Peter Clark

# Finding retail lessons amid declining consumer sentiment

## Article

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Anxiety around inflation, a deteriorating labor market, and trade war consequences have deepened consumer uncertainty about the US economy, with wide-ranging implications for retail.

- The University of Michigan's Index of Consumer Sentiment, which has tracked consumer views toward the economy for over 75 years, charted March's sentiment at 57.0—a 12% dip from the previous month and the third consecutive month of declining confidence.

"This worsening of sentiment that we've seen over the last three months... this is across the board," explains Dr. Joanne Hsu, director of the University of Michigan's Surveys of Consumer Sentiment, on a recent episode of the "Reimagining Retail" podcast. "People have a consensus view that things are getting worse along all of these dimensions, and so that's the thing that I find most alarming right now."

Here's what this trend means for retailers and the broader economy:

**Consumer sentiment is now backed by economic reality**

Unlike previous periods of low sentiment, today's consumer pessimism is increasingly aligned with actual economic behaviors.

"Two years ago in mid-2022, we hit an all-time historic low in consumer sentiment amid peak inflation," Hsu noted. "But in spite of that, people were still willing to spend because labor markets were really strong, stock markets were roaring... Those supporting factors aren't in play right now."

The current decline reflects concerns across multiple economic dimensions. Hsu said two-thirds of consumers now expect unemployment to rise in the coming year—the worst outlook since 2009—while expectations for income growth, labor markets, and stock performance are all deteriorating.

"If you are expecting labor markets to unravel or you're not expecting your own income growth, it's hard to see how the robust spending that we saw in 2022 can necessarily be sustained today," she said.

**Higher-income consumers are losing confidence**

Historically, higher-income consumers have maintained more favorable sentiment than lower-income groups, helping sustain overall spending even during periods of general pessimism. That pattern is changing.

"We've started to see a convergence across income. This decline we've seen over the last three months, we saw some huge declines among higher income people," Hsu explained. "In terms of aggregate demand for the entire macro-economy, this is really problematic because higher income consumers generate the vast majority of aggregate consumer spending."

This shift could signal deeper trouble for retailers who have relied on affluent consumers to maintain sales volumes during previous economic uncertainties.

**What retailers should do now**

Retail experts recommend a cautious approach focused on inventory management and flexible distribution.

"All that retailers can do is act fairly conservatively here and avoid sticking their neck out by ordering too much inventory or being overly promotional where they eat into their margins," our analyst Zak Stambor said in the episode.

Our analyst Suzy Davidkhanian emphasized the importance of maintaining appropriate inventory-to-sales ratios:

"Make sure that you have a flexible delivery and distribution model so that you have pooled stock or inventory kept together in one spot," she said. "As stores sell out of their inventory, you start shipping it to those so that you really have the product where it needs to be versus having too much stuff left over in any one place."

The message for retailers is clear: the signals of economic caution are present, and the time to adjust inventory, pricing, and distribution strategies is now, not later.

"Consumers are finding it very difficult to deal with this uncertainty. It makes it really difficult to plan," Hsu said, noting that the constant changes in economic policies are weighing heavily on consumer outlook.

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