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High-earning consumers gravitate toward Walmart, LVMH as inflation continues to rise

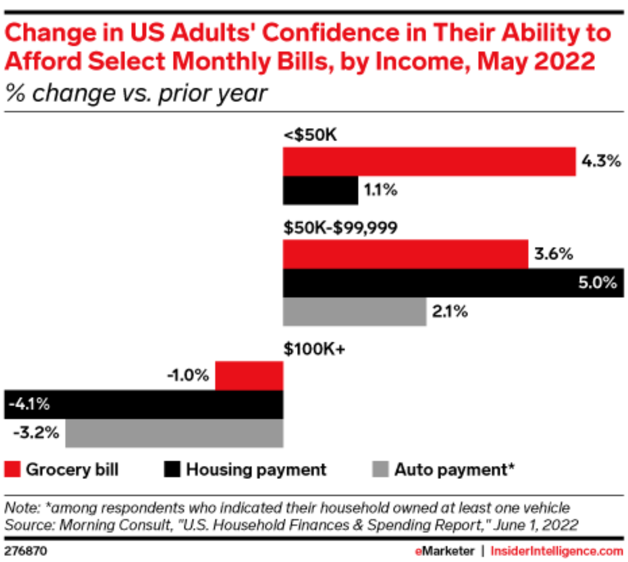
Article

The trend: Even high-income households aren't immune to inflation. As prices continue to rise, affluent consumers are shopping at retailers that can offer them the most value—like **Walmart**,

Costco, and Aldi. At the same time, while demand for luxury remains steady, a strong dollar is driving many to travel abroad for their shopping sprees.

Inflation creeps upward: The rapid increase in prices has ratcheted up the pressure on high-earning households. **Inflation accelerated in September, with the CPI rising 0.4% month-over-month and 8.2% year-over-year** (YoY), per the Bureau of Labor Statistics. The core consumer price index, which excludes food and energy, increased 6.6% YoY to reach a 40-year high.

- **Households with income over $75,000 are twice as likely to report difficulties paying their bills now compared with a year ago**, per National Retail Federation data reported by Mediapost.
- **Almost two-thirds (65%) of households earning over $100,000 are dipping into their savings to compensate for higher prices**, while one-third are taking on more credit card debt.



Value for money: Grocery inflation in particular appears to be driving changes in behavior among high earners, to the benefit of club retailers and other value-oriented grocery stores.

- Roughly 75% of Walmart's grocery share gains in Q2 came from shoppers with household incomes of $100,000 or more, per CFO **John David Rainey**.
- Higher-income shoppers are visiting Costco, BJ's Wholesale Club, and Sam's Club more often to take advantage of bulk-buying discounts and lower gas prices.

Luxury buyers splurge—abroad: Despite these cost-saving measures, luxury sales remain as strong as ever, although there are signs that the strong dollar is shifting spending from the US to Europe. This could create problems for domestic luxury retailers and brands as consumers reallocate more spending to travel and overseas shopping.

- Pre-pandemic, US shoppers paid roughly a 13% premium on luxury goods purchased in the US rather than in Europe. But that percentage is now double, per UBS data cited by The Wall Street Journal—diminishing the attraction of purchasing designer goods stateside.
- **Moët Hennessy Louis Vuitton LVMH** reported 27% YoY growth in Q3. But sales growth in the US slowed to 11%, which CFO **Jean Jacques Guiony** attributed to more Americans splurging in Europe.
- **Demand for travel to Europe is 20% higher than it was in the summer of 2019**, according to **Patrick Quayle**, **United**'s SVP of global network planning and alliances.

The big takeaway: It's clear that value-oriented retailers and luxury brands are some of the biggest beneficiaries of the current economic climate. That's created difficulties for retailers that operate in the middle band and aren't able to compete on price or prestige. This trend is unlikely to resolve anytime soon, as shoppers across the income spectrum look for ways to save money on essentials like groceries and gas.

But luxury retailers aren't out of the woods either: Sustained demand for travel and a hugely favorable exchange rate could drive more consumers abroad to shop, hurting department stores like **Macy's** and **Neiman Marcus** that rely on affluent shoppers to drive growth.

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