



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – DECEMBER 2017

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$24.2bn in the 12 months to December 2017.

Sales growth contracted (-2.2%) in month-on-month (mom) terms in December, seasonally adjusted (s.a.) after rapid growth in November(+4.8%mom, s.a.). This was the largest contraction in online spend since November 2014. There was a significant contraction in the largest spend share category, homewares and appliances, although media, the second largest, grew. Department stores and food led monthly growth, but given their smaller share of spend, it was insufficient to counter declines in larger spend categories.

Online sales in all states and territories contracted in the month. Annual growth remains strongest in the large eastern states with VIC strongest (yoy).

While monthly sales growth at SME retailers also contracted in December(-1.3%), they have outpaced corporates over the year (+18.5%).

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

TOM MAZZAFERRO

General Manager, Consumer, Real Estate and Diversified Industries
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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. 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 -2.2%, online retail sales contracted in December, the largest since November 2014. Looking through the month to month volatility, while the trend is still positive, it has again slowed.

The revised trend estimate for online retail sales growth was 1.0% in December, down from 1.2% a month prior.

In the 12 months to December, we estimate that Australians spent an estimated \$24.2 billion on online retail – a level that is equivalent to around 7.8% of the traditional bricks and mortar retail sector (which totalled \$311 billion in the year to November 2017 according to the Australian Bureau of Statistics).

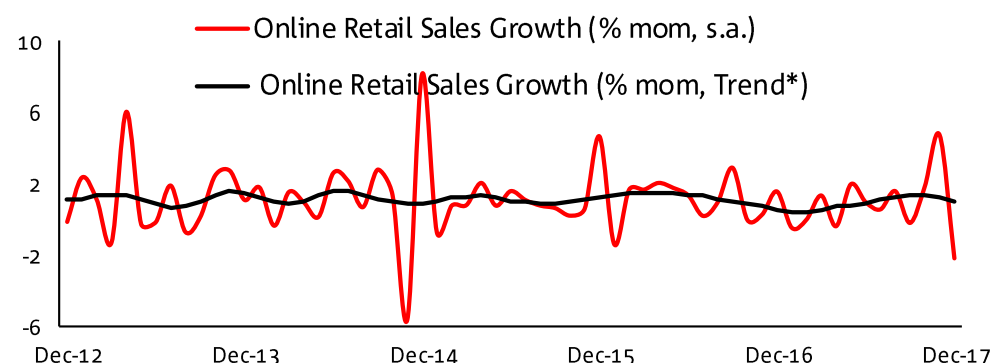
In year on year terms (December 2017 v Dec 2016), online sales grew by 10.1%, down from the 15% year-on-year growth rate in November.

Online sales at SMEs also contracted in the month growth, albeit mildly (-1.3% mom), and continue to outpace corporates in year on year terms (+18.5% yoy).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Oct-17	Nov-17	Dec-17
Monthly growth (%)			
Corporate	1.9	4.8	-2.2
SMEs	4.6	2.4	-1.3
Annual growth (%)			
Corporate	9.5	15.0	10.1
SMEs	20.7	21.0	18.5

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 December, given its size and growth rate. Homewares and appliance retailing, which retains the largest share of spend, saw a dramatic contraction in monthly growth, partially reversing November gains.

With fastest annual online sales growth, daily deals 22.5% (yoy) continued its recent revival, albeit at a slower pace than November (35.1%). As this category represents a relatively small share of online sales (~2.5%), its contribution to total online sales growth was relatively modest.

In monthly terms the largest spend share category, homewares and appliances, contracted the most in December (-9.9% mom). Despite this contraction, this category along with media, still contributed about half of all annual online sales growth. Daily deals (-8.7% mom) also contracted after a strong November result, along with fashion, grocery and liquor, and personal and recreational goods. Department stores, takeaway food, media, and toy sales grew in the month, but were insufficient to offset the drop in larger sales categories.

Chart 2

ANNUAL GROWTH OF SPENDING, BY CATEGORY

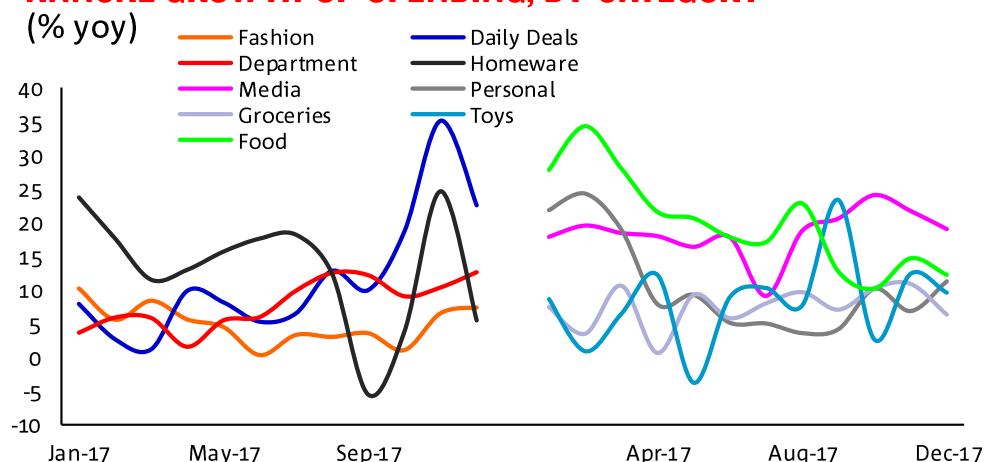
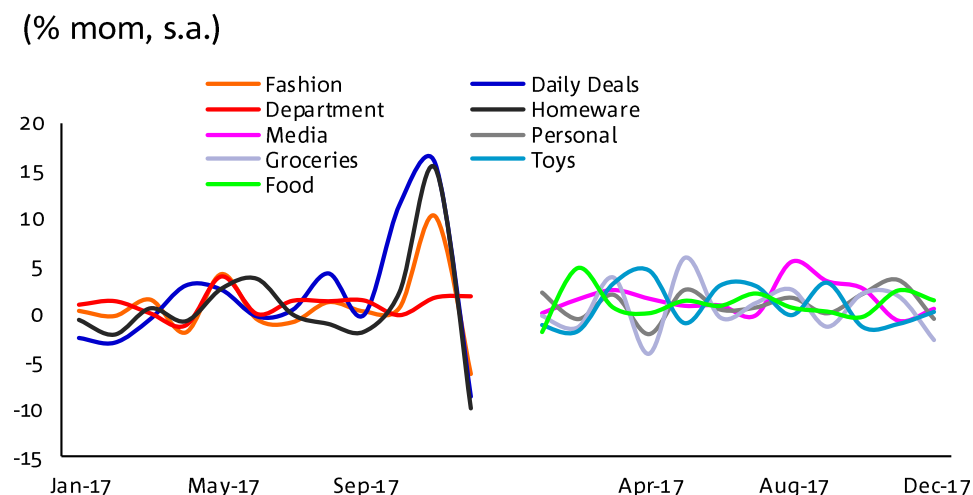


Chart 3

MONTHLY GROWTH OF SPENDING, BY CATEGORY



CATEGORY GROWTH AND SHARE OF SPENDING

In year on year terms, large spend share media has expanded rapidly. While homewares and appliances contracted in December (mom), its contribution to annual online sales growth is considerable.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Nov-17	Dec-17	Nov-17	Dec-17		
Fashion*	10.2	-6.4	6.5	7.3	15.0	6.9
Daily Deals	15.7	-8.7	35.1	22.5	2.5	2.9
Department	1.6	1.8	10.3	12.6	8.3	6.2
Homeware	15.2	-9.9	24.6	5.4	20.0	22.4
Media	-0.8	0.5	21.7	19.0	17.8	27.6
Personal	3.5	-0.6	6.8	11.2	9.3	8.4
Groceries	1.8	-2.8	10.8	6.3	16.6	11.7
Toys	-1.1	0.1	12.4	9.5	3.6	2.8
Food	2.4	1.4	14.7	12.2	6.9	11.0
Total	4.8	-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.

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 contracted in the month, in line with the total index. In December, around 80% of spending was domestic.

Domestic online sales growth contracted in December (-3.8%, mom) compared to rapid growth in November (6.6%). International sales also contracted (-0.8%), and like domestic, the result followed a rapid growth in the month prior (1.4%). In year-on-year terms, domestic online sales growth (11%) and international sales growth (6.2%) trajectories have diverged, with domestic faster over the past year.

Chart 4 shows that, in some past periods, changes in the AUD coincided with changes in the relative share of domestic and international sales. However, over the past year, the AUD has appreciated and depreciated with comparatively minimal change in respective shares.

Chart 4

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

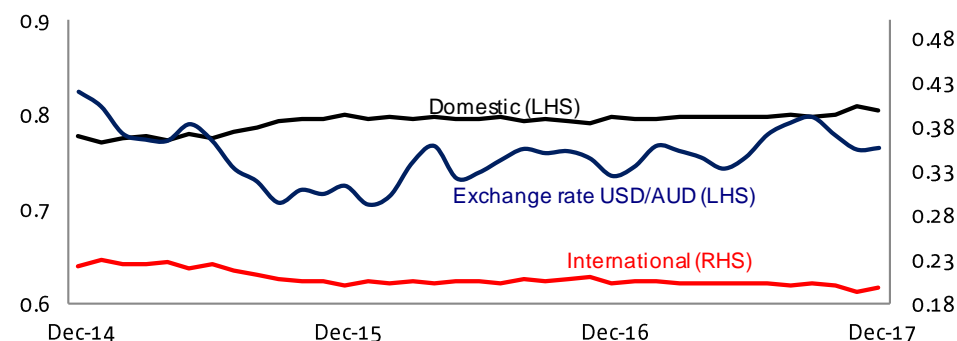
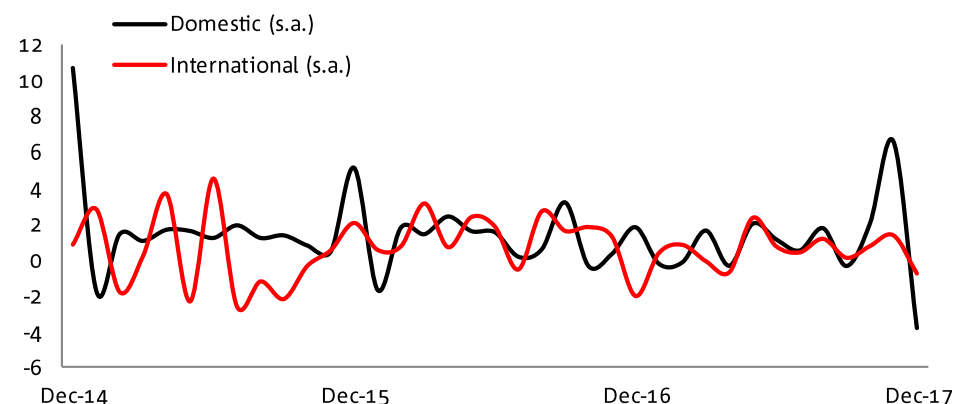


Chart 5

GROWTH OF ONLINE SALES, BY RETAIL LOCATION (% mom)



INTERNATIONAL VS DOMESTIC - BY CATEGORY

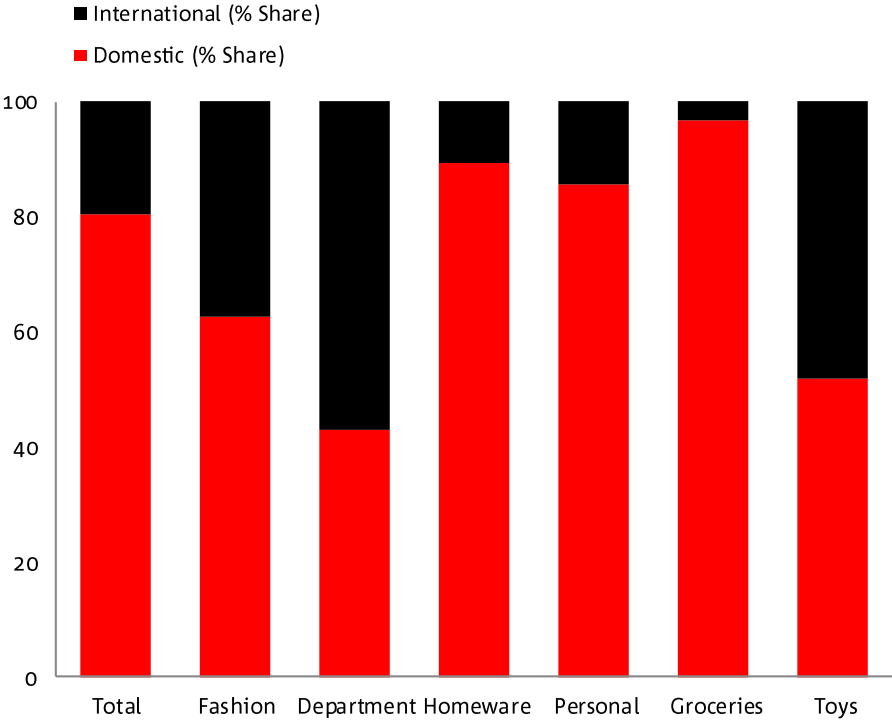
Areas of significant overall online spend such as Groceries, Personal and Homewares are also categories where domestic online retailers dominate.

The most recent detailed data indicates that the Electronic Game and Toy category now has a greater share of spend (albeit marginal) attributed to domestic online retailers over international. In September spend on this category was slightly in favour of international. The department stores category is now the only category where sales at international retailers are greater than domestic. As a result, 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. Both of these categories were negative for international over the same period.

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 just over 62% of fashion is purchased from domestic online retailers, it only accounts for just under 12% of domestic online spend, but at 28.1%, 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	6.9	8.3	62.6	37.4	11.8	28.1
Department	6.5	19.3	42.8	57.2	4.4	23.5
Homeware	7.0	-6.8	89.1	10.9	22.3	10.9
Personal	18.1	-23.9	85.4	14.6	9.9	6.7
Groceries	6.7	-7.5	96.5	3.5	20.1	2.9
Toys	22.4	-4.5	51.8	48.2	2.3	8.7
All categories	11.0	6.2	80.3	19.7		

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. Spend by all age groups contracted in the month after very rapid growth by most groups the month prior.

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

After a very strong sales month in November, spending by all age groups contracted in December. Online spend by 25-34 year olds, whose spend growth was second strongest in November, was the weakest in December (-3.7%), along with the largest spend group, 35-44s(-3%). Spending by those aged 55-64s, which experienced moderate growth in November, experienced the most moderate contraction in sales in December.

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

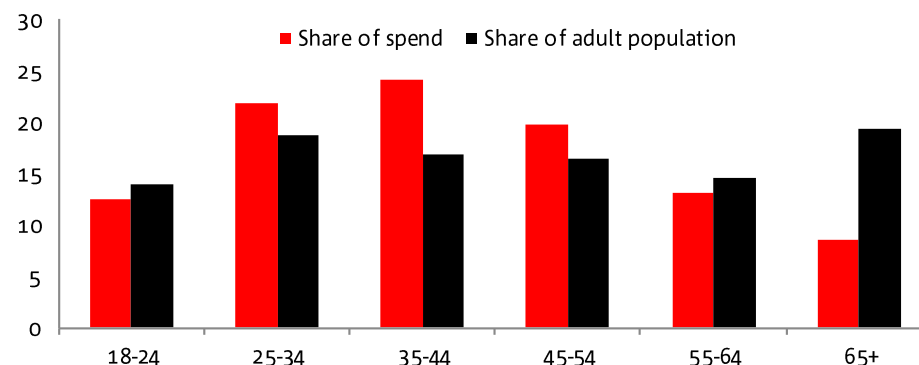
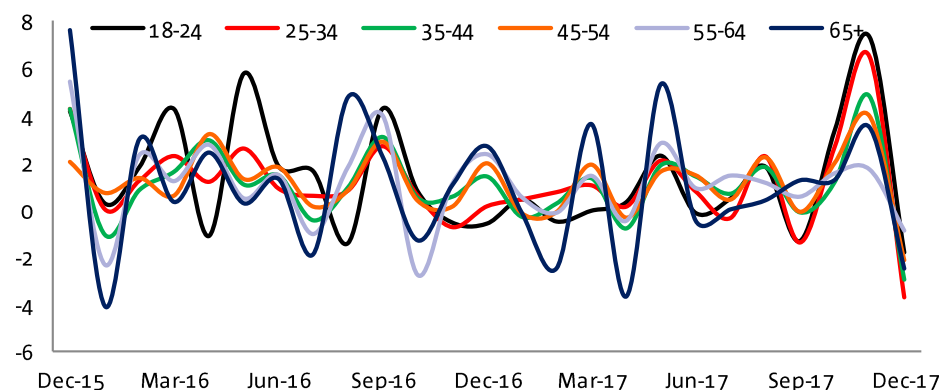


Chart 8

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 media and 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 homeware 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	20.8	1.5	6.3	15.8	21.1	6.8	4.5	11.7	11.4
25-34	17.1	2.5	7.8	17.0	18.4	8.1	14.3	4.0	10.6
35-44	14.2	2.8	8.4	19.0	17.3	9.7	19.5	2.4	6.6
45-54	14.0	2.7	8.7	22.2	17.6	10.5	17.0	2.3	4.9
55-64	12.4	2.8	9.4	24.5	16.9	10.9	19.0	1.2	3.0
65+	9.9	2.1	8.9	25.1	14.4	9.2	28.2	0.7	1.5
All ages	15	2.5	8.3	20	17.8	9.3	16.6	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

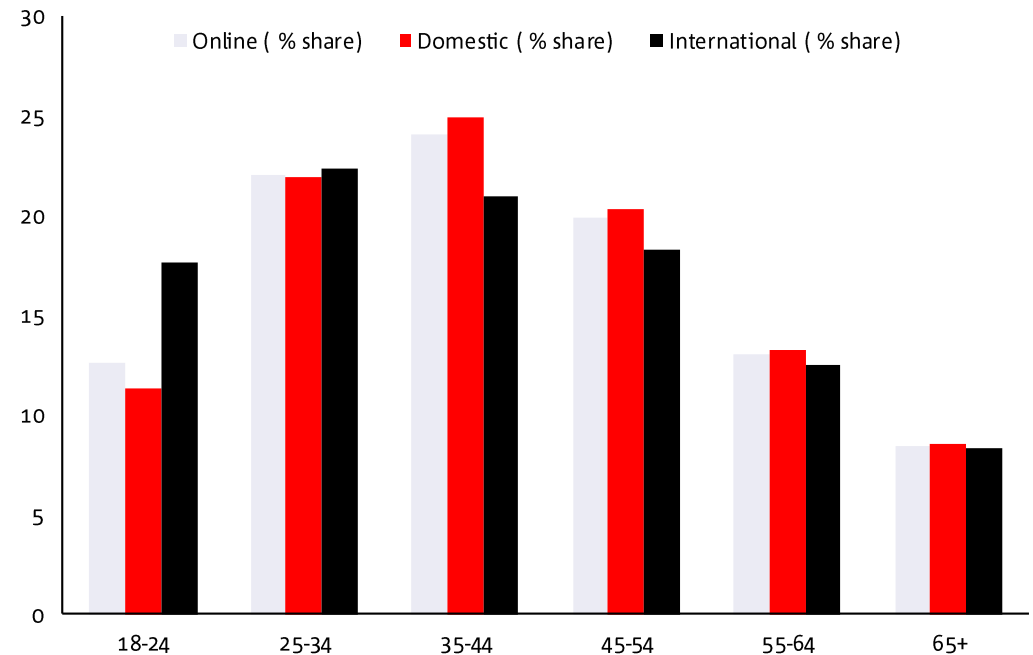
For most age categories, total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. However, spending at international online retailers by 18-24s contracted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

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	-2.6	-1.2	17.6	-0.7	11.3	17.6
25-34	-5.7	0.7	12.0	7.2	21.9	22.3
35-44	-3.6	-1.8	9.3	7.5	24.8	21.0
45-54	-2.4	-1.8	11.0	8.6	20.3	18.3
55-64	-1.6	-0.5	11.0	8.8	13.2	12.5
65+	-2.4	-1.1	5.8	5.6	8.5	8.4
All ages	-3.8	-0.8	11.0	6.2	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, albeit slightly smaller than the September estimate, followed by NT, NSW and WA.

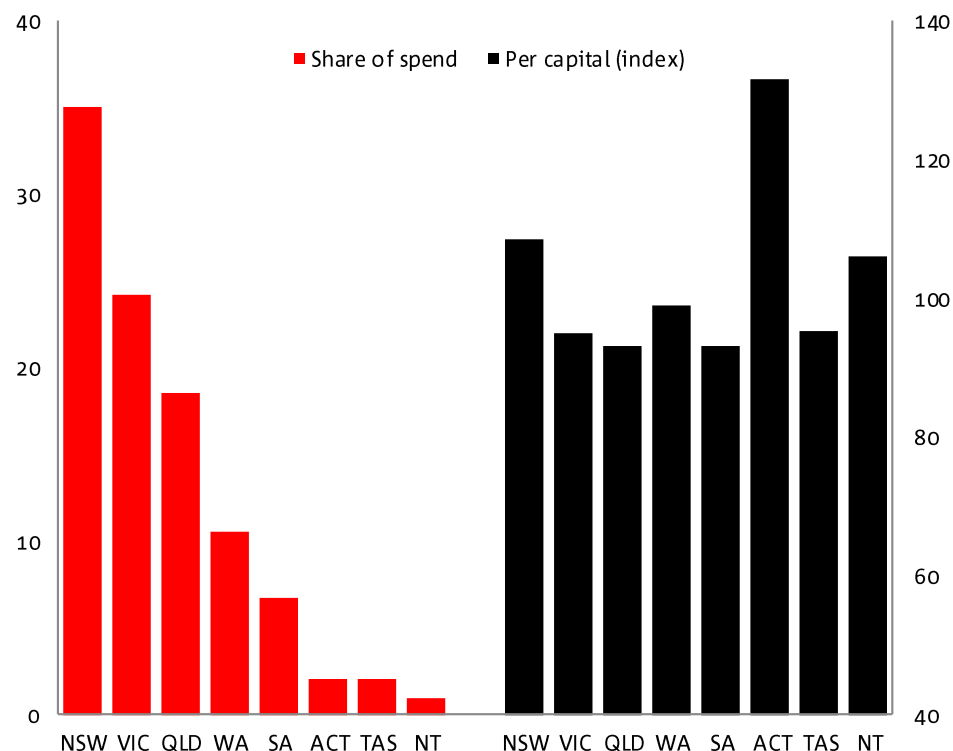
Almost 78% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for about the same proportion of the Australian total.

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 where it was earlier in the year (June 2017 24.0%).

Chart 10

SHARE OF SPENDING, BY STATE (% annual)



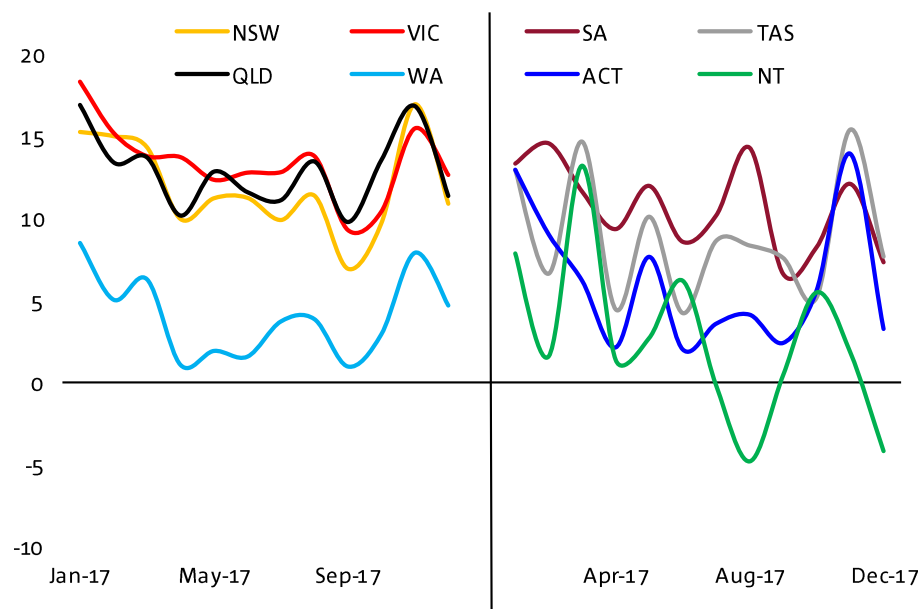
SPENDING BY STATE

The larger eastern states have lead growth over the past year, with Victoria (+12.6%) the fastest. With year on year online sales growth contracting in NT, sales are now 4.2% lower than they were last year.

Chart 11

GROWTH OF SPENDING, BY STATE

(% yoy)

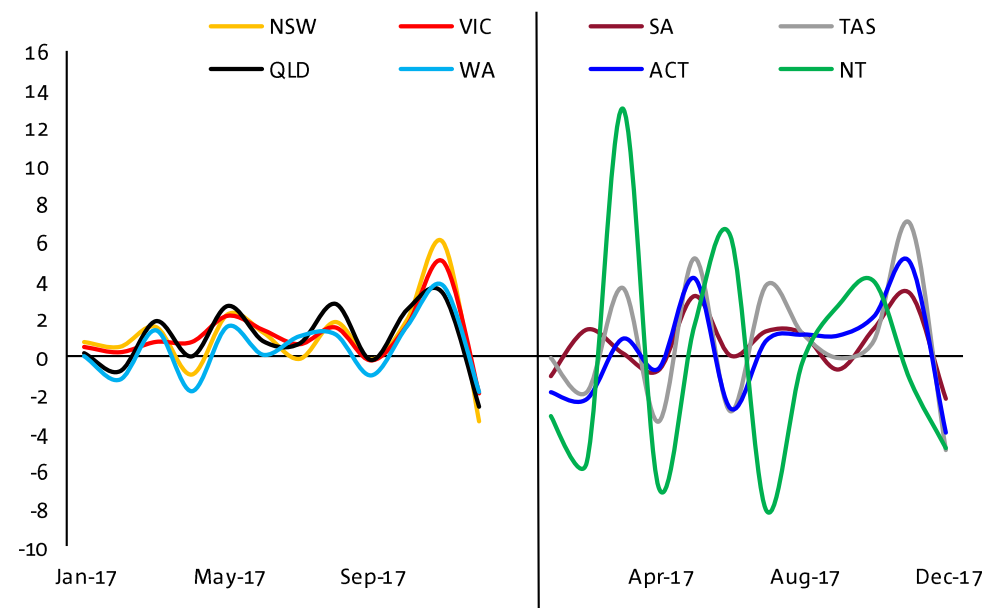


Online sales contracted in all states and territories in December. The largest decline was in TAS, the state which had the strongest growth in the month prior. The most mild decline was in WA and VIC.

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, s.a.)





**METROPOLITAN
VS REGIONAL**

METROPOLITAN & REGIONAL PERFORMANCE

Growth in both metropolitan and regional areas contracted in December. Stronger declines in metropolitan areas come after stronger sales growth in November. 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 both metro (-2.8%) and regional areas (-1.1%) contracted in December. The larger contraction in online sales growth for metro areas comes after much stronger sales growth in November (+5.8% vs +1.9 for regional)

Metropolitan residents retain the largest share of spend, and spent on average around 16.4% more than those residing in regional Australia. However, those living in regional Western Australia spent about 2.6% more than the average Australian. With recent Victorian growth, the gap in metro spend of that state to the Australian average is closing.

Having said that, online retail spend by regional Victorian and regional Queensland residents remains below the national average.

Chart 13

GROWTH OF SPENDING, BY REGION

(% mom)

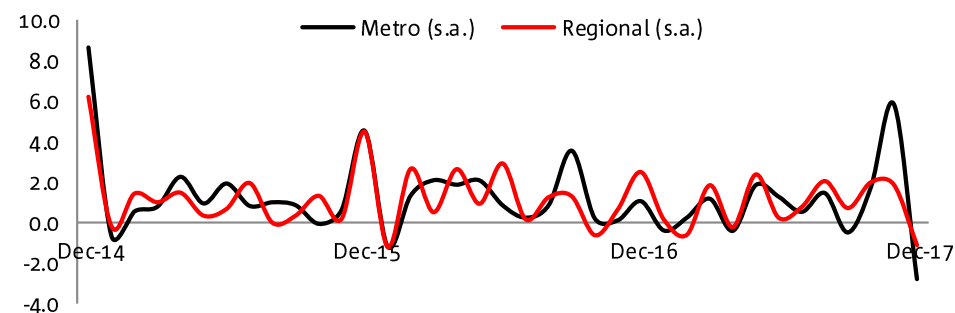
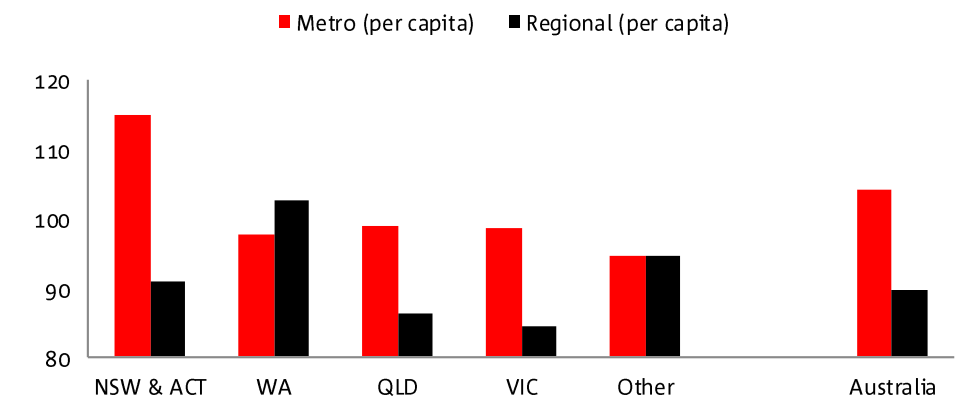


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

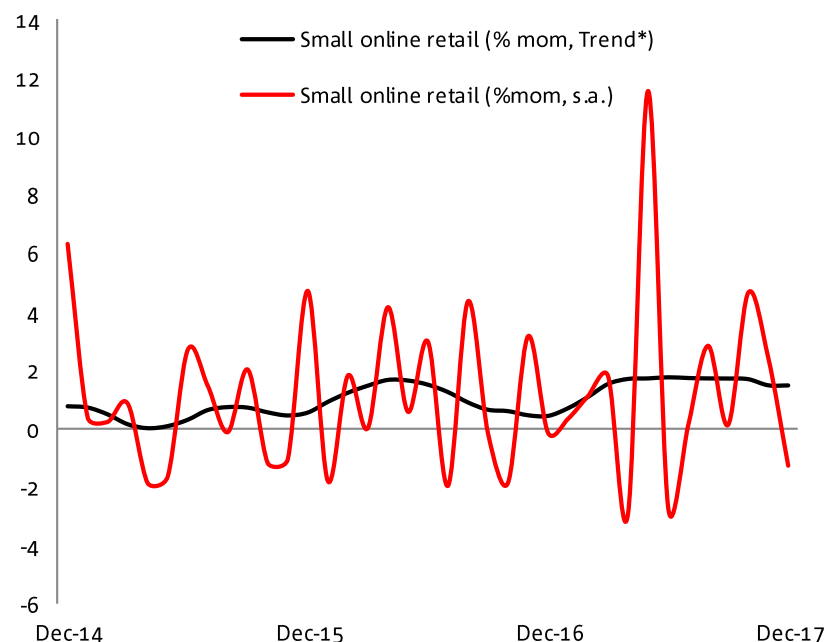
SME online retailers made up over 36% of all online retail sales in the past 12 Months. While SME monthly sales contracted in December, it was more mild than that of their corporate counterparts, and growth in annual sales at SMEs are still outpacing corporates.

Smaller online retail sales contracted in December (-1.3% mom, s.a.). While slowing slightly recently (+1.5%, mom s.a.), the trend estimate of monthly growth has been above 1% since February. This is much faster and more sustained than earlier periods. The strong trend result is also reflected in year on year terms which we estimate are now 18.5% higher compared to a year ago.

Takeaway food was the only category to grow, accelerating in the month (+1.5% Dec mom, s.a. vs 0.8% mom s.a.). This category is a relatively small share of spend at SME online retailers, so its growth was insufficient to offset contraction by much larger categories. The monthly contraction in total SME sales is due mostly to contraction in two large spend categories, fashion and personal and recreational goods, while the largest spend category, homewares and appliances, was flat.

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 31.5% of spending at small online retailers, this category contributed 44.1% to small online retail sales growth.

%	Monthly growth - Nov	Monthly growth – Dec	Annual growth – Nov	Annual growth – Dec	Share of Small spending	Contribution to annual Small spending growth
Fashion	5.8	-2.2	18.5	15.7	25.0	23.7
Daily Deals*	-	-	-	-	0.0	-
Department	9.0	-0.4	52.2	51.5	3.7	8.6
Homeware	2.4	0.0	28.5	28.2	31.5	44.1
Media	6.6	-6.4	5.5	-2.1	2.9	-1.2
Personal	3.0	-1.4	14.5	13.6	28.2	21.4
Groceries	7.6	-8.4	19.6	6.8	3.5	0.4
Toys	3.4	-10.6	12.7	-0.5	3.4	1.5
Food	0.8	1.5	33.8	35.6	1.8	2.2
Total	2.4	-1.3	21	18.5	100	100

*Share of Spend at SME Daily Deal retailers was virtually 0 in December 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

TO DISCUSS THIS REPORT IN MORE DETAIL PLEASE SPEAK WITH YOUR NAB RELATIONSHIP MANAGER

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