



NAB CASHLESS RETAIL SALES INDEX JUNE 2018

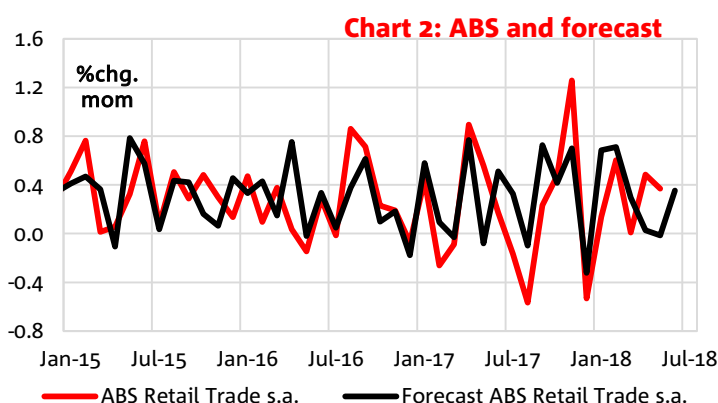
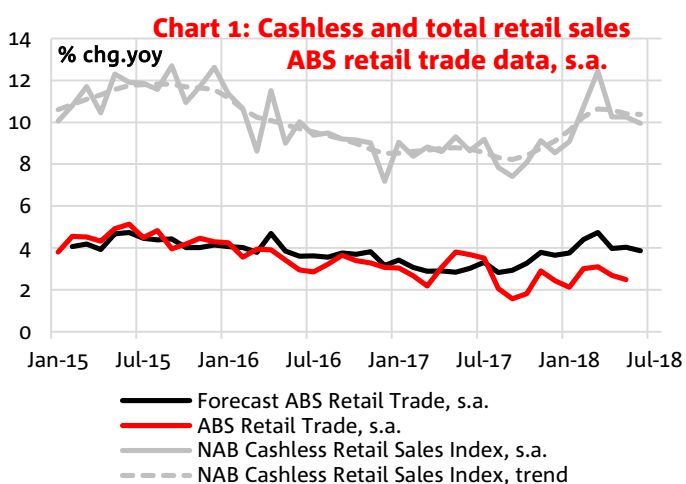
NAB Group Economics

- The NAB Cashless Retail Sales Index gained 0.5% in June on a month-on-month basis, following gain of 0.6% in May (revised from 0.8%). Results were stronger for only two of the six major categories: other retailing and cafes, restaurants and takeaways, although all but one category (household goods) recorded positive growth for the month. Overall, our indicator suggests that retail sales were much less buoyant in Q2 than Q1.
- Our data mapping suggests that the official ABS measure of retail sales will rise 0.4% in June, following a rise of 0.4% in May. The May ABS print was stronger than our then expectation for a flat result.
- The data remains a little more encouraging on a year ended basis, with the NAB Cashless Retail Sales Index up 9.9% in June, although this is potentially distorted by special factors from late-2017, including the new to Australia *Black Fridays* sales.
- Year-on-year growth remained positive for all six NAB Cashless Retail Index major industry groupings. Cafes, restaurants & takeaways remains the fastest growing category (15.1% y/y), although the pace of growth has moderated a good deal since 2015. Food was the next strongest category at 9.8% y/y, followed by clothing and footwear (9.3%), department stores (9.3%) household goods (8.0%) and other retailing (7.8%). For more detail see Charts 3, 7 & 8.
- Retail spending patterns across Australia have seen some convergence over the past few months, with the difference between the fastest and slowest growing states around 60% of the long term average on a year ended basis. Interestingly, month-on-month data shows that the two strongest states in January and February (New South Wales and South Australia) are now the two weakest. It is however important to note that monthly data can be volatile.
- 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 (10.2% y/y versus 2.5% y/y in May).
- See comments from NAB's Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (%)		
	Apr-18	May-18	Jun-18
NAB Cashless Index	10.2	10.2	9.9
ABS Retail Trade (s.a.)	2.7	2.5	--
NAB ABS Retail Trade forecast	4.0	4.0	3.9

	Month-on-month growth (%)		
	Apr-18	May-18	Jun-18
Cashless Index (s.a.)	-0.1	0.6	0.5
ABS retail Trade (s.a.)	0.5	0.4	--
NAB ABS Retail Trade forecast	0.0	0.0	0.4

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



NAB Chief Economist, Alan Oster commented:

The NAB Cashless Retail Sales Index recorded monthly growth of 0.5% in June, slightly lower than the revised May result (0.6% m/m) but still better than the negative result from April (-0.1% m/m). Our mapping of the “official” ABS measure points to monthly growth of 0.4% in June.

The monthly data are volatile; however our latest Monthly Business Survey continues to underscore challenging conditions for the retail sector. Retail continues to have the lowest trend business conditions of any industry. Surveyed prices, costs and wages variables continue to suggest weak price pressures in the economy. Labour cost, purchase cost and final products prices growth all edged lower in June. Retail prices tracked sideways in the month, with no growth after increasing at a low rate recently.

NAB Cashless Retail Sales Index month-on-month results were mixed across the six sectors. Only cafes, restaurants and takeaways and other retailing strengthened in June, although only one sector (household goods) saw negative growth. Over the year, growth remains positive across all six sectors. Overall, the NAB Cashless Retail Sales Index was up 9.9% y/y in June.

Cashless retail sales growth has shown signs of convergence across Australia. Victoria is the fastest growing state on both a year ended and monthly basis, while Queensland is weakest on a year ended basis and South Australia is weakest on a monthly basis. On a monthly basis, the two strongest performers at the start of the year (New South Wales and South Australia) were the two weakest performers in June.

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.

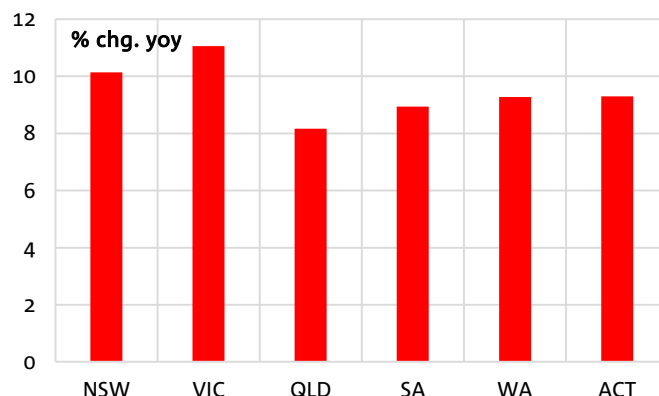


Chart 5: Cashless retail sales by sub-industry, s.a.

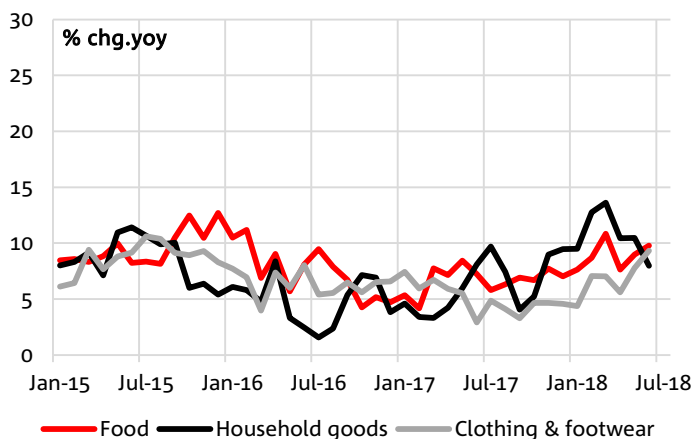


Chart 6: Cashless retail sales by sub-industry, s.a.

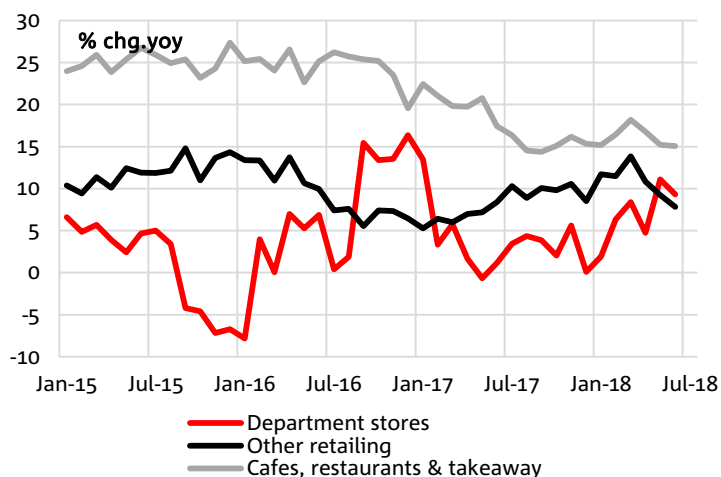


Charts 7 & 8: Cashless sales by industry, seasonally adjusted

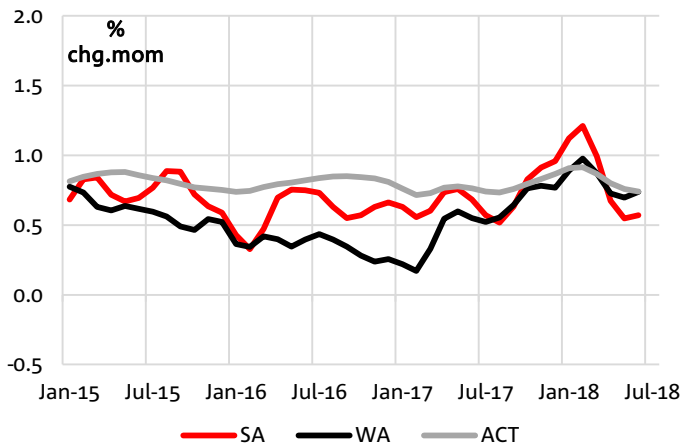
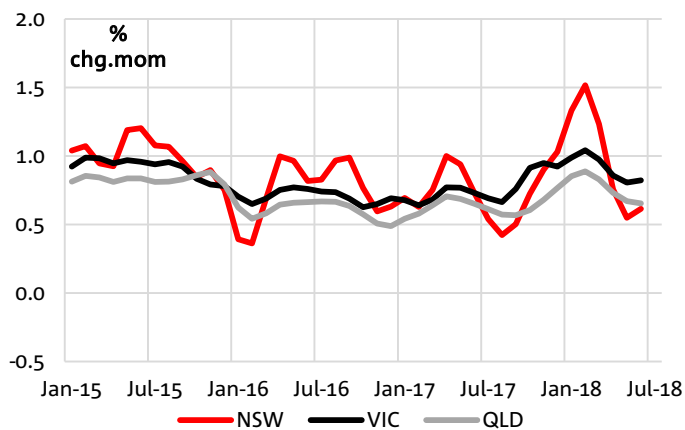
Cashless and total retail sales by industry, s.a.



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



Charts 9 & 10: Cashless sales by state, trend



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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.

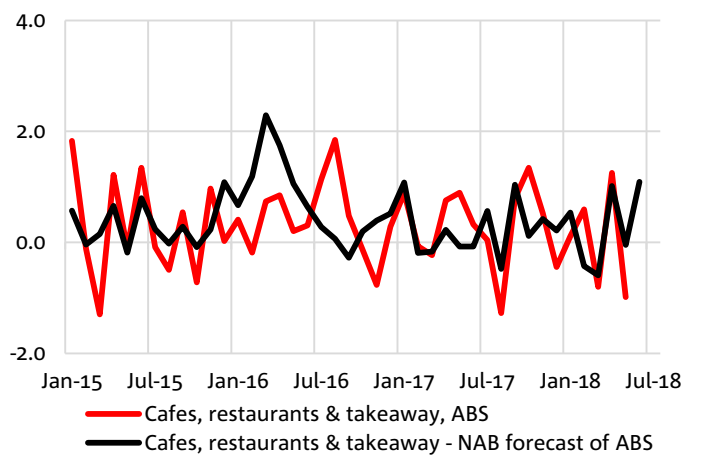
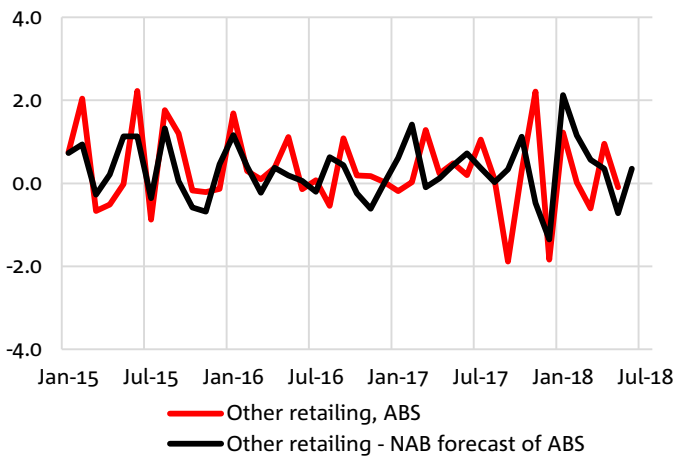
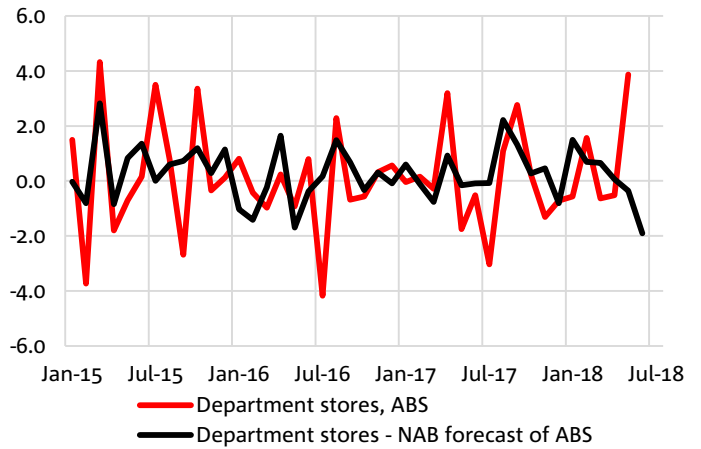
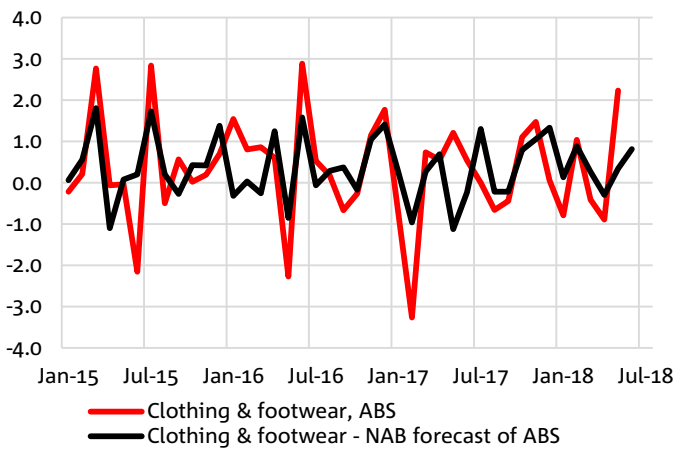
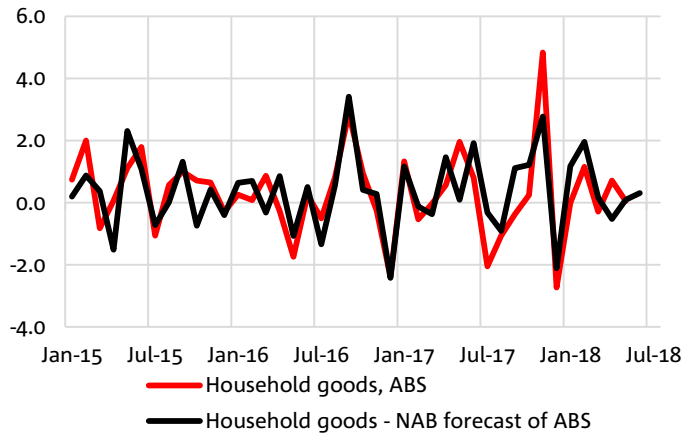
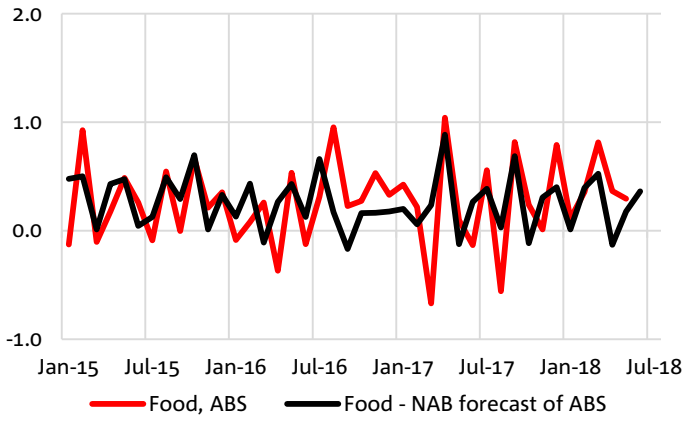
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these 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 mapped to the ABS using monthly seasonally adjusted data, for the main retail industry groups. The sources of difference between the two series 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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