



HOW ARE SOARING PRICES CHANGING CONSUMER SPENDING?



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We think the surprising shift in behavior changes the outlook for consumer-oriented sectors.

KEY TAKEAWAYS

What's happening? Consumer behavior is shifting. As inflation mounts, we're spending less on discretionary items that are "nice to have" and more on everyday staples we need.

Why does it matter? Many retailers are stuck with excess inventory of discretionary products like TVs and furniture.

Who benefits? Companies that provide the everyday staples we need (like groceries) may be better positioned to take advantage of changing consumer behavior.



HOW DID WE GET HERE?



The pandemic causes an unprecedented economic downturn.



The government stimulates the economy by putting trillions of dollars into consumers' hands.



Unemployment claims fall dramatically as the economy rebounds quickly.



Higher wages and soaring home prices also boost consumer wealth.

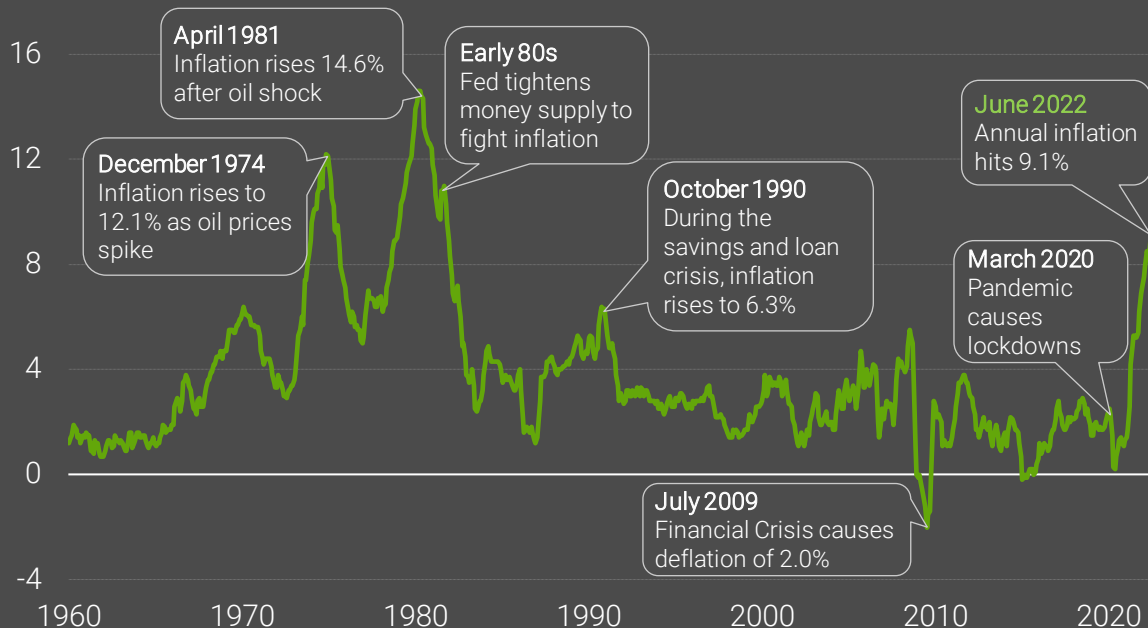


Inflation takes off.



INFLATION TAKES OFF

Yearly Change in Consumer Price Index (%)



The prices of gas, food, clothing, housing and other goods and services have risen at a rate not seen in 40 years.

Consumer sentiment has deteriorated, leading to a cutback in household spending, slower economic growth and perhaps a recession.

Data from 1/1/1960 – 6/30/2022. Source: U.S. Bureau of Labor Statistics. The Consumer Price Index (CPI) is calculated by the Bureau of Labor Statistics and measures the change in prices paid by U.S. consumers. The index tracks the price of a market basket of goods and services such as gas, food, clothing, and cars over time.

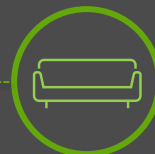
CONSUMERS CHANGE THEIR HABITS



Consumers spend more on the basics because of inflation...



... but they're ready to get out of the house.



They cut back on nice-to-have products like home furnishings and TVs ...



... and they continue to buy need-to-have items like food and beverages.

LESS SPENDING ON “NICE TO HAVE”

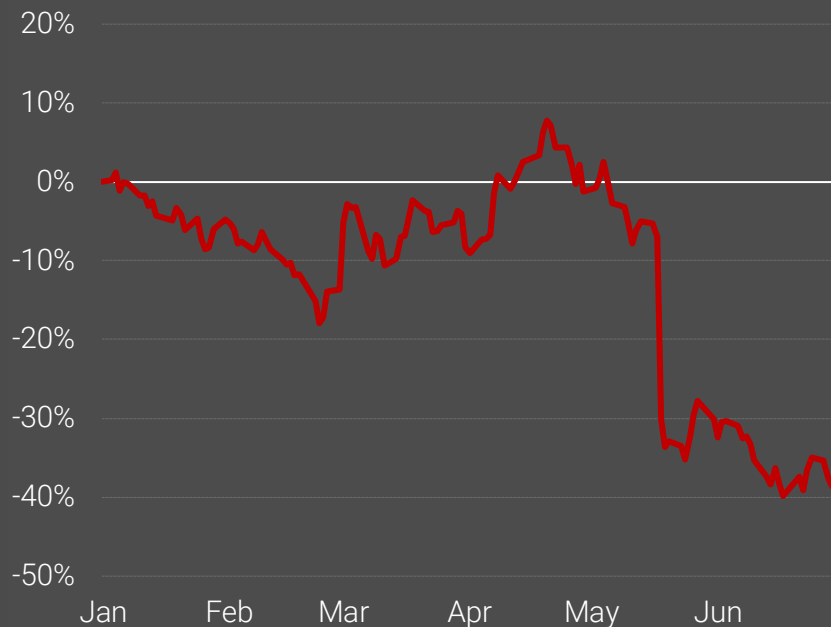
In spring 2022, pandemic-weary consumers found themselves spending more on gas, groceries and rent.

Still, they were ready to get off the couch. They started spending more on entertainment and hit the road in such large numbers that the term “revenge travel” was born.

Many retailers were caught off guard. The change in spending patterns left them with a glut of stay-at-home goods, such as TVs and furniture. Many had to cut prices to clear their shelves to make room for back-to-school and holiday merchandise.

Inventory clearance pricing hurt the profits and near-term outlooks of some of the world’s largest retailers. For example, in the second quarter of this year, Target slashed its earnings forecast and its stock price nosedived.

Target Stock Price Change in 2022



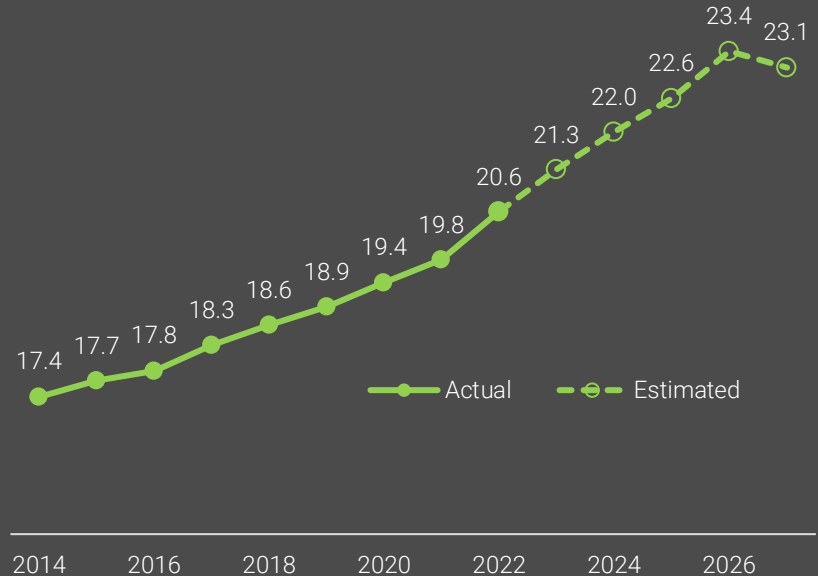
MORE SPENDING ON “NEED TO HAVE”

We think some of the companies that make and sell food, beverages, soap and other need-to-have items may be positioned to navigate this challenging environment.

Consider Kellogg. The company offers iconic brands in the cereal, snack and frozen food aisles that consumers tend to shop regardless of economic conditions. Kellogg has a particularly strong presence in the cereal category, which is expected to grow steadily in the coming years.

In addition to benefiting from long-term demand trends, select food companies have successfully maintained profit margins despite near-term cost pressures. Some have accomplished this by simultaneously raising prices and reducing portion size.

U.S. Breakfast Cereals Market Size
(Revenues in billion USD)



Data from 1/1/2014 – 12/31/2027. Source: Statista. The Breakfast Cereals market is built on resources from the Statista platform as well as on in-house market research, national statistical offices, international institutions, trade associations, companies, the trade press, and the experience of Statista’s analysts. Statista evaluates the status quo of the market, monitors trends, and creates an independent forecast regarding market developments in the global Breakfast Cereals industry.

SUMMARY

We think certain consumer staples companies — especially those in the food industry — are well-positioned to navigate changing consumer spending habits and inflation.

Conversely, heavy discounting will likely lead to lower profitability for retailers selling discretionary items. (So be on the lookout for more markdowns and sales.)

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