



NAB CASHLESS RETAIL SALES INDEX JANUARY 2019

NAB Group Economics

HIGHLIGHTS

- We forecast that ABS retail trade for January will return to growth – albeit modestly – in January 2019, following a weak Christmas period (the ABS print for December was -0.4% m/m, we forecast -0.3%). Overall we forecast ABS retail trade to increase 0.3% m/m sa in January. That is, broadly flat over the Xmas / New Year period.
- The NAB cashless retail sales index, which generally grows faster than the ABS measure, gained 0.6% m/m in January. Growth slowed on a year-on-year basis, standing at 9.3%. Cafes, restaurants and takeaway remain the standout performer, up 15.4% y/y, although this is the weakest growth for the sector for a year. Food is the second strongest sector (up 8.8% y/y), followed by department stores, clothing and footwear, household goods and other retailing.
- The ACT regains top spot among states and territories (up 10.2% y/y), followed by Western Australia (9.7% y/y), while New South Wales and Victoria are equal third (9.5% y/y). South Australia is just behind while Queensland remains the weakest performing state.

COMMENTS FROM NAB GROUP CHIEF ECONOMIST ALAN OSTER

While our forecasts for ABS retail trade suggest that the New Year will bring a return to growth following a weak Christmas period for retailers, the overall picture is of a sluggish retail sector. In January the improvement largely reflected better household goods and other retailing.

This is reflected in other NAB data, such as the *NAB Monthly Business Survey*. The January Survey shows conditions in the retail sector continuing to weigh most on the business conditions index, and the industry continuing to be the only to record negative conditions (-14 seasonally adjusted and -11 in trend terms). Surveyed sub-industry data suggest that conditions are now negative across all categories of retailing.

The retail sector remains close to recession levels, with consumers unwilling to spend in a low wage growth and high debt environment, potentially compounded by negative wealth effects from housing. Consequently, a pick-up in wage growth is critical for the retail sector. *Our latest forecasts* are for wage growth to continue to show a gradual rise over the next two years, but remain well below the 3%+ prints seen in the lead up to the GFC.

	Year-on-year growth (% s.a.)		
	Nov-18	Dec-18	Jan-19
NAB Cashless Index*	9.8	9.7	9.3
ABS Retail Trade	2.8	2.8	–
NAB ABS Retail Trade forecast	2.9	3.0	2.8

	Month-on-month growth (% s.a.)		
	Nov-18	Dec-18	Jan-19
NAB Cashless Index*	0.5	0.5	0.6
ABS retail Trade	0.5	-0.4	–
NAB ABS Retail Trade forecast	0.4	-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

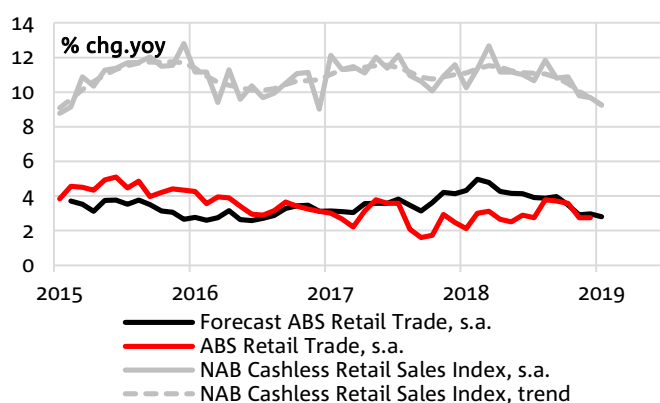
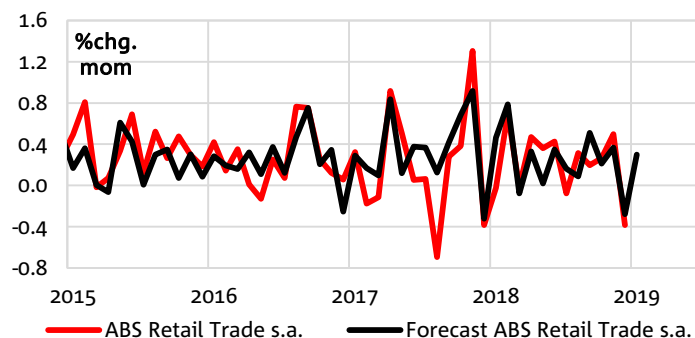


Chart 2: ABS and forecast ABS retail trade data, s.a

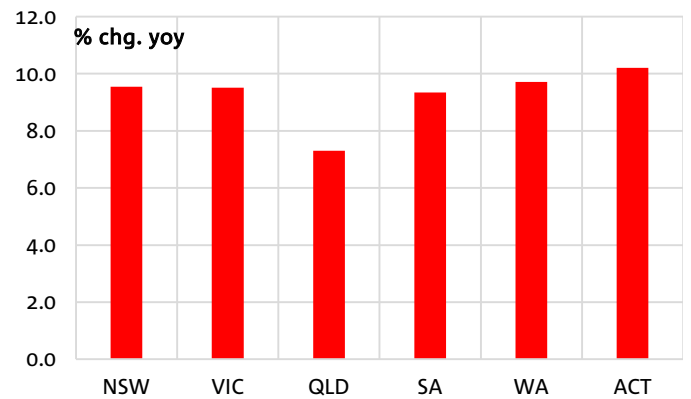


DETAILED CHARTS

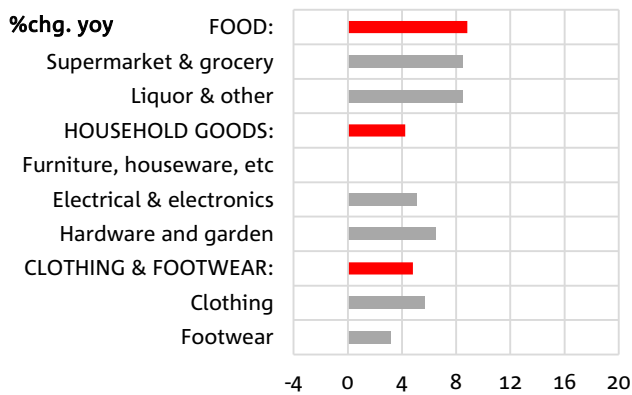
Chart 3: Cashless retail sales by industry, s.a.



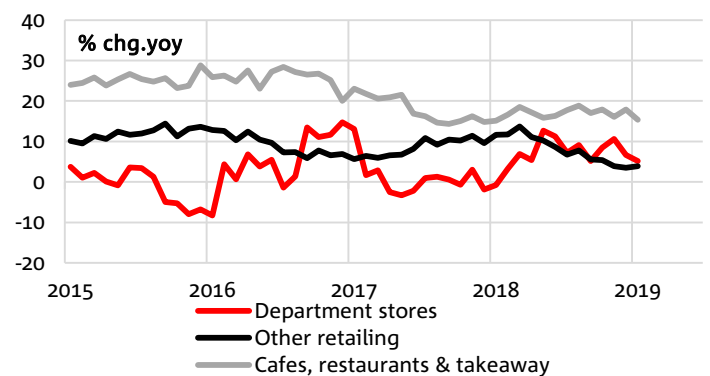
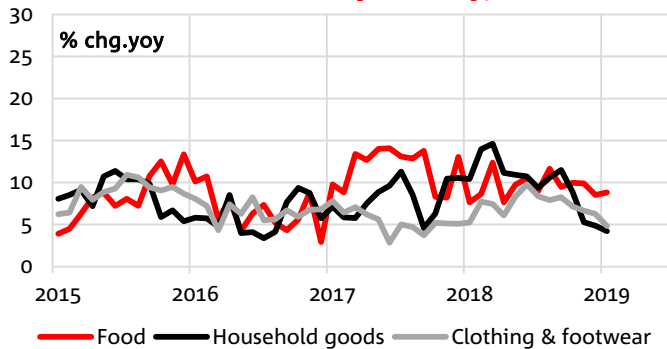
Chart 4: Cashless retail sales by state, s.a.



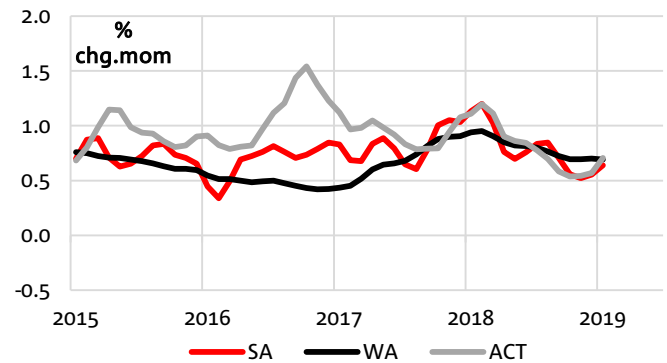
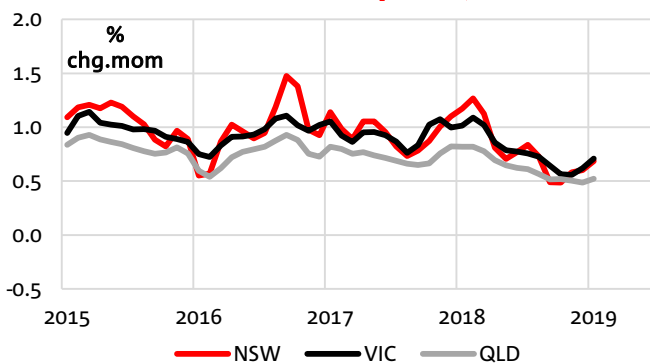
Charts 5&6: Cashless retail sales by sub-industry, s.a.



Charts 7&8: Cashless sales by industry, s.a



Charts 9&10: Cashless sales by state, trend



ABOUT THE INDEX

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 (9.7% y/y versus 2.8% y/y in December 2018).

RBA research suggests 18% of the value of retail trade occurred via cash in 2016. We use mapping equations to forecast the official ABS measure of retail trade. Over time, the growth rates of the two series are likely to come together.

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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.

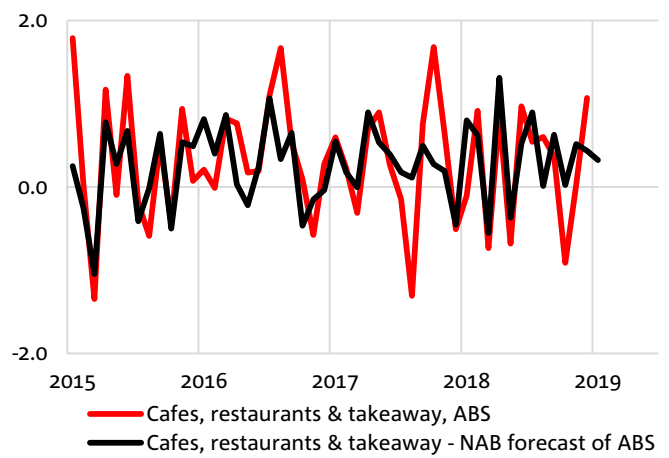
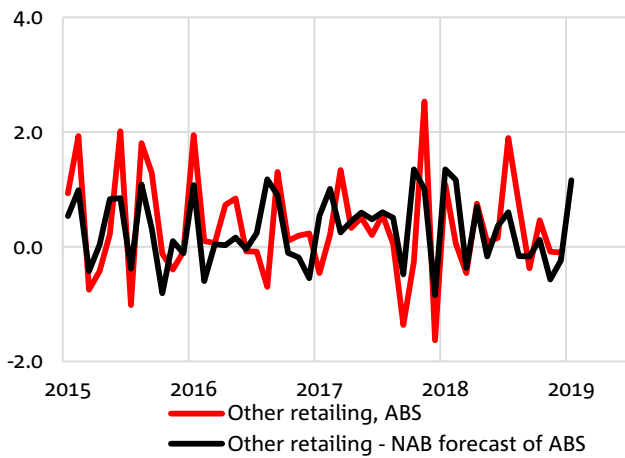
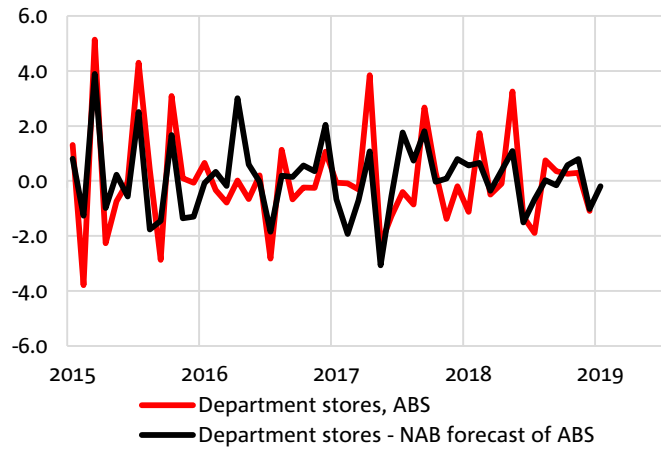
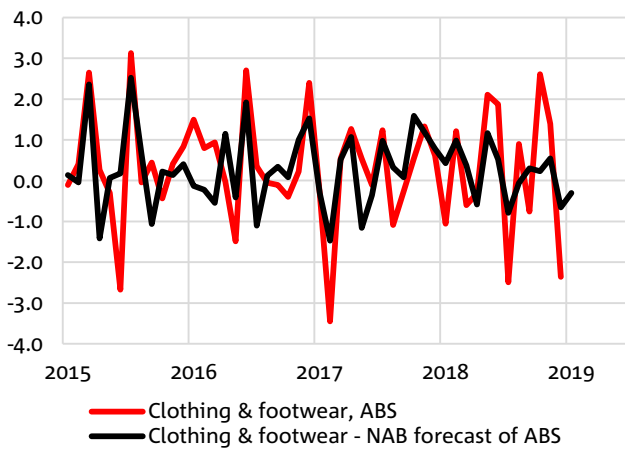
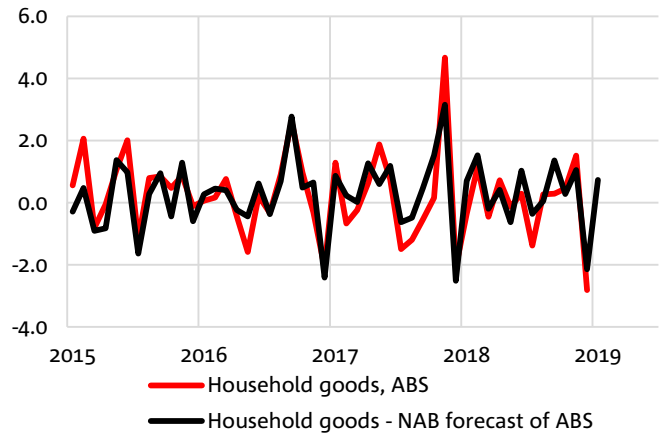
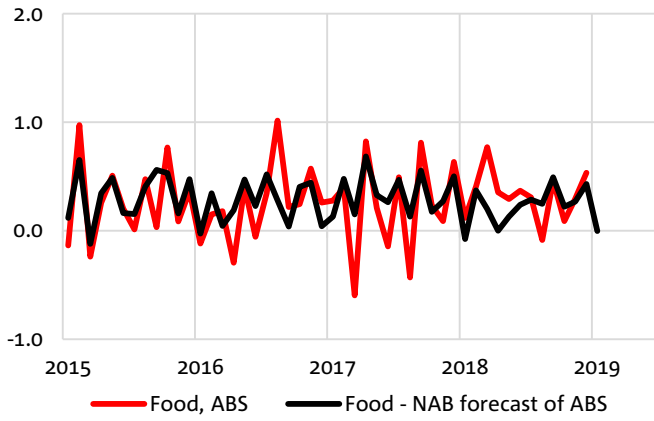
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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