30 JUNE 2022 | INDUSTRY TREND

THE IMPACT OF INFLATION ON US CONSUMERS: 2022-23

Two years of pandemic-related changes and a conflict in Europe have resulted in sustained supply chain disruptions and a higher cost of goods. What next?

Mark Miller, Director of Insights, Financial Services

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What rising prices mean for consumers and brands

Reduced disposable income

While incomes have risen, they have not kept pace with record inflation, resulting in less consumer spending power.

Selective shopping

To counter higher costs of goods and services, consumers may have to select one thing over another, choose a cheaper substitute, or forgo the purchase altogether.

More expensive debt

The strongest countermeasure to inflation is increased interest rates. But when rates go up, it becomes more lucrative to save and more expensive to borrow, further diminishing spending power.

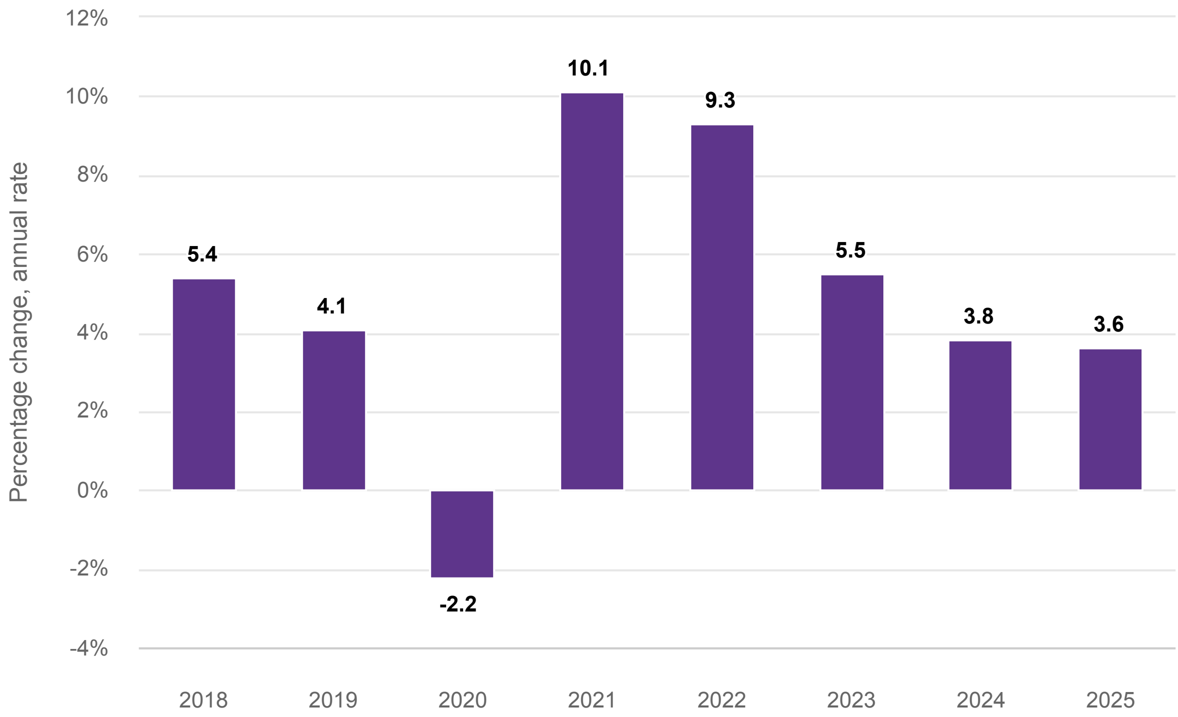
THE ECONOMIC OUTLOOK

Consumers should expect a bumpy ride over the next twelve to eighteen months. Economists are split on whether a recession will occur, but even in the best-case scenario things will be difficult for many consumers. Inflation reached a 40 year high in 2022, and the latest figure for May (8.6%) came in even higher than forecasted. Demand is still outpacing supply in many areas, and supply chain disruptions and conflict in Europe are adding even more inflationary pressure. Rising interest rates should help bring inflation under control, but it comes at the price of reduced consumer demand and more expensive debt. Not all recessions are alike, however, and consumers shouldn't expect a repeat of 2008. We are in a very different situation today, plagued by external factors rather than an internal collapse of the financial system.

GDP is still expected to grow, but the economy faces challenges

While positive growth is still expected, it will be much smaller in the coming years.

Gross Domestic Product (GDP) Baseline Forecast

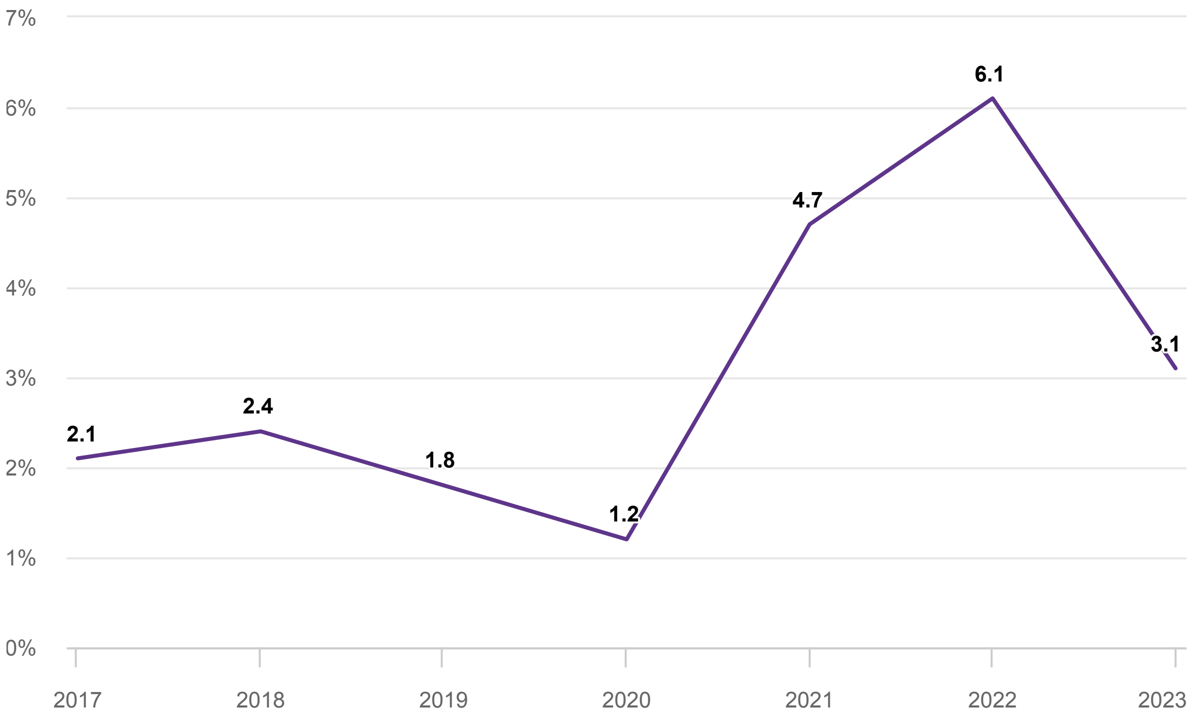


Source: *CBO - The Budget and Economic Outlook: 2022 to 2032 (May 2022)*

Inflation is expected to stay above target until at least 2023

Economists don't expect to see inflation back at the 2% target in the foreseeable future.

Consumer Price Index (CPI) Baseline Forecast



Source: *CBO - The Budget and Economic Outlook: 2022 to 2032 (May 2022)*

Making sense of economic uncertainty

Welcome to the bear market

Major indexes continued to tumble, with the S&P 500 recording its worst week since the market crash of March 2020. The ongoing Ukraine conflict, rising inflation, and rising rates will leave markets vulnerable to even more downside throughout 2022, as recession fears mount.

The conflict in Ukraine has global implications

One subject on which all economic forecasters agree is that the conflict in Ukraine means that there are high levels of uncertainty.

In economic terms, the key uncertainty is the impact on global energy prices. Further increases in energy costs would have an instant impact on consumer spending, as well as on production costs.

Stagflation: a worst-case scenario

Ideally, interest rate hikes would slow down economic growth just enough that inflation is tamed while sustaining stable levels of low unemployment.

A worst-case scenario is that after a series of aggressive rate hikes, high inflation persists while economic growth stagnates and unemployment rates rise, leading to stagflation.

Multiple threats to the post-COVID recovery...

COVID-19 cases are rising heading into summer

While COVID-19 cases are well under the peaks seen since the outbreak of Omicron, the 7-day average of new cases is trending at higher levels going into summer, with the risk of another variant emerging still a possibility. There are also concerns that new case counts are underrepresented given the prevalence of at-home tests.

Inflation is gnawing away at consumers' savings

The US personal saving rate has also dwindled as consumers run down the cash piles accumulated during the pandemic. As of April, the savings rate hit 4.4% – the lowest it has been since September 2008 and a steep decline from the 33.8% it hit in April 2020.

...and prices are rising faster than wages

Wage growth not keeping up with inflation has eroded the real value of workers' incomes, leading to weaker financial safeguards against rising prices.

Inflation and wage growth, 2019-2022

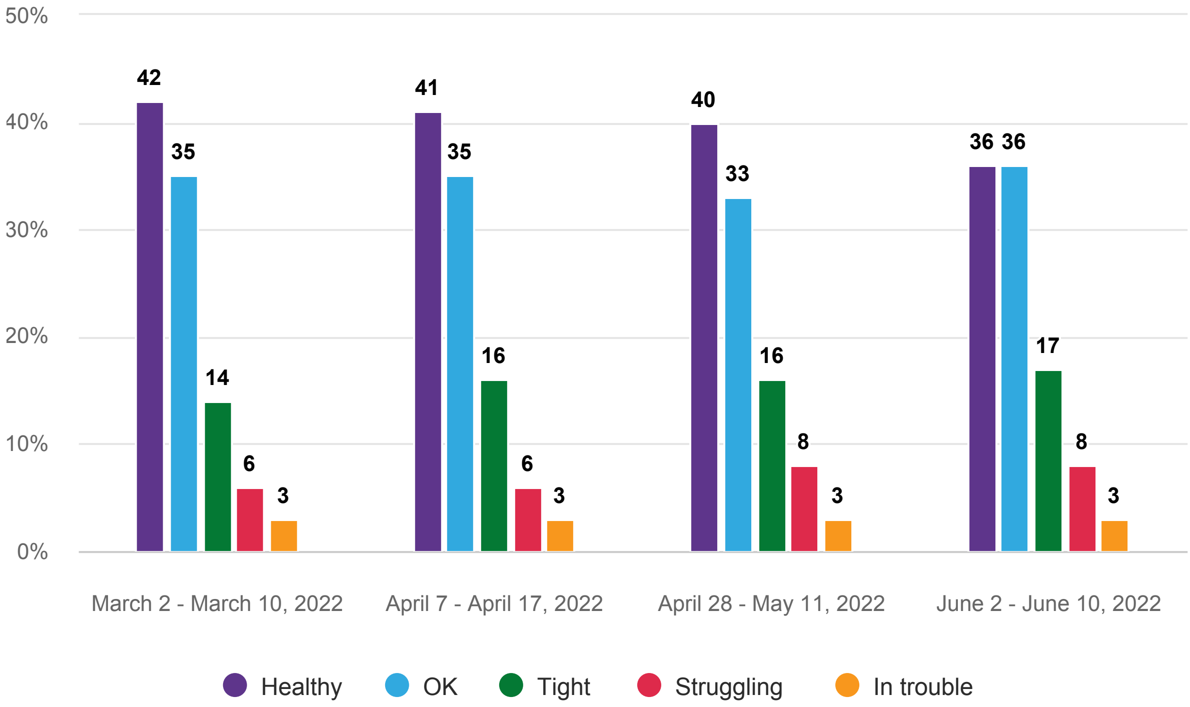
__Source:__ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average/U.S. Bureau of Labor Statistics, Average Hourly Earnings of All Employees, Total Private/ Federal Reserve Bank of St. Louis/Mintel

CONSUMER FINANCIAL WELLBEING

US consumers remain generally optimistic about their financial situations, despite 40-year high inflation and the realistic possibility of a recession in the coming months. Low unemployment and healthy balance sheets likely drive that optimism, however, cracks are beginning to emerge, with inflation and supply chain disruptions the top two concerns.

US consumers who describe their financial situation as healthy dropped by 15% from March to June

How would you generally describe your financial situation at the moment?

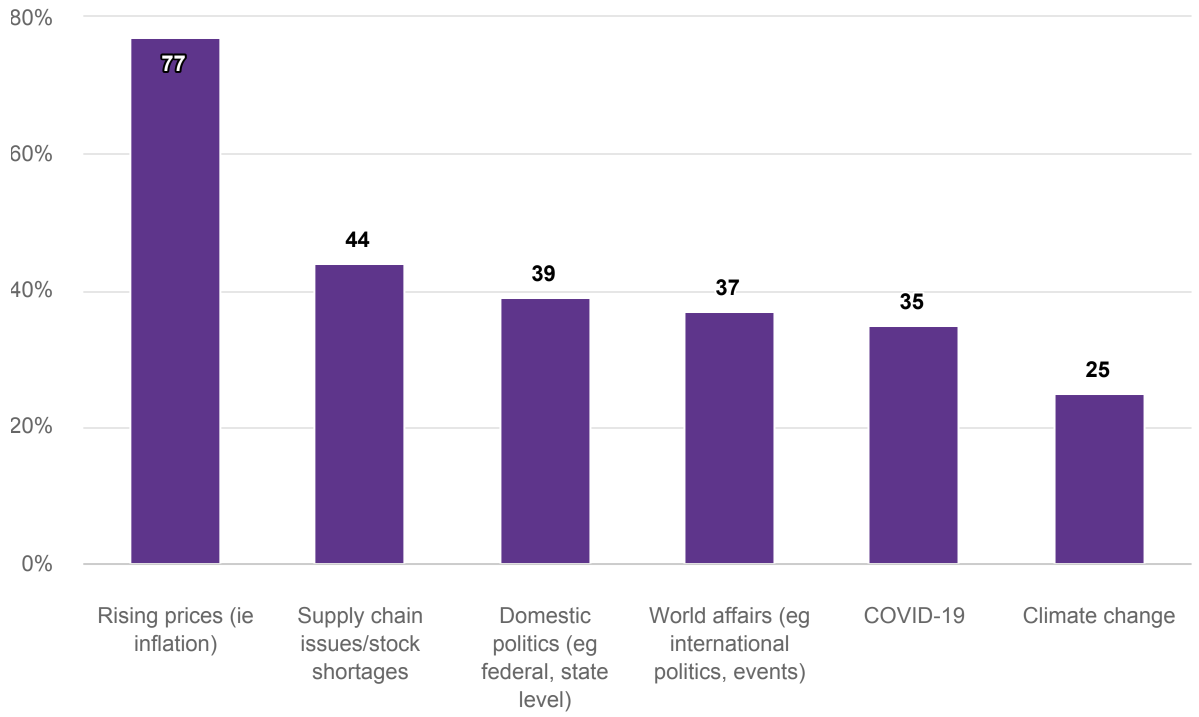


Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel*

Three out of four US consumers are concerned about inflation

In the past quarter, consumers' largest concern has been inflation. The number of consumers listing inflation grew 8.5% from April to June.

Which of the following are you most concerned about over the next 6 months? (any rank)



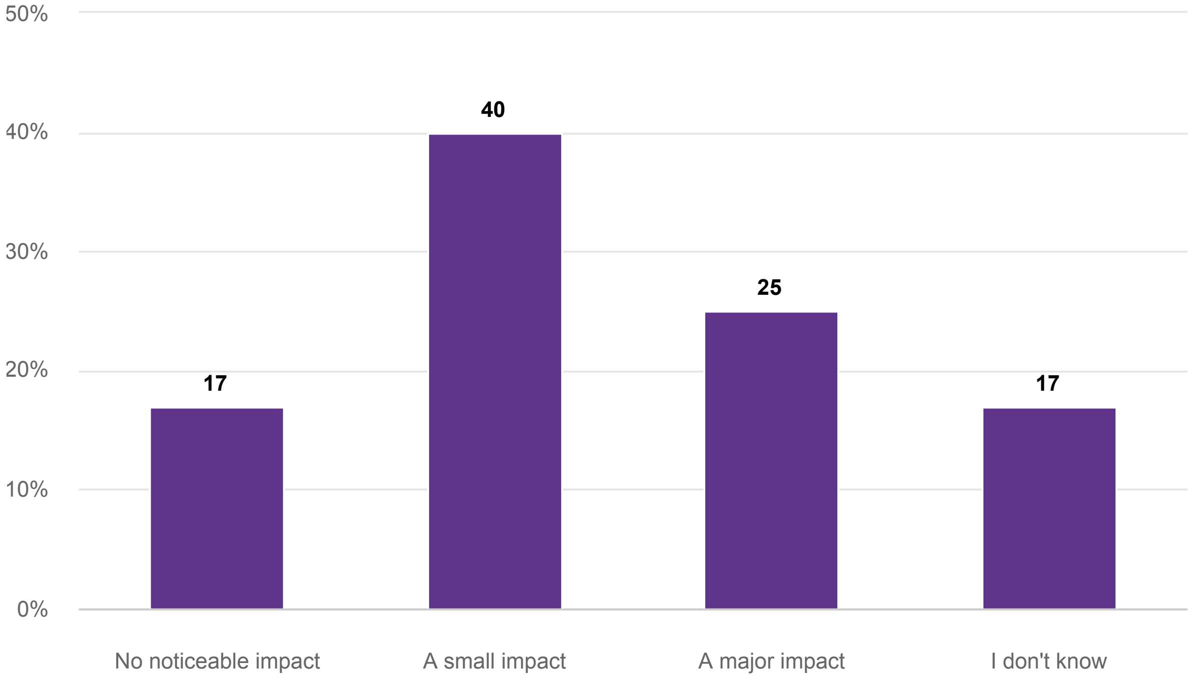
Survey fielded June 2 - June 10, 2022
Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel*

OTHER FACTORS AFFECTING CONSUMER SENTIMENT

The ongoing conflict in Ukraine has only worsened the prospects of a return to economic prosperity. Most US consumers believe that their household finances will be impacted, with the largest concerns being around food and gas prices, the latter of which has risen nationally to an average of $5 per gallon.

Three months after the start of the Ukraine conflict, two-thirds of US consumers believe their household finances will be impacted

What, if any, effect do you think that the situation in Ukraine will have on your household's finances?



Survey fielded June 2 - June 10, 2022
***Base:** 2,000 internet users aged 18+*
***Source:** Kantar Profiles/Mintel*

Over half of US consumers believe that the Ukraine conflict will result in stock shortages and higher energy and food prices

Do you think that the situation [in Ukraine] will lead to any of the following? (multiple selection)

Survey fielded June 2 - June 10, 2022
Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel*

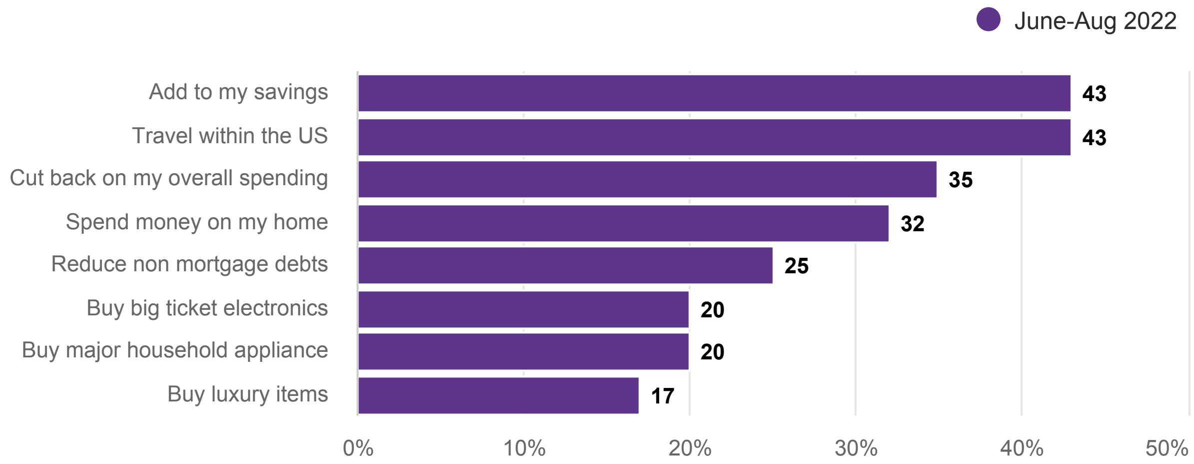
THE IMPACT ON CONSUMER BEHAVIOR

As prices continue to rise, consumers are having to make tough choices around how they spend their incomes. For most, that means tapering back on discretionary spending and stretching their dollars through cheaper alternatives.

Future Spending plans

There has been a decline in the proportion of consumers planning to add to their savings. This is natural, as rising inflation squeezes households' disposable incomes and day-to-day expenditures consume a bigger portion of their paychecks every month.

Thinking about how you manage your money, which of the following do you plan to do over the next 3 months? (multiple selection)



Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel, May 2022*

23%

of US consumers expect to change/ cancel their holiday plans due to inflation

Travel is a luxury consumers are not yet willing to eliminate

While most consumers plan to reduce spending on some discretionary expenses such as dining out, one compromise many are not willing to make pertains to is travel, especially after two years of COVID-related restrictions. Forty-three percent of consumers still plan on travelling domestically in the coming three months, although even here inflation is having an impact. 23% plan to either cancel or change their holiday plans as a result of inflation.

Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel, May 2022*

29%

of US consumers expect to shop at lower-cost retailers

Grocery shopping habits not likely to change by much

The inflation surge has been reflected in the steep increase in food prices, which rose 9.4% for the 12-months ending April 2022. Prices for meats, poultry, and fish alone have risen by nearly 14% in the past year, according to the USDA's Economic Research Service.

Despite that, just 29% of consumers said that they plan to shop more at lower-cost retailers, with another 20% expecting to switch to cheaper alternatives such as private-label products and frozen/canned food. As one might expect, these sentiments are much stronger amongst lower-earning households who are feeling the inflationary pressures the hardest.

Base: *2,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel, May 2022*

HOW BRANDS CAN SUPPORT THEIR CUSTOMERS THROUGH THE INCOME SQUEEZE

Perspectives from Mintel's experts:

- Food and Drink: John Owen, Associate Director of Food and Drink Reports
- Beauty and Personal Care: Sarah Jindal, Senior Director of BPC
- Retail: Diana Smith, Associate Director of Retail and eCommerce Reports
- Leisure and Entertainment: Fiona O'Donnell, Senior Director of Leisure and Entertainment Reports
- Financial Services: Amr Hamdi, Finance Analyst

Food and drink: consumers want food and drink savings, not cutbacks

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As financial pressures rise and consumers grow more price-conscious, price promotions represent the most direct way for food retailers and foodservice operators to demonstrate value and maintain loyalty.

— John Owen, Associate Director - Food and Retail

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Base: *1,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel, March 2022*

Versatility, convenience and value have always been important assets for food and drink brands but are essential now as prices rise and the pandemic loses its grip. But because consumers have stayed close to home for the last couple of years, they're also looking to get back out and enjoy themselves. As a result, at least for now, the foodservice industry continues to recover, especially in the value-oriented limited services space.

However, as inflation continues to take its toll on household finances, consumers will look to economize further on food and drink purchases. While no savings strategies are off the table, consumers are most likely to seek out value through bundling and deals (52%), according to Mintel's Global Food and Drink Consumer – March 2022, followed by reduced dining-out (39%), choosing store brands (36%), store switching (31%) and brand changes (17%).

Beauty and personal care: financial shifts begin to impact both brands and the consumer

With growth in the beauty categories shifting to online in recent years, shoppers have become more savvy at comparing prices and shopping around (35% of US BPC consumers say they compare prices at different retailers per Mintel's Global Consumer, March 2022). Platforms like Amazon have become the retailer of choice for the majority of consumers that feel comfortable shopping online. This creates unique challenges for physical retail in both the mass and prestige sectors.

Product assortment, pricing variability and multi-use products can provide some breathing room for consumers concerned about their financial future. Product purchase justification becomes even more critical, offering clear points of differentiation and focusing on value from the perspective of convenience and functionality can help set a product apart and help consumers feel more comfortable spending their dollars.

Base: *1,000 internet users aged 18+*
Source: *Kantar Profiles/Mintel, March 2022*

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A value-driven mindset can put additional pressure on an already competitive BPC landscape. Loyalty in the space will be tested as various brands and retailers simultaneously increase and decrease prices, potentially driving both experimentation and trading-down behaviors.

— *Sarah Jindal, Senior Director of BPC*

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Retail: show consumers that you've "got their back" as they navigate through upcoming busy shopping time periods

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A consumer will tend to be more loyal to a retailer who they think is honest and ethical, and takes a collaborative approach to navigating through inflationary, pandemic and other macroeconomic strife together.

— Diana Smith, Associate Director of Retail and eCommerce Reports

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With the two biggest retail time periods of the year ahead – back-to-school and winter holiday shopping – retailers and brands have ample opportunity to step in and help disgruntled shoppers manage their finances and accomplish their shopping tasks, even as inflation and economic uncertainty remain an area of concern for retailers as well as consumers.

Flexible payment options such as buy now, pay later services will offer budget management assistance, while big sales and promotions will be critical to deliver savings and value at a time when it is most needed.

Of upmost importance for retailers is to maintain transparency with customers. If prices are going up, don't hide it – explain it – and then look for other ways including nonmonetary tactics to offer alternative forms of value (eg free shipping, free tailoring or gift wrapping, etc).

Leisure and entertainment: offer justifiable escape, payment flexibility

L&E budgets are typically noted as among the first areas cut when consumers need to economize. However, the past two years of postponing plans and playing wait-and-see has elevated the value that consumers place on an escape from the ordinary. Record inflation is cutting into discretionary dollars, but consumers are more apt to shave their budget rather than totally cut spending on the things that matter.

Leisure travel and entertainment continues to bounce back as demand exceeds capacity in many ways, allowing providers to command higher prices. Vacations are a high priority, though "fixed" costs of airfare and filling gas tanks will have consumers looking to save along the way. Third-party and discount sites will likely see more traffic as consumers invest more time and effort into researching for savings.

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Consumers' price tolerance increases as intense desire helps them to justify spending. However, they will put more effort into researching deals. Providers need to be transparent in their pricing and fee structures to prevent budget-conscious consumers from abandoning a booking or entertainment ticket purchase.

— Fiona O'Donnell, Senior Director of US Leisure and Entertainment Reports

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Leisure and entertainment, continued

Buy now, pay later isn't just for retail

BNPL will be more attractive for travel and entertainment experiences. Ticket prices for live entertainment, including sports have soared in the last two years – and venues are often at capacity. General admission tickets for many events can cost hundreds of dollars and may be more than eager fans can comfortably afford all at once. Up-front, clearly communicated payment plans to spread the cost over a longer time-frame is of particular interest among Millennials; 76% who have used buy now, pay later financing prefer it over using credit cards.

Affordable escapism is poised to do well

Spending on streaming and digital at-home entertainment is expected to grow in 2022; $50-$100/month on multiple streaming services is more than justified if families eliminate just one or two meals out per month.

Out-of-home, movie theater operators are expected to have a good summer. A spate of highly-anticipated releases along with the relatively low-cost of a movie will drive movie theater revenue. Operators should consider creative concessions promotions to appeal to consumers looking for an affordable splurge.

Base: *1,063 internet users aged 18+ who have used buy now, pay later financing*
Source: *Kantar Profiles/Mintel, December 2021*

Financial services: empowering customers' financial literacy amid the income squeeze

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Pushing messaging around financial wellness and money management tools are some effective ways to put financial knowledge in the hands of customers, helping them better manage their finances during this income squeeze and mitigating the risk of financial overextension amid rising rates and prices.

— Amr Hamdi, Finance Analyst

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Banks were instrumental in helping customers navigate the financial hardships caused by the pandemic, providing relief in the form of payment deferrals, the waiving of overdraft fees, and interest relief. Now that many are once again under financial stress, providers remain in prime position to help support their customers and build off the goodwill gained as a result of their actions in early 2020.

Pushing messaging around financial wellness and money management tools are some effective ways to put financial knowledge in the hands of customers, helping them better manage their finances during this income squeeze and mitigating the risk of financial overextension amid rising rates and prices. Proactive customer contact from providers would also add a meaningful personal touch and boost trust and loyalty - two things invaluable in any banking relationship.

Meet the expert

Mark Miller

Director of Insights, Financial Services

Mark Miller is Director of Insights for Comperemedia and Mintel Financial Services Reports. He is an expert in financial products and consumer behavior. Mark previously worked at Discover Financial Services supporting banking and lending products, and also has an extensive research background, which includes a PhD from the University of Cambridge.

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