



NAB CASHLESS RETAIL SALES INDEX DECEMBER 2018

NAB Group Economics

- The NAB Cashless Retail Sales Index rose 0.9% in December on a month-on-month basis, up from a 0.4% (revised) increase in November. However, our data mapping suggests that the official ABS measure of retail sales will record a negative print in December, forecast to be down 0.3%.
- These results suggest that retail spending for Christmas 2018 was fairly weak. While some Christmas spending was brought forward to November by way of the ever more popular Black Friday and Cyber Monday sales, (the ABS m/m retail print for November was +0.4%) the reality is that consumers were reluctant to spend over Christmas and that underlying spending is lacklustre, underlined by a number of retailers starting the Boxing Day sales before Christmas itself.
- The advent of the Black Friday sales is likely changing the seasonal composition of Australian retailing. Indeed our forecasts for ABS spending in December 2016 and 2017 were both negative. However, it appears that there is more to the decline this year than a simple bringing forward of spending to November. Our forecast for a negative ABS print is driven by a contraction in four of the six major sectors (household goods, department stores, other retailing and cafes, restaurants and takeaways) on a month-on-month basis.
- The NAB Cashless Retail Sales Index was up 9.9% year-on-year in December. Year-on-year growth is positive for all six NAB Cashless Retail Index major industry groupings. Cafes, restaurants & takeaways remains the fastest growing category (15.9% y/y), followed by food (10.0%), department stores (7.4%), clothing and footwear (7.1%), household goods (5.0%), and finally other retailing (4.7%). For more detail see Charts 3, 7 & 8.
- 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 (9.4% y/y versus 2.8% y/y in November).
- See comments from NAB's Chief Economist, Alan Oster, on page 2.

	Year-on-year growth (% s.a.)		
	Oct-18	Nov-18	Dec-18
NAB Cashless Index*	10.7	9.4	9.9
ABS Retail Trade	3.6	2.8	--
NAB ABS Retail Trade forecast	3.6	2.9	3.0

	Month-on-month growth (% s.a.)		
	Oct-18	Nov-18	Dec-18
NAB Cashless Index*	0.6	0.4	0.9
ABS retail Trade	0.3	0.4	--
NAB ABS Retail Trade forecast	0.3	0.3	-0.3

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

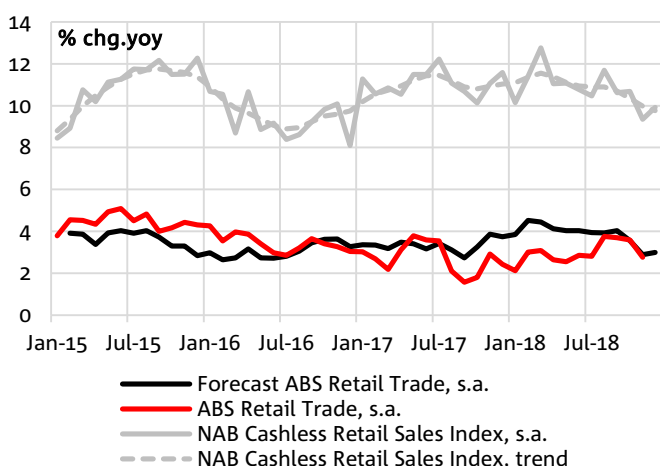
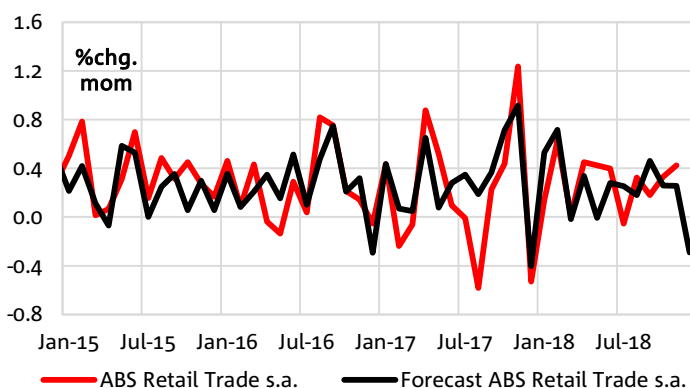


Chart 2: ABS and forecast ABS retail trade data, s.a.



NAB Chief Economist, Alan Oster commented:

The NAB Cashless Retail Sales Index recorded 0.9% month-on-month growth in December. However, our mapping of the “official” ABS measure points to a print of -0.3% for December, which would be the worst result in a year if it transpires.

While the increasing popularity of the Black Friday and Cyber Monday sales is arguably bringing forward some Christmas spending to November, the ABS print of 0.4% for the month largely reflects a business as usual November. This suggests that the weak December read at least partly reflects underlying weakness in the retail sector.

Low wage growth, high personal debt levels and a weakening housing market – particularly in Sydney and Melbourne – have made consumers reluctant to spend on non-essentials. The Australian economy is still growing, although we revised down our GDP growth forecasts somewhat last month, as wealth effects of lower house prices and slower housing construction bear more on the outlook. We now no longer expect any movement in the cash rate until the second half of 2020.

Furthermore, consumer preferences continue to trend towards experiences at the expense of traditional consumer goods. Cafes, restaurants and takeaways remains the strongest performer on a year-on-year basis, followed by food, while department stores, clothing and footwear, household goods and other retailing are growing much more slowly.

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.

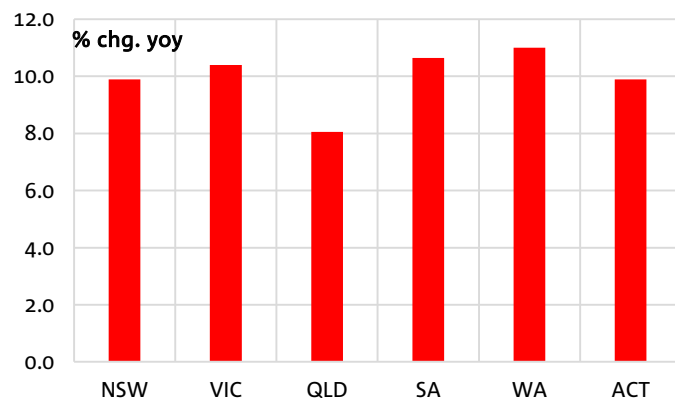


Chart 5: Cashless retail sales by sub-industry, s.a.

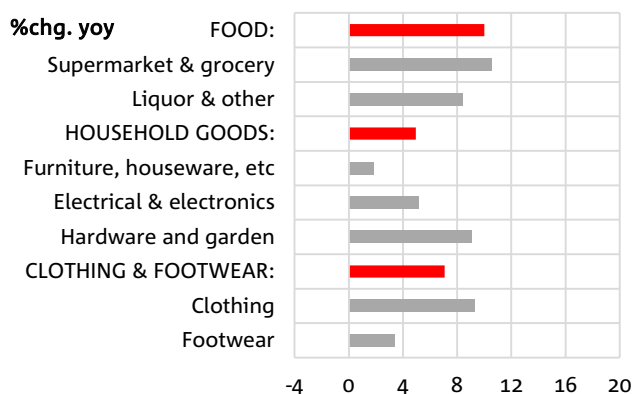
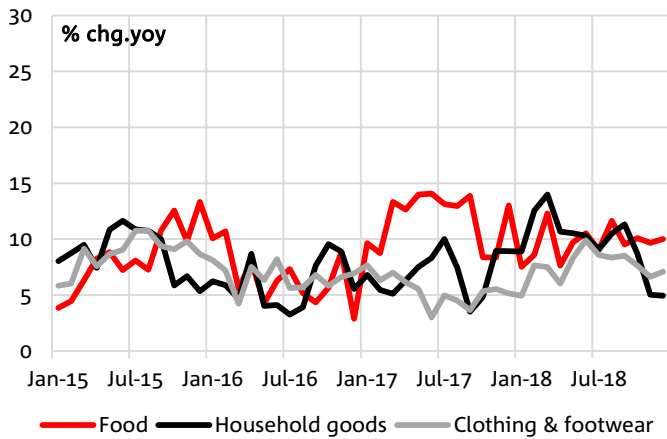


Chart 6: Cashless retail sales by sub-industry, s.a.

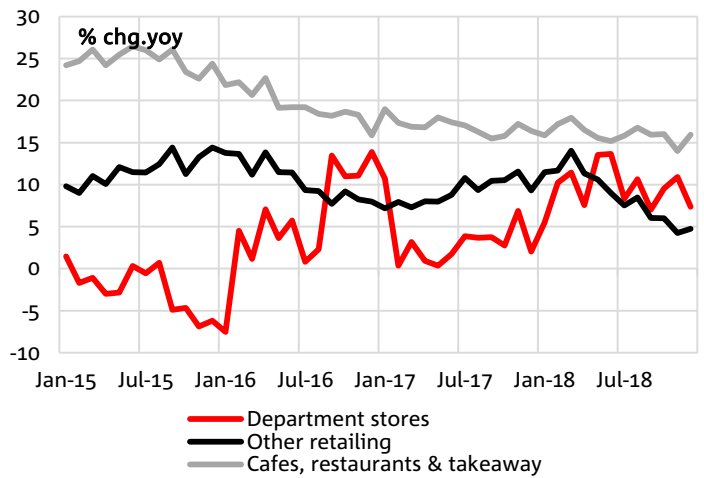


Charts 7 & 8: Cashless sales by industry, seasonally adjusted

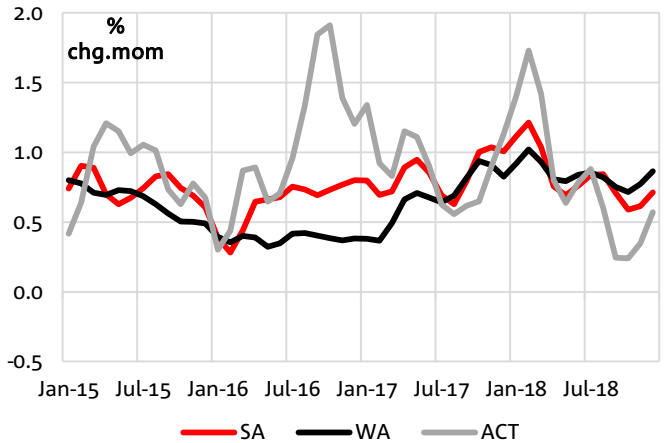
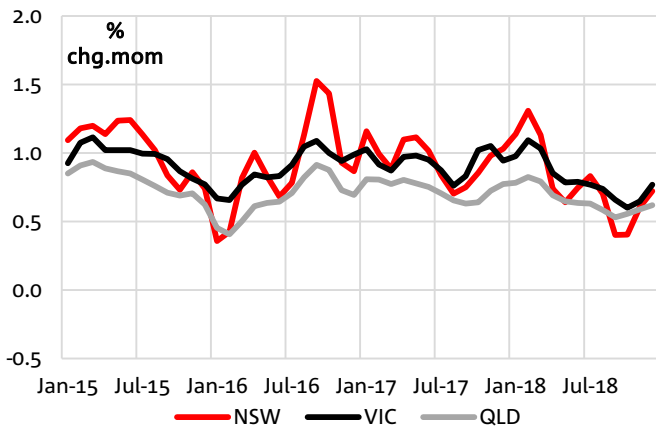
Cashless and total retail sales by industry, s.a.



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.

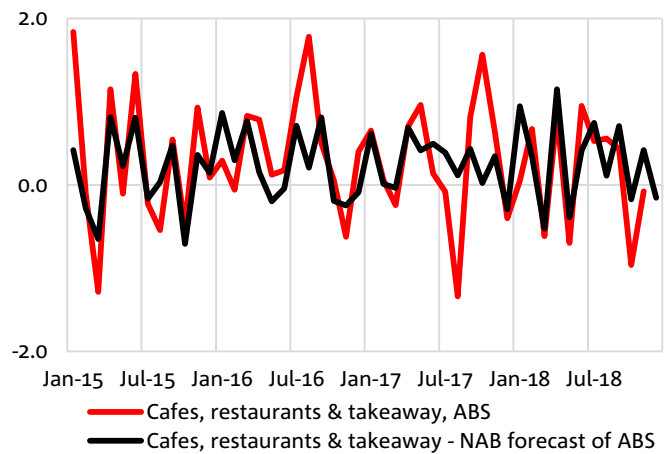
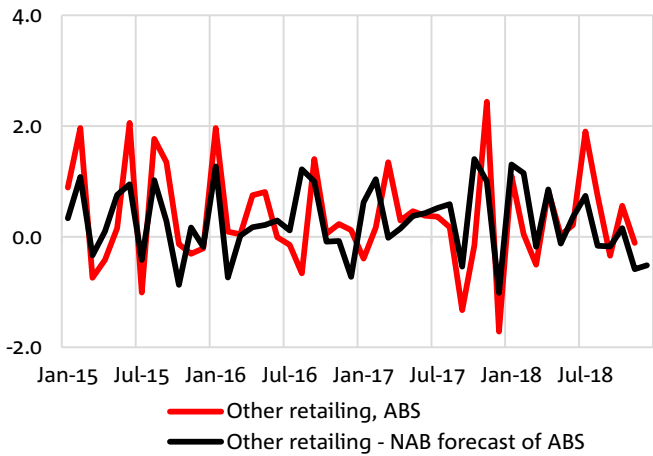
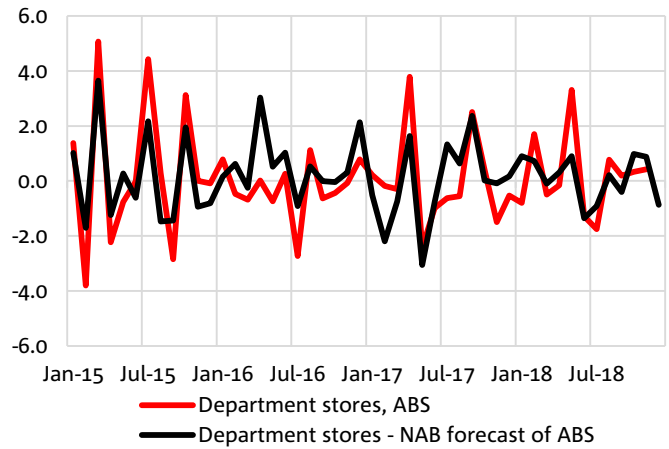
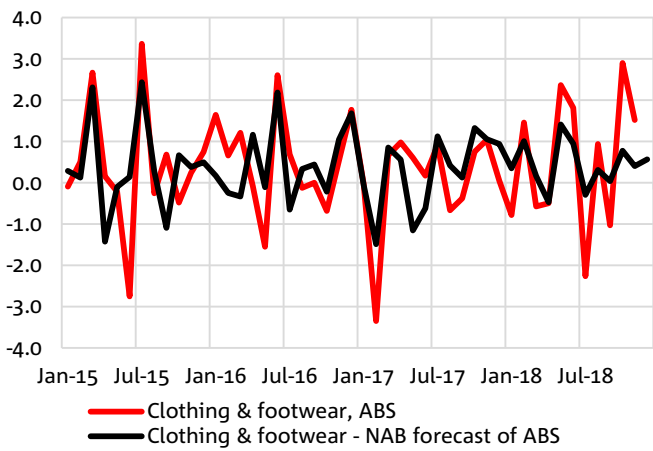
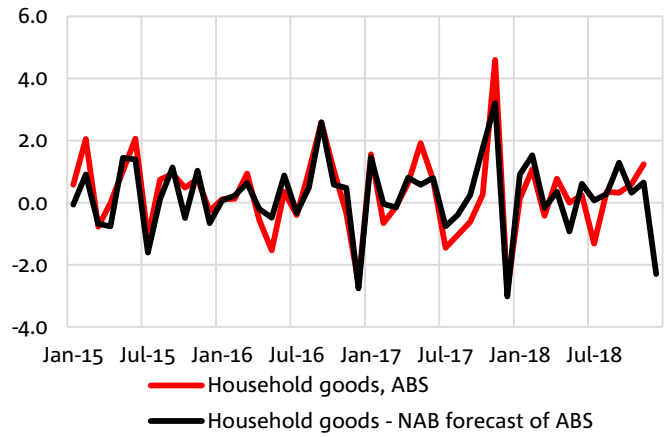
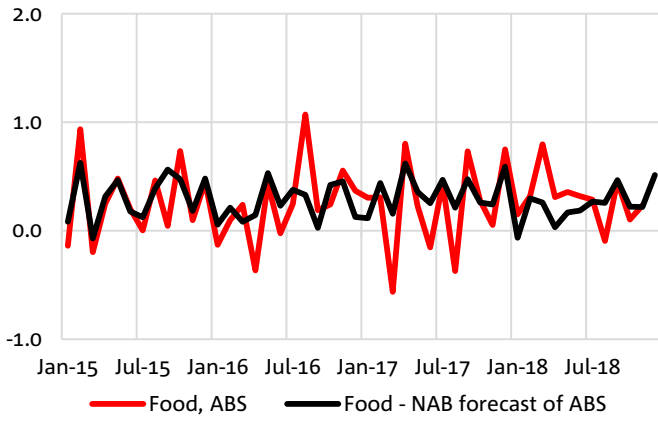
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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