Visa Business and Economic Insights

U.S. Economic Insights: Holiday Spending Outlook

Will it be another holly jolly season for holiday shopping?

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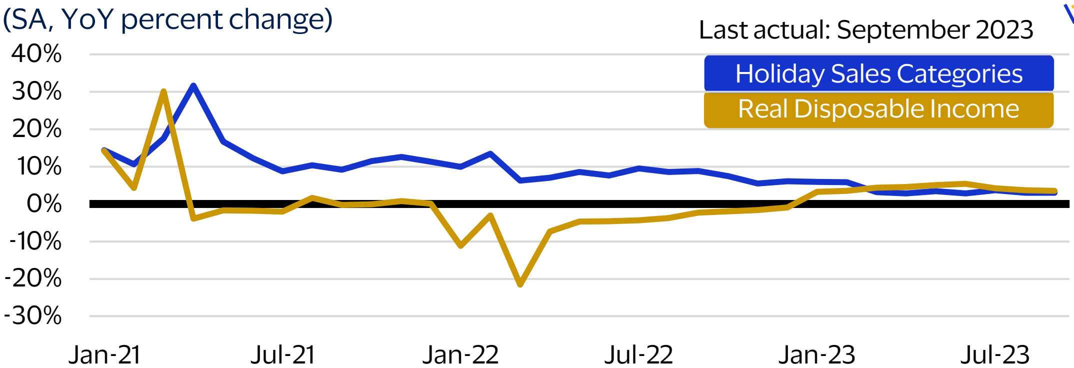
We start the holiday shopping season amid a backdrop of continued robust consumer spending. The last couple of holiday shopping seasons have been impacted by residual stimulus effects (2021) followed by high rates of inflation at this time last year. We think this year there will be fewer distortions to sales, implying that consumer fundamentals are likely to drive the pace of sales growth. Among the headwinds facing consumers this season are much higher interest rates and an increased difficulty in obtaining credit.[1] Additionally, we have seen hours worked trimmed back across some industries.[2] The news is not all bad though: job and wage gains have been robust through most of this year and moderating inflation pressure has supported spending growth.

When assessing future holiday sales, we pay particular attention to real disposable income growth. This real income growth measure has been relatively stable since the beginning of the year and tracking closely with retail sales on holiday related items in recent months (Fig. 1). Real incomes are up 3.5 percent as of September and are expected to remain relatively stable through December.[3]

With holiday spending returning to its core drivers of consumer credit and real income growth, we see **holiday sales rising 4.1 percent YoY this season**. While this is likely to be the slowest year for holiday sales since 2019, it would still be higher than the average growth in sales during the last expansion (2010-2019) of 3.7 percent.

Fig. 1: Sales growth of holiday categories* vs. real disposable income growth

(SA, YoY percent change)



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

Key Points:

- Holiday sales are likely to be above average again this year
- Average holiday gift spend may decline
- Who will drive holiday spending this year?

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Holiday sales likely to be above average again (cont.)

Inflation remains a factor in the holiday outlook again this year. With the Consumer Price Index up 3.7 percent YoY through September, inflation-adjusted holiday spending is set to rise just 0.4 percent YoY. Among the post-pandemic trends we continue to see is consumer demand pivoting towards greater services spending at the expense of softer spending on goods. Given that the mix of holiday spending items tilts more towards goods, it suggests slightly softer real holiday spending this year. The implication of the outlook this year is that while foot traffic (real spending) may only rise slightly, the effect of higher prices is likely to help keep holiday sales revenues (nominal spending) in line with historical averages.

Will consumers spend more or less this holiday season?

Signs of weakness in the economy, persistent inflation and high gas prices are among the common reasons consumers cite for spending less this holiday season. Just over 23 percent of consumers say they plan to spend less on holiday gifts in 2023 compared to last year.[4] As a result, average gift spending is set to downshift slightly this season to $619 from $628 last year.[5] There is more variation across income and age groups, however, with a solid 27 percent of consumers with incomes above $100,000 indicating they plan to spend more this holiday season than in 2022, compared to just under 13 percent of low- to middle-income consumers who plan to spend more. Among 45-54 year olds, 30 percent state that they plan to spend less this year. The resumption of student loan payments is also making its way into the consumer psyche, with 24 percent of all adults stating that their holiday gift spending stands to suffer as a result of payments coming due again. This skews towards both middle-income consumers as well as 25-44 year olds.

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

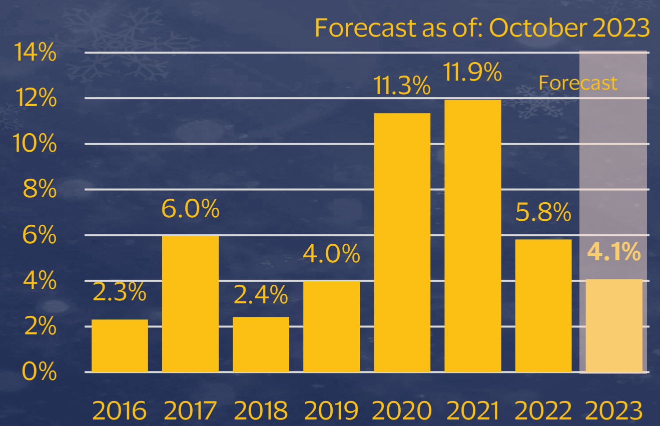
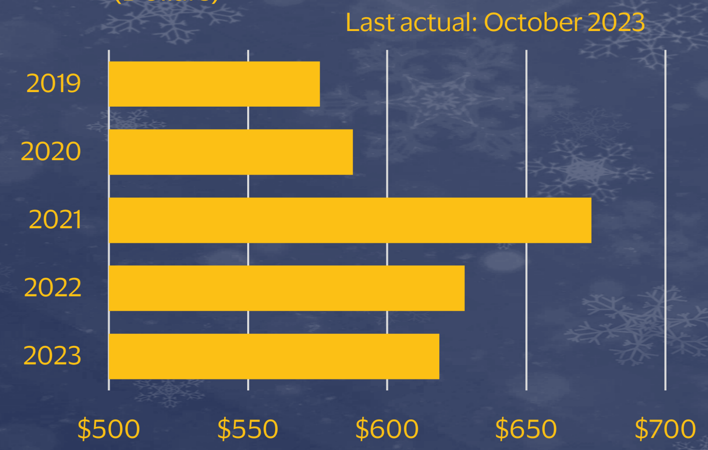


Fig. 3 Average amount consumers plan to spend on gifts this holiday season
(Dollars)



Sources: Visa Business and Economic Insights, U.S. Department of Commerce, and U.S. Department of Treasury

Footnotes

[1] Visa Business and Economic Insights and Federal Reserve Board
[2] Visa Business and Economic Insights and U.S. Department of Labor
[3] Visa Business and Economic Insights and U.S. Department of Commerce
[4] Visa Business and Economic Insights and Economic Insights Quarterly Consumer Survey, October 2023
[5] Average gift spending by income group from the October Economic Insights Quarterly Consumer Survey was weighted by the share of the consumer base by income level from the U.S. Department of Labor's 2022 Consumer Expenditure Survey to get the average gift spending for all income groups.

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Accessibility Notes

Figure 1: Line chart showing year-over-year growth (seasonally adjusted) in holiday sales categories relative to real disposable income from Jan-2021 through Sep-2023. Growth in holiday sales categories ranged from 14.38 percent in Jan-21 to a high of 31.67 in Apr-21 down to 7.01 percent in Apr-22 and 2.98 percent in Sep-23. Growth in real disposable income ranged from 14.22 percent in Jan-21 to a high of 30.11 percent in Mar-21, a low of -21.52 percent in Mar-22 and finishing at 3.5 percent in Sep-23.

Figure 2: Bar chart showing the year-over-year percent change in holiday retail spending ranging from 2.3 percent in 2016 to 6.0 percent in 2017, 2.4 percent in 2018, 4.0 percent in 2019, 11.3 percent in 2020, 11.9 percent in 2021, 5.8 percent in 2022 and 4.1 percent expected in 2023.

Figure 3: Column chart showing the average dollar amount consumers planned to spend on holiday gifts, ranging from $576 in 2019, $588 in 2020, $673 in 2021, $628 in 2022, $619 in 2023.

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