

Consumers spend more cautiously as they struggle to evade inflation

Article

The news: US consumer spending growth slowed down considerably in February, increasing by only 0.2% thanks mostly to higher food and energy costs, per the US

Department of Commerce.

More stats:

- Real public consumer expenditures **dropped by 0.4%**, suggesting that people aren't shopping more—they're just compensating for increased prices for goods and services.
- **Annual inflation hit 6.4% in February**, according to the Federal Reserve.
- Retail unit sales dropped in nine of the first 10 weeks of 2022, in comparison to last year's performance, per NPD Group.

At the same time: Experiential spend is beginning to tick upward, gradually returning to pre-pandemic levels.

- Consumers spent **16%** more on restaurants in 2021 than the year prior, the NPD Group found. In February 2022, consumer spending at restaurants was **up 8%** year over year.
- The travel industry is also seeing a rebound, despite higher ticket and fuel prices.
- But consumer sentiment remains at a decade low, as worries over inflation and the Russian invasion in Ukraine persist.

Discount retailers see an opportunity: Off-price retailers, like **Five Below** and **Dollar General**, are capitalizing on consumers' price consciousness to **expand their footprint** considerably.

- Five Below plans to **open up to 400 new stores** in fiscal 2022 and 2023, and up to 600 more stores in the subsequent two fiscal years, CEO **Joel Anderson** announced.
- Dollar General is on track to open 1,110 stores this year.
- Discount retailers are hoping that customers who begin shopping with them due to budget concerns will remain loyal even when prices stabilize, but they'll have to be able to engage shoppers in other ways beyond price if they want them to stay.

Behavior shifts: Unsurprisingly, lower-income consumers are already starting to adjust the products they buy. Analysts from RBC Capital Markets noted that **shoppers are beginning to trade down in the cigarette and beer categories**, although spending habits among high earners are expected to be unchanged.

- Increased food costs are also hitting certain demographics harder than others: **On average, Hispanic, Latino, and African American households spend a larger share of their income—**

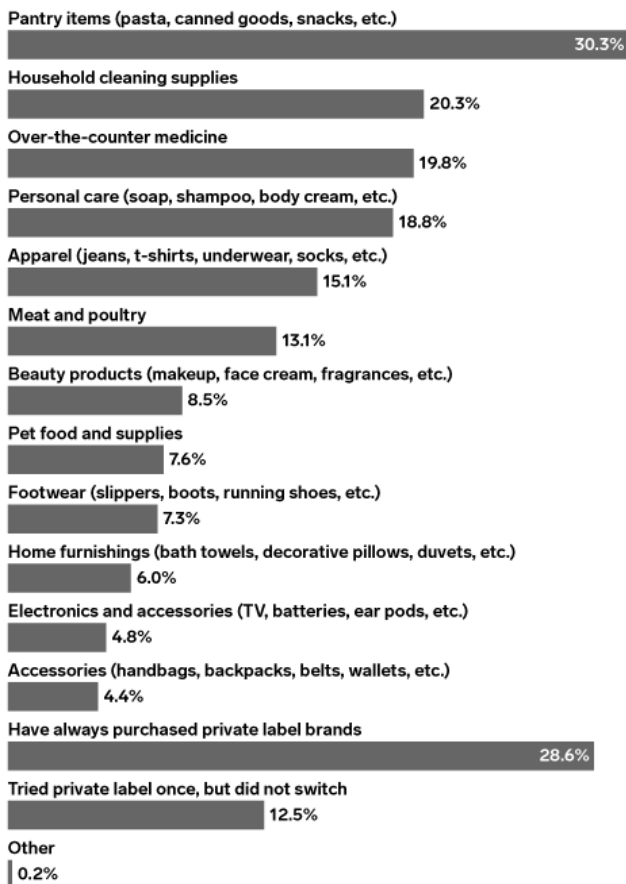
12.5%—on food than other ethnic groups, per data from Bank of America.

- With food prices 8% higher than they were in February 2021, lower-income shoppers will continue to turn to retailers that can provide the most value.

The big takeaway: Inflation is exacerbating the disparity between those who can afford to pay more for items and those who cannot. While consumers were happy to dip into their savings in 2021, economic and geopolitical uncertainty in 2022 could lead shoppers to take a more cautious approach toward spending.

Product Categories in Which US Adults Switched* from a National Brand to Regularly Purchasing a Private-Label Brand, Jan 2022

% of respondents



Note: n=969; *in the past 6 months
Source: Insider Intelligence, "Private Label Flash Survey" conducted by Bizrate Insights, March 1, 2022

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