



# NAB CASHLESS RETAIL SALES INDEX MARCH 2018

## NAB Australian Economics

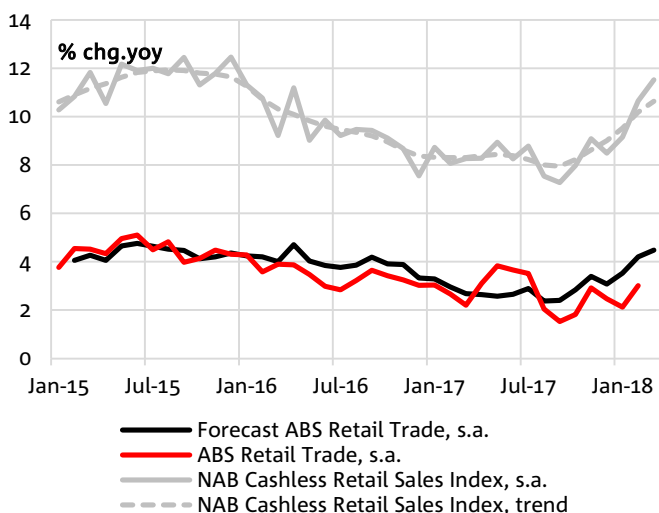
- The NAB Cashless Retail Sales Index grew 1.2% on a month on month basis in March – slower than January or February. Our data mapping gives a fairly weak forecast of +0.2% m/m for the official ABS measure of retail sales in March. Our February forecast of 0.7% was close to the ABS print of 0.6%, although January saw a weaker ABS read vis-à-vis our measure (0.2% m/m against 0.8% m/m). Generally most sectors in March were weak – especially cafes restaurants and takeaway and household goods. Department stores were, however, reasonably strong.
- The data is more encouraging on a year on year basis, with the NAB Cashless Retail Sales Index up 11.5% in March, although this was distorted by special factors (iPhone X and Black Friday) in late 2017.
- Year on year growth was positive for all six NAB Cashless Retail Index major industry groupings, although the growth rate slowed slightly in two (clothing and footwear and department stores). Spending at cafes, restaurants & takeaways continues to be the fastest growing category (18.9% y/y). Other retailing was the next strongest at 12.8% y/y, with household goods also strong at 12.7% y/y. Department stores grew 11.5% y/y, down slightly from 11.6% last month while food sales growth stood at 9.9%. Clothing & footwear sales growth has lagged recently, but still managed 6.6% y/y growth in March. For more detail see Charts 3, 7 & 8.
- Annual spending growth strengthened across Australia on a seasonally adjusted basis, although the monthly trend data was a little weaker. The Australian Capital Territory lost the lead it established last month, growing 12.1% (y/y, s.a.) in March, surpassed by South Australia on 12.8% and New South Wales on 12.3%. Victoria also enjoyed double digit growth (11.4%) while Queensland grew 9.4% and Western Australia 9.2%.
- 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 (10.6% y/y versus 3.0% y/y in February).
- See comments from NAB’s Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (%)		
	Jan-18	Feb-18	Mar-18
NAB Cashless Index	9.2	10.6	11.5
ABS Retail Trade (s.a.)	2.1	3.0	--
NAB ABS Retail Trade forecast	3.5	4.2	4.5

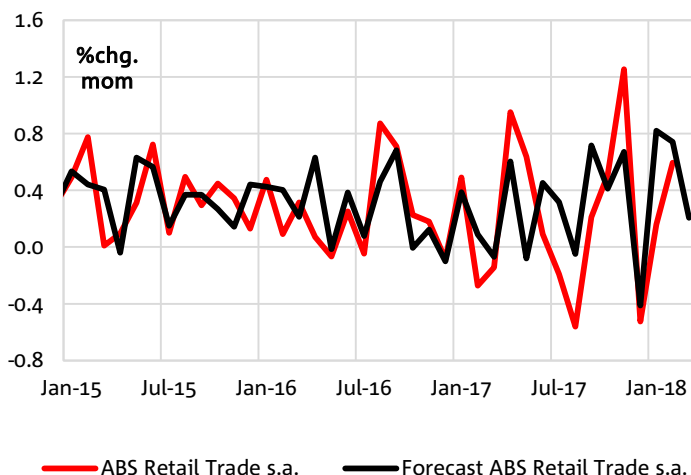
	Month-on-month growth (%)		
	Jan-18	Feb-18	Mar-18
Cashless Index (s.a.)	1.5	1.4	1.2
ABS retail Trade (s.a.)	0.2	0.6	--
NAB ABS Retail Trade forecast	0.8	0.7	0.2

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 improved again this month, with NAB’s Cashless Retail Index seeing growth of 11.5% y/y in March, up from 10.6% in February. This is the fastest rate since late 2015. Monthly data, which it must be said is much more volatile, slowed to 1.2% m/m, down from 1.4% in February.

Our mapping of the “official” ABS measure also implies a relatively flat outcome in March. That is mapping equations suggest monthly growth of 0.2% March, compared to our forecast last month of 0.7% m/m. While the latter was close to the February ABS print of 0.6% y/y, it is important note the divergence in the two series at the start of the year. In March most sectors were weak – especially cafes restaurants and takeaway and household goods. Department stores were, however, reasonably strong.

Turning to our spending data, annual growth has been higher across Australia, with South Australia claiming top spot, followed by New South Wales, the Australian Capital Territory and Victoria. Western Australia saw the slowest growth in March, followed closely by Queensland.

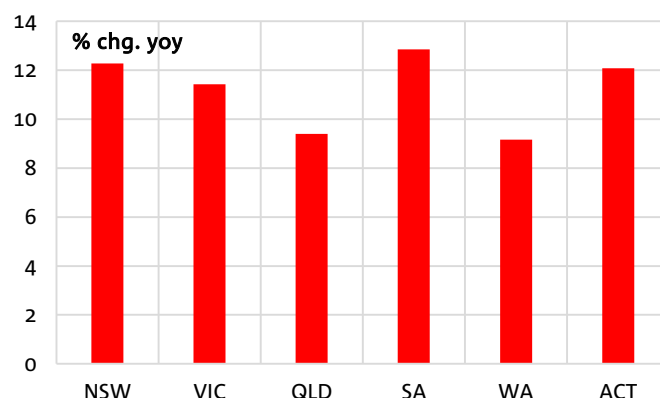
The retail sector is still underperforming compared with other industries, although the March NAB Monthly Business Survey saw the sector record its best business conditions result in 9 months on a trend basis. Retail confidence was down slightly on a trend basis in March but was still at +10. Consumers remain cautious in the face of higher electricity prices, low wages growth, stalling house price wealth and high debt levels.

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.

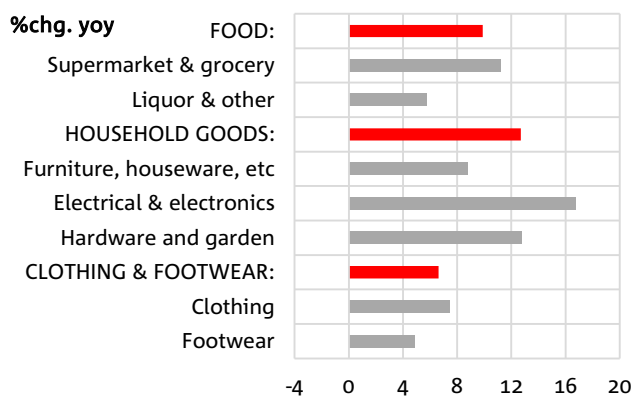
**Chart 3: Cashless retail sales by industry, s.a.**



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



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



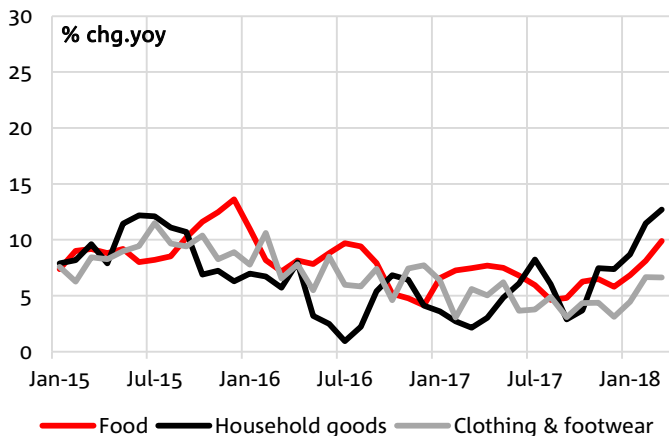
**Chart 6: Cashless retail sales by sub-industry, s.a.**



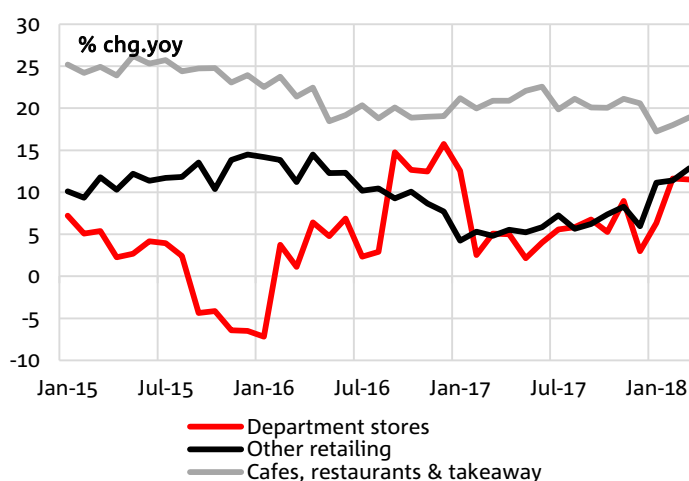
**Charts 7 & 8: Cashless sales by industry, seasonally adjusted**

Yearly growth in cashless retail has picked up for four out of six main industry groups, although all have been growing since early 2016. The cafes, restaurants & takeaway category continues to be the fastest growing category (18.9% y/y), although strong growth in other sectors since September last year has seen this gap narrow considerably. Other retailing was the next strongest at 12.8% y/y, with household goods (buoyed by iphone x and Black Friday sales) at 12.7% y/y.

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

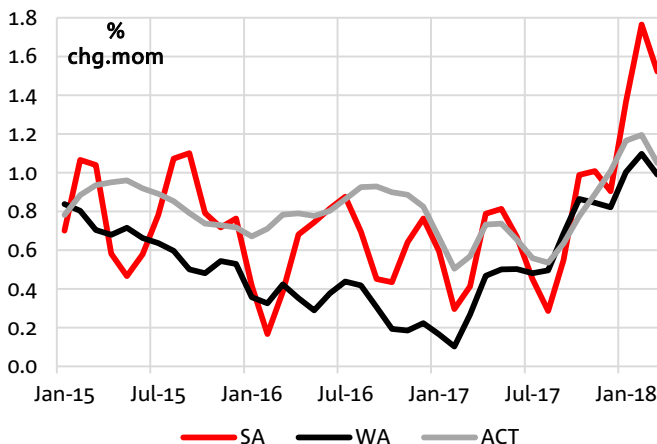
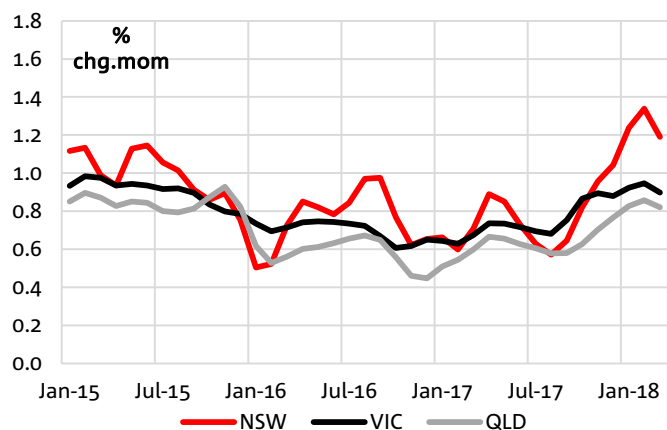


Cashless and total retail sales by industry, s.a.



**Charts 9 & 10: Cashless sales by state, trend**

Monthly cashless sales remain solid across Australia on a seasonally adjusted basis, although the trend data shows all states taking a break from a sustained improvement since the second half of 2017. South Australia has raced ahead of other states to be the best performer, and Queensland records the weakest result.



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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.

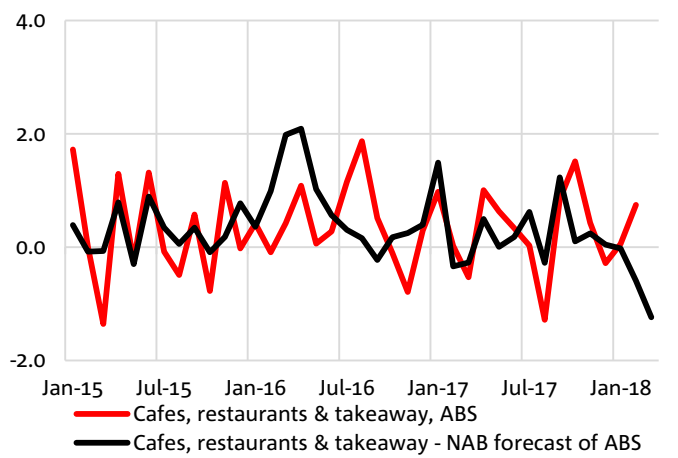
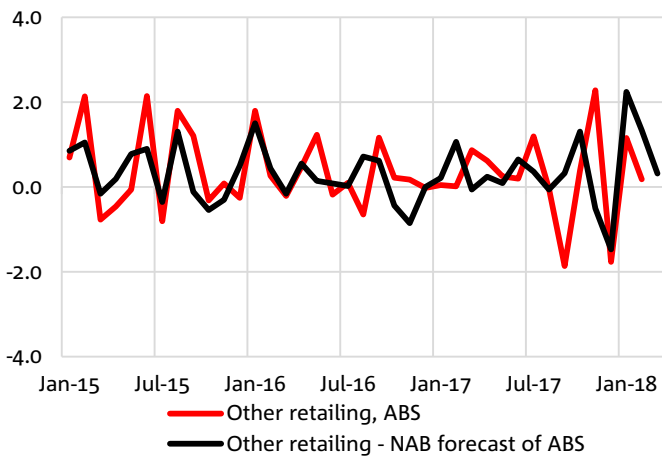
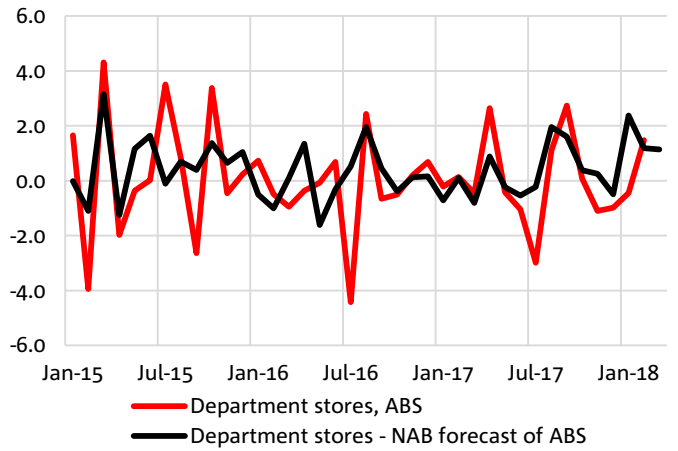
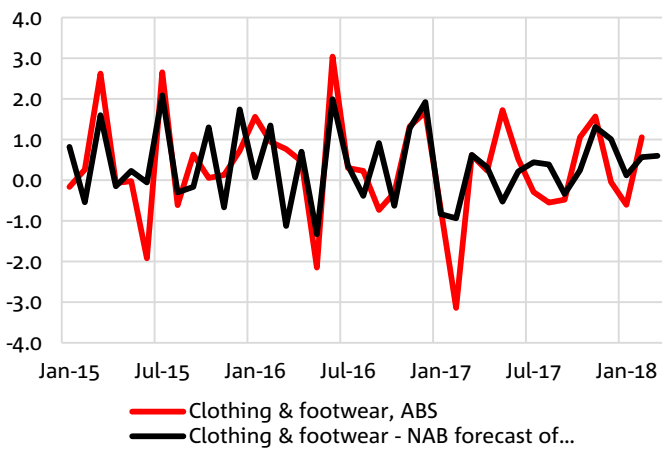
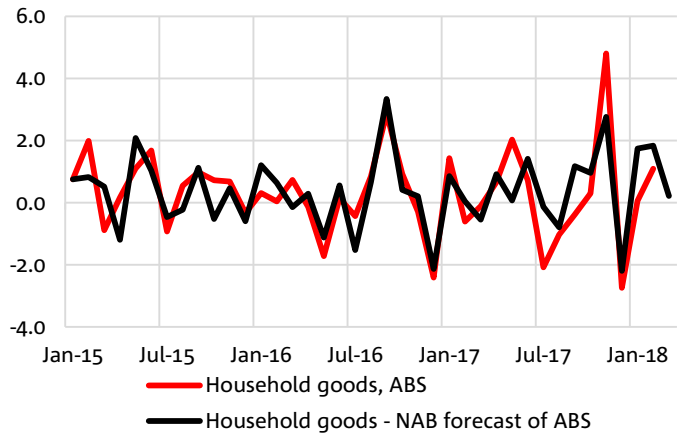
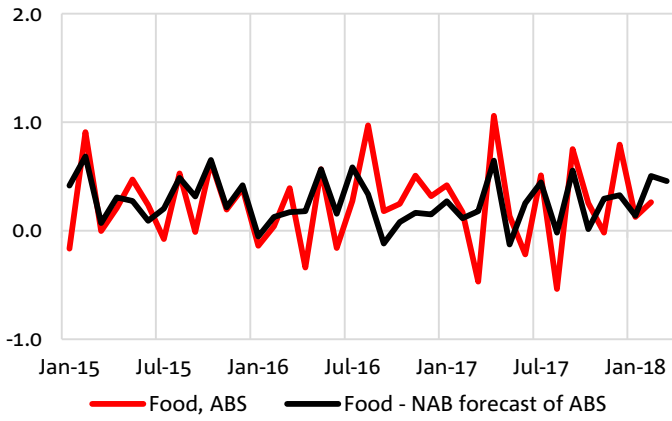
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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