NAB CASHLESS RETAIL SALES INDEX AUGUST 2017

NAB Group Economics

- NAB's proprietary indicator of Australian retail sales, the NAB Cashless Retail Sales Index, reveals a sharp decline in spending in the month of August. The value of cashless retail spending increased at a yearly rate of 5.3% in August, down from 7.7% in July (in seasonally adjusted terms). While yearly growth rates have consistently slowed from a peak of over 12% in late 2015, this month's decline is particularly pronounced.

- The slowdown in spending was relatively broad-based, with yearly growth down across nearly all categories. Spending growth for clothing & footwear (1.2% yoy), department stores (1.5% yoy) and cafes, restaurants & takeaways (2.1% yoy) is particularly anaemic. Spending on food (4.9% yoy) and household goods (3.4% yoy) is a little healthier, while spending on "other retailing" is growing rapidly (8.5% yoy) despite some slowing.

- The slowing was also evident across all states and territories, although remained strongest in the ACT (7.2% yoy), NSW (6.1%) and Victoria (5.2%), followed by Qld (4.7%) and SA (4.5%). WA retains the weakest growth in cashless retail (1.3%) (Chart 4).

- The decline in the NAB Cashless Retail Sales Index in August follows slower (but positive) growth in June and July after faster growth in April and May. Based on movements in the NAB cashless spending index and our data mapping techniques, ABS retail trade is expected to decline by 0.5% mom in August which would be the weakest monthly growth rate since March 2013. (See table below and appendix.)

- The NAB Cashless Retail Index is broader than the NAB Online Retail Index and measures 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. Cashless sales to consumers have been growing much more rapidly than the ABS measure of retail sales in recent years (7.7% yoy in July versus 3.6% yoy in July), although the gap in growth rates has narrowed (Chart 1). Further convergence is likely as the penetration of online and contactless payment systems reach a limit (reflecting minimum spend requirements for cashless transactions and the existence of a proportion of merchants who deal only in cash).

Year-on-year growth (%)				Month-on-month growth (%)			
	Jun-17	Jul-17	Aug-17		Jun-17	Jul-17	Aug-17
Cashless index (s.a.)*	7.5	7.7	5.3	Cashless index (s.a.)	0.4	0.4	-0.7
ABS retail (s.a.)	3.7	3.6	2.6(f)	ABS retail (s.a.)	0.2	0.0	-0.5(f)

Sources: NAB, Australian Bureau of Statistics (ABS). *Data are seasonally adjusted (s.a.) using TRAMO/SEATS with a trading day and Easter adjustment. (f) NAB forecast.

Chart 1: Cashless and total retail sales
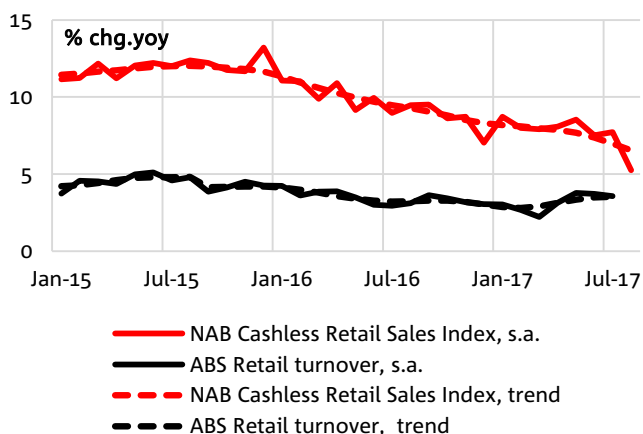
Chart 2: ABS and forecast ABS retail trade data, s.a.
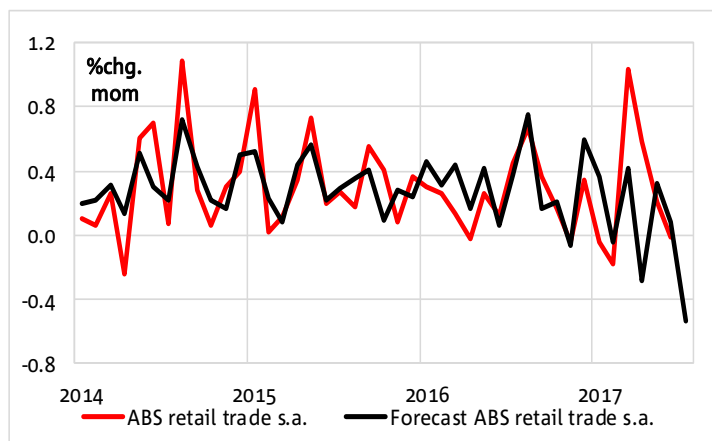
NAB Chief Economist, Alan Oster commented:

"Retail spending appears to have slowed sharply across the Australian economy in recent months. NAB's Cashless Retail Sales index slowed sharply in August and suggests an actual decline in the "official" ABS measure of retail trade of 0.5% in the month. This follows anaemic growth in both June and July, and it is now clear that the strength in retail trade evident in April and May was a temporary bounce.

"The slowdown in retail sales evident in the NAB Cashless Retail Sales Index has been broad-based across categories, with growth slowing for both discretionary items and for essentials. Deceleration in retail spending has also been evident across all the states and territories that we track, although remains strongest for the non-mining south-eastern states of the ACT, NSW and Victoria, consistent with the general outperformance in those states more recently.

 "Weak retail trade conditions and cautious consumer behaviour are unsurprising against a background of low wages growth (despite the recent increase in the minimum wage), high energy costs and elevated levels of household debt. While we may see some improvement in coming months in response to the strength of employment growth, which has averaged 38K per month for the past five months, it is equally possible that households will choose to increase their savings levels in the current environment, as appears to have been the case in recent months.

"Weakness in retail sales in nominal (value) terms is also likely to reflect price deflation, or disinflation, for some retail goods. The NAB business survey continues to point to poor profitability and margin compression for retailers in particular, who are experiencing negative business conditions at present. Retailers are struggling to pass on cost increases to consumers amidst soft consumer demand and very strong competition (both domestically and onshore).

"NAB's Cashless Retail Index is reasonably assumed to be representative of aggregate non-cash retail sales in Australia. NAB's index is derived from personal transaction data from NAB platforms (around 2 million transactions per day) and includes all cashless retail spending by consumers using debit and credit cards (both in person and online), BPAY and Paypal. The average growth rate for NAB's index is stronger than the official ABS measure of retail trade given that it does not capture cash transactions, which is why we use our mapping equations to forecast the official ABS measure of retail trade. RBA research suggests 18% of the value of retail trade occurred via cash in 2016."

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

Chart 4: Cashless retail sales by state, s.a.
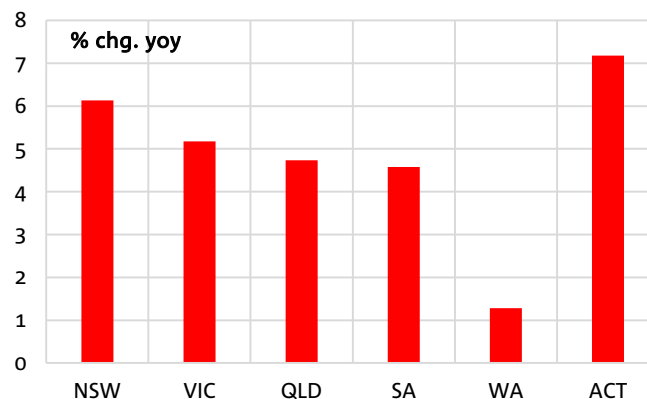
**Chart 5: Cashless retail sales by sub-industry, s.a.**

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

Charts 7 & 8: Cashless sales by industry, trend

Growth in cashless spending growth has been trending down across most retail industries in recent months. The most notable slowing in yearly spending growth has been for cafes, restaurants & takeaways, and to a lesser extent, clothing & footwear. In the past three months, there has also been a notable slowing in spending on food.
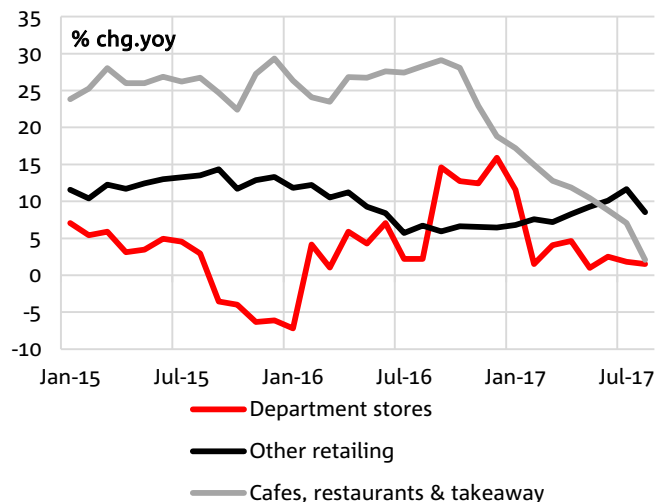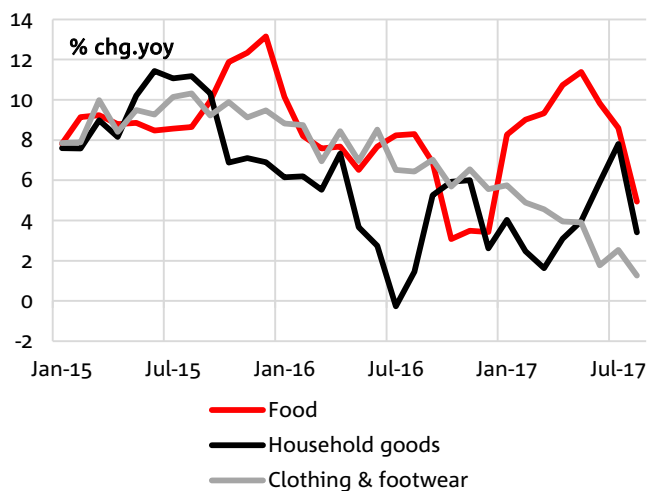
Charts 9 & 10: Cashless sales by state, trend

The slowdown in growth for cashless retail sales has also been evident across all states that we monitor in recent months. The south-eastern non-mining states and territories of the ACT, NSW and Victoria continue to outpace the rest of the country, although there has been a particularly notable slowdown in NSW in recent months. In WA, trend monthly growth has continued to deteriorate in 2017, and is now running at a negative trend monthly growth rate.
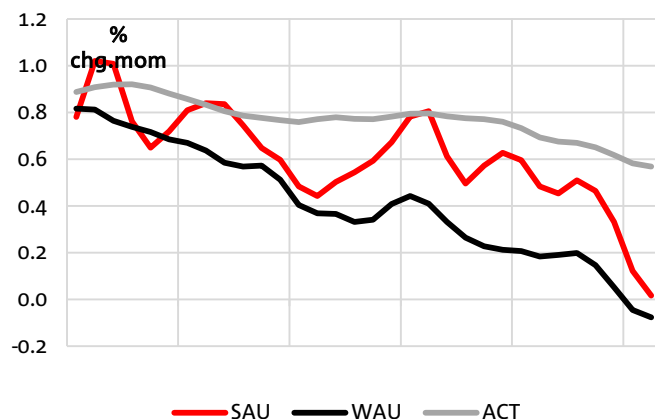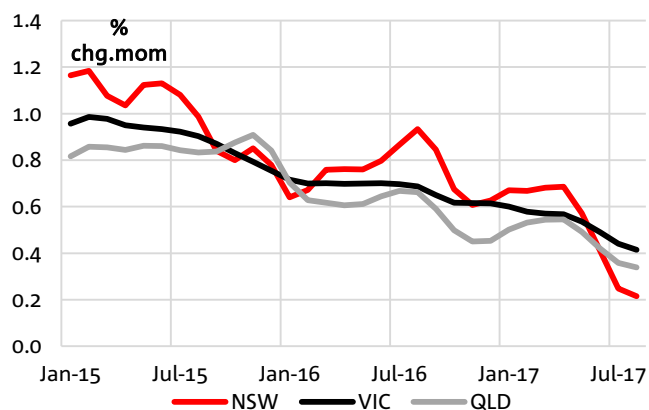
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APPENDIX: METHODOLOGY AND COMPARISON WITH ABS RETAIL TRADE

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, and can be revised from month-to-month given the concurrent process. The trends have been extracted from the same process.

Our aim is to have a data series that is as reflective as possible of retail spend. As such each month we will revise previous data to take into account changes in payment processing such as chargebacks and delayed payments. Given these attributes, typically, larger revisions occur to the most recent months, and diminish as the data ages."
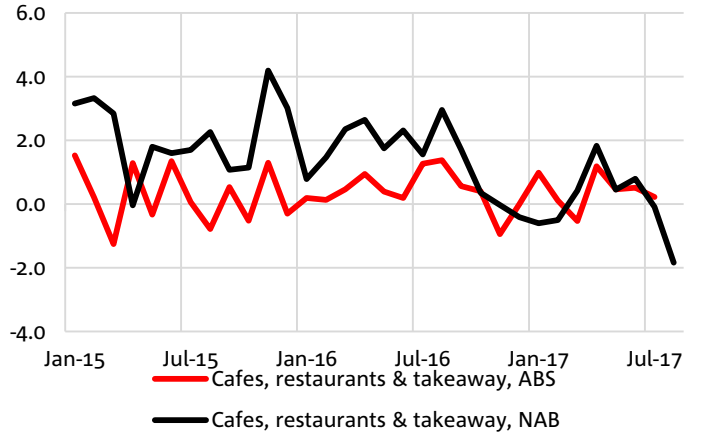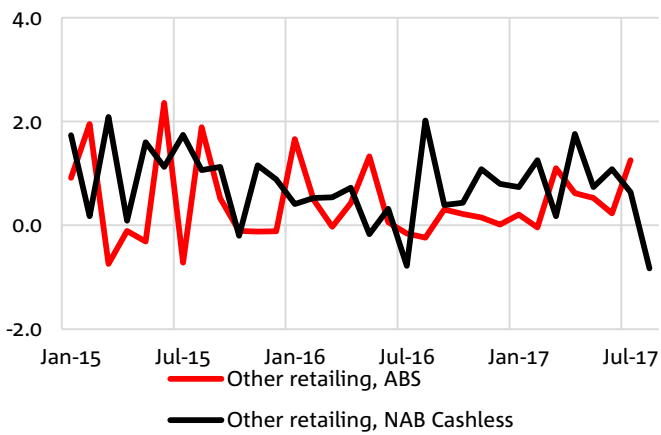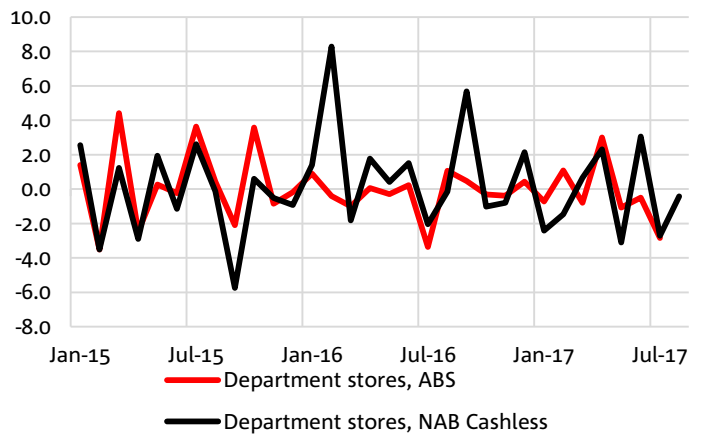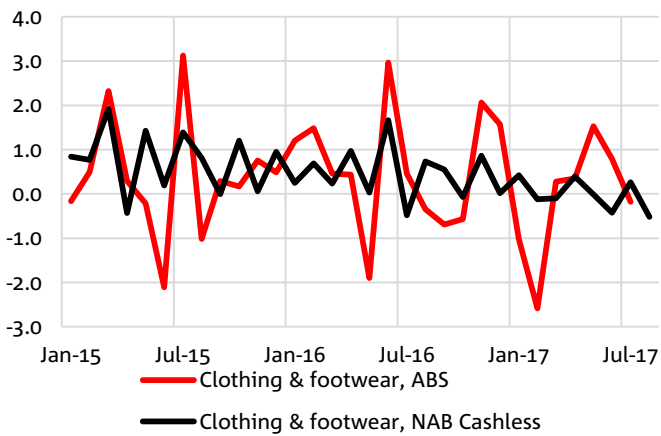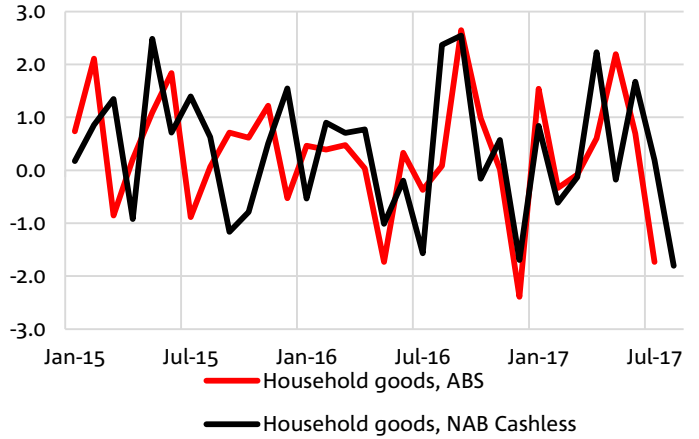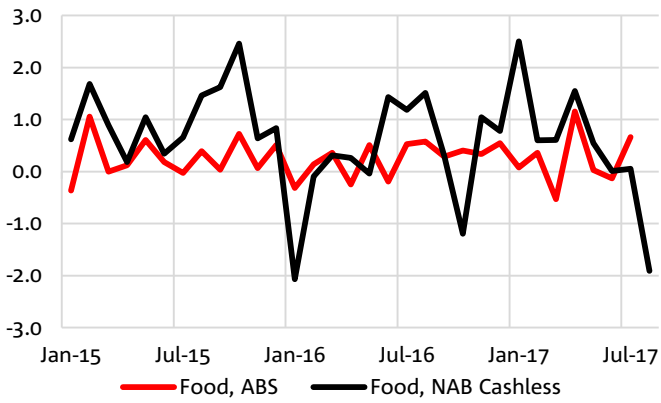
After appropriate weighting and seasonal adjustment, the components of NAB's cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these 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 by retail industry group, s.a. % change m/m

Food, ABS — Food, NAB Cashless

Household goods, ABS — Household goods, NAB Cashless

Clothing & footwear, ABS — Clothing & footwear, NAB Cashless

Department stores, ABS — Department stores, NAB Cashless

Other retailing, ABS — Other retailing, NAB Cashless

Cafes, restaurants & takeaway, ABS — Cafes, restaurants & takeaway, NAB

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