Visa Business and Economic Insights

2021 Holiday Sales Outlook

Wayne Best
Chief Economist
wbest@visa.com

Michael Brown
Principal U.S. Economist
Michael.brown@visa.com

November 2021

Glad tidings for the holiday season?

As we head into the holiday season, the economic uncertainty brought on by the pandemic continues to cloud the outlook for this year. In the first half of the year, U.S. economic growth was above average and consumer spending was robust as vaccination efforts coincided with a surge in consumer confidence. That story changed in the third quarter as COVID cases surged again, denting consumer confidence and dramatically slowing consumer spending.[1] We now expect consumer spending to rebound in the final months of the year, which should support solid holiday sales.

U.S. holiday spending* is likely to grow 7.9 percent year-over-year (YoY) on all forms of payment, according to Visa Business and Economic Insights. While this year's forecast represents a downshift in sales over last year's 8.6 percent (YoY) growth, it is still above the average rate of sales growth from 2010-2019 of 3.7 percent.[2] Among the key drivers of this year's holiday sales outlook are continued strong e-commerce sales, robust demand for goods relative to services, and higher prices on holiday-related items. While this holiday shopping season is expected to be above average, there are risks; namely, the possibility of a surge in virus cases that could again dent consumer confidence and spending, and ongoing global supply chain disruptions, which could lead to a shortage of some holiday items. Absent these headwinds, the retail sector can expect another holly jolly holiday season.

Key Points:

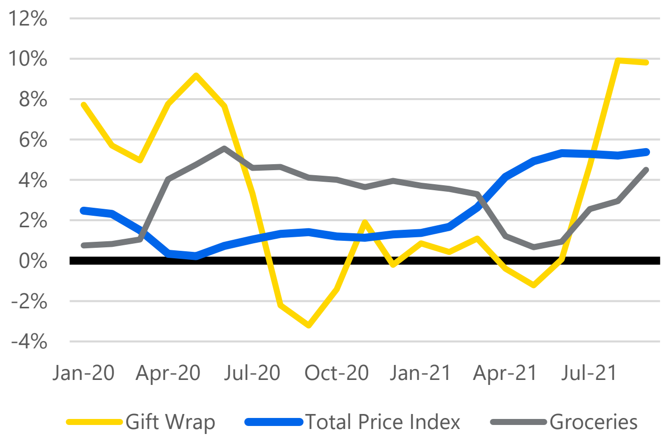
Current state of the U.S. consumer

Consumers' holiday spending plans vary by age

Our holiday sales outlook is not without risks

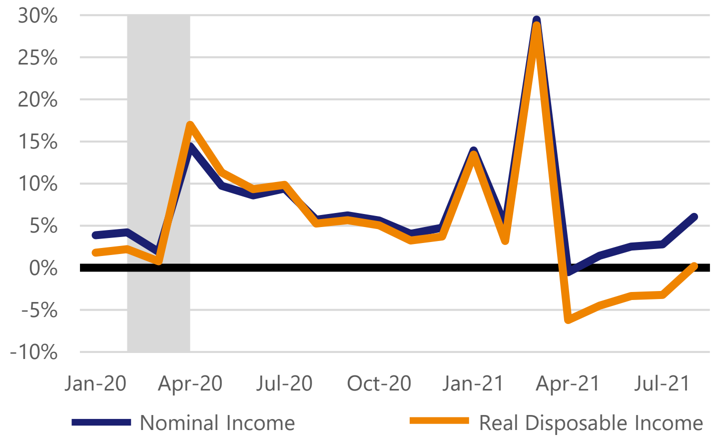
* We define holiday sales as seasonally adjusted nominal retail sales on all forms of payment less sales at automotive dealers, gas stations and restaurants for the months of November and December as reported by the U.S. Department of Commerce.

Fig. 1 Even the cost of wrapping paper is higher this year!
(Consumer Price Index growth, SA*, YoY percent change)



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

Fig. 2 Inflation is taking a bite out of consumers' wallets
(Personal income growth, SA*, YoY percent change)



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

Current state of the U.S. consumer

Solid consumer spending this holiday season is possible. To begin with, total employment growth is up 4 percent and nominal personal income growth is up 6.1 percent from this time last year.[3] Several fiscal support programs remain in place, including the Child Tax Credit payments and deferred payments on federal student loans. Such programs have, in part, contributed to an impressive rise in accumulated savings. We estimate that as of August, consumers had stockpiled an estimated $2.6 trillion in additional savings since February of last year, which could be a source of spending this holiday season.[4] One caveat, however, is that at least some of the savings stockpile was used to pay down household debt over the last year. While savings may not be the primary source of spending growth, greater open-to-buy rates on consumer bankcards could serve as a tailwind to spending growth this season. Our latest survey data indicates that 53 percent of consumers plan to pay for gifts this holiday season with a credit card.[5]

Even with the solid drivers of consumer spending described above, job gains in recent months have slowed and consumer confidence has been softer. Overall consumer confidence is up 12.4 points from October of last year, but down from the highs reached in June of this year.[6] The closely-watched expectations component of the confidence index, which tends to be highly correlated with future consumer spending, softened in Q3 but October's reading showed a modest improvement.[7]

While the late summer surge in COVID cases played a role, rising prices for many consumer goods likely also weighed on consumer confidence. The Consumer Price Index (CPI) in September rose 5.4 percent YoY as higher input costs from retailers were passed on to consumers.[8] Gas, food, electronics and even the price of gift wrap are all up sharply on a YoY basis, putting a squeeze on some consumers' wallets.[9] After taking into account inflation and taxes, consumer real disposable incomes are up a paltry 0.2 percent relative to this time last year.[10] While we expect real income growth to accelerate slightly in Q4, the combination of less fiscal support combined with more modest job gains suggests that holiday sales may be a bit softer than last year.

VISA

‘Tis the season for a new holiday outlook

With the mixed picture of consumer sector economic data, our forecast for holiday sales was particularly challenging again this year. Visa Business and Economic Insights projects that holiday sales will rise 7.9 percent this year, down slightly from the 8.6 percent pace last year but above the long-run average of 3.7 percent during the last expansion.[11]

On average, consumers plan to spend $702 on holiday gifts this year, up sharply from $616 last year according to Prosper Analytics.[12] Those aged 35 and younger are expected to help lead sales higher this season as 75 percent of them expect to spend the same or more this season compared to 72 percent for all consumers. Prime spending-age consumers (those 35-54) are planning to spend less than other age groups this year, but fewer said they would avoid buying gifts altogether.[13]

Fig. 3 Average amount consumers plan to spend on gifts this holiday season?[1]

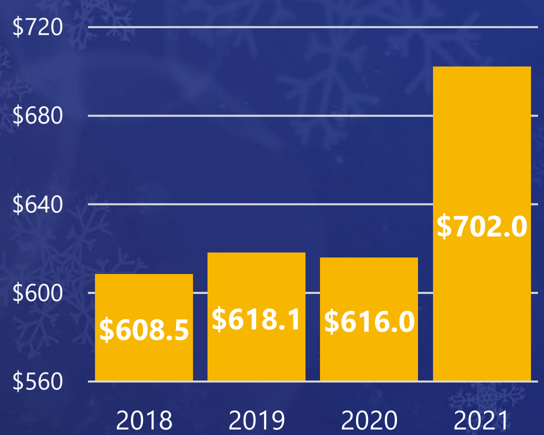


Fig. 4 Share of consumers planning to shop online for more than half of their holiday needs[1]

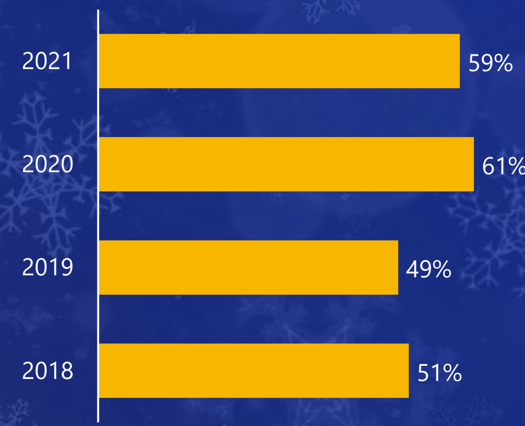


Fig. 5 Do you plan to spend more, the same or less on holiday gifts this year than you did last year?[1]

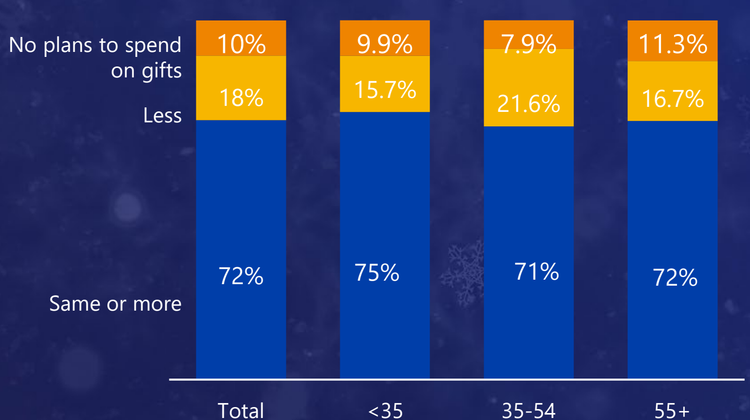


Fig. 6 Holiday retail spending (retail sales excluding autos, gas and restaurants, YoY percent change)[2]

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

Driving holiday sales higher again this year is the continued strength of goods purchases, higher inflation pressures and some residual effects of fiscal support. With the onset of the pandemic last year, aggregate consumer spending shifted sharply towards goods and away from services. The closure of businesses such as hair salons and dine-in restaurants helped drive this shift, as did consumers' increasing use of e-commerce, which is more goods centric. While our survey data indicates that consumers are likely to use e-commerce a bit less than they did last year—59 percent indicated they would shop online this year verses 61 percent last year—we still expect the majority to do at least some of their shopping online.[14]

Given that our definition of holiday sales is in nominal terms—not adjusted for inflation—higher consumer prices will also boost YoY sales figures this season. Case in point are grocery prices, which were up sharply this time last year; they are up an additional 4.5 percent YoY this year.[15] Finally, there are still some fiscal support measures in place such as the Child Tax Credit and deferred student loan payments that will help provide some households with additional "disposable income" to spend this year. The combination of these factors should help to keep holiday spending above average for the second year in a row.

Even a lump of coal could be hard to find this year

Our holiday forecast this year was complicated by several factors that could have a dramatic negative impact on our holiday sales outlook—the most obvious being the potential for another surge in COVID cases. While current case counts are trending downward, the Centers for Disease Control and Prevention still rates the level of COVID transmission as "high" in all but four states.[16] We only need to look back at the third quarter of this year to see how quickly a surge in case counts can have an adverse impact on consumer spending.

We would be remiss if we did not mention one of the other biggest downside risks of all, the potential for store shelves to be empty of some goods. One of the largest challenges facing retailers over the last year has been trying to keep up with the re-acceleration in consumer demand, which stretched many retail supply chains to the breaking point. In fact, inventory concerns this holiday season were so acute among retailers that some turned to chartering their own container ships in order to protect their supply chains.[17] Some retailers who were unable to take such drastic measures are cutting their outlook for sales growth in Q4 due to supply shortages. These shortages are behind much of the inflation pressures that have emerged in recent months and will likely translate into fewer price markdowns this year for goods that do make it to store shelves in time.

Notes

[1] Conference Board and U.S. Department of Commerce

[2] Visa Business and Economic Insights and U.S. Department of Commerce

[3] U.S. Department of Labor and U.S. Department of Commerce

[4] Visa Business and Economic Insights and U.S. Department of Commerce

[5] Visa Business and Economic Insights consumer survey, conducted on behalf of Visa by Prosper Analytics, October 2021.

[6] Conference Board

[7] Conference Board

[8] U.S. Department of Labor

[9] U.S. Department of Labor

[10] U.S. Department of Commerce

[11] Visa Business and Economic Insights and U.S. Department of Commerce

[12] Visa Business and Economic Insights consumer survey, conducted on behalf of Visa by Prosper Analytics, October 2021.

[13] Visa Business and Economic Insights consumer survey, conducted on behalf of Visa by Prosper Analytics, October 2021.

[14] Visa Business and Economic Insights consumer survey, conducted on behalf of Visa by Prosper Analytics, October 2021.

[15] U.S. Department of Labor

[16] U.S. Center for Disease Control and Prevention. (Oct. 20, 2021). COVID Data Tracker. https://covid.cdc.gov/covid-data-tracker/#cases_community

[17] Nassauer, S. and Paris, C. (Oct. 10, 2021). Biggest U.S. Retailers Charter Private Cargo Ships to Sail Around Port Delays. The Wall Street Journal. https://www.wsj.com/articles/biggest-u-s-retailers-charter-private-cargo-ships-to-sail-around-port-delays-11633858380

Accessibility Notes

Fig. 1-A set of three lines showing the Consumer Price Index, which dropped from 2.4% in January of 2020 to a low in Apr-20 at 0% before climbing continually through September of this year to 5.4% on a year-over-year basis, the price growth for gift wrap, which was down 3.2% in Sept-20 from 7.2% in Jan-20 but grew steadily higher to 9.8% by September of 2021, and the price growth for groceries, which was elevated in 2020, peaking at 5.6 percent in June 2020 slowed to 3.3% by March of 2021 and 0.7% by May of 2021 before edging steadily higher to 4.5% as of September 2021.

Fig. 2-A line chart showing growth in nominal and real personal income. Both lines tracked very closely, ranging from 0.0% at the start of the pandemic, March 2020, to 17% in April 2020, a gradual deceleration in growth until spiking to 13.4% in January 2021 and again in March 2021 to 28.8%. After that, both fell to a low since January 2020 of 0% for nominal income growth and -6.2% for inflation-adjusted income growth in April 2021, the first month the two lines separated.

Fig. 3-A bar graph showing the average amount consumers planned to spend on gifts each holiday season, ranging from $608.5 in 2018, $618.1 in 2019, $616.0 in 2020 to $702.0 in 2021.

Fig. 4-A horizontal bar graph showing the share of consumers planning to shop online for more than half of their holiday needs, ranging from 51% in 2018, 49% in 2019, 61% in 2020 to 59% in 2021.

Fig. 5-A vertical stacked bar graph showing the plans to spend more on holiday gifts this year for all consumers and for three age groups. Total for all groups, 72% of consumers expect to spend the same or more, 18% expect to spend less and 10% expect to spend less. Among those under age 35, 75% of consumers expect to spend the same or more, 15.7% expect to spend less and 9.9% expect to spend less. Among those aged 35 to 54, 71% of consumers expect to spend the same or more, 21.6% expect to spend less and 7.9% expect to spend less. Among those aged 55 and older, 72% of consumers expect to spend the same or more, 16.7% expect to spend less and 11.3% expect to spend less.

Fig. 6-A bar graph showing historical year-over-year changes in holiday sales growth, from 2.5% in 2015, 5.9% in 2017, a high of 8.6% in 2020, and this year's forecast at 7.9%.

VISA

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.

Disclaimer

Studies, survey results, research, recommendations, opportunity assessments, claims, etc. (the 'Statements') should be considered directional only. The Statements should not be relied upon for marketing, legal, regulatory or other advice. The Statements should be independently evaluated in light of your specific business needs and any applicable laws and regulations. Visa is not responsible for your use of the Statements, including errors of any kind, or any assumptions or conclusions you might draw from their use.

Visa Business and Economic Insights

Wayne Best, Chief Economist

Bruce Cundiff, Vice President, Insights
Michael Brown, Principal U.S. Economist
Adolfo Laurenti, Principal European Economist
Richard Lung, Principal Global Economist
Glenn Maguire, Principal Asia Pacific Economist
Mohamed Bardastani, Senior CEMEA Economist
Jennifer Doettling, Director, Content and Editorial
Michael Nevski, Director, Consumer Insights
Dulguun Batbold, Senior Global Economist
Travis Clark, U.S. Economist
Angelina Pascual, European Economist
Mariamawit Tadesse, Global Economist
Woon Chian Ng, Assoc. Asia Pacific Economist
Juliana Tang, Executive Assistant

For more information

Please visit us at **www.visa.com/EconomicInsights** or Contact us at **VisaEconomicInsights@visa.com**