



NAB Online Retail Sales Index

Special Report – October 2013

Chart 1: Distributions of transactions
(%, year to October 2013)

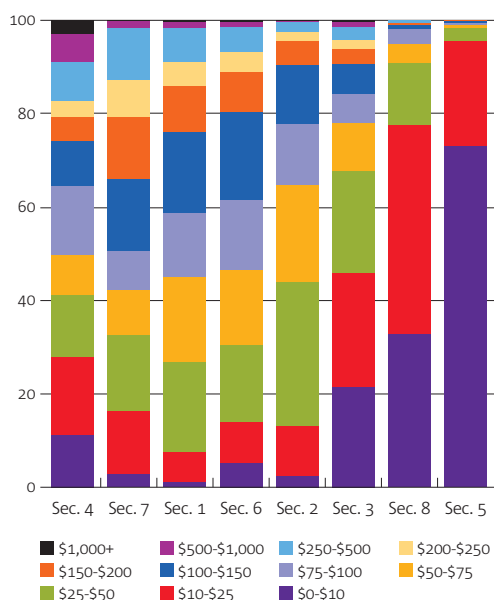
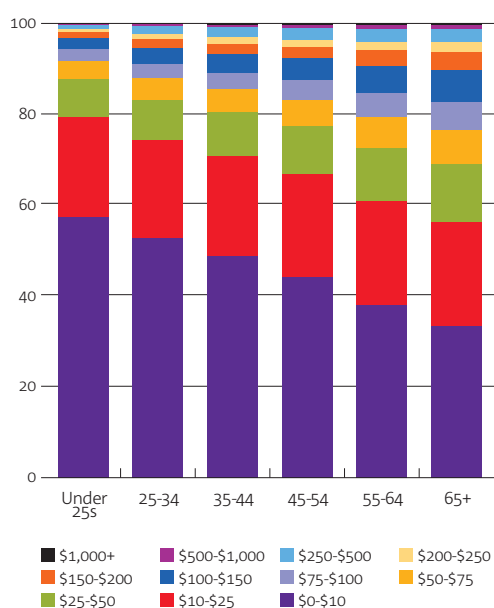


Chart 2: Distributions of transactions
(%, year to October 2013)



■ Online retail sales have increased significantly over the past few years, and in recent times there has been a renewed focus on the taxation implications of international sales, with sales valued less than \$1,000 currently exempt from GST.

Our special report this quarter highlights the typical spending patterns in online retail, with the average online transaction in October 2013 at \$41, down from \$64 in January 2010. A number of factors may have influenced this decline – including price deflation, changes to shipping arrangements (that may encourage fewer items per transaction) and changes to sales by category – with an increasing share for the relatively low cost Media category over time (Chart 4).

In the year to October 2013, the majority of online purchases were relatively low value. 90% of all online transactions were under \$100 and this was the case for both domestic and international sales. In contrast, less than 3% of transactions were over \$250 and just 0.2% were over \$1,000.

The average transaction size increases uniformly with age – the under 25s have the smallest average spend and the over 65s the largest (Chart 10). This indicates that under 25s make a comparatively large number of lower value purchases (largely in the Media category), while the over 65s make fewer, higher value purchases.

Alan Oster, Group Chief Economist, NAB

■ The great value of the NORSI report is that the data it provides is so immediately relevant to retailers who are facing challenging conditions and a constantly shifting landscape.

Since the Federal election, there's been significant discussion about the lowering of the GST threshold below the current \$1,000 for overseas purchases. That issue has become a very hot topic across both the Federal and State governments.

This edition of the NORSI Special Report demonstrates that not only are the majority of online purchases in the very low value range, in fact 49% of all online purchases were below \$10.

Transaction sizes for international retailers in particular have fallen quite dramatically over the last three years. Between January 2010 and October 2013 average purchase size dropped from \$74 to \$38.

The drop isn't equal across sectors, though. While Homewares & Appliances has the largest average purchase size, this sector has experienced the most significant level of decline, along with Fashion. Meanwhile, average transaction size in the Groceries & Liquor sector has actually increased thanks to healthy spending from the 25-54-year old demographic.

We hope the insights we're providing are helpful as we move into the season of spending.

Tiernan White, Retail Sector Head & Head of NAB Corporate (NSW)

At a glance

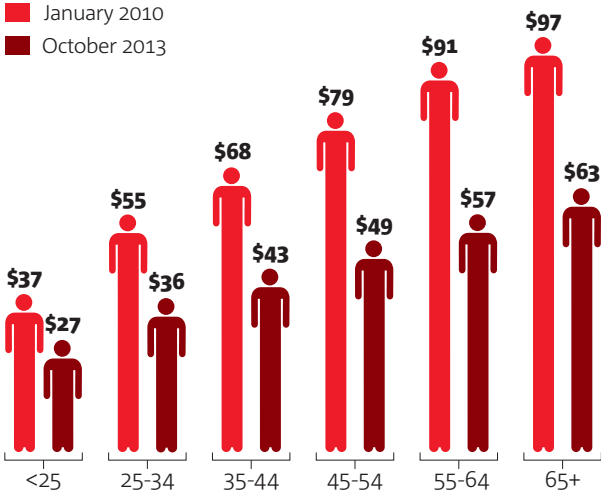
Average transaction size for Australian online retail purchases

● January 2010 ● October 2013



Age group online transaction sizes (monthly \$ spend)

■ January 2010
■ October 2013

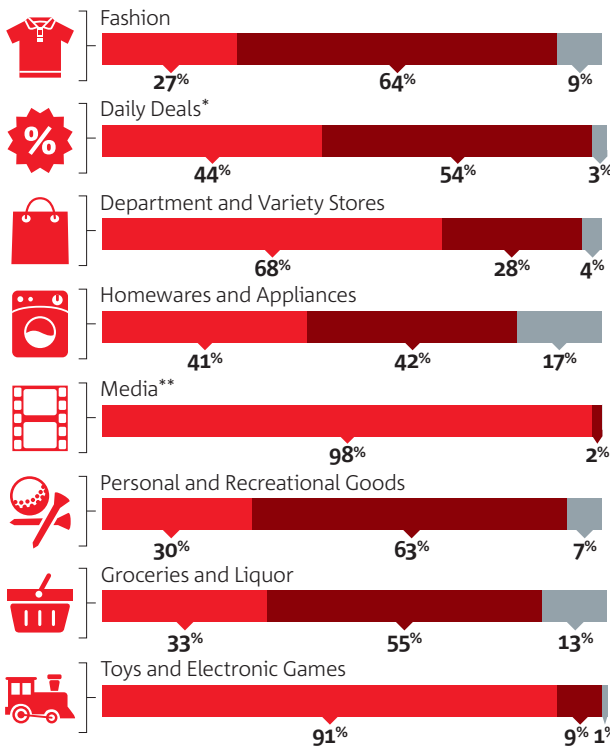


The majority of online purchases are of low value
(% of online purchases)



Share of online transactions (12 months to October 2013)

■ <\$50 ■ \$50-\$250 ■ >\$250



Note: Totals may not sum to 100% due to rounding. * Daily Deal sites release for sale a single product or range of products every day. ** Media comprises Movies, Books and Music.

Largest and smallest average transactions
(October 2013)



The average size of online transactions has declined since the start of 2010

Since the start of 2010, there has been a notable decline in the average transaction size for Australian online retail purchases (Chart 3).

NAB's Online Retail Sales Index indicates that the average transaction size declined from \$64 in January 2010 to \$41 in October 2013 (on a seasonally adjusted basis). This level is marginally above the lowest value recorded, which was \$39 in August 2013.

In addition to the declining trend, there is a clear seasonal component – consistent with the previously observed seasonal trend in the Index – with a spike in November, the peak month of online purchases ahead of the Christmas period.

Increasing share of sales in lower cost Media contributes to decline

This downward trend may indicate a number of factors, including: price deflation – with retailers cutting prices in an effort to build sales volume; changes to shipping arrangements (with an increasing trend towards free shipping, which may encourage consumers to purchase fewer items per transaction); and changes to the composition of sales by category – with the share of transactions in Media (Sector 5) (which has the lowest average transaction size) rising from 41% in January 2010 to 59% in October 2013 (Chart 4).

The majority of online purchases are relatively low value

At a high level, the majority of online purchases are comparatively low value (Chart 5). In the 12 months to October 2013, around 49% of all online transactions were below \$10 in cost, and a further 22% of transactions cost between \$10 and \$25. In all, 90% of transactions fall below a threshold of \$100, with minimal difference between domestic and international sales.

In contrast, only 2.8% of transactions were valued in excess of \$250, and just 0.2% over \$1,000.

That said, the distribution of transaction sizes differs considerably at the sub-sector level.

Chart 3: Average transaction size (\$, monthly)

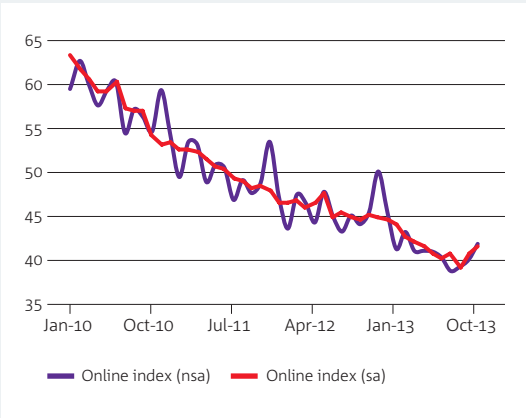


Chart 4: Share of transactions (% , nsa)

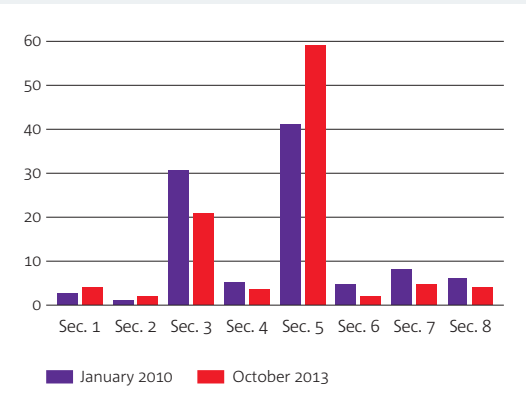


Chart 5: Distribution of transactions (% , year to October 2013)

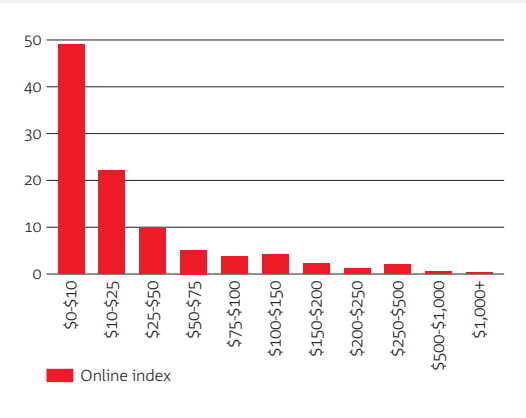


Chart 6: Average transaction size
(\$ sa, monthly)

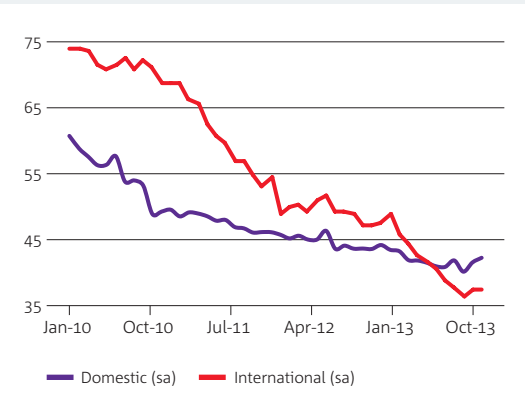


Chart 7: Distributions of transactions
(%, year to October 2013)

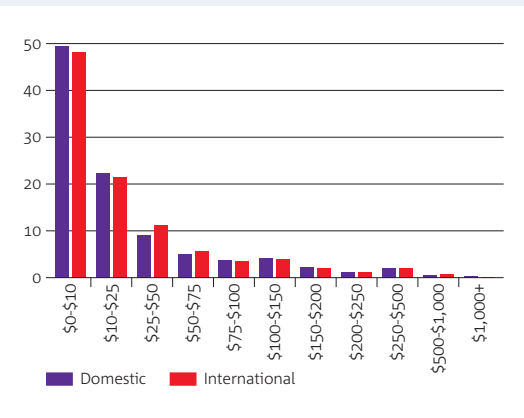
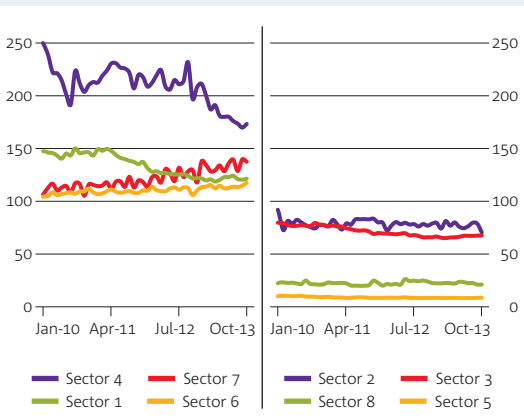


Chart 8: Average transaction size
(\$ sa, monthly)



The decline in transaction values is more evident in international, but the distribution of transaction sizes are broadly similar

The decline in transaction size is more evident among international retailers than domestic ones (Chart 6). The average transaction size for international retailers fell from \$74 in January 2010 to \$38 in October 2013 – with the steepest declines occurring between March and December 2011 (from \$66 to \$49). The average domestic transaction declined from \$61 in January 2010 to \$42 in October 2013, with the main drop occurring earlier – between June and October 2010.

In the 12 months to October 2013, there was minimal difference in the distribution of transactions by size – with 81% of both domestic and international transactions being valued under \$50 and 90% below \$100. (Chart 7).

Average transaction sizes differ significantly between sectors – Homewares & Appliances have the highest value, with 17% over \$250

The differences between transaction sizes are most notable between the individual categories of online retail (Chart 8). The largest average transactions occur in Homewares & Appliances (Sector 4) – which has trended downwards to \$173 in October 2013 – a sector with a broad range of consumer electronics products. Some of this change may reflect the product mix shifting away from traditional computers – such as laptops and notepads – towards comparatively lower cost tablets. In contrast, Media (Sector 5) transactions averaged \$9 in October – reflecting the comparatively low cost of apps, music & video content and e-books.

The most significant declines in average transaction size since the start of 2010 have occurred in Homewares & Appliances and Fashion (Sector 1). In contrast, there has been an upward trend in transaction sizes for Groceries & Liquor (Sector 7) – driven by an increase in average spending by those aged between 25 and 54 – and Personal & Recreational Goods (Sector 6).

The distribution of transactions by size differs significantly between the sub-sectors (Chart 9). Media and Toys & Electronic Games (Sector 8) have the greatest proportion of sales below \$50 – at 98% and 91% respectively. Homewares & Appliances and Groceries &

Liquor have the greatest proportion of sales over \$250 – at 17% and 13% respectively, with around 3% of sales in the Homewares & Appliances sector exceeding \$1,000.

Share of transactions % (12 months to October 2013)

	Less than \$50	\$50-\$250	Over \$250
Total sales	81	16	3
Sector 1. Fashion*	27	64	9
Sector 2. Daily Deals*	44	54	3
Sector 3. Department and Variety Stores	68	28	4
Sector 4. Homewares and Appliances	41	42	17
Sector 5. Media**	98	2	0
Sector 6. Personal and Recreational Goods	30	63	7
Sector 7. Groceries and Liquor	33	55	13
Sector 8. Toys and Electronic Games	91	9	1

Note: Totals may not sum to 100% due to rounding
* Daily Deal sites release for sale a single product or range of products every day
** Media comprises Movies, Books and Music

Transaction sizes have fallen across all age groups, but least for the under 25s

Average transaction sizes have fallen across all age groups since the start of 2010, although the decline was least prominent for the under 25 age group – falling from \$37 to \$27 in October 2013 (Chart 10). Average transaction sizes have consistently increased by age.

As noted above, there is a seasonal peak in the average transaction size in November – the Christmas peak period for online sales. This peak is evident in all age groups, with the exception of the under 25s.

There is a notable distinction in the distribution of transactions between the individual age groups (Chart 11). The Online Retail Sales Index shows that those aged under 25 and over 65 spend comparatively less than other age groups. However, the under 25s have the smallest average transaction size (at \$27 in October 2013) and the over 65s the largest (at \$63). This indicates that under 25s make a comparatively large number of lower value purchases (with a demonstrated higher propensity to purchase in the low cost Media category), while the over 65s make fewer, higher value purchases. ■

Chart 9: Distributions of transactions (% , year to October 2013)

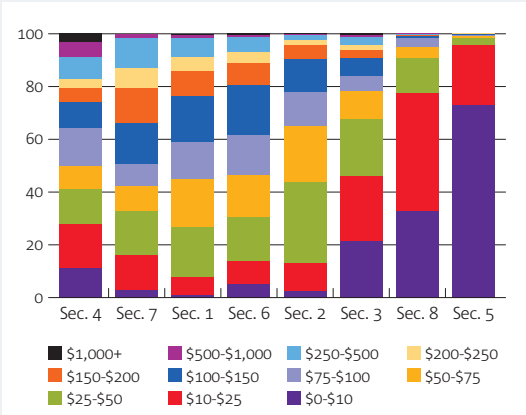


Chart 10: Average transaction size (\$ sa, monthly)

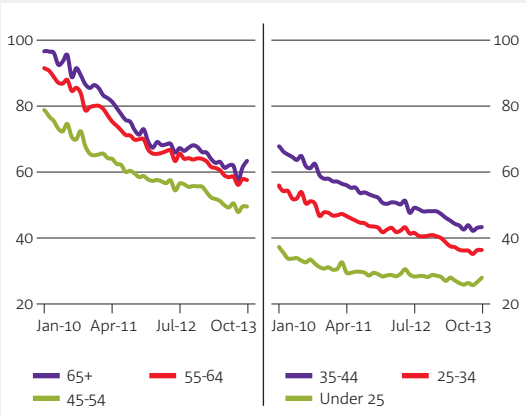
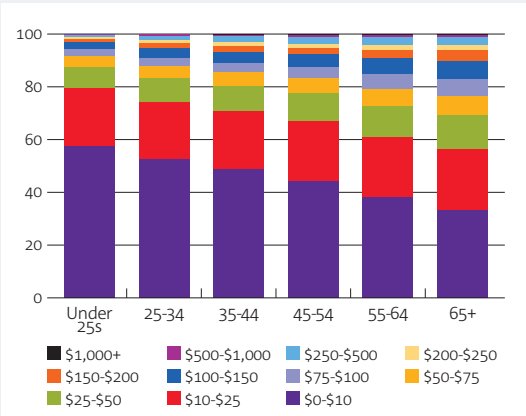


Chart 11: Distributions of transactions (% , year to October 2013)





To discuss this report in more detail please speak with your
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