



INFLATION IS AMERICANS' TOP CONCERN, AND IT'S NOT GOING AWAY

Here's what businesses should know

An Ipsos Point of View

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GAME CHANGERS



KEY FINDINGS:

- COVID-19 is no longer the leading concern for consumers— inflation is now at the top.
- Purchasing patterns are changing as consumers try to make each dollar go as far as possible, with middle-income households making the most changes.
- Fear levels are high, with gas and food costs at the center, anger at perceived corporate greed, and Millennials and older Americans feeling disproportionately impacted.

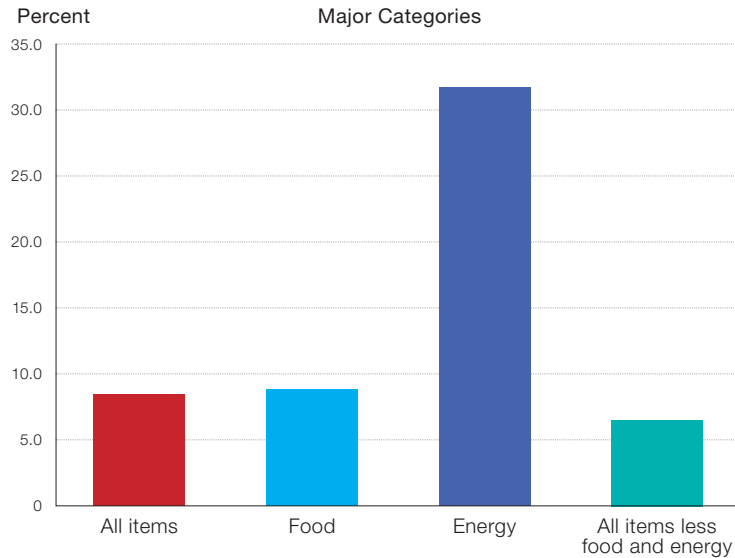
April's inflation figures have now been published and for the first time in 31 years, prices [increased 8.5%](#) over a year ago. Inflation in the U.S. is now at a four-decade high.

This has occurred for several reasons, but the predominant driver of inflation changes this month is the energy sector. When Russia invaded Ukraine, energy prices increased dramatically. The cost of energy surged 32% from March 2021 as fuel costs hit record levels.

Food was the other sector that experienced significant cost increases, with prices jumping 8.8% versus a year ago and 1% versus last month.

Even if we remove the energy and food categories from the inflation calculation and focus on services and goods, inflation is still up 6.5%—a rise of 6.4% from February (commonly called the [core price index](#)).

12-month percentage change, Consumer Price Index, selected categories, March 2022, not seasonally adjusted



Price increases are affecting businesses as well as consumers. Even when employers can increase wages, the increases are not keeping pace with inflation: [“Among those who received raises, two-thirds received an increase of just 1% to 5% of their salary, well below the current rate of inflation.”](#)

With continued high inflation and only yearly adjustments in salary, the buying power of workers’ take-home pay will continue to shrink. In fact, real (inflation-adjusted) average hourly earnings fell 2.7%, seasonally adjusted from March 2021 to March 2022, the Bureau of Labor Statistics [reported](#) on April 12. In addition, it is important to note that not every worker is getting a salary increase, further exacerbating the inflationary pressure consumers are feeling.

Expect to see further shifts in purchasing habits, including consumers shifting to private label, making fewer purchases, buying fewer fresh foods, using more Quick Service Restaurants and looking for more deal shopping and price-oriented retailers. Decreased driving will also make at-home behaviors and categories stickier than before.



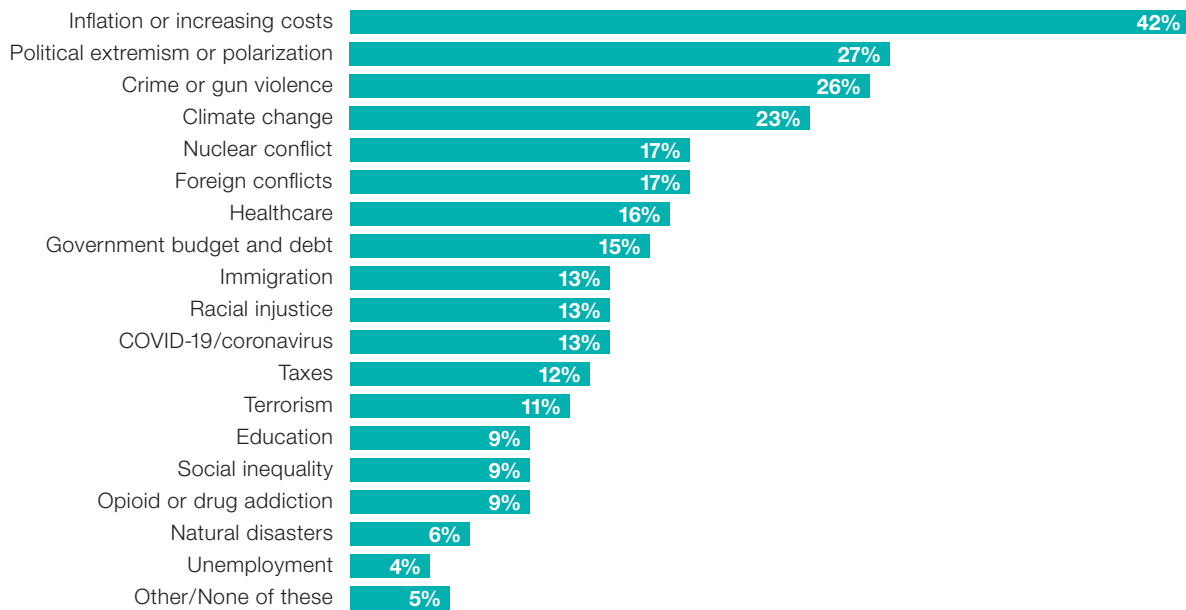
Consumer Concern is High

A recent Ipsos survey focused in on how concerned consumers are in this challenging economic environment.

The survey, done in partnership with NPR, asked the general population about their leading concerns based on a list of 13 potential choices. Inflation/Rising Prices was the overwhelming top concern at 42%. COVID-19 no longer tops the list; it is now a top concern for only 13% of Americans.

What worries Americans? It's all about inflation

Q. Which three of the following topics do you find the most worrying? (Select up to three)



Source: NPR/Ipsos survey of 1,006 American adults age 18+ conducted March 18 – 21, 2022



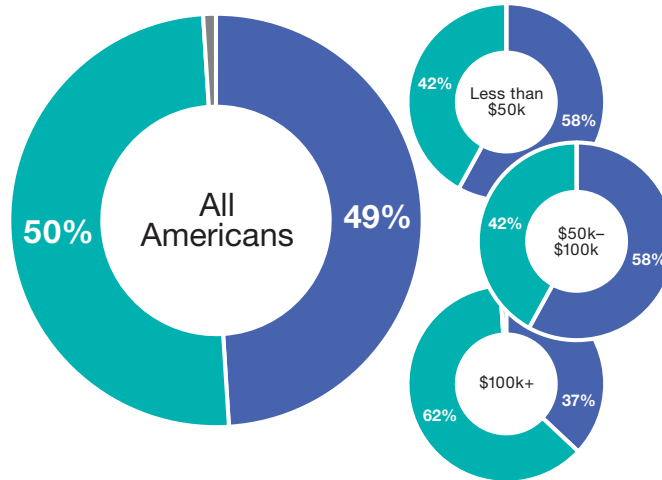
Gas prices another reason to stay home

A significant driver of inflation over the last 50 days has been the dramatic increase in gasoline prices. A recent Ipsos survey conducted with ABC News found that roughly half of the general population believes recent gas price increases are causing general hardship. These increases have hit some income groups especially hard. Among lower-income households, 58% are experiencing financial hardship due to gas price surges.

Rising gas prices are hitting some harder

Q. Have recent price increases in gasoline caused any financial hardship for you or others in your household, or not? By household income

■ Yes ■ No ■ Skipped



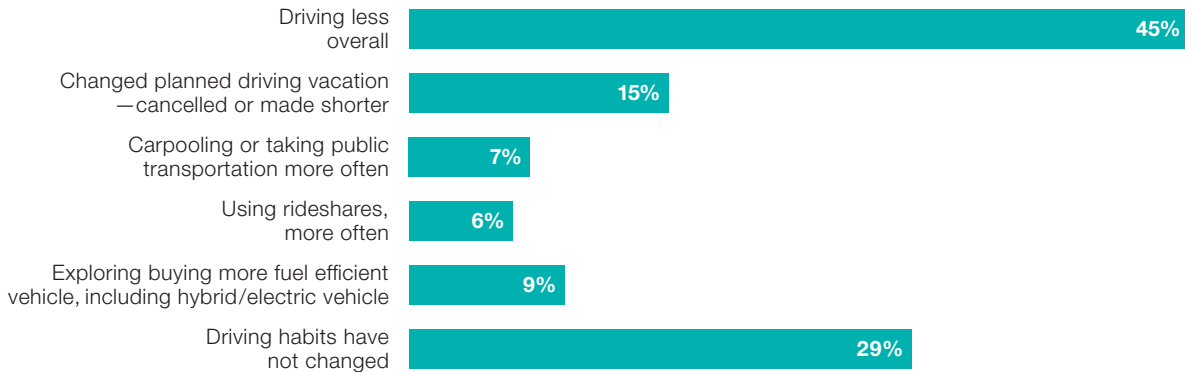
Source: ABC News/Ipsos survey, fielded April 8-9, 2022



Many Americans are making the choice to drive less. This means the reduced mobility that took hold during COVID-19—a trend that lingers today as many opt to work remotely—will grow additional roots as people stick close to home and away from cars. And this trend will continue to trickle across sectors. For instance, expect online purchasing and delivery to continue as there is yet another reason not to venture out to physical locations.

Most Americans are changing their driving habits due to increased gas prices

Q: How, if at all, have gas price increases impacted your driving habits over the past few months?

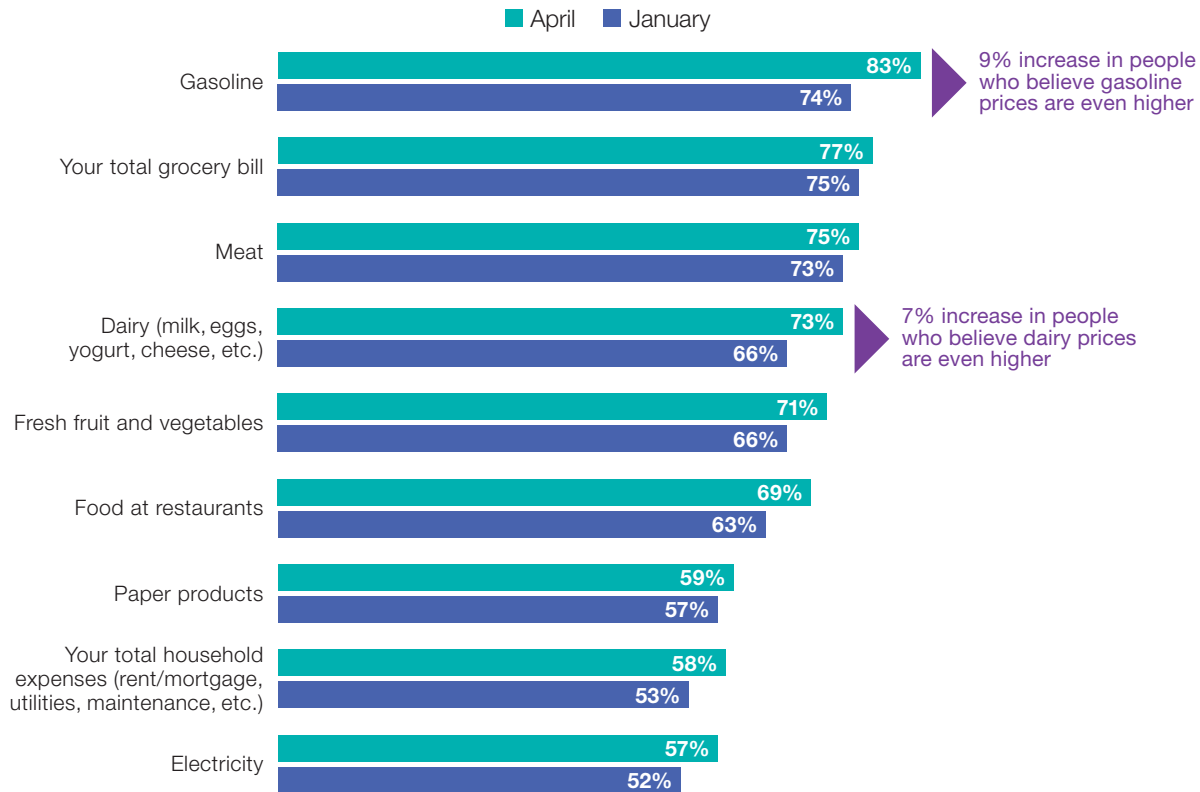


Source: Ipsos Coronavirus Consumer Tracker, fielded March 29–30, 2022 among 1,152 U.S. adults

Ipsos also found that 9% more people noticed a substantial increase in gasoline prices from January to April.

In the past few months, people believe prices have increased even more...

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 summary table



Source: Ipsos Coronavirus Consumer Tracker, fielded March 29–30, 2022 among 1,152 U.S. adults

Food More Difficult to Afford

More consumers also saw substantial price increases in food over this time, but not to the same extent they did with gasoline. Within food, the biggest change in pricing from January to April occurred in the dairy category, which jumped from 66% to 73% of consumers who noted higher prices.

Taking a closer look at food specifically, 53% of respondents feel that the increasing food prices make it more difficult to afford the food they usually buy. This is especially the case for Hispanics at 60% and lower-income families at 56%.

Over half of Americans agree it's difficult to afford their usual food Especially true for lower income households and Hispanics

Q: For each of the statements below, indicate your level of agreement

Increasing food prices are making it difficult to afford the food I usually buy	Total	Household Income				Ethnicity			
		Under \$50K	\$50K- <\$100K	\$100K+	\$125K+	White	Black	Hispanic	Asian
Agree	53%	56%	51%	50%	48%	52%	51%	60%	57%
Disagree	20%	17%	19%	29%	31%	24%	15%	13%	12%

Source: Ipsos Coronavirus Consumer Tracker, fielded March 29 – 30, 2022 among 1,152 U.S. adults



Rising Prices Result in Shopping Behavior Changes

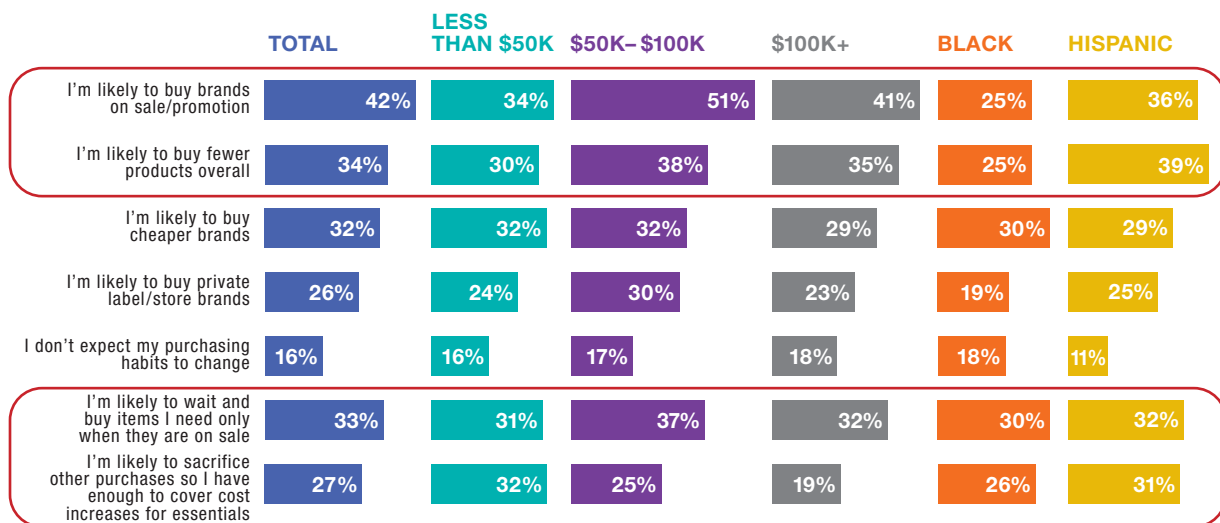
Pricing pressure is affecting consumer purchase behaviors. More than 80% of consumers have changed their behaviors in at least one way, according to recent Ipsos survey data shown below.

The top tactic among consumers is to buy brands when on sale. Additionally, roughly one-third of consumers are likely to buy fewer products overall.

Interestingly, middle-income households appear to be changing behaviors most of all, suggesting that lower-income consumers have already cut back as much as they possibly can with nowhere left to go. Higher-income consumers are less likely to feel they need to cut back.

Inflation is changing how Americans spend Over 80% are doing at least one of the following

Q. How, if at all, will inflation or current price increases impact your purchasing habits over the next few months?
By income level and ethnicity/race

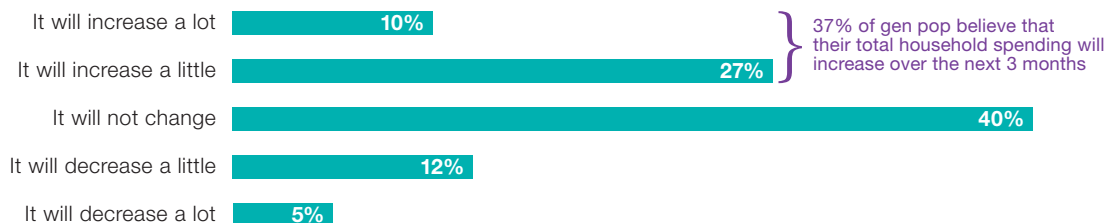


Source: Ipsos Consumer COVID tracker, survey fielded April 12-13, 2022

As a result of this inflationary pressure, in another Ipsos survey, 37% of respondents expect to increase their spending over the next three months. A larger portion (40%) feel their spending will remain unchanged. If this is the case and prices continue to rise at the rate they have been, purchasing patterns will continue to shift as people try to make the same dollar go as far as it can.

Many Americans expect their spending not to change, suggesting they will find ways to offset price increases

Q: How do you expect your total household spending to change over the next three months compared to now?



Source: Ipsos Coronavirus Consumer Tracker, fielded March 29-30, 2022 among 1,152 U.S. adults

Fears are further illuminated in online conversations

Synthesio, an Ipsos company and a leading consumer intelligence platform, conducted an analysis of online conversations related to inflation. Companies should be sensitive to heightened feelings as consumers are discussing the good and the bad on social media.

Online conversations about inflation have increased by 27% over the last six months. Gas prices and political debates dominate online conversations. Conversations about driving less and taking public transportation have increased by 66% in the last six months.

“Food and beverage” is the most-discussed retail category related to inflation and most associated with fear. Anger is high over “shrinkflation,” getting less for the same amount of money. Many cite their plan to eat more fast food and non-perishable food, staying away from more costly fresh meat. Supply chain issues on top of inflation have doubled the problem, as consumers perceive that fresh food is more expensive and spoils faster than before with shortened shelf lives.

Consumers also talked about Amazon and Netflix’s recent price increases as part of their perceptions of corporate greed and unnecessary price hikes. On the other hand, appreciation for Costco is high, especially its gas prices.

Millennials feel disproportionately impacted by housing market inflation. Older generations (on social security and fixed incomes) feel forgotten and can’t keep up with rising expenses. Folks living paycheck to paycheck are feeling the pressure of rising costs across the board; healthcare costs in particular are causing a high level of fear.

“There are those that have never struggled for money. They don’t understand the fear and anxiety around those who don’t have money. These rising prices are soul-crushing.”

“The cost of every single thing is rising. Housing, transportation, insurances, healthcare, food... but pay isn’t matching. This isn’t sustainable. There’s already significant strain on my wallet and the hits keep coming. I really worry about the future, financially.”

“I really can’t afford these higher food and gas prices. It’s the 9th and I am already wondering how I am going to make it to the rest of the month.”

Source: Synthesio, 01/13/22–4/13/22, public mentions in the U.S. related to inflation, English only

What's Next

- Inflation will continue for several months yet. Cost increases are driven by continued supply chain disruption that stems from several challenges. These include increased energy costs, a COVID-19 outbreak in China that has resulted in near total lockdowns and the war in Ukraine, which has affected much of the gas used to produce semi-conductors as well as global grain sales.
- A continued rise in credit or deferred payments, especially for higher-ticket items like automobiles. As shoppers continue to feel the pinch, occasions to delay payment will increase. At first, the delay will be for higher-ticket items, but if the inflationary cycle continues, expect to see it on day-to-day purchases. Grocery bills will be paid on credit and partial payments will increase each month.
- Expect consumers to continue to reset the paradigm of what “expensive” is, but also expect consumers to spend more time researching big ticket items. In today’s environment, it is hard to know when you’ve found a deal. Expect deal tracking sites to increase in popularity.
- Organizations should initiate or continue with programs that take a hard look at their cost structure. A leading CPG company recently presented their framework for what they called “Brand Design to Value.” In their process, the organization uses 12-week sprints to identify all the drivers of costs with a given product, identify the ones that are most important, and seek to strip out costs that can be mitigated, rather than directly passing them through to consumers.
- Continued pressure to adjust pay to be commensurate with the increased pricing pressure experienced by consumers. If consumers continue to struggle, expect to see an increase in those looking for new jobs as they seek to establish new pay levels that will keep them whole given the rapid inflationary pressure. This is especially true for lower income consumers.
- Expect to see continued increases in interest rates by the federal government. This is intended to help slow spending and demand, which in turn will prevent still more price increases from happening.
- In the long term, it is hard to find an easy exit when the highest inflation in 31 years continues to place increased pressure on consumers. What is clear is that behaviors are changing. Manufacturers, retailers and markets need to be ready for the implications of the behavioral changes that are occurring. Tools at the Fed’s disposal can cause negative reactions within the economy, and they need to manage the situation closely if they are to avoid plunging the country into a full-blown recession.



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