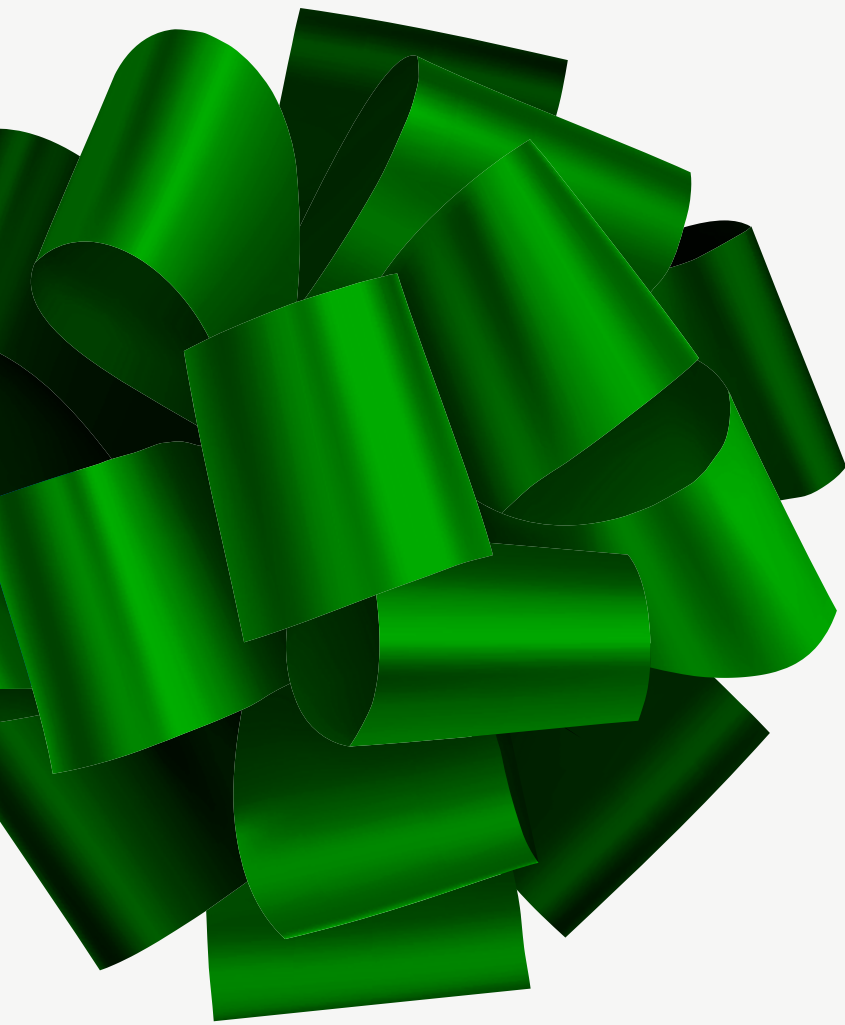


**Deloitte.**



**Holiday spirits prove resilient**

2021 holiday retail outlook



It's been a challenging year and a half for Canadian consumers and retailers alike, as the world continues to battle the COVID-19 pandemic. While some Canadians have been able to weather the crisis well, others have faced challenges—and while some parts of the country are returning to some sort of normality, others are in the midst of another wave of infections. Yet Canadians' holiday spirit is resilient. This year's holiday outlook finds them making plans to celebrate and, in many cases, spend. However, global supply chain challenges may find them compromising on wish list items.

Deloitte's 2021 holiday retail outlook explores the shopping behaviours, attitudes, and preferences of consumers for the upcoming holiday season. The findings are based on a survey of more than 1,000 Canadian consumers across age groups, financial situations, and geographic regions. All dollar figures quoted are in Canadian dollars.

Despite a challenging year and a half, this year's holiday outlook finds consumers making plans to celebrate and, in many cases, spend.

## Key insights for 2021

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### Holiday spending rebounds.

Canadians' holiday spending is set to return to pre-pandemic levels. Shoppers' average holiday spend is estimated to hit \$1,841 this year, bouncing back 31% from 2020 and rising 8% over 2019's average spend.



### Shopping season will start earlier due to supply-chain worries.

Rising concerns over supply-chain issues and potential product shortages will persuade many Canadians—especially those who have weathered the pandemic well—to start shopping early. These same concerns may drive consumers to try new products and brands if their desired items are out of stock.



### Financial impact of COVID-19 continues to shape holiday plans.

Canadians who weathered the pandemic well financially are poised to spend an average of \$2,118 this holiday season. Those who have had a more challenging time financially are more likely to reduce their holiday spending to an average of \$1,400, citing inflation concerns and a desire to increase their savings. Retailers that have invested in their customer data and analytics capabilities should be able to better curate offers based on individual needs.



### E-commerce helps customers achieve their shopping goals.

Canadians continue to take advantage of online shopping to avoid crowded stores and mitigate their exposure to COVID-19. Many consumers intend to visit stores for transactional reasons this holiday season, such as picking up or returning items or to save on shipping costs. This will increase pressure on retailers, which are already experiencing hiring challenges.



## Economic outlook

by Deloitte Chief Economist Craig Alexander

From an economic perspective, the outlook for consumer spending this holiday season is quite positive. Labour markets have rebounded and Canada has surpassed the pre-pandemic level of employment based on the most recent jobs report. The country's unemployment rate will remain elevated, but this will reflect workers who start looking for a job after having left the labour market altogether during the global crisis.

A headwind on retail spending could come from the fact that wage growth is running less than the pace of inflation. However, it's important to remember that average hourly private-sector wages soared by 13% in 2020, and government transfers exceeded the loss of labour income caused by public health-related shutdowns and the ensuing recession. This resulted in a massive accumulation of personal savings: pre-pandemic, Canadian households saved roughly an aggregate \$20 billion a year; in 2020, household savings were \$208 billion, and the saving rate has been elevated in 2021. Households have also experienced rapid growth in wealth from the rebound in financial assets and booming residential home prices, and these wealth effects can have a material and positive impact on spending with a lag. Moreover, consumer confidence is high, fostered by declining health risks, improved labour markets, and wealth accumulation. Consumers are likely going to want to spend during this holiday season and they have the financial capacity to do so.

There are two caveats to this bright outlook, however: concerns about inflation, which is increasing living costs, and the growing disruption to global supply chains, which has reduced product availability and contributed to price increases. Retailers should encourage customers to spend early this holiday season to help them get what they want.

## Economic optimism, increased savings to drive higher holiday spending

Canadians are expected to spend more this season than they did even before the pandemic, with many consumers flush with savings and feeling upbeat about the economy. One in three feel their financial situation has improved over the past year, and 43% were able to increase their savings.

Forty-five percent of Canadians believe the country's economy will improve next year. This is virtually identical to the sentiment of our neighbours: 46% of US consumers believe the economy will improve in 2022, and one in three Americans also say their financial situation has improved over the past year.

This optimism should bode well for retailers. Overall, Canadians plan to spend an estimated \$1,841 on the holidays, a sizable 31% rebound from 2020 and even an 8% increase from 2019, before the pandemic. This includes \$569 worth of gifts and gift cards for friends and family, an increase from \$485 in 2019. Spending is expected to match or exceed pre-pandemic levels in nearly every category, except for travel (down 5%), alcohol (down 7%), and dining out (down 16%). By comparison, US consumers plan to spend US\$1,463 (C\$1,831) this holiday season, nearly on par with pre-pandemic 2019 spending levels (US\$1,496/C\$1,987); of that, US\$501 (C\$627) are earmarked for gifts and gift cards or certificates.

Planned holiday spend in Canada vs US 2019-2021

	2019	2020	2021
<b>US YoY increase</b>	<b>\$1496</b>	<b>\$1387</b>	<b>\$1463</b>
		Change 2019-2020	Change 2020-2021
		-7%	5%
			Change 2019-2021
			-2%
<i>CAD estimate</i>	<i>\$1987</i>	<i>\$1861</i>	<i>\$1831</i>
<b>Canada YoY increase</b>	<b>\$1706</b>	<b>\$1405</b>	<b>\$1841</b>
		Change 2019-2020	Change 2020-2021
		-18%	31%
			Change 2019-2021
			8%

Canada vs US gift card spend 2019-2021

	2019	2020	2021
<b>US YoY increase</b>	<b>\$511</b>	<b>\$486</b>	<b>\$501</b>
		Change 2019-2020	Change 2020-2021
		-5%	3%
			Change 2019-2021
			-2%
<i>CAD estimate</i>	<i>\$678</i>	<i>\$652</i>	<i>\$627</i>
<b>Canada YoY increase</b>	<b>\$485</b>	<b>\$447</b>	<b>\$569</b>
		Change 2019-2020	Change 2020-2021
		-8%	27%
			Change 2019-2021
			17%



\$1841

Estimated holiday spend by Canadians



+8%

Increase in holiday spending since 2019

Charitable donations are also expected to rise to \$153 per consumer this year in Canada (higher for those aged 50+ or in Atlantic Canada), up sharply from \$87 in 2019. This increase may reflect a desire among Canadian households that fared well during the pandemic to give back this holiday season: households that increased their savings during the pandemic plan to make \$210 in charitable donations this year, compared to \$72 by households that were unable to increase their savings.

Of the Canadians planning to spend more than last year, nearly half (46%) say it's because they want to spoil friends and family after an incredibly challenging 18 months; 57% say they want to buy indulgences that others wouldn't buy for themselves, though just 21% plan to treat themselves to a similar gift or experience. Thirty-four percent believe they will spend more because they perceive costs as higher than last year. And one in four plans to spend more this season because they want to update their wardrobes and other personal items (27%) or simply because their household finances have improved (2%).

But the situation is far from rosy for everyone. Nearly one out of every five Canadians found the pandemic financially challenging, and were unable to increase their savings over the past several months. These consumers, understandably, are resolved to rein in their spending this holiday season; they're expecting to spend an average of \$1,400. Among the reasons these respondents are reducing their holiday spending are higher costs for food (60%), transportation (46%), and housing and home energy (37%), as well as overall economic instability (46%), worsening household situation (36%), and a desire to save rather than spend (36%).

#### Top reasons to spend more or less in Canada vs. US

	Canada	US
Spend more	<ul style="list-style-type: none"> <li>46% of Canadians feel like spoiling family/friends after a challenging year</li> <li>In general, things cost more (34%)</li> <li>Need to update personal items like clothes (27%)</li> <li>Household finances improving (26%)</li> </ul>	<ul style="list-style-type: none"> <li>Things cost more (39%)</li> <li>Household finances are improving (30%)</li> <li>Need to update personal items (26%)</li> <li>More confidence about economy (25%)</li> <li>Feel more generous (25%)</li> </ul>

	Canada	US
Spend less	<ul style="list-style-type: none"> <li>Higher food prices (60%)</li> <li>Overall economic instability (46%)</li> <li>Increases in cost of transportation (46%)</li> <li>Cost of housing (37%)</li> <li>Home energy costs (37%)</li> <li>Personal household financial situation is worse (36%)</li> <li>Saving instead of spending (36%)</li> </ul>	<ul style="list-style-type: none"> <li>Higher food prices (50%)</li> <li>Saving instead of spending (39%)</li> <li>Economic instability (37%)</li> <li>Personal/household situation is worse (34%)</li> <li>Higher energy costs (32%)</li> </ul>



76%  
Increase in charitable donations from 2019

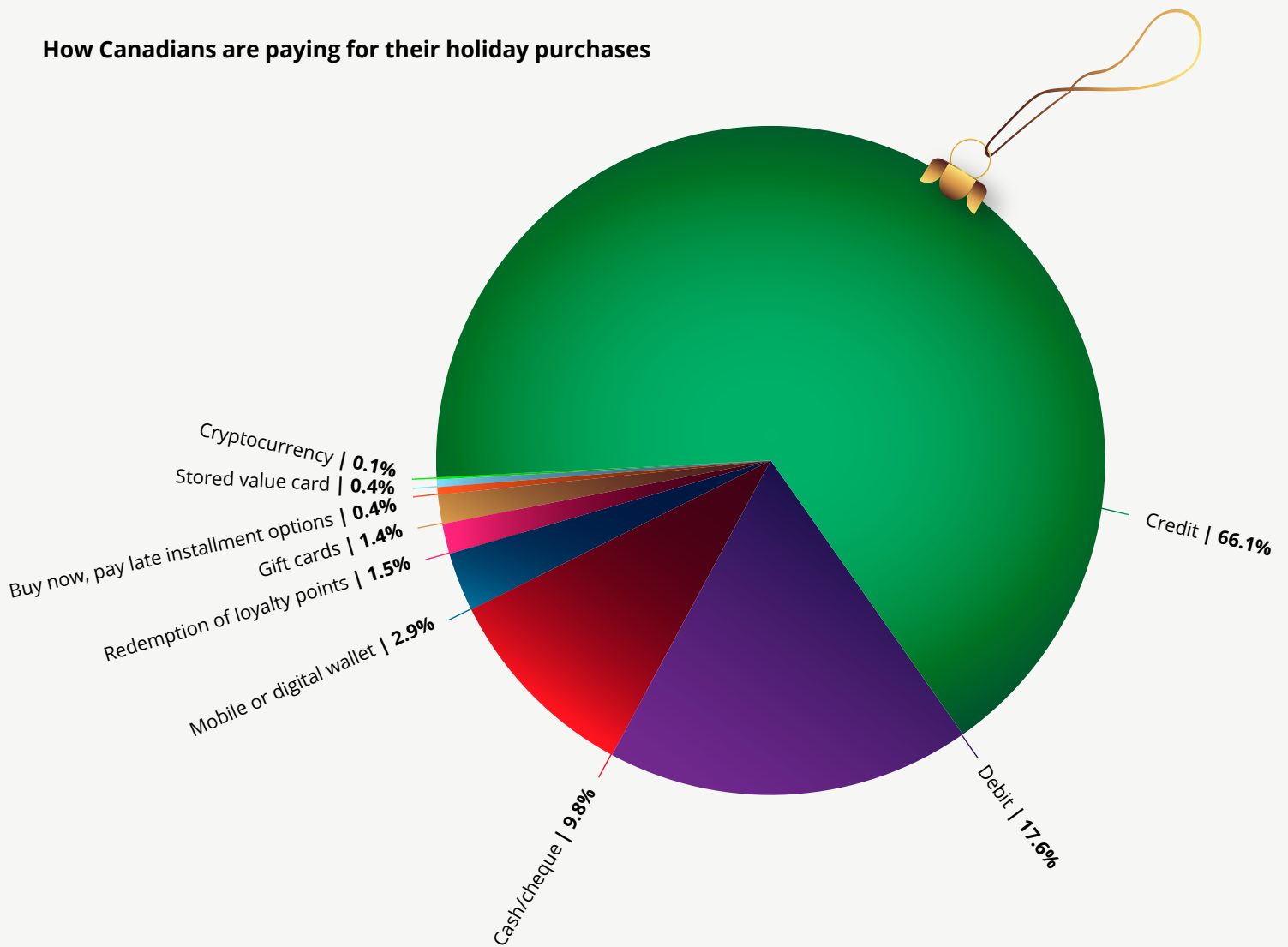
## Stark differences in how consumers have endured the pandemic



Canadians who have fared well tend to be male, live in Ontario, have a household income of \$100,000 or more, and are employed full-time. Higher-income consumers have benefited from rising home prices, strong financial gains, and the accumulation of savings. This consumer segment, which was much less affected by job losses at the height of the pandemic, plans to spend more this holiday season, wanting to spoil family and friends after a challenging year. A shopper in this segment plans to spend an average of \$2,118 this season (15% more than the average for 2021), funnelling most of that to Amazon using a credit card. This person shops with a list, seeking indulgent experiences and premium products. Social media influencers hold some sway over where this consumer drops money—retailers can entice this shopper with buy-more/save-more events or gift cards for future purchases. This consumer is keen on taking advantage of Boxing Week offers, especially for clothing and electronics.

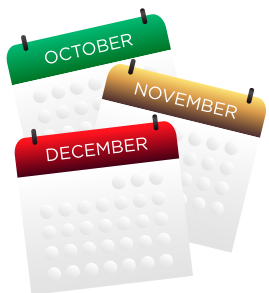
Consumers who have had a challenging time during the pandemic tend to be female, live in Ontario or in the West, have an average household income of less than \$50,000 (below the Canadian average), and likely to be temporarily unemployed for reasons that include illness and family care-taking. Lower-paid workers, many of whom are employed in the food services, accommodation, or non-essential retail sectors, bore the brunt of the pandemic job losses and have struggled to recover. This holiday season they plan to spend \$1,400, 24% less than the average for 2021. High costs for food, transportation, and housing are driving the decision to spend less. This consumer is looking for the lowest price and is very cognizant of what and where they're spending. Purchases will be made using credit, debit, and cash. Most of the holiday budget will go toward gifts for family, especially children. Retailers such as mass merchants, dollar stores, and off-price retailers are best positioned to support this consumer by offering deep discounts and free gifts with purchase. This shopper is receptive to gift advertising on TV and radio, especially where value can be shown. It's unlikely this consumer will take advantage of Boxing Week sales; they'll be looking for the best prices early.

## How Canadians are paying for their holiday purchases



Note: Figures have been rounded

Brands that overcome supply chain challenges may find themselves winning new customers



**35%**  
of holiday shoppers  
say they'll start  
before November

## Convenience and supply chain worries may drive early holiday shopping

When it comes to the holiday shopping experience, Canadians crave convenience and ease. Forty-four percent of shoppers plan to get what they need in one trip, by visiting multiple stores in the same vicinity; another 38% want to make things even simpler, preferring one-stop shops. Shoppers aren't inclined to linger, either: 44% say they try to limit their browsing and get in and out of stores as quickly as they can. This sense of hurry may explain why 70% prefer to shop at retailers with lenient return policies than ones that offer the lowest possible prices (56%). Retailers and brands that can meet this desire for convenience and a "frictionless" experience could be at an advantage this year.

Many consumers are keen to start—and finish—their holiday shopping early this year. Thirty-five percent plan to begin shopping before November and 14% intend to *complete* their shopping on Cyber Monday. Another 65% expect to finish their shopping in December, down significantly from 75% in 2019. The desire to start and finish holiday shopping earlier may reflect ongoing health-related caution, as it enables consumers to avoid crowds and long lines. But we believe it also reflects rising concerns about pandemic-driven supply chain issues and their impact on retailers. Consumers are increasingly advised to move fast to buy in-demand items well before the traditional holiday rush and to prepare for higher prices on some items that cost more to manufacture and ship.

Of course, Canadian consumers have grown adept at navigating many supply-chain shortages and interruptions over the past year and a half, pivoting to new or previously overlooked products and brands to meet their needs. For lesser-known brands and retailers, this could be a significant opportunity to get in front of holiday shoppers. Today's customers expect more than just great products and a great experience from the brands they support: any company or brand that's seen to go the extra mile to overcome supply chain challenges may find themselves winning new customers for the long term.

Shoppers' increasingly active approach to holiday spending is balanced by their waning interest in Boxing Day. Only 30% of Canadians plan to take advantage of Boxing Day/Week sales, down from 33% in 2020 and 34% in 2019. Those who are still planning to take advantage of this traditional Canadian sales period intend to spend an average of \$202 online and \$162 in-store, primarily on clothing (56%), electronics (47%), and footwear (31%).

More than half of consumers (56%) who responded to the survey cite COVID-19 concerns as a reason to avoid in-store shopping this year. Yet, those who start their holiday shopping late—or leave it until the very last moment—may find themselves forced to head to the shops and malls, as potential supply chain issues and shipping delays could make it difficult for items ordered online to arrive in time.

### Reasons to try a new retailer



63%

Better prices



38%

Greater selection



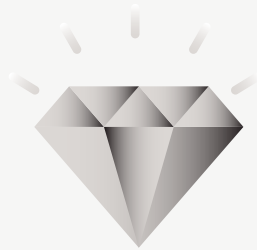
32%

New or different types of products or services



51%

Free shipping



38%

Unique or one-of-a-kind product



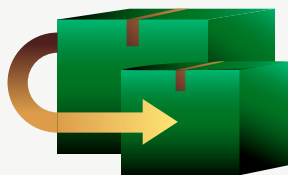
31%

Positive reviews about the store or site



39%

If a friend or family member recommends a new place or way to shop



32%

Better return policies

## The shifting role of the bricks-and-mortar store

While retailers have made significant strides in building their online presence, using social media, and engaging consumers through live shopping events and other means, there's no escaping the fact that the physical store is becoming more transactional than experiential. However, it is still unclear whether this change is more of a temporary shift that will subside once the health risks further diminish. In part, this shift is being driven by Canadians continuing migration during the pandemic to online shopping. In Deloitte's *The future of the mall* study, published at the start of the pandemic, 24% of Canadian consumers were shopping at an enclosed mall more than once a week and 65% shopped at such a mall more than once a month; this holiday season, those figures have dropped to 13% and 45% respectively. In this year's holiday survey, 30% of consumers say they now shop online more than once a week, up from 25% before the pandemic, while 70% say they shop online more than once a month, up from 62% in the earlier mall study.

However, consumers are not giving up on traditional retail. In this year's survey, 49% of consumers say they prefer to shop in stores for holiday purchases. They expect to spend 55% of their holiday budget at bricks-and-mortar locations, and another 41% to online vendors. Overall, Canadians expect to shop at an average of five stores and seven websites this holiday season.

But the shift in shopping habits is making their store visits much more transactional, as the option to buy online and pick up in store is increasingly chosen. Canadians shop in-store to avoid shipping costs (56%), interact with a product (55%), or because doing so facilitates easier returns (43%). However, they're quick to list reasons *not* to shop in-store, too, including crowded locations (65%), long lines (57%), and a risk of COVID-19 exposure (56%).

It remains to be seen whether this transactional view of the store will be permanent or it's simply a response to the ongoing pandemic. Unfortunately, this lack of clarity makes it difficult for some retailers to know how to prioritize infrastructure investments at the moment. What is clear, however, is that e-commerce and brick-and-mortar both have important roles to play along the path to purchase—and a frictionless, omnichannel experience never goes out of style.

Consumers aren't giving up on the physical store, but it's becoming more transactional than experiential this holiday season

### Top three reasons to shop in-store vs online

#### In-store



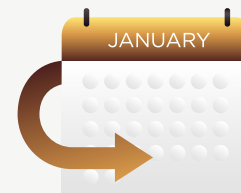
56%

Avoid shipping costs



55%

Ability to interact with the product



43%

Easier to make returns later

#### Online



65%

Free shipping



62%

Convenience and comfort of shopping from home



57%

24/7 availability

## Consumers want to support small, local retailers—and Amazon

Many Canadian consumers want to shop in ways that reflect their values, such as buying sustainable goods from local retailers and minimizing packaging. But it's increasingly tough to escape Amazon's gravitational pull.

Fifty-three percent of shoppers want to buy gifts that support local or small businesses this holiday season; 25% say they could be persuaded to try a new retailer that offered locally sourced items. And 47% say they'd be willing to pay between 1% to 10% more for products that were socially responsible, sustainable, or benefited employees' well-being. Some (16%) are even considering buying resale or used items this holiday season.

For many shoppers, however, Amazon continues to entice. Canadians prefer shopping online for many reasons: the convenience and comfort of shopping from home (62%), 24/7 availability (57%), home delivery (53%), and simply saving time (51%). Not surprisingly, then, Amazon will be the leading destination for gift inspiration for the second year in a row (57%), ahead of browsing stores (56%) and Google searches (55%). It will also be Canadians' top shopping destination this year: 62% of consumers will purchase gifts there, well ahead of mass merchants (55%), grocery stores (48%), and warehouses/membership clubs (41%). Over the past three months, consumers' purchases have been largely home goods (27%), toys and hobbies (25%), and household items (26%).

Forty percent of Canadians are now Amazon Prime members, up from 37% last year. The lure of fast, free delivery may be troubling some shoppers' consciences, however: 48% say they're concerned about the amount of packaging involved in online shopping.

### Top retailers shopped

Canadians want to shop in ways that reflect their values, but it's increasingly tough to escape Amazon's gravitational pull







## COVID-19 concerns still shaping holiday plans

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Canadians are still concerned about health as we face a second holiday season since the pandemic began—and those who responded to our survey are continuing to mitigate their risk of infection. Canadians plan to do more entertaining this year, but not much more—34% of consumers say they intend to host in their homes this year, up from 26% in 2020 but still well short of the 48% who did so in 2019. Forty-four percent have no entertainment plans this season, and 22% aren't sure yet. Those planning holiday parties expect to spend an average of \$286 on home entertainment, with two-thirds (66%) of that earmarked for food and one-quarter (24%) for alcohol.

There will be fewer formal sit-down meals this holiday season, despite the fact Canadians are spending more time in the kitchen this year than before the pandemic. Our 2021 *Future of food* series revealed that 66% have been cooking more meals at home over the past year or so. However, the holiday survey indicates that just 35% plan to host a holiday meal, more than the 31% in 2020 but down from 45% in 2019. The vast majority (87%) of those hosting a formal holiday dinner plan to prepare the meal using store-bought ingredients; only 8% intend to have the meal catered from restaurants.

## Holiday retail begins to rebound—but has it changed forever?

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This holiday season finds many—though not all—Canadians in better financial shape than before the pandemic. These fortunate citizens are keen to spend more not only on gifts and entertainment, but also on helping those for whom the past 18 months have been more challenging. Concerned about the availability of gifts due to supply chain problems, they're likely to get a head start on their holiday shopping, whether online or in-store. And that's good news for Canada's retailers.

While the pandemic is by no means over, Canadians have in many ways adapted to life with the virus. We changed our behaviours, including how we shop—and retailers have responded in kind, migrating online if they weren't already and pivoting to serve a customer base much more comfortable shopping from the comfort of home.

As the pandemic abates, or at least becomes something endemic that we deal with as part of daily life, will Canadians return to their pre-pandemic shopping habits? Or have they changed those habits for good—browsing and buying online and venturing to stores to complete specific, transactional interactions? Brands and retailers that continue to demonstrate authenticity, empathy, and transparency will be the ones that win the heart of the consumer, both online and in stores.

Canadians plan to do more entertaining this year, but not much more

Authenticity, empathy, and transparency will win the hearts of consumers—online and in stores

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