



NAB Online Retail Sales Index

In-depth report – December 2015

Introduction

Alan Oster

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In this December 2015 quarter edition of the NAB Online Retail Sales Index, we have responded to market changes by including separate data on takeaway food and smaller online retailers. We have also enhanced the methodology by identifying retail category and spend location (domestic /international).

In total, we estimate the Australian online retail market was worth \$19.1bn in the 12 months to December 2015.

In growth terms, sales experienced relatively strong month-on-month (MOM) growth of 2.0% in December, seasonally adjusted (sa). This is a considerable improvement on the sales weakness in October (-0.1%). The December result was driven by domestic online sales growth (+2.5%), while international contracted (-0.7%). In year-on-year (YOY) terms, domestic online retailers (15.4%) continue to outpace international (-4.1%). Comparable YOY growth in traditional bricks & mortar retail (up 4.7% in December) was still outpaced by the improvement in online retail (11.2%).

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

Richard Coath

General Manager, Consumer, Health, Agri & TMI
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Changes made to this edition have helped reveal the various dynamics of Australians' spending patterns in greater detail.

In the December quarter, we are continuing to see the clear impact of the depreciating Australian dollar (AUD) with a continuing move away from international purchases and a corresponding strong growth in domestic retail.

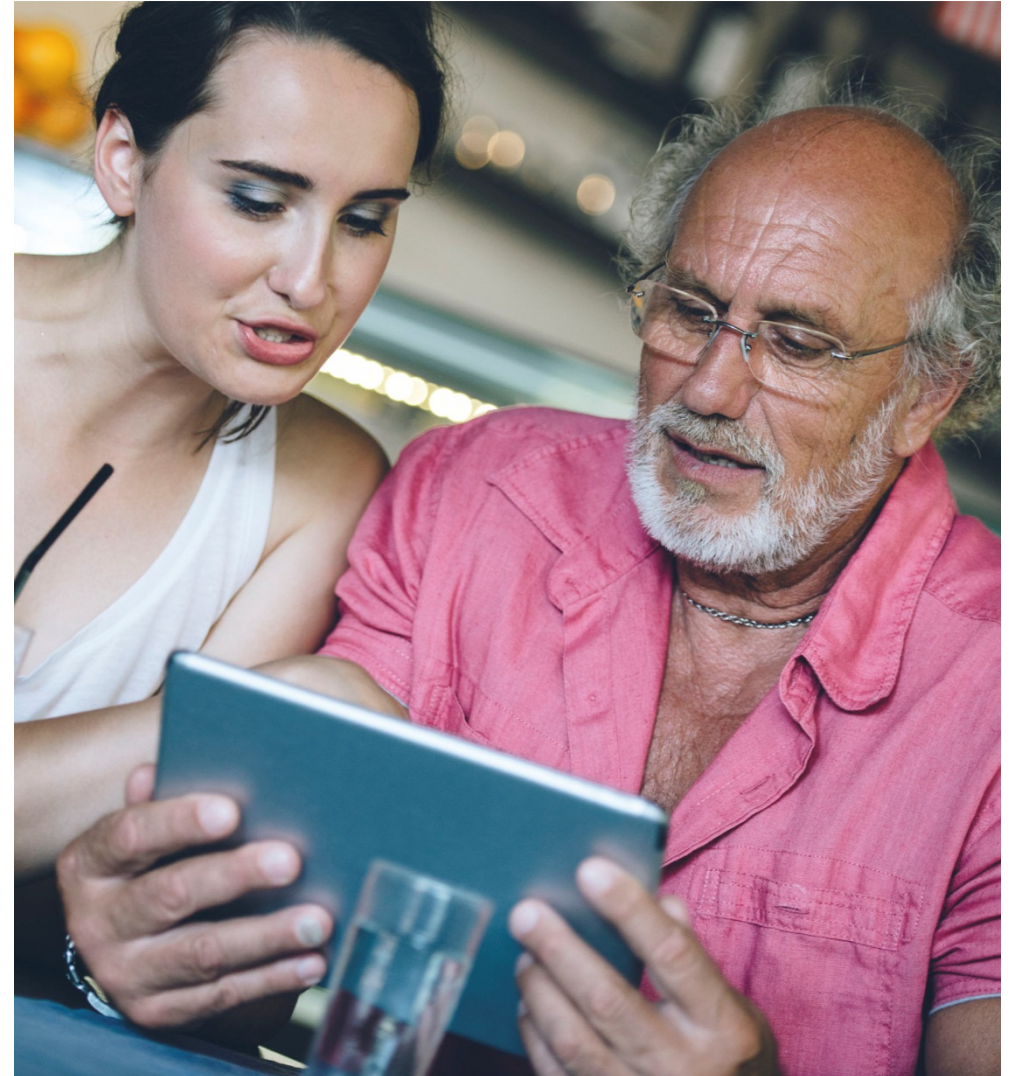
There is also the impact of relatively new online sectors such as takeaway food and the growing strength of small online retailers to consider.

Spending across age groups and locations also shows up some interesting trends that retailers need to understand when adjusting their strategies for the coming year.

We hope the changes we've introduced to our report help you understand the nuances of the market even better.

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At a glance



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

24.3%
Annual

17.2% of the adult population is made up of this age group

Category growth is highly divergent
December (yoy)

Takeaway food



+42.4%

Daily deals

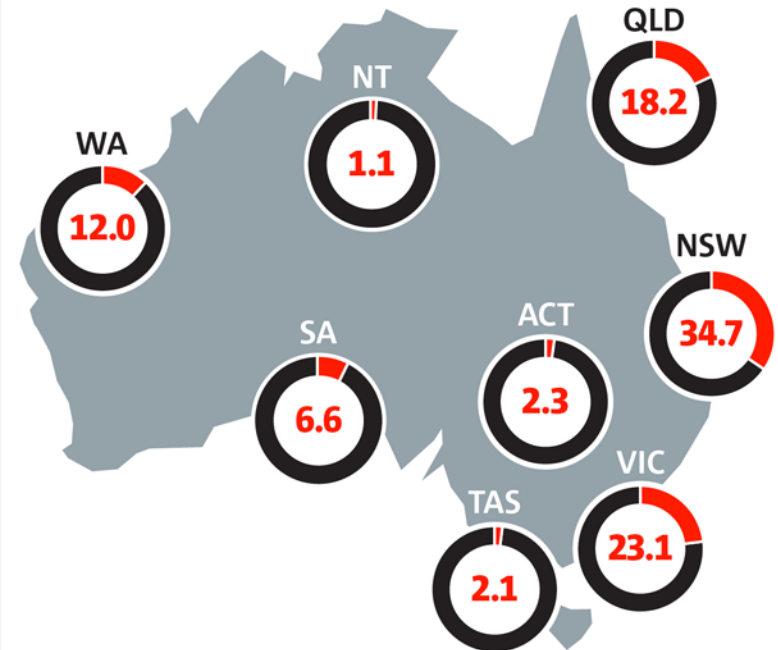


-7%



Share of spending by state

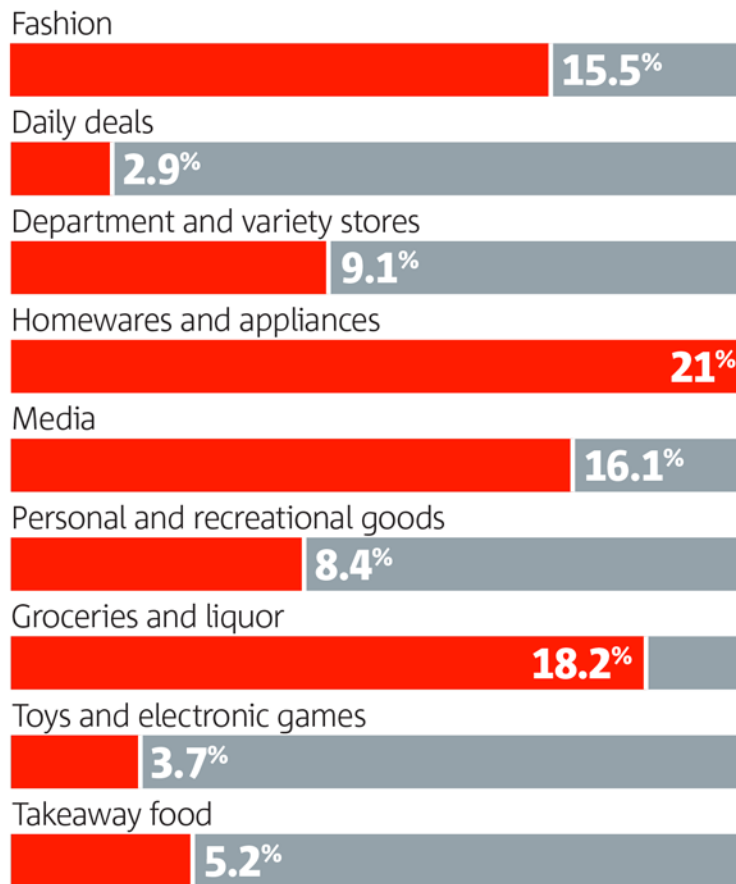
(year to December %)



At a glance

Share of online spend by category

(year to December)



Share of Domestic vs International

(year to December)

Age group



Domestic



International

18-24



35-44



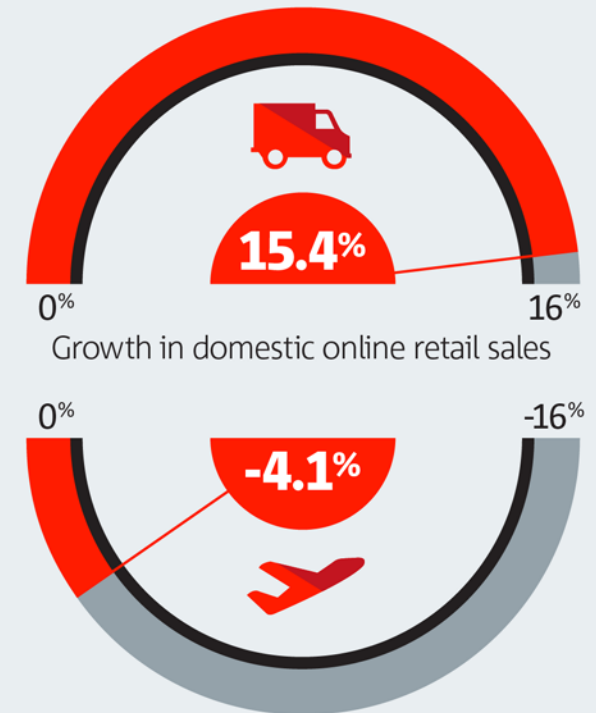
\$19.1
Billion

Australian online retail market
(annual)

Smaller online retailers continue
to dominate with sales growth of

12.3%

37%
of total online
retail sales



The Online Retail Market



Overall index

At 2.0% online retail sales recorded reasonably strong growth in December, higher than the revised 1.4% recorded in November.

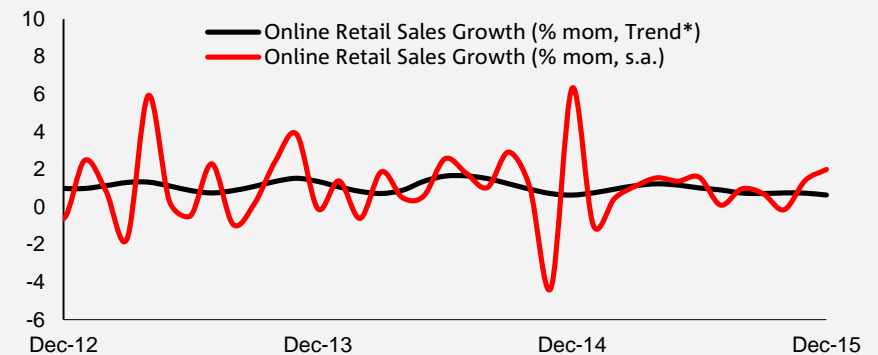
In trend terms, at 0.6%, the revised estimate for online retail sales was almost unchanged on November (0.7%). We estimate that online sales are now 11.2% higher compared to a year ago. ABS data showed growth of comparable traditional retailers in December to be flat on November sales, and 4.7% higher than a year ago.

In the 12 months to December, Australians spent an estimated \$19.1 billion on online retail – a level that is equivalent to around 6.5% of the traditional bricks & mortar retail sector (which totalled \$292.2 billion in the year to December 2015 according to the ABS).

When referring to change in year on year terms, at 11.2% in December, growth appears to have moderated, given that the same growth metric a year prior (December 2014) was 16.7% and much slower than the early period when the index was established. In December 2011 for example, year on year growth was 27%. This change is highlighted by the Henderson 13 term trend line (chart 1), which shows monthly growth in online has been on a broadly slowing trajectory.

Chart 1 Growth in Online Retail

(% mom)



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

Key Retail Statistics

	Oct-15	Nov-15	Dec-15
Monthly growth (%)			
Corporate	-0.1	1.4	2.0
SMEs	-0.1	2.8	1.3
Annual growth (%)			
Corporate	8.6	14.4	11.2
SMEs	6.8	13.6	12.3

Online Categories



Category performance

With the reclassification of categories, Homewares and Appliances is the largest category*.

At 42.4% (yoy), Takeaway Food had the fastest annual online sales growth in December, and 1.6% higher than the previous month. It is worth noting that this category represents a relatively new way of ordering food, supported by recent advancements in methods such as mobile phone applications. The Takeaway Food category also represents a relatively small share of spend.

Of the larger spend share categories, in month on month terms, Grocery and Liquor (4.2% mom s.a.) saw the strongest growth. Although daily deals (4.3% mom s.a.) had higher growth, it represents the smallest share of spend and has contracted over the year (-7% yoy).

Categories punching above their weight include Toys, with only 3.7% of spend but contributing 7.6% to annual spending growth, along with the Media and the new Takeaway Food category. 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)

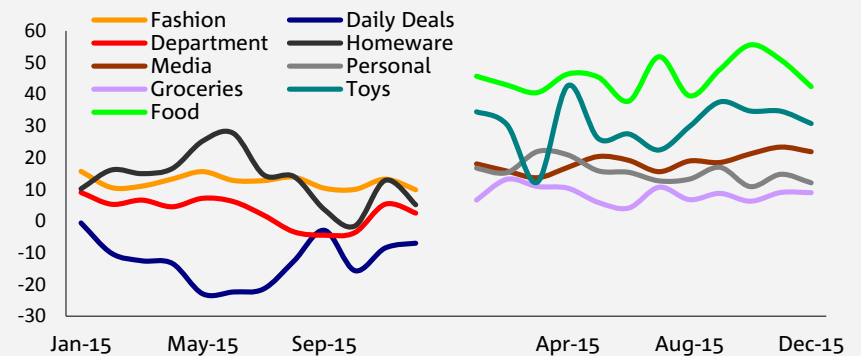
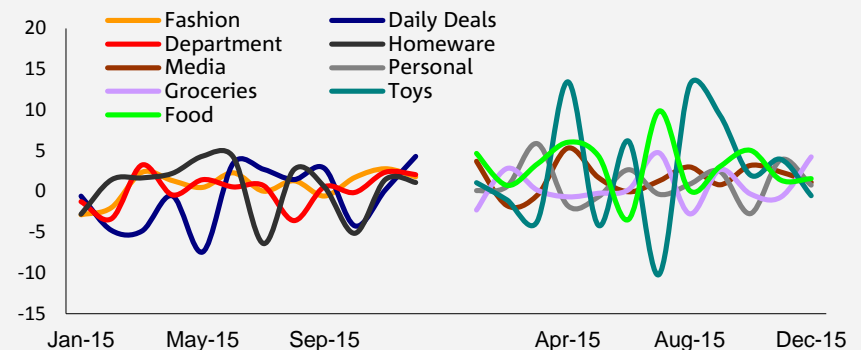


Chart 3 Monthly growth of spending, by category

(% 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
	Nov-15	Dec-15	Nov-15	Dec-15		
Fashion	2.8	1.8	13.2	9.9	15.5	15.0
Daily Deals	0.2	4.3	-8.4	-7.0	2.9	-3.8
Department	2.4	2.1	5.3	2.5	9.1	2.2
Homeware	1.5	1.1	12.9	5.2	21.0	20.4
Media	2.4	1.1	23.4	21.9	16.1	22.3
Personal	3.9	0.8	14.8	12.1	8.4	9.7
Groceries	-0.7	4.2	9.0	9.0	18.2	12.4
Toys	3.9	-0.5	34.7	30.8	3.7	7.6
Food	1.4	1.6	50.9	42.4	5.2	14.2
Total	1.4	2.0	14.4	11.2	100	100

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

"Online food ordering is becoming more popular, with annual growth rates in excess of 40% over the past 12 months"

Tony Davis, Quantum

International vs Domestic



International vs domestic performance

Domestic stronger, international weaker in the month. The share of domestic spending increases to 81% in December.

For domestic online retailers, growth accelerated in December, at 2.5%, from November (0.9%). In contrast, international sales continue to weaken (-0.7%)

Looking at the year-on-year growth rates, domestic online sales continue to outpace international sales at 15.4% vs -4.1% respectively.

As shown in chart 4, the increase in 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

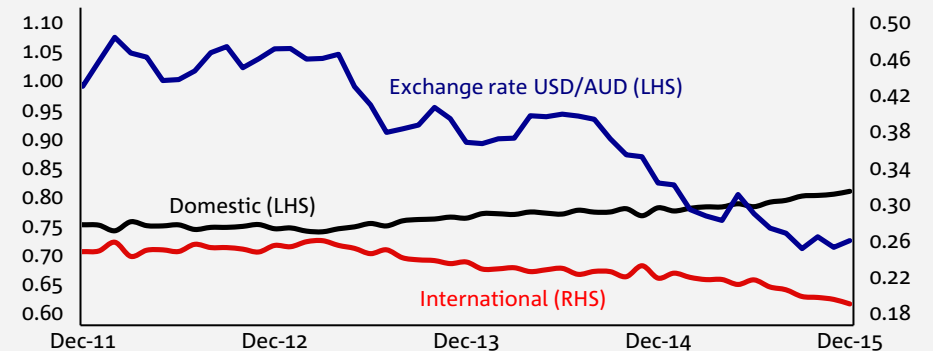
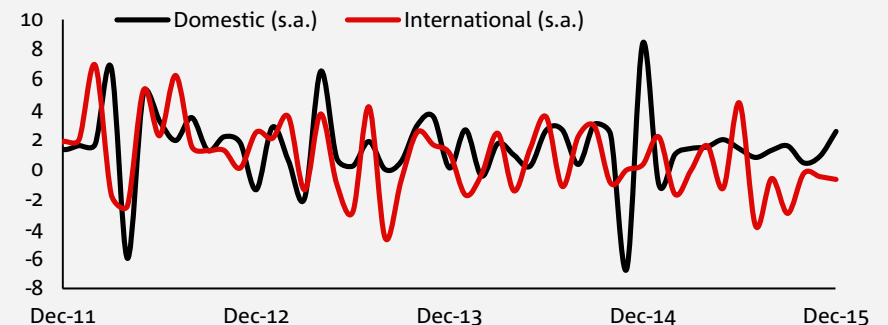


Chart 5 Growth of online sales, by retail location
(% mom)



International vs domestic - by category

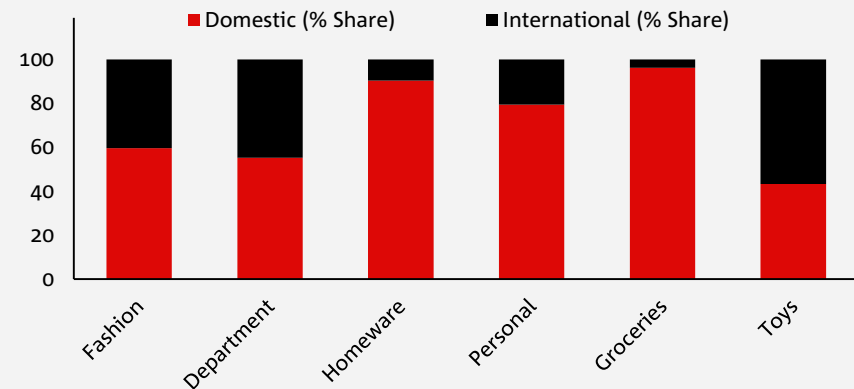
Given the overwhelming spend towards and interest in retailers classified as domestic, we now include a series to look at the category of goods bought from domestic and international retailers.

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 Department and Variety, 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 nearly 60% of Fashion is purchased from domestic online retailers, it only accounts for about 12 % of domestic online spend, but at 30%, 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	17.2	-3.2	59.6	40.4	11.7	30.2
Department	13.4	-11.0	55.2	44.8	6.3	19.5
Homeware	5.8	-0.1	90.3	9.7	23.9	9.8
Personal	21.4	-19.6	79.4	20.6	8.4	8.3
Groceries	10.1	-22.4	96.2	3.8	22.1	3.3
Toys	66.3	3.5	43.2	56.8	2.0	10.2
All categories	15.4	-4.1	81.0	19.0		

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 65+, and slowest for 18-24 year olds.

Although those aged 35-44 make up approximately 17.2% of the adult population, their share of online spend is the highest at 24.3%. In contrast, those aged 65 and over have a disproportionately lower share of spend (9.1%) relative to their share of population (19%)

In the month, growth accelerated for both the smallest spend share group (65+), and the largest (35-44 year olds), along with the age groups in between. Growth for those aged 25-34 remained unchanged, while spend growth for those aged 18-24 slowed.

Chart 7 Share of spending, by age group

(% annual)

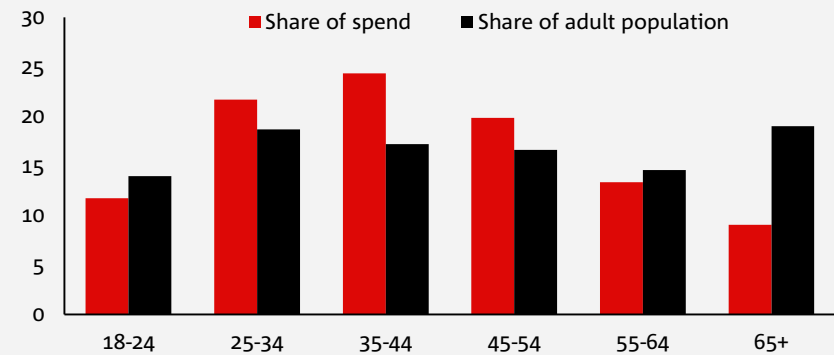
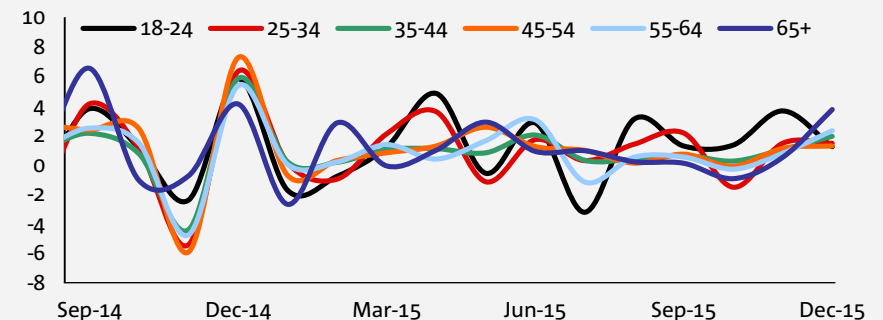


Chart 8 Growth of spending, by age group

(% mom)



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 these 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 (31.8%) 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	22.6	2.2	6.2	16.0	19.9	5.4	4.6	12.7	10.3
25-34	17.9	3.3	8.3	18.4	17.0	7.7	15.0	3.9	8.5
35-44	14.6	3.3	9.3	20.3	15.9	8.7	20.7	2.6	4.7
45-54	14.4	3.0	9.7	23.5	15.5	9.5	18.5	2.6	3.3
55-64	12.6	2.8	10.9	24.9	14.7	9.6	21.4	1.2	1.9
65+	9.7	1.8	9.7	23.9	13.0	8.4	31.8	0.9	0.9
All ages	15.5	2.9	9.1	21.0	16.1	8.4	18.2	3.7	5.2

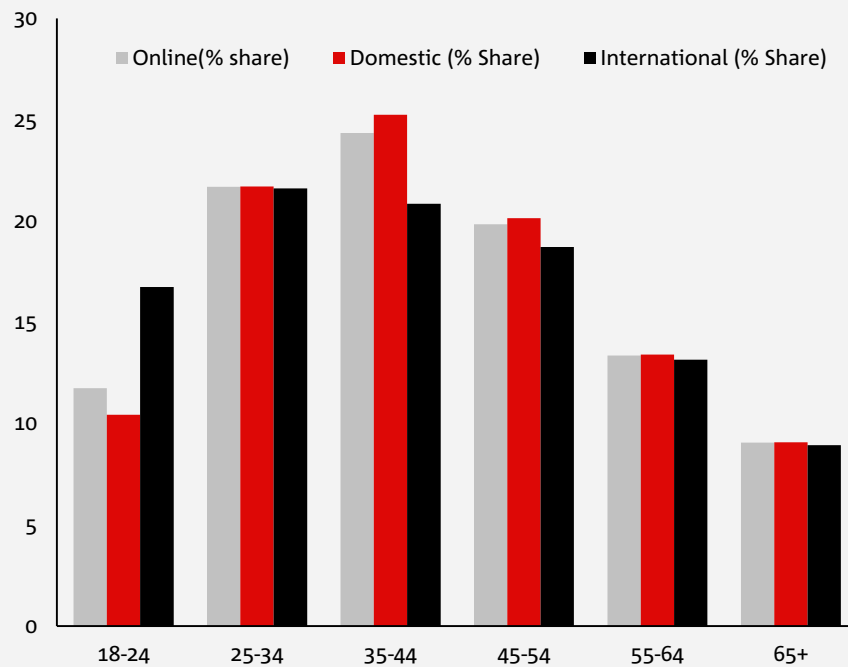
Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

Age groups - international / domestic

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

Chart 9 Age by International / Domestic

(% annual)



%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	3.8	0.8	19.6	1.8	10.4	16.7
25-34	3.2	-3.0	16.7	-7.6	21.7	21.6
35-44	2.0	-0.5	14.9	-6.3	25.2	20.9
45-54	2.2	-1.3	14.5	-4.9	20.1	18.7
55-64	3.6	0.8	13.8	-2.8	13.4	13.1
65+	3.8	0.3	13.8	-1.1	9.1	8.9
All ages	2.5	-0.7	15.4	-4.1	100	100

States and Territories



State performance

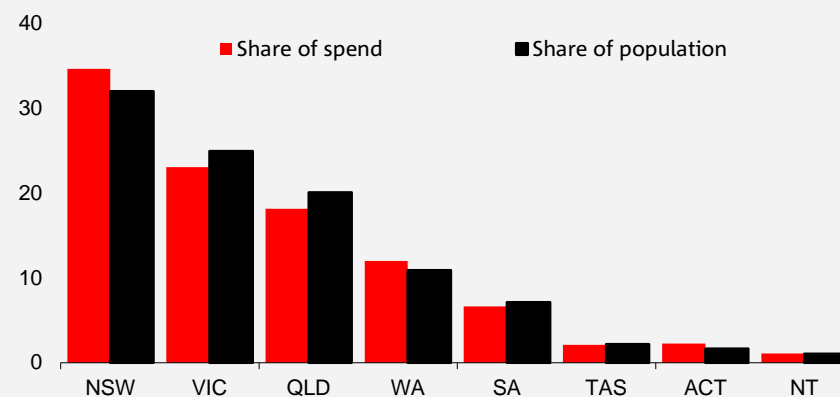
Residents of the bigger states of NSW, VIC and QLD spend more online but ACT residents have the highest per capita spending, followed by NT, WA and NSW.

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. 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, 2.3% 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. Victoria is home to 24.9% of the Australian population yet represents only 23.1% of total online spending.

Chart 10 Share of spending, by state

(% annual)



Spending by state

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

Monthly Growth positive across all states in December, though NSW slows slightly.

Chart 11 Growth of spending, by state

(% yoy)

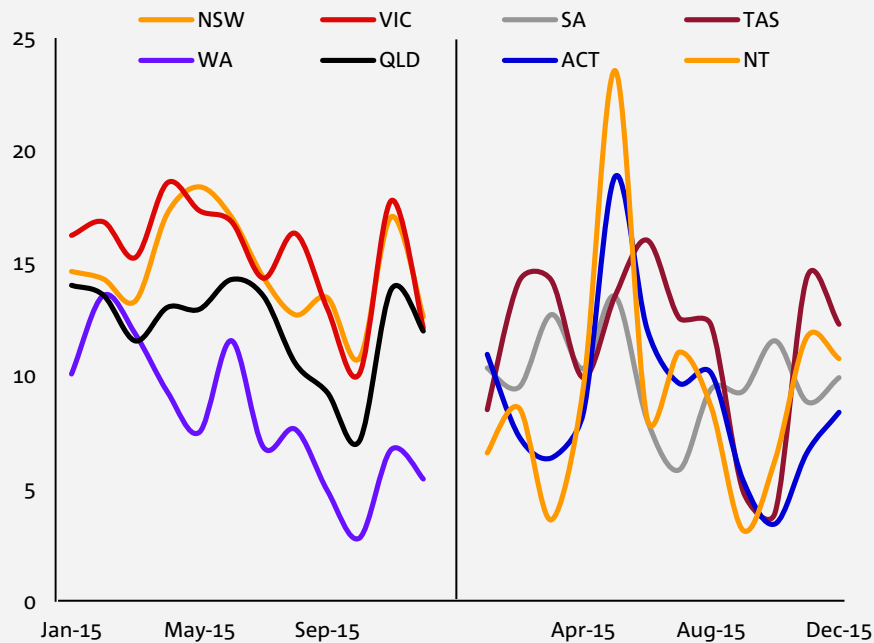
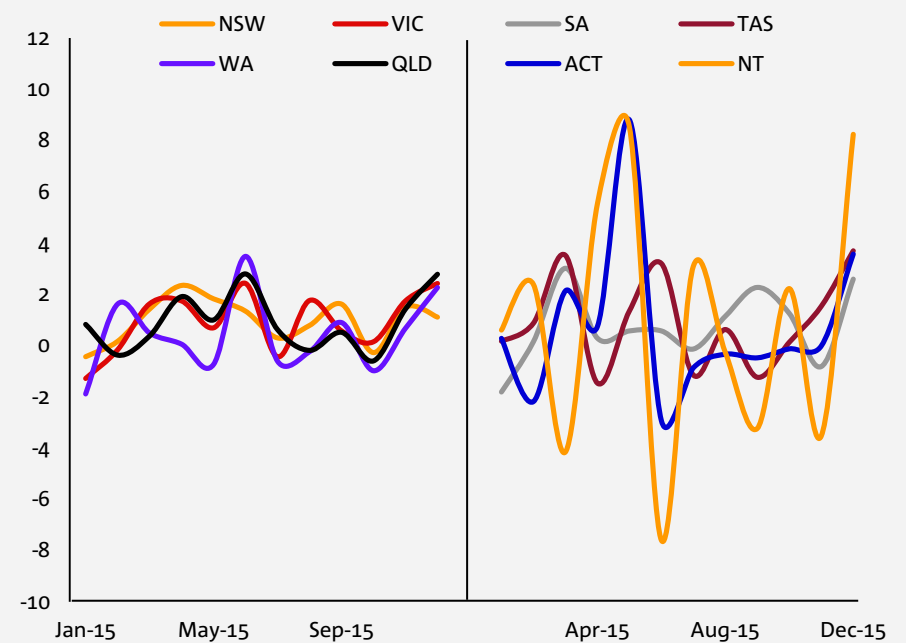


Chart 12 Growth of spending, by state

(% mom)



Metropolitan vs Regional



Regional performance

Growth in regional areas picks up in December. 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 stabilised after a recent rebound, growth in regional areas picked up. At 2.4 %, online sales in regional areas accelerated in December, and outpaced metro (1.9%) areas.

Metropolitan residents spent on average around 19.2% more than those residing in regional Australia. However, those living in regional Western Australia spent 14% more than the average Australian, along with WA metropolitan residents at about 8.9% 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)

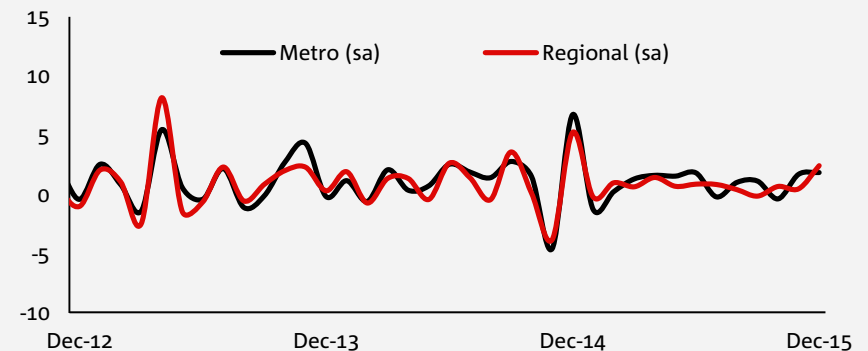
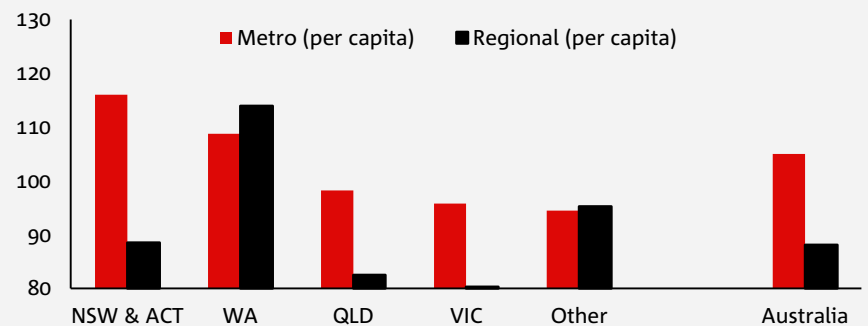


Chart 14 Per capita spending index

(Australia = 100)



Small Online Retailers



Small Online Retailers

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

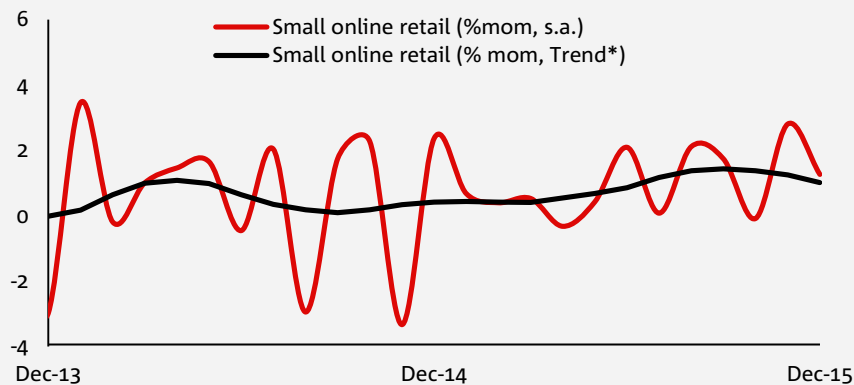
At 1.3% Smaller online retail sales recorded reasonably strong growth in December, though this is lower than the 2.8% recorded in November. At 1%, Small online retail spending is now, in trend terms, slowing, though this is after a period of higher than average trend growth from July to November. We estimate that small online retail sales are now 12.3% higher compared to a year ago.

“Smaller players are becoming increasingly significant within the online fashion category, with the annual growth for smaller players surpassing larger businesses in recent months.”

Tony Davis, Quantum

Chart 15 Growth in Small Online Retail

(% mom)



* See the notes page for more on this new series

Small Online Retailers by Category

Smaller online retailers are overwhelmingly represented by Fashion, Homeware & Appliances, and Personal & Recreational (making up nearly 85% of spend). These categories have contributed the vast bulk of growth in the year to December. The poor performance of smaller Daily Deals retailer detracted from growth, but the effect was minimal given this categories share of spend.

%	Monthly growth - Nov	Monthly growth - Dec	Annual growth - Nov	Annual growth - Dec	Share of Small spending	Contribution to annual Small spending growth
Fashion	3.8	1.0	15.4	12.4	24.5	26.7
Daily Deals	-14.0	-14.0	-54.3	-61.5	0.0	-0.4
Department	3.7	0.3	33.5	23.0	2.6	0.4
Homeware	5.3	2.6	18.9	19.2	29.2	40.9
Media	-1.4	-1.8	-3.2	-2.2	3.8	1.4
Personal	1.8	1.3	10.2	8.5	30.6	24.5
Groceries	7.6	4.3	14.8	20.5	4.3	3.5
Toys	-0.3	-0.3	0.9	-1.7	4.1	0.7
Food	1.4	8.0	15.4	27.6	0.8	2.3
Total	2.8	1.3	13.6	12.3	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
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About Quantum

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