



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – SEPTEMBER 2017

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INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$23.4bn in the 12 months to September 2017.

Sales growth contracted (-0.6%) in month-on-month (mom) terms in September, seasonally adjusted (s.a.) after rapid growth in August. There was a significant contraction in the largest spend share category, homewares and appliances, although media, the second largest, continued to grow. Electronic games and toys, led monthly growth, but this category represents a small share of spend, insufficient to counter declines in larger spend categories.

Online sales in all states contracted in the month, with only the territories growing. Annual growth remains strongest in the large eastern states with QLD just pipping VIC for top spot.

While monthly growth at SME retailers contracted in September (-0.1), they have outpaced corporates over the year (+15.1%).

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

TOM MAZZAFERRO

General Manager, Consumer, Real Estate and Diversified Industries
National Australia Bank

The NAB Online Retail Sales Index distils Australia's dynamic consumer spending patterns into clear figures and charts, supported by insightful commentary and analysis. We hope it helps to guide and support your business plans over the coming months.

SME online retailers were responsible for around 36 per cent of all online retail sales in the past 12 months and are still outpacing corporates in terms of month-on-month growth. So in this edition we continue our focus on their rise by offering a detailed breakdown of online spending by category.

We also uncover how spending patterns vary across age groups, and why the largest overall spend group (35- to 44-year-olds) also takes more of the domestic market share.

The latest figures also reveal some interesting shifts between regional and metro spending across the states and territories.

We trust that the NAB Online Retail Sales Index will help you to prepare effective strategies for a prosperous future.

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THE ONLINE RETAIL MARKET

OVERALL INDEX

In seasonally adjusted terms, at -0.6%, online retail sales contracted in September. Looking through the month to month volatility, while the trend is still positive, it has slowed in recent months.

The revised trend estimate for online retail sales growth was 0.5% in September. This general slowing in the trend estimate for sales has also been observed in the ABS data which has been slowing since May.

In the 12 months to September, we estimate that Australians spent an estimated \$23.4 billion on online retail – a level that is equivalent to around 7.6% of the traditional bricks and mortar retail sector (which totalled \$309.4 billion in the year to August 2017 according to the Australian Bureau of Statistics).

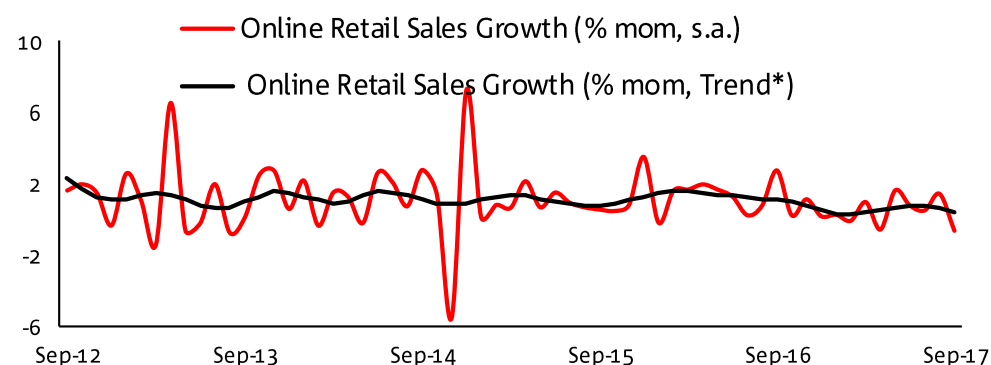
In year on year terms (Sep 2017 v Sep 2016), online sales grew by 6%, down from the 10.2% year-on-year growth rate in August. This is much slower than the growth recorded when the index was established.

Online sales at SMEs also contracted in the month growth, albeit mildly (-0.1% mom), and continue to outpace corporates in year on year terms (+15.1% yoy).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Jul-17	Aug-17	Sep-17
Monthly growth (%)			
Corporate	0.5	1.4	-0.6
SMEs	-0.3	2.6	-0.1
Annual growth (%)			
Corporate	8.7	10.2	6.0
SMEs	16.4	14.7	15.1

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

ONLINE CATEGORIES



CATEGORY PERFORMANCE

Media contributed the most to overall growth in the year to September, given its size and growth rate. Homewares and appliances, which retains the largest share of spend, saw a dramatic contraction in growth, both in the month and for the year.

Over the year to September, at 23% (yoy), toys had the fastest annual online sales growth. As this category represents a relatively small share of online sales, it's contribution to total online sales growth was relatively modest. Sales growth in this category is also more variable than some other categories in the index, so the recent growth spurt may not be sustained.

The largest spend share category, homewares and appliances, contracted in September (-2.9% mom). Despite this contraction, this category along with media, still contributed almost half of all annual online sales growth. Groceries and liquor (-1.7%), and personal and recreational goods (-0.7%), also contracted in the month. Toy sales grew fastest in the month (+5.4%) followed by large spend category media (2.6%), department stores (0.8%), takeaway food and fashion (both 0.1%), with daily deals flat (0.0%).

Chart 2

ANNUAL GROWTH OF SPENDING, BY CATEGORY (% yoy)

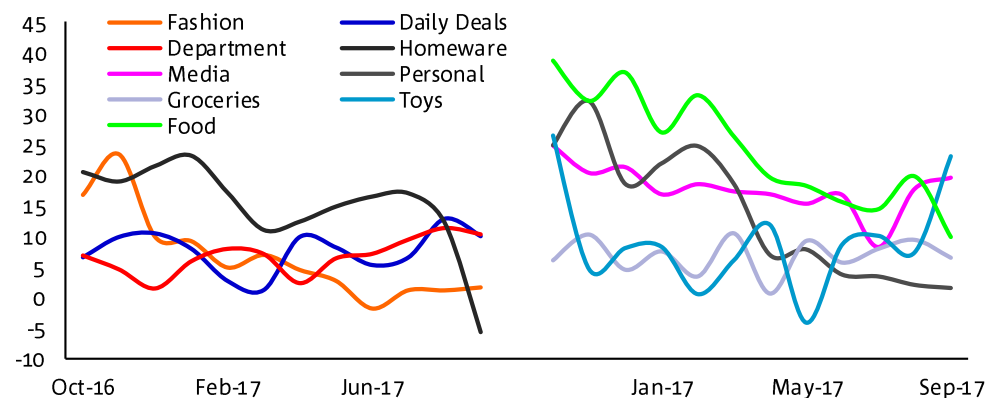
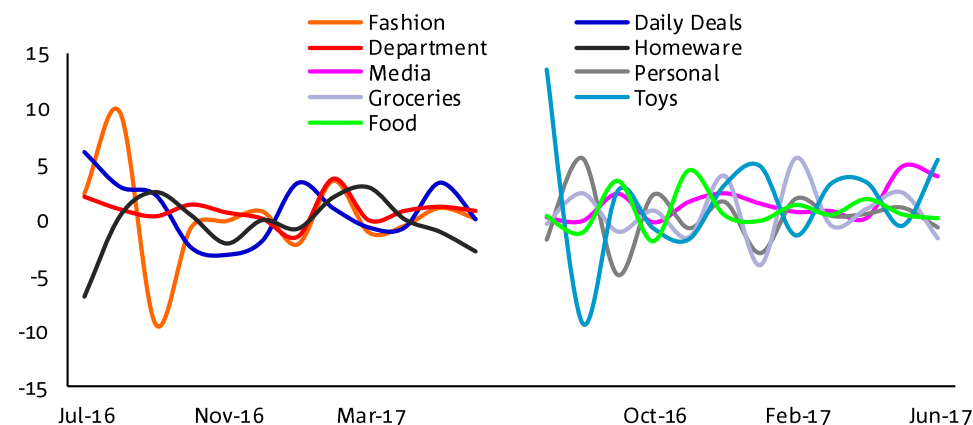


Chart 3

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



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, large spend share Media has expanded rapidly. While homewares and appliances contracted in September, its contribution to annual online sales growth is considerable.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Aug-17	Sep-17	Aug-17	Sep-17		
Fashion*	1.0	0.1	1.1	1.6	15.3	9.2
Daily Deals	3.3	0.0	12.8	9.9	2.4	1.6
Department	1.1	0.8	11.3	10.2	8.2	4.7
Homeware	-1.1	-2.9	12.2	-5.8	20.0	24.2
Media	4.7	3.9	17.7	19.5	17.5	24.7
Personal	1.1	-0.7	2.0	1.5	9.4	10.4
Groceries	2.4	-1.7	9.3	6.4	16.7	10.1
Toys	-0.6	5.4	7.3	23.0	3.6	2.9
Food	0.5	0.1	19.7	9.8	6.9	12.2
Total	1.4	-0.6	10.2	6.0	100	100

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

*Use with Caution – see notes page, new payments methods.

“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, with domestic contracting in line with the total index. In September, just under 80% of spending was domestic.

Domestic online sales growth contracted in September (-0.8%, mom) compared to rapid growth in August (1.6%). International sales also slowed to record no growth in the month (0.0%), and like domestic, much slower than the previous month (1.1%). In year-on-year terms, domestic online sales growth (6.0%) and international sales growth (5.9%) trajectories have been relatively close for the past year.

As shown in chart 4, the relatively unchanged position of online retail spend shares has coincided with a relatively unchanged position of the Australian dollar since July 2016. The recent appreciation in the AUD may have some bearing on near term share ratios, though the magnitude of any shift is unlikely to be sizeable.

Chart 4

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

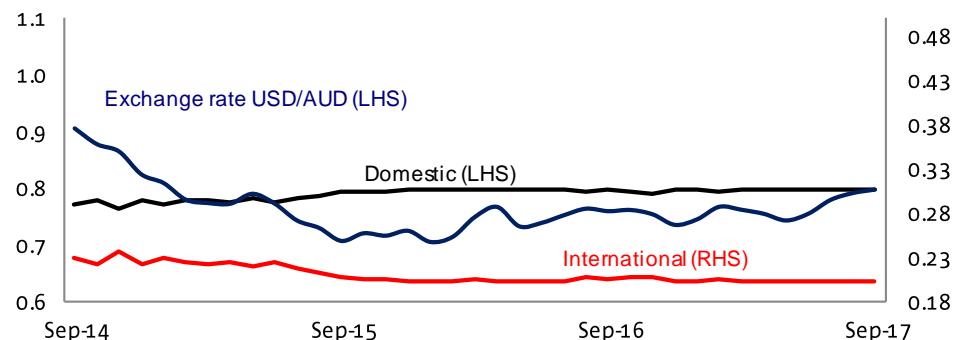
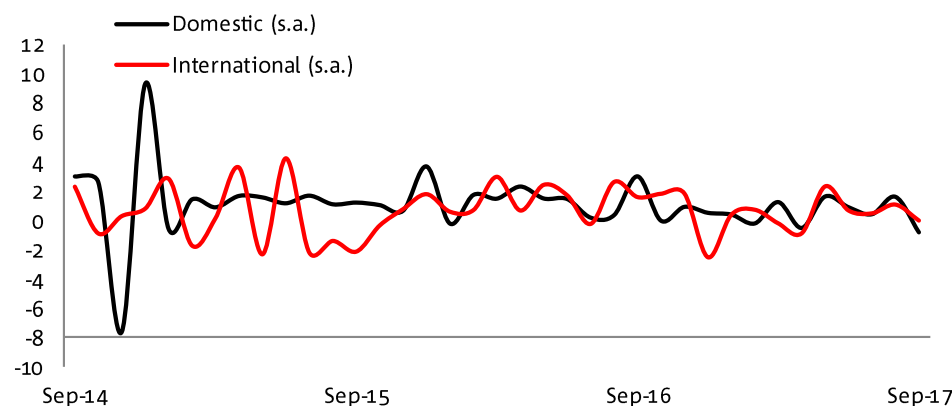


Chart 5

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 are two categories where a greater share of spend (albeit marginal) is attributed to international retailers over domestic. However, to give these shares some perspective, it is worth noting that in total these two categories represent small shares of overall spend in the index (around 12% combined).

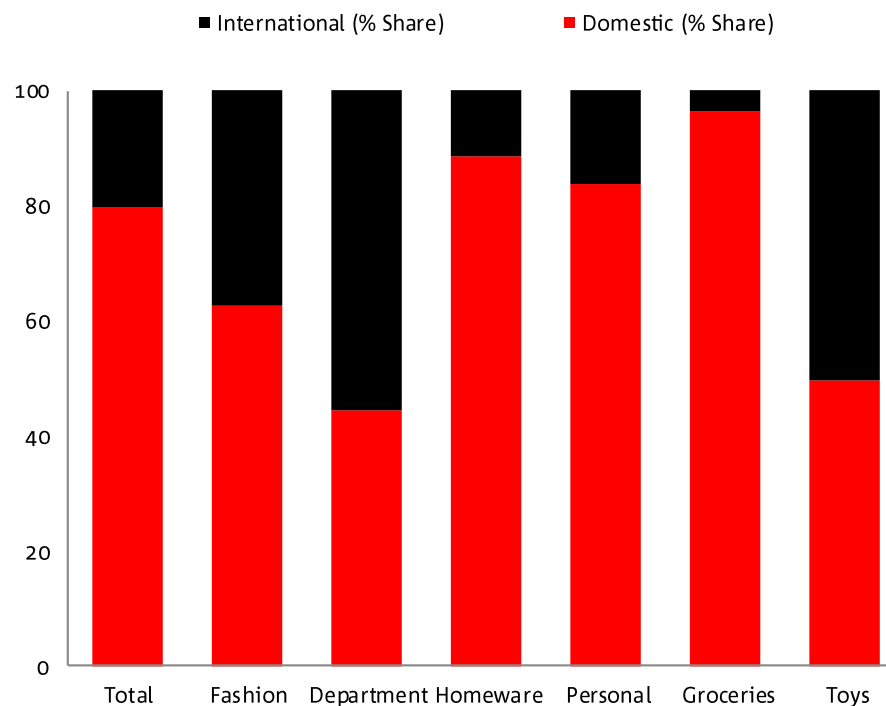
Domestic retailers still capture the majority of spending in our index.

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

For international retailers, growth was also strong in Toys. Online sales growth was above the domestic competition in department stores, grocery and liquor, and fashion.

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 62% of Fashion is purchased from domestic online retailers, it only accounts for about 12% of domestic online spend, but at 28.2%, 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	0.1	4.0	62.4	37.6	12.0	28.2
Department	-2.2	20.4	44.4	55.6	4.6	22.4
Homeware	-5.5	-7.7	88.5	11.5	22.2	11.3
Personal	11.2	-35.0	83.6	16.4	9.9	7.5
Groceries	6.3	10.7	96.4	3.6	20.3	3.0
Toys	34.3	11.4	49.7	50.3	2.3	9.0
All categories	6.0	5.9	79.7	20.3		

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 over 65s, with sales in every other age group contracting, particularly those under 35.

Those aged 35-44 make up approximately 17.0% of the adult population, but their share of online spend is the highest at 24.1%. In contrast, over 65s make up 19.3% of the population and only 8.5% of online spend

Spending by all age groups, except the over 65s (1.1%), contracted in the month. Online sales to both 18-24s (-1.7%mom) and 25-34s (-1.5%) were particularly negative. Sales growth by the largest spend share age category, 35-44s, saw only mild contraction(-0.2%).

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

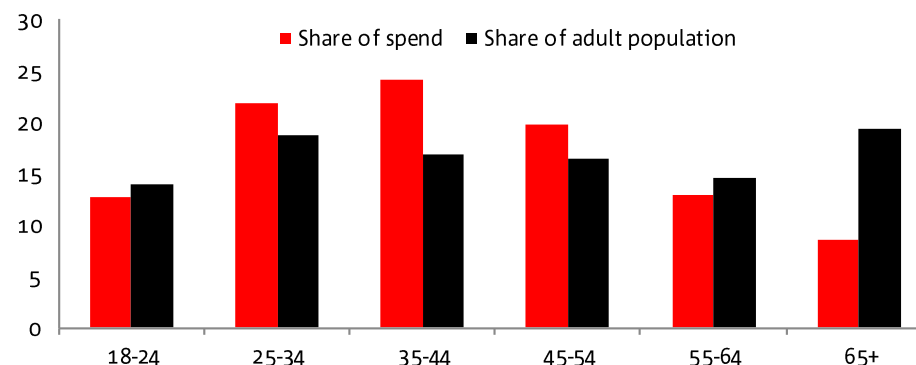
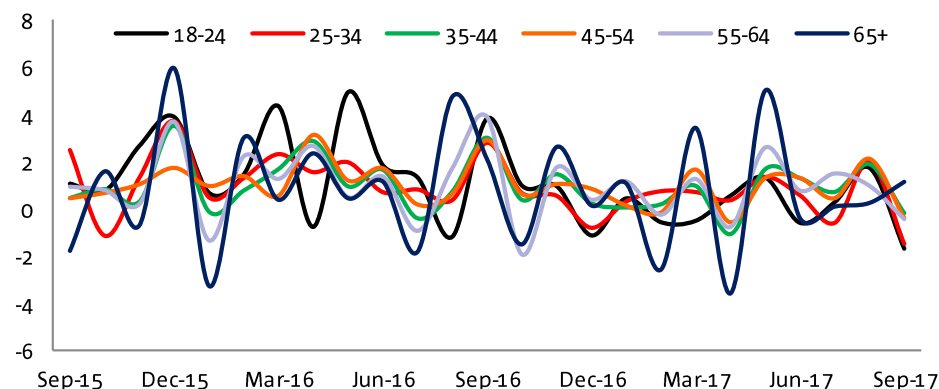


Chart 8

GROWTH OF SPENDING, BY AGE GROUP

(% mom, s.a.)



AGE GROUPS BY CATEGORY

Spending patterns vary across age groups. On average, online sales at 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. Fashion as share of spend tends to decline with older cohorts, along with takeaway food, and electronic games and toys, whereas the share of spend on homewares and appliances seems to increase with age.

% share	Fashion	Daily Deals	Department & Variety Stores	Homeware & Appliances	Media	Personal & Recreational Goods	Groceries and Liquor	Electronic Games & Toys	Takeaway Food
18-24	21.1	1.4	6.2	15.6	20.7	7.2	4.5	11.7	11.5
25-34	17.7	2.4	7.9	16.7	18.1	8.3	14.2	4.0	10.8
35-44	14.5	2.7	8.4	19.0	17.1	9.7	19.6	2.4	6.6
45-54	14.2	2.6	8.7	22.3	17.3	10.6	17.2	2.4	4.8
55-64	12.5	2.6	9.4	24.6	16.5	10.9	19.3	1.2	3.0
65+	10.0	1.9	8.7	25.1	14.0	9.4	28.7	0.8	1.4
All ages	15.3	2.4	8.2	20	17.5	9.4	16.7	3.6	6.9

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

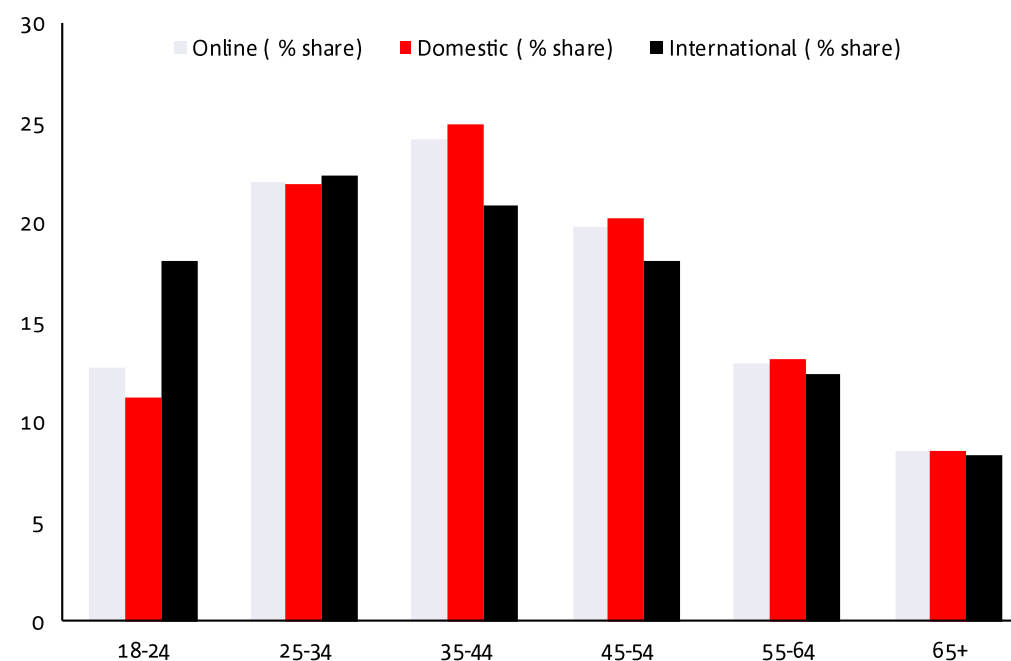
For most age categories, total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. However, spending at international online retailers by 18-24s contracted over the past year. Conversely, the group with the largest overall online spend share, those aged 35 to 44, make up more of the domestic share. This same age group saw the most rapid growth in spending at international retailers.

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	-1.3	-1.5	4.0	-4.6	11.2	18.1
25-34	-2.0	0.3	3.7	7.3	21.9	22.3
35-44	-0.3	1.7	6.7	12.2	25.0	20.8
45-54	-0.5	0.0	8.5	7.7	20.2	18.1
55-64	-0.3	-0.8	6.5	8.0	13.1	12.4
65+	1.7	0.1	5.9	4.6	8.6	8.3
All ages	-0.8	0.0	6.0	5.9	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.

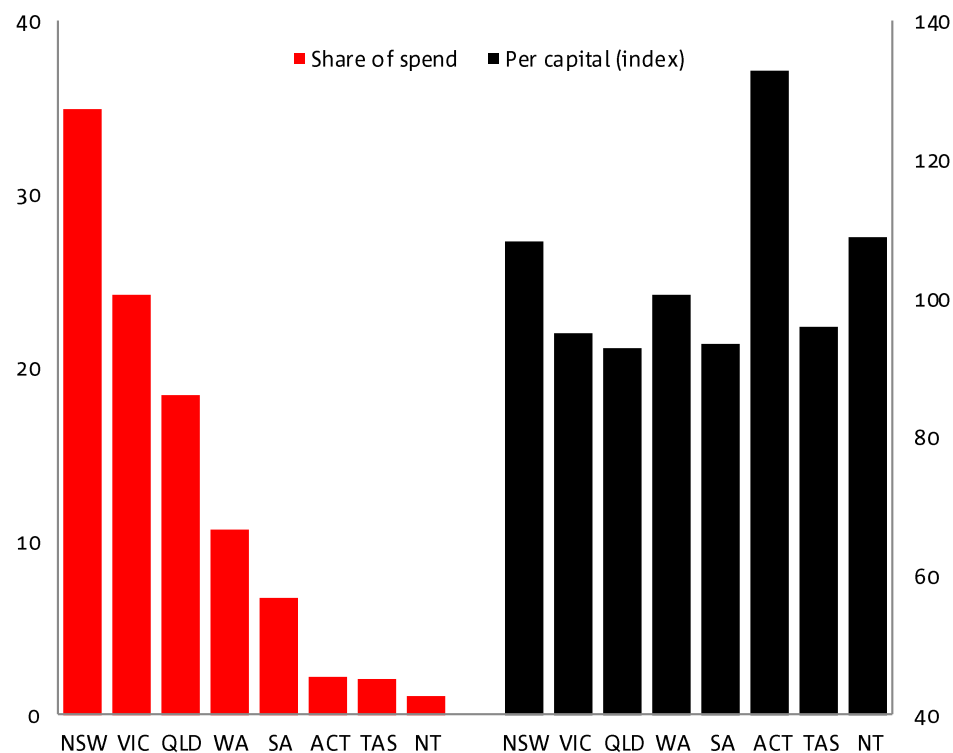
Just over 77% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for about the same proportion of the Australian total.

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 24.2% of total online spending, a share that is up marginally on June (24.0%).

Chart 10

SHARE OF SPENDING, BY STATE (% annual)



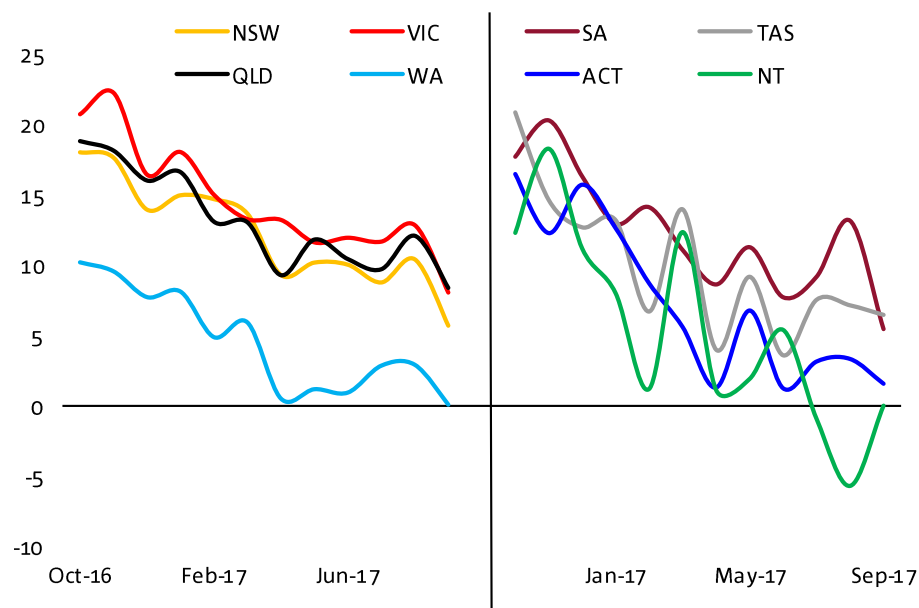
SPENDING BY STATE

Over the past year, the contribution to online sales growth has shifted back towards the larger eastern states. Queensland (8.4%) recorded the strongest annual growth, followed by Victoria and New South Wales, with NT and WA the weakest.

Chart 11

GROWTH OF SPENDING, BY STATE

(% yoy)

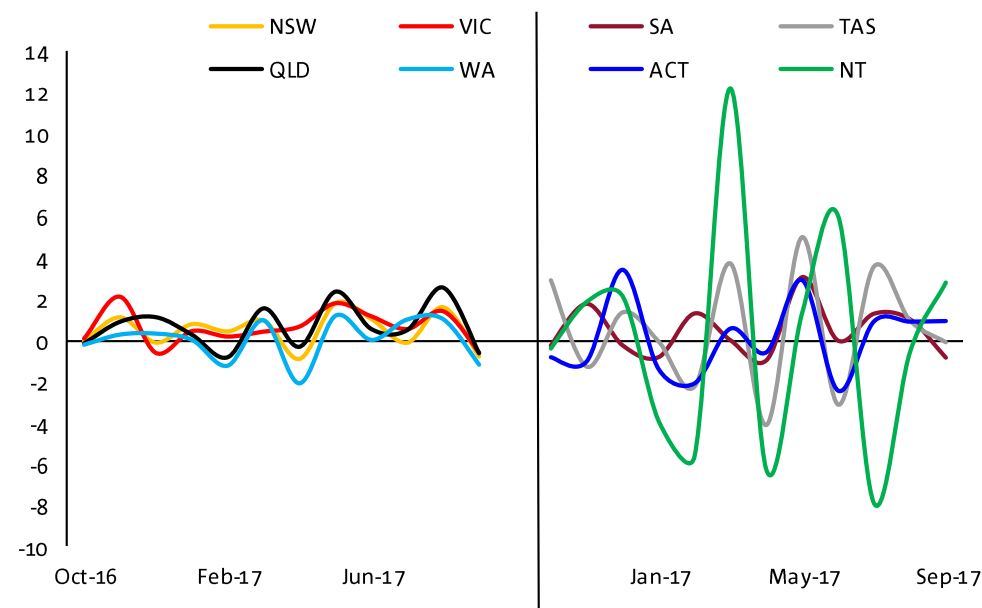


Only the two territories recorded month-on-month growth in September. NT recorded the highest monthly growth, but this figure should be used with caution given the significant volatility with this particular series. Contractions in the large eastern states and SA mirrored the that of total index in the month.

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, s.a.)





**METROPOLITAN
VS REGIONAL**

METROPOLITAN & REGIONAL PERFORMANCE

Growth in regional areas continued in September, albeit at a slower pace compared to August, while metro growth contracted slightly more than the total index. 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%) contracted in September, while online spend in Regional areas continued to grow, albeit at a slower pace (0.3%).

Metropolitan residents retain the largest share of spend, and spent on average around 16.9% more than those residing in regional Australia. However, those living in regional Western Australia spent about 4% 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)

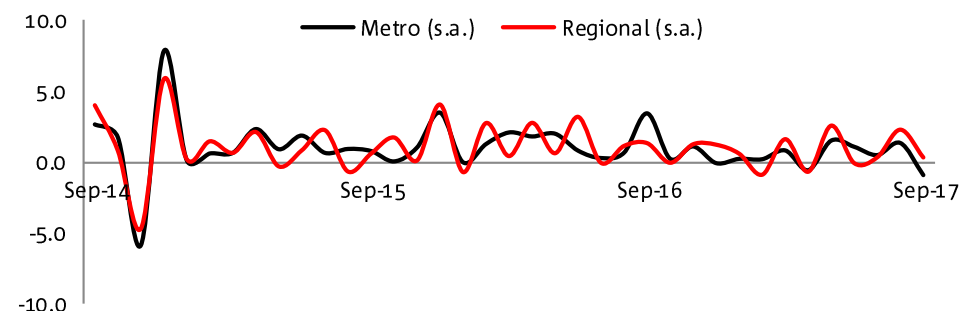
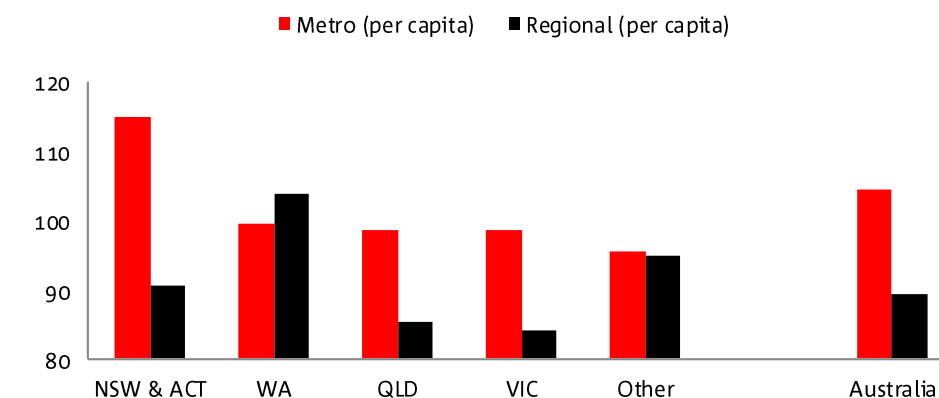


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

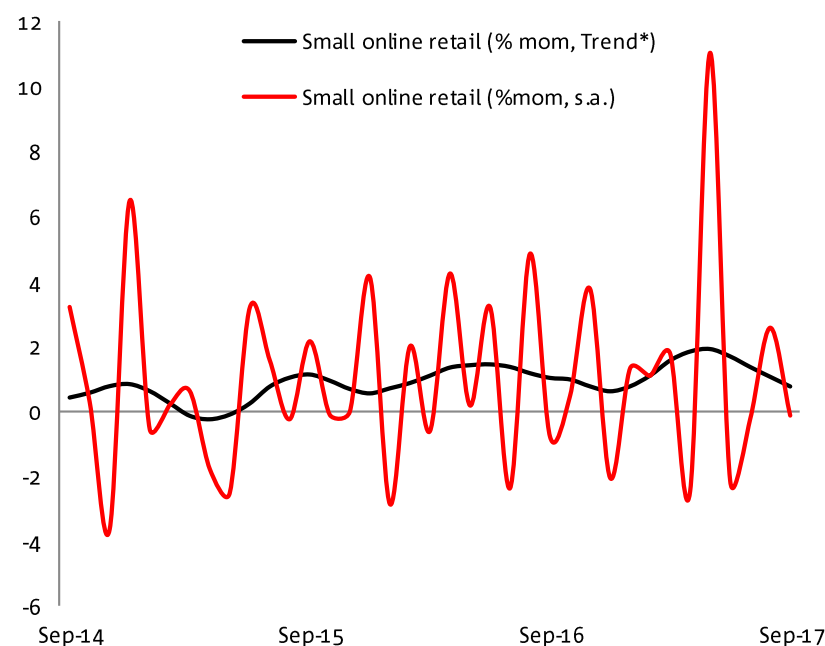
SME Online retailers made up around 36% of all online retail sales in the past 12 Months. While SME monthly sales contracted in September, it was more mild than that of their corporate counterparts and growth in annual sales at SMEs are still outpacing corporates.

Smaller online retail sales contracted in September (-0.1% mom, s.a.). At 0.7%, small online retail spending, in trend terms, indicates general slowing. This comes after a much more rapid trend growth period earlier in the year, which peaked in May at 1.9%. In year on year terms, we estimate that small online retail sales are now 15.1% higher compared to a year ago.

While monthly sales growth was led by takeaway food, 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 2 largest spend share categories, homewares and appliances, and personal and recreational goods, although these have been partly offset by growth in the 3rd largest SME 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 - Aug	Monthly growth – Sep	Annual growth – Aug	Annual growth – Sep	Share of Small spending	Contribution to annual Small spending growth
Fashion	1.7	1.2	14.3	13.4	24.6	27.5
Daily Deals*	-	-	-	-	0.0	-
Department	9.6	8.3	48.5	84.8	3.4	6.1
Homeware	3.3	-0.5	21.8	22.3	30.7	39.3
Media	-2.0	-6.9	-1.3	-7.6	2.9	-0.2
Personal	2.0	-2.6	9.4	7.5	29.4	22.0
Groceries	4.1	-2.4	0.2	-1.8	3.6	-0.3
Toys	1.9	-0.2	6.3	4.3	3.5	1.7
Food	5.2	15.2	17.7	40.9	1.9	4.0
Total	2.6	-0.1	14.7	15.1	100	100

*Share of Spend at SME Daily Deal retailers was virtually 0 in September and growth rates have been omitted as a result.

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

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

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