



NAB Online Retail Sales Index

In-depth report – March 2016



Introduction

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In total, we estimate the Australian online retail market was worth \$19.3bn in the 12 months to March 2016.

What is really noticeable this quarter is the shift back of growth to the large eastern states, and the significant slowing in online sales growth in WA (yoy).

In growth terms, sales experienced relatively strong month-on-month (mom) growth of 1.8% in March, seasonally adjusted (sa). This is a considerable improvement on the sales weakness in January (-0.1%). The March result was driven by domestic online sales growth (+1.9%), although international also grew strongly (1.2%). In year-on-year (YOY) terms, domestic online retailers (15.8%) continue to outpace international (0.1%). Comparable YOY growth in traditional bricks & mortar retail (up 6.8% in March) was still outpaced by the improvement in online retail (12.4%).

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

Richard Coath

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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 this edition, we focus on the distribution between domestic and international sales, with detailed breakdowns by category and age group. The move to domestic retail has continued as expected, with some surprising trends that retailers need to understand when adjusting their strategies for the coming months. We also continue our examination of small retailers, as they represent over a third of online spend over the past 12 months. Their rate of market growth has slowed over March but the category still clocked up 10.6% growth yoy.

We hope that the NAB Online Retail Sales Index helps you understand the nuances of the market even better.

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At a glance

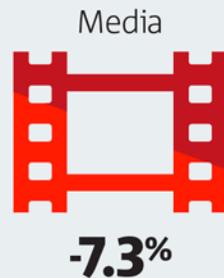


74% of online purchases in the past year were from Metropolitan residents

Western Australians are spending more per capita in regional areas than the Australian average.



Small Online Retailers growth (Year to March)



Top spenders

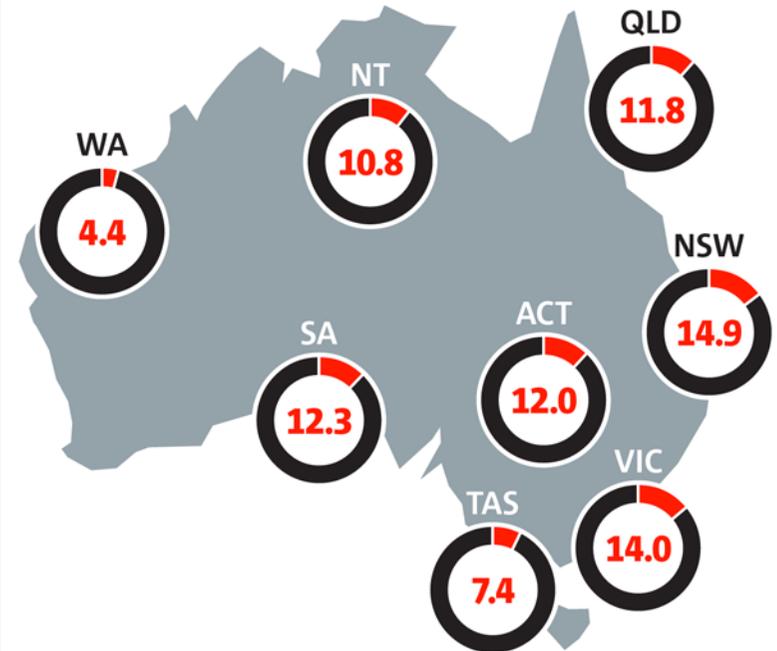
Share of spend (annual)

34.8%



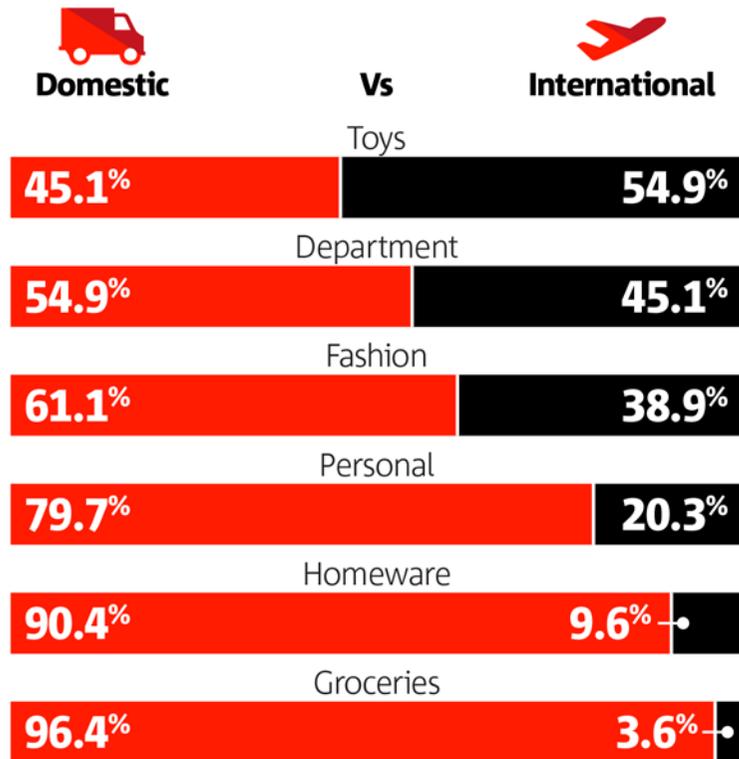
Residents from ACT were spending more per capita than the Australian average.

Growth of spending by state (year on year %)

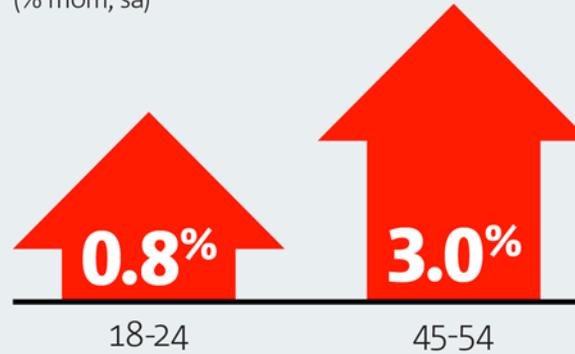


At a glance

Share of category spend (year to March)



Spending growth by age group (% mom, sa)

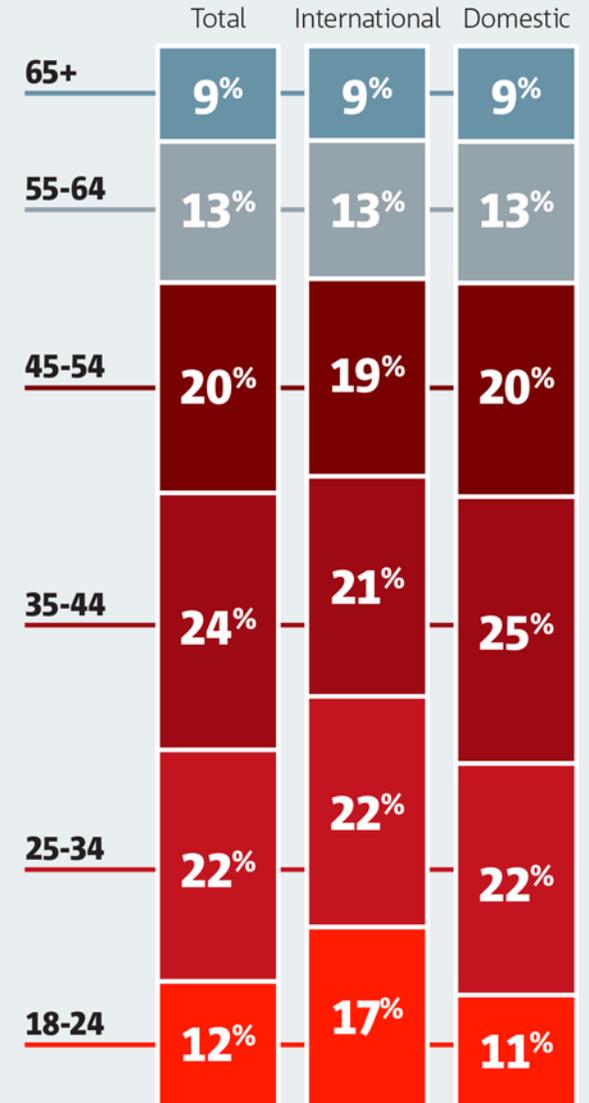


35-44 year olds have the largest share of online spending at

24.2% (Annual)

9% 65+ hold the smallest share of online spending

Online spending by age group (% annual)



10.7% 18-24 year olds' total spend on take away food



The Online Retail Market



Overall index

Online retail sales recorded reasonably strong growth of 1.8% in March, notably higher than the revised 1.0% recorded in February.

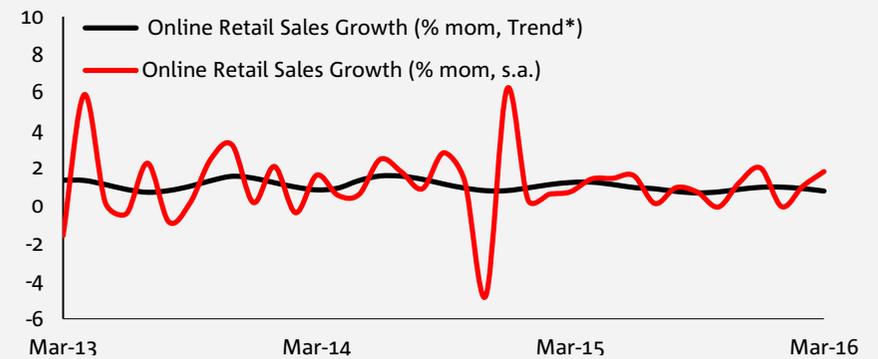
In trend terms, the revised estimate for online retail sales growth was 0.8% - almost unchanged on February (0.9%). We estimate that online sales are now 12.4% higher compared to a year ago. ABS data showed growth of comparable traditional retailers in February to be flat on January sales, and 6.8% higher than a year ago.

In the 12 months to March, Australians spent an estimated \$19.3 billion on online retail – a level that is equivalent to around 6.6% of the traditional bricks & mortar retail sector (which totalled \$294.4 billion in the year to February 2016 according to the ABS).

In year on year terms (March 2016 v March 2015), online sales grew by 12.4%, broadly in line with year on year growth one year earlier (13.2%). This is however much slower than the growth recorded when the index was established. In March 2011 for example, year on year growth was 44.5%. Growth has clearly flattened as shown in the trend line (see chart 1).

Chart 1 Growth in Online Retail

(% mom)



s.a.: seasonally adjusted. *Trend: Henderson 13 term with asymmetric end points.

Key Retail Statistics

	Jan-16	Feb-16	Mar-16
Monthly growth (%)			
Corporate	-0.1	1.0	1.8
SMEs	-1.0	2.2	0.2
Annual growth (%)			
Corporate	11.2	11.4	12.4
SMEs	7.5	10.8	10.6

Note: Expanding coverage to include food and smaller online retailers has caused seasonal adjustment difficulties. In addition the series has a shorter history. Accordingly as an interim measure we are using the seasonally adjusted NORSI Corporate series as a proxy for the total online index

Online Categories



Category performance

Media has contributed significantly to annual growth, though homewares and appliances remains the largest area of spend.

At 45.2% (yoy), Takeaway Food had the fastest annual online sales growth in March. Monthly sales was also solid (4.6%) and second strongest overall. This category represents a rapidly evolving way of ordering food, supported by recent advancements in methods such as mobile phone applications. That said, the Takeaway Food category still represents a relatively small share of total spend (5.5%).

Of the larger spend share categories, in month on month terms, Homeware and appliances (5.8% mom s.a.) saw the strongest growth, followed by takeaway food (4.6%) and Media (4.0%).

Categories “punching above their weight” include Media, with only 16.4% of spend but contributing 25.8% to annual spending growth, along with Takeaway Food, and Electronic games and Toys. At the other end of the spectrum are Department Stores and Daily Deals whose contribution has either been marginal or has detracted from growth.

See the notes page for more on the reclassification of categories

Chart 2 Annual growth of spending, by category

(% yoy)

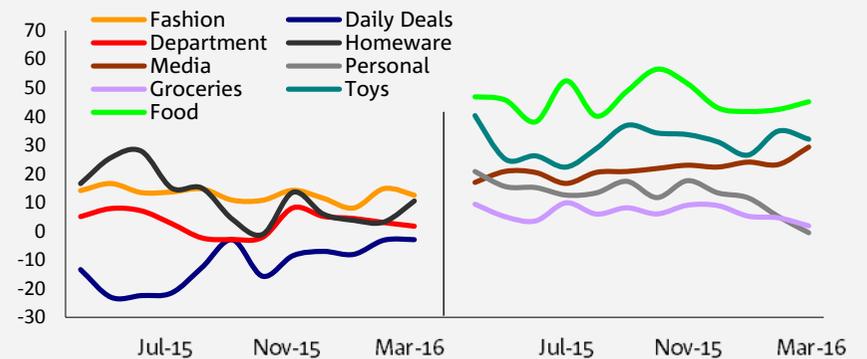


Chart 3 Monthly growth of spending, by category

(% mom, s.a.)



Category growth and share of spending

In year on year terms, both Takeaway Food and Electronic Games and Toys have been expanding rapidly, albeit off a small base.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Feb-16	Mar-16	Feb-16	Mar-16		
Fashion	2.1	1.2	14.9	12.6	15.4	15.5
Daily Deals	0.3	-2.3	-3.1	-2.9	2.8	-3.4
Department	-1.7	0.5	3.1	1.8	9.0	2.5
Homeware	1.5	5.8	3.3	10.6	20.6	18.1
Media	-0.4	4.0	23.3	29.4	16.4	25.8
Personal	-3.1	0.9	5.2	-0.5	8.4	8.3
Groceries	1.0	-1.4	4.7	1.9	18.0	9.7
Toys	3.5	-1.4	35.0	32.1	4.0	8.4
Food	1.9	4.6	42.5	45.2	5.5	15.2
Total	1.0	1.8	11.4	12.4	100	100

Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

“The homeware category continues to be the largest contributor to online spend, with the core driver of growth in this category being increased online presence of traditional bricks and mortar furniture retailers in Australia.”
 Tony Davis, Quantum

International vs Domestic



International vs domestic performance

Domestic stronger, international weaker, in the month. The share of domestic spending around 81% in March.

For domestic online retailers, growth accelerated in March, at 1.9%, from February (1.1%). International sales also picked up (1.2%).

Looking at the year-on-year growth rates, domestic online sales continue to outpace international sales at 15.8% vs 0.1% respectively.

As shown in chart 4, the increase in the 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.

Chart 4 Share of international and domestic online sales vs USD/AUD exchange rate

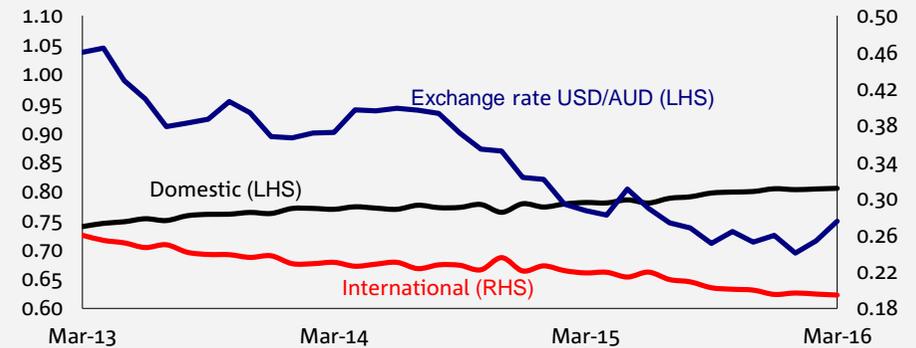
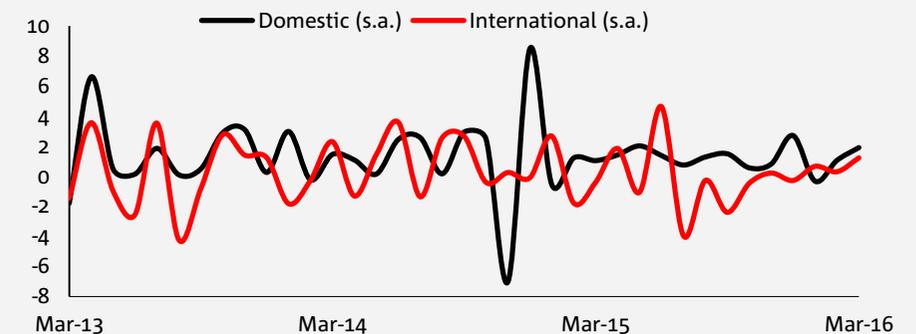


Chart 5 Growth of online sales, by retail location

(% mom)



International vs domestic - by category

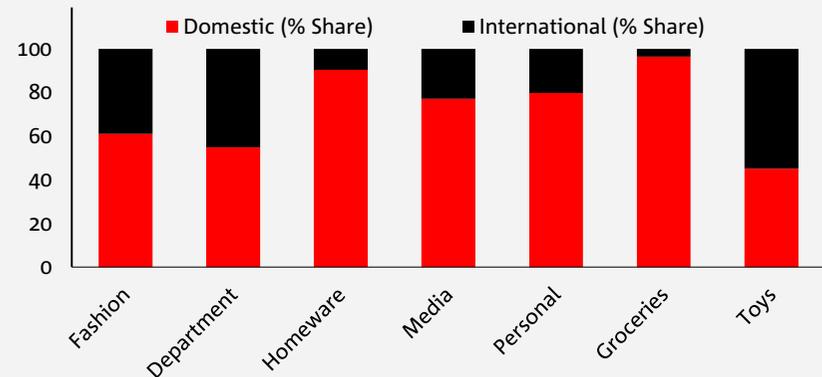
Given the overwhelming spend towards and interest in retailers classified as domestic, we now include a series to look at the category of goods bought from domestic and international retailers.

With the exception of Electronic Game and Toy retailing, domestic retailers capture the majority of spending in our index.

Growth for domestic online retailers has been particularly buoyant in Homewares and Appliances, Electronic Games and Toys, and Fashion - with the latter category possibly looking to capture more of the share currently occupied by international counterparts.

Chart 6 Share of annual spend by category

(%)



International vs domestic - by category

In terms of spend, category share can be quite revealing. For example, while around 61% of Fashion is purchased from domestic online retailers, it only accounts for about 12% of domestic online spend, but at 29%, is the largest spend category for international retailers.

	Annual growth Domestic	Annual growth International	Share of Category Spend Domestic	Share of Category Spend International	Share of Domestic Spend	Share of International Spend
Fashion	24.1	-3.3	61.1	38.9	11.8	29.2
Department	0.7	3.1	54.9	45.1	6.2	19.8
Homeware	10.9	8.2	90.4	9.6	23.5	9.7
Personal	4.3	-16.0	79.7	20.3	8.4	8.3
Groceries	2.8	-18.1	96.4	3.6	21.8	3.2
Toys	89.7	-1.1	45.1	54.9	2.3	10.7
All categories	15.8	0.1	80.5	19.5		

Daily Deals, Food and the Media categories have not been published due to sensitive data being contained in these series.

Age Groups



Performance of age groups

Online spending remains dominated by those aged between 35 and 44. Growth in the month strongest for the 18-24s, and slowest for the 45-54s.

Although those aged 35-44 make up approximately 17.2% 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 (9.0%) relative to their share of population (19%)

In the month, growth accelerated for all age categories, with growth fastest for the under 25s. Growth accelerated strongly in March for the largest spend group, the 35-44 year olds, from a much slower February. While growth was slowest for those aged 45-54, this was still up on the previous month.

Chart 7 Share of spending, by age group

(% annual)

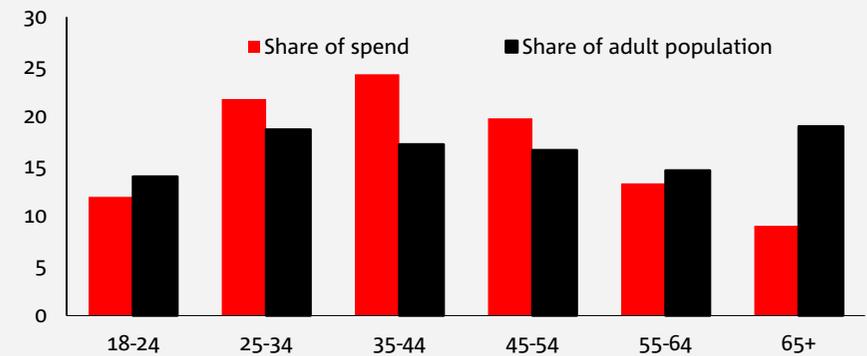
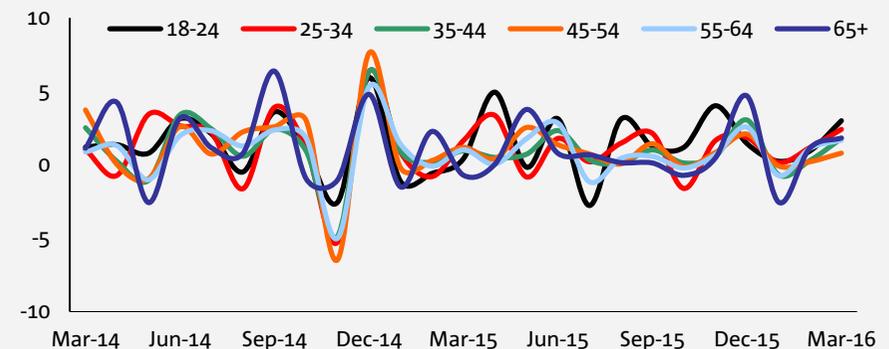


Chart 8 Growth of spending, by age group

(% mom, sa)



Age groups by category

Spending patterns vary across age groups. Almost all age groups spent most at Homeware and Appliance Stores, with the exception of those aged 18-24. Along with Fashion, younger age groups favoured Electronic Games and Toys, Media, and Takeaway Food. In contrast Australians aged 65+ and above spent a large proportion of their online dollar (31.4%) purchasing Groceries and Liquor.

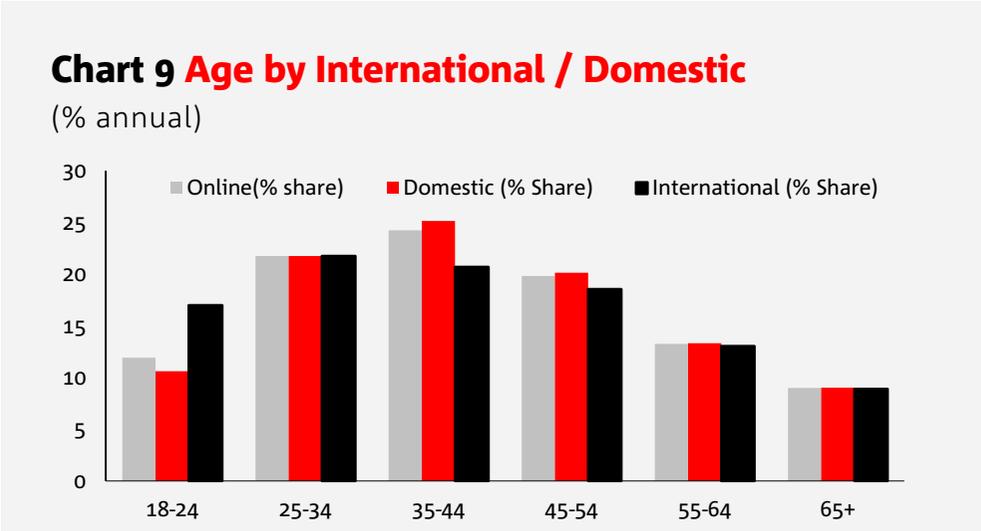
% share	Fashion	Daily Deals	Department & Variety Stores	Homeware & Appliances	Media	Personal & Recreational Goods	Groceries and Liquor	Electronic Games & Toys	Takeaway Food
18-24	21.9	2.0	6.5	15.4	20.1	5.6	4.6	13.3	10.7
25-34	17.8	3.1	8.2	18.1	17.3	7.7	14.7	4.1	8.9
35-44	14.6	3.1	9.3	20.0	16.1	8.8	20.4	2.8	5.0
45-54	14.3	2.9	9.5	23.1	15.8	9.6	18.4	2.8	3.5
55-64	12.5	2.7	10.7	24.8	15.0	9.6	21.1	1.4	2.1
65+	9.6	1.8	9.5	23.8	13.3	8.5	31.4	1.1	1.0
All ages	15.4	2.8	9.0	20.6	16.4	8.4	18.0	4.0	5.5

Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

Age groups - international / domestic

Most age categories total online share is similar to their share of domestic spend, with one exception - those aged 18 to 24 - making up more of the share of international online retail sales than they do domestically. Conversely, those aged 35 to 44 make up more of the domestic share.

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	4.3	-0.1	30.3	1.6	10.6	17.0
25-34	2.6	1.4	18.0	1.1	21.8	21.7
35-44	1.5	2.8	13.4	-2.0	25.1	20.7
45-54	0.6	2.1	12.7	0.3	20.1	18.6
55-64	2.0	0.8	12.7	-1.5	13.3	13.0
65+	2.3	0.5	12.8	1.3	9.0	8.9
All ages	1.9	1.2	15.8	0.1	100	100



“Online shoppers aged 34 years or less have continued to increase their international online spend, which has been primarily driven by spend on digital media”
 Tony Davis, Quantum

States and Territories



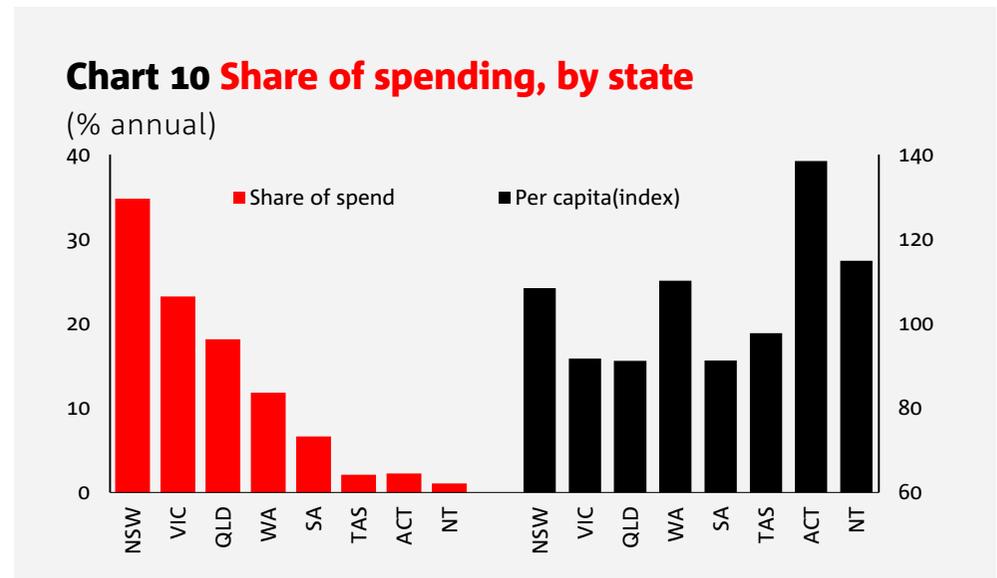
State performance

Residents of the bigger eastern 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.

However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT where only 1.6% of Australians live, 2.2% of total online purchases in dollar value terms were made. Similarly in WA, 10.9% of Australians made 11.8% of total online purchases.

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 23.2% of total online spending.



Spending by state

Over the past year, the contribution to growth in online has shifted back towards the larger eastern states.

Monthly growth was positive across all states except TAS in March, with ACT highest. NSW was the strongest of the large states.

Chart 11 Growth of spending, by state

(% yoy)

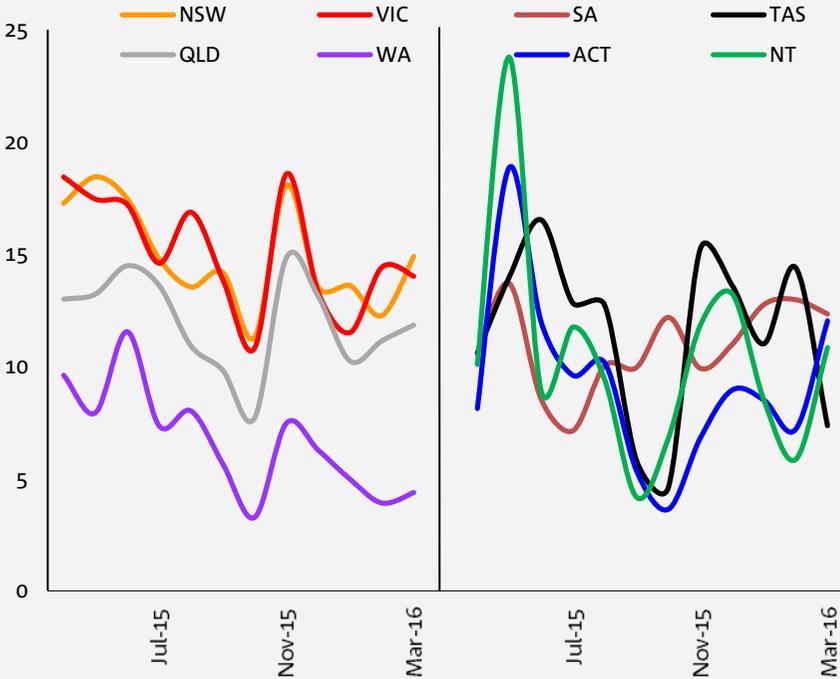
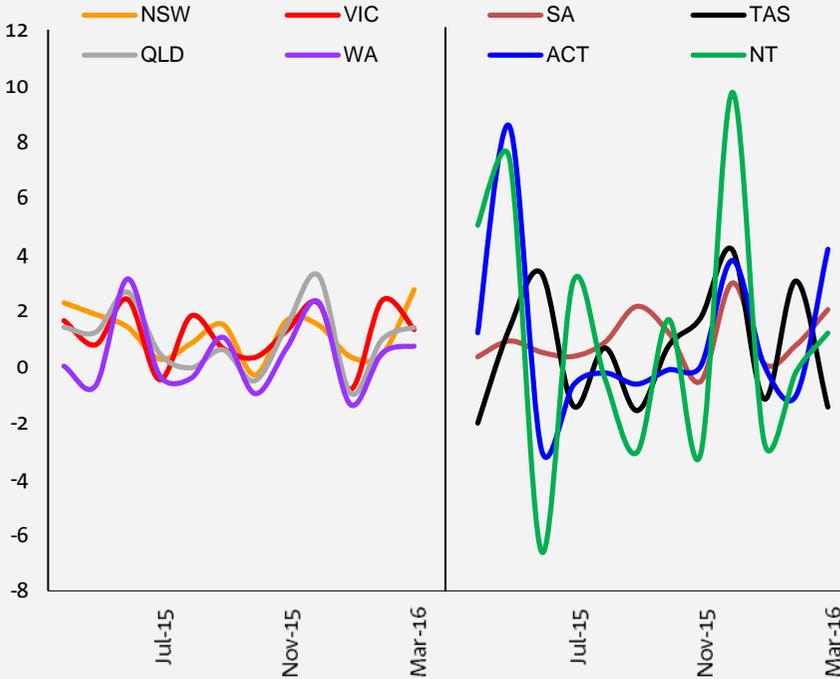


Chart 12 Growth of spending, by state

(% mom, sa)



Metropolitan vs Regional



Regional performance

Growth in metro areas strengthened in March. Metropolitan residents bought close to 74% of online purchases in the past year and also spent more on average in most states, with the key exception of WA.

Growth in metro areas continued to increase in March following the January slowdown. While still positive, growth from Regional areas slowed slightly compared to February. At 2.2 %, online sales in metro areas outpaced regional (0.6%) areas in March.

Metropolitan residents spent on average around 19.6% more than those residing in regional Australia. However, those living in regional Western Australia spent 13% more than the average Australian, along with WA metropolitan residents at about 7.3% more.

However, with the slowdown WA online spend over the past 12 months, metro NSW/ACT now leads per-capita spend. Regional Victorian and regional Queensland residents were below the national average.

Chart 13 Growth of spending, by region

(% mom)

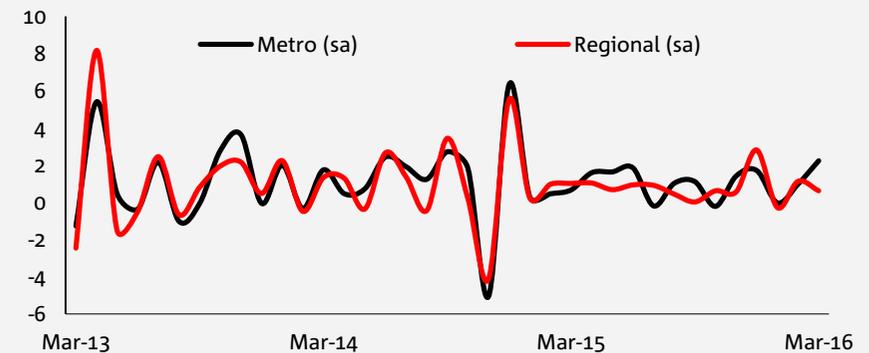
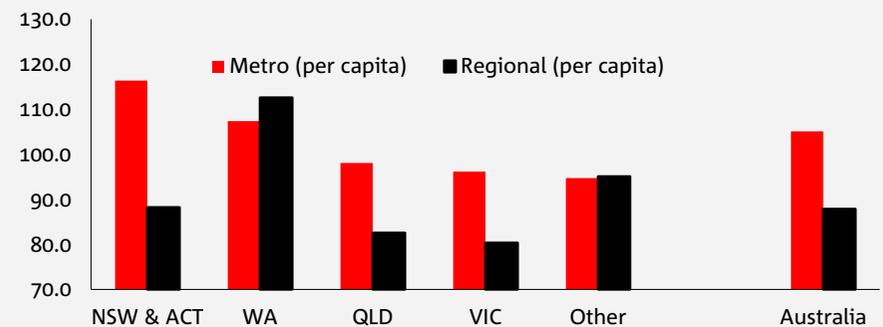


Chart 14 Per capita spending index

(Australia = 100)



Small Online Retailers



Small Online Retailers (SMEs)

We have introduced this new series to the report*. Given that small online retailers made up around 37% of all online retail sales in the past 12 Months, it's important to track these emerging retailers.

At 0.2% smaller online retail sales recorded much lower growth in March compared to the 2.2% recorded in February. At 0.6%, small online retail spending is now, in trend terms, slowing, though this is after a period of higher than average trend growth from July to November. We estimate that small online retail sales are now 10.6% higher compared to a year ago.

Chart 15 Growth in Small Online Retailers

(% mom)



* See the notes page for more on this new series

Small Online Retailers by Category

Small online retailers are overwhelmingly represented by Fashion, Homeware & Appliances, and Personal & Recreational (making up about 85% of spend). These categories have contributed the vast bulk of growth in the year to March. While Homeware & Appliances represents 29.4% of spending at small online retailers, this category contributed 42.6% to their growth.

%	Monthly growth - Feb	Monthly growth - Mar	Annual growth - Feb	Annual growth - Mar	Share of Small spending	Contribution to annual Small spending growth
Fashion	1.9	0.3	10.5	11.9	25.2	25.0
Daily Deals	63.1	-16.1	-41.7	-26.4	0.0	-0.4
Department	1.8	6.0	33.8	42.4	2.6	4.3
Homeware	3.0	-1.2	15.9	12.8	29.4	42.6
Media	-4.9	0.5	-8.3	-7.3	3.6	-1.5
Personal	2.1	0.6	7.1	7.8	30.6	23.6
Groceries	6.4	0.1	17.0	10.1	3.9	3.1
Toys	1.4	0.4	1.2	0.6	3.8	0.1
Food	1.6	10.8	48.5	59.9	0.9	3.1
Total	2.2	0.2	10.8	10.6	100	100

Notes

What's NORSI Corporate and NORSI SMEs?

NORSI Corporate are major online retailers with more than \$2.5M annual online revenue while Online SMEs are smaller brands and retailers with annual online revenue less than \$2.5M.

What's the improvement brought by the inclusion of NORSI SMEs?

With NORSI SMEs supplementing NORSI Corporate, revised NORSI will be more representative of the online market, providing a more comprehensive valuation of the market which takes into account the differential growth of major online players and smaller brands.

What's the effect in the category distribution?

Online Marketplaces, which was classified as part of Department & Variety Store, serve as a platform for consumers to purchase goods from a collection of small retailers. Under the revised NORSI definition, Online Marketplaces have been disaggregated into its small retail components, thereby becoming part of NORSI SMEs. Such reclassification has resulted in the reduction of Department & Variety Store's share of total spend and Homewares & Appliances has become the largest category.

How do we define Domestic and International?

NORSI defines retailers that do not charge GST as international retailers

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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About Quantum

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