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CONSUMER INFLATION SENTIMENT

OCTOBER 2022 ■

**CONSUMERS
BUCKLE DOWN
ON
BELT-TIGHTENING**

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CONSUMER INFLATION SENTIMENT

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INTRODUCTION

On Sept. 21, 2022, the United States Federal Reserve raised interest rates for the fifth time since March 2022.¹ It was the latest in a long chain of attempts to curb the rampant inflation that is raising prices at the fastest rate seen in 40 years, but it also carried risks. Now, economists, business leaders and other industry experts are debating whether the latest interest rate hike will push the economy further toward recession.

What these industry experts fail to realize is that consumers made that call for themselves a long time ago.

For at least 70 million consumers across the United States, the belief is that the recession has already begun — and 89 million more have already begun tightening their belts to prepare for a recession they believe is now unavoidable.

1. Smialek, J. September Jobs Report: U.S. Job Growth Cools but Remains Solid. The New York Times. 2022. <https://www.nytimes.com/live/2022/10/07/business/jobs-report-september-economy>. Accessed October 2022.

That is according to Consumer Inflation Sentiment: Consumers Buckle Down On Belt-Tightening, our ongoing study that takes the temperature on consumers' outlooks on the economy. We surveyed a census-balanced panel of 2,632 U.S. consumers between September 13 and September 22 to learn how the ongoing inflation crisis is affecting how their spending is changing with rising prices.

This is what we learned.

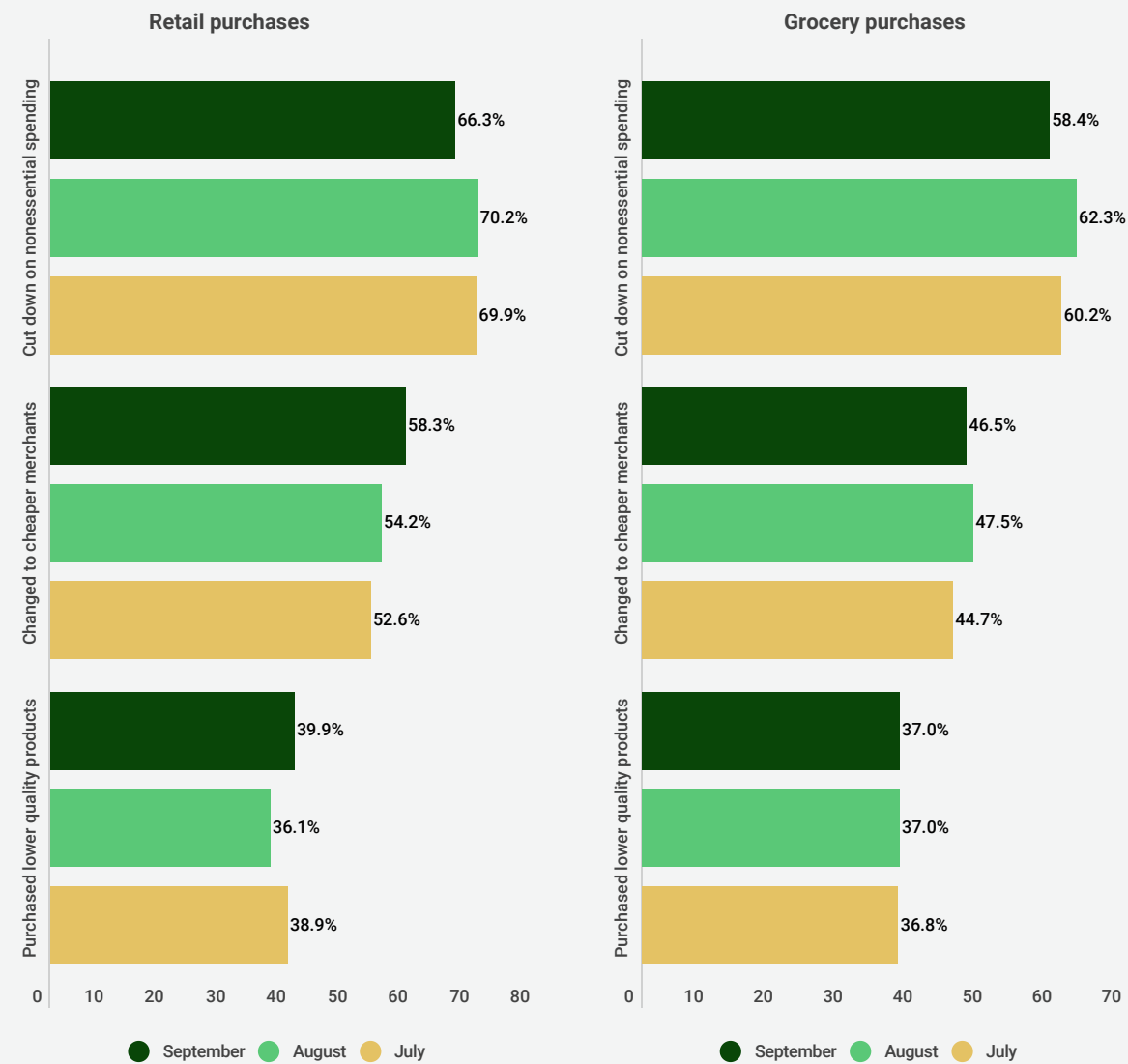
Most U.S. consumers are reducing nonessential spend — even the few who say their incomes have kept pace with inflation.
The retail sector is taking the brunt of consumers' belt-tightening.

Two-thirds of retail shoppers say they are spending less on “nice-to-have” products than they did a year ago, and 58% of grocery shoppers say the same. Although consumers are cutting back on nonessential retail and grocery spend, this belt-tightening is hitting retailers much harder than grocers.

Cutting back on “nice to haves” is the most common way consumers are seeking to save money, but it is not the only way. More consumers are also seeking cheaper merchants and buying lower-quality products to cut costs on grocery and retail purchases.

Figure 1
The evolution of consumers' purchasing habits

Share of consumers taking select actions to reduce expenses, time comparison

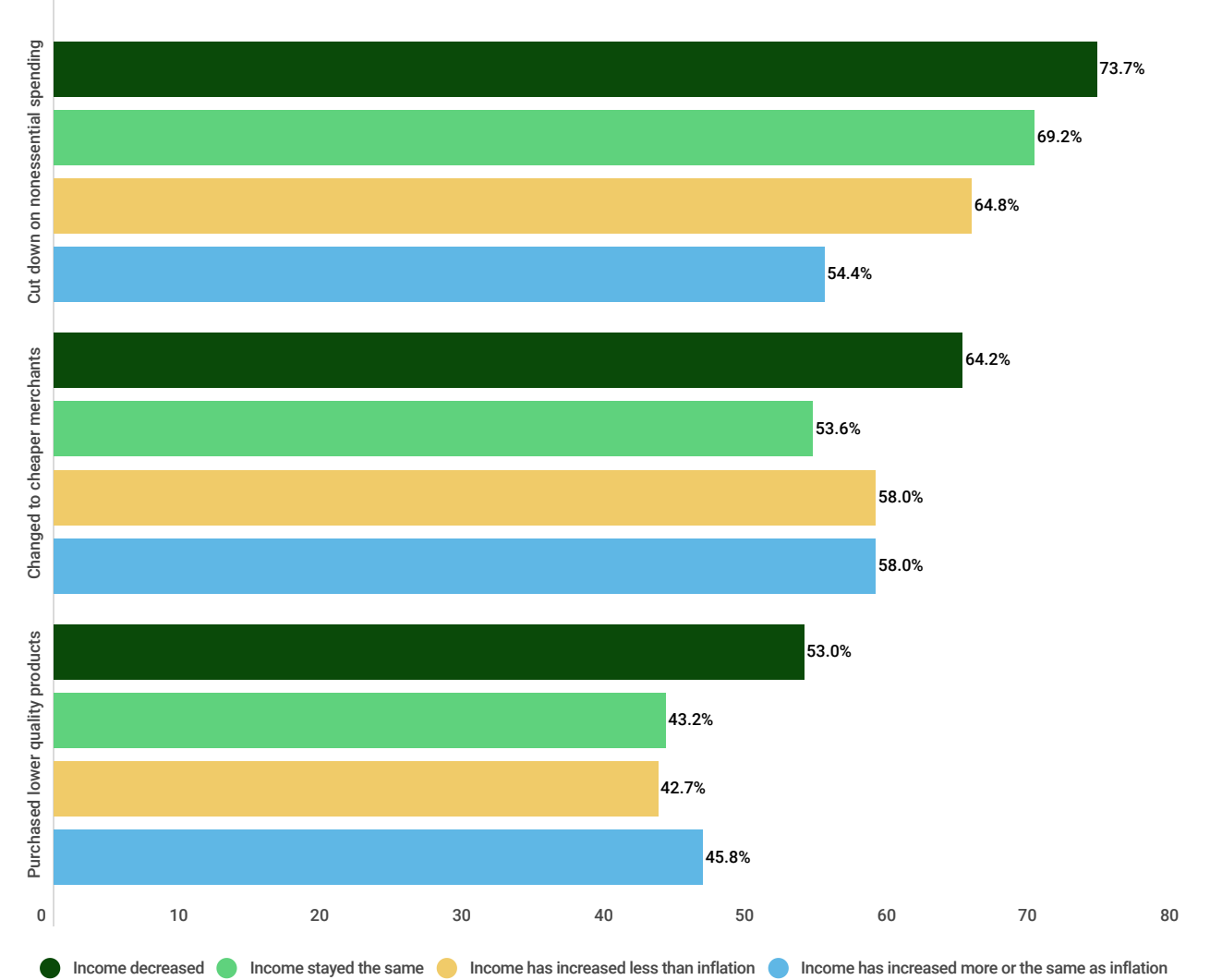


Source: PYMNTS
Consumers Buckle Down On Belt-Tightening, October 2022
N = 2,255: Surveyed U.S. consumers who cited price changes when making grocery or retail purchases, fielded Sept. 13, 2022 – Sept. 22, 2022

Inflation is a major driver behind this widespread belt-tightening, but it's not the only one. Even consumers who say their wages have kept pace with inflation are cutting back. Fifty-four percent are buying fewer “nice-to-have” items, 58% switched to cheaper merchants or grocers and 46% are buying lower-quality products. This indicates that many consumers' decisions to cut costs may have a deeper psychological element at play.

Figure 2
The evolution of consumers' relative incomes and purchasing habits

Share of consumers taking select actions to reduce expenses, by how their income has changed relative to inflation



Source: PYMNTS
Consumers Buckle Down On Belt-Tightening, October 2022
N = 2,255: Surveyed U.S. consumers who cited price changes when making grocery or retail purchases, fielded Sept. 13, 2022 – Sept. 22, 2022

This picture of declining consumer sentiment is even more grim among those whose incomes are growing slower than prices. Seventy-four percent of consumers who say their incomes decreased are buying fewer nice-to-have items than they did a year ago. Similarly, 64% are switching to cheaper merchants and 53% are purchasing lower-quality products.

A UNIVERSAL PAY CUT: WHEN INCOMES FAIL TO KEEP PACE

Inflation has a very real impact on consumers' finances. Eighty-seven percent of consumers say their incomes have not increased fast enough to compensate for price increases — slightly down from 90% who said the same in August. With so many consumers facing higher prices and bigger bills, the same paychecks simply cannot go as far as they did in the recent past.

This pay cut is hitting every rung of society. Financially struggling consumers are more likely than the rest to say that their wages have not kept up with inflation.² Sixty-five percent of consumers who live paycheck to paycheck with issues paying their bills say their incomes have either decreased compared to inflation or have grown on par with inflation. Just 59% of consumers who do not live paycheck to paycheck say the same.

2. This study defines “financially struggling” consumers as those who feel they live paycheck to paycheck, to the point that they struggle to pay even basic monthly expenses.

The U.S. dollar is now worth 11% less than it was in February 2021, as the country enters the 18th month of the inflation crisis.

One dollar in August 2022 could buy only as much as 89 cents would have been able to buy 18 months ago. Most of that decrease in value has occurred during the past six months, during which the value of the dollar decreased by 6%. This shows just how quickly the pace of inflation picked up speed.

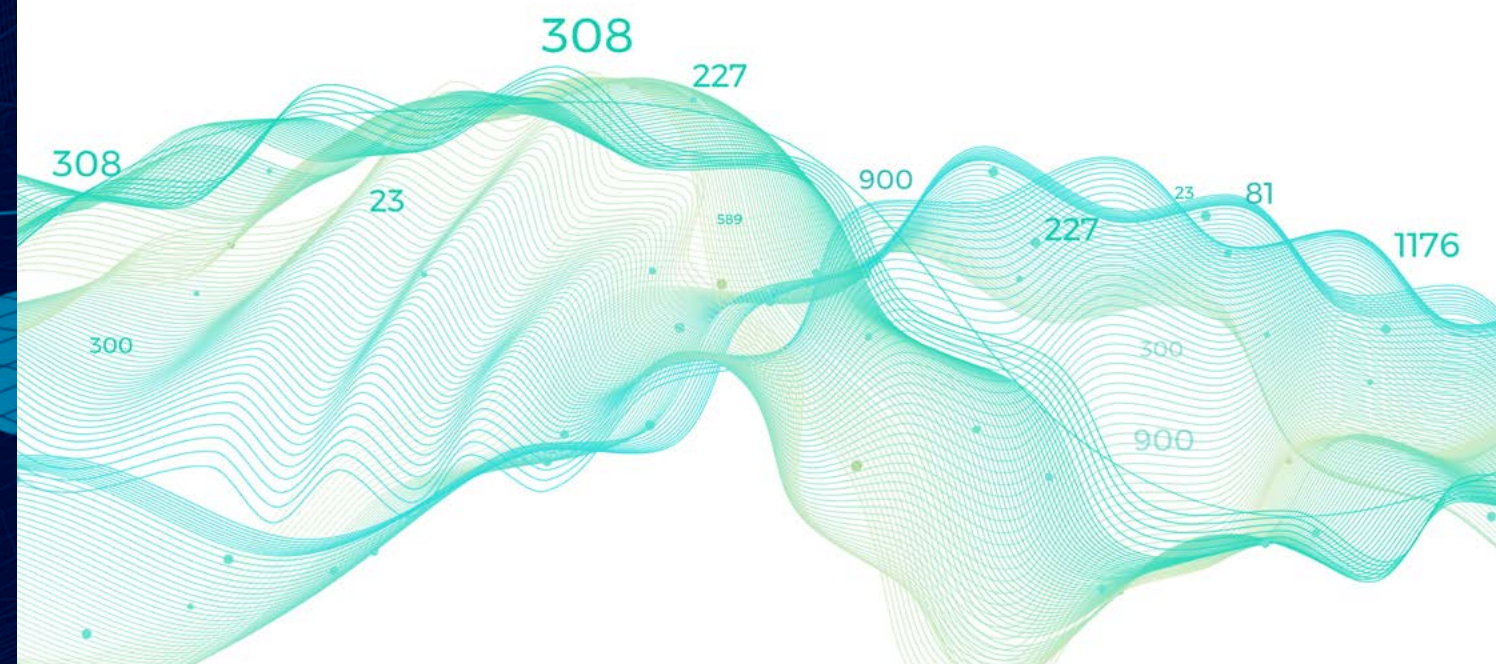
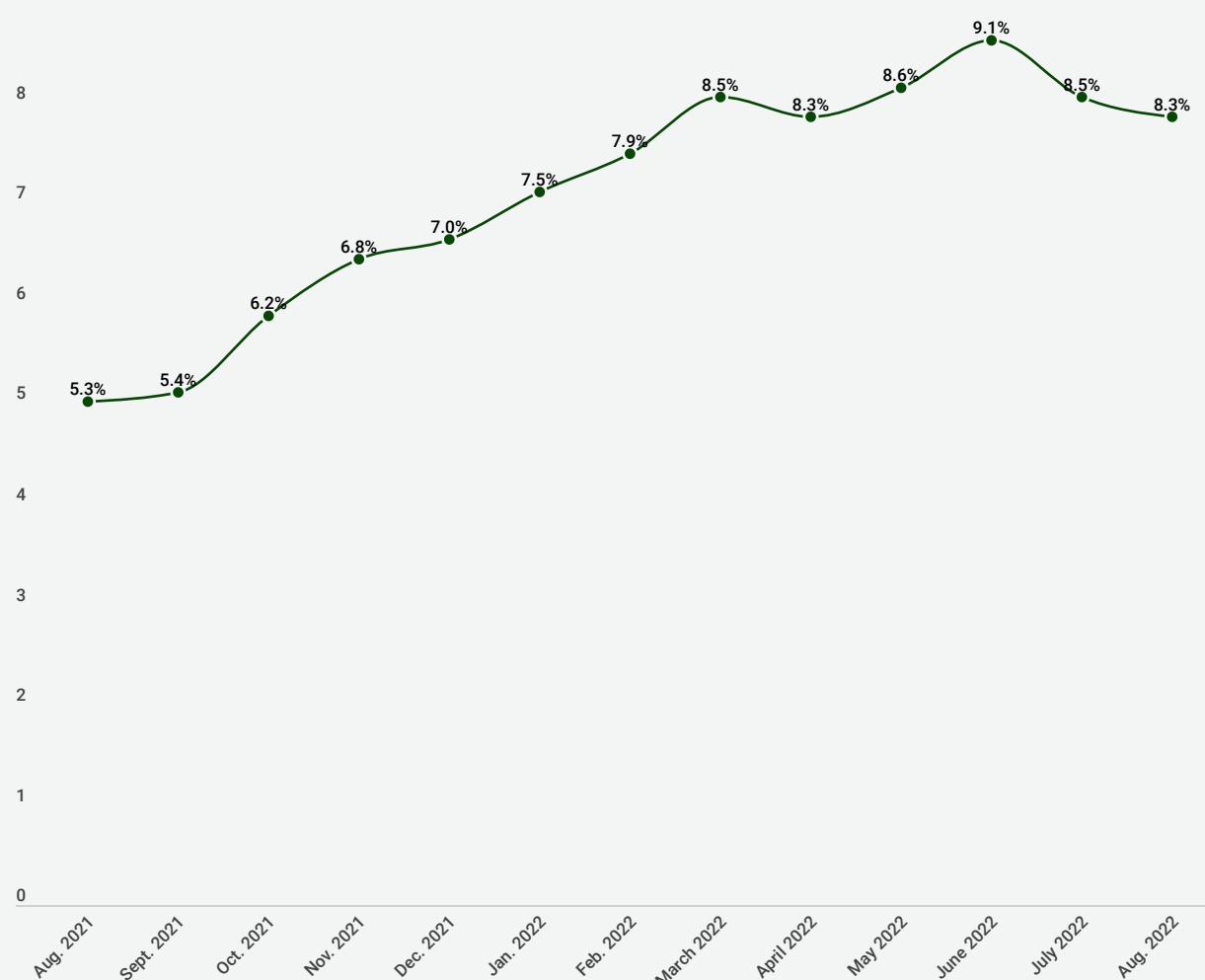


Figure 3
Evolution of the Consumer Price Index over time
 Average year-over-year CPI for all urban consumers, by date



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

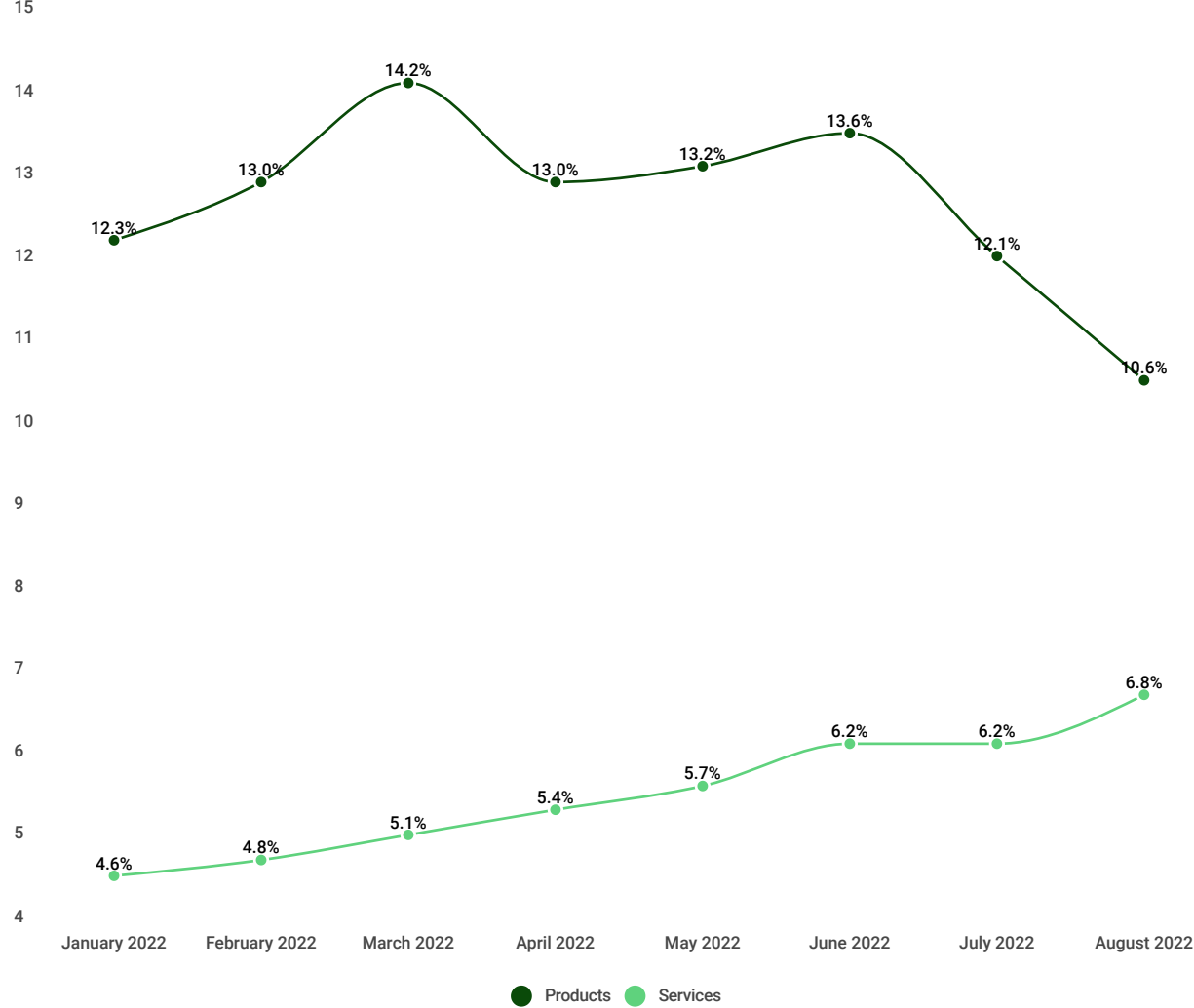
There is, nevertheless, a small ray of light in this doom and gloom. Year-over-year inflation decreased to 8.3% in August — down from its 40-month high of 9.1% in June, according to the Bureau of Labor Statistics — but is still well outside the Fed’s target rate of 2%.³ For many consumers, however, this recent slowdown is too little, too late. Prices have skyrocketed, forcing them to fundamentally change their purchasing habits.

There is another more pernicious problem: While inflation rates for retail purchases and groceries are beginning to slow, they are still rising for essential services like housing, energy bills and healthcare. The inflation rate for services like these reached 6.8% year over year in August 2022, well above the 4.6% rate of January 2022.

This increase in essential service prices is leaving more consumers with less income to spend on just about everything else. The average U.S. household spent 65.4% of its total income on essential purchases in Q2 2022 — up from 65.2% in Q1 2022. This works out to a collective \$64 billion more being spent on essential purchases in Q2 2022 than in Q1 2022.

3. Author unknown. Economic News Release: Consumer Price Index Summary. The Bureau of Labor Statistics. 2022. <https://www.bls.gov/news.release/cpi.nr0.htm>. Accessed October 2022.

Figure 4
How inflation rates have evolved over time
 Average year-over-year inflation rates of products and services

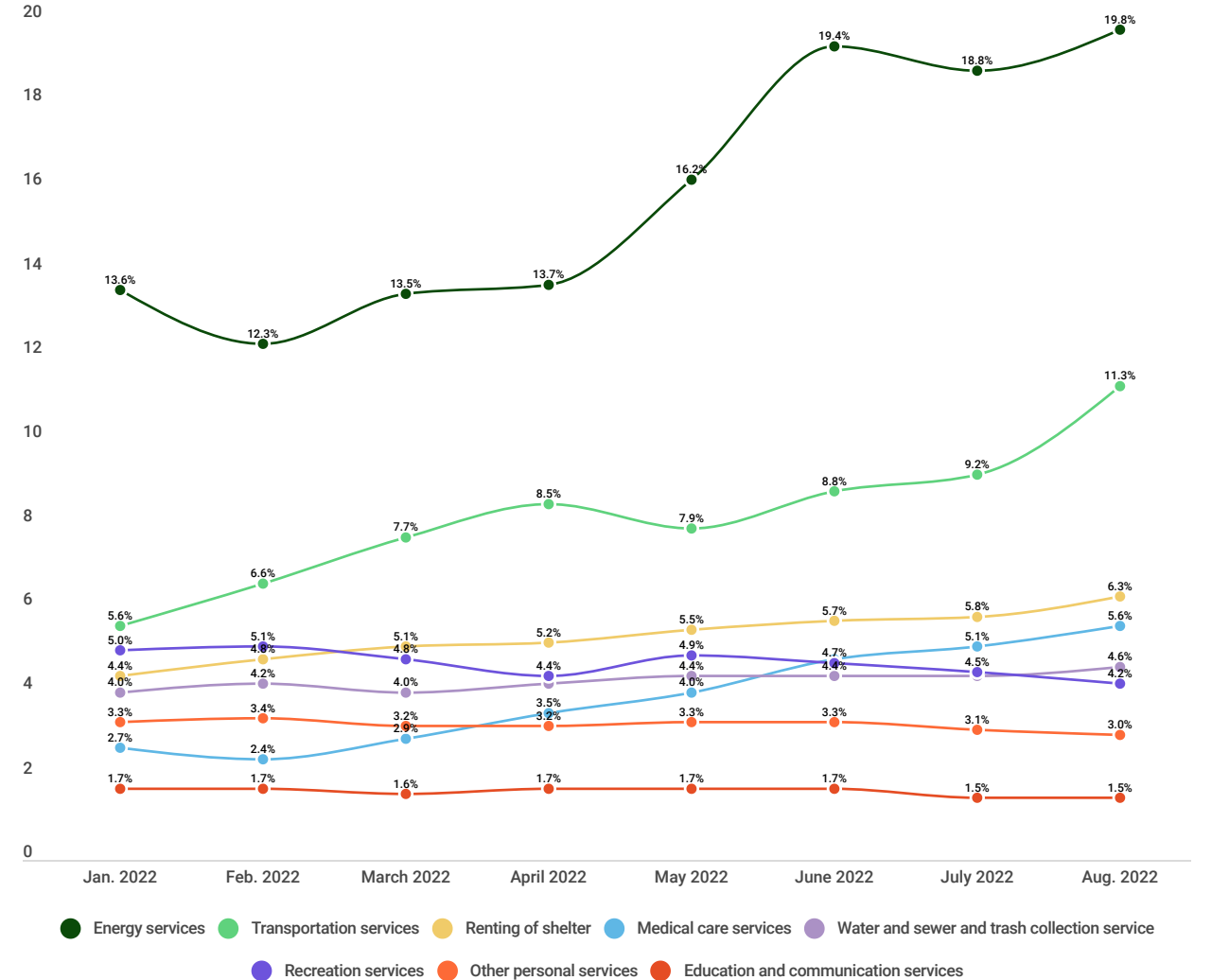


Source: Author unknown. Consumer Expenditure Surveys. U.S. Bureau of Labor Statistics. 2022. <https://www.bls.gov/cex/tables.htm#topline>. Accessed October 2022.

Housing and healthcare comprise the two largest chunks of the average household’s essential services spend. Fifteen percent went to housing in Q2 2022, and 16% went to paying healthcare bills. Rent and housing price inflation reached 6.3% in August and healthcare price inflation reached 5.6%. This means the country spent a collective \$12 million more on housing and \$8 million more on healthcare in Q2 2022 than one quarter prior.

The increase in housing and healthcare prices pales in comparison to the increased cost of energy, however. Energy prices had the highest inflation rate of any essential service in September, when they increased 20% year over year.

Figure 5
How inflation rates have evolved over time
 Average year-over-year inflation rate of select necessities, by date



Source: Author unknown. Consumer Expenditure Surveys. U.S. Bureau of Labor Statistics. 2022. <https://www.bls.gov/cex/tables.htm#topline>. Accessed October 2022.

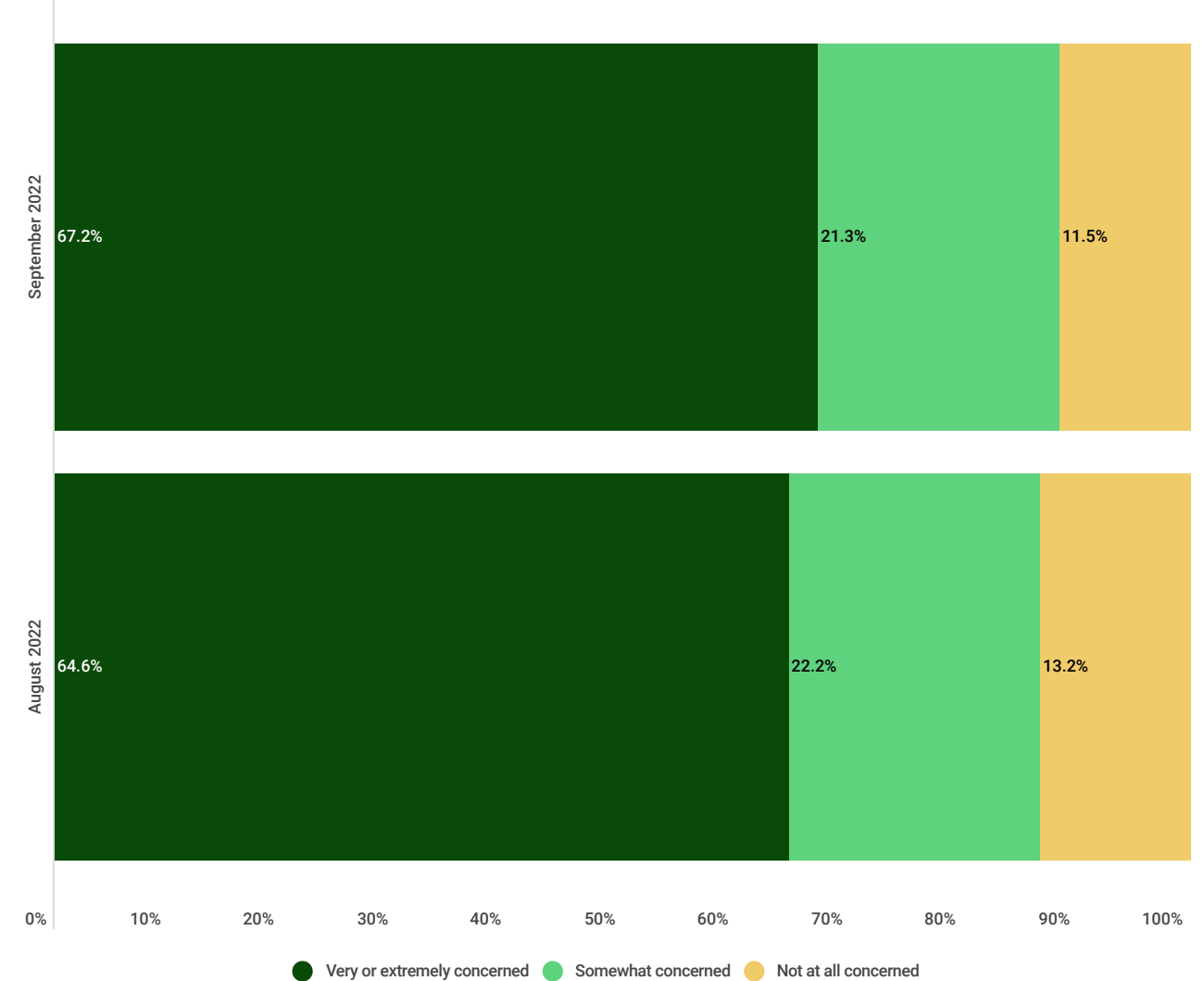
More consumers are pessimistic about the future of the U.S. economy.

The average consumer expects the inflation crisis to continue until April 2024 and is adjusting their spend accordingly.

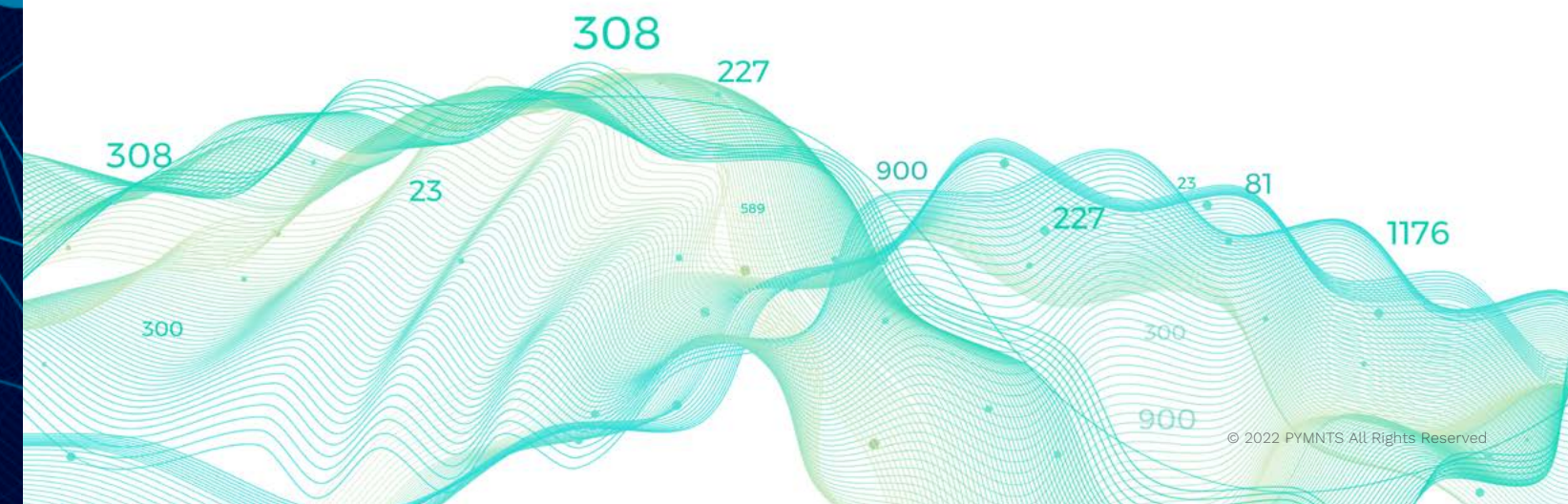
Sixty-seven percent of consumers are very or extremely concerned about the short-term health of the economy, up from 65% who said the same in August. At the same time, the share of consumers who say they are unconcerned is down to 12% — a slight drop from the 13% who said the same one month prior.

Consumers living in rural areas, those living paycheck to paycheck and bridge millennials are even more pessimistic. Seventy percent of rural consumers, 78% of those living paycheck to paycheck with issues paying bills and 71% of bridge millennials are very or extremely concerned about the economy in the short term.

Figure 6
The evolution of consumers' economic outlook
Share of consumers expressing select degrees of concern about the state of the economy, by date



Source: PYMNTS
Consumers Buckle Down On Belt-Tightening, October 2022
N = 2,632: Surveyed U.S. consumers, fielded Sept. 13, 2022 – Sept. 22, 2022



CONCLUSION

Consumers see the high toll inflation is taking on their finances. Anticipating an economic crisis, they are taking active measures to protect their livelihoods. They do not need an external source to tell them a recession has begun: They have already made that determination on their own. Retailers, grocers and all types of businesses are now fighting for an ever-shrinking share of consumer spend, faced with the choice to either adapt to this shifting sentiment or risk losing ground against competitors that do.

METHODOLOGY

Consumer Inflation Sentiment: Consumers Buckle Down On Belt-Tightening, produced independently by PYMNTS, examines and analyzes inflation's impact on consumers. We surveyed 2,632 U.S. consumers between September 13 and September 22 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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