Retail Health Index

September 2026

KPMG Australia

Contents

Executive summary

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

As expected, retail conditions weakened further in the June quarter 2026, with the KPMG Retail Health Index pushing further down in negative territory. This decline reflects weakness across the retail sector, driven by a sharp deterioration in consumer confidence and rising business costs as earlier energy shocks negatively impacted the sector's performance.

Both global and domestic conditions continued to shape retail performance during the quarter. The Iran conflict pushed up energy, transport and input costs, adding pressure on supply chains, businesses and households. While supply chain conditions have eased from earlier highs, intermittent escalations has continued to keep uncertainty elevated. Domestically, concerns about living costs, interest rates, rising energy prices and global tensions kept consumer confidence fragile and contributed to a noticeable deterioration in sentiment during the quarter.

Recent quarters highlights how quickly global shocks can flow through to impact retail activity and consumer behaviour. Looking ahead, KPMG expect retail conditions to remain challenging until the end of CY27, with any recovery likely to be gradual and vulnerable to renewed disruptions.

Key economic takeaways

- *Household spending,* driven by discretionary spending, picked up in the June quarter, with nominal spending growth rising to 1.3% from 1.0% in March 2026. However, the increase appears to have been driven more by higher prices than stronger real consumption, with growth in spending volumes easing slightly to 0.7% from 0.8% in the previous quarter.
- *Retail turnover* strengthened in the June quarter (0.7 ppt q/q) supported by EOFY promotions. Inflation-adjusted retail sales also returned to growth (0.8%), rebounding from a 0.7% decline in March, while spending per person improved by 0.7 ppt q/q. This suggests that consumers remained highly focused on value and promotional offers.
- *Consumer confidence* improved modestly in August, with both Westpac-Melbourne Institute and ANZ-Roy Morgan indexes rising as concerns about fuel prices and further rate hikes eased compared with previous months. Nevertheless, both indexes remain firmly in pessimistic territory, indicating households remain cautious about their spending and financial outlook.
- *Producer prices* accelerated sharply in the June quarter, reflecting the pass-through of earlier increases in energy and transport costs. On an annual basis, prices rose by 0.6 ppt to 3.6%, while quarterly growth accelerated by 0.9 ppt to 1.3%.

Retail Insight

Consumers haven't stopped spending, but winning their wallet is getting harder.

Australian retailers continue to operate in a highly demanding environment, but the challenge is no longer simply about getting customers to spend. Customers are still spending, but they are shopping differently. Across the market, consumers are becoming more deliberate, value-focused and promotion-driven, with many actively timing purchases around EOFY sales and other major retail events. The improvement in retail turnover was encouraging, but it also reinforced the extent to which demand is being supported by promotions, discounts and targeted offers rather than a broad-based recovery in consumer confidence.

The pressure has shifted from sales to margins.

Margin management remains the defining challenge for the sector. Retailers continue to face elevated supply chain, freight and operating costs, while increasingly price-sensitive customers are limiting the industry's ability to fully recover those costs through higher prices. This is creating a clear divide between businesses that are relying on discounting to drive volume and those successfully differentiating through customer experience, brand strength, convenience and loyalty. Elevated insolvencies across the sector highlight the pressure facing retailers that have been unable to adapt quickly enough.

The next phase of growth will be earned, not given.

Looking ahead, the retailers best positioned to succeed through 2027 will be those that embrace this new consumer reality. Online and omnichannel shopping continue to gain importance, customers expect greater value and convenience, and AI-driven personalisation is rapidly becoming a competitive advantage rather than an innovation project. While improving consumer sentiment, easing supply chain disruptions and continued population growth should provide some support to the sector, growth is likely to be won through market share gains rather than a strong uplift in overall demand. The focus for retail leaders will be on protecting margins, deepening customer loyalty and executing flawlessly during increasingly important promotional periods such as Black Friday, Cyber Monday and EOFY.

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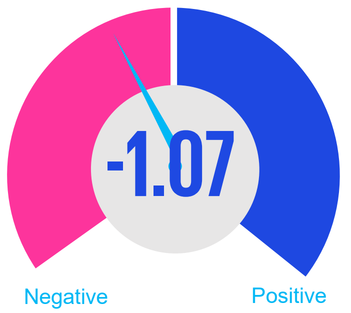
Retail performance dashboard



KPMG Retail Health Index ▼

KPMG Retail Health Index Component Contribution

-0.42	-0.04	-0.54	-0.08
Producer Price Index ▼	Wage Price Index ▲	Consumer Sentiment ▼	Spending Volume ▼

Spending indicators

$228b ▲
Quarterly household spending volumes
+0.7% q/q ▼

-11.4% ▼ Consumer sentiment *(q/q)*

6.5% ▲ Household Saving Ratio

+1.4% ▲ Retail Turnover *(q/q)*

27.8m ▲
Population
+0.3% q/q ▼

Cost indicators

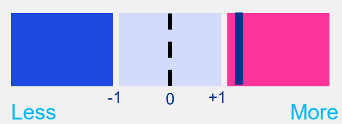
+1.3% ▲
Producer Price Index *(q/q)*

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

0.710 ▲
Foreign Exchange (AUD/USD)

0.6% ▼
CPI index (Inflation *q/q*)

Global Supply Chain Pressure Index ▲



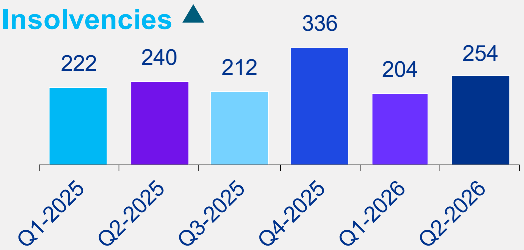
Performance indicators

1.50m ▼
Australians work in retail

26,000 ▼ Retail Trade Job Vacancies

9.3m ▼
+2.9% y/y
Households shopped online

Insolvencies ▲

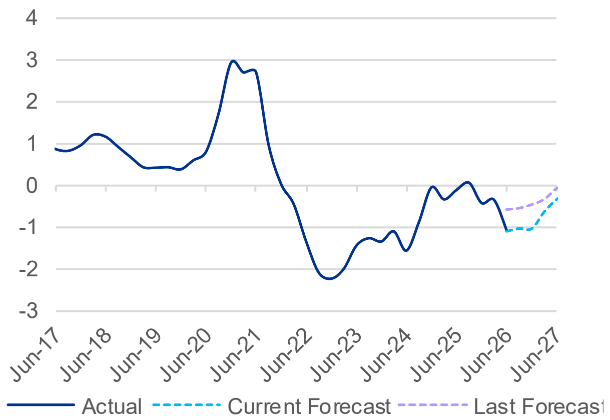


Note: All figures are as of the June quarter 2026, except for the Population data (December quarter 2025). The arrow indicates whether the indicators have increased (up arrow) or decreased (down arrow) compared to the previous quarter.

Retail Health Index

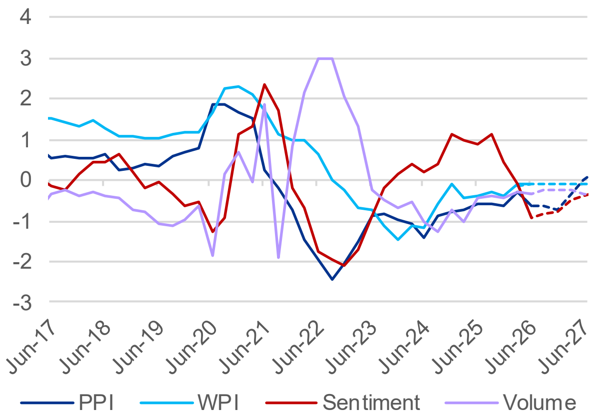
Higher business costs and a sharp deterioration in consumer confidence pushed KPMG's Retail Health Index© (RHI) deeper into negative territory in the June quarter.

Figure 1. Retail Health Index, Actual and Forecast



Source: KPMG's calculation

Figure 2. KPMG RHI by Component Factors



Source: KPMG's calculation

Retail conditions remained in negative territory in the June quarter 2026, with the RHI falling further to -1.07 from -0.39 in the previous quarter. This points to intensifying pressures across the retail sector during the quarter, with business costs rising and consumers remaining cautious about their spending amid higher living costs and uncertainty around global events.

All individual components of the RHI continued to weigh on the index in the June quarter. The sharp deterioration in consumer sentiment was the main driver of a negative RHI outcome in June, with sentiment remaining firmly in negative territory for a second consecutive quarter after staying positive since December 2023.

The fall in sentiment reflected continuing pressure on household budgets from higher borrowing costs, persistent cost-of-living challenges and global geopolitical uncertainty. These factors made households more cautious about their spending, which weighed on retail conditions during the quarter.

Looking ahead, recent forecasts for the RHI suggest retail conditions will remain weak, with the index expected to stay in the negative territory until the end of 2027. Negative pressures on retail condition may begin to ease as the Iran conflict appears to have moved beyond its peak. In addition, a recovery in retail conditions will likely require support from stronger real income growth, improving consumer confidence and a stabilisation in domestic economic conditions. Nevertheless, recent experience has shown how unpredictable the global environment remains, with geopolitical tensions able to escalate or de-escalate rapidly. This means any improvement in retail conditions could prove short-lived if disruptions re-emerge.

Looking at the four components of the RHI:

- **Producer Price Index (PPI):** At the individual level, the PPI weakened from -0.29 in the March quarter 2026 to -0.64 in the June quarter. As a result, this subtracted 0.42 index points from the RHI, compared with a drag of 0.19 index points in the March quarter, reflecting the pass-through of global cost pressures.
- **Wage Price Index (WPI):** The contribution from wage growth was little changed over the quarter, reflecting steady growth in the Wage Price Index.
- **Consumer Sentiment:** The deterioration in consumer sentiment observed in the March quarter continued, with sentiment falling sharply from -0.09 in March to -0.93 in June 2026. This sharp decline in confidence was the largest driver of the weaker RHI outcome in June, with confidence alone taking away 0.54 index points from the index, compared with a drag of just 0.05 points in the previous quarter.
- **Household Spending Volume:** In level terms, spending volumes weakened further by declining from -0.28 in March 2026 to -0.36 in June 2026, pointing to softer consumer demand. This increased the drag from household spending on the RHI by 0.02 index points compared with the March quarter.

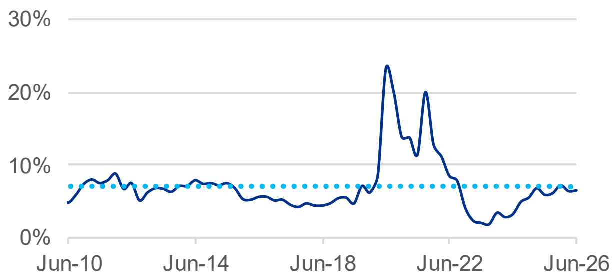
Spending indicators

Consumer spending picked up in the June quarter, supported by EOFY sales and discretionary spending, but worries about living costs, rate hikes and global tensions kept consumer confidence fragile.

Household Spending

After declining from a recent peak of 7.2% in the December quarter 2025 to 6.4% in the March quarter 2026, the household saving-to-income ratio edged up by 0.1 ppt to 6.5% in the June quarter. This increase reflected a 1.1% rise in gross disposable income, which marginally outpaced the 1.0% increase in nominal household spending. Growth in disposable income was mainly driven by higher compensation of employees, increased interest received from deposits and social assistance benefits. However, higher interest rates on loans also increased mortgage interest payments, weighing on household income.

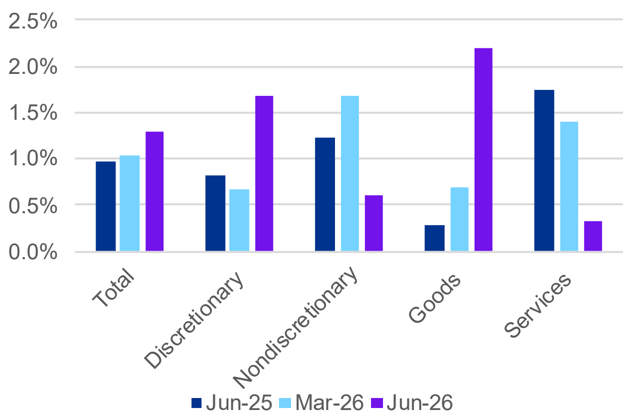
Figure 3. Household Savings Ratio, Australia (%)



Source: ABS, Haver, KPMG

In nominal terms, total household spending increased by 1.3% in the June quarter 2026, up from 1.0% in the March quarter and in the same quarter last year.

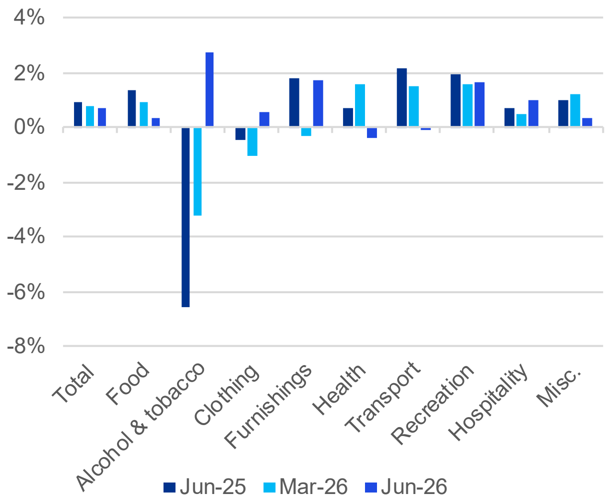
Figure 4. Household Spending by Special Aggregates, Quarterly Change (%)



Source: ABS, Haver, KPMG

Quarterly growth in nominal household spending was mixed across categories in the June quarter: *Discretionary spending* increased to 1.7%, more than double the 0.7% growth in March, and *Goods spending* also rose sharply to 2.2% from 0.7% in the previous quarter. By contrast, *Services spending* slowed to 0.3% from 1.4%, and *Non-discretionary spending* eased to 0.6% from 1.7%. A similar pattern was evident compared with the June quarter 2025, with stronger quarterly growth in discretionary and goods spending and weaker growth in services and non-discretionary spending.

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



Source: ABS, Haver, KPMG

In quarterly volume terms, household spending increased by 0.7% in the June quarter 2026, driven by discretionary goods and services spending. However, this was slightly lower than the 0.8% increase recorded in the previous quarter. This shows that spending remained subdued once price increases were taken into account. Through the year, household spending volumes grew 2.4% y/y, a little lower than the 2.7% y/y increase observed in the March 2026 quarter.

Seven of nine spending categories recorded quarterly growth in volumes in the June quarter. The largest increases were in discretionary categories such as *Alcoholic beverages and tobacco* (+2.7%), followed by *Furnishings and household equipment* (+1.7%), and *Recreation and culture* (+1.7%). The volatility in *Alcoholic beverages and tobacco* over recent quarters largely reflects substantial increases in tobacco excise, which encouraged a shift towards illicit tobacco consumption and reduced recorded sales. More recently, however, the crackdown on illegal tobacco trading has helped lift official sales volumes and improve the recorded statistics.

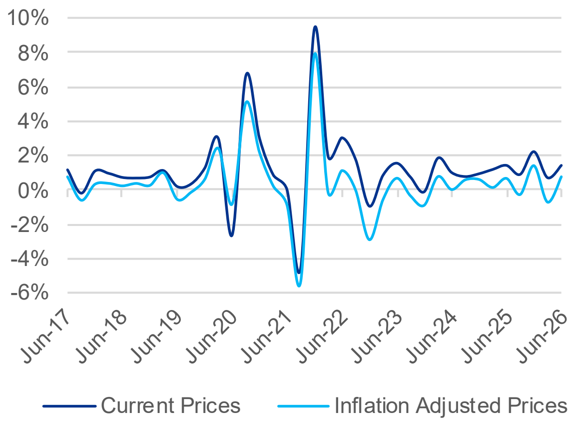
Retail Sales

After a strong performance in late 2025, retail sales softened in the March quarter 2026 as higher fuel prices associated with the Iran conflict weighed on household demand. However, conditions improved in the June quarter, with end-of-financial-year (EOFY) sales supporting spending activity in June.

In current prices, retail turnover based on bank transactions increased by 1.4% in the June quarter 2026, up from the 0.7% gains recorded in the first quarter 2026. After adjusting for inflation, retail turnover rose by 0.8% in the June quarter 2026, rebounding from a decline of 0.7% observed in the previous quarter.

While promotional activity supported sales in June, inflation-adjusted retail turnover growth remained relatively modest in the June quarter. Market feedback continues to suggest that consumers remained cautious and highly focused on value during the EOFY sales period, with many delaying discretionary purchases until discounts were available.

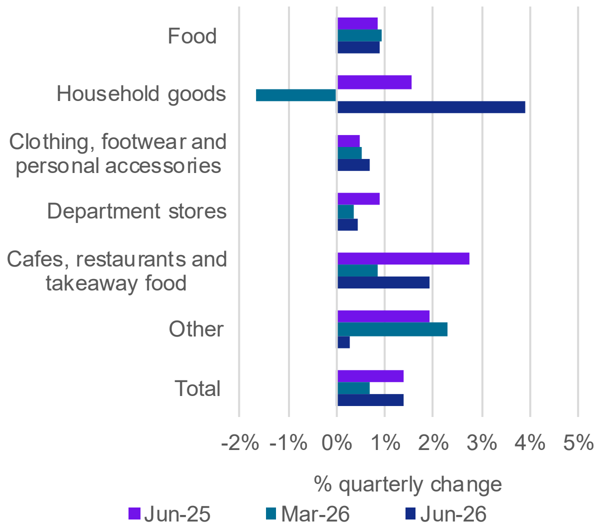
Figure 6. Retail Turnover (based on bank transactions), Current Prices and Inflation Adjusted Prices, Quarterly Change (%)



Source: ABS, Haver, KPMG

Retail turnover remained positive across all categories in the June quarter. *Household goods retailing* recorded the strongest growth (+5.6 ppt), reversing the decline in the previous quarter, followed by *Cafes, restaurants and takeaway food* (+1.1 ppt). *Clothing, footwear and personal accessories* and *Department stores* both recorded modest increases (+0.1 ppt), while *Food retailing* was unchanged. *Other retailing* was the only category to decline, falling by 2.0 ppt over the quarter to 0.3%.

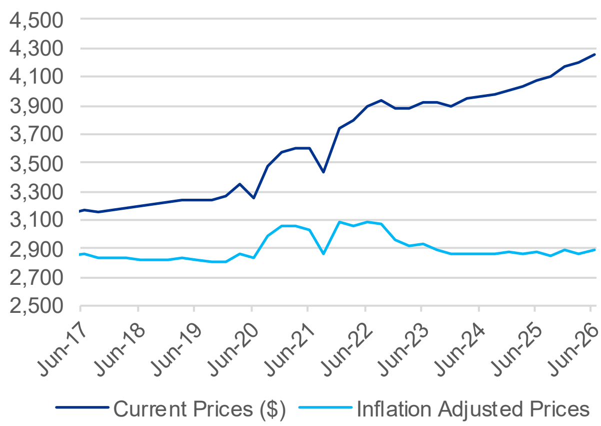
Figure 7. Inflation Adjusted Sales by Category, Quarterly Change (%)



Source: ABS, Haver, KPMG

Retail turnover per capita strengthened in the June quarter 2026. In seasonally adjusted terms, current-price retail turnover per capita rose by 1.0%, up from 0.3% in the March quarter. After adjusting for inflation, retail turnover per capita increased by 0.4%, following a 1.1% decline in the previous quarter. This nevertheless points to a modest recovery in spending per person, rather than growth being driven solely by population increases.

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



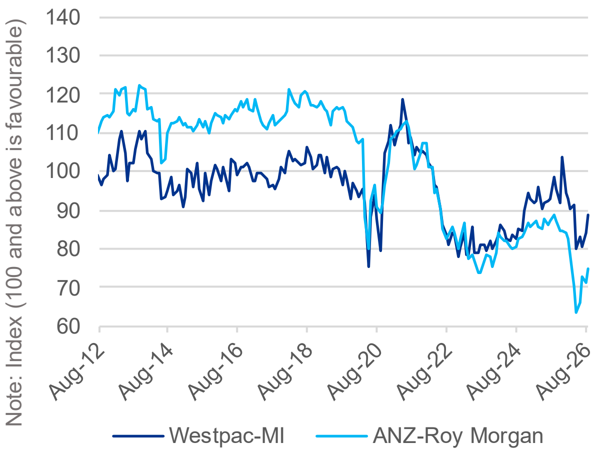
Source: ABS, Haver, KPMG

Consumer Sentiment

There was a noticeable improvement in household confidence in August, as concerns over energy prices and rising interest rates eased compared with the previous months. However, sentiment continues to be weighed down by a fragile global backdrop, with households remaining sensitive to recent geopolitical events.

Consumer pessimism eased in August, with the Westpac-Melbourne Institute Consumer Sentiment Index increasing from the low levels of around 80 recorded in April and May 2026 to 83.9 in July and 88.9 in August 2026. This improvement in sentiment was concentrated among mortgage holders and largely occurred after the RBA's decision on 11 August to keep interest rates on hold. Nevertheless, the index remains firmly in the unfavourable territory.

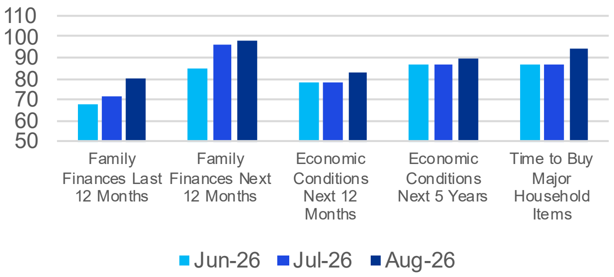
Figure 9. Consumer Sentiment Index



Source: Westpac, Melbourne Institute, ANZ, Roy Morgan

All components of the index improved in August. The improvement in sentiment was largely driven by stronger family finance assessments, while expectations for the economy and attitudes towards major purchases also improved. The *family finances vs a year ago* subindex rose markedly to 80.0 in August from 71.1 in July, while the *Time to buy major household items* subindex rose to 93.8 from 86.8. Lower fuel prices and an easing in rate rise fears look to be the main drivers of these gains in August.

Figure 10. Westpac–Melbourne Institute Consumer Sentiment by Component



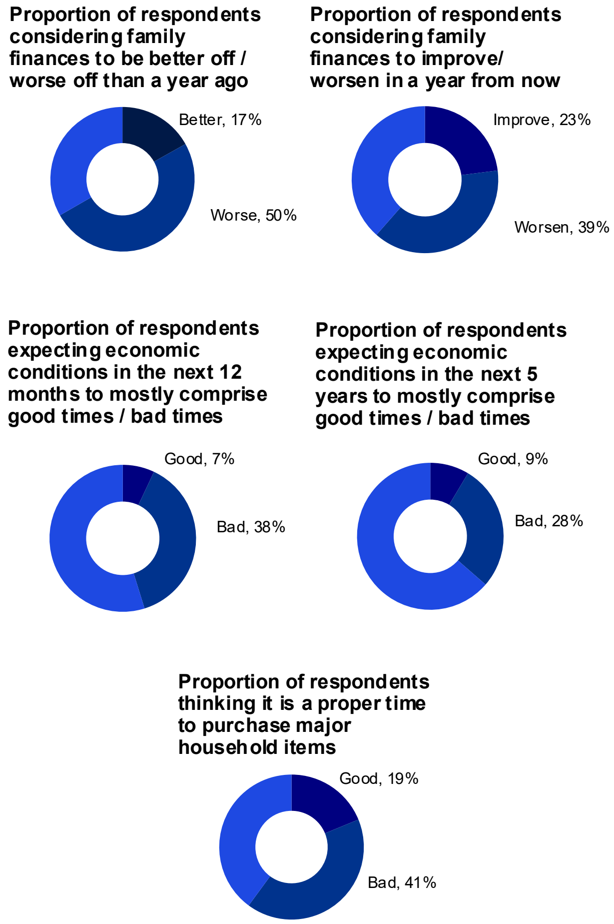
Source: Westpac, Melbourne Institute

A similar picture has emerged from the ANZ-Roy Morgan Consumer Confidence Index, which rose to 74.9 in August from 71.2 in July. However, both indexes remain firmly in pessimistic territory.

All five indicators of the ANZ-Roy Morgan index improved in August, with more positive views on family finances than a year ago and over the next year, as well as on the performance of the Australian economy over the next year and next five years.

Despite the recent improvement, consumer confidence remains well below its long-run average. Recent falls in fuel prices and softer inflation may have provided some relief, helping to lift sentiment in August. However, confidence remains fragile, with ongoing uncertainty around future interest rate hikes and heightened geopolitical tensions likely to keep consumers cautious about their spending behaviors in the near term.

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



Source: ANZ, Roy Morgan

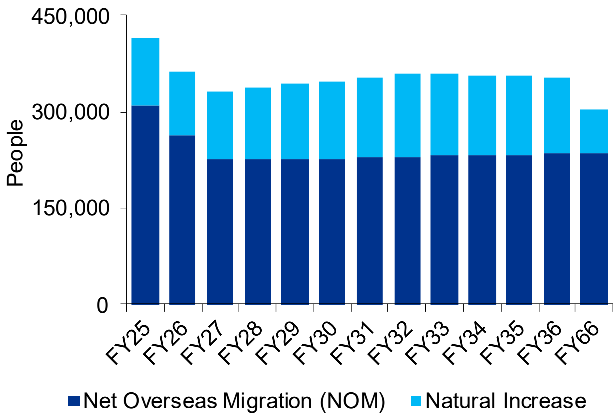
Population and Global Visitors

Australia's population increased by 412,500 people, or 1.5%, over the 12 months to 31 December 2025, with Net Overseas Migration (NOM) accounting for 73.0% of the total growth. All states and territories recorded positive population growth over the year, with *Western Australia* experiencing the fastest growth rate (2.2%) and *Tasmania* the slowest (0.5%).

Looking at the components of population growth, *natural increase* rose by 10.0% to 111,500 people compared with the previous year, while *NOM*, the major contributor to population growth, declined by 8.9% to 301,000 people in the year to 31 December 2025. Despite this moderation, NOM remains well above the levels observed in the pre-pandemic years.

The 2026-27 Budget papers, released in May 2026, forecast NOM to grow at a slower pace from FY26 to FY30. This is expected to see annual population growth ease to 1.3% in FY26 and 1.2% from FY27 onwards, from 1.5% in FY25. Although migration policy changes announced in the Budget are expected to curb NOM, the outlook incorporates partial offsets from lower departure rates among temporary visa holders and continued strong arrivals of New Zealand citizens.

Figure 12. Net Overseas Migration Targets by Year



Source: Commonwealth Treasury

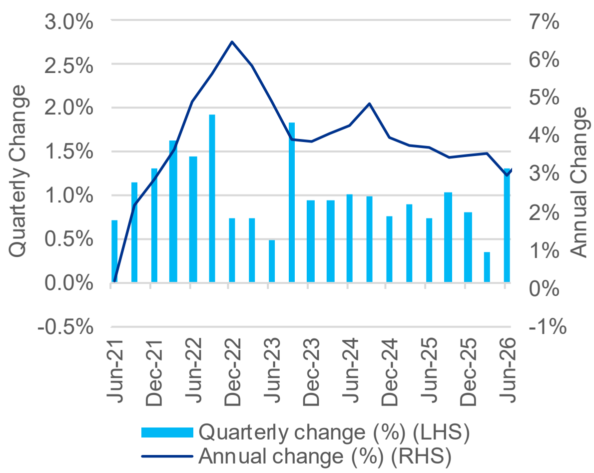
Cost indicators

Business costs rose sharply in the June quarter as earlier energy shocks impacted the sector, with renewed global risks continuing to cloud the outlook.

Producer Price Index

Australia's final demand Producer Price Index (PPI) increased by 3.6% through the year to the June quarter 2026, up from 3.0% the previous quarter and 3.4% a year ago. On a quarterly basis, prices rose by 1.3%, a marked acceleration from the recent low of 0.4% recorded in the March quarter 2026, as well as the historical average of 0.6%. This sharp rise in the PPI largely reflected the pass-through of earlier increases in energy costs, following disruptions to shipments through the Strait of Hormuz amid the Iran conflict.

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



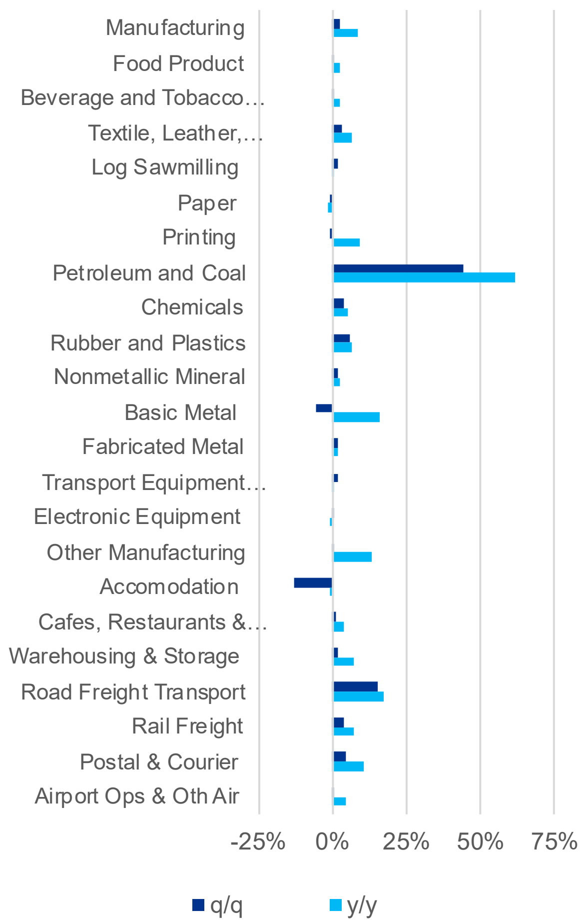
Source: ABS, Haver, KPMG

Manufacturing output prices increased by 8.5% y/y and 2.2% q/q, driven by higher energy and fuel costs following supply disruptions caused by US-Iran conflict. Annual price growth was strongest in *Petroleum and Coal* (+61.9%), *Basic Metals* (+15.8%) and *Other Manufacturing* (+13.3%), while the quarterly increase was also overwhelmingly driven by *Petroleum and Coal* (+44.4%). Rising fuel costs also contributed to higher prices in *Rubber and Plastics* (+5.9% q/q) and *Chemicals* (+3.6% q/q), while *Basic Metals* (-5.9% q/q) provided some offset.

Within services and hospitality, price movements in the June quarter 2026 were mixed. *Accommodation* prices fell sharply by 12.8% q/q, reflecting weaker seasonal demand, and were 0.1% lower than a year earlier. In contrast, *Cafes, Restaurants and Takeaway Food Services* prices increased 0.8% q/q and 4.0% y/y, indicating ongoing cost pressures across hospitality.

Likewise, cost pressures in the logistics sector intensified during the quarter as higher fuel prices flowed through to transport services. *Road Freight Transport* rose 15.5% q/q and 17.6% y/y, the largest quarterly increase since the ABS PPI series began in 1997, while *Postal and Courier* (+4.4% q/q; 10.8% y/y) and *Rail Freight* (+3.8% q/q; 7.4% y/y) also recorded strong quarterly and annual increases, and *Warehousing and Storage* prices rose 1.7% q/q and 7.1% y/y.

Figure 14. Household Spending Volumes by Category, Quarterly Change (%, sa)



Source: ABS, Haver, KPMG

Supply Chains

Global supply chain pressures picked up sharply in early 2026 after a relatively calm period through most of 2024 and 2025. However, some of that strain had begun to unwind as tensions in the Middle East eased.

The New York Fed's Global Supply Chain Pressure Index (GSCPI), which tracks the state of global supply chains using data from the transportation and manufacturing sectors, climbed from near-zero levels in 2025 to a peak of 1.84 in April 2026 as the Iran conflict raised concerns about shipping routes and pushed up oil prices. Since then, the index fell to 1.06 in August. While the index remains elevated and continues to signal supply chain pressures, it is still far lower than levels seen during the pandemic-era.

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

The recent easing in supply chain pressures from the elevated levels seen earlier in 2026 appears to reflect a reversal of the precautionary stockpiling that emerged during the Iran conflict when businesses built inventories to guard against potential shortages, higher shipping costs and rising inflation. As concerns over supply disruptions eased manufacturers scaled back purchases of raw materials and intermediate goods, while transportation costs also moderated.

Nevertheless, the easing in supply chain pressures is unlikely to be smooth, reflected by the slight monthly uptick in the index in August following renewed tensions in the Strait of Hormuz. Moreover, shortages of critical materials are still elevated by historical standards, and production backlogs continue to build in some sectors, suggesting that underlying bottlenecks have not been fully resolved.[3]

Global freight networks continue to face operational challenges despite some easing in broader supply chain pressures from the recent highs. According to DHL's August 2026 Ocean Freight Market Update[4], global container demand was 4% higher than a year earlier, driven by continued growth in Asian exports, while effective capacity remains constrained by port congestion at 2022 highs and ongoing vessel detours via alternative routings.

Freight rates also remain elevated as strong demand continues to outpace available capacity on key trade lanes. Ongoing tensions in the Middle East, restrictions in the Red Sea and continued energy market volatility are creating operational uncertainty across global shipping networks. Trade flows between Asia and the Middle East remain affected by vessel re-routing, equipment shortages and inland transport constraints, while congestion at major European gateways continues to impact transit times and equipment availability.

Air freight markets have remained relatively strong despite ongoing disruptions to global trade and transport networks. According to IATA, global air cargo demand increased by 8.5% y/y in June 2026, while international cargo traffic rose by 9.6%.[5] Growth was driven largely by North American and Asia-Pacific carriers, supported by demand for semiconductors and AI-related products. Asia-linked trade routes remained a key source of strength, particularly the Asia-North America corridor. Middle Eastern carriers also returned to growth in June as transfer traffic gradually recovered through the region's hub airports, although some trade continued to lag pre-conflict conditions.

Oil flows through the Persian Gulf also improved during June, helping to ease pressure on energy markets and lower jet fuel prices from May levels. However, both jet fuel prices and air freight rates remained well above year-earlier levels, indicating that transport costs across the sector have yet to fully normalise.

[3] GEP | Global Supply Chain Pressures (Aug 2026)
[4] DHL | Ocean Freight Market Update (Aug 2026)
[5] IATA | Air Cargo Market Analysis (June 2026)

Foreign Exchange

The Australian dollar strengthened in August 2026, supported by stronger-than-expected July monthly inflation data and a reassessment of RBA interest rate expectations. This reversed the decline recorded in July, when lower yield differentials between Australia and other advanced economies and a decline in commodity prices weighed on the currency.

After declining to US$0.70 in July 2026, the Australian dollar recovered to US$0.71 in August 2026. Over the month, the trade-weighted index (TWI) also increased from 65.2 to 65.8. Despite recent volatility, both measures remained above their levels at the start of the year.

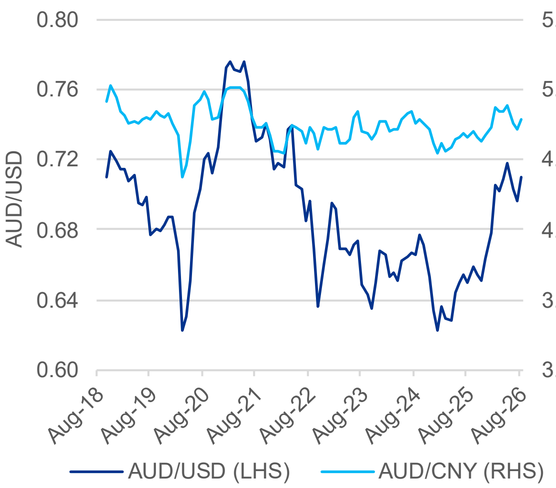
The RBA kept the cash rate unchanged at 4.35% at its August policy meeting, while noting that disruptions in the Strait of Hormuz and weak productivity growth could keep inflation elevated. In this environment, the Australian dollar has found some support from the RBA's hawkish policy stance and expectations that interest rates could remain higher for longer. However, markets remain alert to changes in global risk sentiment, while the prospect of further US monetary tightening could place downward pressure on the AUD.

According to the latest quarterly consumer price data, headline inflation slowed to 3.9% in the June quarter, from 4.1% in the March quarter. Meanwhile, the trimmed mean measure increased to 3.6%, slightly higher than the 3.5% figure seen in the previous quarter.

Among retail categories, inflation pressures eased across most segments in the June quarter. *Clothing and Footwear prices* slowed to 3.8% over the year, from 5.4% in the March quarter. *Household Appliances prices* also eased to 0.9%, from 1.8% in the previous quarter. In contrast, *Food and Alcohol prices* rose to 3.2%, slightly higher than the 3.1% increase recorded in March. This moderation in these discretionary retail categories is consistent with the easing in supply chain pressures as well as lower fuel costs towards the end of the June quarter.

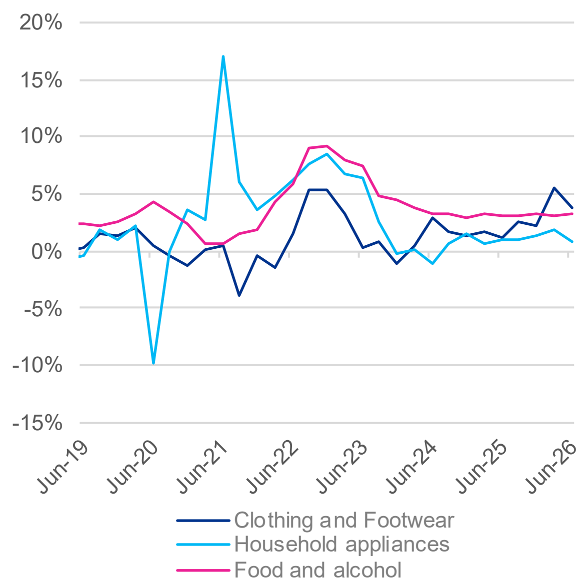
However, despite this recent moderation in headline inflation, inflation risks remain tilted to the upside. Producer price inflation has accelerated, suggesting that the initial increase in fuel and transportation costs is beginning to spill over into other sectors of the economy. This broadening of cost pressures raises the risk that higher input costs will eventually be passed on to consumers, potentially slowing the pace of disinflation in the months ahead.

Figure 17. Exchange Rate, AUD vs USD vs CNY



Source: RBA, Haver, KPMG

Figure 18. Retail Goods in Consumer Price Index (CPI), Annual Change (%)



Source: ABS, Haver, KPMG

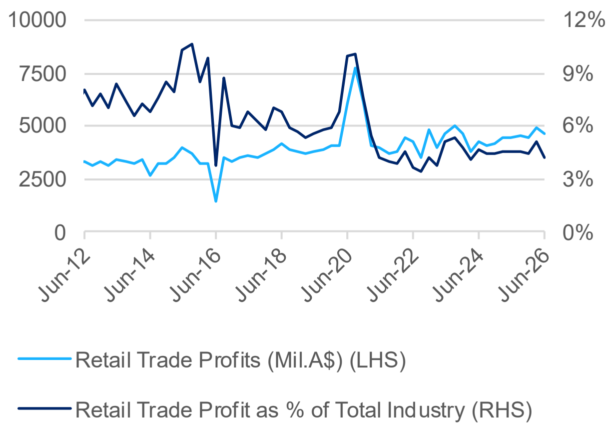
Performance indicators

Retail profits weakened in the June quarter, and elevated insolvencies and softer hiring indicate that conditions remain challenging across the sector.

Profitability

The retail sector experienced a decline in its contribution to overall economic profitability in the June quarter, by reversing its marked improvement in the previous quarter. The retail sector's share of total profits fell to 4.2% in June, down from a recent peak of 5.1% in the March quarter. This marks the lowest share recorded since the March quarter 2024. The decline in profitability was primarily driven by a 6.5% fall in retail sector pre-tax profits over the period, from nearly $5.0 billion in the March quarter to $4.6 billion in the June quarter. In contrast, aggregate profitability across all industries rebounded by 12.5% over the same period, following a 3.4% decline in the March quarter – the steepest quarterly fall in around two years.

Figure 19. **Retail Sector Profit Before Income Tax (Quarterly)**



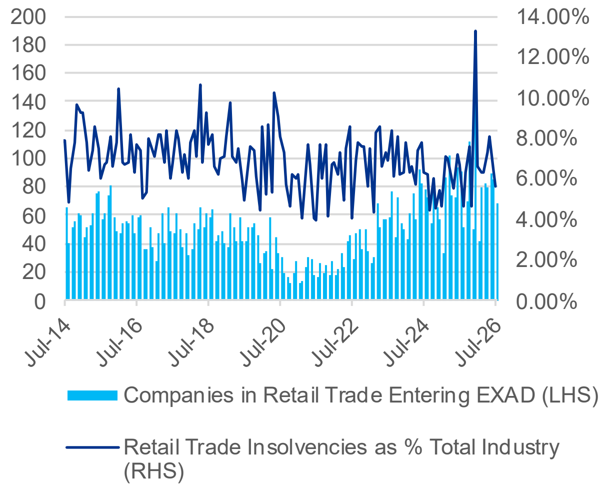
Source: ABS, Haver, KPMG

Insolvency

Insolvencies remained elevated in the June quarter 2026, as businesses continued to face significant financial strain from rising ATO tax debts, elevated trade payment defaults, and the effects of higher interest rates, fuel costs and supply chain disruptions associated with the Iran conflict. At the same time, rising labour and operating expenses, together with increasingly price-sensitive consumers, limited firms' ability to pass through higher costs to consumers. These conditions placed further pressure on business margins and have contributed to these ongoing business failures.

Total companies entering External Administration and Controller Appointments (EXAD) increased to 3,540 in the June quarter 2026, up from 3,200 in the March quarter 2026, but below the 3,842 recorded in the same quarter a year earlier. Within this total, the retail sector recorded 254 insolvencies, above its historical average, and up from 204 insolvencies recorded in the March quarter 2026 and 240 in the June quarter 2025. In relative terms, retail's share of total insolvencies increased to 7%, up from 6% in both the previous quarter and the same quarter last year.

Figure 20. **Number of Companies Entering External Administration & Controller (Monthly)**



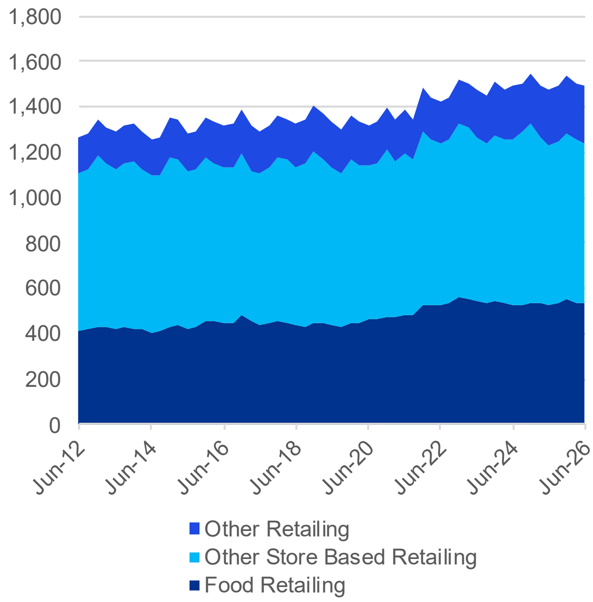
Source: ABS, Haver, KPMG

Employment

Total employment in the retail sector decreased to 1.50 million in the June quarter of 2026, from 1.51 million in the March quarter, representing a decline of 9,100 jobs. Employment remains below the recent peak of 1.53 million recorded in the December quarter of 2025 but continues to be relatively high by historical standards.

Employment outcomes varied across retail subsectors in the June quarter. *Other Retailing* added 6,200 jobs, reaching 256,100 employees, while *Food Retailing* and *Other Store-Based Retailing* recorded declines of 1,200 and 14,000 jobs, respectively. The fall in *Other Store-Based Retailing* accounted for the majority of the overall decline in retail employment and outweighed gains in *Other Retailing*, resulting in a modest contraction in total retail sector employment during the quarter.

Figure 21. Retail Sector Employment, Australia

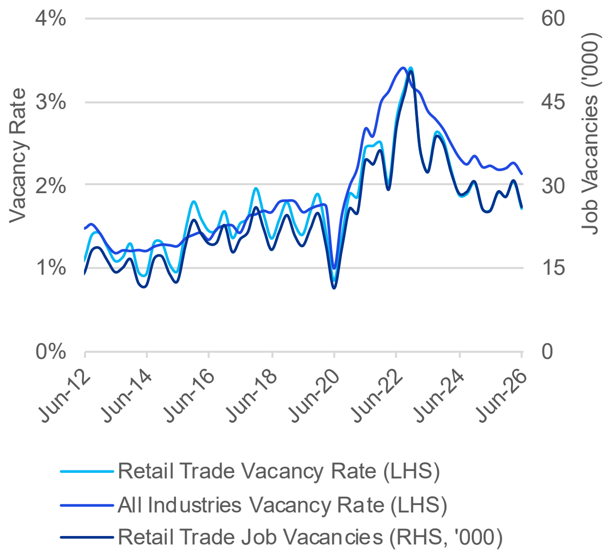


Source: ABS, Haver, KPMG

Retail job vacancy levels remain above their long-run average, although labour demand eased in the June quarter of 2026. The retail sector vacancy rate fell to 1.7% in the June quarter of 2026, down from 2.0% in the March quarter. This was below the all-industry vacancy rate of 2.1%, indicating that hiring demand in retail softened relative to the broader labour market during the quarter.

In level terms, retail job vacancies declined by 4,700 vacancies to 26,000 in the June quarter of 2026, from 30,700 in the March quarter. Despite the quarterly decline, vacancies remained 700 higher than a year earlier, representing an increase of 2.8% compared with the June quarter of 2025.

Figure 22. Job Vacancies, Australia

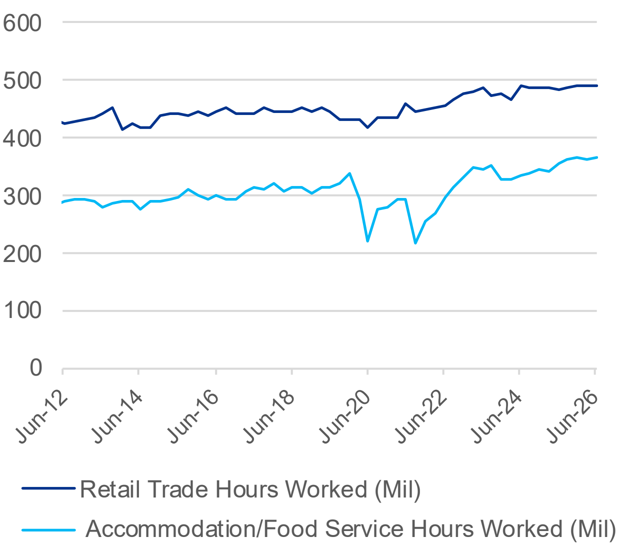


Source: ABS, Haver, KPMG

Hours worked increased across both sectors over the quarter. *Retail Trade* hours worked rose by 0.1% (from 490.44 million hours to 490.85 million hours) in the June quarter 2026. *Accommodation & Food Services* recorded stronger growth, with hours worked increasing by 0.5% (from 363.64 million hours to 365.62 million hours) over the same period.

On an annual basis, both industries recorded solid growth. Compared with the June quarter of 2025, *Retail Trade* hours worked increased by 1.7%, while *Accommodation & Food Services* hours worked rose by 2.4%. These outcomes suggest that labour demand remained resilient across both industries, despite broader signs of moderation in labour market conditions.

Figure 23. Hours Worked, Australia



Source: ABS, Haver, KPMG

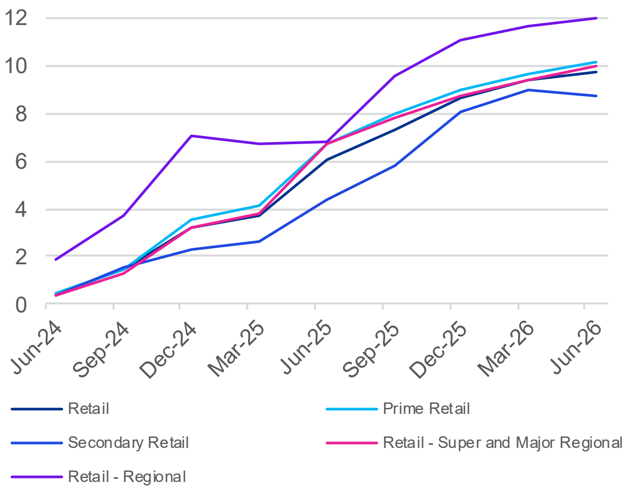
Retail Real Assets

Retail asset performance continued to strengthen through the June quarter of 2026, extending the recovery observed throughout 2025. Total returns increased from 9.4% in March 2026 to 9.8% in June 2026, while prime retail returns rose from 9.6% to 10.2%. Regional retail centres remained the strongest-performing segment, with total returns increasing from 11.7% to 12.0% over the quarter. The improvement in total returns continues to be supported by both capital growth and rental income.

After a prolonged period of declines during 2023 and early 2024, capital growth has recovered strongly, with overall retail capital growth rising from 3.5% in March 2026 to 3.9% in June 2026. Prime retail capital growth increased from 3.6% to 4.2%, while regional retail centres recorded the strongest growth at 5.1%, the highest rate since December 2011, up from 4.8% in the previous quarter. This reflects continued strengthening across retail assets, particularly prime retail and regional centres.

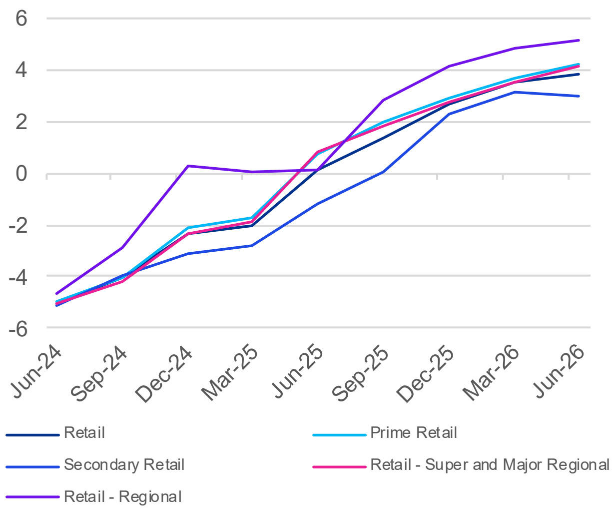
Recent CBRE data show that net face rents increased across all retail asset classes in the June quarter 2026. Rental growth continues to be supported by resilient tenant demand and structurally constrained new supply. CBD super-prime rents increased by 1.9% q/q and 9.1% y/y, supported by strong demand for premium retail space in core CBD locations. Regional and sub-regional centre rents also increased, rising by 0.9% q/q and 3.7% y/y, and 1.5% q/q and 3.2% y/y, respectively, reflecting ongoing rental growth across dominant centres.[6] Looking ahead, the sustainability of recent rental growth may be challenged by weak profit performance across the retail sector, which could reduce retailers' capacity to absorb further rent increases.

Figure 24. Total Returns Across Retail Property Subsectors (%)



Source: KPMG, MSCI/PCA

Figure 25. Capital Growth Across Retail Property Subsectors (%)



Source: KPMG, MSCI/PCA

[6] CBRE | Australia Retail Figures Q2 2026

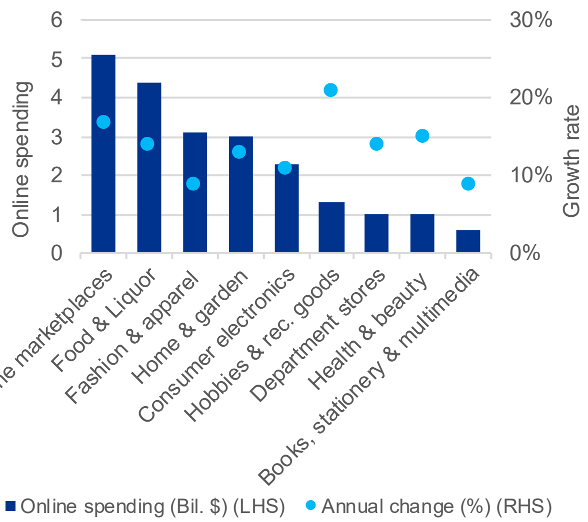
E-commerce indicators

Online retail sales

Online retail continued to gain share in Australia's retail landscape as consumers increasingly opted for online shopping for convenience, greater product choice and ease of price comparison. According to Australia Post eCommerce report[7], online spending reached $21.9 billion in the June quarter 2026, up 14% y/y, with online channels accounting for a 25% of total retail spending. Online shopping participation also expanded, with 9.3 million households making an online purchase during the quarter, up 2.9% y/y.

However, as households have become more cautious with their spending, average basket sizes fell to a record low of $90 (-5% y/y), reflecting a stronger focus on value, deals and delaying big-ticket purchases. This trend is also evident across generations, with Gen Z and Millennials remaining highly price sensitive and more likely to compare prices and wait for sales, while older shoppers place greater emphasis on convenience, trust and reliability. Looking ahead, Australia Post expects online spending growth to moderate in the second half of 2026 as cost-of-living pressures continue to weigh on household spending decisions.

Figure 26. Online Spend by Category, June Quarter 2026



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

Source: AusPost, KPMG

Spending growth remained broad-based across categories. Online marketplaces recorded the strongest growth, with spending reaching $5.1 billion (+17% y/y) and accounting for 42% of all online transactions. Meanwhile, higher-value categories such as fashion (+9% y/y) and consumer electronics (+11% y/y) grew at a slower pace as households delayed big purchases and focused on essentials.

Cost pressures continue to shape spending

Cost-of-living pressures remain the biggest influence on consumer behaviour. Around 34% of consumers reported cutting back on spending, while 32% said they had become more price conscious. Likewise, almost half (46%) of consumers reported switching to retailers that offered better value during major sales periods.

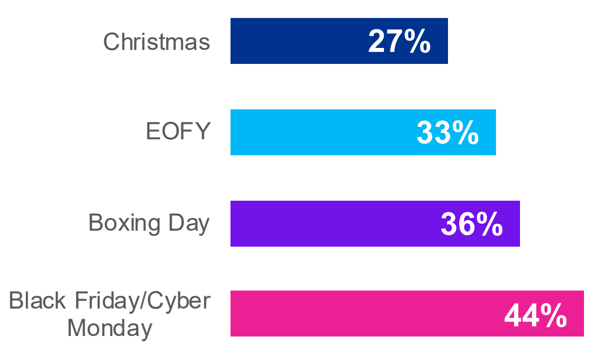
Retailers are also facing growing cost pressures, with many absorbing and passing on higher costs. In response, 46% increased prices, 39% tightened budgets and 33% raised delivery costs in the June quarter 2026.

Why sale events matter more than ever

Sale events are playing a larger role in shaping retail demand, as consumers increasingly delay purchases until major promotional periods. EOFY was the standout event in the June quarter, driving the largest uplift in online spending as shoppers waited for value opportunities.

The growing importance of these events is reflected in consumer behaviour, with 59% of shoppers reporting they no longer buy at full price. Black Friday and Cyber Monday remain the most anticipated sales events (44%), followed by Boxing Day (36%) and EOFY (33%), highlighting consumers' willingness to delay purchases until major discount periods.

Figure 27. Sales Events Shoppers Look Forward To



Source: AusPost, KPMG

Importantly, sale events are no longer just about discounts or clearing stock. They have become key opportunities for shoppers to switch brands and try new retailers. Therefore, as competition intensifies, retailers that make value and savings easy to find, while providing reliable delivery, easy returns and a seamless shopping experience, are likely to be better placed to convert sale-driven buyers into loyal, repeat customers.

[7] Australia Post | eCommerce Update (July 2026)

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

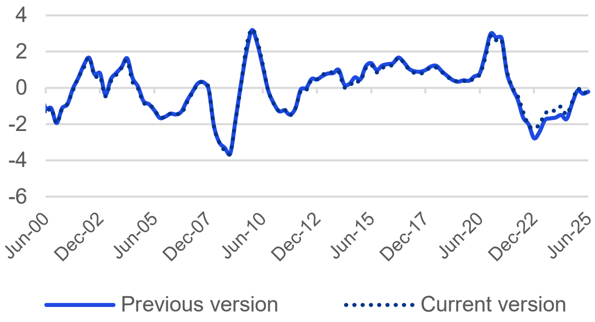
Variables	Weights		
	Retail volumes	Household spending volumes *(Full-sample)*	Household spending volumes *(Pre-pandemic)*
Producer Price Index	0.64	0.66	0.65
Wage Price Index	0.48	0.53	0.44
Consumer Sentiment	0.54	0.52	0.58
Volume*	0.24	-0.12	0.22
Total Variance Explained	0.48	0.47	0.51

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.

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

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



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