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## **The weight of the season**

Financial strain expected to curb holiday spending

2023 holiday retail outlook

## Value is on consumers' wish list this year

With economic headwinds and recession fears showing little sign of abating, Canadian consumers are feeling cautious this holiday season, if not outright pessimistic. They're worried about housing costs, credit card debt, and the impact of a potential recession, and the strain is starting to show.

Facing this uncertainty, Canadians are making trade-offs and tough decisions—and planning to spend less this year (-11% than 2022), for an average of \$1,347. They're poised to tighten their belts for a range of categories, but not all of them. Whether inspired by the movie *Barbie*'s joie de vivre or driven by FOMO (fear of missing out) over the wildly popular Taylor Swift and Beyoncé tours, some Canadians are choosing to spend more on travel and experiences.

This year's holiday shopper is savvy, selective, and more than willing to shop around at more stores and websites to find the best deals. They expect prices to continue rising—and, rightly or wrongly, they suspect retailers have been increasing prices unfairly. To win over these cost-conscious consumers this season, it's clear that retailers have work to do. They'll need to look beyond traditional discounting and develop new strategies to deliver real value for Canadians' money and time.

Savvy, selective, and willing to shop around—Canadians will go the extra mile to save this holiday season.

## Key insights for 2023



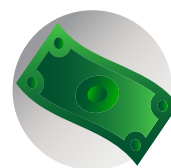
### 11% drop in holiday spending anticipated as financial pressures mount:

Almost seven in 10 (67%) Canadians are concerned about a recession, 55% about rent/mortgage increases, and 33% about paying for holiday gifts. It's no wonder projected spend is down from 2022, with decreases in gifts (-18%), gift cards (-14%), and charity (-40%). Bucking the trend, travel is up 11%.



### Retailer trust is being challenged, and Canadians plan to shop around for the best deals:

Rightly or wrongly, 73% of consumers believe retailers are raising prices unfairly. In response to price increases, they'll be shopping around for the best deals (77%) and looking for on-sale items (71%).



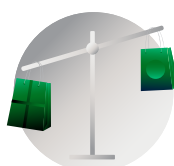
### Canadians will choose retailers that deliver the most value for money:

Consumers plan to shop at 37% more stores and websites than last year. In addition, more people will be shopping at dollar stores (13%), mass merchant retailers (11%), and warehouse clubs (11%).



### Is e-commerce growth in Canada levelling off?

Consumers embraced online shopping in 2020, spending 44% of their holiday budget online compared to 36% the year before. In 2021, that figure slipped to 41%—where it remains. For those who shop online, returns matter: 57% say retailer return policies influence where they shop.



### Despite economic challenges, some consumers may pay a premium for sustainable products:

More than half (55%, up from 54% last year) of Canadians claim they're willing to pay extra for sustainable products and services. Meanwhile, 44% don't believe most green or sustainable claims that brands make.



Deloitte's annual holiday retail outlook explores the shopping behaviours, attitudes, and preferences of consumers for the upcoming holiday season. This year marks the fifth publication since the holiday retail outlook was first published in 2019.

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 currency.

## 11% drop in holiday spending is anticipated as financial pressures mount

Canadians plan to rein in their holiday spending this year amid worries about household finances and the wider economy. Forty-one percent feel their household financial situation has worsened this year, unchanged from 2022, and 55% are worried about rising rents or mortgage payments. Housing cost concerns are higher in the West (60%) and Ontario (58%), where housing markets are typically pricier. One in three Canadians, no matter their income bracket, are concerned about credit card debt. And one in three are worried about how they'll pay for holiday gifts this year.

Nearly half (47%) of Canadians expect the economy to weaken in 2024. This sentiment is higher among consumers in Atlantic Canada (62%) and Quebec (51%), and greater among women (51%) than men (43%). Overall, two-thirds of Canadians (67%) are concerned about the impact of a recession, with worry running higher in Atlantic Canada (73%), the West (69%), and Ontario (69%), and lower in Quebec (61%). Women especially are worried about a recession (74%)—a sentiment shared, perhaps unexpectedly, by higher-income Canadians (72%).

With these concerns as a backdrop, Canadian consumers intend to spend less this holiday season (-11% than 2022), for an average of \$1,347. They'll be spending less on gifts (down 18%), gift cards (down 14%), and charitable donations (down 40%). It's not all gloom, however: 26% plan to treat themselves to a concert, spa, sports event, trip, or other experience, and holiday spending on travel is set to rise 11% over 2022.

## Economic outlook from Deloitte's chief economist, Dawn Desjardins

Following two years of robust gains, Canada's economy is headed for much slower growth for the rest of this year and into 2024. It stalled in the second quarter of 2023 as the bite from higher interest rates began to squeeze household budgets. More rate hikes over the summer have kept consumers under pressure, with spending expected to be limited into early next year.

Several positive factors are likely to prevent an even sharper downturn. Labour market conditions have weakened, with the unemployment rate up from its early-2023 low of 5%, but wage growth continues to be firm, which allows consumers to pay the growing costs to service their debt. Canada's expected rapid population growth will also underpin consumer demand as newcomers settle.

There's also been progress on the inflation front, with the rate materially lower than its mid-2022 peak. While inflation pressures have been sticky, the upcoming period of slower economic growth is expected to generate sufficient downward pressure on inflation to stay the Bank of Canada's hand from increasing interest rates. While this won't lift shoppers' spirits this holiday season, the prospect of interest rate reductions in mid-2024 augurs well for the economy to recover next year.



-11%

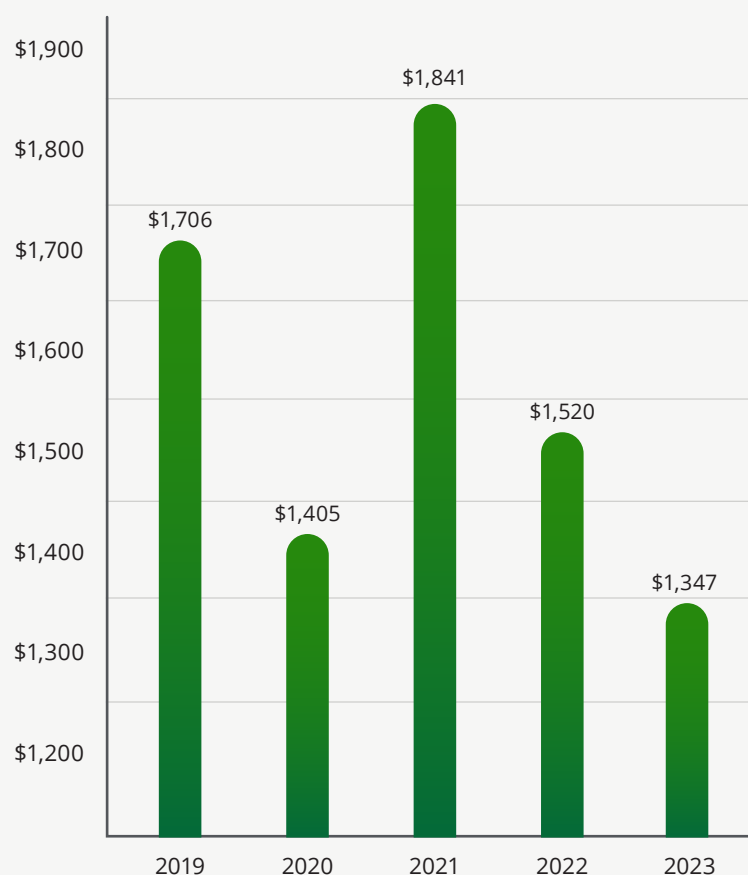
decrease in  
holiday spend



33%

are worried about  
how to pay for gifts

### Five-year holiday spend trend



Source: Deloitte holiday retail surveys



# 67%

are concerned about recession impacts



# 55%

are concerned about rent/mortgage increases

## Retailer trust is being challenged, and Canadians plan to shop around for the best deals

Inflation-stung consumers will be savvier shoppers this season. They'll be making tough decisions and trade-offs, and searching high and low for the best deals. Nearly half of Canadians (48%) intend to buy only what their family needs this season; that figure was 41% in 2022 and 35% in 2021. To pay for their holiday purchases, 24% plan to postpone travel plans and 23% intend to cut back on their grocery spending.

The majority of consumers plan to search for on-sale items (71%, up from 69% in 2022 and 56% in 2021), and to shop around for the best deals (77%). Two in three (68%) will buy from a retailer that offers the lowest possible prices, and 71% say they'll switch brands if their preferred one is too expensive. Forty-five percent are prepared to visit multiple stores in the same area to get what they need. One in four (28%) say they'll consider different products and stores before they buy, a further indication of the careful spending we can expect to see.

## Expecting higher prices this holiday season, shoppers will be careful with their spending.

This cost-conscious behaviour is driven in part by the widespread expectation—76% of consumers believe it—that prices will be higher. They also believe, rightly or wrongly, that retailers are raising prices unfairly (73%). This figure is higher than last year (68%), signalling that Canadians' trust in retailers may be starting to falter.





## Retailers need to get pricing and promotion right this season

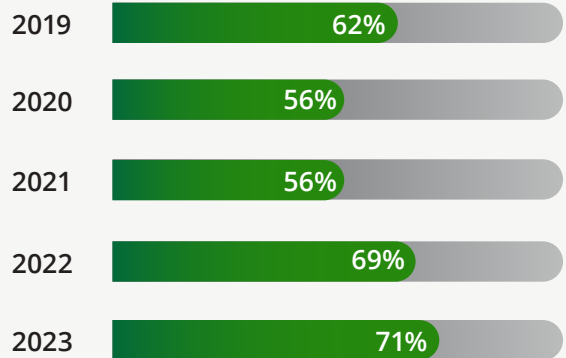
The stakes to get things right are especially high—lost sales can lead to leftover inventory, and discounting too often or too heavily can lower profitability. Retailers can address this by leveraging data to refine their pricing and promotion strategy across categories, working with vendor partners to design competitive holiday-season promotions, and identifying cost-saving opportunities to mitigate potential margin impacts. Artificial intelligence can also be used to personalize promotions and analyze customer data to further enhance strategies.

# 71%

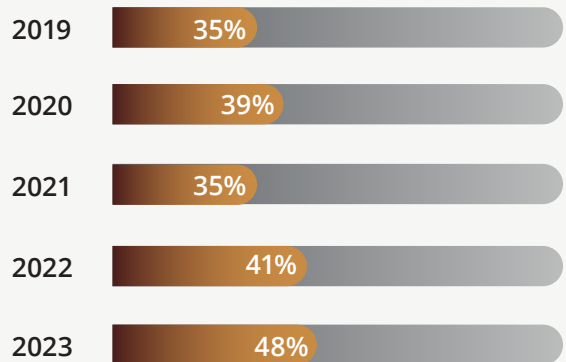
will be focused on shopping for sales

## Which of the following are you likely to do while shopping this upcoming holiday season?

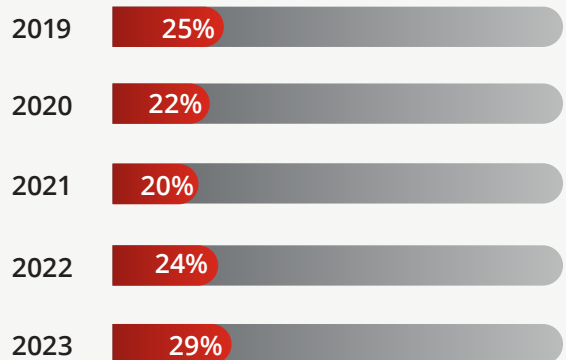
### Seek on-sale items



### Buy only what family needs



### Shop at less expensive stores



Source: Deloitte holiday retail surveys

## Canadians will choose retailers that deliver the most value for money

Shoppers intend to go the extra mile—literally—to get the most value for their holiday dollars in 2023. They plan to visit an average of 16.5 stores and websites, up 37% from 2022 and 26% from pre-pandemic 2019. They intend to spend 55% of their holiday budget in stores and 41% online, compared to 56% and 41% respectively last year.

Precisely half (50%) of Canadians prefer to shop in stores because they want to interact with products (63%), avoid shipping costs (58%), get better prices (38%), and get gift ideas and inspiration (35%). Forty percent prefer to shop online, whether to save time or for convenience (56%), to avoid crowds (55%), to shop at any time of day or night (54%), and to avoid long lines at checkout (51%).

For gift ideas and inspiration, they'll turn to Google (69%), Amazon (64%) and other retailer websites (56%), browse in stores (53%), and ask family and friends (33%). When it's time to shop, they plan to visit Amazon (69%) and mass merchant retailers (61%), warehouse membership clubs (40%), and department stores (36%).

The most important factor in choosing a retailer this season? Reasonable prices and value for money. Other factors include product variety, convenient locations, the shopping experience, and the return policy.

Canadians expect to reallocate their holiday spending somewhat in their quest for value. Twenty-nine percent are going to shop at less expensive stores (compared to 24% in 2022 and 20% in 2021). Some plan to spend more than they did last year at dollar stores (13%), mass merchant retailers (11%), and warehouse clubs (11%). Shoppers aged 18 to 34 are more likely to increase their spending at mass merchants (15%), warehouse clubs (17%), and off-price retailers (16%) than shoppers aged 55 and up (8%, 7%, and 5%, respectively).

It's interesting to note that high-income Canadians (those earning more than \$150,000 a year) are more likely to increase their spending at warehouse clubs (15%) and off-price stores (10%) than those earning less than \$50,000 annually (7% and 6%, respectively). This suggests that consumers in all income brackets are searching for value this year amid financial concerns and economic uncertainties.

### Top five factors when selecting a retailer



# #1

Reasonable prices



# #2

Product variety



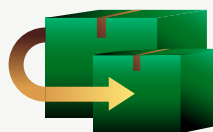
# #3

Convenient locations



# #4

Shopping experience  
(online and in-store)



# #5

Return policy



# 55%

of holiday budget will  
be spent in-store

In their quest for value, about 1 in 10 consumers plan to increase their spend at certain stores.



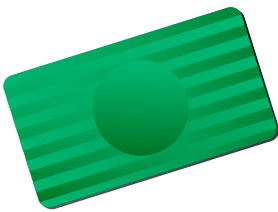
13%

will spend more at dollar stores



11%

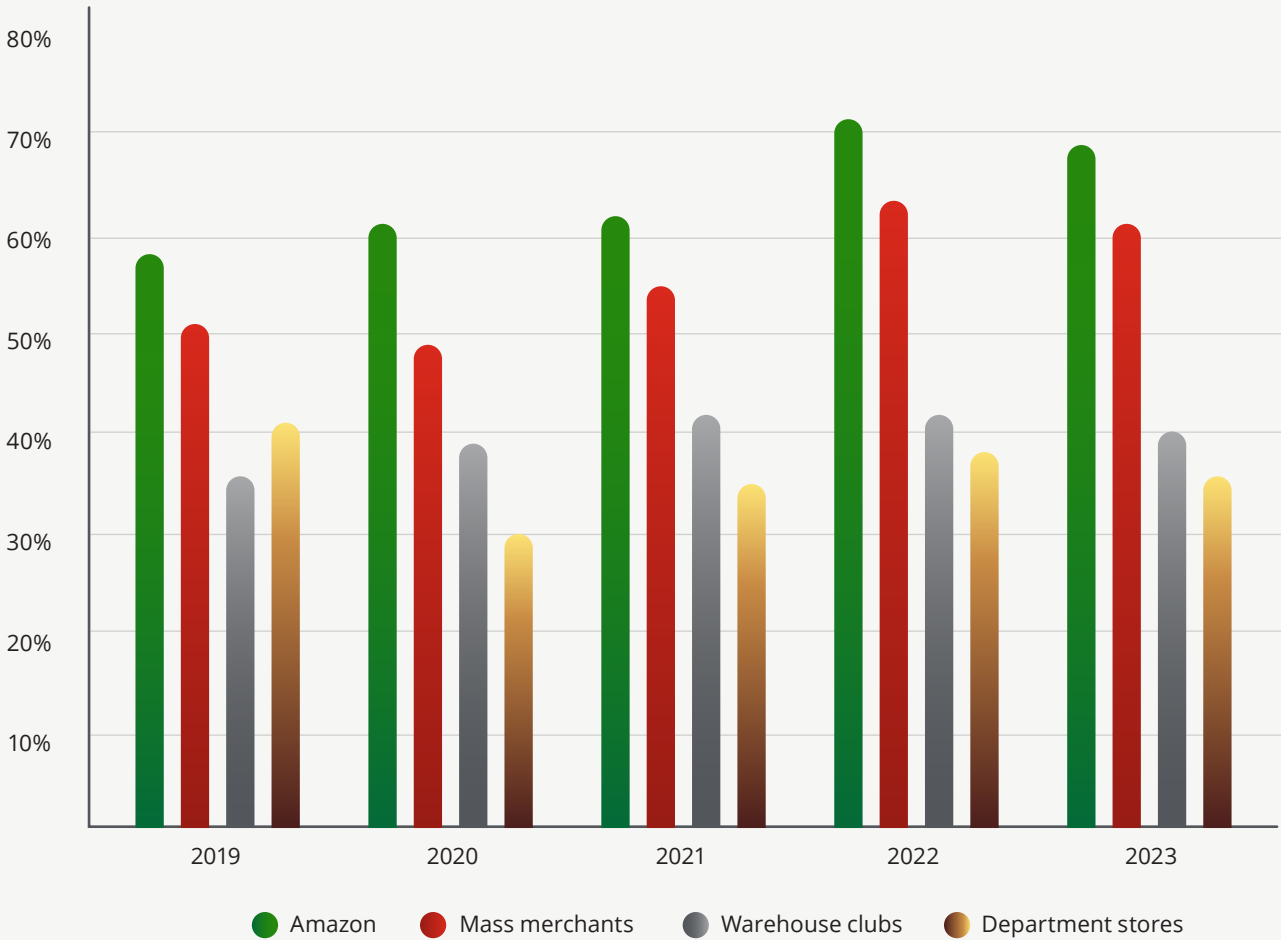
will spend more at mass merchant retailers



11%

will spend more at warehouse clubs

Type of retailer consumers shop at for holiday gifts | Five-year trend



Source: Deloitte holiday retail surveys

## Is e-commerce growth in Canada levelling off?

Canadians accepted online shopping out of necessity during the first pandemic holiday season, in 2020, spending 44% of their holiday budget online compared to 36% the year before. But in 2021, that figure slipped to 41%—where it has remained. They've embraced the omnichannel experience and expect retailers to provide them with a great customer experience, be it online or in-store.

No longer a necessity, online shopping has consistently dropped in the past couple of years, getting closer to pre-pandemic levels

This year Canadian consumers will be choosing from a range of fulfilment methods, primarily standard delivery (63%), same-day or next-day delivery direct from retailer (48%), and buy online/pick up in-store (33%). They still care about free delivery (76%, up from 75% last year) more than fast shipping (11% in both 2022 and 2023) and free returns (13% in 2023, 14% in 2022) combined. And they're willing to wait for free shipping: 33% will be patient for five to seven days in exchange for free delivery during the holidays, compared to 26% outside the holiday season. Furthermore, 20% would wait one to two weeks for free delivery in-season, compared to 28% the rest of the year. Unsurprisingly, Amazon Prime members are less willing to wait during the holidays for free delivery (28% would wait five to seven days vs. 38% who are not members).



# 76%

would prioritize free delivery over fast shipping or free returns



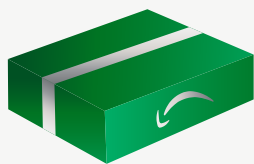
### Returns matter. A lot

For Canadian consumers, the e-commerce return experience is a make-or-break deal: 57% say retailer return policies influence where they shop, and almost one in three (31%) say they stopped shopping at a retailer because of a bad return experience. With some retailers beginning to charge for returns and others eliminating them for sale items, they must get returns right and communicate their policy clearly.

A seamless experience and cost-effective return policies and practices are critical for meeting consumers' expectations. Rewarding preferred behaviours, including loyalty program membership or expedited returns, are possible measures retailers can take. Others include offering recycling programs (particularly for returned clothing), expanding in-person return options through B2B partnerships, and working with suppliers to address why some products are frequently returned.

# 1 in 3

Canadians have stopped shopping at a retailer because of a bad return experience.



## Has Amazon Prime membership peaked in Canada?

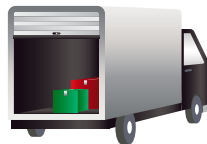
Amazon may remain Canadians' top destination for holiday shopping, but they aren't just going there for the prices. (Only one in four consumers believe Prime Day offers better deals than can be found elsewhere during the holiday season.)

Almost half of Canadians (46%) are Amazon Prime members—and while that's just a slight decrease from last year's 47%, it's the first time that figure has dropped since we started tracking membership in 2020. Not that Prime risks being dethroned any time soon: 15% of consumers plan to increase their spending at Amazon this holiday season while only 12% plan to use a non-Amazon retailer subscription service. It may be because of subscription fatigue or because other plans can't match Prime's other benefits, such as Prime Video and Amazon Music.

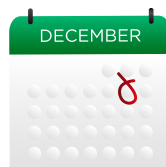
# -1%

For the first time in four years, Amazon Prime memberships have decreased

## How Canadians are having their packages delivered



63%  
Standard delivery



48%  
Same-day or next-day delivery



33%  
Buy online and pick up in-store



16%  
Same-day or next-day through delivery service

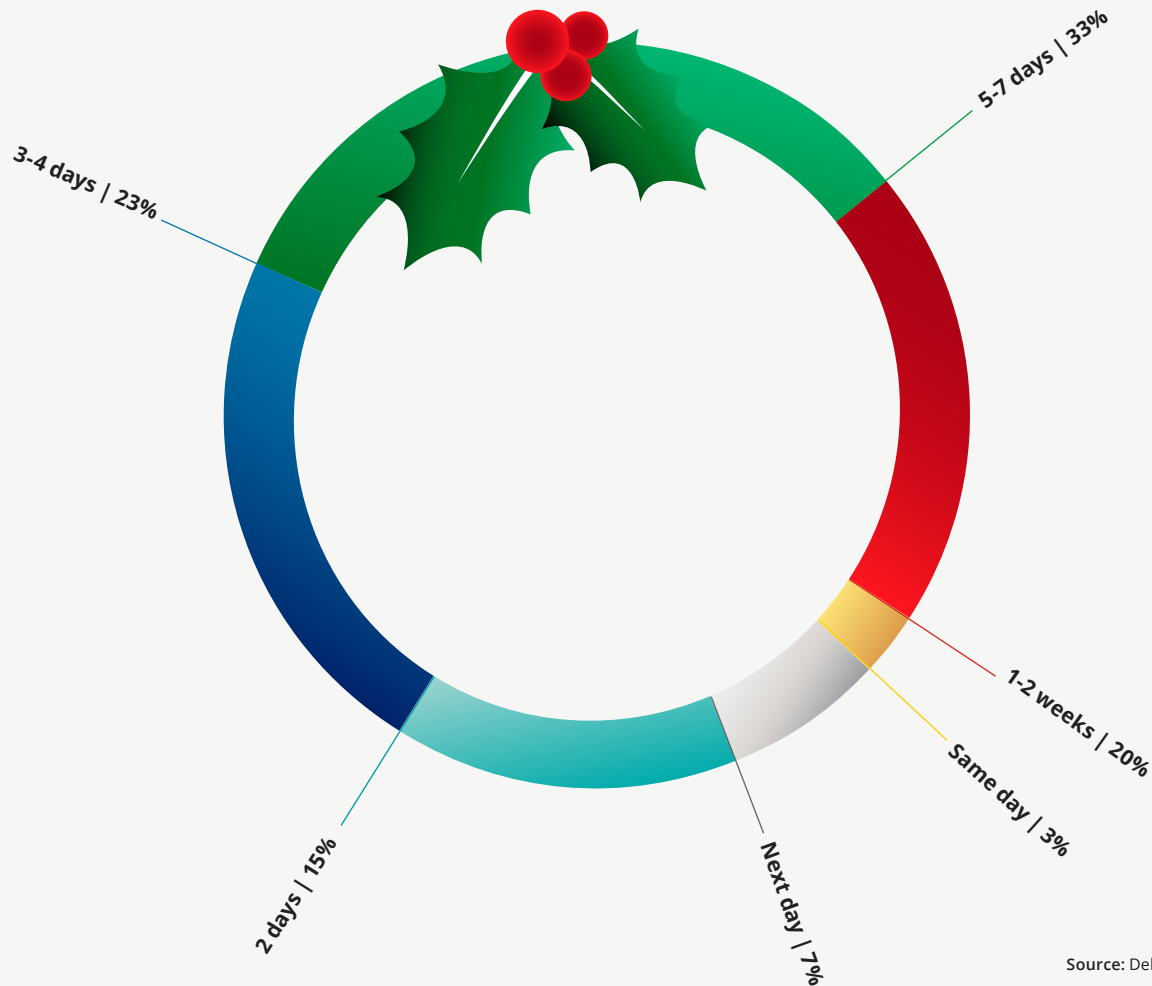


14%  
Curbside pick-up

Consumers have embraced the omnichannel experience and expect retailers to provide a great experience, be it online or in-store.



## Maximum time consumers are willing to wait for free delivery



Source: Deloitte holiday retail surveys

## Despite economic challenges, some consumers may pay a premium for sustainable products

Financial and economic worries haven't dented Canadian shoppers' commitment to sustainability. Nearly half (45%) say they'll buy sustainable alternatives for certain product types, and 37% will choose sustainable or responsibly sourced holiday gifts whenever possible. Sustainability is also top of mind for some consumers when shopping for apparel. One in three (32%) consumers prefer to shop at apparel retailers that demonstrate a commitment to sustainability, and one in four (25%) try to shop second-hand to reduce their environmental impact.

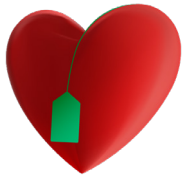
Despite inflationary pressures, more than half (55%, up from 54% last year) of Canadians claim they're willing to pay extra for products certified as socially compliant, sustainable, or produced by factories that engage in employee well-being initiatives. This preference is more likely among those who are younger (65% of those aged 18 to 34 vs. 47% of those aged 55 and older) and female (60% vs. 49% male). Nearly one in three (29%) would pay 1% to 5% more, and nearly one in five (17%) would pay 6% to 10% more. Among those consumers

### Canadians want to shop sustainably, but some are skeptical about claims.

unwilling to pay extra, 49% say it's because such products aren't affordable, while 46% say it's because they can't identify genuinely sustainable products.

Seven in 10 (70%) Canadians believe retailers and brands should be responsible for creating and selling products that don't harm the planet, yet nearly half (44%) say they don't believe most of the green or sustainable claims that brands make. Clearly, there's a significant opportunity for brands and retailers to invest in sustainability and educate consumers about the facts behind their products' sustainability credentials.

Shopping sustainably is a goal, but shoppers are conflicted:



55%

say they are willing to pay more for sustainable products



70%

believe brands/retailers should be responsible for making sustainable products



44%

don't believe most sustainable claims made by brands

Retailers will need to re-examine and refine their value proposition this year.



### Delivering value to cost-conscious consumers is key for retailers

While excitement for the holidays can bring joy and anticipation, economic conditions this year will make for yet another challenging holiday season. Canadian consumers plan to reduce their spending and stretch their holiday budget, putting more effort into shopping around in the store and online as they search for the right gifts and the best value for their money.

This shift in behaviour means retailers will need to re-examine and refine their value proposition. Price is certainly an important component, especially this year, but it's not the only one. Product availability, the shopping experience, fast checkouts, free delivery, easy returns—every touchpoint along the customer journey is an opportunity for retailers to deliver value to Canadian shoppers. By making strategic choices, retailers can ring in the New Year on a positive note.

## Contact

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