

HOW FINANCIAL SERVICES PROVIDERS CAN HELP CUSTOMERS DEAL WITH INFLATION

Author: Kevin Hung



GAME CHANGERS



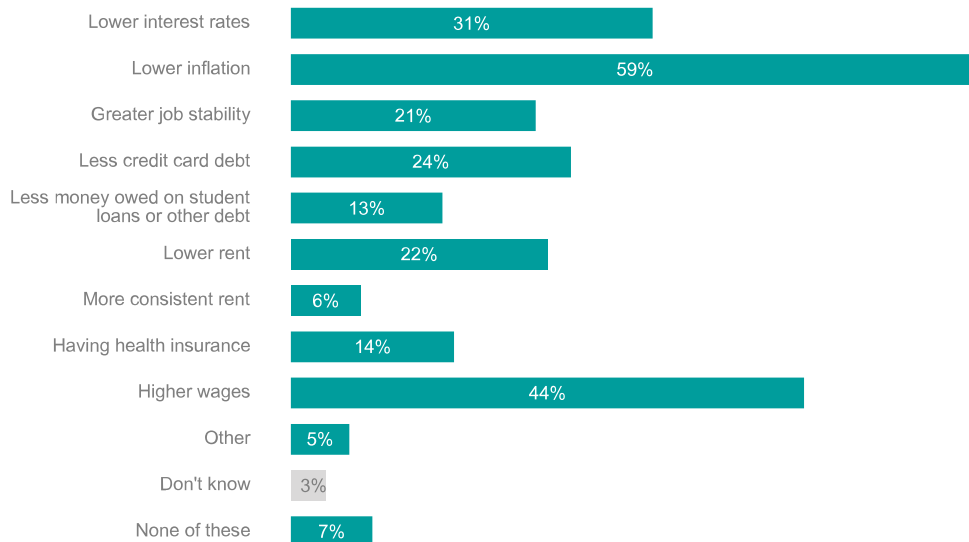
KEY TAKEAWAYS:

1. Three in five Americans say they would feel more economically secure with lower inflation
2. Credit cards are bridging the imbalance between higher prices and consumer spending to maintain pre-inflationary lifestyles
3. Financial institutions can help Americans get through this inflationary period by increasing credit card lines, allowing more flexible repayment terms, and adjusting qualifying criteria for credit cards and credit lines for the underbanked population

Inflation has dominated economic news in the post-COVID era. While recent reports give us hope that it may be [coming under control](#), with inflation rates dropping to nearly 3% year-over-year, we are still feeling the effects of the 9.1% rate from last summer, the highest since 1981. While Americans have more confidence in the economy today than they did a year ago, three in five Americans also say they would feel more economically secure if inflation were lower, [according to data from the Ipsos Consumer Tracker](#).

Lower inflation would help us feel more economically secure

Q: What, if anything, would make you feel more comfortable with your personal economic situation?



Source: Ipsos Consumer Tracker, fielded November 7 – 8, 2023 among 1,120 U.S. adults.

That's perhaps in part because [wages haven't kept up with inflation](#). That created a situation where consumers, reluctant to adjust, are now feeling less wealthy, yet continuing to spend to maintain pre-COVID lifestyles at significantly higher costs and feeling much more economic anxiety. Consumers' increased spending is borne out by the economic data as well. In the third quarter of this year, [U.S. GDP grew at 4.9%, better than expected and ahead of the 4.7% estimate](#) – mostly attributed to consumer spending.

It's a complicated situation that's ever-evolving, but there are actions financial institutions in the U.S. can take to help their customers.

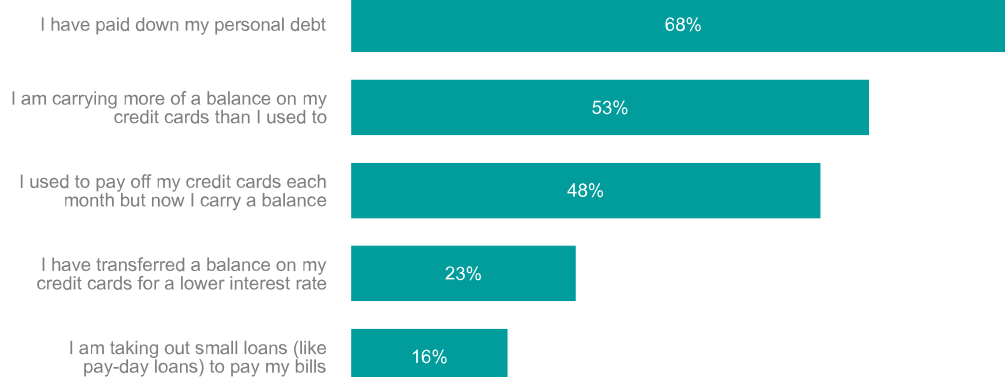


Diving in to debt and consumer behavior

So, how are consumers reacting to the economic environment? Take a look at some of the [data we captured earlier this month](#) on how consumers are feeling about their personal debt.

Here's what mixed signals in personal debt looks like

Q: Have you had any personal debt (i.e., credit card, car loan, personal debt, etc.) in the last six months, or not?



Source: Ipsos Consumer Tracker, fielded October 10 – 11, 2023 among 612 U.S. adults who reported having personal debt in a previous question.

Of the consumers that we surveyed that reported having personal debt, roughly half say they are carrying a balance on credit cards when they used to pay them off completely each month. Additionally, half also say that they are carrying more of a balance. Yet 68% share that they have paid down their debt, with more affluent households (as defined by household income of \$125K+), saying so (82%) than less affluent households (defined as household income of <\$50,000) (61%).

So net, we're carrying more debt on credit cards, but are also paying it down. Credit cards therefore are bridging the imbalance between higher prices and consumer spending to maintain pre-inflationary lifestyles.

[The Fed confirms our data](#), as well, reporting in the second quarter of 2023 that, compared to other debt categories, "credit card balances saw the most pronounced worsening in performance, following a period of extraordinarily low delinquency rates during the pandemic."

As this has lingered, concurrently, we're also starting to see our markets and economy adjust to this new reality with strange and often frustrating effects.



The terms “shrinkflation” and “skimpflation” have been widely documented – that is, maintaining pre-inflation prices, but providing less quantity or quality than before. Evidence of this is everywhere and not just with packaged goods serving sizes and ingredient changes, but [also portion sizes in restaurants](#), and [hotel check-in/check-out times and housekeeping services](#) as two other examples. However, [consumers are pushing back](#) and declining to adapt.

Customers are noticing shrinkflation and feel cheated by it

Q: How much do you agree or disagree with the following statements?

● Agree ● Disagree ● Don't know

Lately, I'm getting less of what I buy (fewer items in the package, or smaller packages) but paying the same amount, or more



Getting less of what I buy (fewer items in the package, or smaller packages) makes me feel taken advantage of



Source: Ipsos Consumer Tracker, fielded June 6 - 7, 2023 among 1,108 U.S. adults.

One example is “tip rage” in reaction to “tipflation.” The service industry has seemingly overextended automatic and ambiguous fees tacked onto final bills; consumers have felt taken advantage of for their previous generosity and some are now actively [tapping “No Tip” with great pride](#), rather than feeling emotional conflict and internal bargaining at the point of sale.



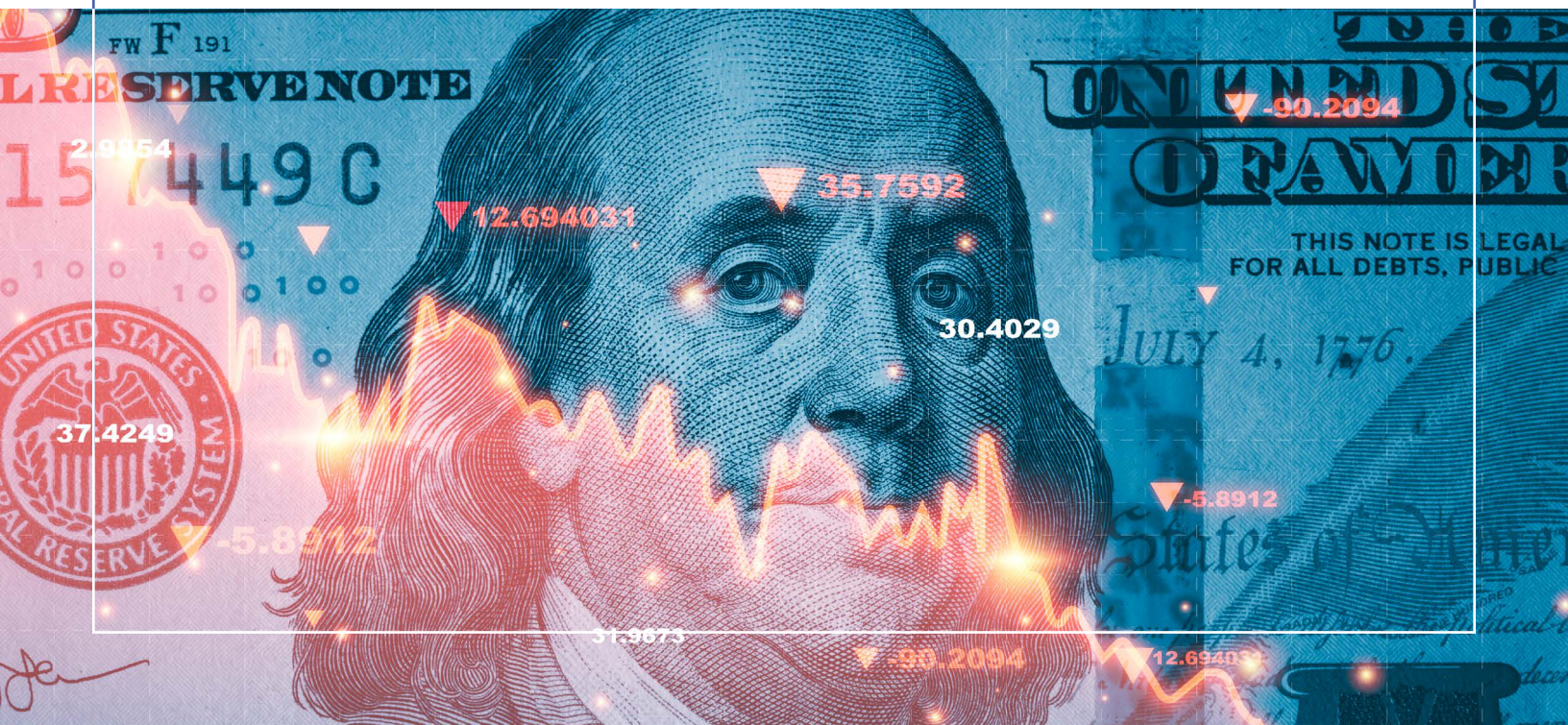
It could always be worse: Lessons from a hyperinflationary economy

Most Americans are fortunate to have never lived in a hyperinflationary economy, where interest rates increase by 50% or more each month – almost instantly devaluing currency. However, one can imagine how disruptive inflation can be should every consumer transaction fail to meet and even disappoint expectations, especially if repeated across every day-to-day interaction. Consumers are clearly struggling and feeling the pain and frustration. How can financial services providers help consumers through these inflationary periods?

We can look at extreme situations to anticipate what new unmet needs are forthcoming among consumers that financial service providers can address. In this case, we can look at how consumer behavior evolves in a [hyperinflationary economy like Argentina](#). Argentina in September 2023 reported an inflation rate of 138%, on top of an inflation rate of 124% in August. Consumers in this country have had to adapt to an environment where sudden declines in value of its currency, the peso occurs regularly. Knowing that the currency that they hold today will be worth less tomorrow activates some interesting behaviors:

- Consumers buy goods as fast as they can before the currency loses more value, spending their pesos quickly as they know prices may rise tomorrow and therefore making goods become out of reach.
- They also try to purchase high ticket items through payment installments as committing to a price today and paying it off over time bets that the currency value will fall and therefore enables future payments to cost much less.
- On the other side of the transaction, with wild fluctuations in prices, many sellers of goods and services simply just do not have a grasp of how to price anymore so they sometimes just simply halt sales until prices stabilize – leading to shortages of essential goods and services.

Some segments of the population are fortunate to have jobs with wages that keep up with inflation. Others, unfortunately, do not and therefore, alarmingly, the economy begins to split into a two-tiered economic system, increasing the gap between rich and poor. Therefore, in wealthier neighborhoods, construction continues and restaurants continue to be packed, while in poorer neighborhoods, citizens have to resort to bartering for goods and services.



What financial institutions can do

In the U.S. we most likely will never face an economic situation like this. However, as our data showed above, we ARE actually starting to see some of the Argentinian consumer spending dynamics (though on a much smaller scale) here in the U.S. Financial institutions therefore can learn from Argentina's experience and understand potential new unmet needs among U.S. consumers that they may be able to provide for. For example, banks can consider:

- **Increasing credit card lines** to ensure that consumers have enough buying power to get through the inflationary period. Additionally, should more control be required to prevent consumers from getting into too much debt, these line increases can be held under separate sub credit lines for only specific purchase categories.
- **Allowing more flexible repayment terms**, such as longer intervals between due dates and lower interest rates to help consumers manage their cash flow.
- **Adjusting qualifying criteria for credit cards and credit lines for the underbanked population** so that they too can have mechanisms with which to get through this inflationary period. This can contribute to preventing the stratifying effects of the economy that we see in Argentina.

Additionally, these actions can also be **extended to the financial institutions' business customers** so that they can use the buying power and flexibility to better manage their inventory, costs and cash flow which in turn, can benefit consumers in the market at the point of sale.

Finally, given that most banks operate on both sides of a credit card transaction – that is, they provide the credit to the consumer but also charge the seller/merchant the fee for accepting credit cards – banks are situated perfectly in the middle to be able to provide a **group-buying discount for customers at national retailers**, while also offering discounted credit card acceptance rates to these retailers should they participate.

While banks cannot influence our government's monetary and fiscal policy to impact inflation, they can certainly show empathy and help alleviate customer economic anxiety by launching new products and services to help them cope with inflation. Financial institutions can also ensure customers are enrolled in the best savings accounts to minimize the effects of inflation by maximizing returns on their deposits. These can win over new customers and deepen trust with existing ones thereby ultimately elevating the financial institutions' brands and category perceptions.

Looking for more guidance helping your customers navigate this economic climate? Ipsos can help. Please contact us to learn more.



Author:

Kevin Hung

SVP, Senior Client Officer

Kevin.Hung@ipsos.com

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