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# CONSUMER INFLATION SENTIMENT

JULY 2022 ■

CONSUMERS  
PULL BACK AND  
PREPARE FOR  
**THE LONG HAUL**



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# CONSUMER INFLATION SENTIMENT

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# INTRODUCTION

**I**nflation is dominating headlines right now, and for good reason. The Bureau of Labor Statistics (BLS) estimates that inflation has risen at a 12-month rate not measured since November 1981, with detailed rises across sectors that could imply that inflation has hardly peaked.<sup>1</sup> Additionally, the Fed just raised interest rates 75 basis points — the greatest hike since 1994 — in an effort to slow inflation’s rapid rise.<sup>2</sup> While the market rallied in response to this news, inflation is an adversary like none other. Relatively abstract, it manifests subtly and is a force mostly reacted to in the moment, existing primarily in the perceptions of consumers and businesses.

With this in mind, PYMNTS sought to decipher consumer sentiment around inflation and determine how exactly it is impacting their lifestyles, wallets, choices and plans. We learned that all consumers, whether affluent or living paycheck to paycheck with difficulties paying their bills, are feeling the pinch; 63% of consumers who earn under \$50,000 annually told us that they anticipate their financial situation worsening in the coming year, as did 44% of those earning over \$100,000 annually. Even among households that generally do not live paycheck to paycheck, only 18% say they have no concerns about their ability to pay their bills in the future.

<sup>1</sup> Author unknown. Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years. Bureau of Labor Statistics. 2022. <https://www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm>. Accessed July 2022.

<sup>2</sup> Winck, B. The Federal Reserve just moved to make your credit cards, mortgages, and car loans more expensive in hopes you'll spend less and help cool inflation. Insider. 2022. <https://www.businessinsider.com/federal-reserve-hikes-interest-rates-july-credit-loans-inflation-recession-2022-7>. Accessed July 2022.



Across all incomes and financial lifestyles, 70% of consumers told us they will be paring back on retail purchases to accommodate this new financial reality. Another cause for concern: Our data finds that affluent and financially healthy consumers are planning to pull back, too, portending challenges for the economy at large. Overall, consumer optimism continues to plummet to rates not seen since the Great Recession of 2008.

**Consumer Inflation Sentiment: July 2022 — Consumers Pull Back And Prepare For The Long Haul** explores the American consumer experience with decreasing affordability. In this first of a monthly series tracking consumer sentiment around inflation, we surveyed 3,783 consumers between July 1 and July 20 to better understand how consumers of various financial lifestyles and demographics are experiencing the current economic situation and reveal not only which behaviors are changing to insulate consumers from the long road ahead but also exactly how long consumers perceive that road to be.

**This is what we learned.**

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<sup>3</sup> Wallace, A. Consumer confidence slips for third straight month. CNN. 2022. <https://www.cnn.com/2022/07/26/economy/consumer-confidence-index-july/index.html>. Accessed July 2022.





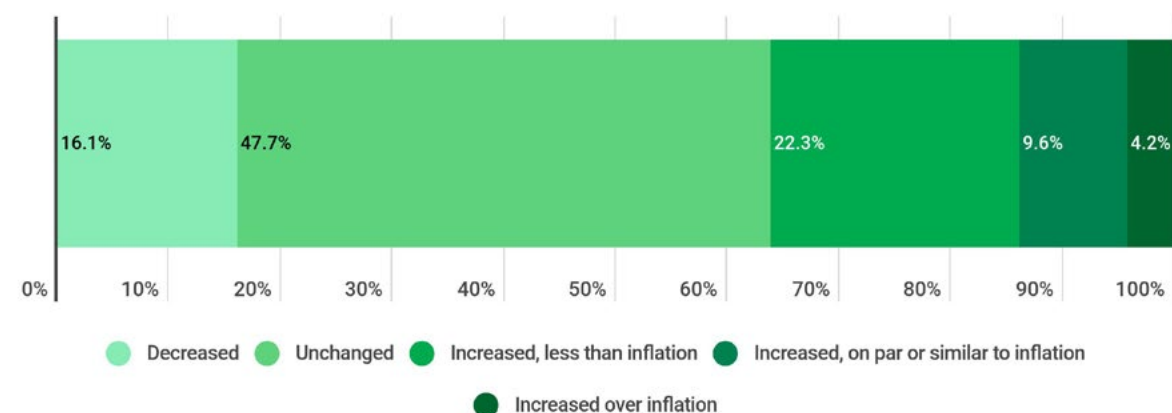
# Eighty-six percent of U.S. consumers say they lost purchasing power over the last year; 53% say their financial situation worsened.

**Inflation is wreaking havoc on all types of consumers** and is particularly hitting those living paycheck to paycheck with issues paying bills: Three-quarters of consumers surveyed say they are worse off now than they were a year ago and around half expect their finances to further deteriorate in the coming year.

PYMNTS' data finds that 86% of consumers say they lost purchasing power during the preceding 12 months. Income did not change — nominally — for 64% of respondents, and 22% earned raises that were consumed by inflationary impacts. Only 4.2% of consumers earned wage increases meaningful enough to outpace inflation.

## Income changes

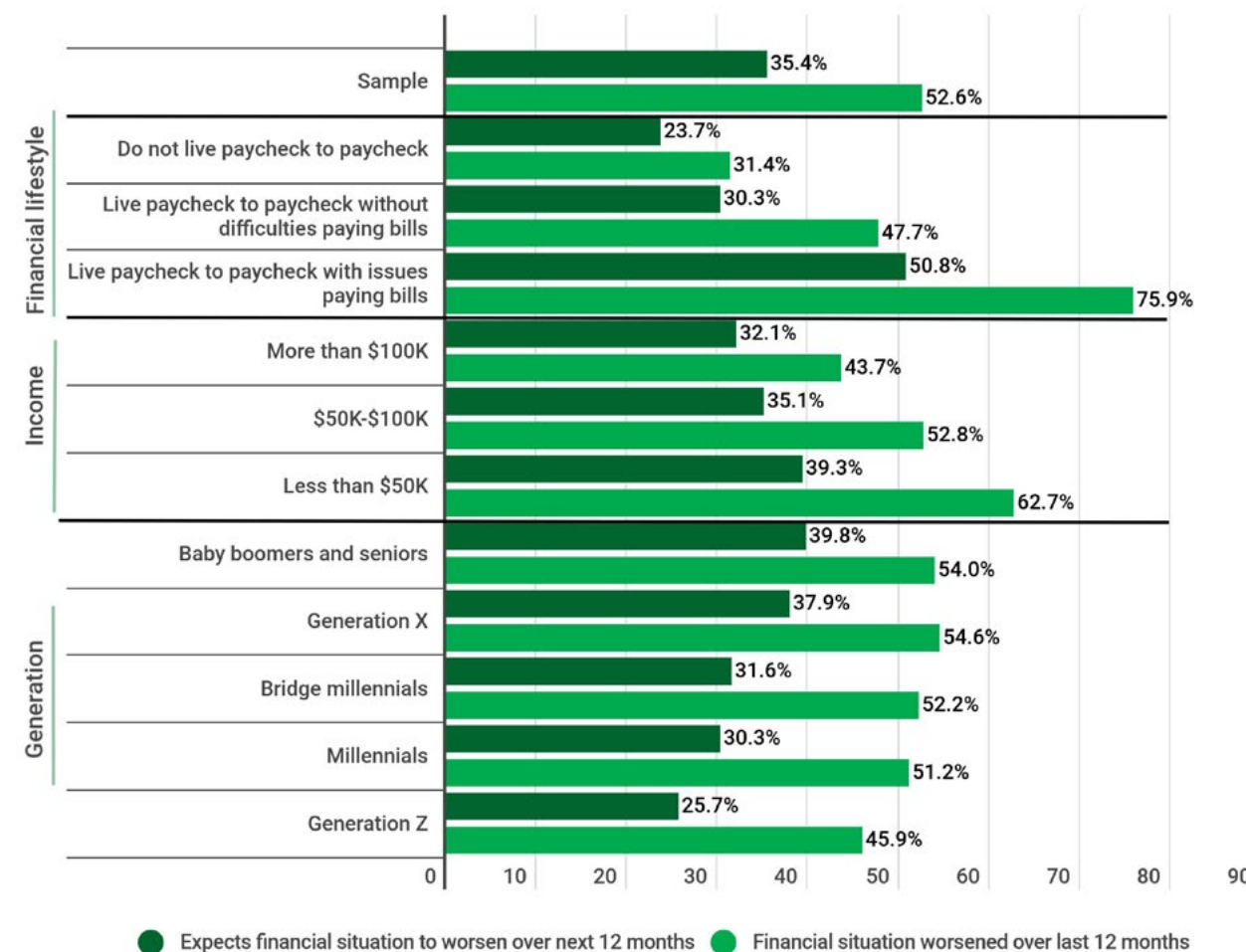
Share of consumers whose income changed in select ways over the past 12 months



Source: PYMNTS.com  
 Consumer Inflation Sentiment, July 2022  
 N = 3,783: Complete responses, fielded July 1, 2022 - July 20, 2022  
 Note: Only respondents who declared having paid for groceries, retail, travel or restaurant products/services in the last 30 days were allowed to complete the survey (91% of entrants)

## Consumers' financial situations

Share of consumers who believe their financial situations have worsened or will worsen, by demographic



Source: PYMNTS.com  
 Consumer Inflation Sentiment, July 2022  
 N = 3,783: Complete responses, fielded July 1, 2022 - July 20, 2022

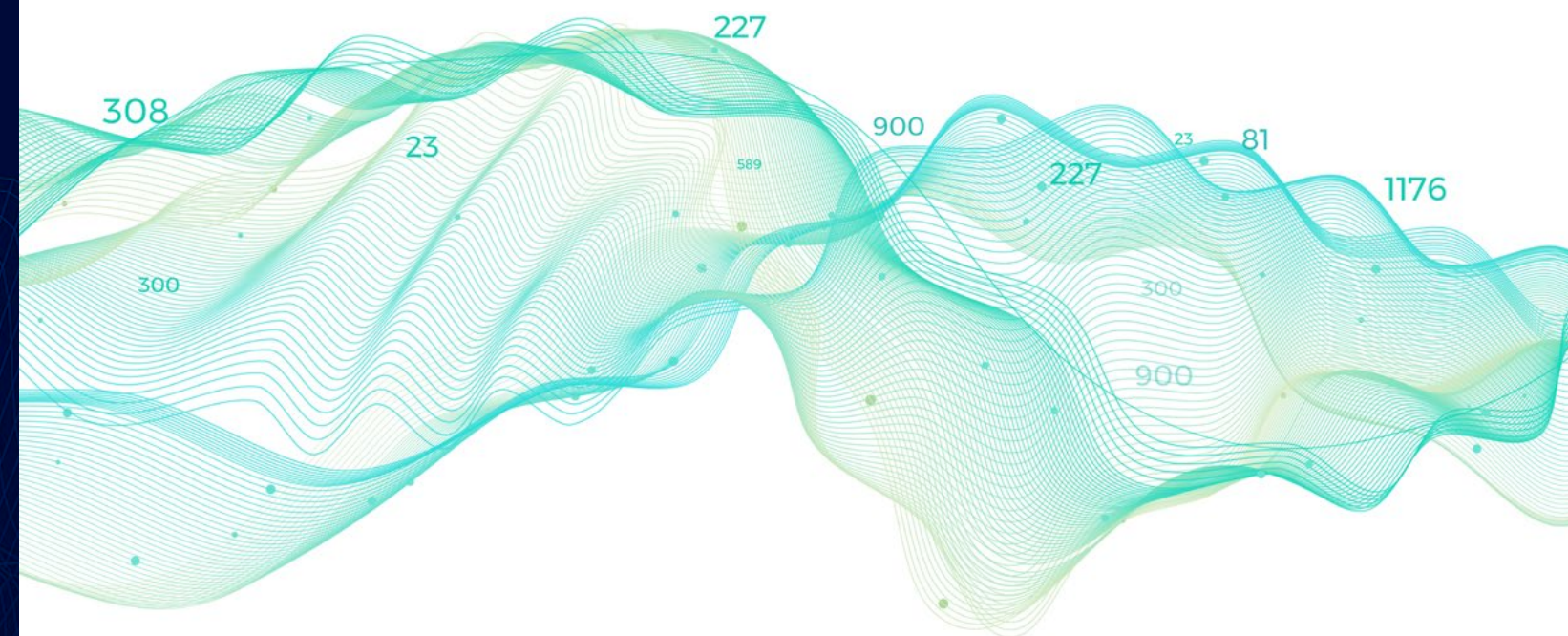
Not surprisingly, these wage developments factor into consumers' financial outlooks. PYMNTS' data finds that 53% of all consumers in our sample say they are worse off compared to July 2021. Among consumers who were already struggling — those living paycheck to paycheck with issues paying bills and those making less than \$50,000 annually — 76% and 63% found that their already precarious financial situations had worsened in the past year, respectively.

No group was fully exempt: 31% of consumers who have a healthy enough financial lifestyle to have broken the paycheck-to-paycheck cycle reported that their finances worsened over this same span. Though that share is the smallest among all demographic groups we studied, it still represents nearly one in three of those consumers.

## Only 37% of consumers say they have no worries about how to afford food and basics for their families; 49% are dipping into savings to cover everyday expenses.

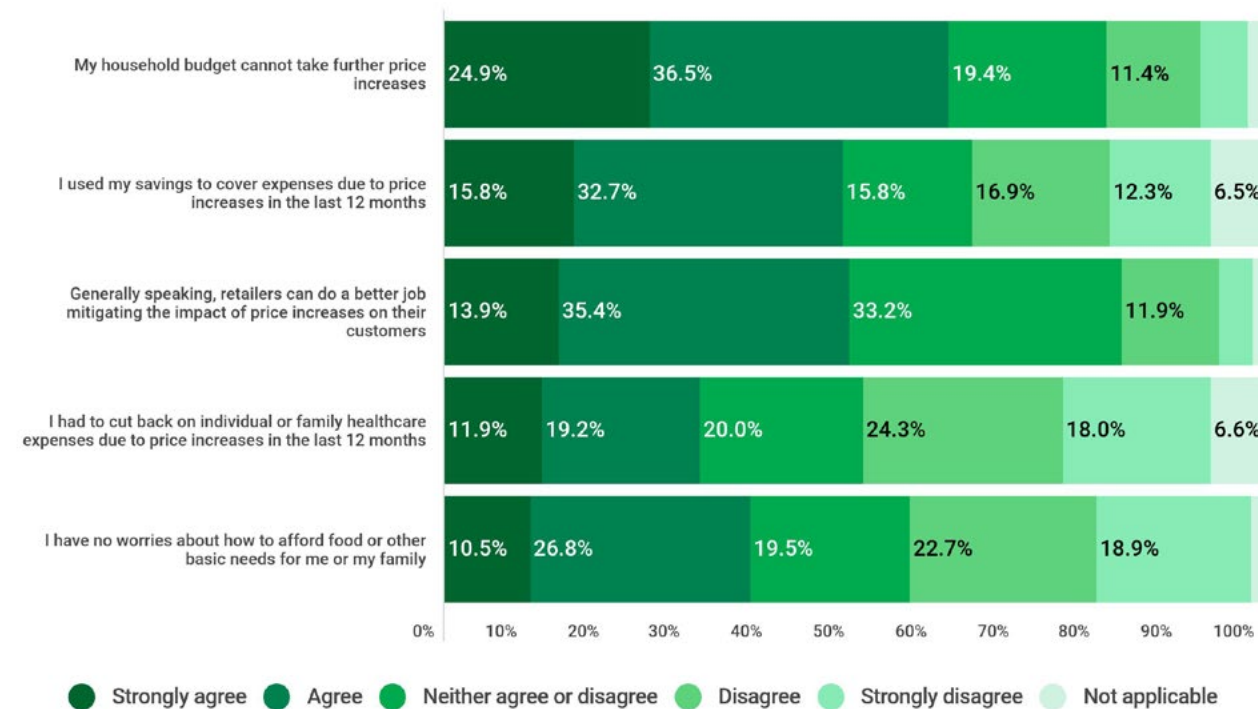
We found that **consumers are worried about the present and the future**. Only 37% of consumers agree with the sentiment: “I have no worries about how to afford food or basic needs for me and my family.” Forty-two percent actively disagree. Approximately 49% report that they are drawing down savings to compensate for rising expenses — a quick fix that often proves unsustainable. Our data also shows that although just 31% cut back on healthcare expenses due to inflation, 62% are stretched to the limit and believe that their household budget cannot take further price increases.

The American consumer outlook is not particularly positive, either: 35% of all respondents surveyed believe their finances will continue to decline over the coming 12 months, including nearly one-quarter of those not living paycheck to paycheck and a slim majority of those living paycheck to paycheck and having issues paying bills.



### Consumers' financial situations

Share of consumers who agree or disagree with select statements regarding financial health



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## Four in five affluent consumers are cutting back their spending, and retail purchases are taking the greatest hit.

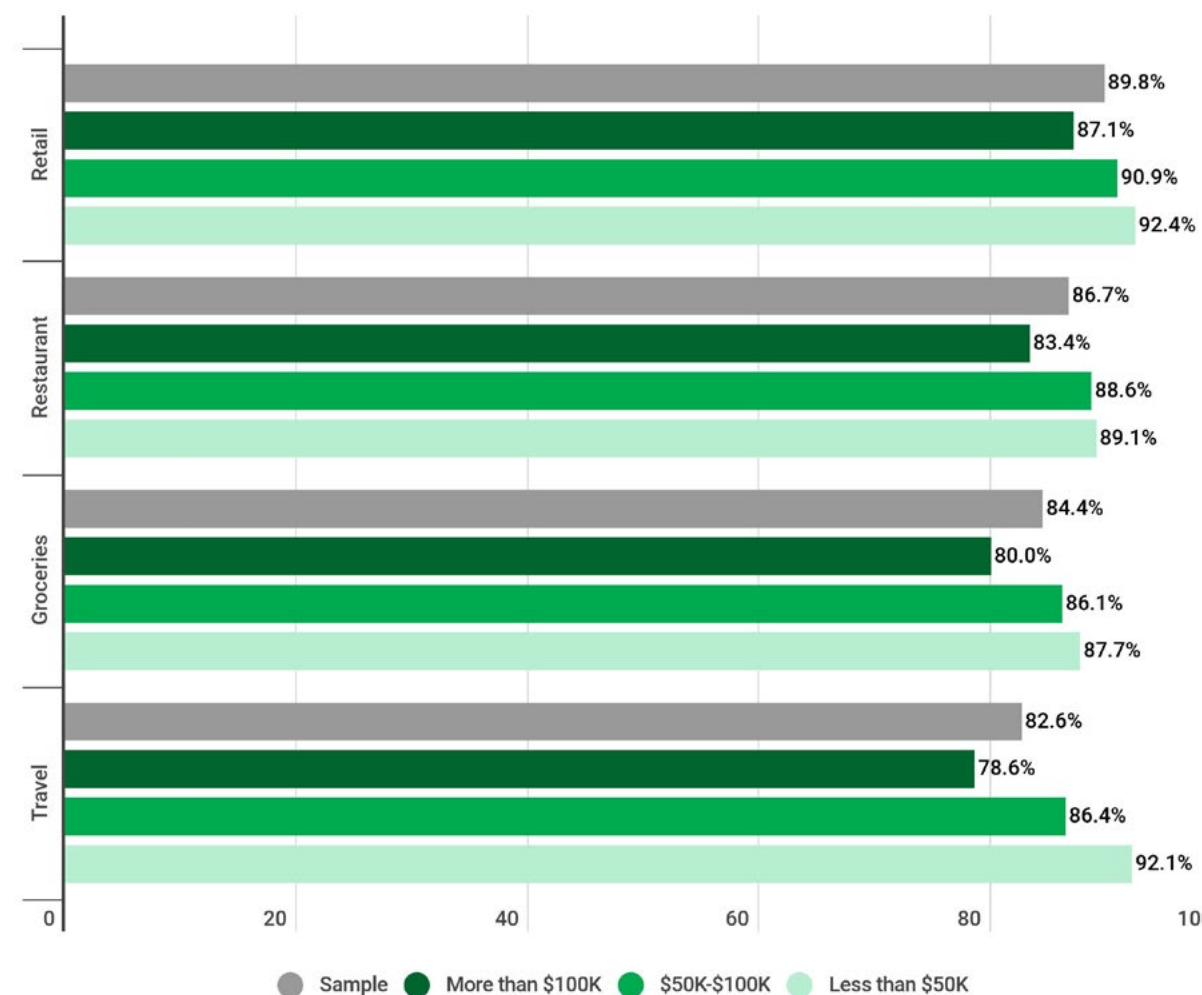
Consumers are facing difficult choices around spending, and PYMNTS' data finds that many are taking interventions such as buying fewer goods, shopping at less expensive stores, dining at home more often or staying at home rather than taking a trip.

Critically, we find that consumers in our survey's highest income bracket — those making more than \$100,000 — are facing these same choices and making these same interventions. Across expenditure categories such as retail, restaurants and dining, groceries and travel, between 80% and 90% of consumers said they have made at least one change in their spending habits to adjust to the new higher cost of living. Income level only slightly tapers these trends. For example, 90% of consumers say they have made changes to their retail buying patterns in response to rising prices, and though high-income consumers are technically less likely than those in other income brackets to have done so, 87% have needed to make at least one change to their retail buying habits. Similarly, 83% of high-income consumers are adjusting at least one consumption habit for restaurant spending, and 80% are adjusting grocery spend.

These trends matter because affluent consumers' spending often drives the economy — especially retail — and pessimism and wallet-tightening from this key demographic can foretell long-term economic pains. Retail, in particular, was the sector in which consumers in general made the greatest number of behavioral changes due to price increases: The average consumer made 2.7 changes to their spending habits in this spending category.

### Consumer adjustments to inflation

Share of consumers citing at least one change in consumption habits due to price increases in select expenditure categories, by household income.



Source: PYMNTS.com  
 Consumer Inflation Sentiment, July 2022  
 N = 3,783: Complete responses, fielded July 1, 2022 – July 20, 2022  
 Note: Percentages are based off the number of consumers who made recent purchases in each segment and noticed price increases. These shares are: 2,390 for retail, 3,336 for groceries, 561 for travel and 2,503 for restaurants.

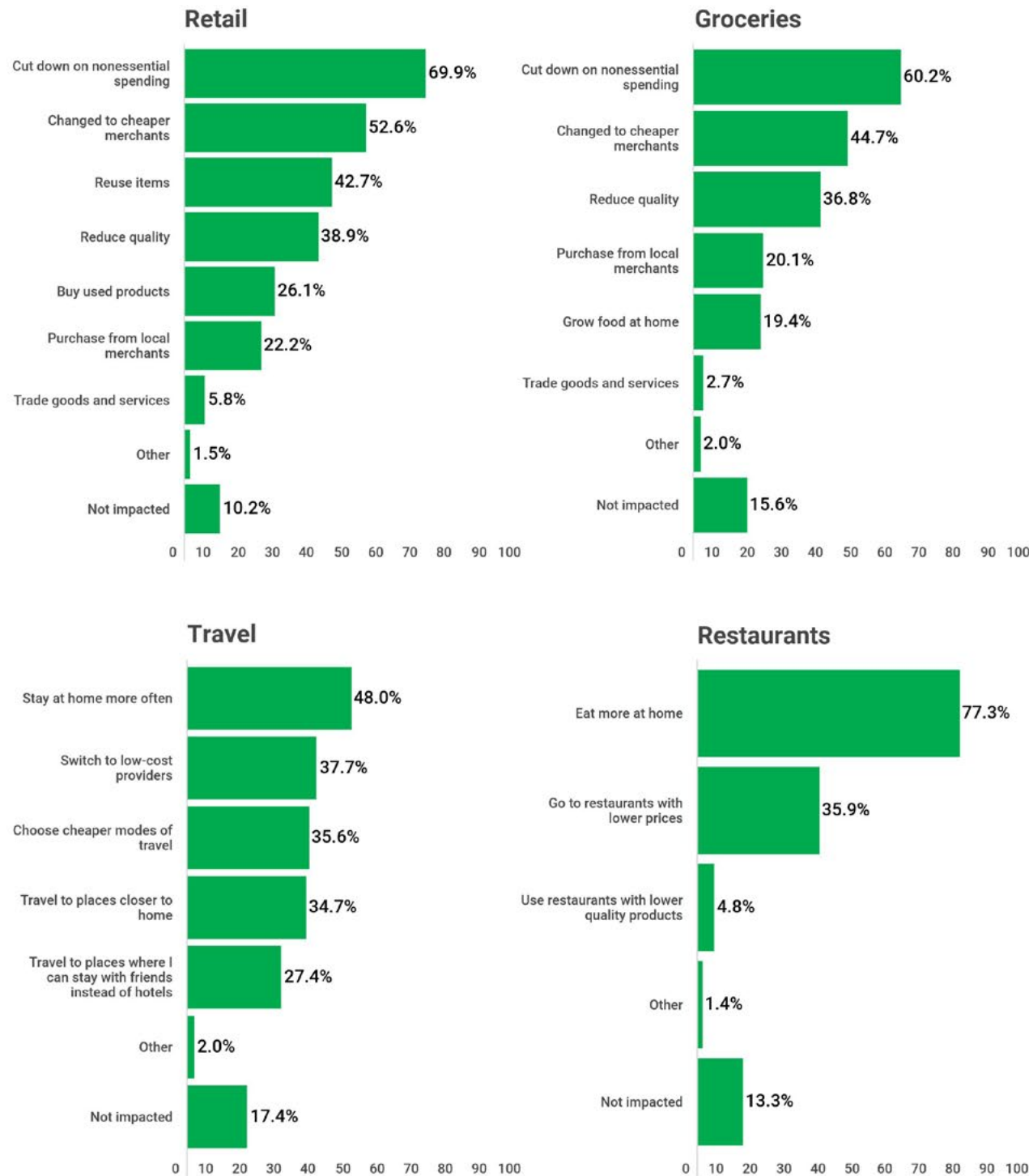
### Consumers' consumption behavioral changes due to increases in prices

5A: Share of consumers who have changed their behavior around various retail expenditures

5B: Share of consumers who have changed their behavior around various grocery expenditures

5C: Share of consumers who have changed their behavior around various travel expenditures

5D: Share of consumers who have changed their behavior around various restaurant expenditures



Source: PYMNTS.com

Consumer Inflation Sentiment, July 2022

N = 3,783: Complete responses, fielded July 1, 2022 – July 20, 2022

Note: Percentages are based off the number of consumers who made recent purchases in each segment and noticed price increases.

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What moves are consumers actually making? We found that 70% of retail shoppers cut down on “nice-to-have” yet unnecessary goods and services to protect their budgets, and 53% chose to shop at less expensive stores. Sixty percent of consumers cut down on nonessential grocery spending, and 45% changed to cheaper grocers, suggesting that consumers are generally considering retail to be more subject to pullbacks than groceries. Additionally, 77% of consumers say they have been eating at home more often to mitigate higher restaurant prices, while 48% of consumers say they are staying in more often to fight increased transportation costs and gas prices.

**Consumers believe that high levels of inflation will persist for nearly two more years.** This perceived need to defensively manage finances for that span may well drive down consumer spending for the near future.

June 2022 inflation represented a 40-year-high, and approximately 70% of consumers expect visibly higher prices for retail and grocery items over the next 12 months. Overall, BLS data indicates that consumers can expect price increases of between 5% and 15% across retail and grocery categories.<sup>4</sup> Our data finds that consumers actually expect price hikes in these categories to the tune of approximately 23%.

**Consumers believe inflation will continue at this rate for 22 months,** on average, which would mean prices would not revert to pre-2021 norms until the second quarter of 2024. Forty percent of consumers surveyed are skeptical that inflation will decrease to pre-pandemic levels in the next two years, believing instead that inflation will remain over the 2% mark for the long term.

<sup>4</sup> Author unknown. Consumer Price Index. Bureau of Labor Statistics. 2022. <https://www.bls.gov/cpi/>. Accessed July 2022.



This is not only a problem for short-term general consumer confidence but can also serve as a severe long-term difficulty for the economy. Consumers do not feel comfortable spending money until they have confidence their incomes will enable them to replace whatever they spend. The longer they believe it might take to replenish those funds, the more uncomfortable consumers feel about spending. This factor, the income effect, is likely part of what is currently driving down consumer spending.

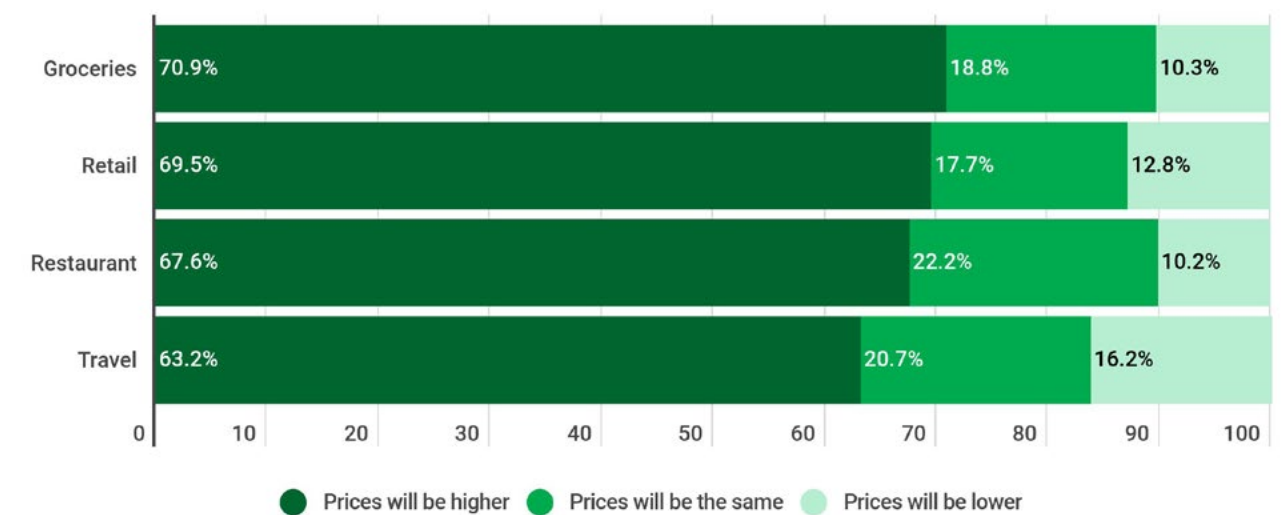
Couple that with the wealth effect, in which consumers whose assets have lost value will generally spend less — and which may already be visible among the surprisingly pessimistic forecast from those who do not live paycheck to paycheck yet who believe inflation will last longer than those who do live paycheck to paycheck — and we begin to see ripple effects that may very well turn into a prolonged undercurrent of depressed spending.

These rough forecasts also influence consumer perception of how much they spend on goods at both retail and grocery stores. PYMNTS’ data finds that consumers say they pay 20% to 30% more for retail and grocery purchases and eating in restaurants, in contrast to published BLS data reports indicating increases of 5% to 15% in those same categories. This suggests that consumers’ reality is skewed by the perception that money is in short supply.

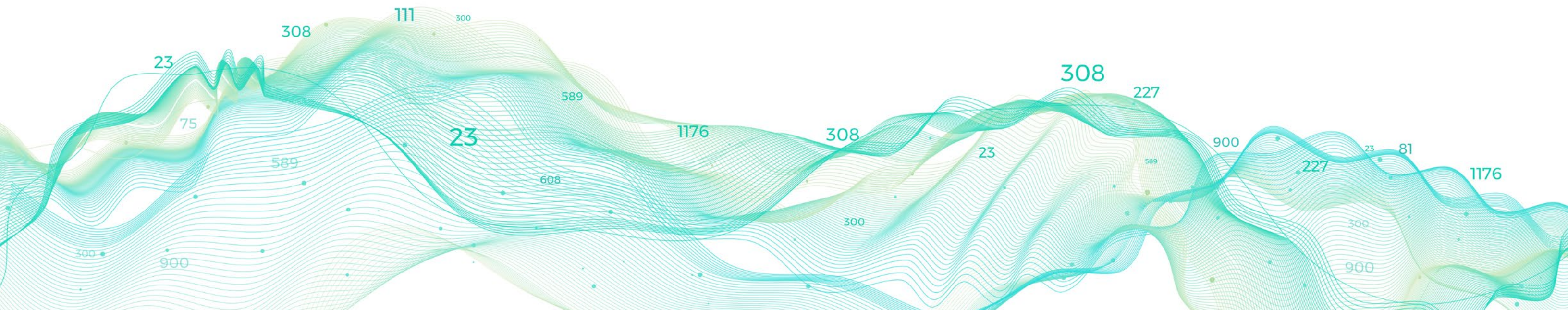
Indeed, 71% of consumers currently believe the price of groceries will increase over the next year; 70% of consumers also believe the price of retail goods will increase, 68% believe the same about dining out and 63% believe the cost of travel will increase. Consumers do not see their situations improving in the foreseeable future.

### Consumers' price forecasts

Share of consumers who predict price trends around various goods and services over the coming 12 months



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# CONCLUSION

**F**rom the most affluent consumers to those with the tightest budgets, all consumers are feeling current inflation. In particular, inflation is hammering paycheck-to-paycheck consumers with issues paying bills. Most consumers believe this will be the new status quo for nearly two more years, and consumers are meaningfully changing their habits to protect their wallets and well-being. Merchants have to be on alert, as even the most affluent and financially healthy consumers are actively pulling back their spending, and the income and wealth effects are likely to reinforce these trends. To survive, merchants should advise themselves of the current situation and act accordingly; value may be the new watchword as they compete for a more limited slice of consumers' purchasing power.

## METHODOLOGY

**Consumer Inflation Sentiment: July 2022 — Consumers Pull Back And Prepare For The Long Haul** examines and analyzes inflation's impact on consumers. We surveyed 3,783 consumers in the U.S. between July 1 and July 20 about their experiences and perceptions. Our respondents' average age was 47, 52% were female and 36% earned more than \$100,000 annually.

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