

# Holiday Preview Insight

November 2017



## Holiday spending expected to grow 3.5-4.0 percent year-over-year (YoY)

### E-commerce spending is the real holiday gift

With just days to the official start of holiday shopping, 'tis the season to be jolly: most Americans are feeling more confident than last year\* as the U.S. economy continues to expand and job growth remains steady. However, stagnant income growth and weak price inflation will likely limit consumers' holiday retail spending, expected to grow at a moderate 3.5-4.0 percent pace, according to Visa's estimates based on the **Visa Retail Spending Monitor (RSM)**, which reports spending on all forms of payment. The biggest boost is likely in online holiday shopping.

E-commerce is expected to drive holiday spending growth as more shoppers turn to their phones and computers to purchase gifts. Total online spending\*\*\* is expected to rise 15-17 percent YoY—below the 19 percent growth in 2016 but up from a more modest 14 percent gain in 2015. While the shift to online shopping is good news for online retailers, it presents challenges to traditional brick-and-mortar retailers. Spending trends for the year to date may foretell what is to come this holiday season: Many industry verticals, including clothing—where holiday spending represents a large share of revenue for the year—posted double-digit e-commerce growth, while face-to-face declined, according to the Visa Spending Index.

\* Consumer Confidence Index, Conference Board

\*\* Retail sales excluding autos, gas and restaurants (4Q2017)

\*\*\* E-commerce indicator, excluding recurring payments, mail order/telephone order transactions; VisaNet (all forms of payment)

#### Key Points:

**Moderate holiday spending growth expected despite high consumer confidence**

**Another holiday season of double-digit e-commerce growth is expected**

**Areas of strongest economic growth, such as the South and Pacific Northwest, will likely have more robust holiday sales growth**

## Many retailers face pricing pressures this holiday season

Consumers plan to do nearly half of their shopping online (48 percent), according to a Visa consumer survey\*—a steady increase from 47 percent in 2016 and 46 percent in 2015. Convenience is Americans' primary consideration when choosing to shop online, followed by better prices.

The average amount consumers say they will spend overall this year has dropped slightly from previous years to \$419, down from \$433 in 2016 and \$442 in 2015—with consumers over 55 indicating they will spend the most, at nearly \$472 on average this holiday season.

Intense competition among retailers—especially online—is helping to keep a lid on prices. While this is good news for consumers, it is one of the main reasons that holiday retail spending isn't expected to be higher, despite overall positive conditions for the consumer. In many categories, such as apparel, appliances, furniture, toys and sporting goods, prices are lower than they were a year earlier. In other retail categories, prices are only rising slightly, such as grocery, where prices are up less than one percent. Low prices will encourage some consumers to purchase more this holiday season, but others may be saving their money for other types of expenditures, such as medical care, housing and gas—all categories where prices are rising.

\* Online survey of American consumers on behalf of Visa by Prosper Insights & Analytics, October 2017

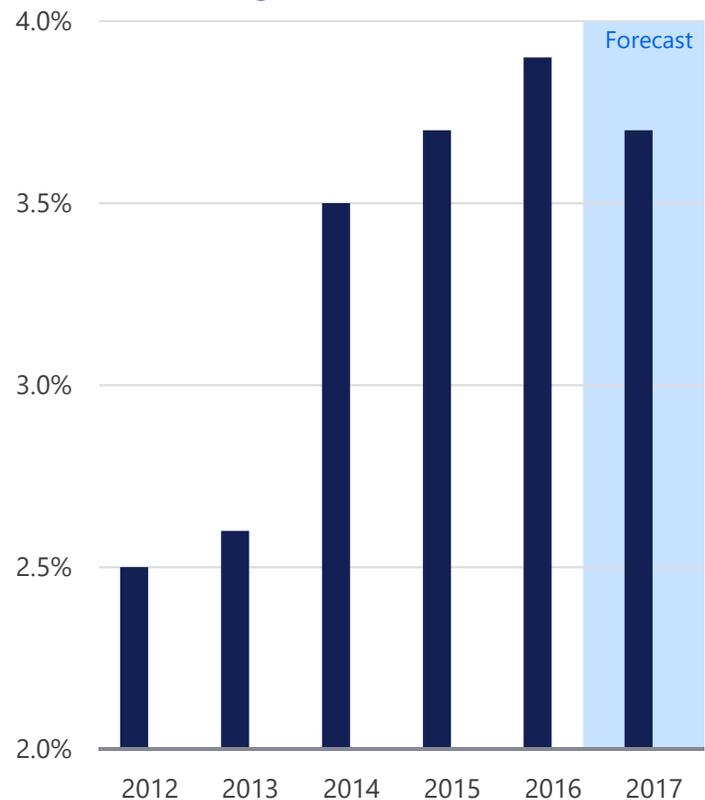
## Consumers shift from essentials to gift shopping in December

Consumer retail spending preferences change significantly during the holiday season. When U.S. retail spending peaks in December, a notable shift happens in the distribution of spending, as compared to November. Although retail spending grows overall in December, consumers tend to spend a smaller share of their budget on the essentials—grocery, warehouse, hardware, appliance, and pharmacy—opting to spend more on traditional gift categories such as clothing, sports, hobby, department stores and jewelry instead.

The most significant spending shift in December is the increase in e-commerce—with consumers opting to avoid the long lines and cold weather by staying home and shopping online.

\*Spending defined as retail sales less autos and gas

Holiday retail spending, YoY growth, 2012-2017(f)



Source: Visa Retail Spending Monitor (spending on all forms of payment), retail sales excluding autos, gas and restaurants, Q4

Market Segment	Difference in share of spending*, Dec. vs Nov.
E-commerce (electronic shopping and mail)	+2.0%
Clothing store	+1.7%
Dept./discount	+0.9%
Jewelry	+0.7%
Sport/hobby/misc. retail	+0.7%
Furniture/appliance	-0.1%
Pharmacy/drug store	-0.2%
Warehouse/superstore	-0.4%
Restaurant/food out	-1.2%
Grocery	-1.4%
Building/hardware/garden	-1.7%

Source: Visa Retail Spending Monitor



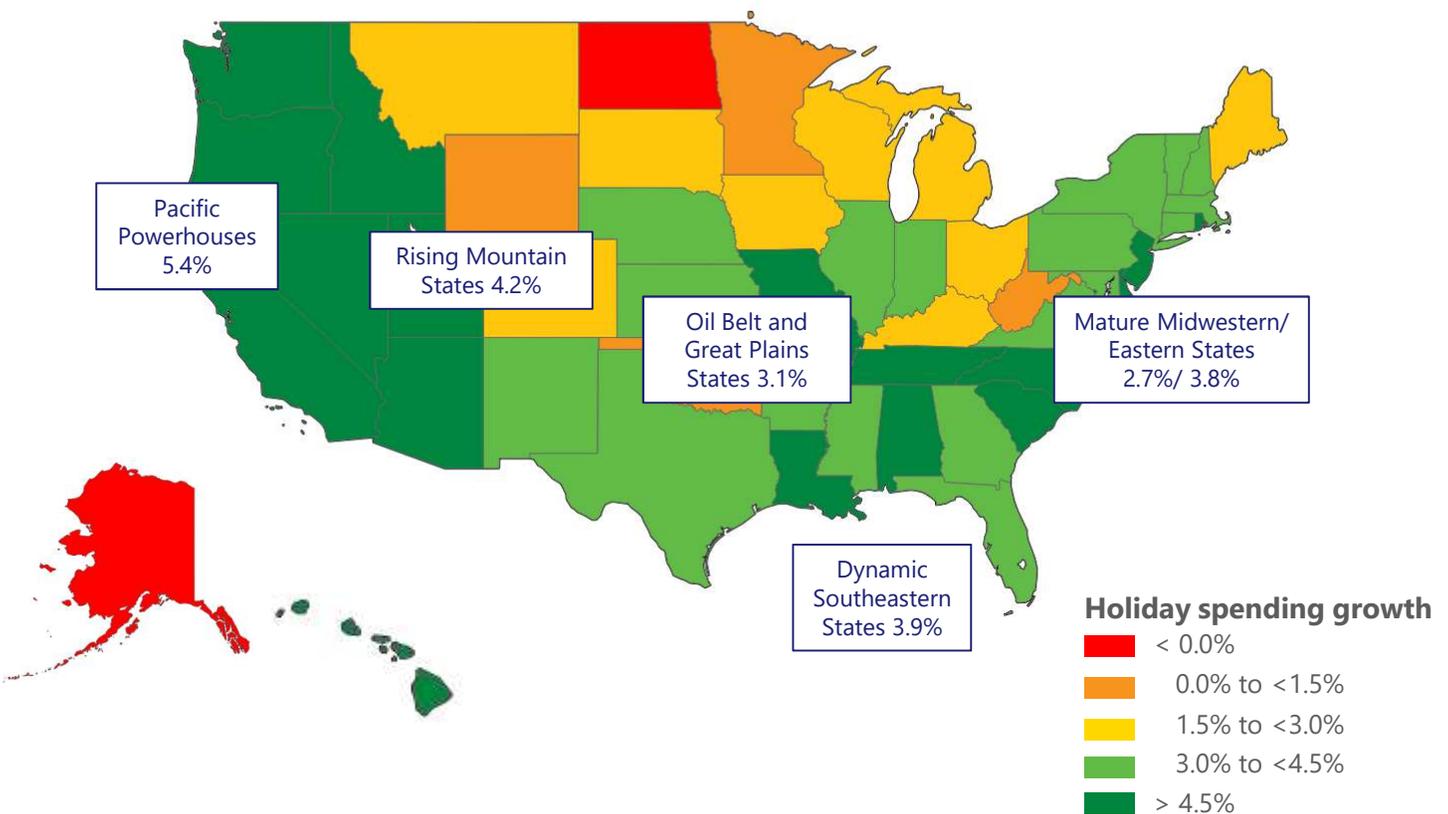
# Western and Atlantic Coast states could drive national holiday spending this year

Regional economic trends over the past few years provide insight into potential holiday growth areas this season. Rapidly growing economies along the Pacific coast and throughout the Western Rockies are most likely to lift national spending overall. The Pacific Northwest and California—with their large diversified economies—will be the primary engines of this growth, continuing the region’s dominant holiday spending growth trend in recent years. Rocky Mountain states led the nation in job growth through the first half of this year, and strong historical holiday spending growth in states like Nevada, Idaho and Utah bodes well for holiday sales in the region this year.

Economic growth in some regions of the U.S. will be less advantageous to holiday spending this year. Relatively weak employment growth in the first half of this year should dampen holiday cheer in the Oil Belt and Great Plains states, despite an uptick in oil prices. Likewise, weak employment growth in the first half of this year in mature Midwestern states will likely constrain consumers’ holiday budgets, keeping spending growth low.

However, markets along the Atlantic Seaboard could pick up the slack. Accelerating employment growth should bolster holiday spending in New England, while robust employment growth in Southeastern states—among the most economically-dynamic areas of the U.S.—could also translate into higher spending growth this holiday season.

**Holiday spending growth, 2014-16 (compound annual growth rate, Q4)**



Sources: Visa Business and Economic Insights; Bureau of Labor Statistics; Retail Spending Monitor (spending on all forms of payment), retail sales excluding autos, gas and restaurants, Q4



# Methodology

Visa's Retail Spending Monitor measures estimated historical performance of certain segments of the U.S. economy across payment types. Retail sales (sales by establishments engaged in retailing merchandise) in the context of Retail Spending Monitor is a set of industry segments defined by the U.S. Department of Commerce. The Retail Spending Monitor analyzes data in a manner consistent with this definition for industry segments that are not auto related. The Retail Spending Monitor is based on a sample of aggregated, depersonalized Visa transaction data analyzed utilizing a proprietary economic and statistical model and is not reflective of Visa operational and/or financial performance. The Retail Spending Monitor is provided on an "as is" basis without any warranties of any kind, express or implied, including, without limitation, as to the accuracy of the data or the implied warranties of merchantability, fitness for a particular purpose, and/or non-infringement. The Retail Spending Monitor is intended for informational purposes only and should not be relied upon for marketing, legal, technical, tax, financial or other advice. Visa is not responsible for your use of the information contained herein, including errors of any kind, or any assumptions or conclusions you might draw from its use. Each Retail Spending Monitor report is as of the publication date, and Visa has no obligation to update the data contained therein.

The Visa Spending Index (VSI) highlights spending on all forms of payment (Visa cards and others), including spending by category and channel. The VSI uses depersonalized, high-frequency Visa data, coupled with an econometric model, to "nowcast" total personal consumption expenditures on a more timely basis than other data sources.

## Forward-looking statements

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