



NAB Online Retail Sales Index

Indepth report – January 2014

Chart 1: Growth in online sales vs. retail sales
(%, mom)

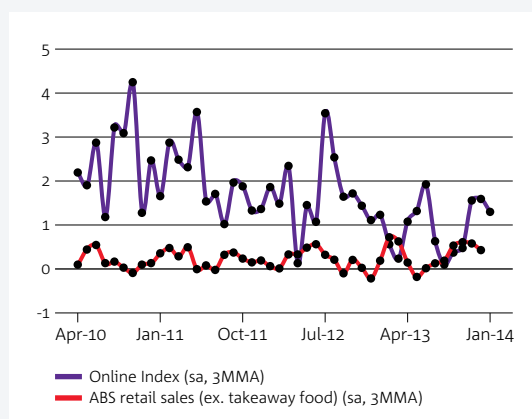


Chart 2: Growth in online sales by retail location
(%, mom)

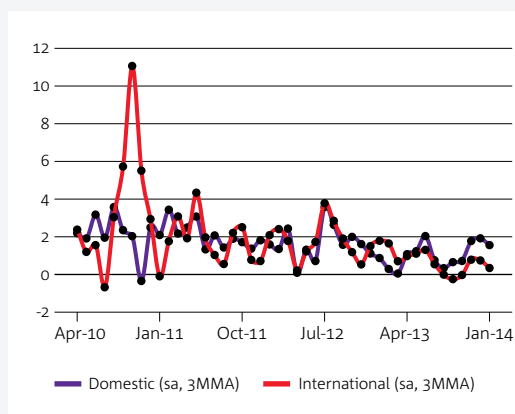


Table 1. Key online retail statistics

	yoy growth (%)			mom growth (% sa, 3MMA)		
	Nov 13	Dec 13	Jan 14	Nov 13	Dec 13	Jan 14
Online Index	11.3	12.9	11.3	1.6	1.6	1.3
Domestic sales	11.4	14.8	13.4	1.8	1.9	1.6
International sales	11.1	7.8	5.7	0.8	0.7	0.3

*3MMA is a three month moving average

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).

■ Australia's online retail spending increased to \$14.9 billion for the year to January 2014, or by 11.3%, now representing around 6.5% of traditional retail spending. Domestic retailers continue to control the largest share of online sales – at around 74%.

Despite a recent pickup in the traditional bricks and mortar retail sector, it was still outpaced by the improvement in online retail growth over the past three months. However, recent online growth has been more subdued than the 20-30% growth rates recorded in earlier years. A substantial gap now exists between the stronger growth in domestic online retailing, and the virtual stall in growth in international online sales, which is probably currency related.

By category, the results are mixed. The year-on-year strength in Media masks a slowdown over the past three months. Growth has continued for Electronic Games & Toys, Groceries & Liquor, Fashion, and Homewares & Appliances categories, but trends have been weaker in Daily Deals, Recreational & Personal Goods and Media.

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

Alan Oster, Group Chief Economist, NAB

■ January data tends to be all about the impact of holiday spending on retailing. And indeed, the typical festive spike was felt in the expected sectors, with Electronic Games & Toys, Groceries & Liquor and Fashion all growing strongly.

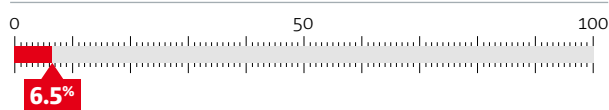
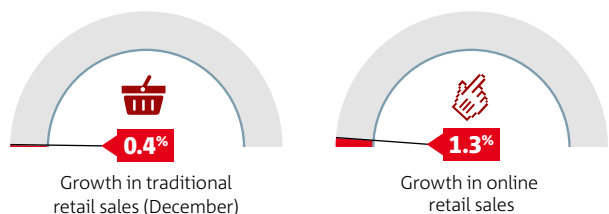
However, in both online and traditional retail the biggest story to emerge from the festive season was actually the dominance of domestic retailers. This comes as we have increasingly seen Australian bricks and mortar retailers develop sophisticated online offerings that complement their traditional storefronts.

Domestic retailers are winning a greater proportion of total online revenue now with some 74% of online retail sales. This share has been creeping higher in recent months as sales by international retailers have been impacted by the weaker Australian dollar. Consequently, growth of international online sales was sluggish at just 0.3% in January compared with 1.6% for the domestics. It's likely that the Australian dollar exchange rate will continue to be relevant in the mix of international and domestic sales – so keep a close eye on how the data reflects this going forward.

Tiernan White, Head of NAB Corporate (NSW)

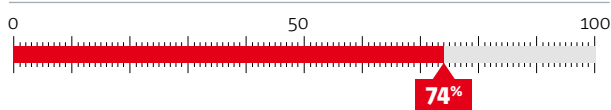
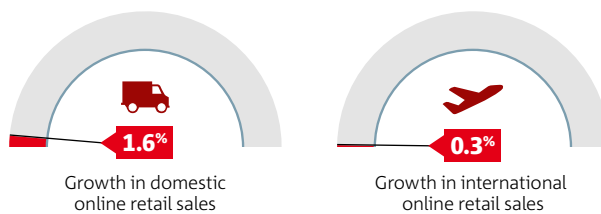
At a glance

Traditional vs online (sa, 3MMA, January mom)



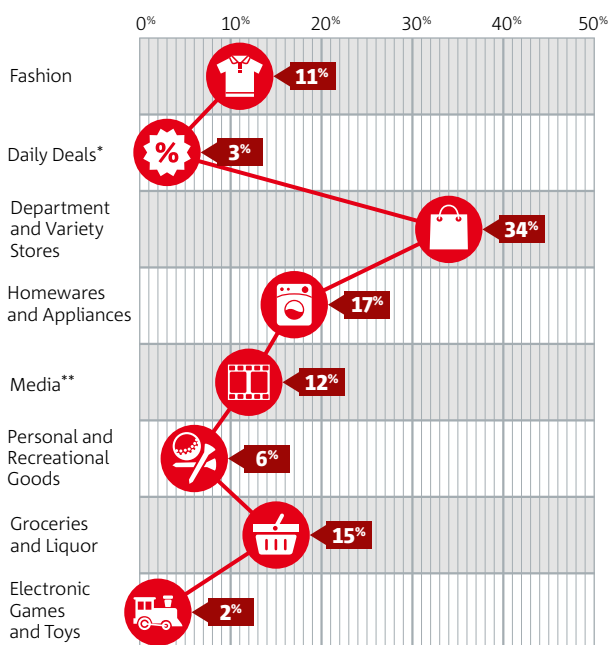
Online purchases hit **\$14.9bn** or 6.5% of the size of traditional retailing

Domestic vs international (sa, 3MMA, January mom)

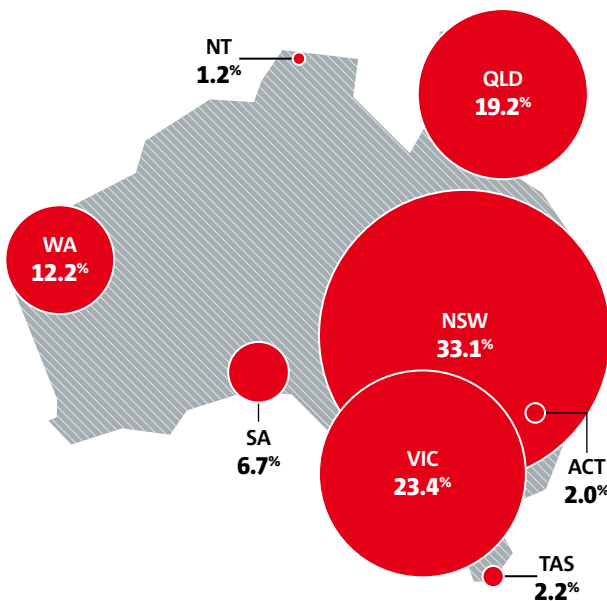


Domestic online retailers accounted for around 74% of total online sales

Share of total online spend by sector Year to January (%)



Share of spending by state Year to January (%)



Growth trends for sectors are highly divergent

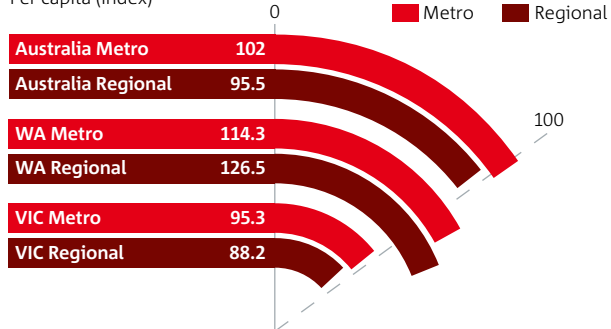
(sa, 3MMA, January mom)



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.

Metro and regional spending has notable differences

Per capita (Index)



Online sales improved in this quarter when compared to a weak previous quarter

In the 12 months to January 2014, Australians spent \$14.9 billion on online retail – a level that is equivalent to around 6.5% of the traditional bricks and mortar retail sector (which totalled \$228 billion in the year to December 2013).*

NAB's Online Retail Sales Index edged higher in January, increasing to 244 points (on a seasonally adjusted basis), from 242 points in December (Chart 3).

Despite slowing growth trends over time, online remains significantly stronger than traditional retail

Growth in online retail sales slowed marginally in January, though this rate is much improved when compared to August 2013. That said, growth over the past few months is in stark contrast to the trends between 2010 and 2012.

In January, monthly online retail sales grew by 1.3% (on a seasonally adjusted, three month moving average basis).** This level was slower than December (1.6%) but faster than January 2013 (1.2%) (Chart 4).

With the improvement in growth over recent months, online sales have returned to growth rates far exceeding traditional retail sales.

Modest increase in the share of sales for domestic retailers

Domestic retailers continue to control the largest share of online retail sales – at around 74%. This share has edged marginally higher across the past few months – reflecting the comparatively weaker growth trends for international retailers over this period (Chart 5).

* Traditional retail sales exclude cafés, restaurants and takeaway food to create a like-for-like comparison.

**Due to volatility in the month-on-month growth rates, these series have a three-month moving average trend applied.

Chart 3: Online index vs. retail sales
(monthly)

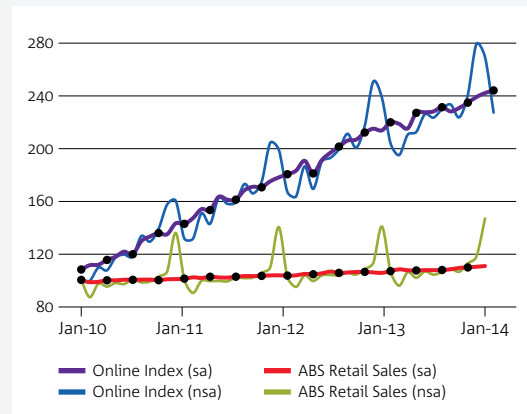


Chart 4: Growth in online sales vs. retail sales
(%, mom)

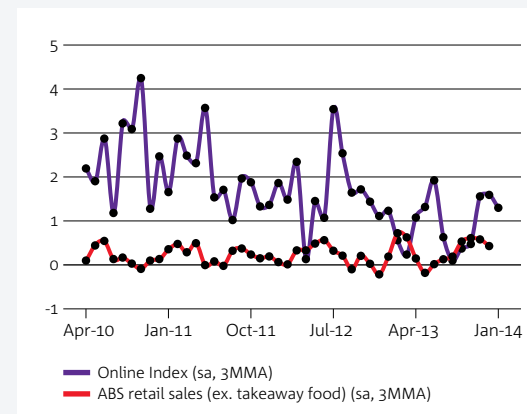


Chart 5: Share of online sales by retail location
(monthly)

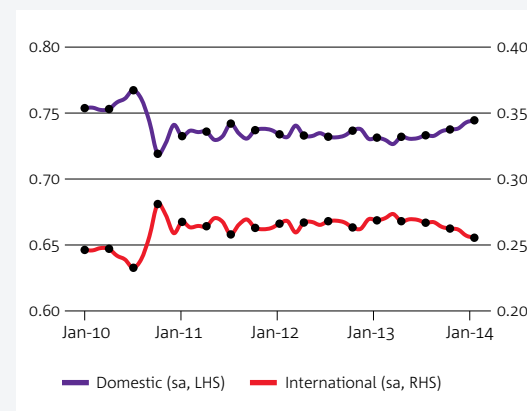


Chart 6: Online index by retail location
(monthly)

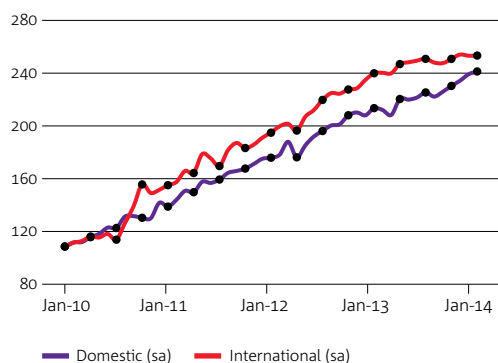


Chart 7: Growth in online sales by retail location
(%, mom)

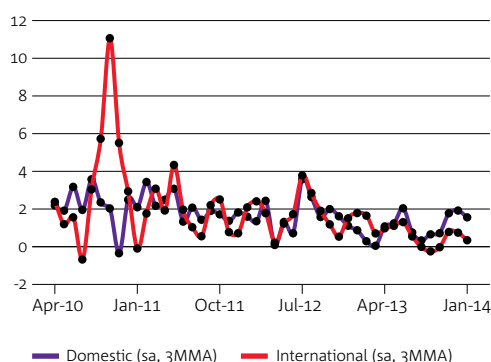
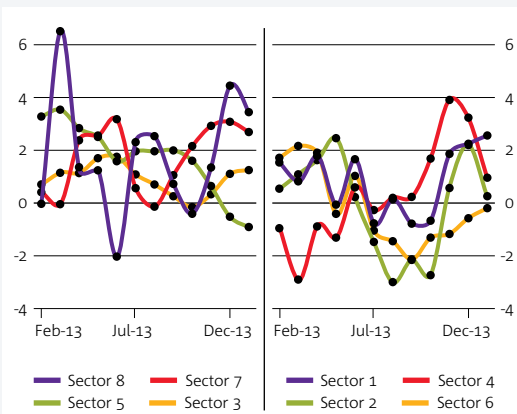


Chart 8: Growth in online sales by category
(%, sa 3MMA, mom)



Domestic online retailers continue to grow, while international sales plateau

In seasonally adjusted terms, domestic online sales rose in January, with the index rising to 241 points (from 239 points in December).

International online sales however were flat, reflective of an unchanged index of 253 points (Chart 6). This level is slightly lower than the recent peak (254 in November).

Recent growth trends weaker for international retailers

Growth rates for international online sales have been particularly weak in recent months – with seasonally adjusted, three month moving average growth of 0.3% in January (Chart 7).

In contrast, domestic sales have grown faster than the Australian average – rising by +1.6% (sa, 3mma) in January, though slower than December (+1.9%).

At around 1.2%, the growth differential between the two series is now the largest since February 2011, in favour of domestic online sales. However, the international index remains higher given the early surge in growth seen in October 2010.

Growth trends highly mixed by sector in January – Fashion, Department Stores, Groceries & Liquor, Electronic Games & Toys show growth; Media, and Personal & Recreational Goods are weaker

	Fashion	Daily Deals*	Department and Variety Stores	Homewares and Appliances	Media**	Personal and Recreational Goods	Groceries and Liquor	Electronic Games and Toys
Under 25s	18%	3%	34%	13%	17%	5%	4%	6%
25-34	12%	4%	35%	15%	13%	6%	12%	2%
35-44	10%	4%	34%	16%	12%	6%	16%	2%
45-54	10%	3%	36%	18%	10%	6%	15%	1%
55-64	9%	3%	35%	20%	10%	6%	18%	1%
65+	7%	2%	30%	19%	9%	5%	28%	1%

Share of total spend in 12 months to January 2014

11%	Sector 1 Fashion
3%	Sector 2 Daily Deals*
34%	Sector 3 Department and Variety Stores
17%	Sector 4 Homewares and Appliances
12%	Sector 5 Media**
6%	Sector 6 Personal and Recreational Goods
15%	Sector 7 Groceries and Liquor
2%	Sector 8 Electronic Games and Toys

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.

Growth trends for the individual online categories have been highly divergent over the past three months, with notable declines in Media (Sector 5) (-0.9%, sa, 3mma in January), and Personal & Recreational Goods (Sector 6) (-0.2%), and anaemic growth in Daily Deals (+0.3%). In contrast, Electronic Games & Toys (Sector 8) (+3.5%), Groceries & Liquor (Sector 7) (+2.7%) and Fashion (+2.6%) recorded comparably stronger growth in the month (Chart 8).

In year-on-year terms, strong growth was experienced in Groceries & Liquor (+27%), Electronic Games & Toys (+22%) and Media (+18%). The strong growth rate for Media for the year masks slowing in recent months (Chart 9).

“The large contribution by Media to the growth of the online market has slowed, while Groceries & Liquor is emerging as a forerunner in growth contribution.”

Tony Davis, Quantum

Chart 9: Share of spend and contribution to growth (%)
(%, year to January 2014)

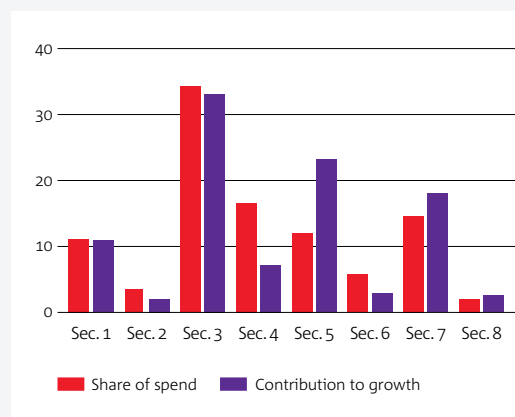
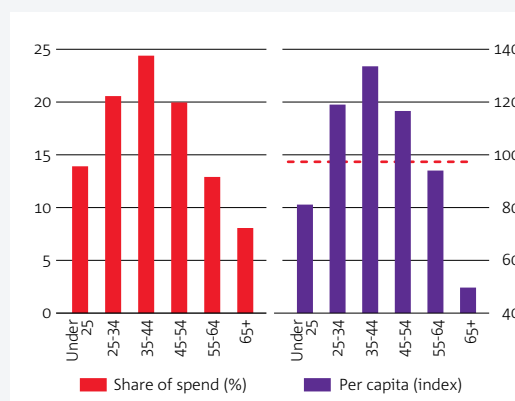


Chart 10: Share of spending by age group
(year to January 2014)



Under 25 consists of ages 18 to 25.

Chart 11: Growth of spending by age group
(%, sa 3MMA, mom)

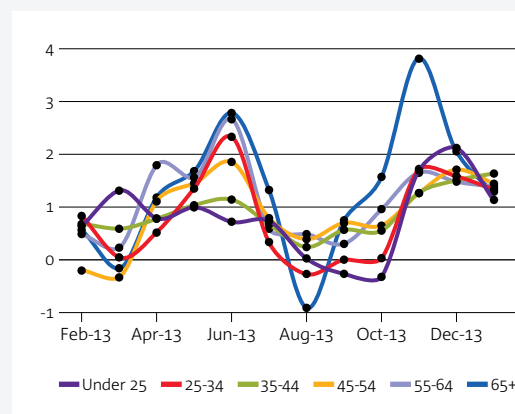


Chart 12: Share of spending by state
(year to January 2014)

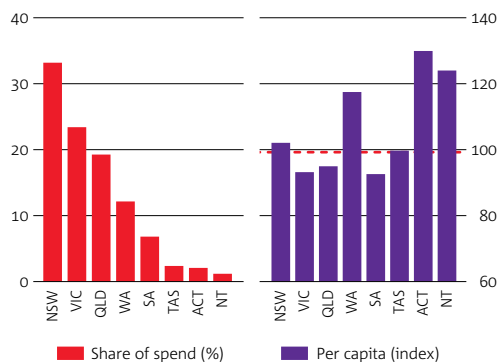


Chart 13A: Growth of spending by state
(% sa 3MMA, mom)

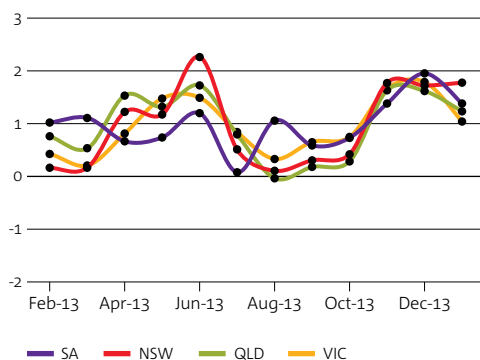
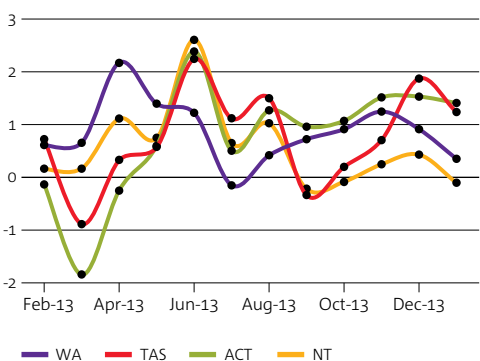


Chart 13B: Growth of spending by state
(% sa 3MMA, mom)



In the year to January, the main contributors to the growth in online retail sales have been Department and Variety Stores (Sector 3), Media (sector 5), and Groceries & Liquor (Sector 7) – which combined accounted for 74% of the total growth over this period. The weakest growing sectors in recent months – Daily Deals and Personal & Recreational Goods – provided some of the smallest contributions to growth. While its share of spend remains high, the growth and therefore contribution to growth of Homewares & Appliances (Sector 6) has fallen markedly (Chart 9).

The pattern of spending by age group remains largely unchanged – with those aged under 25 spending comparatively more than average on Fashion (Sector 1), Media and Electronic Games & Toys (Sector 8), and comparatively less on Groceries & Liquor. Those aged over 65 spend less on Fashion and Department & Variety Stores and more on Groceries & Liquor.

Online spending remains controlled by those aged between 25 and 54 (particularly between 35 and 44), with the over 65s lagging

The broad trends for spending by age group have remained stable – with the 35 to 44 age group having the largest share of spending, followed by those aged 25 to 34 and 45 to 54 (Chart 10). On a per capita basis, the 35 to 44 age group spend 34% more than the national average, those aged 25 to 34 spend 19% more and those aged 45 to 54 around 17% more. In contrast, those aged over 65 spend 51% less online than the national average.

“The release of next generation gaming consoles has resulted in strong growth in the Electronic Games & Toys category, driven by a surge in online payments to gaming networks and communities.”

Tony Davis, Quantum

Growth rates for most age groups improved in the lead up to Christmas but have slowed since. The 35 to 44 group has recorded above average growth post Christmas. The most volatile rates of growth were in the over 65 group – falling by -0.9% (sa, 3mma) in August, and rising +3.8% in November, and now sits at +1.3% (Chart 11).

Growth trends mixed by state – stronger rates for NSW, ACT and Queensland; WA and NT growth lagged in January

In absolute terms, the largest share of online spending is controlled by the three largest states, New South Wales (NSW), Victoria (VIC) and Queensland (QLD) (Chart 12). On a per capita basis, the ACT, Northern Territory (NT) and Western Australia (WA) continue to record stronger levels of consumption, while South Australia (SA), VIC and QLD lag behind.

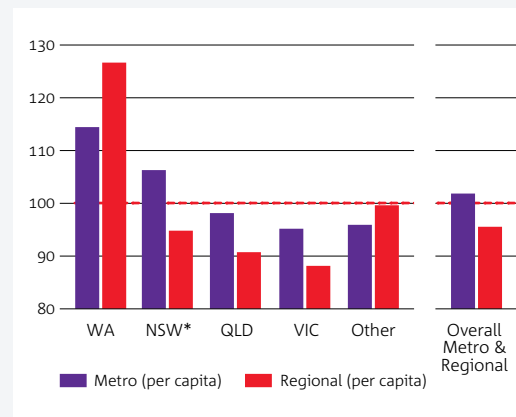
The strongest rates of growth for January were in NSW (+1.8%), ACT (+1.4%), SA (+1.4%) QLD (+1.2%), TAS (+1.2%) and VIC (+1%). WA slowed (+0.3), and NT online sales declined (-0.1%). In year on year, unadjusted terms, NSW leads, followed by QLD and VIC (Chart 13A and 13B).

Metropolitan residents typically spend more than regional Australians, but regional WA bucks the trend to lead overall

There was little change to the per capita share of spending by region in January – with metropolitan residents spending 2% more online than the national average and regional residents almost 5% less (Chart 14). That said, there remain some notable differences between individual states – with regional WA continuing to outperform – with spending almost 26% above the national average. Regional VIC has the lowest per capita spending – 12% below average (Chart 15).

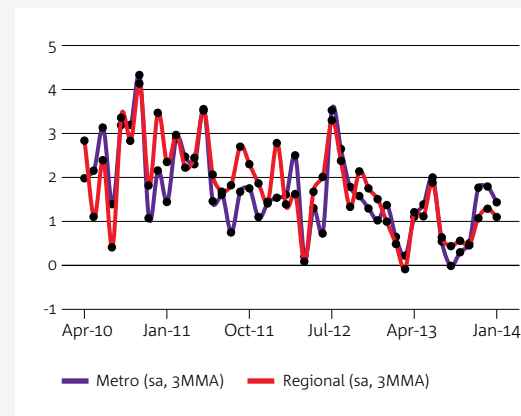
Generally there has been a close relationship between the growth rates for metropolitan and regional sales, though in recent months growth in metropolitan online sales have typically higher, and for January were 1.4% and 1.1% respectively (sa, 3mma). ■

Chart 14: Share of spending by region
(year to January 2014)



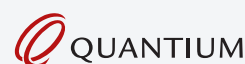
*Metropolitan NSW includes the ACT in this series.

Chart 15: Growth of spending by region
(%, sa, mom)



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





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

Alan Oster

Group Chief Economist
National Australia Bank
+61 (0) 3 8634 2927
Alan.Oster@nab.com.au

Tiernan White

Head of NAB Corporate
NSW/ACT
+61 (0) 2 9237 1041
Tiernan.White@nab.com.au

Tony Davis

Director
Quantium
+61 (0) 2 9292 6400
Tony.Davis@quantium.com.au

Peter King

Head of Consumer Sectors Australia
Institutional Banking
+61 (0) 2 9237 9054
Peter.P.King@nab.com.au

Important notice.

DISCLAIMER: While care has been taken in preparing this material, National Australia Bank Limited (ABN 12 004 044 937) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") are accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts.

To the extent permissible by law, the National shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, the National limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. The National, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer.

UK Disclaimer: So far as the law and the FSA Rules allow, National Australia Bank Limited ("the Bank") disclaims any warranty or representation as to the accuracy or reliability of the information and statements in this document. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document. This document does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances. The Bank may have proprietary positions in the products described in this document. This document is for information purposes only, is not intended as an offer or solicitation nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. No part of this document may be reproduced without the prior permission of the Bank. This document is intended for Investment Professionals (as such term is defined in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001) and should not be passed to any other person who would be defined as a private customer by the rules of the Financial Services Authority ("FSA") in the UK or to any person who may not have experience of such matters. Issued by National Australia Bank Limited A.C.N. 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the state of Victoria, Australia. Regulated by the FSA in the UK.

U.S. DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in any securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.