



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – DECEMBER 2016

INTRODUCTION

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Group Chief Economist,
National Australia Bank

In total, we estimate the Australian online retail market was worth \$21.65bn in the 12 months to December 2016.

In growth terms, sales slowed in month-on-month (mom) terms to 1.0% in December, seasonally adjusted (s.a.). Homewares and appliances, Electronic games and Toys, Media, Takeaway Food, and daily deals sales grew in the month, partly offset by a contraction in Fashion, Personal and Recreational goods, Department stores and Grocery and Liquor.

The state result was equally mixed with gains in ACT, NT, QLD, TAS, and WA offset by falls in VIC, NSW, and SA. SME retailers contracted in the month (-1.0%), but remain up over the year (+18%).

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

RICHARD COATH

General Manager, Consumer, Health, Agri & TMI
Global Institutional Banking, National Australia Bank

Online retail spending in Australia is continuously influenced by a variety of national and international factors. The NAB Online Retail Sales Index aims to help you understand the current trends that may affect your business over the coming months.

Despite its recent slight appreciation, the Australian dollar has continued to trend lower over the past three months. This has resulted in the domestic share of spend growing. However, while total online spending grew by 10.4% over the past year, that growth was not equally distributed across all categories. In this edition, we offer a detailed breakdown of online domestic and international spending by category and age and how metropolitan and regional spending varies across the states. We also look at the SME online sales who share represents 36% in the past 12 months.

We hope the NAB Online Retail Sales Index trends help you better understand the nuances of the market and prepare more effective business strategies for the coming months.

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AT A GLANCE

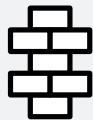
Australian online retail spend (YoY December 2016)



**\$21.65
BILLION**

**10.4%
GROWTH**

**7.1% OF BRICKS AND
MORTAR SPEND**



December's Fastest growth by category (% MoM)

TAKEAWAY FOOD 3.6%

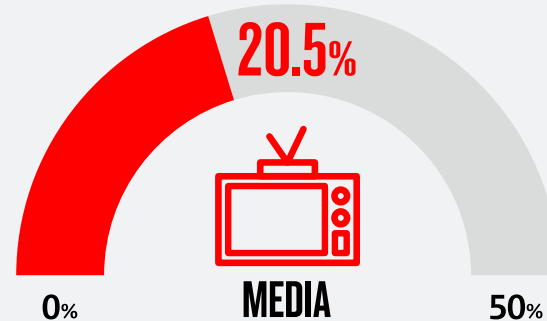
DAILY DEALS 2.7%

TOYS 2.7%

Biggest share of spend by category (% annual)

**19.6% HOMEWARE
AND
APPLIANCES**

Fastest growing categories (% YoY)

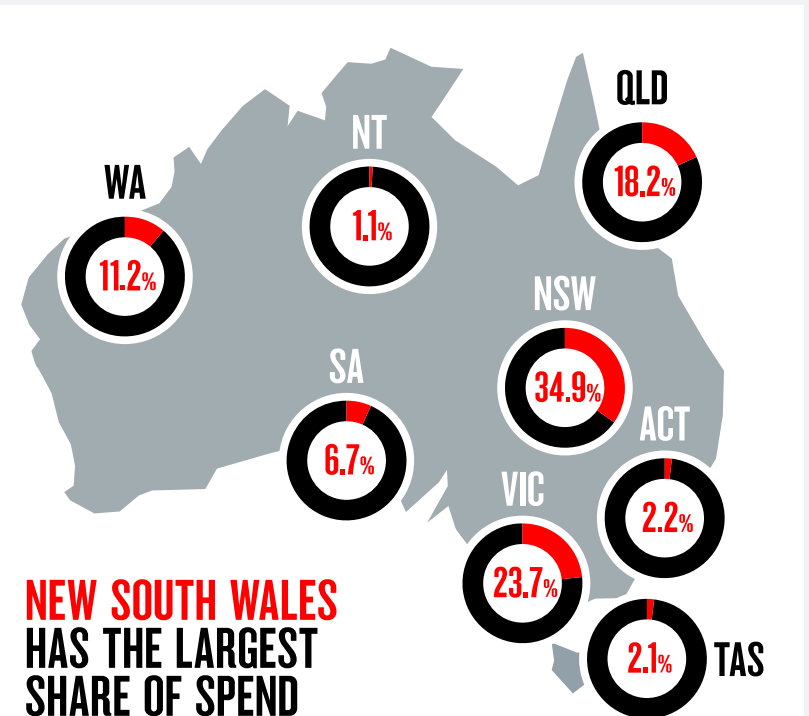


**17.2% OF TOTAL ONLINE
SPEND IS MEDIA**

International vs domestic spending (monthly)

81% OF TOTAL SPEND WAS DOMESTIC

Share of spending (% annual)

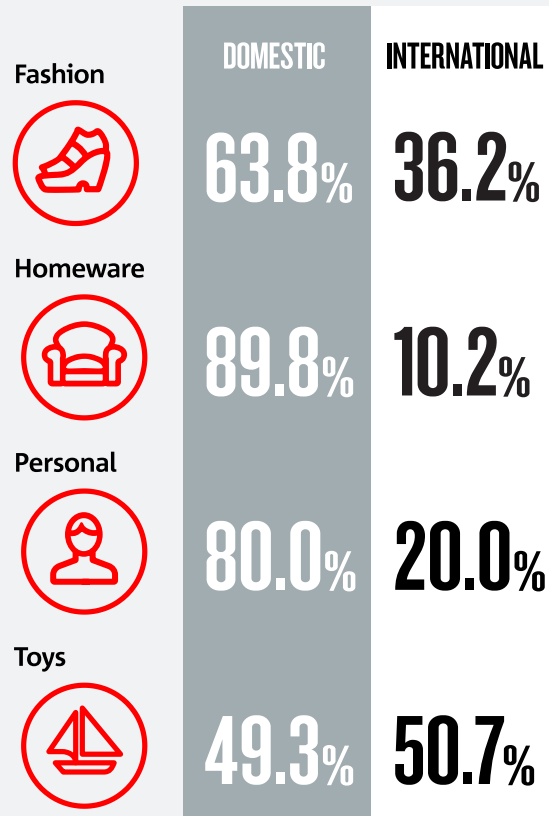


West Australians spent more than the national average
(per capita, % annual)

WA 3% MORE METROPOLITAN 8% MORE REGIONAL

AT A GLANCE

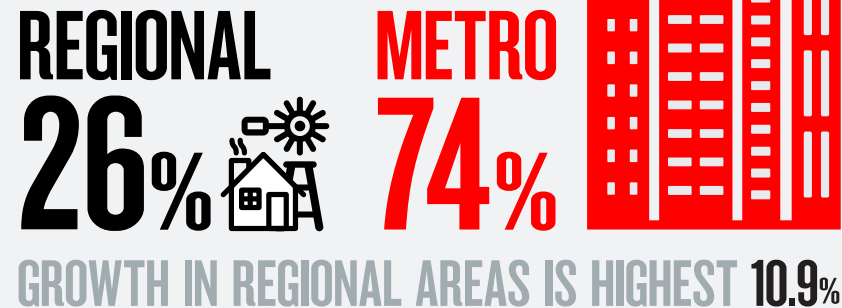
Share of online spend by category (Annual December 2016)



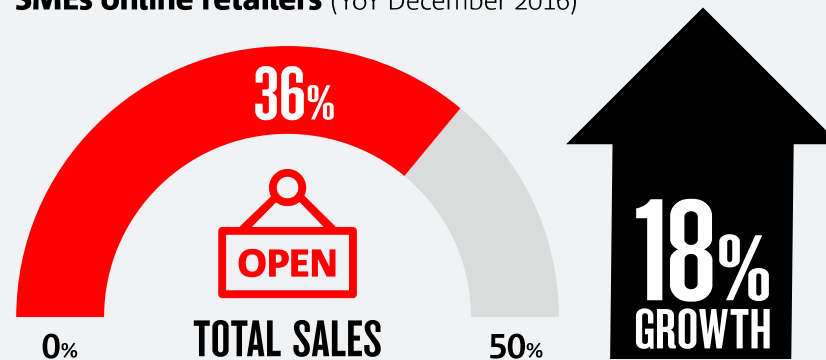
Annual growth (YoY December 2016)



Share of online spend by region (Annual December 2016)



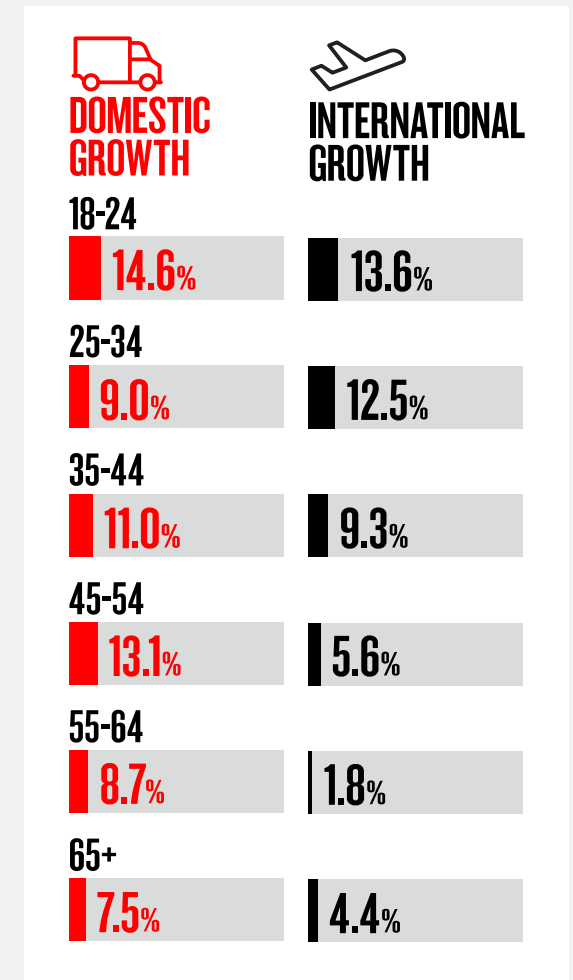
SMEs online retailers (YoY December 2016)



Share of SME online category spend



Annual growth of spending by age (YoY December 2016)





THE ONLINE RETAIL MARKET

OVERALL INDEX

In seasonally adjusted terms, at 1.0% growth in online retail sales slowed marginally in December. Though this was quicker than the revised 0.5% recorded in October, in trend terms, growth is still moderating.

The revised estimate for trend online retail sales growth was 0.7%. While this is lower than October and November(0.9%), it remains positive. ABS data showed growth of comparable traditional retailers in November to be 0.2% higher than October, and 3.9% higher than a year ago.

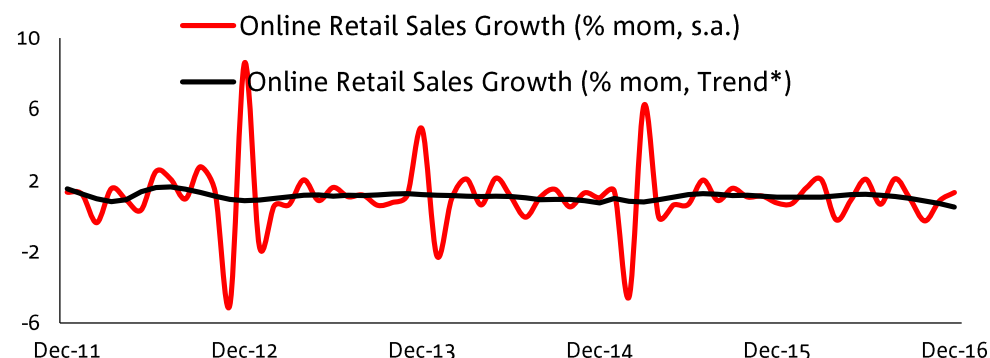
In the 12 months to December, Australians spent an estimated \$21.65 billion on online retail – a level that is equivalent to around 7.1% of the traditional bricks and mortar retail sector (which totalled \$303.2 billion in the year to November 2016 according to the ABS).

In year on year terms (December 2016 v December 2015), online sales grew by 10.4%, down from the 14% year-on-year growth in November. This is much slower than the growth recorded when the index was established. In December 2011 for example, year on year growth was 27%. Growth has clearly flattened as shown in the trend line (see chart 1).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Oct-16	Nov-16	Dec-16
Monthly growth (%)			
Corporate	0.5	1.3	1.0
SMEs	1.2	4.5	-1.0
Annual growth (%)			
Corporate	14.4	14.0	10.4
SMEs	17.5	23.9	18.0

Note: Expanding coverage to include food and smaller online retailers has caused seasonal adjustment factor constraints. 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 contributed the most to growth in the year to December, with the second fastest growth over the year. Fashion contracted in December (mom) following a growth spurt in November.

At 34.0% (yoy), Takeaway Food had the fastest annual online sales growth in December, accelerating on the November result (29.6%). This category represents a rapidly evolving way of ordering food, supported by recent advancements in methods such as mobile phone applications. Given its double digit growth, Takeaway Foods share of total spend is growing and now represents 6.4% of online.

Takeaway food (3.6%) led monthly growth along with Daily deals (+2.7%), and Toys (+2.7%) which rebounded after contracting in November (-8.8%). The largest spend share category, Homewares and appliances (+2.3%) and Media (+2.0) also grew. Department stores contracted slightly (-0.1%), with sharper falls in Grocery and Liquor (-0.6%) and Fashion (-5.0%)

The key categories “punching above their weight” included Media, with only 17.2% of spend but contributing 28.1% to annual spending growth, and Takeaway Food. 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)

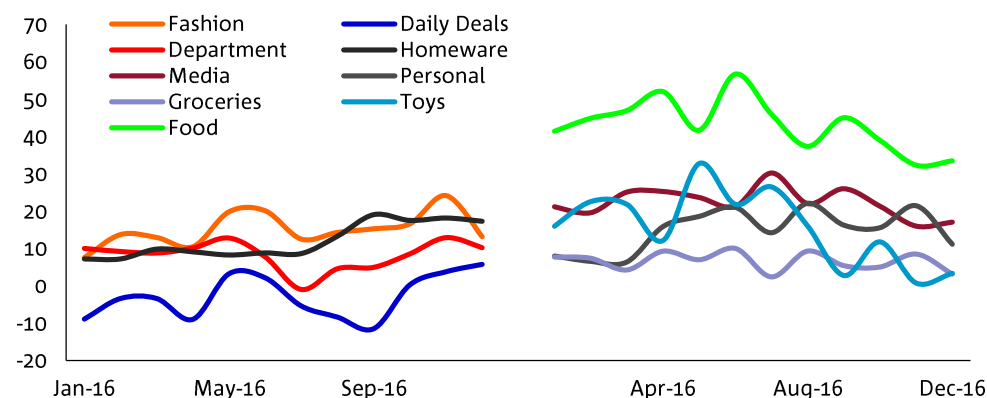
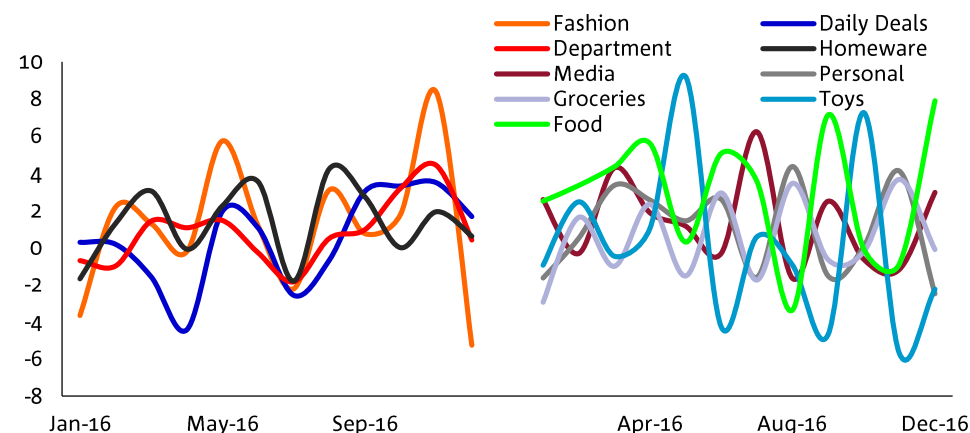


Chart 3

MONTHLY GROWTH OF SPENDING, BY CATEGORY (% mom, s.a.)



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, Takeaway Food, Media, Homewares and Appliances , and Personal goods have been expanding rapidly. Daily deals has had a surprise rebound in growth in the past couple of months.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Nov-16	Dec-16	Nov-16	Dec-16		
Fashion	8.1	-5.0	21.2	7.0	16.0	17.3
Daily Deals	2.5	2.7	4.6	6.2	2.4	-0.4
Department	1.9	-0.1	4.8	1.8	8.6	2.4
Homeware	0.6	2.3	12.3	14.5	19.6	12.2
Media	-0.3	2.0	19.5	20.5	17.2	28.1
Personal	6.7	-7.5	21.4	8.7	9.0	11.9
Groceries	2.3	-0.6	8.8	2.8	17.0	8.6
Toys	-8.8	2.7	-6.6	-2.8	3.9	4.6
Food	-1.3	3.6	29.6	34.0	6.4	15.4
Total	1.3	1.0	14.0	10.4	100	100

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

“FOOD CATERING CONTINUES ITS RAPID RISE, WITH STRONG GROWTH IN NSW AND QLD, PARTICULARLY WITH NEW ONLINE MEAL DELIVERY AGGREGATORS.”

Wade Tubman, Quantum

INTERNATIONAL VS DOMESTIC



INTERNATIONAL VS DOMESTIC PERFORMANCE

Domestic growth accelerated while international slowed in the month. In December almost 81% of spending was domestic.

Domestic online sales growth accelerated in December (1.8%) compared to November (1.2%). International sales contracted in the month (-4.4%), the lowest result since August 2013 (-4.6%) when the AUD fell below parity was in full swing. Looking at the year-on-year growth rates, domestic online sales continue to outpace international sales at 10.8% vs 8.6% respectively.

As shown in chart 4, the increase in the share of domestic online retailing has coincided with a depreciation of the Australian dollar. With the moderate appreciation in AUD since mid 2016, the growth in share of spend at domestic online retailers has flat lined until the most recent dip in the AUD.

Chart 4

SHARE OF INTERNATIONAL AND DOMESTIC ONLINE SALES VS USD/AUD EXCHANGE RATE

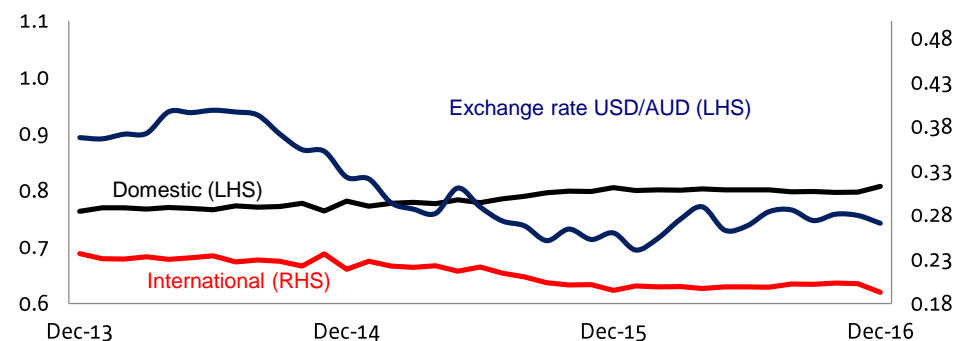
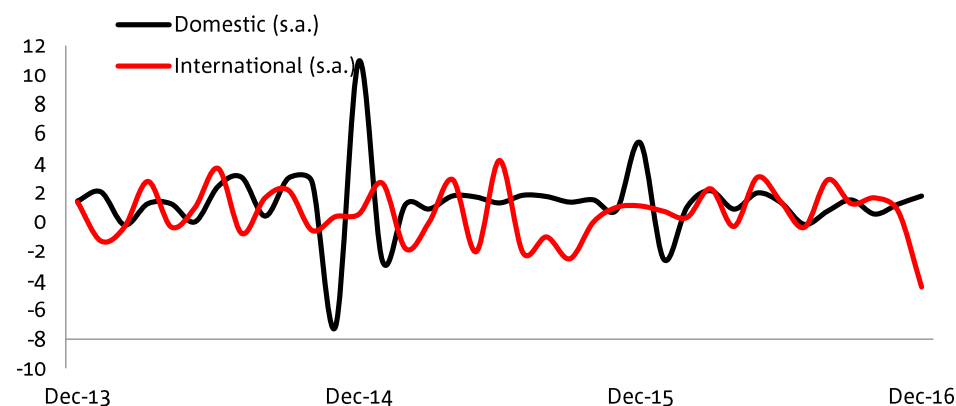


Chart 5

GROWTH OF ONLINE SALES, BY RETAIL LOCATION (% mom, sa)



INTERNATIONAL VS DOMESTIC - BY CATEGORY

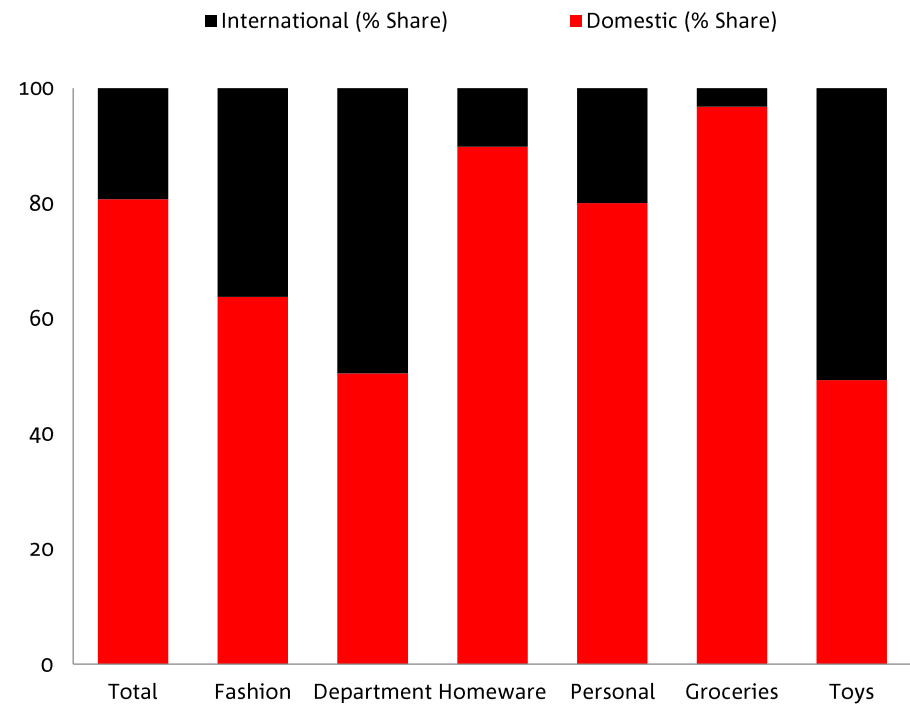
Areas of significant overall online spend such as Groceries, Personal and Homewares are also areas where domestic online retailers dominate.

With the exception of Electronic Game and Toy retailing, which is slightly higher for international, domestic retailers capture the majority of spending in our index.

In year on year terms, growth for domestic online retailers has been particularly buoyant in Homewares and Appliances, and Personal and Recreational Goods.

For international retailers, growth was also strongest in Homeware and Appliances, outpacing their domestic 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 64% of Fashion is purchased from domestic online retailers, it only accounts for about 13% of domestic online spend, but at nearly 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	5.3	10.9	63.8	36.2	12.7	28.9
Department	-3.3	8.8	50.5	49.5	5.4	21.2
Homeware	14.1	18.3	89.8	10.2	22.0	10.0
Personal	10.6	-0.8	80.0	20.0	9.0	9.0
Groceries	3.1	-7.8	96.8	3.2	20.6	2.7
Toys	-3.1	-2.4	49.3	50.7	2.4	9.9
All categories	10.8	8.6	80.7	19.3		

Note: 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 largest spend share group of 35-44 year olds, and weakest for the second largest spend share group of 25-34 year olds.

Those aged 35-44 make up approximately 17.2% of the adult population, but their share of online spend is the highest at 24.1%. In contrast, over 65s make up 19% of the population and only 8.7% of online spend

All age groups slowed in the month. While growth was fastest for those aged 35-44 (0.9%) this was slower than November (1.4%). Sales Growth contracted for those aged under 25 (-1.3%) and 25-34 (-2.3%).

“THE STRONG PERFORMANCE OF HOMEWARES AND APPLIANCES THIS QUARTER IS DRIVEN BY NEW TECHNOLOGY RELEASES, PARTICULARLY IN THE UNDER 25 DEMOGRAPHIC, WHO HAVE SIGNIFICANTLY INCREASED THEIR PRESENCE IN THIS CATEGORY.”

Wade Tubman, Quantum

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

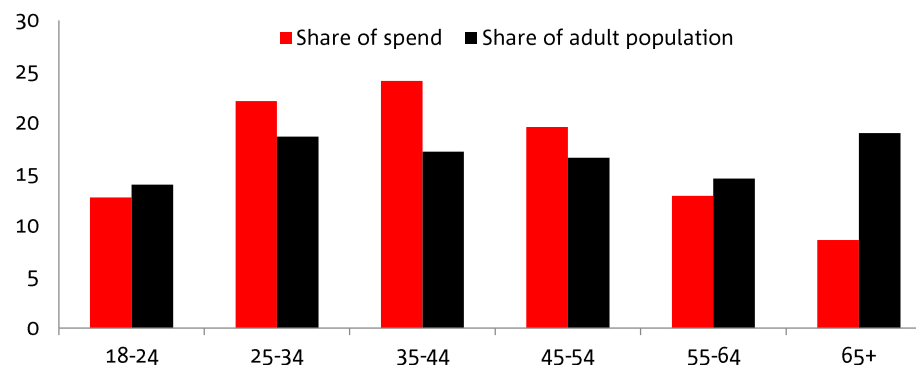
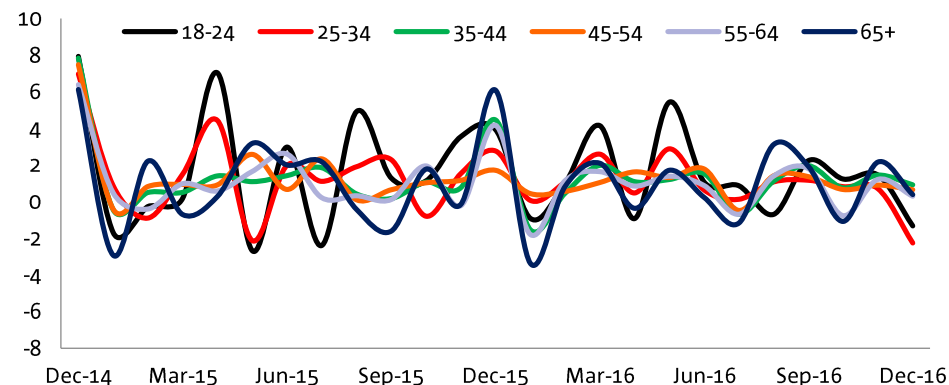


Chart 8

GROWTH OF SPENDING, BY AGE GROUP

(% mom, sa)



AGE GROUPS BY CATEGORY

Spending patterns vary across age groups. On average, Homeware and Appliance Stores is where the share of spend is highest, particularly true of those aged 45+. However, those aged between 18 and 34 favour Fashion, while the over 65s favour 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	21.7	1.5	6.3	14.7	20.1	7.6	4.5	12.3	11.3
25-34	18.5	2.5	8.1	16.6	17.8	8.2	14.1	4.1	10.3
35-44	15.2	2.7	8.8	18.9	16.7	9.4	19.7	2.7	5.9
45-54	14.9	2.6	9.2	22.0	16.9	9.9	17.6	2.7	4.3
55-64	13.0	2.6	10.0	24.3	16.3	9.8	20.1	1.3	2.7
65+	10.2	1.7	8.8	24.3	14.5	8.5	29.9	0.9	1.3
All ages	16.0	2.4	8.6	19.6	17.2	9.0	17.0	3.9	6.4

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

AGE GROUPS - INTERNATIONAL / DOMESTIC

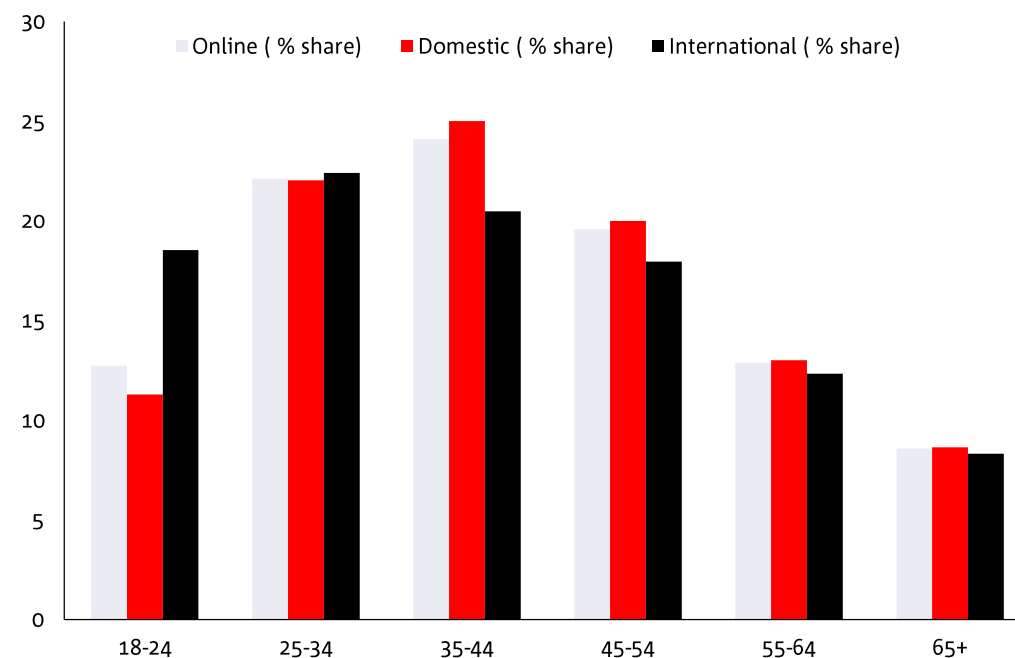
Most age categories total online share is similar to their share of domestic spend, with one exception - those aged 18 to 24 - making up more of the share of international online retail sales than they do domestically. Conversely, those aged 35 to 44 make up more of the domestic share, the group with the largest overall online spend. Those aged 25-34 represent the largest share of international spend.

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	2.1	-8.1	14.6	13.6	11.3	18.5
25-34	-1.5	-4.3	9.0	12.5	22.0	22.4
35-44	1.5	-4.3	11.0	9.3	25.0	20.5
45-54	1.4	-3.6	13.1	5.6	20.0	18.0
55-64	1.2	-4.1	8.7	1.8	13.0	12.3
65+	0.6	0.4	7.5	4.4	8.6	8.3
All ages	1.8	-4.4	10.8	8.6	100	100

Chart 9

SHARE OF SPENDING BY AGE GROUP

(% annual)



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, NSW and WA.

Almost 77% 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 a little over 77% of the Australian total.

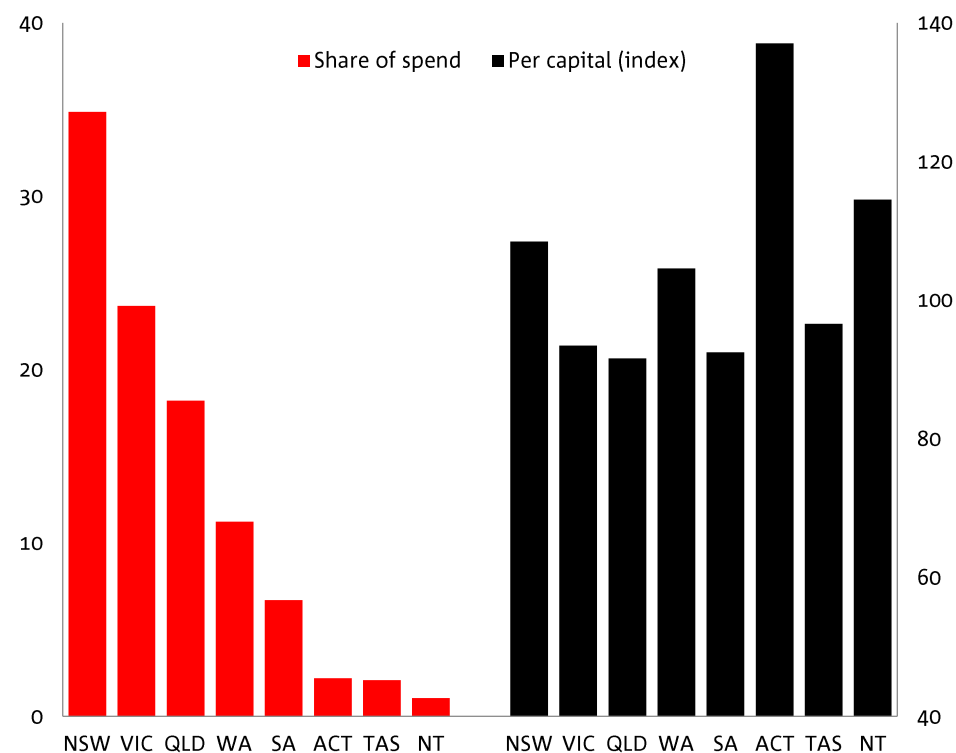
However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT where only 1.6% of Australians live, 2.2% of total online purchases in dollar value terms were made. Similarly in WA, 10.8% of Australians made 11.2% of total online purchases.

On the other hand, those in TAS, QLD, VIC, and SA were spending less per person than the national average. Victoria for example, is home to 25.2% of the Australian population yet represents only 23.7% of total online spending.

Chart 10

SHARE OF SPENDING, BY STATE

(% annual)



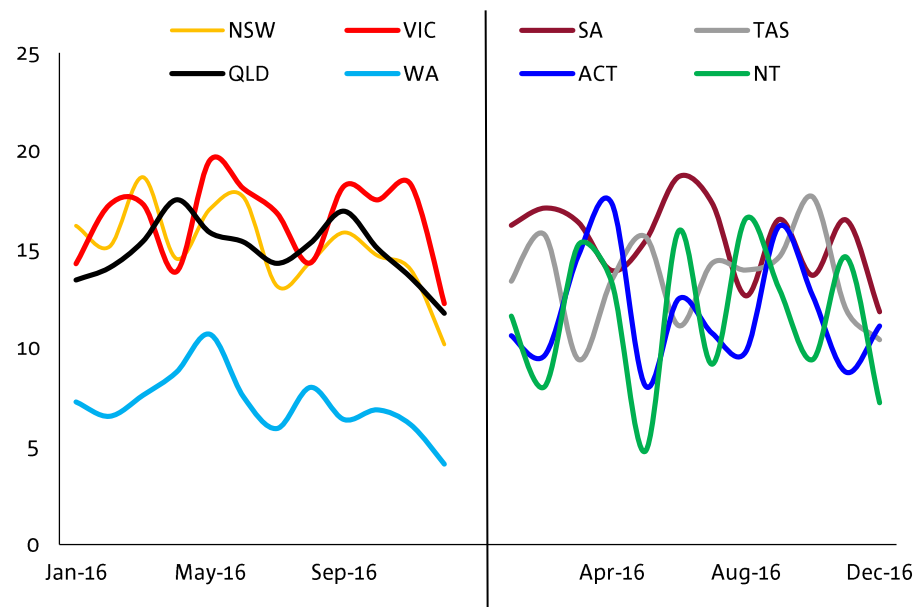
SPENDING BY STATE

Over the past year, the contribution to growth in online has shifted back towards the larger eastern states. Victoria has recorded the strongest annual growth, with WA the weakest. All states and territories slowed in year on year terms in December except ACT.

Chart 11

GROWTH OF SPENDING, BY STATE

(% yoy)

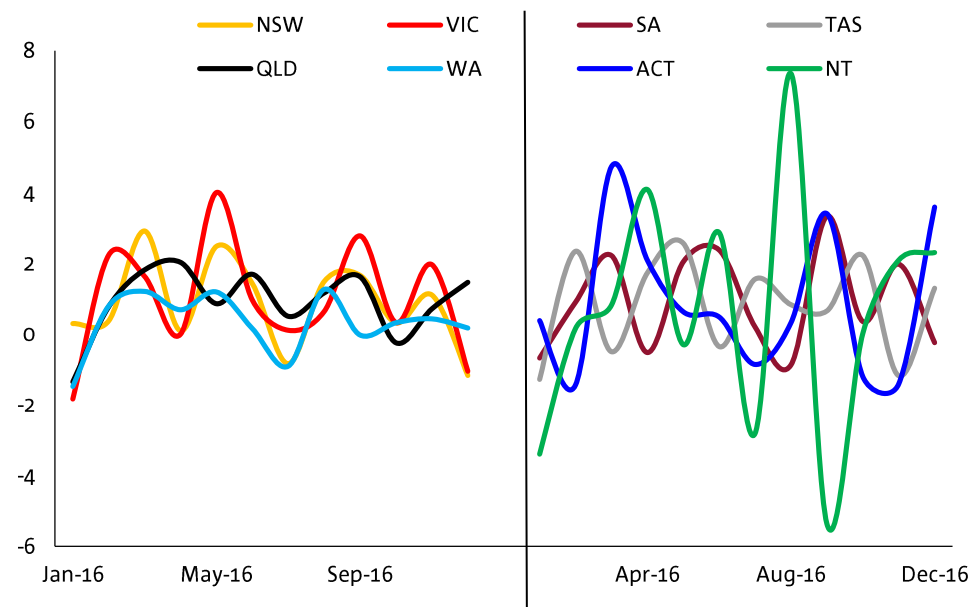


Online sales in the two states with the largest share, NSW and VIC, contracted in the month, along with SA. Monthly sales growth was highest in the ACT, followed by NT, QLD, and TAS. At +0.2%, WA managed a slight positive in December.

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, sa)





METROPOLITAN VS REGIONAL

METROPOLITAN & REGIONAL PERFORMANCE

Growth in Metro and regional areas slowed in December. Metropolitan residents bought around 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 both Metro and Regional areas slowed in December, with Metro areas barely positive. At 0.7%, Growth in Regional areas outpaced metro areas in the month.

Metropolitan residents retain the largest share of spend and spent on average around 18.9% more than those residing in regional Australia. However, those living in regional Western Australia spent about 8% more than the average Australian, along with WA metropolitan residents at about 3% more.

Metro NSW/ACT continues to lead per-capita spend, with WA highest per-capita in regional areas. Regional Victorian and regional Queensland residents remain below the national average.

Chart 13

GROWTH OF SPENDING, BY REGION

(% mom)

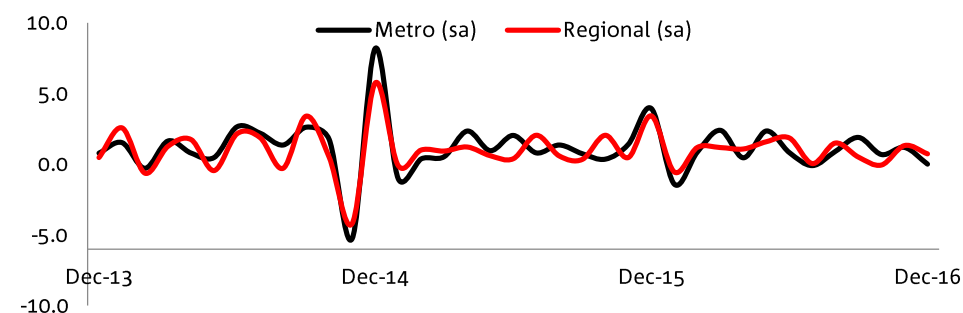
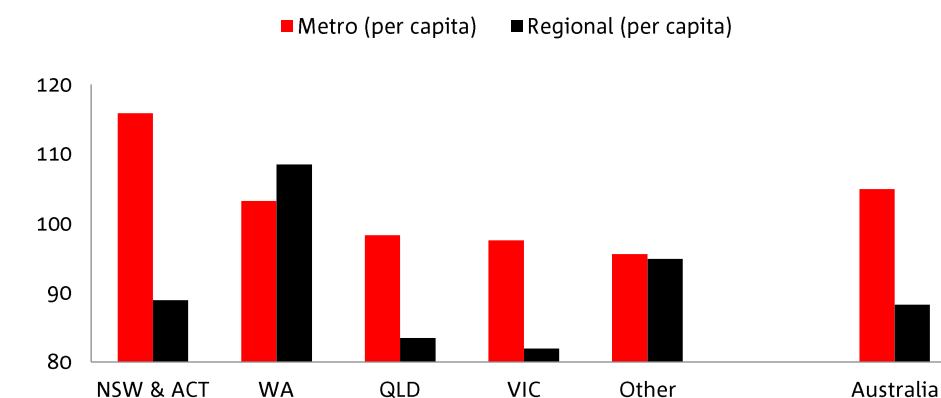


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

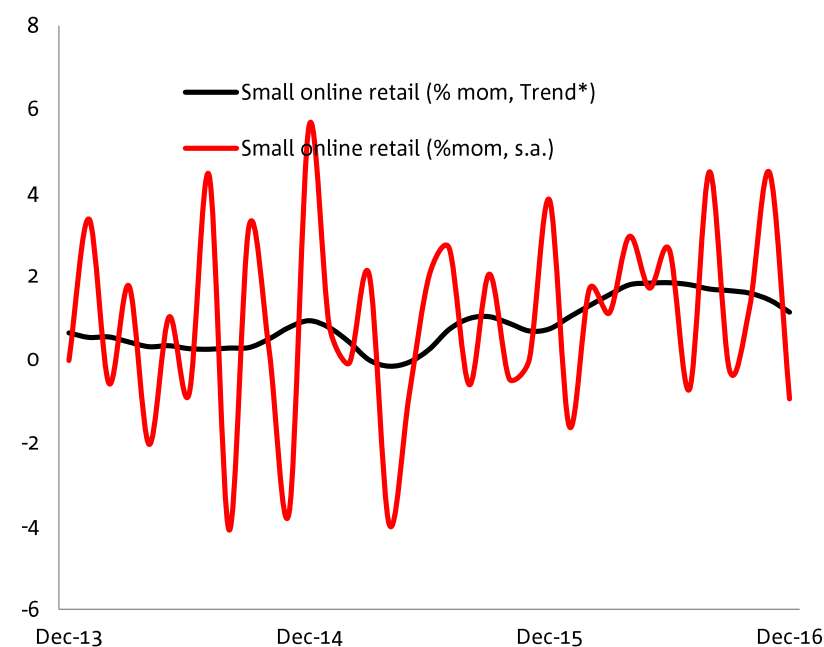
We continue to track spend at SME retailers, first introduced in the March quarter*. Online retailers made up around 36% of all online retail sales in the past 12 Months. While their monthly sales growth contracted in December, year on year sales are up 18%.

At -1.0%(mom, s.a.) smaller online retail sales contracted in December, and were considerably lower than the 4.5% growth rate in November. Although slowing again, at 1.1%, small online retail spending, in trend terms, remains higher than in the early period of this series. In year on year terms, we estimate that small online retail sales are now 18% higher compared to a year ago.

Chart 15

GROWTH IN SMALL ONLINE RETAILERS

(% mom)



* See the notes page for more on this series

SMALL ONLINE RETAILERS BY CATEGORY

Small online retailers are overwhelmingly represented by Personal and Recreational, Homeware and Appliances and Fashion (making up about 84% of spend). These categories have contributed the vast bulk of growth in the year to December. While Homeware and Appliances represents 29.9% of spending at small online retailers, this category contributed 35.1% to small online retail sales growth. However, this category contracted slightly in the month.

%	Monthly growth - Nov	Monthly growth – Dec	Annual growth – Nov	Annual growth – Dec	Share of Small spending	Contribution to annual Small spending growth
Fashion	8.3	-3.5	27.8	21.0	24.8	25.4
Daily Deals	14.6	-6.0	-84.1	-76.1	0.0	-0.2
Department	23.1	1.1	70.6	70.0	3.0	6.9
Homeware	4.7	-0.3	26.1	21.3	29.9	35.1
Media	-4.9	1.7	-7.3	-5.3	3.3	-0.6
Personal	3.3	-2.0	21.5	12.5	29.6	25.5
Groceries	2.3	1.2	6.5	5.7	4.0	1.6
Toys	2.9	-0.1	13.9	14.5	3.8	2.4
Food	2.0	-0.6	51.1	31.1	1.6	3.8
Total	4.5	-1.0	23.9	18.0	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 and 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 and Variety Store's share of total spend and Homewares and Appliances has become the largest category.

Note: Expanding coverage to include food and smaller online retailers has caused seasonal adjustment factor constraints. 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

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

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