Visa Business and Economic Insights

2020 Holiday Sales Outlook

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Holiday partying like it's 1999?

The holiday season is once again upon us and this year the ongoing COVID pandemic will create some challenges for both consumers and merchants. Recent data on the economic health of U.S. consumers has been mixed, with a slower pace of recovery in the labor market, lower wage and salary income relative to last year, and continued elevated jobless claims. Conversely, consumers' confidence in future economic conditions and income growth are both improving. Such mixed messages make this year's holiday sales forecast particularly difficult.

U.S. holiday spending* is likely to grow 7.8 percent (YoY) on all forms of payment, according to Visa Business and Economic Insights.[1] This forecast represents an acceleration from the 4 percent gain in 2019 and, if realized, would represent the strongest pace of holiday sales since 1999. Among the key drivers of this year's robust holiday sales are the recent surge in e-commerce sales, the continued robust demand for food and beverages at home (groceries), and higher prices on holiday-related items. While this holiday shopping season is expected to be better than last year's, there are also risks to be aware of; namely, a surge in virus cases that could result in another widespread shutdown of the economy. In addition, the ongoing pandemic and end of stimulus programs may make consumers even more cautious, and thus slow spending. Absent these negative factors, the U.S. consumer should have a very merry end to what has been a very rough 2020.

* We define holiday sales as nominal retail sales on all forms of payment less sales at automotive dealers, gas stations and restaurants for the months of November and December.

Key Points:

Stronger holiday spending growth expected due to online spending surge

Younger and older consumers likely to drive holiday spending this season

Pandemic-related risks could disrupt holiday shopping

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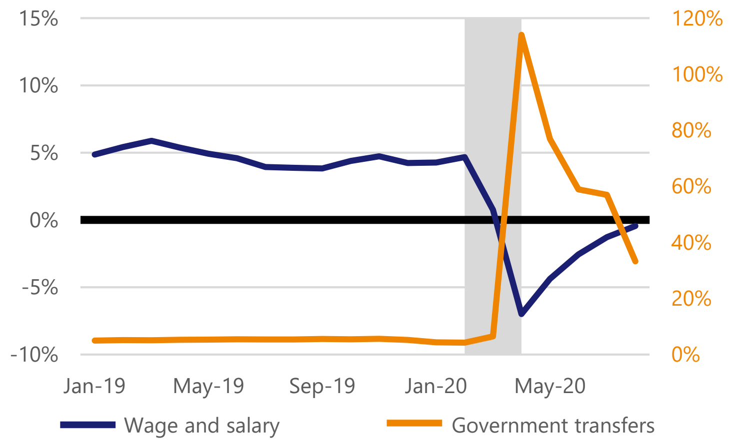
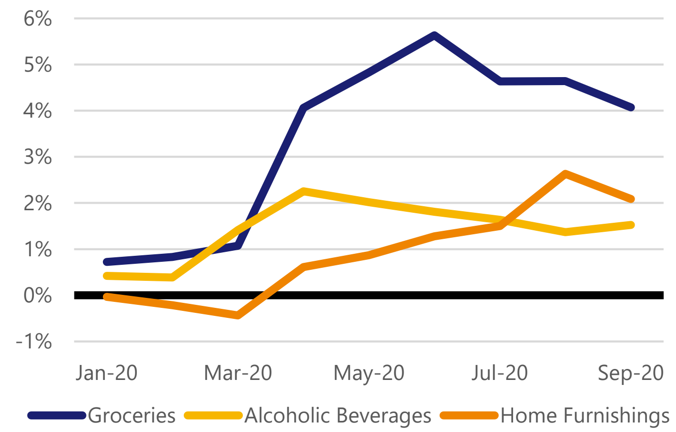
Personal income growth components
(SA*, YoY percent change)



Source: Visa Business and Economic Insights and U.S. Department of Commerce
* Seasonally adjusted

Consumer Price Index for selected items
(SA*, YoY percent change)



Source: Visa Business and Economic Insights and U.S. Department of Labor
* Seasonally adjusted

Not much of a damper from COVID on holiday spending this year

With COVID continuing to pose risks, the consumer may approach the holidays with some apprehension, but we expect only minimal disruptions in spending. Consumer confidence surged in September and preliminary data suggests it accelerated again into October. Overall retail sales were up a robust 5.4 percent on a YoY basis. While job growth has slowed in recent months, as of September, the economy recovered over half of the catastrophic job losses during the height of the business lockdowns in March and April. Since the economy has had several months to recover somewhat, consumers are on a better footing as labor market conditions improve and businesses adapt to the new normal.

According to the Federal Reserve, checking account balances rose 59.2 percent in the second quarter as consumers restricted spending due to the pandemic, deposited stimulus checks, and replaced in some cases more than their full income with the enhanced unemployment insurance benefits. Combined, these factors led consumers to pay down debt and boost their savings. Taken together, these factors helped to soften the blow to consumers.

Why the jollier outlook this shopping season?

Business and Economic Insights' holiday sales projection of 7.8 percent is up from last year's 4 percent YoY pace for several reasons. First, consumers' financial health is not as dire as one would think given the stimulus programs, which in our view will support holiday spending. Second, our definition of holiday sales includes e-commerce (nonstore) retail sales, which were up 27 percent on a YoY basis as of September, helping to lift our overall holiday sales outlook. Inflation rates are another key factor. They are higher for the things consumers are buying today, namely, groceries, alcoholic beverages for home consumption, and home furnishings, among others. The 1.5 percent YoY price growth in alcoholic beverages with the rise of the "quarantini" reinforces how constrained supply chains combined with surging demand lead to higher prices.

Finally, it is important to note that our forecast this year is more a reflection of the strong surge in holiday retail categories in recent months than an expectation that retail sales will surge through the end of the year. If we apply our definition of holiday sales to the September retail sales report, holiday sales categories were up 10.1 percent on a YoY basis. This underscores the shift in consumer spending away from services such as travel and restaurant spending to goods spending. A Business and Economic Insights consumer survey* found that 65.1 percent of holiday shoppers plan to spend the same amount or more on holiday gifts this year compared to last year. This is a 10 percentage point decrease from 75 percent in the 2019 survey. The average holiday shopper plans to spend about $616 on gifts this year.

* Online survey of 4,660 American consumers on behalf of Visa by Prosper Insights & Analytics, October 2020. ** All forms of payment.

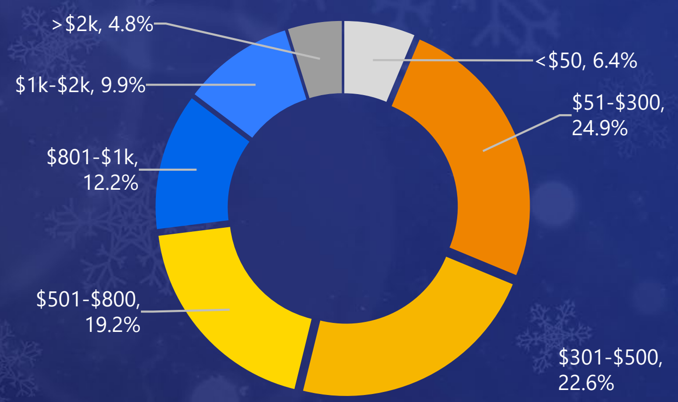
Online shopping looks to be more appealing this year

The COVID-19 pandemic will likely squelch some, but not all, of the enthusiasm for holiday shopping. As consumers focus on health and safety, 61 percent of them plan to shop online for more than half of their holiday purchases—12 percentage points above last year. This trend underscores the dramatic shift in purchasing channels. In the new COVID world, consumers are increasingly using online shopping platforms, and the ease, safety and speed of e-commerce will likely create tailwinds for holiday sales.

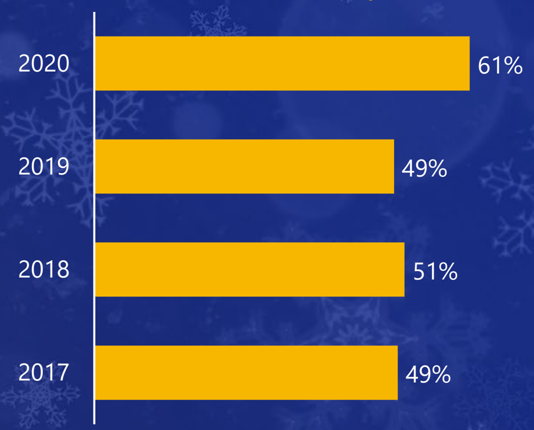
Our holiday forecast is tempered by the surge in 35 to 54 year olds who plan to spend less on gifts. Presumably, these are workers impacted by layoffs or decreases in hours worked. Consumers in this age category are in their peak earning years, which puts downside risk in the forecast.

Of those planning to spend more on gifts this holiday season, roughly 18 percent say that they saved money due to the COVID pandemic, which underscores the research done by the Federal Reserve that 36 percent of individuals saved their stimulus checks as of the end of June.

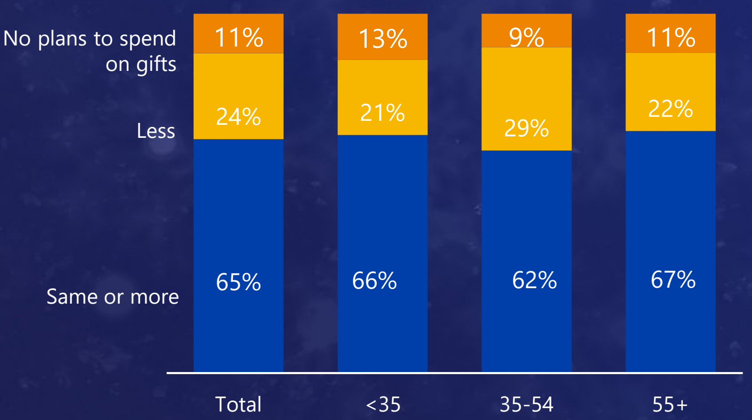
How much do you plan to spend on gifts this holiday season?[1]



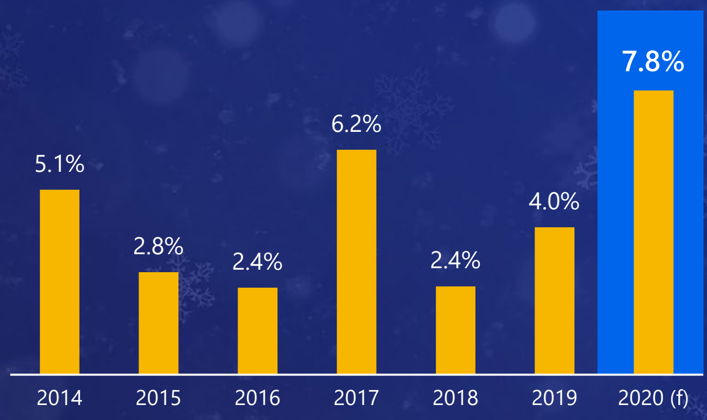
Share of consumers planning to shop online for more than half of their holiday needs[1]



Do you plan to spend more, the same or less on holiday gifts this year than you did last year?[1]



Holiday retail spending (retail sales excluding autos, gas and restaurants, YoY percent change)[2]



1. Source: Visa Business and Economic Insights, Prosper Insights & Analytics
2. Source: Visa Business and Economic Insights, U.S. Department of Commerce

Key risks to the holiday sales forecast this year

Not surprisingly, the ongoing pandemic will remain the number one downside risk factor this holiday season. The surge in virus cases could weigh on consumer confidence as we saw over the summer months and, in turn, reduce overall holiday spending. Should additional restrictions or widespread shelter-in-place orders be re-imposed, the magnitude of the negative impact could be much larger. Outside of the direct pandemic effects, the indirect economic impacts continue with slower job growth and by extension slower income growth as stimulus funds run dry. The expiration of airline and small business support are particularly concerning and are expected to lead to further job losses in the coming months.

Not all the risks are skewed to the downside. Even with the possible pandemic effects mentioned above, the dramatic shift to online shopping will help limit the downside risks to spending this holiday season. The large decline in travel spending this year yields more capacity to spend on gifts and furthermore, the substitution from services to goods spending adds additional support for a strong holiday shopping season.

While our baseline economic and holiday sales forecast does not contain the assumption of further fiscal stimulus, it is possible that Congress does come together in the lame duck session of Congress and pass another package. Should Congress enact a stimulus package before the end of the year that contains provisions to directly boost personal income growth (further unemployment insurance benefits, tax credits, etc.) then there could be further upside risk to holiday spending this season. The key measures to watch will be the monthly employment growth figures and consumer confidence. As long as job gains continue and consumers are feeling upbeat about economic conditions, the gradually improving economic climate bodes well for a fairly solid holiday shopping season.

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[1] Given the earlier start this year to holiday sales, we also generated a forecast for the holiday shopping season that includes the months of October through December. Using all three months, holiday sales are expected to average 7.9 percent YoY this year, up from 3.9 percent last year.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as "outlook," "forecast," "projected," "could," "expects," "will" and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa's business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise. Our forecast assumes the bulk of the negative effects of the COVID-19 outbreak will occur in the second quarter of this year with a gradual relaxing of social distancing guidelines over the second half of 2020.

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