



NAB CASHLESS RETAIL SALES INDEX OCTOBER 2017

NAB Group Economics

- NAB’s proprietary indicator of Australian retail sales reveals a continuation of very slow growth in recent months. This follows some stronger outcomes in the second quarter of 2017.
- The yearly rate of growth dropped to 6.5% in October from the recent high of 8.7% in May (in seasonally adjusted terms), which is the weakest rate in the three year history of the series.
- In monthly terms, NAB’s Cashless Retail Sales Index increased marginally by 0.2%. Based on movements in NAB’s data and our data mapping techniques, **ABS retail trade is expected to rise by 0.1% mom in October**, a disappointing outcome given the flat result in September and decline of 0.5% in August. (See table below, Chart 2 and appendix).
- By sector, **spending on food (5.1% yoy) and household goods (2.5% yoy) has slowed the most** in yearly seasonally-adjusted terms and has actually contracted in monthly trend terms for the past three/four months (see Charts 7&8). For household goods, the slowdown has been most apparent in the hardware & garden sub-sector (-2.7% yoy). Meanwhile, spending growth for department stores has picked up in recent months (4.0% yoy), and also remains strong for cafes, restaurants & takeaways (14.1% yoy).
- The slowing in recent months has been most pronounced in NSW and to a lesser extent WA and Queensland. Yearly growth is now strongest in the ACT (7.8% yoy) and Victoria (7.6% yoy). It is also reasonably solid in NSW (6.8% yoy) and SA (6.3% yoy) despite the recent deceleration. Retail sales growth in WA is much weaker than the national average and continues to trend down (2.8% yoy) (Chart 4).
- 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 more rapidly than the ABS measure of retail sales in recent years (6.8% yoy in September versus 1.4% yoy), 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).
- See comments from NAB’s Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (%)		
	Aug-17	Sep-17	Oct-17
Cashless index (s.a.)*	7.3	6.8	6.5
ABS retail (s.a.)	2.1	1.4	1.3(f)

	Month-on-month growth (%)		
	Aug-17	Sep-17	Oct-17
Cashless index (s.a.)	0.0	0.5	0.2
ABS retail (s.a.)	-0.5	0.0	0.1(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

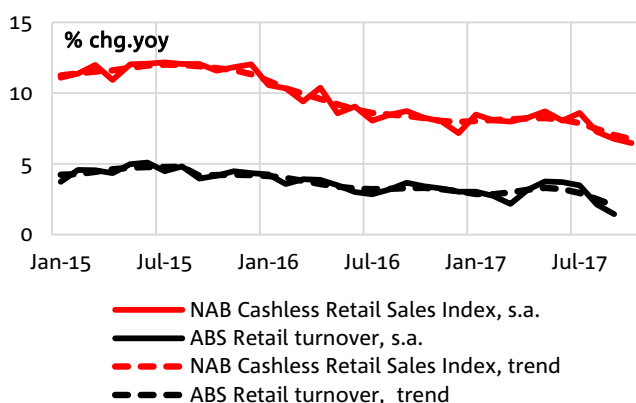
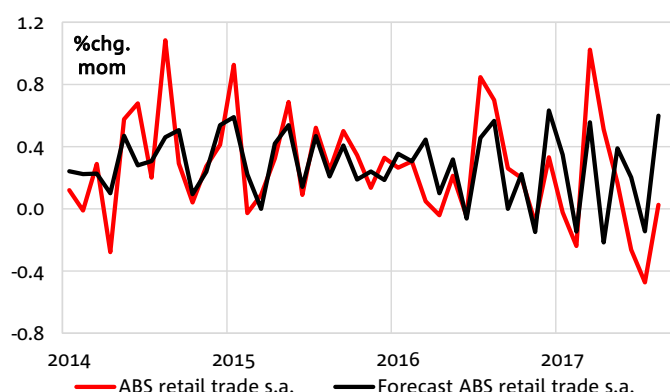


Chart 2: ABS and forecast ABS retail trade data, s.a.



NAB Chief Economist, Alan Oster commented:

“Another meek result from NAB’s Cashless Retail Index underlines the tough environment faced by Australian retailers. The trend in recent months has been for minimal growth or outright declines after decent growth in the second quarter of this year. NAB’s Cashless Retail Index rose by a weak 0.2% in October, which using our mapping techniques implies a small 0.1% rise in the ABS measure of retail trade when it is published in a couple of weeks.

“The slowdown in retail spending is particularly disappointing given the strength of employment growth so far this year, with almost 300K jobs added and the unemployment rate falling to 5.4%. While wages growth may be low by historical standards, the magnitude of the lift in employment would ordinarily be supporting consumer spending to a larger degree, suggesting other concerns such as high debt levels are also leading to household caution.

“It is also the case that retail is underperforming consumer spending more broadly. That is, households are devoting less to spending on goods and more to spending on services, either for voluntary reasons (such as preference shifts) or involuntary reasons (such as higher prices for essentials such as utilities). These trends, together with intense competitive pressures, are culminating in a challenging landscape for Australian retailers. The NAB Monthly Business Survey reports that retail business conditions did improve slightly in October, but was nevertheless weak at 0, a level which indicates neither growth nor contraction.

“In addition, there has been a pronounced slowing in household goods retailing in recent months, particularly in the hardware and garden category, which may be related to the housing construction cycle which looks to have passed its peak. Meanwhile there was a bounce back this month in the electrical goods & electronics sub-category – this component fell notably in September, perhaps related to the changed timing of the release of the new iPhone this year (November versus September in previous years). Growth in food retailing is also negative in monthly trend terms, suggesting further deflation. By state, the largest slowing has been in NSW and South 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. NAB’s Cashless Retail Index is reasonably assumed to be representative of aggregate non-cash retail sales in Australia given its large sample size. 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. Over time, the growth rates of the two series are likely to come together.”

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



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

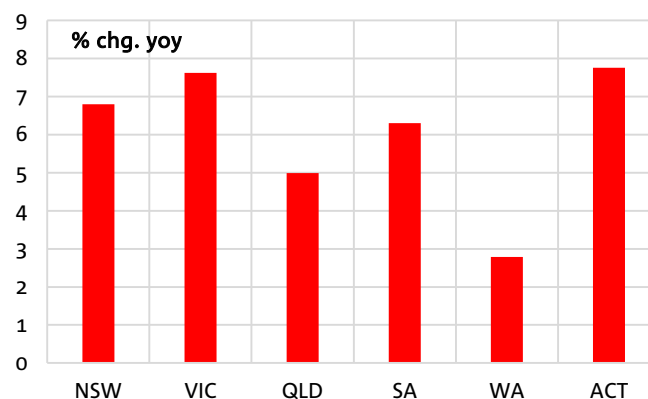
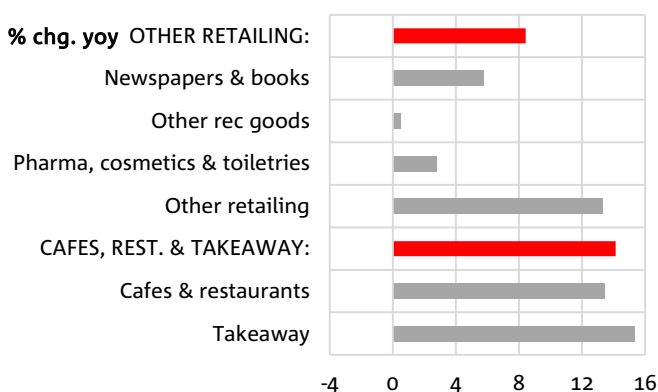


Chart 5: Cashless retail sales by sub-industry, s.a.

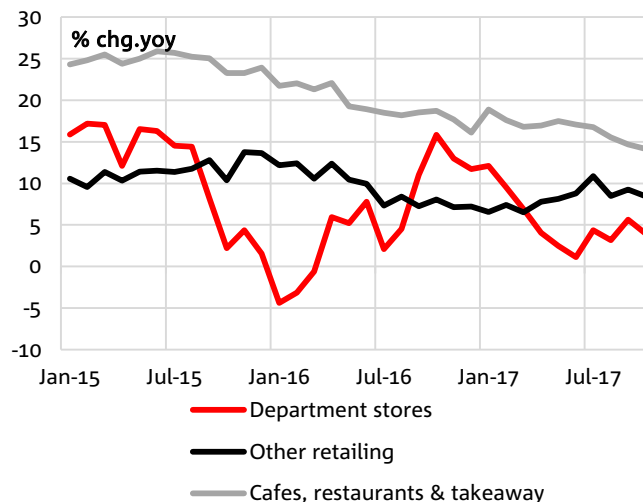
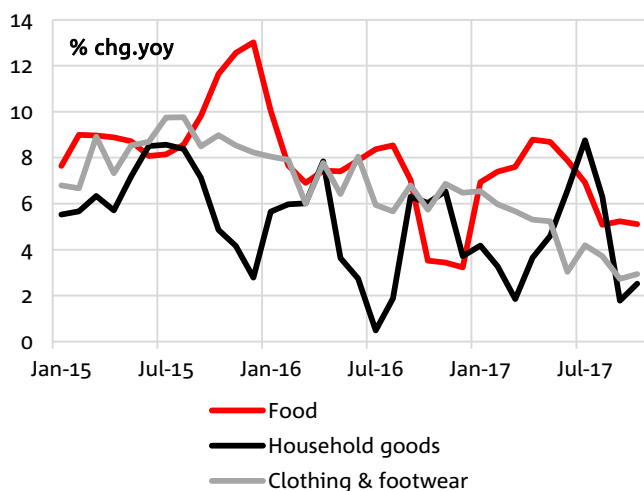


Chart 6: Cashless retail sales by sub-industry, s.a.



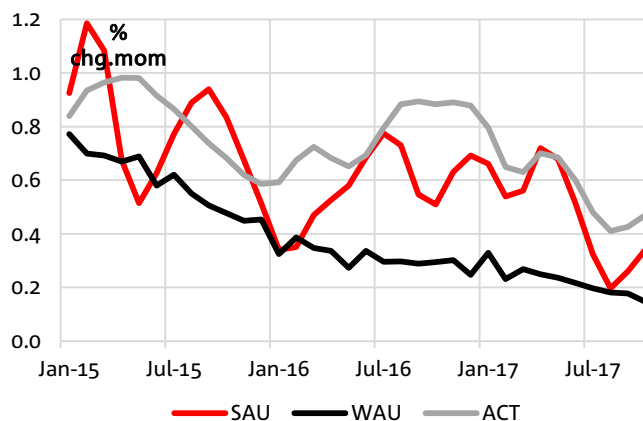
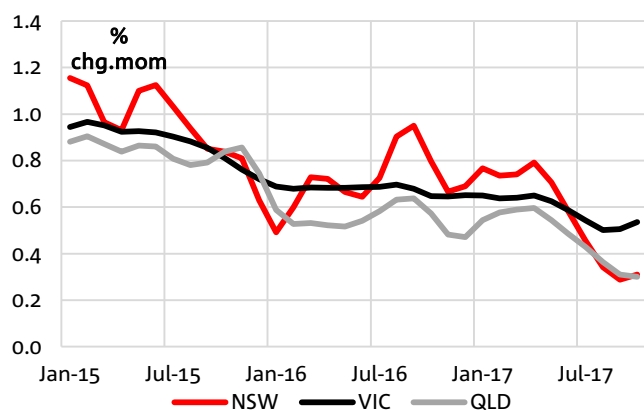
Charts 7 & 8: Cashless sales by industry, seasonally adjusted

The slowdown in the yearly rate of growth for cashless retail has been evident across most categories with the exception of department stores and “other” retailing. Growth in household goods and food retailing has eased the most to 2.5% yoy and 5.1% yoy respectively. Spending at cafes, restaurants & takeaways has also come off, but remains high at 14.1% yoy, the strongest of the categories. Growth in “other” retailing is also solid at 8.4% yoy. Meanwhile, yearly growth in spending on clothing & footwear is relatively weak at 2.9% yoy, but has stabilised in recent months.



Charts 9 & 10: Cashless sales by state, trend

By state, trend slowdown has been most pronounced in NSW and to a lesser extent South Australia in recent months despite some stabilisation, with Victoria and the ACT now clearly outperforming in monthly trend terms. Trend growth has also continued to slow in WA, suggesting the state’s economy continues to struggle amidst slower population growth as mining investment activity unwinds. Growth in cashless retail spending meanwhile has bounced back in South Australia.



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

Brien McDonald, Senior Economist

James Glenn, Senior 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, 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.

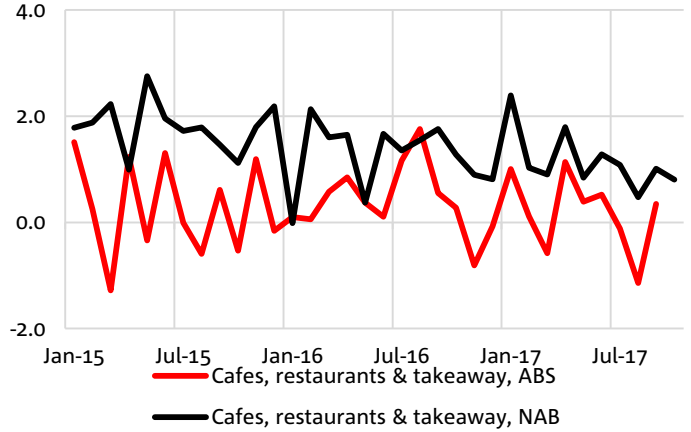
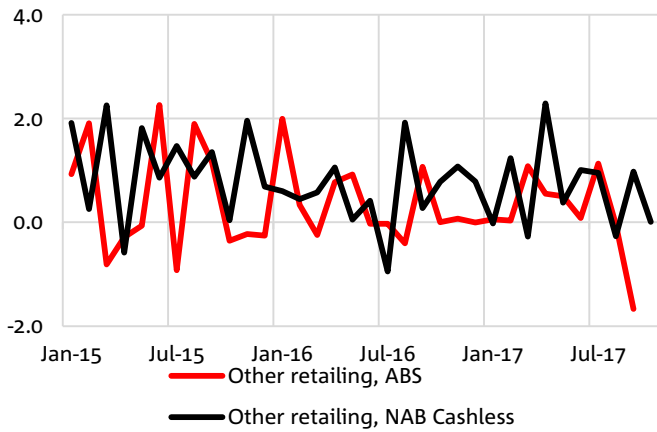
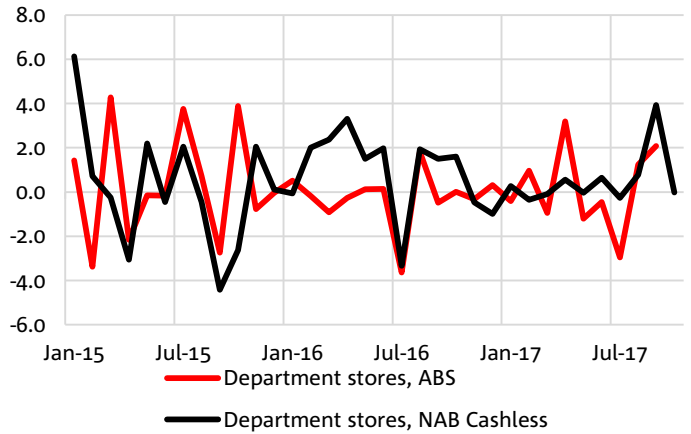
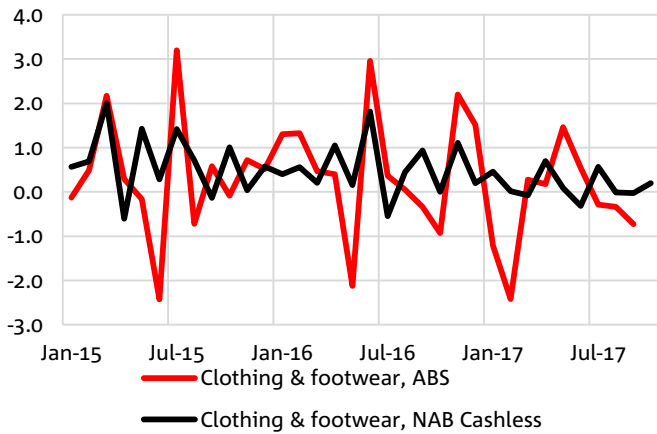
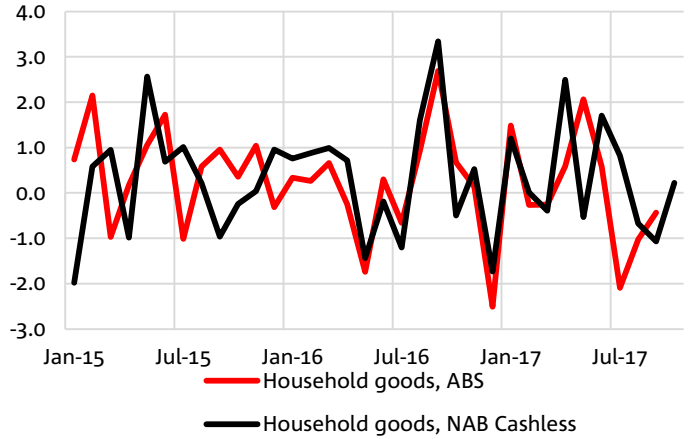
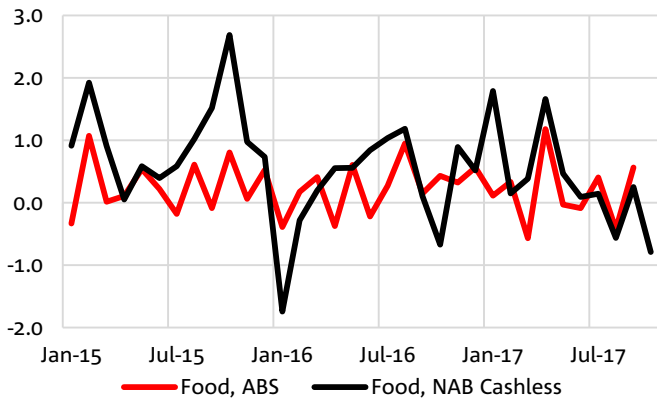
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these 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 mapped NAB series and ABS data by retail industry group, 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
+ (61) 475 986 285

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

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

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