

A hotter-than-expected inflation report is good news for discount grocers Aldi and Lidl

Article

The news: US inflation was hotter-than-expected in March, per the US Labor Department.

- The consumer price index (CPI) rose 3.5% year over year (YoY) and 0.4% month over month (MoM), ahead of the 3.4% YoY and 0.3% MoM gains that economists surveyed by Dow Jones had expected.
- Core CPI—which excludes food and energy prices—increased 3.8% YoY and 0.4% MoM, outpacing the estimates of 3.7% and 0.3%.

The rising costs of rent (up 5.7% YoY, 0.6% MoM in March), car insurance (up 22.2% YoY, 2.7% MoM), and electricity (up 5.0% YoY, 0.7% MoM) contribute to the cost pressures weighing on US consumers.

The challenge: Inflation's lingering impact makes it more likely that the US Federal Reserve will take its time before cutting interest rates—if it cuts them at all this year. **Kathy Bostjancic**, **Nationwide's** chief economist, told The New York Times she thinks rate cuts are unlikely until at least the fall.

- That means consumers looking to take out a car loan or mortgage (or refinance an existing mortgage) are unlikely to see relief anytime soon.
- Inflation pressures will also keep the inventory of homes for sale low due to the so-called “mortgage lock-in effect,” as consumers with low interest mortgages are reluctant to give them up for a significantly higher rate.

The opportunity: As the economic environment drives consumers to look for opportunities to save, groceries represent a logical place to turn because of the frequency with which they're purchased.

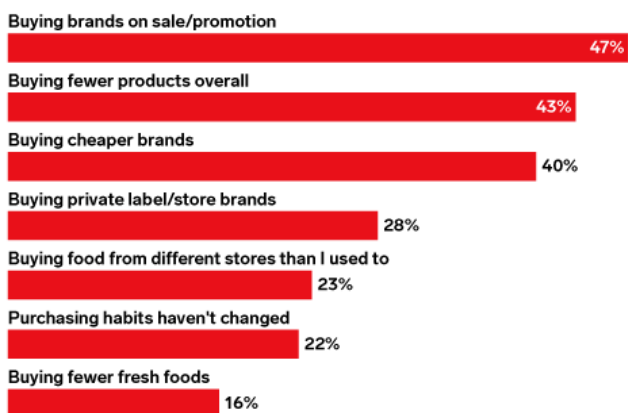
- While grocery prices have moderated—prices rose just 1.2% YoY and were flat MoM—that victory comes after a hard-fought war in which the all-food CPI rose 25.0% between 2019 and 2023.
- A third of shoppers (33%) have switched up where they shop for groceries to save money, per the [Advantage 2024 Shopper Outlook](#) consumer survey.
- Discount grocers **Aldi** and **Lidl** are among the merchants that have both benefited from increasingly value-oriented consumers. Monthly visits to Aldi were up 28.5% YoY in February, per Placer.ai, which notes some of that growth stems from the chain's aggressive expansion. Monthly visits to Lidl rose 8.6%.

- Because proximity and convenience play a key role in where consumers buy groceries, Aldi and several other value-oriented chains are rapidly expanding their physical footprints. For example, Aldi plans to open 800 stores nationwide by the end of 2028, and Dollar General expects to open 800 stores this year.

The big takeaway: Value-oriented grocers have a major opportunity to attract a broad swath of new customers. But their ability to deliver a good customer experience will dictate whether they can seize upon the moment to build long-term loyalty.

Ways in Which Inflation/Price Increases Are Impacting US Adults' Grocery Purchasing Habits, May 2023

% of respondents



Note: ages 18+

Source: Ipsos, "Consumer Tracker: Wave 76," May 26, 2023

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