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Consumer business economic update

Volume 15 | October 2016

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Welcome to the fifteen 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 – 1.6% real GDP growth rate in Q2 2016, affected by a decline in crude oil prices.
- Consumer confidence has improved in Q2 2016 compared to Q1 2016.
- Same store sales year-over-year growth decreased by 76 bps in Q2 2016 from Q2 2015.
- This quarter witnessed a decline in growth rate in building material and garden equipment and supplies stores
- Year-on-year Retail trade reduced by 2% compared to that of the previous quarter.
- Inbound visitors to Canada witnessed a fall in Q2 2016 from Q2 2015.

Metric

Signal

Real GDP growth rate declined considerably in Q2 2016, from 2.4% in Q1 2016 to (1.6%).



Consumer prices forecast for 2016 has increased marginally from 1.7% (at Q1 2016) to 1.8% (at Q2 2016).



Unemployment rate outlook for 2016 has decreased marginally from 7.2% (at Q1 2016) to 7.0% (at Q2 2016).



Consumer confidence improved in Q2 2016 compared to the previous quarter.



Consumer expenditure growth has deteriorated to 0.5% in Q2 2016 from 0.6% in Q1 2016.



Housing starts outlook increased to 189,000 for 2016.



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

Note: Relevant metrics have been seasonally adjusted.¹

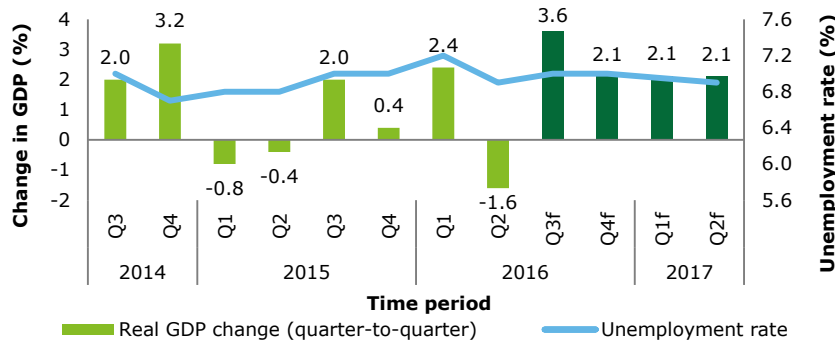
Canadian banks economic outlook

Macroeconomic indicator	Q2 2016 ²	2016 Forecast ³	Revision trend
Real GDP Growth (period-to-period, annualized)	(1.6%)	1.3%	▲
CPI Growth (year-to-year)	0.5%	1.8%	▲
Unemployment Rate (period avg. %)	6.9%	7.0%	▼
Housing starts (annualized, 000s) ⁷	184	189	▲
USDCAD exchange rate (end of period) ⁴	1.29	1.32	▼

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

Real gross domestic product and unemployment rate⁵

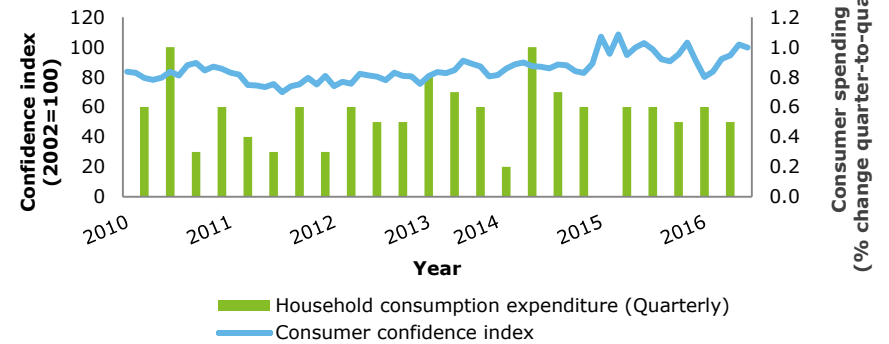
(Seasonally adjusted, annualized)



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

Consumer confidence and household consumption

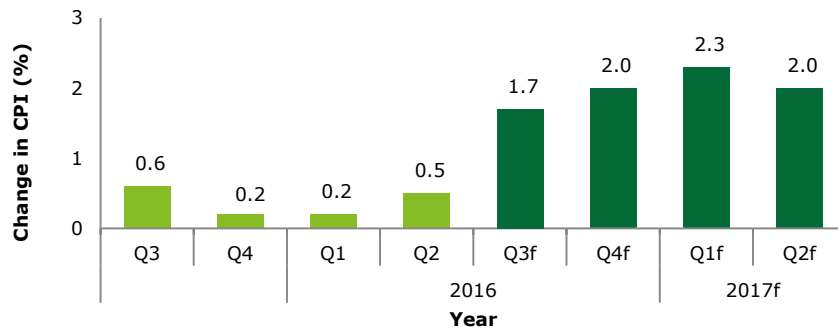
(Seasonally adjusted)



Source: Conference Board of Canada, Statistics Canada

Consumer price index⁶

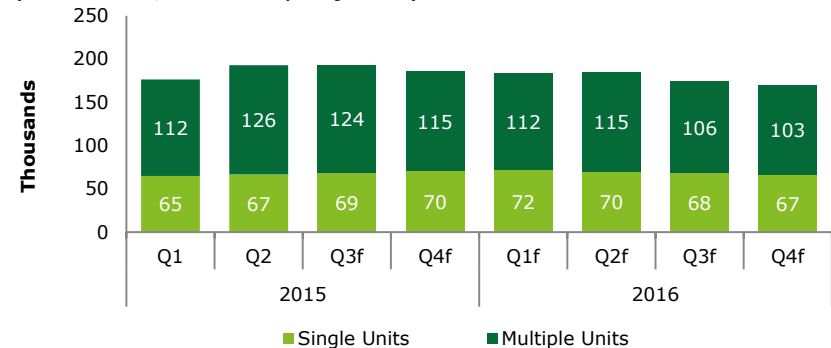
(Year-to-year, seasonally adjusted, 2011 basket)



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

Canadian housing starts outlook⁷

(Annualized, seasonally adjusted)



Source: CMHC

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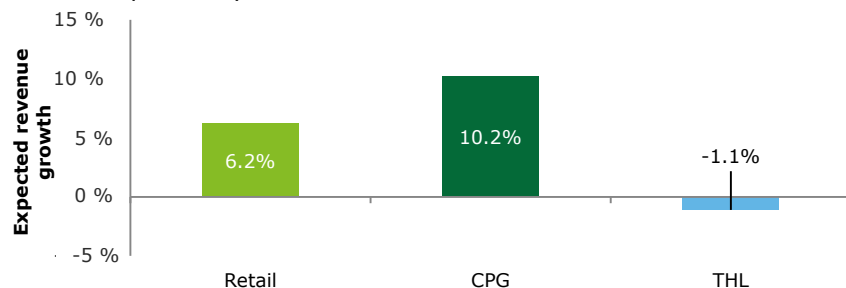
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Expected revenue growth⁸

Q4 2016 estimated revenue growth vs. Q4 2015 of five largest TSX-listed companies by sector

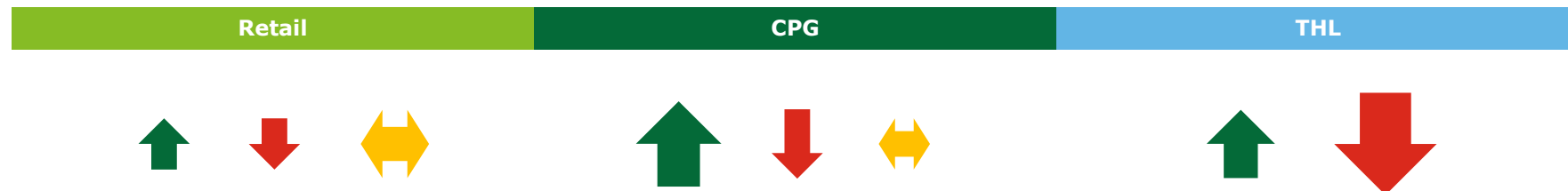


- Expected revenue growth in Q4 2016 is strongest for large Canadian CPG and retail companies.
- CPG companies are expected to have revenue growth of 10.2% with the majority of the analysts revising their estimates up for FY16.
- THL companies are expected to have a revenue decline of -1.1%, with the majority of analysts revising their estimates down for FY16.

Source: Capital IQ (as of Aug 31, 2016)

Revision trends⁹

FY16 revenue estimate revisions for the five largest TSX-listed companies by sector, between Jun 1, 2016 to Aug 31, 2016



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.



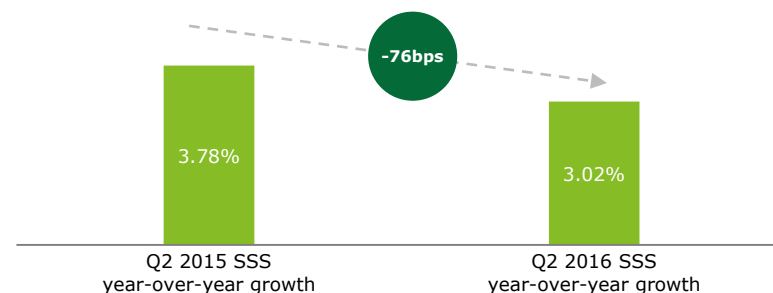
Sector signals

Retail sales year-over-year growth of 4.0% in Q2 2016 was lower compared to Q1 2016 of 4.8%.

Same store sales declined from Q2 2015 year-over-year growth of 3.8% to 3.0% in Q2 2016.

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 Aug 2016)

Retail trends

- Retail sales growth was primarily led by health and personal care stores, miscellaneous stores and clothing and accessories stores.
- Unlike the previous quarter, building material and garden equipment and supplies stores had a large fall in growth rate.
- Electronics and appliance stores witnessed a rise in year-over-year sales growth in Q2 2016 compared to the previous quarter.
- Year-over-year growth rate in Furniture and home furnishing stores dropped to 3.5% in Q2 2016 from 7.7% in Q1 2016.
- Same store sales growth reduced in Q2 2016 compared to Q1 2016.

Retail sales growth by store category

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



Source: Statistics Canada

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Sector signals

Hotel performance metrics improved in Q2 2016 compared to Q2 2015. ●

Inbound visitors to Canada increased from Q2 2015 to Q2 2016. ●

Food services sales increased from Q2 2015 to Q2 2016. ●

Travel, hospitality and leisure trends

- Hotel performance improved in Q2 2016 in terms of ADR, RevPAR and occupancy rate.
- Inbound visitors to Canada from Overseas and the United States both increased in Q2 2016 as compared to Q2 2015.
- Continuing the trend from the last year, food services sales grew across all categories in Q2 2016.

ADR: Average Daily Rate, **RevPAR:** Revenue per Available Room

Inbound visitors to Canada (overnight visits)(000s)

Metric	Q2 2015	Q2 2016	Change
United States	3,436.7	3,623.9	5.4% ▲
Overseas	1,424.0	1,553.4	10.9% ▲
Total Inbound	4,860.7	5,177.3	6.5% ▲

Source: Statistics Canada

Canadian hotel performance metrics

Metric	Q2 2015	Q2 2016	Change
Occupancy (%)	65.8	66.0	0.3% ▲
ADR	\$143.1	\$145.1	1.4% ▲
RevPAR	\$94.7	\$96.1	1.5% ▲

Source: Ontario Ministry of Tourism, Culture and Sport

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

Metric	Q2 2015	Q2 2016	Change
Full-service restaurants	6,642.0	6,983.2	5.1% ▲
Limited-service eating places	6,662.4	7,169.7	7.6% ▲
Special food services	1,334.8	1,374.6	3.0% ▲
Drinking places (Alcoholic Beverages)	566.9	602.7	6.3% ▲
Total sales	15,206.1	16,130.2	6.1% ▲

Source: Statistics Canada

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Finished food product prices increased for all of the reported product categories except for meat. ●

Total CPG sales showed a decline in year-over-year growth in Q2 2016 compared to Q1 2016. ●

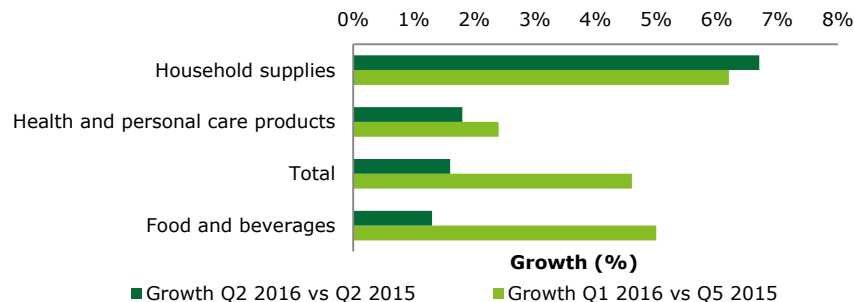
Raw material prices decreased in 9 out of 11 categories in Q2 2016, and increased in the remaining 2 categories. ●

CPG trends

- Finished food product prices experienced positive growth across all categories in Q2 2016 except for meat.
- Input prices of seafood grew significantly in Q2 2016, while the price of raw tea and cattle dropped sharply.
- Overall, CPG sales experienced lower year-over-year growth in Q2 2016 compared to the growth experienced in Q1 2016.

Sales growth by CPG category

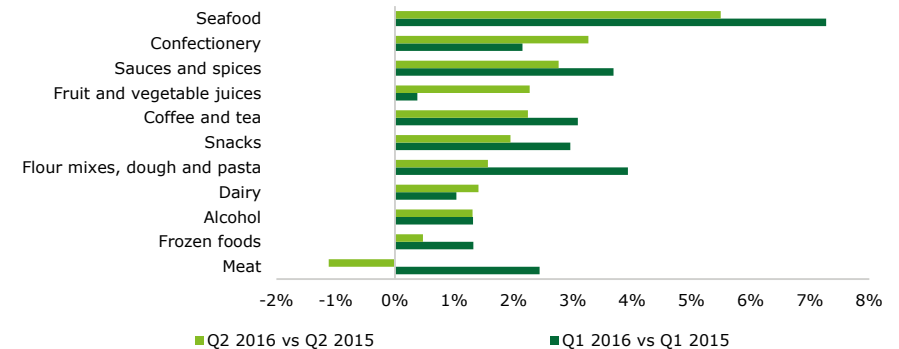
(Quarterly, year-over-year)



Source: Statistics Canada

Growth of finished food product prices

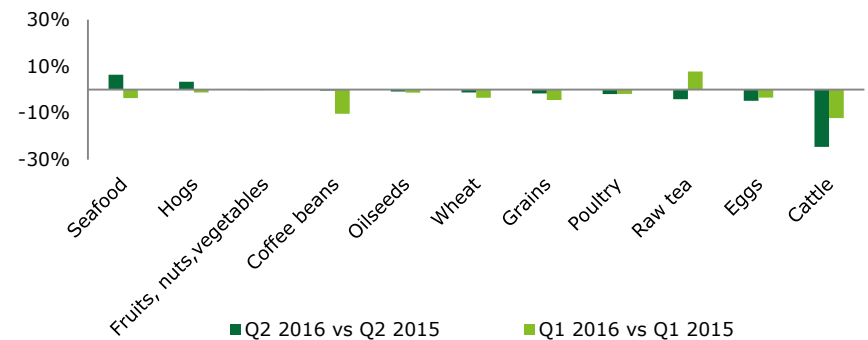
(Quarterly, year-over-year)



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 the top online search in the Shopping category by Canadians in Q2 2016. The second and third positions on the list were “Canadian Tire”, the Canadian automotive parts and accessories stores company and “Walmart”, the American multinational retail corporation that operates a chain of discount department stores.
- The rising search terms include “Fathers Day”, reflecting the occurrence of Fathers day in June, “Slitherio” referring to a browser game where users control a snake-like avatar, and an American fashion designer, “Rachel Roy”, who was part of a celebrity fiasco.

Travel searches

- Travel searches continue to be dominated by vacation-related searches with “air canada”, “flights” and “flight” taking the top three spots.
- Rising search terms include “Gorilla”, reflecting the incident with the Gorilla in the Cincinnati Zoo after a child fell into an enclosure. “La Ronde” and “Canada's Wonderland Park”, referring to an amusement park in Montreal and theme park in Vaughan respectively.

Food and drink searches

- The top search item in this category was “pizza pizza”. Ranking second and third on the list were “pizza” and “restaurant”. The popularity of Pizza Pizza Limited, a franchised Canadian pizza fast-food restaurant is evident. There is growing interest by Canadians in using the internet to order pizza and other take out and delivery items.
- The rising search terms include “rhubarb”, a species of plant widely used for baking; “Homarus” and “Sangria” referring to a species of lobster and a kind of beverage, respectively.

Top online searches by Canadians in Q2 2016

(Quarterly, period-to-period)

Rank	Food & drink	Travel	Shopping
1	pizza pizza	air canada	kijiji
2	pizza	flights	walmart
3	restaurant	flight	canadian tire
4	chicken	westjet	netflix
5	recipes	hotels	costco
6	food	google	amazon
7	recette	niagara falls	best buy
Rising*	rhubarb Homarus Sangria	Gorilla La Ronde Canada's wonderland Park	Father's Day Slitherio Rachel Roy

*Rising denotes search activity that has increased in Q2 2016 relative to Q1 2016; **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.
- “Chevrolet Canada” continued to be in top 7 ranking list and is the American automobile division of General Motors.

Facebook

- “Woodland” gained a large lead as the most liked Canadian brand on Facebook with its internationally recognized extreme weather outdoor gear and outer wear.
- “Tim Hortons” continued to be in top 7 ranking list as one of the most popular Canadian fast food restaurants.

Most popular brands on Canadian YouTube channels

Rank	Brand	Total/recent uploaded video views (000s)
1	WestJet	83,143
2	McDonalds Canada	48,205
3	Kijiji Canada	47,589
4	ASUS North America	42,938
5	TD	41,927
6	PushedToInsanity	38,207
7	Chevrolet Canada	33,499
	WestJet	83,143
Trending*	McDonald’s Canada	48,205
	Kijiji Canada	47,589

*Based on video views over the past month

Source: Socialbakers.com (as of September 6, 2016)

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Most popular brands on Twitter among Canadians

Rank	Brand	Total followers (000s)
1	Panache Management	693
2	WestJet	624
3	Tim Hortons	594
4	Air Canada	384
5	Olive Garden	341
6	Starbucks Canada	334
7	LUSH Cosmetics	317
	Asus North America	437
Trending*	Official TTC Tweets	358
	Buy Online Direct	332

*Based on new followers in past month as of September 6, 2016

Most liked brands on Facebook in Canada

Rank	Brand	Canadian likes (000s)
1	Woodland	3,236
2	Tim Hortons	2,931
3	Live in Canada	1,834
4	Tanger Outlets	1,802
5	Pantene North America	1,510
6	Subway Canada	1,376
7	Bridgestone Tires	1,331
	Tim Hortons	2,123
Trending*	Subway Canada	1,297
	Canadian Tire	1,162

*Based on new page ‘Total Fans’ 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. Q2 2016 data sources: Real GDP Growth, Unemployment Rate and Consumer Prices are from Statistics Canada. USDCAD exchange rate is based on the June 30, 2016 noon USDCAD exchange rate reported by the Bank of Canada.
3. Q3 – Q4 2016 and Q1 – Q2 2017 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 Q2 2016 is from Statistics Canada. Q3 2016 onward is the average of the forecasts by the following Canadian Banks: Scotiabank, TD, CIBC, BMO and RBC. Unemployment rate until Q2 2016 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 Q2 2016) 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 based on their latest available housing market outlook report. 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 Q4-2016 between Jun 1, 2016 to Aug 31, 2016.
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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