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Holiday retail sales could diverge based on consumer confidence: Deloitte

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The holiday shopping season could go in two directions. Image credit: Neiman Marcus

By SARAH RAMIREZ

Ecommerce sales will be the bright spot this holiday shopping season, as the overall health of retail sales in the United States will be dependent on consumer confidence, according to a new forecast.

Deloitte's 2020 Holiday Retail Forecast projects modest growth based on two distinct economic possibilities dependent on consumer confidence amid the coronavirus recovery. Formally, Deloitte is forecasting a year-over-year sales increase resulting in holiday sales between $1.147 and $1.152 trillion.

"COVID-19 accelerated trends that were already picking up in retail and in other industries a primary one for retail has been the growth in ecommerce," said Rod Sides, Deloitte vice chairman and U.S. retail, wholesale and distribution sector leader.

"Overall, our forecast shows that we will see between 1 percent and 1.5 percent growth," he said. "However, the status of unemployment insurance benefits, school closures/openings, vaccine availability and efficacy, and overall employment numbers will all play a role in consumer spending and, ultimately, which of our forecasted scenarios plays out."

Dual holidays?

Analysts at Deloitte see two possible scenarios unfolding during this year's holiday shopping season: modest sales increases up to 1 percent or more significant growth between 2.5 and 3.5 percent.

Even the higher estimate is lower than recent years. According to the U.S. Census Bureau, retail sales grew 4.1 percent year-over-year between November 2019 and January 2020 for a total of $1.14 trillion, falling short of Deloitte's forecast of 4.5 to 5 percent growth.

Consumers may not be in the mood for holiday shopping due to the pandemic. Image credit: Tiffany & Co.

Weak consumer confidence could lead to a slower holiday shopping season, with year-over-year sales growth between 0 and 1 percent. A variety of factors including continued school closures, a lack of an effective vaccine and increases in unemployment could discourage consumers from spending on holiday gifts.

The inverse of those factors such as falling unemployment or passage of an effective federal pandemic relief bill could inspire consumer confidence. This, along with consumers redirecting funds originally reserved for travel or other experiences, could lead to strong sales growth over the holidays.

Deloitte's forecast takes both of these scenarios into account, particularly as it becomes likelier that the U.S. economy will experience a K-shaped recovery.

A K-shaped economic recovery is uneven, with growth differing across sectors and income groups. This typically benefits those who are already wealthy, increasing income inequality.

"As evidenced by the K-shaped recovery model, consumers in the high-income category have not been as financially impacted by COVID-19 as some others," Mr. Sides said. "These individuals have not been spending as much on travel, dining and experiences as in the past, and might have more discretionary income available to spend on holiday gifts this season.

"There is a chance that luxury and premier category retailers can try to take advantage of pent up demand," he said. "Alternatively, luxury categories often sell well with in-store experiences and tourism, which are both expected to be at lower levels this year than in the past."

Ecommerce accelerates

Regardless of the uncertainty surrounding the holiday sales, ecommerce sales are expected to see dramatic growth.

Deloitte projects that ecommerce sales will grow between 25 and 35 percent during the holiday season, compared to a 14.7 percent sales increase in 2019. This would generate between $182 and $196 billion in online sales.

According to a new survey from Qubit, more than four in 10 respondents 44 percent plan to shop more online during this year's Black Friday and Cyber Monday sales compared to 2019. Only 28 percent of shoppers feel comfortable returning to stores for the holidays, and about 19 percent do not plan on resuming in-store shopping until 2021 (see story).

Ecommerce sites should be equipped to handle more than traditional online shopping, as other fulfillment options are gaining acceptance per Kibo Commerce.

Options such as buy-online-pickup-in-store (BOPIS) and buy-online-pickup-at-curbside (BOPAC) can reduce customers' exposure to coronavirus while remaining convenient. Online shipping timelines have increased during the pandemic, as delivery services face heavy volume while dealing with staffing shortages due to coronavirus and quarantines (see story).

"It will be imperative for retailers to invest in their digital capabilities and consider new ways to expand frictionless commerce," Deloitte's Mr. Sides said. "Retailers should look to innovate around contactless returns, virtual stylists, shoppable video and last mile delivery options in order to address consumers' changing needs."