



# **NAB ONLINE RETAIL SALES INDEX**

**IN-DEPTH REPORT – JUNE 2017**

# INTRODUCTION

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## ALAN OSTER

Group Chief Economist,  
National Australia Bank

In total, we estimate the Australian online retail market was worth \$22.74bn in the 12 months to June 2017.

Sales growth slowed in month-on-month (mom) terms to 0.7% in June, seasonally adjusted (s.a.) after rapid growth in May. Homewares and appliances, Electronic Games and Toys, and Media led monthly growth, while Fashion, Grocery and Liquor, and takeaway food contracted.

Online sales in the large eastern states continued to grow, along with the NT. Conversely sales in TAS, SA, ACT and WA contracted in the month. Annual growth remains strongest in VIC, NSW, and QLD.

While monthly growth at SME retailers contracted in June (-1.6%), they have outpaced corporates over the year (+17.6%).

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

Small and medium sized enterprises (SMEs) played a key role, representing 36% of all online purchases.

From our latest figures it's clear that Games and Toys enjoyed strong growth in June, as did Media – thanks in part to continued buoyancy in streaming video and music services.

Context is everything however. For instance, while SME monthly sales contracted in June, it's worth knowing that they are still outpacing corporate sales year on year.

This month's negative growth in Fashion – the first since the index began – also benefits from further insight. We believe this apparent slump may not be a fair representation of the sector. In all likelihood the emergence of 'buy now pay later' brands is temporarily skewing the numbers. Certainly we will monitor this development going forward with a view to establishing what is driving performance in this sector.

We hope the NAB Online Retail Sales Index provides you with the critical information and understanding you need to guide and support your business plans over the coming months.

# CONTENTS

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• 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





# THE ONLINE RETAIL MARKET

# OVERALL INDEX

In seasonally adjusted terms, at 0.7%, growth in online retail sales slowed in June. Looking through the month to month volatility, the trend is still positive. After exceptionally strong growth monthly growth in May, online sales for SMEs contracted in June.

The revised estimate for trend online retail sales growth was 0.3%. While this is lower than May (0.4%), it remains positive. ABS data showed growth of comparable traditional retailers in May of 0.7% (mom, s.a.) when compared to April.

In the 12 months to June, we estimate that Australians spent an estimated \$22.74 billion on online retail – a level that is equivalent to around 7.4% of the traditional bricks and mortar retail sector (which totalled \$306.9 billion in the year to May 2017 according to the Australian Bureau of Statistics).

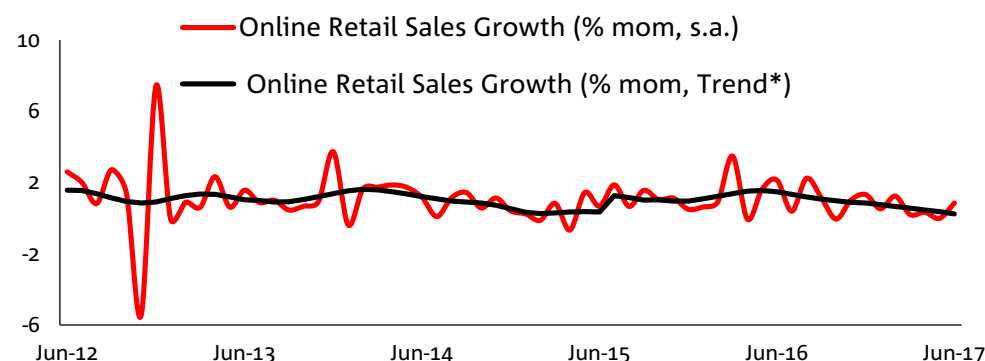
In year on year terms (June 2017 v June 2016), online sales grew by 7.6%, down slightly from the 8.2% year-on-year growth rate in May. This is much slower than the growth recorded when the index was established. In June 2011 for example, year on year growth was around 34%. Growth has clearly flattened as shown in the trend line (see chart 1). Conversely, sales growth (17.6% yoy) at SMEs has been much stronger than earlier periods.

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

	Apr-17	May-17	Jun-17
Monthly growth (%)			
Corporate	-0.7	1.4	0.7
SMEs	-2.0	11	-1.6
Annual growth (%)			
Corporate	7.6	8.2	7.6
SMEs	9.4	22.2	17.6

# ONLINE CATEGORIES



# CATEGORY PERFORMANCE

Media contributed the most to growth in the year to June, and also had the fastest growth over the year. Homewares and appliances retains the largest share of spend.

Over the year to June, at 16.7% (yoy), Media had the fastest annual online sales growth. Online sales of Media, which represents things like streaming services, has generally higher, less volatile monthly growth than other categories. This more consistent growth has kept media in its high spend share spot.

The largest spend share category, Homewares and appliances, grew fastest in monthly growth rate terms in June (3.4% mom), followed by Toys (2.6%), Media(0.7%), Daily deals (0.6%), and Department stores (0.3%). Personal and recreational goods were flat(0.0%). The large spend share category of Groceries and Liquor contracted in June (-0.9%), from strong growth in May (5.7%), along with Food (-0.1%), and sharper falls in Fashion (-1.5%).

For the first time in the series history, Fashion also recorded negative year on year growth. This category is being impacted by recent trends in payment methods that mask purchase category identifiers. We suggest this number be used with caution.

Chart 2

## ANNUAL GROWTH OF SPENDING, BY CATEGORY (% yoy)

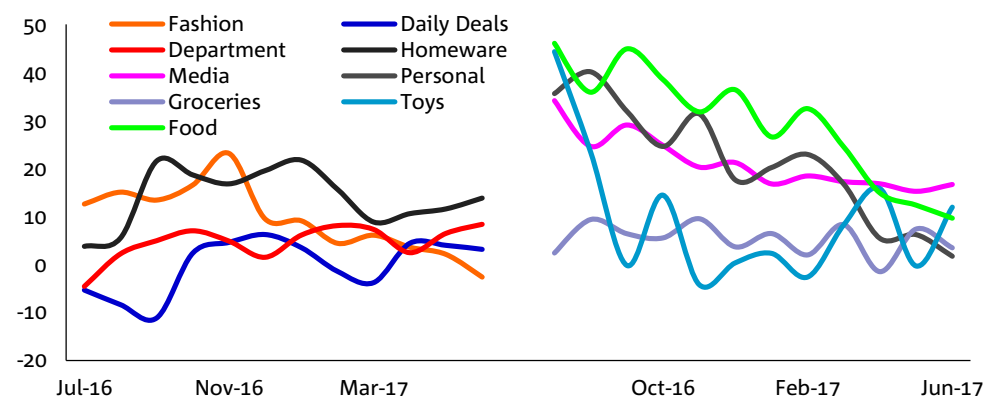
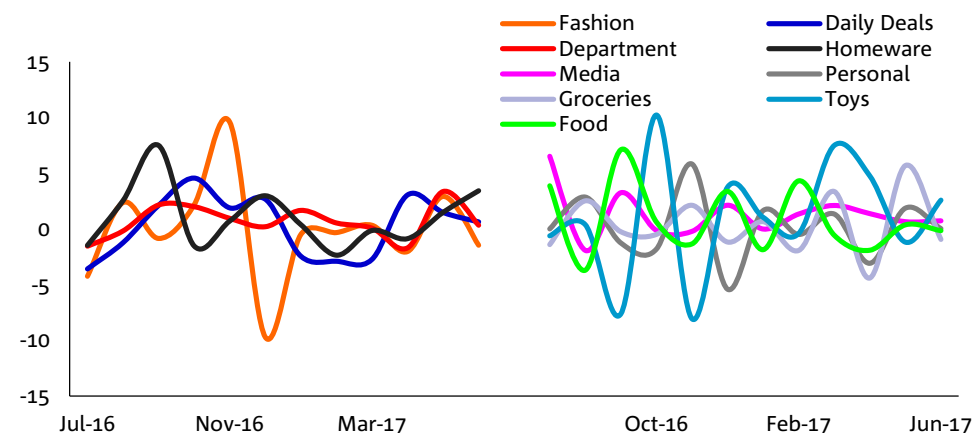


Chart 3

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



# CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, large spend shares Media, and Homewares and appliances have expanded rapidly. While Daily deals recorded sales growth in June, its contribution to annual online spend growth is nil.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	May-17	Jun-17	May-17	Jun-17		
Fashion*	2.9	-1.5	2.1	-2.6	15.5	11.6
Daily Deals	1.5	0.6	4.0	3.1	2.3	0.0
Department	3.4	0.3	6.5	8.4	8.2	3.0
Homeware	1.5	3.4	11.6	13.8	20.1	22.1
Media	0.7	0.7	15.2	16.7	17.2	26.3
Personal	1.9	0.0	6.2	1.7	9.6	14.2
Groceries	5.7	-0.9	7.4	3.5	16.6	7.3
Toys	-1.2	2.6	-0.3	11.9	3.8	2.4
Food	0.4	-0.1	12.4	9.6	6.7	13.0
<b>Total</b>	<b>1.4</b>	<b>0.7</b>	<b>8.2</b>	<b>7.6</b>	<b>100</b>	<b>100</b>

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

\*Use with Caution – see notes page, new payments methods.  
8 NAB Online Retail Sales Index

**“THE ARRIVAL OF NEW INTERNATIONAL PLAYERS HAS THE POTENTIAL TO CREATE A SECOND WAVE OF DISRUPTION FOR ESTABLISHED AUSTRALIAN BRICKS AND MORTAR RETAILERS IN KEY CATEGORIES**

*Wade Tubman, Quantum*

# INTERNATIONAL VS DOMESTIC



# INTERNATIONAL VS DOMESTIC PERFORMANCE

Both Domestic and international online sales slowed in the month. In June just under 80% of spending was domestic.

Domestic online sales growth slowed in June(0.8%, mom) compared to May(1.4%). International sales also slowed in the month (0.6%), much slower than May(2.2%). Looking at the year-on-year growth rates, domestic online sales growth (7.6%) and International (7.7%) are much closer than the comparable June result in 2016 where domestic sales (19.9% yoy) far outpaced international (6.8%).

As shown in chart 4, the relatively unchanged position of online retail shares has coincided with a relatively unchanged position of the Australian dollar since July 2016.

Chart 4

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

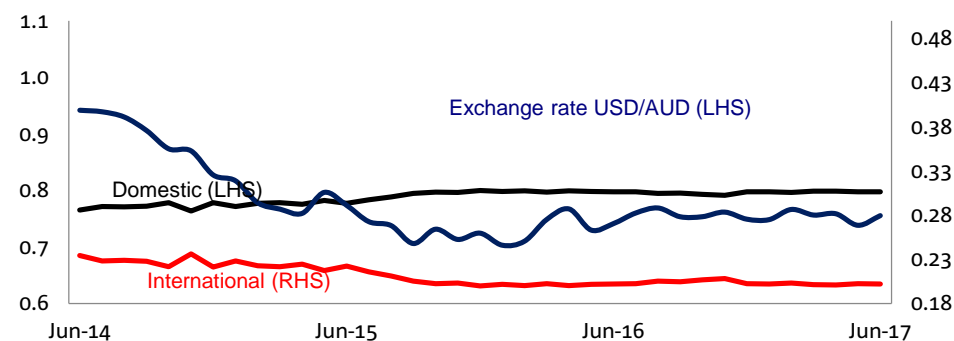
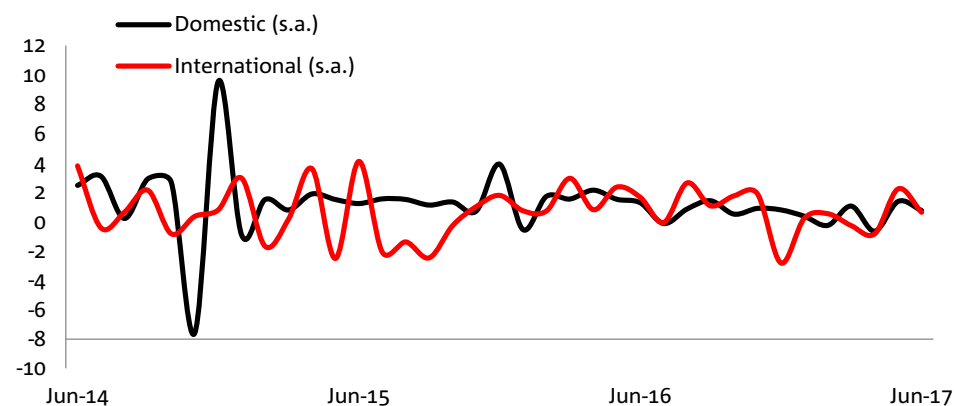


Chart 5

## 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 and 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).

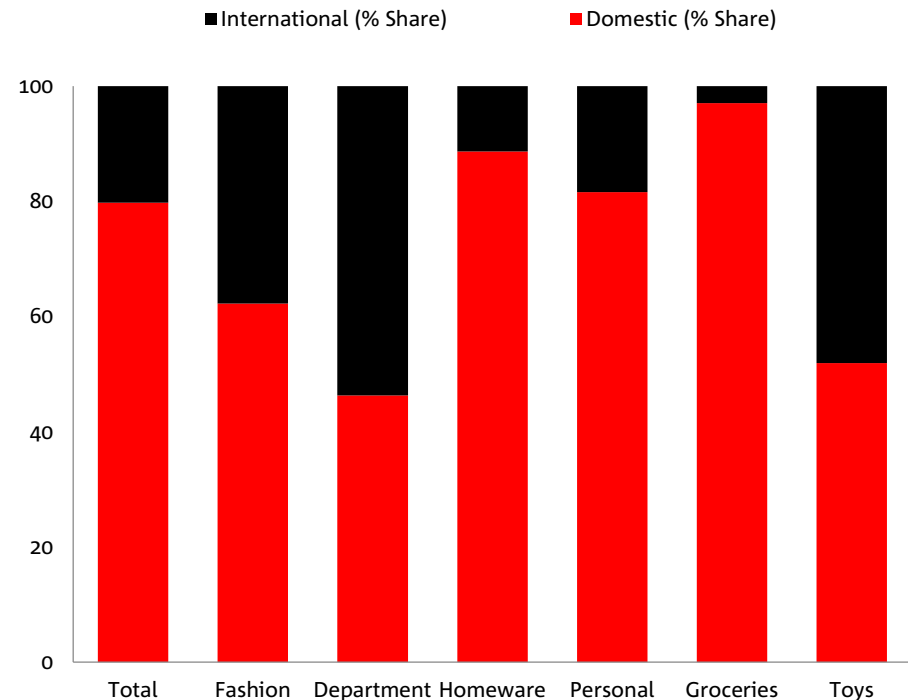
Domestic retailers still capture the majority of spending in our index.

In year on year growth terms, domestic retailers have been particularly buoyant in Toys, Personal and Recreational goods (which was negative for international), and Homewares and appliances.

For international retailers, growth was also strong in Homewares and appliances, along with Department stores and Fashion, both of which contracted for 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 63% of Fashion is purchased from domestic online retailers, it only accounts for about 12.1% of domestic online spend, but at 28.6%, 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	-6.6	4.3	62.3	37.7	12.1	28.6
Department	-1.6	19.3	46.3	53.7	4.8	21.7
Homeware	11.4	39.6	88.7	11.3	22.4	11.2
Personal	12.6	-36.9	81.6	18.4	9.8	8.6
Groceries	3.7	-4.2	97.0	3.0	20.2	2.4
Toys	26.4	-0.6	52.0	48.0	2.5	9.0
All categories	7.6	7.7	79.8	20.2		

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 this group and the second largest group, the 45 to 54s. Growth was weakest for the small spend share groups of the over 65 year olds and 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 8.5% of online spend

Spending by all age groups slowed except the 45-54s in the month, with both 18-24s and 65+ groups in negative territory. Growth was fastest for those aged 35-44 (1.1%), though this was down slightly on May (1.3%). Purchases by 45-54s (1.0%) were up on May. The over 65s (-0.9%) saw rapid contraction in sales from the previous month(5.2%) though this category along with the 18-24s ten to have more volatile spending growth patterns.

Chart 7

## SHARE OF SPENDING, BY AGE GROUP

(% annual)

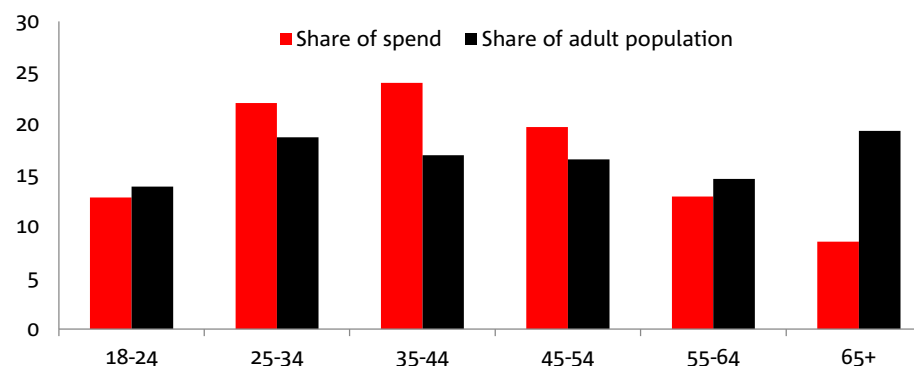
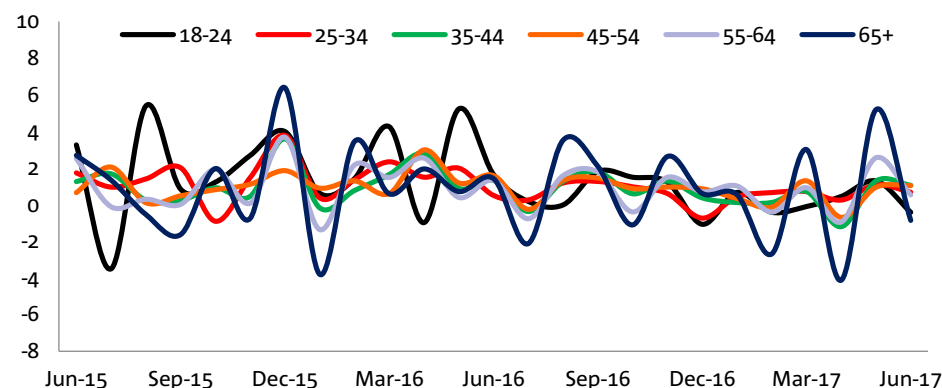


Chart 8

## 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. There is also a strong relationship between age and takeaway food share.

% share	Fashion	Daily Deals	Department & Variety Stores	Homeware & Appliances	Media	Personal & Recreational Goods	Groceries and Liquor	Electronic Games & Toys	Takeaway Food
18-24	20.9	1.4	6.1	15.6	20.5	7.7	4.4	12.1	11.3
25-34	17.9	2.4	7.8	17.0	18.0	8.4	13.9	4.1	10.6
35-44	14.7	2.6	8.5	19.2	16.9	9.9	19.4	2.6	6.3
45-54	14.3	2.5	8.8	22.4	17.0	10.7	17.1	2.6	4.6
55-64	12.7	2.5	9.5	24.9	16.0	11.0	19.3	1.2	2.8
65+	10.1	1.7	8.7	25.1	13.7	9.6	28.9	0.8	1.4
All ages	15.5	2.3	8.2	20.1	17.2	9.6	16.6	3.8	6.7

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

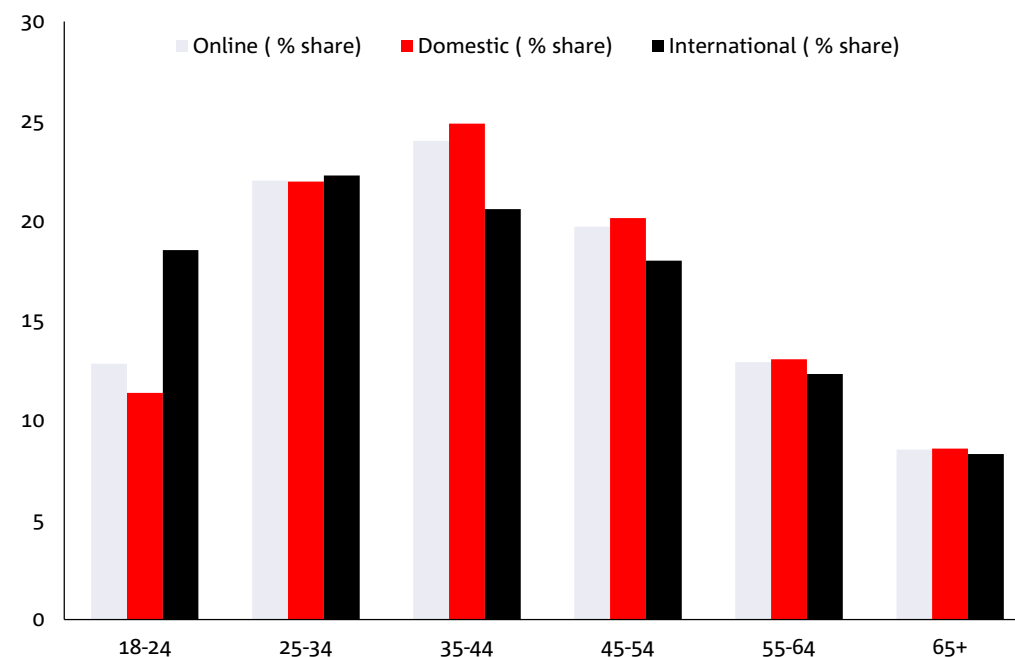
Most age categories total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. Conversely, the group with the largest overall online spend share, those 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	0.3	-0.7	7.0	1.9	11.4	18.5
25-34	1.0	0.5	7.4	9.1	22.0	22.3
35-44	1.2	0.8	7.2	9.9	24.9	20.6
45-54	1.3	0.6	9.0	7.0	20.1	18.0
55-64	0.2	1.6	8.7	8.4	13.1	12.3
65+	-1.4	0.8	4.9	12.5	8.6	8.3
All ages	0.8	0.6	7.6	7.7	100	100

Chart 9

## SHARE OF ONLINE SPENDING BY AGE GROUP

(% annual)



# STATES AND TERRITORIES



# STATE PERFORMANCE

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

Just over 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 about the same proportion of the Australian total.

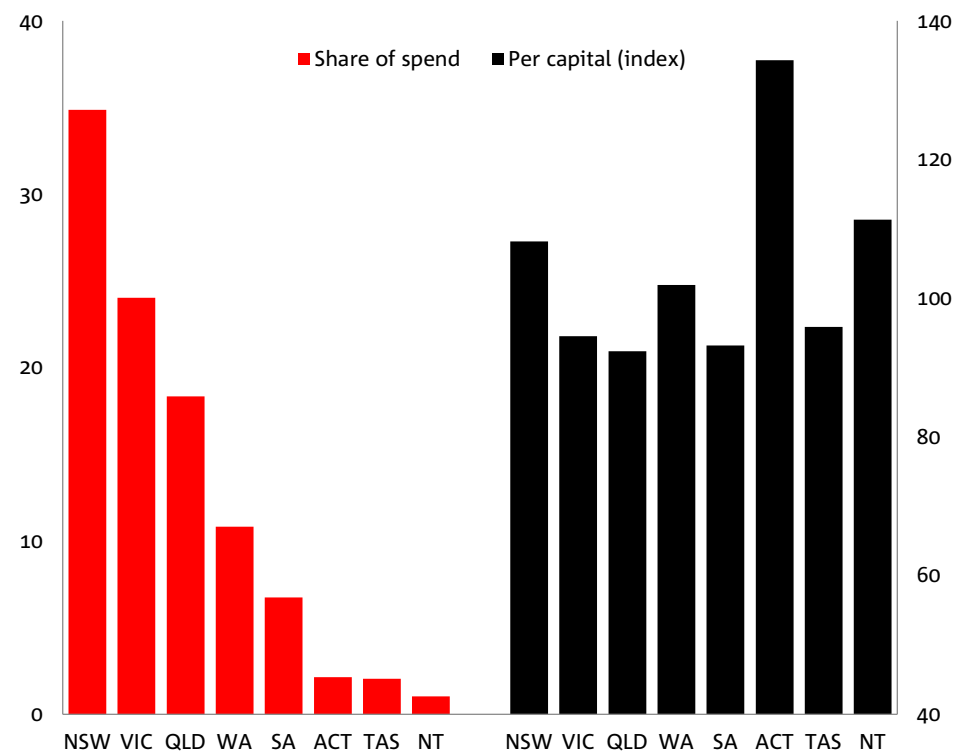
However on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT, where only 1.6% of Australians live, 2.1% of total online purchases in dollar value terms were made.

On the other hand, those in TAS, QLD, VIC, and SA were spending less per person than the national average. Victoria is catching up. It is home to 25.2% of the Australian population and now represents 24.0% of total online spending, a share that is up marginally on March(23.8%).

Chart 10

## SHARE OF SPENDING, BY STATE

(% annual)



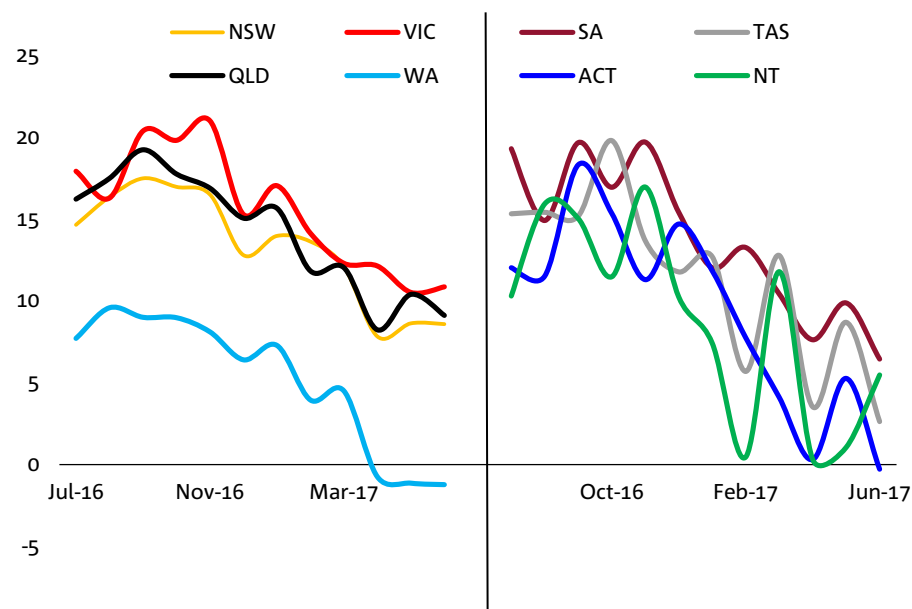
# SPENDING BY STATE

Over the past year, the contribution to online sales growth has shifted back towards the larger eastern states. Victoria (10.8%) recorded the strongest annual growth, followed by Queensland, and New South Wales, with ACT and WA the weakest.

Chart 11

## GROWTH OF SPENDING, BY STATE

(% yoy)

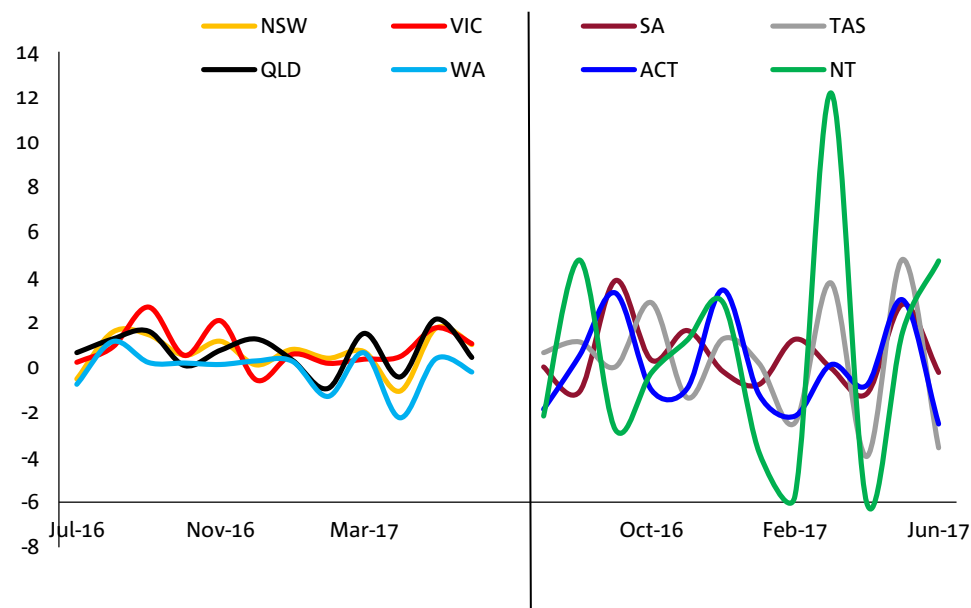


Monthly online sales growth was mixed in June. NT recorded the highest monthly growth, but this figure should be used with caution given the series volatility. VIC and NSW were about equal with the second highest monthly growth, albeit slowing from the previous month.

Chart 12

## GROWTH OF SPENDING, BY STATE

(% mom, s.a.)





# METROPOLITAN VS REGIONAL

# METROPOLITAN & REGIONAL PERFORMANCE

Growth in Metro areas continued in June, albeit at a slower pace compared to May, while regional growth contracted slightly after rapid growth in May. 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 Metro areas (0.9%) remained positive in June, while online spend in Regional areas contracted slightly (-0.1%).

Metropolitan residents retain the largest share of spend, and spent on average around 17.3% more than those residing in regional Australia. However, those living in regional Western Australia spent about 5% more than the average Australian. With the slow down in the west, WA metropolitan residents are now about on par with the Australian average. With recent Victorian growth, the gap in metro spend of that state to the Australian average is closing.

Having said that, regional Victorian and regional Queensland residents remain below the national average.

Chart 13

## GROWTH OF SPENDING, BY REGION

(% mom)

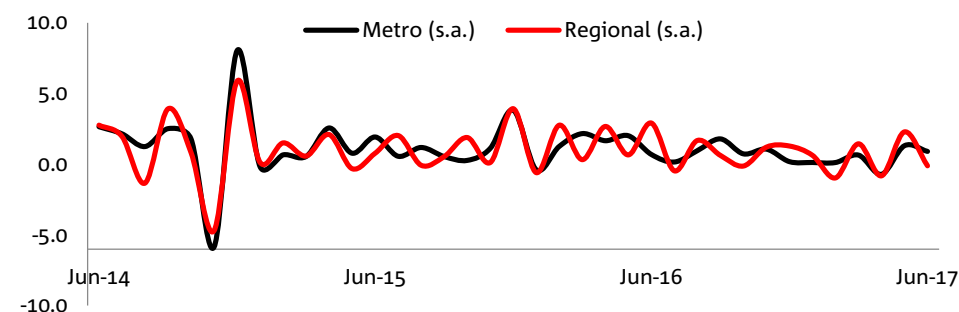
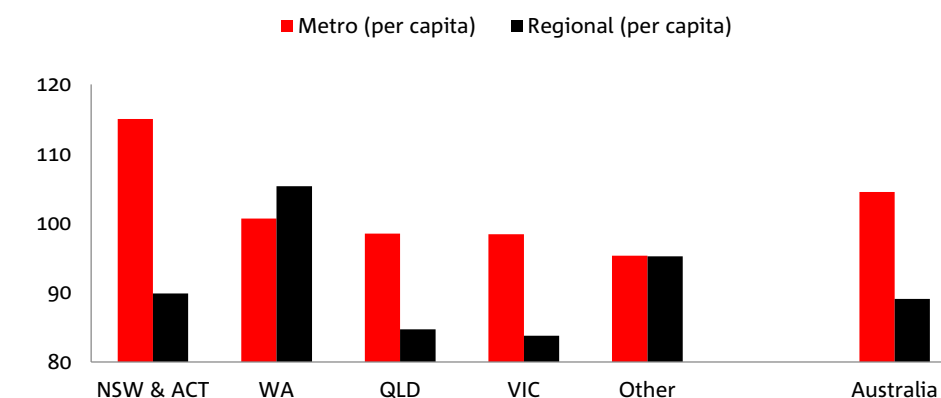


Chart 14

## 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.

While SME monthly sales contracted in June, annual sales are still outpacing Corporates.

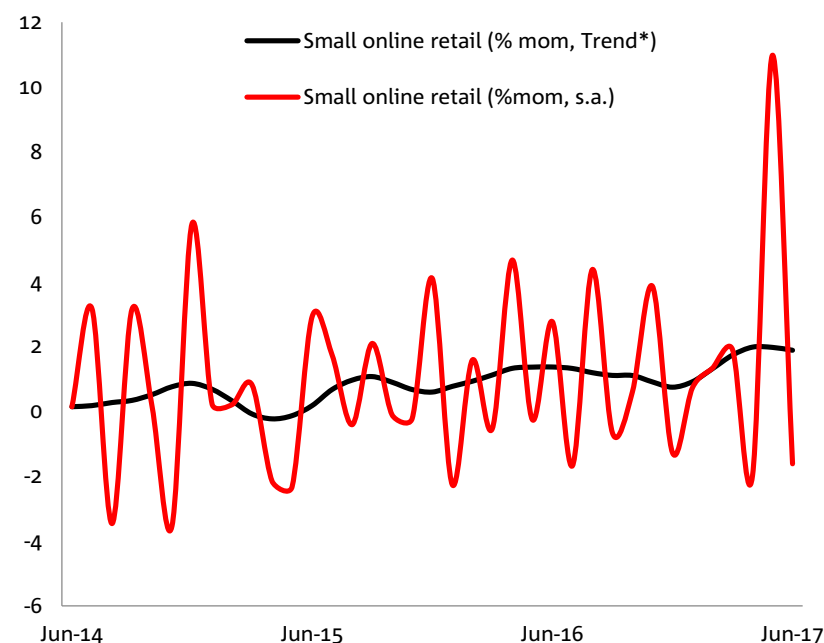
Smaller online retail sales contracted in June (-1.6% mom, s.a.) after an unseasonably rapid expansion in May(11%). At 1.9%, small online retail spending, in trend terms, remains higher than in the early period of this series, and higher than that of the corporate online retailers. In year on year terms, we estimate that small online retail sales are now 17.6% higher compared to a year ago.

While monthly sales growth was led by Media, this is a relatively small share of spend at SME online retailers. The monthly contraction in total SME sales is likely to be due mostly to a slowdown in the month from the 3<sup>rd</sup> largest spend share category , Fashion.

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 30.5% of spending at small online retailers, this category contributed 40.4% to small online retail sales growth.

%	Monthly growth - May	Monthly growth – Jun	Annual growth – May	Annual growth – Jun	Share of Small spending	Contribution to annual Small spending growth
Fashion	20.0	-8.6	34.4	11.9	25.4	28.4
Daily Deals	-28.9	-90.2	-86.1	-98.1	0.0	-0.2
Department	6.9	-0.2	24.6	24.5	3.2	3.7
Homeware	11.0	5.4	27.3	34.4	30.5	40.4
Media	4.3	7.4	5.0	11.2	3.1	0.2
Personal	4.9	-0.5	12.7	8.9	28.8	23.0
Groceries	5.4	4.3	3.3	5.8	3.7	-0.3
Toys	2.6	-3.2	6.5	-1.1	3.7	1.8
Food	9.9	0.2	24.8	15.1	1.7	3.0
<b>Total</b>	<b>11.0</b>	<b>-1.6</b>	<b>22.2</b>	<b>17.6</b>	<b>100</b>	<b>100</b>

# NOTES

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## **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

## **What's the effect of new payment methods on category distribution?**

The impact of some recent payment methods is masking the ability to track spend at retailers. These new payment options are particularly popular at Fashion retailers.

## **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 SPEAK WITH YOUR NAB RELATIONSHIP MANAGER

Visit [nab.com.au/online-retail-sales](https://nab.com.au/online-retail-sales) or contact:

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