



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – JUNE 2016

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$20.1bn in the 12 months to June 2016.

There has been a continuation of the shift back of growth to the large eastern states, and the significant slowing in online sales growth in WA (yoy).

In growth terms, sales experienced relatively strong month-on-month (mom) growth of 0.8% in June, seasonally adjusted (s.a.). This is a somewhat slower than the sales strength in May (2.2% mom, s.a.). The June result was driven by a slowing in both domestic (1.1% vs 2.2% May), and international online sales (0.5% vs 2.1% May). Growth in SME retailers improved in the month (3.2% vs 2.3% May). In year-on-year (YoY) terms, domestic online retailers (16.9%) continue to outpace international (0.9%).

Growth in traditional bricks and mortar retail was still outpaced by the improvement in online retail.

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

RICHARD COATH

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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 13.5% 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 take a look at the continued growth of SME retailers' market share. Over the past 12 months, they captured 37% of all online retail sales.

We hope the NAB Online Retail Sales Index helps 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 retail spend (YoY June 2016)

Online



**\$20.1
BILLION**

Bricks & mortar



**\$296.9
BILLION**

Share of category spend

(% annual)

DOMESTIC

INTERNATIONAL

Electronic Games & Toys

48%

52%

Fashion spend

62%

38%

International vs domestic spending (monthly)

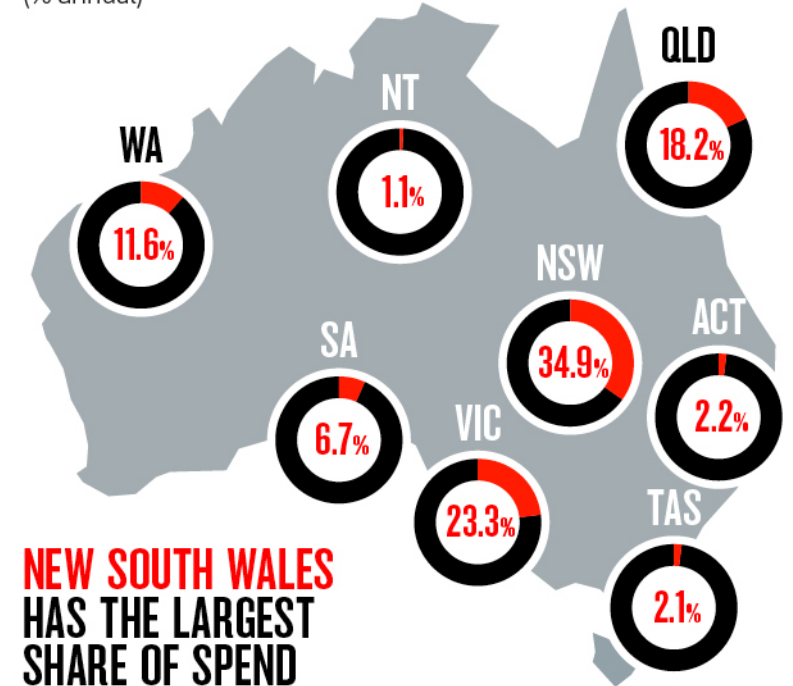
81% OF TOTAL
SPEND IS
DOMESTIC

International vs domestic spending growth (YoY)



Share of spend by state

(% annual)



Strongest growth (monthly)

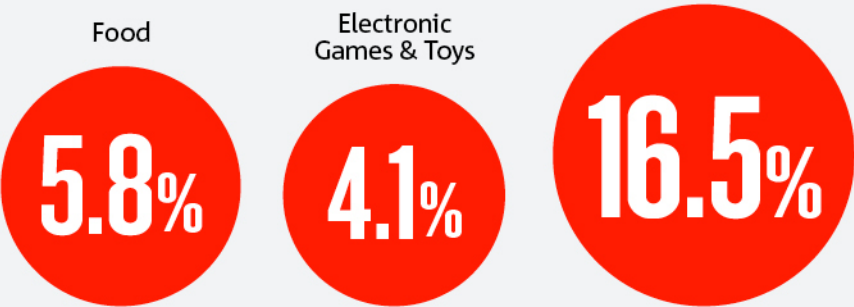


AT A GLANCE

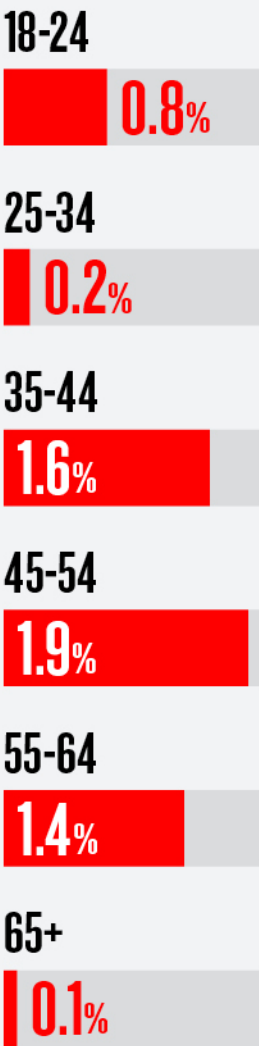
Online growth by category (YoY)



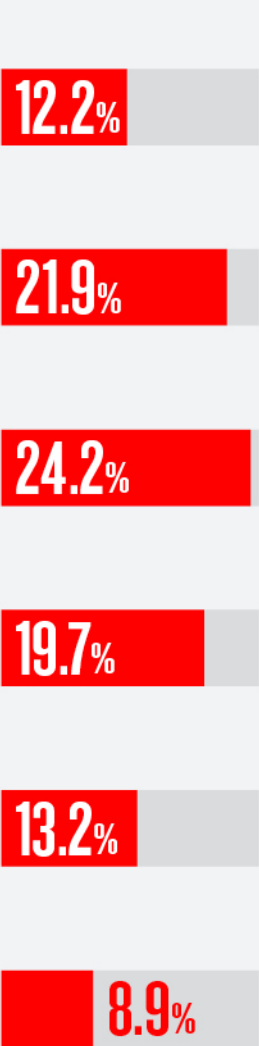
Share of total online spending (% annual)



Growth in online spending (monthly)



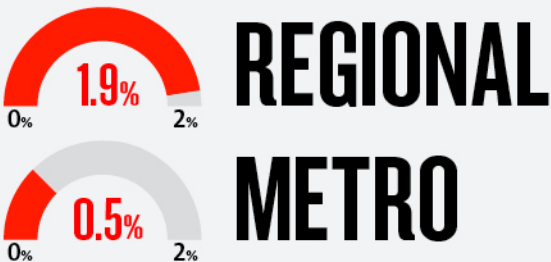
Share of online spending (% annual)



Share of spending by metropolitan residents (% annual)



Growth of spending, by region (monthly)



Small Online Retailers

22.2% SALES GROWTH COMPARED TO A YEAR AGO





THE ONLINE RETAIL MARKET

OVERALL INDEX

In seasonally adjusted terms, online retail sales recorded reasonably strong growth of 0.8% in June, though this was notably lower than the revised 2.2% recorded in May.

In trend terms, the revised estimate for online retail sales growth was 0.8%, lower than May (1.0%). We estimate that online sales are now 13.5% higher compared to a year ago. ABS data showed growth of comparable traditional retailers in May to be 0.2% higher than April, and 2.4% higher than a year ago.

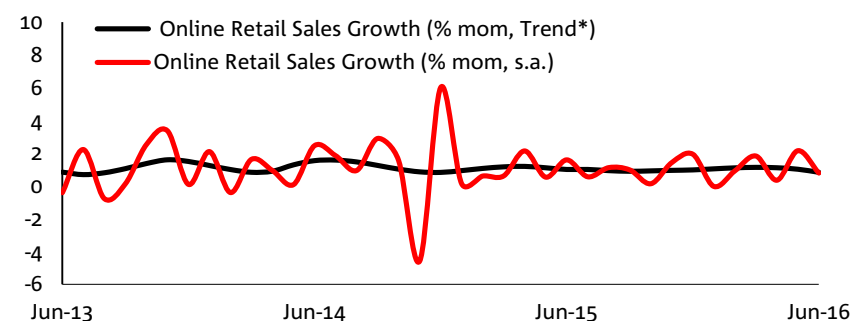
In the 12 months to June, Australians spent an estimated \$20.1 billion on online retail – a level that is equivalent to around 6.8% of the traditional bricks and mortar retail sector (which totalled \$296.9 billion in the year to May 2016 according to the ABS).

In year on year terms (June 2016 v June 2015), online sales grew by 13.5%, slightly slower year on year growth one year prior (15.7%). This is much slower than the growth recorded when the index was established. In June 2011 for example, year on year growth was 35.9%. Growth has clearly flattened as shown in the trend line (see chart 1).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Apr-16	May-16	Jun-16
Monthly growth (%)			
Corporate	0.4	2.2	0.8
SMEs	3.5	2.3	3.2
Annual growth (%)			
Corporate	11.8	14.0	13.5
SMEs	16.2	19.3	22.2

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 June, but saw a slight contraction in the month. Homewares and appliances retains its spot as the largest area of spend.

At 56.1% (yoy), Takeaway Food had the fastest annual online sales growth in June. This category represents a rapidly evolving way of ordering food, supported by recent advancements in methods such as mobile phone applications. That said, the Takeaway Food category still represents a relatively small share of total spend (5.8%).

Of the larger spend share categories, in month on month terms, Personal and Recreational goods (3.9% mom s.a.) saw the strongest growth, followed by Homeware and Appliances (2.9%), Groceries (2.1%), Takeaway Food (1.9%). Media (-0.4%), Department stores (-2.2%), and Electronic Games and Toys contracted in the month (-3.8%).

Categories “punching above their weight” include Media, with only 16.5% of spend but contributing 27.1% to annual spending growth, along with Takeaway Food, and Electronic Games and Toys. 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)

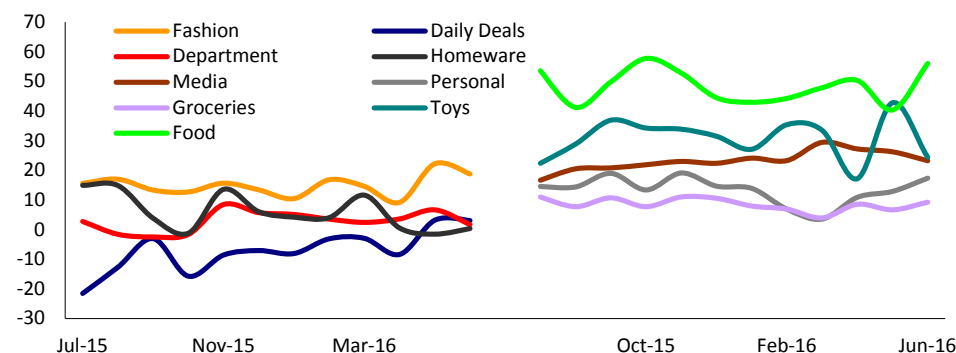
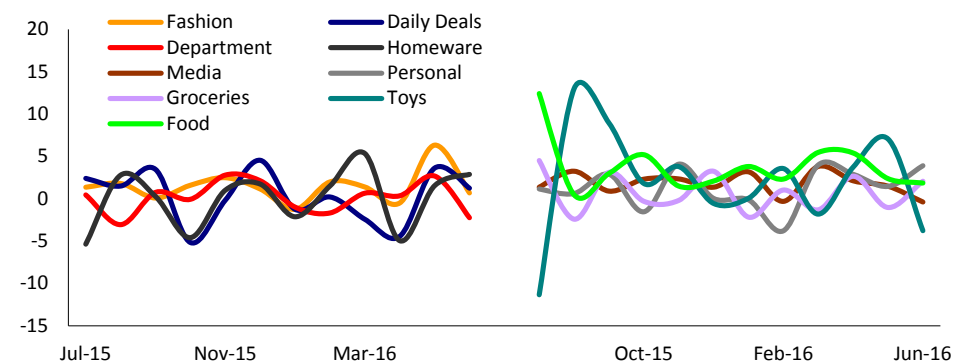


Chart 3

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



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, Media, Takeaway Food, and Electronic Games and Toys have been expanding rapidly, although the latter categories are off a smaller share of spend. Daily deals also recorded year on year growth after contracting since November 2014.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	May-16	Jun-16	May-16	Jun-16		
Fashion	6.3	0.7	22.3	18.8	15.7	17.8
Daily Deals	3.6	1.3	3.2	3.1	2.7	-2.0
Department	2.7	-2.2	6.7	1.7	9.0	2.3
Homeware	1.6	2.9	-1.5	0.4	19.9	9.4
Media	1.5	-0.4	26.3	23.3	16.5	27.1
Personal	1.5	3.9	12.9	17.4	8.5	8.7
Groceries	-1.0	2.1	6.7	9.3	17.9	12.2
Toys	7.1	-3.8	42.8	24.4	4.1	8.2
Food	2.4	1.9	40.4	56.1	5.8	16.4
Total	2.2	0.8	14.0	13.5	100	100

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

“RETAILERS SPECIALISING IN HEALTH AND BODY BUILDING NUTRITION HAVE BECOME A DRIVING FORCE IN THE GROWTH OF GROCERIES AND LIQUOR”

Wade Tubman, Quantum

INTERNATIONAL VS DOMESTIC



INTERNATIONAL VS DOMESTIC PERFORMANCE

Domestic and international slower, in the month. The share of domestic spending around 81% in June.

For domestic online retailers, growth slowed in June, at 1.1%, from May (2.2%). International sales also slowed in the month (0.5%).

Looking at the year-on-year growth rates, domestic online sales continue to outpace international sales at 16.9% vs 0.9% respectively.

As shown in chart 4, the increase in the 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. Despite the recent slight appreciation, the Australian dollar has continued to trend lower, and the domestic share of spend has continued to grow.

Chart 4

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

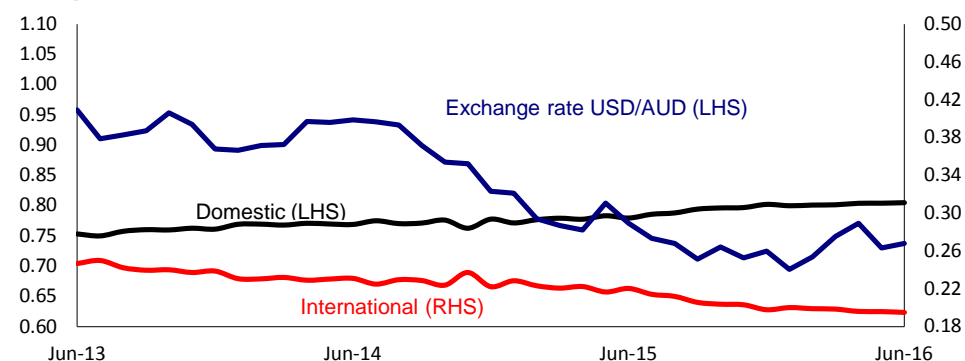
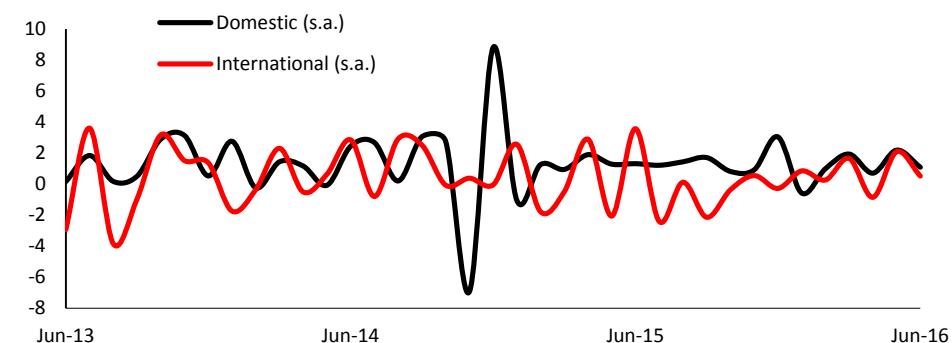


Chart 5

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



INTERNATIONAL VS DOMESTIC - BY CATEGORY

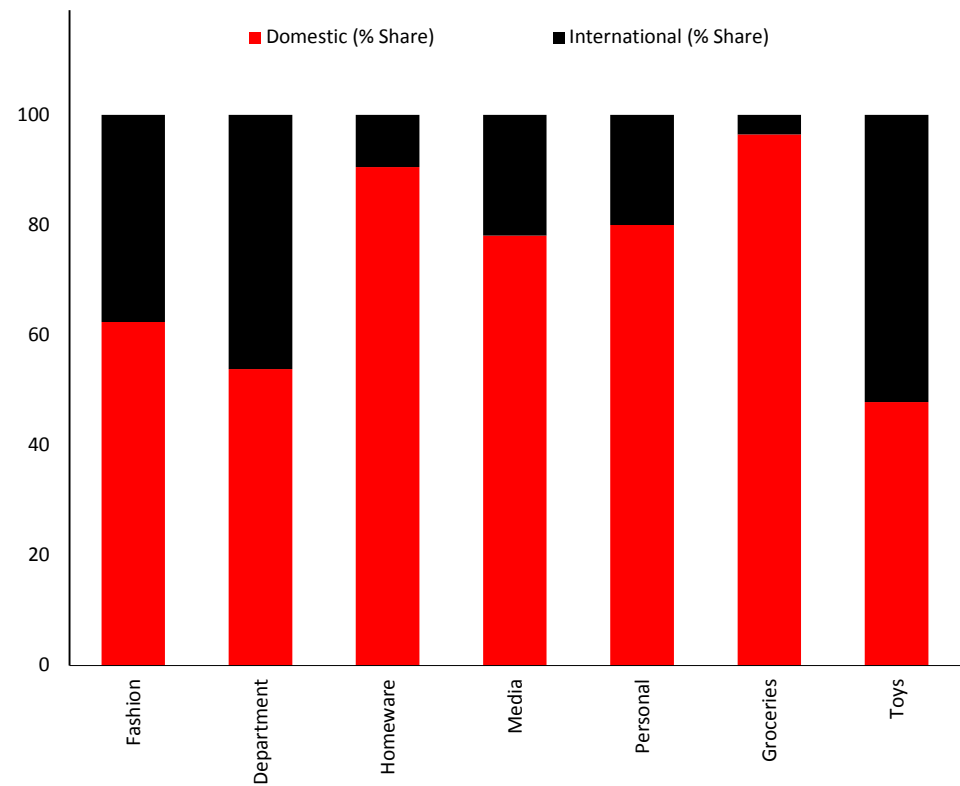
Given the overwhelming spend towards and interest in retailers classified as domestic, we now include a series to look at the category of goods bought from domestic and international retailers.

With the exception of Electronic Game and Toy retailing, domestic retailers capture the majority of spending in our index.

In June, growth for domestic online retailers has been particularly buoyant in Homewares and Appliances, Personal and Recreational goods, and Groceries.

For international retailers, growth in the month was strongest in Personal and Recreational goods, outpacing their domestic counterparts. However, growth in domestic is still higher in annual terms for this category.

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 62% of Fashion is purchased from domestic online retailers, it only accounts for about 12% of domestic online spend, but at 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	26.2	7.8	62.4	37.6	12.3	29.3
Department	5.2	-2.2	53.8	46.2	6.1	20.6
Homeware	0.7	-2.8	90.5	9.5	22.6	9.4
Personal	17.8	15.8	80.0	20.0	8.5	8.4
Groceries	10.9	-25.5	96.5	3.5	21.6	3.1
Toys	85.1	-3.2	47.9	52.1	2.4	10.5
All categories	16.9	0.9	80.5	19.5		

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 45-54s, and slowest for the over 65s.

Although those aged 35-44 make up approximately 17.2% of the adult population, their share of online spend is the highest at 24.2%. In contrast, those aged 65 and over have a disproportionately lower share of spend (8.9%) relative to their share of population (19%)

In the month, growth accelerated for categories 35-44 (1.6%) and 45-54 (1.9%). In contrast growth decelerated strongly in June for the younger and older age groups. Spend growth for those aged 18-24 (0.8%) and 25-35 (0.2%), was still ahead of the over 65s (0.1%), but slower than the 55-64s (1.4%).

"SPEND IN ONLINE FOOD CATERING IS CONTINUING TO GROW STRONGLY WHILST THE GROWTH IN SPEND FOR GROCERIES AND LIQUOR IS SLOWING FOR THE OLDER AGE GROUPS"

Wade Tubman, Quantum

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

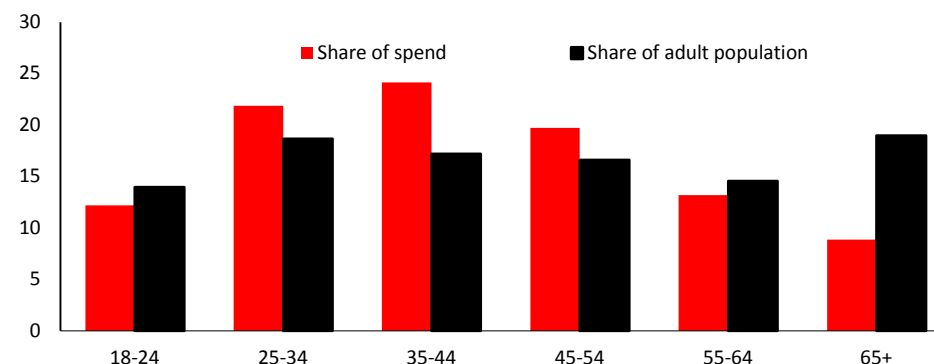
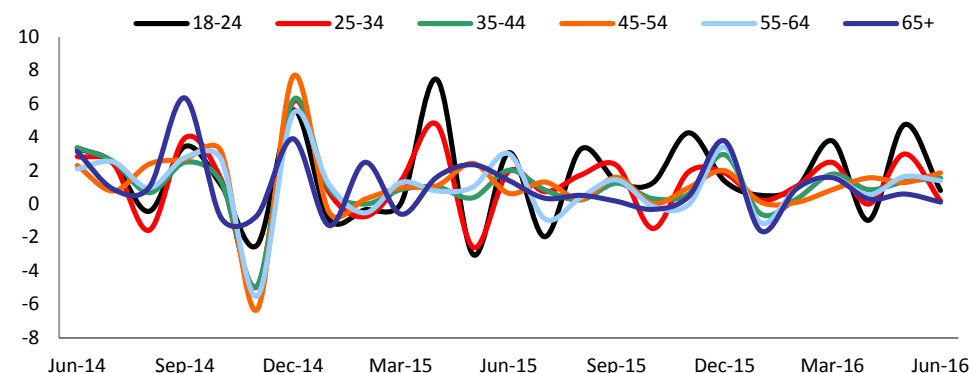


Chart 8

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 between 45 and 64. However, those aged between 18 and 34 favour Fashion, while the largest spend age group, the 35-44s favour Groceries and Liquor, along with the over 65s.

% share	Fashion	Daily Deals	Department & Variety Stores	Homeware & Appliances	Media	Personal & Recreational Goods	Groceries and Liquor	Electronic Games & Toys	Takeaway Food
18-24	22.0	1.9	6.7	14.3	19.9	6.1	4.9	13.3	11.0
25-34	18.1	2.9	8.4	17.2	17.3	7.6	14.8	4.1	9.4
35-44	14.9	3.0	9.2	19.2	16.2	8.9	20.5	2.8	5.3
45-54	14.7	2.8	9.5	22.4	16.1	9.6	18.3	2.9	3.7
55-64	12.8	2.7	10.5	24.4	15.4	9.7	20.9	1.4	2.3
65+	9.8	1.8	9.3	23.8	13.7	8.6	30.7	1.1	1.1
All ages	15.7	2.7	9.0	19.9	16.5	8.5	17.9	4.1	5.8

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

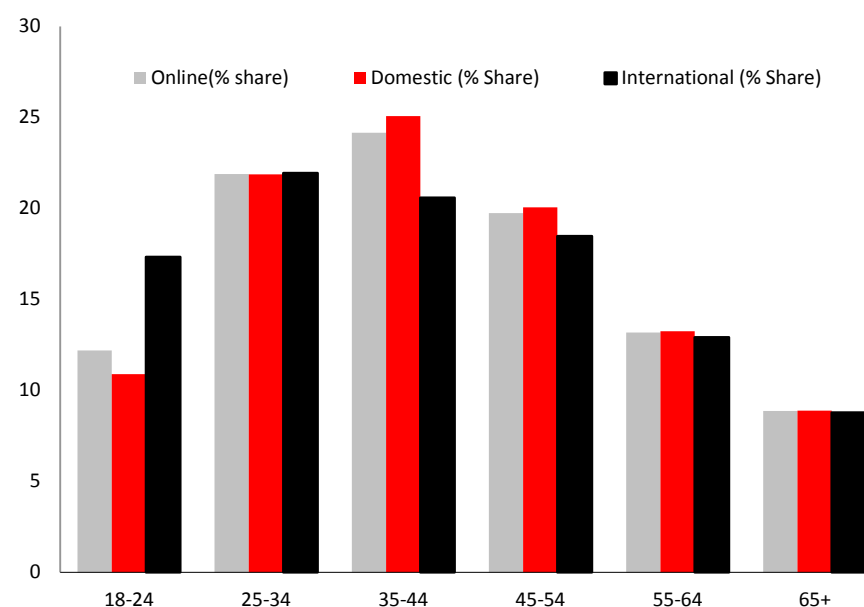
AGE GROUPS - INTERNATIONAL / DOMESTIC

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	1.8	-1.6	29.8	6.3	10.9	17.3
25-34	0.6	-1.3	19.7	-0.1	21.9	21.9
35-44	1.3	1.4	15.5	-0.9	25.1	20.6
45-54	1.9	0.9	16.2	0.0	20.1	18.5
55-64	0.8	3.8	12.2	1.6	13.2	12.9
65+	0.6	-1.5	9.5	-2.4	8.9	8.8
All ages	1.1	0.5	16.9	0.9	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.

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.

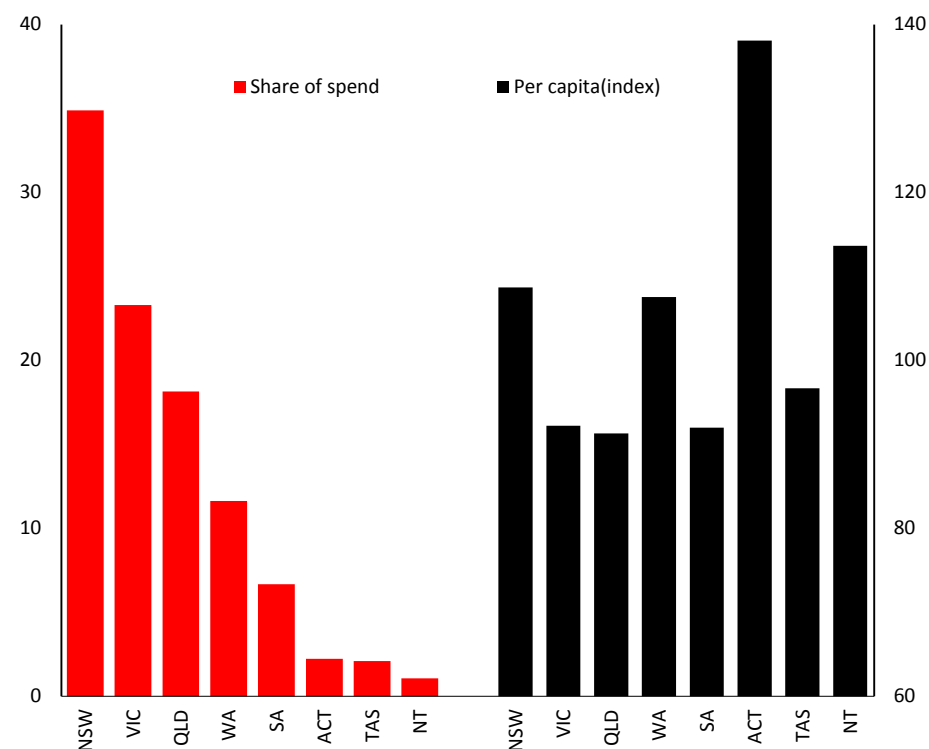
However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT where only 1.6% of Australians live, 2.2% of total online purchases in dollar value terms were made. Similarly in WA, 10.9% of Australians made 11.6% of total online purchases.

On the other hand, those in TAS, QLD, VIC, and SA were spending less per person than the national average. Victoria is home to 24.9% of the Australian population yet represents only 23.3% of total online spending.

Chart 10

SHARE OF SPENDING, BY STATE

(% annual)



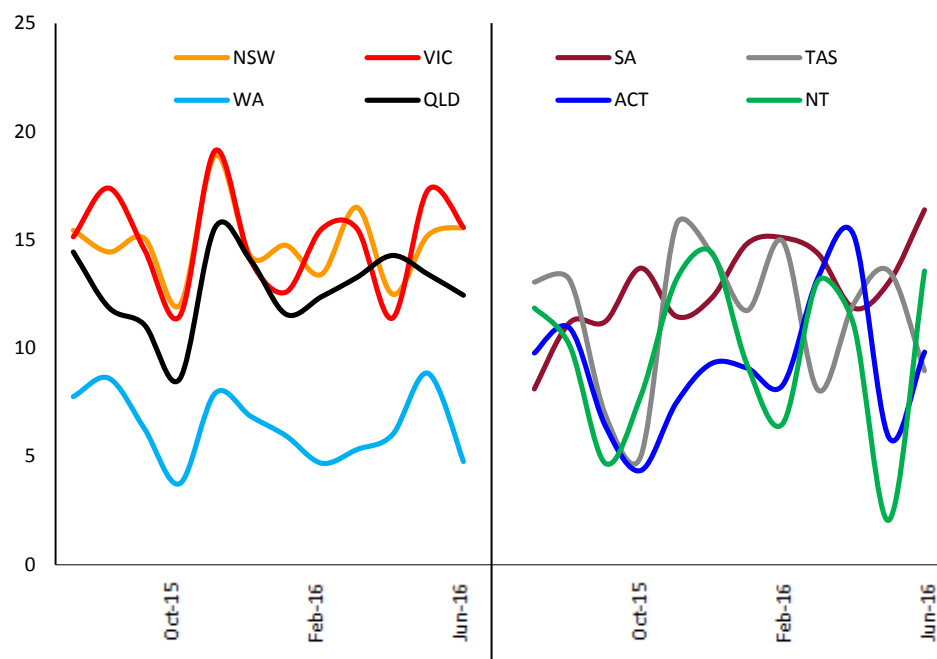
SPENDING BY STATE

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

Chart 11

GROWTH OF SPENDING, BY STATE

(% yoy)

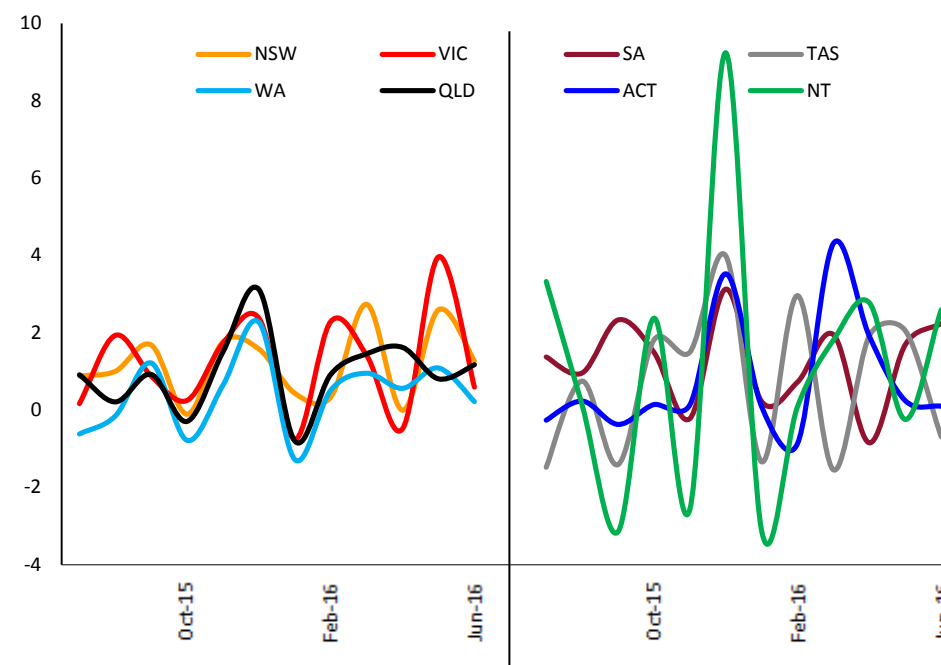


Monthly growth was positive across all states except TAS in June, and growth in ACT was virtually flat. NT and SA lead, with NSW the strongest of the large states.

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, sa)





METROPOLITAN VS REGIONAL

METROPOLITAN & REGIONAL PERFORMANCE

Growth in regional areas strengthened in June, while metro areas slowed. 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 regional areas continued to increase in June following the dip in March. While still positive, growth from metro areas slowed slightly compared to February. At 1.9 %, online sales in regional areas outpaced metro (0.5%) areas in June.

Metropolitan residents retain the largest share of spend spent on average around 19.5% more than those residing in regional Australia. However, those living in regional Western Australia spent about 11% more than the average Australian, along with WA metropolitan residents at about 6% more.

With the slowdown in 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)

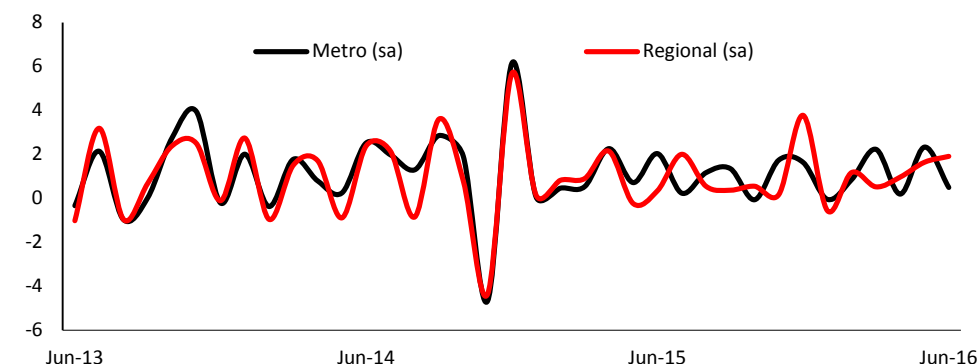
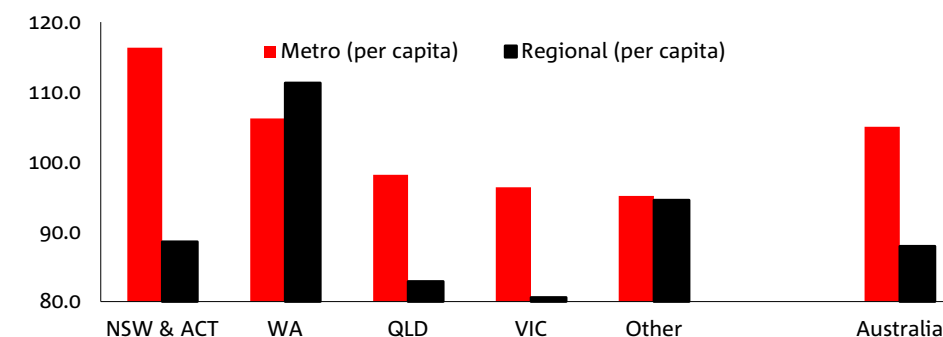


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)





SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

We continue to track spend at SME retailers that we introduced in the March quarter*. Given that small 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 3.2% smaller online retail sales recorded much higher growth in June compared to the 2.3% recorded in May. Although slowing slightly, at 1.9%, small online retail spending is now, in trend terms, much higher than past periods. We estimate that small online retail sales are now 22.2% 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 85% of spend). These categories have contributed the vast bulk of growth in the year to June. While Homeware and Appliances represents 29.2% of spending at small online retailers, this category contributed 37.9% to their growth.

%	Monthly growth - May	Monthly growth – June	Annual growth - May	Annual growth – June	Share of Small spending	Contribution to annual Small spending growth
Fashion	3.2	4.5	17.5	21.6	25.2	25.0
Daily Deals	6.1	-29.3	-24.5	-43.9	0.0	-0.1
Department	7.7	3.7	74.7	72.5	2.8	7.3
Homeware	3.7	3.3	21.7	23.7	29.2	37.9
Media	-1.1	1.6	0.8	1.9	3.6	-0.1
Personal	1.2	3.2	17.6	19.1	30.3	22.7
Groceries	-2.0	5.3	10.7	19.5	4.1	3.8
Toys	8.5	5.5	15.8	20.6	3.8	1.2
Food	6.2	10.0	47.5	58.2	0.9	2.3
Total	2.3	3.2	19.3	22.2	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.

How do we define Domestic and International?

NORSI defines retailers that do not charge GST as international retailers

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