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CONSUMER INFLATION SENTIMENT

JANUARY 2023 ■

PERCEPTION
IS REALITY

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CONSUMER INFLATION SENTIMENT

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INTRODUCTION

Over the last few months, the Bureau of Labor Statistics (BLS) has reported that inflation seems to be cooling, with price increases for fresh meat and vegetables slowing since Q2 2022. Inflation as measured by the Consumer Price Index is currently at 7.1%, having returned to levels last seen in late 2021.¹ However, if consumers were asked about the state of inflation and the economy overall, they would be very unlikely to express positive sentiments.

PYMNTS' research finds that many American consumers are actively trimming goods from their grocery lists or even downgrading the quality of their purchases to make ends meet. In conflict with the BLS data, consumers — especially those with less financial security — perceive prices have increased significantly and are modifying their behavior accordingly. Additionally, consumers anticipate that inflation will continue above normal levels through July 2024.

Consumer Inflation Sentiment: Perception Is Reality is the sixth installment of this series, which explores consumers' outlook on the American economy. We surveyed 2,140 U.S. consumers between Dec. 1, 2022, and Dec. 5, 2022, to better understand how their perceptions of the current economic situation are affecting their daily lives and their concerns about the future.

This is what we learned.

¹ Author Unknown. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average. Bureau of Labor Statistics. 2022. <https://www.bls.gov/news.release/cpi.t01.htm>. Accessed January 2023.

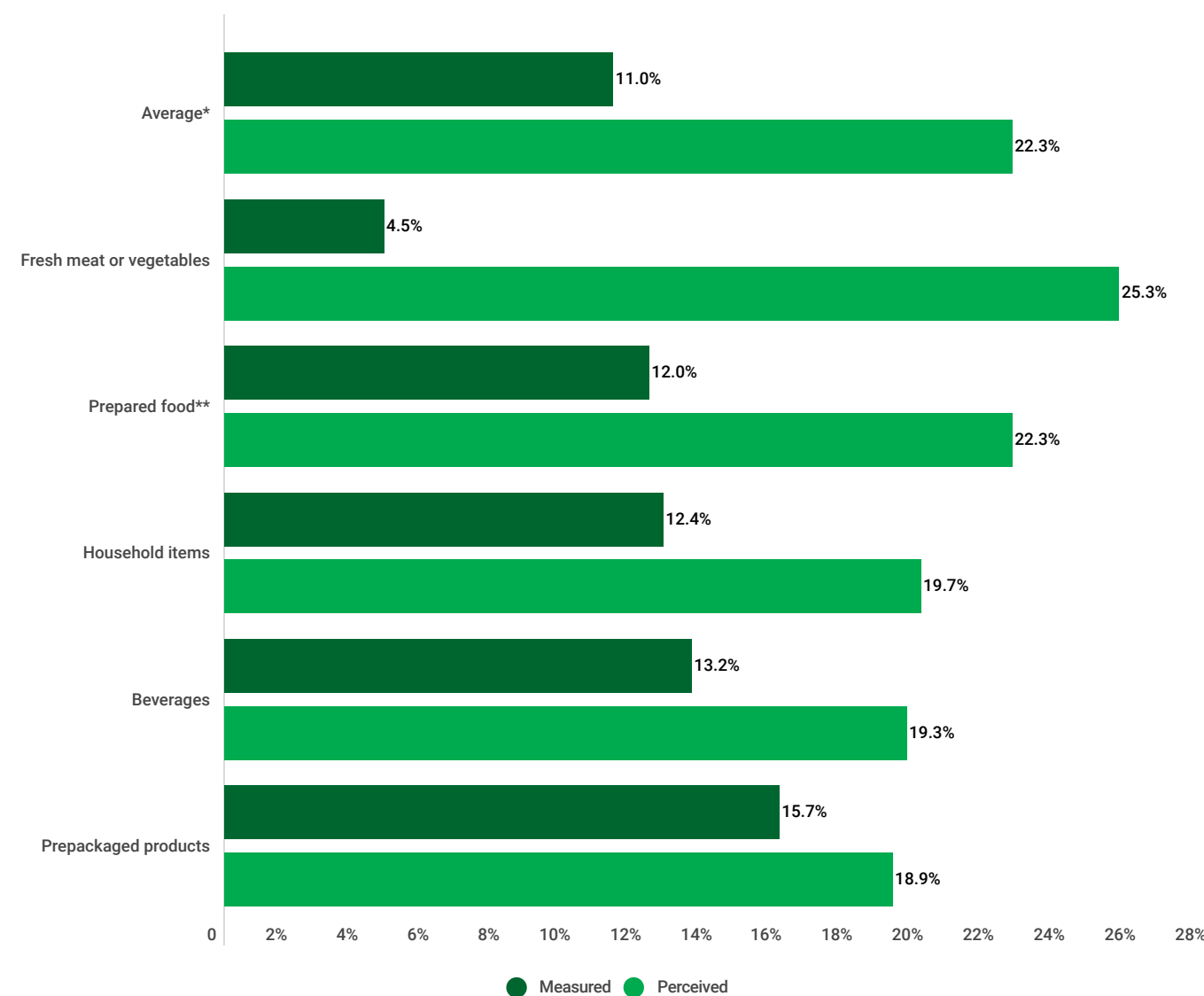
There is a disconnect between the inflation data reported by the government and what consumers say they now pay for necessities.

Food prices are among the faster-growing areas of the index. According to the BLS, the costs of food at home and away from home increased by 11% and 8.5%, respectively, in the last 12 months.

Gasoline prices are 10% higher than a year ago, down from a 60% year-over-year increase in July, as recorded by the BLS. Increasing housing costs are contributing 2.3 percentage points to overall annual inflation.

Many consumers disagree with the BLS' numbers, reporting increases up to two times higher across multiple grocery categories. On average, consumers report that grocery prices have increased 22% in the last year. The biggest gap can be seen in fresh meat and vegetables, with the BLS reporting a 4.5% increase versus consumers' perceived 25% increase.

Figure 1
 Consumers perceive greater price increases than BLS reports
 Measured versus perceived price increases, year over year, by item category



Source: PYMNTS
 Consumer Inflation Sentiment: Perception Is Reality, January 2023
 N = 1,637: Respondents who purchased grocery products in the 30 days prior to being surveyed and noticed price increases, fielded Dec. 1, 2022 – Dec. 5, 2022

* Average is the weighted average of listed items. The weight corresponds to relative importance of the item for the overall index, as reported by the BLS.

** We compared increases in the BLS' food at home category to consumers' perceived increases in prepared food prices as a proxy.

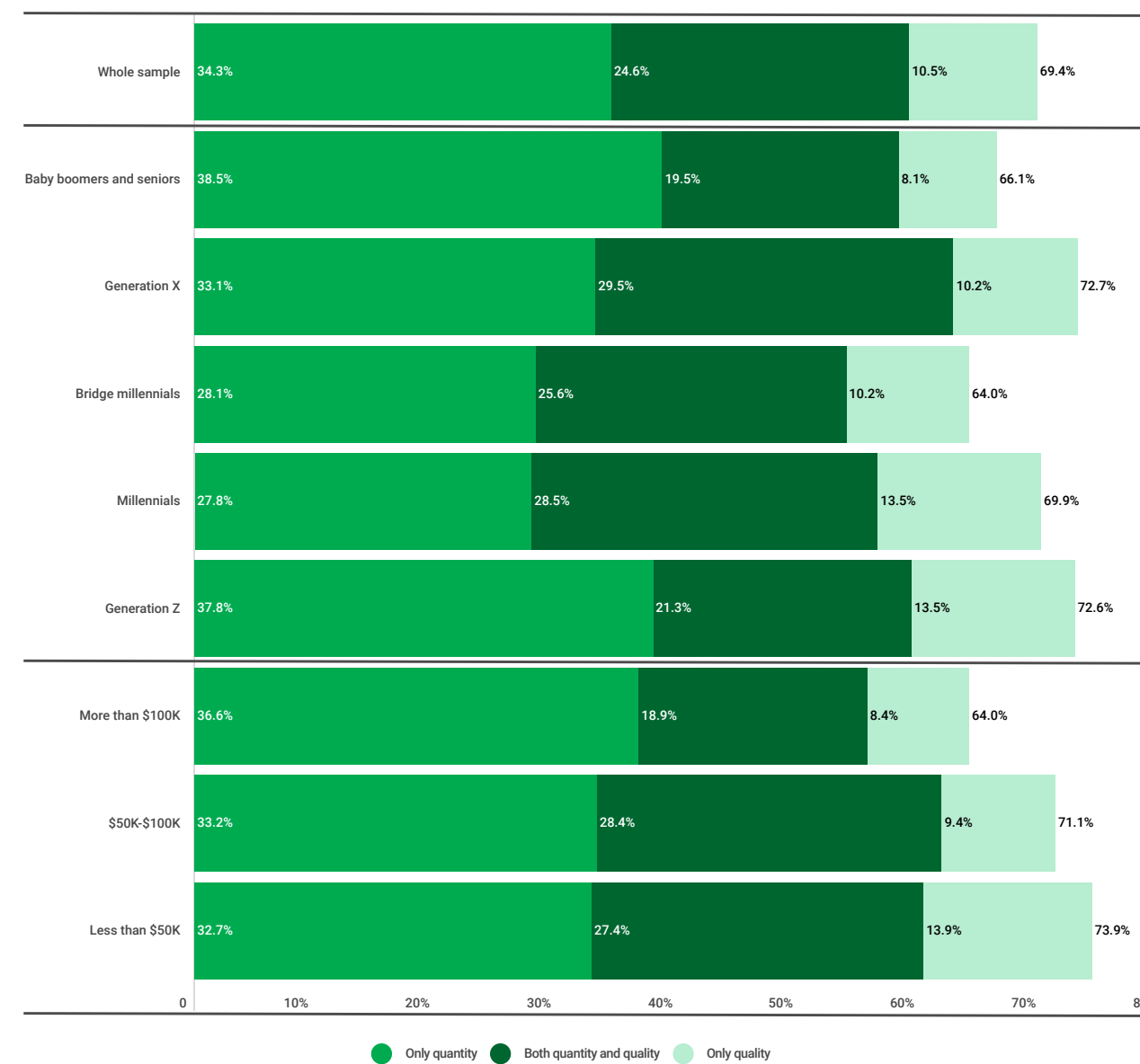
Most consumers compensate for tighter food budgets by buying fewer things, but many millennials and families with children are also switching to cheaper, lower-quality alternatives.

Overall, inflation has altered 69% of consumers' shopping lists. Among grocery shoppers who say they have noticed price changes, 59% have cut down on nonessential grocery items, while 35% are buying cheaper alternatives. Only 11% of consumers simply switched to lower-quality items; over three times that share (34%) purchased fewer items but kept quality unchanged. Millennials were the generation most likely to switch to lower-quality goods, at 42%. Baby boomers and seniors were the most hesitant to compromise on the quality of their groceries, with 28% of them doing so.

Figure 2A

Consumers trade their splurges for lower-cost goods

Share of consumers who reduced quantity, quality or both in their grocery purchases due to price increases over the last 12 months, by demographic



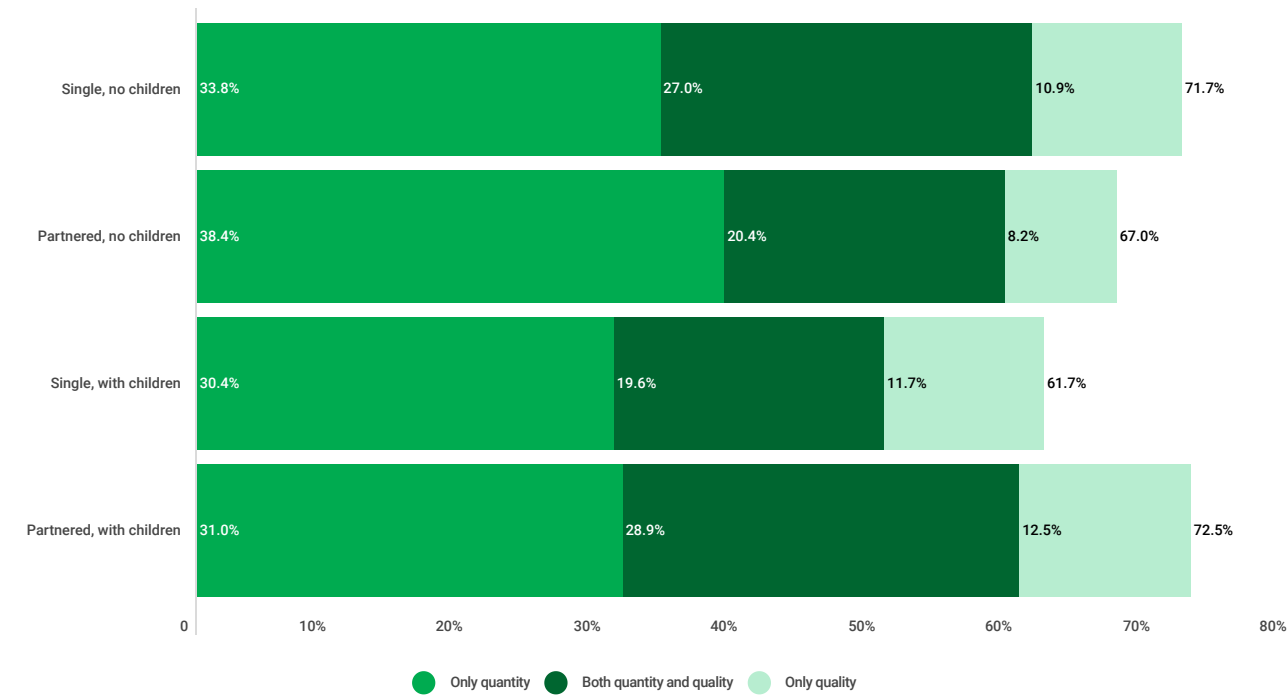
Source: PYMNTS

Consumer Inflation Sentiment: Perception Is Reality, January 2023

N = 1,696: Respondents who purchased grocery products in the 30 days prior to being surveyed and noticed price changes, fielded Dec. 1, 2022 – Dec. 5, 2022

Figure 2B
Consumers trade their splurges for lower-cost goods

Share of consumers who reduced quantity, quality or both in their grocery purchases due to price increases over the last 12 months, by household composition

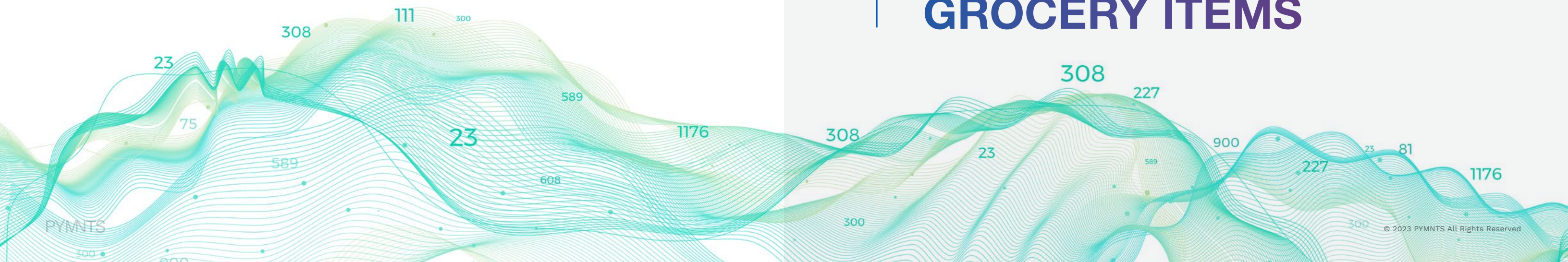


Source: PYMNTS
 Consumer Inflation Sentiment: Perception Is Reality, January 2023
 N = 1,696: Respondents who purchased grocery products in the 30 days prior to being surveyed and noticed price changes, fielded Dec. 1, 2022 – Dec. 5, 2022

Families with children were the most likely to switch to lower-quality grocery items: Forty-one percent of families with kids have done this, compared to 29% of couples without children. Families with children were the most likely to reduce both the size and quality of their shopping carts, at 29%, versus single consumers with children, at 20%.

Among consumers reducing their nonessential purchases, specialty and prepared foods were the most likely to be cut from their shopping lists. Sweets and snacks stand out as products consumers are willing to trade for cheaper alternatives.

41%
 SHARE OF FAMILIES WITH CHILDREN SWITCHING TO LOWER-QUALITY GROCERY ITEMS



Consumers who live paycheck to paycheck tend to be even more skeptical of lower reported inflationary rates and to make deeper spending cuts.

Consumers who live paycheck to paycheck with issues paying bills reported a perceived 27% increase in grocery prices, as opposed to the 17% increase reported by consumers who do not live paycheck to paycheck. The BLS, however, reports an 11% increase.

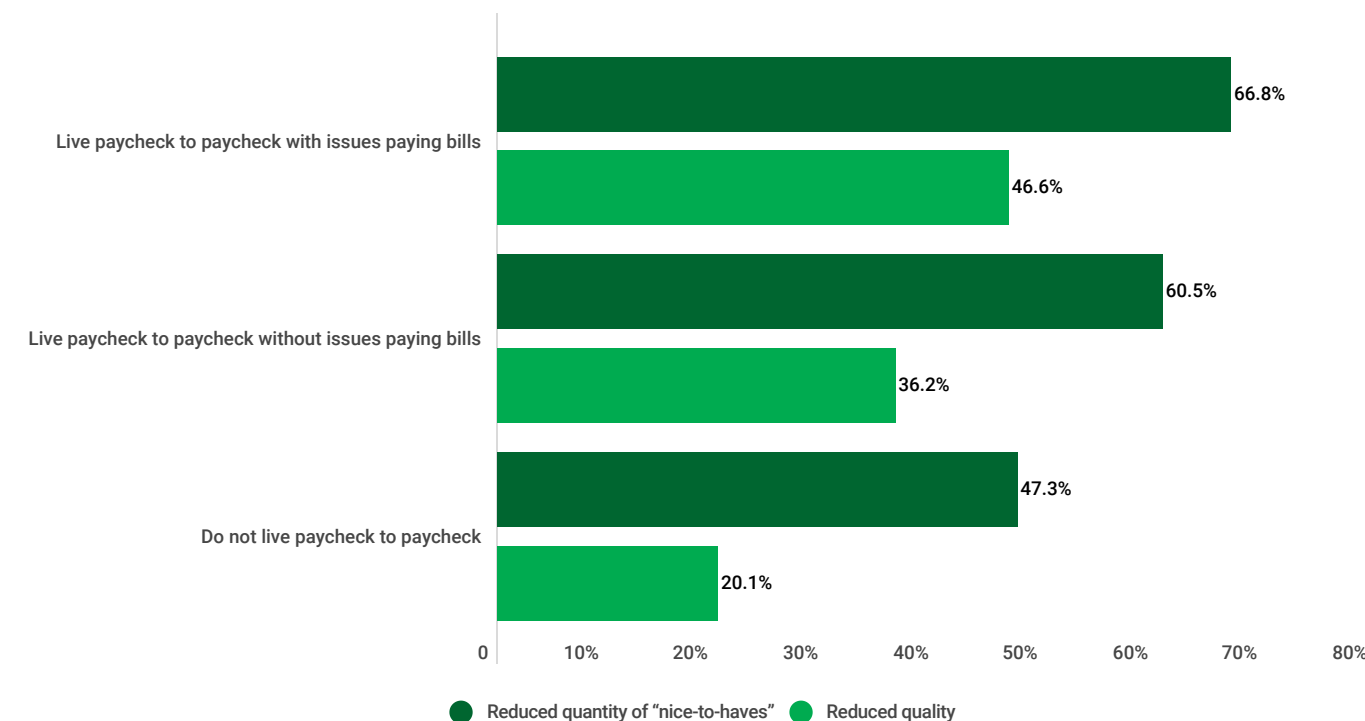
At 67%, paycheck-to-paycheck consumers who struggle financially were more likely to cut back on nonessential items in response to higher prices, compared to 61% of non-struggling paycheck-to-paycheck consumers and 47% of consumers who do not live paycheck to paycheck.

Paycheck-to-paycheck consumers struggling to pay their monthly bills were also the most likely to switch to lower-quality items, with 47% of them having done so. This compares to 36% of non-struggling paycheck-to-paycheck consumers and 20% of consumers who do not live paycheck to paycheck who have switched to cheaper options.

Figure 3A

How financial lifestyle affects perception and impact of price increases

Share of consumers who reduced the quantity of "nice-to-haves" or the quality of their grocery purchases due to price increases over the last 12 months, by financial lifestyle



Source: PYMNTS

Consumer Inflation Sentiment: Perception Is Reality, January 2023

N = 1,696: Respondents who purchased grocery products in the 30 days prior to being surveyed and noticed price changes, fielded Dec. 1, 2022 – Dec. 5, 2022

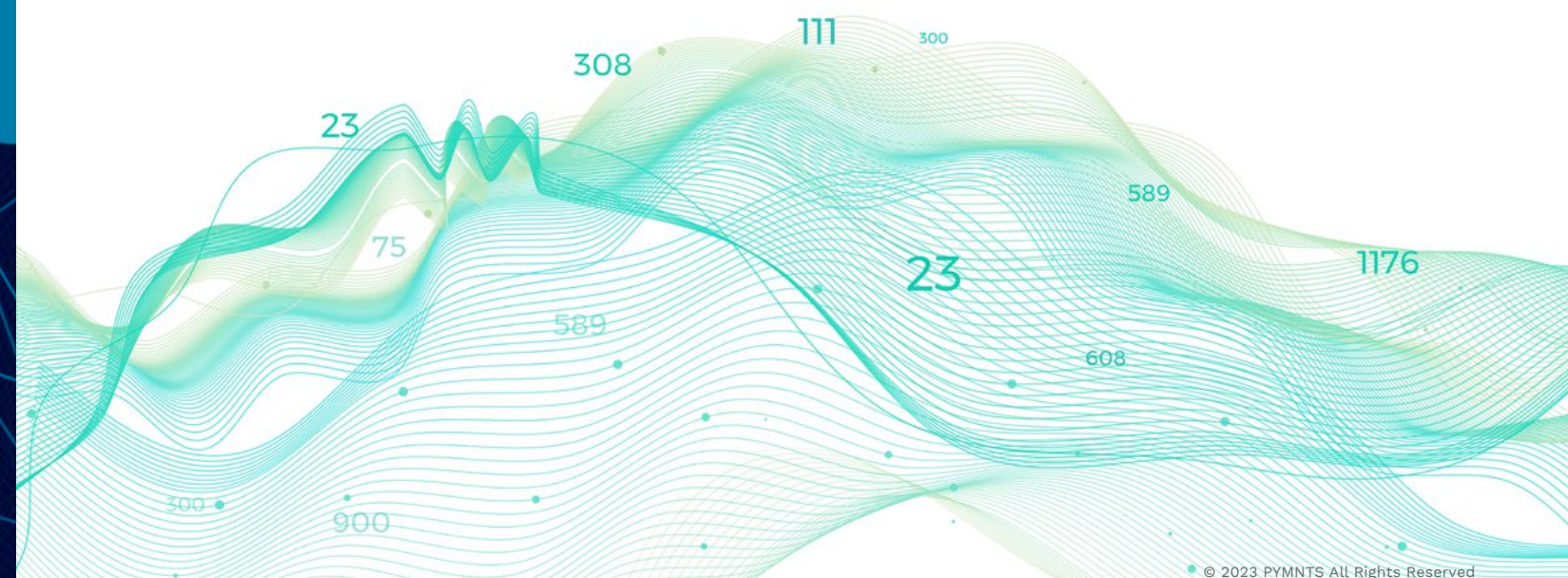
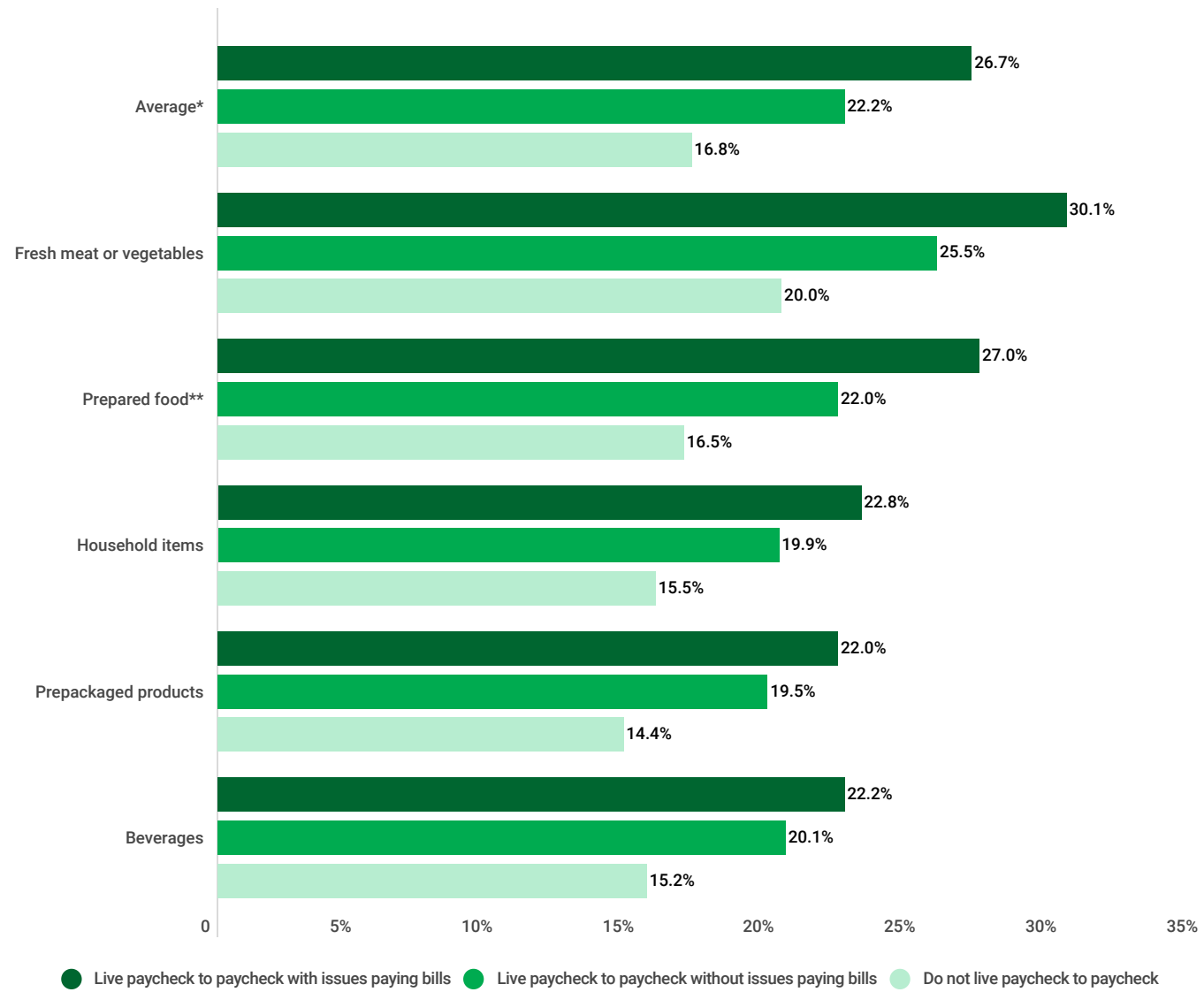


Figure 3B
How financial lifestyle affects perception and impact of price increases
 Perceived price increases, year over year, by item category and financial lifestyle



Source: PYMNTS
 Consumer Inflation Sentiment: January 2023 – Perception Is Reality, January 2023
 N = 1,637: Respondents who purchased grocery products in the 30 days prior to being surveyed and noticed price increases, fielded Dec. 1, 2022 – Dec. 5, 2022

* Average is the weighted average of listed items. The weight corresponds to relative importance of the item for the overall index, as reported by the BLS.

** We compared increases in the BLS' food at home category to consumers' perceived increases in prepared food as a proxy.



CONCLUSION

While the BLS and other authoritative voices might be announcing reasons to be hopeful, many consumers still feel compelled to curtail their purchasing habits and foresee more than a year of continued high inflation. These pessimistic consumers — particularly those who live paycheck to paycheck — are responding by lowering the quantity and quality of the items they buy.

METHODOLOGY

Consumer Inflation Sentiment: Perception Is Reality, produced independently by PYMNTS, examines and analyzes inflation's impact on consumers. We surveyed 2,140 U.S. consumers between Dec. 1, 2022, and Dec. 5, 2022, about their experiences and perceptions. The sample was balanced to match the U.S. adult population in a set of key demographic variables. Our respondents' average age was 48, 52% were female and 36% earned more than \$100,000 annually.

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