

Sky-high US inflation is giving consumers pause before buying

Article

The news: US inflation accelerated in June, and rising prices continue to force consumers to make hard choices about what they buy and when they buy it.

- The Consumer Price Index accelerated 1.3% month-over-month (MoM) in June and 9.1% year-over-year (YoY), the largest gain since the end of 1981, [per](#) the US Labor Department.

A tough environment: Inflation was broad-based with prices rising across nearly every area of the economy. For example, **grocery prices rose 1.0% MoM**, **restaurant prices grew 1.0%**, and **apparel prices increased 0.8%**.

- **Core CPI, which strips out the volatile food and energy components, rose 0.7% MoM, and 5.9% YoY.**
- Consumers' spending power is declining as **real average hourly earnings for all employees decreased 1.0% MoM in June**, and **3.6% YoY**, [per](#) the Labor Department.
- **The situation is causing consumers to pull back on some discretionary purchases.** For example, US chocolate retail sales volumes are down 2% to 3% over the last couple of months as prices have risen in the "high single-digit, low double-digit" percentage range, according to Reuters.
- Similarly **48% of consumers are cutting back on dining out**, and 31% are spending less on entertainment and recreation, [according](#) to a May First Insight survey.

Impact of Inflation on US Adults, by Category, April 2022

% of respondents in each group

	Spending priority	Cutting back
Groceries	56%	33%
Gas	43%	32%
Rent/mortgage	29%	6%
Healthcare	18%	9%
Household goods	16%	21%
Vehicle prices	13%	18%
Education	13%	11%
Dining out	12%	48%
Childcare	12%	10%
Apparel, footwear & accessories	11%	31%
Entertainment and recreation	10%	32%
Home decor and furniture	8%	21%
Travels/hotels/flights/vacations	7%	23%
Gym memberships	7%	12%

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

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A pullback in spending: US consumers spent \$74.1 billion online in June, a 6.0% MoM decline (and a 1% YoY gain), per Adobe.

- That dovetails with Barclays' internal credit-card numbers, which suggest **retail sales fell 0.4% last month**, according to Bloomberg. While **Bank of America's card data saw a 0.3% gain in**

spending per household, that was mainly due to high gasoline prices, which forced consumers to curb other spending.

- **Inflation affected 84% of Prime Day shoppers' actions**, [per](#) Numerator. Thirty-three percent waited for the sales event to purchase a specific item at a discounted price, while 27% passed on a good deal that wasn't a necessity. Inflation also drove 21% of individuals to comparison-shop on other websites before purchasing.

Not everyone feels the pain: Despite rising prices, higher income and younger consumers continue to spend on luxury. That trend is helping [luxury sales](#) continue to soar.

- **76% of consumers with an income of \$200,000 or more plan to purchase the same or even more luxury items in the next three months than they did in the past three months**, [per](#) the Saks Luxury Pulse survey of luxury shoppers.
- Notably, more Generation X (21%) and millennial and Generation Z (22%) respondents plan to purchase more luxury items in the next three months than those in the baby boomer and silent generations (16%).

The big takeaway: Inflation continues to eat away at most consumers' spending power, which is forcing them to prioritize what, where, and when they spend. That's one reason that we [expect back-to-school sales](#) to rise just 0.7% this year, and the thriftiness could affect the holiday season as well.

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