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Holiday spending outlook turns less frosty

Deloitte's 24th annual holiday survey results

2008: The frostiest holiday season of all

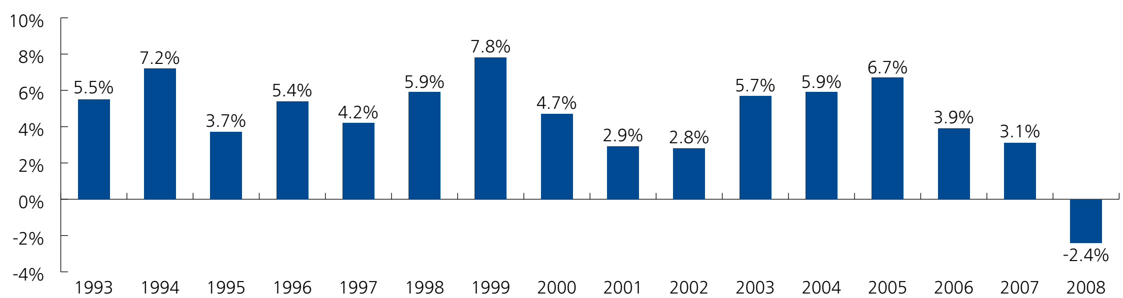
We tried to put a merrier spin on last year's dismal holiday survey results. But we should have believed. The respondents to Deloitte's 2008 survey said they were NOT jolly happy souls, even with their corncob pipes and button noses. And they weren't going down to the village stores with broomsticks in hand; they just weren't interested in playing "Catch me if you can."

By the end of the holiday season, retailers had indeed seen frosty consumers run thumpty thump thump over the hills of snow – totally bypassing their stores. As a result, retail sales were miserable – the worst ever in the history of Commerce Department reporting. While Deloitte was expecting sales to be mildly positive, actual results showed a 2.4% drop in sales, excluding autos and gasoline, for the November through January holiday period (see Figure 1). Analyzing results back to 1967, it also was the only holiday season where sales actually declined from the previous year. A "Frosty the Snowman" mentality had prevailed over the holiday season.

Looking back on the season, it's no wonder that sales were so icy. The negative news swirling around consumers likely made them extremely cautious. Starting in September and going right through December were consecutive headlines about the Lehman Brothers bankruptcy, sudden mergers of troubled financial institutions, bailout plans, record declines in the Dow, loans to domestic automakers, and the official declaration that a recession had begun. Consumer confidence, according to The Conference Board, reached its first all-time low in December, and continued to plummet through February (see Figure 2).

Figure 1. 2008 Holiday retail sales were worst ever

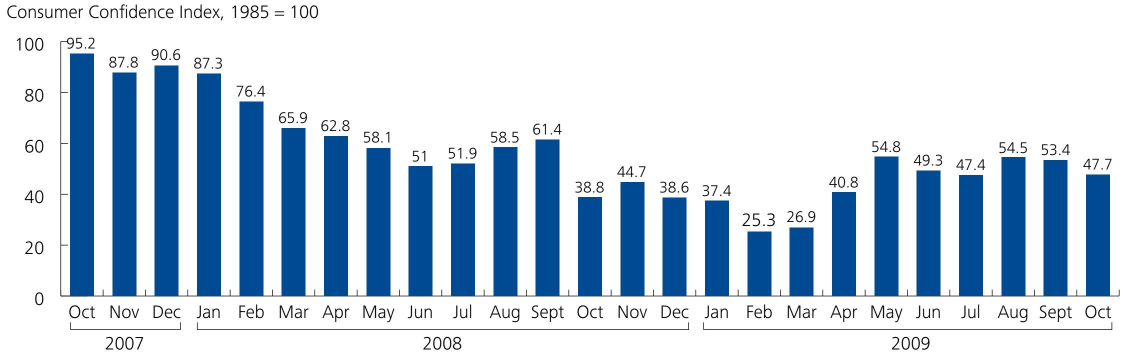
Sales, excluding autos and gasoline, not seasonally adjusted, % change from prior holiday (Nov. – Jan.)



Source: Commerce Department

Figure 2. Consumer confidence slid to record lows

Consumer Confidence Index, 1985 = 100



Source: The Conference Board

2009: Consumers turn less frosty

While consumers became increasingly less confident as 2008 progressed, in recent months they have grown more resilient. As a result, consumers' responses to Deloitte's 2009 Holiday Survey were far less frosty than they were the previous year. This improvement in sentiment may be a good thing for retailers.

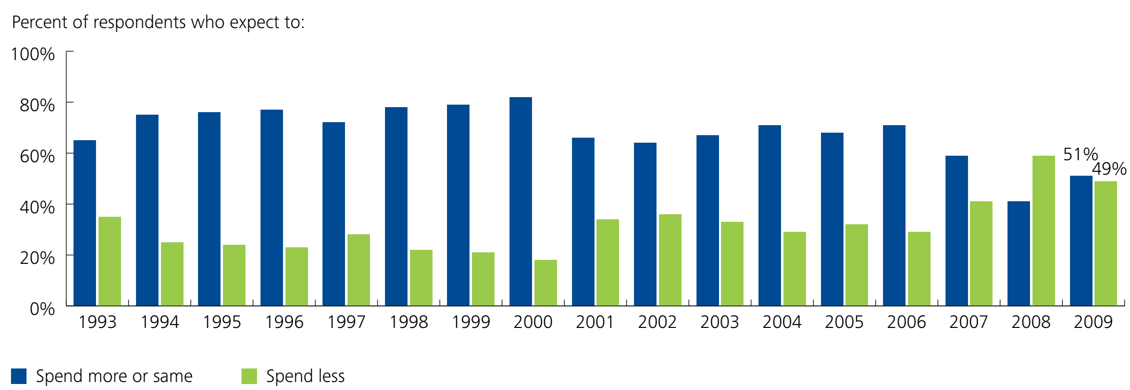
Part of the reason that surveyed consumers are less pessimistic is that they're coming to believe that the economy is on the mend. More than half, 54%, expect that next year's economy will improve. In last year's survey, only 28% believed that things would soon turn around. And roughly half believe that the economy is not currently in a recession. Further, 56% believe that their own finances are either the same or better than last year.

As consumers grow less worried about the economy and their own financial situations, they appear to be more willing to spend. In this year's results, 51% of surveyed consumers said they expect to spend the same or more than they did last year. This figure is up from 41% last year, although it remains below the 1993- 2008 average share of 69% (see Figure 3).

Taken together, the above results do not suggest a consumer who is ready to return to the strong spending levels of mid-decade. From an economic standpoint, many of the resources that fueled high spending have withered. And consumers themselves are now actively working on paying down their high debt levels.

Still, the survey results do confirm that optimism is growing and concerns are receding. While nearly half of respondents said they expect their total holiday spending this year to be less than last year, the figure is down a full 10 percentage points from last year. And, the concerns have lessened. In 2008, respondents gave on average five reasons for spending less. In 2009, they checked off four reasons. Additionally, several of these reasons declined sharply in importance. The percentage of surveyed consumers who said they were spending less because of high gas prices went from 69% last year to only 40% this year. High food prices were an issue for 73% of respondents last year, but only 47% this year. And 23% were concerned about the volatile stock market last year, compared with a mere 9% this year.

Figure 3. Willingness to spend: slightly improved



Source: Deloitte's 24th Annual Holiday Survey

The one area that rose in importance to surveyed consumers was around jobs. Last year, only 17% said they'd be spending less because of a job loss or pay reduction. In 2009, the figure doubled to 35%. This heightened concern was also evident in the lack of security that the currently-employed had about their jobs. The percentage of respondents who felt their job was extremely or very secure slipped to 43% in 2009 from 46% last year.

Similar to last year, surveyed consumers also said that economic concerns would cause them to shop differently this holiday season. But as with the reasons for spending less, those concerns weighed less heavily than they did in 2008. All the percentages were down from last year. One of the larger declines was the percent of respondents who said they would only buy what their family needs; it went from 56% last year to only 43% this year. Those who said they'd likely buy more lower-priced items went from 63% to 57%. And those who thought they'd shop at less expensive stores went from 40% to 35%.

Holiday spending expected to increase

With surveyed consumers turning more optimistic about the economy and with their overall concerns subsiding, their expectations for holiday spending improved from last year. Results showed that total spending on everything from gifts to small holiday furnishings is expected to be up 16% from last year. While a 16% improvement may seem large, the results need to be put in context with last year's dismal findings. In 2008, expected spending dropped a sharp 20% from 2007. Thus, while consumers say they will likely spend $1,145 on the holidays this year, the figure remains below 2007's $1,237, implying that total spending still will not be back to pre-recession levels (see Figure 4).

Further, respondents' expected spending on gifts declined again, as it has every year since 2005. The gift spending figure is down 15% from last year and is 29% lower than it was in 2004. Surveyed consumers expect to purchase only 18.2 gifts on average, which is down from 23.1 in 2007. Gift-giving is likely in long-term decline partly because more consumers are buying closer to need for all household members.

Respondents indicated that holiday spending this year will likely focus more on socializing, nongift clothing purchases, and decorating the home. Also, numerous analysts have pointed out that consumers have been in a "deprivation" mode for more than a year, and with things now wearing out, breaking, or growing outdated, it's likely that replenishment buying will be helping this season's sales. This would represent a classical bottom-of-a-recession response from consumers, as the release of pent-up demand helps move the economy forward.

As to where consumers will be shopping, the economy continues to impact their choices. The discount department store remained the top choice with surveyed consumers, while the Internet – including traditional e-commerce sites, auction sites, online communities, and consumer product manufacturers' Websites – was ranked second, with 42% of respondents expecting to shop at least one of those venues. The "technology" store – which includes electronics, office supply, and computer stores – was ranked third (see Figure 5). The high ranking of this new category points to the growing importance of technology in consumers' daily lives. In contrast, the traditional department store continued on its long-term decline. Only 23% of surveyed consumers said they'd shop at one of these stores. The percentage is roughly half of what it was earlier in the decade.

Similar to last year, the top 10 list of where surveyed consumers expect to shop is heavily weighted toward value and deep-discount store types. Meanwhile, store choices that several years ago were popular with consumers – home improvement stores, jewelry stores and specialty apparel stores – have fallen out of favor with many consumers. Those percentages have declined over the last half-decade or so.

Figure 4. Spending on the biggest holiday expense, gifts, will be down, but smaller groups are up

Consumers' expectations for holiday spending:

	2009	2008	% change
Gifts	$452*	$532	-15%
Socializing away from home	$243	$181	34%
Entertaining at home	$201	$135	49%
Nongift clothing for family	$147	$91	62%
Home/holiday furnishings	$102	$48	113%
Total	$1,145	$987	16%

*Gift spending is in long-term decline; down 29% from 2004
Source: Deloitte's 24th Annual Holiday Survey

While store choices have shifted in recent years, gift lists remain very similar. For the sixth consecutive year, gift cards were ranked as the top gift choice by respondents. Nearly two-thirds, 64%, expect to purchase at least one. Clothing was ranked second, followed by CDs/DVDs for music or movies. Technology-related gifts also were popular. If five gift categories were aggregated – computer/video games, game consoles, home electronics, personal electronics and vehicle electronics (GPS, etc.) – then a technology-related gift would rank third on the list of top gifts, with 41% expecting to purchase at least one of these items. Other popular gifts are books, money, and food/liquor.

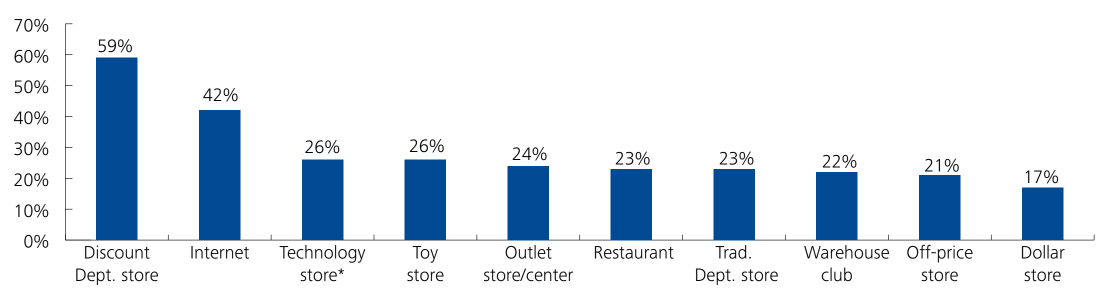
In another sign of improved spending intentions, surveyed consumers expect to purchase more gift cards and spend more on them than they did last year. Average spend per card is expected to rise to $35 from $28 last year. The spend figure almost returned to the pre-recession 2007 level of $36 per card. Increasingly, consumers are favoring these gift cards over merchandise. This year, 42% said they prefer cards to merchandise, up from 35% in 2006.

The holiday shopping experience: It's no longer just in the store

"Frosty the Snowman" has changed with the times. In 1950, when Gene Autry first sang the song, there was only that one recording that consumers could enjoy. Today Frosty can be experienced through multiple formats, including a movie, DVD, ringtone, screensaver, Websites, and video games. As a result of these transformations, the concept remains relevant to consumers nearly 60 years after it was introduced.

Retail has also kept up with changing consumer tastes. E-commerce, already more than 15 years old, has produced a whole new way of shopping for a cadre of consumers who no longer need to leave the comforts of their home to make their holiday purchases. A decade ago, only one in 10 of our survey respondents said they'd be shopping on the Internet. Today, more than four in 10, 42%, expect to shop online this holiday season. Further, more than two in five expect that they'll shop primarily or entirely on the Web this year.

Figure 5. "Value" is driving top store choices



Share of consumers who expect to shop at each venue this holiday season
*Technology store = Electronics/office supply/computer store

Source: Deloitte's 24th Annual Holiday Survey

The Internet is also creating an easier-to-shop multi-channel experience for consumers. As a result, nearly half, 48%, of surveyed consumers say they like the convenience of shopping at multi-channel retailers. Respondents said their most common multi-channel activity was purchasing in a retailer's store after viewing/researching the product on that same retailer's Website or catalog. More than three-quarters, 78%, had done this. Next-most-common, at 65%, was purchasing on a retailer's Website after viewing the product in the store or catalog. And 58% had picked up merchandise in the store after ordering/paying for it on the Website. Nearly half, 48%, have also purchased on a Website then returned the product to the store.

The Internet however has also become a competitive threat for many retailers. Web-only retailers have been around for a while, but consumers are also increasingly turning to other venues for making purchases. In our survey, 7% of respondents said they would shop at online communities (e.g., Craig's List), and 4% would shop for gifts at consumer product manufacturers' Websites.

Perhaps even more important than being a source for purchasing, the Internet helps drive sales by facilitating the shopping experience – making it easier and cheaper to shop, while also helping to make a more informed purchase. In today's difficult economic times, consumers likely welcome the opportunity that the Internet provides for saving money and deriving more value from a purchase.

In our survey, 44% of respondents expect to use a coupon this season that was obtained online. Nearly two out of five, 39%, say they often read consumer-generated reviews online about stores or products. This percentage is up six points from just two years ago. And one-third say that these online reviews and ratings influence their buying decisions more than advertising. This last finding points out the importance that consumers now give to input from either friends or strangers in helping them decide on a purchase.

Further, 17% of surveyed consumers said they expect to use social media as part of their holiday shopping process. And 19% say they'll use a mobile phone to assist them over the holidays. (Among 18 – 29 year olds, the mobile phone figure jumps to 39%.) Social media will be used for such things as finding discounts, checking with family/friends as to the gifts they want, and sharing their own wish lists. Mobile phones will be used to access store locations, to research prices or products, and to get discounts. One-quarter of those using their mobile phones/smartphones this season expect to make a purchase on them (see Figure 6).

Figure 6. Consumers turning to new technologies

Expect to use social media	17%
	(18 – 29 year olds: 31%)
Use it to find discounts, sale info	60%
Use it to research gift ideas	53%
Use it check w/friends & family on gifts	52%
Research product reviews	46%
Coordinate shopping w/friends & fam.	31%
Share my wish list	30%
Expect to use mobile phone to assist in shopping	19%
	(18 – 29 year olds: 39%)
Use it to get store locations	55%
Use it to research prices	45%
Use it to get product info	40%
Use it to get discounts, coupons etc.	32%
Use it to read reviews	31%
Use it to make a purchase	25%
I'm comfortable with having my Web activity tracked so that I can receive targeted advertising/emails	15%
Source: Deloitte's 24th Annual Holiday Survey	(18 – 29 year olds: 20%)

Mobile is expected to be the next big trend in retailing. With the consumer increasingly using a smartphone as a mobile mouse, companies are responding. This holiday season, retailers have already begun offering holiday gift guides on sophisticated mobile applications that have search and purchase capabilities. Mobile also allows retailers to communicate with customers on a more immediate basis, offering such incentives as coupons or special limited-time offers that can help turn shoppers into buyers.

Longer term, will some amount of frostiness remain?

The debate continues on whether the consumer's recession-induced pullback in spending will be lasting or will subside once the economy strengthens more. Are consumers going to continue to trade down, trade in (stay home rather than shop), and trade with each other (i.e., shopping on online communities, noted earlier)? Is there a "new normal" in retailing today that will affect the industry for years to come?

Some of Deloitte's survey results suggest that consumers, as a result of their sense of financial security being shaken, are shopping less or more purposefully. Additionally, several respondents said they expect these changes to continue. But none of the numbers are very large, which suggests that the longer-term impact on the retail industry may not be as severe as some currently fear.

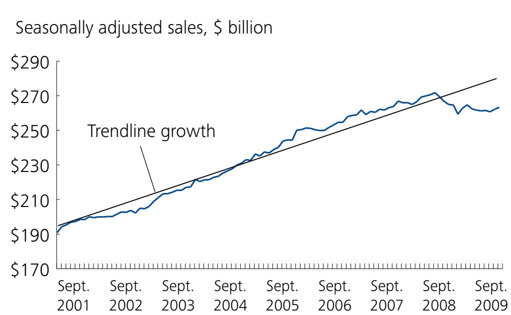
Roughly a third of all surveyed consumers said they were currently making lists to help them stay within their budget. And 23% say they'll shop at less expensive stores this season. While a third believe they are now less loyal to certain retailers than they once were, only one-quarter believed that they have permanently changed the amount of money they'll spend and that they won't go back to spending as much as they did before the recession. Importantly, there was no one age or income group where the figure was significantly high. Across the board, the percentages stayed within a narrow range of 21% (for the highest income group) to 28% (for baby boomers), with the average for all respondents at 26%. Thus, a minority of surveyed consumers expect that their lower spending will be permanent.

At the other end of the spectrum, however, the survey pointed out some positives. More than a quarter, 27%, of the respondents said their overall shopping patterns had not changed over the last year, and 14% said that once the economy improves they expect to return to their favorite stores. During the upcoming holiday season, 13% planned to shop at a retailer that was more expensive than any retailer they shopped at last year. And as noted earlier, 51% expect to spend the same or more than they did last year. With the figure up 10 percentage points from last year, it suggests an improved spending mood among consumers. But as with the negatives in the prior paragraph, many of these percentages also are not very large.

It's likely that consumers are growing tired of the recession that officially began back in December 2007. Two years is a long time for pent-up demand to be building. Additionally, history suggests that consumers will return to their old shopping ways, although the turnaround may be somewhat slower in this recovery than it has been in the past. Trendline growth projections suggest that retail sales, excluding motor vehicles and gasoline, should be running at something greater than $270 billion, as shown in the chart. Instead, with sales running below this long-term trendline for about a year, sales were only $257 billion in September (see Figure 7).

The chart however also indicates a small upturn in recent months. Frugality has never been a hallmark of the American consumer. Granted, the highest unemployment rate in a quarter-century and tightened bank lending will continue to hold back spending into 2010. But if history is a guide, consumers, like Frosty, will be "back again some day."

Figure 7. Retail sales, excluding autos and gas, remain soft



Source: Commerce Department

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About the Survey:
The survey was commissioned by Deloitte and conducted online by an independent research company between September 24 and October 2, 2009. The survey polled a sample of 10,878 consumers and has a margin of error for the entire sample of plus or minus one percentage point. For more information about Deloitte's Annual Holiday Survey, including interesting statistics, historical data and useful links, please visit www.deloitte.com/us/2009HolidaySurvey.

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