



Consumer Business Economic update

Volume 12 • January 2016

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Welcome to the twelfth edition of Deloitte’s Consumer Business Economic Update, powered by our Financial Advisory practice. This update offers a snapshot of key Canadian Consumer Business economic and performance indicators across the Retail, Consumer Packaged Goods (CPG) and Travel, Hospitality and Leisure (THL) sectors. The update also aggregates analyst sentiment, and online search engine and social media trends.



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Observations from this issue

- The Canadian economy experienced a 2.4% real GDP growth rate in Q3 2015.
- Consumer confidence has declined in Q3 2015 compared to Q2 2015.
- Same store sales year-over-year growth increased by 72 bps from Q3 2014 to Q3 2015.
- This quarter, electronics and appliance stores continued to experience a year-over-year decline.
- The majority of key indicators in travel, hospitality and leisure continue to be positive for this quarter as well.

Metric

Real GDP growth rate has increased significantly in Q3 2015 to 2.2% from (0.4%) in Q2 2015.

Consumer prices forecast for 2016 have decreased marginally to 2% in Q2 2015 and Q3 2015.

Unemployment rate outlook for 2016 has increased slightly from 6.6% (at Q2 2015) to 6.9% (at Q3 2015).

Consumer confidence has declined in Q3 2015 compared to the previous quarter.

Consumer expenditure growth has decreased to 0.4% in Q3 2015 from 0.6% in Q2 2015.

Housing starts outlook increased to 184,000 for 2016.

Signal



Source: Scotiabank, TD, CIBC, BMO, RBC, Bank of Canada

Note: Relevant metrics have been seasonally adjusted.¹

Canadian banks economic outlook

| Macroeconomic indicator | Q3 2015 ² | 2016 Forecast ³ | Revision trend |
|---|----------------------|----------------------------|----------------|
| Real GDP Growth (period-to-period, annualized) | 2.4% | 2.0% | ▼ |
| CPI Growth (year-to-year) | 0.6% | 2.0% | ▼ |
| Unemployment Rate (period avg. %) | 7.0% | 6.9% | ▲ |
| Housing starts (annualized, 000s) ⁷ | 193.1 | 184 | ▲ |
| USDCAD exchange rate (end of period) ⁴ | 1.31 | 1.35 | ▲ |

Note: Revision trends indicate the direction of change from the 2016 forecast in the previous quarter.



Macroeconomic outlook (Continued)



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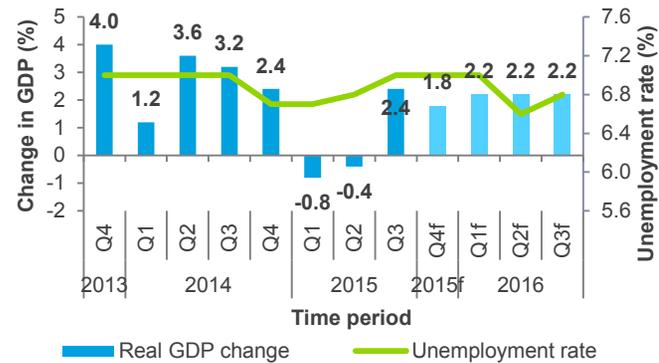
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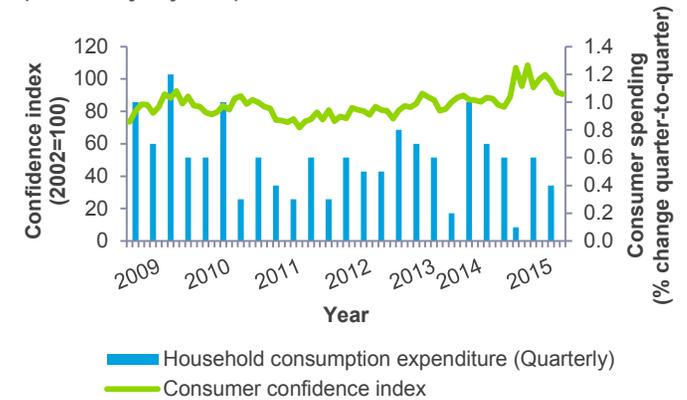
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Real gross domestic product and unemployment rate⁵
(Quarter-to-quarter, seasonally adjusted, annualized)



Source: Statistics Canada, Scotiabank, TD, CIBC, BMO, RBC, Deloitte analysis

Consumer confidence and household consumption
(Seasonally adjusted)



Source: Conference Board of Canada, Statistics Canada

Consumer price index⁶
(Year-to-year, seasonally adjusted, 2011 basket)



Source: Statistics Canada, Scotiabank, TD, CIBC, BMO, RBC

Canadian housing starts outlook⁷
(Annualized, seasonally adjusted)



Source: CMHC



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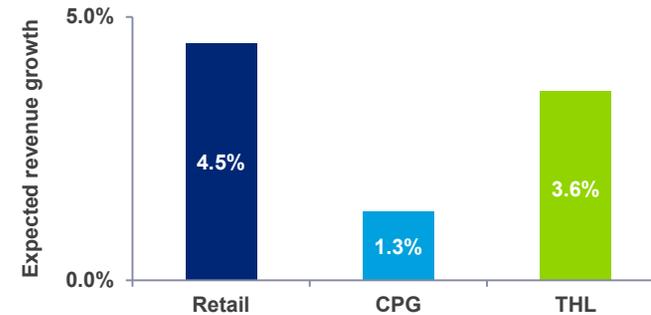
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Expected revenue growth⁸

Q1 2016 estimated revenue growth vs. Q1 2015 of five largest TSX-listed companies by sector

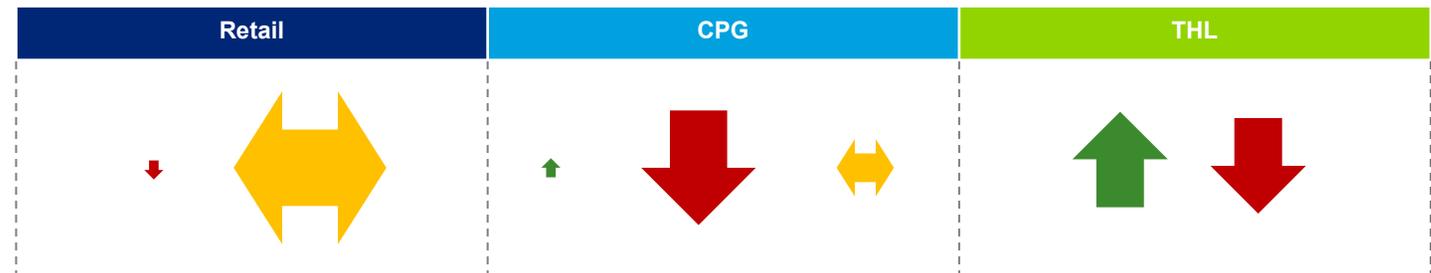


Source: Capital IQ (as of Dec 3, 2015)

- Expected revenue growth in Q1 2016 is strongest for large Canadian retail companies out of the three sectors.
- CPG is expected to have moderate revenue growth of 1.3% with majority of the analysts revising their estimates down for FY15.
- Revenue growth estimates for large Canadian retailers has increased to 4.5% compared to Q4 2015 level of 2.1%.

Revision trends⁹

FY15 revenue estimate revisions for the five largest TSX-listed companies by sector, between Oct 3, 2015 and Dec 3, 2015



Notes: The size of arrows are relative to the number of analysts that have revised their revenue growth estimates up, down or held them constant.

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Sector signals

Retail sales year-over-year growth of 1.86% in Q3 2015 was slightly lower compared to Q2 2015 of 1.95%. ●

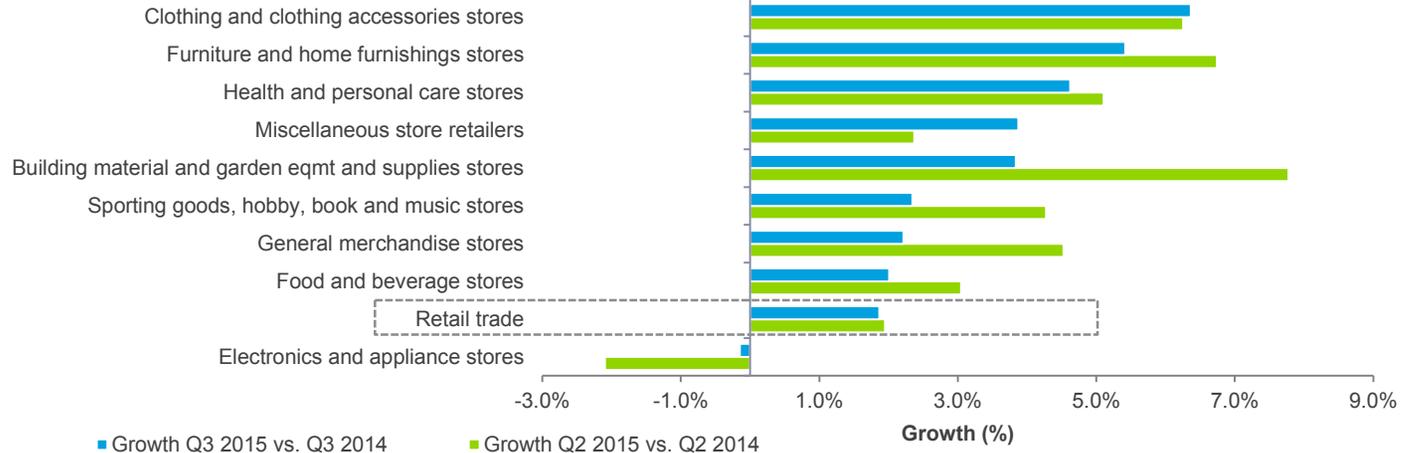
Same store sales continued to show growth across the largest retailers. ●

Retail trends

- Retail sales growth was primarily led by clothing and clothing accessories stores, furniture and home furnishings stores and health and personal care stores.
- Compared to the previous quarter, building material and supplies stores had a large decrease in growth rate.
- Electronics and appliance stores continue to experience a fall in sales.
- Same store sales growth increased year over year across the largest Canadian retailers.

Retail sales growth by store category¹⁰

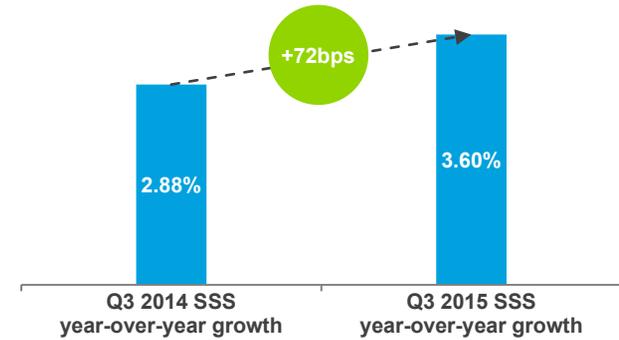
(Quarterly, year-over-year, seasonally adjusted)



Source: Statistics Canada

Same store sales growth of Canada’s largest retailers

(Most recently reported fiscal quarter versus one year ago)



Source: Capital IQ, Company reports (as of Nov 2015)



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Hotel performance metrics mostly improved in Q3 2015 compared to Q3 2014 except for a marginal decrease in occupancy rates. ●

Inbound visitors to Canada increased from Q3 2014 to Q3 2015, strongly driven by US visitors. ●

Food services sales increased from Q3 2014 to Q3 2015, except for in drinking places. ●

Travel, hospitality and leisure trends

- Hotel performance improved from Q3 2014 to Q3 2015 in terms of ADR and RevPAR, but decreased marginally in occupancy rate.
- Inbound visitors to Canada from Overseas and the United States increased from Q3 2014 to Q3 2015.
- Continuing the trend from the last 2 quarters, food services sales grew across all categories except for drinking places.

ADR: Average Daily Rate
RevPAR: Revenue per Available Room

Inbound visitors to Canada (overnight visits) (Thousands)

| Metric | Q3 2014 | Q3 2015 | Change |
|----------------------|--------------|--------------|---------------|
| United States | 4,805 | 5,172 | 7.6% ▲ |
| Overseas | 2,041 | 2,169 | 6.2% ▲ |
| Total Inbound | 6,846 | 7,340 | 7.2% ▲ |

Source: Statistics Canada

Canadian hotel performance metrics

| Metric | Q3 2014 | Q3 2015 | Change |
|---------------|---------|---------|----------|
| Occupancy (%) | 75.7 | 75.6 | (0.1%) ▼ |
| ADR | \$145.3 | \$154.5 | 6.1% ▲ |
| RevPAR | \$110.3 | \$116.8 | 6.0% ▲ |

Source: Ontario Ministry of Tourism, Culture and Sport

Food services sales by type (Seasonally adjusted, CAD millions)

| Metric | Q3 2014 | Q3 2015 | Change |
|---------------------------------------|---------------|---------------|---------------|
| Full-service restaurants | 6,379 | 6,555 | 2.8% ▲ |
| Limited-service eating places | 6,397 | 6,745 | 5.4% ▲ |
| Special food services | 1,252 | 1,305 | 4.2% ▲ |
| Drinking places (Alcoholic Beverages) | 574 | 541 | -5.8% ▼ |
| Total sales | 14,602 | 15,416 | 3.7% ▲ |

Source: Statistics Canada



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Finished food product prices increased for most of the covered products. ●

Total CPG sales showed an improvement in year-over-year growth in Q3 2015 compared to Q2 2015. ●

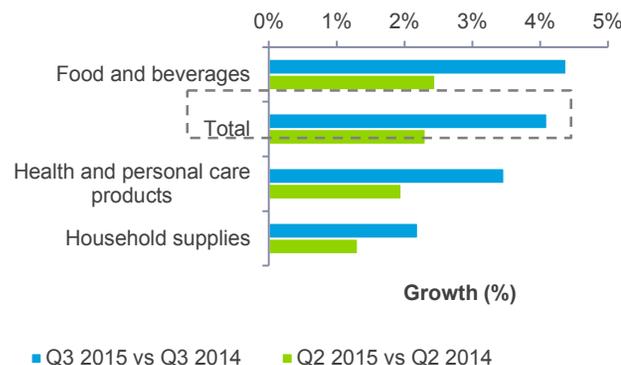
Raw material prices increased in 6 out of 11 categories in Q3 2015, and decreased in the remaining 5 categories. ●

CPG trends

- Finished food product prices experienced positive growth across all categories in Q3 2015.
- Input prices of raw tea and wheat grew significantly in Q3 2015, while the price of hogs continues to decline sharply as experienced in the previous two quarters.
- CPG Sales experienced higher year-over-year growth across all categories in Q3 2015 compared to the growth experienced in Q2 2015.

Sales growth by CPG category

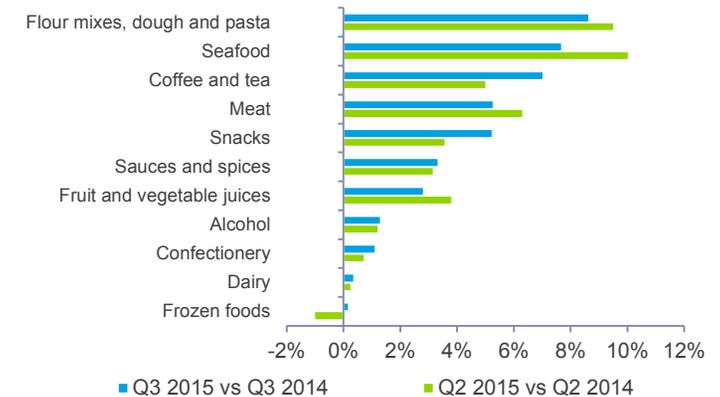
(Quarterly, year-over-year)



Source: Statistics Canada

Growth of finished food product prices

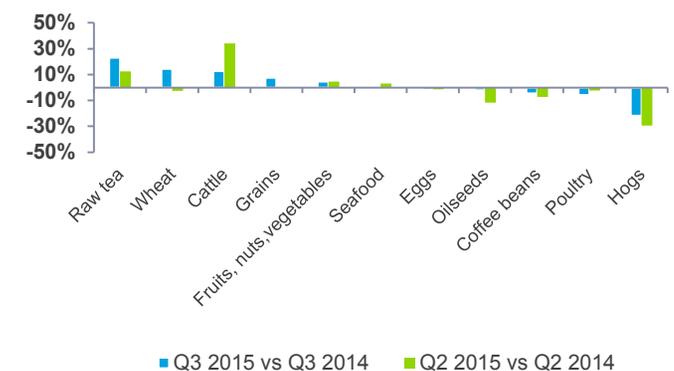
(Quarterly, year-over-year)



Source: Statistics Canada

Growth of raw material prices

(Quarterly, year-over-year)



Source: Statistics Canada



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Search engine trends

Shopping searches

- Kijiji, a free Canadian local classifieds site has continued to retain its position (as in the previous two quarters) as the top online search in the Shopping category by Canadians in Q3 2015. As in Q2 2015, the second and third positions on the list in Q3 2015 were Netflix, the American provider of on-demand Internet streaming media and Walmart, the American multinational retail corporation that operates a chain of discount department stores.
- The rising search terms include “Halloween costumes” and “Boots and Hearts”, reflecting the occurrence of Halloween and the Boots and Hearts Music Festival respectively in Q3-2015.

Travel searches

- Travel searches continue to be dominated by vacation-related searches with “air canada”, “flights” and “westjet” taking the top three spots.
- Rising search terms include “pne”, the annual Pacific National Exhibition, a seasonal amusement park which begins in mid-to-late August, and ends usually on Labour Day. Other rising search terms include “Wonderland Tickets”, tickets for an amusement park in Ontario and “sandbanks” a provincial park in Ontario.

Food and drink searches

- The top search item in this category continues to be “pizza pizza” reflecting the popularity of Pizza Pizza Limited, a franchised Canadian pizza fast-food restaurant headquartered in Toronto.
- The rising search terms include “zucchini bread”, “zucchini recipe” and “summerlicious”, a food festival held in Toronto throughout July.

Top online searches by Canadians in Q3 2015

(Quarterly, period-to-period)

| Rank | Food & drink | Travel | Shopping |
|---------|-----------------|---------------------|--------------------|
| 1 | pizza pizza | air canada | kijiji |
| 2 | pizza | flights | netflix |
| 3 | restaurant | westjet | walmart |
| 4 | recipes | hotels | canadian tire |
| 5 | recette | Flight | costco |
| 6 | restaurants | Google | Best Buy |
| 7 | cake | Niagara falls | Ebay |
| Rising* | zucchini bread | pne | Halloween costumes |
| | zucchini recipe | Wonderlands tickets | Boots and Hearts |
| | summerlicious | sandbanks | Blue Jay Tickets |

*Rising denotes search activity that has increased in Q3 2015 relative to Q2 2015.

Source: Google Trends



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Social media trends

Twitter

- “Panache Management” continues to hold the top spot as the most popular Twitter brand, likely owing to its image as a top model search agency.
- “WestJet” remained in second spot as the most popular Twitter brand, likely owing to its daily tweets, frequently posted flight deals and updates, as well as its openness to answering customer questions.

YouTube

- “WestJet” the Canadian airline, continued to be on the top position due to its commitment towards reaching consumers through social media advertising.

Facebook

- “Tim Hortons” maintained a large lead as the most liked Canadian brand on Facebook.
- “Subway Canada”, “Canadian Tire”, “Skittle”, “Air Miles Canada” continue to hold the same positions as Q2 2015.
- “iTunes(Canada)” is a new entry in the top 7 list.

Most popular brands on Twitter among Canadians

| Rank | Brand | Total followers (000s) |
|-----------|--------------------|------------------------|
| 1 | Panache Management | 659 |
| 2 | WestJet | 555 |
| 3 | Tim Hortons | 454 |
| 4 | Air Canada | 341 |
| 5 | Olive Garden | 295 |
| 6 | The Social Tabloid | 284 |
| 7 | Starbucks Canada | 270 |
| | Tim Hortons | 454 |
| Trending* | Starbucks Canada | 270 |
| | Fractal Design | 68 |

*Based on new followers in past month

Most popular brands on Canadian YouTube channels

| Rank | Brand | Total/recent uploaded video views (000s) |
|-----------|--------------------|--|
| 1 | WestJet | 73,238 |
| 2 | Kijiji Canada | 40,613 |
| 3 | ASUS North America | 40,151 |
| 4 | TD | 38,519 |
| 5 | McDonalds Canada | 37,179 |
| 6 | BMW Canada | 25,030 |
| 7 | MazdaCanada | 23,661 |
| | Fido | 4,272 |
| Trending* | ChevroletCanada | 18,845 |
| | Kijiji Canada | 40,613 |

*Based on video views over past month
Source: Socialbakers.com (as of Nov 25, 2015)

Most liked brands on Facebook in Canada

| Rank | Brand | Canadian likes (000s) | Total likes (000s) |
|-----------|--------------------------|-----------------------|--------------------|
| 1 | Tim Hortons | 2,056 | 2,716 |
| 2 | Subway Canada | 1,308 | 1,377 |
| 3 | Canadian Tire | 1,133 | 1,190 |
| 4 | Skittles | 1,059 | 24,273 |
| 5 | AIR MILES Canada | 1,047 | 1,082 |
| 6 | iTunes(Global) | 982 | 31,238 |
| 7 | iTunes(Canada) | 981 | 983 |
| | NCIX | 128 | 587 |
| Trending* | Rogers | 604 | 645 |
| | Schick Hydro Silk Canada | 100 | 95 |

*Based on new page ‘Likes’ in past month





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Publication notes:

1. Real GDP, consumer prices, unemployment rate, consumer expenditure and housing starts have been seasonally adjusted. Consumer confidence is not seasonally adjusted, since the Conference Board of Canada states there is insufficient evidence to conclude that seasonality is present in their consumer confidence index.
2. Q3 2015 data sources: Real GDP Growth, Unemployment Rate and Consumer Prices are from Statistics Canada. USDCAD exchange rate is based on the September 30, 2015 noon USDCAD exchange rate reported by the Bank of Canada.
3. Q4 2015 and Q1 – Q3 2016 forecasts are based on the average of reported figures by the following Canadian banks: Scotiabank, TD, CIBC, BMO and RBC.
4. USDCAD Exchange Rate means 1 USD = XXXX CAD.
5. Real GDP data up to Q3 2015 is from Statistics Canada. Q4 2015 onward is the average of the forecasts by the following Canadian Banks: Scotiabank, TD, CIBC, BMO and RBC. Unemployment rate until Q2 2015 is from Statistics Canada. Unemployment forecasts are based on the annual forecast from Canadian Banks: Scotiabank, TD, CIBC, BMO and RBC. Annualized GDP rates represent the quarter over quarter growth rates multiplied by four.
6. Historical CPI data (data until Q3 2015) is from Statistics Canada. Forecasted data is an average of Canadian bank forecasts from Scotiabank, TD, CIBC, BMO and RBC.
7. Actuals and forecasts are from CMHC. Quarterly levels are seasonally adjusted at annual rates. Previously reported figures may differ in subsequent issues as CMHC often revises previously stated and forecasted figures.
8. Revenue growth estimates and revision trends for each sector excludes companies that have recently completed large mergers or acquisitions or for which there is no analyst coverage.
9. Revision trends indicate the number of analysts that have increased or decreased revenue estimates for Q1-2016 between Oct 3, 2015 and Dec 3, 2015.
10. From Statistics Canada Monthly Survey of Large Retailers. Household supplies are defined as household cleaning supplies, chemicals and paper products. Health and personal care products include personal care, health and beauty products (non-electric) and home health care sick room equipment and supplies, cosmetics and fragrances and other toiletries and personal care products. Health and personal care product sales do not necessarily relate to sales at health and personal care stores, which include pharmacies and drug stores, cosmetics, beauty supplies and perfume stores, optical goods stores and other health and personal care stores.

Note: Figures from Statistics Canada may differ from previous issues as they are often revised retroactively. Brands covered by socialbakers.com may differ from previous issues as social media accounts are often re-classified into different categories.



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