TOY INDUSTRY

KEY TAKEAWAYS

1	Despite weakened consumer spending, an underwhelming film lineup and a shortened holiday shopping season, 2024 turned out to be better than expected, with a strong end to the year.
2	Opportunities for growth in 2025 include licensing, increased penetration in the "Kidult" market, product and intellectual property innovation and further expansion into value retail.
3	2025 may see sales return to positive territory, but threats remain with macroeconomic pressures, tariffs on the table, declining birth rates and the continued shift toward digital gaming.

Over the past two years, U.S. toy retail sales have been trending downward, gradually normalizing after the record highs seen in 2021 and 2022 (driven by the post-COVID demand surge). In 2023 and 2024, the industry faced tough comparisons and was impacted by weakened consumer spending, fueled by record-high inflation, dwindling consumer savings and rising credit card debt.

After a sharp decline in 2023 (8%), sales stabilized in the first half of 2024, dropping only 0.4% YOY. Early holiday results indicate that U.S. toy sales closed out the year better than expected, with sales expected to remain flat YOY. Looking ahead to 2025, we anticipate a return to low-single-digit growth, barring significant tariff-related disruptions. In 2025, we expect growth to be driven by a stronger movie slate, the expanding Kidult segment, product and intellectual property innovation and strategic opportunities in value retail. However, the industry still faces challenges, including macroeconomic pressures, demographic shifts (such as declining birth rates), the threat of digital gaming and potential import tariffs.

To navigate these headwinds, manufacturers and retailers must remain resilient in 2025, prioritizing innovation, diversifying product offerings, exploring new distribution channels and optimizing supply chains to adapt to the ever-evolving toy landscape.

U.S. TOY RETAIL SALES

- In 1H24, U.S. toy retail sales held steady, declining just 0.4% from 1H23.
- Only three of 11 categories saw sales growth, including building sets (25%), explorative and other toys (9%) and vehicles (1%).
- Three categories saw double-digit declines, including action figures & accessories (-12%), youth electronics (-11%) and arts & crafts (-10%).

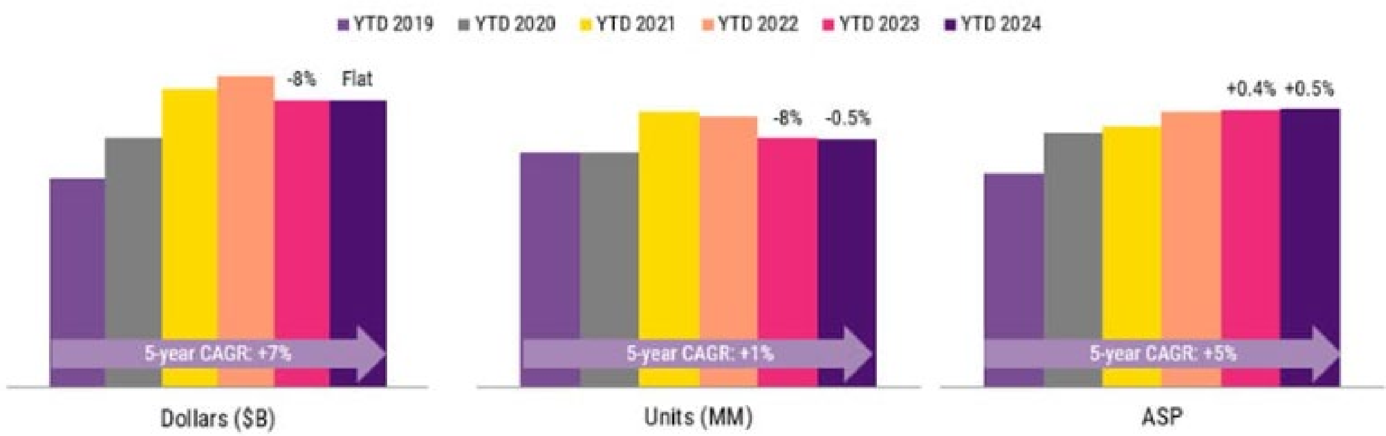
U.S. Toy Retail Sales ($ Billion)

Source: Circana; The Toy Association

Category	2021	2022	2023	% Δ '23-'22	% Δ '22-'21	% of '23 total	% Δ 1H24 vs. 1H23
Total	**$30.1**	**$30.3**	**$28.0**	**-8%**	**1%**	**100%**	**-0.4%**
Outdoor & Sports Toys	6.0	5.4	4.5	-16%	-10%	16%	-0.4%
Games/Puzzles	3.5	3.6	3.5	-2%	1%	13%	-5%
Infant/Toddler/Preschool Toys	3.8	3.7	3.4	-9%	-2%	12%	-6%
Building Sets	2.7	2.9	3.1	8%	8%	11%	25%
Dolls	3.9	3.4	2.9	-16%	-11%	10%	-9%
Plush	1.9	2.5	2.6	1%	34%	9%	-0.3%
Explorative & Other Toys	2.5	2.8	2.5	-12%	14%	9%	9%
Action Figures & Accessories	2.2	2.3	2.0	-13%	5%	7%	-12%
Vehicles	1.8	1.8	1.8	0%	0%	6%	1%
Arts & Crafts	1.3	1.3	1.2	-8%	2%	4%	-10%
Youth Electronics	0.5	0.5	0.4	-11%	-9%	1%	-11%

Based on the latest data available for YTD24 (January through September), U.S. toy retail sales remained flat YOY, as units sold decreased 0.5% and average selling price rose 0.5%. Compared with 2019, sales increased 37% (7% CAGR). By category, building sets were the only category to grow across dollars, units and average selling price, while the explorative and other toys category and the vehicles category also contributed to the growth. On the other hand, outdoor toys, dolls and action figures were down YOY. The largest declines were seen in action figures and accessories, dolls, games and puzzles and infant, toddler and preschool toys, which together accounted for 81% of the declines.

U.S. Toy Industry Sales Snapshot
YTD (January-September)



Source: Circana

U.S. RETAIL SALES

According to the U.S. Census estimates of retail sales, holiday shopping ended the year with a surge. Core retail sales* for the promotional holiday period (October 1 through December 31) rose 4.2% compared with the same period in 2023. For November alone, core retail sales rose 0.4% from October (month-over-month) and grew 4.6% from November 2023 (year-over-year), while in December, core retail sales rose 0.7% from November and grew 4.1% from December 2023. We note that the late Thanksgiving holiday pushed the Sunday after Thanksgiving and Cyber Monday into December, helping drive December retail sales (those key sales days usually fall in November). Overall, 2024's core retail sales were up 3.7% YOY.

**Core retail sales exclude the volatile categories of auto, gas, building materials and food services*

Regarding the toy industry, the chart below highlights the business segments through which toys are primarily distributed. Department stores declined 1.3% for the full year and 0.3% for the holiday period. In contrast, general merchandise stores showed sales growth of 3% for both the year and the holiday promotional period.

	Month-Over-Month		Year-Over-Year			
U.S. Census Monthly Retail Sales Adjusted	Dec.	Nov.	Dec.	Nov.	Holiday Oct. - Dec.	FY24
Retail & food services (excl. auto and gas)	0.3%	0.2%	3.3%	4.1%	3.8%	3.8%
Core Retail (excl. auto, gas, building materials and food services)	0.7%	0.4%	4.1%	4.6%	4.2%	3.7%
General merchandise stores	0.3%	0.0%	2.6%	3.4%	3.0%	2.8%
Department Stores	0.1%	-0.4%	-1.8%	1.2%	-0.3%	-1.3%

Source: U.S. Census Bureau, Advance Monthly Retail Trade Survey, January 16, 2025.

Estimates are adjusted for seasonal variation and for holiday and trading day differences, but not for price changes.

In 2025, we believe an interesting mix of growth drivers and external pressures will have a marked effect on the toy industry.

GROWTH DRIVERS

LICENSING OPPORTUNITIES

As the toy industry heads deeper into 2025, a major growth driver will be a significantly stronger movie lineup. The disruptions caused by Hollywood strikes in 2023 affected the volume and appeal of movies in 2024, impacting sales of licensed toys. Historically, the toy market has closely mirrored the strength of the movie industry, with a slate of blockbusters often boosting sales by high-single-digit percentages, while a year riddled with box office bombs generally leads to comparable declines. While manufacturers no longer rely on licensing to drive sales, movies remain a crucial catalyst, especially in markets such as the U.S. and the U.K., where licensed toys account for roughly 30% of total sales.

The following movies are confirmed to be featured in 2025's movie slate and are projected to help drive toy sales:

- 1Q25: Dog Man, Captain America: Brave New World, Snow White
- 2Q25: A Minecraft Movie, Lilo & Stitch, Elio, Thunderbolts, How to Train Your Dragon
- 3Q25: Jurassic World: Rebirth, Superman, The Smurfs Movie, The Bad Guys 2, Fantastic Four: First Steps, Gabby's Dollhouse: The Movie
- 4Q25: Tron: Ares, Wicked: For Good, Zootopia 2, Avatar: Fire & Ash, The SpongeBob Movie: Search for SquarePants

We see 2026 also shaping up to be a significant year with the release of Avengers: Doomsday, the first Avengers movie in seven years, The Mandalorian & Grogu, which would be the first Star Wars film since the end of the last trilogy, followed by a new Spider-Man sequel, Spider-Man 4. Toy Story 5, Shrek 5, Super Mario Bros. 2, Paw Patrol 3, Teenage Mutant Ninja Turtles 2 and Ice Age 6 will also be released, among others. We note that a significant portion of the upcoming film releases are sequels, which may hamper sales growth. The industry stands to benefit from more fresh, original content that captivates audiences, boosts theater attendance and creates momentum for new toy lines.

THE KIDULT MARKET

"With a passion for board games, puzzles and collections, a heavy dose of fandom and a touch of nostalgia, it seems that older kids and adults are redefining the toys market"

– Frédérique Tutt, Circana

The Kidult market has emerged as a transformative force within the toy industry in recent years. The rise of this market denotes a cultural shift that has seen toys evolve from child-centered products to broader lifestyle and hobby items. In 1Q24 alone, adults over 18 contributed $1.50 billion to U.S. toy sales, overtaking the preschool cohort for the first time in history and making them the industry's largest consumer group. Additional data indicated that over 43% of adults had purchased a toy or game for themselves in the last year. This market is also highly profitable, as non-parent adults who purchase toys for their own use or collection spend roughly three times more than the average toy shopper. Adult toy collectors were a niche audience two decades ago, but today, their preferences are helping drive toy manufacturers' and retailers' strategies. This shift is apparent in the growing number of retailers that now stock toy lines clearly targeted toward adults. Further, this segment is boosted by nostalgia's appeal, which has been the impetus for companies to bring back products and brands from the '80s and '90s. Reviving classics or marking big anniversaries attracts longtime fans while drawing in new ones. While the future growth of the Kidult market may level off in the coming years, its current significance ensures that it will remain a core focus and growth driver for manufacturers and retailers.

OFF-PRICE / DISCOUNT CHANNEL

> "Branded suppliers are becoming more strategic about product placement. Simultaneously, larger orders are driving higher production volumes, creating a continuous cycle of surplus inventory. As other closeout players shrink or disappear, we've strengthened vendor relationships and increased deal flow, further solidifying our position in the market."
>
> – Ollie's CEO John Swygert

Amid recent bankruptcy filings by Party City, Big Lots and JOANN, among others, the toy and licensing industries are exploring alternative distribution strategies. A growing focus has been placed on off-price department stores such as Ross Stores, T.J. Maxx, Burlington and Nordstrom Rack, and discount retailers such as Dollar General, Dollar Tree, Ollie's Bargain Outlet and Dollarama. Meanwhile, Walmart occupies its own category, committed to low prices while maintaining product quality. In addition to big-box retailers, off-price and dollar store chains' scale remains a significant draw for licensees. In the past, toy manufacturers often pushed off-season or excess inventory to off-price and discount retailers, but today, they are increasingly designing products specifically to meet the price points these retailers seek. The combination of growth within value retail, both domestically and internationally, and consumers increasingly prioritizing affordability has cemented this channel's place within the industry.

THE DIGITAL AGE & INTELLECTUAL PROPERTY

As digital technologies redefine how children play, the toy industry is likewise undergoing a significant transformation. With streaming platforms, interactive content and gamified experiences becoming staples in kids' lives, competition for their attention has never been more intense. Today, children spend more time on screens than watching traditional television. User-generated content platforms such as TikTok and Snapchat, alongside video games such as Roblox, Minecraft and Fortnite, are leading the charge. Augmented reality, virtual reality and hybrid digital-physical toys are also growing in popularity. In this evolving digital age, toy companies are pivoting away from traditional marketing and toward strategies emphasizing intellectual property (IP) and storytelling. Brands are becoming multi-dimensional, expanding their reach beyond toys to include movies, television, merchandise, theme parks and partner-brand collaborations. Looking ahead, the battle for dominance in storytelling and IP development is expected to intensify. Companies that embrace digital and IP innovation early and aggressively will be best positioned to succeed in this new era of play.

MARKETPLACES — BOTH AN OPPORTUNITY AND A THREAT

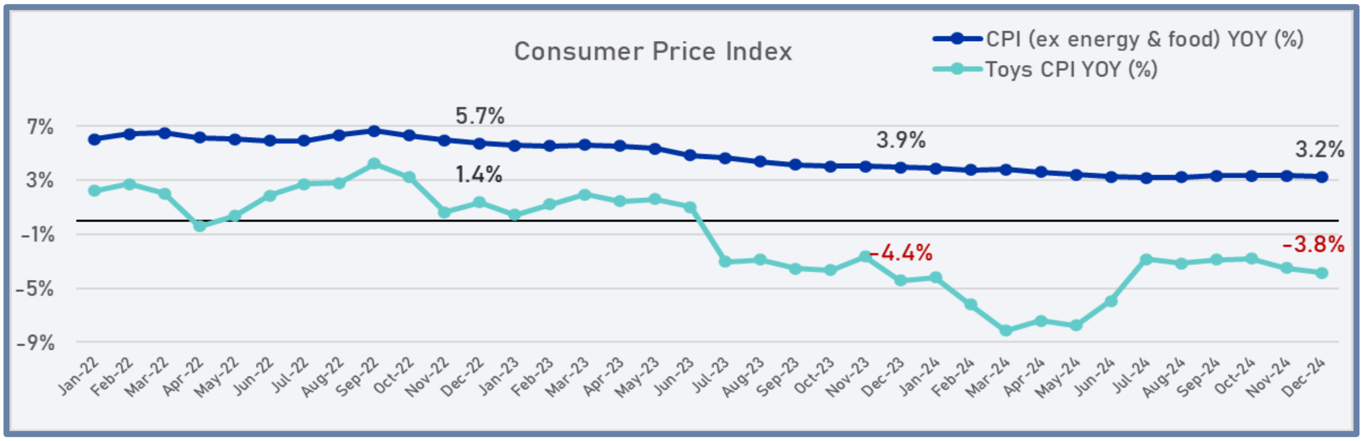
> As kids made their holiday wish lists, nine in 10 parents turned to online marketplaces to complete their toy shopping.
>
> *(According to a 2024 survey of 1,000 U.S. parents conducted by Wakefield Research)*

Shein, Temu, TikTok and Amazon all operate marketplaces that are frequently hailed as major disruptors in the retail landscape. From 2018 to 2023, third-party marketplaces' share of total U.S. e-commerce sales rose from 22% to 27% and is predicted to increase in 2024. This growth has been driven by shifting consumer behavior, influenced by the rising cost of living and the affordability of products offered on the abovementioned platforms. Most predict this sector will continue to grow rapidly, with more retailers trying to grab their share of the market. Among others, Kroger, Macy's, Nordstrom, Target, Walmart and Michael's have already entered or are exploring marketplace models, attracting shoppers with broader product selections, competitive prices and convenience. The relatively low barrier to entry offers retailers and manufacturers a strategic way to retain customers and reduce the risk of losing them to competitors.

IMPLICATIONS FOR THE U.S. TOY INDUSTRY

While easing inflation may support short-term stability in consumer spending, declining birth rates and potential trade tariffs threaten the industry's growth. Adapting to these changes will be critical for the toy industry.

CONTINUED MACROECONOMIC PRESSURES



Source: Bureau of Labor Statistics

As of December 2024, U.S. inflation stood at 2.9%, below historical averages, signaling that the inflationary cycle tied to COVID-19 is nearing its end. While economic pressures have eased compared with 2023, a significant uptick in discretionary spending remains unlikely for 2025. Instead, stabilized conditions may drive modest improvements, barring any unforeseen disruptions. In addition, after experiencing record-high inflation over the past few years, consumers have become increasingly value-conscious, almost to the point of it becoming a permanent shift in behavior, further heating up the toy industry's price war. In December, the consumer price index (CPI), excluding energy and food, rose 3.2%, while the toy industry's CPI fell 3.8%, underscoring its ongoing deflationary trend. Although lower prices may appear beneficial, deflation can dampen consumer spending as some buyers may delay purchases, anticipating further price drops.

This deflationary environment also highlights the growing influence of major players such as Amazon, Walmart, Shein and Temu, which is driving toy prices down and eroding the market share of established toy manufacturers. Persistently lower prices threaten manufacturers' and retailers' profit margins, which could undermine production and investment decisions unless compensated for by significant volume growth. As we look ahead, the implications of both inflation and deflation should not be underestimated. These dynamics will continue to shape consumer behavior, pricing strategies and the toy industry's overall health in the coming year.

TARIFFS

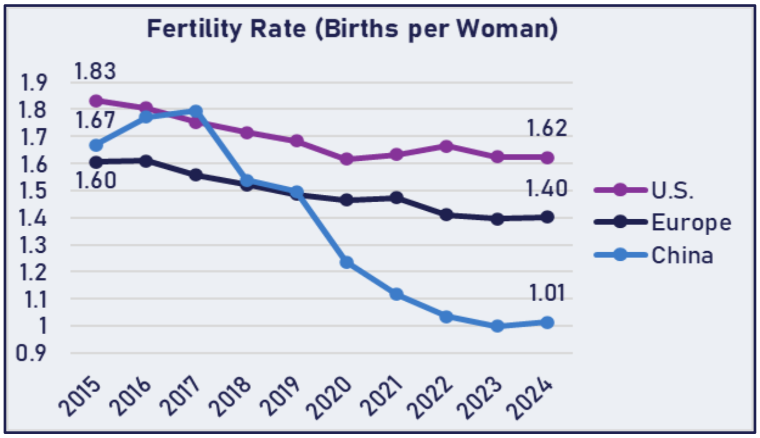
As of 2024, approximately 80% of U.S. toys are manufactured in China, placing the toy industry on high alert due to President Trump's proposed punitive tariffs on imports from China, Mexico and Canada. These tariffs, potentially as high as 60%, would present significant challenges for the industry, particularly in sourcing practices. Consumers would also face ripple effects, with higher prices on toys becoming a near certainty.

Although shifting production to other countries might seem straightforward, the reality is far more complex. China's dominance in toy manufacturing stems from unique advantages, including its unmatched capacity to produce materials that meet strict U.S. product safety standards. Toys are currently lightly taxed, so a 60% tariff would mark a dramatic shift, likely pressuring consumer spending and behavior.

Some point out that Trump has historically used threats as negotiation tactics without fully implementing severe measures. Whether or not the tariffs are enacted, the landscape of toy manufacturing is expected to evolve. In 2025, we expect to see a continued shift in production away from China and Mexico as manufacturers prioritize risk mitigation and diversifying supply chains. However, this transition will take time, meaning consumers will likely face higher prices in the near term, ultimately putting pressure on volumes sold.

DECLINING BIRTH RATES

Global births fell from 144 million in 2015 to 132 million in 2024, reducing the number of new consumers. Declining fertility rates (births per woman) in key toy markets also pose a long-term challenge. As of year-end 2024, fertility rates in major markets such as China (1.01 births per woman in 2024), Europe (1.40), and the U.S. (1.62) remain below replacement levels. This demographic shift will force the toy industry to adapt by increasing per capita toy sales to children and expanding the Kidult segment to offset the shrinking child population.



Source: United Nations

CONCLUSION

Following an 8% drop in U.S. toy sales in 2023, 2024 turned out to be a respectable year. The first half was a bit sluggish, with sales down 0.4%. For many toy manufacturers, simply ending the year flat overall became the goal, and for most, that was the best-case scenario. To regain momentum in 2025 and beyond, the sector must address key challenges, including declining birth rates, the dominance of digital entertainment and the need for more innovative products. For the last few years, the industry has been fortunate to be able to lean on strong performers and mainstay products, but fresh ideas are essential for 2025. The 2025 film lineup brings some optimism, but with too many sequels in the mix, it may not be enough to fully energize the market. While films like Wicked built on the buzz created by Barbie, what the toy industry truly craves is original content that sparks excitement and pulls consumers back into theatres and toy aisles.

Looking ahead, the U.S. economy is expected to remain stable, but the looming question is tariffs, which would significantly impact the toy industry's trajectory. While the industry isn't expecting major growth, it remains a vital segment for consumers. After all, parents, grandparents and the like will continue to spend on toys both for themselves and the children in their lives. The challenge for manufacturers is clear—success in 2025 will depend on innovative products with a wow factor, effectively managing costs and implementing risk-mitigating strategies to protect against potential tariffs.

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