



NAB CASHLESS RETAIL SALES INDEX JANUARY 2018

NAB Australian Economics

- The NAB Cashless Retail Sales Index shows improvement in January following a weak December.
- Mapping through to the official ABS measure of retail sales suggests a rise of 0.4% in January after the decline of 0.5% in December and a sharper rise of 1.3% in November. These figures however should be interpreted with caution as they are impacted by changing seasonal patterns, including the shift in the timing of large retail sales which historically have occurred from Boxing Day onwards into January. Consumers now have access to sales earlier in the year with the introduction of Black Friday sales to Australia.
- Looking through the monthly volatility, the NAB Cashless Retail Sales Index has continued its moderate slowdown into January in terms of annual growth. Yearly growth in NAB's cashless retail index was 7.5% yoy, compared with much slower growth in the ABS measure. The weaker result this month was driven by decreases across all categories except 'other retailing' which held steady. NAB's series does not include cash payments but includes a larger share of online purchases, a difference which may become more critical as a greater share of holiday season sales shopping shifts online.
- Looking specifically at the NAB Cashless Retail Sales Index, spending at cafes, restaurants & takeaways remains the fastest growing category (19.3% yoy). Spending on 'other retailing' (7.8% yoy), and household goods (7.7% yoy) is also solid, while spending on food has slowed (4.7% yoy). Meanwhile, clothing & footwear sales are growing at a meeker rate (2.5% yoy), and spending at department stores has declined (-3.1% yoy). (Charts 3, 7 & 8).
- Spending growth has pulled back slightly across the states. NSW (8.3% yoy) and Victoria (7.7% yoy) remain in the lead, with South Australia (6.9% yoy), Queensland (6.3% yoy) and the ACT (6.2% yoy) not far behind. While WA remains the laggard, although the gap continues to narrow (5.0% 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.
- See comments from NAB's Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (%)		
	Nov-17	Dec-17	Jan-18
NAB Cashless Index	9.3	8.4	7.5
ABS Retail Trade (s.a.)	2.9	2.5	--
NAB Cashless index mapped to ABS	3.8	3.3	2.9

	Month-on-month growth (%)		
	Nov-17	Dec-17	Jan-18
Cashless Index (s.a.)	1.5	-0.2	0.6
ABS retail (s.a.)	1.3	-0.5	--
NAB Cashless index mapped to ABS	0.6	-0.5	0.4

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

Chart 1: Cashless and total retail sales

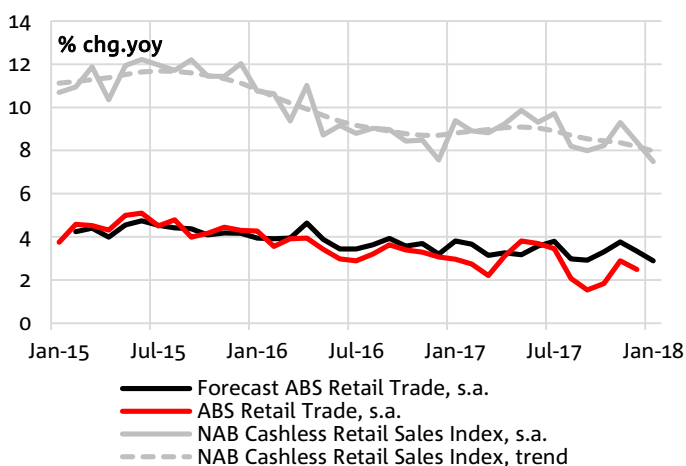
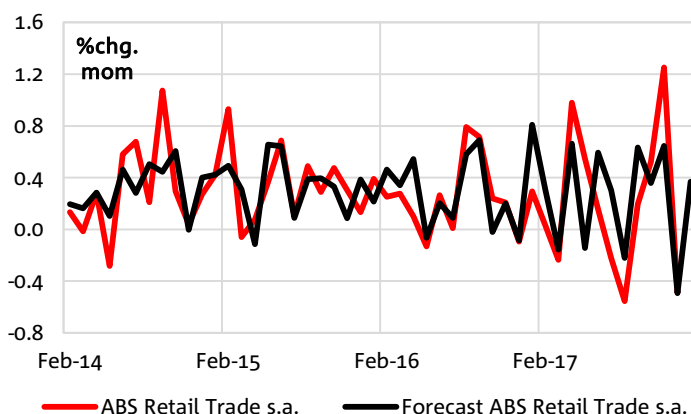


Chart 2: ABS and forecast ABS retail trade data, s.a.



NAB Chief Economist, Alan Oster commented:

“NAB’s Cashless Retail Index indicates some bounce-back in retail spending in the month of January after a particularly poor December. In the month of January, both the NAB Cashless Index and our mapping of the “official” ABS measure imply a monthly increase in retail sales in January. This is a welcome change from the negative growth in December.

“However we are reluctant to read too much into the data given the impact of changing seasonal patterns, where the introduction of Black Friday sales to Australia has shifted discount sales and holiday spending forward. The release of the newest iPhone in November was also a contributory factor to this shift.

“Looking through these monthly movements, annual growth in retail spending however has slowed in recent months, suggesting some loss of momentum. In terms of NAB’s Cashless Retail Index, whilst overall year-ended growth remains respectable, this slight reduction in growth is evident across the board in terms of all categories (excluding ‘other retailing’) and all states indicating a systematic shift in consumer spending behaviour.

“While the retail sector continues to struggle, this month’s NAB Business Survey reported a slight improvement in retail business conditions. Where results previously have been negative they currently indicate a neutral trend of neither expansion nor contraction. Surprisingly, retail confidence has remained solid despite the weak conditions. The fundamentals for retail spending are also looking a little better, particularly the strong employment growth seen in 2017. Whilst consumption growth late last year was lower than anticipated and wages growth continues to underwhelm, NAB’s The Forward View foresees only a gradual pickup in wage growth to come this year as the labour market continues to improve.

“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.

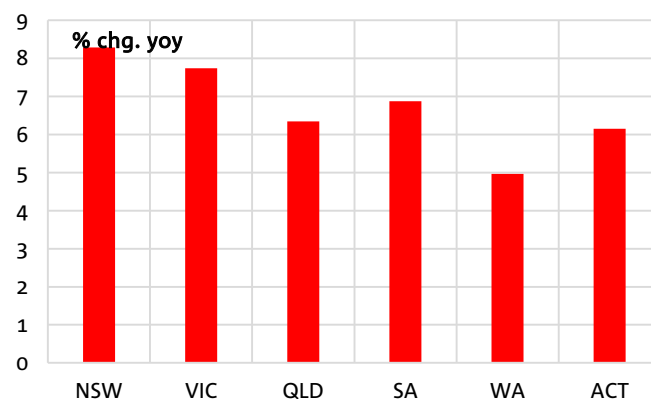


Chart 5: Cashless retail sales by sub-industry, s.a.

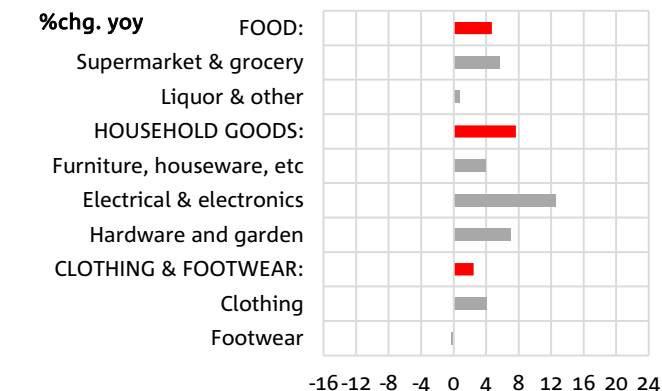
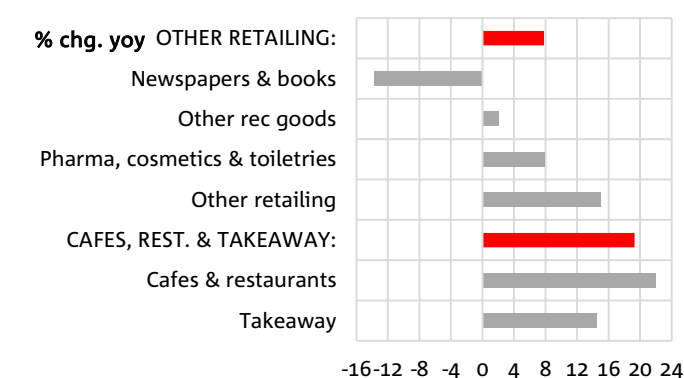


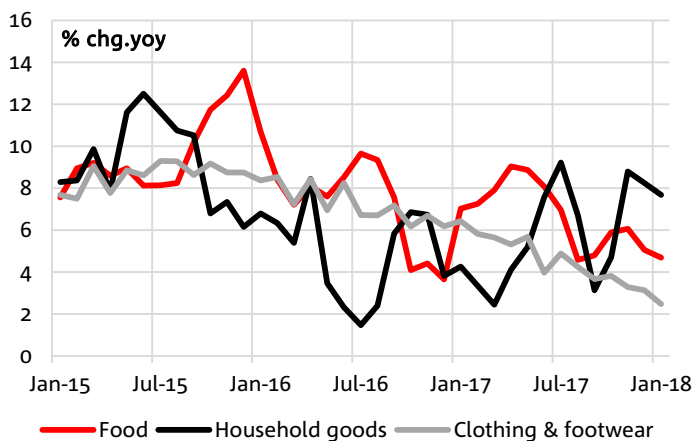
Chart 6: Cashless retail sales by sub-industry, s.a.



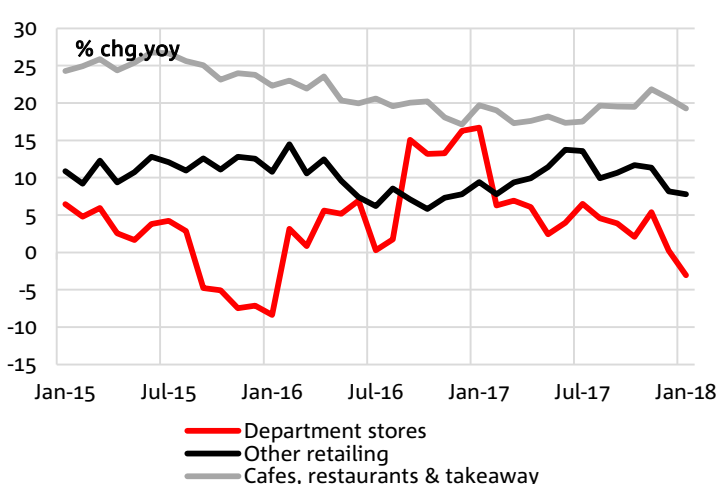
Charts 7 & 8: Cashless sales by industry, seasonally adjusted

Yearly growth in cashless retail declined across the board in January excluding ‘other retailing’ growth which remains relatively stable at 10.1% yoy. Cafes, restaurants and takeaway remains the fastest growing sector (14.3% yoy). Household goods and food spending growth is solid. However, department store growth has continued to ease and spending on clothing & footwear remains in decline.

Cashless and total retail sales by industry, s.a.

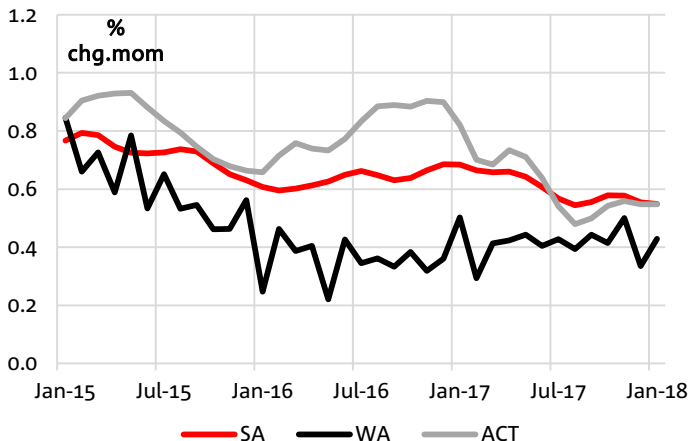
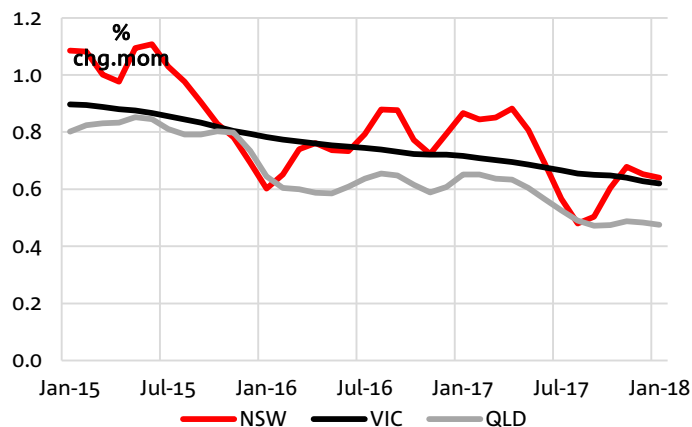


Cashless and total retail sales by industry, s.a.



Charts 9 & 10: Cashless sales by state, trend

The slowdown in trend cashless sales growth this month has been felt across Australia. In monthly trend terms, NSW experienced the strongest growth followed closely by Victoria, South Australia, the ACT and Queensland. However, the gap in growth between WA and all other states continues to narrow. NSW remains strongest in terms of annual growth following from its strength early in 2017.



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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.

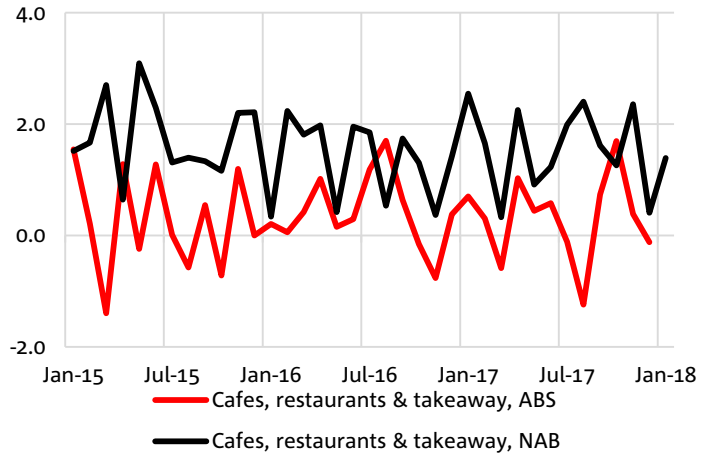
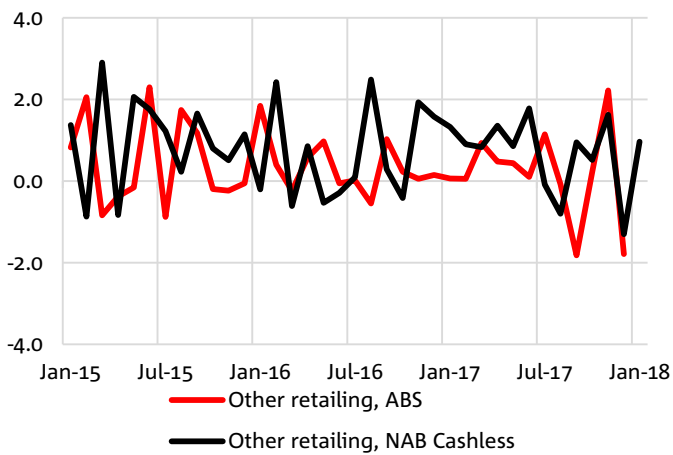
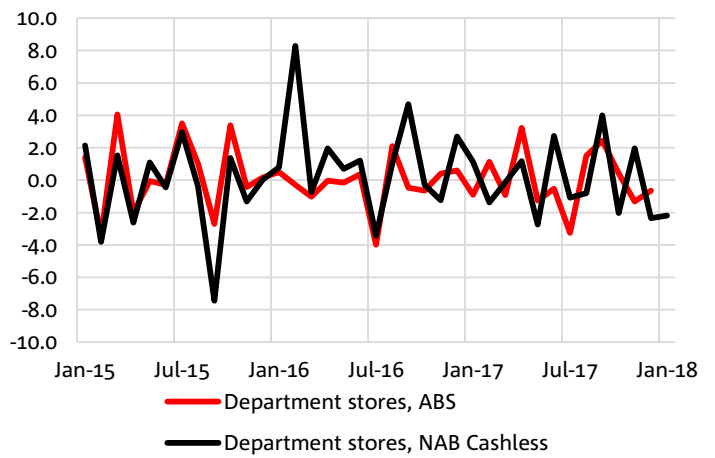
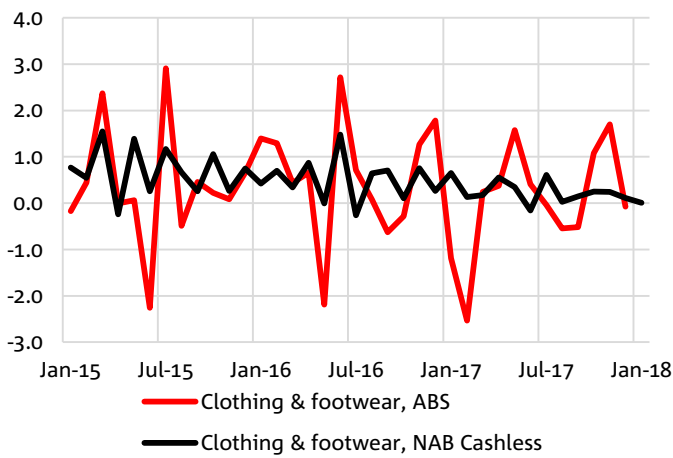
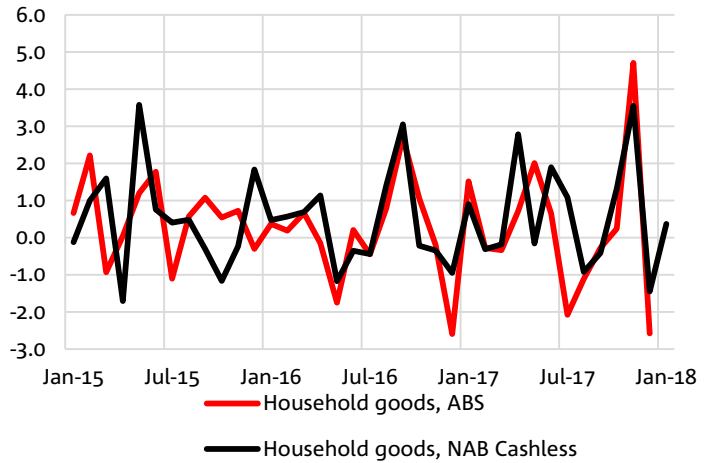
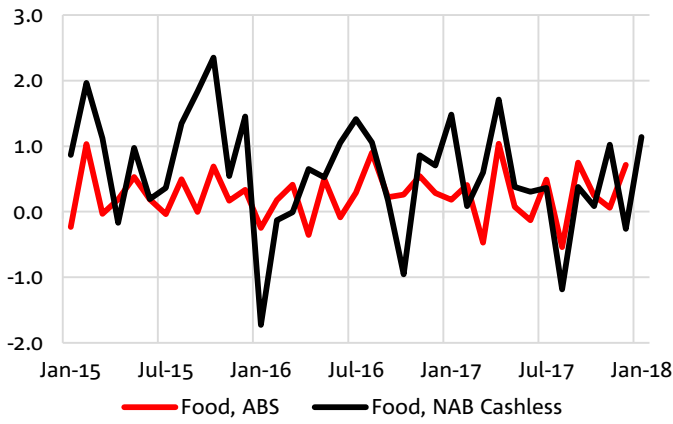
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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



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