



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – MARCH 2018

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$25.3bn in the 12 months to March 2018.

Sales growth accelerated (+0.9%) in month-on-month (mom) terms in March, seasonally adjusted (s.a.) after slowing in February (+0.6%mom, s.a.). The largest spend share category, homewares and appliances, recorded no growth in the month, while media, the second largest, grew strongly (3%). Rapid growth from domestic online toy and game retailers, has tipped the spend share balance in favour (just) of domestic retailers for that category.

Online sales in all states and territories grew in the month. 12 months to growth remains strongest in the large eastern states with QLD and VIC leading.

Monthly sales growth at SME retailers grew faster than corporates, and their share of online retail has grown to almost 37% of online sales.

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 almost 37 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 0.9%, online retail sales accelerated in March. The 12 months to growth rate is however a bit slower.

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

In the 12 months to March, Australians spent an estimated \$25.3 billion on online retail – a level that is equivalent to around 8.1% of the traditional bricks and mortar retail sector (which totalled \$312.8 billion in the year to February 2018 according to the Australian Bureau of Statistics).

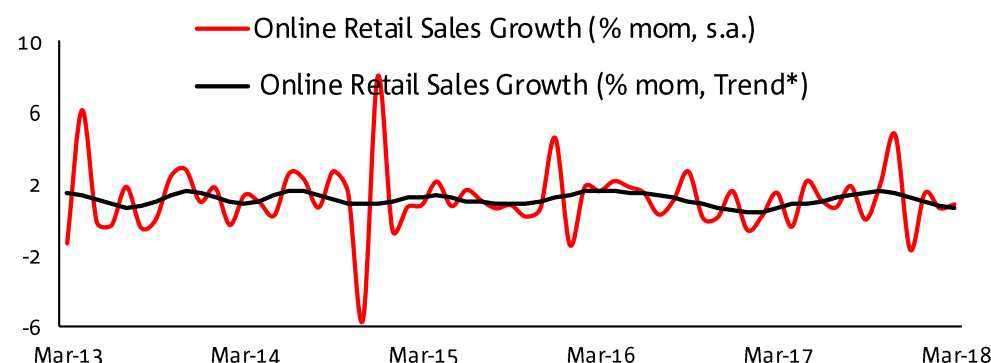
In 12 months to terms (March 2018 v March 2017), online sales grew by 14.2%, down from the 15.3% on the same basis in February.

Online sales at SMEs grew more rapidly than their corporate counterparts in March (2.3% mom, s.a.) and continue to outpace corporates in 12 months to terms (+21.7%).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Jan-18	Feb-18	Mar-18
Monthly growth (%)			
Corporate	1.5	0.6	0.9
SMEs	4.4	1.1	2.3
12 months to growth (%)			
Corporate	15.0	15.3	14.2
SMEs	20.5	21.3	21.7

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 March, given its size and growth rate. Homewares and appliance retailing, which retains the largest share of spend, recorded flat sales growth in March after contracting in February.

With fastest annual online sales growth, toys (34%) continued its recent revival. As this category represents a relatively small share of online sales (~3.8%), its contribution to total online sales growth was relatively modest.

Toys (+4.0% mom) also recorded the fastest growth in monthly terms. The largest spend share category, homewares and appliances, was flat in March (0.0% mom) after contracting in February (-1.0%). Despite this contraction, this category along with media, still contributed almost half of all annual online sales growth. A large part of this result is due to the performance of the media category (3.0% mom) which has recorded moderate to fast monthly growth in 10 of the past 12 months. Spending on Fashion has contracted over the past two months. However, this category is most affected by the buy now, pay later payment methods which mask category spend.

Chart 2

12 MONTHS TO GROWTH - SPENDING, BY CATEGORY

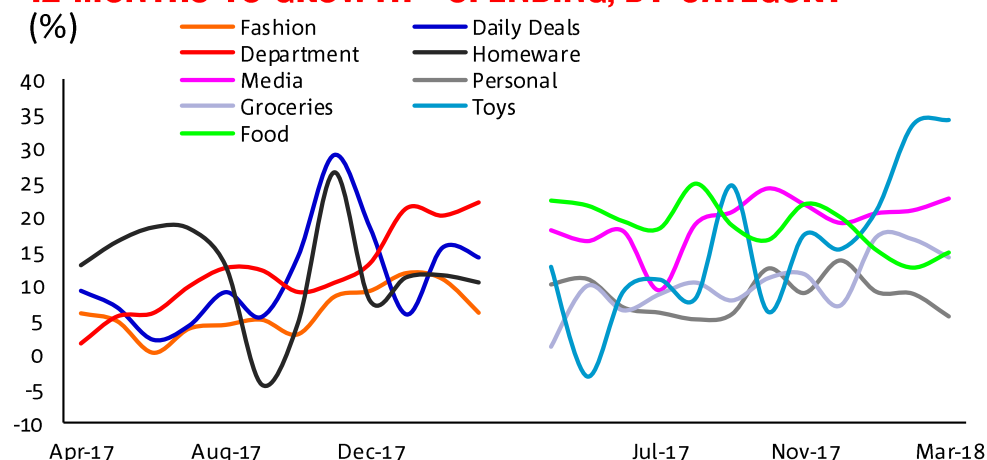
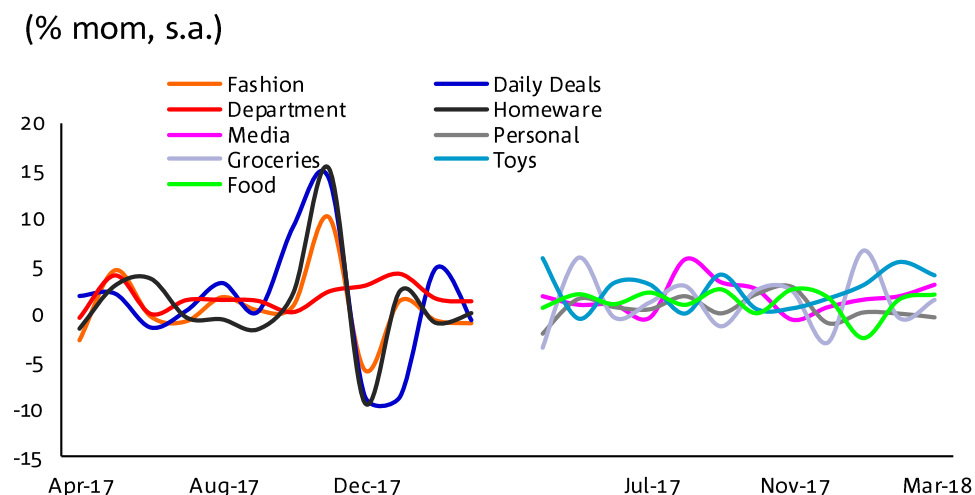


Chart 3

MONTHLY GROWTH - SPENDING, BY CATEGORY



CATEGORY GROWTH AND SHARE OF SPENDING

In 12 months to terms, media with a large spend share has expanded rapidly. While homewares and appliances was flat in March (mom), its contribution to annual online sales growth is still on par with its share of spend.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	Feb-18	Mar-18	Feb-18	Mar-18		
Fashion*	-0.8	-1.0	10.9	6.0	14.8	7.7
Daily Deals	4.7	-0.7	15.4	14.0	2.5	2.4
Department	1.5	1.3	20.1	22.0	8.3	8.1
Homeware	-1.0	0.0	11.4	10.4	20.0	19.8
Media	1.8	3.0	20.9	22.6	18.0	26.6
Personal	0.0	-0.4	8.7	5.4	9.2	6.7
Groceries	-0.5	1.4	16.7	14.0	16.6	14.1
Toys	5.4	4.0	33.3	34.0	3.8	4.6
Food	1.4	2.0	12.5	14.7	6.9	10.1
Total	0.6	0.9	15.3	14.2	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 grew in the month, in line with the total index. In March, almost 80% of spending was domestic.

Sales to International online merchants (1.0% mom) have now outpaced Domestic (0.8%) online sales in the past 4 months. In 12 months to terms, up until December 2017 it looked like the two sales trajectories were diverging, with domestic typically faster. However 12 months to domestic online sales growth (14.1%) and international sales growth (14.7%) have converged. The trend value for international (+0.9) is more positive than domestic (+0.6)

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. In recent months the share of domestic is slightly lower at 79.7 (was 80 in November 2017).

Chart 4

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

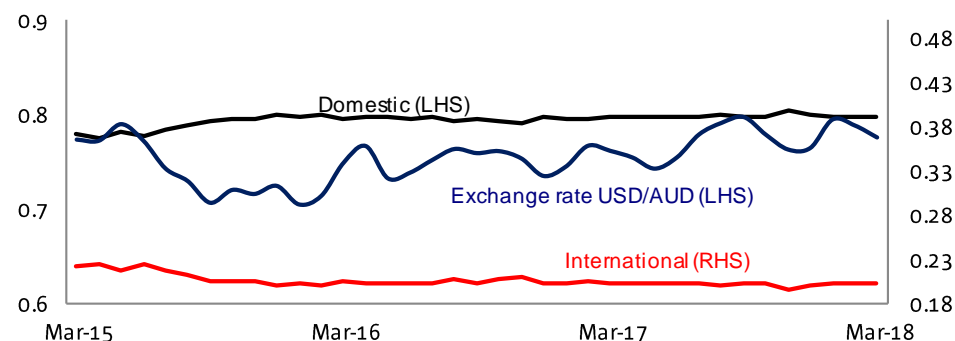
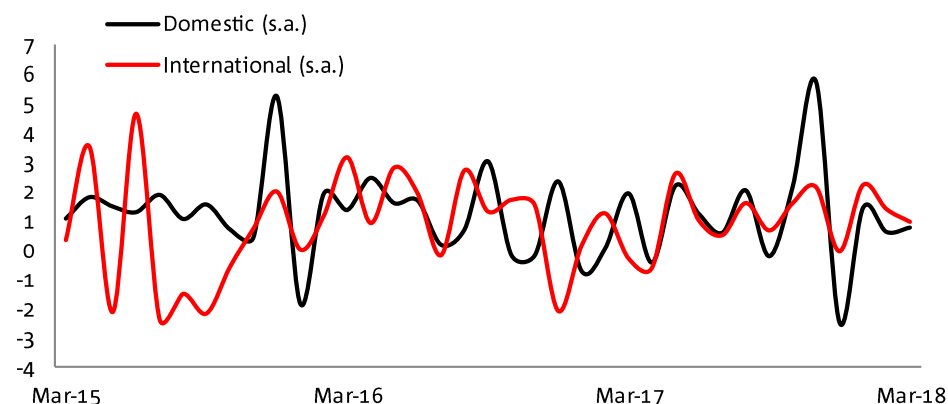


Chart 5

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.

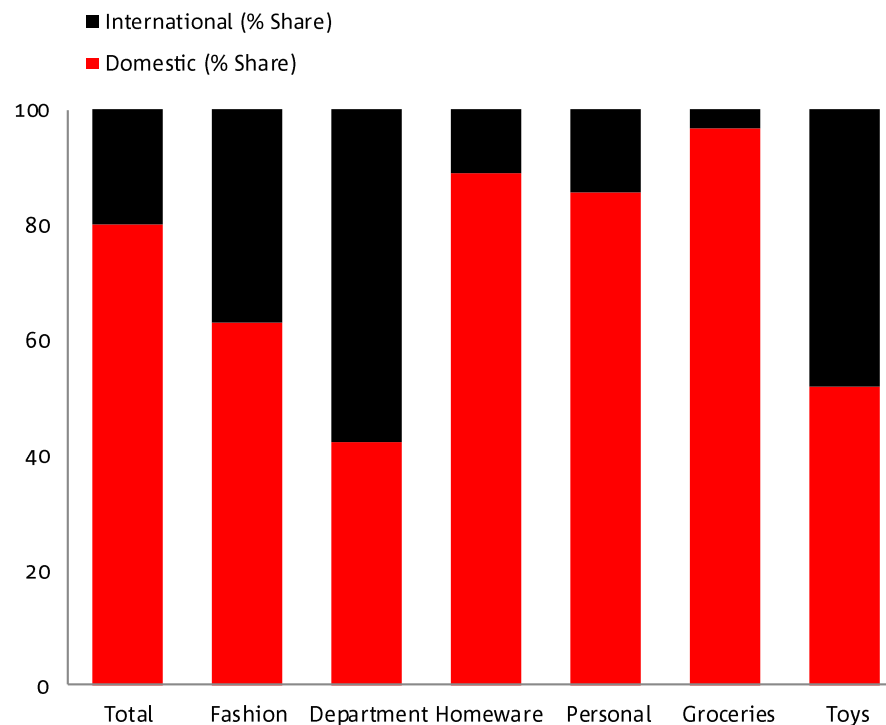
The most recent detailed data indicates that the Electronic Game and Toy category now has a greater share of spend (albeit marginal) attributed to domestic online retailers over international. In October 2017 spend on this category was still slightly in favour of international. The department stores 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 12 months to growth terms, domestic retailers have been particularly buoyant in toys. Toys growth was more mild for international over the same period.

For international retailers, growth was strongest in department stores. Online sales growth was also above the domestic competition in fashion, and to a lesser extent homewares and appliances.

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 almost 63% of fashion is purchased from domestic online retailers, it only accounts for just under 12% of domestic online spend, but at 27.4%, is the largest spend category for international retailers.

	12 months to growth Domestic	12 months to growth International	Share of Category Spend Domestic	Share of Category Spend International	Share of Domestic Spend	Share of International Spend
Fashion	4.3	8.7	62.8	37.2	11.7	27.4
Department	15.3	27.3	42.1	57.9	4.4	23.8
Homeware	10.3	11.1	88.9	11.1	22.3	11.1
Personal	10.0	-16.5	85.4	14.6	9.8	6.6
Groceries	14.3	7.7	96.7	3.3	20.1	2.7
Toys	51.2	17.6	51.9	48.1	2.4	9.0
All categories	14.1	14.7	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. Spend by all age groups grew in the month except the over 65s whose spend growth was flat.

Those aged 35-44 make up approximately 16.8% of the adult population, but their share of online spend is the highest at 24.1%. In contrast, over 65s make up 19.5% of the population and only 8.4% of online spend

After contracting in February, spending by those aged 55-64 rebounded rapidly in March (+1.3% mom) to recorded the strongest online sales growth. While the over 65s recorded no spend growth in March, this was also a large rebound on the February result (-2.3%). Online spend by 25-34 year olds, whose spend growth was the weakest in December (-3.1%), has improved over the past few months, recording the second strongest growth in March (+1.2%). The largest spend group, 35-44s recorded growth inline with the broader index (0.9% mom).

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

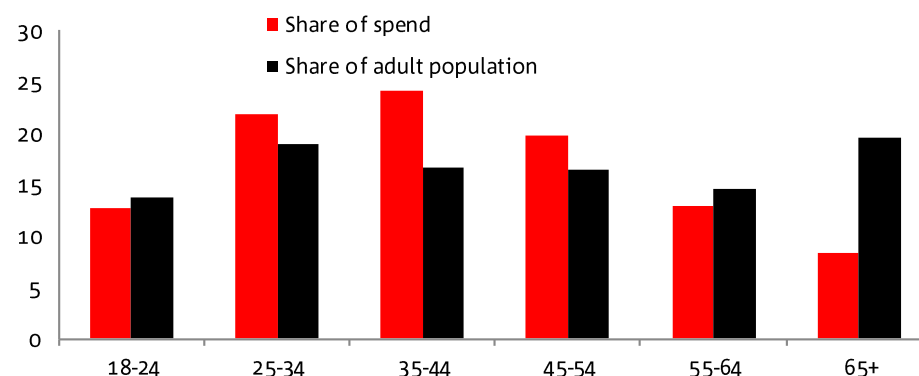
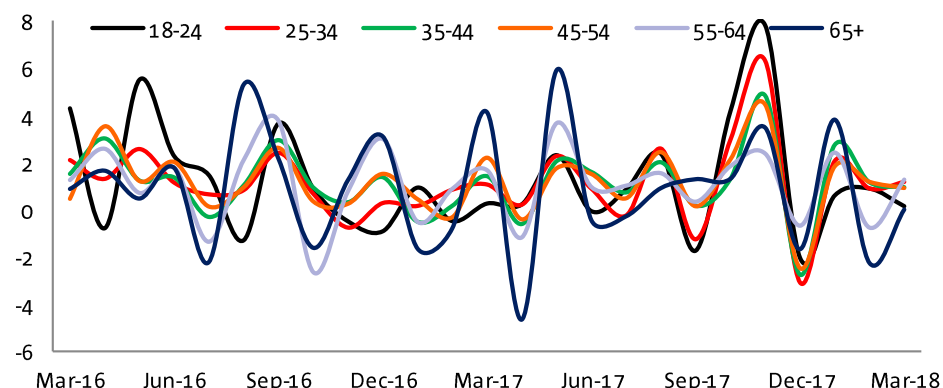


Chart 8

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	20.9	1.4	6.3	15.6	21.2	6.6	4.5	12.2	11.2
25-34	16.8	2.5	7.9	17.0	18.6	8.0	14.4	4.2	10.6
35-44	14.0	2.8	8.4	19.0	17.4	9.6	19.6	2.5	6.8
45-54	13.8	2.7	8.7	22.3	17.8	10.4	16.9	2.4	5.0
55-64	12.2	2.8	9.5	24.6	17.1	10.9	18.7	1.2	3.1
65+	9.7	2.2	9.0	25.3	14.6	9.3	27.7	0.7	1.5
All ages	14.8	2.5	8.3	20.0	18.0	9.2	16.6	3.8	6.9

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

AGE GROUPS - INTERNATIONAL / DOMESTIC

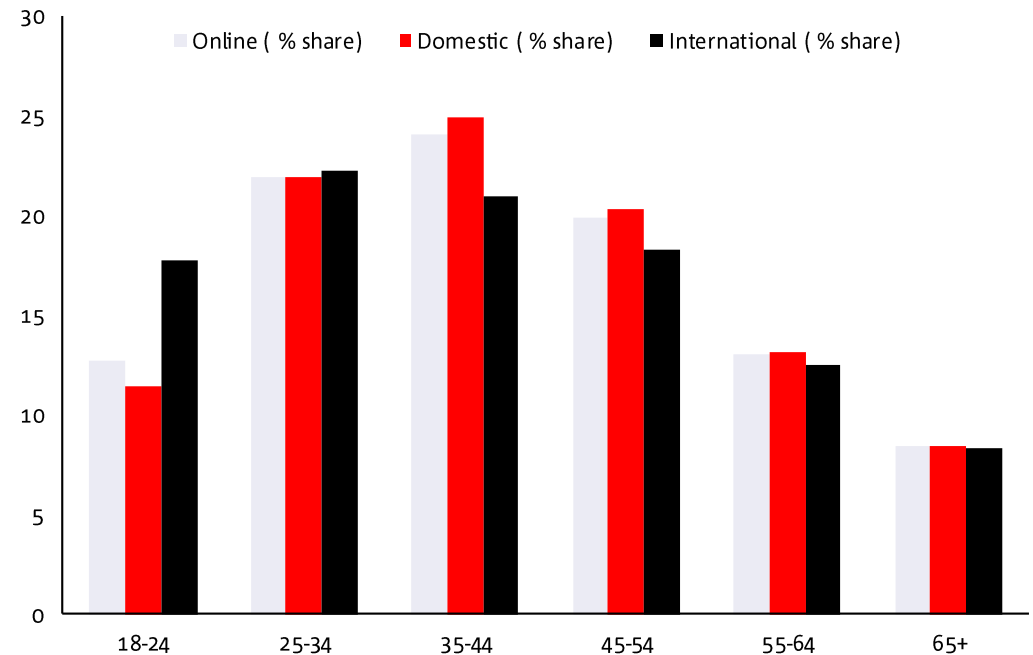
For most age categories, total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. The group with the largest overall online spend share, those aged 35 to 44, make up more of the domestic share. However, in the past month and year, this group has recorded higher growth for international.

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	-0.3	1.6	15.5	16.8	11.4	17.7
25-34	0.8	3.1	14.8	17.9	21.9	22.3
35-44	0.5	3.8	14.8	16.4	24.9	20.9
45-54	0.8	-0.1	15.3	12.2	20.3	18.3
55-64	1.3	1.5	13.0	14.9	13.1	12.5
65+	1.2	-3.6	8.0	3.7	8.4	8.3
All ages	0.8	1.0	14.1	14.7	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.

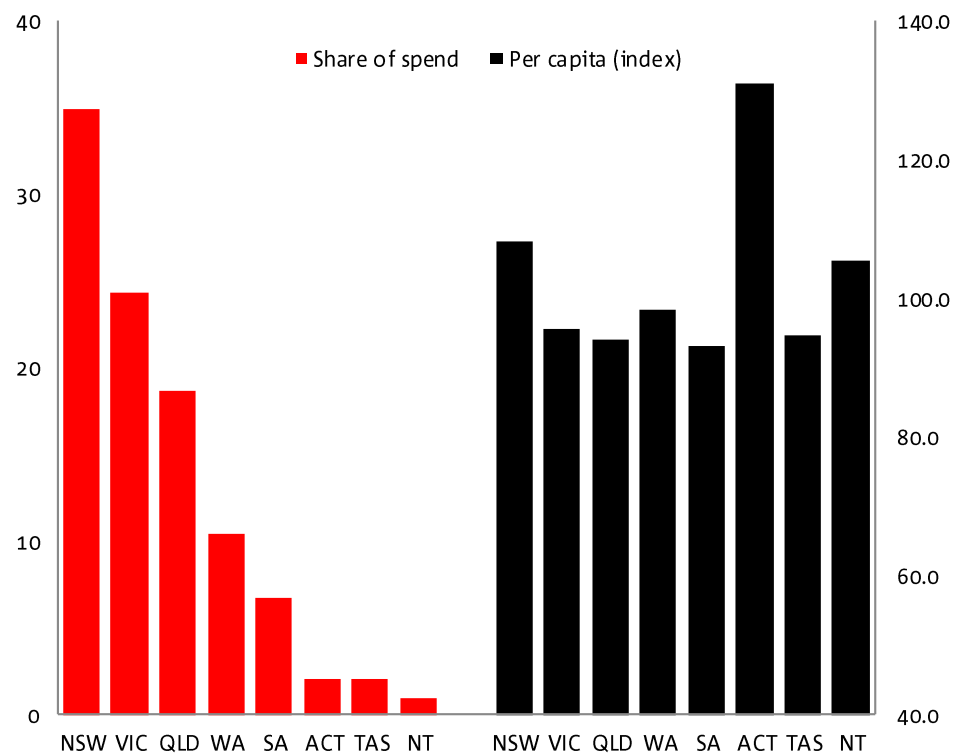
Almost 78% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for about the same proportion of the Australian total.

However, on a per capita basis, residents in ACT, NT, WA and NSW spent more than the national average. In the ACT, where 1.7% 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 25.7% of the Australian population and now represents 24.4% of total online spending, a share that is up marginally on where it was earlier in the previous quarter (December 2017 24.2%).

Chart 10

SHARE OF SPENDING, BY STATE (% annual)



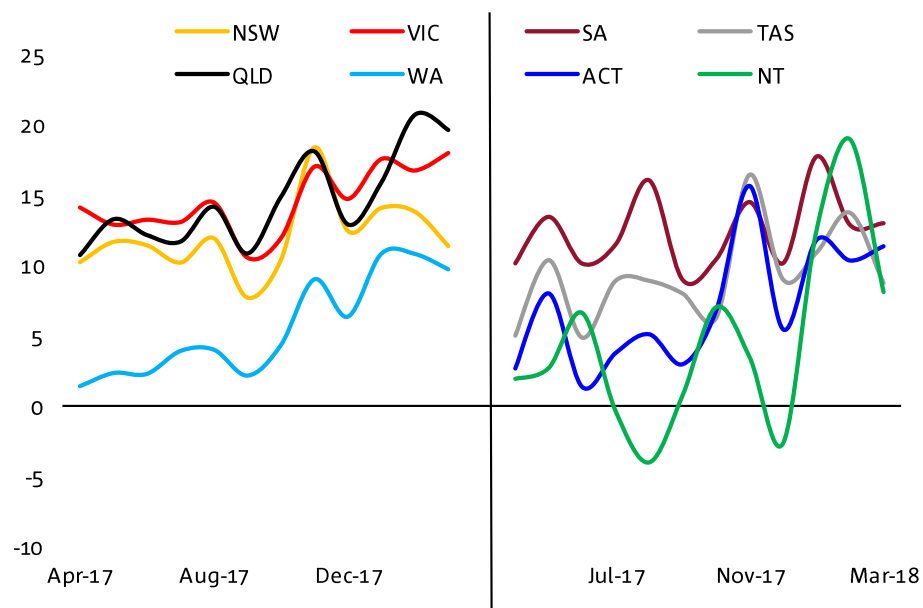
SPENDING BY STATE

The larger eastern states have lead growth over the past year, with Queensland (+19.6%) the fastest. All states recorded growth in 12 months to growth in March.

Chart 11

GROWTH OF SPENDING, BY STATE

(% 12 months to)

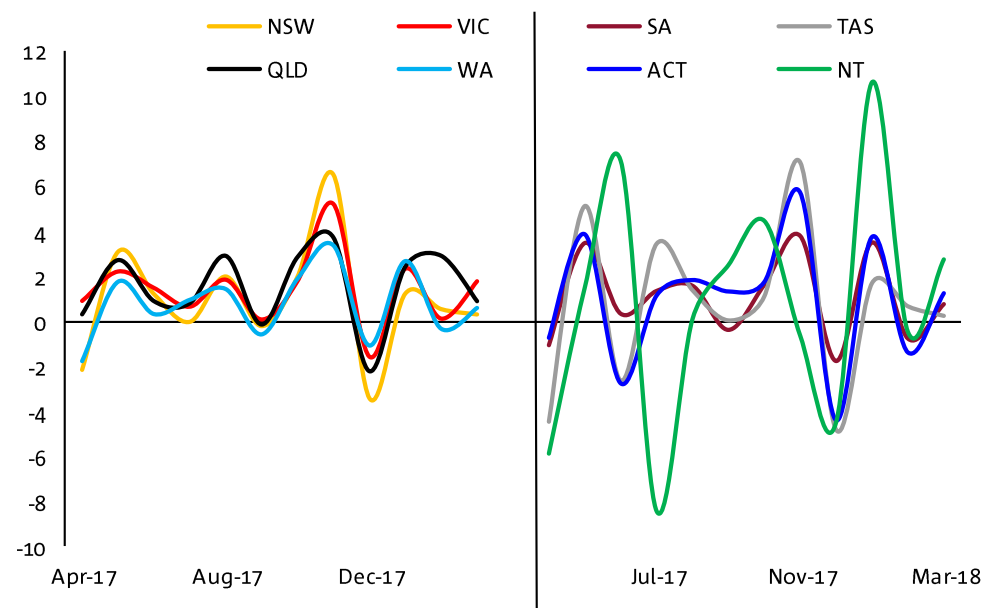


Online sales expanded in all states and territories in March. NT (2.8% mom) recorded the fastest growth, though this series tends to be more volatile. Of the large states, Victoria accelerated (+1.8%) much faster than NSW (+0.3%).

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, s.a.)





**METROPOLITAN
VS REGIONAL**

METROPOLITAN & REGIONAL PERFORMANCE

Growth was positive in both metropolitan and regional areas in March. 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 was recorded in both metro (0.8%) and regional areas (1.1%) in March. Growth has been slower for metro areas relative to regional in the months after the December dip. Having said that, growth accelerated for metro areas from 0.4% in February, while it slowed slightly for regional (1.4% Feb mom).

Metropolitan residents retain the largest share of spend, and spent on average around 16.1% more than those residing in regional Australia. However, those living in regional Western Australia spent about 1.6% more than the average Australian. With recent Victorian and Queensland growth, per capita metro spend of those states to the Australian average is almost on par.

Chart 13

GROWTH OF SPENDING, BY REGION

(% mom)

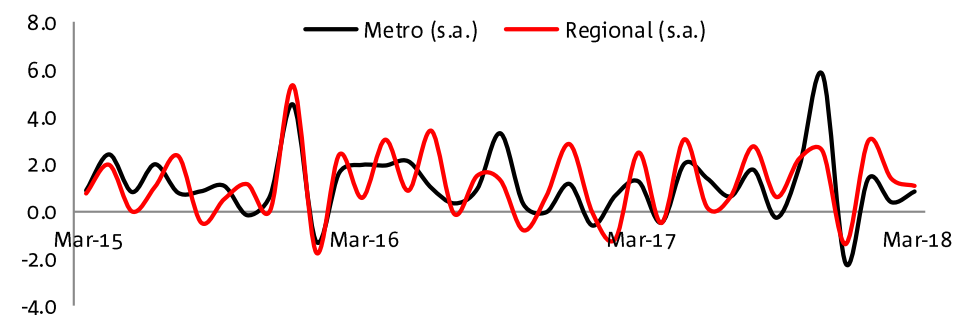
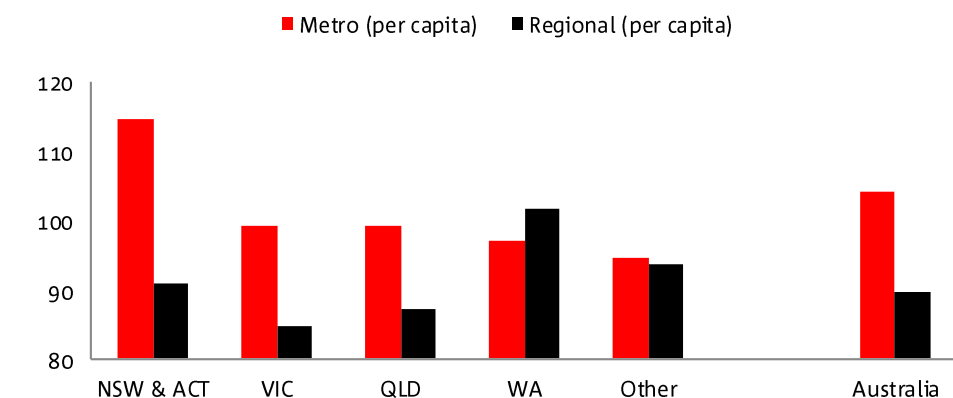


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

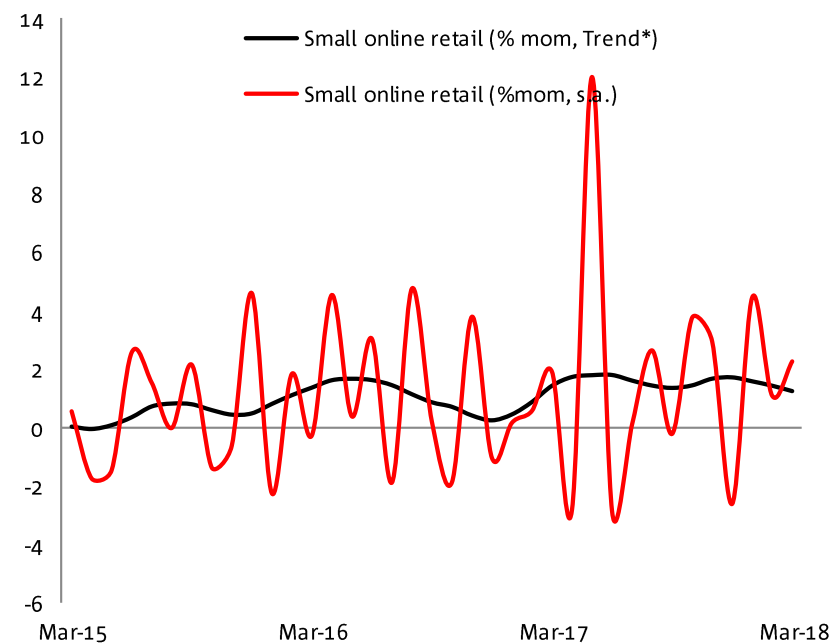
SME online retailers made up nearly 37% of all online retail sales in the past 12 Months. SME monthly sales grew faster than their corporate counterparts in March, and growth in annual sales at SMEs are still outpacing corporates.

Smaller online retail sales grew strongly in March (2.3% mom, s.a.). The trend estimate of monthly growth, while slowing slightly (+1.2%, mom s.a.), has been above 1% since March 2017. This is much faster and more sustained than earlier periods. The strong trend result is also reflected in 12 months to terms, which we estimate are now 21.7% higher compared to the same time a year ago.

Homewares and appliances was the fastest growth category in the month for SMEs, accelerating +4.8% March mom, s.a. compared to 0.5% February mom s.a. This category is the largest share of spend at SME online retailers, so its growth has contributed to just under half of all annual SME online sales growth. At the other end of the scale, media is one of the smallest shares of spend at SME online retailers. This category recorded a contraction in March and has detracted from overall SME online growth in the past year.

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 the bulk of spend at SME online retailers at just over 85% of spend. While Homeware and Appliances represents 32% of spending at small online retailers, this category contributed 46.9% to small online retail sales growth.

%	Monthly growth - Feb	Monthly growth – Mar	Annual growth – Feb	Annual growth – Mar	Share of Small spending	Contribution to annual Small spending growth
Fashion	1.2	1.8	20.1	19.3	24.4	23.3
Daily Deals*	-	-	-	-	0.0	-
Department	-0.9	0.8	45.6	38.1	3.7	8.0
Homeware	0.5	4.8	29.3	35.3	32.0	46.9
Media	4.4	-1.6	10.6	10.7	2.8	-0.5
Personal	1.4	-0.7	17.5	13.0	28.7	20.1
Groceries	9.0	0.9	5.7	6.1	3.4	0.4
Toys	4.4	1.9	11.8	12.0	3.3	1.3
Food	-2.5	3.8	7.4	13.1	1.7	1.1
Total	1.1	2.3	21.3	21.7	100	100

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

NOTES

12 Month to: Change on the corresponding period last year. For this report it is the monthly value this year relative to the monthly value the previous year. This was previously quoted as Year on Year (yoy).

Month on Month (MoM) Change on the previous month. For this report it is the monthly value this month relative to the monthly value the previous month.

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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