

# NAB Online Retail Sales Index

## In depth report – July 2014

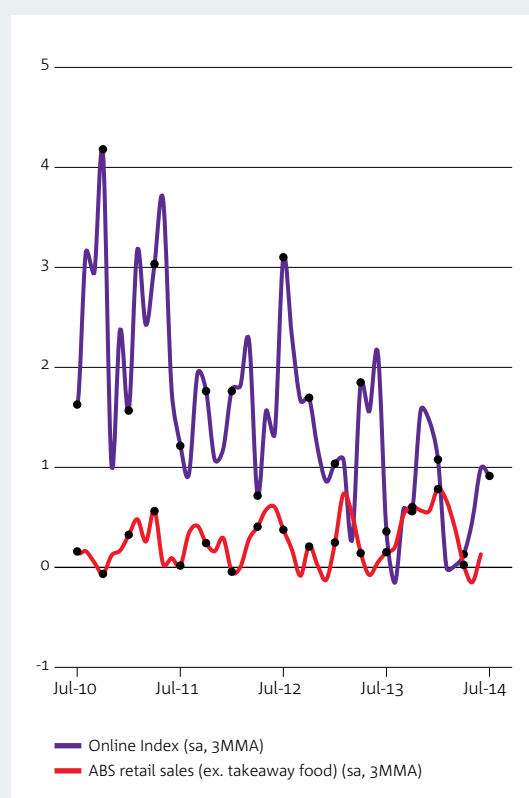


**Table 1. Key online retail statistics**

|                     | YOY growth (%) |        |        | MOM growth (% sa, 3mma) |        |        |
|---------------------|----------------|--------|--------|-------------------------|--------|--------|
|                     | May 14         | Jun 14 | Jul 14 | May 14                  | Jun 14 | Jul 14 |
| Total online Index  | 5.5            | 9.6    | 8.6    | 0.5                     | 1.0    | 0.9    |
| Domestic sales      | 7.0            | 10.8   | 11.2   | 0.3                     | 0.9    | 1.2    |
| International sales | 1.2            | 6.0    | 2.0    | 0.6                     | 1.1    | 0.4    |

Data is seasonally adjusted (sa) where specified, with a leap year adjustment made for February 2012. Non-seasonally adjusted online sales data is produced by Quantum. Traditional retail sales data is sourced from the Australian Bureau of Statistics (ABS).

**Chart 1: Growth in online retail vs. ABS retail sales (% monthly)**



Seasonally adjusted and three-month moving average

■ Australia's online retail spending continues to increase following a period of more subdued growth and is now valued at around \$15.6 billion for the year to July 2014. This represents annual growth of 8.6%, placing online at around 6.6% of traditional retail spending. The share of domestic spending also continues to edge higher, now capturing around 75% of total online spending.

Despite a recent pick-up in the traditional bricks & mortar retail sector, it was still outpaced by the improvement in online retail growth over the past quarter. While the rebound in online in recent months is encouraging, growth remains considerably more subdued than the 20-30% growth rates recorded in earlier years.

By category, the results are mixed. Sales growth in Groceries & Liquor continues to be strong, followed by Department & Variety Stores. Growth fell significantly in Electronic Games & Toys, with sales growth highly volatile and influenced by major product releases. Media sales have been slowing but rebounded somewhat in July.

Online spending remains dominated by 35-44 year olds, but the uptake of online shopping by older Australians has been encouraging.

I hope you enjoy our latest insights into this rapidly evolving sector.

**Alan Oster, Group Chief Economist, NAB**

■ We continue to see online sales growing at a faster pace than traditional retail. All indications are that this will continue, meaning that retailers need to continually work to understand customer buying behaviour.

A key purpose of our Online Retail Sales Index is to give business owners real visibility about the dynamics in different market segments and the spending patterns of specific demographics. Department & Variety Stores continue to dominate – no surprises there. But what's really interesting is to see the growth rates across various age groups. While the 25-54 age group is still the biggest spender online, we're seeing more over 65s venturing into the world of online retailing. This group represents 18% of the Australian population and 8% of total online purchases. Monthly growth by this group has been on the up for 11 months in a row.

In addition to providing insights into the spending levels across the age groups, the online index is useful in showing how the money is spent. For instance, we can see that Department & Variety Stores is spread relatively consistently across each age group, whereas Fashion is more heavily concentrated among the younger age groups. In almost direct contrast, those over 55 appear far more willing to buy Groceries & Liquor online.

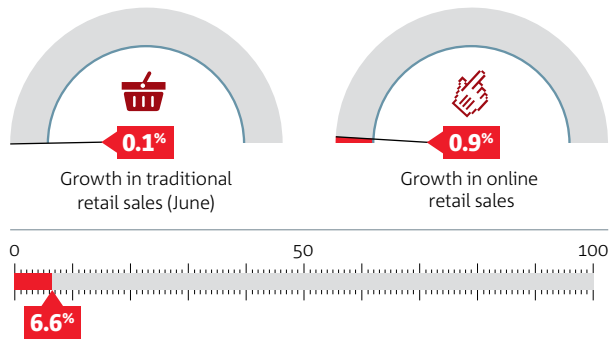
We hope these insights help inform your views on the Australian online retail landscape.

**Tiernan White, Head of NAB Corporate (NSW)**

## At a glance

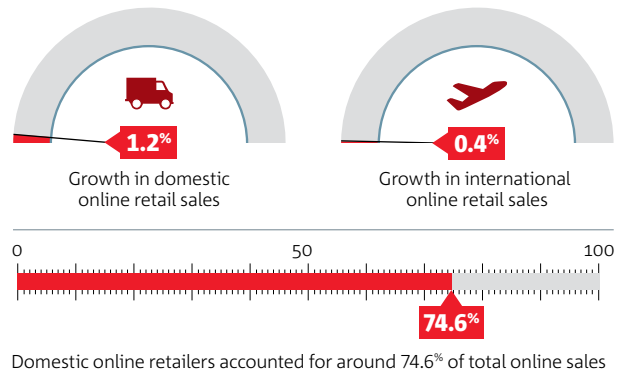
### Traditional vs online

(sa, 3MMA, July mom)



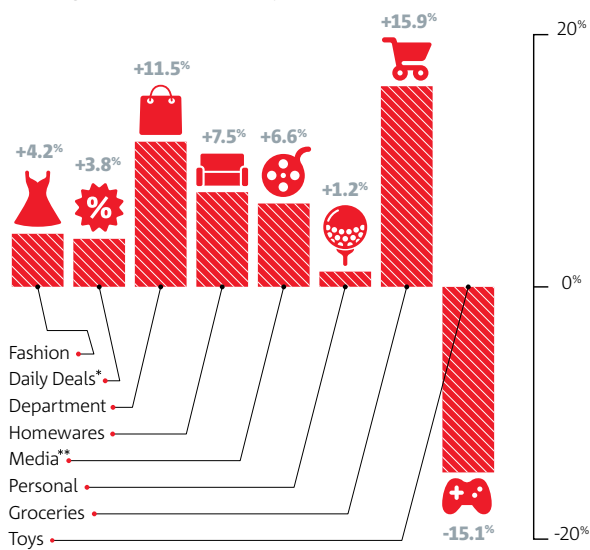
### Domestic vs international

(sa, 3MMA, July mom)



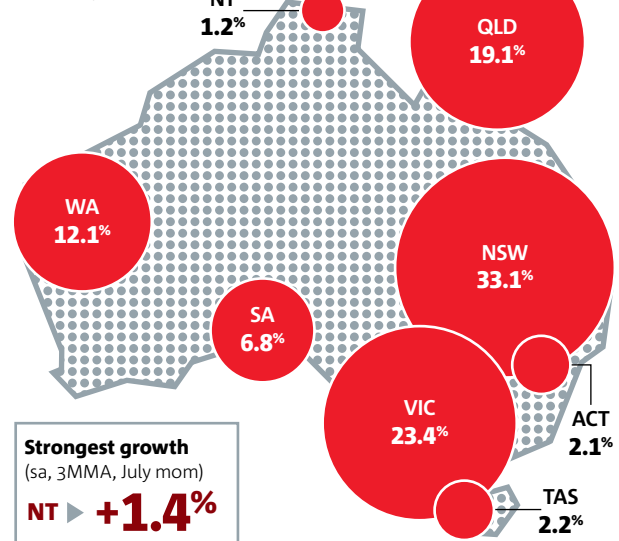
### Growth of spending by category

Annual growth - 12 months to July (%)



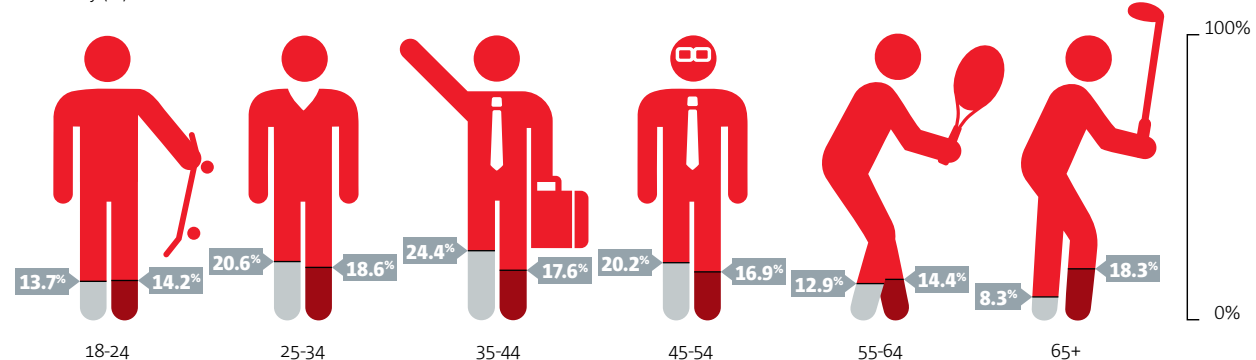
### Share of spending by state

Year to July (%)



### Share of spending by age group

Year to July (%)



3MMA is a three-month moving average. \*Daily Deal sites release for sale a single product or range of products every day. \*\*Media comprises Movies, Books and Music.

## Online retail sales continue to grow faster than traditional retail sales as measured by the ABS

Online sales grew by 0.9% month-on-month in July and 1.0% in June. This compares to virtually no change in ABS traditional retail sales in June (Chart 1).

In the 12 months to July, Australians spent an estimated \$15.59 billion on online retail – a level that is equivalent to around 6.6% of the traditional bricks & mortar retail sector (which totalled \$235 billion in the year to June 2014, according to the ABS).

Despite the out-performance by the online retail sector, its growth rates have been on a gradual decline. Online retail sales in July were 8.6% higher compared to a year ago, down from the double-digit growth rates experienced in previous years (average annual growth of 31.7% in 2011, 22.2% in 2012 and 16.2% in 2013).

## Both domestic and international spending improved

Domestic retailers still command the majority of market share, attracting 74.6% of total online spending in July 2014.

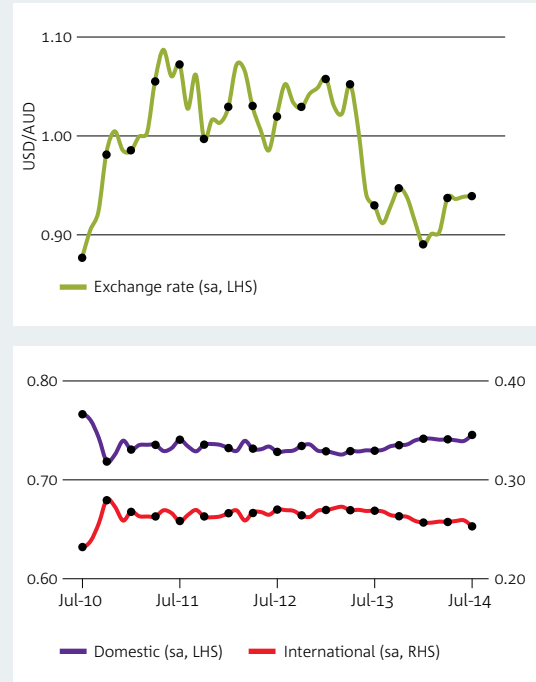
Not surprisingly, there appears to be some correlation between currency movements and the international/domestic split. When the Australian dollar appreciates (making overseas goods relatively cheaper), the share of international spending tends to rise accordingly (Chart 2).

During late 2010, as the Australian dollar appreciated sharply, the share of international purchases spiked as well. International spending stabilised at around 27% in 2011 and 2012, before declining again in early 2013 as the Australian dollar depreciated.

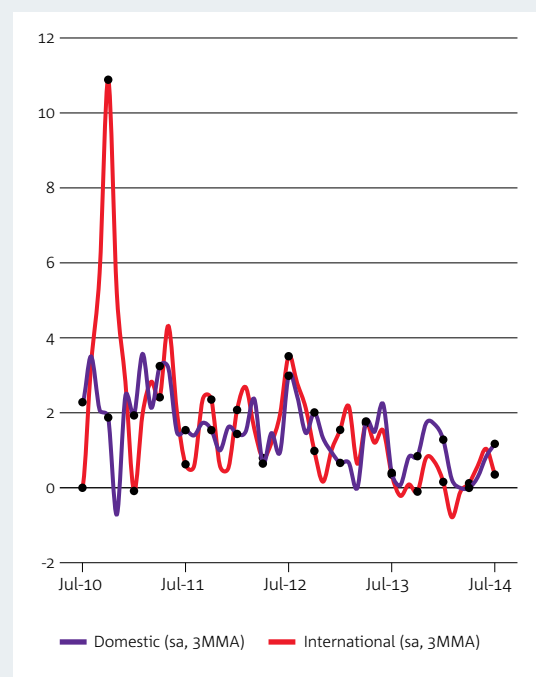
*“With more domestic fashion retailers turning to online and overseas retailers reducing shipping costs, the barriers to online fashion have been lowered allowing for continued growth in this category.”*

Tony Davis, Quantum

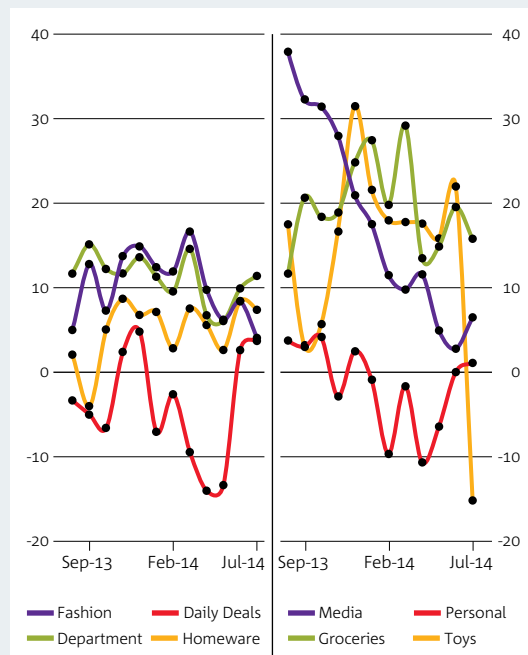
**Chart 2: Share of international and domestic online sales vs. USD/AUD exchange rate (monthly)**



**Chart 3: Growth of online sales by retail location (% , monthly)**

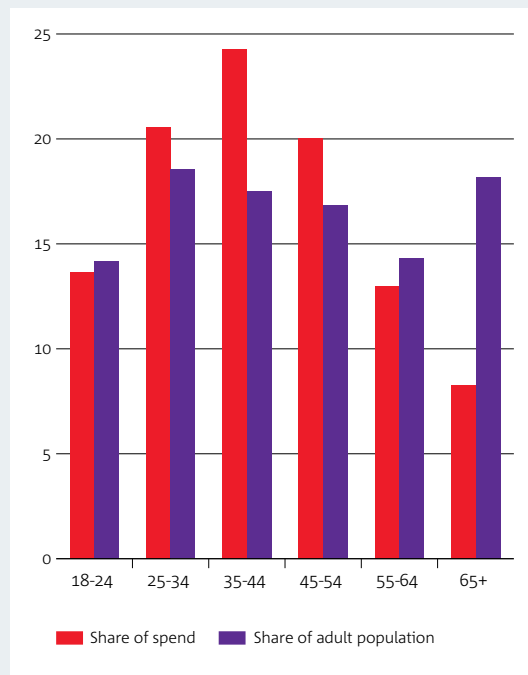


**Chart 4: Annual growth of spending by category (%)**



This chart shows annual growth rates instead of monthly growth as the latter is highly volatile.

**Chart 5: Share of spending by age group (% , year to July)**



Looking at the respective monthly growth rates, growth in domestic online sales has outpaced international sales since Q2 2013. It was around the same time the Australian dollar started depreciating, making domestic goods more price competitive (Chart 3). Since 2014, domestic online sales expanded 0.6% per month on average, while international sales only grew by an average 0.2% per month. In July 2014, domestic sales grew by 1.2% month-on-month, while international sales only grew by 0.4%.

**Department & Variety Stores continue to have the largest online market share. Groceries & Liquor sales have been expanding rapidly. Sales growth in Media has been slowing**

The fastest annual online sales growth happened in Groceries & Liquor, with sales 15.9% higher than last July and 0.8% higher than the previous month (Chart 4). Growth in the Groceries & Liquor category has been consistently higher than sales growth in other categories. The second highest growth was in Department & Variety Stores, whose sales expanded by 11.5% annually and 1.6% monthly.

Online sales in Electronic Games & Toys were down 15% compared to a year ago, and 4.7% lower than in June. Please note this series is highly volatile and the growth pattern is driven by game releases and sales campaigns of large game developers rather than the normal holiday effects seen in other categories.

There has been a noticeable decline in the sales growth in the Media category, however that decline was reversed somewhat in July, with annual sales growth reaching 6.6%, after falling to a historical low of 2.9% in June. Nonetheless, the growth is low compared to the double-digit growth seen before 2014.

Department & Variety Stores continue to dominate the online retail sector, having 34% of total online spending. The second largest category, Homeware & Appliances, managed to attract 16% of total dollar spends, followed by Groceries & Liquor (15%), Media (12%), Fashion (11%), Personal & Recreational Goods (6%), Daily Deals (3%) and Electronic Games & Toys (2%).

**Table 2: Online sales growth and share of spending by category**

| %            | Monthly growth<br>- June | Monthly growth<br>- July | Annual growth<br>- June | Annual growth<br>- July | Share of total<br>spending | Contribution<br>to annual total<br>spending growth |
|--------------|--------------------------|--------------------------|-------------------------|-------------------------|----------------------------|--|
| Fashion      | 0.2                      | -0.8                     | 8.5                     | 4.2                     | 11                         | 11   |
| Daily Deals* | 3.1                      | 3.5                      | 2.7                     | 3.8                     | 3                          | -1   |
| Department   | 0.9                      | 1.6                      | 10.0                    | 11.5                    | 34                         | 36   |
| Homeware     | 0.6                      | 0.7                      | 8.5                     | 7.5                     | 16                         | 9  |
| Media**      | 0.1                      | 0.4                      | 2.9                     | 6.6                     | 12                         | 18   |
| Personal     | 1.6                      | 2.3                      | 0.1                     | 1.2                     | 6                          | -1   |
| Groceries    | 0.7                      | 0.8                      | 19.6                    | 15.9                    | 15                         | 26   |
| Toys         | -0.5                     | -4.7                     | 22.1                    | -15.1                   | 2                          | 3  |
| <b>Total</b> | <b>1.0</b>               | <b>0.9</b>               | <b>9.6</b>              | <b>8.6</b>              | <b>100</b>                 | <b>100</b>   |

\*Daily deal sites release for sale a single product or range of products each day.

\*\*Media comprises movies, books and music.

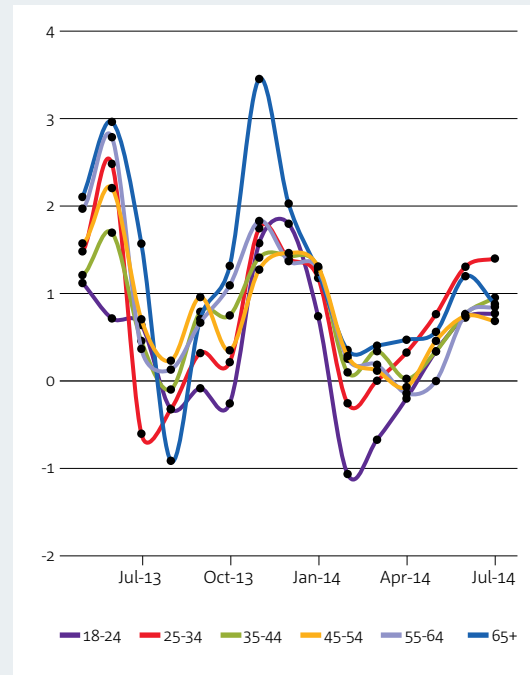
**Table 3: Share of spending by category, by age**

|                 | Fashion    | Daily Deals | Department<br>and Variety<br>Stores | Homewares<br>and<br>Appliances | Media      | Personal and<br>Recreational<br>Goods | Groceries and<br>Liquor | Electronic<br>Games and<br>Toys |
|-----------------|------------|-------------|-------------------------------------|--------------------------------|------------|---------------------------------------|-------------------------|---------------------------------|
| 18-24           | 18%        | 3%          | 35%                                 | 13%                            | 16%        | 5%                                    | 4%                      | 6%                              |
| 25-34           | 13%        | 4%          | 35%                                 | 15%                            | 13%        | 6%                                    | 13%                     | 2%                              |
| 35-44           | 10%        | 4%          | 33%                                 | 16%                            | 12%        | 6%                                    | 17%                     | 2%                              |
| 45-54           | 10%        | 3%          | 36%                                 | 18%                            | 11%        | 6%                                    | 15%                     | 2%                              |
| 55-64           | 9%         | 3%          | 35%                                 | 19%                            | 10%        | 5%                                    | 18%                     | 1%                              |
| 65+             | 7%         | 1%          | 30%                                 | 19%                            | 9%         | 5%                                    | 28%                     | 1%                              |
| <b>All ages</b> | <b>11%</b> | <b>3%</b>   | <b>34%</b>                          | <b>16%</b>                     | <b>12%</b> | <b>6%</b>                             | <b>15%</b>              | <b>2%</b>                       |

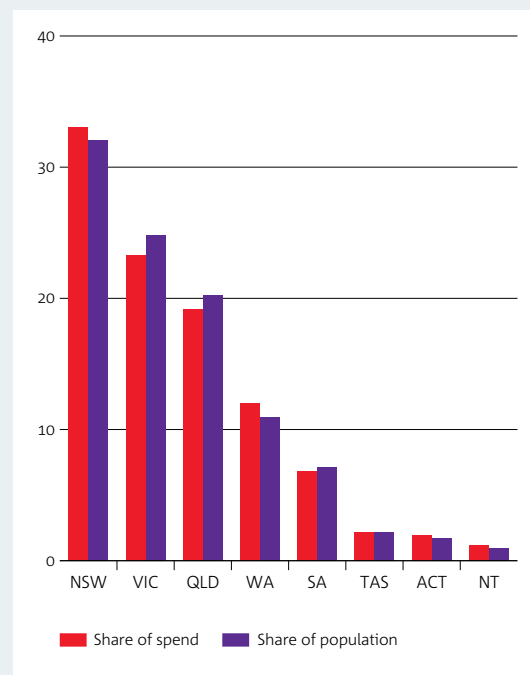
The spending patterns also varied across age groups (Table 3). While all age groups spent most at Department and Variety Stores, significant differences were apparent by age across other categories. The 18-24 group favoured online fashion shopping, while the 25-34s spent more on Homewares & Appliances, in part reflecting their stage of life as more start to live independently. Those aged between 35 and 44 spent more on Groceries & Liquor, as household size typically increases. The middle-aged group (45-54 and 55-64) spent more on Homewares & Appliances, while Australians aged over 65 spent a large proportion of their online dollar (28%) purchasing Groceries & Liquor.

While Electronic Games & Toys had the smallest market share of 2% overall, they were popular among young people, attracting 6% of total online spending by those aged between 18 and 24.

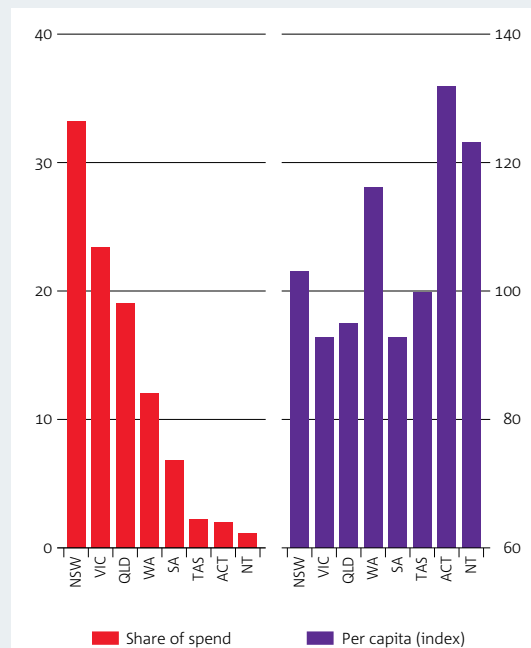
**Chart 6: Growth of spending by age group**  
(%, monthly)



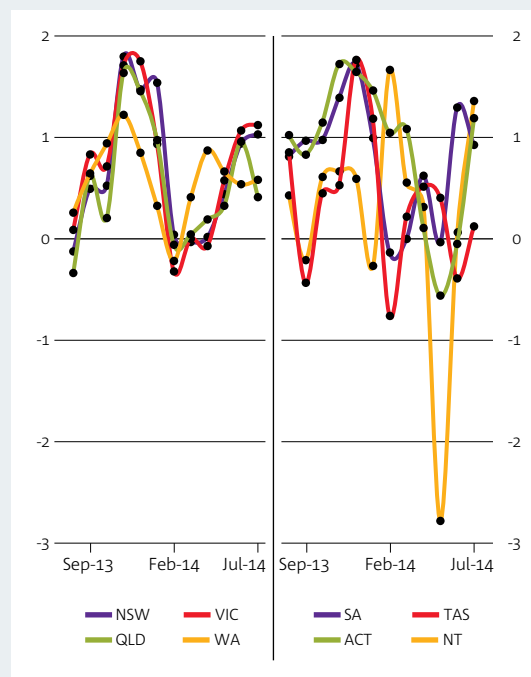
**Chart 7: Share of spending by state**  
(%, year to July)



**Chart 8: Share of spending and per capita spending by state (% , year to July)**



**Chart 9: Growth of spending by state (% , monthly)**



### Online spending remains dominated by those aged between 35 and 44, but the over 65s are catching up

The share of online spending is similar to the share of adult population, except that Australians aged 65 and over are not spending as much online. Those aged 65 and above comprised 18% of total Australian adult population, yet only made 8% of total online purchases in dollar terms. However, the uptake of online shopping by older Australians has been encouraging. The monthly growth in online spending by those 65+ has been positive for 11 consecutive months, often higher than growth rates of the other age groups too.

Since May 2014, growth in online spending by those aged 65+ was surpassed by those aged between 25 and 34. While online spending by those 65+ grew by a slower monthly rate of 0.9% in July, spending by those 25-34 expanded by 1.4%, making it the fastest growing age group in terms of online spending in the second quarter of 2014.

### Residents of NSW, VIC and QLD spend more online but ACT residents have the highest per capita spending, followed by NT, WA and NSW

Around 76% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for 77% of the Australian total (Chart 7). However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average (Chart 8). In ACT, where only 1.6% of Australians live, 2.1% of total online purchases in dollar value terms were made. Similarly in WA, 10.9% of Australians made 12.1% of total online purchases.

On the other hand, those in QLD, VIC and SA were spending less than the national average. Victoria is home to 24.8% of the Australian population yet only accounted for 23.4% of total online spending.

## Spending growth was positive in all states in July. VIC, NT and ACT recorded the strongest growth while growth was slow in TAS, QLD and WA

Online spending growth was strongest in NT (1.4%), ACT (1.2%) and VIC (1.1%) (Chart 9). Both the territories recovered from negative sales growth in previous months. Sales in the other states also expanded, by 1.0% in NSW, 0.9% in SA, 0.6% in WA, 0.4% in QLD and 0.1% in TAS.

## Metropolitan residents bought 71% of online purchases in the past year and spent more on average

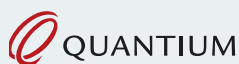
For the year ended July 2014, metropolitan residents spent on average 6.5% more than those residing in regional Australia (Chart 10). Those living in Western Australia spent the most on online purchases, spending 16% more than the average Australian. Those living in regional Western Australia had the highest average online spending, 26% higher than the national average.

Online spending in both metro and regional areas have been growing (Chart 11). Spending by metro residents in July was 0.9% higher compared to a month ago, with spending by regional residents also 0.7% higher.

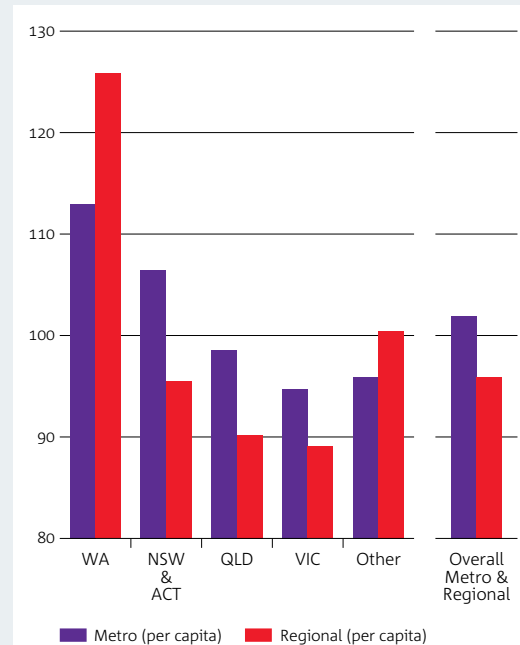
In annual terms, metropolitan and regional online spending was 8.5% and 8.7% higher respectively, compared to last July. ■

### About Quantum

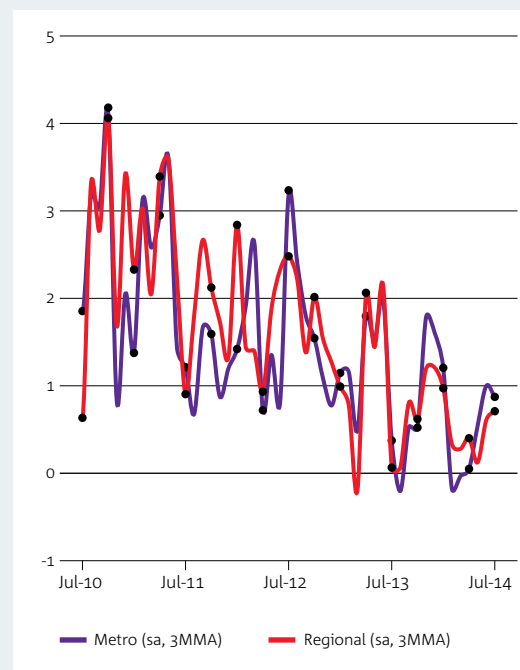
Quantum is Australia's leading data analytics and marketing strategy firm. Quantum has worked with NAB for more than 4 years, assessing de-identified transaction data to derive insights, trends and shopping habits of different customer groups. The resulting analysis forms Market Blueprint and is used by NAB and other businesses to drive innovation and business performance through customer, distribution and marketing strategies. [www.quantum.com.au](http://www.quantum.com.au)



**Chart 10: Per capita spending index by state**  
(Australia = 100)



**Chart 11: Growth of spending by region**  
(%, monthly)







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