



Retail Health Index

June 2026

KPMG Australia



Contents

Executive summary	03
Retail Health Index	05
Spending indicators	06
Cost indicators	10
Performance indicators	14
E-commerce indicators	17
Technical appendix	19
Key contacts	20



Executive summary

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

The KPMG Retail Health Index has been losing momentum since the September quarter 2025. Despite a modest improvement compared to the previous quarter, the index remains in negative territory in its latest reading. This continued weakness was largely driven by a decline in consumer confidence, reflecting pressure from higher interest rates, rising fuel costs, and ongoing global uncertainty.

Globally, the environment remains unsettled, with heightened geopolitical tensions in the Middle East adding strain to already stretched supply chains. Beyond the immediate impact, the unsettled environment reflects uncertainty about the duration of conflict and the prolonged disruption to oil supply. These pressures have flowed through to transport and input costs, keeping businesses cautious and contributing to a more uncertain outlook. Domestically, households are still navigating a challenging landscape. The recent increase in the cash rate, combined with cost-of-living pressures and a weakening labour market has led to a noticeable softening in consumer confidence. This pullback in sentiment has come at a delicate time, limiting the pace at which retail conditions can improve.

Looking ahead, while retail conditions are expected to gradually improve, the path forward is likely to be slower and more uncertain given ongoing global economic conditions, with a sustained recovery in the retail sector not expected until late CY27.

Key economic takeaways

- Household spending has softened in early 2026, with quarterly growth easing to 1.0% in March following stronger outcomes in December 2025 (2.0%). The composition of spending has shifted noticeably, with a decline in discretionary categories and goods, while non-discretionary spending picked up, highlighting a more cautious and necessity-driven consumption pattern.
- Retail turnover growth moderated in March quarter 2026, with current price spending rising 0.7%, down from 2.2% in December. However, when adjusted for price changes, turnover fell 0.6%, with weakness evident in household goods (-2.0%) suggesting a pullback in larger, deferrable purchases.
- Consumer confidence weakened further, with the Westpac–Melbourne Institute index declining sharply from 91.6 in March to 80.1 in April. The ANZ–Roy Morgan survey also points to a clear deterioration in sentiment, reflecting greater caution in spending decisions.
- Producer price growth slowed to 0.4% in March 2026. Nevertheless, it is likely temporary easing ahead of potential renewed supply chain pressures driven by the Iran conflict, with congestion across the shipping and logistic network.

Retail's Perspective

- Macro level:** The operating environment remains fragile. The widening gap between prices and wages is eroding household purchasing power, with inflation forecast to outpace wage growth, placing sustained pressure on discretionary spending. External cost pressures, particularly fuel prices, are a key drag on consumption, with even modest increases materially reducing retail spend. While a stronger Australian dollar provides some offset to input costs, tightening fiscal settings and reduced government stimulus are expected to temper demand further especially impacting takeaway food, clothing and bulky goods.
- Resilience:** Despite these headwinds, the sector has demonstrated notable resilience. Retail sales grew modestly in FY25, supported by strong performances from e-commerce players and value-focused retailers. Online channels continue to structurally reshape the market, with digital penetration and marketplace models gaining share and driving growth, now representing a significant proportion of total retail turnover. However, profitability dynamics remain mixed, with margin pressure emerging in more discretionary categories and cost inflation – particularly wages – adding further strain.
- A polarised consumer:** Consumer behaviour is increasingly polarised. Sentiment has declined sharply, driven by cost-of-living pressures, while spending strength is skewed toward older, wealthier cohorts, with younger consumers retrenching more aggressively. Although household savings remain elevated relative to historical levels, they are expected to decline as inflation and rates erode buffers. Concurrently, structural shifts in consumer preferences are evident, including heightened focus on health, value, and convenience.
- Technology and AI:** This is emerging as the defining competitive battleground. AI is already reshaping customer journeys, influencing discovery, comparison and purchase decisions, while retailers are increasingly deploying AI-driven personalisation, demand forecasting and operational automation to drive efficiency and engagement. The rise of "agent-led" commerce, exemplified by Amazon's integrated ecosystem of AI, automation and logistics, highlights the strategic imperative of owning the customer relationship.

Looking ahead, the sector faces a delicate balance of structural growth drivers and cyclical risks. While e-commerce expansion, technological innovation and demographic tailwinds provide opportunity, persistent inflation, weak sentiment and geopolitical uncertainty present material downside risks. In aggregate, the outlook is one of slower, with uneven growth, where success will depend on cost discipline, customer relevance and the ability to leverage technology at scale.

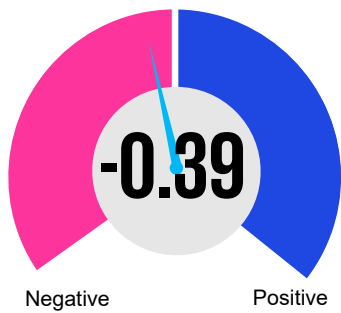


Toni Jones
Partner – National Industry
Leader, Corporate Brands
KPMG Australia



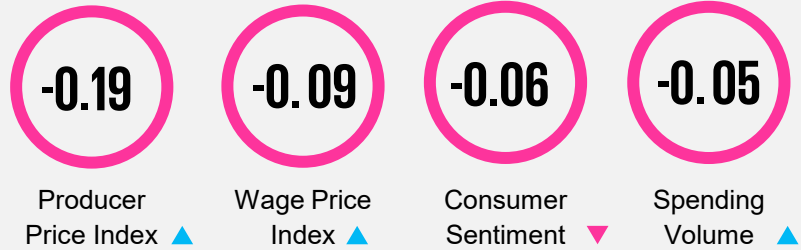
Gayle Dickerson
Partner – National Consumer
& Retail Deals Advisory Lead
KPMG Australia

Retail performance dashboard

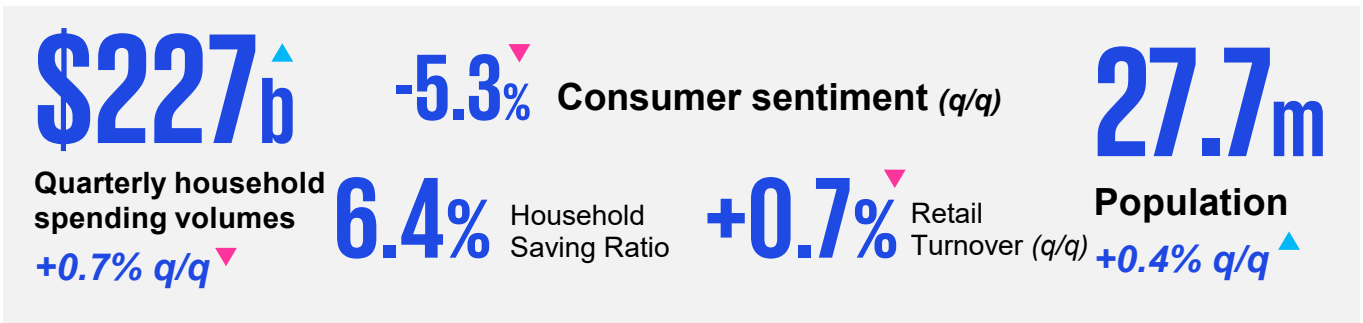


KPMG Retail Health Index ▲

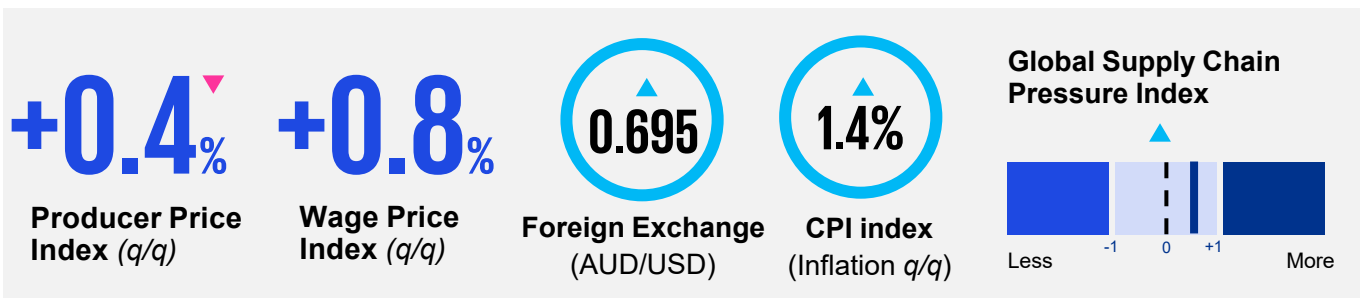
KPMG Retail Health Index Component Contribution



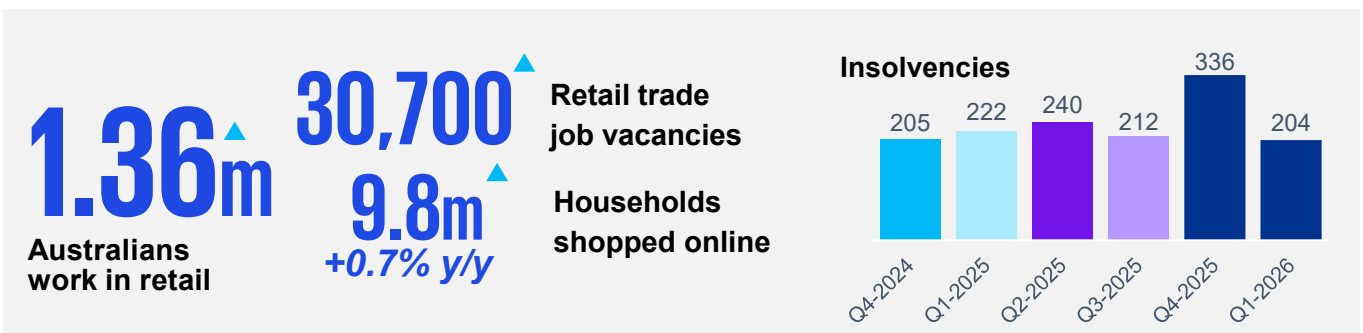
Spending indicators



Cost indicators



Performance indicators



Note: All figures are as of the March quarter 2026, except for the Saving rate (December quarter 2025) and Population data (September quarter 2025) and Household shopped online (for year 2025). The arrow indicates whether the indicators have increased (up arrow) or decreased (down arrow) compared to the previous quarter.



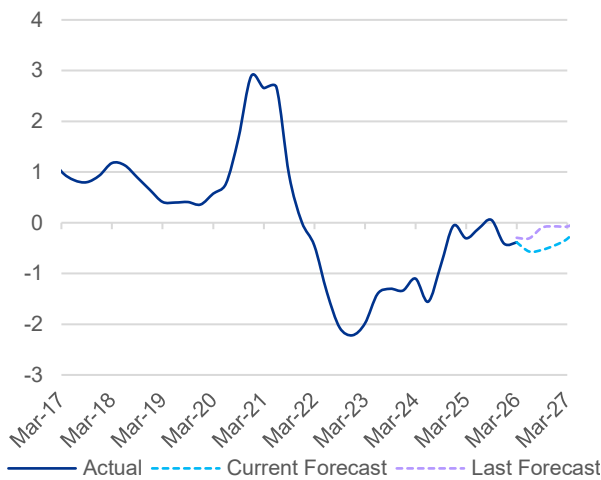
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Retail Health Index

KPMG's Retail Health Index® (RHI) recorded negligible improvement over the quarter but remains in negative territory, as consumer sentiment deteriorated sharply.

Figure 1. Retail Health Index, Actual and Forecast



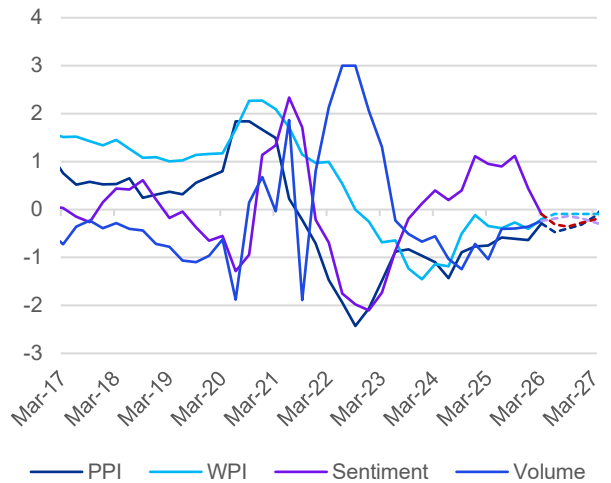
Source: KPMG's calculation

Retail conditions remain in negative territory. The RHI edged up from around -0.41 in the December quarter of 2025 to approximately -0.39 in the March quarter 2026. Overall, this suggests that retailers are continuing to face subdued demand, likely reflecting pressure on household spending from elevated living costs and cautious consumer behaviour.

Looking at the individual components, some improvement was observed across all indicators except consumer sentiment, which weakened sharply and moved into negative territory after remaining positive since September 2023. In contrast, the remaining components improved slightly from the previous quarter, with household spending strengthening and both material and labour cost pressures easing from earlier highs.

The fall in sentiment likely reflects renewed concerns around interest rates following the three consecutive cash rate increases in 2026, alongside rising fuel prices and ongoing geopolitical tensions in the Middle East, which have together added to uncertainty and continued pressure on households.

Figure 2. KPMG RHI by Component Factors



Source: KPMG's calculation

- **Household Spending Volume:** At the individual level, spending volumes improved from -0.35 in December 2025 to -0.23 in March 2026, indicating a recovery in consumer demand. This as a result narrowed the drag of household spending on the RHI by 0.03 index points.
- **Producer Price Index (PPI):** In level terms, PPI improved from -0.64 in December 2025 to -0.29 in March 2026, reflecting a moderation in input cost pressures. Accordingly, PPI took away 0.19 points in the March quarter 2026 compared to 0.41 points in the December quarter.
- **Wage Price Index (WPI):** Wage pressures eased over the quarter, improving from -0.40 in December to -0.20 in March 2026, indicating lower labour cost pressures. This reduced the drag of wage pressures on the RHI by 0.09 index points.
- **Consumer Sentiment:** Consumer sentiment deteriorated sharply from 0.44 in December to -0.10 in March 2026, moving into negative territory after remaining above trend since September 2023. This significant reversal in confidence was the dominant driver of the overall RHI outcome, subtracting approximately 0.31 index points and offsetting the improvements seen across spending and cost indicators.

Recent forecasts for the KPMG RHI components indicate that pressures on retailers are still present, suggesting that a sustained recovery in retail conditions is unlikely before late CY27. As a result, near-term improvement is expected to remain limited, reflecting ongoing volatility across key drivers.

Spending indicators

The spending recovery is stalling, with tighter financial conditions and global shocks curbing consumer momentum.

Household spending

In the December 2025 quarter, the household savings ratio increased by 0.8 percentage points to 6.9%, up from 6.1% in the September quarter. The savings ratio has risen above pre-pandemic averages, reflecting income growth and accumulated savings buffers rather than a material change in households' willingness or ability to spend.¹ As a result, households remain well placed, in aggregate, to smooth consumption despite elevated prices and interest rates.

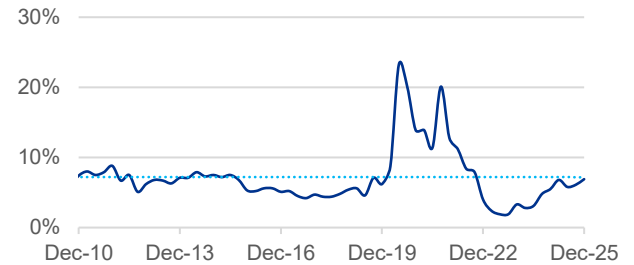
Total household spending increased by 1.0% in the March quarter 2026, down from 2.0% in the December quarter and 1.2% in the same quarter last year.

Quarterly growth eased across most categories: *Discretionary* spending grew by 0.6% (down from 2.3%), spending on *Goods* rose by 0.6% (down from 2.6%), and *Services* spending increased by 1.4% (down from 1.5%). By contrast, *Non-discretionary* spending increased by 1.7% (q/q, up slightly from 1.6%). On an annual basis, growth remained lower across all categories compared to the March quarter 2025.

In quarterly volume terms, household spending increased by 0.7% in the March quarter 2026, representing a slowing from the 1.0% increase in the previous quarter, although remaining above the 0.3% increase recorded in the March quarter 2025.

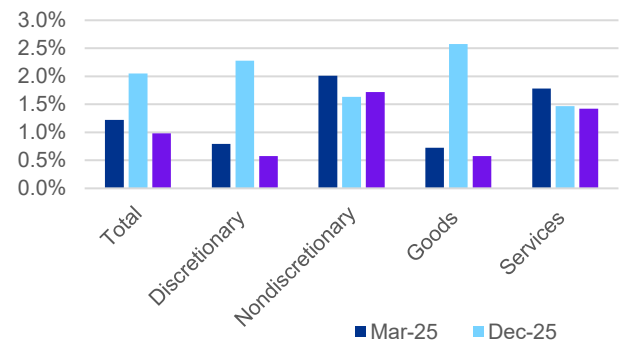
Five of nine spending categories recorded quarterly growth in volumes in the March quarter. The strongest increases were observed in *Transport* (+1.7%), *Health* (+1.5%), and *Recreation* (+1.1%). In contrast, *Alcohol and tobacco* (-2.4%), *Clothing and footwear* (-1.0%), *Furnishings and household equipment* (-0.7%), and *Hospitality* (-0.1%) recorded declines in volumes over the quarter.

Figure 3. Household Savings Ratio, Australia (%)



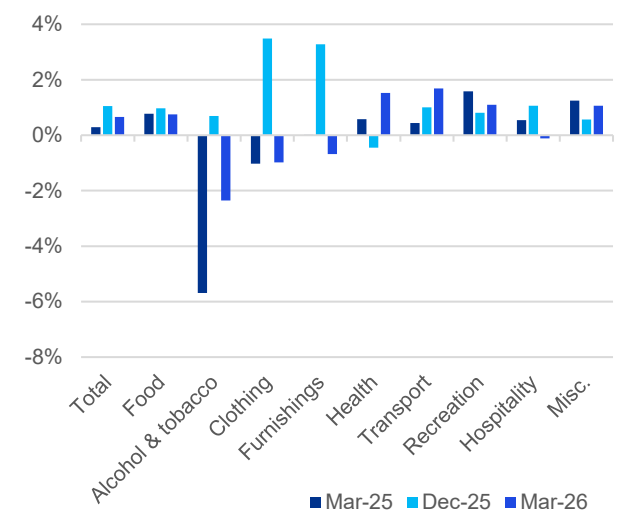
Source: ABS, Haver, KPMG

Figure 4. Household Spending by Special Aggregates, Quarterly Change (%)



Source: ABS, Haver, KPMG

Figure 5. Household Spending Volumes by Category, Quarterly Change (% sa)



Source: ABS, Haver, KPMG

1 [Reserve Bank of Australia | Statement on Monetary Policy | May 2026](#)

Retail sales

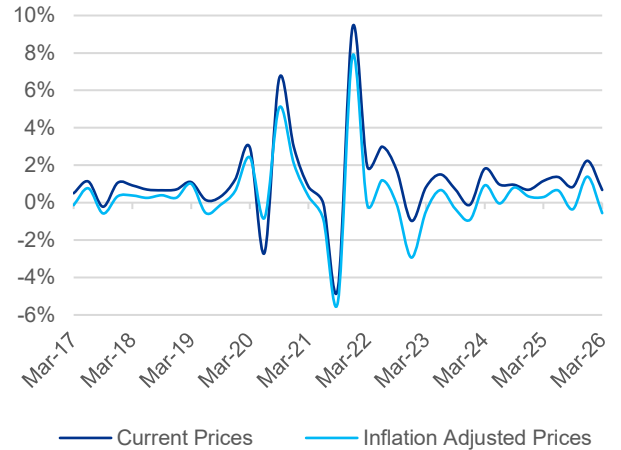
Retail trading conditions have remained mixed. Demand has been supported by population growth and ongoing promotional activity. After a strong performance in late 2025, conditions softened in the March quarter as households have shown sensitivity to prices, with rising fuel prices linked to the Middle East conflict adding to persistent cost-of-living pressures on households. This softness in demand also reflects slower employment growth, leading to more cautious spending behaviour.

In current prices, retail turnover based on bank transactions increased by 0.7% in the March quarter 2026, slowing from 2.2% in the December quarter. After adjusting for inflation, retail turnover declined by 0.6% over the March 2026 quarter, following solid growth of 1.4% in the December 2025 quarter. This pattern is consistent with market feedback that promotional activity late in 2025 brought forward some spending. At the same time, higher fuel costs constrained discretionary spending, while overall consumption continued to be supported by essential expenditure and income growth.

Retail turnover slowed but remained positive across most categories following the strong December quarter outcome. *Household goods* was the only category to record a quarterly decline (-2.0%), reversing the sharp increase seen in the December 2025 quarter. *Food retailing* increased (+1.0%), though growth was lower than in the December quarter. *Clothing, footwear and personal accessories* and *Cafes, restaurants and takeaway food* both increased (+0.8%), but growth in each category was substantially weaker than in the December quarter 2025. *Department stores* recorded modest growth (+0.5%), while *Other retailing* recorded the strongest increase over the quarter (+2.5%).

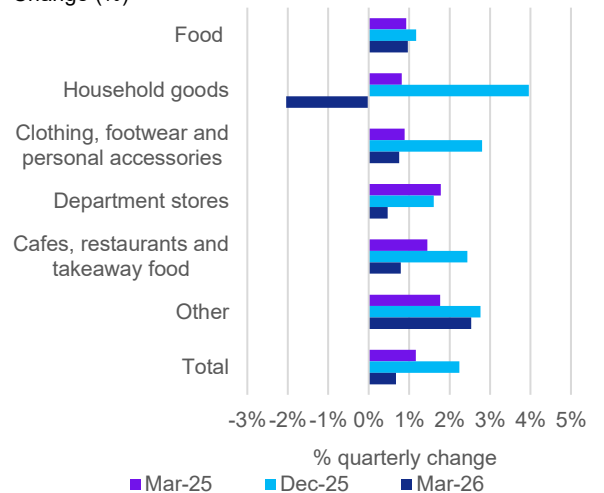
Retail turnover per capita continued to increase in the March quarter 2026. In seasonally adjusted terms, it rose by 0.7%, following stronger growth of 1.9% in the December quarter 2025. Overall, growth in retail turnover per capita remains much weaker than aggregate retail, suggesting that much of the gain in aggregate retail turnover continues to be driven largely by population growth rather than stronger spending at the individual level.

Figure 6. Retail Turnover (based on bank transactions), Current Prices and Inflation Adjusted Prices, Quarterly Change (%)



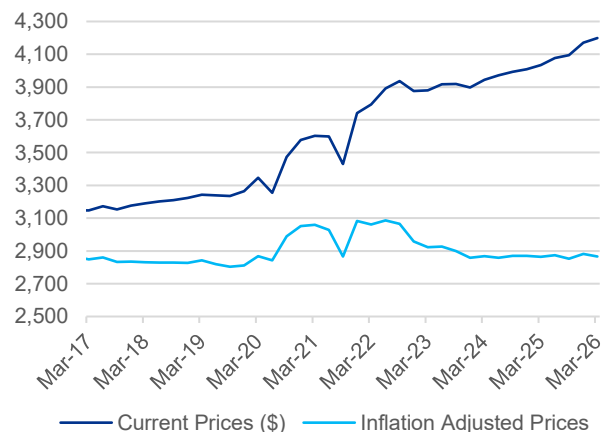
Source: ABS, Haver, KPMG

Figure 7. Inflation Adjusted Sales by Category, Quarterly Change (%)



Source: ABS, Haver, KPMG

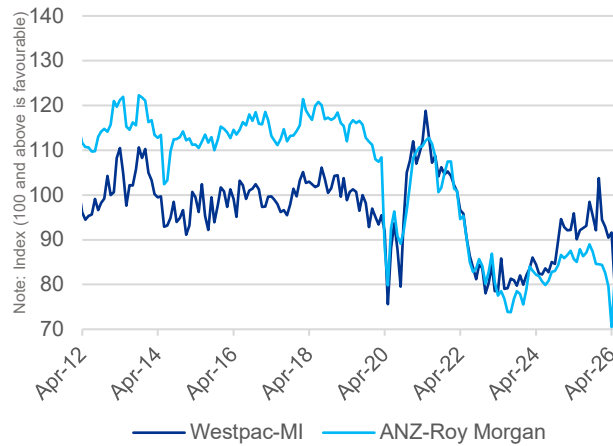
Figure 8. Retail Turnover Per Capita (based on bank transactions), Current Prices and Inflation Adjusted Prices (\$)



Source: ABS, Haver, KPMG



Figure 9. Consumer Sentiment Index



Source: Westpac, Melbourne Institute, ANZ, Roy Morgan

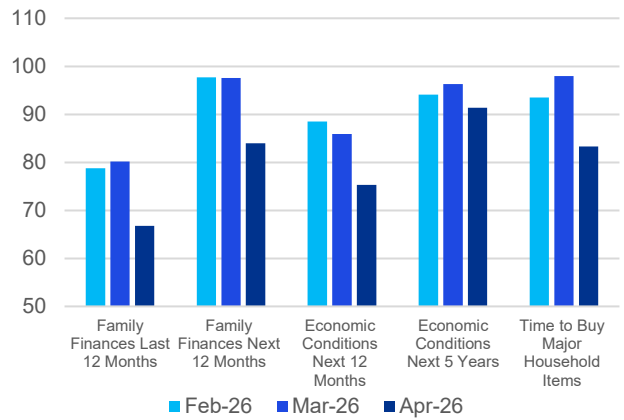
Consumer sentiment

The improvement in consumer sentiment in late 2025 was short-lived, with confidence weakening again in early 2026 amid shifting cash rate expectations and ongoing cost-of-living pressures.

According to the latest April reading of the Westpac–Melbourne Institute Consumer Sentiment Index, the index fell to 80.1 in April 2026, back to the low level last seen in 2023 during the height of cost-of-living pressures following the pandemic and the Russia–Ukraine war. The decline in sentiment reflects higher fuel prices, elevated inflation and increased global uncertainty following the Middle East conflict. Despite the sharp fall in sentiment, it will take time to assess how this will translate into real household consumption.

Component wise, the deterioration was driven largely by weaker assessments of household finances and buying conditions. The *Time to buy a major household item* subindex declined sharply to 83.3 in April 2026, from a favourable level of 111.6 just half a year ago. At the same time, the *Family finances compared with a year ago* subindex fell more markedly to 66.8 in April 2026 from 85.2 half a year ago.

Figure 10. Westpac–Melbourne Institute Consumer Sentiment by Component

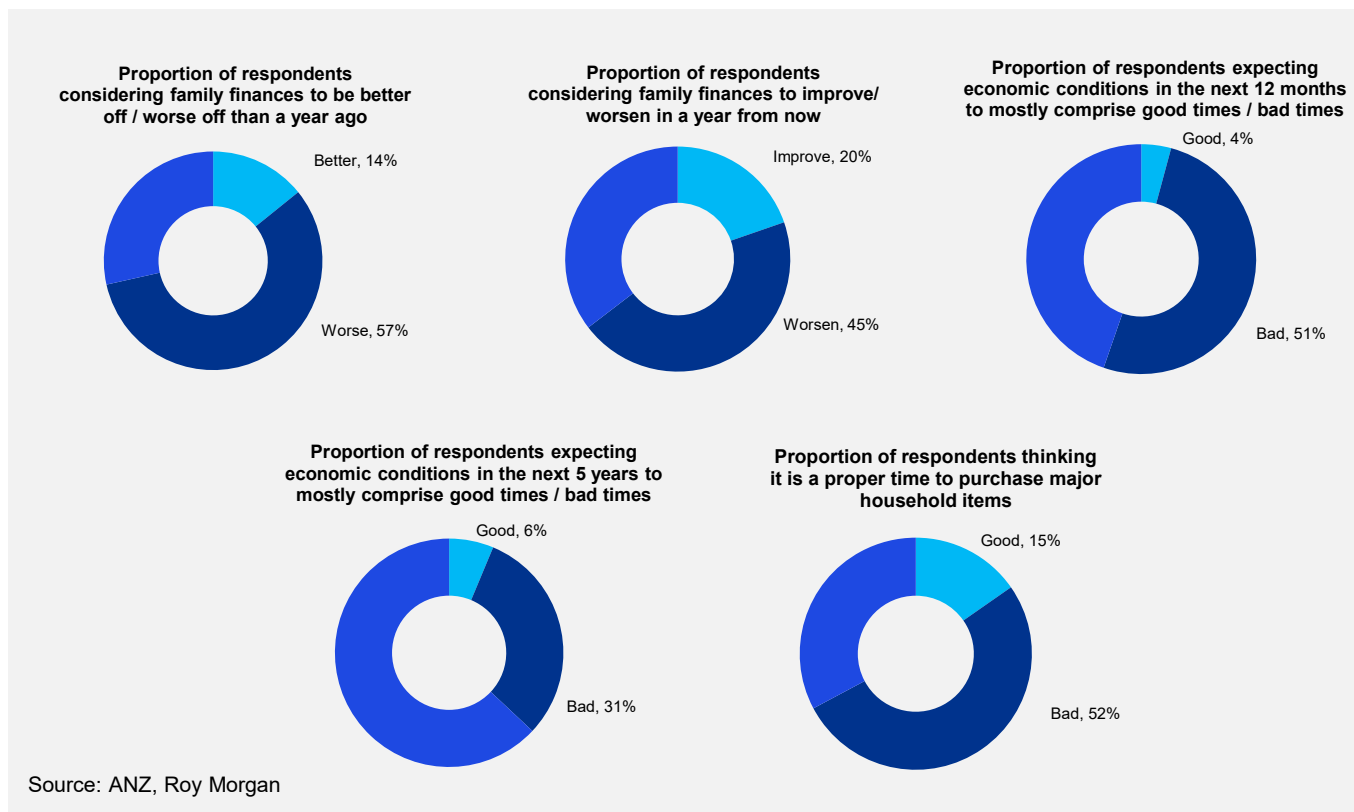


Source: Westpac, Melbourne Institute

This weakness is reinforced by the ANZ–Roy Morgan Consumer Confidence Index, which remains in pessimistic territory. In the March quarter 2026, the four-week moving average fell to around 70.5, its lowest level in recent years, before partially recovering to around 80.6 in April 2026. Households remain pessimistic about their financial position over the year ahead and about broader economic conditions over the next five years, consistent with elevated cost-of-living pressures and weaker consumer confidence.

The Reserve Bank’s Monetary Policy Board last met in May 2026, with monetary policy now assessed as restrictive following a third consecutive rate increase. Persistently higher energy prices and elevated uncertainty linked to the Middle East conflict are expected to prolong this restrictive stance. In this environment, households are likely to remain cautious through mid-2026, with any recovery in spending relying on clearer progress in lowering inflation and greater certainty around the future path of monetary policy.

Figure 11. ANZ–Roy Morgan Survey of Consumer Confidence, April 2026



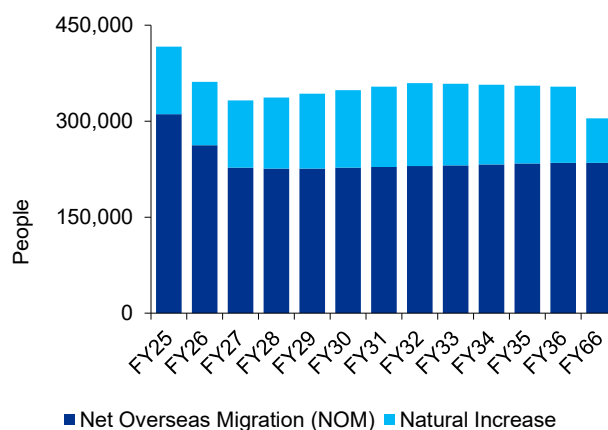
Population and global visitors

Australia’s population expanded by 423,600 people, or 1.6%, over the 12 months to 30 September 2025. Population growth was largely driven by net overseas migration (NOM), which was 311,000 people and contributed 73.4% of the total increase. However, compared with the previous year, NOM has slowed noticeably, declining by 54,600 people.

NOM continues to support household spending particularly in major metropolitan areas. Inflows from India and China remain dominant, with additional contributions from the Philippines, Vietnam and the United Kingdom. This diversity in arrivals supports demand across multiple retail categories, most notably food, hospitality and experience led offerings.³

According to the January 2026 Population Statement, NOM is forecast to ease further in FY26 before stabilising in subsequent years. As a result, annual population growth is expected to slow to around 1.3% in FY26 and 1.2% from FY27 onwards, before settling at a lower, more stable pace over the medium term.²

Figure 12. Net Overseas Migration Targets by Year, Budget 2025-26



Source: Commonwealth Treasury

2 [ABS | National, state and territory population](#)
 3 [KPMG | Australian Retail Outlook 2026](#)

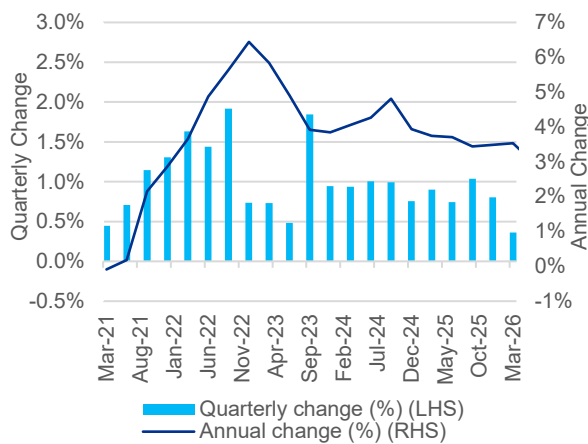
Cost indicators

Retail cost pressures are stabilising, but rising input costs and supply chain disruptions driven by geopolitical tensions are expected to place elevated pressure in the near term.

Producer Price Index

Australia's final demand Producer Price Index increased by 3.0% in the March quarter 2026, easing from 3.7% in the March quarter 2025. On a quarterly basis, prices rose by 0.4%, slowing from 0.8% in December and falling below the 0.6% historical average. Nevertheless, this moderation is likely to be temporary as they are yet to reflect the large global cost push shocks due to the Iran conflict that started in late February 2026.

Figure 13. Producer Price Indices, Final Demand, Quarterly and Annual Percentage Change (%)



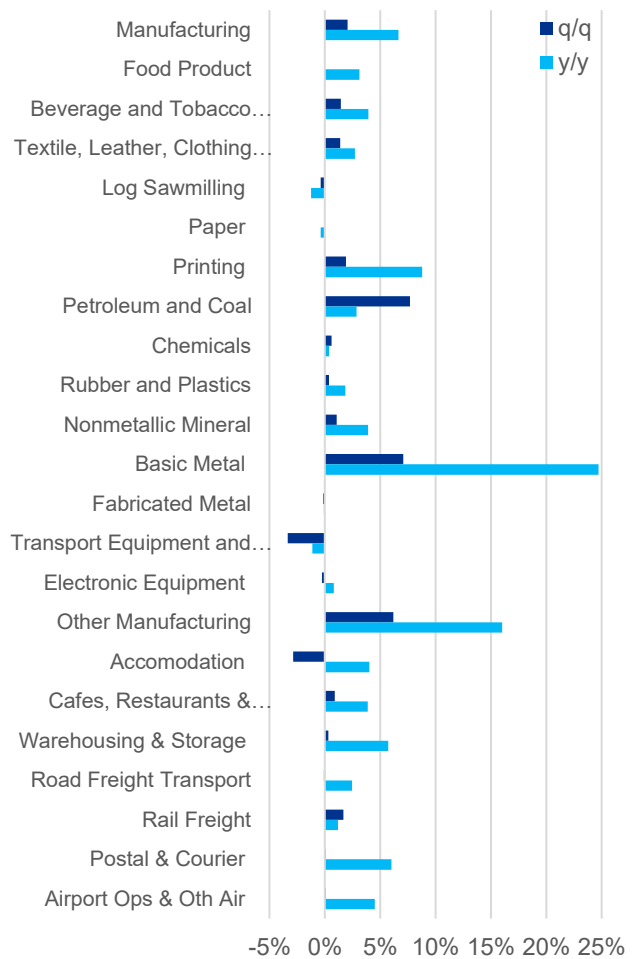
Source: ABS, Haver, KPMG

Manufacturing input prices increased by 6.6% y/y and 2.1% q/q, with uneven cost pressures across subsectors. Annual price growth was strongest in *Basic Metals* and *Other Manufacturing*, while strong quarterly increases were also recorded in *Petroleum and Coal* and *Printing*. In contrast, *Food Products*, *Fabricated Metal* and *Transport Equipment* saw declining prices over the quarter.

For the logistics sector, cost pressures were generally moderate. *Postal & Courier* services rose 0.1% q/q and 6.0% y/y, while *Warehousing & Storage* services increased 0.3% q/q and 5.7% y/y. *Road Freight Transport* declined slightly -0.1% q/q, but remained 2.5% higher y/y, while *Rail Freight* rose 1.7% q/q and 1.2% y/y, indicating contained but persistent logistics-related price pressures.

Within services and hospitality, price movements were mixed. *Accommodation* prices declined 2.9% over the quarter but remained 4.0% higher over the year, reflecting easing following earlier strength. *Cafes, Restaurants & Takeaway Food* services increased 0.9% over the quarter and 3.9% over the year, indicating ongoing, though moderating, cost pressures across hospitality.

Figure 14. Producer Price Index, Output Price Growth by Selected Industry Sectors, December Quarter 2025



Source: ABS, Haver, KPMG

Wages

Wages growth has been steady for a third consecutive quarter, rising 0.8% in the March quarter 2026. Annual wage growth slowed slightly to 3.3%, down from 3.4% in the March quarter of 2025. This moderation is consistent with slower employment growth.

Wage pressures in retail-related sectors have broadly followed the aggregate trend. *Retail Trade* recorded annual wage growth of 2.9%, unchanged from the previous quarter and slightly below 3.0% in the same quarter last year. Similarly, wage growth in *Accommodation & Food Services* was unchanged at 3.0% in the March quarter of 2026, though it remained below 3.3% in the same quarter last year. Together, the *Retail Trade* and *Accommodation & Food Services* sectors contributed just 0.02 percentage points to overall wage growth, down slightly from a 0.04 percentage point contribution in the previous quarter.

Figure 15. Wage Price Index by Selected Industry, Annual Change (%)



Source: ABS, Haver, KPMG

Global trade developments

Global trade growth is expected to slow in 2026 as a result of slowing global economic conditions and uncertainty following a strong outcome in 2025. The World Trade Organization (WTO) reports that global merchandise trade volumes increased by 4.6% in 2025 but are forecast to grow by only 1.9% in 2026. Under the same scenario, services trade volume growth is expected to ease from 5.3% in 2025 to 4.8% in 2026. The WTO attributes the moderation in goods trade to the fading effects of import front-loading ahead of tariff increases, heightened trade policy uncertainty, and geopolitical risks, particularly related to the Iran conflict. If sustained, higher oil prices associated with the conflict could reduce merchandise trade growth in 2026 by another 0.5 percentage points from the baseline forecast of 1.9%.⁴

Recent developments in United States trade policy remain a key source of uncertainty for the global trade outlook. The Budget Lab at Yale estimates that the average effective US tariff rate stood at 11.8% in early April 2026, the highest level since the early 1940s outside of 2025, reflecting the combined effects of temporary Section 122 tariffs, newly announced pharmaceutical tariffs, and changes to metal tariffs under Section 232. Under current policy settings, later this year, once the Section 122 tariffs expire and pharmaceutical tariffs come into effect, the effective tariff rate is projected to fall to around 9.7%. Under an alternative scenario in which the Section 122 tariffs are extended, the effective rate would remain elevated at around 12.2%. The WTO estimates that tariff measures implemented through to end of February 2026 affect around 11% of global trade, while the share of trade conducted on Most-Favoured-Nation (MFN) terms declined from around 80% in 2022 to approximately 72% by early 2026, highlighting a continued erosion of multilateral trade norms.⁵

For Australia, elevated geopolitical uncertainty, including risks to energy supply and key shipping routes in the Middle East, could spill over to Australia through weaker partner growth and increased volatility in export prices and volumes, particularly for energy and other trade-exposed commodities. However, services trade and activity linked to technology and AI-related investment are expected to remain relatively resilient. Overall, domestic economic growth is expected to be weighed down by softer external demand and heightened terms-of-trade volatility.

⁴ [WTO | Global Trade Outlook and Statistics \(March 2026\)](#)

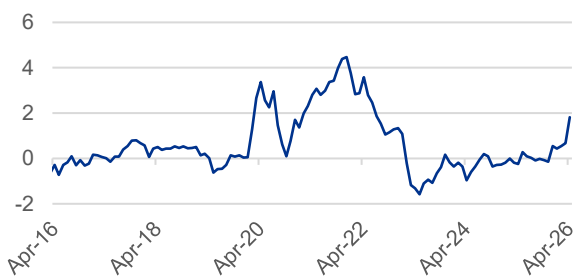
⁵ [The Budget Lab at Yale | State of U.S. Tariffs: April 8, 2026](#)

Supply chains

Current global indicators suggest continued strain in supply chains, characterised by persistent disruptions and elevated cost pressures across sourcing, logistics and inventory management. These factors are, in turn, contributing to higher freight costs, extended delivery times and reduced reliability in Australian supply chain performance.

The Fed Global Supply Chain Pressure Index (GSCPI) rose from -0.15 in November to 1.82 in April, pointing to a clear continued tightening in supply chain capacity. Similarly, the World Bank Global Supply Chain Stress Index (GSCSI) increased from 1.6 million TEUs in November 2025 to around 1.8 million TEUs in January, and climbed further to 2.1 million TEUs in April, indicating renewed congestion and shipping activity that remains above typical levels.

Figure 16. 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

Figure 17. Global Supply Chain Stress Index (GSCSI, million TEUs)



Note: This indicator, which monitors delays at ports and in shipping cargoes using million twenty-foot equivalent units (TEUs), a standard measure of container capacity and port traffic

Source: World Bank, KPMG

The Iran conflict is expected to continue to disrupt global supply chains into the June quarter. Logistics providers report ongoing congestion and disruption to goods flows, with operations continuing under constraints and increasing reliance on alternative routes to maintain continuity.

Maritime trade remains heavily restricted as the Strait of Hormuz is effectively closed, with commercial container traffic not transiting and shipping operations disrupted across the region. This has led to continued diversions, longer transit times and a prolonged recovery timeline. At the same time, congestion at key regional gateway ports, including Khor Fakkan, Jeddah, Sohar and eastern UAE ports, is creating significant bottlenecks, with containers facing delays after discharge and increasing exposure to demurrage and storage costs.⁶

In response, carriers and firms are actively rerouting cargo through alternative gateways, particularly via India, Sri Lanka, Oman, Saudi Arabia and UAE east-coast ports, and in some cases, reworking containers onto different carriers to avoid delays.

Road and multimodal corridors across the Gulf Cooperation Council (GCC), including emerging Europe–Turkey–GCC routes, are playing a critical role in sustaining flows, but are operating under strain due to border congestion, regulatory changes and stretched trucking capacity. These adjustments are maintaining continuity, albeit with higher costs, longer lead times and reduced reliability.⁶

Air freight conditions have also weakened significantly. Data from the International Air Transport Association (IATA) air cargo market update for March 2026 show that global air cargo demand declined by 4.8% in March, while volumes in the Middle East fell by 54.3% y/y alongside a substantial reduction in capacity. Disruptions at major hubs such as Dubai and Doha have led to ongoing rerouting and reduced network efficiency. Jet fuel prices have also risen sharply, increasing by 106.6% y/y to their highest level in more than 23 years, adding to cost pressures across air freight networks.⁷

At the same time, firms are expanding the use of advanced technologies to manage disruption. According to KPMG supply chain trends 2026,⁸ supply chains are moving beyond pilot programs towards broader integration of AI across procurement, planning and risk management systems, improving operational efficiency and enabling more adaptive responses to ongoing volatility.

6 [DHL | Middle East Crisis Situation Updates \(May 2026\)](#)

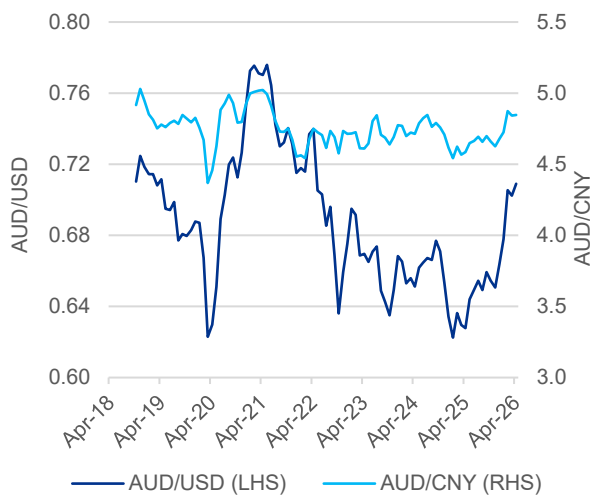
7 [Air Cargo Market Analysis | March 2026](#)

8 [KPMG | Key trends impacting supply chains in 2026](#)

Foreign exchange

Since the beginning of the year, the Australian dollar has appreciated 6.8% against the US dollar. Over the same period, the trade weighted index has increased by 3.6%. The appreciation of the Australian dollars reflects movements following developments in the conflict and associated changes in the cash rate. While geopolitical uncertainty would typically trigger a sell-off in the Australian dollar, strong commodity demand has instead supported the currency, keeping it elevated. In addition, the widening of the interest rate differentials following the three cash rate increases by the Reserve Bank of Australia have also supported the strength of the currency by attracting capital inflows. Nevertheless, exchange rate appreciation is helping to buffer global cost shocks by reducing import prices and partially offsetting pressure on traded goods inflation.

Figure 18. Exchange Rate, AUD Vs USD Vs CNY

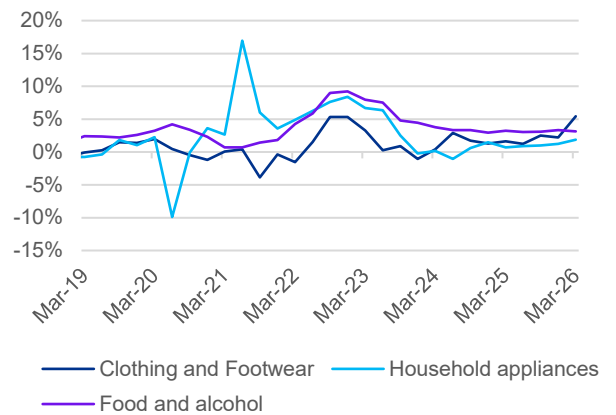


Source: ABS, Haver, KPMG

Higher fuel costs have contributed to increases in supplier prices, alongside rising costs for various petrochemical-derivative products such as fertiliser, bitumen, resins, PVC and other plastics. While some consumer-facing firms have begun to pass through part of these cost increases, there remains considerable uncertainty around pricing decisions and many firms have not yet fully adjusted final prices.

The latest consumer prices data indicates that retail inflation shows mixed outcomes relative to broader inflation of 4.1% over the year to the March quarter 2026. *Clothing & Footwear* prices increased by 5.4% over the year, exceeding the headline rate, while *Household Appliances* rose by 1.8% and *Food & Alcohol* increased by 3.1% over the year, both remaining below overall inflation. The stronger increase in *Clothing* is consistent with rising costs flowing through supply chains, while other retail categories continue to record more moderate price growth. However, these data provide only an early indication of inflation dynamics and largely pre-date the escalation in the Iran conflict, meaning any associated supply disruptions and cost pressures are yet to be reflected in observed outcomes.

Figure 19. Retail Goods In Consumer Price Index (CPI), Annual Change (%)



Source: ABS, Haver, KPMG

Performance indicators

Retail sector conditions remain mixed in early 2026. Declining profitability continues to weigh on sector health despite some improvement in insolvencies.

Profitability

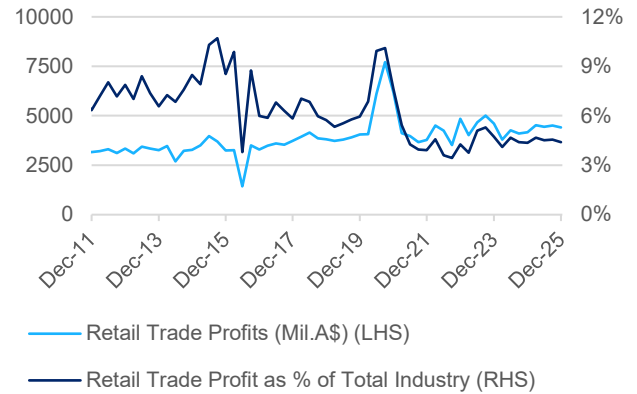
The retail sector has experienced a moderate decline in its relative contribution to overall profitability, with its share of total profits falling from 4.6% in the September quarter 2025 to 4.4% in the December quarter 2025. This decline was mainly driven by a 1.9% fall in pre-tax profits over the period, from \$4,500 million in September to \$4,413 million in December. In contrast, profitability across all industries recorded a 1.6% increase over the same period.

Insolvency

Insolvency activity moderated in the March quarter of 2026, with total companies entering External Administration and Controller Appointments (EXAD) declining to 3,200, down from 3,857 in the December quarter of 2025 and 3,394 in the same quarter last year. Within this, the retail sector recorded 204 insolvencies, down 336 recorded in the December quarter of 2025, and slightly below the 222 recorded in the same quarter last year.

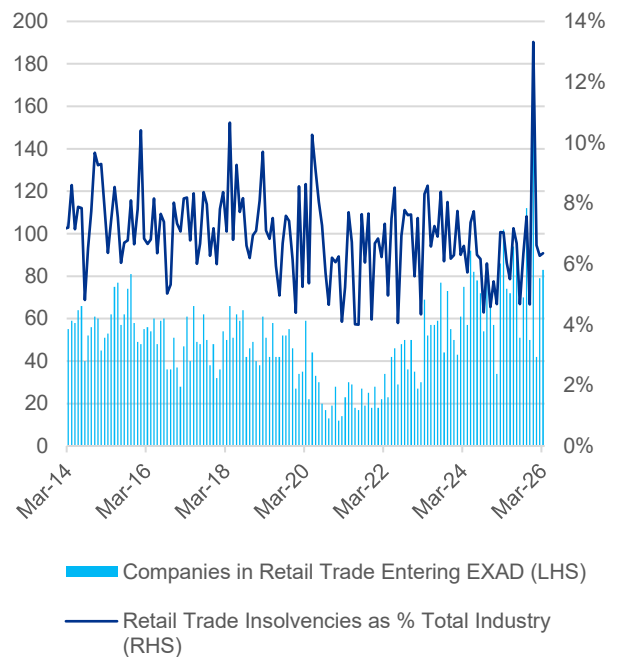
As a result, retail's share of total insolvencies eased to 6%, from 9% in the previous quarter, and from 7% in the same quarter last year. In terms of industry ranking, retail was the fifth most affected sector during the quarter, the same position as in the corresponding quarter last year, but down from fourth place in December 2025. While the decline suggests some easing in immediate pressures, retail insolvencies have returned to levels more consistent with earlier quarters in 2025, following the temporary surge observed in the December quarter.

Figure 20. Retail Sector Profit Before Income Tax



Source: ABS, Haver, KPMG

Figure 21. Number Of Companies Entering External Administration & Controller (Monthly)



Source: ABS, Haver, KPMG

Employment

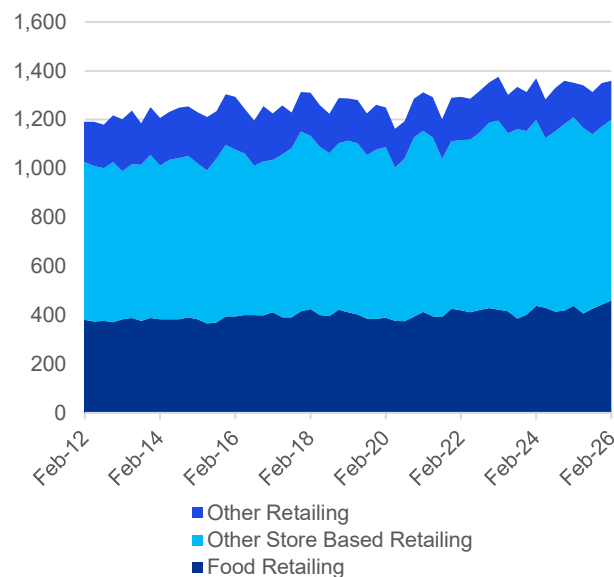
Total employment in the retail sector increased to 1.36 million in the February quarter of 2026, up from 1.35 million in the November quarter of 2025. This reflects a modest increase of 9,100 jobs over the quarter, with overall employment remaining close to recent highs.

Employment trends across retail subsectors were mixed. *Food Retailing* and *Other Store-Based Retailing* both recorded employment gains during the quarter, increasing by 16,600 and 11,900 jobs respectively, while *Other Retailing* experienced a notable decline of 19,400 jobs, falling to 158,400 employees. While employment growth in *Food Retailing* and *Other Store-Based Retailing* remained solid, the contraction in *Other Retailing* partially offset these gains, resulting in only modest overall employment growth in the sector during the quarter.

Job vacancy levels have remained above pre-pandemic levels, reflecting sustained demand for workers. However, unlike in the previous quarter, the retail sector's vacancy rate is no longer below the all-industry average, rising to 2.3% in the March quarter of 2026, bringing it in line with the overall industry rate.

In level terms, retail job vacancies increased by 2,900 vacancies to 30,700 in the March quarter of 2026, up from 27,800 in the December quarter of 2025. Compared with the March quarter of 2025, job vacancies were higher by 5,100, or 19.9%, highlighting an increase in labour demand over the year.

Figure 22. Retail Sector Employment, Australia

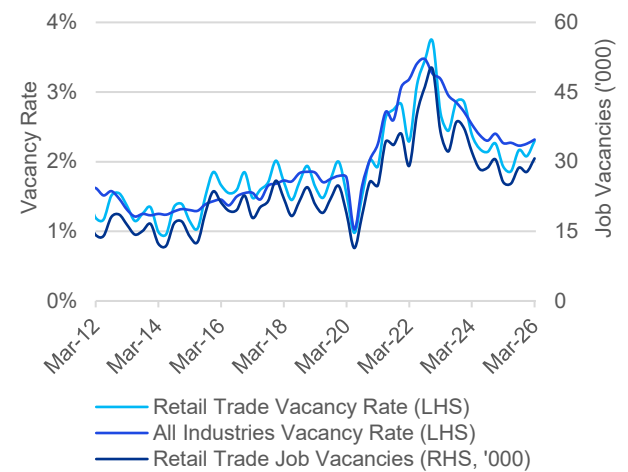


Source: ABS, Haver, KPMG

As in the December quarter of 2025, the recovery of traditional part-time industries, such as *Retail* and *Accommodation & Food Services*, continued to support employment opportunities for individuals seeking flexible work.

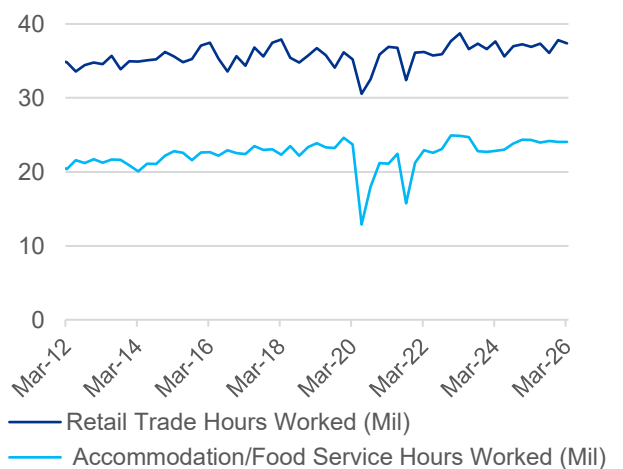
Hours worked dynamics diverged across *Retail* and *Accommodation & Food Services*. Over the quarter, *Retail* recorded a relatively large fall of 1.1%, from 37.79 million to 37.36 million hours; while *Accommodation & Food Services* remained broadly unchanged, increasing slightly by 0.1% (from 24.04 million to 24.06 million). Looking through this short-term volatility, on an annual basis *Retail* hours worked rose by around 450,800 hours or 1.2%, while *Accommodation & Food Services* declined by approximately 250,700 hours, or -1.0%.

Figure 23. Job Vacancies, Australia



Source: ABS, Haver, KPMG

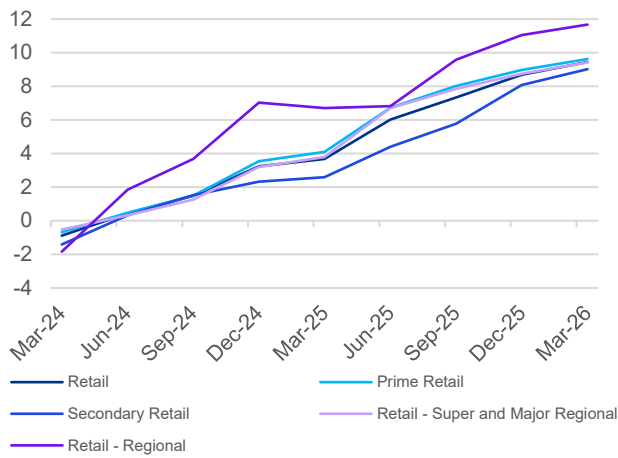
Figure 24. Hours Worked, Australia



Source: ABS, Haver, KPMG



Figure 25. Total Returns Across Retail Property Subsectors (%)



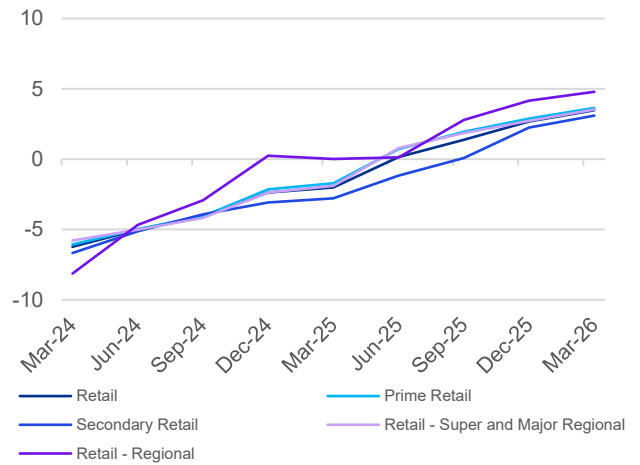
Source: KPMG, MSCI/PCA

Retail real assets

After a period of declines through 2023 and early 2024, retail asset performance has strengthened steadily over 2025 and into 2026. Total returns increased from 8.7% in the December quarter of 2025 to 9.4% in the March quarter of 2026. Prime retail returns rose from 9.0% to 9.6%, while total returns for regional centres increased from 11.1% to 11.7%. This improvement in total returns is driven by both rising capital growth and rental income.

Following a period of negative growth from 2023 to 2024, capital growth has steadily recovered, with overall retail values rising by 3.5% in the March quarter of 2026, up from 2.7% in the December quarter of 2025. This recovery has been broad-based, with prime retail increasing from 2.9% to 3.6% and regional centres rising from 4.1% to 4.8% over the same period, reflecting strengthening momentum in well-located assets.

Figure 26. Capital Growth Across Retail Property Subsectors (%)



Source: KPMG, MSCI/PCA

CBRE data show rental growth has been broad-based across retail property sectors, with net face rents increasing across all segments.⁹ The strongest quarterly growth was recorded in CBD secondary and super prime assets (2.3% and 2.2%, respectively), particularly in major CBD markets such as Melbourne (3.6%), Sydney (3.0%) and Brisbane (0.8%), reflecting stronger leasing demand and renewed interest in flagship locations. In the shopping centre segment, regional rents increased by 0.9% q/q and 3.5% y/y, supported by low vacancy rates, steady tenant demand and a constrained supply pipeline. Large format retail also recorded strong rental growth, led by Melbourne (2.8% q/q and 12.7% y/y), underpinned by limited site availability and strong retailer demand. With new retail development remaining subdued, these conditions are continuing to support rental growth and, in turn, underpin the recent uplift in capital values and total returns, particularly for prime and well-located assets.

9 [CBRE | Australia Retail Figures Q1 2026](#)

E-commerce indicators

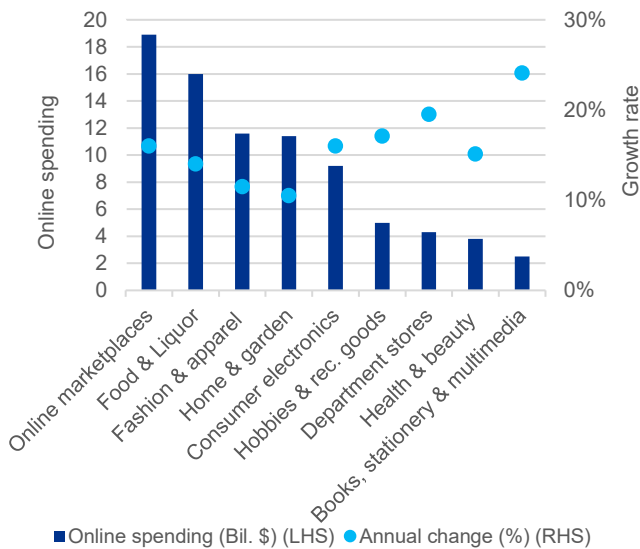
Online retail sales 2025 recap

The ongoing shift in consumer behaviour towards online spending continues to transform the retail sector in 2025. According to Australia Post's recent eCommerce report (2026), Australians spent a record \$82.6 billion online in 2025, up 14% y/y, with online channels accounting for around 24% of total retail spending.¹⁰

This growth reflects broad and sustained participation, with online shopping households rising by 0.7% y/y to 9.8 million in 2025 (82% of all households), and 41% shopping at least fortnightly. At the same time, consumer behaviour has become increasingly value-driven, with 73% of households waiting for sales events, and 81% actively shopping around for the best deals. These patterns point to stronger concentration of spending during major sales events such as Black Friday and end-of-financial-year promotions.

As shown in Figure 27, spending growth was broad-based across categories, with books, stationery and multimedia up 24.1% y/y, alongside double-digit growth across key retail segments. Meanwhile, pure online marketplaces such as Amazon and Temu remained a major channel, accounting for \$18.9 billion in spending (around 23% of total online sales) in 2025.

Figure 27. Online Spending by Category 2025, Annual Percentage Change (%)



Note: An online marketplace is an e-commerce site that only includes platforms like Amazon and Temu, and excludes retailer-owned marketplaces like Big W Market or Kmart Marketplace.

Source: AusPost, KPMG

10 [Australia Post | eCommerce Report 2026](#)

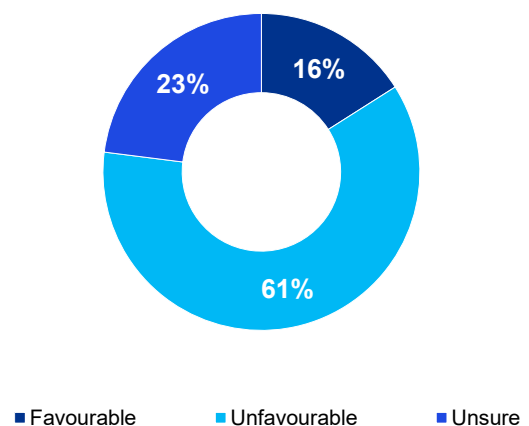
AI and emerging agentic commerce

Technology is also reshaping the online retail sector. According to the Australia Post eCommerce report (2026),¹⁰ artificial intelligence (AI) adoption is accelerating across the e-commerce landscape. In 2025, 6-in-10 Australians reported using AI, with uptake strongest among younger cohorts, including 3-in-10 Gen Z (1998–2010) consumers using AI for purchase research.

Despite this, sentiment towards more advanced applications such as agentic AI remains cautious. Approximately 61% of respondents expressed negative sentiment (Unfavourable) toward AI applications, compared with 23% who were supportive (Favourable) and 16% who remained uncertain (Unsure).

By contrast, businesses are moving more quickly, with 85% taking steps to prepare for an agentic future and 44% already acting as advocates of AI-enabled commerce. While current use is focused on basic tasks such as price comparison, agentic AI is expected to play a larger role, with systems able to manage the full shopping journey from discovery to purchase, with consumers most willing to use AI agents for food (25%), clothing (23%), and books, movies or music (21%). Looking ahead, agentic AI is estimated to influence around 30% of digital commerce transactions by 2030, pointing to further structural change in how consumers shop online.

Figure 28. Consumers View on Agentic AI (%) in 2025



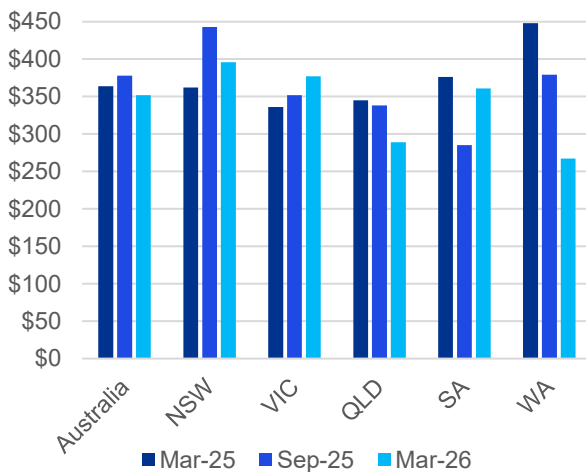
Source: AusPost, KPMG

Online shopping behaviour in March 2026

According to the University of Sydney’s Transport Opinion Survey (TOPS) March 2026, 79% of Australians made an online purchase in the four weeks to March 2026, down slightly from 81% in September 2025, indicating broadly stable participation.¹¹

However, average spending in this period declined to \$352, the lowest level since 2023, reflecting the pressure of the high cost-of-living on people’s capacity and confidence in online spending. This decline was evident across major states, including New South Wales, Queensland and Western Australia, although New South Wales recorded the highest average spend (\$396), followed by Victoria (\$377), on average in the four weeks to March 2026.¹²

Figure 29. Average Online Spend per TOPS Respondent by State during the 4-weeks to March 2026 (\$)

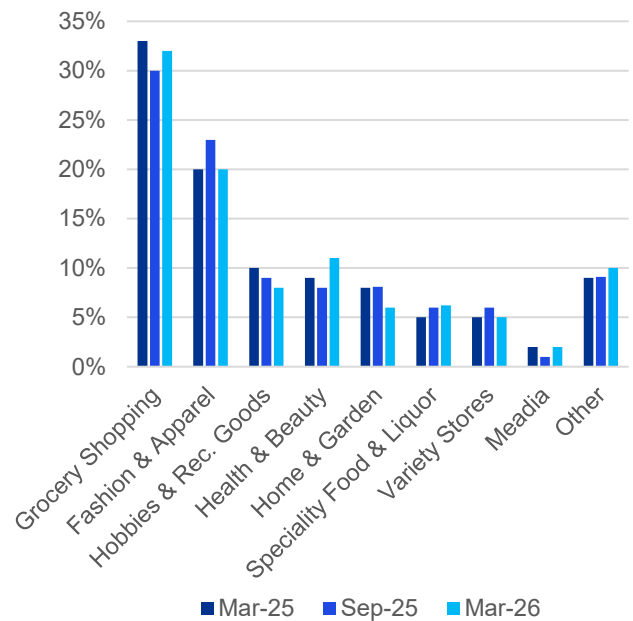


Notes: Data for other states were not reported for March 2026.

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

In terms of categories, spending remains concentrated in essentials, with grocery shopping as the largest, accounting for 32% of total online spending, up from 30% in September 2025. Fashion and apparel ranks second in total online spending, contributing 20%, but lower than the 23% in September 2025. These two categories are followed by spending online on health and beauty products (11%), hobbies and recreational goods (8%), home and garden products (6%) and specialty food and liquor (6%). These six categories account for close to 83% of the total online spending, highlighting a shift towards more necessary and lower-cost purchases.¹³

Figure 30. Average Online Expenditure Spent per TOPS Respondent by Category during the 4-weeks to March 2026 (%)



Source: TOPS, KPMG.

11 [University of Sydney | Transport Opinion Survey \(TOPS\) March 2026](#)

12 *ibid.*

13 *ibid.*

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 include the Federal Reserve Bank of New York's 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.

In our previous reports, the Retail Health Index (RHI) was calculated 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. Since Retail Volume has been discontinued by the ABS, we have replaced the retail volume data with quarterly Household Spending Volumes. This new indicator provides broader coverage of household consumption categories compared to Retail Trade and aligns more closely with Household Final Consumption Expenditure in the National Accounts from the Australian Bureau of Statistics (ABS).

Since Household Spending Volumes only starts in September 2014, we interpolate historical values using the growth rate of Retail Volumes, as analysis shows a high degree of correlation between the two indicators during the period in which both are available.

The data is then transformed into year-on-year growth terms. All transformed series are standardised to have a mean of zero and a standard deviation of one. Additionally, the growth rates of wages and prices are reversed for interpretative purposes, indicating that higher wages and costs suggest weaker performance in the retail sector.

Table T.1 below shows the respective weights of each variable on the RHI with Retail Volumes versus Household Spending Volumes, and the total variance explained by the RHI.

Table T.1. RHI Weights

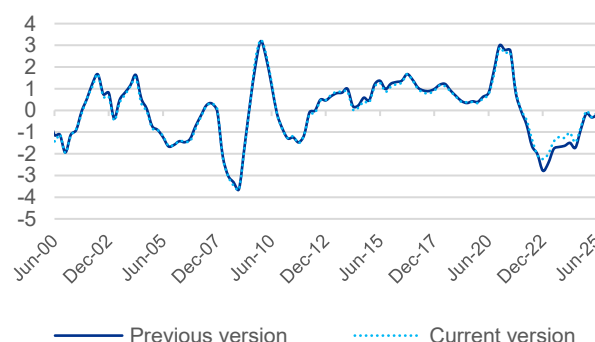
Variables	Weights		
	Retail volumes	Household spending volumes (Full-sample)	Household spending volumes (Pre-pandemic)
Producer Price Index	0.64	0.66	0.65
Wage Price Index	0.48	0.53	0.44
Consumer Sentiment	0.54	0.52	0.58
Volume*	0.24	-0.12	0.22
Total Variance Explained	0.48	0.47	0.51

Source: KPMG

When constructing the RHI with Household Spending Volumes, we apply weights derived from the pre-pandemic sample. This approach is necessary because Household Spending Volumes exhibited significant volatility during the pandemic, which led to unintuitive contributions when using weights estimated from the full sample. By using pre-pandemic weights, the contribution of Household Spending Volumes is more consistent with the pattern observed when Retail Volumes are used in the construction of the RHI.

Chart T.1 shows the estimated RHI with Household Spending Volumes versus Retail Volumes and shows that both exhibit a similar pattern.

Table T.1. RHI with Retail Volumes vs Household Spending Volumes



Key contacts

Authors



Gayle Dickerson
Partner – National Consumer
& Retail Deal Advisory Lead
E: gdickerson@kpmg.com.au
T: +61 405 670 171



Toni Jones
Partner – National Industry
Leader, Corporate Brands
E: tonijones@kpmg.com.au
T: +61 409 200 721

Technical analysis



Dr Brendan Rynne
Chief Economist & Partner
E: bjryrne@kpmg.com.au
T: +61 3 9288 5780



Dr Brian Tran
Senior Economist
E: btran7@kpmg.com.au
T: +61 3 8614 5625

Consumer and retail specialists

Cath Jowett
Partner
Consulting
E: cjowett@kpmg.com.au

Julie Carey
Partner
Audit & Assurance
E: juliecarey@kpmg.com.au

Lisa Mullins
Partner
Deal Advisory
E: lmullins@kpmg.com.au

Aisling Kilgannon
Partner
Enterprise
E: akilgannon@kpmg.com.au

Gabby Burcul
Partner
Tax & Legal
E: gabbyburcul@kpmg.com.au

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May 2026 | 4463099866