



NAB Online Retail Sales Index

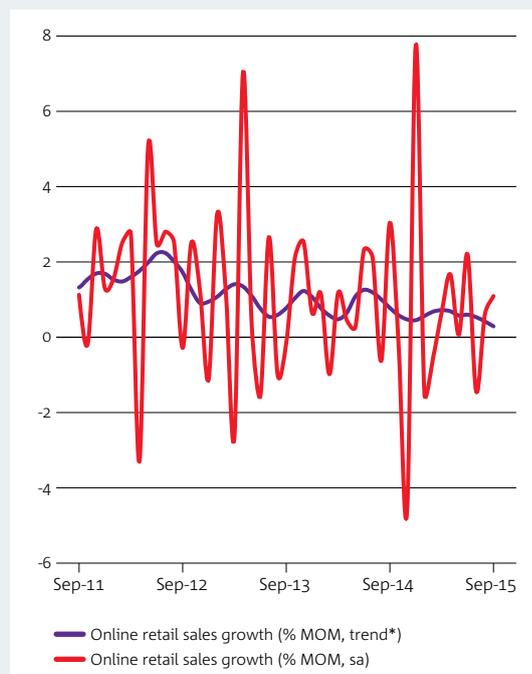
In-depth report – September 2015

Table 1. Key retail statistics

	YOY growth (% nsa)				MOM growth (%)		
	Jul 15	Aug 15	Sep 15		Jul 15	Aug 15	Sep 15
NAB online retail	6.3	7.0	5.7	NAB online (sa)	-1.4	0.6	1.1
ABS traditional retail	4.7	4.1	4.1	NAB online (trend*)	0.5	0.4	0.3

*Data is seasonally adjusted (sa) where specified, with a leap year adjustment made for February 2012. Trend data is generated using the Henderson 13 term moving averages where specified. Non-seasonally adjusted (nsa) online sales data is produced by Quantium. Traditional retail sales data is sourced from the Australian Bureau of Statistics (ABS) and excludes cafés, restaurants and takeaway food.

Chart 1: Growth in online retail (% MOM)



Note: sa: seasonally adjusted. Trend – Henderson 13 term with asymmetric endpoints.

■ The latest NAB Online Retail Sales Index shows sales experienced relatively strong month-on-month (MOM) growth of 1.1% in September, seasonally adjusted (sa). This is a considerable improvement on the sales weakness evidence in July (-1.4%). The September growth has been generated by domestic online retail sales, which accelerated (+1.8%), while international contracted (-1.1%). In year-on-year (YOY) terms, domestic online retail (7.3%) continues to outpace international (1.3%).

Comparable YOY growth in traditional bricks and mortar retail (up 4.1% in September) was still outpaced by the improvement in online retail (5.7%). That said, recent online growth has been more subdued than the 20-30% YOY growth rates recorded in earlier years. In September the seasonally adjusted MOM change was 1.1%. The trend estimate of 0.3% suggests online retail sales continue to slow (Table 1).

By category, the results are mixed. Growth rose significantly in electronic games and toys, although this segment accounts for a small share of overall online spend. Daily deals, a sector that has been contracting in YOY (-6.9%) terms, saw the second highest MOM growth in September (4.8%).

Overall there are not currently large differences in the growth rate of online spend by age group.

Online spend across all age categories increased. While those aged 35-44 had marginally weaker online growth in September, this age group still contributed most to annual growth as they represent the largest share of spend.

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

Alan Oster, Group Chief Economist, National Australia Bank

■ The great value of the NAB Online Retail Sales Index lies in its ability to show retailers how spending patterns respond to various dynamics. In the September quarter, a good example of this was the clear impact of a depreciating Australian dollar (AUD). The clear move up in growth for domestic retailers was matched by a corresponding move down for international, reflecting the cost impact of our changing currency. With the AUD in a pattern of seemingly endless volatility, it's important for retailers to understand how this changes the landscape for them, and to adjust their expectations and strategies accordingly.

We hope that you find this publication helps you understand the nuances of the market even better.

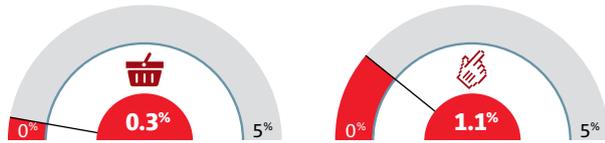
David Thorn, Global Head of Consumer Sectors & Head of Institutional Banking Asia, National Australia Bank

At a glance

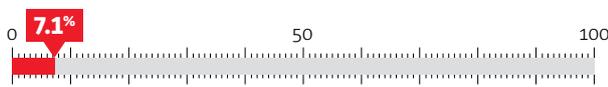
Traditional vs online (sa, September MOM)

Growth in traditional retail sales

Growth in online retail sales



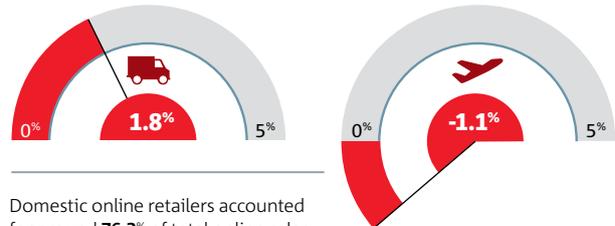
Online purchases hit **\$17.6bn** or **7.1%** of the size of traditional retailing



Domestic vs international (sa, September MOM)

Growth in domestic online retail sales

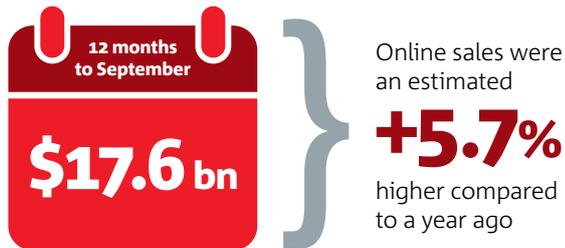
Growth in international online retail sales



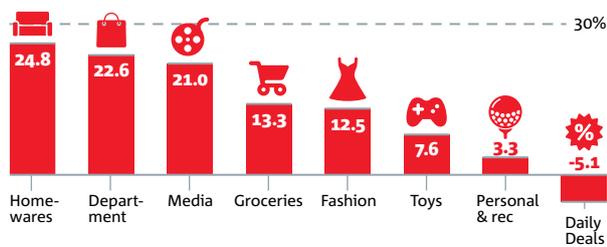
Domestic online retailers accounted for around **76.3%** of total online sales



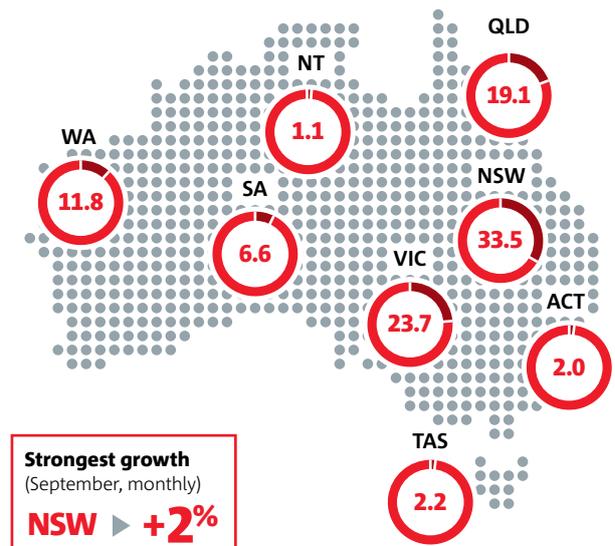
Online sales growth (September YOY)



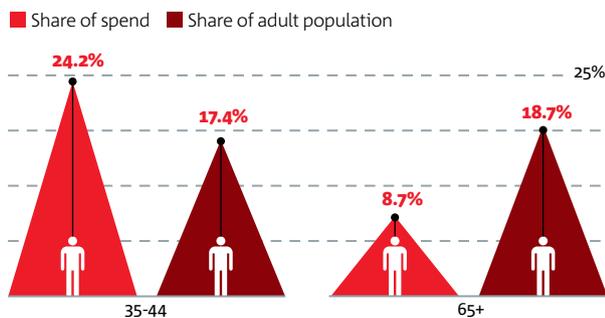
Contribution to annual total spending growth %



Share of spending by state (year to September %)



Share of spending vs share of population between age groups 35-44 and 65+ (September, annual)



Metropolitan vs regional spending (September YOY)



Data is seasonally adjusted (sa) where specified, with a leap year adjustment made for February 2012. Trend data is generated using the Henderson 13 term moving averages where specified. Non-seasonally adjusted (nsa) online sales data is produced by Quantum. Traditional retail sales data is sourced from the Australian Bureau of Statistics (ABS) and excludes cafés, restaurants and takeaway food. *Daily deal sites release for sale a single product or range of products every day.

At +1.1%, online retail sales accelerated in September from +0.6% in August. However, at 0.3%, the trend estimate for online retail sales continues to slow (Chart 1).

Comparable figures from the Australian Bureau of Statistics (ABS) show traditional retail sales (ex. cafes and restaurants) in September at 0.3% were much weaker than online.

In the 12 months to September, Australians spent an estimated \$17.6 billion on online retail – a level that is equivalent to around 7.1% of the traditional bricks and mortar retail sector (which totalled \$248.4 billion in the year to September 2015 according to the ABS).

When referring to change in YOY terms, at 5.7% in September, growth appears to have moderated, given that the same growth metric a year prior (September 2014) was 15.3% and much slower than the early period when the index was established. In September 2011 for example, YOY growth was almost 29%. This change is highlighted by the Henderson 13 term trend line (Chart 1), which shows monthly growth in online has been on a broadly slowing trajectory.

Domestic stronger, international weaker in the month. The share of domestic spending increases to 76% in September.

For domestic online retailers, growth accelerated in September, at 1.8%, from a flat (0.0%) August. In contrast, international sales, which had been strong in August (1.7%), contracted in September (-1.1) (Chart 3).

Looking at the YOY growth rates, domestic online sales continue to outpace international sales at 7.3 vs 1.3% respectively.

“As the Australian dollar falls, domestic online fashion aggregators are outperforming their international competitors.”

Tony Davis, Quantum

Chart 2: Share of international and domestic online sales vs USD/AUD exchange rate

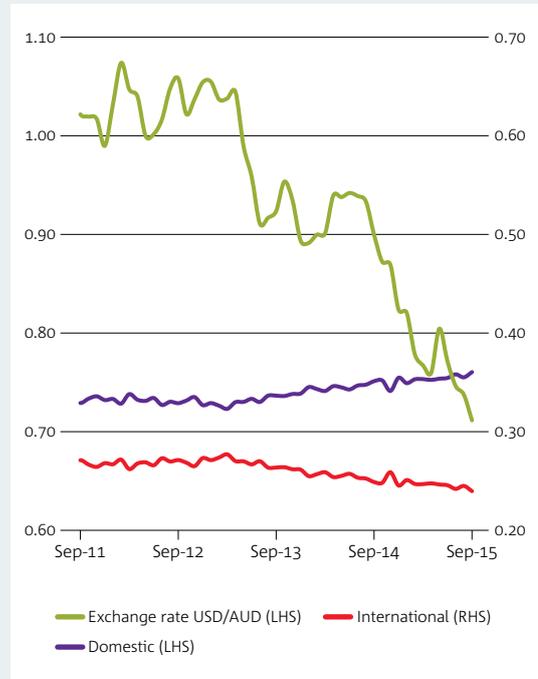


Chart 3: Growth of online sales, by retail location (monthly, %)

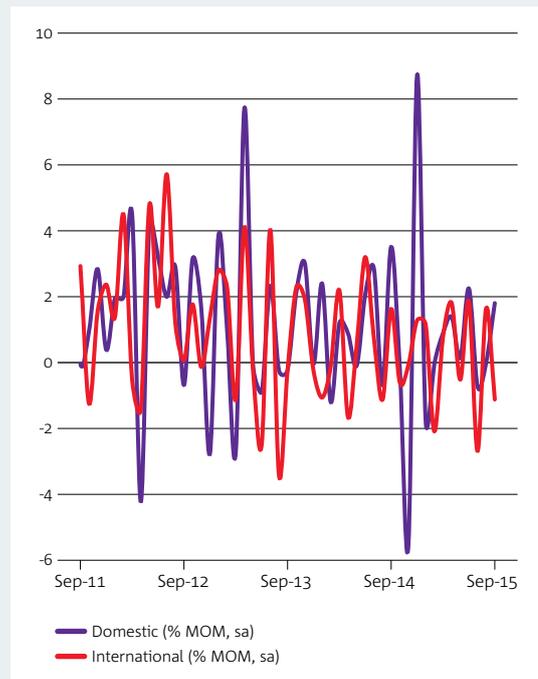


Chart 4a: Annual growth of spending by category (%)

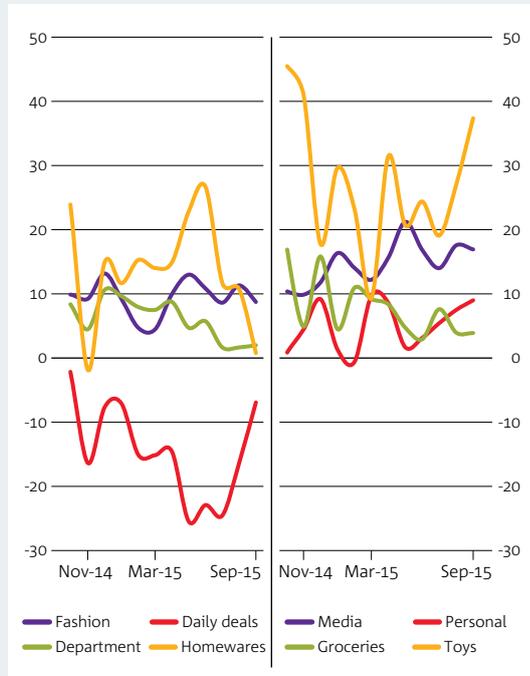
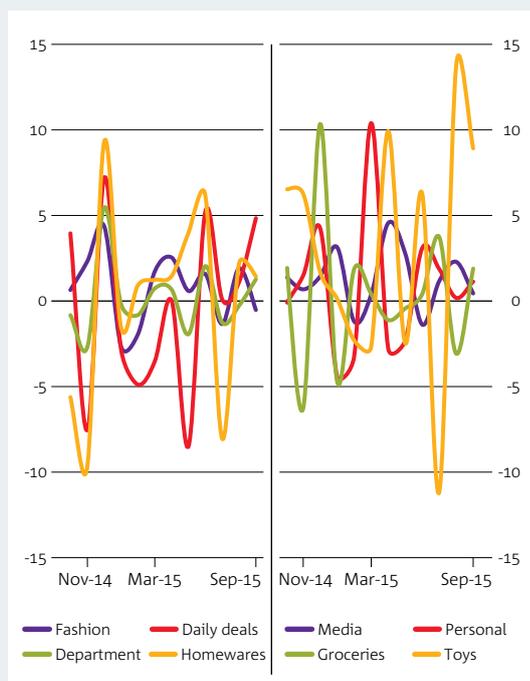


Chart 4b: Monthly growth of spending, by category (%)



As shown in Chart 2, the increase in share of domestic online retailing has coincided with a depreciation of the Australian dollar. When the Australian dollar depreciates (making overseas goods relatively expensive), the share of international spending tends to fall accordingly. This may also be attributed to on-costs such as postage whose cost rises in AUD terms for international retailers, whereas the domestic retailer value may be unchanged, as postage is already in AUD.

Department and variety stores continue to have the largest online market share. Electronic games and toys have been expanding rapidly, albeit off a small base. Sales from daily deals have virtually collapsed.

At 37.5% (YOY), electronic games and toys had the fastest annual online sales growth in September, and 8.9% higher than the previous month. It's worth noting that this category is considerably more volatile, attributed to effects such as the timing of electronic game release, and that this segment is still a relatively small share of spend. Daily deals, a sector that has been contracting in YOY (-6.9%) terms, saw the second highest MOM growth in September (4.8%). Grocery and liquor sales, which represent over 15% of spending, saw the third highest growth in the month (1.9%). Other key growth categories in the month included homewares and housewares, and department stores. Online sales of fashion retailers contracted in the month.

Sectors punching above their weight include toys, with only 2.9% of spend but contributing 7.6% to annual spending growth, along with the homewares and media sectors. At the other end of the spectrum are personal and recreational goods and daily deals, whose contribution has either been marginal or has detracted from growth (Charts 4a & 4b).

“International entrants with new subscription-based business models are driving growth in games and media.”

Tony Davis, Quantum

Spending patterns vary across age groups.

While all age groups spent most at department and variety stores, significant differences were apparent by age across other categories. The younger age groups favoured online fashion shopping, electronic games and toys, and media, while Australians aged 65 and above spent a large proportion of their online dollar (27.4%) purchasing groceries and liquor (Table 3).

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

%	Monthly growth - August	Monthly growth - September	Annual growth - August	Annual growth - September	Share of total spending	Contribution to annual total spending growth
Fashion	1.9	-0.5	11.4	8.8	11.5	12.5
Daily deals	1.1	4.8	-16.3	-6.9	2.4	-5.1
Department	-0.3	1.3	1.7	2.1	32.2	22.6
Homeware	2.2	1.4	10.9	0.8	17.2	24.8
Media	2.3	0.4	17.7	17.0	13.2	21.0
Personal	0.2	1.1	7.6	9.1	5.6	3.3
Groceries	-3.1	1.9	4.0	4.0	15.0	13.3
Toys	13.8	8.9	27.1	37.5	2.9	7.6
Total	0.6	1.1	7.0	5.7	100	100

Note: 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 & variety stores	Homewares & appliances	Media	Personal & recreational goods	Groceries & liquor	Electronic games & toys
18-24	16.6	2.2	32.3	14.1	17.0	4.7	4.2	9.0
25-34	13.2	3.0	32.8	15.6	14.1	5.8	12.5	3.0
35-44	10.6	2.7	31.9	16.7	13.2	6.0	17.0	2.0
45-54	10.4	2.3	33.5	18.8	12.2	5.8	15.0	1.9
55-64	9.5	2.0	32.9	19.8	11.4	5.4	18.0	1.0
65+	8.0	1.3	27.9	19.4	10.5	4.8	27.4	0.7
All ages	11.5	2.4	32.2	17.2	13.2	5.6	15.0	2.9

Chart 5: Share of spending by age group (% annual)

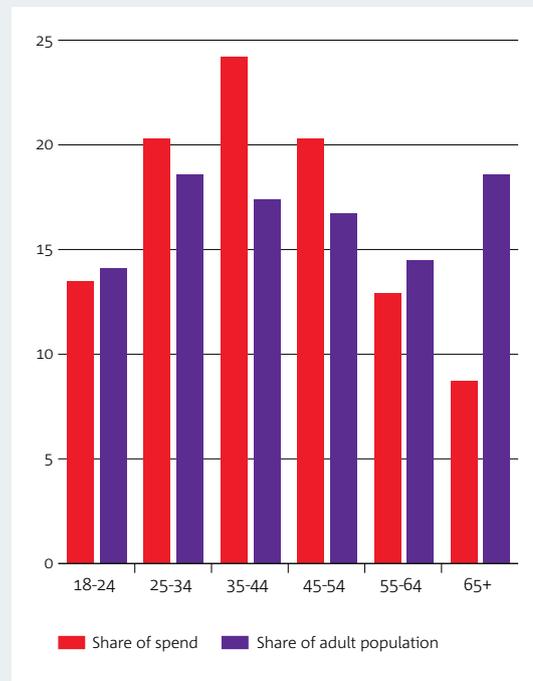


Chart 6: Growth of spending by age group (% monthly)

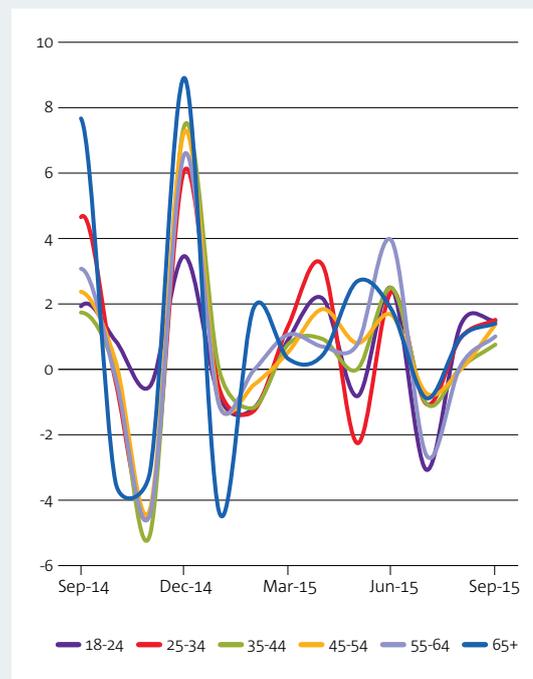


Chart 7: Share of spending by state
(%, annual)

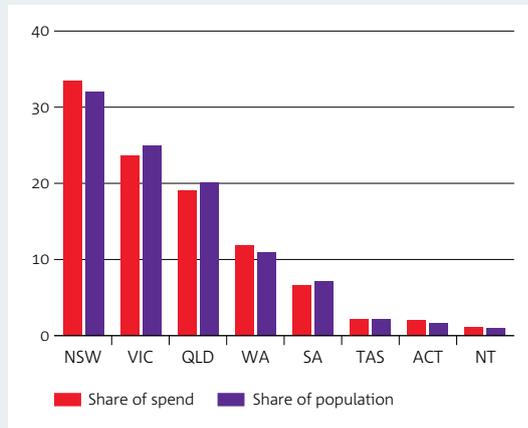


Chart 8: Share of spending and per capita spending, by state (% annual)

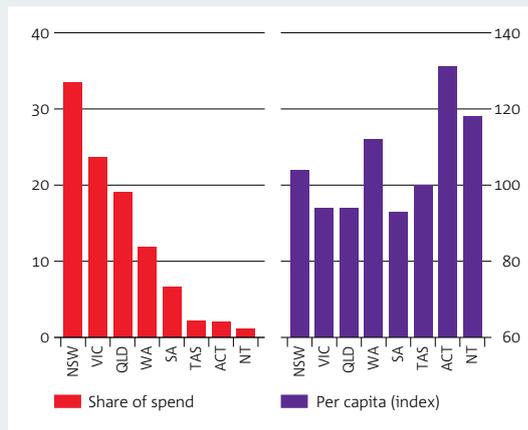
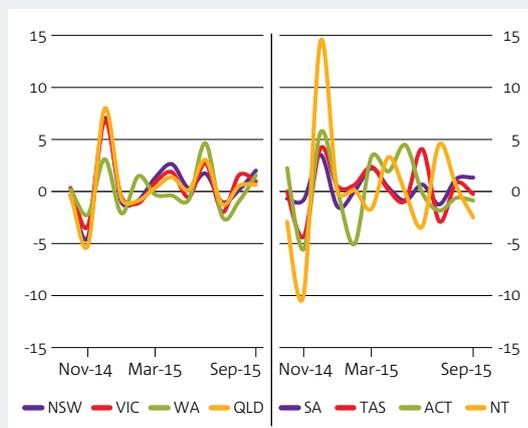


Chart 9: Growth of spending, by state
(%, monthly)



Online spending remains dominated by those aged between 35 and 44.

Although those aged 35-44 make up approximately 17.4% of the adult population, their share of online spend is the highest at 24.2%. In contrast, those aged 65 and over have a disproportionately lower share of spend (8.7%) relative to their share of population (18.6%) (Chart 5).

Overall there are not currently large differences in the growth rate of online spend by age group. Online spend across all age categories increased, with growth a touch higher for those aged 25-34 (1.5%, MOM, sa) and 18-24 (1.5%, MOM, sa). This was closely followed by the over 65s, and 45-54 age groups (1.4%, MOM, sa), and 55-64s (1%, MOM, sa). At 0.7% (MOM, sa) those aged 35-44 had marginally weaker online growth in September, but still contributed most to annual growth as they represent the largest share of spend (Chart 6).

Residents of the bigger states 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 and WA spent more than the national average. In the ACT, where only 1.6% of Australians live, 2.0% of total online purchases in dollar value terms were made. Similarly in WA, 10.9% of Australians made 11.8% of total online purchases (Chart 8).

On the other hand, those in TAS, QLD, VIC and SA were spending less than the national average. Victoria is home to 24.9% of the Australian population yet represents only 23.7% of total online spending.

Growth in online spending by state diverged in September. Online sales grew fastest in NSW, with weakness in NT, ACT and TAS.

At 2% NSW recorded the strongest growth in September, with WA recording the second highest (1.5%) after a couple of months of contraction. SA (1.3%) was next, followed by VIC (0.9%), and QLD (0.6%). NT was weakest in the month (-2.5%), along with ACT (-0.9%), and TAS (-0.3%) (Chart 9).

Metropolitan residents bought over 71% of online purchases in the past year and also spent more on average in most states. Growth in online sales for metropolitan has rebounded.

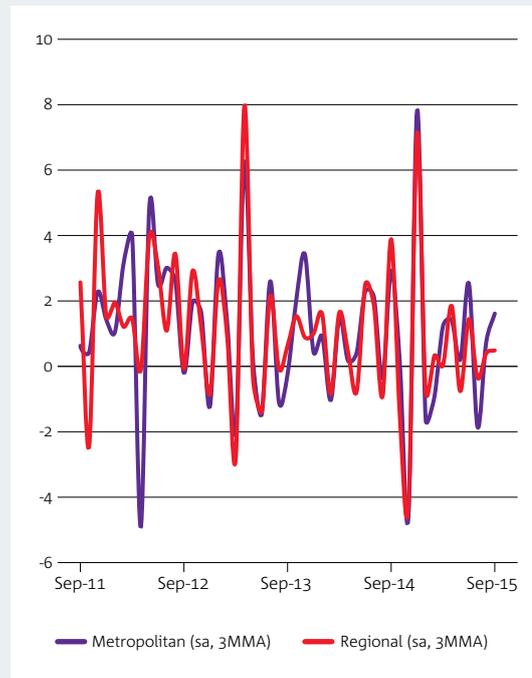
Metropolitan residents spent on average around 8.0% more than those residing in regional Australia. However, those living in regional WA spent 18% more than the average Australian, along with WA metropolitan residents at about 10% more. Regional VIC and regional QLD residents were the lowest at around 11% below the national average (Chart 10).

After a slump in July that impacted metropolitan more than regional areas, online spend in metropolitan areas has rebounded in the past couple of months with September metropolitan growth (1.6%) outpacing regional (0.5%) areas in MOM terms (Chart 11). In YOY terms, the two segments are now showing diverging growth paths, with Metropolitan regions (6.6%), outpacing Regional areas (3.6%). ■

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



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





To discuss this report in more detail please speak with your NAB Relationship Manager, visit nab.com.au/onlineretailsales or contact:

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