



Retail Health Index March 2026



Contents

Executive summary	03
Retail Health Index	05
Spending indicators	06
Cost indicators	10
Performance indicators	14
E-commerce indicators	17
Technical appendix	18
Key contacts	19

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.

In our previous edition, we reported the first non-negative reading in nearly four years and anticipated that the index would move into positive territory in 2026. However, this milestone has not been reached. The recent increase in cash rate and subsequent adjustment in interest rate expectations has tempered consumer sentiment, playing a key role in slowing the sector's momentum towards a favourable performance environment.

Globally, trade and supply chain conditions remain unsettled, especially following the recent decision of the US Supreme Court regarding the legality of the President using the International Emergency Economic Powers Act (IEEPA) to impose tariffs. Despite this ruling, the US President has now shifted to using Section 122 of the Trade Act of 1974 as the head of power, confirming that tariffs will continue to be used as a strategic policy lever in the near term and contributing to ongoing volatility in global trade flows. At the same time, global supply chain indicators point to renewed pressure across logistics and shipping, suggesting limited near-term relief for retailers managing sourcing and inventory challenges, with disruptions intensifying following the US-Israeli military campaign against Iran, which has triggered airspace closures, shipping rerouting and heightened regional security risks.

Based on current trends, a full return to healthy retail conditions is not expected before the end of calendar year 2027. Volatility across sentiment, costs and global conditions is likely to persist in the near term.

Key economic takeaways

- Household spending remained resilient through the December quarter, with quarterly growth accelerating to 2.2% and annual volume growth reaching 2.4%, the strongest outcome since mid-2023. Gains were broad based across discretionary and non-discretionary categories.
 - Retail turnover strengthened in the December quarter, with inflation-adjusted sales rising 1.6%, driven by strong outcomes in household goods, apparel and food services. Promotional activity, particularly around Black Friday, pulled spending forward into October and November.
 - Consumer confidence softened in early 2026 after modest improvements late last year. Both the Westpa-Melbourne Institute and ANZ-Roy Morgan surveys point to subdued sentiment, driven by weaker assessments of household finances and major purchase decisions.
 - Cost pressures are stabilising but remain elevated. Final demand producer prices increased 3.5% over the year, while wage growth in retail related sectors remained around the 3.0% range.
- Globally, the key risks relate to energy supply through the Strait of Hormuz and disruptions to passenger and freight movements through Middle Eastern airports.
 - Retail insolvencies rose 23% in CY25 compared with CY24, outpacing the 9% increase across all industries and underscoring continued pressures on mid-market discretionary retailers.
 - Online retail continued to gain share, with a record festive season seeing nearly 8 million households shop online and parcel volumes rising 7.6% over the year.

What's next for retail in 2026

Australian retail in 2026 is being shaped by a handful of structural shifts that are forcing the sector to rethink how it operates and competes. The biggest change is the rise of the "precision consumer". Shoppers are far more deliberate with their spending than they were even a few years ago. They compare prices, chase value and move fluidly across channels and brands. Loyalty is increasingly earned transaction by transaction, which means retailers must sharpen their value proposition and merchandising discipline rather than relying on broad demand growth.

At the same time, technology particularly artificial intelligence is moving from experimentation to execution. A growing share of retailers now see AI as core infrastructure rather than a side project, using it to improve demand forecasting, pricing, inventory optimisation and customer personalisation. The retailers pulling ahead are those embedding AI into everyday decision-making rather than treating it as a standalone innovation program.

Finally, the human side of retail is becoming more important, not less. As automation accelerates, customers increasingly value genuine service, brand connection and memorable in-store experiences. The emerging challenge for retailers is balancing radical automation with the human touch that builds trust and loyalty. In many ways, the winning formula for the next decade will be retailers who combine advanced technology with a distinctly human customer experience.

If anything, 2026 is shaping up as a year of execution rather than experimentation with AI-enabled operations, omnichannel experiences and more demanding consumers being the key focus. The real test now is who can operationalise these capabilities at scale while maintaining a clear retail proposition.

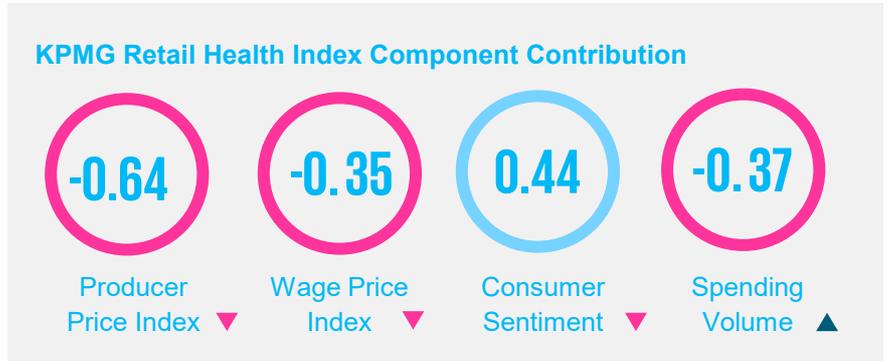


Toni Jones
Partner – National Industry
Leader, Corporate Brands
KPMG Australia



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

Retail performance dashboard



Spending indicators



Cost indicators



Performance indicators



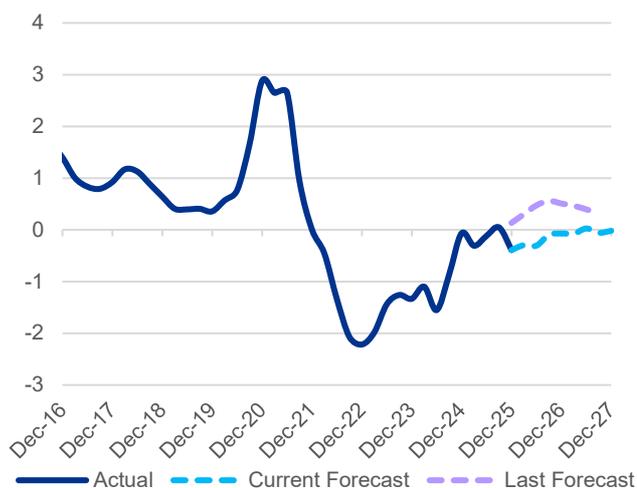
Note: All figures are as of the December quarter 2025, except for the Saving rate and Population data (June quarter 2025) and Household shopped online (November – December 2025). The arrow indicates whether the indicators have increased (up arrow) or decreased (down arrow) compared to the previous quarter.

Retail Health Index

KPMG's Retail Health Index® (RHI) experienced a setback in its recovery this quarter, primarily driven by worsened consumer sentiment.

FIGURE 1

Retail Health Index, Actual and Forecast



Source: KPMG's calculation

Retail conditions have slipped back into negative territory. The RHI declined from 0.05 in the September quarter (revised up from 0.03) to -0.39 in the December quarter of 2025, signalling a setback in the recovery and highlighting the persistence of short-term headwinds. This shift signals a risk for the retail sector of prolonged subdued retail conditions, as values below zero indicate weaker than normal conditions, while values above zero reflect stronger than normal conditions.

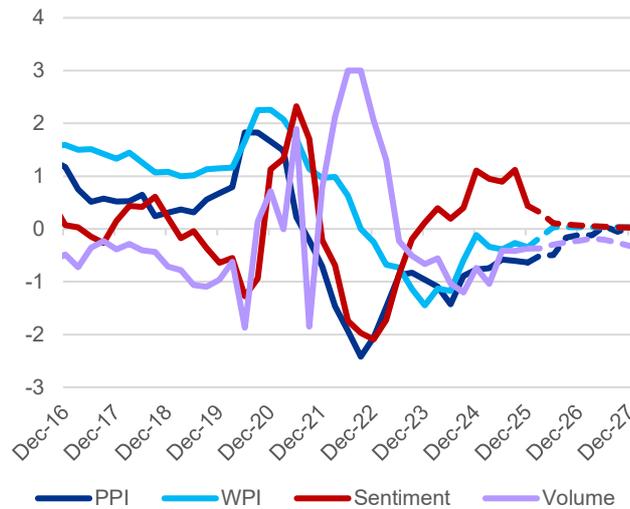
Our latest forecasts of the components that make up the KPMG RHI suggest the short-term headwinds are impacting the near-term trend and creating risk to the recovery time frame.

At the individual component level, household spending was the only indicator to improve over the quarter. Household spending remained resilient through 2025, supported by population growth, tax cuts and earlier interest rate reductions. Retailers reported solid December quarter sales driven by strong promotional period demand. As a result, household spending provided a small positive contribution to the overall index, but not enough to offset deterioration across the other indicators.

Momentum in material and labour costs remains subdued, with both indicators broadly in line with last quarter, which resulted in only a minimal decrease in the RHI. The decline in the overall index was driven mainly by a sharp slowdown in consumer sentiment momentum, reflecting renewed interest rate concerns following the February cash rate increase.

FIGURE 2

KPMG RHI by Component Factors



Source: KPMG's calculation

- **Household Spending Volume:** Spending volumes improved slightly, from -0.42 in June to -0.37 in December, contributing 0.01 index points to the RHI recovery.
- **Producer Price Index (PPI):** The PPI remains stable at around -0.6, reflecting stabilisation in price growth at approximately 60% above its historical average. The acceleration in PPI growth during the three months to December 2025 negatively contributed -0.02 index points to the quarterly change in the RHI. That is, PPI contributed -0.41 index points to the RHI in the December quarter 2025, from -0.39 index points in the September quarter.
- **Wage Price Index (WPI):** Wage growth moderated to 35% above its historical average, up from 27% last quarter. This pulled down 0.03 index points from the quarterly change in the RHI.
- **Consumer Sentiment:** Consumer sentiment momentum dropped sharply from 1.12 in September to 0.44 in December, meaning confidence was growing at only 44% above its long-term trend, down from 112% previously. This weakening in sentiment momentum was the main driver of the RHI deterioration, subtracting 0.39 points from the index and accounting for roughly 90% of the overall decline.

Our forecast suggests the full recovery of the retail sector is now unlikely to occur before the end of CY27, and the recent swings amongst the four elements of the RHI reveal continued volatility amongst the key drivers of sector performance.

Spending indicators

Household spending remained robust throughout 2025. However, since November, shifting expectations for the cash rate have dampened consumer sentiment. The key question now is how consumers will respond to the February 2026 interest rate hike.

Household spending

In the September quarter, the household saving ratio increased by 0.4 percentage points to 6.4%. Part of this rise reflects historical upward revisions to income levels and changes in income composition. According to the RBA, these revisions do not materially alter households' willingness or ability to spend out of more accessible income sources in recent years.¹

FIGURE 3
Household Savings Ratio, Australia (%)

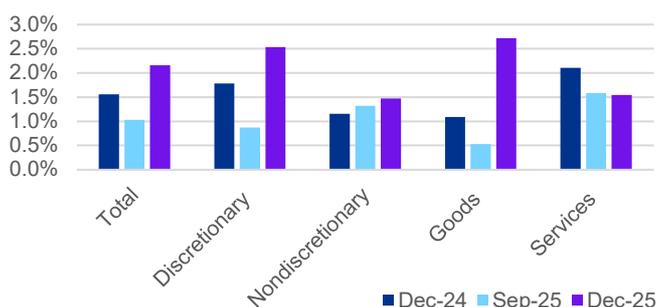


Source: ABS, Haver, KPMG

Looking at the more recent December quarter data, household spending increased by 2.2%, up from the 1.0% growth in the September quarter and the 1.6% rise in the same quarter *last* year.

Quarterly growth accelerated across most categories: discretionary spending grew 2.5% (up from 0.9% in the September quarter), non-discretionary spending increased 1.5% (up from 1.3%), and spending on goods rose 2.7% (up from 0.5%). Spending on services declined slightly from 1.6% in the September quarter to 1.5% this quarter.

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

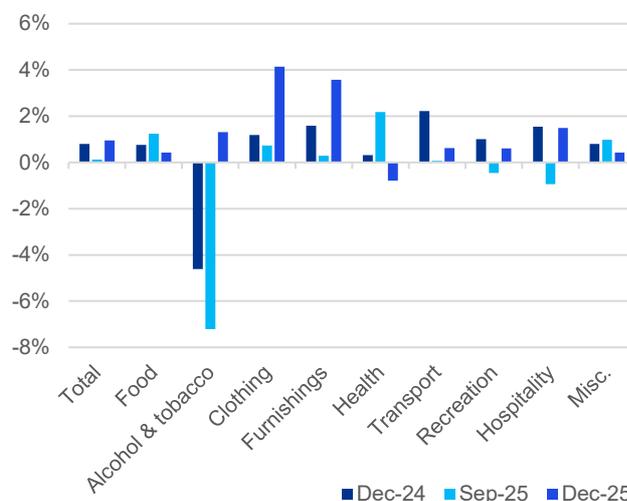


Source: ABS, Haver, KPMG

In volume terms, household spending volumes rose 0.9% for the December quarter, marking the sixth consecutive quarter of growth and up from the 0.1% growth last quarter. In annual terms, household spending volumes increased by 2.4%, marking the strongest annual growth recorded in 2025.

Eight out of nine spending categories recorded quarterly growth in volumes this quarter, led by Clothing and footwear (+4.1%), Furnishings and household equipment (+3.6%), and Hotels, cafes and restaurants (+1.5%). Health was the only sector to record a quarterly fall, down 0.8% in the December quarter.

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



Source: ABS, Haver, KPMG

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

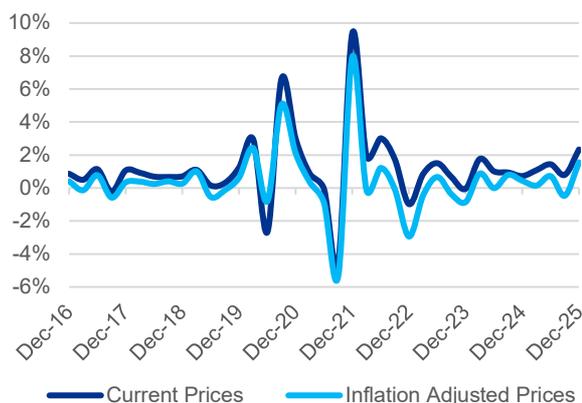
Retail sales

Based on discussions with about 160 organisations from early November 2025 to late January 2026, RBA liaison teams across major cities reported that retailers expect solid sales growth to continue. As expected, sales over the December quarter were strong, especially during promotions.²

In current prices, retail turnover based on bank transactions rose by 2.3% this quarter, up from 0.8% gains recorded in the September quarter and 0.7% gains in the same quarter last year. Adjusted for inflation, retail turnover based on bank transactions for the December quarter was up by 1.6%, a recovery from the fall in the September quarter (-0.5%), and up from the same quarter last year (0.4%). The monthly trend reveals that the increase during the December quarter was mainly driven by monthly increases in October and November, which had major sales and cultural events boost spending. This was also consistent with liaison contacts reporting that the Black Friday period pulled forward sales from early December.

FIGURE 6

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

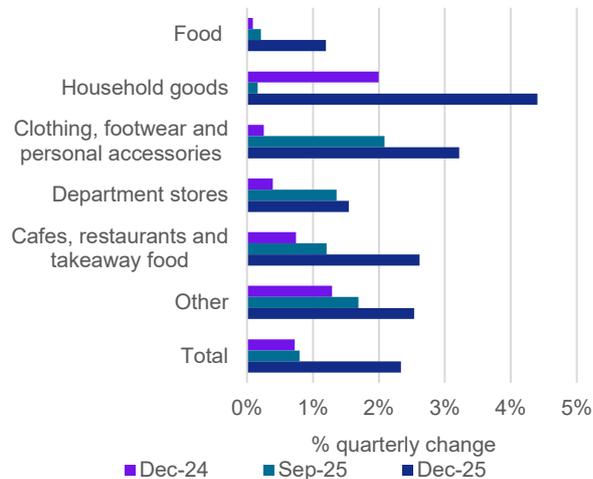


Source: ABS, Haver, KPMG

Retail turnover by sector, based on bank transactions, showed no declines across any category this quarter. Household goods recorded the strongest quarterly growth (+4.4%), followed by Clothing, footwear and personal accessories (+3.2%) and Cafes, restaurants and takeaway food (+2.6%). Department stores continued their steady improvement, with turnover rising 1.5% in the December quarter, slightly up from 1.4% previously. Food retailing also strengthened, with growth lifting from 0.2% in September to 1.2% in December.

FIGURE 7

Inflation Adjusted Sales by Category, Quarterly Change (%)

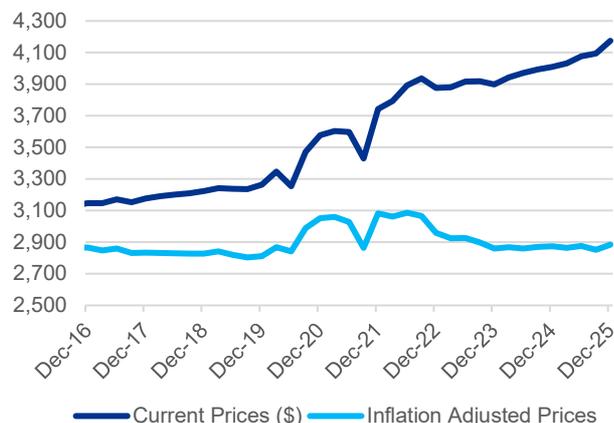


Source: ABS, Haver, KPMG

Despite strong population growth, retail turnover per capita is still expected to rise. While the September quarter retail turnover per capita is estimated to grow by 0.4% in seasonally adjusted terms, the December quarter is estimated to exhibit an even higher growth rate of 2.0%.

FIGURE 8

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



Source: ABS, Haver, KPMG

2. Reserve Bank of Australia | Statement on Monetary Policy | February 2026

Consumer sentiment

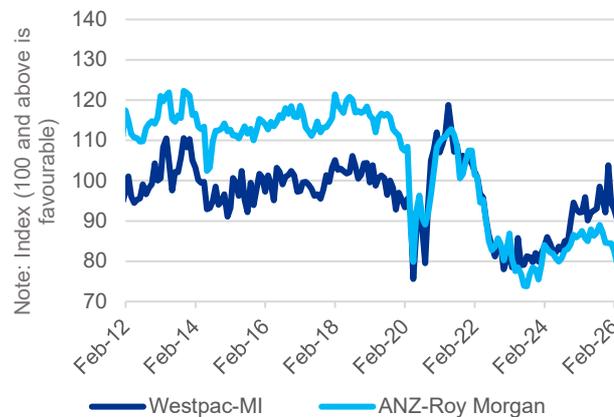
Unfortunately, the brief lift in confidence seen in late 2025 has not been sustained. Consumer sentiment has weakened again in early 2026, reflecting shifting cash rate expectations since November and ongoing cost of living pressures.

In detail, the latest February reading of the Westpac-Melbourne Institute Consumer Sentiment Index shows sentiment declining by 12.8% from the seven-year high of 103.8 in November to 90.5 this February. While the fall follows the Reserve Bank of Australia's February cash rate increase, the magnitude of the decline was relatively contained compared with previous tightening cycles. Nevertheless, the index continues to signal subdued household sentiment, particularly in relation to current financial conditions and major purchase decisions.

Component wise, the February deterioration was driven largely by weaker assessments of household finances and buying conditions. The 'time to buy a major household item' subindex fell sharply from 111.6 in November to 93.5 this February, while the 'family finances vs a year ago' subindex fell from 85.2 to 78.8.

FIGURE 9

Consumer Sentiment Index



Source: Westpac, Melbourne Institute, ANZ, Roy Morgan

FIGURE 10

Westpac-Melbourne Institute Consumer Sentiment by Component



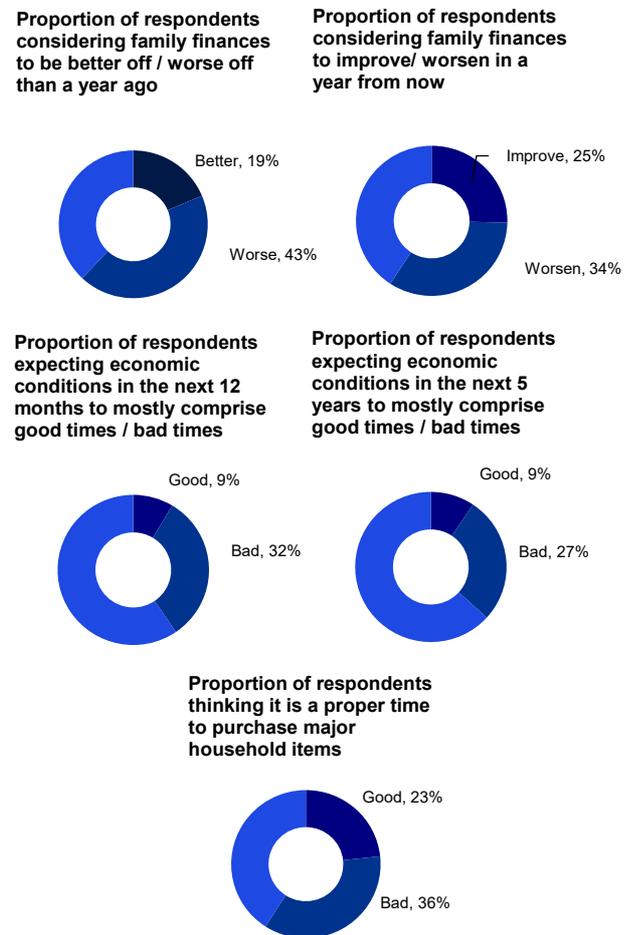
Source: Westpac, Melbourne Institute

This weakness is reinforced by the ANZ-Roy Morgan Consumer Confidence Index, which remains firmly in pessimistic territory. As of 17 February 2026, two weeks after the RBA's rate hike decision, the four-week moving average fell to 79.6, its lowest level since mid-2024. Households remain pessimistic in their finances over the next year and for the broader economy over the next five years, with both measures sitting at their lowest levels in a decade.

The Reserve Bank Monetary Policy Board next meets 16-17 March. With interest rates expected to remain restrictive for some time, we expect consumers would remain cautious through the first half of 2026, with any recovery dependent on clearer progress on inflation and eventual monetary policy updates.

FIGURE 11

ANZ-Roy Morgan Survey of Consumer Confidence, January 2026



Source: ANZ, Roy Morgan

Population and global visitors

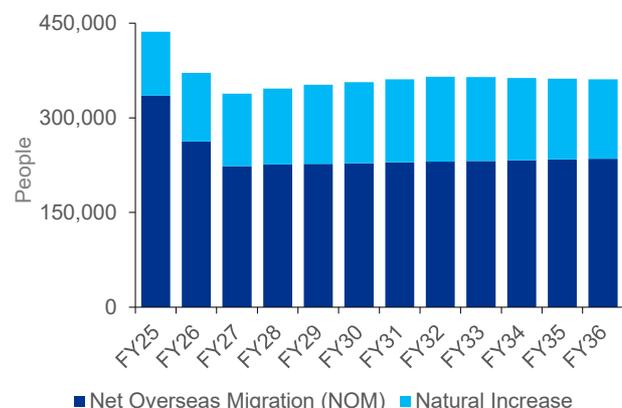
Australia's population expanded by 420,100 people or 1.5% over the 12 months to 30 June 2025, largely driven by Net Overseas Migration (NOM), which contributed 73% of the total increase.

As highlighted in the Australian Retail Outlook,³ NOM has supported household spending by adding to Australia's overall spending power. India and China are the largest sources of migrants, but there are also substantial contributions from other Asian countries, such as the Philippines and Vietnam, along with the UK. The variety of source countries, cultures and cuisines provides enough diversity to drive corresponding diversity in aspects of the tenant mix, particularly for food, in our shopping centres and high streets.

However, NOM has slowed noticeably, falling by 123,600 people (28.8%) compared with the previous year. According to the Budget 2025-26, NOM is forecast to dip slightly 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 onwards.

FIGURE 12

Net Overseas Migration Targets by Year, Budget 2025-26



Source: Commonwealth Treasury

Tourism also remains a key driver of retail performance. In 2024-25, tourism gross value added reached its highest level on record, with 'Other retail trade' (+\$0.34b) and cafes, restaurants and takeaway food services (+\$0.37b) among the largest contributors to this growth.

During the same period, domestic tourism consumption increased by 1.9% to \$168.8b, the highest level ever recorded. International tourism consumption also climbed sharply, rising 10.1% to \$42.3b. The main contributors to rising tourism consumption included:

- Food, alcohol and other beverage products, up \$1.0 billion (4.2%)
- Takeaway and restaurant meals, up \$1.0 billion (3.2%)
- Education services, up \$0.9 billion (13.4%).

3. [KPMG | Australian Retail Outlook 2026](#)

Cost indicators

Retail cost pressures are stabilising, but near-term global risks have edged higher due to increased geopolitical tensions and emerging bottlenecks in some supply chains.

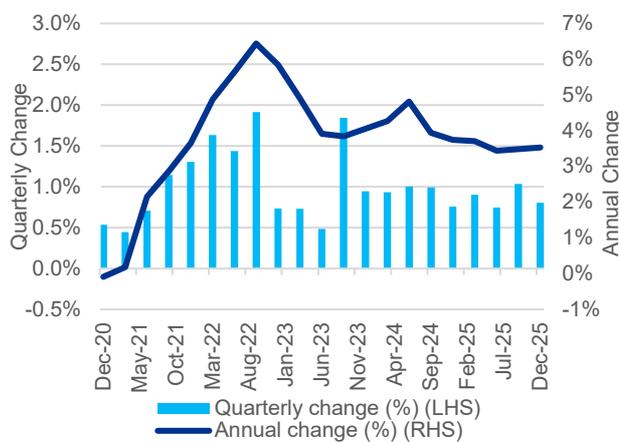
Producer Price Index

Over the year to the December quarter 2025, Australia's final demand Producer Price Index rose 3.5%, remaining broadly stable in the mid-3% range over recent quarters. Over the quarter, final demand prices increased by 0.8%, easing slightly from the September quarter rise of 1.0%.

Quarterly price growth was broad based, with no significant declines offsetting increases. The rise was primarily driven by services industries and the construction industry.

FIGURE 14

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



Source: ABS, Haver, KPMG

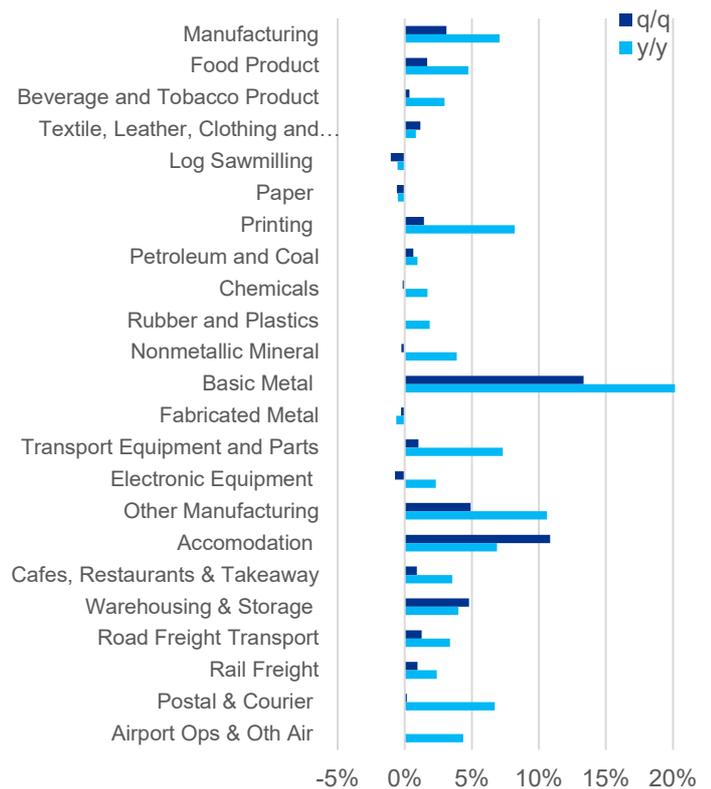
For manufacturers, input prices rose sharply by 4.9% over the quarter and 11.6% over the year, driven by strong increases in metal ore prices, particularly gold, amid sustained global demand.

For the logistics sector, output prices for Postal and Courier Pickup and Delivery Services rose 0.2% over the September quarter and 6.7% annually, driven by price increases for letters and parcels. Warehousing and storage services increased 4.8% over the quarter and 4.0% over the year. Road transport costs rose 1.3% over the quarter and 3.4% over the year. Meanwhile, rail freight rose 0.9% this quarter and 2.4% over the year.

Across services, accommodation prices rose sharply by 10.8% in the quarter, driven by seasonal demand, major sporting events and strong visitor arrivals. Cafes, restaurants and takeaway food services rose 0.9%, reflecting ongoing input cost pressures. Over the past year, accommodation services are up 6.9%, while food related services rose 3.6%, indicating persistent upward price pressure across hospitality sectors.

FIGURE 15

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



Source: ABS, Haver, KPMG

Wages

Wages increased by 0.8% in the December quarter 2025 and by 3.4% over the year, in line with market expectations.

The annual pace of wages growth in the private sector accelerated slightly to 3.4% year on year, from 3.3% last quarter and the same quarter last year. Meanwhile, in the public sector, wage growth ticked up to 4.0%, compared to 3.9% in the September quarter. This was significantly higher than the trough of 2.8% recorded a year ago and reflects the fourth consecutive quarter where wages growth in the public sector outpaced the private sector.

Wage pressures in retail related sectors have risen slightly. Retail Trade recorded annual wage growth of 2.9%, up from the trough of 2.8% last quarter, but less than 3.2% in the same quarter last year. Accommodation and Food Services wage growth increased to 3.0%, up from 2.9% last quarter but less than 3.3% in the same quarter last year. Together, the Retail Trade and Accommodation and Food Services sectors contributed only 0.04 percentage points to aggregate wage growth, which has been much less than last quarter's 0.2 percentage point contribution.

FIGURE 16

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



Source: ABS, Haver, KPMG

Global trade developments

A significant development this month was the US Supreme Court's ruling on IEEPA, which [concluded](#) that there is a difference between taxation and regulation, tariffs are taxes, and that in general taxation decisions are reserved for Congress.

This decision affects the baseline tariffs that the US has imposed on all trading partners, which have been justified by IEEPA. It does not immediately impact tariffs justified under other legislation, including tariffs targeting immigration, fentanyl and national security.

President Trump responded to the Court's decision by [announcing](#) temporary tariffs on all countries under Section 122 of the Trade Act (1974). These are currently set at 10% and limited to 150 days (without Congressional approval). While the president later indicated that the rate would be 15%, this was not yet reflected in official documents.

The Centre for Strategic and International Studies [reports](#) that the Court's decision could reduce the leverage that the US can use in negotiations with other countries. Countries that have already signed Agreements on Reciprocal Trade (ARTs) that were based on the US' previously strong negotiating position may now reflect on whether they got a fair deal.

Even though uncertainty surrounding US trade policy persists, Australian trade flows continue to adjust accordingly. Over the past year, Australian exports to the US have strengthened, with growth concentrated in categories such as beef and other meats. This reflects Australia's relatively favourable tariff treatment compared with several competing suppliers. In 2024–25, the US was ranked among Australia's top three partner countries for merchandise trade and services exports, with total exports to the US rising by \$16.7 billion (44.0%) to \$54.6 billion.

FIGURE 17

Impact of SCOTUS Ruling on US Tariffs

Effective Tariff Rate	
1933	19.80%
2003	1.55%
2023	2.49%
Pre-Substitution Rates	
Policy before SCOTUS Ruling	16.0%
No IEEPA or Section 122	9.1%
Section 122 – 10%	
Expires in 150 days	9.1%
Extended after 150 days	12.2%
Section 122 – 15%	
Expires in 150 days	9.1%
Extended after 150 days	13.7%

Source: The Budget Lab, BEA, KPMG

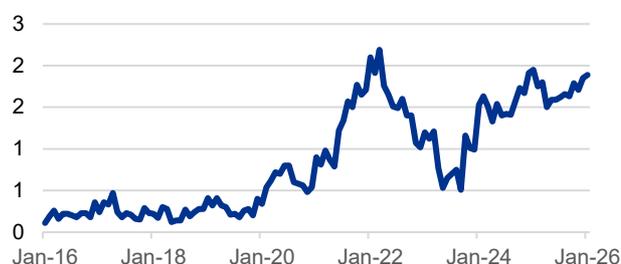
Supply chains

Global indicators for 2026 are unlikely to offer much relief for supply chain leaders, as they continue to signal persistent but uneven pressure across sourcing, logistics and inventory management.

The Fed Global Supply Chain Pressure Index (GSCPI) rose from -0.16 in November to 0.54 in December and remained elevated at 0.41 in January, signalling that global supply chain capacity is being stretched again. In parallel, the World Bank Global Supply Chain Stress Index (GSCSI) increased from 1.7 million TEUs in November to around 1.9 million TEUs in December and January, suggesting port congestion and shipping activity remain above normal levels.

FIGURE 18

Global Supply Chain Stress Index (GSCSI, million TEUs)

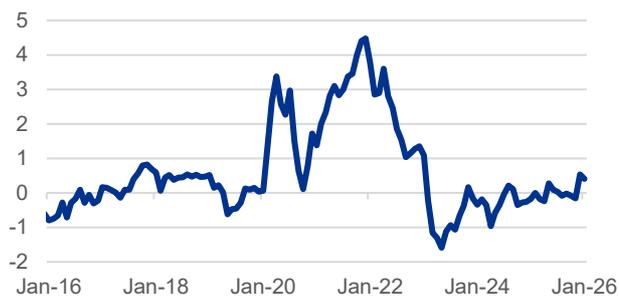


Note: This indicator, which monitors delays at ports and in shipping cargoes using million twenty-foot equivalent units (TEUs), a standard measure of container capacity and port traffic

Source: World Bank, KPMG

FIGURE 19

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

On 28 February 2026, the United States and Israel carried out targeted military operations against Iran, resulting in the death of Supreme Leader Ayatollah Ali Khamenei and several senior officials. Strikes by the US and Israel are ongoing, and Iran has launched retaliatory attacks against US assets in the region, Israel and various Middle Eastern infrastructure.

DSV⁴ reported several Middle Eastern airspaces have been temporarily closed or placed under restricted access while authorities assess safety conditions. As a result, international airlines have suspended some services or rerouted flights to avoid affected areas, leading to longer transit times and irregular schedules.

With the Strait of Hormuz now blocked as at 2 March 2026, all vessel movements through the passage have stopped. This is already disrupting sailing routes and may result in delays and rerouting across multiple services. Carriers calling at ports in the Arabian Gulf are continuing to adjust operations to protect vessel and crew safety.

Road freight across the region is still operating, with most services maintained at present. Contract Logistics facilities across the Gulf remain operational, supported by active business continuity plans. Warehousing and distribution are continuing, although some suspensions and irregularities in inbound and outbound flows may occur.

While there has been some indication of possible dialogue and de-escalation, no timeline has been outlined. Brent crude prices are currently more than 20% higher than in early January yet remain about 9% below the five-year average.

On a positive note, many of the anticipated benefits of AI in supply chains are expected to materialise in 2026.⁵ Supply chains are likely to progress from trialling standalone AI solutions to embedding AI within core platforms such as Source to Pay, as well as within planning and risk management systems, driving greater efficiency, accuracy and governance. The most advanced supply chains are expected to reach a stage of 'Connected Intelligence', where enterprise-wide AI integrates supply chain operations with procurement, finance, ESG, HR and CRM systems to create an intelligent and increasingly autonomous operating ecosystem. Many supply chain leaders appear well placed for this transition, supported by earlier investment in enabling technology platforms, connected data and sustained executive commitment.

4. [DSV | Middle East supply chain situation](#)

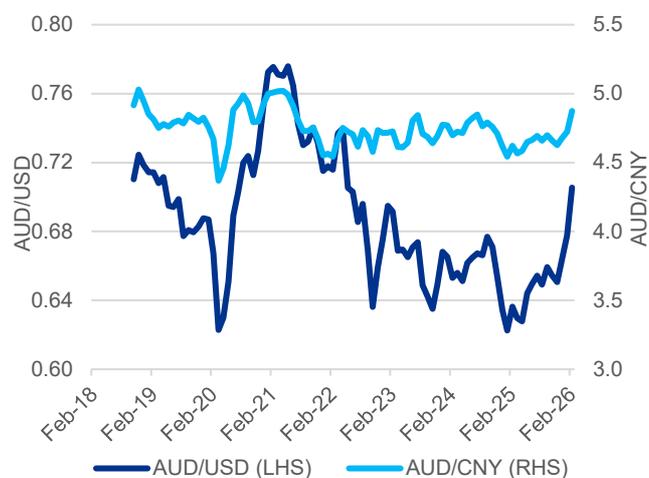
5. [KPMG | Key trends impacting supply chains in 2026](#)

Foreign exchange

Despite trade tensions and trade policy uncertainty, broad-based commodity price growth has also supported an appreciation of the Australian dollar, along with US dollar depreciation. The Australian dollar in February gained 8.4% against the US dollar compared to the November number, supporting lower import costs. During the same period, a 6.6% trade weighted appreciation was recorded, remaining broadly in line with the range of estimates of its long run equilibrium value.

FIGURE 20

Exchange Rate, AUD vs USD vs CNY



Source: RBA, Haver, KPMG

According to the Reserve Bank of Australia, information from liaison suggests that global trade tensions have not materially impacted most firms' pricing decisions, suggesting domestic factors remain the primary drivers of retail price movements.

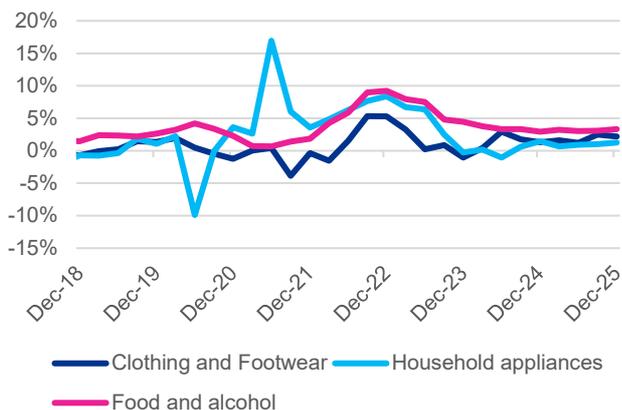
As a range of consumer-facing firms has started to pass through some cost increases to their prices, selling price growth for both goods and services has edged up in recent months. In other cases, firms found ways to reduce their cost base, meaning their margins were under less pressure in the second half of 2025 compared with earlier in the year.

In detail, retail related inflation remains below the broader inflation rate of 3.6%, with retail goods prices rising just 2.1% in the December quarter. Within consumer durables, clothing and footwear increased 2.2% annually, household appliances rose 1.2%, while food and alcohol recorded a 3.3% annual increase.

Overall, contacts expect selling price growth to ease over 2026 but to remain above average.

FIGURE 21

Retail Goods in Consumer Price Index (CPI), Annual Change (%)



Source: ABS, Haver, KPMG

Performance indicators

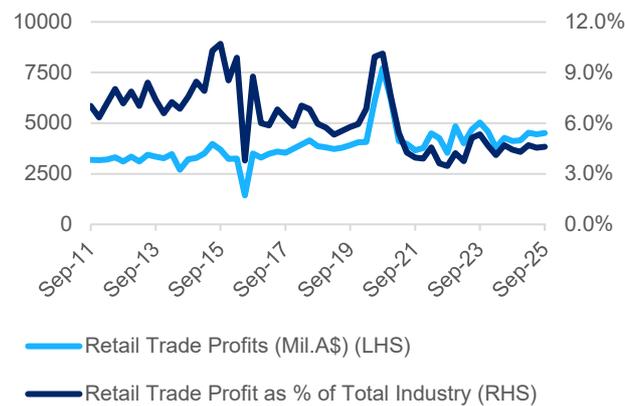
Weak business and consumer confidence in the final quarter has stalled the retail recovery, with the sector now facing record high insolvencies.

Profitability

The retail sector’s contribution to total profitability rose in the September quarter, accounting for 4.6% of total profits across all industries. This marks a slight increase from 4.5% in the previous quarter, driven by a 1.3% gain in pre-tax profit this quarter, from \$4,450 million in the June quarter to \$4,510 million in the September quarter.

FIGURE 22

Retail Sector Profit before Income Tax



Source: ABS, Haver, KPMG

Insolvency

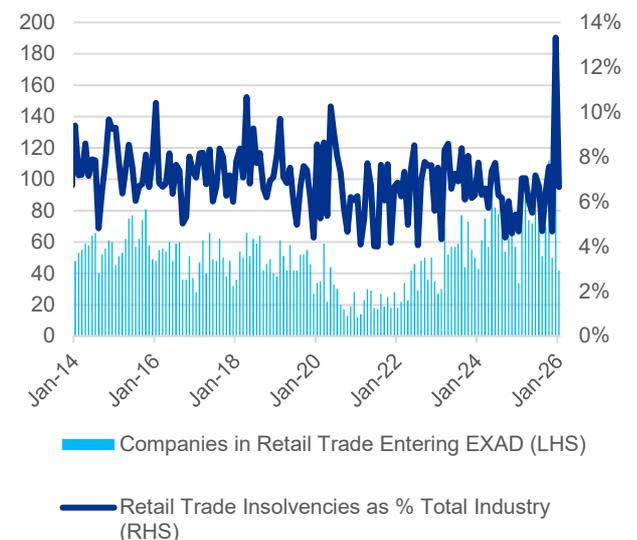
Total insolvencies in 2025 increased by 9% compared to 2024. However, retail recorded a surge in insolvencies of 23% to 1,010 insolvencies in 2025, even higher than the broader trend of business failures across all sectors. This made retail the fourth most affected industry after construction, accommodation and food services, and other business services.

During the December quarter, a record high of 336 retail businesses entered External Administration and Controller Appointments (EXAD). As a share, retail insolvencies accounted for 9% of total industry insolvencies for the quarter, up from 6% in the previous quarter. This highlights the ongoing challenges faced by retail businesses, particularly in the mid-market apparel segment, which continues to experience significant financial strain.

Behind these numbers are some familiar names in Aussie fashion and specialty retail. Jeanswest, Tchuzy, Wittner, and several Mosaic Brands labels (Noni B, Rivers, Katies and Millers) have all fallen into administration or liquidation.⁶ Their failures reflect the same pressures: high fixed costs, weak digital investment, and reliance on discretionary fashion at a time when shoppers are trading down and shifting to value players and global online giants. Many small and mid-sized retailers are now facing a ‘silent depression’, not a sudden crash, but a slow squeeze of thinning margins, rising rents and wages, and aggressive competition from ultra-cheap platforms like Temu and Shein.

FIGURE 23

Number of Companies Entering External Administration & Controller (Monthly)



Source: ABS, Haver, KPMG

6. [KPMG | Australian Retail Outlook 2026](#)

Employment

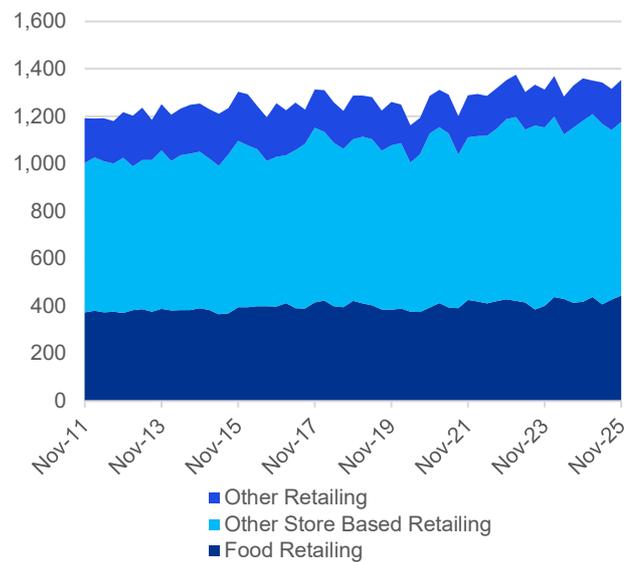
Total employment in the retail sector rose to 1.35 million in the November quarter of 2025, recording the quarter with the highest total employment in 2025.

Employment trends across all retail subsectors showed upticks. Food retailing continued a strong rebound from the previous quarter. With an addition of 17,200 jobs in the November quarter, food retailing employment rose to 730,700 jobs.

While Other Store Based Retailing and Other Retailing saw a loss of employment in the August quarter, the November quarter saw positive movements for both subsectors, with an increase of 15,500 jobs and 5,500 jobs respectively.

FIGURE 24

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



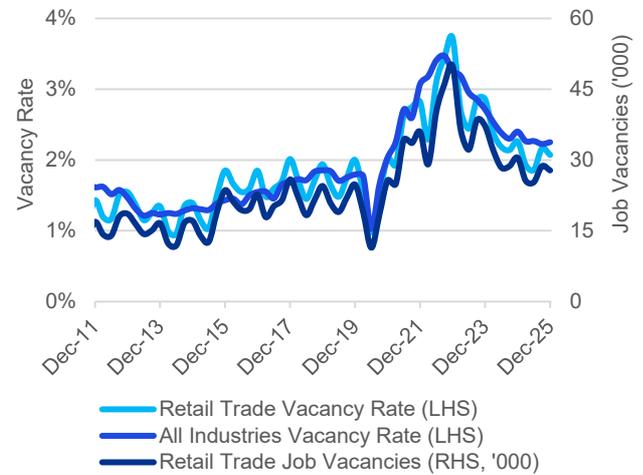
Source: ABS, Haver, KPMG

Job vacancy levels have remained above pre-pandemic levels, reflecting sustained demand for workers in the post pandemic landscape. However, the sector's vacancy rate has been consistently lower than the all-industry average for the eighth consecutive quarter, indicating that retail employers face relatively fewer hiring difficulties compared to the broader economy.

Job vacancies in the Australian retail market have fallen to 27,800 in the December quarter 2025, from 28,700 in the September quarter. The drop in the number of job vacancies reversed the recent rise of 3,400 vacancies in the three months to September 2025. Compared with the December quarter 2024, the number of job vacancies in the December quarter was lower by 2,700, or 8.9%.

FIGURE 25

Job Vacancies, Australia



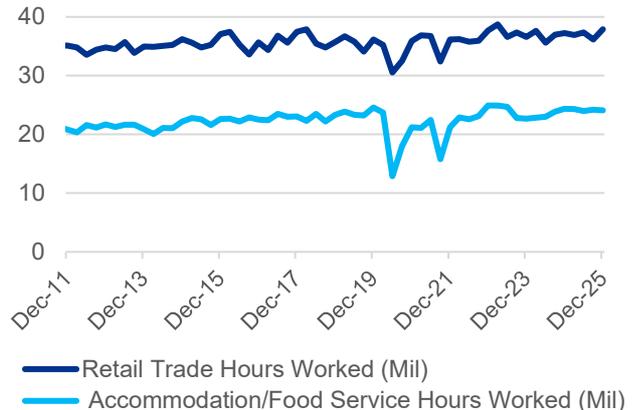
Source: ABS, Haver, KPMG

The recovery of traditional part-time industries, such as Retail and Accommodation and Food Services, has created more opportunities for individuals seeking part-time work. This includes younger workers and working holidaymakers.

However, the changes in work hours remain uneven across these two sectors. In Accommodation and Food Services, hours worked declined by 0.4%, reducing total hours worked from 24.2 million hours in the September quarter to 24.1 million hours in the December quarter. On the other hand, retail sector hours worked rose by 4.8% over the same period, increasing the total hours worked from 36.2 million to 37.9 million.

FIGURE 26

Hours Worked, Australia



Source: ABS, Haver, KPMG

Retail real assets

For retailers with strong balance sheets and a clear tech and productivity focus, the insolvency environment creates a chance to lift market share, renegotiate leases and pick up distressed prime site assets.

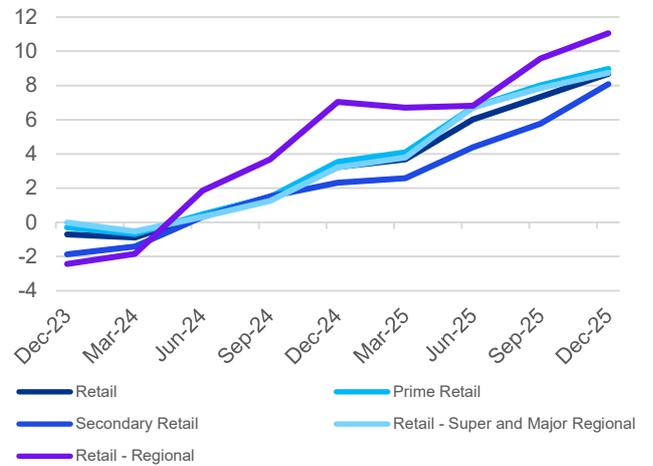
But space is tight and rents keep climbing. ABS data shows that non-residential build costs have jumped 17% since Covid, the same rise seen over the entire decade before it, making new centres and expansions uneconomic. As a result, data compiled by CBRE indicates that only around 183,000 sqm of new regional and subregional space is expected over the next three years, mostly small neighbourhood builds. Retail space per capita has slipped from 2.3 sqm to 2.1 sqm, according to Ray White.⁷

Despite flat real household spending, landlords continue to keep centres full and rents rising. The anticipated post-Covid ‘power shift’ to retailers never materialised. Demand for prime space still far outweighs supply. In locations like High Street Armadale and James Street Fortitude Valley, sites are snapped up instantly, forcing retailers to move fast and pay for the privilege.

High rents are also pushing a rethink on store size. Large ‘brand billboard’ sites are harder to justify, with retailers now shifting to smaller footprints supported by high velocity logistics. Stores can no longer double as costly stockrooms. Their role is shifting to curated presentation and customer service, backed by more frequent fulfilment.

FIGURE 27

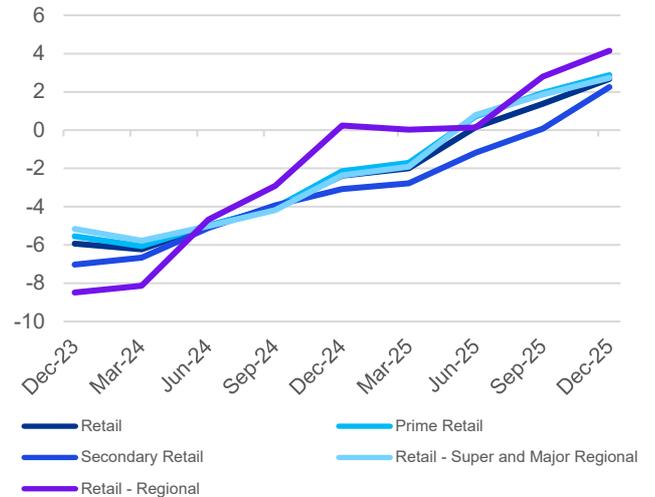
Total Returns Across Retail Property Subsectors (%)



Source: KPMG, MSCI/PCA

FIGURE 28

Capital Growth Across Retail Property Subsectors (%)



Source: KPMG, MSCI/PCA

7. [KPMG | Australian Retail Outlook 2026](#)

E-commerce indicators

Online retail sales

The ongoing shift in consumer behaviour towards online spending continues to transform the retail sector. Australia Post reported its busiest festive season on record, with nearly 8 million households shopping online, delivering over 110 million parcels across the final two months of 2025.⁸ This reflects a 7.6% increase on 2024 and highlights the continued shift towards online shopping through the peak retail period. The season began earlier than usual, with November recording a strong lift in online orders. This early surge contributed to a new single day record, with more than three million parcels delivered on Monday 8 December. The result underscores the sustained pressure placed on last mile logistics throughout the period.

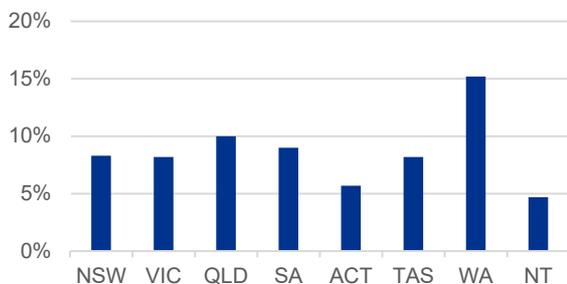
The additional 300,000 households shopping online compared with the previous year signalled the continued normalisation of e-commerce among a wider consumer base. On average, Australia Post processed 3,075 parcels per minute and around 2 million parcels per day for over 30 consecutive days.

Category performance pointed to ongoing changes in purchasing behaviour. Athleisure recorded the strongest growth at 24.7% year on year, followed by Women's Fashion at 21.2% and Department Stores at 15.7%. These results highlight robust demand across both fashion and general merchandise during the festive period.

State-by-state data showed Western Australia topped online shopping activity, followed by Queensland and New South Wales.

FIGURE 29

Online Spending by States, November – December 2025, Annual Percentage Change (%)



Source: AusPost, KPMG

8. [Australia Post | January 2026 Quarterly eCommerce update](#)

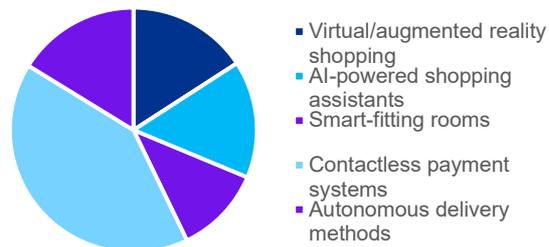
9. [KPMG | Australian Retail Outlook 2026](#)

Artificial intelligence (AI) Adoption

According to the Australian Retail Outlook 2026,⁹ awareness of emerging retail tech is rising, with solid annual gains across nearly all digital touchpoints.

FIGURE 30

Awareness of new retail technologies

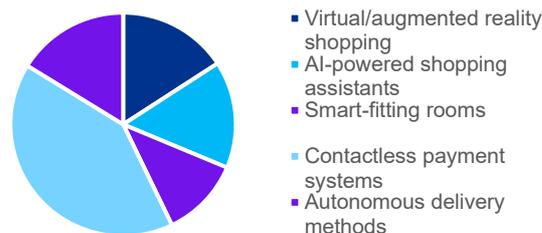


Source: Inside Retail, KPMG

More Australians now recognise AI shopping assistants (+5.1%), Virtual Reality (VR) or Augmented Reality (AR) shopping (+5.6%), autonomous delivery options (+4.2%) and smart fitting rooms (+2.7%). Yet roughly three quarters of shoppers are still not familiar with these tools, leaving a clear but slowly narrowing awareness gap.

FIGURE 30

AI Use in the Shopping Journey (Past 12 Months)



Source: Inside Retail, KPMG

Customer uptake is similarly slow. 61% of Australians have not used AI-driven shopping tools. Among those who have, most use them simply to compare prices (26%). Product discovery and personalised recommendations remain niche, and usage of AI-supported delivery tracking is even lower. For now, AI's real-world impact in retail is limited to straightforward, value focused tasks.

AI adoption inside the sector is still sluggish: 46% of retailers are not using AI at all, 25% have not shifted their behaviour in the past year, and only 7% have meaningfully increased usage. The current low engagement signals a clear opportunity: retailers that remove friction and show immediate, practical benefits will win early adopters and lay the groundwork for mainstream adoption.

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.

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

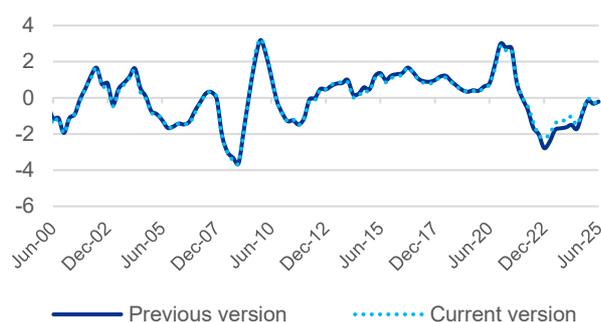
Variables	Weights		
	Retail volumes	Household spending volumes (Full-sample)	Household spending volumes (Pre-pandemic)
Producer Price Index	0.64	0.66	0.65
Wage Price Index	0.48	0.53	0.44
Consumer Sentiment	0.54	0.52	0.58
Volume*	0.24	-0.12	0.22
Total Variance Explained	0.48	0.47	0.51

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 similar pattern.

Chart 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: bjrynn@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

[KPMG.com.au](https://www.kpmg.com.au)



The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. AI may have been used to support the drafting of this document, however, any generated content will have undergone human review in accordance with KPMG's AI Policy and [Trusted AI Framework](#). Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

©2026 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Liability limited by a scheme approved under Professional Standards Legislation.

March 2026 | 4387990862E