



**FBIC'S
HOLIDAY 2014
OUTLOOK:
NRF & SHOP.ORG PROJECTIONS**

DEBORAH WEINSWIG
EXECUTIVE DIRECTOR-HEAD, GLOBAL RETAIL RESEARCH AND INTELLIGENCE
FUNG BUSINESS INTELLIGENCE CENTRE
DEBORAHWEINSWIG@FUNG1937.COM 646.839.7017

OCT. 10, 2014

FBIC'S **HOLIDAY 2014** OUTLOOK: NRF AND SHOP.ORG PROJECTIONS

ALERT: NRF forecasts 2014 holiday sales to increase 4.1%. Shop.org forecasts online sales to grow between 8-11%

Outlook

We may have had a rough start to 2014 that led to a lukewarm summer, but today “optimism shines” as the NRF forecasts that holiday sales in November and December (excluding autos, gas and restaurants) are expected to increase 4.1% to \$616.9 billion, higher than last year’s actual 3.1%.

Our Take

In September, FBIC projected a 3-5% increase in holiday retail numbers, which continues to be supported by several factors, including lower gas prices, improvement in the job market and the latest housing data. We expect a 13-15% increase in online sales. In addition, there could be a possible decrease in air travel, due to health scares about Ebola and enterovirus, which could leave money previously allocated for travel in consumers’ pockets.

This year’s holiday season is expected to trend warmer over last year in most regions of the US, particularly the Northeast and Central regions, according to business weather intelligence center Planalytics. The positive here is that milder temperatures can bolster foot traffic, even if there might be a slight hit to buy now wear now merchandise. Also, with an extra shopping day and potentially more money to spend, we believe that consumers may do more selving.

Last year, the environment was not as positive, as we faced a government shutdown, extremely cold and hazardous weather conditions, higher unemployment and an overall lackluster attitude toward the economy. This year, we are inclined to agree with the NRF’s optimism. And while the American shopper may be ready to spend more this year, they will certainly be discreet about who gets their dollars. Based on our previous proprietary survey, we don’t believe it is all going to the iPhone, but we do believe that consumer electronics will get more than their fair share.

Important Facts

While holiday sales have increased each year since 2008, with an average growth of 2.9%, this season will be the first time since 2011 that we expect an increase of more than 4%, thanks in part to improvement in jobs and housing data.

Key Takeaways

According to this week’s NRF Media briefing, the positive change in the holiday outlook has been influenced by an overall improvement in the US economic condition, and retailers are anticipating pent-up demand after earlier weather interruptions. Retail sales have been tracking at an average of +3.9% over the last several months, and the pace of inflation is subsiding from earlier this year. The weather this past summer was milder than expected, leading to lower utility costs and thus more spending possibility.

Price Differentiation, Value and Exclusivity Are the Keys to Success

Americans are still price-conscious as the US economic backdrop remains at the forefront of thought when making purchasing decisions. Overall, consumers are in a much better financial place this year over last year, and retailers could see this translate into higher sales. Retail winners will be distinguished by offering the right product at the right price to the right customer. Keys to success this holiday season will be price differentiation, value, and exclusivity.

Holiday Hiring

Holiday hiring has also been trending higher since 2008. This year, the NRF is expecting retailers to hire between 725,000 and 800,000 seasonal workers, which could eclipse last year's holiday hire of 768,000 (which was a 14% increase over 2012). At the top end of these projections, holiday hiring would reach its highest level in 10 years. Historically, an increase in retail hires also translates into more hires in transportation, manufacturing and fulfillment, so strong holiday hiring could have a far-reaching effect on next year's economy.

FedEx and UPS are substantially increasing their staff, and many retailers have made investments over the last few months in global and digital platforms and infrastructure to better facilitate direct interaction with the customer—such as expanding live chat options—for increased customer service and clarity in shipping deadlines.

Online Sales—Shop.org

Shop.org forecasts that online sales will grow between 8-11% this holiday, up to as much as \$105 billion. Holiday non-store sales in 2013 grew 8.6%. This isn't much of a surprise to us, as e-commerce and m-commerce are increasingly preferred shopping choices for many consumers. This compares to our estimate of growth between 13 and 15% in online sales.

About NRF, Shop.org & Planalytics

NRF's holiday sales forecast is based on an economic model using several indicators, including consumer credit, disposable personal income, and previous monthly retail sales releases. It now includes the non-store category (direct-to-consumer, kiosks and online sales).

Shop.org forecasts sales based on government data, including consumer credit, disposable personal income, and previous monthly retail sales releases.

Planalytics is a business weather intelligence center built on databases of weather's financial and volumetric impacts, proprietary modeling technologies and market-specific expertise.