

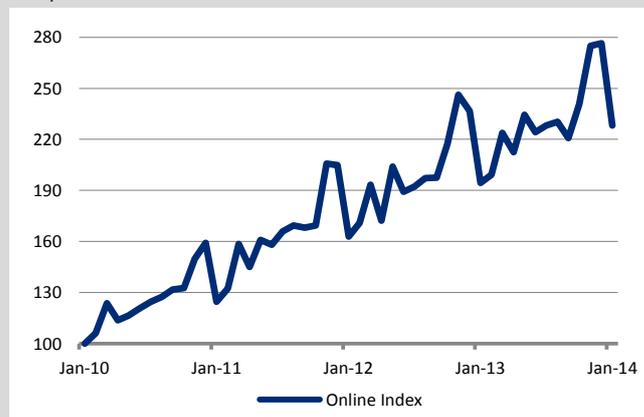
28 February 2014

Highlights

- New Zealand’s online retail spending in January continued the strong growth shown in December. Spending was up 17% on January last year.
- The renewed strength partly reflects a bounce back in the growth in online purchases from domestic retailers, following a slow patch over the September-November period. In January purchases from domestic merchants were up 14% from a year earlier, whereas in November the growth rate was only around 6%.
- But online purchases from merchants overseas continue to power on at a faster rate, with annual growth continuing to run at over 20%.
- Consequently, the online market share of overseas merchants has increased to 42% in the month of January – the highest level we have observed so far.
- For the 12 months to 31 December 2013, online retail sales across the categories we monitor* were estimated to be \$2.8 billion (excl GST). This represents 6.2% of SNZ reported retail sales.

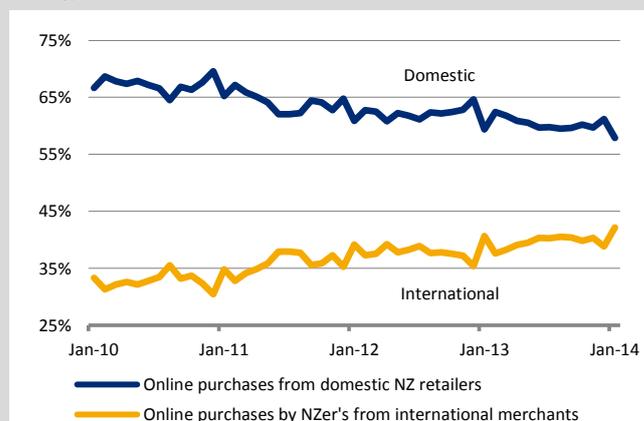
Online Index

January 2010 = 100



Share of NZ online retail sales by retail location

(Monthly)



Annual growth versus same period prior year

	3 Months ended			Month ended		
	Nov-13	Dec-13	Jan-14	Nov-13	Dec-13	Jan-14
Total Online Index	11%	13%	15%	12%	17%	17%
Domestic purchases	7%	8%	10%	6%	11%	14%
International purchases	19%	22%	24%	21%	28%	22%

*Data notes: Online sales data is produced by Marketview. Traditional retail sales data is from Statistics New Zealand quarterly releases.

For both data sets, the figures we use in this report correspond to Statistics New Zealand’s ANZSIC Division G (Retail Trade) excluding fuel, motor vehicles and parts, and marine. The annual value of official retail sales in the categories we monitor is approx. \$45 billion.

At a glance

Traditional vs Online (3 months ended December 2013)

Growth compared to same period a year ago



6.2% Annual online purchases hit \$2.8bn or 6.2% of the size of traditional* retailing

*Official retail sales reported by Statistics NZ for categories we cover

Domestic vs international (3 months ended January 2014)

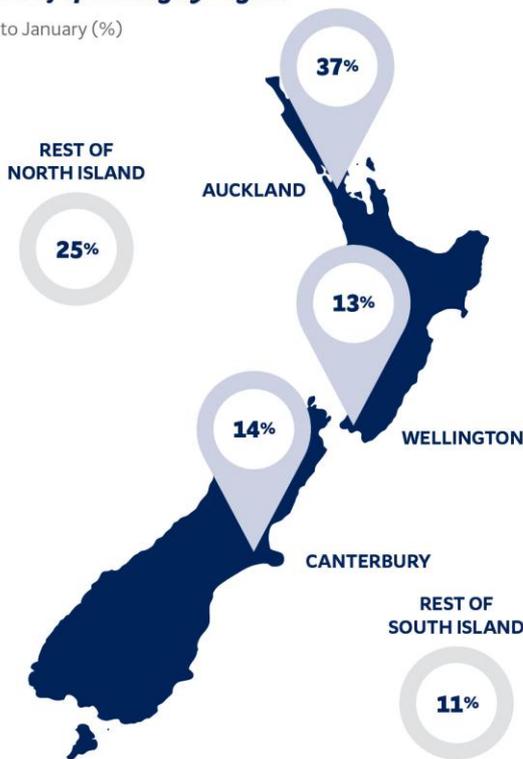
Growth compared to same period a year ago



60% Domestic online retailers accounted for around 60% of total online sales

Share of spending by region

Year to January (%)

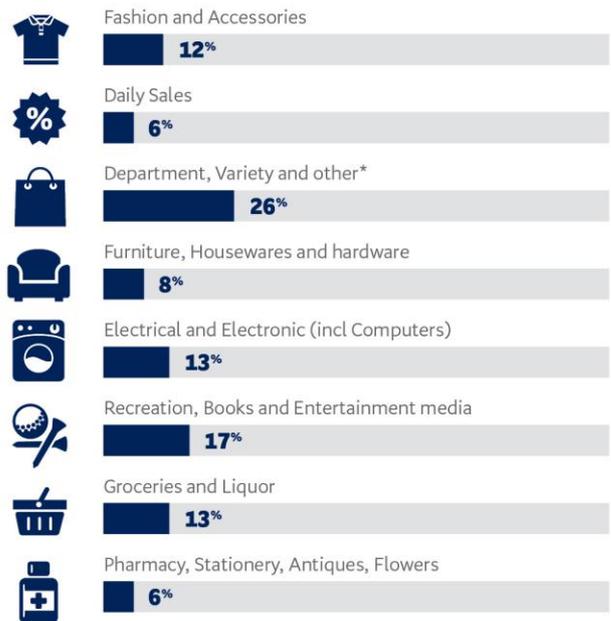


75%
North Island

25%
South Island

Share of total online spend by sector

Year to January share of spend (%)



* "Other" includes unclassified stores and specialty stores that don't neatly fit into defined ANZSIC categories. Figures may not add to 100% due to rounding.

Trade Me spending (estimated "retail" component, as per the retail categories we include in the online index) is included with Department Store spending.

Main contributors to growth in online retail sales

Year to January (%)



Online growth rate 3x that of traditional sales.

- Traditional retail sales in the latest December quarter were up by 3.7% on the same quarter a year earlier.
- Online sales for the three months ending December 2013 grew at over 3 times this rate, and were up by 13% on the same time a year earlier.

Online sales growth has accelerated in December and January

- Looking at online sales on a monthly basis, figures for both December 2013 and January 2014 were up 17% on their corresponding month a year earlier.
- Early hints that we may have left behind the slow patch over Sep-Nov 2013, when online sales were growing at an annual rate of “only” around 11-12%.

Online sales equivalent to 6.2% of reported retail sales; 9.7% if we remove groceries and liquor

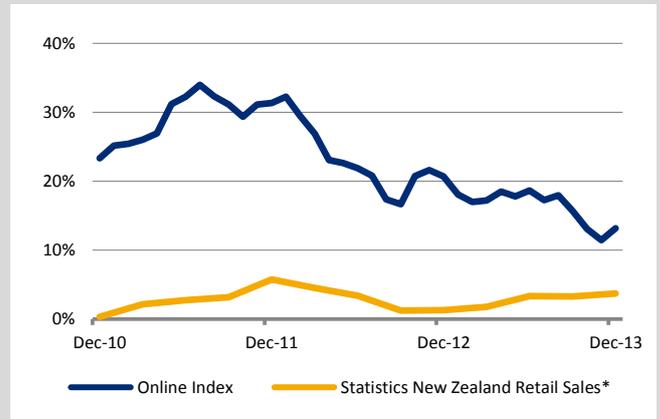
- Comparing with latest figures reported in Statistics New Zealand’s RTS, online retail spending for the 12 months ended 31 December 2013 was equivalent to 6.2% of reported retail sales.
- Excluding the grocery and liquor sectors from both the RTS and our Index, we estimate the remaining online spending equivalent to around 9.7% of traditional retail sales.

Still following a similar growth trend to Australia

- Growth in New Zealand’s online retail sales continues to follow a track very similar to that of Australia’s, as measured using the NAB Online Retail Sales Index. (The NAB index incorporates a very similar retail category set to that used in our Index.)
- For the 3 months ended December 2013, the NAB index was up 12% on the same period a year earlier. In New Zealand the growth rate was 13%.
- Australia experienced a similar soft growth patch to NZ over Sep-Nov 2013. It will be interesting to see if Australia experiences a similar bounce back as the 2014 figures unfold.
- Australian online retail sales for the 12 months ended December 2013 were at a level equivalent to 6.5% of officially reported retail spending. This is very similar to our estimate of 6.2% for New Zealand in the same period.

Growth in online sales vs reported retail sales*

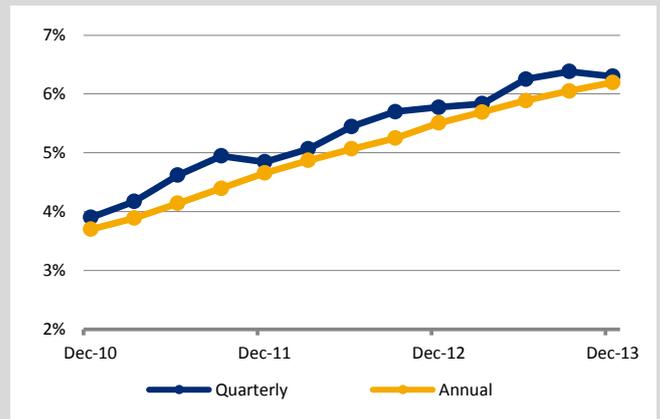
(3 month average compared to same period in prior year)



Official retail sales statistics are sourced from Statistics New Zealand

Online as a % of reported retail sales*

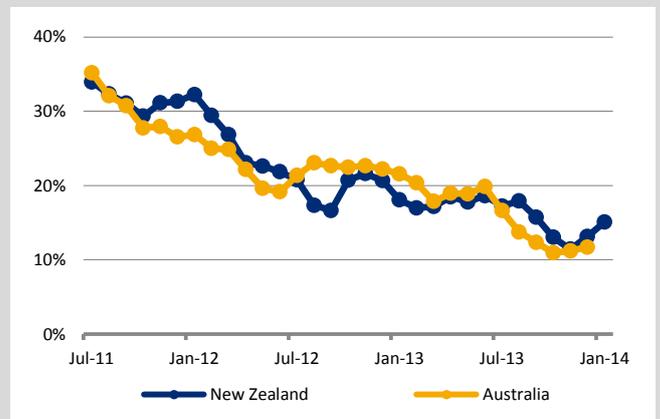
Online retail sales / Traditional retail sales



Official retail sales statistics are sourced from Statistics New Zealand

NZ vs Australia^ online growth rates

(3 month average compared to same period in prior year)



* Please refer earlier notes and the detailed notes on page 6 for a description of what store categories are included in the analysis.

^Australian figures are calculated using index figures supplied by National Australia Bank Limited.

Growth in domestic purchases bounces back

- Slow growth in domestic online purchases was the main driver of the “soft” growth in total online spending over Sep-Nov.
- However, domestic growth has recovered recently. Purchases from domestic retailers in January were up 14% on a year earlier.

But growth in international purchases continues to outpace

- International purchases continue to grow at much faster rates. Online purchases made by New Zealanders at international merchants in January were up 22% on a year earlier.
- This is similar to the growth rates experienced in this category over most of 2013.

International purchases continued to gain share in January

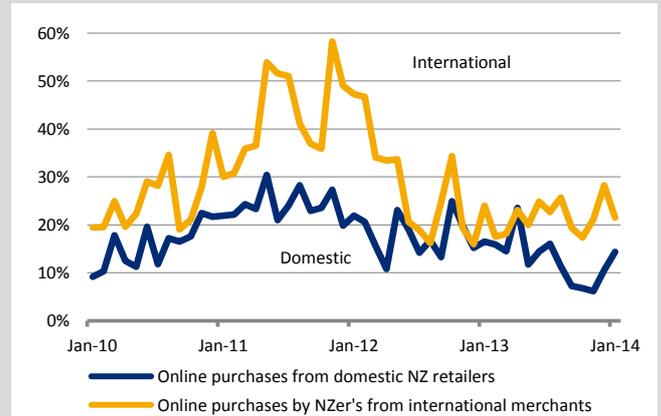
- International online retailers increased their share of the online market – yet again. In the December quarter the international share was 40%. In the month of January it notched up to 42%.
- Monthly figures can be volatile, but nonetheless, the January figure is the highest monthly level we have seen so far.
- The typical seasonal pattern continues, with international online purchases tending to show a peak in November, and purchases online at domestic retailers tending to peak in December.

Growth lifts across all regions

- The broad New Zealand regional groupings shown in the adjacent chart have all experienced a lift in the growth rate for online sending in recent months.
- The Auckland and Canterbury regions have shown the highest annual levels of online spending per capita, over the 12 months to January 2014.

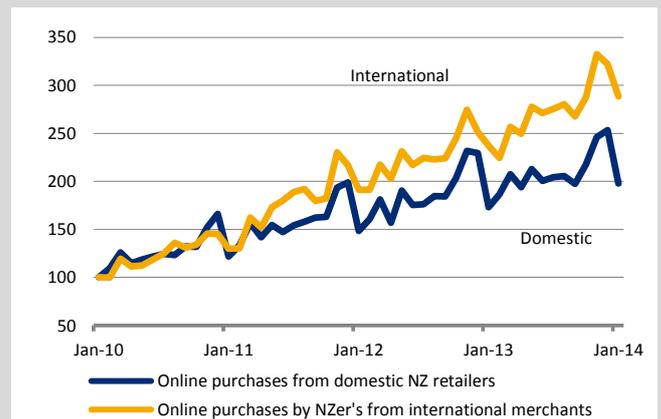
Growth in online sales by retail location

(monthly spending compared to the same month in prior year)



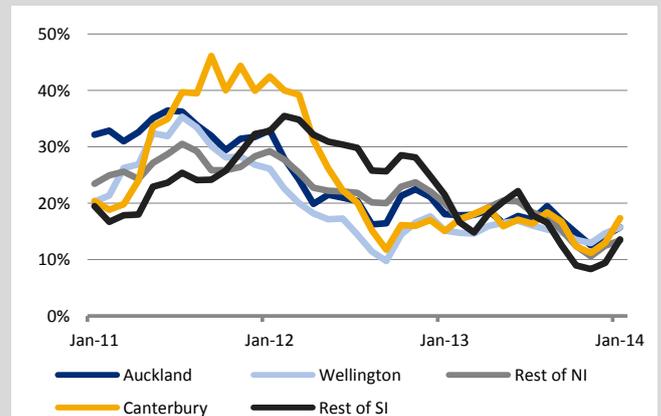
Online Index by retail merchant location (monthly)

January 2010 = 100



Growth in online spending by region of shopper

(3 month average compared to same period in prior year)



Composition of online sales significantly different from traditional

- We have grouped online retail spending into 8 categories for the purpose of this report. This gives a little more detail than the 6-category split we reported previously.
- The composition of New Zealanders’ online retail sales differs significantly from traditionally reported retail sales. In particular, the Groceries and Liquor category accounts for 13% of online sales but 45% of reported retail sales, across the categories we monitor.

3 sectors growing at around 20% pa

- Comparing online purchases in the 3 months ended January with the same period a year earlier, three sectors had particularly strong increases:

Groceries and liquor	+18%
Furniture, housewares, etc	+22%
Entertainment media etc	+25%
- The slow growth in electrical appliances in late 2013 (light blue line) is largely a “profiling” effect i.e. the growth rate is low because spending in the prior period was exceptionally strong. Looking at individual monthly figures, however, this sector has shown double-digit growth in both December and January, when compared to a year earlier.

Strong growth in Clothing in January

- Growth in spending in the Clothing, Footwear and Accessories category has been picking up in recent months, following a mediocre growth patch over Sep-Oct last year. The month of January was particularly strong (up around 26% on January 2013), with domestic and international merchants enjoying similar growth.
- Online sales at “daily sales” or “one day sales” websites have continued to contract, following exceptional growth over 2010-2011. However, please note that this series only includes sales at specialist “daily sales” sites, and does not include spending at online retailers that offer “daily deals” as part of a wider retail offering.

Composition of online spending by sector

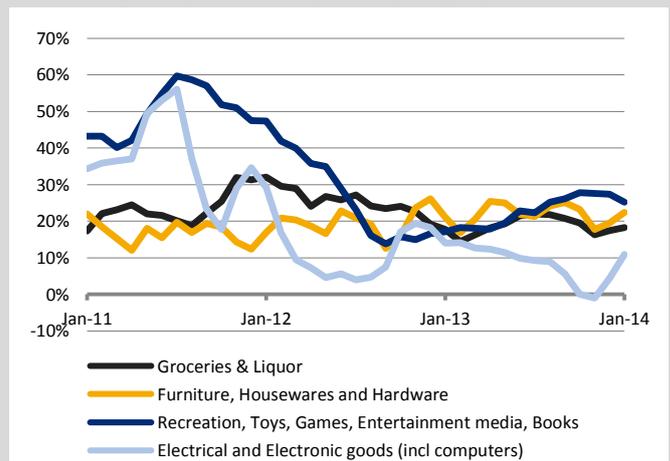
Composition of online spend for the 12 months to 31 January 2014

13%	Groceries & Liquor (incl health food and supplements)
8%	Furniture, Housewares and Hardware
13%	Electrical & Electronic goods (incl computers & appliances)
17%	Recreation, Toys, Games, Entertainment media, Books
12%	Clothing, Footwear and Accessories
6%	Daily Sales
26%	Department, Variety and Other*
6%	Pharmacy, Cosmetics, Stationery, Antiques, Flowers

**Note: “Other” includes unclassified stores and specialty stores that don’t neatly fit into defined ANZSIC categories. Unclassified Trade Me spending (estimated retail component) is included with Department Store spending. Figures may not add to 100% due to rounding.*

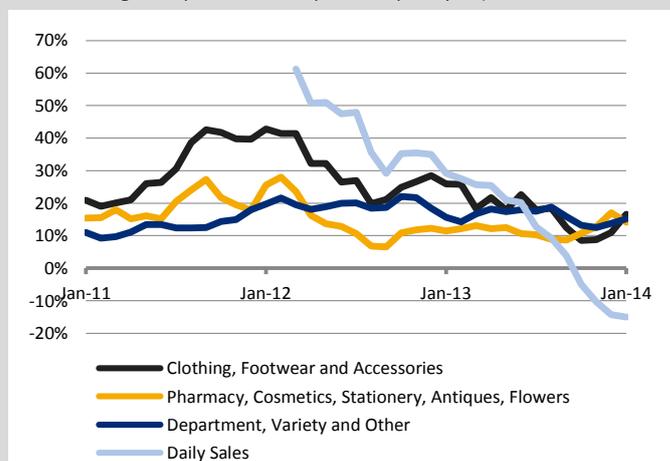
Growth in online spending by sector (chart #1)

(3 month average compared to same period in prior year)



Growth in online spending by sector (chart #2)

(3 month average compared to same period in prior year)



Note: Growth rates in the daily sales sector were very high over 2010-2011 (e.g. over 200%), so we’ve only included that sector’s figures from early 2012 onwards, to help readability.

Technical Section: A look at the alternative studies of “online sales”

When we designed our index we sought to create a benchmark which could be readily compared with data released by Statistics New Zealand (SNZ). We also wanted an index comparable with statistics reported overseas (e.g. UK and Australia).

- That’s why we only include goods in the retail sector as defined by SNZ’s ANZSIC Division G (“Retail Trade”), other than fuel, autos and parts, and marine.
- It’s also why we don’t include other areas of consumer spending, such as travel, movie tickets and contact lenses - because these aren’t counted in SNZ’s retail statistics.
- And it’s why we don’t include industries like accommodation, cafes and takeaways, which are in ANZSIC division H (“Accommodation and Food Services”), even though they are treated as retail industries in SNZ’s “Retail Trade Survey” (RTS).

There are also several other studies of online spending in New Zealand. Their purpose and the scope of industries they include differ from ours, which in turn means their measure of online spending will differ.

This all means that users of online data are presented with a range of different figures, and the most appropriate one for them to use for a task at hand will vary, depending on what they are trying to measure and compare. To assist readers we have produced the table below. It uses the information we have available to highlight important aspects of different New Zealand studies. Please note that this is merely intended as an initial aid to interpretation, and to facilitate like-for-like comparisons with other metrics. Users should refer to the individual published studies for full and exact descriptions, particularly if important business decisions are involved.

Studies of online spending in New Zealand

	Neilson ¹	Roy Morgan ²	Frost and Sullivan / PWC ³	BNZ Online Retail Sales Index
Reported annual online spending	\$3.7 billion, 2013	\$5.6 billion, 2013	\$3.65 billion, 2013	\$2.8 billion, 2013
Report publication frequency	Annual	Annual	Annual	Monthly
Spending coverage:				
Scope	“Consumer spending”, which includes a range of categories outside of ANZSIC division G “Retail Trade”. For example, travel, accommodation and movie tickets.	Includes a range of significant categories outside of ANZSIC division G “Retail Trade”, including travel and accommodation.	“...covers the same merchandise categories as used in the retail sales statistics published by.... Statistics New Zealand...” Excludes services and media downloads.	ANZSIC division G “Retail Trade” categories, excluding autos and parts, fuel and marine. Excludes accommodation and food services (these are in ANZSIC division H).
“Retail” only? (ANZSIC division G)	No	No	Yes	Yes
Includes travel and accomm.?	Yes	Yes	No	No
Includes purchases using gift cards?	Yes, in theory	Not sure. Possibly.	Not sure. Possibly	No
Includes consumer-to-consumer used goods bought on TradeMe?	Yes	Not sure. Possibly	“...purchases of fixed-price items from sites such as eBay are included.”	No
Includes downloads? (books, music, games etc)	In theory. The survey responders should include these in the “other” category.	Not sure. Possibly.	No	Yes
Figures include GST paid?	Not sure. Probably.	Not sure. Probably.	Not sure. Probably.	No
Actual spending data or recall-based survey data?	Recall-based	Recall-based	Recall-based	Actual spending data
Sample size	1,100	“an average 12,000 interviews annually”	200 (NZ)	Several hundred thousand cardholders
Customisable survey questions?	Yes	Yes	Yes	No

Sources: ¹Public flyer for Neilson Online Retail Report 2013, and a discussion with Neilson. ²<http://www.roymorgan.com/findings/5195-digital%20universe-nz-launched-201309192306> and the corresponding October 2012 survey. ³“Australian and New Zealand Online Shopping Market and Digital Insights 2012” for survey details; media reports for the 2013 figure.

- Treatment of the travel category has a significant impact. Spending on travel and accommodation represents \$1.6 billion of the Roy Morgan figure, and is a significant component of the Neilson figure. A rough estimate using our own data puts annual online spending on consumer air travel, travel agency, accommodation and car rentals at approximately \$1.4 billion, prior to backing out GST on purchases from domestic merchants.
- Both Roy Morgan and Neilson also include large amounts of spending in other categories that are outside of “retail” (as per ANZSIC Division G) and are therefore not in the BNZ index. For example, movie and event tickets, and auto parts.
- Precise reconciliation of all measures is not possible without detailed information, such as full details on how TradeMe spending is treated and a complete list of the spending categories included in each measure.

Technical Notes and Q&A

How often do you publish the Online Index?

We currently publish the index monthly in a 1 to 2 page note, with more detailed reports on a quarterly basis.

Will you be providing more detailed analysis in future issues?

Additional breakdowns and analysis will be added over time. We will sometimes take a closer look at topical items of interest, and also review feedback regarding data requests. We don't expect future reports will cover highly detailed market segment or market share analysis, but this can be supplied by Marketview on a bespoke basis.

What retail categories are covered by the report?

Our benchmark when assigning industry categories to retail stores is the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006. This classification system was developed by Statistics New Zealand and the Australian Bureau of Statistics and more details about it are available on their respective websites. We focus on stores in ANZSIC Division G ("Retail Trade") and exclude fuel, motor vehicles and vehicle parts. We also exclude marine equipment retailing (annual sales of just over \$300m, according to figures we commissioned from Statistics New Zealand), purely to facilitate like-for-like comparisons with Australian statistics.

All remaining Division G categories are included. These account for annual retail sales of approximately \$45 billion (excluding GST) and include the following categories: supermarket and grocery stores; specialised food and liquor; furniture, floor coverings, houseware and textile goods; electrical and electronic goods; hardware, building and garden supplies; recreational goods; clothing, footwear and personal accessories; department stores; pharmaceutical and other store-based retailing; non-store retailing; and retail commission-based buying and/or selling.

Please note that when Statistics New Zealand releases retail figures they include Division H figures in the release publication. Division H includes accommodation and food and beverage food services (e.g. restaurants, takeaways, pubs and taverns) and we don't include these in our online retail sales index.

What online sales are captured by the Online Index and what sales aren't?

Our primary source of information is card payments (credit and debit cards, including the use of online payment services like PayPal).

We also make estimates of Trade Me sales relevant to our retail category set that aren't picked up via card payments. In doing so, we seek to estimate only sales that would count as "retail" spending in official statistics (which would not include household-to-household sales of second hand goods, for example).

The Index includes goods purchased online from New Zealand retailers and goods purchased by New Zealanders from international online stores. Retail online sales are a subset of wider ecommerce spending.

We don't capture online sales using prepaid gift cards or payments made directly into merchants' bank accounts (other than those picked up through our Trade Me estimates).

Are all the online sales you measure included in the retail sales figures reported by Statistics New Zealand?

No, the official Statistics New Zealand figures do not include online purchases bought from overseas merchants, which amount to approximately \$1.1 billion in the retail categories we monitor. That's why we endeavour to say "online sales are *equivalent to* x% of reported traditional retail sales", rather than "online sales *are* x% of retail sales".

How good is the underlying data?

Marketview has an 11 year history of analysing and categorising New Zealand spending data and has built up a detailed knowledge of the data it deals with. Furthermore, Marketview and BNZ have conducted a range of sample testing and data reviews in producing the Index.

The BNZ Online Retail Sales Index is compiled from millions of non-cash transactions involving hundreds of thousands of people. However, nothing is ever perfect, and as with any indicator, improvements will be ongoing.

How does the BNZ Online Index compare with other studies of the NZ online retail market?

Other online retail studies that we have come across are survey-based snapshots (e.g. annually), often involving a range of detailed questions. Our Index uses actual (rather than surveyed) payment data, across a much bigger population base (hundreds of thousands of people), but with a more narrowly focused parameter set (e.g. it doesn't capture information about what sort of research a person does before they purchase online). We allow for regional and age skews in our data when scaling it up to a measure for the broad economy. Other studies may make similar types of adjustments. We also remove GST from domestic purchases to facilitate comparison with official retail statistics. GST treatment may vary across other studies. We generate a monthly time series, whereas major market surveys are often produced on an annual basis.

Overall, we believe that our Index and other sample surveys both have their place in informing the retail market. We believe one of the key strengths of our Index is that the very large "sample size" of actual online payments helps us produce a robust measure of aggregate online spending across the payment types we cover.

Please note that some online studies produced by other parties may cover "ecommerce" online spending, whereas our data set focuses on "retail". "Ecommerce" captures a much wider set of data (e.g. air tickets, accommodation, cinema tickets, contact lenses) and will result in a much higher figure for online spending. While Marketview has comprehensive data for the wider ecommerce sector and can produce bespoke reports in this area, wider ecommerce is not the focus of our Index.

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About Marketview

Marketview specialises in the management and analysis of depersonalised, debit (EFTPOS) and credit card transactional data. Marketview manages annual transaction volumes of 1 billion transactions and spending worth over \$40 billion. We have spending data across a broad range of industries, dating back to 2002. We cover spending at stores, and online transactions with both domestic and international E-tailers.

Working with our data partners, Marketview converts the raw transactions into high quality, precision market intelligence reports. Our services include Market Performance monitoring, Customer catchment definition and valuation, and Consumer purchase behaviour. Reports are available on a subscription basis or through one off projects, tailored to meet specific requirements.

The first Marketview services were launched in association with BNZ in September 2001. Today our reporting services are used by retailers - national chains and independents, central and local government agencies, as well as a range of professional services consultancies.



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