



NAB Online Retail Sales Index

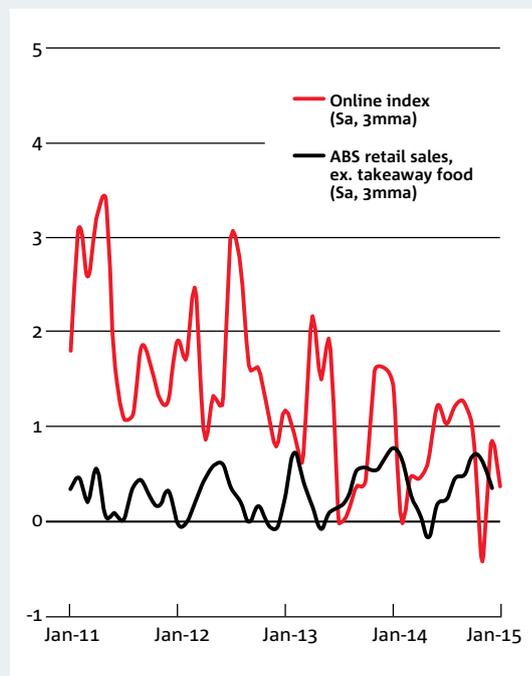
In-depth report – January 2015

Table 1. Key online retail statistics

	YOY growth (NSA%)			MOM growth (% sa, 3mma)		
	Nov 14	Dec 14	Jan 15	Nov 14	Dec 14	Jan 15
Total online Index	4.3	11.9	9.0	-0.4	0.8	0.3
Domestic sales	4.8	14.4	9.5	-0.6	0.9	0.2
International sales	2.9	4.7	7.4	0.2	0.4	0.9

*Monthly growth figures represent seasonally adjusted (sa) data with a three month moving average applied. This is done to provide a smoother trend view of the series. A leap year adjustment made for February 2012. Non-seasonally adjusted online sales data is produced by Quantum. Traditional retail sales data is sourced from the Australian Bureau of Statistics (ABS).

Chart 1. Growth in online retail vs. ABS retail sales (monthly, %)



Note: Sa, 3mma: seasonally adjusted, three-month moving average.

■ Australia’s online retail spending increased to \$16.6 billion for the year to January 2015, or by 9% annually. It now represents around 6.9% of traditional retail spending.

Comparable year growth in traditional bricks & mortar retail (up 4.7%) was still outpaced by the improvement in online retail. That said, recent online growth has been more subdued than the 20-30% year-on-year growth rates recorded in earlier years. In January, the seasonally adjusted month-on-month change was 0.3% compared to around 1.8% for the same month in 2011.

Domestic retailers controlled 74.8% of total online spending as of January 2015, down from 76% in December. Growth in international online retail sales accelerated in January, with some business-to-business players increasing their offering to consumers. In addition, there are some retailers offering reduced on-costs such as postage. Anecdotally this is possibly counteracting the impact of depreciating Australian dollar.

A note on revisions: in this in-depth quarterly review we have re-estimated the growth path of the index. We have revised the data with the identification of more transactions from online retailers that were considered solely Business to Business (B2B) participants, that now have a direct consumer offering. With a more complete match to data, the December growth estimate has also been revised upward from 8.9% (yoy) published December to 11.9% currently, and 0.1% (mom) previously to 0.8% current estimate. There are likely to be future improvements to participant classification that may result in further revisions.

I hope you enjoy our latest insights into this rapidly evolving sector.

Alan Oster, Group Chief Economist, NAB

■ It’s always interesting to see just where Australians are spending their money online. January’s NORSI report reflects significant growth in electronic games & toys; but seller beware – this is a very volatile category, generally impacted by the timing of electronic game releases. While its growth has been stellar, spend is still small. In fact, spend is still biggest in department and variety stores – this sector has recovered nicely from a slump in November, with some new players expanding from B2B to B2C.

It’s also crucial to know who is spending, so retailers can potentially target their wares more specifically. January’s NORSI reflected the ongoing domination of the online channel by the 35-44 age group. And by geography, the three largest states dominate online spending by volume, but Canberrans remain the biggest spenders per capita. Meanwhile, metro residents are spending the most online, but regional growth overtook metro growth in January. Regional Western Australia was particularly driving this trend.

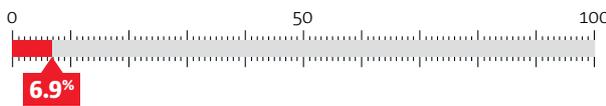
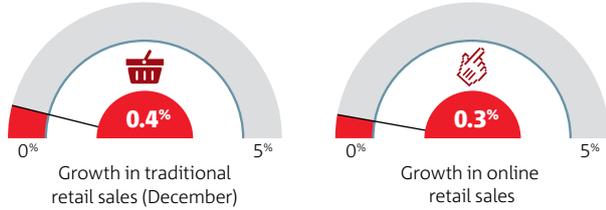
We encourage all retailers to use the NORSI data to understand the buying behaviour of their customers at a granular level. This is an invaluable resource for all retail business – regardless of whether they have an online presence or not.

Peter King, Head of Consumer sectors Australia.

At a glance

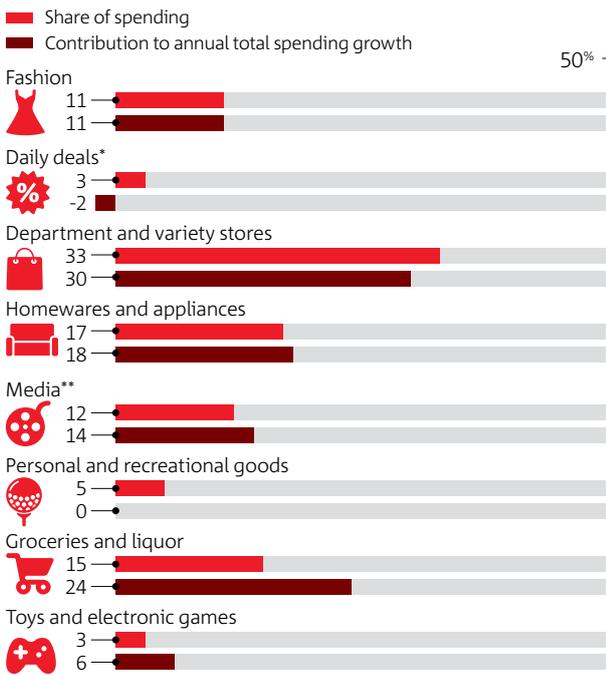
Traditional vs online

(sa, 3MMA, January mom)



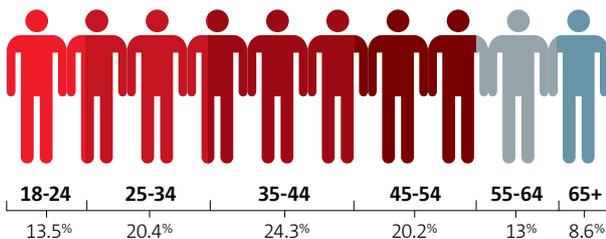
Share of online spend by sector

Year to January (%)



Share of spending by age

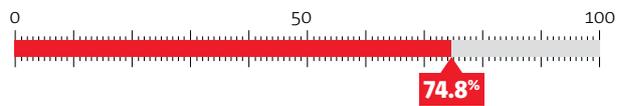
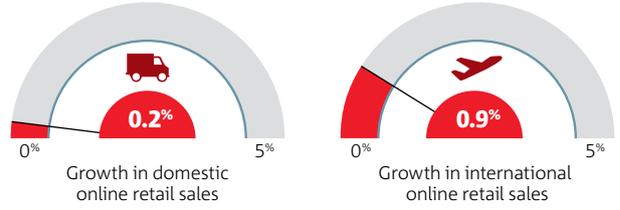
Annual (%)



3MMA is a three-month moving average. *Daily deal sites release for sale a single product or range of products every day. **Media comprises movies, books and music.

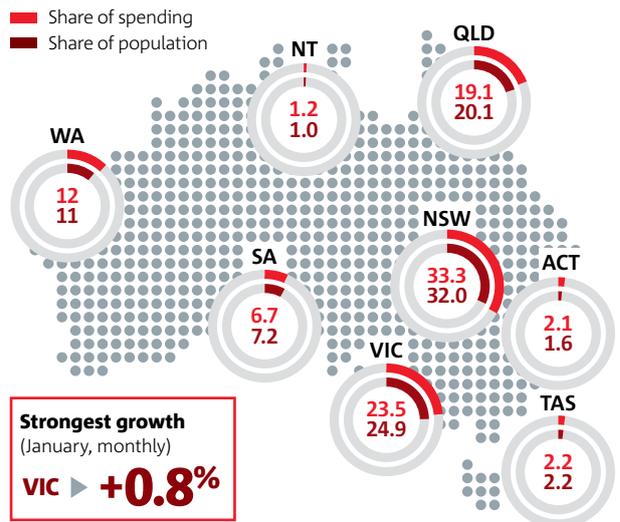
Domestic vs international

(sa, 3MMA, January mom)



Share of spending vs population by state

Year to January (%)

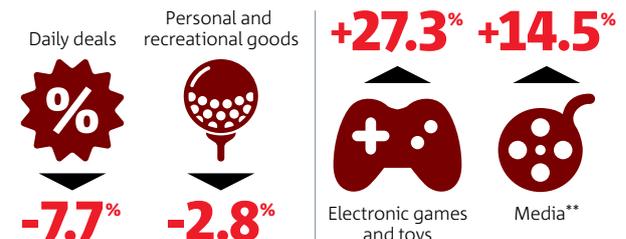


Per capita (Index)



Growth trends for sectors are highly divergent

January (yoy)



At +0.3%, online retail sales slowed in January from an upwardly revised +0.8% in December. Comparable figures from the ABS show traditional retail sales in December at 0.4% were weaker than online. (Chart 1).

In the 12 months to January, Australians spent an estimated \$16.6 billion on online retail – a level that is equivalent to around 6.9% of the traditional bricks & mortar retail sector (which totalled \$241 billion in the year to December 2014 according to the ABS Retail Sales (ex takeaway food)).

When referring to change in year-on-year terms, at 9% in January, online retail sales are certainly slower than the early period when the index was established. In January 2011 for example, year-on-year growth was around 32%, and in January 2014 growth was over 13%. There are some changing dynamics in the sector borne out in the data. For example, in past years November was typically a stronger month, however in 2014, online purchases were made later. In part this may indicate how online retailers are evolving to cater to consumer preferences.

International stronger while domestic spending slows in the month. The share of domestic spending fell to 74.8% in January

For domestic online retailers, growth trended lower in January, at 0.2%, compared to 0.9% in December. In contrast, growth in international sales has accelerated over the past 3 months, growing at 0.9% in January. Looking at the respective year-on-year growth rates, domestic online sales continue to outpace international sales at 9.5 vs 7.4% respectively.

“Despite domestic currency depreciation, there has been a recent resurgence of international sales which appears to be driven by international aggregators offering competitive prices.”

Tony Davis, Quantum

Chart 2. Share of international and domestic online sales vs USD/AUD exchange rate

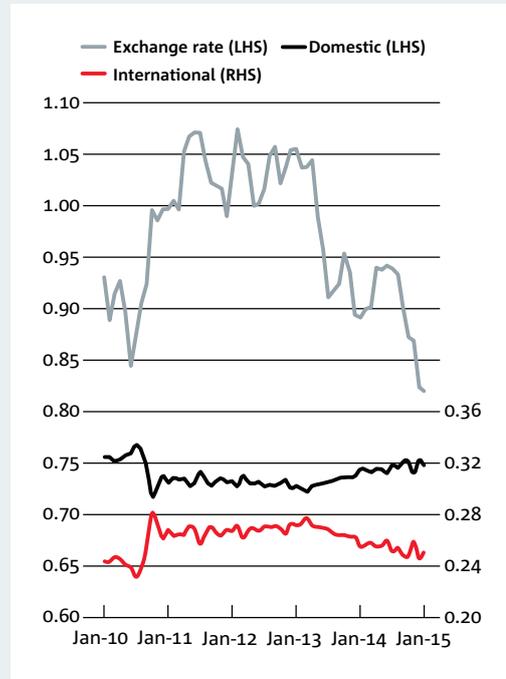
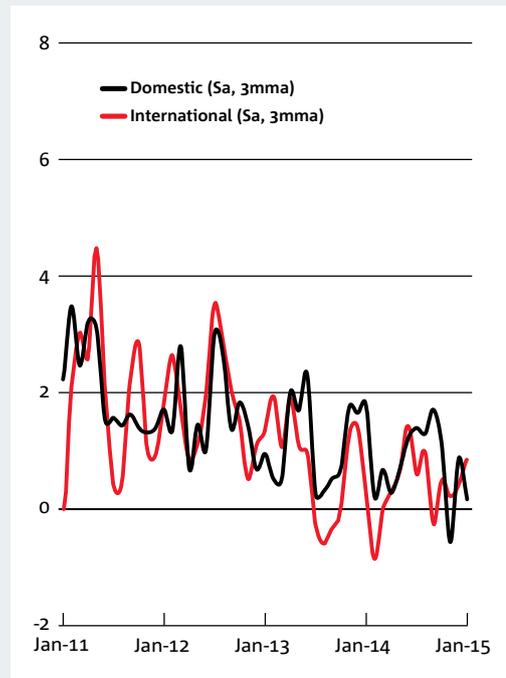


Chart 3. Growth of online sales, by retail location (monthly, %)



Note: Sa, 3mma: seasonally adjusted, three-month moving average.

Chart 4a. Annual growth of spending, by category (%)

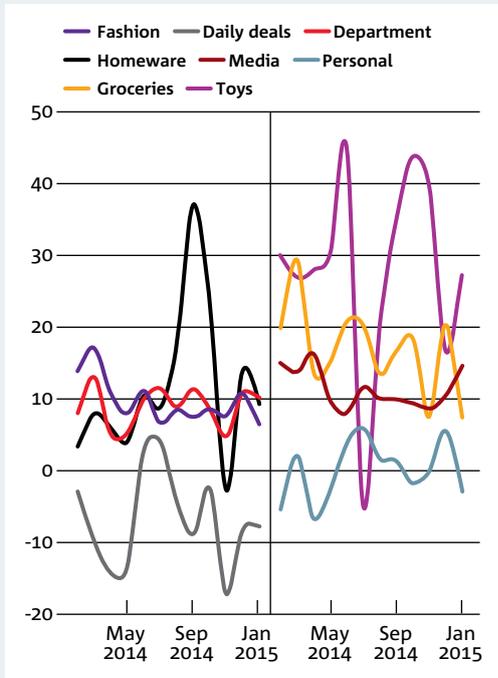
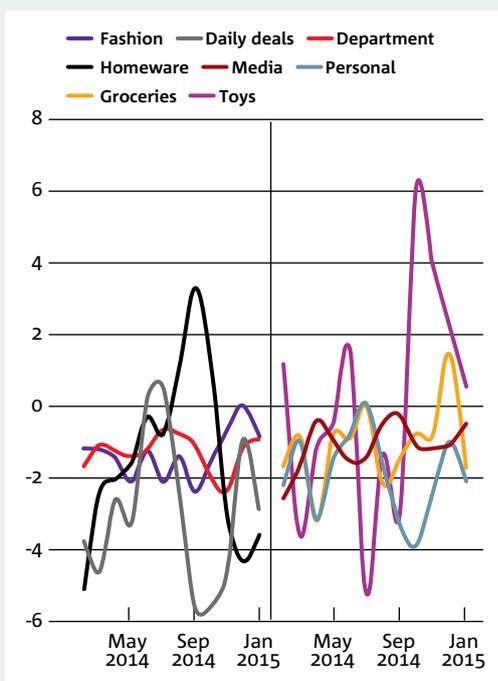


Chart 4b. Monthly growth of spending, by category (%)



As shown in chart 2, the increase in share of domestic online retailing has coincided with a depreciation of the Australian dollar. When the Australian dollar depreciates (making overseas goods relatively expensive), the share of international spending tends to fall accordingly. This may also be attributed to on-costs such as postage whose cost rises in AUD terms for international retailers, whereas the domestic retailer value may be unchanged, as postage is already in AUD.

However the most recent trend growth (chart 3) implies that there are more factors affecting sales. Anecdotal evidence suggests that some international retailers are wearing part or all of the on-costs. In addition, improvements in spend identification have allowed the inclusion of recent entrants who were previously considered business-to-business (B2B), or intermediate goods players, and now have a consumer market offering, aka business-to-consumer (B2C). This is something that we will be closely monitoring in coming months to ensure the online market is adequately appraised.

“With the increased convenience of faster delivery times being offered pre-Christmas, we observed particularly strong December sales and a surge in last minute Christmas shopping.”

Tony Davis, Quantum

Department & variety stores continue to have the largest online market share. Electronic games and toys have been expanding rapidly, albeit off a small base. Sales from daily deals have virtually collapsed.

At 27.3% (yoy), electronic games and toys had the fastest annual online sales growth in January and 2.5% higher than the previous month. It is worth noting that this category is considerably more volatile, attributed to effects such as the timing of electronic game releases, and that this segment is still a relatively small share of spend. Media is the second highest in year-on-year growth (14.5%) and month-on-month (1.5%). Other key

Table 2: Online sales growth and share of spending by category

%	Monthly growth - December	Monthly growth - January	Annual growth - December	Annual growth - January	Share of total spending	Contribution to annual total spending growth
Fashion	2.0	1.2	10.7	6.6	11	11
Daily deals	1.0	-0.9	-8.3	-7.7	3	-2
Department	0.8	1.1	10.8	10.2	33	30
Homeware	-2.4	-1.6	13.8	9.4	17	18
Media	0.9	1.5	10.4	14.5	12	14
Personal	1.0	-0.1	5.6	-2.8	5	0
Groceries	3.5	0.3	20.3	7.4	15	24
Toys	4.2	2.5	16.7	27.3	3	6
Total	0.8	0.3	11.9	9.0	100	100

Note: Daily deal sites release for sale a single product or range of products each day. Media comprises movies, books and music.

Table 3: Share of spending by category, by age

	Fashion	Daily deals	Department & variety stores	Homewares & appliances	Media	Personal & recreational goods	Groceries & liquor	Electronic games & toys
18-24	17%	3%	34%	14%	16%	5%	4%	8%
25-34	13%	4%	34%	15%	13%	6%	13%	3%
35-44	10%	3%	33%	16%	12%	6%	17%	2%
45-54	10%	3%	35%	18%	11%	6%	15%	2%
55-64	9%	2%	34%	19%	11%	5%	19%	1%
65+	8%	1%	29%	19%	10%	5%	28%	1%
All ages	11%	3%	33%	17%	12%	5%	15%	3%

growth categories in the month included fashion, and to a lesser extent, grocery. Homewares and housewares have contracted over the past few months, but are still increasing year-on-year.

In year-on-year terms, two categories where a decline in the sales is evident are in personal and recreational goods (-2.8%), and daily deals (-7.7%).

The largest category and contributor to annual growth, department and variety stores, trended higher in January, up 1.1% in the month, and 10.2% for the year. It is some way from the slight contraction seen in November. This turnaround in the category may partly be due to growth in recent entrants who were typically more involved in B2B now offering a B2C channel.

Chart 5. Share of spending, by age group (annual)

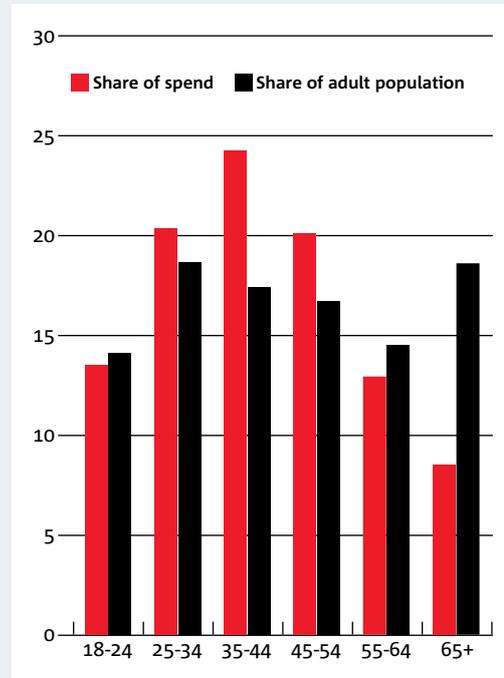


Chart 6. Growth of spending, by age group (monthly, %)

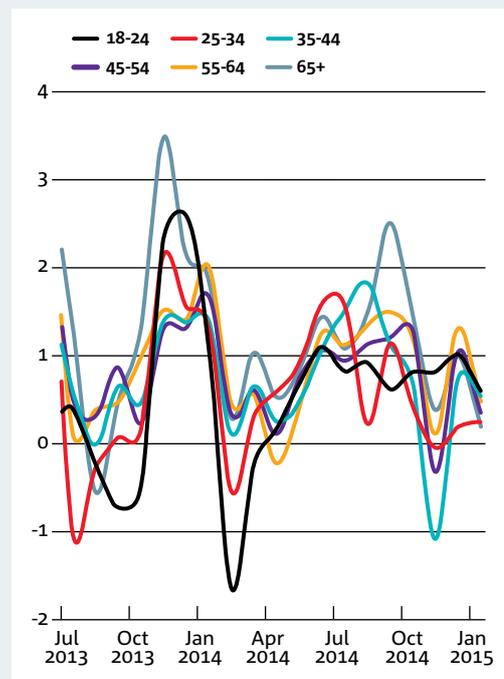


Chart 7: Share of spending, by state (annual)

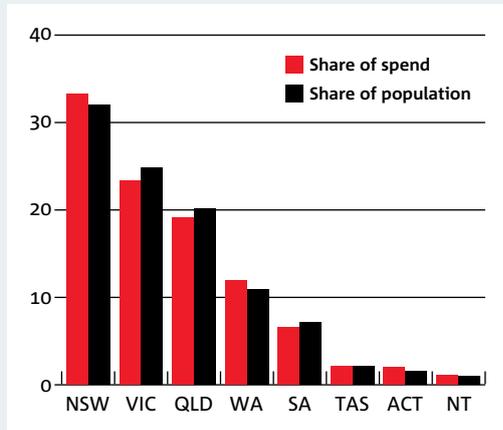


Chart 8: Share of spending and per capita spending, by state (annual)

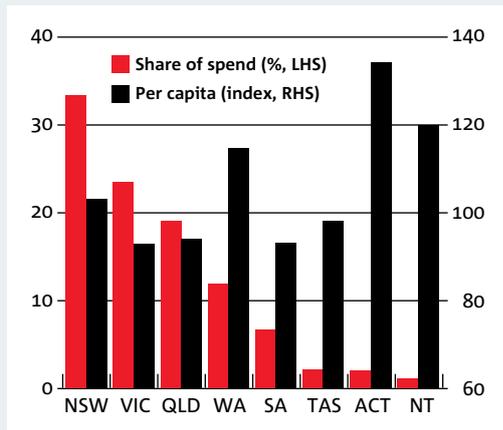
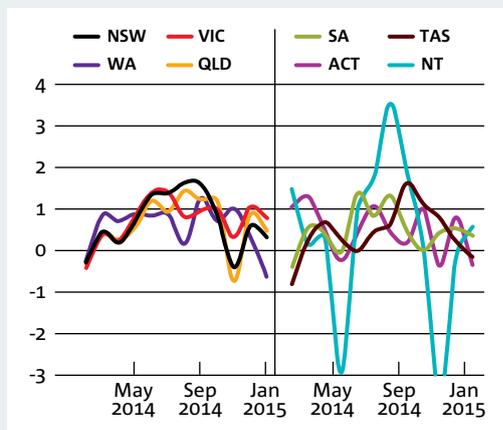


Chart 9. Growth of spending, by state (monthly, %)



Department and variety stores continue to dominate the online retail sector, having 33% of total online spending. The second largest category, homeware and appliances, had a 17% share of spend, followed by groceries and liquor (15%), media (12%), fashion (11%), personal and recreational goods (5%), daily deals (3%) and electronic games and toys (3%).

Spending patterns vary across age groups. While all age groups spent most at department and variety stores, significant differences were apparent by age across other categories. The younger age groups favoured online fashion shopping, electronic games and toys, and media, while Australians aged 65 and above spent a large proportion of their online dollar (28%) purchasing groceries and liquor.

Online spending remains dominated by those aged between 35 and 44.

Although those aged 35-44 make up approximately 17.4% of the adult population, their share of online spend is the highest at 24.3%. In contrast, those aged 65 and over have a disproportionately lower share of spend (8.6%) relative to their share of population (18.6%)

That said, in year-on-year terms, older Australians have grown fastest. However the monthly growth in January was the slowest of all the age groups.

In January there is a noticeable convergence of monthly growth. At 0.5%, monthly growth in spend by 35-44 year olds has trended higher after contracting in November (-1.1%). Concurrently, the 55-64 , and 65+ age groups which had trended higher over the past few months have moderated.

Residents of the bigger states of NSW, VIC and QLD spend more online but ACT residents have the highest per capita spending, followed by NT, WA and NSW.

Around 76% of total online spending in the past year was made by residents from the three largest states (NSW, VIC and QLD), whose combined population accounts for 77% of the Australian total. However on

a per capita basis, residents in ACT, NT, and WA and NSW spent more than the national average. In the ACT where only 1.6% of Australians live, 2.1% of total online purchases in dollar value terms were made. Similarly in WA, 11% of Australians made 12% of total online purchases.

On the other hand, those in TAS, QLD, VIC, and SA were spending less than the national average. Victoria is home to 24.9% of the Australian population yet represents only 23.5% of total online spending.

Growth in online spending diverged in January. Online sales grew fastest in Victoria, while online retail in WA, ACT, and TAS contracted.

At 0.8% Victoria recorded the strongest monthly growth in January. It is worth noting that Victoria has also been the most stable in monthly growth rate terms the past year. Other growth states in January NT (0.6%), QLD (0.5%), SA (0.4%), and NSW (0.3%). WA (-0.6%) was the weakest in the month, with ACT (-0.3%) and TAS (-0.1%) also contracting.

Metropolitan residents bought over 71% of online purchases in the past year and also spent more on average in most states. However, regional growth has outpaced metro in January.

Metropolitan residents spent on average 7.0% more than those residing in regional Australia. However, those living in regional Western Australia spent 21.9% more than the average Australian, along with WA metropolitan residents at 12.1% more. Regional Victorian residents were the lowest at 11.1% less than the national average.

In month-on-month terms, for the first time since April 2014, regional areas (0.5%) outpaced metro (0.3%) areas. ■

Chart 10: Per capita spending index.
(Australia = 100)

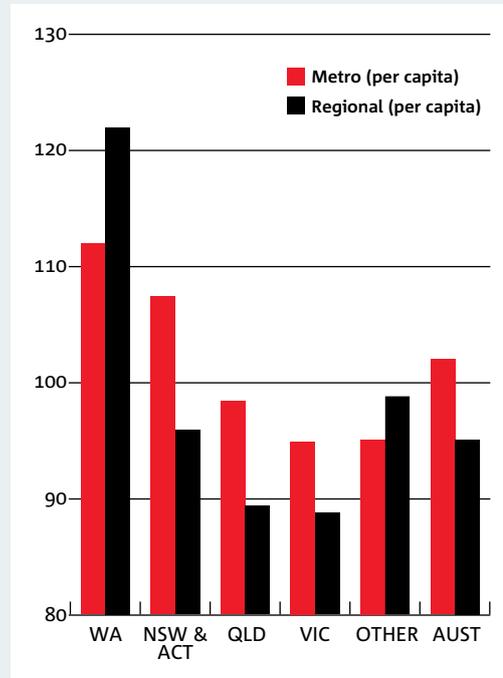
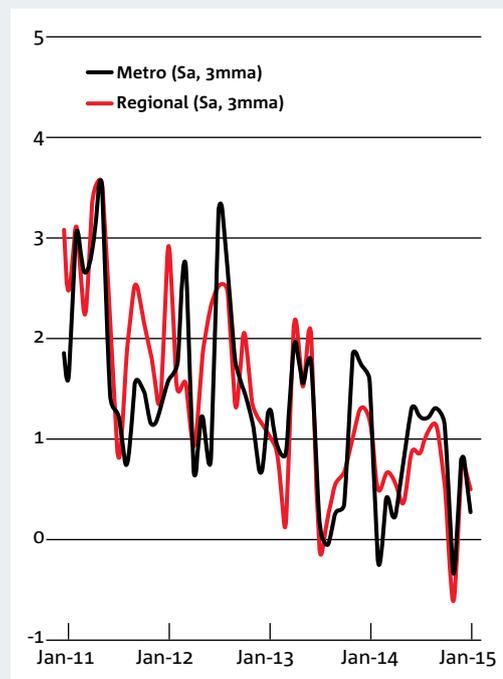


Chart 11: Growth of spending, by region
(monthly %)



Note: Sa, 3mma: seasonally adjusted, three-month moving average.



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