



NAB ONLINE RETAIL SALES INDEX

IN-DEPTH REPORT – SEPTEMBER 2018

INTRODUCTION

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In total, we estimate the Australian online retail market was worth \$28.1bn in the 12 months to September 2018.

Sales growth slowed (+0.3%) in month-on-month (mom) terms in September, seasonally adjusted (s.a.). Though still a small share of the index in spend terms, electronic games and toys has grown rapidly in the past month and year category, for both domestic and international retailers. Larger spend category grocery and liquor online sales contracted in the month after strong growth in August.

Online sales grew in the majority of states except ACT, SA and WA. 12 months to growth was strongest in Vic, while Tas was highest in month on month terms.

Monthly sales growth at SME retailers was marginally faster than corporates in the month.

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 35 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 0.3%, online retail sales slowed in September. The 12 months to growth rate is also slower.

In September the trend estimate slowed to 0.6%. Over the past year the trend and seasonally adjusted monthly change estimates for online retail sales growth have tended to converge. Amongst other things, more stable monthly movements may suggest a maturing marketplace.

In the 12 months to September, Australians spent an estimated \$28.1 billion on online retail – a level that is equivalent to around 8.9% of the traditional bricks and mortar retail sector (which totalled almost \$317.4 billion in the year to August 2018 according to the Australian Bureau of Statistics).

In 12 months to terms (September 2018 v September 2017), online sales grew by 15.7%, down from the 16.7% on the same basis in August.

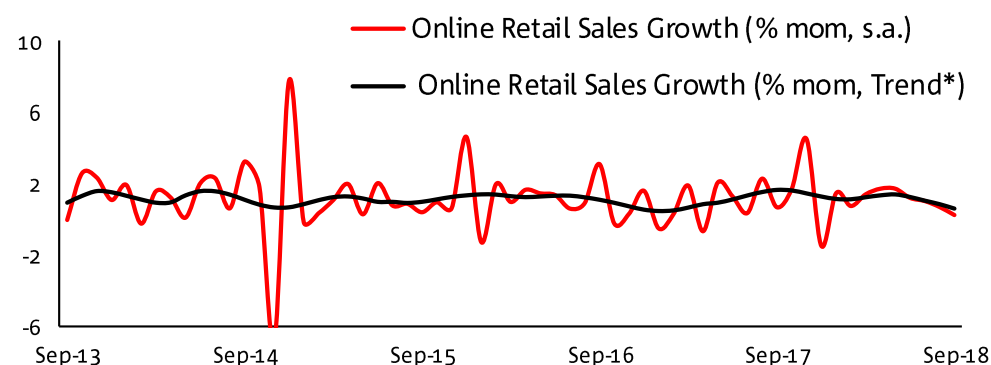
Online sales growth at SMEs (0.5% mom, s.a.) accelerated on the August result and was slightly faster than their corporate counterparts in September. SMEs continue to outpace corporates in 12 months to terms (+19.9%).

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

Chart 1

GROWTH IN ONLINE RETAIL

(% monthly)



KEY RETAIL STATISTICS

	Jul-18	Aug-18	Sep-18
Monthly growth (%)			
Corporate	1.0	0.7	0.3
SMEs	2.2	0.2	0.5
12 months to growth (%)			
Corporate	18.5	16.7	15.7
SMEs	22.8	19.1	19.9

ONLINE CATEGORIES



CATEGORY PERFORMANCE

Media contributed the most to overall growth in the year to September, given its size and growth rate. Homewares and appliance retailing, which retains the largest share of spend, recorded the third strongest growth in September. The headline result was contributed to strongly by a dramatic slowing in both grocery and liquor, and takeaway food.

With the fastest annual online sales growth, toy stores (49.4%) has outpaced all other categories over the past 3 months. While this category represents a small share of online sales, its contribution to total online sales growth is greater than its weight in the index.

Toy stores (+5.6% mom) also recorded the fastest growth in monthly terms. Media (+1.3%) was second fastest in the month and continues to contribute strongly to total index growth. Sales for the largest spend share category, homeware and appliances, grew in September (0.9% mom) after a contraction in August (-1.1%). Department stores, which had been growing rapidly earlier in the year, has contracted in each of the past three months. The contraction in sales growth for grocery and liquor (-1.2%) follows strong growth in August for that category.

Chart 2

12 MONTHS TO GROWTH - SPENDING, BY CATEGORY

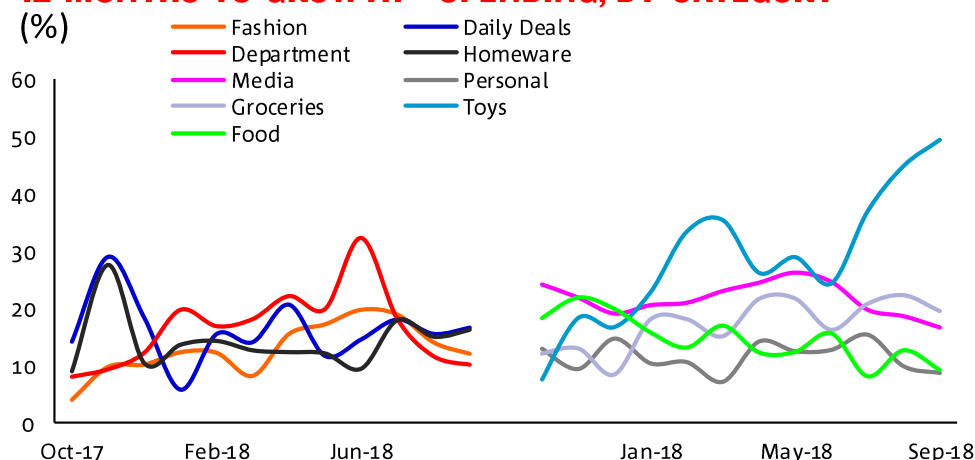
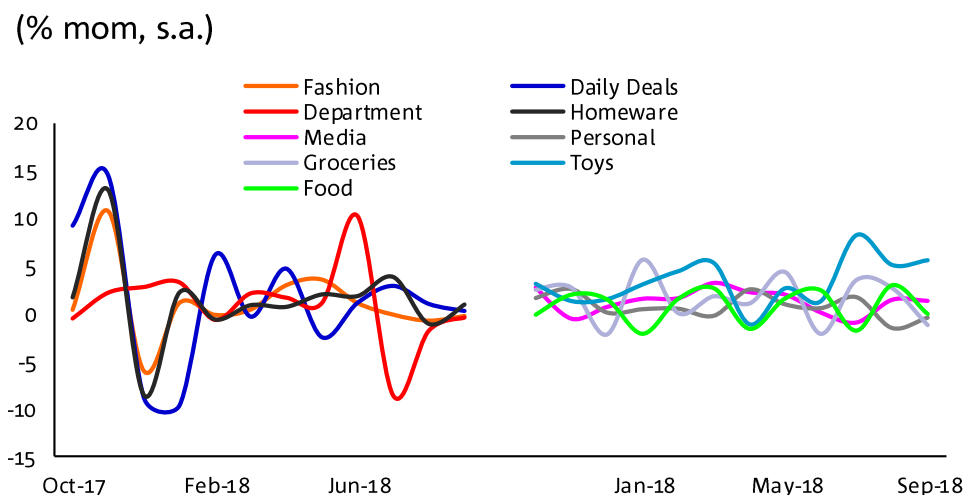


Chart 3

MONTHLY GROWTH - SPENDING, BY CATEGORY



CATEGORY GROWTH AND SHARE OF SPENDING

In 12 months to terms, toy stores, with a small spend share, expanded rapidly. The contribution of online media sales 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
	Aug-18	Sep-18	Aug-18	Sep-18		
Fashion*	-0.8	-0.3	14.0	12.0	14.3	11.6
Daily Deals	1.0	0.2	15.5	16.6	2.3	2.4
Department	-1.8	-0.4	11.6	10.1	9.7	9.6
Homeware	-1.1	0.9	15.0	16.2	20.9	18.7
Media	1.4	1.3	18.6	16.6	17.3	22.0
Personal	-1.5	-0.5	9.8	8.6	8.8	6.5
Groceries	2.6	-1.2	22.2	19.4	16.1	16.9
Toys	5.1	5.6	44.8	49.4	3.9	6.2
Food	2.9	-0.1	12.6	9.2	6.7	6.0
Total	0.7	0.3	16.7	15.7	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.

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“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 growth was almost flat in the month, in line with the total index, outpaced by international. In September, around 84% of spending was domestic.

Sales growth of the two series has diverged again, with international online merchants (1.7% mom) outpacing domestic (0.2%) online sales. However trend growth for domestic (+0.9%) has remained positive, albeit slowing, while international has remained negative (-1.1%). The generally stronger growth in recent months for domestic online sales has resulted in its share of total sales increasing to around 84% in September, compared to around 82% in June.

Apart from the most recent months rebound, sales growth for international online retailers has generally been slower than domestic since March. This is also reflected in the 12-months-to growth, with domestic online retailers (+21%) considerably outpacing international, whose sales have contracted (-6.2%) on the same basis.

Chart 4

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

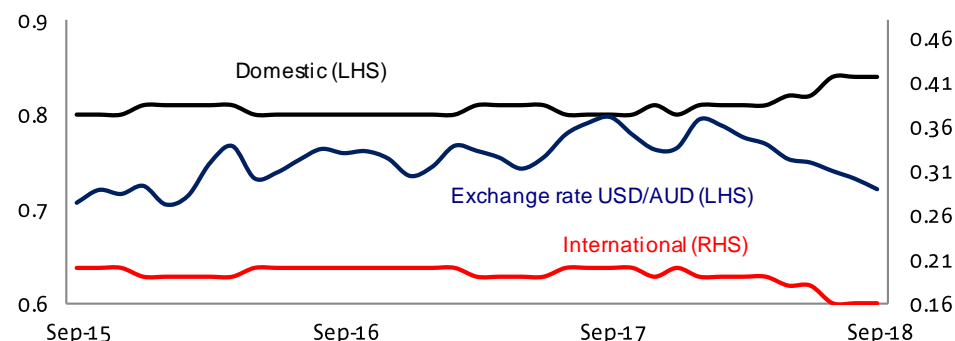
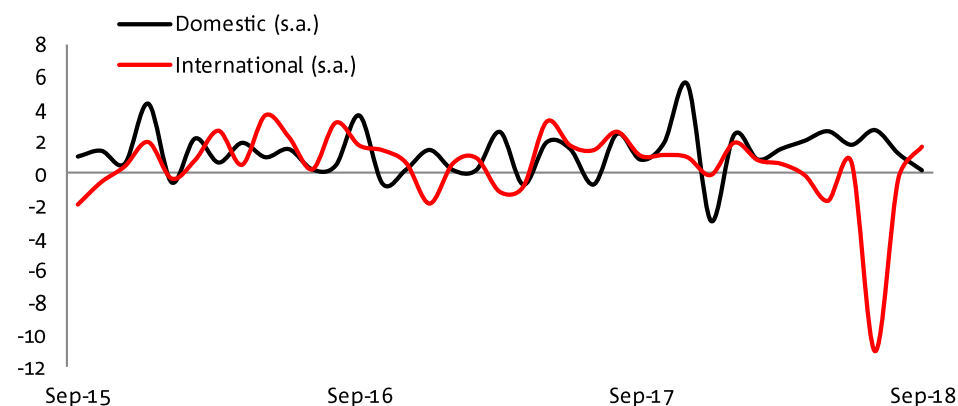


Chart 5

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



INTERNATIONAL VS DOMESTIC - BY CATEGORY

Areas of significant overall online spend, such as groceries, personal and homeware, are also categories where domestic online retailers dominate. Currently, the share of spend at all categories is in favour of domestic retailers.

In the past six months, the share of the electronic game and toy category attributed to domestic online retailers has been greater than the share of spend at international.

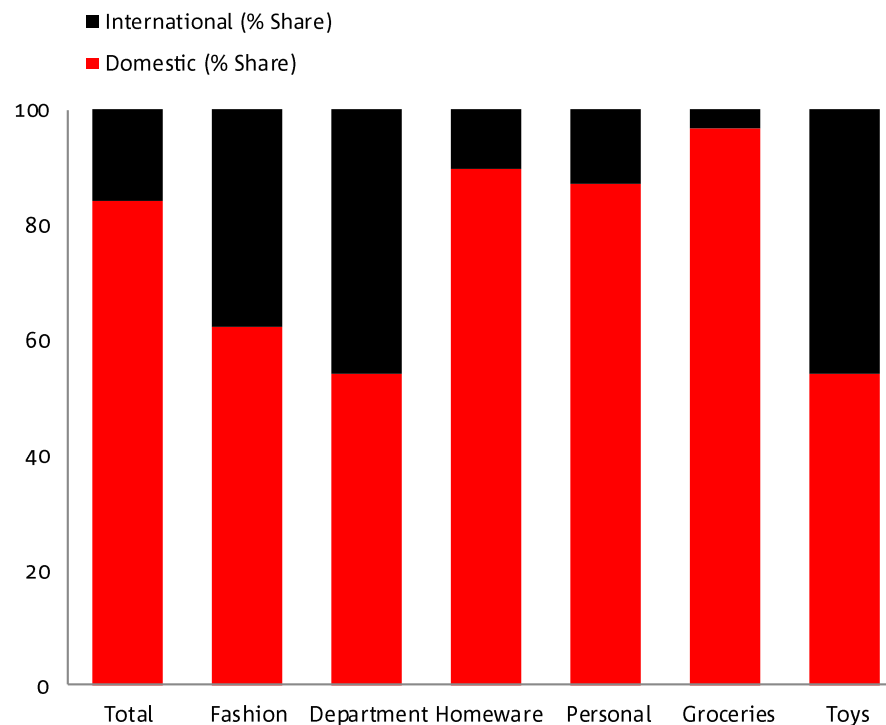
In the 12 months to September, growth at domestic online department stores (27.8%) outpaced a contraction in international store growth (-7.9%). Strong growth at domestic online department stores over the past 12 months means that all sales share are in favour of domestic.

In 12 months to growth terms, domestic retailers have also been particularly buoyant in toys (48.4%), although they were outpaced by their international counterparts (50.6%). Despite the slightly faster growth in international, the share of sales for this category remains in favour of domestic (54%).

A considerable contraction over the past year for international personal and recreational goods (-15.0%) has resulted in a much smaller share relative to the previous year. While international grocery and liquor retailing experienced strong growth, domestic retailers remain dominant with a near 97% share.

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 11% of domestic online spend, but at 29.7%, 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	12.7	10.9	62.0	38.0	10.9	29.7
Department	27.8	-7.9	53.9	46.1	6.4	24.4
Homeware	17.8	1.3	89.6	10.4	22.9	11.9
Personal	12.6	-15.0	87.1	12.9	9.4	6.2
Groceries	19.1	30.2	96.7	3.3	19.0	2.9
Toys	48.4	50.6	54.1	45.9	2.6	9.9
All categories	21.0	-6.2	83.9	16.1		

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. Spend growth was generally moderate across younger age groups, and contracted for those 55 and over.

Those aged 35-44 make up approximately 16.8% of the adult population, but their share of online spend is the highest at 23.8%. In contrast, over 65s make up 19.5% of the population and only 8.9% of online spend.

Growth in September was fastest for the 18-24s (+1.0% mom, s.a), an improvement on the flat growth the previous month for this group. While growth remained positive for the largest spend group, 34-44s (+0.1%), this was much slower than August (1.0%). Spend growth contracted (-1.9%) for the oldest age group, but this comes after relatively strong growth over the past 5 months.

Chart 7

SHARE OF SPENDING, BY AGE GROUP

(% annual)

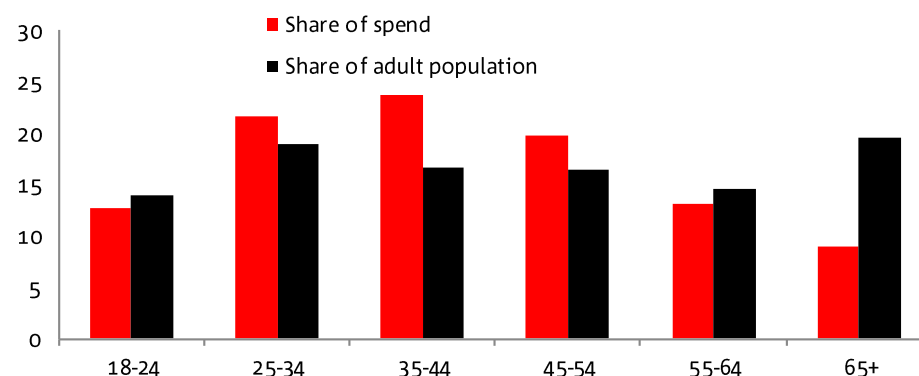
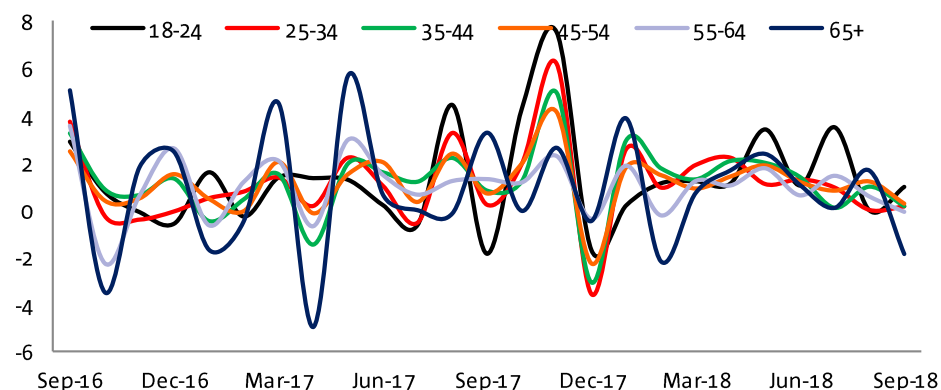


Chart 8

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	20.4	1.3	6.4	17.5	20.5	6.0	4.5	12.7	10.6
25-34	16.3	2.4	8.2	17.9	18.1	7.8	14.7	4.3	10.2
35-44	13.5	2.6	8.8	20.0	16.9	9.4	19.5	2.6	6.7
45-54	13.3	2.5	9.6	23.2	17.4	10.0	16.4	2.5	5.0
55-64	11.8	2.7	12.1	25.0	16.4	10.5	17.3	1.3	3.0
65+	8.8	2.0	16.7	24.5	13.3	8.6	23.9	0.8	1.3
All ages	14.3	2.3	9.7	20.9	17.3	8.8	16.1	3.9	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

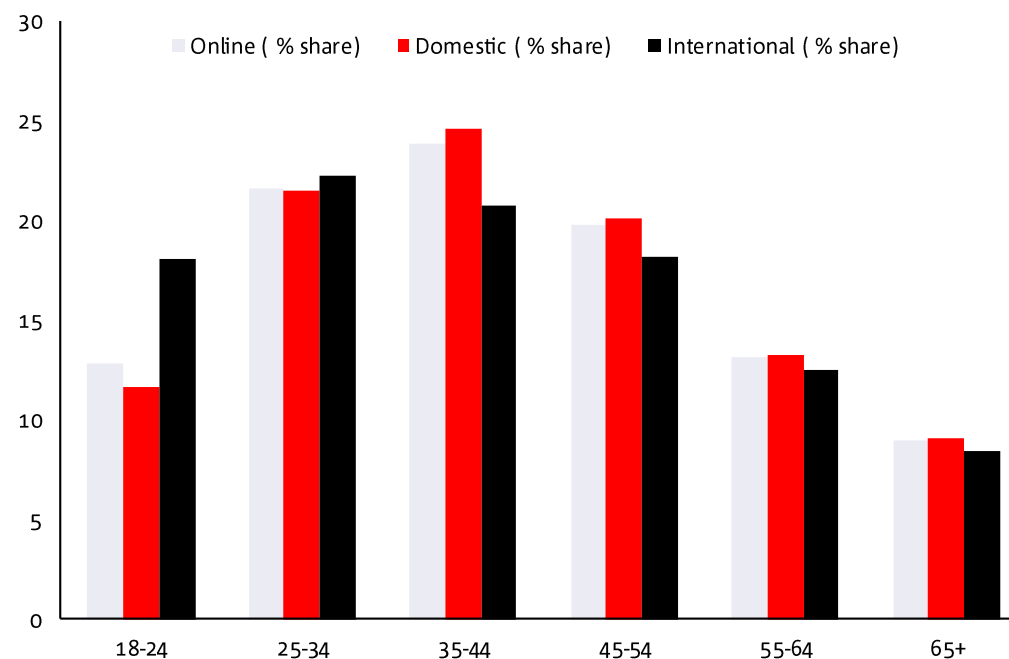
For most age categories, total online share is similar to their share of domestic spend, with the key exception being those aged 18 to 24 - making up much more of the share of international online retail sales than they do domestically. However, this group has seen stronger annual growth in spending 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 and has experienced the steepest drop in annual sales growth at international retailers.

%	Monthly growth Dom.	Monthly growth Int.	Annual growth Dom.	Annual growth Int.	Share of Dom. Spend	Share of Int. Spend
18-24	2.0	-0.4	32.8	1.2	11.6	18.0
25-34	0.4	0.4	22.1	-8.4	21.5	22.3
35-44	0.3	3.2	21.9	-10.1	24.5	20.7
45-54	0.0	2.5	20.1	-7.3	20.1	18.2
55-64	-1.0	3.5	14.5	-4.4	13.2	12.5
65+	-2.0	-1.0	12.6	-6.3	9.0	8.4
All ages	0.2	1.7	21.0	-6.2	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 NSW, NT, and WA.

Around 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.

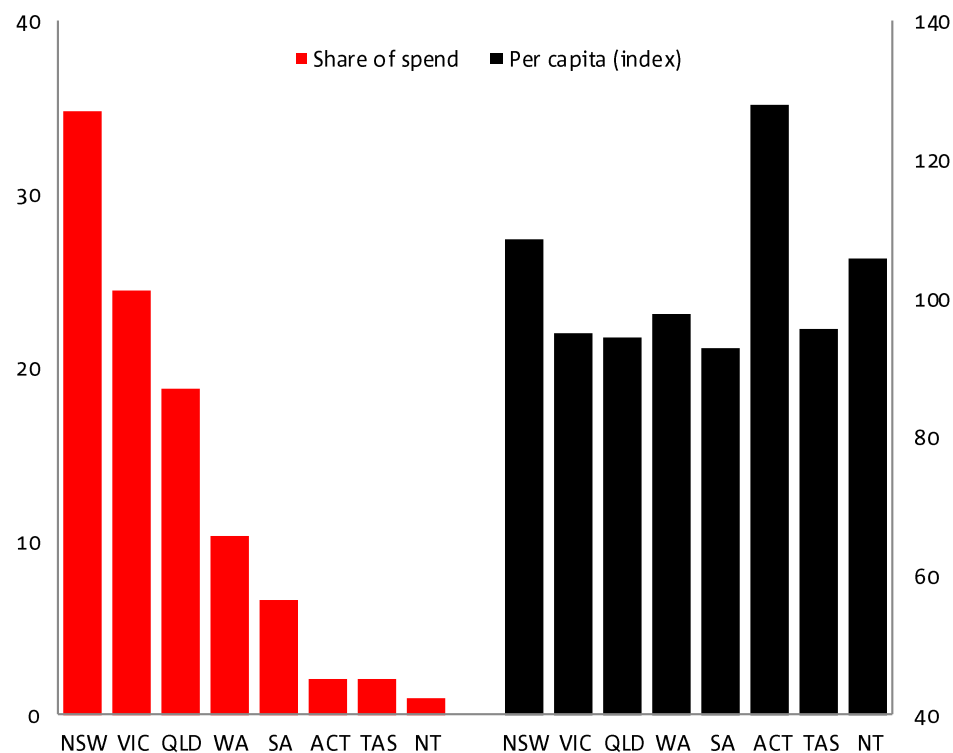
However, on a per capita basis, residents in ACT, NT and NSW spent more than the national average. In the ACT, where 1.7% of Australians live, 2.0% of total online purchases in dollar value terms were made.

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 24.5% of total online spending, a share that is up marginally on where it was in September 2017 (24.1%).

Chart 10

SHARE OF SPENDING, BY STATE

(% annual)



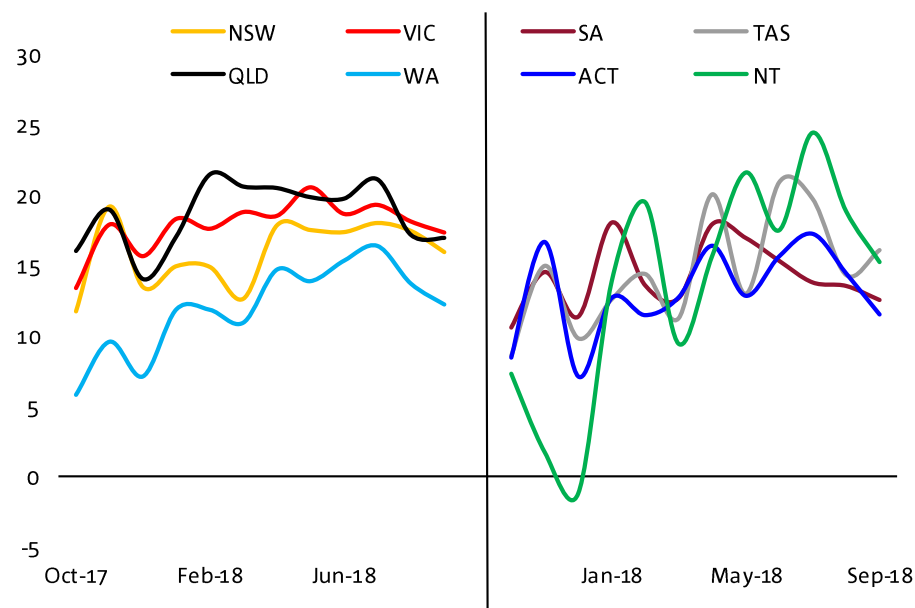
SPENDING BY STATE

Victoria (+17.3%) led growth over the past year with Queensland second (+16.9%). All states recorded growth in 12 months to terms in September. Online spend in the ACT has been slowest in the past year.

Chart 11

GROWTH OF SPENDING, BY STATE

(% 12 months to)

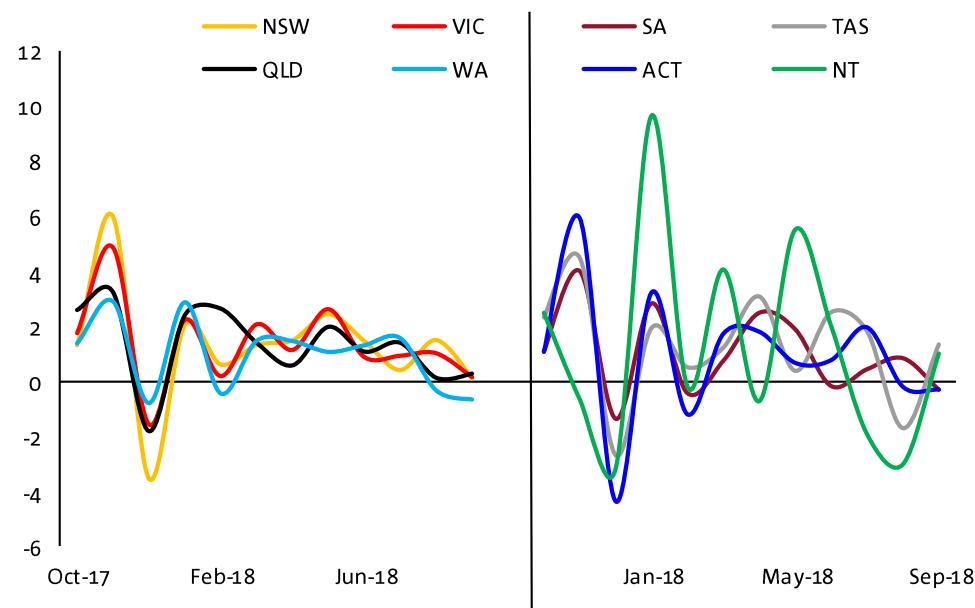


Tasmania and the NT online sales both rebounded from a contraction in August. Sales growth in Queensland also accelerated, while the two largest states, Vic and NSW, experienced more mild growth. Sales growth contracted in SA, ACT and WA in September.

Chart 12

GROWTH OF SPENDING, BY STATE

(% mom, s.a.)





**METROPOLITAN
VS REGIONAL**

METROPOLITAN & REGIONAL PERFORMANCE

Growth was mildly positive in both metropolitan and regional areas in September, in-line with the overall index. Metropolitan residents bought 73.5% of online purchases in the past year, and also spent more on average in most states, with the key exception of WA. Regional areas have punched slightly above their weight in the index in terms of contribution to overall index growth in the past 12 months.

Growth was recorded in both metro (0.4%) and regional areas (0.3%) in September. In early 2018, online retail sales growth in regional areas was well above that of metro areas, resulting in a higher contribution to growth in the past 12 months relative to their weight in the index.

Metropolitan residents retain the largest share of spend, and spent on average around 13.4% more than those residing in regional Australia. Worth noting that this was 14.9% when reported in June, so the gap has closed somewhat. Those living in regional Western Australia spent about 0.8% more than the average Australian.

Chart 13

GROWTH OF SPENDING, BY REGION

(% mom)

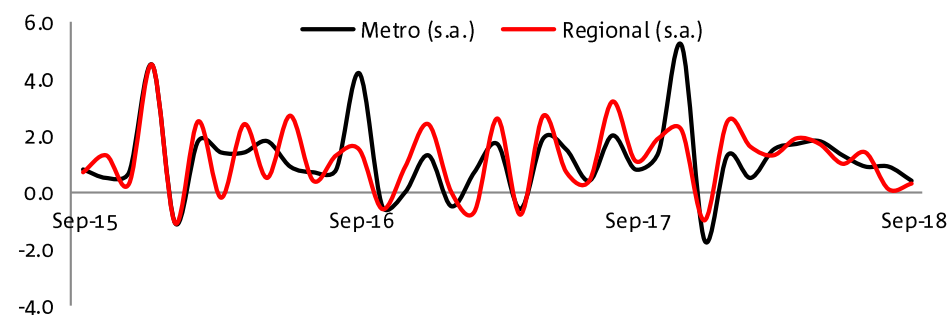
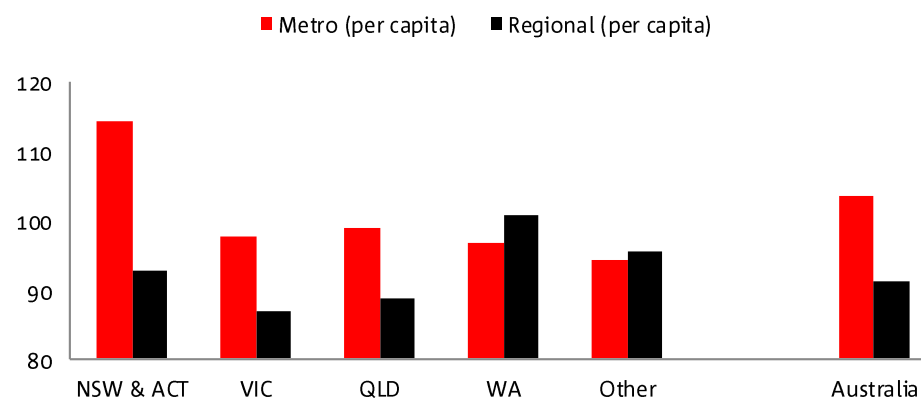


Chart 14

PER CAPITA SPENDING INDEX

(Australia = 100)





SMALL ONLINE RETAILERS



SMALL ONLINE RETAILERS (SMES)

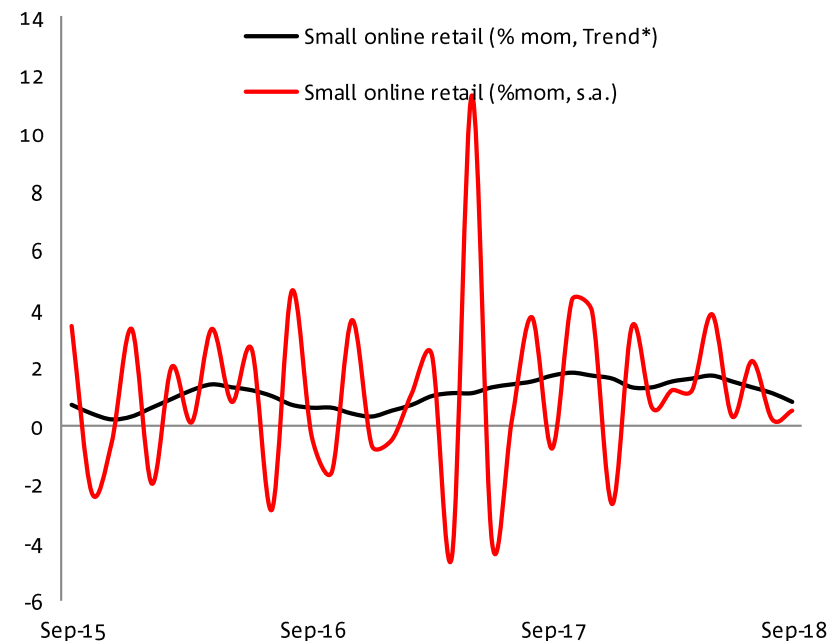
SME online retailers made up about 35% of all online retail sales in the past 12 Months.
SME monthly and annual sales grew faster than their corporate counterparts in September.

Smaller online retail sales (0.5% mom, s.a.) grew slightly faster relative to corporates in September. The trend estimate of monthly growth has slowed slightly (+0.8%, mom s.a.), and is back below 1% for the first time since February 2017. In 12 months to terms we estimate online sales at SME retailers are now 19.9% higher compared to the same time a year ago.

The small spend share category of food catering grew rapidly in the month, followed by the largest spend share category, homeware and appliances. The latter category has contributed over two-fifths of all growth in the SME sales index over the past 12 months.

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, which make up the bulk of spend at SME online retailers at just over 85% of spend. While homeware and appliances represents over 32% of spending at small online retailers, this category contributed 42.8% to small online retail sales growth.

%	Monthly growth - Aug	Monthly growth – Sep	Annual growth – Aug	Annual growth – Sep	Share of Small spending	Contribution to annual Small spending growth
Fashion	0.5	0.3	22.4	21.6	25.0	24.1
Daily Deals*	-	-	-	-	0.0	-
Department	-1.3	-4.2	14.9	3.9	3.3	5.1
Homeware	-0.2	0.8	22.8	23.4	32.6	42.8
Media	-0.5	-3.3	15.5	18.0	2.8	1.1
Personal	-0.4	0.5	13.6	17.6	27.9	22.5
Groceries	7.6	-1.0	4.0	3.8	3.3	0.1
Toys	-0.5	0.1	20.6	21.1	3.4	2.7
Food	7.6	1.1	39.4	38.0	1.7	2.0
Total	0.2	0.5	19.1	19.9	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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