



# NAB Online Retail Sales Index

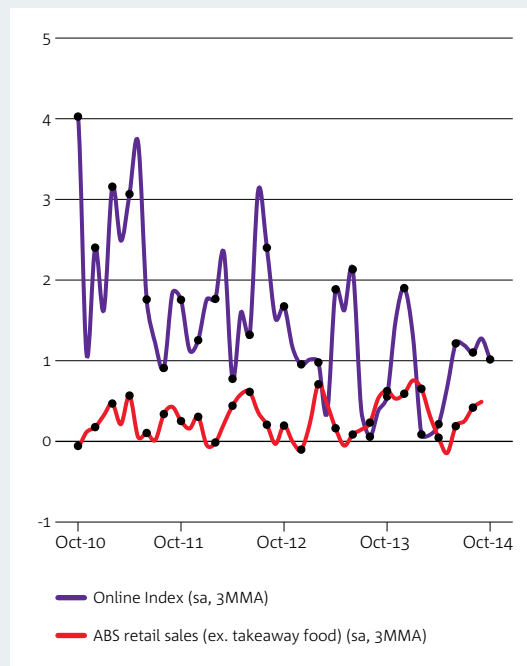
## In depth report – October 2014

**Table 1. Key online retail statistics**

|                     | YOY growth (%) |        |        | MOM growth (% sa, 3mma) |        |        |
|---------------------|----------------|--------|--------|-------------------------|--------|--------|
|                     | Aug 14         | Sep 14 | Oct 14 | Aug 14                  | Sep 14 | Oct 14 |
| Total online Index  | 10.0           | 14.3   | 11.9   | 1.1                     | 1.3    | 1.0    |
| Domestic sales      | 11.5           | 16.8   | 14.4   | 1.3                     | 1.8    | 1.2    |
| International sales | 6.0            | 7.4    | 4.7    | 0.9                     | -0.1   | 0.2    |

Monthly growth figures represent seasonally adjusted (sa) data with a three month moving average applied. This is done to provide a smoother, trend view of the series. 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).

**Chart 1: Growth in online retail vs. ABS retail sales (% monthly)**



■ Australia’s online retail spending increased to \$16.19 billion for the year to October 2014, or by 11.9% annually (Table 1). It now represents around 6.8% of traditional retail spending. The share of domestic spending continues to edge higher, now controlling 75.2% of total online spending.

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 quarter (Chart 1). That said, recent online growth has been more subdued than the 20-30% growth rates recorded in earlier years.

By category, the results are mixed. Growth rose significantly in Electronic Games & Toys, with sales growth highly volatile and influenced by major product releases. We saw sales growth in Homewares & Appliances and Groceries & Liquor, while Personal & Recreational Goods and Daily Deals were the only sectors to have a sales decline in year on year terms.

At almost a quarter of all online spending, those aged 35-44 represent the largest spend group. However, the growth in online shopping by older Australians has been encouraging.

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

**Alan Oster, Group Chief Economist, NAB**

■ I’m delighted to be joining Alan and the team that brings our market leading insights on online spending to you.

Our October data confirms what we anticipated last quarter – that online sales will keep growing at a faster pace than traditional retail. At 1.0%, online sales growth was double the growth of traditional retail sales. Nonetheless, we’re seeing online growth moderate as the channel matures. In fact, it’s now less than half of what it was one year ago.

This month’s data also convincingly highlights that there’s a strong correlation between currency movement and our country’s appetite for international retail wares. The depreciation of the Aussie dollar since December 2013 has ushered in a strong domestic bias as international prices have escalated. And it’s hard to imagine this trend changing any time soon based on market sentiment towards the currency. Currency moves aside, the concerns around a level playing field and tax leakage remain issues for all stakeholders.

This latest report also shows the flow of money across geographies. Over three-quarters of all online spend happens from New South Wales, Victoria and Queensland, while they’re pointing and clicking the most in Canberra. Yes, the ACT has the highest rate of online spending per capita, while Victoria has the lowest. Why does this matter? Because it’s this kind of data that can help retailers target their growth strategies.

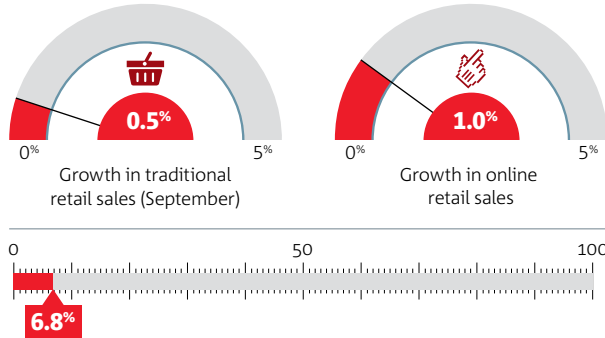
We hope these insights help inform your views on the Australian online retail landscape.

**Peter King, Head of Consumer Sectors Australia, Global Institutional Banking**

## At a glance

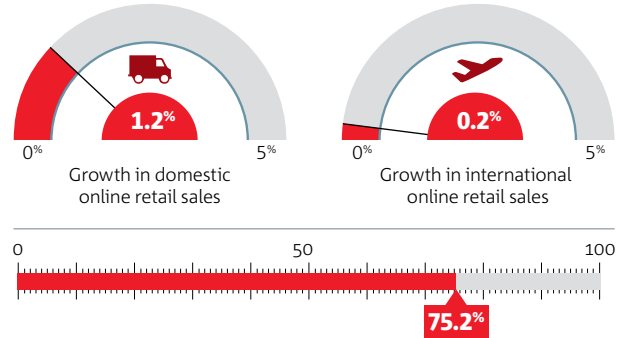
### Traditional vs online

(sa, 3MMA, October mom)



### Domestic vs international

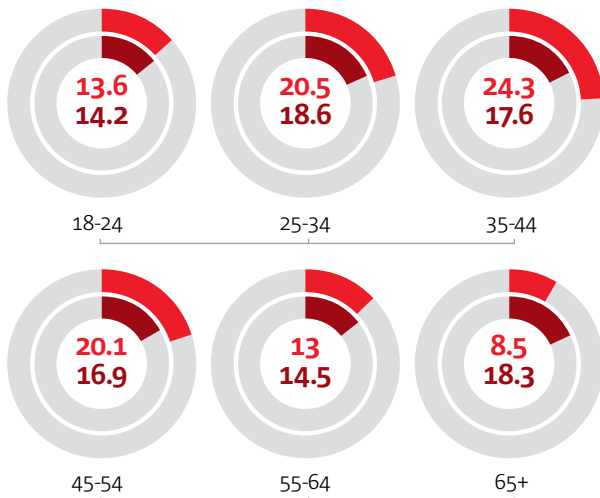
(sa, 3MMA, October mom)



### Share of spending by age group

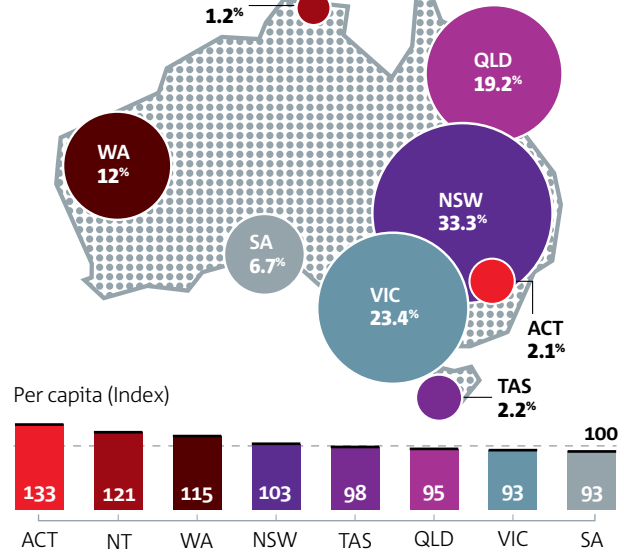
Year to October (%)

■ Share of spend ■ Share of adult population



### Share of spending by state

Year to October (%)



### Preference in category spending by age group

Year to October (%)

# 1st

Department & Variety Stores continues to dominate across all age groups (34% total).



# 2nd

Apart from Variety Stores, preferences in category spending varied significantly.

18-24

25-34

35-44

45-54

55-64

65+



Fashion 17%



Homewares & Appliances 15%



Groceries & Liquor 18%



Homewares & Appliances 18%



Homewares & Appliances 19%



Groceries & Liquor 28%

3MMA is a three-month moving average.

## Online retail sales continue to grow faster than traditional retail growth.

Online sales grew by 1.0% month-on-month in October and 1.3% in September. This compares to strong growth in ABS traditional retail sales in September at 0.5% (Chart 1).

In the 12 months to October, Australians spent an estimated \$16.19 billion on online retail – a level that is equivalent to around 6.8% of the traditional bricks and mortar retail sector (which totalled \$237 billion in the year to September 2014 according to the ABS).

While September's online retail growth rate still outpaced comparable traditional retail sales growth, online sales growth has been on a gradual decline. Online retail sales in October were 11.9% higher compared to a year ago, down from the more rapid growth rates experienced in previous years (25.8% in October 2011, and 24.5% in October 2012), and more in line with 12.1% in October 2013.

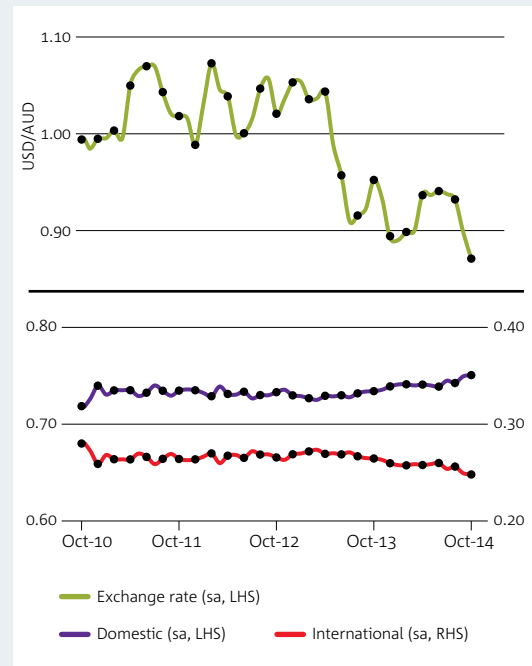
## Domestic stronger while international spending barely positive. The share of domestic spending edged higher to 75.2% in October.

Domestic retailers still command the majority of market share, attracting 75.2% of total online spending in October 2014.

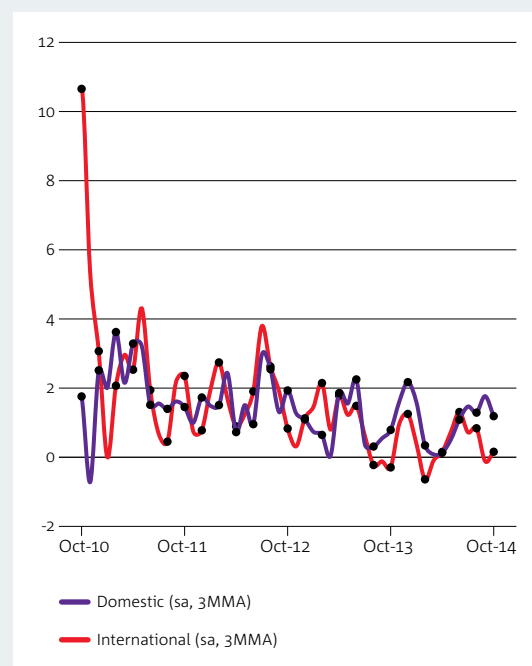
Not surprisingly, there appears to be some correlation between currency movements and the international/domestic split (Chart 2). When the Australian dollar depreciates (making overseas goods relatively expensive), the share of international spending tends to fall accordingly. This may also be attributed to on-costs such as postage, which has seen AUD price increases, whereas the domestic retailer value may be unchanged.

During late 2010, as the Australian dollar appreciated sharply, the share of international purchases spiked as well. International spending stabilised at around 27% in 2011 and 2012, before declining again in early 2013 as the Australian dollar depreciated (Chart 3). Given the expectations for the currency, it will be interesting to see if this relationship is maintained.

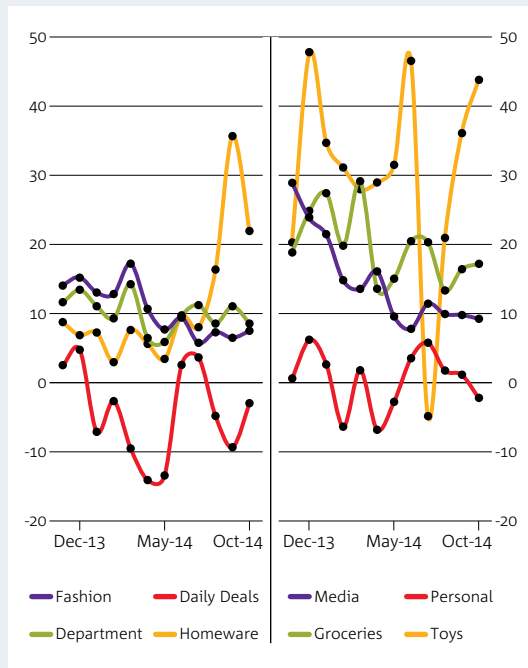
**Chart 2: Share of international and domestic online sales vs. USD/AUD exchange rate (monthly)**



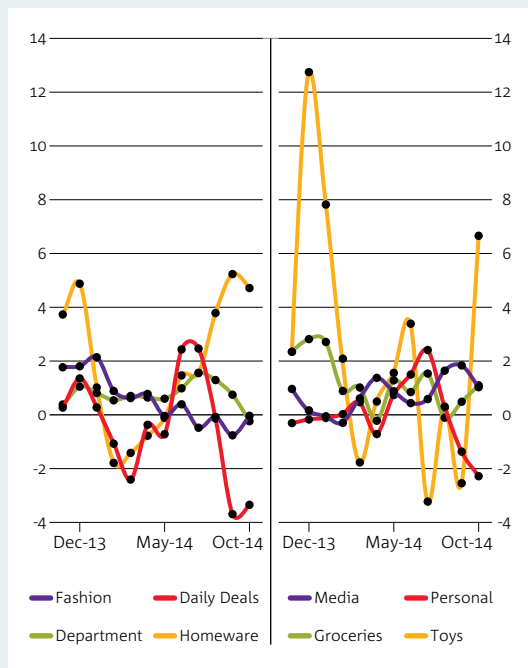
**Chart 3: Growth of online sales by retail location (% monthly)**



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



**Chart 4B: Monthly growth of spending by category (%)**



Looking at the respective year-on-year growth rates, domestic online sales have outpaced international sales since December 2013, around the same time the Australian dollar started depreciating. In year-on-year terms, domestic online sales expanded 14.4%, while international sales only grew by 4.7%. In October, domestic sales grew by 1.2% month-on-month, while international were barely positive (0.2%).

*"The online music and books category is experiencing some structural changes. Intangibles, such as music streaming, are becoming more and more popular and taking share from online physical media purchases."*

Tony Davis, Quantum

**Department & Variety Stores continue to have the largest online market share. Electronic Games & Toys have been expanding rapidly, albeit off a small base. Sales from Daily Deals have virtually collapsed.**

At 43.9%, Electronic Games & Toys had the fastest annual online sales growth in October — 6.7% higher than the previous month (Chart 4A). It is worth noting that this category is considerably more volatile, due to effects such as the timing of electronic game releases. The second highest annual growth rate is now in the Homewares & Appliances category where sales expanded by 22.1% annually and 4.7% monthly.

The largest category and contributor to annual growth, Department & Variety Stores, contracted slightly in the month (-0.2%) but was still higher for the year (8.7%). The other large contributor to annual growth, Groceries & Liquor, grew by 1.1% this month, and is up 17.3% for the year. Although this category represents 15.3% of spend, it represented almost one quarter (24.1%) of all growth contribution in the past year.

In year-on-year terms, there were two categories where a decline in the sales was evident, Personal & Recreational Goods (-2.0%), and Daily Deals (-2.8%).

These categories also saw the largest monthly falls (Chart 4B).

Department & Variety Stores continue to dominate the online retail sector, capturing 34% of total online spending. The second largest category, Homewares & Appliances, had a 17% share of spend, followed by Groceries & Liquor (15%), Media (12%), Fashion (11%), Personal & Recreational Goods (6%), Daily Deals (3%) and Electronic Games & Toys (2%).

The spending patterns also varied across age groups. While all age groups spent most in Department & Variety Stores, significant differences were apparent by age across other categories. The younger age groups favoured the Fashion, Electronic Games & Toys, and Media categories, while Australians aged 65 and above spent a large proportion of their online dollar (28%) in the Groceries & Liquor category.

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

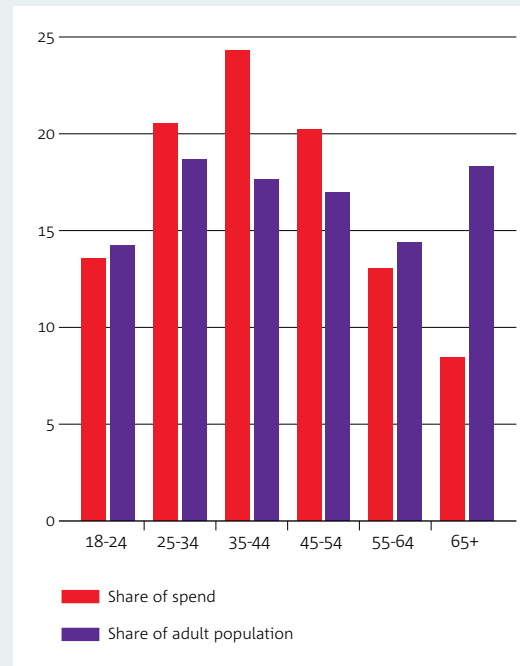
| %            | Monthly growth - September | Monthly growth - October | Annual growth - September | Annual growth - October | Share of total spending | Contribution to annual total spending growth |
|--------------|----------------------------|--------------------------|---------------------------|-------------------------|-------------------------|--|
| Fashion      | -0.7                       | 0.0                      | 6.6                       | 7.6                     | 11                      | 10   |
| Daily Deals* | -3.7                       | -3.3                     | -9.2                      | -2.8                    | 3                       | -1   |
| Department   | 0.8                        | -0.2                     | 11.2                      | 8.7                     | 34                      | 30   |
| Homeware     | 5.3                        | 4.7                      | 35.8                      | 22.1                    | 17                      | 16   |
| Media**      | 1.9                        | 1.0                      | 9.9                       | 9.4                     | 12                      | 15   |
| Personal     | -1.4                       | -2.3                     | 1.3                       | -2.0                    | 6                       | 0  |
| Groceries    | 0.5                        | 1.1                      | 16.5                      | 17.3                    | 15                      | 24   |
| Toys         | -2.5                       | 6.7                      | 36.3                      | 43.9                    | 2                       | 5  |
| <b>Total</b> | <b>1.3</b>                 | <b>1.0</b>               | <b>14.3</b>               | <b>11.9</b>             | <b>100</b>              | <b>100</b>                                   |

**Table 3: Share of spending by category, by age**

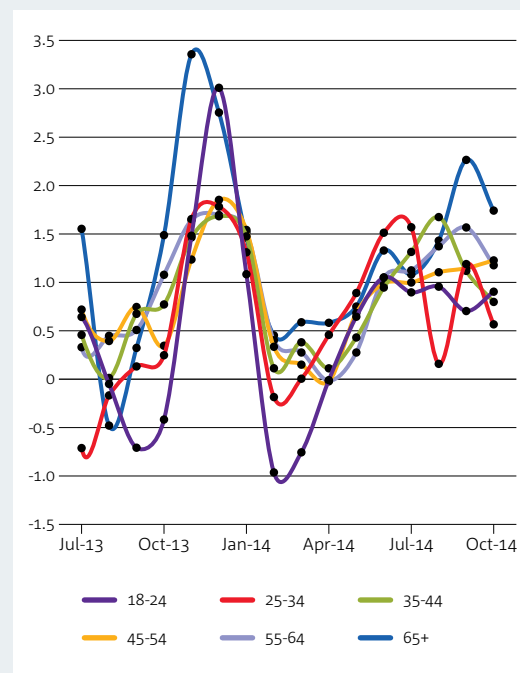
|                 | Fashion    | Daily Deals | Department & Variety Stores | Homewares & Appliances | Media      | Personal & Recreational Goods | Groceries & Liquor | Electronic Games & Toys |
|-----------------|------------|-------------|-----------------------------|------------------------|------------|-------------------------------|--------------------|-------------------------|
| 18-24           | 17%        | 3%          | 34%                         | 14%                    | 16%        | 5%                            | 4%                 | 7%                      |
| 25-34           | 13%        | 4%          | 34%                         | 15%                    | 13%        | 6%                            | 13%                | 3%                      |
| 35-44           | 10%        | 3%          | 33%                         | 16%                    | 12%        | 6%                            | 18%                | 2%                      |
| 45-54           | 10%        | 3%          | 35%                         | 18%                    | 11%        | 6%                            | 15%                | 2%                      |
| 55-64           | 9%         | 3%          | 34%                         | 19%                    | 11%        | 5%                            | 18%                | 1%                      |
| 65+             | 8%         | 1%          | 29%                         | 19%                    | 9%         | 5%                            | 28%                | 1%                      |
| <b>All ages</b> | <b>11%</b> | <b>3%</b>   | <b>34%</b>                  | <b>17%</b>             | <b>12%</b> | <b>6%</b>                     | <b>15%</b>         | <b>2%</b>               |

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

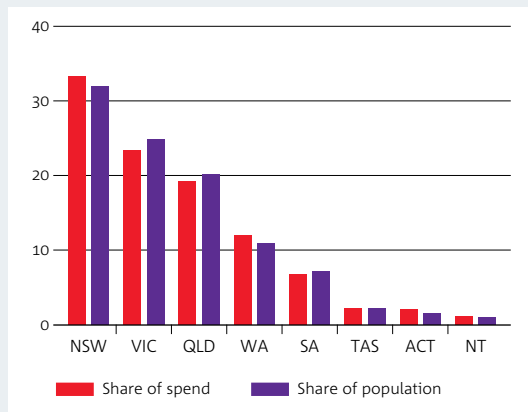
**Chart 5: Share of spending by age group (Annual)**



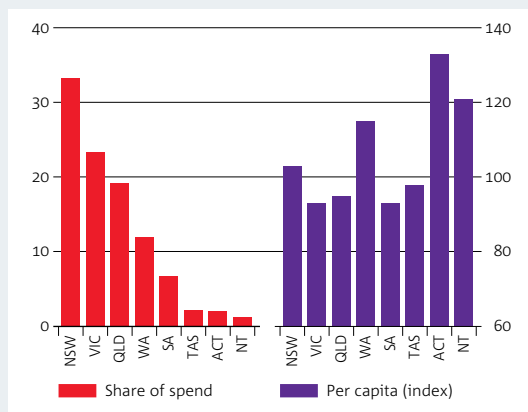
**Chart 6: Growth of spending by age group (% monthly)**



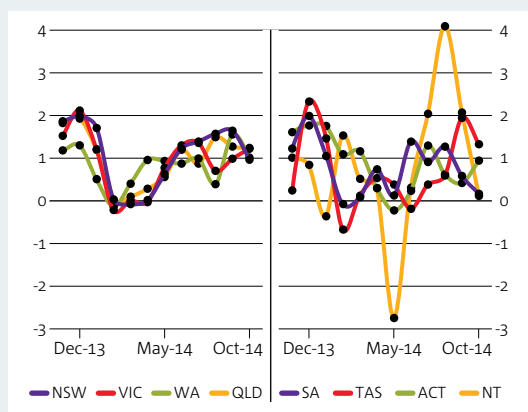
**Chart 7: Share of spending by state**  
(Annual)



**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, but the over 65s are growing fastest.**

Although those aged 35-44 make up approximately 17.6% of the adult population, their share of online spend is the highest at 24.3% (Chart 5). In contrast, those aged 65 and over have a disproportionately lower share of spend (8.5%) relative to their share of population (18.3%).

That said, the uptake of online shopping by older Australians has started to address their under-representation. The monthly growth in online spending by those 65+ has been positive since September 2013, and annual growth has been higher than other age groups (Chart 6). Up 1.7% in the month, they were the fastest growing age segment in October.

In contrast, 25-34 year olds, whose growth in online spend had surpassed other groups earlier in the year, saw the slowest growth in October (0.6%). The group representing the largest share of online spending, 35-44 year olds, also trended lower. Two age groups that trended higher in October were those aged 18-24 and 45-54.

**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 the ACT, NT, WA and NSW spent more than the national average (Chart 8). In the ACT, where only 1.6% of Australians live, 2.1% of total online purchases in dollar value terms were made. Similarly in WA, 10.9% of Australians made 12% of total online purchases.

On the other hand, those in TAS, QLD, VIC and SA were spending less than the national average. VIC is home to 24.8% of the Australian population yet represents only 23.4% of total online spending.

**Most states recorded growth around or above 1% in October, with TAS, QLD, and VIC recording the strongest growth. Sales growth in SA and NT slowed considerably.**

Online spending growth was strongest in TAS (1.3%), followed by QLD (1.2%), VIC (1.2%), WA (1.0%), NSW (1.0%), and the ACT (0.9%). SA (0.2%) and NT (0.1%) were close to flat for the same period (Chart 9).

**Metropolitan residents bought over 71% of online purchases in the past year and spent more on average in most states. However, WA regional sales lead on a per capita basis.**

Metropolitan residents spent on average 7.0% more than those residing in regional Australia. However, those living in regional WA spent 23.6% more than the average Australian, along with WA metropolitan residents at 12.6% more (Chart 10). Regional VIC residents were the lowest at 11.3% less than the national average.

Online spending in both metro (12.9%) and regional (9.3%) areas grew in year-on-year terms (Chart 11). Over the month, metro areas saw fairly stable growth at 1.2%, compared to much slower sales for regional areas (0.5%). ■

**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.

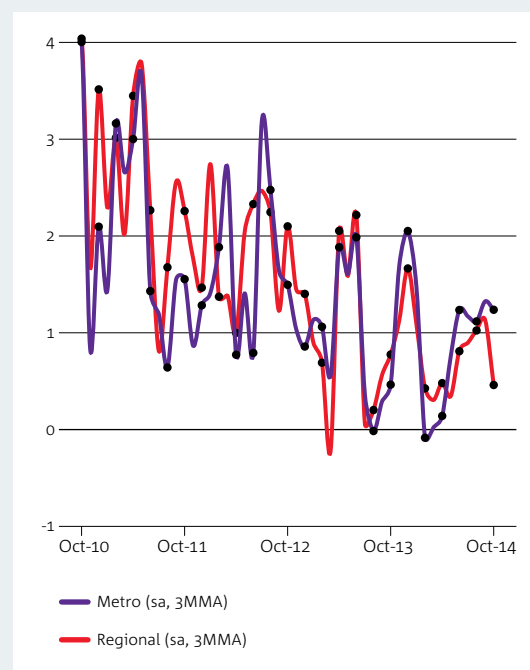
[www.quantum.com.au](http://www.quantum.com.au)



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



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







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