



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – SEPTEMBER 2016

INTRODUCTION

ALAN OSTER

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In total, we estimate the Australian online retail market was worth \$20.8bn in the 12 months to September 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 1.3% in September, seasonally adjusted (s.a.). This is a mildly quicker than August (0.9% mom, s.a.), and much quicker than July (-0.3%). The September result was driven by an improvement in domestic sales (1.4% vs 0.6% August), Homewares and appliances, and sales in ACT, SA and VIC. Growth in SME retailers slowed in September (0.2%) after strong growth in August (6.9%).

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

RICHARD COATH

General Manager, Consumer, Health, Agri & TMI
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The NAB Online Retail Sales Index aims to help you understand the current trends that may affect your business over the coming months. Online retail spending in Australia is influenced by a variety of national and international factors, including the value of the Australian dollar.

With the slight appreciation of the Australian dollar since mid 2016, growth in share of spend at domestic online retailers flatlined somewhat. However, in general, domestic spend still outpaced international. While year-on-year (yoy) spend grew by 14.2%, it is a far cry from September 2011's yoy growth of 31.6%. This slow down is probably a reflection of the online retail sector's maturity as well as the weaker Australian dollar. Spend was not distributed evenly across all retail categories or states and in this edition, we offer a detailed breakdown of spend by region as well as category and age. We also offer breakdown SME retailers by category to better understand their yoy sales growth of 21%.

We hope this NAB Online Retail Sales Index helps you prepare more effective business strategies in the coming months.

CONTENTS

| | |
|---|-----------|
| • At a Glance | 4 |
| • The Online Retail Market | 6 |
| Overall Index | 7 |
| • Online Categories | 8 |
| Category performance | 9 |
| Category growth and share of spending | 10 |
| • International vs Domestic | 11 |
| International vs domestic performance | 12 |
| International vs domestic - by category | 13 |
| • Age Groups | 15 |
| Performance of age groups | 16 |
| Age groups by category | 17 |
| Age groups - international / domestic | 18 |
| • States and Territories | 19 |
| State performance | 20 |
| Spending by state | 21 |
| • Metropolitan vs Regional | 22 |
| Metropolitan & regional performance | 23 |
| • Small Online Retailers | 24 |
| A new series | 25 |
| Small Online Retailers by category | 26 |



AT A GLANCE

Australian retail spend (YoY September 2016)

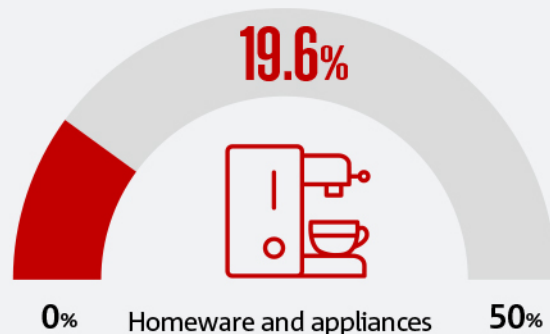


Fastest growing category (% annual)

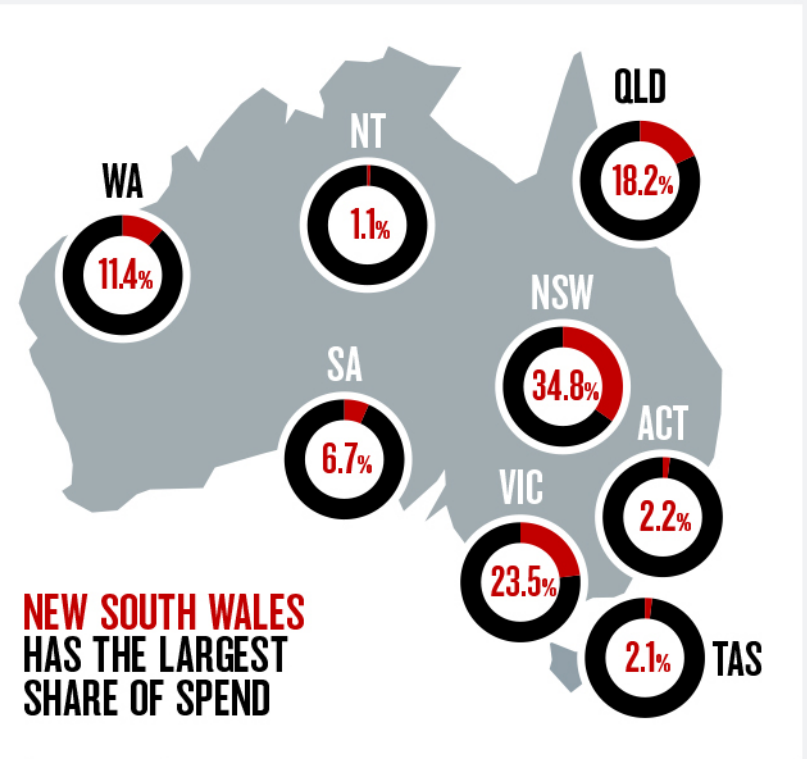


6.1% OF TOTAL ONLINE SPEND IS TAKEAWAY FOOD

Biggest share of spend



Share of spending (% annual)

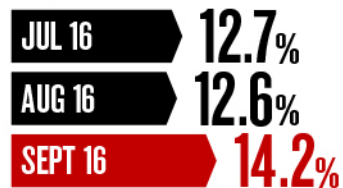


Biggest shares of spending (Per capita index)



Annual growth

Corporate

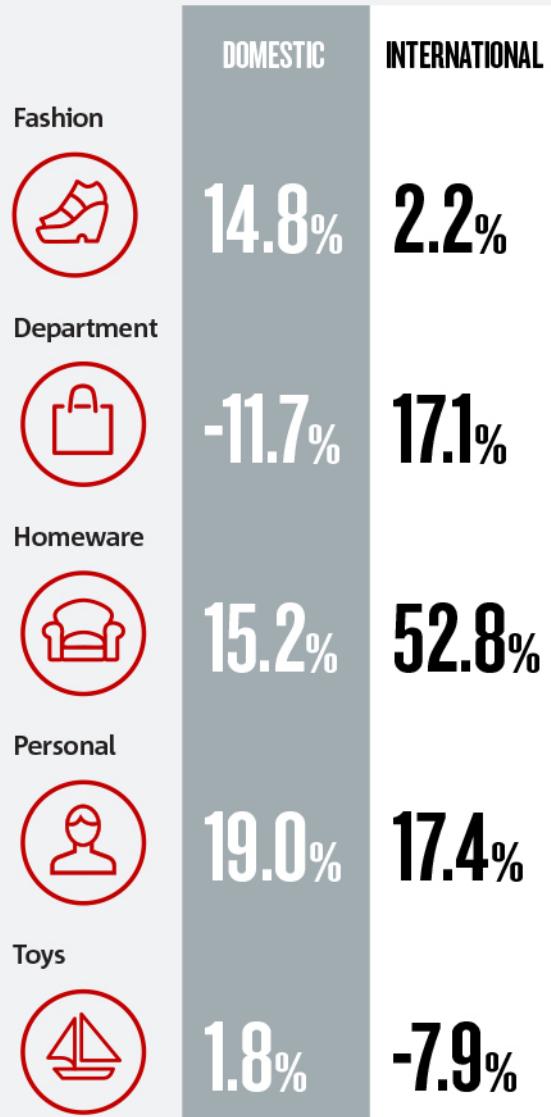


SME

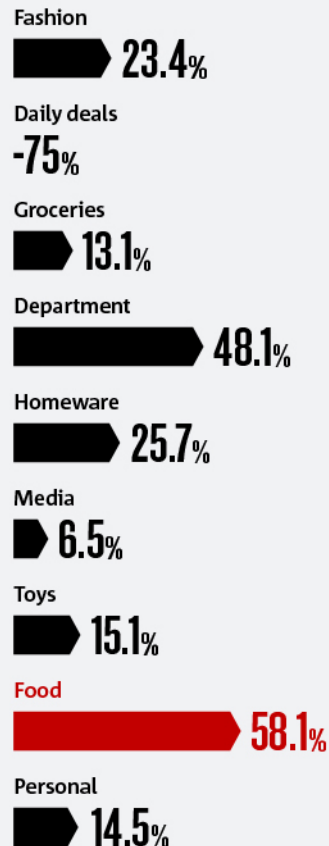


AT A GLANCE

Annual growth by category (YoY September 2016)



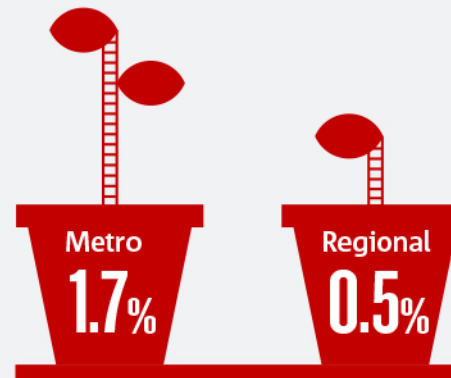
SMEs growth (YoY September 2016)



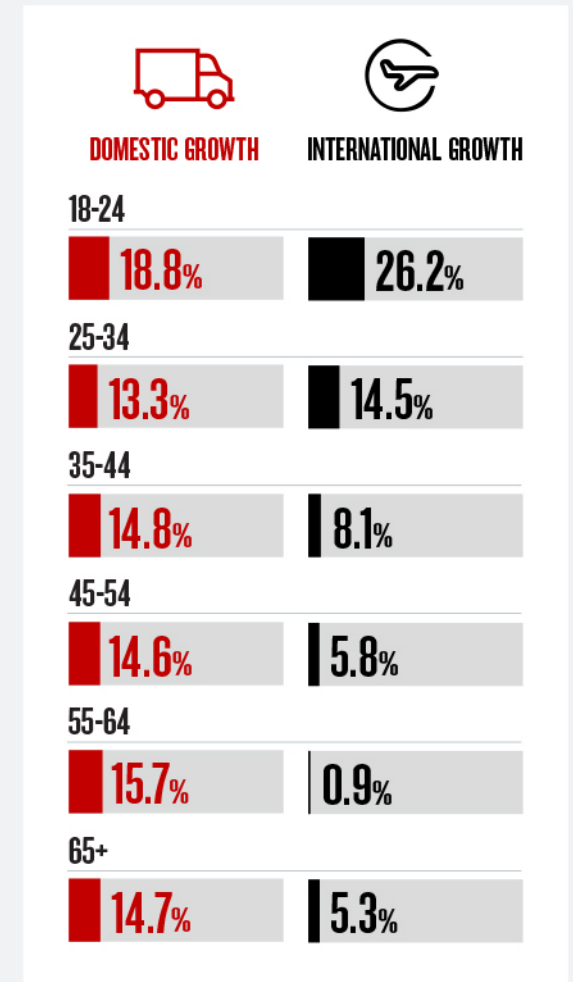
Share of online spend by region (YoY September 2016)



Growth of online spend (MoM September 2016)



Annual growth by age (YoY September 2016)





THE ONLINE RETAIL MARKET



OVERALL INDEX

In seasonally adjusted terms, at 1.3% online retail sales accelerated in September. Though this was notably quicker than the revised -0.3% recorded in July, growth is still moderating in trend terms.

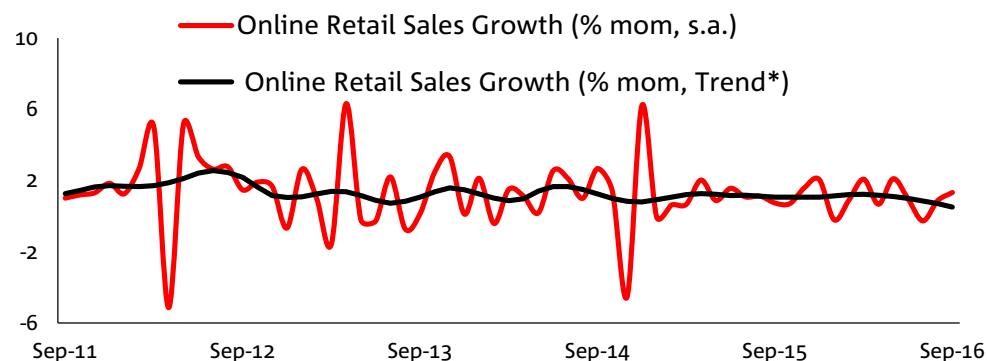
The revised estimate for trend online retail sales growth was 0.5%. While this is lower than August (0.7%) and July (0.8%), it remains positive. ABS data showed growth of comparable traditional retailers in August to be 0.4% higher than July, and 3% higher than a year ago.

In the 12 months to September, Australians spent an estimated \$20.8 billion on online retail – a level that is equivalent to around 7% of the traditional bricks and mortar retail sector (which totalled \$298.9 billion in the year to August 2016 according to the ABS).

In year on year terms (September 2016 v September 2015), online sales grew by 14.2%, slightly faster year on year growth one year prior (12.9%). This is much slower than the growth recorded when the index was established. In September 2011 for example, year on year growth was 31.6%. Growth has clearly flattened as shown in the trend line (see chart 1).

Chart 1

GROWTH IN ONLINE RETAIL (% monthly)



KEY RETAIL STATISTICS

| | Jul-16 | Aug-16 | Sep-16 |
|---------------------------|--------|--------|--------|
| Monthly growth (%) | | | |
| Corporate | -0.3 | 0.9 | 1.3 |
| SMEs | -2.2 | 6.9 | 0.2 |
| Annual growth (%) | | | |
| Corporate | 12.7 | 12.6 | 14.2 |
| SMEs | 14.5 | 21.9 | 21.0 |

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 September, with the second fastest growth rate over the year, and third fastest in the month.

At 41.1% (yoy), Takeaway Food had the fastest annual online sales growth in September, though this is much slower now than it was in June (56.2% yoy). This category represents a rapidly evolving way of ordering food, supported by recent advancements in methods such as mobile phone applications. Given the still double digit growth, Takeaway Foods share of total spend is growing and now represents 6.1% of online.

In month on month terms, the biggest share category, Homeware and Appliances saw very strong sales growth (10.3%). Food rebounded in September (8.3%) after contracting in August (-6.8%), along with Media (3.3%). Electronic Games and Toys contracted in the month (-6.9%), with sales also lower over the year (-3.2%).

Categories “punching above their weight” include Media, with only 17% of spend but contributing 28.6% to annual spending growth, along with Takeaway Food, Personal and Recreational Goods, Fashion 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)

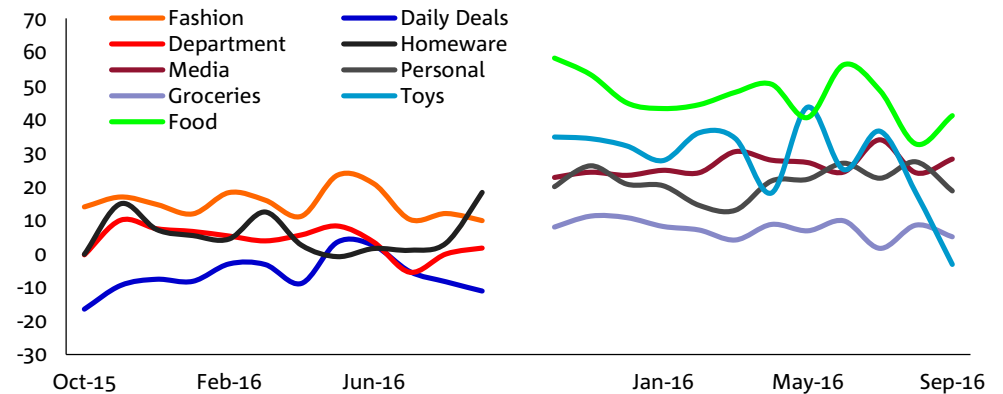
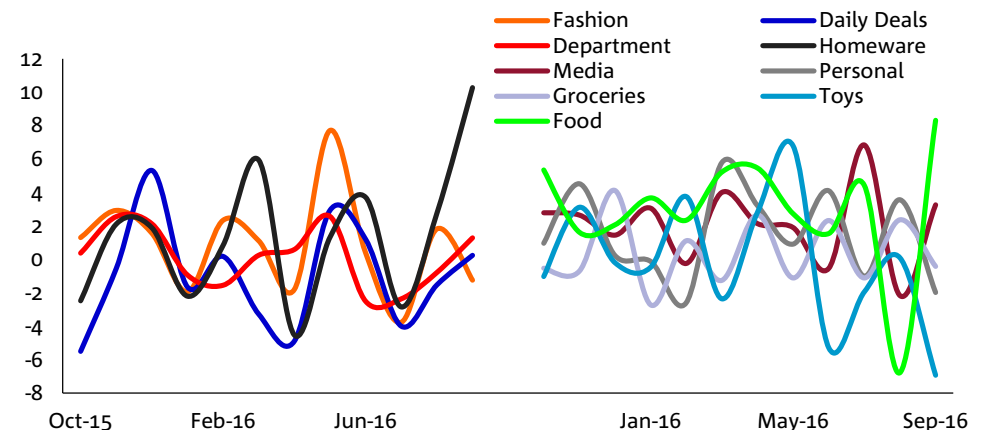


Chart 3

MONTHLY GROWTH OF SPENDING, BY CATEGORY

(% mom, s.a.)



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, Food, Media, Takeaway Food, Homewares and Appliances, and Personal goods have been expanding rapidly. Daily deals continued contracting.

| % | Monthly growth | | Annual growth | | Share of total spending | Contribution to annual total spending growth |
|--------------|----------------|------------|---------------|-------------|-------------------------|--|
| | Aug-16 | Sep-16 | Aug-16 | Sep-16 | | |
| Fashion | 1.8 | -1.2 | 11.9 | 9.8 | 15.7 | 16.4 |
| Daily Deals | -1.5 | 0.2 | -8.4 | -11.1 | 2.4 | -1.5 |
| Department | -0.8 | 1.3 | -0.1 | 1.7 | 8.7 | 2.6 |
| Homeware | 2.8 | 10.3 | 3.1 | 18.2 | 19.6 | 8.9 |
| Media | -2.2 | 3.3 | 24.1 | 28.2 | 17.0 | 28.6 |
| Personal | 3.6 | -2.0 | 27.3 | 18.7 | 8.9 | 12.5 |
| Groceries | 2.4 | -0.4 | 8.5 | 5.0 | 17.4 | 9.7 |
| Toys | 0.1 | -6.9 | 18.0 | -3.2 | 4.0 | 7.0 |
| Food | -6.8 | 8.3 | 32.6 | 41.1 | 6.1 | 15.7 |
| Total | 0.9 | 1.3 | 12.6 | 14.2 | 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 CATERING HAS BECOME A TWO SPEED INDUSTRY, WITH GROWTH IN ONLINE ORDERING/DELIVERY PLATFORMS OVERSHADOWING MORE TRADITIONAL PLAYERS SUCH AS PIZZA DELIVERY.”

Wade Tubman, Quantum

INTERNATIONAL VS DOMESTIC



INTERNATIONAL VS DOMESTIC PERFORMANCE

Domestic growth accelerated while international slowed in the month. In September 80% of spending was domestic.

Domestic online sales growth accelerated in September (1.4%) compared to August (0.6%). International sales slowed in the month (0.7%) after strong growth in August (2.5%).

Looking at the year-on-year growth rates, domestic online sales continue to outpace international sales at 15% vs 11% respectively.

As shown in chart 4, the increase in the share of domestic online retailing has coincided with a depreciation of the Australian dollar. With the moderate appreciation in AUD since mid 2016, the growth in share of spend at domestic online retailers has flatlined.

Chart 4

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

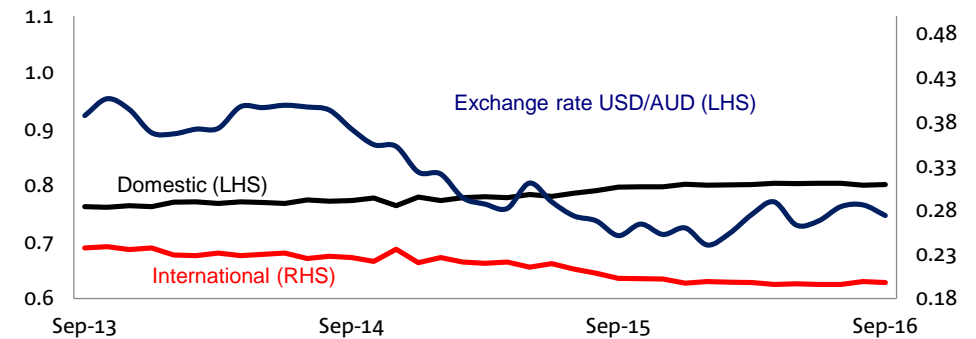
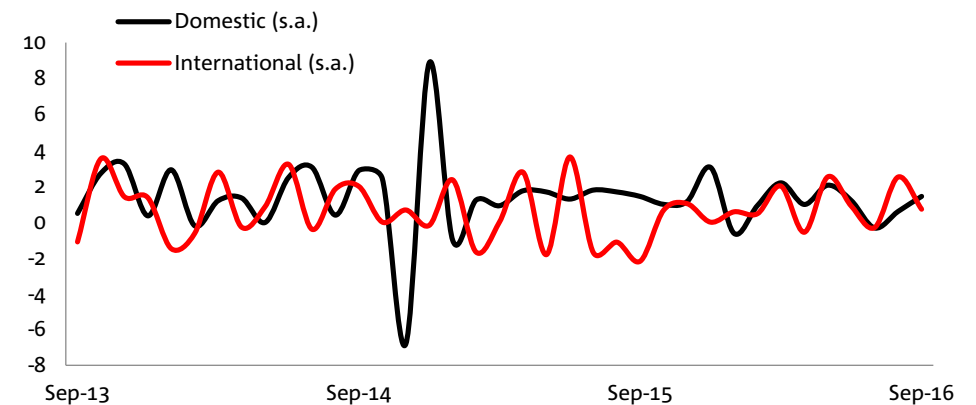


Chart 5

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



INTERNATIONAL VS DOMESTIC - BY CATEGORY

Areas of significant overall online spend such as Groceries, Personal and Homewares are also areas where domestic online retailers dominate.

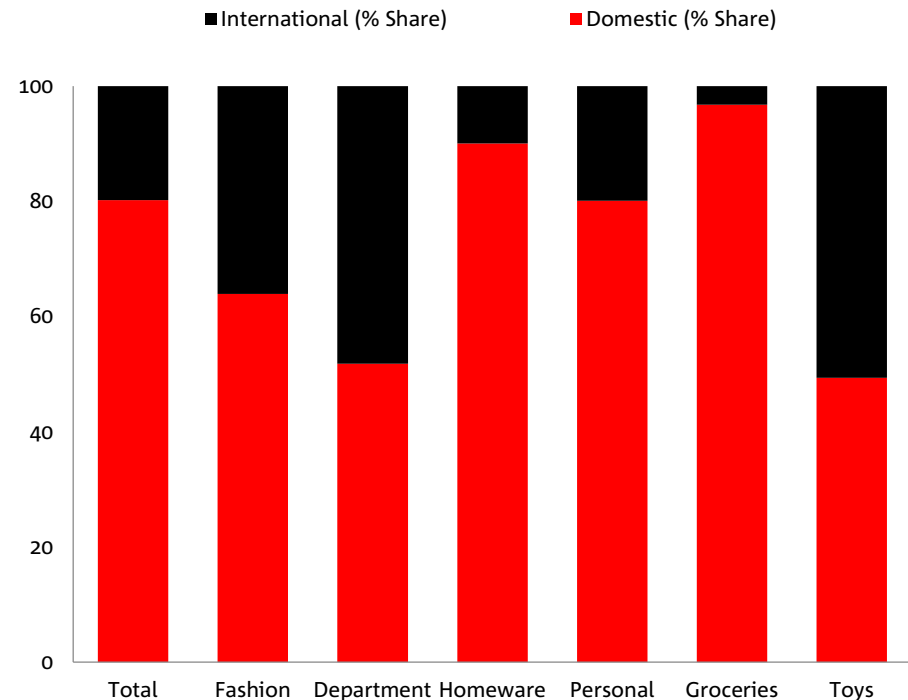
With the exception of Electronic Game and Toy retailing, which is slightly higher for international, domestic retailers capture the majority of spending in our index.

In year on year terms, growth for domestic online retailers has been particularly buoyant in Personal and Recreational Goods, Homewares and Appliances, and Fashion.

For international retailers, growth was strongest in Homeware and Appliances, outpacing their domestic 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 around 64% of Fashion is purchased from domestic online retailers, it only accounts for about 13% 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 | 14.8 | 2.2 | 63.9 | 36.1 | 12.5 | 28.5 |
| Department | -11.7 | 17.1 | 51.8 | 48.2 | 5.6 | 21.1 |
| Homeware | 15.2 | 52.8 | 90.0 | 10.0 | 22.1 | 9.8 |
| Personal | 19.0 | 17.4 | 80.1 | 19.9 | 8.9 | 8.9 |
| Groceries | 5.8 | -15.4 | 96.8 | 3.2 | 21.1 | 2.8 |
| Toys | 1.8 | -7.9 | 49.4 | 50.6 | 2.5 | 10.3 |
| All categories | 15.0 | 11.0 | 80.2 | 19.8 | | |

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 over 65s, and slowest for 25-34 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 24.1%. In contrast, those aged 65 and over have a disproportionately lower share of spend (8.7%) relative to their share of population (19%)

In the month, although growth was fastest for those aged 65+ (2.1%) this was slower than August (3.1%). For all other age categories, growth accelerated. This was particularly the case for the 18-24s (1.9%), a vast improvement on August (-1.1%). In year on year terms, this age group has recorded the highest growth for the past 12 months. This is reflected in their share of spend from 11.8 last September to 12.5% now.

“WHEN IT COMES TO ONLINE FOOD, THE GROWTH SEGMENT OF 18 TO 34 YEAR OLDS FOCUS ON ONLINE FOOD CATERING, WHILE OLDER AGE GROUPS PREFER ONLINE GROCERIES AND LIQUOR.”

Wade Tubman, Quantium

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

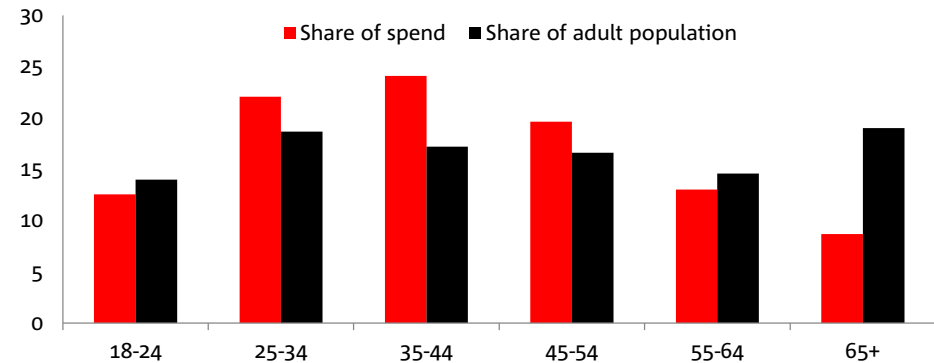
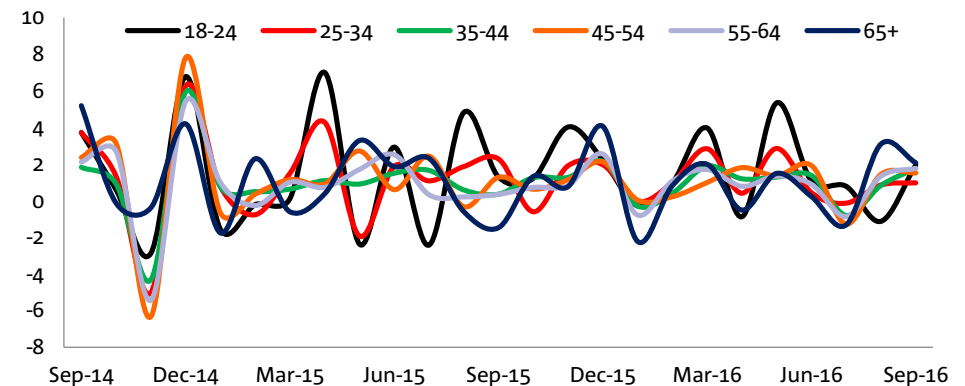


Chart 8

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 45+. However, those aged between 18 and 34 favour Fashion, while the over 65s favour 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 | 21.6 | 1.6 | 6.5 | 14.4 | 20.2 | 6.9 | 4.7 | 12.9 | 11.1 |
| 25-34 | 18.1 | 2.6 | 8.2 | 16.8 | 17.7 | 8.2 | 14.4 | 4.2 | 9.9 |
| 35-44 | 14.9 | 2.8 | 8.9 | 18.9 | 16.6 | 9.4 | 20.1 | 2.8 | 5.6 |
| 45-54 | 14.7 | 2.6 | 9.3 | 22.2 | 16.6 | 9.8 | 18.0 | 2.8 | 4.0 |
| 55-64 | 12.8 | 2.6 | 10.2 | 24.3 | 16.0 | 9.8 | 20.5 | 1.4 | 2.5 |
| 65+ | 9.8 | 1.7 | 9.0 | 24.0 | 14.2 | 8.5 | 30.5 | 1.1 | 1.2 |
| All ages | 15.7 | 2.4 | 8.7 | 19.6 | 17.0 | 8.9 | 17.4 | 4.0 | 6.1 |

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

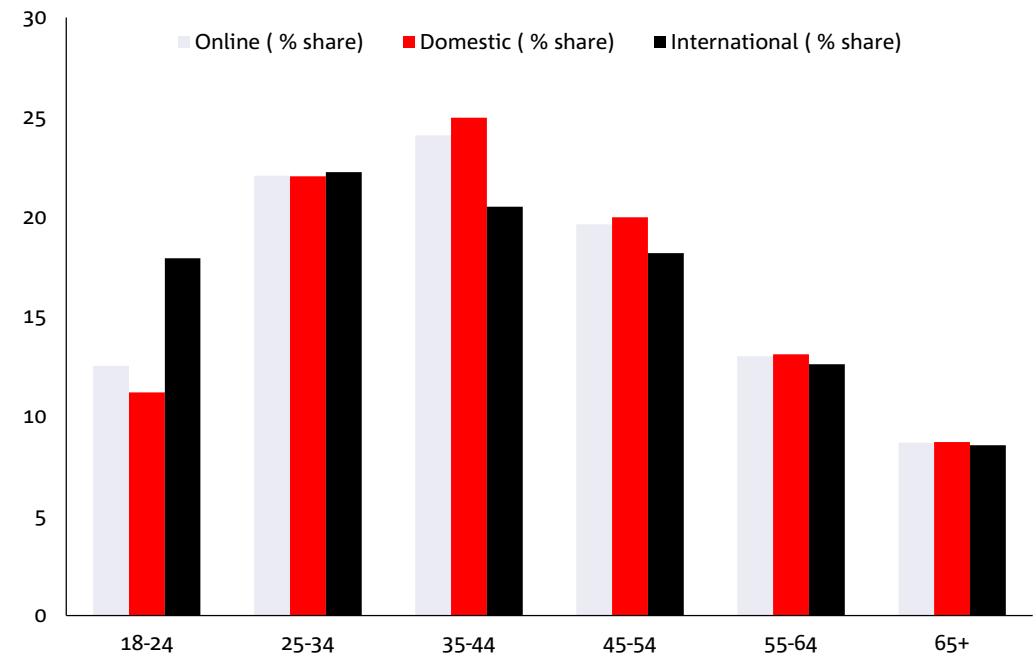
Most age categories total online share is similar to their share of domestic spend, with one exception - those aged 18 to 24 - making up more of the share of international online retail sales than they do domestically. Conversely, those aged 35 to 44 make up more of the domestic share, the group with 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 | 2.0 | 1.6 | 18.8 | 26.2 | 11.2 | 17.9 |
| 25-34 | 1.2 | 0.0 | 13.3 | 14.5 | 22.0 | 22.3 |
| 35-44 | 2.0 | 0.2 | 14.8 | 8.1 | 25.0 | 20.5 |
| 45-54 | 1.2 | 1.0 | 14.6 | 5.8 | 20.0 | 18.2 |
| 55-64 | 2.8 | -0.4 | 15.7 | 0.9 | 13.1 | 12.6 |
| 65+ | 1.8 | 4.8 | 14.7 | 5.3 | 8.7 | 8.5 |
| All ages | 1.4 | 0.7 | 15.0 | 11.0 | 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.

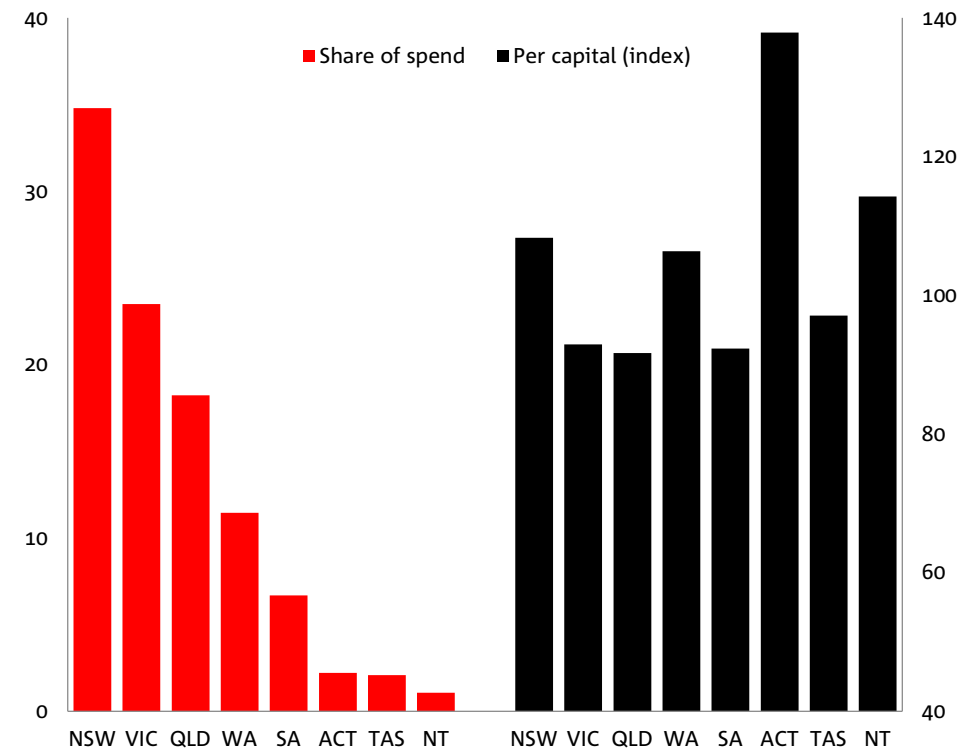
Over 76% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for 77% of the Australian total.

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 11.4% 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 for example, is home to 24.9% of the Australian population yet represents only 23.5% of total online spending.

Chart 10

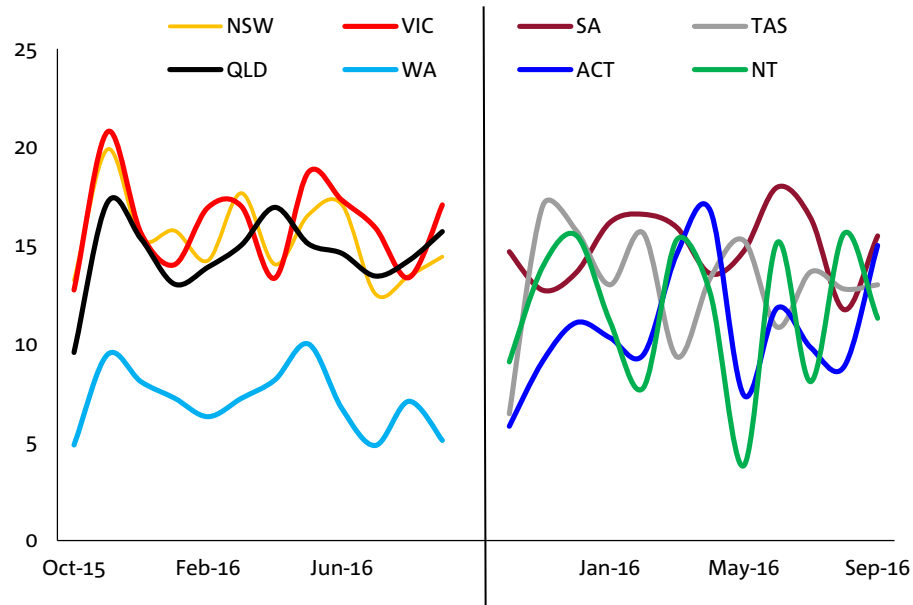
SHARE OF SPENDING, BY STATE (% annual)



SPENDING BY STATE

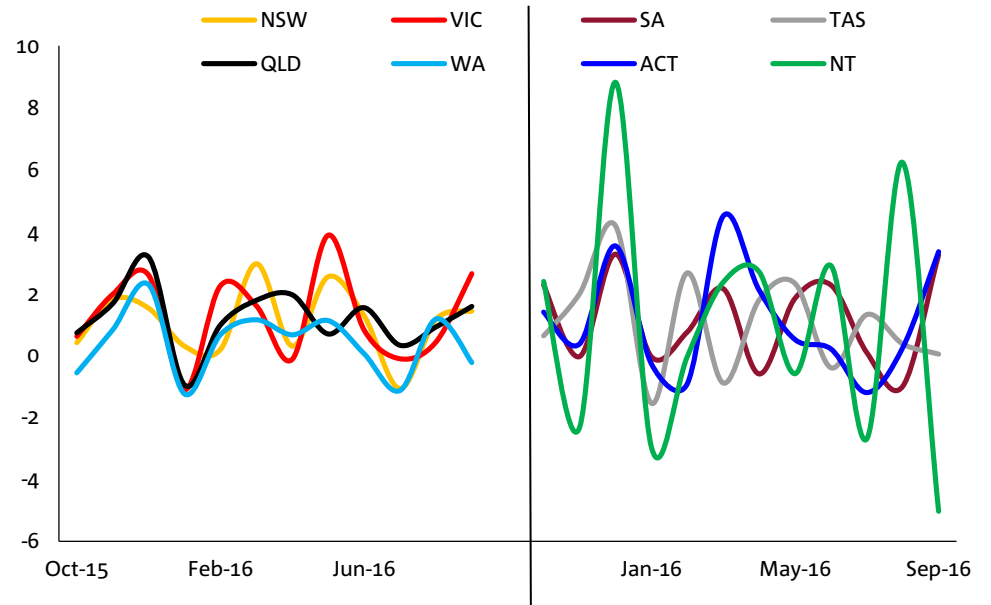
Over the past year, the contribution to growth in online has shifted back towards the larger eastern states. Over the past year Victoria has recorded the strongest growth, with WA the weakest.

Chart 11
GROWTH OF SPENDING, BY STATE
 (% yoy)



Monthly growth was positive across all states except NT and WA. ACT, SA and VIC lead growth, with QLD and NSW also reasonably strong. TAS recorded the strongest growth in July, but has slowed since to be virtually flat in September.

Chart 12
GROWTH OF SPENDING, BY STATE
 (% mom, sa)





METROPOLITAN VS REGIONAL



METROPOLITAN & REGIONAL PERFORMANCE

Growth in Metro areas strengthened in September, while Regional 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 metro areas continued to increase in September following a dip in July. While still positive, growth from regional areas slowed compared to August. At 1.7 %, online sales in metro areas outpaced regional (0.5%) areas in September.

Metropolitan residents retain the largest share of spend and spent on average around 18.6% 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 5% 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)

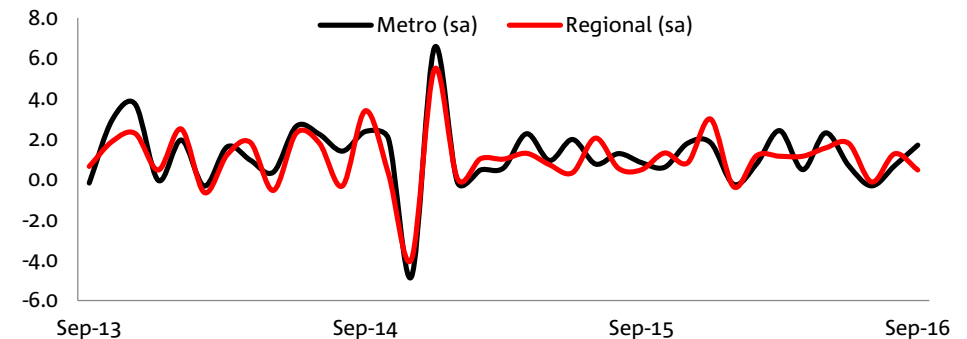
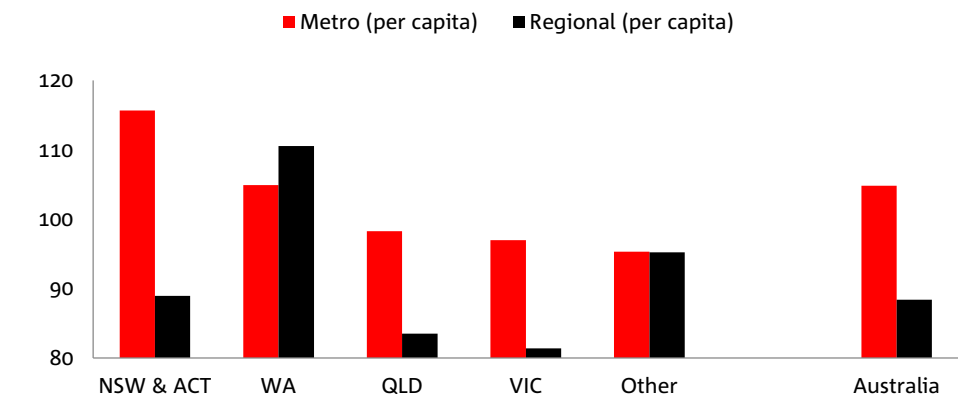


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



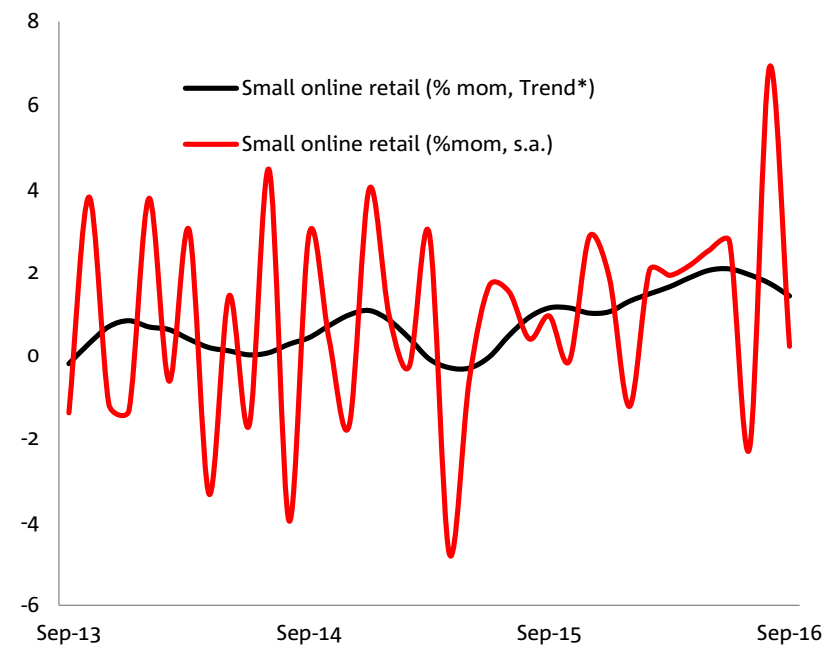
SMALL ONLINE RETAILERS (SMES)

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 0.2% smaller online retail sales recorded much lower growth in September compared to the 6.9% recorded in August. Although slowing slightly, at 1.4%, small online retail spending is now, in trend terms, much higher than past periods. We estimate that small online retail sales are now 21% 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 29.6% of spending at small online retailers, this category contributed 37.4% to small online retail sales growth.

| % | Monthly growth - Aug | Monthly growth – Sep | Annual growth - Aug | Annual growth – Sep | Share of Small spending | Contribution to annual Small spending growth |
|--------------|----------------------|----------------------|---------------------|---------------------|-------------------------|--|
| Fashion | 3.5 | 3.1 | 17.4 | 23.4 | 24.8 | 24.1 |
| Daily Deals | 12.7 | -67.1 | -12.5 | -75.0 | 0.0 | 0.0 |
| Department | 4.3 | -4.7 | 58.0 | 48.1 | 2.9 | 7.5 |
| Homeware | 9.6 | 0.1 | 28.9 | 25.7 | 29.6 | 37.4 |
| Media | 1.7 | 0.3 | 5.4 | 6.5 | 3.6 | -0.6 |
| Personal | 7.3 | -2.5 | 17.9 | 14.5 | 29.8 | 22.1 |
| Groceries | 8.4 | -1.3 | 20.5 | 13.1 | 4.1 | 3.8 |
| Toys | 2.8 | 0.3 | 13.4 | 15.1 | 3.8 | 2.0 |
| Food | 20.0 | -1.3 | 65.4 | 58.1 | 1.5 | 3.6 |
| Total | 6.9 | 0.2 | 21.9 | 21.0 | 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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