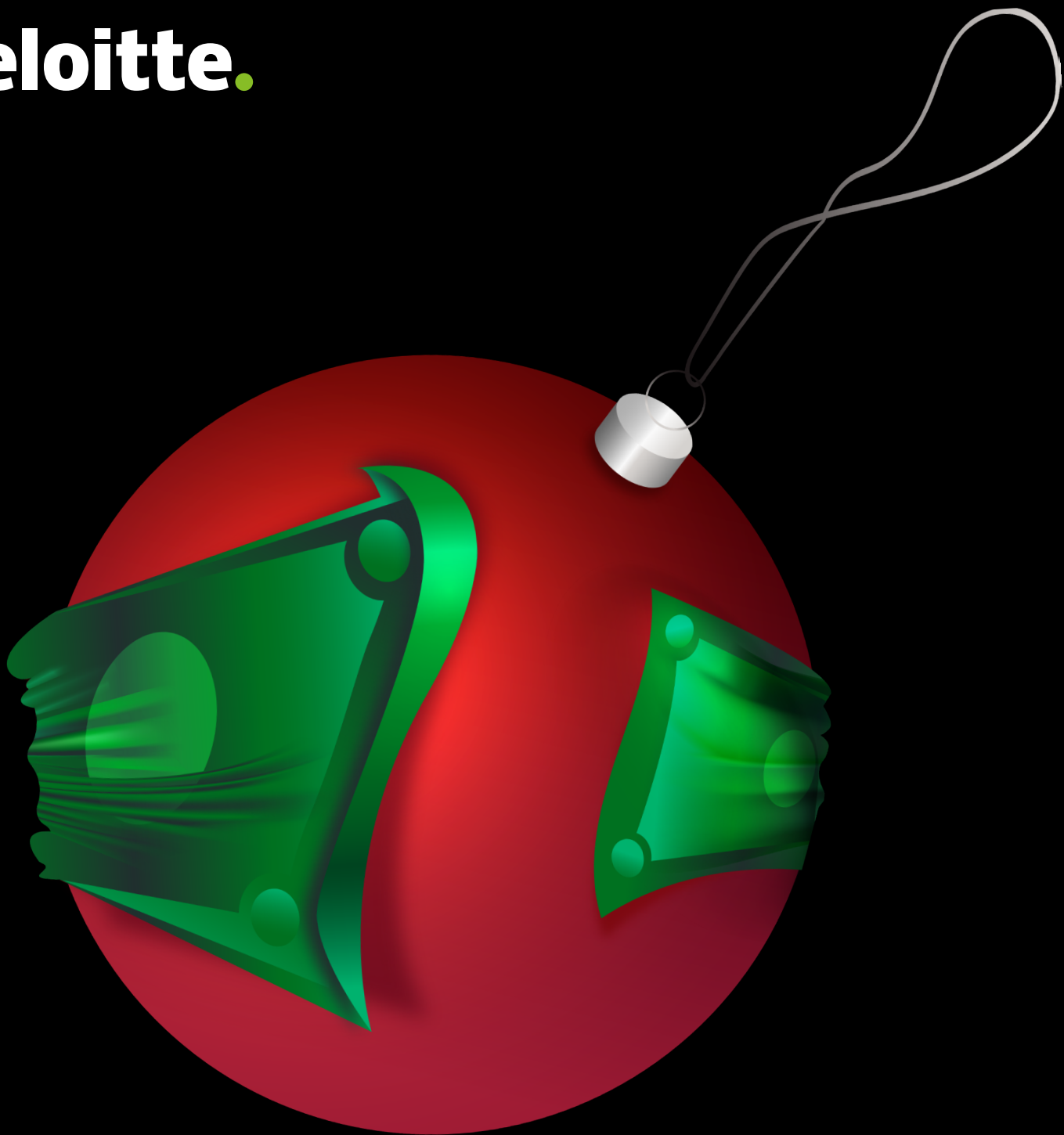


Deloitte.



Spending less, connecting more
2022 holiday retail outlook

Canadians are craving connection this holiday season

Recent holiday seasons have seen Canadian consumers cycle between cautious optimism and concern. This year, they've been exposed to a seemingly endless cycle of negative news, including economic uncertainty, high inflation, rising interest rates, geopolitical upheaval, general "pandemic hangover," new or resurgent diseases, and more. It will be hard for Canadians to find reasons for optimism when there is so much ambiguity.

Across income brackets, consumers have seen their buying power shrink. They'll be looking for ways to stretch their dollars this holiday season. For some, that may mean choosing new products; for others, it might mean spending more time looking for the best deals. While some will strive to make purchases that reflect their sustainability and/or ethical values, others question whether they can afford to do so or whether they feel equipped to identify products that are genuinely sustainable and/or ethical.

Despite the challenges of this season—or perhaps because of them—Canadians are craving connection and shared experiences, as our 2022 retail holiday survey reflects an increase in plans to visit stores and host family gatherings.

Shoppers will also be looking for ways to stretch their dollars.

Key insights for 2022



Consumers trim holiday spending amid economic uncertainty and other worries: Almost half (48%) of Canadians expect the economy to be worse in 2023, and four in 10 (41%) have seen their household finances worsen this year. Overall holiday spending will fall 17% this year, to \$1,520, with the biggest drops in non-gift electronics (-55%), travel (-30%), and non-gift clothing (-27%).



Canadians will shop early and hunt for deals to stretch their holiday budget: One in three (37%) will shop earlier this year, with 46% believing it will help them get better deals. They'll shift to other brands if their preferred one is too expensive (72%), buy from retailers that sell at the lowest possible prices (70%), and seek out sale items (69%).



Rising prices and supply chain issues may impact consumer trust and brand loyalty: 76% of shoppers expect higher prices this season; 68% question if retailers are raising them more than needed, a concern creating tensions across industries. And, supply chain challenges have trained consumers to find substitutes, with 61% indicating they'll try new brands if what they want is out of stock.



Consumers want to buy goods that express their values—but some are skeptical: Four in 10 are willing to pay up to 10% more for sustainable/ethical products or services. Others won't pay more because of affordability issues (47%), challenges in identifying genuinely sustainable/ethical products (41%), or the belief that their purchase choices won't have a meaningful impact (28%).



Canadians seek connection with friends, families, even fellow shoppers: 51% of customers say they will favour shopping in-store this holiday season (up slightly from 49% last year), and those who will are planning to visit more stores: 5.9 on average, up from 5.3 last year but shy of pre-pandemic levels (6.4 in 2019). And more are planning to host formal meals this year than last (41% versus 35%).



Deloitte's holiday retail outlooks explore 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 currency.



The economic outlook

by Deloitte Chief Economist Craig Alexander

As we head into this holiday shopping season, the Canadian economy is experiencing a slowdown that may ultimately result in a recession. There are a few reasons for this. First, high inflation is outpacing wage growth, which is reducing the purchasing power of incomes. While inflation dropped from 7.6% in July to 7.0% in August, the inflation shock will take considerable time to abate. Second, the Bank of Canada's dramatic inflation-fighting increase in interest rates is leading to a housing correction, which in turn is reducing consumers' purchases of big-ticket items such as furniture and appliances. Third, the global economy is experiencing a broad-based slowdown as central banks rebalance monetary policy, the most important of which—to Canada—are the interest rate increases from the US Federal Reserve. Lastly, the Canadian economy accumulated a record amount of inventories in the second quarter of 2022, and it's likely that efforts to reduce them in the second half of the year will limit real GDP growth.

But the outlook is not all gloomy. Consumers may be more resilient than normal to a weakening economy. First, the labour market is exceptionally tight, with very low unemployment and more than a million unfilled jobs (as of July). While businesses might slow their hiring or even cut employment, overall unemployment could still remain low, which would be positive for consumer confidence and spending. Second, savings accumulated during the pandemic may act as a buffer to inflation, as Canadians saved more than \$360 billion over two years—equivalent to about 10 years' worth of savings.

Consumers trim holiday spending amid economic uncertainty and other worries

Canadians plan to spend an average of \$1,520 over the holiday season this year, down 17% from last year (\$1,841), but 8% higher than 2020 (\$1,405). Spend is expected to be slightly higher in Ontario (\$1,693) and the Atlantic (\$1,706), and lower in Quebec (\$1,178), although that province's levels will be comparable to last year's (\$1,191).

The biggest drops will be seen in non-gift electronics (-55%), travel (-30%), non-gift clothing (-27%), and gift cards (-24%). Consumers are also treating themselves less; just 15% say they will shop and spend for themselves, down from 20% last year.

Canadians are reining in their holiday spending because of higher food prices (76%), inflation worries (67%), and concern about the economy (60%). Those who are spending more are doing so because the cost of goods is rising (54%) and to spoil their family or friends after a tough couple of years (though, at 29%, significantly less than last year's 46%).

The drop in holiday spending also reflects Canadians' financial challenges: 41% say their household finances have declined this year, with that figure slightly higher in the Atlantic (52%) and for those aged 55+ (47%) compared to those aged 18-34 (33%). Many anticipate 2023 will be just as difficult: 48% expect the economy to worsen, with those in Quebec the most pessimistic (52%).



\$1,520

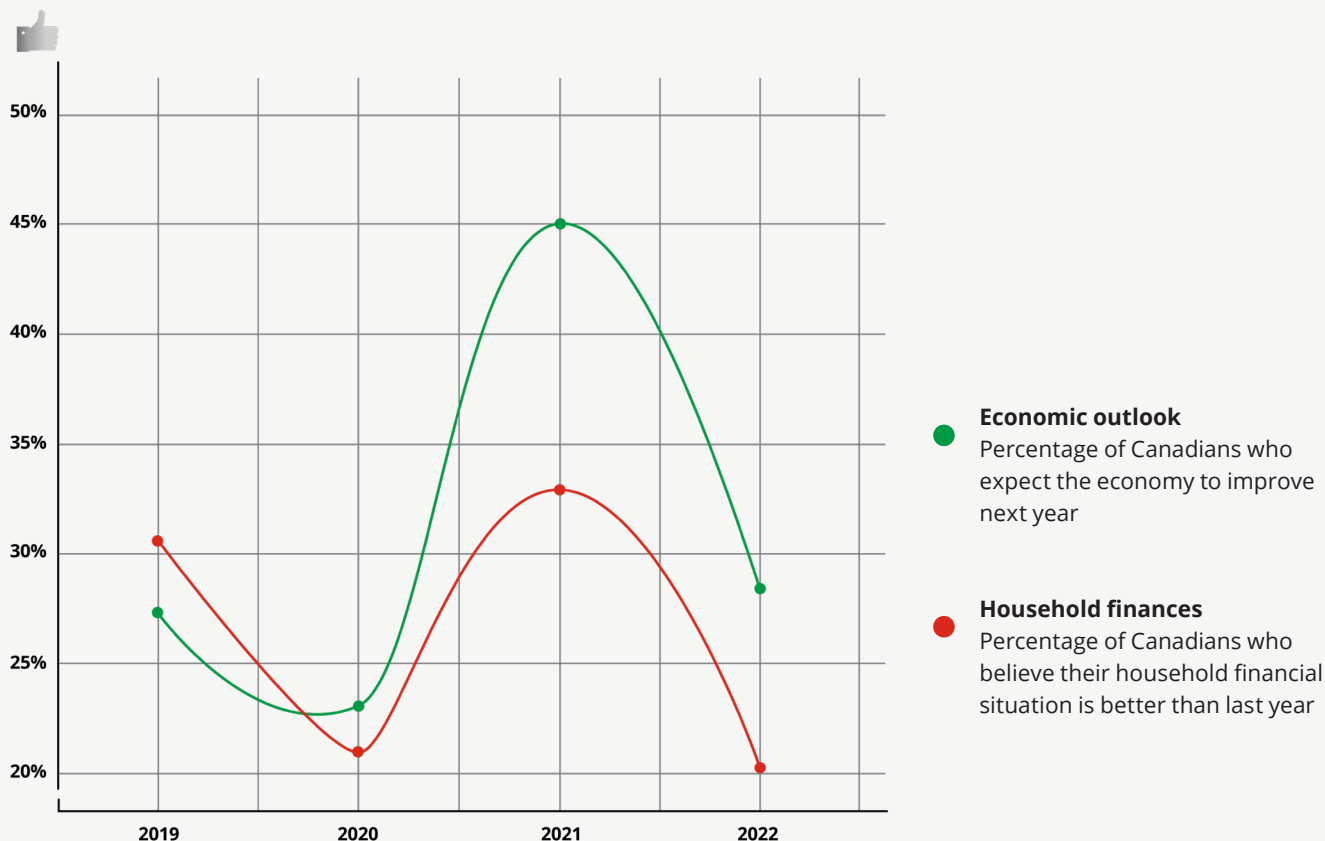
Estimated holiday spend by Canadians



-17%

Decrease in holiday spending from 2021

Optimism about the economy and household finances over time



Source: Deloitte holiday retail surveys

Canadians will shop early and hunt for deals to stretch their holiday budget

Consumers will be striving to make the most of their dollars this year. One in three (37%) plans to start shopping earlier compared to 2021, with 43% saying they'll begin before November (up from 35% last year). They see an earlier start as a way to avoid crowds (50%), budget their spending effectively (48%), score lower prices (47%), and get the best deals (46%).

Shoppers are also prepared to put in the work to find the best deals. Nearly half (43%) say they'll spend more time comparing prices and 69% will search for items on sale (up from 56% last year). Seventy percent of consumers say they're more likely to buy from retailers that sell at the lowest possible prices, compared to 56% last year—and 72% will shift to another brand if their preferred brand is too expensive.

To further economize, 41% of consumers plan to only buy what their family needs, up from 35% last holiday season. Thirty-eight percent will head online to find coupons or better prices, and 27% will take advantage of price-monitoring services to alert them when prices drop.

Online browsing offers savings opportunities, and gift inspiration.

Saving money isn't the only reason Canadian shoppers will be going online; they'll also be browsing Google (73%), Amazon (61%), or retailers' websites (55%) for gift inspiration. More will be browsing Google in 2022 (73%) than in 2021 (55%) to research new products and services.

Coupons, sales alerts,
brand-hopping—these are
just some ways consumers
plan to economize this year

How shoppers will stretch their dollars



72%

will shift brands if
their preferred brand
is too expensive



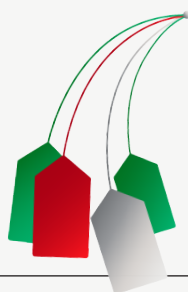
70%

will buy from retailers
with the lowest prices



69%

will shop for items
on sale



43%

will spend more time
price-comparing



41%

plan to buy only what
their family needs



38%

will look online for
coupons or better
prices

Rising prices and supply chain issues may impact consumer trust and brand loyalty

Canadians' trust in retailers may weaken as shoppers grow frustrated by price increases and supply chain woes. Three in four (76%) expect prices to be higher this year, and 68% question if retailers may be raising prices more than necessary. In an environment where multiple factors contribute to the complex state of the economy and the drivers of inflation, consumers may not understand the reason for price increases or how retailers may be working to offset their own increased costs.

For retailers, inventory will be the biggest asset—and the biggest liability.

Consumers' concerns mean they may be more likely to shop at retailers that help them find better value. Seventy-one percent say they're likely to shop at Amazon this year, up from 62% in 2021; 63% say they'll shop at mass merchants, compared to 55% last year.

The supply chain challenges of the past two years have trained consumers to find substitutes whenever their preferred items are out of stock. It's a behaviour that will continue: 61% of Canadians are willing to shift to another brand if the product they want is out of stock, and 43% will shop earlier in a bid to scoop up their desired brand.

For retailers, inventory will be the biggest asset this holiday season—and the biggest liability. Their main challenge will be to keep supply chains agile and ensure inventory is in the right store(s) and channels; 43% of consumers say the expectation that the goods they want will be out of stock prevents them from shopping in-store. Retailers should be exploring alternative fulfillment solutions, such as using stores as micro-fulfillment centres, as they strive to identify where and when to deploy inventory.



43%

will shop earlier to get their preferred brand

How's the holiday budget being spent?



\$390

on gifts

-5% from last year



\$120

on gift cards

-24% from last year



\$239

on travel or vacation

-30% from last year



\$132

on charitable donations

-14% from last year



\$105

on dining out

-16% from last year

Amazon continues to win over consumers

Where's the holiday budget being spent?



71%

Amazon

+9% from last year



63%

Mass merchants

+8% from last year



41%

Grocery or drug store

-7% from last year



41%

Membership clubs

No change from last year



38%

Department stores

+3% from last year

Amazon Prime: more popular than ever

A growing number of Canadian consumers are signing up for Amazon Prime: 47% say they're now members, up from 40% in 2021 and 37% in 2020. More memberships don't necessarily mean more sales, however. Fifty-nine percent of shoppers expect their Amazon holiday spend to remain the same this year, with clothing (26%), toys and hobbies (25%), and household items (24%) being the most popular categories. Amazon's streaming service, membership benefits (e.g., Amazon Music, Amazon Photos), and exclusive sales may be persuading more Canadians to sign up. This year Amazon Canada introduced the Prime Early Access Sale, offering members exclusive access to a two-day shopping event on October 11 and 12.

+7%

Increase in Amazon Prime memberships

Boxing Day interest remains steady

For some Canadian shoppers, Boxing Day is an unshakeable tradition. Roughly one in three (32%) consumers plan to take advantage of Boxing Day/Week sales this year—a figure that is almost unchanged from last year (30%). Of those who will, they're intending to spend about the same in-store as they did last year (\$165, just \$3 more than in 2021). But they're also planning to spend less online, with a 12% drop year over year (\$177 this year compared to \$202 last year). It's possible that Boxing Day's appeal will wane as more and more consumers finish their shopping before Black Friday (26% this year, up from 18% in 2021), but habits are hard to break and some shoppers will always be attracted by the lure of a good deal.

1 in 3

Canadian shoppers plan to take advantage of Boxing Day sales

Consumers want to buy goods that express their values—but some are skeptical

Despite tightening budgets and economic uncertainties, consumers still want to make ethical, environmentally conscious purchases this holiday season. Forty-three percent say they'll choose sustainable products whenever possible, and that a product's country of origin is an important factor in deciding what gifts to buy. More than half (55%) say they prefer to buy gifts that support small or local businesses, up slightly from last year (53%), with consumers in the Atlantic most likely to buy local (71%).

Forty-four percent of consumers say they're willing to spend up to 10% more to buy products that are socially compliant, sustainable, or produced by factories that offer employee well-being initiatives. Consumers aged 18-34 are more likely to do so (57%) than those aged 35-54 (42%) or 55+ (37%), as are those whose household finances have improved (54%) rather than declined (37%) this year.

However, another 46% aren't willing to pay anything extra for such products. Why? Some feel the goods are unaffordable (47%), others feel it's hard to identify genuinely sustainable ones (41%), and some consumers simply don't think such action will have a meaningful impact (28%). These perceptions suggest there's an opportunity for retailers to rethink how they're educating consumers about the environmental, social, and governance impacts of their products and services.



44%

will pay up to 10% more for goods aligned with their values



51%

are concerned about the amount of packaging used for online purchases

Canadians are seeking connection this holiday season

After a couple of years of having to keep their distance from other people, Canadian consumers want to connect—with friends, families, and even fellow shoppers.

Half the survey respondents (51%) say they prefer to shop in-store this season, up slightly (49%) from last year, to interact with products, take advantage of better prices and promotions, and avoid shipping costs. They're planning to visit more stores, too: 5.9 on average, up from 5.3 in 2021, but still shy of pre-pandemic levels (6.4 in 2019). They also plan to spend more than half (56%) of their holiday budget in a physical store, compared to 41% online. More consumers will be searching for "experience" gifts that offer opportunities to spend time with others this year (37%, up from 33% in 2021), though fewer are willing to buy from retailers that offer premier products and experiences (35%, down from 40% last year).

More Canadians are looking forward to gathering with friends and family for dinners and entertainment this year. Forty-one percent are planning formal holiday meals (up from 35% last year), with 37% expecting to host get-togethers (compared to 34% in 2021); Quebecers are the bon vivants in this group, with 54% indicating plans to invite people over. Spending on home entertainment is set to rise to \$302, from \$286 in 2021.



51%

prefer to shop in-store



56%

of holiday budgets will be spent in-store



Retailers need to show empathy and understanding

Canadians from coast to coast to coast have been through a lot these past few years and although they're resilient, they're understandably fatigued. Even as fears about COVID-19 fade, consumers are living in a highly charged state of anxiety, with recessionary concerns, inflationary pressures, and rising interest rates top of mind. These concerns are likely leading Canadians to focus on their personal finances and short-term needs, which is reflected in the overall planned reduction in holiday spending.

Retailers will need to do more than sharpen prices to win the hearts of consumers this holiday season. If communicated in a genuine and authentic manner, they can offer moments of respite by demonstrating empathy and an understanding of what their customers are feeling. The holiday period can be stressful in the best of times, and consumers will be making tough spending decisions as they work to take care of their families' needs.

As shown in the results of our study, Canadians are also seeking connection and shared experiences following years of pandemic restrictions. Canny retailers will find ways to foster these connections by creating warm and judgment-free shopping experiences and by greeting their customers with empathy, both in-store and online.

Canny retailers will find ways to foster connections.

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