NAB CASHLESS RETAIL SALES INDEX OCTOBER 2020

NAB Group Economics

HIGHLIGHTS

- Our data mapping points to the ABS retail sales measure rising 1.2% in October. The ABS measure fell 1.1% in September, a substantially weaker result than our forecast of +1.9% (since revised to 0.8%).
- Victoria remained the weakest performing state in October, although most retail and hospitality did not reopen in Melbourne until 27 October. We expect that Victorian data will begin to converge with the rest of Australia in November.
- While retail sales have been more resilient than many expected this year, the last two ABS prints have seen negative monthly growth. While our data shows an improvement in October, and better Victorian data should boost the national headline in coming months, we remain concerned that in a weak growth environment, retail will face ongoing challenges.

COMMENTS FROM NAB GROUP CHIEF ECONOMIST ALAN OSTER

The retail sector has proven to be very resilient this year, although many consumers have changed their spending behaviour, leading to a boom for some retailers and bust for others. Businesses in CBDs, clothing and footwear retailers, hospitality and businesses dependent on international tourism have all faced major challenges.

The massive financial support provided by government has allowed many consumers to keep spending. However, this support is being gradually wound back despite unemployment remaining at an elevated level. NAB's latest monthly business survey shows that while confidence has jumped, business conditions remain challenging, driven in part by weak employment.

With signs that outperforming retail sectors household goods and other retailing have peaked, we expect the sector to face ongoing pressure into 2021 as support decreases. The hospitality sector has been under pressure, particularly in Victoria, but if good coronavirus outcomes continue, there is a possibility of some upside driven by increased domestic tourism.

Year-on-year growth (% s.a.)			
	Aug-20	Sep-20	Oct-20
NAB Cashless Index*	19.6	19.4	17.5
ABS Retail Trade	7.1	5.6	--
NAB ABS Retail Trade forecast	3.5	5.2	5.9

Month-on-month growth (% s.a.)			
	Aug-20	Sep-20	Oct-20
NAB Cashless Index*	-1.2	0.9	0.6
ABS retail Trade	-4.0	-1.1	--
NAB ABS Retail Trade forecast	-3.4	0.8	1.2

Sources: NAB, Australian Bureau of Statistics (ABS). *Data seasonally adjusted (s.a.) using TRAMO/SEATS with a trading-day and Easter adjustment.
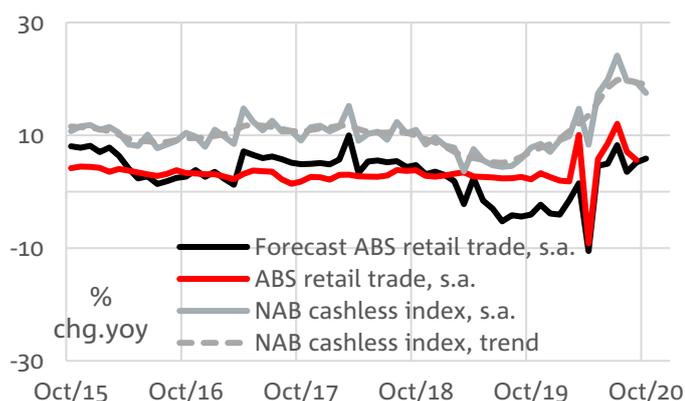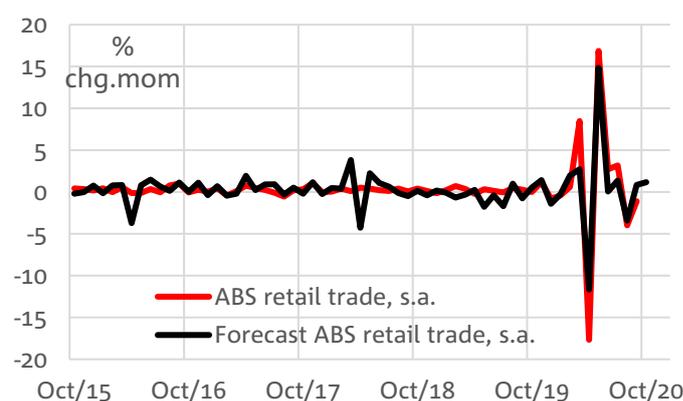
Chart 1: Cashless and total retail sales

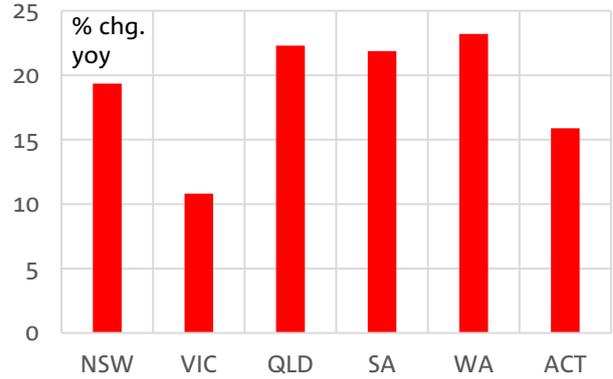
Chart 2: ABS and forecast ABS retail trade data, s.a
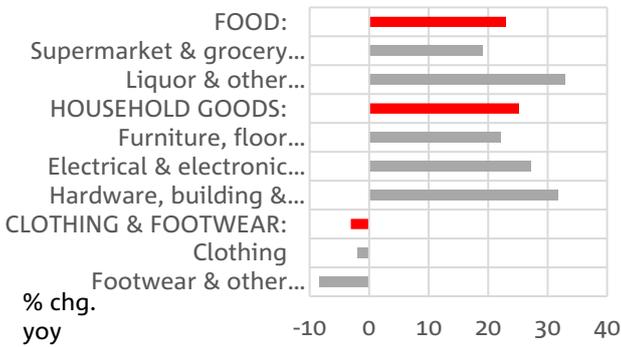
DETAILED CHARTS

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

% chg. yoy

Food
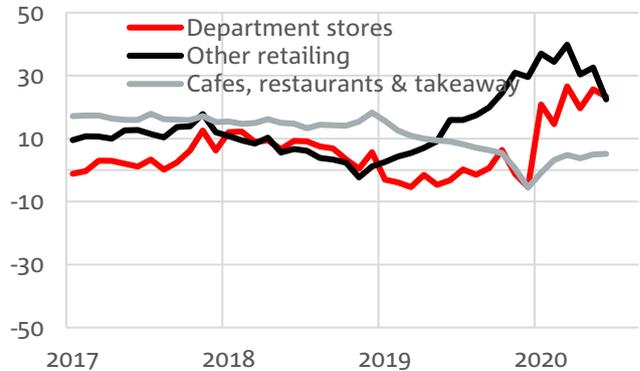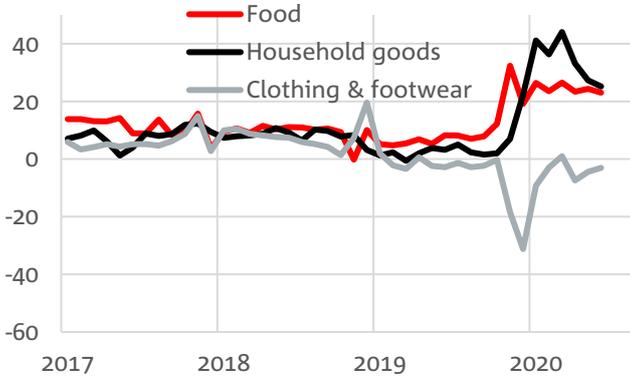Household goods
Clothing & footwear
Department stores
Other retailing
Cafes, restaurants &…

-10   0   10   20   30

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

% chg. yoy

NSW   VIC   QLD   SA   WA   ACT

0   5   10   15   20   25

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

FOOD:
Supermarket & grocery…
Liquor & other…
HOUSEHOLD GOODS:
Furniture, floor…
Electrical & electronic…
Hardware, building &…
CLOTHING & FOOTWEAR:
Clothing
Footwear & other…

% chg. yoy

-10   0   10   20   30   40

OTHER RETAILING:
Newspapers & books
Other recreational goods
Pharmaceuticals,…
Other retailing, n.e.c.
CAFES, RESTAURANTS &…
Cafes & restaurants
Takeaway food services

% chg. yoy

-10   0   10   20   30   40

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

Food
Household goods
Clothing & footwear

40   20   0   -20   -40   -60
2017   2018   2019   2020

Department stores
Other retailing
Cafes, restaurants & takeaway

50   30   10   -10   -30   -50
2017   2018   2019   2020

Charts 9&10: Cashless sales by state, trend

NSW   VIC   QLD

3.5   3.0   2.5   2.0   1.5   1.0   0.5   0.0   -0.5
2017   2018   2019   2020

SA   WA   ACT

3.0   2.5   2.0   1.5   1.0   0.5   0.0   -0.5
2017   2018   2019   2020

2
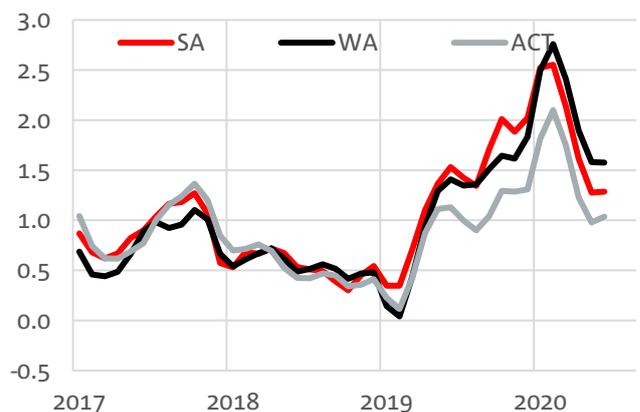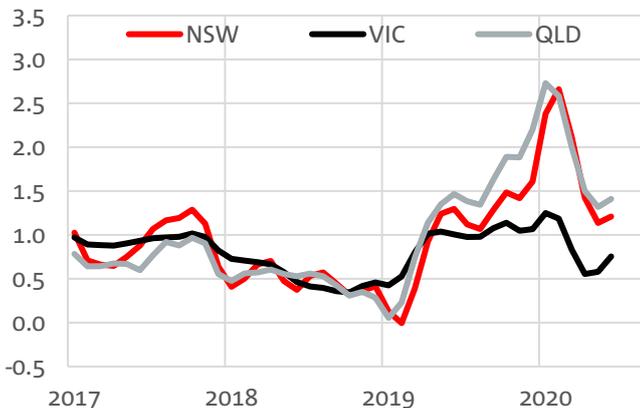
ABOUT THE INDEX

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, hastened this year by the decline in the use of cash.

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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
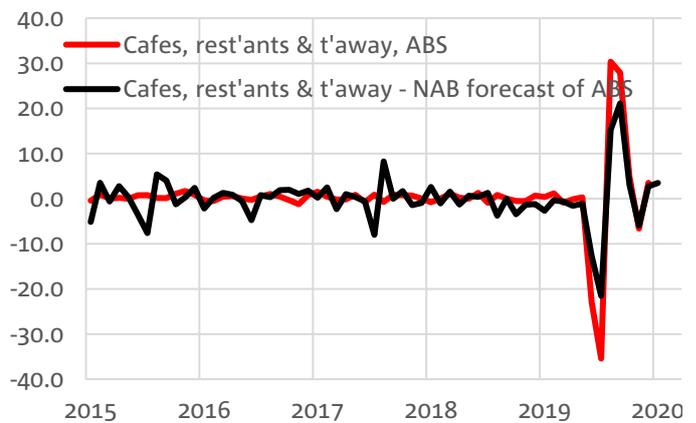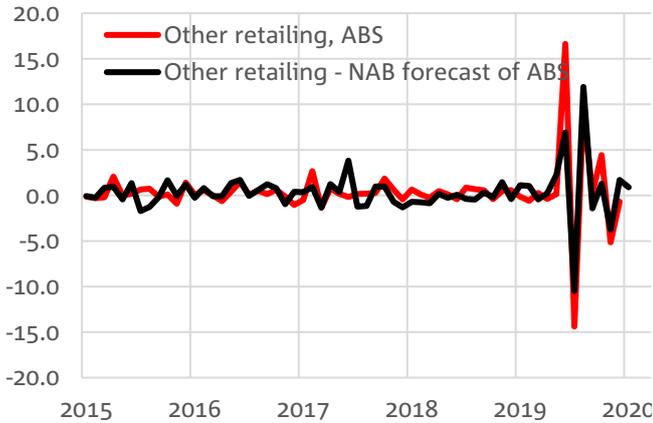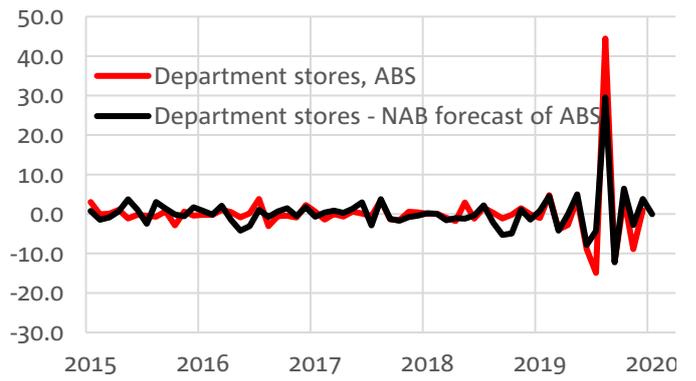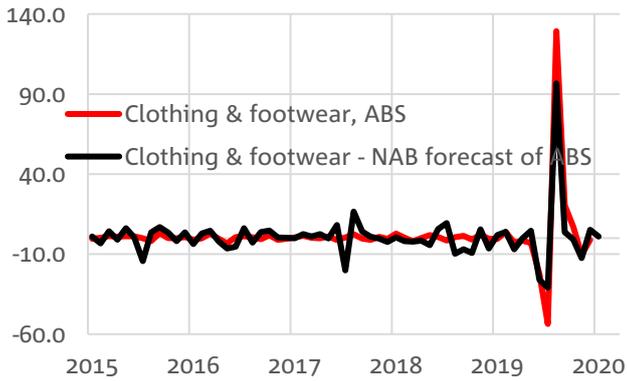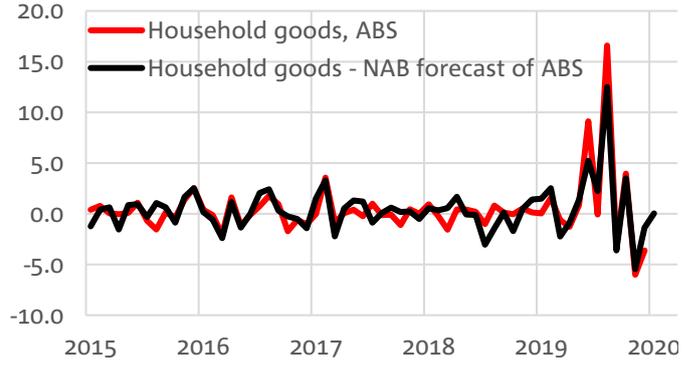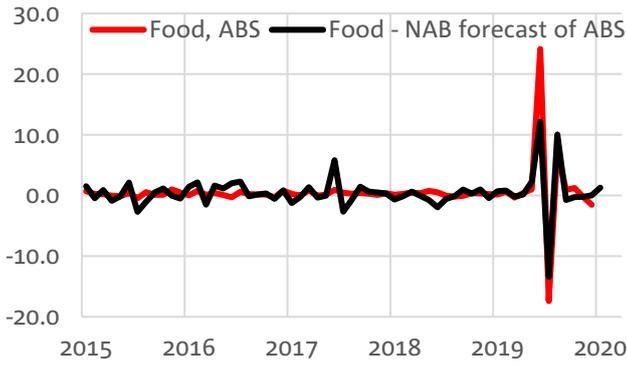
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