



NAB CASHLESS RETAIL SALES INDEX FEBRUARY 2019

NAB Group Economics

HIGHLIGHTS

- We forecast that ABS retail trade for February will grow for a second consecutive month, following a weak Christmas period and a subdued January ABS print (the ABS print for January was 0.1% m/m, we forecast -0.3% at the time, revised to 0.5% m/m). For February our Cashless Retail Sales Index implies growth of 0.3% in the month. The lower read compared to the January Retail Sales print, combined with weakness in our other indicators (such as the NAB Monthly Business Survey), makes us somewhat cautious about these results – and in particular there may be some downside risk to the Cashless estimate for February.
- The NAB cashless retail sales index, which generally grows faster than the ABS measure, gained 0.5% m/m in February. Growth continues to slow on a year-on-year basis, standing at 7.9%. Cafes, restaurants and takeaway remain the standout performer, up 14.4% y/y, although this is the weakest growth for the sector in 17 months. Food is the second strongest sector (up 8.2% y/y), followed by department stores, clothing and footwear, other retailing and household goods.
- NSW has overtaken the ACT as strongest performing state or territory (up 8.2% y/y), followed by the ACT (8.1% y/y), South Australia (8.0% y/y), Western Australia (7.9% y/y), Victoria (7.7% y/y) and finally Queensland – the weakest performing state on 7.0% y/y.

COMMENTS FROM NAB GROUP CHIEF ECONOMIST ALAN OSTER

*While our model output forecast for ABS retail trade suggests that the index will grow 0.3% m/m in February, frankly this is at odds with other data, such as the **NAB Monthly Business Survey**. The February Business Survey found that retail remained the weakest industry in the survey by significant margin and declined further from the previous month.*

Ultimately, the retail sector remains at or close to recession levels, with consumers unwilling or unable to spend in a low wage growth and high debt environment, potentially compounded by negative wealth effects from housing. Consequently, the consumer's balance sheet and wages growth in particular needs to accelerate to underpin faster retail sales. We doubt given the activity and employment outlook that that will happen.

	Year-on-year growth (% s.a.)		
	Dec-18	Jan-19	Feb-19
NAB Cashless Index*	9.5	9.0	7.9
ABS Retail Trade	2.8	2.7	–
NAB ABS Retail Trade forecast	2.9	2.8	2.5

	Month-on-month growth (% s.a.)		
	Dec-18	Jan-19	Feb-19
NAB Cashless Index*	0.5	0.6	0.5
ABS retail Trade	-0.4	0.1	–
NAB ABS Retail Trade forecast	-0.3	0.5	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

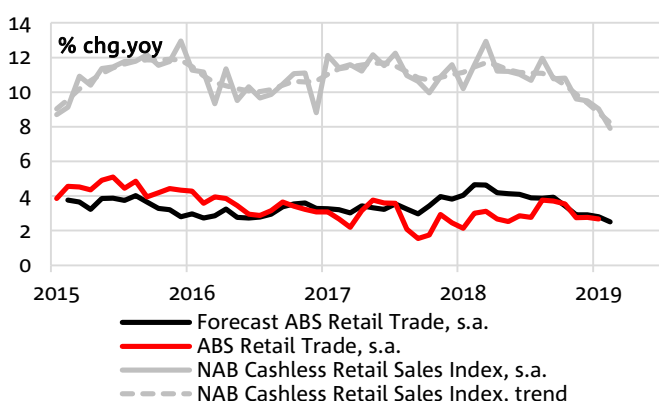
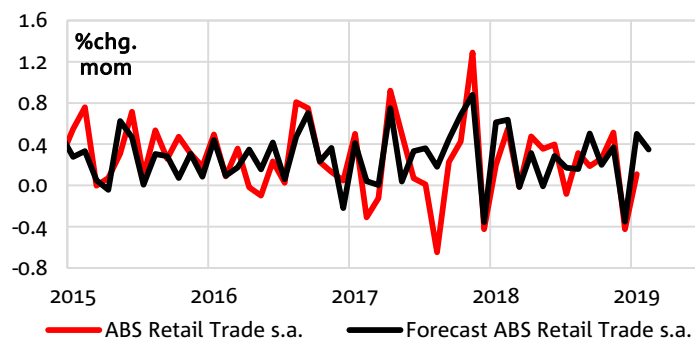


Chart 2: ABS and forecast ABS retail trade data, s.a

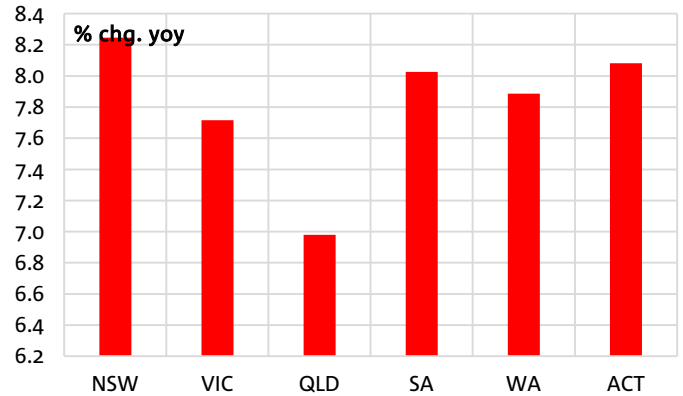


DETAILED CHARTS

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



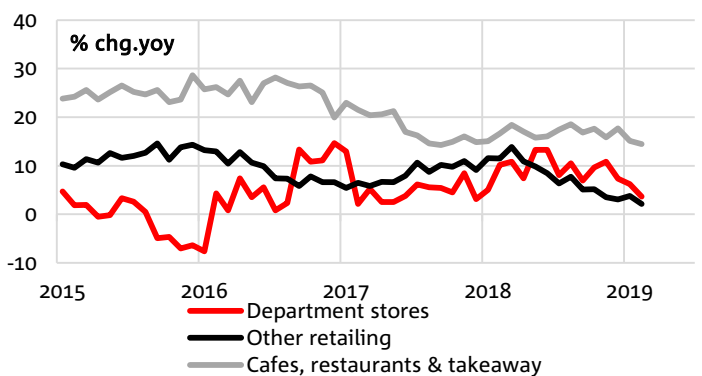
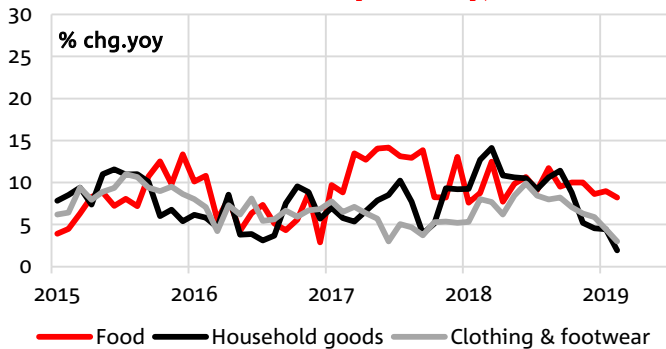
Chart 4: Cashless retail sales by state, s.a.



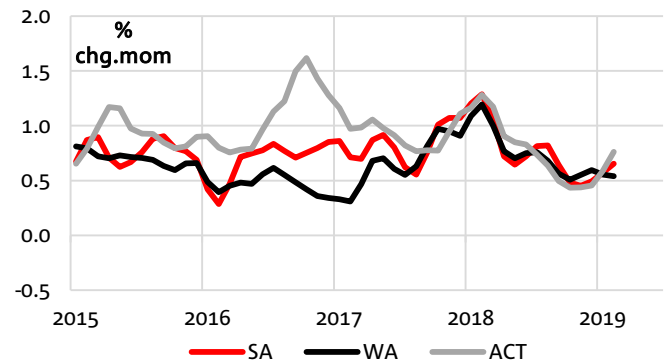
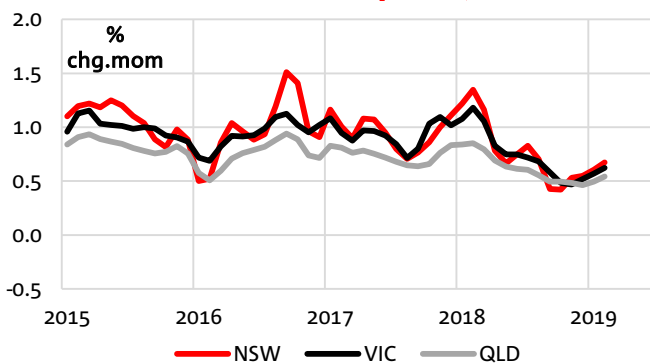
Charts 5&6: Cashless retail sales by sub-industry, s.a.



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 (7.9% y/y versus 2.5% y/y in February 2019).

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.

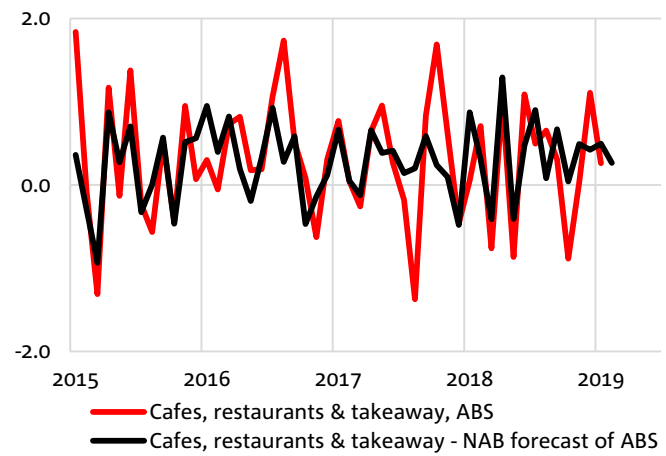
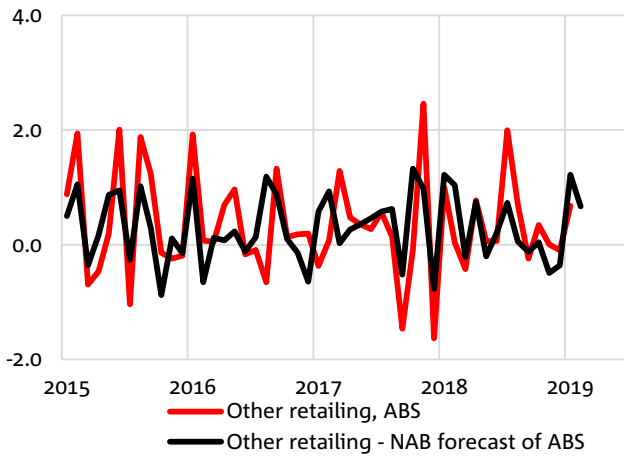
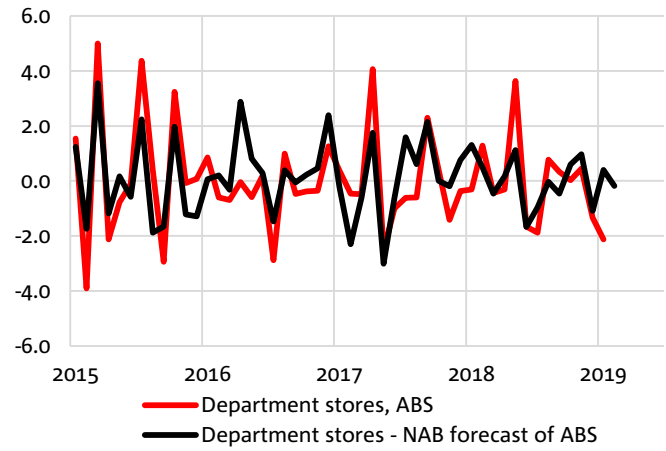
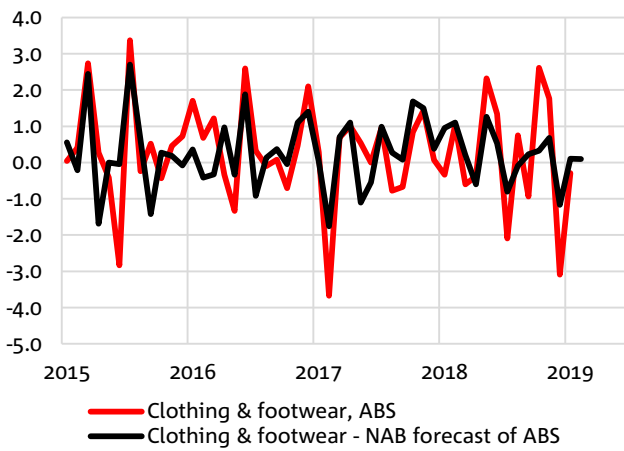
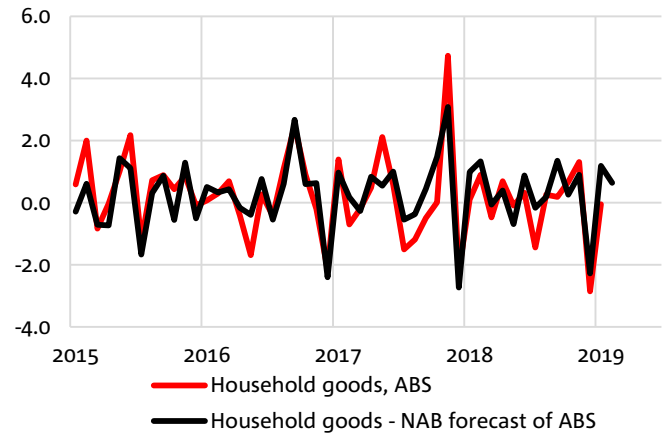
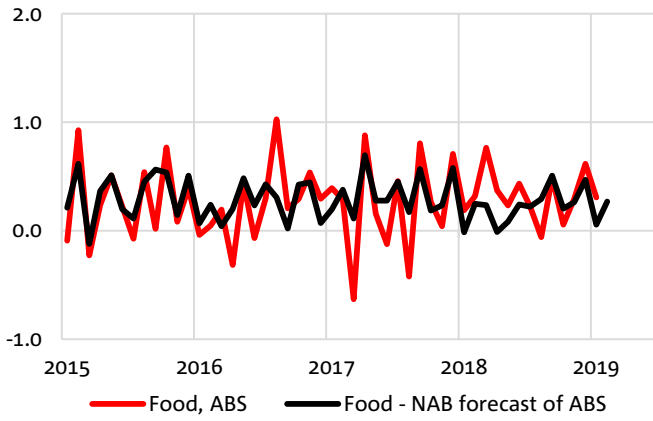
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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