (PPI):** The PPI improved from -0.75 in the March quarter 2025 to -0.59 in the June quarter 2025, reflecting a deceleration in price growth from 75% to 59% above its historical average. This marked the largest contributor to the quarterly RHI increase, adding 0.11 index points to the improvement.
- **Wage Price Index (WPI):** The WPI remains unchanged at -0.35 in both the March and June quarters 2025, indicating wage growth being 35% above its historical average. Hence, it did not contribute to changes in the RHI this quarter.
- **Consumer Sentiment:** Consumer sentiment declined slightly, falling from 0.96 in the March quarter 2025 to 0.91 in the June quarter 2025. Its contribution to RHI dropped from 0.52 index points in the previous quarter to 0.49, leading to a minor downward effect of -0.03 index points on the RHI this quarter.
- **Sales Volume:** Sales volumes improved modestly from -0.77 in the March quarter 2025 to -0.61 in the June quarter 2025; therefore, reducing their negative impact on the RHI by 0.04 index points.

Spending indicators

Retail sales lifted modestly in the June quarter, but the gain was less compelling once adjusted for population growth.

Retail sales

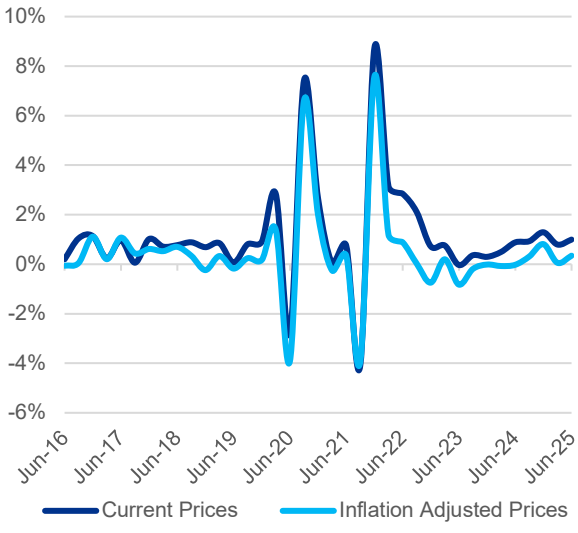
Retail sales surged off the back of end of financial year sale events, returning to the positive spending momentum observed in previous quarters.

In volume terms, quarterly retail sales rose by 0.3% in the June quarter 2025. This follows three straight quarters of volumes growth in March quarter 2025 (+0.1%), December quarter 2024 (+0.8%) and September quarter 2024 (+0.3%). Over the year, retail volumes increased by 1.5%.

In current dollars, retail turnover rose 1.0% this quarter, up from the 0.8% gains recorded in the first quarter 2025. The increase in retail spending was largely due to a strong month of June, with turnover boosted mostly by end-of-financial-year sales, more purchases of winter clothing, as well as the release of new products like the highly anticipated launch of the Nintendo Switch 2.

FIGURE 3

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

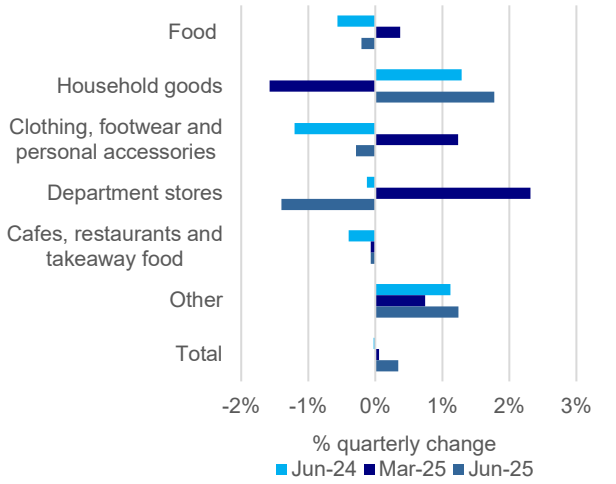


Source: ABS, Haver, KPMG

The strongest quarterly rises were observed in Household goods (+1.8%), followed by Other retailing (+1.2%). Conversely, declines were recorded in Café, restaurants and takeaway food (-0.1%), Food (-0.2%), Clothing, footwear and personal accessories (-0.3%), and Department stores (-1.4%) during the same period.

FIGURE 4

Inflation Adjusted Sales by Category, Quarterly Change (%)

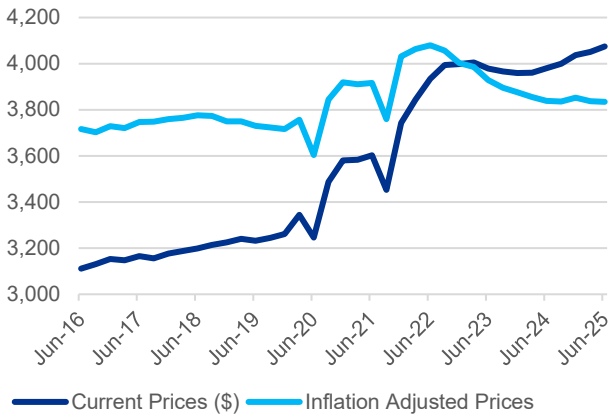


Source: ABS, Haver, KPMG

While retail sales posted a modest gain in the June quarter supported by end-of-financial-year discounting, the increase was less impressive when adjusted for population growth, highlighting continued weakness in per capita terms. On a per capita basis, retail volumes fell 0.1% in the June quarter following a 0.4% fall in the last quarter.

FIGURE 5

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



Source: ABS, Haver, KPMG

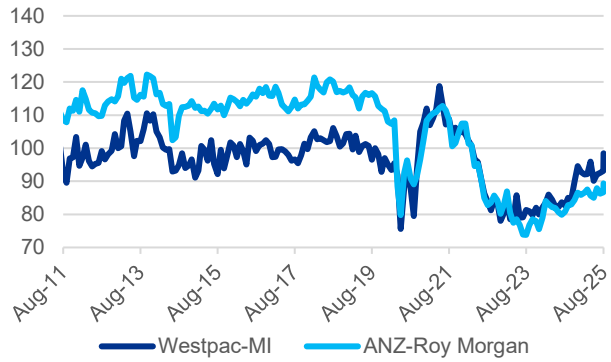
Consumer sentiment

Consumer sentiment is finally showing signs of breaking out of its prolonged slump, with the Westpac–Melbourne Institute Index rising to 98.5 in August 2025, its highest level in three and a half years. This also marks the first time since March 2022 that sentiment has come within reach of balanced territory, just 1.6% shy of the 100 threshold.

Getting here, however, has been anything but smooth. After touching 95.9 in early March on the back of the first interest rate cut after nearly five years, sentiment was knocked lower to 92.6 by June by a weakening global outlook and escalating tariff disputes.

FIGURE 6

Consumer Sentiment

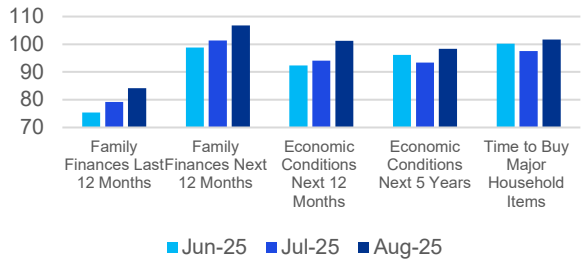


Note: Index (100 and above is favourable)
Source: Westpac, Melbourne Institute, ANZ, Roy Morgan

All components of the sentiment measures improved in August. The 'Family finances vs a year ago' subindex lifted to 84.2, still below the long-run average of 88 but materially better than earlier lows. Looking ahead, expectations are outright positive, with the 'Family finances, next 12 months' subindex up to 106.8, marginally above the historical norm of 106.6.

FIGURE 7

Westpac–Melbourne Institute Consumer Sentiment by Component

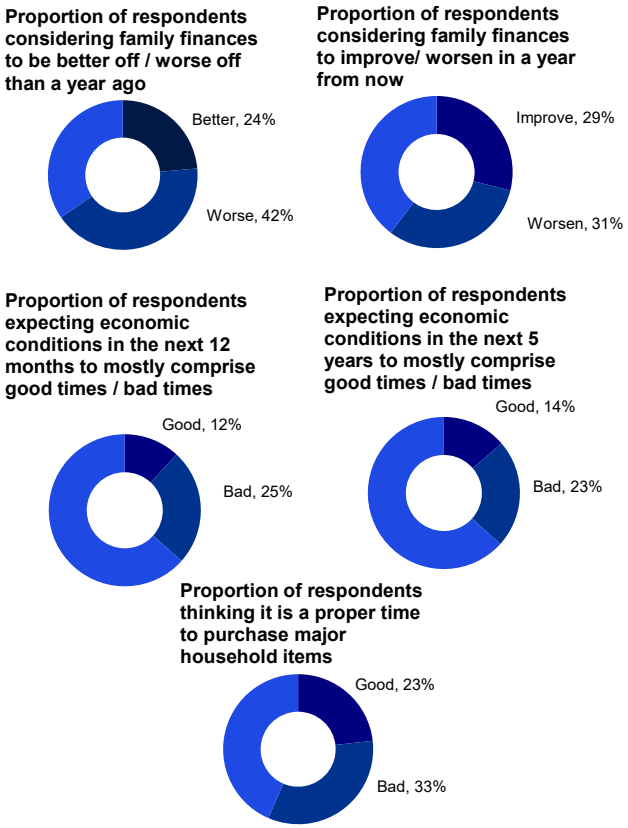


Source: Westpac, Melbourne Institute

A similar picture has also emerged from the ANZ–Roy Morgan Consumer Confidence Index. On the four-week moving average basis, the series continues to move upward and is also at its highest level since June 2022. Gains were broad-based across all subindices, with a notable rise in confidence around future household finances. Almost a quarter of Australians (24%), say their families are financially 'better off' than a year ago, the highest figure for this indicator since October 2022.

FIGURE 8

ANZ–Roy Morgan Survey of Consumer Confidence, August 2025



Source: ANZ, Roy Morgan

The August rebound reflects multiple tailwinds: the RBA's third rate cut for 2025, as well as an improved tone from the RBA signalling scope for further cuts. A resolution in trade policy also played a role, with the US leaving its 10% tariff on Australian imports unchanged following the expiry of a 90-day negotiating period, avoiding the risk of reciprocal tariffs rising above the base rate which has been the case for the majority of the US's trading partners.

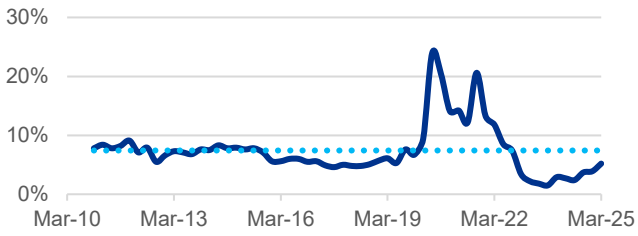
Taken together, this marks the strongest sentiment improvement since the pandemic recovery, raising the prospect that the long stretch of consumer pessimism is finally drawing to a close. This shift provides a firmer foundation for household spending and supports expectations that the KPMG Retail Health Index will move into positive territory in the September quarter.

Household spending

Australia's household saving ratio rose to 5.2% in March quarter 2025, up from 3.9% in December, as gross disposable income grew by 2.4%, against a 1.0% increase in household spending. Consistent with higher saving, families remains selective in their spending, focusing on essentials and only stepping up purchases during EOFY sales in the June quarter.

FIGURE 9

Household Savings Ratio, Australia (%)

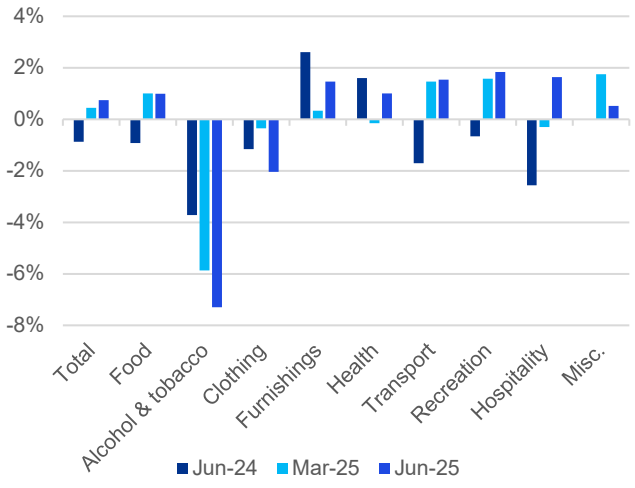


Source: ABS, Haver, KPMG

In seasonally adjusted volume terms, household spending rose 0.7% in June quarter 2025, marking its third consecutive quarterly gain. This improvement was supported by the easing of cost-of-living pressures and recent interest rate cuts that have helped relieve financial strain on households. Seven out of nine spending categories rose this quarter, led by Recreation and culture (+1.8%) and Hotels, cafés and restaurants (+1.6%). Alcohol and tobacco and clothing were the only two categories that fell, by 7.3% and 2.0% respectively.

FIGURE 10

Household Spending Volumes by Category, Quarterly Change (%)

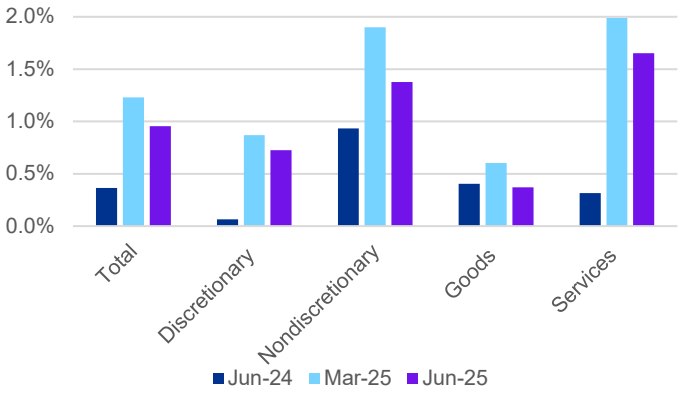


Source: ABS, Haver, KPMG

In nominal terms, household spending increased by 1.0% in the June quarter 2025, slightly below the 1.2% growth in the March quarter but exceeding the 0.4% rise recorded a year earlier. However, growth decelerated across all categories: discretionary spending grew 0.7% (down from 0.9%), non-discretionary spending increased 1.4% (down from 1.9%), and spending on goods and services rose 0.4% and 1.7%, respectively (down from 0.6% and 2.0%).

FIGURE 11

Household Spending by Special Aggregates, Quarterly Change (%)



Source: ABS, Haver, KPMG

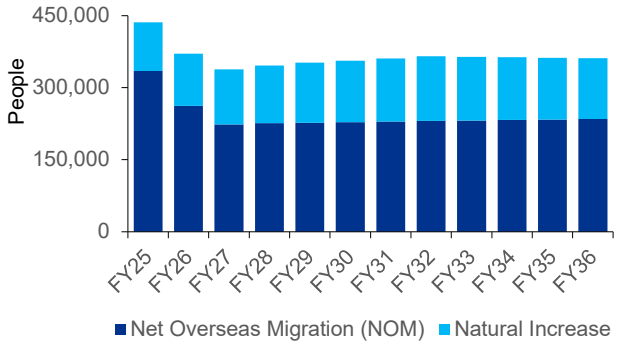
Looking at the monthly data, household spending shows steady growth over the June quarter. Australian household consumption recorded a 0.5% increase in June, following a 1.0% rise in May after being flat in April. These consecutive gains resulted in an annual growth rate of 4.8% for the period from June 2024 to June 2025, marking the strongest annual growth since January 2024. This is an encouraging outcome for the retail sector, particularly amid challenging trading conditions. The overall increase in June spending was supported by a 1.3% monthly growth in spending on goods, with households allocating more funds toward food, new vehicles, and electronics. Conversely, spending on services declined by 0.5%, reversing two months of consecutive growth in this category.

Population

Australia's population expanded by 445,900 people or 1.7% over the 12 months to 31 December 2024, largely driven by Net Overseas Migration (NOM), which contributed 76% of the total increase. According to the Budget 2025–26, NOM is forecasted to decline by approximately 15–20% in FY26 and FY27, before stabilising at a more consistent annual growth rate of 0.5% starting in FY28. This decline is projected to reduce the annual population growth rate to 1.3% in FY26 and to 1.2% from FY27 onward.

FIGURE 12

Net Overseas Migration Targets by Year, Commonwealth May 2024 Budget



Source: Commonwealth Treasury

Cost indicators

Cost pressures eased slightly in the June quarter as producer price growth slowed and wages held steady, while a stronger AUD provided relief to imported material.

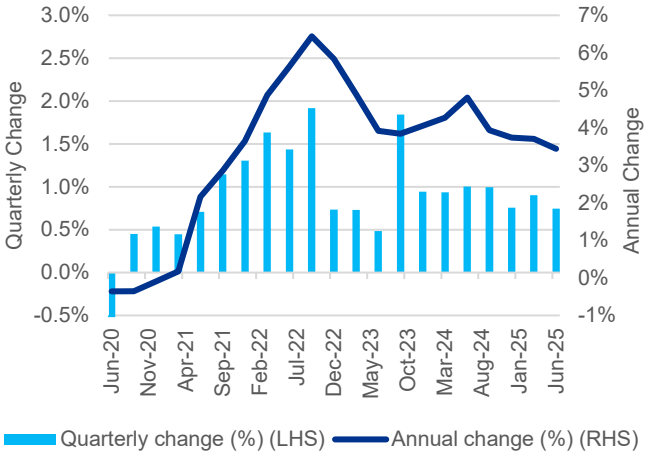
Producer Price Index

Australia's final demand PPI rose 3.4% over the year to June 2025, the slowest annual pace in four years and a clear step down from pandemic-era peak – yet still elevated. Over the quarter, producer prices increased 0.7%, easing from 0.9% in the prior quarter.

Quarterly price gains were broad based: property operators rose 1.1% due to firm demand and elevated residential rents, while other food product manufacturing increased 8.4% due to strong international demand for coffee and meat products. Partly offsetting these rises, petroleum refining fell 9.0% as crude oil hit a four-year low.

FIGURE 13

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



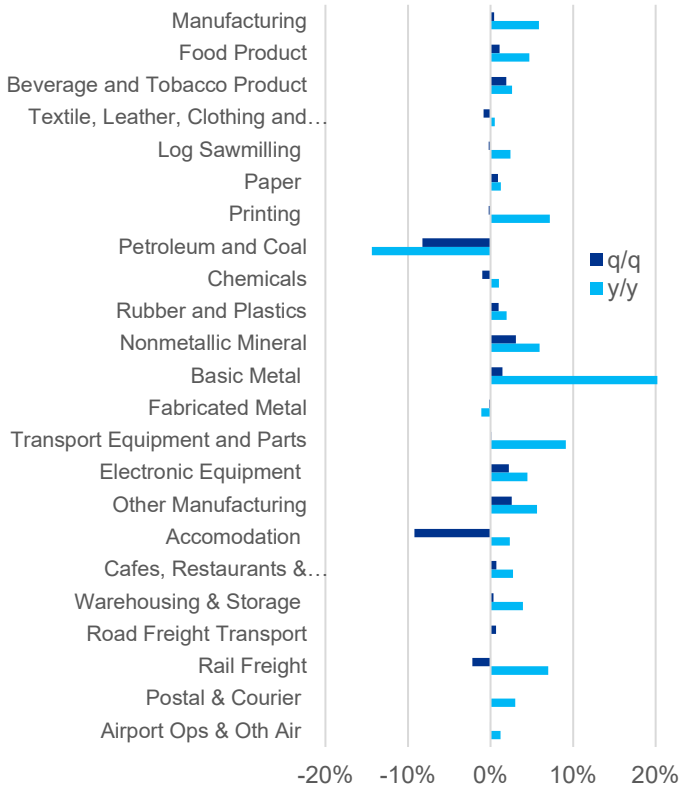
Source: ABS, Haver, KPMG

Inputs into manufacturing rose 1.7% over the quarter and 7.6% over the year. Warehousing and storage services increased 0.3% over the quarter and 3.9% over the year. Road transport costs rose 0.7% over the quarter and were broadly unchanged over the year, while rail freight fell 2.2% this quarter, reflecting automatic contract adjustments, but remained 7.0% higher over the year.

Rental, hiring and real estate services continued to firm, with non-residential property operators up 0.6% over the quarter and 4.3% over the year. Other goods and equipment rental and hiring fell 0.9% over the quarter and 0.9% over the year amid strong market competition. 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, June Quarter 2025



Source: ABS, Haver, KPMG

Wages

Annual wages growth held steady at 3.4% in the June quarter 2025. On a quarterly basis, the wage price index (WPI) increased 0.8%, easing slightly from 0.9% in March.

Real wages rose by 1.3% over the year to June 2025, the seventh consecutive quarter of real wage gains. This improvement has occurred alongside a decline in headline inflation from 7.8% in December 2022 to 2.1% today. This sustained real wage growth is a welcome relief for households struggling with cost-of-living pressures.

Public sector wages rose 1.0% in the quarter and 3.7% over the year. Private sector wage growth remained below that of the public sector but continued to drive overall growth given its larger share of employment and total wage expenditure. Seasonally adjusted, private sector wages rose 0.8% in the quarter and 3.4% over the year to June 2025, lower than the 4.1% annual increase recorded in the same quarter last year.

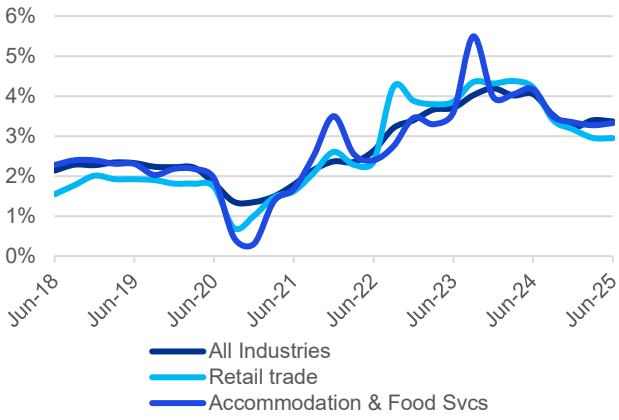
The retail sector experienced a notable slowdown in annual wage growth, dropping from a high of 4.4% in March 2024 to just 2.9% in the June quarter of 2025. This marked the lowest year-on-year increase since the September quarter of 2022. Retail also recorded the smallest quarterly wage rise across all industries, with wages increasing by only 0.2%.

In the Accommodation & Food Services sector, annual wage growth stabilised at approximately 3.3%, with a quarterly increase of 0.5% in June 2025. Together, the Retail Trade and Accommodation & Food Services sectors contributed just 0.03 percentage points to aggregate wage growth.

A smaller proportion of jobs with high wage increases has contributed to the moderation in overall wage growth. The share of jobs reporting annualised wage increases of more than 4% declined to 25.1% in the June quarter of 2025, down from 26.8% in March.

FIGURE 15

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



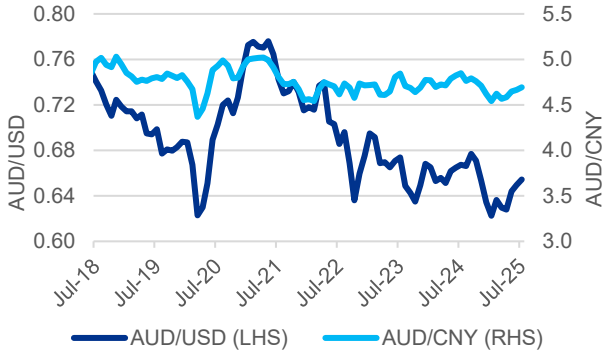
Source: ABS, Haver, KPMG

Foreign exchange

Since its early-February low, the AUD has gained 6% against the USD, reaching 0.654. However, the AUD has only appreciated around 1.5% on a trade-weighted basis, indicating the move is largely driven by USD weakness rather than AUD strength. Policy dissonance in the US, higher tariffs alongside aspirations for lower inflation and rates, together with growing fiscal concerns have eroded parts of the USD's safe-haven appeal amid ongoing geopolitical tensions.

FIGURE 16

Exchange Rate, AUD vs USD vs CNY



Source: RBA, Haver, KPMG

Global geopolitical development

Global trade conditions remain volatile through the June quarter as geopolitical tensions and tariff policy shifts reshape trade flows. In the Middle East, conflict between Iran, Israel and the US has disrupted key shipping lanes, increasing (albeit temporarily) freight and oil costs. Air freight routes were being diverted more frequently, creating delays and pushing logistics providers to build more flexibility into operations.

In Southeast Asia, the Cambodia–Thailand border dispute has led to prolonged trade rerouting via Vietnam and Laos, raising costs and slowing transit times despite a ceasefire. India's ban on Pakistan-origin cargo has further stressed regional supply chains, with freight delays of up to 50 days and higher shipping charges. In the Red Sea, renewed Houthi attacks have sunk vessels and forced continued diversions via the Cape of Good Hope, lifting insurance premiums and reversing earlier gains in maritime carbon efficiency.

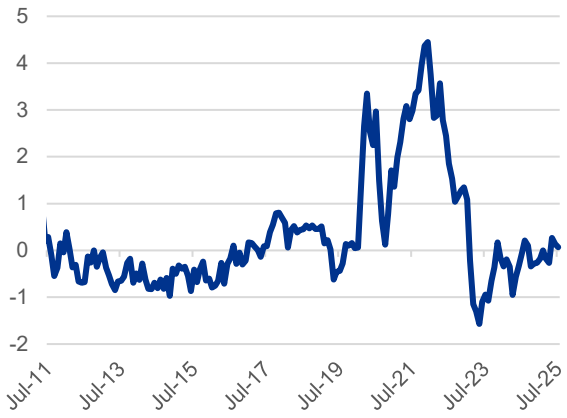
Supply chains

Supply chain conditions came under renewed pressure early in the June quarter, with the index spiking in May due to temporary geopolitical disruptions and a front-loading of trade ahead of US tariff changes. As the rush subsided, shipping volumes normalised and bottlenecks in key freight corridors eased again in July.

For the retail sector, the rapid moderation in supply chain pressure is providing some cost relief after earlier fears of sustained freight inflation. Lower shipping rates and improved schedule reliability are reducing import cost volatility, allowing retailers greater certainty in pricing and inventory planning of the peak trading season. However, the sector remains exposed to renewed uncertainty from tariff changes and geopolitical risks, with the potential for freight costs to turn higher again if global disruptions re-emerge.

FIGURE 17

Global Supply Chain Pressure Index (GSCPI)



Note: Pressure Index > 0 indicates supply chain strain

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

US tariff changes – implications for retailers

On 31 July 2025, the US has announced revised reciprocal tariff rates for 92 countries, effective 7 August 2025. Australian exports to the US will retain the baseline 10% tariff. Most goods originating in Australia are subject to this tariff on import into the US. Some goods are subject to a higher tariff rate, while others are exempt.

From 29 August 2025, the US will suspend the duty-free exemption for imported goods valued at or below US$800 when shipped via couriers, express services or freight forwarders. All such shipments will now be subject to applicable duties and taxes, requiring customs clearance by a licensed broker. For Australian retailers selling into the US, this will raise landed costs, potentially compressing margins and affecting price competitiveness.

Performance indicators

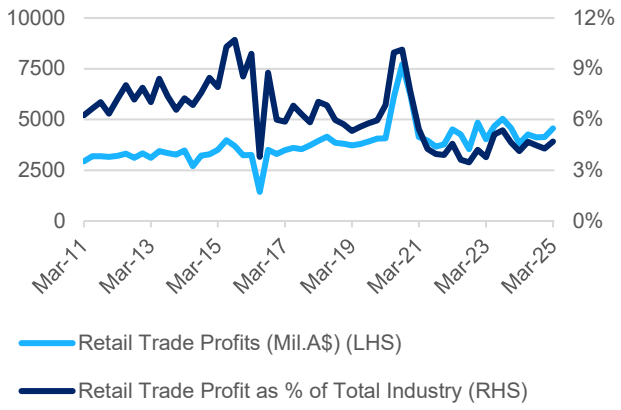
The retail sector stabilises with stronger profits and asset returns, though insolvency pressures and employment weakness persist.

Profitability

The retail sector has shown an improvement in its contribution to overall economic profitability, with its share of total profits across all industries increasing from 4.3% in the December quarter 2024 to 4.7% in the June quarter 2025. This marks the highest share recorded since the December quarter 2023. The rise in profitability was primarily driven by a 10.5% increase in retail sector margins, growing from AU$4.1 billion in the December quarter 2024 to nearly AU$4.6 billion in the March quarter 2025. In contrast, aggregate profitability across all industries grew by a modest 0.7% during the same period, highlighting the retail sector's significant outperformance.

FIGURE 18

Retail Sector Profit before Income Tax



Source: ABS, Haver, KPMG

Insolvency

Despite the steady recovery in retail profits and its increasing contribution to the broader economic landscape, corporate insolvencies have surged in 2025, with the Australian Securities and Investments Commission (ASIC) highlighting a sharp increase in business collapses driven by cash-flow pressures, and ATO debts, an issue from which the retail industry has not been exempt.

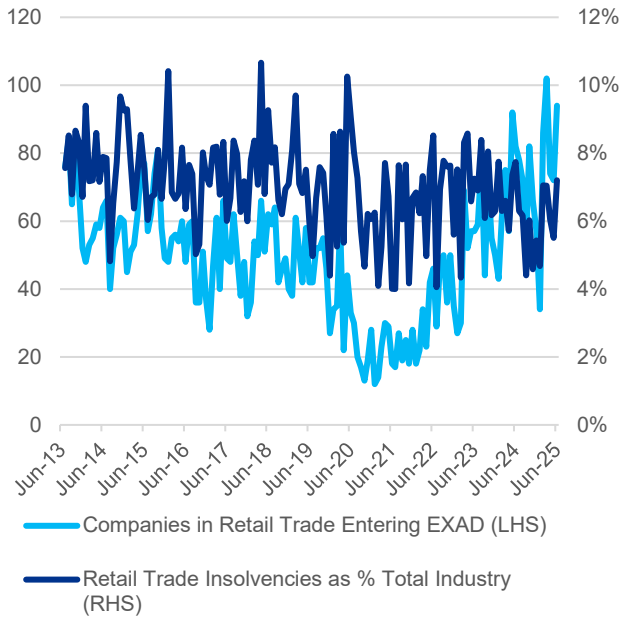
Total retail sector insolvencies reached 1,152 in FY25, up from 963 in FY24. In the June quarter 2025, retail businesses entering External Administration and Controller Appointments (EXAD) reached a record high of 240 cases. Despite this increase, the retail sector's share of total insolvencies across 20 industries declined to 5.7% in FY25, compared to 6.6% in FY24.

According to the Reserve Bank of Australia, the removal of pandemic-related support measures, rising operating costs, post-pandemic elevated interest rates, tighter access to credit, and intensified debt collection efforts by the Australian Taxation Office (ATO) have all contributed to the rise in business insolvencies. These pressures are constraining working capital, leaving many businesses vulnerable to seasonal revenue declines and B2B impacts if customer payment is delayed. Since April 2025, Toys R Us, Wittner and Peter Stevens Motorcycles have been placed into EXAD.

Small retailers have been particularly affected by the protracted economic recovery and continue to bear the brunt of these challenges. ASIC data indicates that 68% of failed companies owed less than $1 million to creditors, further underscoring the struggles faced by smaller retailers.

FIGURE 19

Number of Companies Entering External Administration & Controller



Source: ABS, Haver, KPMG

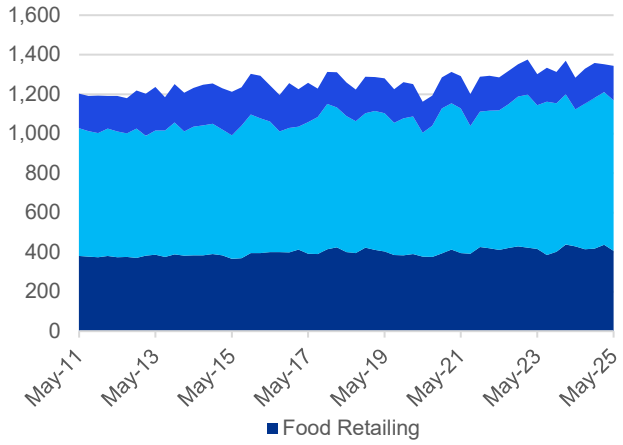
Employment

Retail employment continued to decline in the three months leading to the May quarter 2025, with a reduction of 8,600 jobs, following a previous loss of 7,200 positions in the February quarter. Total employment in the retail sector stabilised at approximately 1.34 million, which remains below the recent peak of 1.36 million recorded in the November quarter but above the 1.28 million reported during the same period in 2024.

Employment trends across retail subsectors were uneven. Food retailing experienced the largest quarterly decline, shedding 30,200 jobs, while other store-based retailing reported a loss of 12,300 positions. These reductions were offset by an increase of 33,900 jobs in other retail categories, resulting in a broadly stable net employment level across the sector for the quarter.

FIGURE 20

Retail Sector Employment, Australia (Employed person, '000)



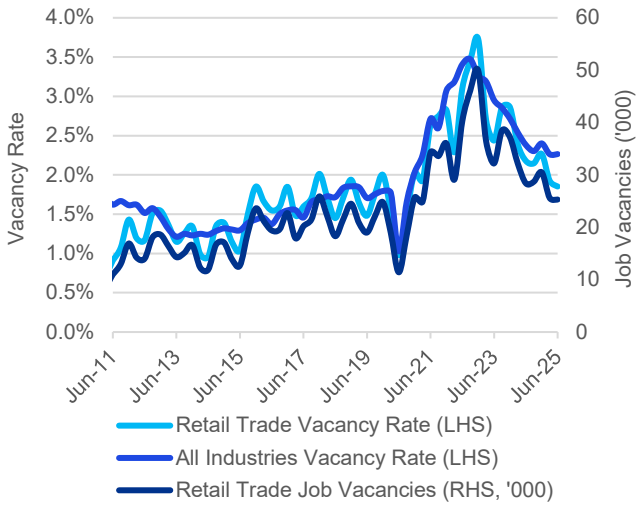
Source: ABS, Haver, KPMG

Vacancy levels have remained above pre-pandemic levels, reflecting sustained demand for workers within the sector post-pandemic. However, the sector's vacancy rate running below the all-industry vacancy rate for the sixth consecutive quarter. This suggests that retail employers may be facing fewer hiring challenges than the broader economy, as reflected in the sector's consistently lower vacancy rate.

Job vacancies in the retail sector declined by 300 in the June quarter of 2025. While this represents a much smaller reduction compared to the sharp fall of 4,900 in the previous quarter, retail job vacancies have now dropped to 1.85%, marking a five-year low.

FIGURE 21

Job Vacancies Rate, Australia



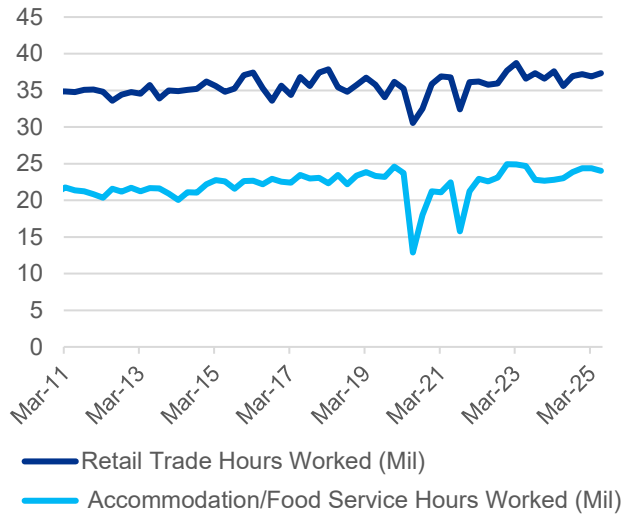
Source: ABS, Haver, KPMG

The recovery of traditional part-time industries, such as Accommodation & Food Services and Retail, has created more opportunities for individuals seeking part-time work, including younger people and working holidaymakers who prioritise flexible working arrangements.

However, quarterly changes have been uneven. In the June quarter of 2025, retail hours worked surged by 1.2% compared to the March quarter, bringing total hours worked in the retail sector to 37.36 million, the highest level recorded since the June quarter of 2024. In contrast, hours worked in Accommodation & Food Services continued their downward trend, declining by 1.4% in the June quarter. This marks the second consecutive quarter of falling hours worked in the Accommodation & Food Services sector.

FIGURE 22

Hours Worked, Australia



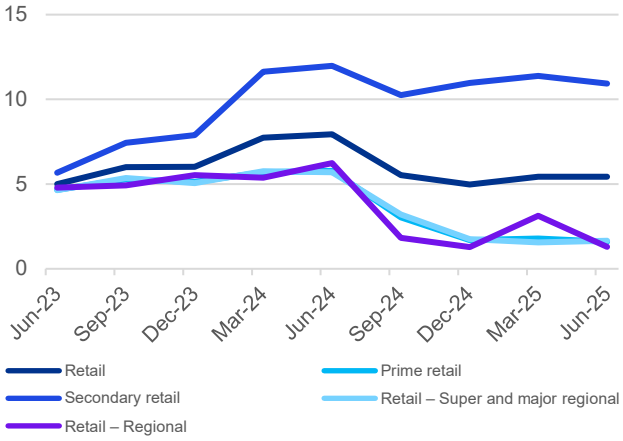
Source: ABS, Haver, KPMG

Retail real assets

The retail sector real assets are showing signs of stabilisation with a gradual improvement in conditions. National retail vacancy rates stabilised at 5.4% in March to June quarter 2025, while vacancy rates across prime, secondary, and regional centres have fallen compared to previous quarter, signalling an improvement in trading conditions with stronger tenant demand. In contrast, vacancy in super and major regional has remained broadly unchanged.

FIGURE 23

Vacancy Rates Across Retail Property Subsectors (%)

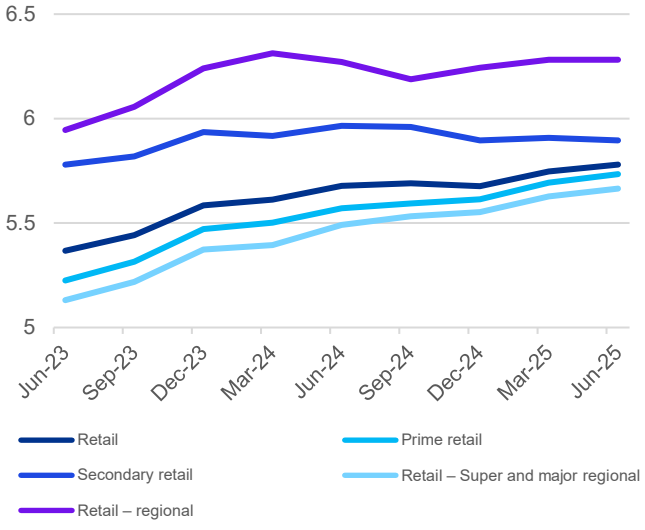


Source: KPMG, MSCI/PCA

Capitalisation rates have also largely stabilised, with the pace of increases slower than in 2024. In the June quarter 2025, the average capitalisation rate across retail reached 5.8%, 10 basis points higher than a year earlier. Notably, yields in prime, secondary and regional retail have lowered over the same period, signalling renewed investor interest.

FIGURE 24

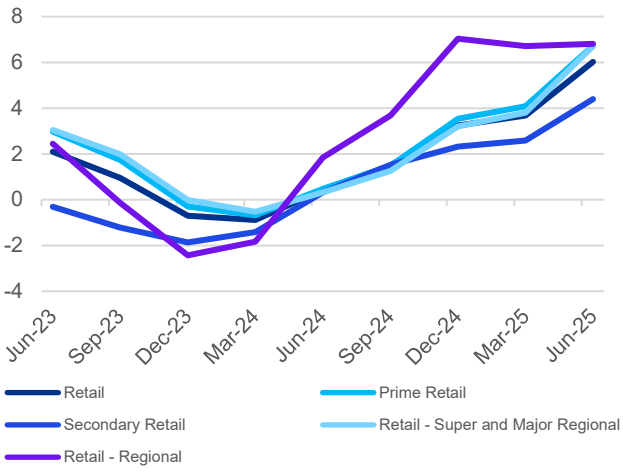
Capitalisation rates across retail property subsectors (%)



Investment performance strengthened, with total returns for retail rising to 6.0% in the June quarter 2025. This is the fifth consecutive quarter of positive returns and the highest since March 2023, following weakness in late 2023 and early 2024.

FIGURE 25

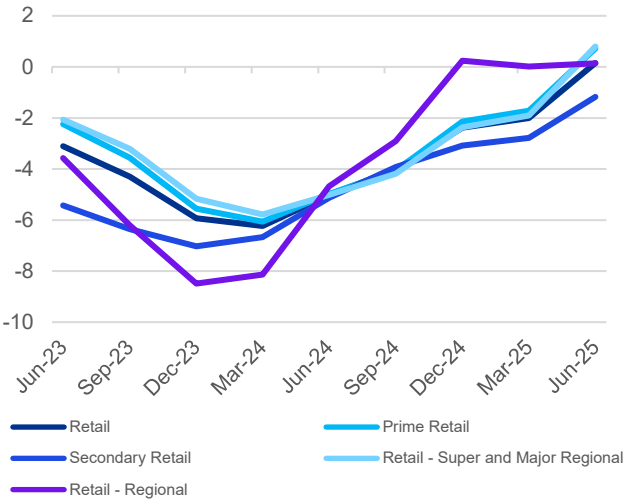
Total Returns Across Retail Property Subsectors (%)



With income returns trending higher, capital growth turned positive for the first time since June 2023, at 0.2% in the June quarter 2025, a marked improvement from -2.0% in the March quarter.

FIGURE 26

Capital Growth Across Retail Property Subsectors (%)



E-commerce indicators

Online retail sales

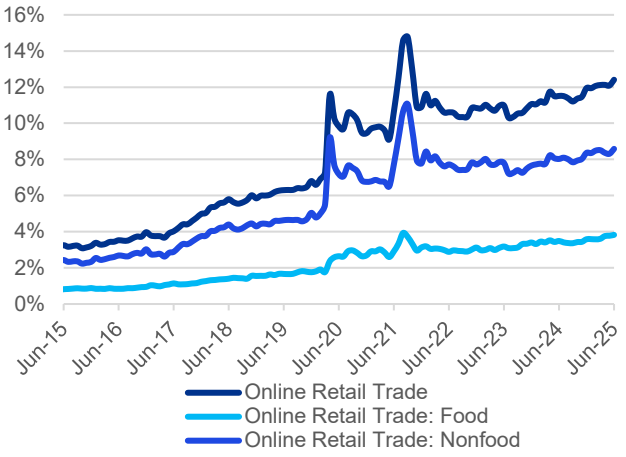
The structural shift in consumer behaviour continues to reshape the retail sector. According to the Australia Post eCommerce report 2025, one in five households shopped online weekly in 2024, compared with just 5% in 2018. This underscores how active households have become, with a clear shift in spending patterns from in-store to online.

Seasonally adjusted online spending reaching $13.8 billion in the June quarter 2025, up 9.7% year-on-year and 2.4% from the previous quarter. As a result, the share of online sales in total retail turnover rose from 12.0% in March to 12.2% in June 2025.

Online food retailing as a share of total food turnover rose to 9.5% in the June quarter 2025, up from 9.0% in March. Online non-food retailing held steady at 14.0% of total non-food turnover over the same period, but marking a significant increase from around the low-13% range recorded in 2024.

FIGURE 27

Online Retail Sales by Type as a Proportion of Total Sales (%)

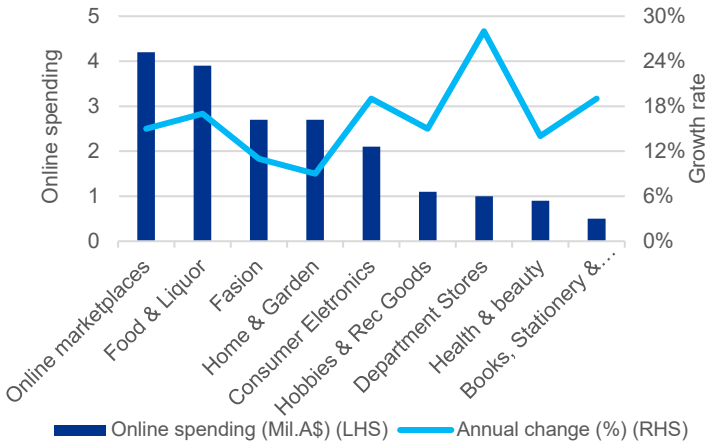


Source: ABS, Haver, KPMG

Related statistics from the latest Australia Post eCommerce report for the April–June 2025 period show that online marketplaces continued to dominate, contributing an additional $4.2 billion in the June quarter of 2025, up 15% y/y. Food and liquor added $3.9 billion, recording 17% annual growth. Department stores posted the strongest expansion, with sales up 28% y/y, led by consumer electronics and books.

FIGURE 28

Online Spend by Category, June Quarter 2025



Note: An online marketplace is an eCommerce site like eBay, Kogan and My Deal that brings buyers and sellers together in one place, showcasing a huge range of products from different sellers.

Source: AusPost, KPMG

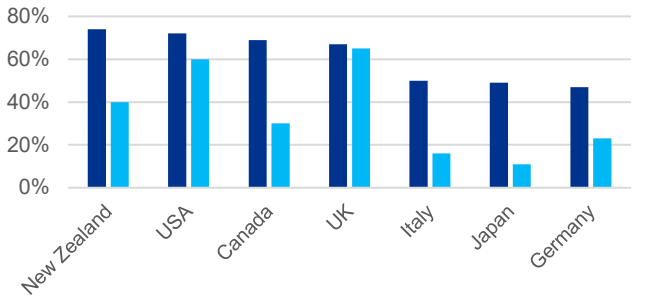
Global markets

With cost-of-living pressures reshaping consumption in 2025, more Australian businesses are turning abroad to diversify demand. According to the Australia Post eCommerce report (April–June 2025), 40% of businesses are planning to expand globally within the next two to five years. Currently, 40% already sell overseas, mostly larger enterprises.

The majority of international sales are to New Zealand (74%), the US (72%), Canada (69%) and the UK (67%). The US remains volatile due to unpredictable tariff settings, increasing uncertainty for Australian businesses. For online fashion retailers, China, Europe and the broader Asia-Pacific region present the strongest opportunities for expansion.

FIGURE 28

Key Markets Driving International Demand



Source: Australia Post, Statista ,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 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.

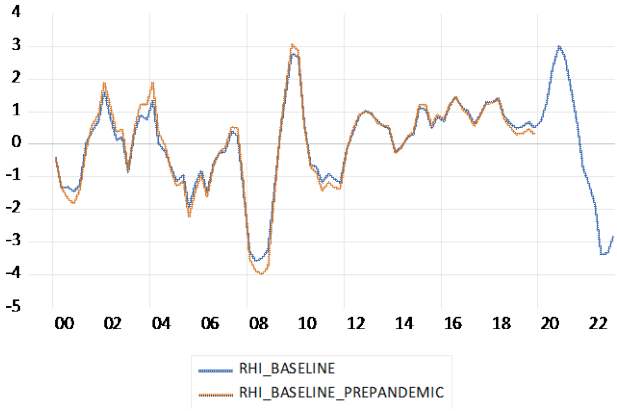
Table T.1 – RHI Weights

Variables	Weights	
	Baseline	Baseline pre-pandemic
Producer Price Index	0.64	0.64
Wage Price Index	0.48	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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