OBSERVATION

TD Economics

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2014 HOLIDAY SHOPPING SEASON LOOKS BRIGHT, BUT AIN'T WHAT IT USED TO BE

Highlights

- The holiday shopping season is about to begin in earnest, as the American Thanksgiving weekend increasingly brings Black Friday and Cyber Monday sales to Canada. The outlook for 2014 is shaping up to be a fairly good one for retailers. TD Economics forecasts that retail sales excluding autos and gas will rise 3.6% year-over-year over the November-December holiday season
- A number of crosscurrents are buffeting the holiday spending outlook. High debt burdens and weaker consumer confidence are likely to weigh on the outlook, while an improved employment picture and increased household net worth are positive forces. In recent months, lower levels for both gasoline prices and the Canadian dollar are both supportive to the near-term retail outlook.
- Underneath the outlook for the holiday shopping season, seasonal patterns in retailing are shifting. A variety of factors have contributed to retail sales becoming more evenly spread throughout the year, resulting in the holiday season becoming less important for retailers than it was in the past.

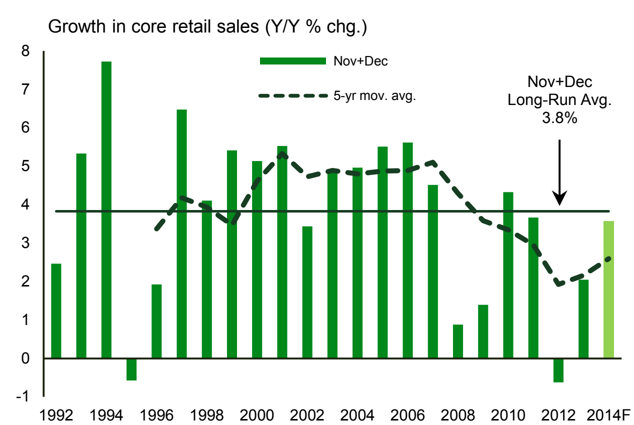
The American Thanksgiving weekend is upon us, with Black Friday and Cyber Monday sales kicking off the holiday shopping season. Recent market volatility and the dramatic decline in oil prices have cast more uncertainty on the near-term economic outlook, and forecasters have been rapidly tweaking their views. However, the 2014 holiday shopping season here in Canada is shaping up to be a fairly good one for retailers. That said, the season's glow is more like the LED Christmas lights – weaker relative to the long-run average, but still pretty good relative to more recent years. Moreover, underlying the outlook for 2014 are shifting patterns for holiday shopping, which as a whole have led to the holiday shopping season being less important for retailers than it has been in the past.

Holiday shopping season outlook like an LED light

The outlook for the holiday shopping season has become increasingly uncertain. According to a September survey conducted by the Retail Council of Canada, merchants were initially feeling optimistic about reaching their holiday sales plans. Then volatility increased in financial markets, taking Canadian equities, commodity prices and the loonie lower, as markets once again marked down their expectations for global economic growth. Some reports and surveys point towards a tougher environment for retailers, and indicate that consumers plan to spend less than last year.

Over the past 20 years or so, holiday retail sales growth excluding autos and gasoline , has averaged between 3.7% and 3.8% year-over-year, depending on whether you count only December or November and December as the holiday season. For the purposes of this report, TD Economics defines the holiday shopping season

CHART 1: HOLIDAY SHOPPING SEASON LOOKING BRIGHTER IN 2014



Source: Statistics Canada. Forecast by TD Economics as at November 2014.

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as November and December. TD expects that "core" retail sales are likely to rise 3.6% year-over-year over the holiday season, slightly below the long-run average (see Chart 1).

Since the recession, consumer spending growth has been more modest. Higher rates of spending increases pre-recession were financed by debt accumulation. Post-recession, debt growth has slowed dramatically. Holiday core retail sales post-recession have averaged a more modest 2.4% year-on-year, making the 2014 outlook look relatively brighter. The holiday shopping season for 2014 is looking much like an LED Christmas light – fairly bright relative to the winter darkness, but not quite as dazzling as the old ones.

Crosscurrents shape the Holiday shopping outlook

So far in 2014, retail sales have been strong. While much of the 4.7% gain in the headline year-to-date has been built on very strong auto sales, core retail sales have also been gaining momentum. Retail sales, excluding autos and gasoline are up 3.4% year-to-date, a significant acceleration from the 1.9% pace at this time last year.

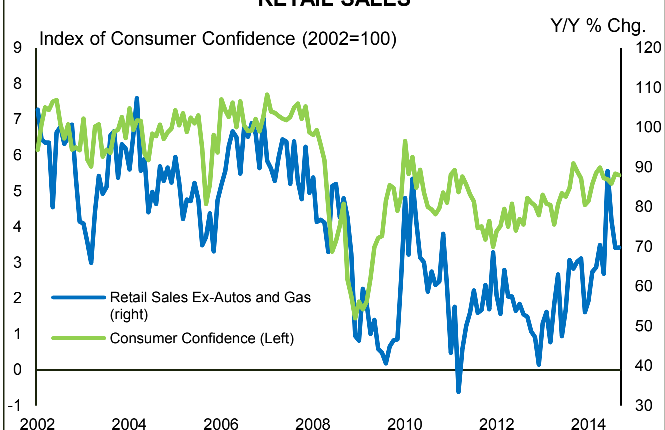
Looking ahead, there are a number of crosscurrents for the 2014 holiday shopping season. On the downside, the drop in equity markets and the heightened volatility of the early autumn months dented consumer confidence. Despite broadly trending upward over the past couple of years, consumer confidence dropped in September and October and now stands below last year's level (see Chart 2). This indicates that consumers are less optimistic about their economic prospects and may hold back on their holiday spending. High debt burdens also remain a limiting factor on consumer spending growth in general. Canadians appear to be focused on paying down their debt and are slowing the rate at which they are accumulating new debt (please see [Explaining the Moderation in Canadian Mortgage Borrowing](#)). This will constrain their spending in line with income growth.

For Canadian retailers, a lower price for oil and the Canadian dollar are double edged swords in terms of the outlook. The dramatic decline in oil prices has led to a roughly 18% drop in the price of gasoline since the summer, which leaves more money in consumers' wallets for holiday spending. But, as a net oil exporter, sustained lower prices are also a hit to domestic incomes, which could eventually weigh on spending. But, it is likely too soon for these income effects to play out over the holidays. Consumers in oil-producing provinces such as Alberta, Saskatchewan and Newfoundland and Labrador may be more circumspect in their holiday spending as a result of the price decline, but other provinces would be more likely to see a boost to spending due to lower prices at the pump.

The depreciation of the Canadian dollar that has been underway for over a year now puts upward pressure on retailers' costs of imported merchandise. Given the heightened competition in Canada's retail sector, this can mean leaner margins for many retailers over the near-term. However, the other side of a weaker loonie is that cross-border shopping is less attractive. In fact, same-day trips to the U.S. have been falling through 2014 (see Chart 3). The Canadian dollar is hovering around 88 U.S. cents, down 7 cents from the same period last year. TD Economics does not expect this position to change substantially during the holiday season, suggesting that more of consumers' spending should remain within Canada, adding a boost to Canadian retailers this year.

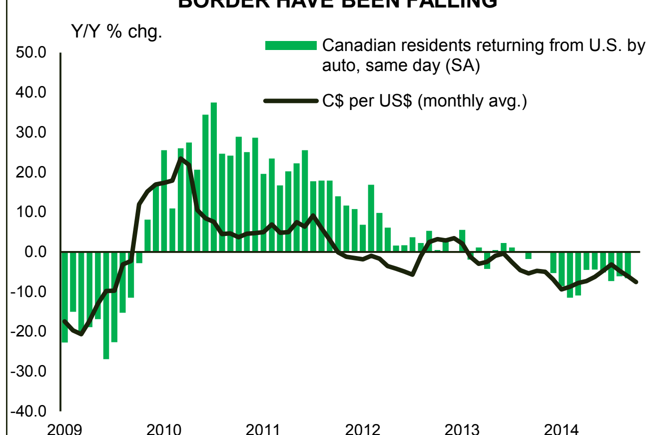
A weaker currency also makes Canada a more affordable

CHART 2: CONSUMER CONFIDENCE AND CORE RETAIL SALES



Source: Conference Board of Canada, Statistics Canada. Confidence as at October 2014, sales as at September 2014.

CHART 3: SAME-DAY TRIPS ACROSS THE BORDER HAVE BEEN FALLING



Source: Statistics Canada, Haver Analytics. As at October 2014.

travel destination for international travellers, who would spend money at Canadian retailers. So far in 2014 there has been an upswing in the number of foreign visitors coming to Canada, providing support at the margins to retailers. Interestingly, so far it is visitors from overseas driving the increase, as the number of American visitors has remained relatively flat. The longer the loonie stays at the new lower value; one would expect tourism to Canada to gradually increase.

Other positive influences include an economy that is in a much better shape today than it was a year ago. Households are feeling richer, with net worth up about 5% since the end of 2013 (Chart 4). The improved employment picture is another positive for holiday spending. Hiring has picked up in recent months, and the unemployment rate has fallen half a percent lower than last year.

Small business confidence measures also suggest that small and medium sized retailers were feeling more optimistic about their short-term outlook in October. The CFIB's business barometer indicated that retail confidence has been trending up in 2014 (Chart 5). And, despite the index's volatility, retail confidence is about five points higher than it was a year ago.

But, holiday season ain't what it used to be

Traditionally, holiday sales have made up a considerably larger portion of total yearly sales in comparison to other months. However, seasonal patterns in retailing are shifting. December continues to dominate the retail calendar, but, it has been declining in importance over the longer term (Chart 6).

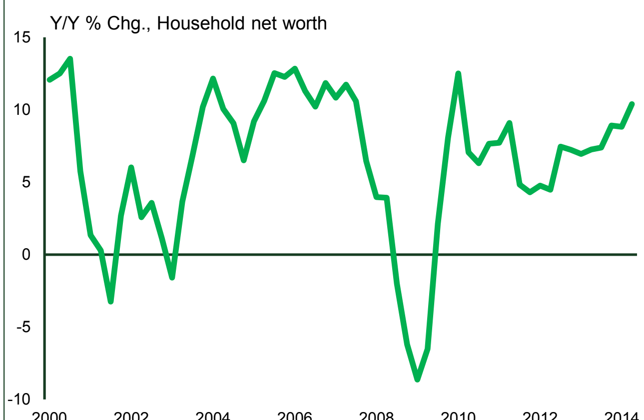
In the pre-recession years, the holiday season referred to the month of December. During the 1990s, this month accounted for 11.5% of yearly sales, but since then its share has shrunk by about one percentage point or the equivalent of $3 billion dollars as of last year. There appears to be a combination of long and short-term factors contributing to this diminishing trend.

Traditionally, holiday shopping in Canada has been tightly linked to Christmas, where gift giving is customary. The holiday shopping season has been the days leading up to Christmas and Boxing Day sales. Over the past few decades the percentage of Canadians who identify themselves as being Protestant or Catholic has been shrinking, and the share of Canadians who identify themselves as belonging to another religion or are religiously unaffiliated, has risen from 8% in 1971 to 35% in 2011. While holiday gift giving has arguably become very secular, and many people

CHART 5: OPTIMISM FOR SME RETAILERS HIGHER THAN LAST YEAR

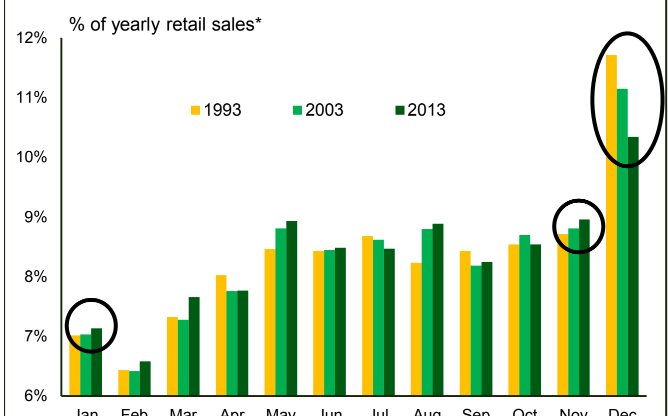
Source: CFIB, Statistics Canada. As at October 2014.
*Index of 50 = equal balance of stronger and weaker business expectations.

CHART 4: HOUSEHOLD NET WORTH UP 5% SINCE THE END OF 2013



Source: Statistics Canada. As at Q2, 2014.

CHART 6: HOLIDAY SHOPPING, NOT WHAT IT USED TO BE



Source: Statistics Canada, Haver Analytics. *Excluding autos and gas, NSA.

who don't celebrate Christmas still give gifts at this time of year, or spend to take advantage of sales, it is likely that increased multiculturalism may have played a role in the decline of the share of total retail purchases made during the month of December.

Another phenomenon that has shifted sales away from December is the rise of gift cards. While the majority of gift card purchases occur in November and December, retailers don't record a sale until the cards are redeemed, which often occurs well after the holiday season. The popularity of gift cards has contributed towards shifting of holiday sales into the New Year.

The growth in online retailing has outpaced that of overall retail trade, and is likely affecting retail sales patterns in Canada. In 2012, retail e-commerce sales grew by 16.3%, relative to 2.9% for retailing as a whole. E-commerce sales by retailers were $7.7 billion in 2012 (the most recent year of data), accounting for only 1.5% of retail sales as a whole, much lower than the 5.2% share in the United States. Separate survey data from consumers pegs Canadians' total online purchases at $18.9 billion. This figure includes purchases made on foreign websites and for items such as travel arrangements and entertainment tickets not captured in typical retail sales data. Unfortunately, the lack of online sales data on a monthly basis makes it impossible to determine with any precision how e-commerce is affecting holiday retailing patterns. But at a minimum, as Canadian shoppers seek better selection or lower prices on U.S.-based websites, competitive pressure on Canadian retailers has heightened.

Since 2008, Black Friday and Cyber Monday sales typically seen on the Thanksgiving weekend in the U.S., have increasingly been offered in Canada. This has likely contributed to a greater share of yearly sales in November, as Canadian shoppers take advantage of the bargains. In the past five years, November's share has increased substantially, by about half a percentage point or the equivalent of about $1.5 billion dollars as of last year. Because of the extension of the holiday season in late November and the significant impact that this has had on holiday sales, today when we speak of the holidays we generally refer to both November and December. Overall, while the traditional holiday spending is getting spread out over a longer period through gift cards and U.S.-style Thanksgiving weekend sales, it still does not erase the trend that the holiday season is becoming less dominant than in the past and retail sales are becoming more evenly spread throughout the year.

Bottom line

Overall, the 2014 holiday shopping season is shaping up to be a fairly good one for retailers in Canada. While growth is expected to be fractionally weaker relative to the long-run average pace for the season, our projection compares more favourably to holiday seasons post-recession. The holiday shopping season remains important for retailers in Canada, but a variety of factors have contributed to sales becoming more evenly spread throughout the year, making holiday shopping less important than it was in the past.

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End Notes

1. Vehicle and gasoline sales are not typically thought of as "holiday" purchases, and follow a different seasonal pattern. So in focusing on the holiday sales outlook, we confine our analysis to the core retail sales categories.
2. PewResearch (2013). "Canada's Changing Religious Landscape" http://www.pewforum.org/2013/06/27/canadas-changing-religious-landscape/#