



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – JUNE 2018

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$26.5bn in the 12 months to June 2018.

Sales growth slowed marginally (+1.2%) in month-on-month (mom) terms in June, seasonally adjusted (s.a.). The department stores category, though a relatively small share of the total index, is experiencing a resurgence in growth, especially from domestic online retailers. While the second largest spend share category, media, slowed in the month, its contribution to annual growth in online sales remains highest.

Online sales in all states and territories grew in the month. 12 months to growth was strongest in Tasmania, along with the large eastern states of QLD and VIC.

Monthly sales growth at SME retailers was slower than corporates, although 12-months-to growth remains faster.

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 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 1.2%, online retail sales slowed in June. The 12 months to growth rate is also a bit slower.

The revised trend estimate for online retail sales growth was 1.1% in June, unchanged from the month prior.

In the 12 months to June, Australians spent an estimated \$26.5 billion on online retail – a level that is equivalent to around 8.4% of the traditional bricks and mortar retail sector (which totalled almost \$315.1 billion in the year to May 2018 according to the Australian Bureau of Statistics).

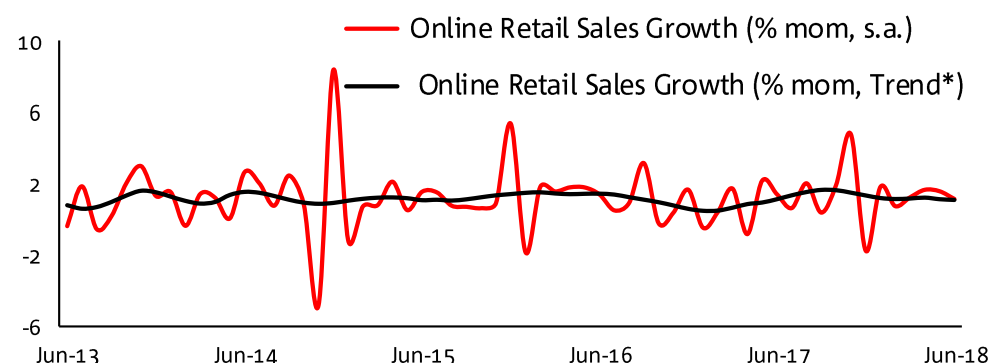
In 12 months to terms (June 2018 v June 2017), online sales grew by 17.7%, down from the 18.1% on the same basis in May.

Online sales growth at SMEs was slower than their corporate counterparts in June (0.6% mom, s.a.), and much slower than the previous month (4.0%). SMEs continue to outpace corporates in 12 months to terms (+23.2%).

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Apr-18	May-18	Jun-18
Monthly growth (%)			
Corporate	1.7	1.6	1.2
SMEs	1.3	4.0	0.6
12 months to growth (%)			
Corporate	18.4	18.1	17.7
SMEs	24.8	17.1	23.2

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 June, given its size and growth rate. Homewares and appliance retailing, which retains the largest share of spend, recorded the 4th largest growth in June. The recent growth spurt in the smaller sales category of Department stores continues.

With the fastest annual online sales growth, Department stores (38.4%) continued its recent revival. As this category represents a moderate share of online sales, its contribution to total online sales growth was less than most larger spend share categories, but it is now punching above its weight in the index.

Department stores (+9.0% mom) also recorded the fastest growth in monthly terms. Sales for the largest spend share category, Homewares and Appliances, grew again in June (1.3% mom). Although Media slowed in the month, this category contributed almost a quarter of all sales growth over the past year. Grocery and Liquor (-2.5%) was the only category to contract in the month.

Chart 2

12 MONTHS TO GROWTH - SPENDING, BY CATEGORY

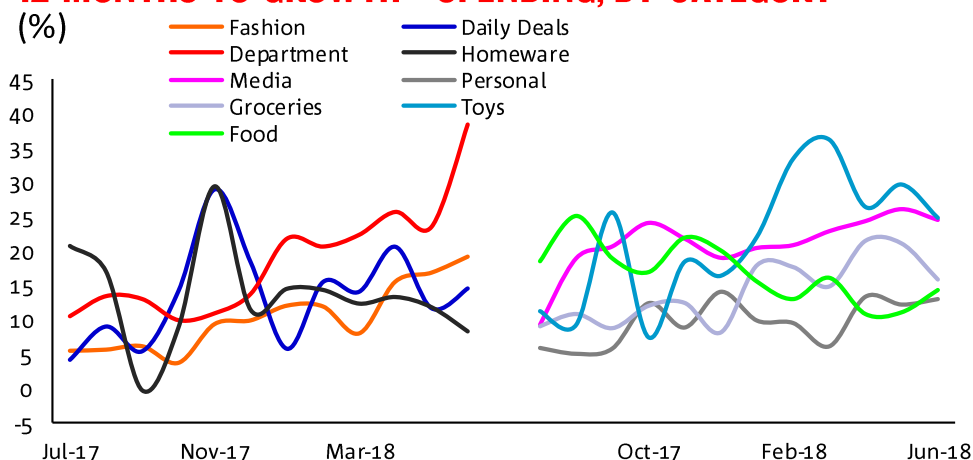
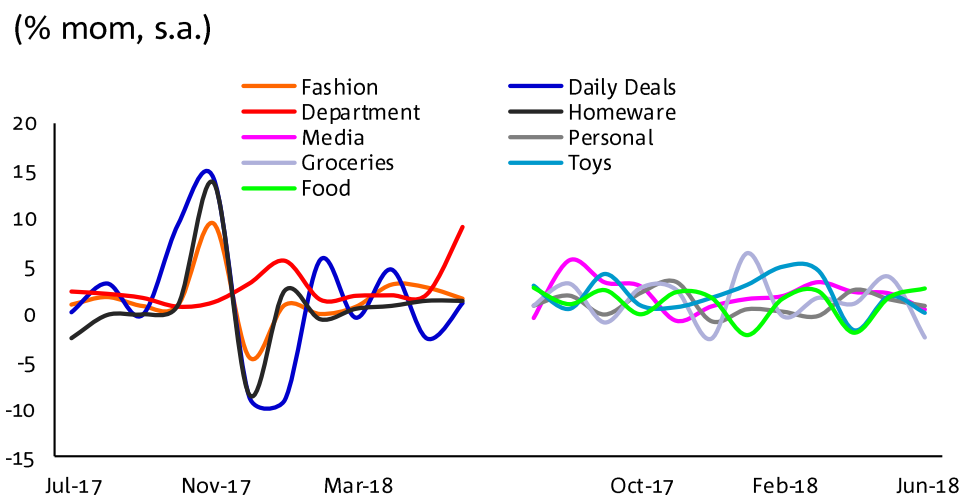


Chart 3

MONTHLY GROWTH - SPENDING, BY CATEGORY



CATEGORY GROWTH AND SHARE OF SPENDING

In 12 months to terms, Department Stores, with a moderate spend share, has expanded rapidly. While online Media sales was relatively flat in June(mom), its contribution to annual online sales growth still exceeds its share of spend.

%	Monthly growth		Annual growth		Share of total spending	Contribution to annual total spending growth
	May-18	Jun-18	May-18	Jun-18		
Fashion*	2.7	1.5	16.8	19.1	14.9	10.8
Daily Deals	-2.6	1.1	11.6	14.5	2.4	2.3
Department	2.0	9.0	23.5	38.4	8.4	10.0
Homeware	1.3	1.3	11.8	8.3	20.4	18.6
Media	2.1	0.4	26.0	24.5	17.9	24.0
Personal	1.5	0.8	12.2	13.0	9.0	6.1
Groceries	3.8	-2.5	21.1	15.8	16.4	15.6
Toys	1.8	0.0	29.6	24.8	3.8	5.2
Food	1.7	2.6	11.0	14.3	6.7	7.5
Total	1.6	1.2	18.1	17.7	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

Domestic online sales grew in the month in line with the total index, while international saw a slight contraction. In June, around 81% of spending was domestic.

Sales growth of the two series has diverged again, with Domestic online merchants (1.4% mom) outpacing International (-0.2%) online sales in the past 3 months. The trend growth for domestic (+1.6%) has remained considerably strong, while international has weakened recently (-0.2%).

Chart 4 shows that, in some past periods, changes in the Australian dollar 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 higher at around 81% (was 79.6% in June 2017).

Chart 4

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

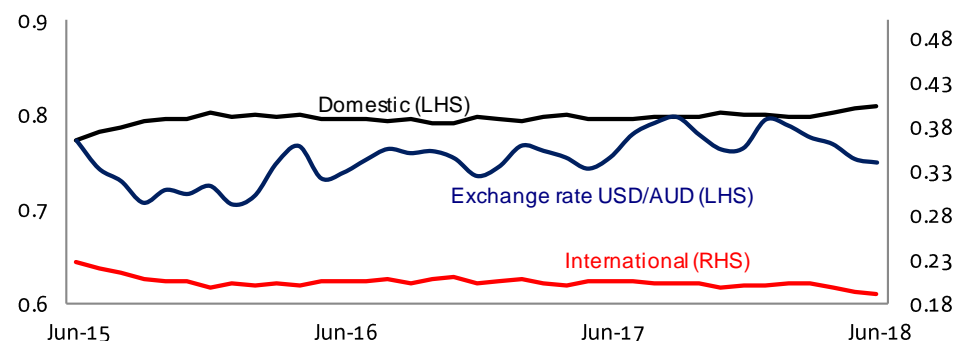
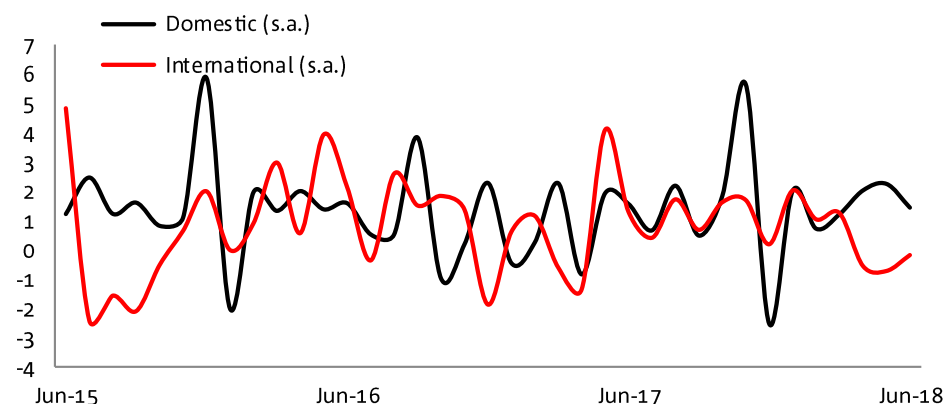


Chart 5

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



INTERNATIONAL VS DOMESTIC - BY CATEGORY

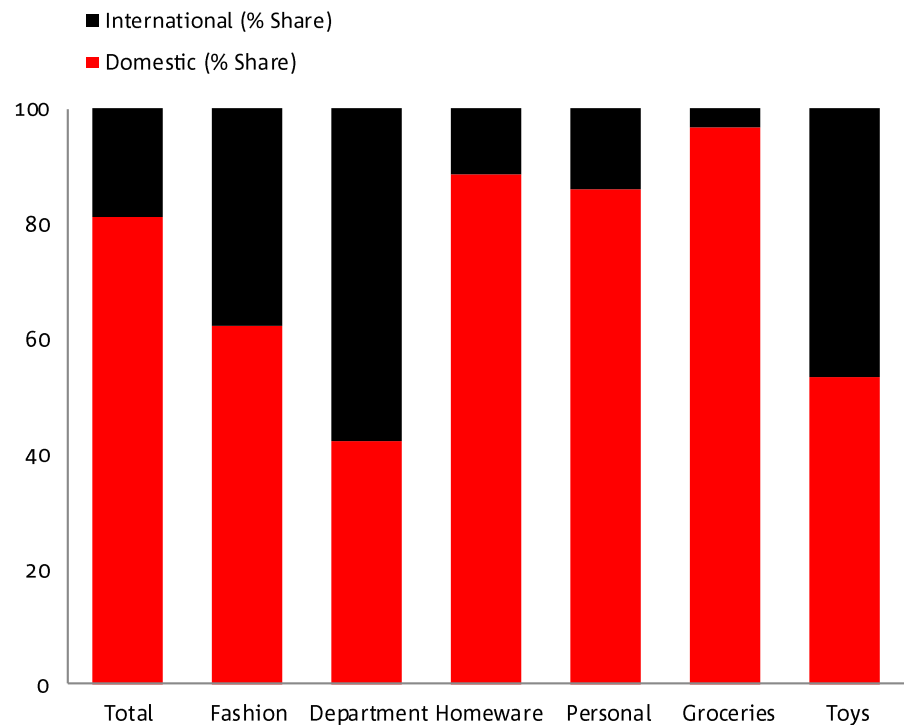
Areas of significant overall online spend, such as Groceries, Personal and Homewares, are also categories where domestic online retailers dominate.

In the past six months, the share of electronic game and toy category attributed to domestic online retailers has been greater than the share of spend (albeit marginal) of international. The department stores category is now the only category where sales at international retailers, at around 58% share, are greater than domestic. In the twelve months to June, growth at domestic online department stores (43.8%) outpaced rapid growth in international stores (33.6%).

In 12 months to growth terms, domestic retailers have also been particularly buoyant in toys (38.2%), relative to their international counterparts (13.7%).

While online sales growth by international online retailers outpaced domestic in fashion, homewares and appliances, and groceries, the share of sales in these categories remains strongly in favour of domestic.

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 about 62% of fashion is purchased from domestic online retailers, it only accounts for just under 12% of domestic online spend, but at 28.3%, 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	15.5	25.2	62.2	37.8	11.6	28.3
Department	43.8	33.6	42.1	57.9	4.4	24.3
Homeware	6.1	27.6	88.6	11.4	22.6	11.7
Personal	17.4	-12.8	85.8	14.2	9.7	6.4
Groceries	15.1	35.2	96.7	3.3	19.8	2.7
Toys	38.2	13.7	53.2	46.8	2.6	9.0
All categories	19.7	9.5	80.9	19.1		

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. While spend growth remained positive across all age groups, it slowed from last month for all except those aged 25-34.

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 8.3% of online spend

Growth in June was fastest for the 35-44s (+1.4% mom, s.a) although this was slower than May (+2.2%) for this group. Growth accelerated for the second largest spend group, 25-34s (+1.3% June vs 0.7% May). After strong growth in May, spending by those aged 55-64 was almost flat in June (+0.1%).

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

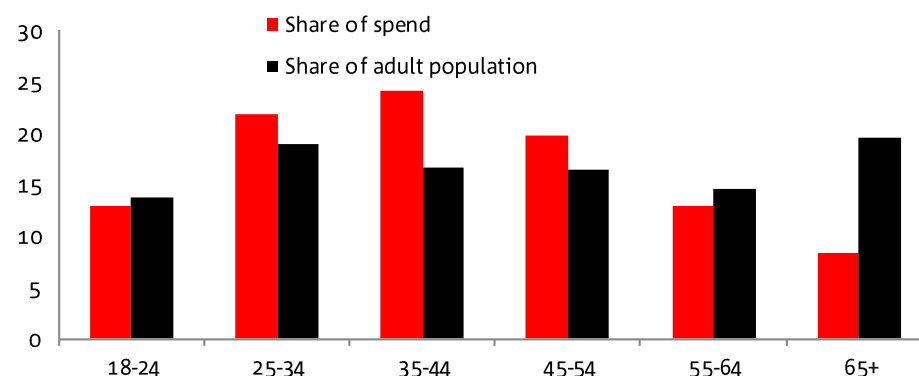
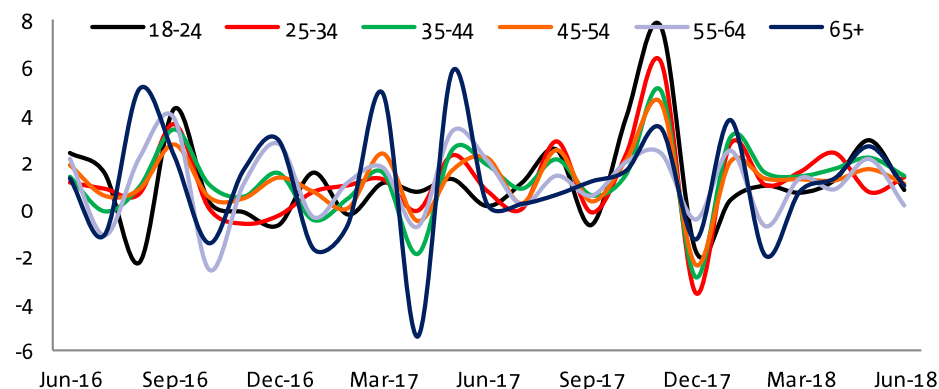


Chart 8

GROWTH OF SPENDING, BY AGE GROUP

(% mom, s.a.)



AGE GROUPS BY CATEGORY

Spending patterns vary across age groups. For example, online sales at homeware and appliance stores generally has a high share of spend across age groups. Those aged between 18 and 34 favour fashion or media, 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 tends 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	1.3	6.3	17.1	20.9	6.3	4.5	12.3	10.6
25-34	16.8	2.4	8.0	17.3	18.5	7.9	14.5	4.3	10.3
35-44	14.0	2.7	8.5	19.4	17.3	9.5	19.5	2.6	6.6
45-54	13.9	2.6	8.8	22.6	17.8	10.2	16.7	2.4	5.0
55-64	12.4	2.8	9.7	24.6	17.2	10.8	18.3	1.2	3.0
65+	9.8	2.2	9.4	25.6	14.7	9.2	26.8	0.7	1.5
All ages	14.9	2.4	8.4	20.4	17.9	9.0	16.4	3.8	6.7

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

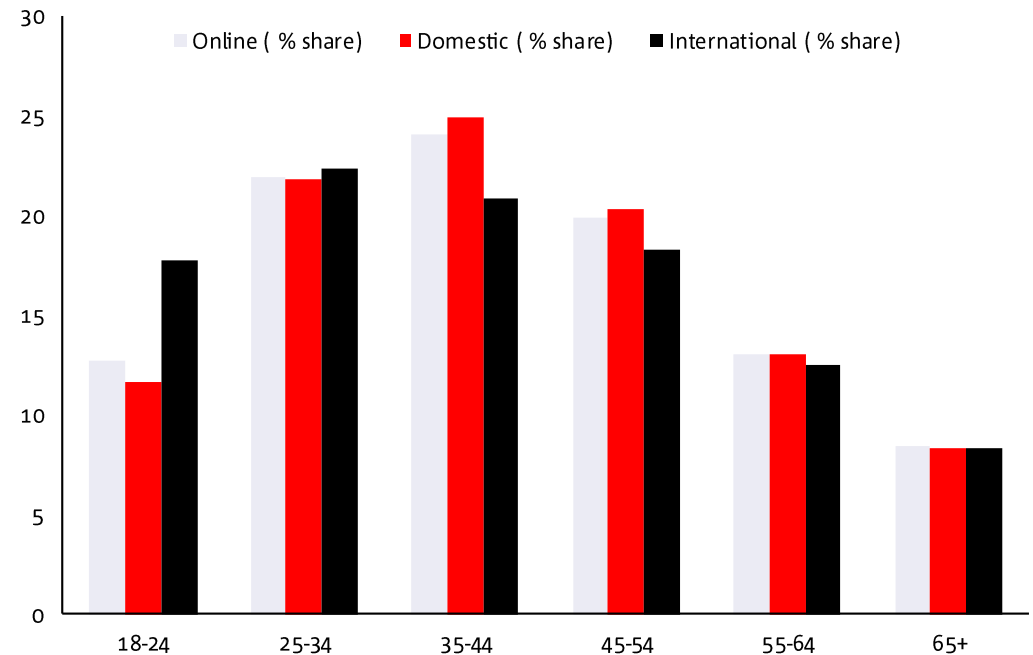
For most age categories, total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. However, this group has seen stronger annual growth in spending towards domestic online retailers. 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	1.2	0.2	25.4	10.4	11.7	17.8
25-34	2.0	-0.9	21.0	9.1	21.8	22.3
35-44	2.0	-2.0	22.2	8.0	24.9	20.9
45-54	1.1	0.9	18.3	9.8	20.3	18.3
55-64	0.4	-1.0	14.3	6.6	13.0	12.4
65+	0.3	3.5	13.5	16.0	8.3	8.4
All ages	1.4	-0.2	19.7	9.5	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.

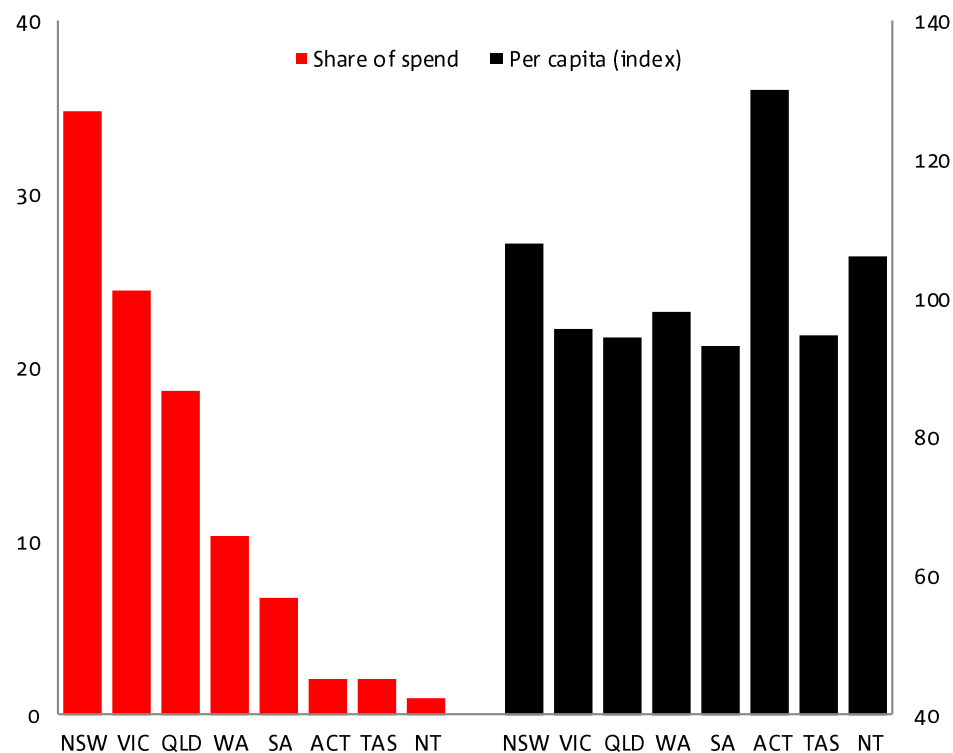
Almost 78% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for about the same proportion of the Australian total.

However, on a per capita basis, residents in ACT, NT 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, SA, and WA 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 in December 2017 (24.2%).

Chart 10

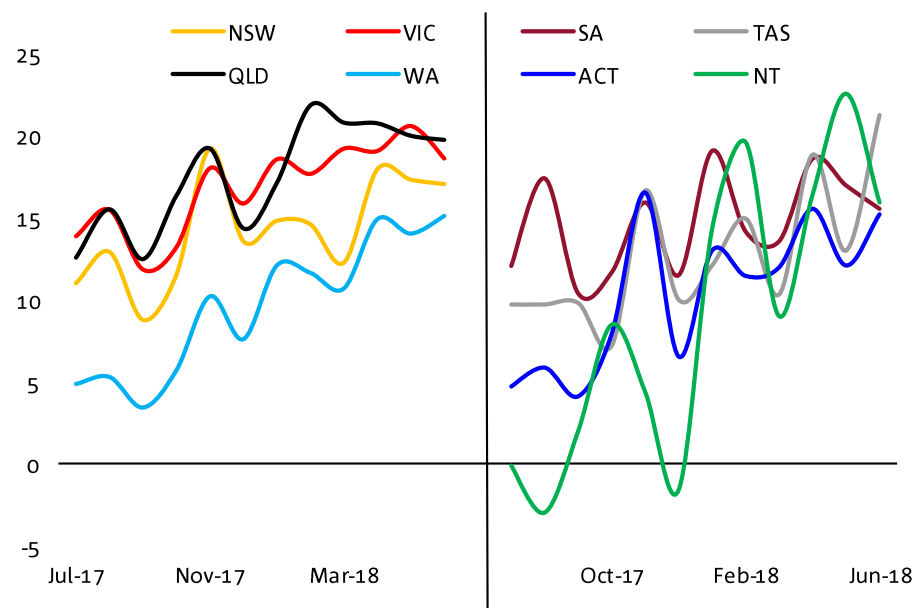
SHARE OF SPENDING, BY STATE (% annual)



SPENDING BY STATE

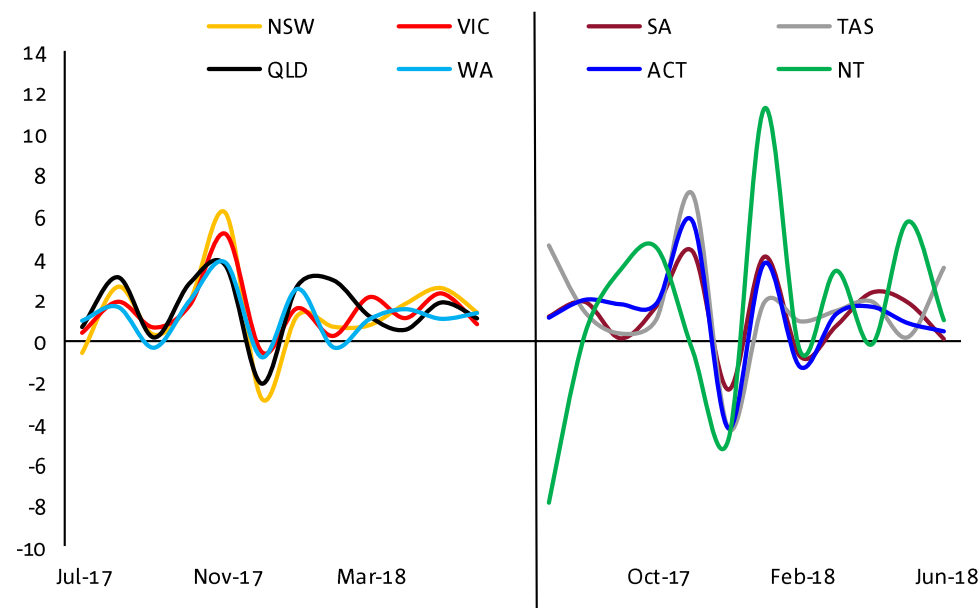
Tasmania (+21.3%) led growth over the past year. Of the large eastern states, Queensland (+19.8%) has outpaced Victoria (18.6%). All states recorded growth in 12 months to growth in June.

Chart 11
GROWTH OF SPENDING, BY STATE
(% 12 months to)



Monthly online sales expanded in all states and territories in June, albeit virtually flat in SA. TAS (3.5% mom) recorded the fastest growth. WA (1.3%) was on par with NSW as equal second fastest.

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 June. 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 (1.2%) and regional areas (0.8%) in June. Between the December dip and May, growth had generally been slower for metro areas relative to regional. In June however, regional sales slowed from a much faster rate in May.

Despite recent strong growth in regional online retail sales, Metropolitan residents retain the largest share of spend, and spent on average around 14.9% more than those residing in regional Australia. Worth noting that this was 16.1% in March, so the gap has closed somewhat in recent months. However, those living in regional Western Australia spent about 0.8% 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)

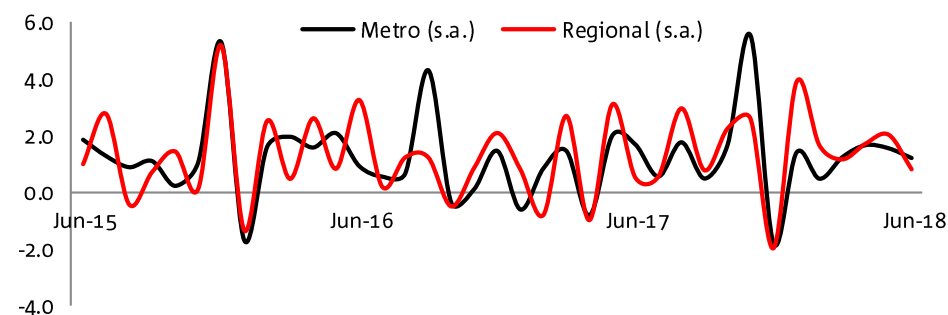
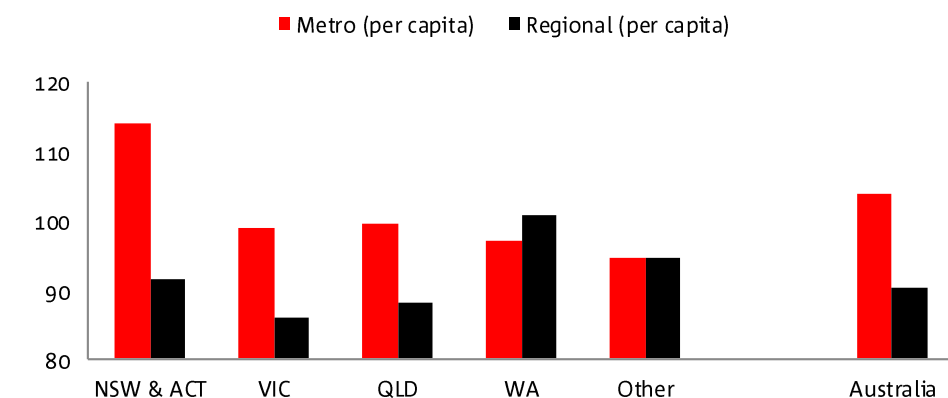


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)



SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

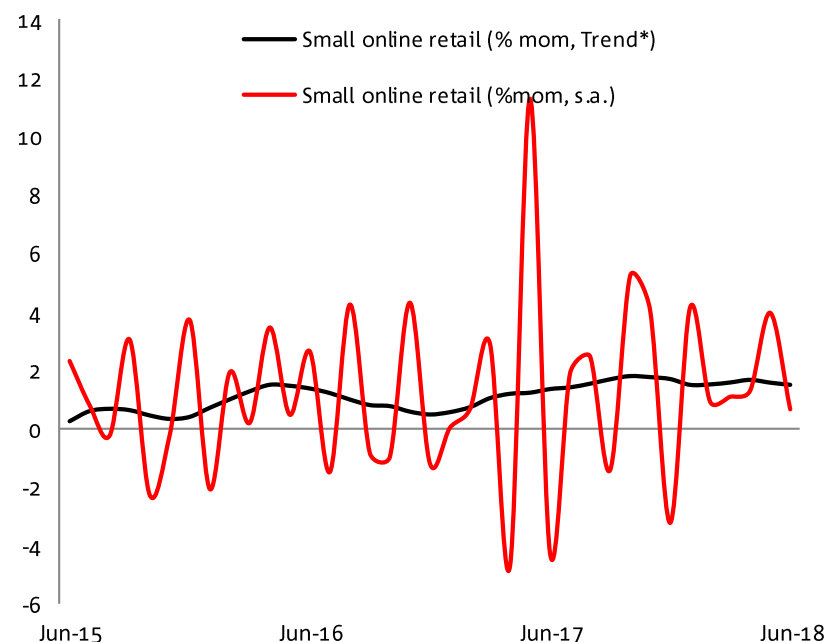
SME online retailers made up about 36% of all online retail sales in the past 12 Months. SME monthly sales grew slower than their corporate counterparts in June, but growth in annual sales at SMEs are still outpacing corporates.

Smaller online retail sales (0.6% mom, s.a.) grew at half the rate of corporates in June, although this was after rapid growth in May (4%). The trend estimate of monthly growth, while slowing slightly (+1.5%, 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 23.2% higher compared to the same time a year ago.

Like corporates, department stores was also the fastest growth category in the month for SMEs, accelerating in June (+4.1% mom, s.a.). This category represents a relatively small share of spend at SME online retailers(3.7%), but its recent growth has contributed to more than its weight in the index. The second largest spend share category for SMEs, personal and recreational goods, recorded a modest contraction in June, but is still up strongly compared to last 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 Homewares and Appliances, Personal and Recreational, and Fashion, which make up the bulk of spend at SME online retailers at just over 85% of spend. While Homewares and Appliances represents close to 32% of spending at small online retailers, this category contributed 44.7% to small online retail sales growth.

%	Monthly growth - May	Monthly growth – June	Annual growth – May	Annual growth – June	Share of Small spending	Contribution to annual Small spending growth
Fashion	3.7	1.7	7.1	29.8	24.4	22.3
Daily Deals*	-	-	-	-	0.0	-
Department	6.0	4.1	29.4	33.6	3.7	7.5
Homeware	4.3	1.4	29.1	28.9	31.9	44.7
Media	4.1	-0.1	11.3	4.6	2.8	0.3
Personal	1.3	-0.2	15.3	15.1	28.7	21.9
Groceries	2.9	-5.1	3.4	-5.3	3.4	0.6
Toys	0.6	3.2	16.2	28.9	3.3	2.0
Food	-7.1	0.6	18.0	18.4	1.8	1.4
Total	4.0	0.6	17.1	23.2	100	100

*Share of Spend at SME Daily Deal retailers was virtually 0 in June 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 are not registered for GST as international retailers

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