

HOW INFLATION IS CHANGING CONSUMER BEHAVIOR

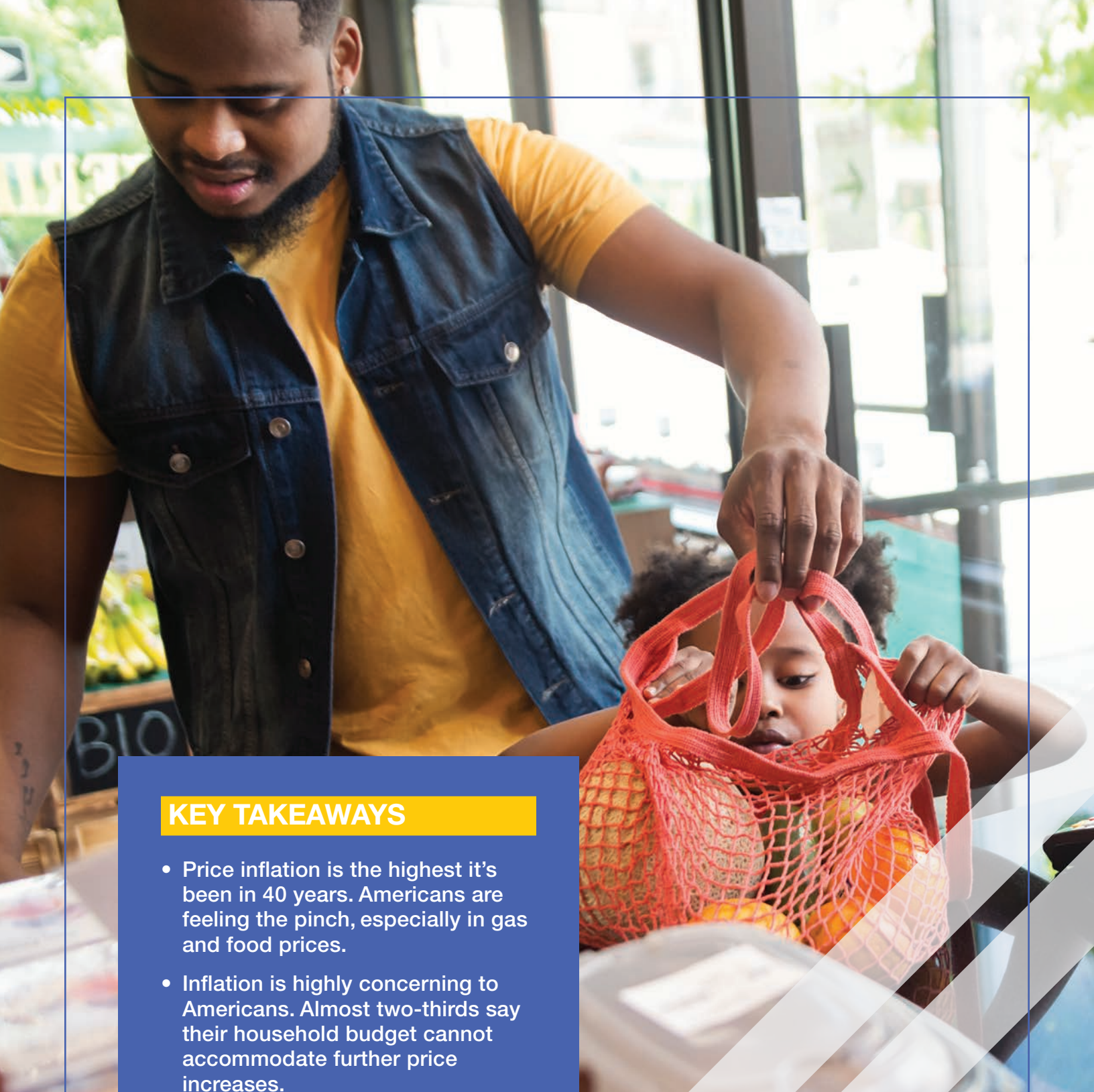
Learn how consumers
are changing their buying
decisions as inflation soars

An Ipsos Point of View

By Andrew Buss and Wendy Wallner

GAME CHANGERS





KEY TAKEAWAYS

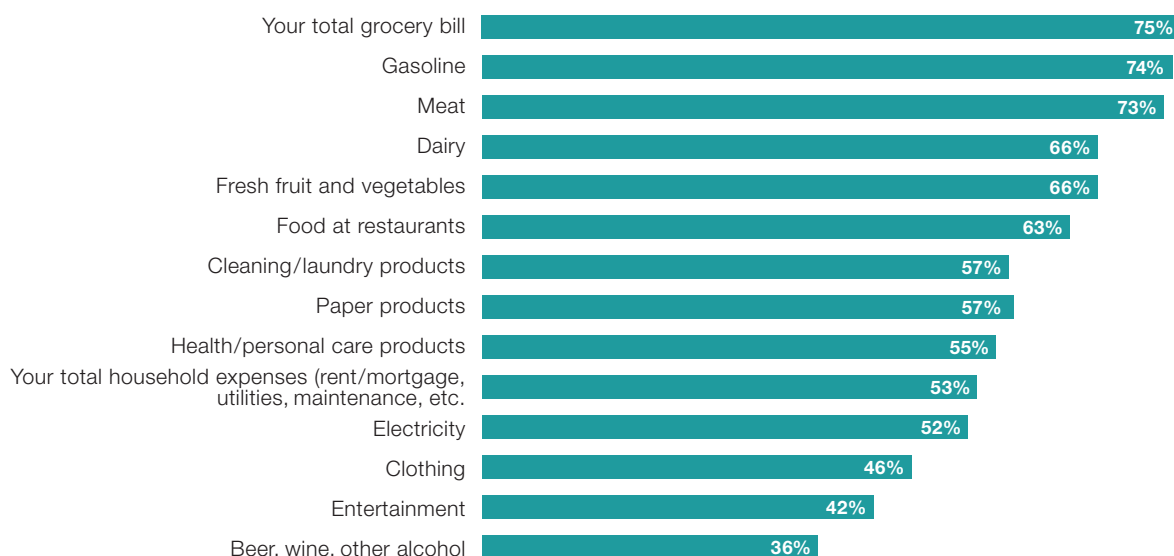
- Price inflation is the highest it's been in 40 years. Americans are feeling the pinch, especially in gas and food prices.
- Inflation is highly concerning to Americans. Almost two-thirds say their household budget cannot accommodate further price increases.
- Consumers are adapting behaviors to counter rising prices by eating even more at home, trading down to cheaper products and shopping at retailers that they perceive are doing better at managing prices.

Americans are experiencing record price increases

Americans are seeing prices rise the fastest they have risen in 40 years. In a recent Ipsos survey, consumers indicated that gasoline and food prices have been most strongly impacted. Within food categories, meat prices are mentioned most often.

Consumers feel impacted by inflation across categories, with food and gas the most prevalent.

Q. Thinking about the prices you have paid for the following in recent weeks, do they generally seem higher, lower, or about the same as in the start of this year? — % Higher



Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults

The U.S. inflation rate rose to 7.0%¹ in December 2021—the highest it has been in 40 years. Price increases are affecting many sectors, including gas, auto, food and housing.

There are numerous reasons for this:

- Massive stimulus packages in global markets made for a shopping environment that is markedly different today to what it was pre-COVID.
- There was significant pent-up demand. Consumers are flush with savings because they have not been spending as much as they typically would in the heavily hit service sector.
- The travel, dining out and entertainment categories have experienced dramatic declines, providing consumers with surfeit cash to spend in other sectors.

This created a perfect storm with a red-hot labor market that is resorting to wage growth to help mitigate the staffing shortages driven by the great resignation.

Everyone has seen the challenges driven by supply chain issues—including a lack of truck drivers and ports² that are simply overwhelmed. This is manifest at store shelves where out-of-stock items are common. In a recent Ipsos survey, 68% of consumers faced shopping challenges while shopping in the last two weeks.³ Lack of product availability and higher prices were the top challenges cited.

In the short to medium term, the inflation challenge is not going to go away. Many drivers of cost increases are related to the pandemic. As omicron keeps this virus in full swing, inflation will likely persist. Indeed, IRI estimate food prices will rise 5% in the first half of 2022.⁴ Examples of manufacturers that have recently announced price increases include Mondelez,⁵ General Mills⁶ and Campbells.⁷ In addition, as wages increase, inflation is likely to stick around since it's always difficult to revert and take wages back down.

¹ [CPI Home: U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov)

² <https://www.nytimes.com/2021/10/11/business/supply-chain-crisis-savannah-port.html?searchResultPosition=2>

³ Ipsos Essentials 11/4-7 1000 US Adults

⁴ https://www.wsj.com/articles/these-food-items-are-getting-more-costly-in-2022-11640601008?mod=series_inflation

⁵ <https://www.wsj.com/articles/general-mills-says-prices-to-climb-next-year-11640110142>

⁶ https://www.wsj.com/articles/general-mills-says-prices-to-climb-next-year-11640110142?mod=article_inline

⁷ <https://www.wsj.com/articles/campbell-says-inflation-weighed-on-quarterly-profit-11623245692>

Concern about inflation is broadly felt

Consumer concern is evident from the recent Ipsos survey: 63% of all consumers say their household budget cannot accommodate continued price increases—a startling statistic. This is particularly true for lower-income households, but the majority of higher-income households also agree with this statement.

Interestingly, there has been a large political divide over the past several years on virtually every topic. Democrats and Republicans have disagreed on almost everything. But inflation is one area that they do agree upon—both parties are equally concerned.

Americans are universally concerned about continued price increases.

Q. How much do you agree or disagree with the following statements?—Agree

% Agreement	Total Gen Pop	Household Income		Political Party	
		Under \$50k	\$100k+	Democrat	Republican
My household budget cannot accommodate continued price increases	63%	71%	46%	61%	67%
I worry about being able to afford food or basic household goods	52%	64%	34%	43%	45%

Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults

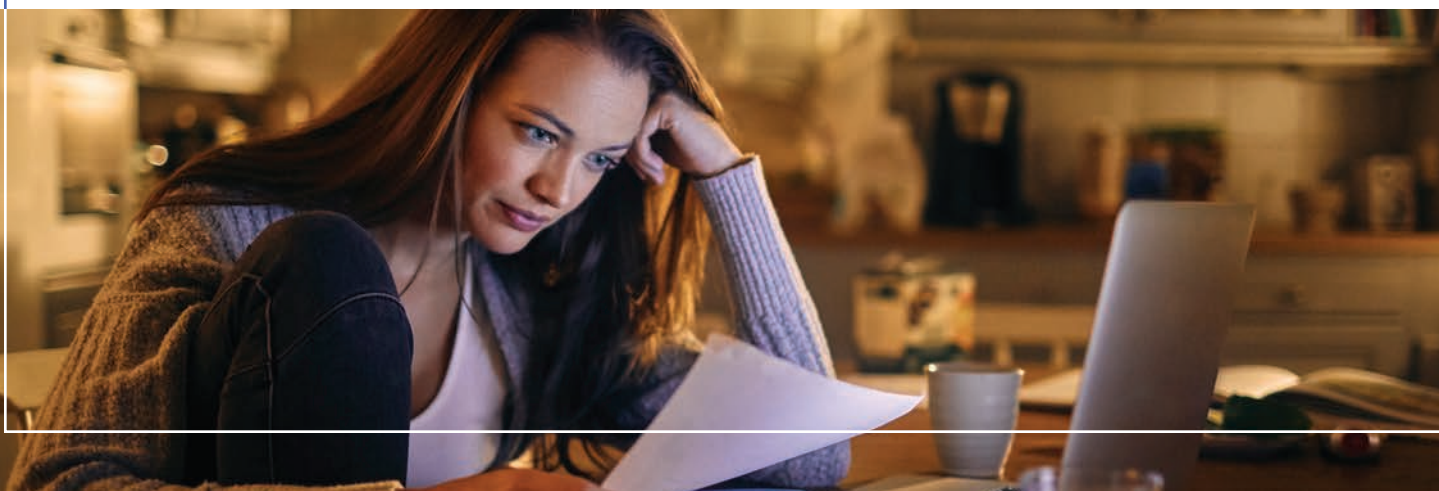
People are split on whether inflation will be controlled in 2022. Democrats are more optimistic than Republicans, likely reflecting more confidence in the current administration.

Americans are split on whether inflation will level off this year, although Democrats are more optimistic than Republicans.

Q. How much do you agree or disagree with the following statements?—Agree Summary
I believe inflation/price increases will level off in 2022

	Total Gen Pop	Political Party	
		Democrat	Republican
Agree	40%	49%	32%
Disagree	42%	34%	53%

Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults



Inflation is impacting spending and shopping behaviors

80% of consumers expect to change their shopping habits if inflation persists. Increased prices will see some buy fewer things, but more will look to trade down to lower priced items (35%), look for products on promotion (42%) and of course turn to private label (26%).

Spending will be impacted by inflation over the next few months. Some people will buy fewer things, but most will trade down to cheaper options.

Q. How, if at all, will inflation or current price increases impact your purchasing habits over the next few months?



Almost 80% said they would do at least one of these things because of higher prices

Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults

Evidence of this can be seen already. Ipsos survey data shows that roughly 80% of Americans altered their behaviors over this past holiday season because of higher prices, although coping strategies were fragmented. The top behavioral change was to cook at home more often, and dine out less than usual among one-third of the population. Americans were already cooking more often at home because of COVID. Inflation is giving them another reason to do so. Ironically, the large increased demand for groceries is heavily impacting the supply chain, resulting in higher prices and thus more at-home cooking. It's a circular phenomenon. At some point though, we'll be maxed out on eating at home, and households will need to find different ways to cope.

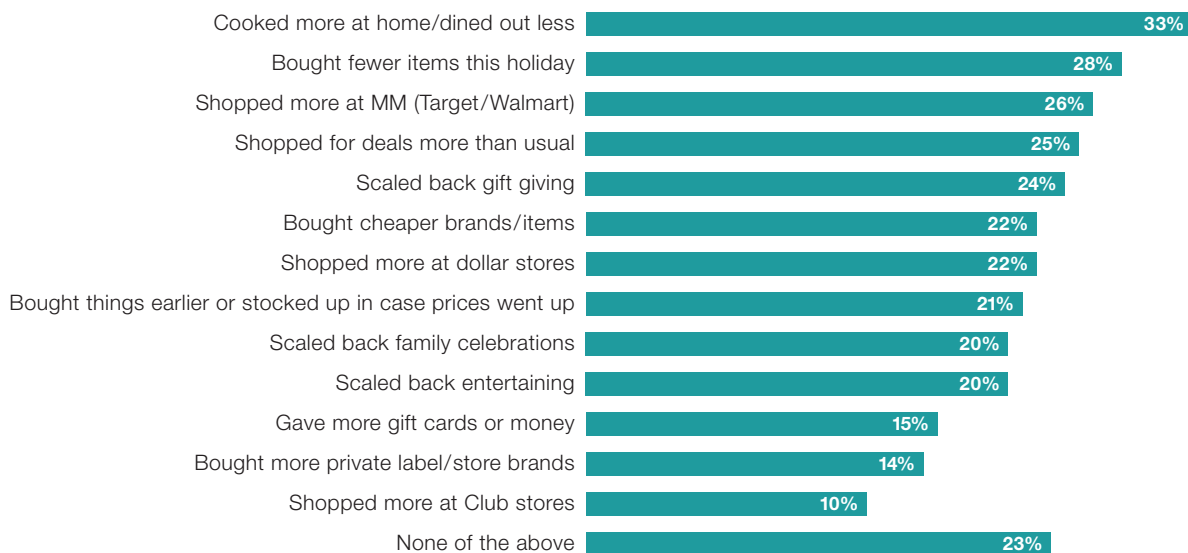
Other top behavioral changes over the holidays were:

- Buying fewer items than in typical years
- Shopping more at mass merchandise type retailers (e.g., Walmart, Target)
- Shopping for deals more than usual
- Scaling back on gift giving



Inflation affected holiday shopping habits among 80% of consumers. Inflation is adding to the cooking at home trend that was triggered by COVID.

Q. Thinking specifically about your purchasing habits this past holiday season (including gift buying, celebrations, entertaining, decorating, and cooking/baking), which of the below did you do MORE of this year than in typical years, specifically because of inflation/higher prices?



Walmart & Target are expected to benefit from both inflation and supply chain concerns

Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults

In day-to-day shopping behavior, some of these types of behavioral changes are not always easy, but there is no doubt behavior will be impacted if price increases are not carefully managed.



Shoppers will be selective

Most retailers are doing their best to mitigate the impact of these price rises on their customer base. Walmart and Target have committed to absorb many of their cost increases in an effort to drive loyalty and ongoing consumer commitment/engagement. 66% of consumers believe that some retailers are doing better than others at controlling these price increases. This is especially true in the 18–24 year old group, where 73% felt this way.

Given these statistics, shoppers are very likely to pick and choose among different retailers and brands even more than they've done in the past. And because COVID is still enticing many to consolidate shopping trips—for fear of extra COVID exposure—the retailers that are perceived to do a better job at managing pricing are likely to win large shopping baskets.

From a manufacturer's POV, the fact that inflation has had such significant play across the media affords all sectors the opportunity to adjust prices with less negative potential ramifications than there would be if price were taken in a more traditional economy. However, as outlined earlier, consumers are feeling the price increases and pricing action will still need to be managed carefully. Similar to attitudes around retailers, 61% of consumers believe that some manufacturers are doing better than others in controlling cost increases.

Majority believe that some retailers and manufacturers are doing a better job managing price increases than others.

Q. How much do you agree or disagree with the following statements? —Agree Summary

% Agreement	Total Gen Pop	Ages 18–34
Some retailers doing a better job than others	66%	73%
Some manufacturers doing a better job than others	61%	61%

Source: Ipsos Coronavirus Consumer Tracker, fielded January 4–5, 2022, among 1,160 U.S. adults

Retailers and manufacturers will want to align price increases with consumers' perceived value of products. If this equation becomes misaligned and the consumer feels the product is no longer worth the extra money, they will trade down to an alternate product or even avoid purchasing the product (as happened to holiday buying this year.)

Further, behavioral science principles tell us that there are important pricing thresholds that need to be considered as programs to adjust for inflation go into effect. Identifying strategies to maintain price and perhaps even trade out—or offset raw ingredients—are all ways to retain consumers and potentially increase perceived value for the product at higher price points.

Retailers and manufacturers must avoid a simple cost+ based pricing approach and instead look at consumer value for the product through several testing methodologies. By doing this, companies can pinpoint more robust pricing opportunities that were not afforded when simply looking at cost+ pricing.

Just like COVID, inflationary pressure is not going to dissipate for at least the next six months. Retailers and manufacturers must build sustainable plans to manage the current situation. Consumers are clearly doing their best to cope and will elect to make spending decisions even more carefully than in the past, choosing to buy from companies that customers think are doing the best job.



WHAT'S NEXT

- Inflation is here to stay—at least until the middle of the year. Retailers and manufacturers should manage pricing, with an eye to retaining customers and avoiding trade-down behavior.
- Inflation presents an opportunity at retail for private label brands. As consumers are forced to make tradeoffs given higher prices, quality alternate products provide greater appeal.
- Manufacturers have an opportunity to conduct pricing reviews across their portfolios. Strategic pricing reviews should be a priority in the first few months of 2022.
- Inflation is a universal issue that is not governed by partisan politics yet, but as midterm elections approach, expect this to be a key point of debate.

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