



NAB CASHLESS RETAIL SALES INDEX MAY 2020

NAB Group Economics

HIGHLIGHTS

- Our data mapping points to another large swing in May. We forecast that the ABS retail trade measure will rise 5.5% in May, having fallen almost 18% in April.
- The large swings in the official ABS data in recent months have been hard to match in our data and therefore have seen significant revisions to our mapping equations. Our forecast fall of 5.3% in April (since revised to -14.4%) notably undershot the ABS print of -17.7%. Following the ABS print of an extraordinary 8.5% gain in March, while we initially forecasted 0.2% (revised to 5.3%).
- What then can we say about retail sales in May? We expect the result to be a strong positive on a month-on-month basis, although coming off a very low base. While the headline result will likely appear encouraging as more businesses reopen, parts of the retail sector will likely experience ongoing challenging conditions this year and into next.

COMMENTS FROM NAB GROUP CHIEF ECONOMIST ALAN OSTER

The Australian retail sector is facing extreme volatility amid a cycle of panic-buying, shutdown and now staged reopening. All this amid the sharpest and most rapid slowdown in the economy in living memory. Our forecast for May points to a partial rebound, following a record collapse in April as panic buying ended.

Our data shows huge differences between retail sub-sectors in May. Food, department stores and other retail have, on our estimates, rebounded strongly. Household goods looks to have seen the last of the work from home office equipment and furniture surge, while clothing and footwear and cafes, restaurants and takeaways seem to have declined even further. Cafes restaurants and takeaways may see some upside from easing restrictions, but clothing and footwear will continue to struggle if large numbers of office workers remain working from home.

While Australia has been extremely effective in controlling the virus, our latest forecasts point to a lingering economic impact. We see a pickup in H2 2020 and continued recovery in 2021. But despite a rebound in growth, we don't see the level of GDP fully recovered (ie back to Q4 2019 levels) until mid-2022. This will be a major challenge.

| Year-on-year growth (% s.a.) | | | |
|-------------------------------|--------|--------|--------|
| | Mar-20 | Apr-20 | May-20 |
| NAB Cashless Index* | 14.1 | 7.0 | 15.7 |
| ABS Retail Trade | 10.1 | -9.2 | -- |
| NAB ABS Retail Trade forecast | 7.3 | -7.2 | -1.3 |

| Month-on-month growth (% s.a.) | | | |
|--------------------------------|--------|--------|--------|
| | Mar-20 | Apr-20 | May-20 |
| NAB Cashless Index* | 3.0 | -3.2 | 6.3 |
| ABS retail Trade | 8.5 | -17.7 | -- |
| NAB ABS Retail Trade forecast | 5.3 | -14.4 | 5.5 |

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

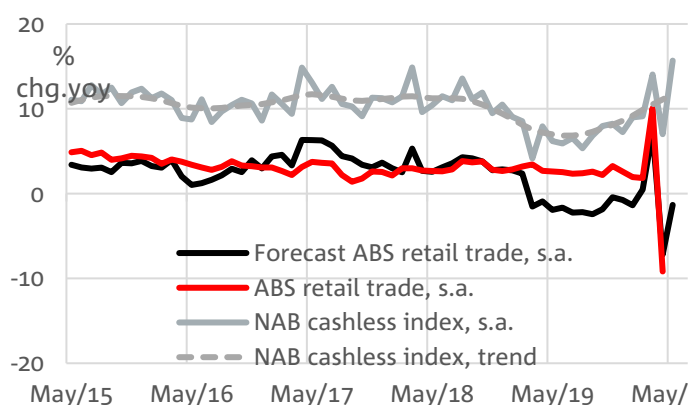
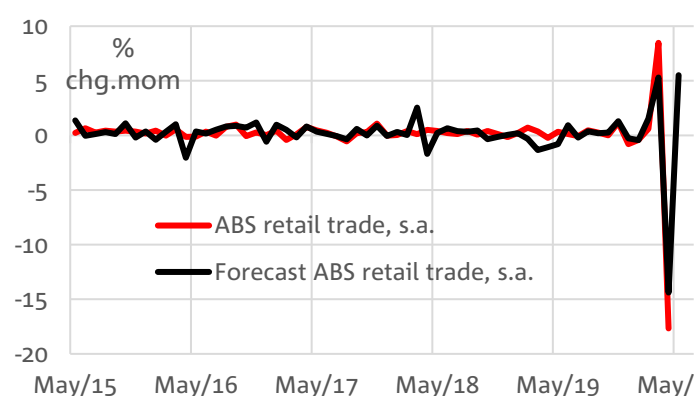


Chart 2: ABS and forecast ABS retail trade data, s.a

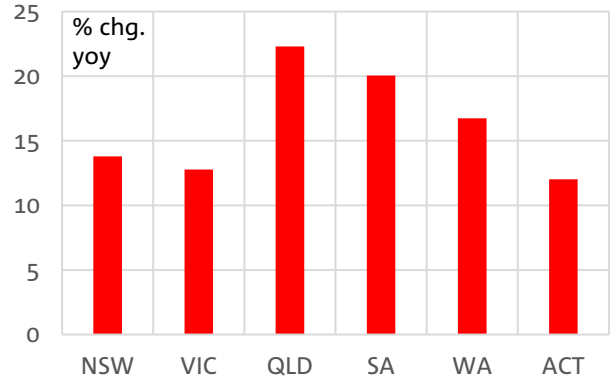


DETAILED CHARTS

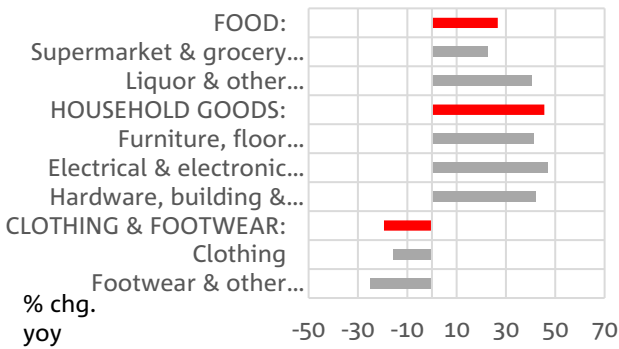
Chart 3: Cashless retail sales by industry, s.a.



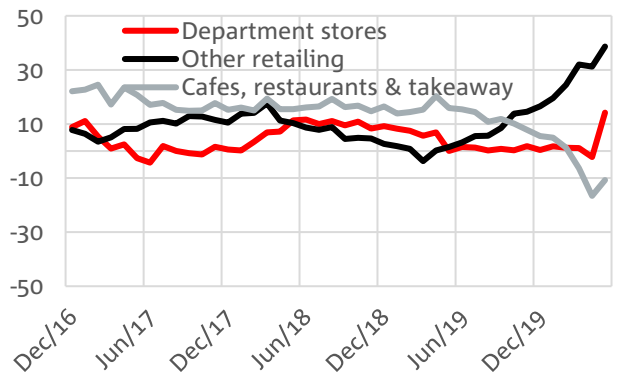
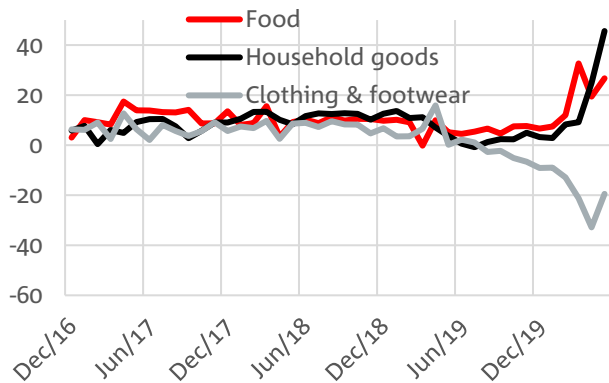
Chart 4: Cashless retail sales by state, s.a.



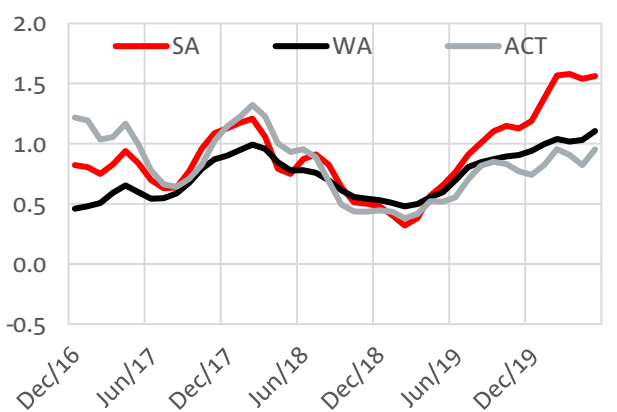
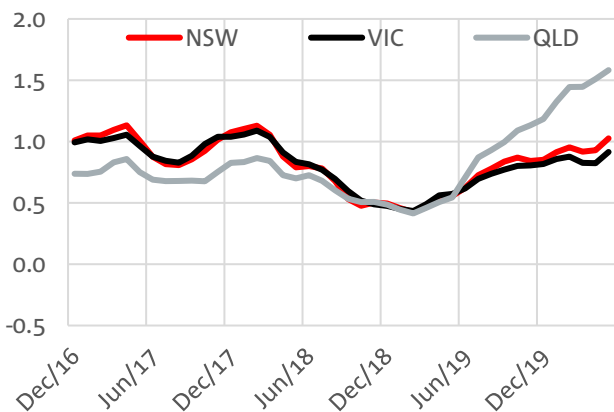
Charts 5&6: Cashless retail sales by sub-industry, s.a.



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



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.

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.

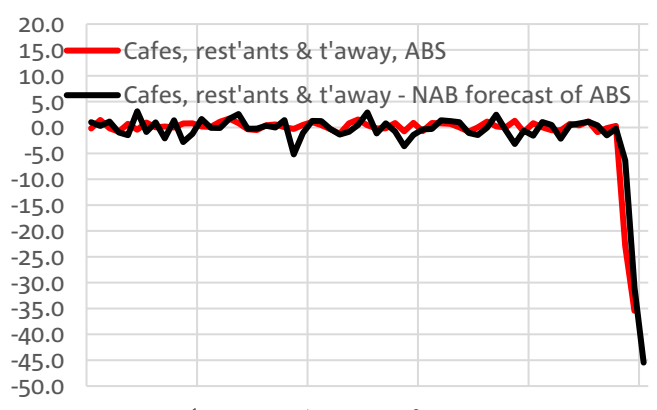
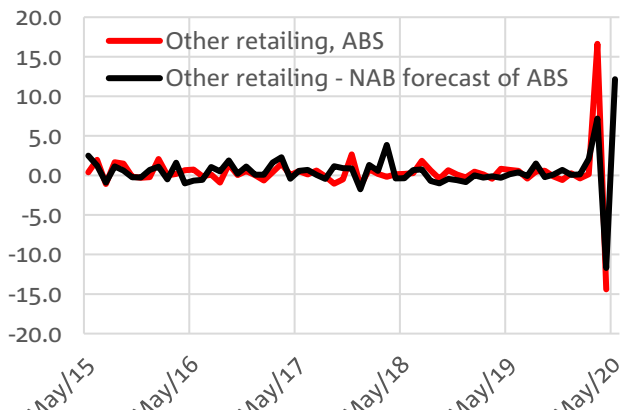
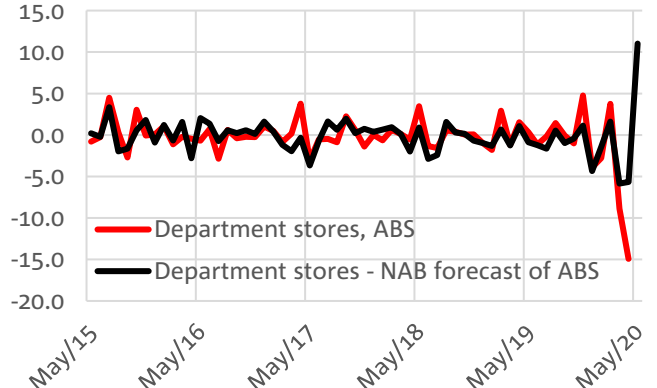
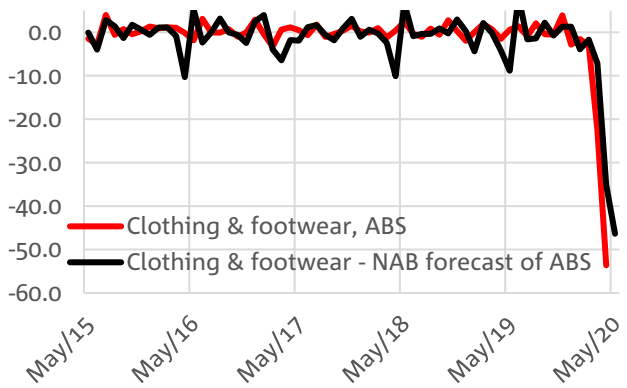
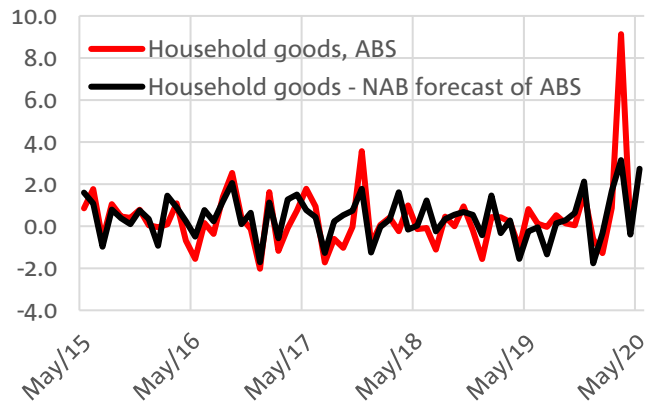
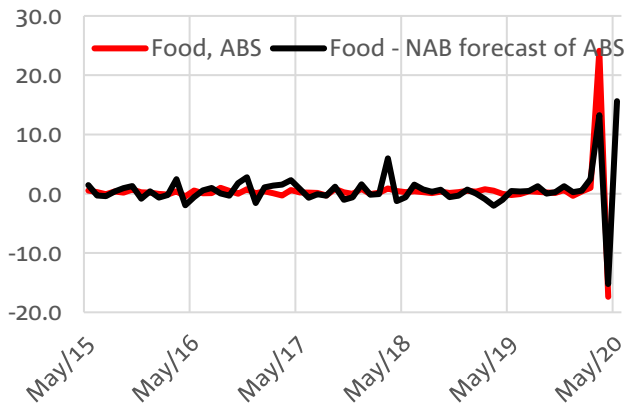
After appropriate weighting and seasonal adjustment, the components of NAB’s cashless retail index (food, household goods, clothing & footwear, department stores, other retailing and cafes, restaurants & takeaway) can generate predictions of the corresponding ABS retail trade series. Aggregating these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