



Spending vs. saving,  
a tension of economic  
proportions

**US Future Consumer Index**

**EY**

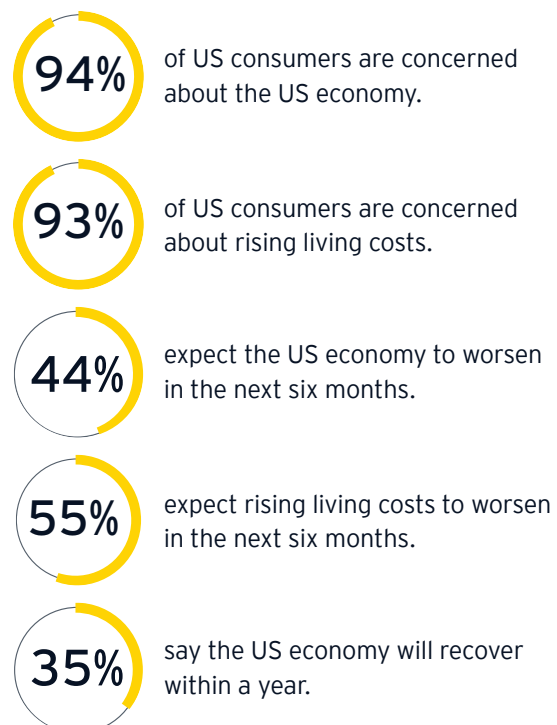
Building a better  
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In the 11th edition of the US Future Consumer Index, we explore the tension between the reality of today and the consumer's response to it, and how retailers and brands create value in this environment. This wave highlights Americans' ability to compartmentalize as they express worry over the uncertain economy but don't necessarily translate that worry into behavior changes.

## Recession, inflation and rate hikes, oh my!

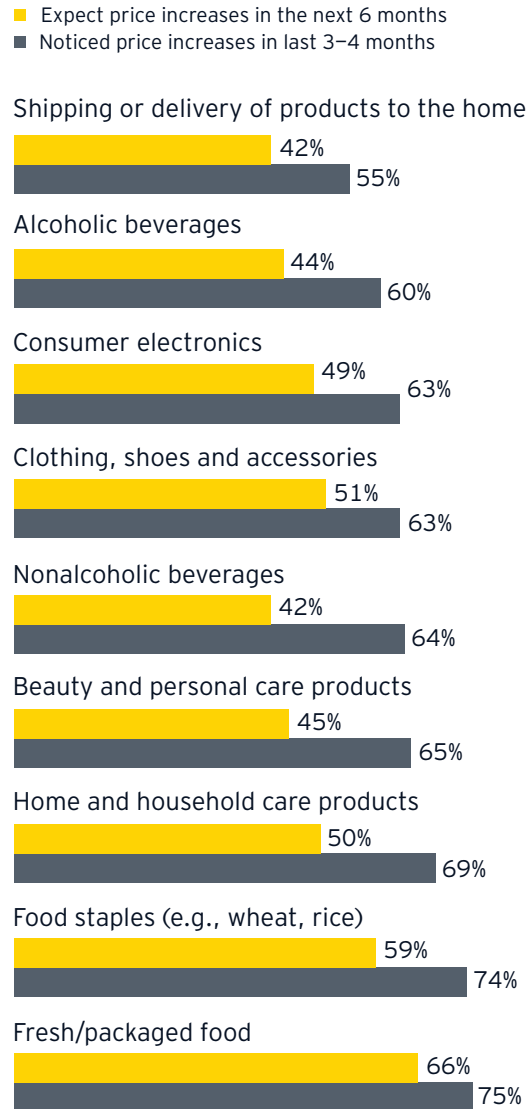
We've been on the precipice of a global recession for a while now, though recent indicators paint a slightly less gloomy picture. This back-and-forth could be creating some uncertainty around exactly what's in store for the economy. Add rising costs for everything from food to fuel to shampoo, and the result is consumers moving almost immediately from post-COVID-19 hangover to macro anxiety.

### Recessionary and inflationary concerns are high





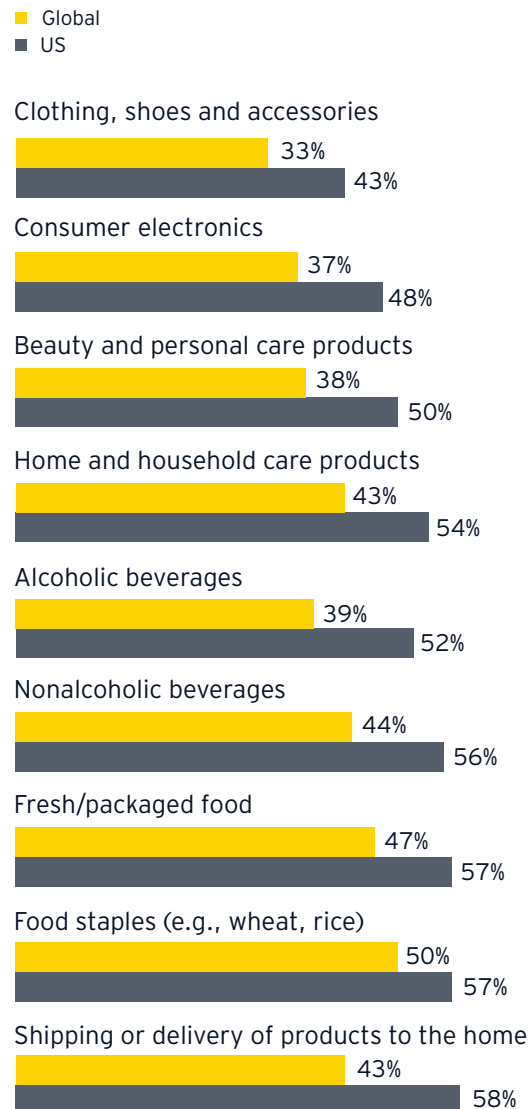
Price increases across every category are pronounced. For example, grocery prices are up 10.9% on average year over year, according to the Consumer Price Index. And there's an expectation that costs will only continue to rise, especially for food. Though retailers are putting their foot down to push back on consumer goods companies passing through price increases.

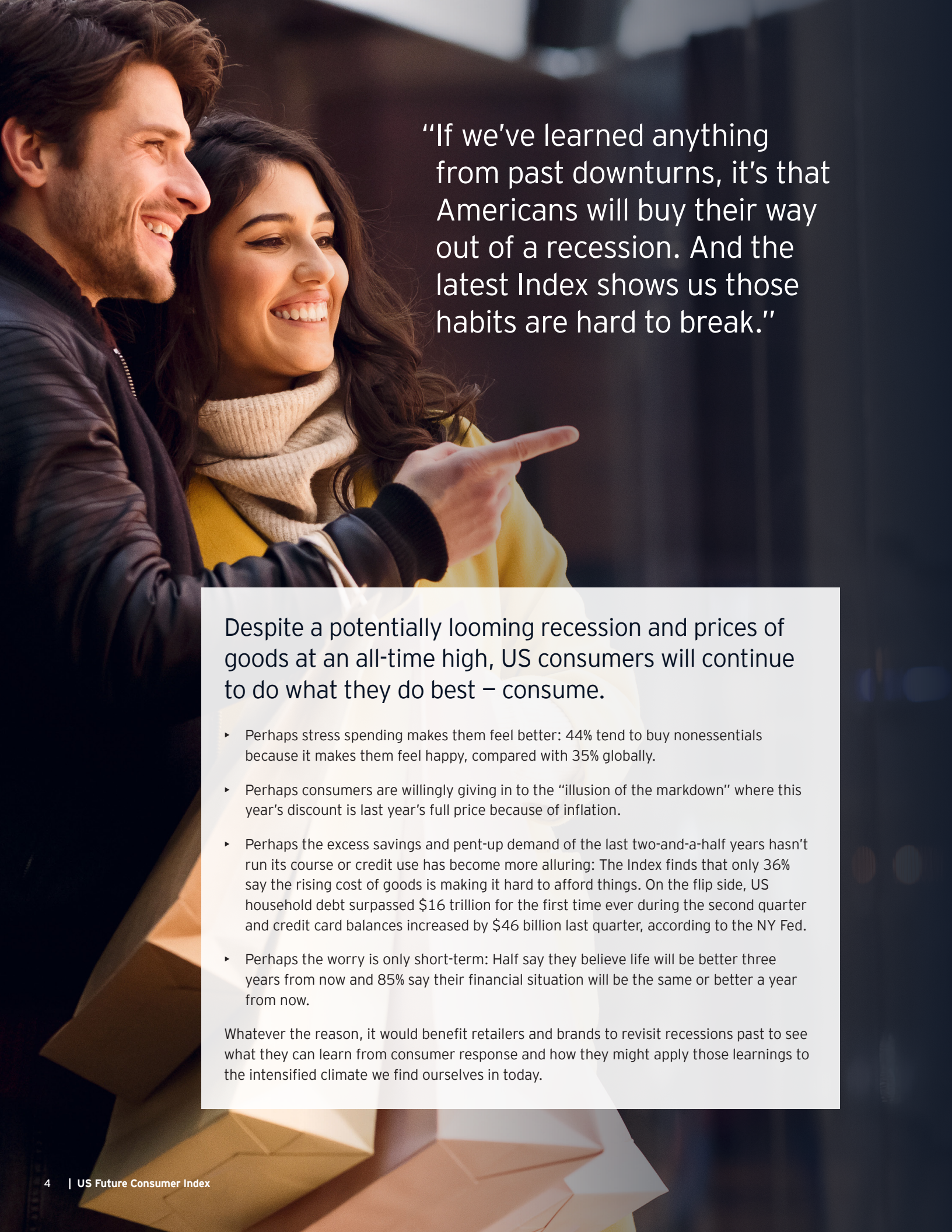


By all accounts, it seems all this worry means the consumer would slow down and brace for the impact on their wallet – but it doesn't appear that way.

There's a gap between feelings and actions. Americans seem to be cutting costs, with 49% saying they are spending less on nonessentials, 37% purchasing only the essentials and 64% saying they will be more aware and cautious about spending in the future. Furthermore, the largest segment of consumers identifies as Affordability First (26%) – compared with Experience First (23%), Planet First (21%), Health First (17%) and Society First (13%).

However, when you really get under the hood and break things down by category, rising costs and price sensitivity have not really changed buying habits across most categories, even discretionary. This contrasts with consumers globally, who are more likely to purchase cheaper alternatives, purchase less or stop buying altogether.





“If we’ve learned anything from past downturns, it’s that Americans will buy their way out of a recession. And the latest Index shows us those habits are hard to break.”

Despite a potentially looming recession and prices of goods at an all-time high, US consumers will continue to do what they do best – consume.

- ▶ Perhaps stress spending makes them feel better: 44% tend to buy nonessentials because it makes them feel happy, compared with 35% globally.
- ▶ Perhaps consumers are willingly giving in to the “illusion of the markdown” where this year’s discount is last year’s full price because of inflation.
- ▶ Perhaps the excess savings and pent-up demand of the last two-and-a-half years hasn’t run its course or credit use has become more alluring: The Index finds that only 36% say the rising cost of goods is making it hard to afford things. On the flip side, US household debt surpassed \$16 trillion for the first time ever during the second quarter and credit card balances increased by \$46 billion last quarter, according to the NY Fed.
- ▶ Perhaps the worry is only short-term: Half say they believe life will be better three years from now and 85% say their financial situation will be the same or better a year from now.

Whatever the reason, it would benefit retailers and brands to revisit recessions past to see what they can learn from consumer response and how they might apply those learnings to the intensified climate we find ourselves in today.



# Back to the future: What holiday shopping season?

Luckily for retailers that have their shelves properly stocked, the disconnect is showing in the near term as macro anxiety isn't dampening consumers' holiday spirit. And this year's Black Friday turnout is proof.

**69%** of US consumers think they will spend about the same or more than they did last year. Of those, **24%** plan to spend more, up 9% from this time last year.

- A majority plan to spend the same or more than last year on gifts for friends (69%), family (74%) and children (82%), despite increased cost of goods.
- Only **37%** are looking to save money this holiday season.

Consumers' ability to spend the same or more this year could be explained by a "back to the future" approach. Consumers are shopping like their grandparents did – buying gifts year-round and hiding them away or stretching their dollar throughout the holiday season. For some categories, they plan to purchase items ahead of time to avoid missing them.

**Percentage who will purchase ahead of time by category:**

<b>57%</b> Packaged food	<b>41%</b> Nonelectronic gifts
<b>38%</b> Electronic gifts	<b>32%</b> Fresh food

To win this holiday, retailers and brands must rethink the traditional shopping season and align discount and inventory strategies to help consumers stretch their dollar all season and all year long.

# Pushing past the tension

The dynamics between the consumer and the economy have created a complex environment for companies eager to drive loyalty. Consumers will spend despite what's taking place around them. That much retailers and brands know for sure. The real issue is that consumers will be more discerning about the "how" and the "where," knowing their dollar is worth less. That "how" and "where" are defined by value.

- 56%** will reappraise how they spend their time on the things they value most.
- 59%** will be more focused on "value for the money" in the future.

How can retailers and brands be at the center of the how and where? Here are four ways to create value both with the consumer and within the organization.

1

### **Provide connected consumer experiences**

Companies have been trying to crack the omnichannel code for well beyond a decade. But many retailers and brands are still challenged to move from relationships based on a series of disconnected and disparate interactions to a connected experience that goes from store to e-commerce platform to loyalty program and back again. An omnichannel strategy starts by linking back-office operations, such as digital tech stack and inventory management, to front-office functions to build connections between each touch point with the consumer, no matter the channel. That's when you find your way into the hearts and minds of a consumer who's required to be particular about where they spend their dollar.

2

### **Cater to the consumer of one**

Every consumer has their own unique wants, needs, preferences and journey. Beyond omnichannel, the most differentiated experiences are those that meet the needs of the individual. Achieving this level of personalization relies on data. Companies that do it right use the insights derived from sophisticated enterprise data models to influence everything from product offers to messaging and imagery, creating deeply relevant and hyper-personalized experiences.

3

### **Deliver on the consumer promise**

A connected and personalized experience will get you nowhere if you can't deliver, literally. Consumers will prioritize retailers and brands that can provide the product they want when they want it. Supply chain visibility is essential to delivering the experience that consumers expect. Optimized demand sensing, inventory planning and product delivery powered by technology and artificial intelligence (AI) is necessary to fulfill purchases on time.

4

### **Differentiate the customer experience**

The end consumer is an important consumer packaged goods (CPG) stakeholder, but so is its customer, the retailer. As both retailers and brands activate their inflation playbooks to find sources of savings across the business, navigating their relationship will be a key source of value creation. CPG brands are in the center of increased raw materials costs, retailers that've said "no more" to price increases, and consumers with a less valuable dollar.

The answer? Agile pricing strategies and customer incentives. This approach allows CPG companies to:

- ▶ Build the capability to continuously act and learn in real time, moving from blanket cost pass-through to responsive moves based on changing market and customer behaviors.
- ▶ Align price offerings with cost-to-serve segments to articulate the total value proposition more easily to customers.
- ▶ Further incentivize customers based on desired outcomes, such as pricing for margin.

To navigate the tension between economic worry and the want to spend, consumers will place their dollar where there's value. To create value, retail and CPG companies must provide connected personalized experiences that deliver on the consumer promise while navigating the complexity of price within the brand plus retailer relationship.



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## About the survey

The 11th edition of the EY Future Consumer Index is based on a October 2022 survey of respondents in the US, Canada, Brazil, the UK, France, Germany, Denmark, Sweden, Finland, Norway, Italy, Spain, India, the United Arab Emirates, Saudi Arabia, China, Indonesia, Japan, Australia and New Zealand. Of those, the article above focuses on the 1,000 US respondents.



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US SCORE no. 18085-221US  
2211-414454  
ED None

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