



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – MARCH 2017

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$22.23bn in the 12 months to March 2017.

Sales growth accelerated in month-on-month (mom) terms to 0.8% in March, seasonally adjusted (s.a.) after a couple of slower months prior. Electronic Games and Toys, Grocery and Liquor, and Media, led monthly growth, while Department stores, Homewares and appliances and Daily deals contracted.

Most states except SA and ACT experienced sales growth in the month with NT, TAS, NSW and QLD leading. TAS VIC, QLD and NSW lead annual growth.

SME retailers have outpaced corporates in both the month (4.1%), and over the year (+23%).

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

RICHARD COATH

General Manager, Consumer, Health, Agri & TMI
Global Institutional Banking, National Australia Bank

Each quarter, we examine the online spending behaviour of Australian consumers to provide insights into the movements in online retail purchases. We look at various consumer demographics such as age and location, as well as the types of goods purchased and whether they're from domestic or international suppliers.

What we've noticed this quarter is continued strength in SME sales, particularly in Homewares and appliances, Personal and recreational goods and takeaway food.

Takeaway food is not just an SME story. While it still only represents about 6.6% of the index, it's sales have grown the fastest in the past year.

Sales to domestic and international retailers by age really differ, with the 18-24s showing a slight preference for international while the biggest online spend group, the 35-44s show a preference for domestic online.

We trust the NAB Online Retail Sales Index helps you to better understand the nuances of Australian online spending, and enables your business to prepare effective strategies and activities for the coming months.

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THE ONLINE RETAIL MARKET



OVERALL INDEX

In seasonally adjusted terms, at 0.8%, growth in online retail sales accelerated in March. This is much quicker than the past few months. Noteworthy is the monthly sales growth of SMEs far beyond their corporate peers in the most recent period .

The revised estimate for trend online retail sales growth was 0.2%. While this is lower than January and February (0.4%), it remains positive. ABS data showed growth of comparable traditional retailers in February to have contracted (-0.1%, mom) when compared to January.

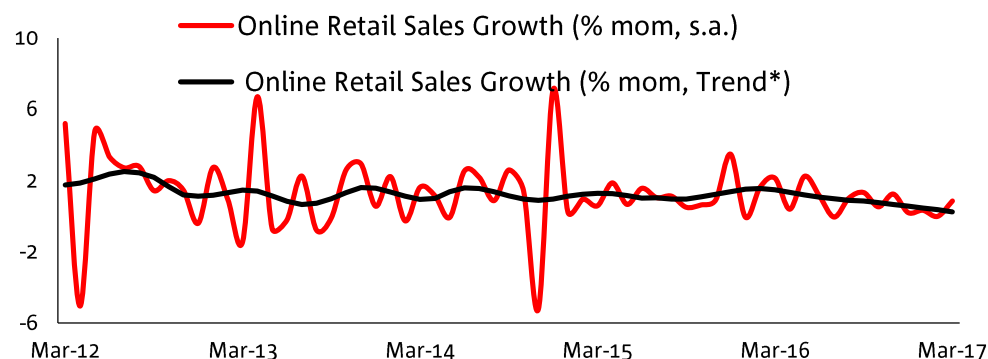
In the 12 months to March, we estimate that Australians spent an estimated \$22.23 billion on online retail – a level that is equivalent to around 7.3% of the traditional bricks and mortar retail sector (which totalled \$304.8 billion in the year to February 2017 according to the Australian Bureau of Statistics).

In year on year terms (March 2017 v March 2016), online sales grew by 9.0%, down from the 10.7% year-on-year growth in February. This is much slower than the growth recorded when the index was established. In March 2011 for example, year on year growth was around 44%. Growth has clearly flattened as shown in the trend line (see chart 1). Conversely sales growth (23% yoy) at SME retailers has never been higher.

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

Chart 1

GROWTH IN ONLINE RETAIL (% monthly)



KEY RETAIL STATISTICS

	Jan-17	Feb-17	Mar-17
Monthly growth (%)			
Corporate	0.3	0.0	0.8
SMEs	1.5	1.7	4.1
Annual growth (%)			
Corporate	12.8	10.7	9.0
SMEs	17.2	17.4	23.0

ONLINE CATEGORIES



CATEGORY PERFORMANCE

Media contributed the most to growth in the year to March, with the second fastest growth over the year. While Homewares contracted in March (mom) its contribution to annual growth is still second.

At 20.9% (yoy), Takeaway Food had the fastest annual online sales growth in March, albeit slowing on the February result (30.3%). This category represents a rapidly evolving way of ordering food, supported by recent advancements in methods such as mobile phone applications. Given its double digit growth, Takeaway Foods share of total spend is growing and now represents 6.6% of online.

Toys(7.0%, mom) rebounded after a contraction in February, along with Groceries and Liquor (3.4%), Media(2.1%), Personal and recreational (2.1%), and Fashion (0.8%). Department store sales (-0.2%) contracted, along with Food (-0.4%), with sharper falls in Homewares and appliances (-1.4%) and Daily deals (-3.2%).

The key categories “punching above their weight” included Media, with only 17.3% of spend but contributing 25.9% to annual spending growth, and despite the monthly result, Takeaway Food with 6.6% spend share, contributing 14.7% to total sales growth (yoy).

See the notes page for more on the reclassification of categories

Chart 2

ANNUAL GROWTH OF SPENDING, BY CATEGORY

(% yoy)

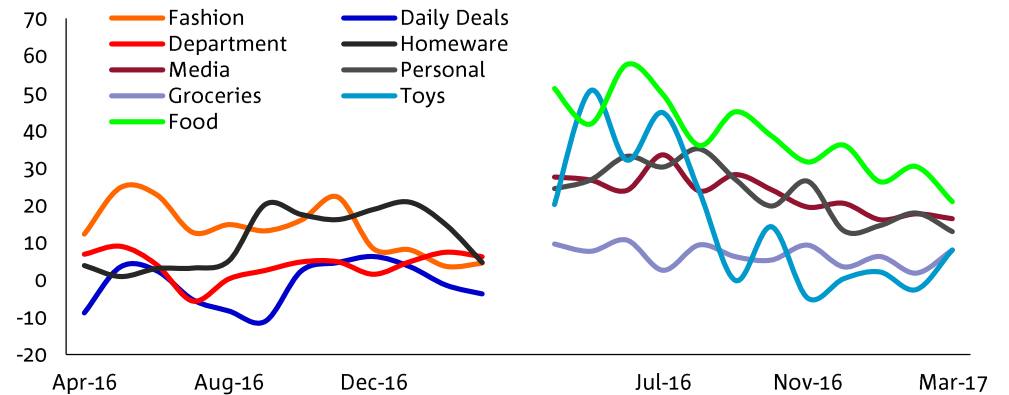
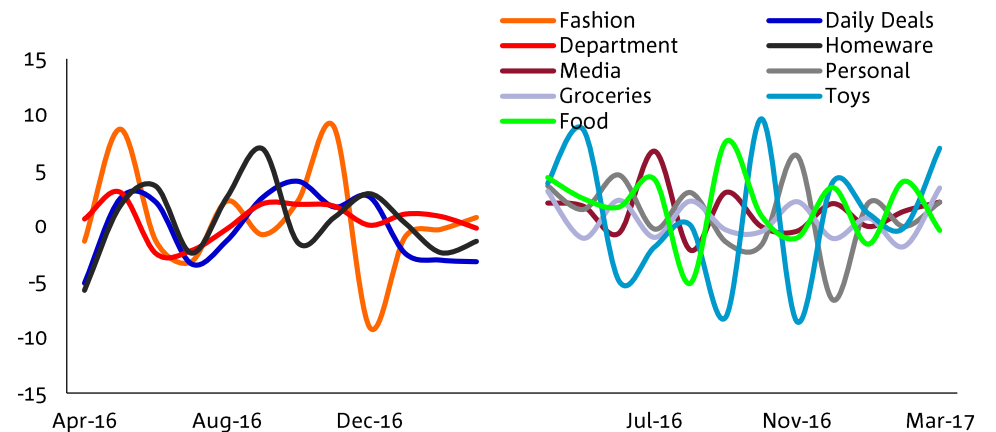


Chart 3

MONTHLY GROWTH OF SPENDING, BY CATEGORY

(% mom, s.a.)



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, Takeaway Food, Media, and Personal and Recreational goods have been expanding rapidly. Daily deals has returned to detracting from online sales growth after a surprise rebound in growth in late 2016.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Feb-17	Mar-17	Feb-17	Mar-17		
Fashion	-0.3	0.8	3.6	4.5	15.7	15.3
Daily Deals	-3.1	-3.2	-1.4	-3.8	2.3	-0.2
Department	0.9	-0.2	7.4	6.2	8.4	2.4
Homeware	-2.4	-1.4	14.7	4.6	19.9	16.0
Media	1.3	2.1	17.7	16.4	17.3	25.9
Personal	-0.1	2.1	17.9	12.9	9.3	14.0
Groceries	-1.8	3.4	1.8	7.9	16.7	8.4
Toys	-0.2	7.0	-2.6	8.0	3.8	3.5
Food	4.0	-0.4	30.3	20.9	6.6	14.7
Total	0.0	0.8	10.7	9.0	100	100

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

“FOOD CATERING CONTINUES ITS RAPID RISE, WITH STRONG GROWTH IN NSW AND QLD, PARTICULARLY WITH NEW ONLINE MEAL DELIVERY AGGREGATORS.”

Wade Tubman, Quantum

INTERNATIONAL VS DOMESTIC



INTERNATIONAL VS DOMESTIC PERFORMANCE

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

Domestic online sales growth accelerated in March (1.1%) compared to February (-0.1%). International sales contracted in the month (-0.1%), much slower than February (+0.7%). Looking at the year-on-year growth rates, domestic online sales growth (9.1%) and International (8.7%) are much closer than the comparable March result in 2016 where domestic sales (19.1% yoy) far outpaced international (4.8%).

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 flat lined.

Chart 4

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

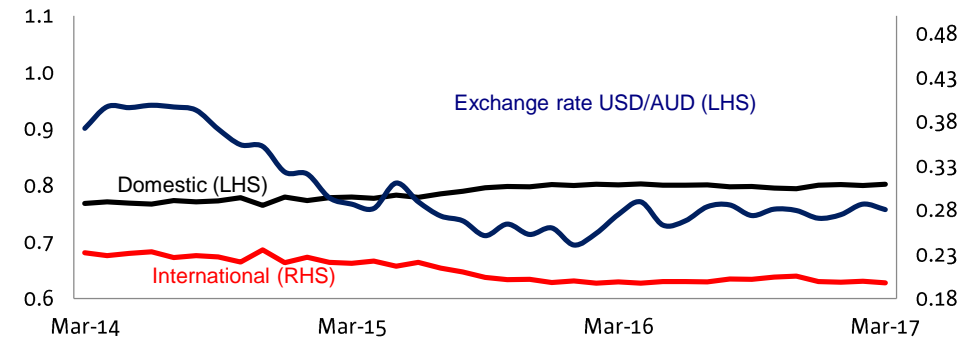
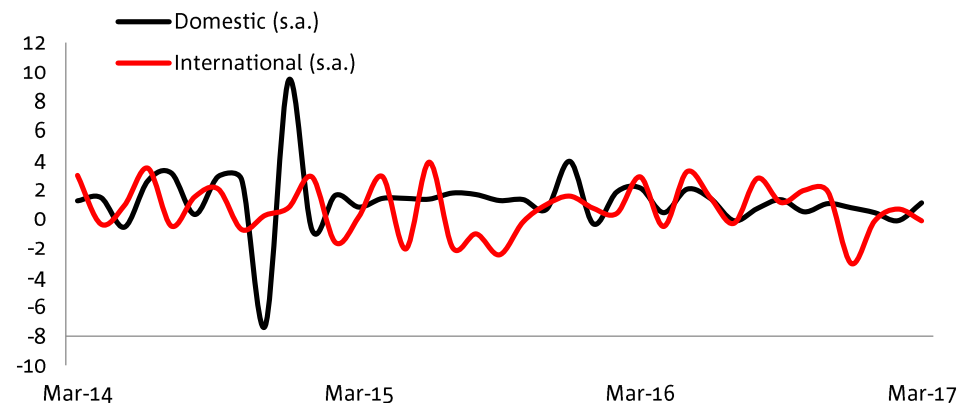


Chart 5

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



INTERNATIONAL VS DOMESTIC - BY CATEGORY

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

Department stores now join Electronic Game and Toy retailing in having a greater share of spend (albeit marginal) attributed to international retailers. To put this in perspective, it is worth noting that in total these two categories represent small shares of overall spend in the index (around 12% combined).

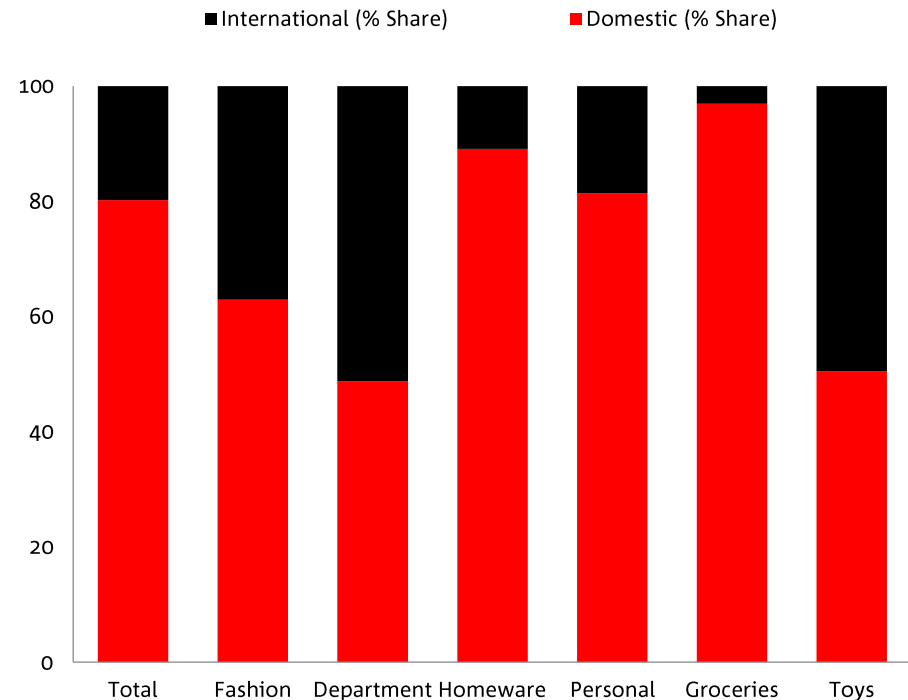
Domestic retailers still capture the majority of spending in our index.

In year on year terms, growth for both domestic retailers has been particularly buoyant in Personal and Recreational Goods and takeaway food.

For international retailers, growth was strongest in Department stores and Fashion, both of which contracted for 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 63% of Fashion is purchased from domestic online retailers, it only accounts for about 12.5% 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	-2.0	16.4	62.9	37.1	12.4	29.0
Department	-4.4	17.1	48.8	51.2	5.1	21.5
Homeware	4.0	10.2	89.1	10.9	22.1	10.8
Personal	22.2	-21.0	81.4	18.6	9.5	8.7
Groceries	8.8	-15.6	96.9	3.1	20.3	2.5
Toys	14.5	0.8	50.5	49.5	2.4	9.3
All categories	9.1	8.7	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 smallest spend share group of the over 65 year olds, and weakest for the youngest and second smallest spend share group of 18-24 year olds.

Those aged 35-44 make up approximately 17.0% of the adult population, but their share of online spend is the highest at 24.0%. In contrast, over 65s make up 19.3% of the population and only 8.6% of online spend

Spending by all age groups grew in the month with the exception of 18-24 year olds whose spending contracted (-0.4%) for the second month a row. Growth was fastest for those aged 65+ (2.9%), partly making up for the contraction in February (-2.7%). Growth also accelerated for those aged 45-54(1.5% mom March vs 0.1% mom February), 35-44 (1.0% vs 0.2%), and 55-64s (0.7% vs flat). Sales growth for the 25-34s was almost unchanged on the previous month(0.5% vs 0.6%)

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

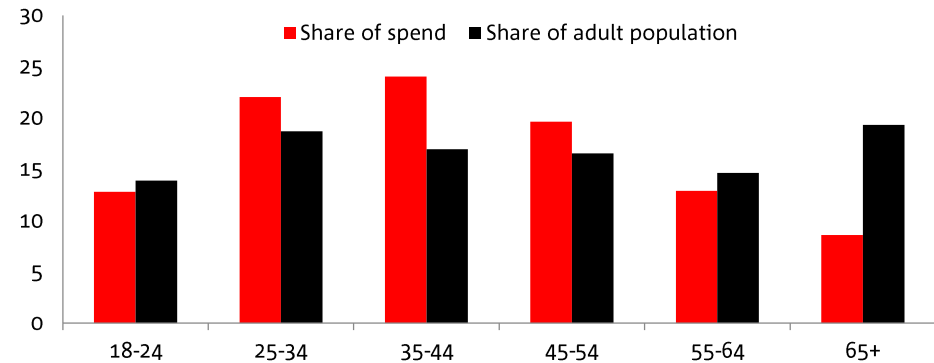
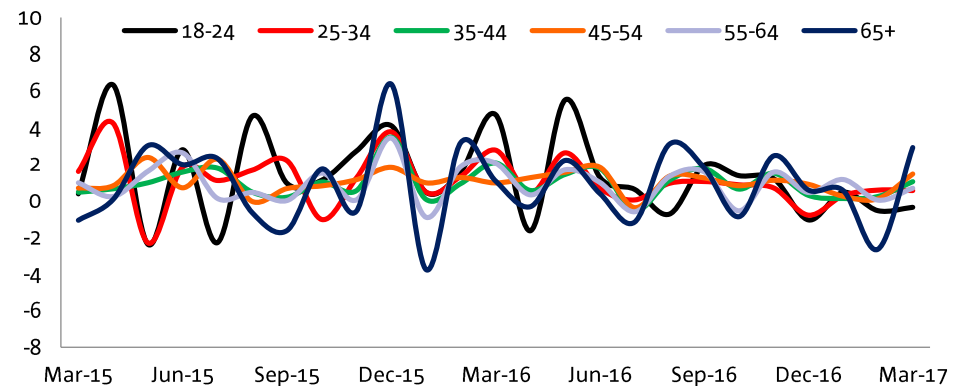


Chart 8

GROWTH OF SPENDING, BY AGE GROUP

(% mom, s.a.)



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	21.2	1.4	6.2	15.2	20.2	7.8	4.5	12.0	11.4
25-34	18.2	2.4	8.0	16.7	17.9	8.4	13.9	4.1	10.5
35-44	14.9	2.6	8.7	19.0	16.9	9.6	19.5	2.6	6.2
45-54	14.6	2.5	9.0	22.3	17.0	10.3	17.2	2.6	4.5
55-64	12.8	2.5	9.8	24.6	16.4	10.4	19.5	1.2	2.8
65+	10.2	1.7	8.7	24.6	14.5	9.1	29.1	0.8	1.3
All ages	15.7	2.3	8.4	19.9	17.3	9.3	16.7	3.8	6.6

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

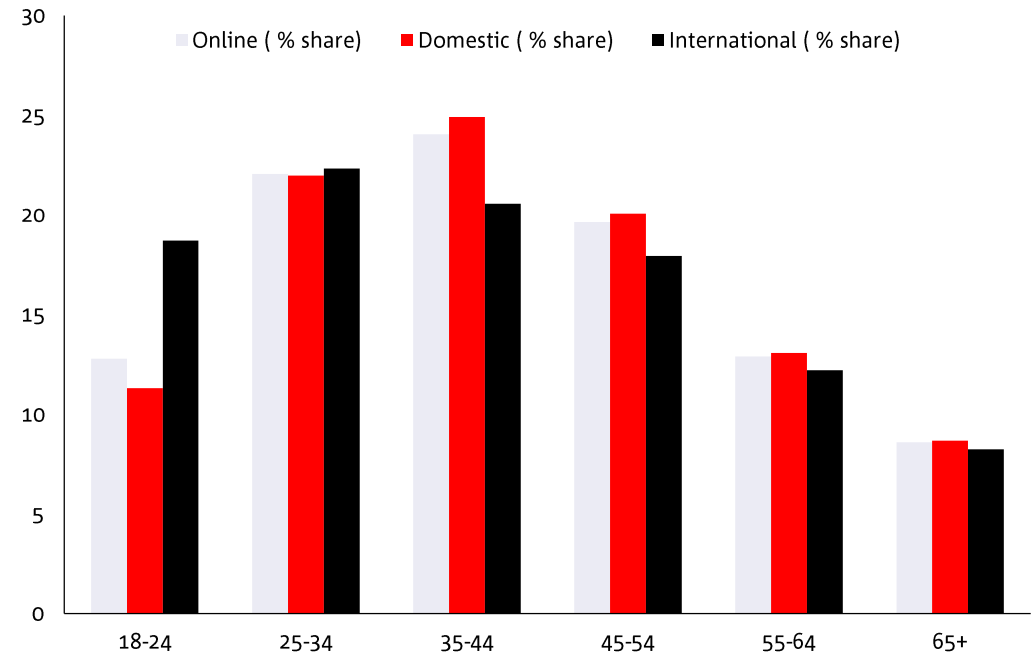
Most age categories total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. Conversely, the group with the largest overall online spend share, those aged 35 to 44, make up more of the domestic share. 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	1.4	-4.4	7.5	7.8	11.3	18.7
25-34	0.9	-0.8	7.7	8.2	22.0	22.3
35-44	1.2	0.8	9.0	12.3	24.9	20.6
45-54	1.4	1.7	11.7	9.4	20.1	17.9
55-64	0.8	-0.3	9.4	3.8	13.1	12.2
65+	2.2	7.0	9.0	9.3	8.7	8.2
All ages	1.1	-0.1	9.1	8.7	100	100

Chart 9

SHARE OF SPENDING BY AGE GROUP

(% annual)



STATES AND TERRITORIES



nab



STATE PERFORMANCE

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

Almost 77% 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 a little over 77% of the Australian total.

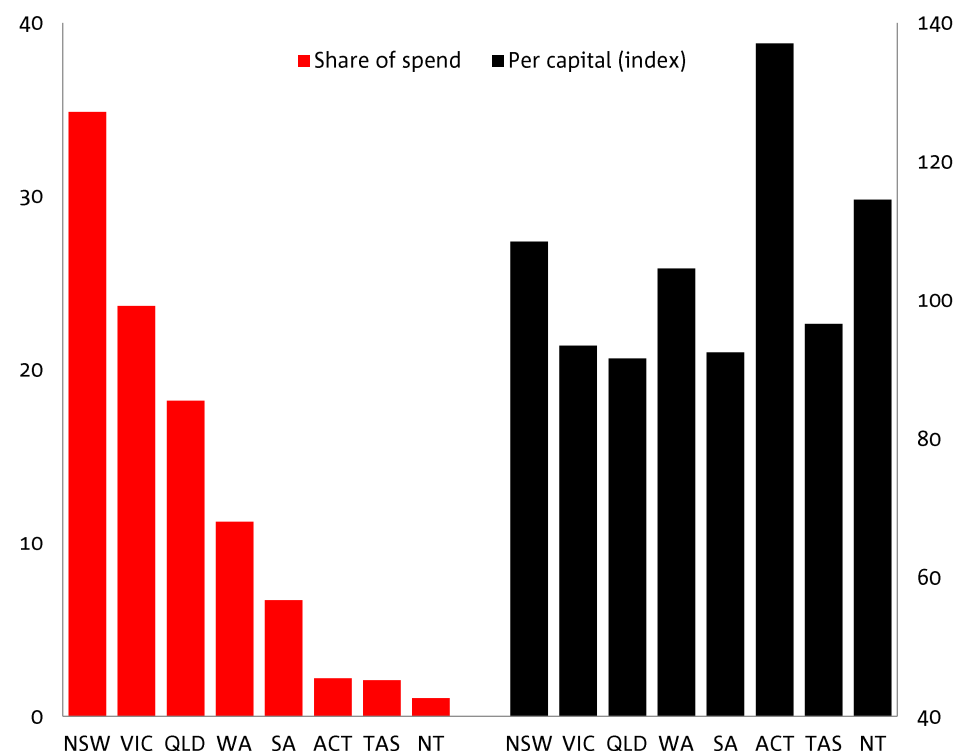
However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT where only 1.6% of Australians live, 2.2% of total online purchases in dollar value terms were made. Similarly in WA, 10.8% of Australians made 11.1% of total online purchases.

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 25.2% of the Australian population yet represents only 23.8% of total online spending, although this share is up marginally on December (23.7%).

Chart 10

SHARE OF SPENDING, BY STATE

(% annual)

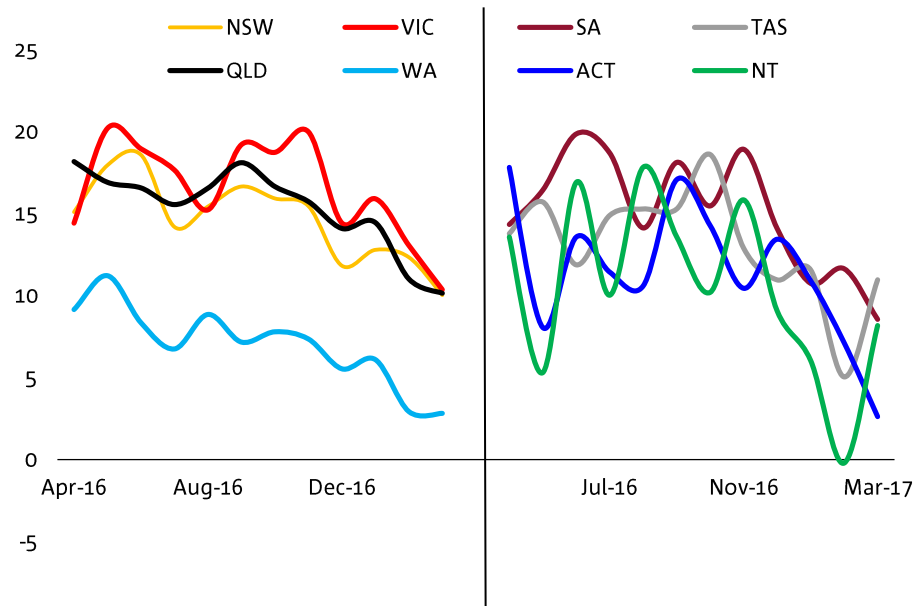


SPENDING BY STATE

Over the past year, the contribution to growth in online has shifted back towards the larger eastern states. Tasmania, recorded the strongest annual growth, followed by Victoria, Queensland, and New South Wales, with ACT and WA the weakest.

Chart 11

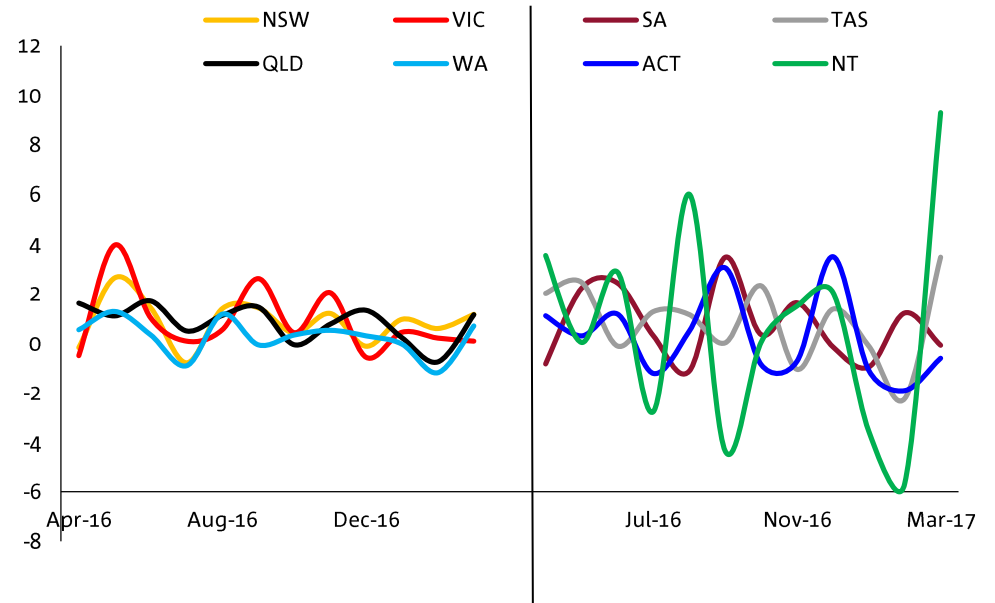
GROWTH OF SPENDING, BY STATE (% yoy)



Online sales grew in all states and territories except SA and ACT with ACT having contracted for the past three months. While NT recorded the highest monthly growth this figure should be used with caution given the series volatility. TAS, NSW and QLD were also considerably strong, while VIC was virtually flat.

Chart 12

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





METROPOLITAN VS REGIONAL



METROPOLITAN & REGIONAL PERFORMANCE

Growth in Metro and regional areas accelerated in March. Metropolitan residents bought 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 both Metro and Regional areas accelerated in March, with Regional (1.3%) areas outpacing Metro (0.7%) areas in the month.

Metropolitan residents retain the largest share of spend and spent on average around 17.9% more than those residing in regional Australia. However, those living in regional Western Australia spent about 7% more than the average Australian, along with WA metropolitan residents at about 2.5% more.

Metro NSW/ACT continues to lead per-capita spend, with WA highest per-capita in regional areas. Regional Victorian and regional Queensland residents remain below the national average.

Chart 13

GROWTH OF SPENDING, BY REGION

(% mom)

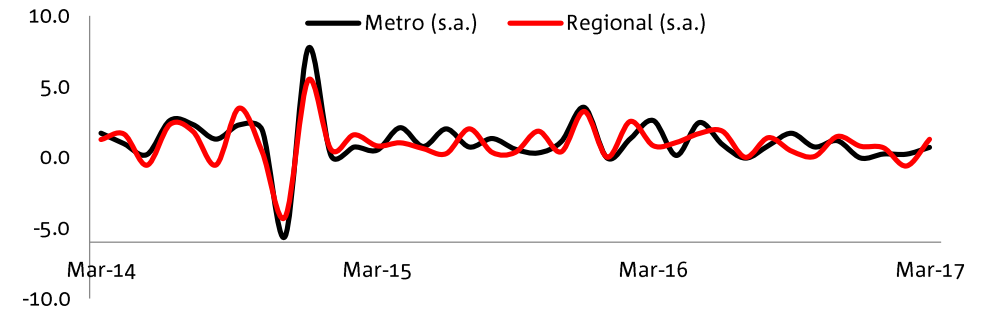
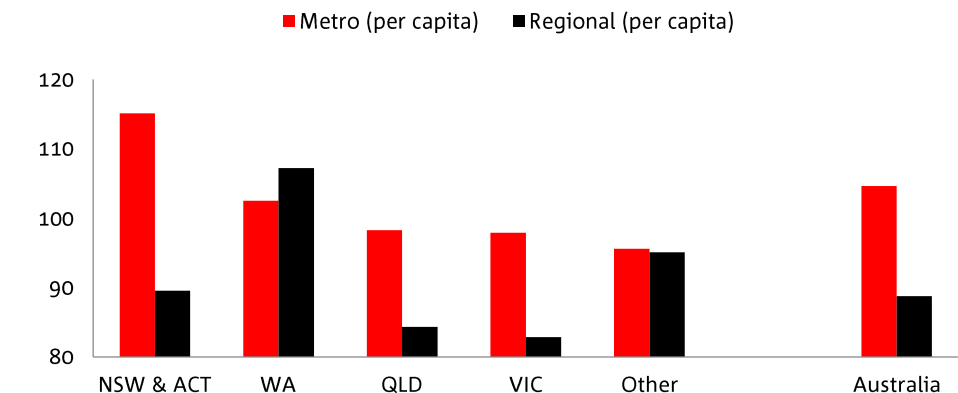


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



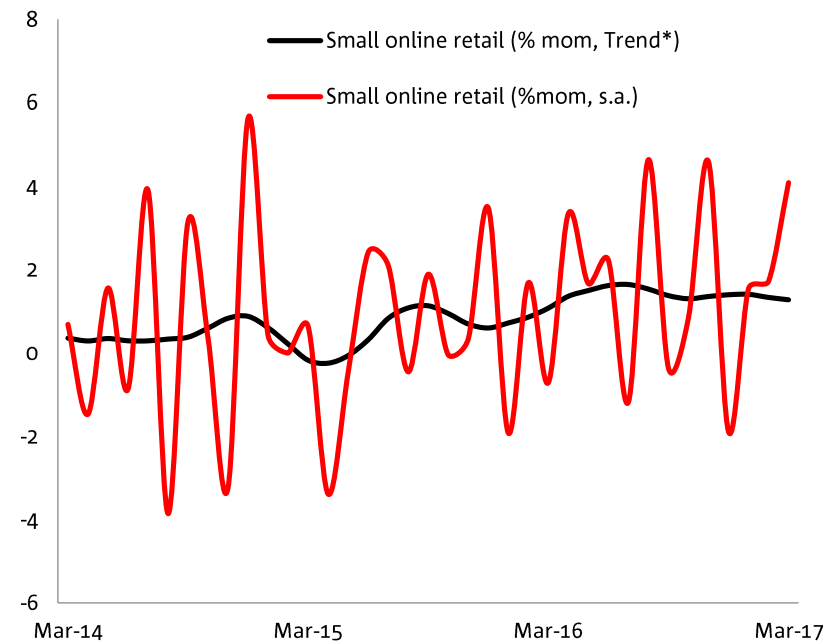
SMALL ONLINE RETAILERS (SMES)

We continue to track spend at SME retailers, first introduced in the March quarter 2016*. SME Online retailers made up around 36% of all online retail sales in the past 12 Months. Both monthly and annual sales have expanded in March.

At 4.1%(mom, s.a.) smaller online retail sales expanded rapidly in March. This comes after some considerable weakness in sales in December. At 1.3%, small online retail spending, in trend terms, remains higher than in the early period of this series, and higher than that of the corporate online retailers. In year on year terms, we estimate that small online retail sales are now 23% 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 Homeware and Appliances, Personal and Recreational, and Fashion (making up nearly 85% of spend). These categories have contributed the vast bulk of spend. While Homeware and Appliances represents 30.2% of spending at small online retailers, this category contributed 36.3% to small online retail sales growth.

%	Monthly growth - Feb	Monthly growth – Mar	Annual growth – Feb	Annual growth – Mar	Share of Small spending	Contribution to annual Small spending growth
Fashion	0.9	3.3	17.0	21.6	25.0	27.0
Daily Deals	-12.3	-22.5	-74.5	-80.0	0.0	-0.2
Department	1.7	2.8	24.9	20.7	2.8	5.0
Homeware	1.2	4.8	21.6	35.2	30.2	36.3
Media	3.8	-2.7	10.7	3.2	3.3	0.3
Personal	2.1	2.0	17.0	17.4	29.4	26.3
Groceries	3.7	5.6	-0.1	13.3	3.8	0.4
Toys	-0.2	2.1	8.3	10.5	3.7	1.5
Food	2.6	3.7	23.1	29.4	1.6	3.4
Total	1.7	4.1	17.4	23.0	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.

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

How do we define Domestic and International?

NORSI defines retailers that do not charge GST as international retailers

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