



NAB CASHLESS RETAIL SALES INDEX JUNE 2017

NAB Group Economics

- **The NAB Cashless Retail Sales Index is a new product which provides timely proprietary data on a major part of retail spending in Australia.** It builds upon the NAB Online Retail Index by measuring all cashless retail spending by consumers using debit and credit cards (both in person and online), BPAY and Paypal. The index is derived from personal transaction data from NAB platforms (around 2 million transactions per day) and offers a 2-3 week lead on ABS retail trade data. Reflecting the growth of online retailing and the increasing popularity of contactless payment systems, cashless sales to consumers have been growing much more rapidly than the ABS measure of retail sales in recent years (Chart 1). The Reserve Bank estimates that cash payments have fallen from almost 40% to just 18% of the total value of consumer payments over the past nine years.
- **The NAB Cashless Retail Sales Index shows that the value of cashless retail spending increased at a yearly rate of 5.6% in June** (in seasonally adjusted terms). Growth in cashless retail sales has continued to weaken from a peak yearly rate of over 12% in late 2015 (Chart 1). Convergence between the NAB and ABS growth rates is likely as the penetration of contactless payment systems reaches a limit reflecting minimum spend requirements for cashless transactions and the existence of a proportion of merchants who deal only in cash. Online retail sales yearly growth spiked at 7.9% in May compared with 3.8% for ABS retail trade.
- Within total cashless retail, the **fastest yearly growth was in cafes, restaurants & takeaway (19.0%) and the weakest was in clothing & footwear (-0.9%)** (Chart 3). By state, yearly cashless retail spending growth was fastest in the ACT (7.7%), NSW (6.5%) and SA (5.9%), but weakest in WA (1.2%) (Chart 4).
- Based on monthly movements in the NAB cashless spending index and our data mapping techniques, **ABS retail trade is expected to be broadly unchanged in seasonally adjusted terms in June.** (See appendix.)

Year-on-year growth (%)

	Apr-17	May-17	Jun-17
Cashless index (s.a.)	7.6	8.7	5.6
Online index (n.s.a.),	7.4	7.9	N/A
ABS retail (s.a.)	3.1	3.8	3.5(f)

Month-on-month growth (%)

	Apr-17	May-17	Jun-17
Cashless index (s.a.)	1.4	0.6	-0.8
Online index (s.a.)	-0.7	1.3	N/A
ABS retail (s.a.)	1.0	0.7	0.0(f)

(f) NAB forecast. Data are seasonally adjusted (s.a.) and trended using TRAMO/SEATS with a trading day and Easter adjustment. For online data, see the NAB Online Retail Sales Index. Traditional retail sales data are sourced from the Australian Bureau of Statistics (ABS).

Chart 1: Cashless and total retail sales

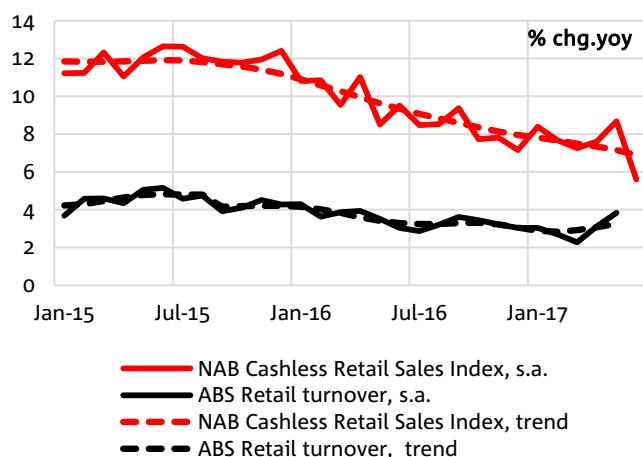
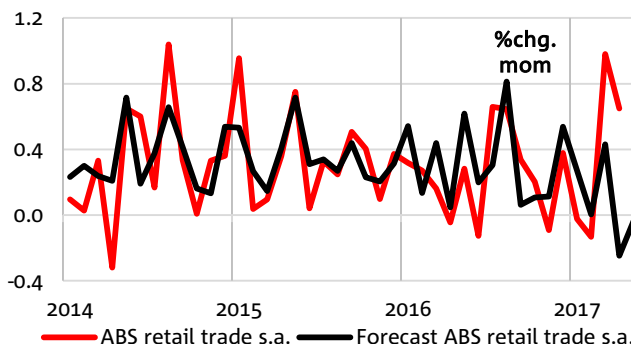


Chart 2: ABS and forecast ABS retail trade data, s.a.



NAB Chief Economist, Alan Oster commented:

“The new NAB Cashless Retail Sales Index is intended to measure activity in what is now the most common form of retail transaction using data on personal transactions passing through NAB’s payments systems. The Reserve Bank estimates that over 80% of consumer payments by value are now made without cash. The new index adds to information published in the NAB Online Retail Index by including transactions made in person using credit and debit cards, as well as BPAY and Paypal transactions. The new index is based on a sample size of around two million transactions daily.

“The index shows that cashless retailing softened in May and June. This weakness has been most evident in food, household goods and clothing & footwear, and seems to have been broad-based nationally. This means that already slow cashless retail sales growth in WA, where growth lags behind the eastern non-mining states, has further weakened. Newspapers & books, other recreational goods, clothing & footwear, and hardware have been notably soft areas over the past year. Cafes, restaurants and takeaway retailing, pharmaceuticals & cosmetics and supermarkets have fared relatively better.

“This is consistent with a challenging environment for retailers, with demand from consumers subdued amidst weak wages and income growth. Strong competition both locally and from offshore also appears to be leading to margin pressure and limited inflation in the retail space, which is also weighing on the dollar value of sales growth. Such challenges also help to explain why business conditions for the retail sector, as reported in the NAB Business Survey are well below that for other industries, although retail conditions have improved somewhat of late.”

Chart 3: Cashless retail sales by industry, s.a.

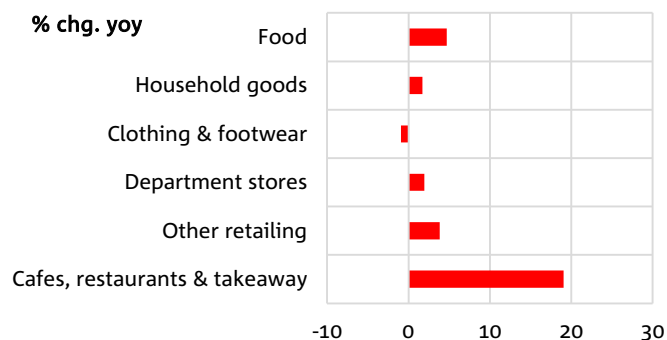


Chart 4: Cashless retail sales by state, s.a.

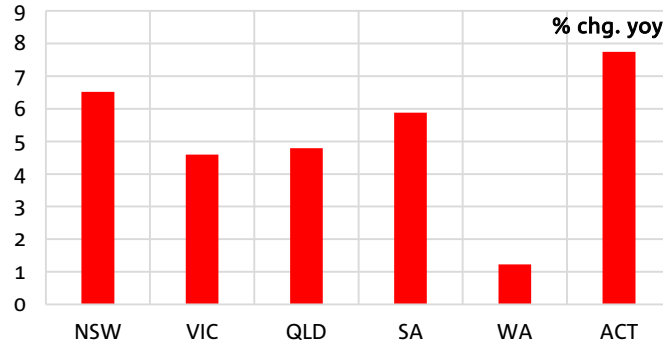
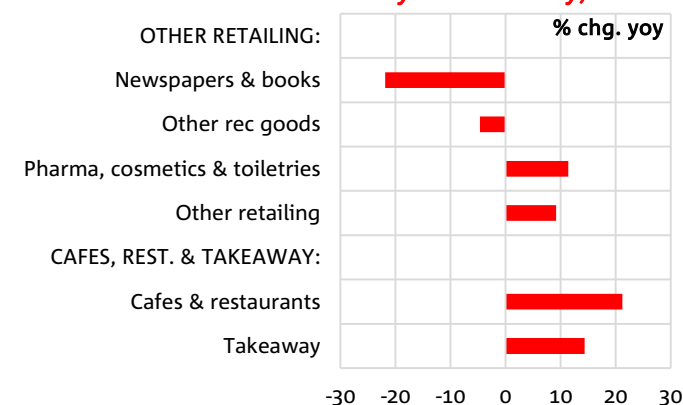


Chart 5: Cashless retail sales by sub-industry, s.a.

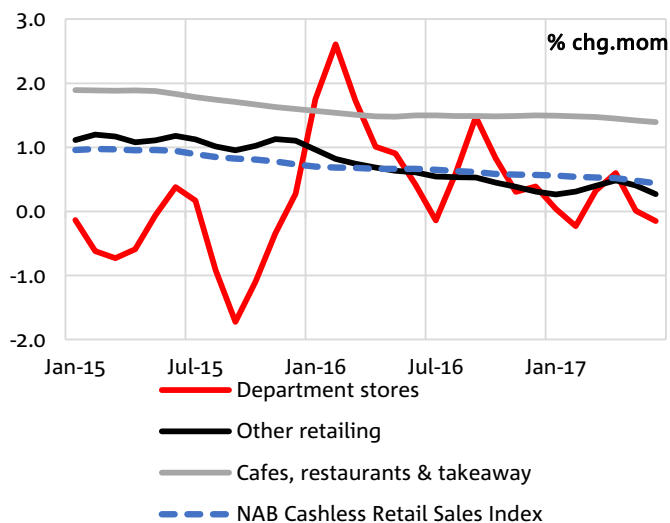
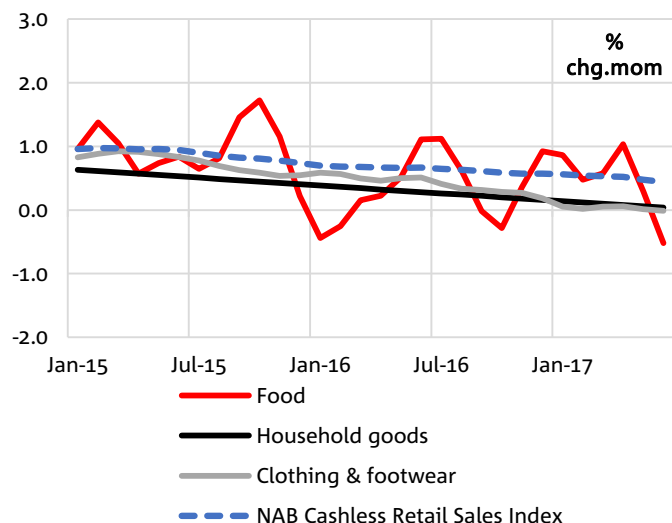


Chart 6: Cashless retail sales by sub-industry, s.a.



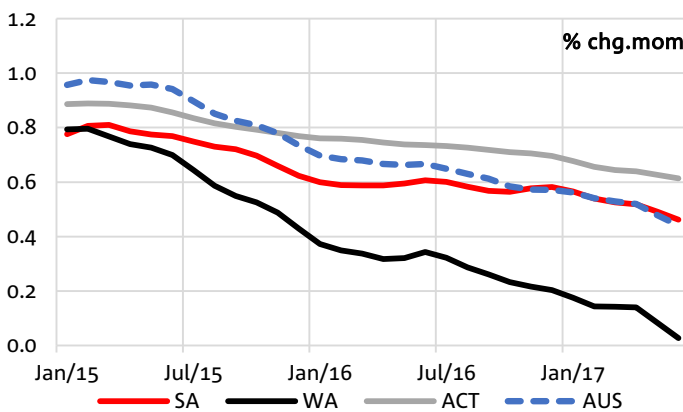
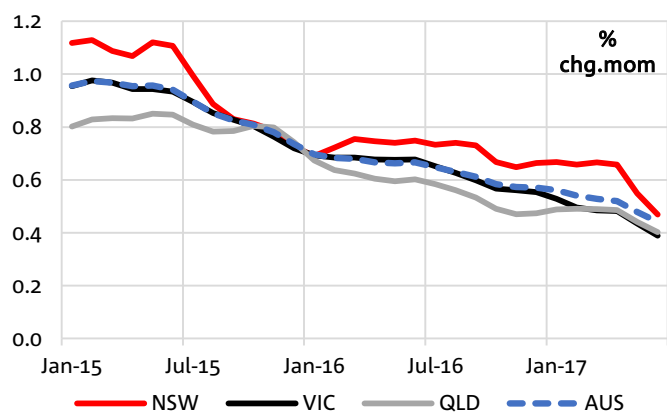
Charts 7 & 8: Cashless sales by industry, trend

Cashless spending growth has been trending down across most retail industries over the past two and a half years. Cashless spending on household goods, clothing & footwear and department stores is no longer growing in trend terms. Cafes, restaurants & takeaways have almost invariably been the strongest growing segment and 'other retailing' (recreational goods, pharmaceuticals, cosmetics, etc) also continues to grow.



Charts 9 & 10: Cashless sales by state, trend

Cashless retail sales in the eastern non-mining states remained relatively resilient throughout 2016 until they weakened during the past few months. Trend monthly growth has been strongest in the ACT, NSW and SA. In WA, trend monthly growth continued to deteriorate during 2016 reflecting the weakness of the local economy in response to the ongoing unwinding of mining construction activity.



AUTHORS

Alan Oster, Group Chief Economist, +61 414 444 652, Alan.Oster@nab.com.au

Riki Polygenis, Head of Australian Economics, +61 475 986 285, Riki.Polygenis@nab.com.au

Phin Ziebell, Economist

Brien McDonald, Senior Economist

Steven Wu, Economist

Rob Brooker, Manager – Economic Modelling

APPENDIX: METHODOLOGY AND COMPARISON WITH ABS RETAIL TRADE

The NAB Cashless Retail Sales Index is derived from NAB transactions data that have been assigned from particular merchant codes to retail industries by state. NAB electronic transactions data are based on an average 2 million transactions per day. The data are collected in real time at event record level, which allows significant flexibility to segment the data by time, location and merchant type. Transactions data may include EFTPOS, Credit Card, BPAY, Bank Transfers, Direct Debits and Paypal services where available, and include transactions with Australian and international merchants. Spending includes both online and offline transactions. The data excludes cash withdrawals made during a purchase and purchases made offline in an overseas location.

The data only capture electronic retail transactions (and not those through cash payments), hence it is subject to the changing nature and take-up rate of electronic payment methods relative to cash. Any growth in the overall transaction value may be attributable to either an increased preference towards card-based payments by consumers (such as near-field payment “PayWave”), or a higher level of spending across the economy by consumers, i.e. a pick-up in nominal sales. However, it is currently not possible to differentiate between these effects. Customer spending is based on where the customer lives, which may or may not be where the actual spending activity occurs. Customers without an Australian residential address are excluded.

These estimates are aggregated into national industries by applying to them the state shares of each industry from the ABS retail trade publication. State estimates are aggregated by applying the industry shares of each state from the same source. These adjustments are intended to correct for differences between the incidence of NAB transactions across industries and states when compared with the official ABS data.

The industry and state data have been seasonally adjusted using Tramo-SEATS with a trading day and Easter adjustment. Given the relatively short time frame for the data, this seasonal adjustment process should be regarded as provisional: estimates are likely to change as a longer run of data becomes available. The trends have been extracted from the same process.

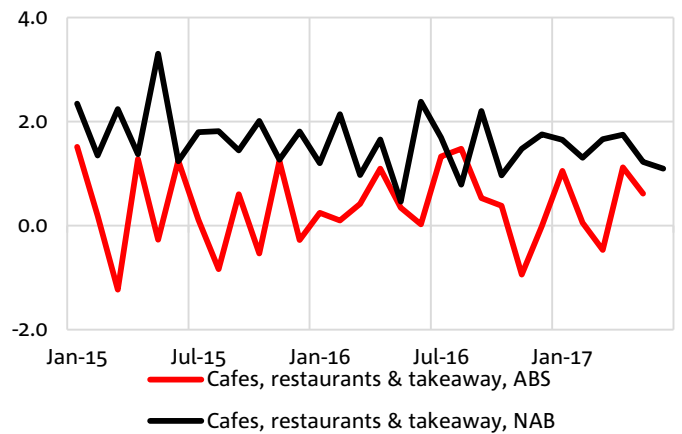
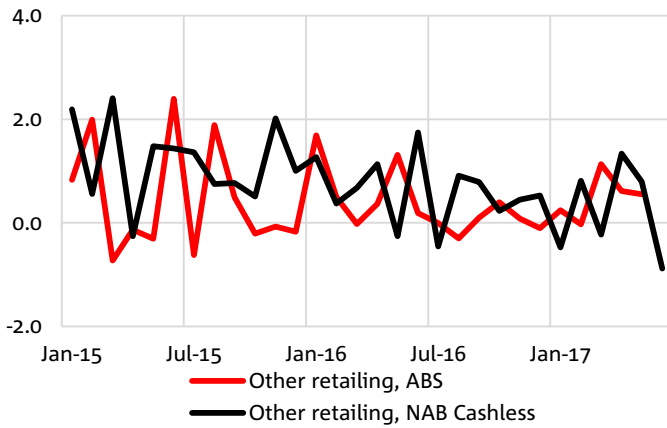
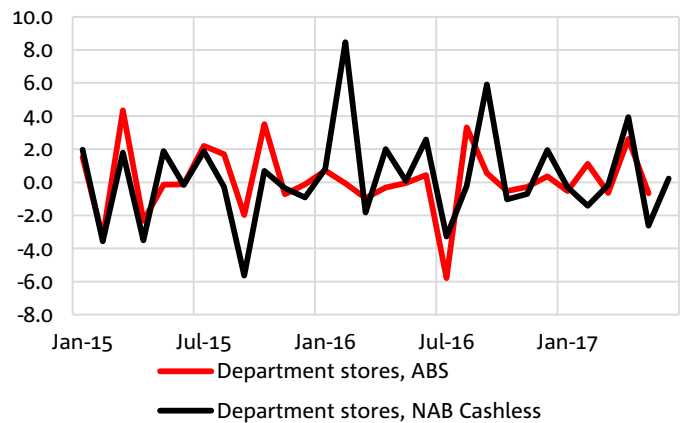
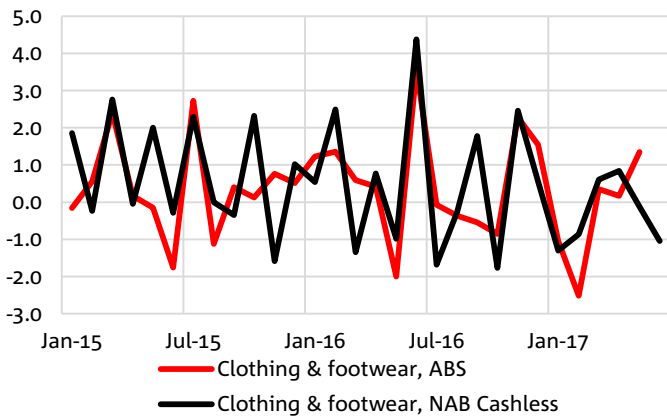
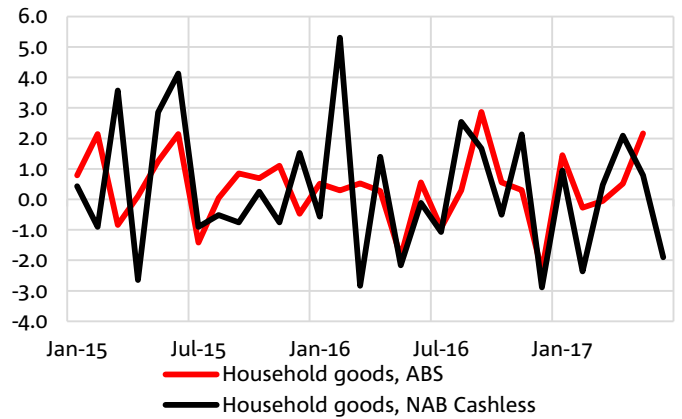
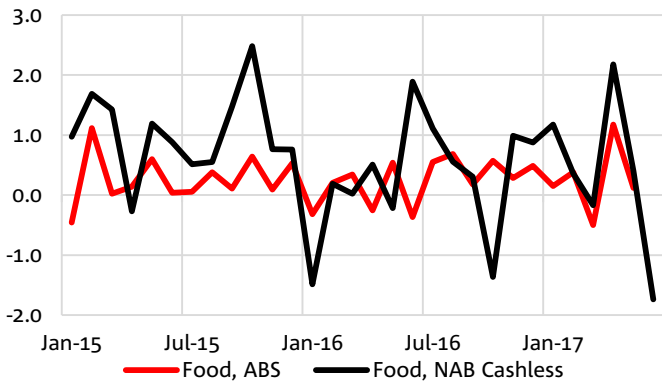
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these provides a forecast of total ABS retail trade.

The charts show the relationship between the ABS total and NAB Cashless retail sales measures, using monthly seasonally adjusted data, for the main retail industry groups. There are several relatively close relationships with only a small number of ‘outliers’ (see household goods, clothing & footwear and department stores), but other industries show more mixed results. The sources of these differences are:

- The inclusion of cash transactions in the ABS measure and changes in their share of total transactions. This share may begin to stabilise as the penetration of contactless payment systems reaches a limit reflecting minimum spend requirements for cashless transactions and because of the existence of a proportion of merchants who deal only in cash.
- The NAB data include a larger share of online transactions (7%) than the ABS (3%).
- Changes in NAB’s market share of cashless transactions.
- Differences between the seasonality in the ABS and NAB series.

Therefore, the forecasts from the use of the NAB Cashless Retail index should be used with caution.

Comparisons between NAB and ABS data, s.a. % change m/m



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Rob Brooker
Manager – Economic Modelling

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61) 455 052 519

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Amy Li
Economist – Australia
+(61 3) 8634 1563

Behavioural & Industry Economics

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Tom Taylor
Head of Economics, International
+(61 3) 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics
Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research
Michael Bush
Head of Credit Research
+61 3 8641 0575

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution
Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

UK/Europe

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Asia

Christy Tan
Head of Markets
Strategy/Research, Asia
+852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.