

# BAIN RETAIL HOLIDAY NEWSLETTER

## 2018 HOLIDAY SHOPPING OUTLOOK: THE MOST WONDERFUL TIME OF THE YEAR

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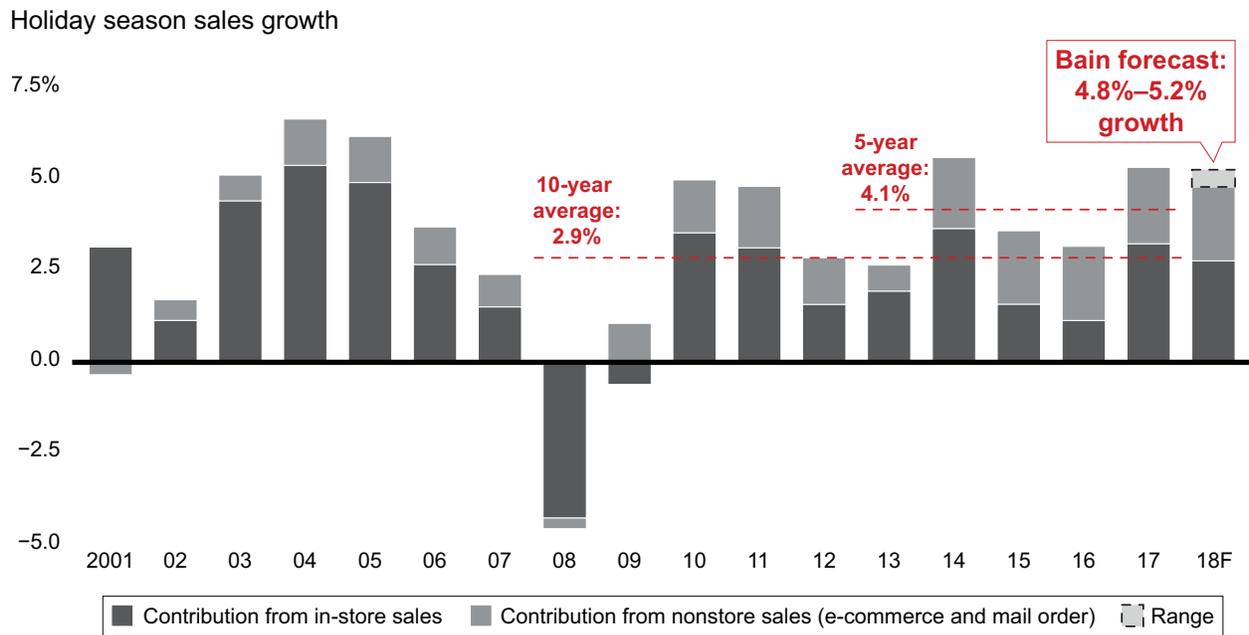
*Bain & Company is forecasting 4.8% to 5.2% growth in US retail sales this holiday season. This is shy of last year's 5.3% growth but significantly above the 10-year average of 2.9%. Our optimism stems from positive macroeconomic indicators, including historically low unemployment, rising wages and high consumer confidence. Growth year-to-date is another positive indicator: Foot traffic in stores is up, and e-commerce continues its aggressive upward trajectory. Still, we caution that this holiday season is likely a bright spot before more challenging times in 2019.*

### Unwrapping the forecast

Bain expects total US retail sales to grow 4.8% to 5.2% this holiday season, shy of last year's 5.3% growth but significantly above the 10-year average of 2.9% (see *Figure 1*). We define holiday retail sales as in-store and nonstore (e-commerce and mail order) sales during November and December, excluding sales by auto and auto parts dealers, gas stations and restaurants (see *Exhibit 1 in the Appendix*).

In-store sales will remain vital to the holiday season, as they represent more than 80% of total retail sales. This year stores have provided much reason for cheer: In-store sales were up 3.9% through August (vs. 2.0% growth last year). We forecast in-store holiday sales growth of 3.5% to 3.7% (vs. 4.0% last year). Though the fundamentals remain strong, last year's robust holiday growth will be difficult to top.

**Figure 1:** Growth in holiday retail sales, 2001–18F



Notes: Holiday season is November and December; 2018 growth rates are Bain's forecasts (F)  
Sources: US Census Bureau; Bain analysis

Contrary to reports in the popular press, traffic in physical stores is quite healthy. Working with Placer.ai, we analyzed recent changes in foot traffic for 10 major retailers (see Figure 2). Across our sample, foot traffic is up 2% through September and up 3% over the most recent two months. As we enter the holiday season, we expect consumers to continue shopping in stores as well as online.

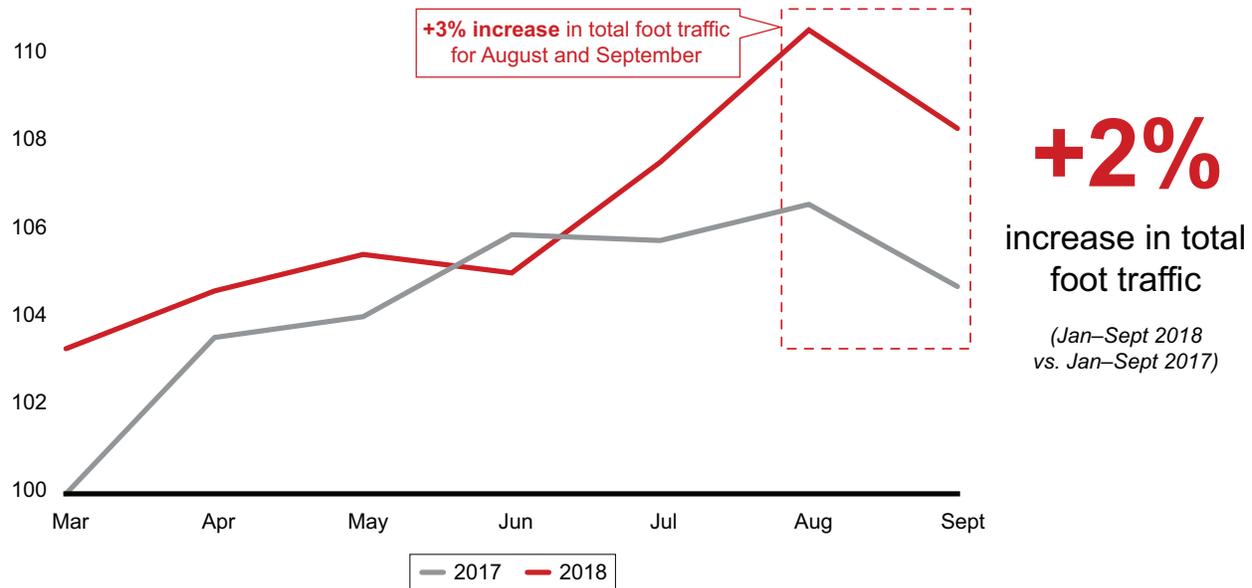
Nonstore sales include both e-commerce and mail-order channels. E-commerce continues to show strong momentum, with roughly 15% growth over the first half of 2018. We expect that momentum to continue into the fourth quarter and therefore forecast 15% growth in e-commerce over the holidays. Mitigating that growth is an anticipated 11% to 15% drop in mail-order sales, which represent 17% of nonstore sales. Overall, we forecast that nonstore sales will land in the 11% to 12% range.

Many factors are driving sales growth this year (see Figure 3). Key among them are macroeconomic metrics that have reached historic levels, including:

- **Unemployment is at its lowest rate since 1969.** The September jobs report, released October 5, showed that the jobless rate fell to 3.7%, a level not reached since the Vietnam War. The Federal Reserve expects jobless rates to continue at this level or lower over the next two to three years. This trend, coupled with solid wage growth (2.9% year-over-year), means more consumers will have more money to spend this holiday season.

**Figure 2:** In-store foot traffic across key retailers

Total in-store foot traffic at selected retailers\*, indexed to March 2017 (three-month rolling average)



\*Best Buy, Costco, CVS, Dick's Sporting Goods, Kroger, Lowe's, Target, TJ Maxx, Ulta Beauty and Walmart  
Source: Placer

**Figure 3:** Indicators of holiday sales growth

	Leading indicator	Value comparison	2017	2018	Implication for 2018 retail sales
<b>Retail performance</b>	Total retail sales growth	YOY growth, Jan–Aug	3.4%	4.9%	↻
	Back-to-school retail sales growth	YOY growth, Jul–Aug	4.2%	5.2%	↻
	US sales of top retailers (consensus forecast)	YOY growth, Q4	7.2%–11.0%	1.3%–4.2%	↘
	Walmart sales (consensus forecast)	YOY growth, Q4	4.1%	1.4%	↘
	Retail holiday hiring (selected retailers)	YOY change, holiday season	5%	13%	↻
<b>Wealth and income metrics</b>	Unemployment rate	Change in value, Sept–Sept	–80 basis points (4.2%)	–50 basis points (3.7%)	↻
	S&P/Case-Shiller US National Home Price Index	YOY growth, Jan–Jul	5.7%	6.3%	↻
	Disposable personal income (per capita)	YOY growth, Aug–Aug	2.2% (\$42.9K)	2.2% (\$43.8K)	↔
	Consumer Price Index (excluding food and energy)	YOY change, Sept–Sept	1.7%	2.2%	↻
	Effective federal funds (interest) rate	Average rate, Q3	1.2%	1.9%	↘
	S&P 500 Index	YOY change, Sept–Sept	16%	16%	↔
	CBOE Volatility Index (VIX)	Average value, Q3	10.9	12.9	↘
<b>Consumer outlooks</b>	Michigan Consumer Sentiment Index	Index value, Sept	95.1	100.1	↻
	Consumer Confidence Index	Index value, Sept	120.6	138.4	↻
<b>Calendar</b>	Time for holiday purchasing	Days between Thanksgiving and Christmas	31 days	32 days	↻

↻ Higher growth than last year   ↔ Growth in line with last year   ↘ Lower growth than last year

Notes: See Exhibit 1 for retail sales definition; disposable income data chained to 2012 dollars; consumer confidence indexed to 1985; retail holiday hiring as an average across selected companies; August 2018 is projected  
Sources: US Census Bureau; Bureau of Labor Statistics; Federal Reserve; Chicago Board Options Exchange; S&P Capital IQ; Walmart annual reports; National Retail Federation; Bureau of Economic Analysis; news sources; and company websites

- **Consumer confidence remains high.** Consumer confidence, as measured by both the Consumer Confidence Index and the Michigan Consumer Sentiment Index, has reached near-record highs. The Michigan Consumer Sentiment Index hit 100.1 in September, well above the three-year average of 94.9. In partnership with Research Now SSI, we discovered that Gen Xers (born between 1964 and 1980) are significantly less optimistic about future economic conditions entering the holiday season compared with other demographics. However, consumers are generally optimistic, which we expect to translate into robust spending this holiday shopping season.
- **Modest inflation supports higher prices.** The Consumer Price Index (excluding food and energy) increased 2.2% over the last 12 months. Prices are rising across retail categories. The apparel price index, for example, has increased 1% year-to-date, following three consecutive quarters of price declines. These price increases are likely too modest to reduce purchase volume, so they should increase total retail sales.

Recently enacted tariffs on goods imported from China may further boost prices on select goods, but they are unlikely to have significant impact on holiday sales this year. Retailers ordered most of their holiday inventory before tariffs went into effect, and tariffs will remain at just 10% through December. Think of this as the equivalent of the dollar weakening by 10%. In the past, this type of shift has had little effect on holiday sales. For example, the value of the dollar fell nearly 10% between December 2016 and September 2017. Despite that drop, holiday sales in 2017 grew 5.3%. That said, tariffs may contribute to slower sales growth in 2019 and create uncertainty around both inventory turns and profitability.

- **Consumers have ample time to shop.** This year Thanksgiving falls on the earliest date possible, November 22, leaving a full 32 days to shop before Christmas. By comparison, next year there will be only 26 days between Thanksgiving and Christmas.

Our optimism is tempered by two factors that raise caution heading into 2019:

- **Rising interest rates may impede discretionary spending.** The Federal Reserve has raised interest rates three times this year, and many suspect an additional hike is coming in December. Rising interest rates raise variable debt payments, including payments on adjustable-rate mortgages and credit card debt, leaving consumers with less money for discretionary purchases. Spending financed by rising levels of credit card debt has contributed to retail growth; however, consumers may borrow less as the cost to do so goes up. Our survey with Research Now SSI indicates that middle-income households are most sensitive to rising interest rates.
- **Stock market volatility may spook some consumers.** US stocks saw record highs earlier this year, but the first two weeks of October were tumultuous. The S&P 500 dropped 5% over the course of two days earlier this month. Although the market may bounce back, volatile swings can worry consumers. Upper-income households may pull back, concerned that the almost 10-year-old bull market may soon end.

Overall, our outlook for this holiday season is optimistic. However, we may face more challenging times next year. The surge in US fiscal support is keeping conditions positive through 2018, but will provide far less kick next year. Adding to concerns: The pool of new workers is nearly depleted given low unemployment, capital is getting more expensive, and shifting trade policies are contributing to increasing economic fragility. To prepare, retailers must begin scenario planning, thinking about the effects of a downturn and adapting their strategies for less favorable economic climates.

## On our list this holiday season

Over the next three months, we will continue tracking US sales data and broader trends that have an impact on the retail industry. We will be following several hot topics—ranging from Amazon’s foray into brick and mortar to dynamic holiday marketing.

Here’s a preview of our upcoming newsletters:

- **Issue #2 (early November):** Is Amazon “Primed” to Conquer Christmas?
- **Issue #3 (late November):** Holiday Halftime Report and Labor Insights
- **Issue #4 (mid-December):** Modern Merry Marketing
- **Issue #5 (mid-January):** Post-Holiday Recap and 2019 Outlook

Please let us know if there are other topics you’d like to learn more about by e-mailing us at [RetailHolidayNewsletter@bain.com](mailto:RetailHolidayNewsletter@bain.com). We look forward to sharing holiday headlines with you and hearing your feedback throughout the holiday season.

# APPENDIX

## Exhibit 1: Definitions of retail sales measures

	Omnichannel		Traditional in-store	
	Scope of Bain holiday forecast	Total retail sales	GAFO	GAFS
General merchandise stores	✓	✓	✓	✓
Clothing and clothing accessories stores	✓	✓	✓	✓
Furniture and home furnishings stores	✓	✓	✓	✓
Electronics and appliance stores	✓	✓	✓	✓
Sporting goods, hobby, book and music stores	✓	✓	✓	
Office supplies, stationery and gift stores*	✓	✓	✓	
Building materials and garden equipment/supplies dealers	✓	✓		
Food and beverage stores	✓	✓		
Health and personal care stores	✓	✓		
E-commerce sales in categories above	✓	✓		
Mail-order houses	✓	✓		
Auto and auto parts dealers		✓		
Gasoline stations		✓		
Food and beverage services		✓		
Other non-store retailers		✓		

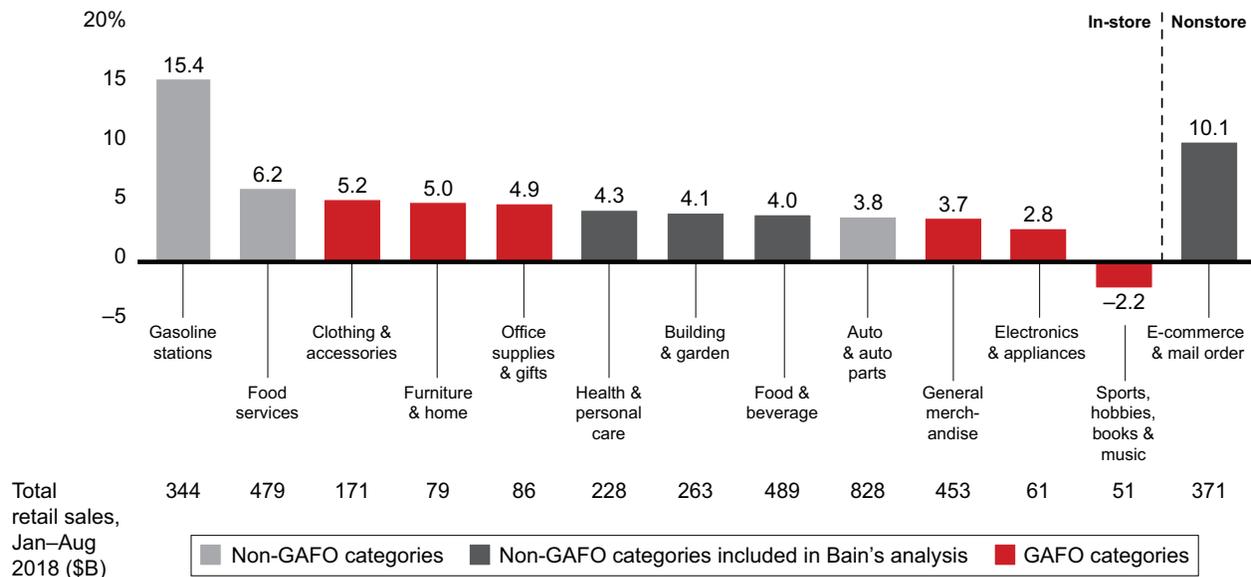
\*The US Census Bureau includes these sectors in GAFO as a subset of "miscellaneous store retailers"; all miscellaneous store retailers are included in both Bain's forecast and total retail sales

Notes: Omnichannel sales include in-store and e-commerce sales for both omnichannel and online-only retailers; traditional in-store sales do not include sales of online-only retailers or the e-commerce sales of omnichannel retailers that report their e-commerce sales to the US Census Bureau in a separate filing; GAFO=general merchandise, apparel and accessories, furniture, and other sales; GAFS=goods available for sale

Source: US Census Bureau

## Exhibit 2: Retail sales growth by category, January 2018–August 2018

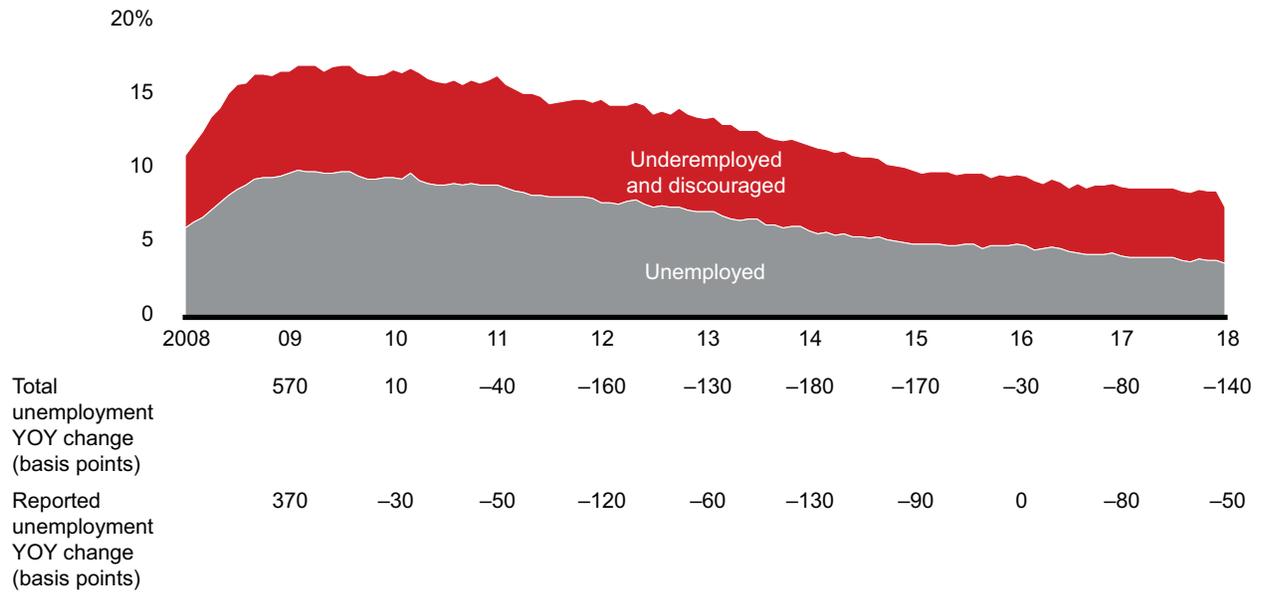
### YOY change in retail sales, Jan–Aug 2018



Notes: August 2018 sales are estimated; data not seasonally adjusted; GAFO=general merchandise, apparel and accessories, furniture, and other sales  
Source: US Census Bureau

**Exhibit 3:** Unemployment and underemployment rates, September 2008–September 2018

Unemployment and underemployment rates



Note: Chart shows seasonally adjusted rates  
Source: Bureau of Labor Statistics

**Exhibit 4:** Mortgage rates recently hit a five-year-high after climbing steadily for a year

30-year fixed-rate mortgage, weekly average



Note: Data not seasonally adjusted  
Source: Federal Reserve Bank of St. Louis

## ABOUT OUR RESEARCH PARTNERS

**Placer.ai** is an advanced foot-traffic analytics platform that generates location-specific insights, helping retailers gain a deeper understanding of audiences and competition. Headquartered in Silicon Valley, Placer.ai enables its customers to make data-driven decisions based on precise human movement analytics. To learn more about Placer.ai, visit [www.placer.ai](http://www.placer.ai).

**Research Now SSI** is a leading global provider of first-party consumer and professional data based on extensive proprietary market research panels. Research Now SSI serves more than 5,800 market research agencies, media and advertising agencies, consulting and investment firms, and healthcare and corporate customers in the Americas, Europe and Asia-Pacific. To learn more about Research Now SSI, visit [www.researchnow.com](http://www.researchnow.com) and [www.surveysampling.com](http://www.surveysampling.com).

## SELECTED REFERENCES

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