

Walmart says high food prices are keeping customers from spending on discretionary categories

Article

The news: Walmart Inc. said high food inflation was dragging down general merchandise sales, forcing the company to slash prices and revise down its profit outlook for Q2 and the remainder of 2022, per a company blog post.

- CEO Doug McMillon said the company expects “more pressure on general merchandise in the back half” of the year, despite encouraging preliminary back-to-school sales.

Retailers are bearish: Walmart’s announcement echoed Target’s [warning to investors](#) last month about the drag that excess inventory would have on profits.

- Target said it would **cancel orders, slash prices, and pack other unwanted goods away** to rightsize its inventory in Q2, and take a more conservative approach to discretionary categories like household goods.
- Similarly, Walmart said it increased discounts on merchandise, particularly apparel, to get rid of excess goods.
- While this strategy has enabled Walmart to stay top-of-mind with cash-strapped shoppers and win grocery market share, the loss of revenues from its more lucrative categories will weigh down margins for the rest of the year.

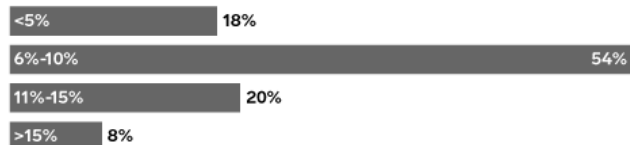
CPGs are bullish: While Walmart and Target warn of tougher times ahead, CPG companies including Unilever, The Coca-Cola Co., and PepsiCo are **raising their revenue forecasts on the back of price hikes and continued demand for their products.**

- Unilever’s Q2 sales grew 8.1% year-over-year (YoY) thanks to a 9.8% increase in pricing, although sales volume contracted by 1.6%, per the company’s earnings statement.
- PepsiCo’s [revenues grew](#) 13% YoY, although sales volume for its North American snack division—a crucial sector—declined.
- **Coca-Cola was the rare CPG company to grow both revenues and volume**, largely thanks to the recovery of its away-from-home business. Net revenues grew 12% YoY to \$11.3 billion, while consolidated unit case volume grew 8% YoY, per its Q2 earnings statement.

The value of brand affinity: CPG companies with significant brand equity in a given space—like PepsiCo and Coca-Cola have in the snack and beverage industries, and Unilever has in the ice cream and beauty categories—have more room to experiment with pricing because they know consumers have a strong affinity for their products. As the results have demonstrated, **raising prices hasn’t hurt their bottom lines—quite the opposite, in fact.**

How Much Do US CFOs Expect to Raise Their Pricing as a Result of Inflation?

% of respondents, April 2022



Note: in the coming months

Source: Grant Thornton LLP, "Q1 2022 CFO Survey," May 24, 2022

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On the other hand: The more CPGs raise prices, the more likely they are to come into conflict with retailers like Walmart that are doing as much as they can to keep prices for groceries and other necessities as low as possible.

- Some have been willing to make concessions: Manufacturers are offering more discounts at retailers' requests in a bid to prevent shoppers from trading down or switching to discount stores.
- But others, like PepsiCo and Kraft Heinz, have used their market power to drive through price increases, in some cases leading to standoffs with retail partners.

The big takeaway: Even as consumers cut back on physical goods, they're spending more on out-of-home experiences like travel and dining out. That's a good sign for Coca-Cola and Unilever, both of which have strong away-from-home businesses, but **growth will be difficult to sustain once consumers burn through the last of their pandemic savings and interest rates go up.**

Retailers face a more difficult situation. Steep discounts might temporarily spur shoppers to buy, but at the expense of profits.

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

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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