



NAB CASHLESS RETAIL SALES INDEX FEBRUARY 2018

NAB Australian Economics

- The NAB Cashless Retail Sales Index continued to improve into February, a welcome trend after the weak sales experienced at the end of 2018. Yearly growth in NAB’s cashless retail index picked up to 9.4% yoy, the fastest rate since mid-2016.
- Yearly growth in the NAB Cashless Retail Index increased for all major industry groupings (excluding “other” retailing). Spending at cafes, restaurants & takeaways remained the fastest growing category (15.8% yoy) whilst spending on household goods jumped to be the second fastest growing sector (10.7% yoy). Other retailing (10.4% yoy), department store (10.1% yoy) and food (6.7% yoy) sales growth was solid. While clothing & footwear sales growth has lagged recently, the recent pick up has started to close the gap (4.8% yoy) (Charts 3, 7 & 8).
- Annual spending growth has also strengthened across Australia. The Australian Capital Territory has surprised, taking the lead in terms of yearly growth at 10.4% followed by New South Wales (10.0% yoy), Victoria (9.6% yoy) and South Australia (9.3% yoy). Growth in Western Australia (7.8% yoy) has strengthened rapidly, and is now outpacing Queensland (7.4% yoy).
- 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. Likely reflecting the increasing popularity of online and contactless payments, the NAB Cashless Retail Index has continued to outpace the ABS measure of retail sales (8.8% yoy versus 2.1% yoy in January).
- Mapping through to the official ABS measure of retail sales suggests a month-on-month rise of 0.7% in February. We do note however that the ABS measure showed much slower growth than the mapped NAB measure in January (even adjusting for sample differences), suggesting some uncertainty around our estimate this month, or the possibility of revisions to the official measure.
- See comments from NAB’s Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (%)		
	Dec-17	Jan-18	Feb-18
NAB Cashless Index	8.3	8.8	9.4
ABS Retail Trade (s.a.)	2.5	2.1	--
NAB Cashless index mapped to ABS	3.3	3.4	3.8

	Month-on-month growth (%)		
	Dec-17	Jan-18	Feb-18
Cashless Index (s.a.)	0.1	1.2	0.9
ABS retail (s.a.)	-0.5	0.1	--
NAB Cashless index mapped to ABS	-0.5	0.8	0.7

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

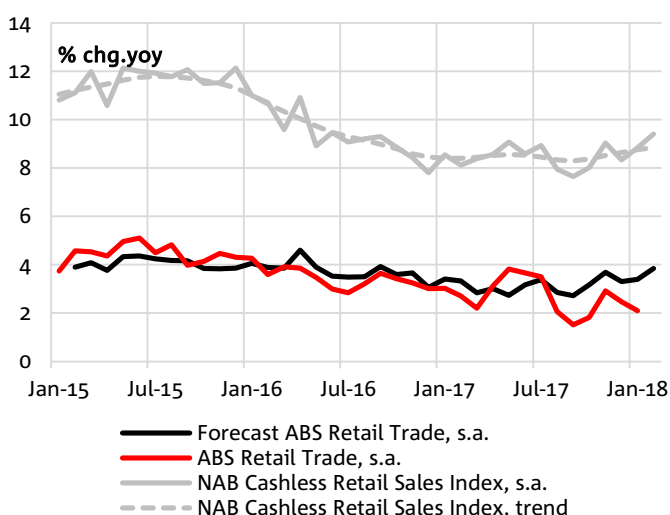
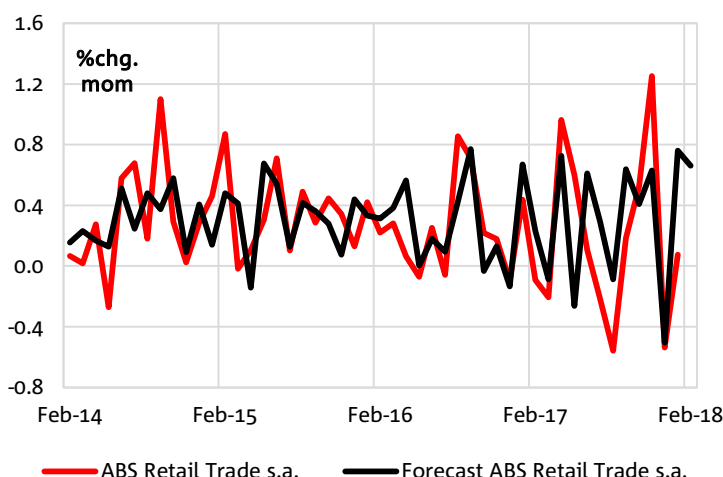


Chart 2: ABS and forecast ABS retail trade data, s.a.



NAB Chief Economist, Alan Oster commented:

“Annual growth in cashless sales has continued to improve this month with NAB’s Cashless Retail Index reporting growth of 9.4% yoy up from 8.8% in January, which is the fastest rate since mid-2016.

“Our mapping of the “official” ABS measure also implies an increase in monthly growth in February of 0.7% mom, although we note the divergence in the two series in January, suggesting some uncertainty around our estimate or perhaps the possibility that the official measure will be revised.

“Turning to our spending data, spending growth in the ACT, NSW, WA, SA and ACT has been trending strongly upwards whilst growth in QLD and VIC has stabilised. Interestingly, where WA has lagged behind all other states since back to January 2015, the state’s annual spending growth has now overtaken Queensland.

“In terms of business conditions, the retail sector is still considered to be underperforming when compared with other industries. However, this month’s NAB Business Survey recorded the best business conditions score for the retail sector in 8 months and is now in positive territory in trend terms. Retail confidence has followed suit, picking up slightly this month in trend terms. Whilst a positive sign, particularly when considered against a backdrop of strong employment growth, these results should be interpreted with caution due to the changing seasonal patterns of this sector. With wages growth still subdued and the cost of living pressures weighing heavily on households, NAB’s The Forward View foresees household spending at a relatively subdued 2.5% through 2018 and 2019, before strengthening a touch to 2.7% in 2020.

“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.

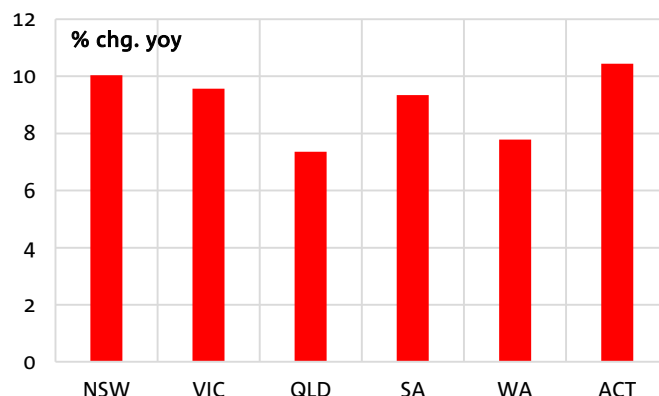


Chart 5: Cashless retail sales by sub-industry, s.a.



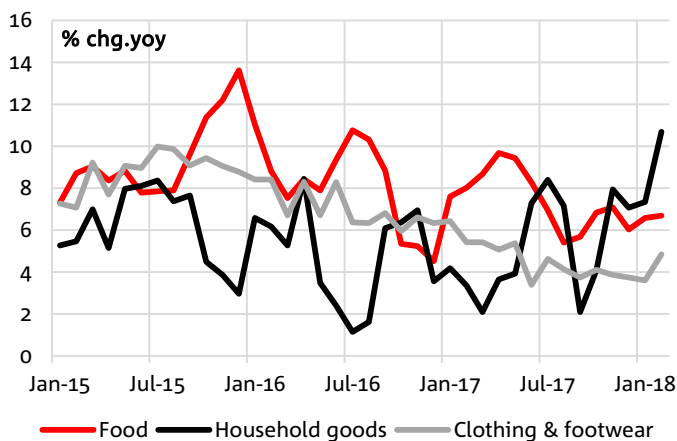
Chart 6: Cashless retail sales by sub-industry, s.a.



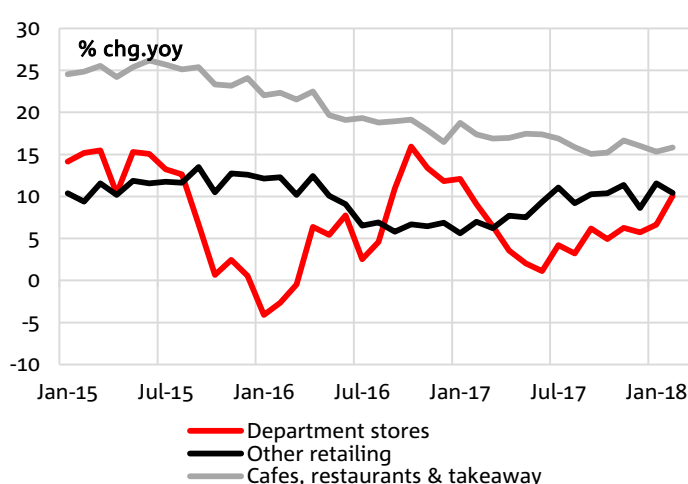
Charts 7 & 8: Cashless sales by industry, seasonally adjusted

Yearly growth in cashless retail has picked up for all industries (excluding ‘other retailing’) with household goods experiencing the fastest growth of 10.7% yoy up from 7.3% in January. Growth in spending on cafes, restaurants & takeaway, department stores, other retailing and food remains solid. Clothing & footwear sales growth picked up this month, hopefully signalling the end to the downward growth trend of this sector.

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

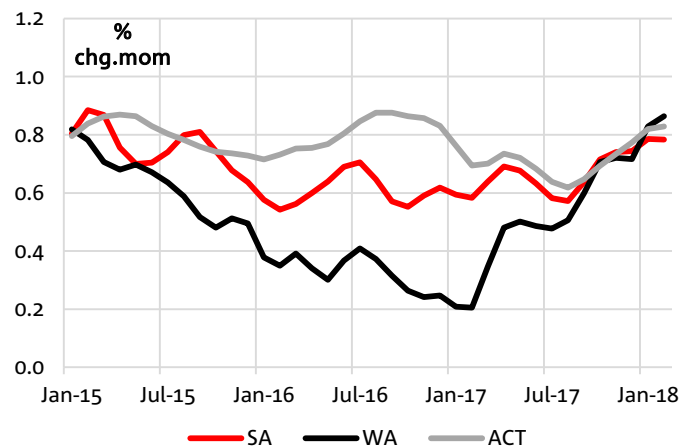
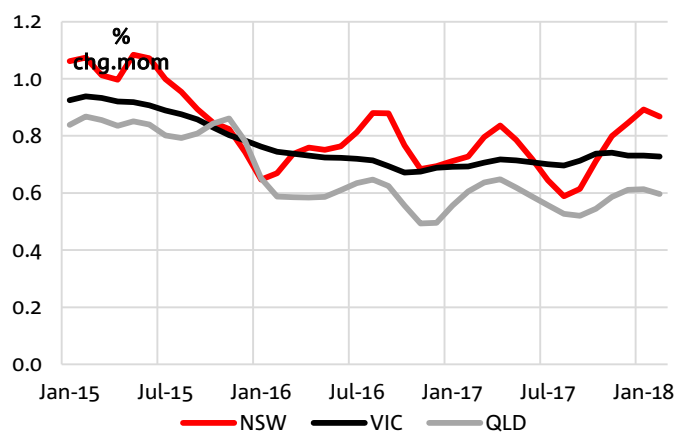


Cashless and total retail sales by industry, s.a.



Charts 9 & 10: Cashless sales by state, trend

Monthly cashless sales remain solid across Australia with a majority of states including NSW, SA, WA and ACT showing a significant pick-up in sales in recent months. New South Wales and Western Australia are experiencing the strongest growth followed closely by the Australian Capital Territory and South Australia. Where previously WA has lagged behind all other states, growth in WA has increased substantially recently leaving Queensland to lag behind.



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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.

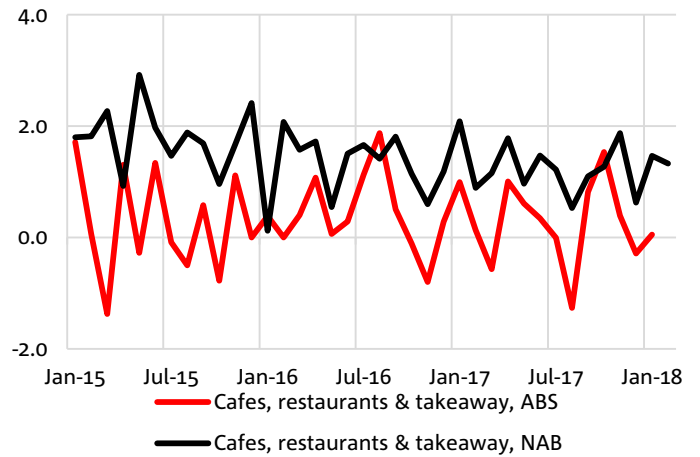
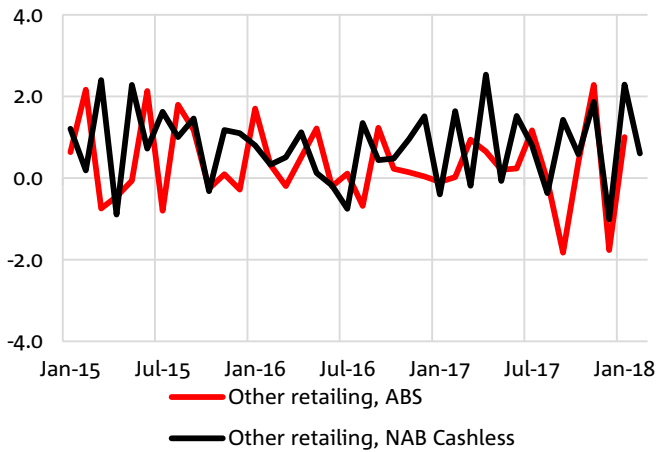
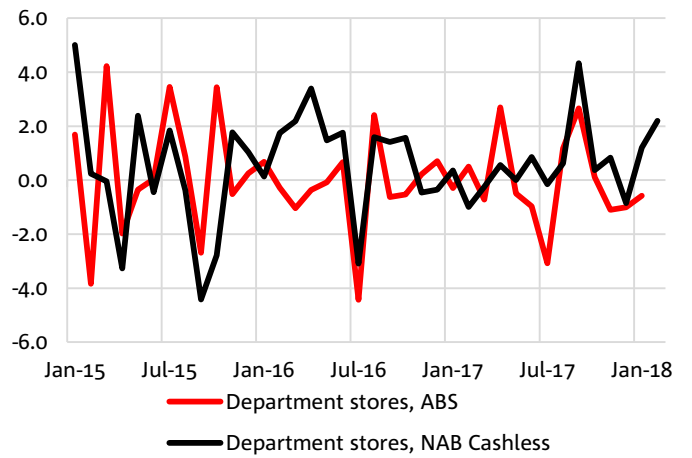
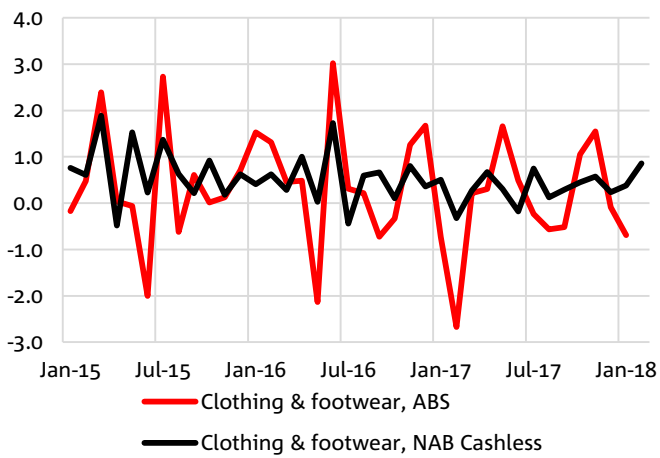
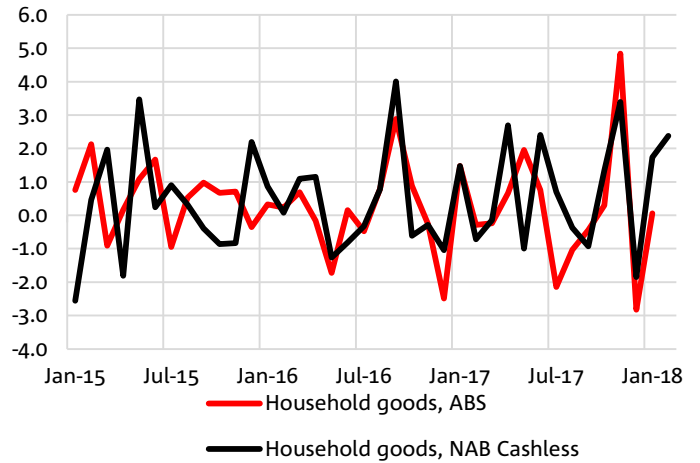
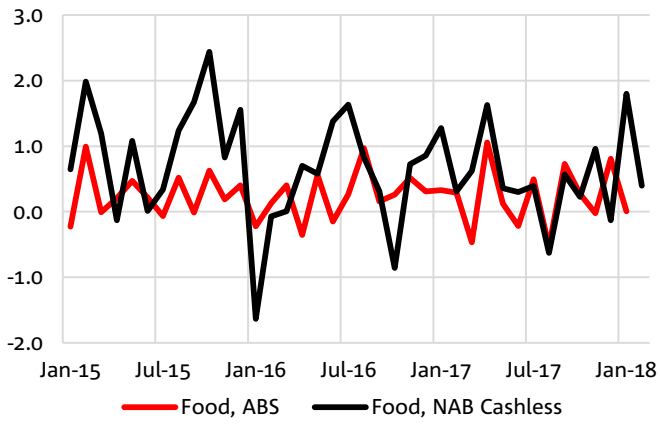
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these provides a forecast of total ABS retail trade.

The charts in the appendix 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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