

Rising food prices squeeze household budgets

Article



The news: The increasing cost of food was a key factor that drove prices to rise 8.6% year-over-year (YoY) in May, and 1.0% month-over-month (MoM), per the US Bureau of Labor Statistics.

- Food prices were up 10.1% YoY and 1.2% MoM.
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- **Grocery prices soared to 11.9% YoY**, the highest level since April 1979, and 1.4% MoM. May was the fifth straight month that the MoM increase was at least 1%.
- **Restaurant prices** rose 7.4% YoY, and 0.7% MoM.
- **Online grocery prices surged 11.7% YoY**, the most on record, and 1.3% MoM, **per** the Adobe Digital Price Index. That increase was an anomaly, as overall price growth for online goods in the US decelerated in May for a second straight month.

Feeling the impact: About 90% of US consumers are concerned about food prices, according to a survey conducted by The Harris Poll on behalf of Alpha Foods reported on by CNBC.

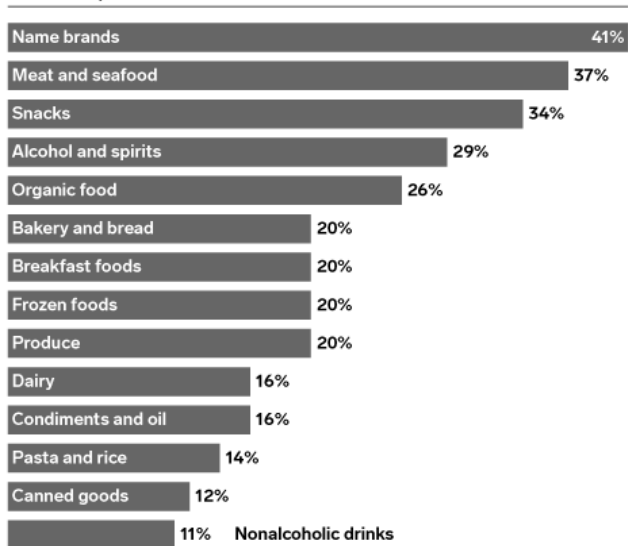
- In part that's because consumers are feeling the impact of soaring inflation and a declining stock market, as **US household wealth fell for the first time since Q1 2020**, according to the US Federal Reserve.
- The situation helped drive down **US consumer sentiment in early June to the lowest on record**, according to The University of Michigan's preliminary June sentiment index.

A shift in spending: Many US consumers have begun to change both where and how they shop for groceries, as well as what they buy.

- **45% of consumers are trading down to generic brands** and 33% are buying in bulk, according to The Harris Poll.
- **46% of shoppers are purchasing more food and groceries at stores with lower prices** and 43% are buying more items on sale, per a survey conducted by The Feedback Group.
- Those results dovetail with a May First Insight survey that found **41% of consumers are cutting back on name brands in many categories due to inflation**.

Grocery Products US Adults Are Cutting Back on Due to Inflation, by Category, April 2022

% of respondents



Source: First Insight, "The State of Consumer Spending: Inflation Impacting Consumer Confidence," May 5, 2022

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Long-term implications: One challenge for retailers and brands is that habits can be hard to break.

- Once consumers trade down to another store or a private label product, they may not return.

Why it matters: Rising food costs have a cascading array of implications.

- The more consumers spend on food (and gas), the less discretionary money they may have for other purchases.
- And, even if they continue to have discretionary money, rising food (and gas) costs have an outsized impact on shoppers' perceptions of the economy because they're necessities that they buy on a regular basis.
- That can drive down consumer sentiment, which may lead them to cut back on spending and cause economic growth to slow.

Go further: For more on inflation and other topics related to *The Era of Uncertainty*, read our report [here](#).