

Food inflation takes its toll on US consumers

Article

The news: Despite slowing inflation and falling gas prices in August, US shoppers felt little relief as higher food bills forced many to recalibrate their spending patterns.

- **The CPI was 8.3% higher year-over-year (YoY) in August, per the Bureau of Labor Statistics**—down slightly from July but staying close to a four-decade high.
- **Food-at-home prices continued to soar, rising 0.7% month-over-month (MoM) and 13.5% YoY.**

No cost savings for the weary: Online prices rose 2.1% MoM in August, per Adobe, reversing last month's decline breaking a 25-month streak of price increases.

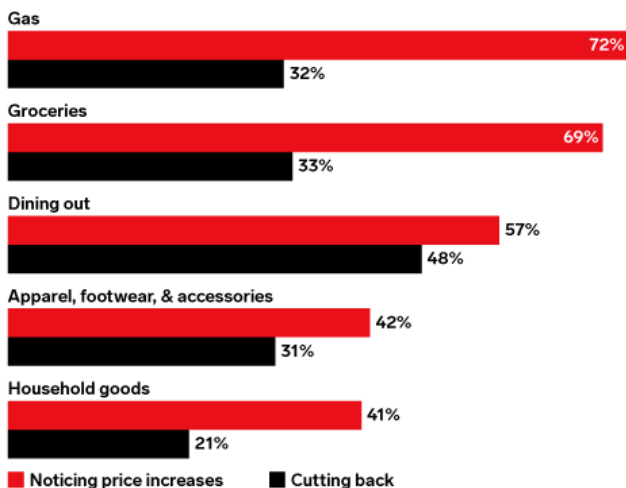
- Two-thirds of the categories tracked by Adobe reported higher prices—but as with the CPI, **grocery inflation vastly outpaced other sectors with 14.1% YoY price growth.**
- The absence of a Prime-like sales event in August likely discouraged many from spending, while back-to-school sales were constrained by budget concerns as well as higher levels of discounting.

Households feel the strain: Compounding the difficulty for consumers is the fact that real wages aren't rising fast enough to compensate for higher costs of living.

- **While real average hourly earnings rose 0.2% MoM, they're still down 2.8% YoY**—putting acute pressure on workers grappling with higher shelter and transportation costs.
- Median household income stayed flat last year compared with 2020, per an annual report by the US Census Bureau, despite the tight labor market.
- At the same time, the poverty rate fell by 1.4% in 2021 thanks to federal stimulus measures—although those gains could easily be erased by persistent inflation.

US Adults Who Have Noticed the Impact of Inflation vs. Are Adjusting Their Spending in Response, April 2022

% of respondents



Note: ages 18+

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

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Some retailers thrive...: For some businesses (like grocers and certain discount retailers), higher food costs are an opportunity to win a greater share of wallet and boost foot traffic from deal-seeking shoppers.

- **Kroger** raised its annual forecast as it benefited from more consumers opting for private label brands and eating in, per its Q2 earnings release.
- **Albertsons** also raised its full-year outlook after comp sales grew 6.8% YoY in Q1.
- **Dollar General** and **Dollar Tree** each reported quarterly sales gains in Q2 as shoppers purchased more consumables and other need-based items from discount retailers.

...while others struggle: The pullback on discretionary spending has hurt many non-luxury, non-grocery retailers, with apparel and consumer electronics businesses particularly hard-hit.

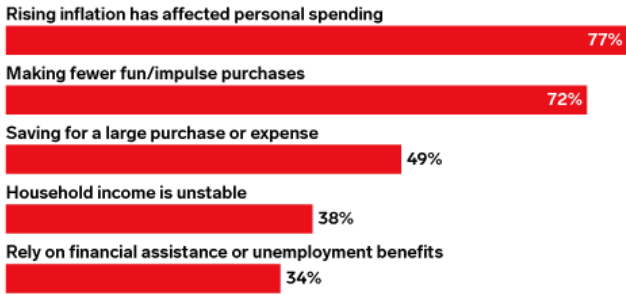
- **Rent the Runway** lowered its sales outlook and announced plans to cut almost one-quarter of its employees as more consumers canceled or paused their subscriptions, per Reuters.
- **American Eagle's** sales fell 6% YoY in the last quarter as the company resorted to more markdowns to move inventory amid sluggish demand.
- Weakening demand for consumer electronics caused **Best Buy's** sales to drop 12.8% in Q2.

The big takeaway: Despite the doom and gloom surrounding the inflation numbers, **there are signs that falling gas prices are causing consumers to feel better about the economy.**

- **Consumer confidence grew in August after a three-month decline**, while consumers' assessments of their short-term financial prospects, purchasing plans, and business conditions all improved last month, per The Washington Post.
- **Energy prices fell 5% MoM in August**, giving shoppers some breathing room and some extra funds to allocate toward rent and groceries.
- At the same time, consumers' deal-seeking behaviors will endure well into the holiday season as inflation curbs discretionary spending.

How Economic Indicators Are Influencing US Consumers, May 2022

% of respondents



Source: Jungle Scout, "Consumer Trends Report: Q2 2022," June 23, 2022

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