

Inflation may dampen the growth of organic and sustainable products

Article



The trend: Consumers want to buy sustainable products, such as **Patagonia's** merchandise made from recycled materials and organic foods. And **they're willing to spend an additional 10% (or more) on those items, [per](#)** a survey conducted by First Insight and the Baker Retailing Center at the Wharton School of the University of Pennsylvania.

- Younger consumers are driving the trend, as 75% of Gen Z said sustainability is more important to them than brand.
- Growing interest in sustainability helped propel **US organic sales 12.4% in 2020** and another **2.3% in 2021**, [according to](#) the Organic Trade Association's Organic Industry Survey.
- It is also helping attract investors' funding. For example, recycled cotton fiber company **Recover**, which works with retailers such as **Primark, Inditex, and Lands' End**, recently announced a \$100 million funding round.

Storm clouds ahead: Sustainable and organic sales growth will likely slow as inflation leads consumers to pull back their spending and eats into their savings.

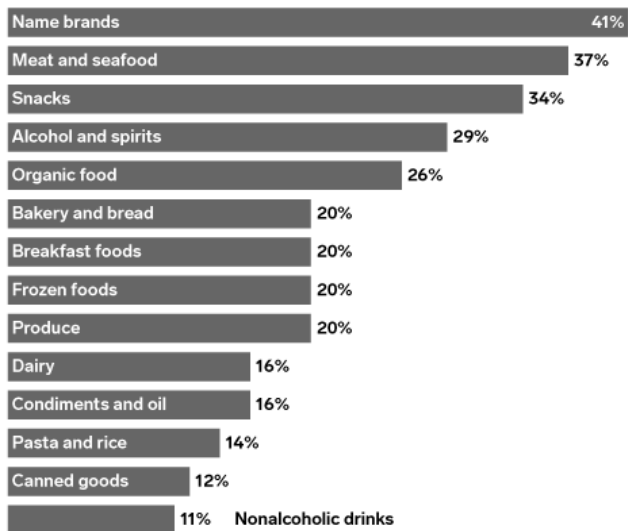
- **69% of US consumers say changes in the inflation rate have affected them negatively**, [per](#) a June Economist/YouGov poll.
- **US consumer sentiment in early June hit its lowest point on record as consumers' assessments of their personal financial situation plummeted**, [according](#) to the University of Michigan's preliminary June sentiment index.
- Meanwhile, a cascade of challenges, including the war in Ukraine, are driving up **organic and sustainable raw material costs**.
- At the same time, **consumers' desire to shop more sustainably has decreased** as they focus on value, [per](#) Morning Consult.

A shift in spending: The challenging environment is driving consumers to adjust their spending habits.

- Consumers are “actively looking for ways to save,” said **Kroger CEO Rodney McMullen** during the retailer's earnings call.
- **24% of consumers are substituting similar, less expensive foods and 12% are buying fewer organic items and products** to cut costs, [per](#) a survey conducted by The Feedback Group.
- That dovetails with an April First Insight survey that found **30% of US adults are cutting back on organic/premium foods due to rising costs**.

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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The big takeaway: Younger consumers with newfound spending power are pushing retailers and brands to implement more sustainable practices and sell more items that are sustainably and organically produced.

- But the longer inflation rages on, their ability and desire to spend more on sustainable and organic items will be tested as they have less savings and disposable income to fall back on. That will lead many to trade down to traditional products.

Go further: For more on *The Era of Uncertainty*, read our report [here](#).