

2019 Holiday Sales Outlook

November 2019



Holiday sales* expected to rise 4.1 percent YoY; shoppers plan to spend more on gifts this year

The holidays are quickly approaching and shoppers are expected to be a bit more cheerful this holiday season. While the pace of job growth has slowed recently, overall consumer economic conditions remain relatively solid. Thanks in part to more modest inflation, real average hourly earnings are up 1.9 percent on a year-over-year (YoY) basis as of September compared to 0.7 percent the same time last year. Consumers' current assessment of the economy is also on par with last year's readings.

U.S. holiday spending* is likely to grow 4.1 percent (YoY) on all forms of payment, according to Visa Business and Economic Insights. This forecast represents an acceleration from the 2.3 percent gain in 2018. On average, consumers expect to spend \$618 on gifts this holiday season, up from \$608 last year, according to survey data from Visa and Prosper Analytics. While this holiday shopping season is expected to be better than last year's, there are also risks to be aware of. Namely, the potential for another federal government shutdown during the holiday shopping season. Trade tensions could also weigh on equity markets and thus consumer confidence. Absent these negative factors, it looks like the U.S. consumer should have a holly jolly end to 2019.

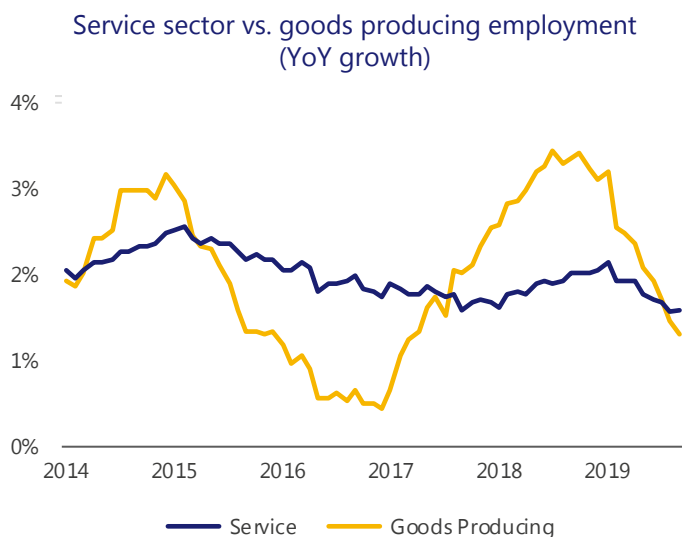
Key Points:

Stronger holiday spending growth expected due to consumer tailwinds

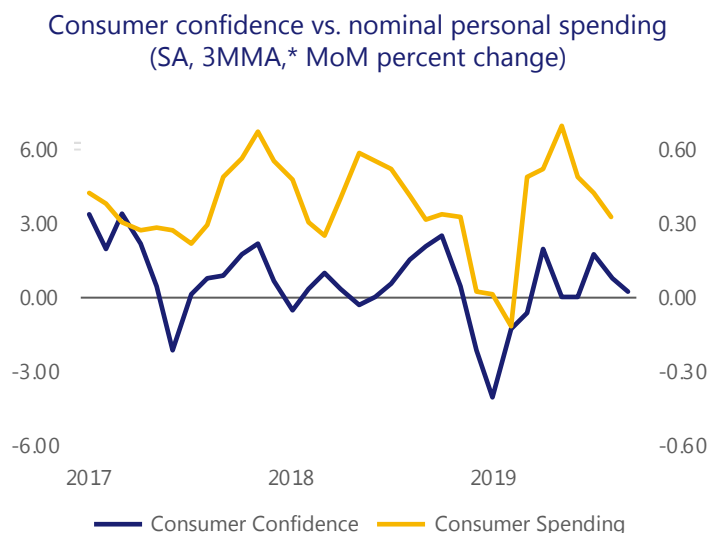
Younger consumers should have a greater impact on holiday spending this season

Fiscal policy risks could once again disrupt holiday shopping

* 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.



Source: Visa Business and Economic Insights, U.S. Department of Labor



Source: Visa Business and Economic Insights, Conference Board, U.S. Department of Commerce
* Seasonally adjusted, three month moving average

Consumer economic conditions remain strong

Even with clouds of uncertainty hanging over some aspects of the U.S. economy, consumer spending has been solid for most of this year and has helped to prop up growth at a time when business investment is waning. On the surface, consumer economic conditions appear softer than this time last year.

Consumer confidence has come down in recent months and job growth is slowing. However, there are several tailwinds that may keep the cash registers busy this holiday season. More consumers are reporting that jobs are plentiful relative to last year. In addition, real after-tax income growth is up 3 percent over last year's levels and fewer consumers are reporting that they expect income growth to slow. One factor helping to lift real income growth has been the softer rates of inflation observed this year. The Consumer Price Index is up just 1.7 percent (YoY) as of September.

A factor to watch this season will be the possible divergence in spending trends across regions of the U.S. Those areas with higher concentrations of manufacturing workers, such as the Midwest, could experience more tepid consumer spending growth given the ongoing struggles of the manufacturing sector.

A holly jolly outlook?

While Visa's holiday sales forecast is up from the 2.3 percent pace observed last year, it is down from the robust 5.9 percent growth of 2017.

A Visa consumer survey* found that 75 percent of holiday shoppers plan to spend the same amount or more on holiday gifts this year compared to last year. This is a slight decrease from 78 percent in the 2018 survey. Survey respondents reported a higher willingness to splurge on someone special this year. However, consumers appear slightly more concerned about the economy this year compared to last year.

The average holiday shopper plans to spend about \$618 on gifts this year. About 5 percent of shoppers plan to spend more than \$2,000 on gifts. However, the typical (median) consumer plans to spend between \$301 and \$500 this holiday season.

* Online survey of 4,232 American consumers on behalf of Visa by Prosper Insights & Analytics, October 2019. ** All forms of payment.



Peak spending expected to occur on...

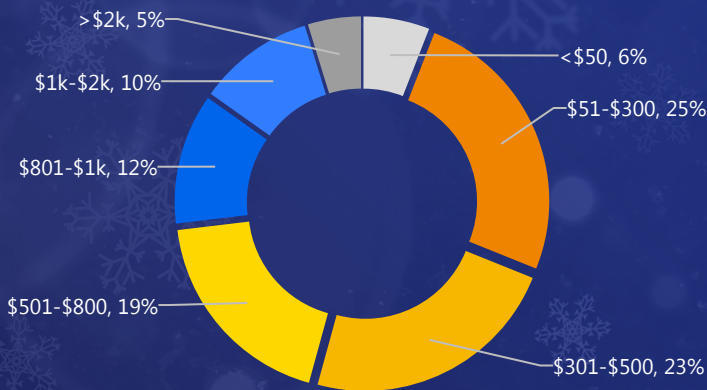
Thanksgiving weekend is lining up to be one of the strongest in years, with 60 percent of holiday shoppers indicating they plan to shop on Thanksgiving Day, Black Friday or Cyber Monday. This is a big jump from 51 percent back in 2013.

Black Friday should be the most popular day, with 43 percent of shoppers planning to hit the stores. Cyber Monday is also a big shopping day—35 percent of consumers plan to shop that day. Only a small share—17 percent—say they plan to shop on Thanksgiving Day, up from 13 percent in 2017. Millennial shoppers (under 35) are more likely than older shoppers to say they plan to shop on any given day over the long weekend.

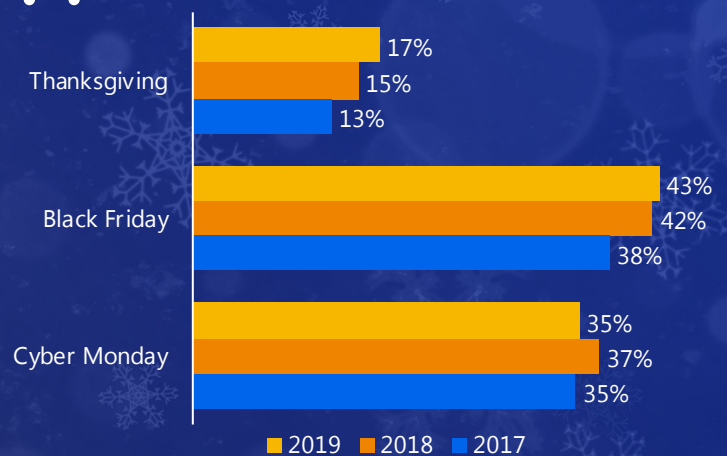
Millennial shoppers could also provide a boost to online holiday spending. Those under 35 were twice as likely as consumers aged 35-54 and three times as likely as consumers 55+ to spend more on holiday gifts this year than last year. Millennials are advancing in their careers and are more likely to cite a better job/promotion as the reason they will spend more during this holiday season than last year. Roughly half of this group will do the majority of their holiday spending online.



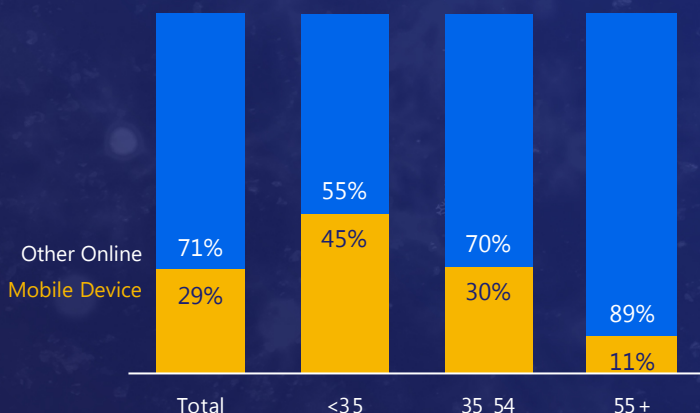
How much do you plan to spend on gifts this holiday season?¹



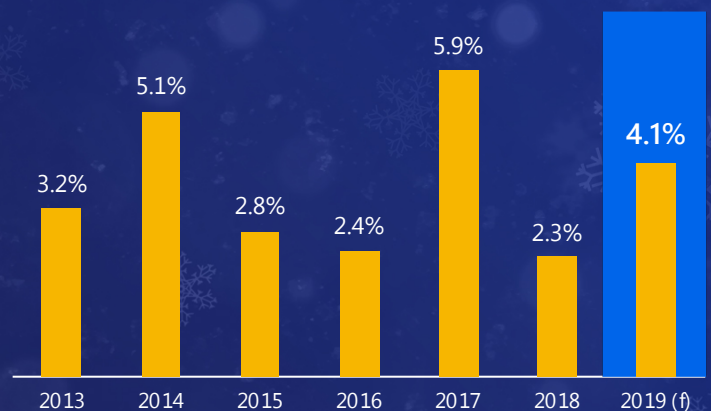
Share of consumers planning to shop¹



What is your preferred device for shopping online?¹



Holiday retail spending** (YoY growth)²
Retail sales excluding autos, gas and restaurants



1. Source: Visa Business and Economic Insights, Prosper Insights & Analytics
2. Source: Visa Business and Economic Insights, U.S. Department of Commerce
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What factors could dampen holiday spirits?

Last holiday season, consumer spending started off solid in November then barely eked out a positive gain in December. The cause? A plethora of negative events, including an escalation of trade tensions between the U.S. and China, the beginning of the longest government shutdown in U.S. history and a prolonged drop in equity markets. Together, these factors resulted in a sizable drop in consumer confidence and, in turn, muted consumer spending in December.

That is a potential risk once again this holiday season. In the absence of a funding bill, another government shutdown could begin on November 22nd and ongoing trade tensions continue to pose a risk to equity prices. The key measure to watch is consumer confidence. As long as consumers are feeling upbeat about economic conditions, the current economic climate bodes well for a solid holiday shopping season.

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