



# Is inflation pushing consumers to the edge?

Consumer Pulse Summer Survey

June 2022



# Executive summary

While reports of consumer spending data remains strong, there are signs that consumer perception of the economy is much less so. With inflation at 40-year highs, food and gas prices soaring, and cost of living on the rise, household budgets are tightening and consumer concerns over the economy are mounting. With inflation top of mind, has consumer demand reached a tipping point?

According to the results of the KPMG LLP Summer 2022 Consumer Pulse Survey of 1,000 consumers, 87 percent of survey respondents are concerned about inflation, with 43 percent being “extremely concerned.” Moreover, 72 percent of consumers are not only expecting a recession in the next 12 months, but many are also planning for it.<sup>1</sup>

Shoppers are responding by shifting more of their spend from wants to needs and changing their purchasing habits. Nearly 70 percent of consumers surveyed plan to shift their discretionary spend to nondiscretionary items.<sup>2</sup> In addition, nearly six in 10 consumers plan to change their shopping behaviors, including buying fewer items, looking for bargains, purchasing items at discount, substituting with lower-cost brands, and switching retailers.<sup>3</sup>

Nearly all (95 percent) of the consumers surveyed believe prices for products have increased over the last six months, citing the highest increases in groceries (79 percent), restaurants (73 percent), and travel/vacations (66 percent).<sup>4</sup> Meanwhile, consumer concerns are elevated particularly for grocery (89 percent) and gas (85 percent) inflation.<sup>5</sup> In response to higher gas prices, 85 percent of consumers expect to drive less, which could lead to consolidating shopping with fewer trips or fewer stores as well as having an impact summer travel plans.<sup>6</sup>

In addition to price increases, consumers have noticed stockouts over the last three months, as strains on supply chains are compounded by Zero-COVID lockdowns in China and the impacts of the Russia-Ukraine war.

Yet, even inflation cannot keep consumers from going on vacation this summer. After two years of pandemic-related restrictions and pent-up demand, consumers are ready to travel, but many (59 percent) admit they will adjust their plans to counterbalance higher prices with fewer and shorter trips.<sup>7</sup>

<sup>1</sup> KPMG Consumer pulse survey | Summer 2022 edition. (Survey fielded May 10 – May 18, 2022. Slide 11 (All additional slide references in this report are from this source unless otherwise noted.)

<sup>2</sup> Slide 15

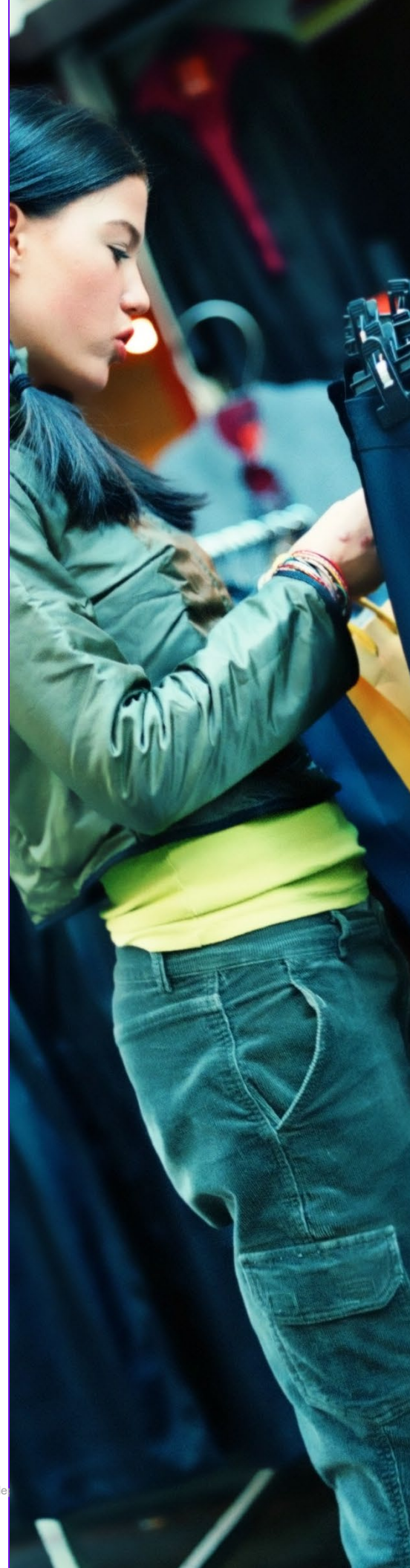
<sup>3</sup> Slide 16

<sup>4</sup> Slide 14

<sup>5</sup> Slide 15

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<sup>7</sup> Slide 26



# Executive summary

## Key survey insights

Based on this year's survey data, some of the key themes explored in this report include:

- Inflation impact on consumer confidence
- Consumer change in buying behaviors and spending patterns to combat inflation
- Consumer expectations for a recession
- Impact of cost-of-living increases on consumer spend
- Comparison of rising prices across all product categories
- Purchase patterns of online and in-store shopping
- Stockouts and supply chain challenges
- Summer 2022 travel activity versus last year.

We hope you find these insights valuable in navigating changing market dynamics as consumer confidence reaches a tipping point. To learn more, we invite you to explore our survey results on the following pages and will be happy to discuss the data and insights derived from our research.



**Matt Kramer**  
National Sector Leader,  
Consumer & Retail  
mattkramer@kpmg.com



**Scott Rankin**  
National Advisor &  
Strategy Leader,  
Consumer & Retail  
scottrankin@kpmg.com



**Julia Wilson**  
Advisory Managing,  
Director, Strategy  
juliawilson@kpmg.com



**Kenneth Kim**  
Senior Economist.  
Office of the Chief  
Economist (Acting  
Head)  
kennethkim2@kpmg.com



**Monica Rodriguez**  
Manager, Advisory  
monicarodriguez@kpmg.com

# Reaching a tipping point?

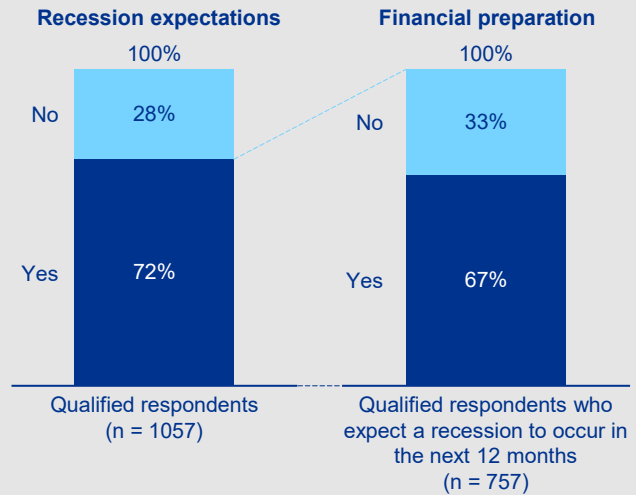
After a year of strong consumer spending outpacing inflation and following boosts of pandemic relief stimulus, consumer demand has finally reached a tipping point. According to our survey results, consumers are shifting their buying behaviors and reallocating where and how their dollars are spent due to elevated concerns over inflation, increases in the cost of living, and growing fears of a possible recession.

Illustrating the high level of consumer concern, nearly three-quarters of survey respondents (72 percent) expect a recession in the next 12 months. Of that amount, nearly two-thirds (67 percent) are already planning for it.<sup>8</sup>

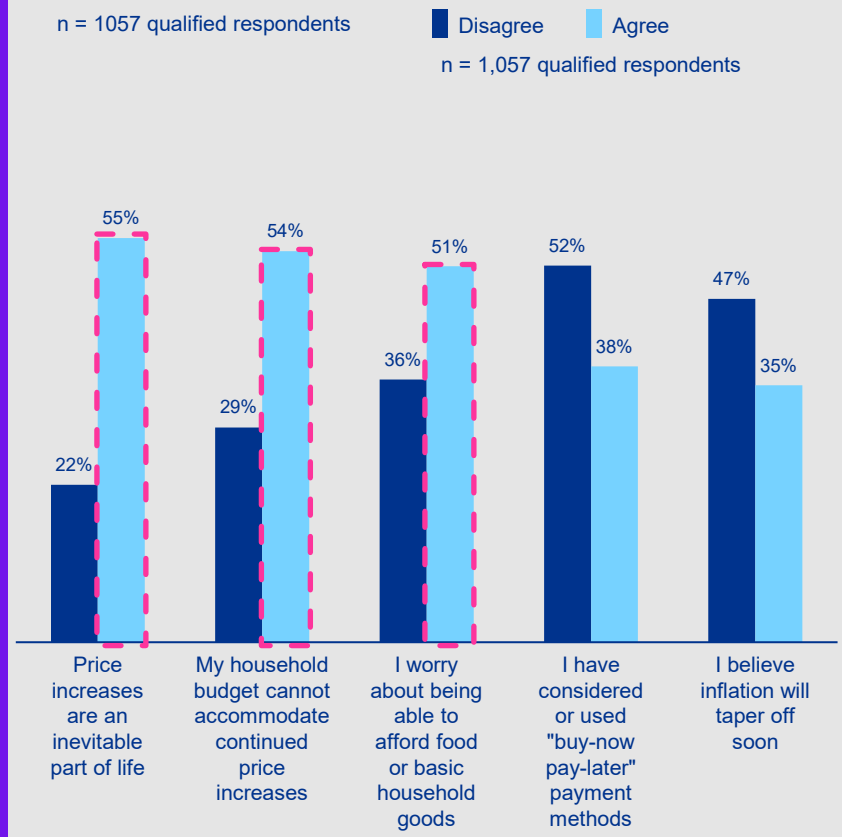
Such worries are reflected in the Michigan Consumer Sentiment Index (MCSI), which was revised down to 58.4 in May, the lowest since August 2011.<sup>9</sup> In addition, the Conference Board Consumer Confidence Index dipped to 106.4 in May from 108.6 in April.<sup>10</sup> These declines reflect consumers' growing concern about ongoing inflation.

According to our survey results, 55 percent of respondents believe "increases are inevitable," yet nearly as many (54 percent) agree that their "household budget cannot accommodate continued increases." Moreover, 51 percent "worry about ability to afford basic household goods."<sup>11</sup>

## Consumer expectations regarding and preparation for a recession in the next 12 months



## Consumer sentiments regarding inflation



<sup>8</sup> Slide 11

<sup>9</sup> University of Michigan, Michigan Consumer Sentiment Index, May 2022.

<sup>10</sup> "Consumer confidence declined slightly in May," The Conference Board Consumer Confidence Index Press Release, May 31, 2022.

<sup>11</sup> Slide 12

# Reaching a tipping point?

## *Is a recession nearby?*

Consumers continue to feel the pressure of inflationary headwinds, as sticker shock curtailed demand for core goods meant for immediate consumption. This included spending on food and beverages, which declined 0.2 percent, and gasoline, which dropped 2.7 percent in April.<sup>12</sup> The Federal Reserve is trying to do its part to control inflation and cool demand by raising interest rates three quarters of a point year to date with another half a percentage point expected in June.

In spite of high inflation, retail sales numbers reported by the U.S. Commerce Department climbed 0.9 percent in April, nearly matching expectations for a 1.0 percent month-over-month increase.<sup>13</sup> This latest retail sales data points to solid GDP growth of a 2.5 percent seasonally adjusted annual rate or better in the second quarter of the year.<sup>14</sup> Yet, some of this growth reflects pricing and inflation versus volume.



*Consumers are feeling the impact and beginning to shift their spending away from wants to focus on needs with some exceptions. Consumers still want to vacation and attend events after missing out the last couple years. Retailers must adjust to these changing behaviors and make sure the right categories and merchandise are in stock.*

**Matt Kramer**

KPMG US National

Consumer and Retail Leader



<sup>12</sup> KPMG Office of the Chief Economist, May 2022.

<sup>13</sup> U.S. Department of Commerce, May 2022.

<sup>14</sup> KPMG Office of the Chief Economist, May 2022.

# Shifting spend from goods to services

While consumer resilience continues to underpin the economy with solid spending reported during the first part of the year, signs are increasing that some shoppers are cutting back or forgoing purchases as inflation shrinks their spending power.

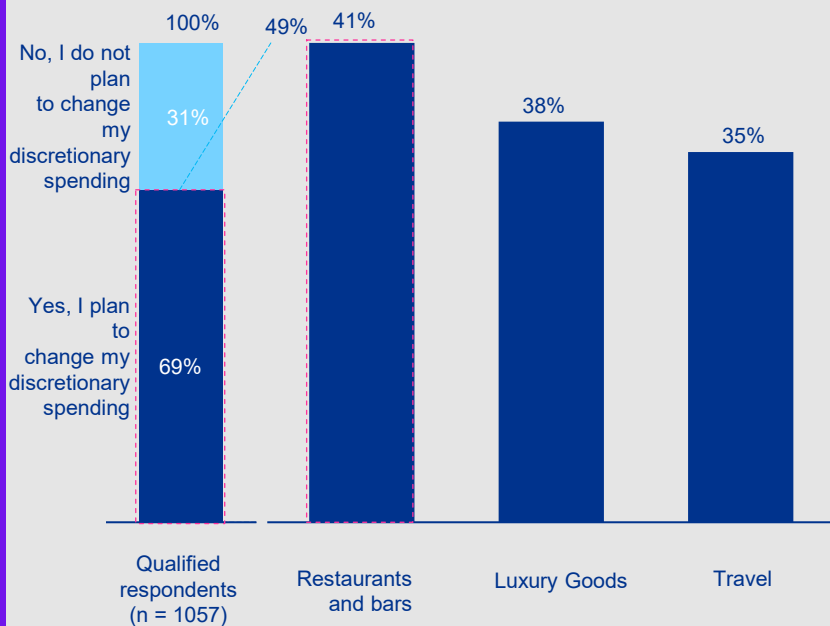
Nearly 70 percent of consumers surveyed plan to change the amount of their discretionary spending due to inflation.<sup>15</sup> Nearly half (49 percent) plan on spending less at restaurants and bars, 41 percent will reduce purchases of luxury goods, and 38 percent expect to lower the amount they spend on travel in the coming months.<sup>16</sup>

## Buying behaviors are changing

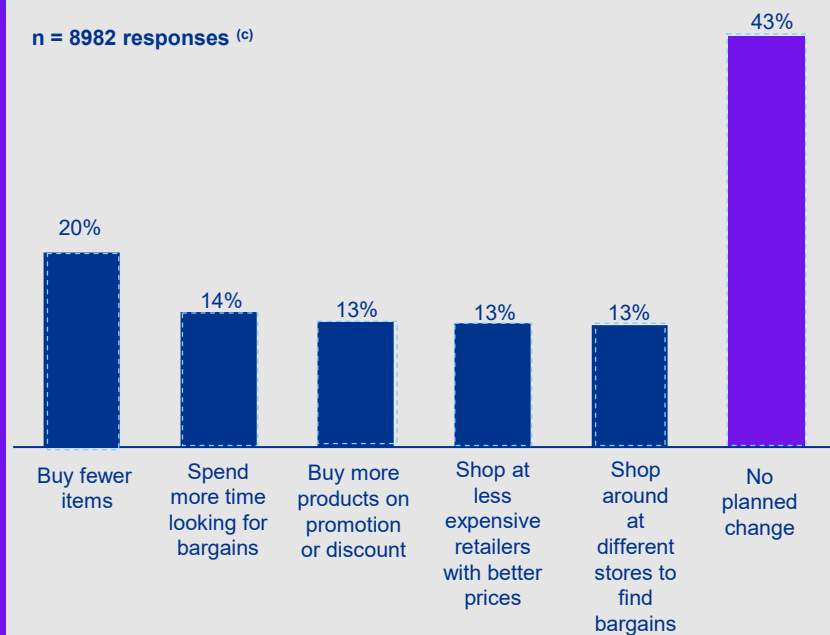
In an effort to offset price increases, some consumers plan subtle changes to their buying habits. For example, 20 percent of consumers plan to buy fewer items and 14 percent will spend more time looking for sales bargains. An equal amount (13 percent) will buy more products on sale, switch to discount retailers, and search different stores to find bargains. Notably, 43 percent of consumers surveyed do not plan on making any changes.<sup>17</sup>

(Continued..)

### Consumer plans to change discretionary spending due to inflation



### Planned changes in shopping behaviors to offset price increases – cross category average



(c) Sample (n) count indicates the number of responses across all product categories.

<sup>15</sup>Slide 15

<sup>16</sup>Slide 15

<sup>17</sup>Slide 16

# Shifting spend from goods to services (continued)

## Buying behaviors are changing (continued)

Consider this example. The chart illustrates how consumers are buying larger pack sizes to reduce cost per unit and lessen the impact of inflation. Prices for small pack sizes went from \$0.60 to \$0.65 in a year. However, larger pack sizes went from \$0.50 to \$0.52 per capsule in the same 12-month period.<sup>18</sup>

As consumers seek to stretch their dollars, mass discount retailers and dollar stores are in a favorable position to pick up market share while upscale retailers and specialty retailers will face greater challenges. Based on our survey data, consumers are more likely to buy more products on promotion or discount in essential categories, such as grocery and personal care. Meanwhile, in response to inflation, consumers are more likely to cut back purchases in discretionary categories such as restaurants, apparel, and entertainment/media.

Cost per coffee capsule

	32 & 40 COUNT	60, 72 & 96 COUNT
04-21	\$0.60	\$0.50
05-21	\$0.60	\$0.49
06-21	\$0.59	\$0.49
07-21	\$0.63	\$0.50
08-21	\$0.65	\$0.50
09-21	\$0.63	\$0.49
10-21	\$0.64	\$0.49
11-21	\$0.64	\$0.50
12-21	\$0.61	\$0.52
01-22	\$0.63	\$0.51
02-22	\$0.64	\$0.51
03-22	\$0.65	\$0.53
04-22	\$0.65	\$0.52



*Risks to consumer spending are rising and could cause a recession next year.*

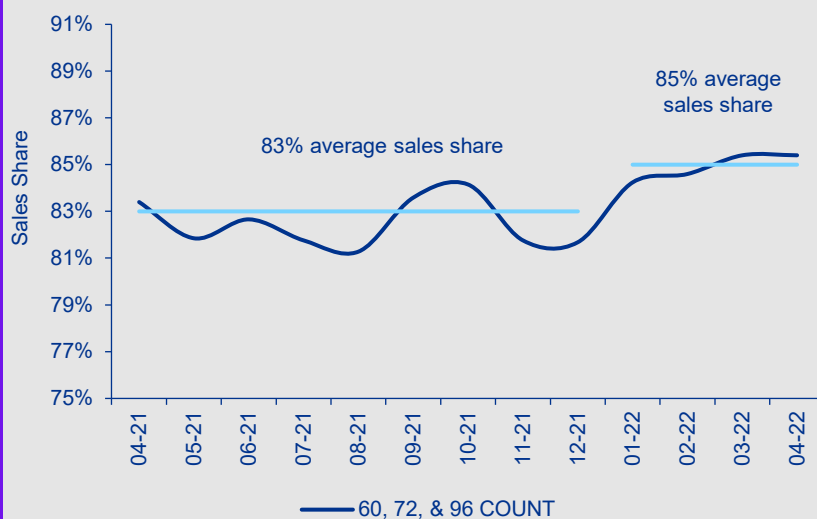
**Kenneth Kim**

Senior Economist

Office of the Chief Economist (Acting Head)



Monthly U.S Amazon sales share for coffee pods of count size 60 and larger



Source: Stackline data for US Amazon sales within the coffee category

<sup>18</sup> Stackline data for US Amazon sales within the coffee category.

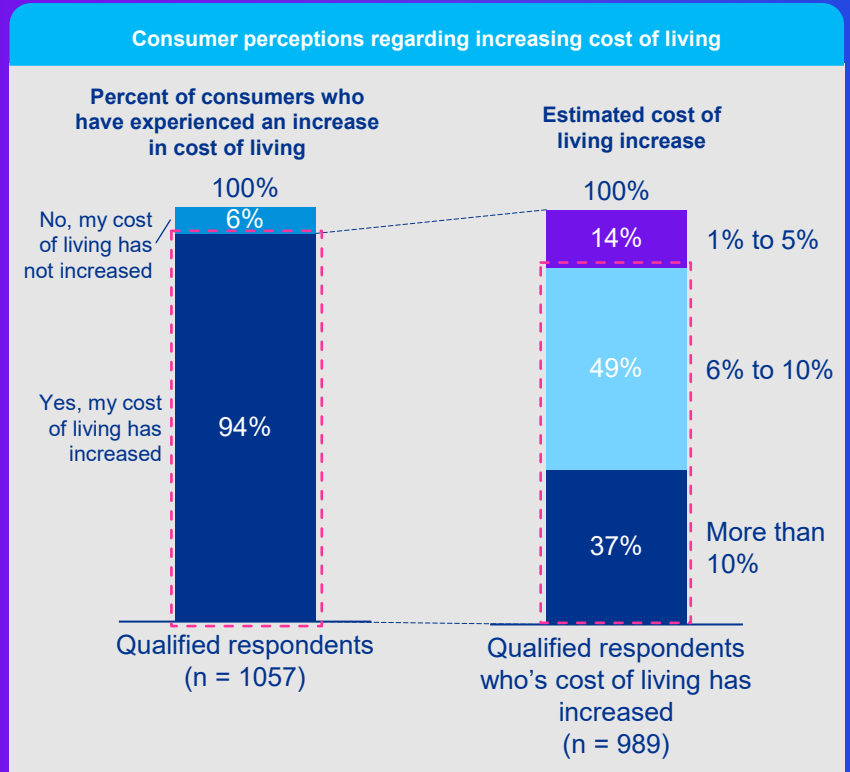
# Impacting household spend

The vast majority (94 percent) of consumers surveyed report having experienced cost-of-living increases within the last year. Nearly half (49 percent) cite an estimated increase in the 6-10 percent range while 37 percent said their cost of living has jumped by more than 10 percent.<sup>19</sup>

With the absence of government stimulus payments this year, many consumers are tapping into their savings to compensate for higher prices. The personal savings rate as a share of disposable income dropped to 4.4 percent in April, the lowest since September 2008 according to the Bureau of Economic Analysis.<sup>20</sup> Despite increasing pricing pressures, the data shows inflation-adjusted spending remained strong, which likely reflects a desire to get out socially after pandemic sacrifices.

As a result, consumers are prioritizing where they spend their dollars, anticipating allocating more of their household budgets on essential items this summer than they did in 2021.

For example, survey respondents expect to spend 28 percent more on groceries this summer than last year.<sup>21</sup> Two-thirds (66 percent) of the increased spending on groceries is attributed to price increases.<sup>22</sup> Other factors include eating more at home, having more people in the household, or trading up for more expensive items.



*With inflation and gas prices reaching record highs, consumers have reached their breaking point. As many begin to cut back on spending, retailers will want to understand how and where their customers are spending, and the impact to their purchasing habits.*

**Scott Rankin**

KPMG National Advisory Leader  
Consumer and Retail



<sup>19</sup> Slide 11

<sup>20</sup> U.S. Bureau of Economic Analysis, May 2022.

<sup>21</sup> Slide 6

<sup>22</sup> Slide 6



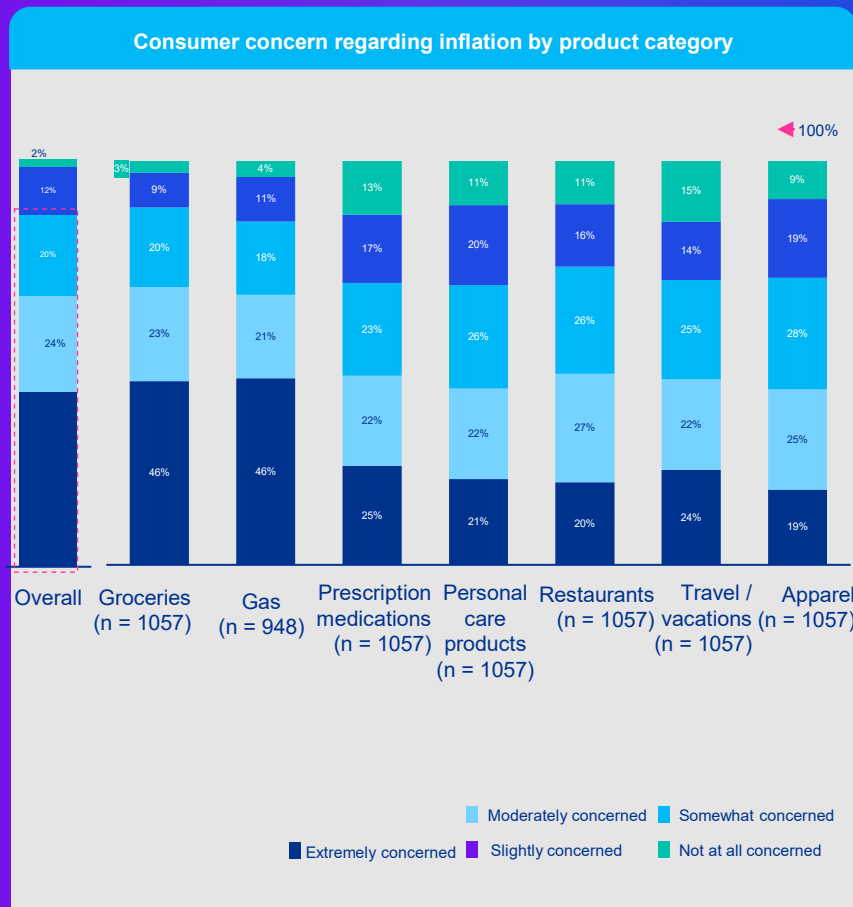
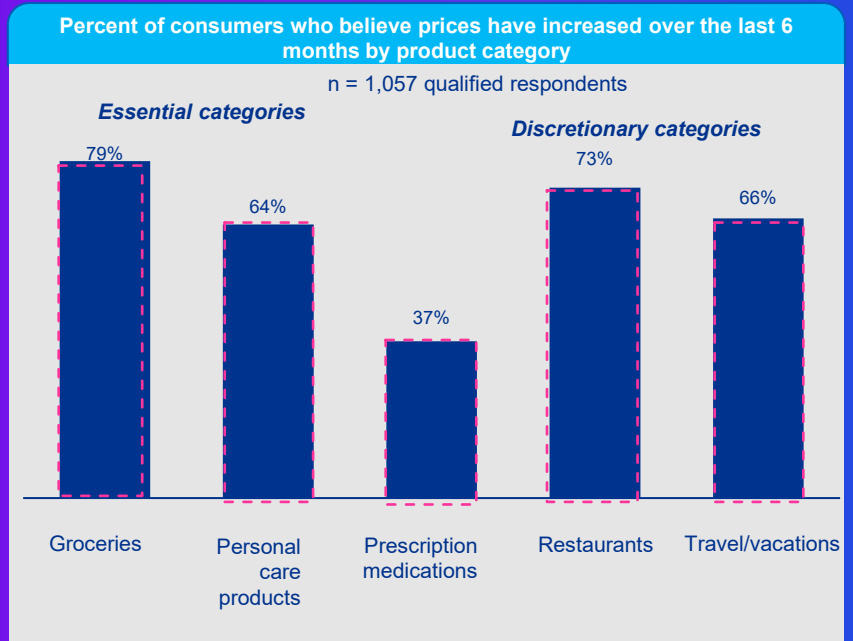
# Rising prices across retail categories

While consumers have broadly accepted rising prices for many months, their willingness to do so may be waning as they perceive rising prices across all product categories. Nearly all (95 percent) of the consumers surveyed believe prices for products have increased over the last six months. They cite the highest increases have occurred in groceries (79 percent), restaurants (73 percent), and travel/vacations (66 percent).<sup>23</sup>

A vast majority (87 percent) of consumers are concerned about inflation, with 43 percent being “extremely concerned.”<sup>24</sup> Across product categories, consumer concerns are greatest for inflation of groceries (89 percent) and gas (85 percent). In fact, more than half of the consumers (46 percent) expressing concerns over rising food and gas prices cite being “extremely concerned.”<sup>25</sup>

Such concerns are validated by data showing the jump in prices over the last year. The Consumer Price Index (CPI), a measure of economy-wide inflation, climbed 8.3 percent in April from a year ago. The energy index rose 30.3 percent over the last year and the food index increased 9.4 percent from a year ago, reflecting the largest 12-month increase since 1981.<sup>26</sup>

After shouldering the burden of higher prices for months, consumers are starting to push back. This is illustrated in the chart example contrasting Food CPI Index with the MSCI measure of consumer sentiment.<sup>27</sup> As prices keep rising, consumer sentiment is starting to fall.



<sup>23</sup> Slide 14

<sup>24</sup> Slide 13

<sup>25</sup> Slide 13

<sup>26</sup> U.S. Bureau of Labor Statistics, Consumer Price Index, May 2022.

<sup>27</sup> Data from University of Michigan, Michigan Consumer Sentiment Index, May 2022 and U.S. Bureau of Labor Statistics, Food Price Index, May 2022.

# Shopping online and in store

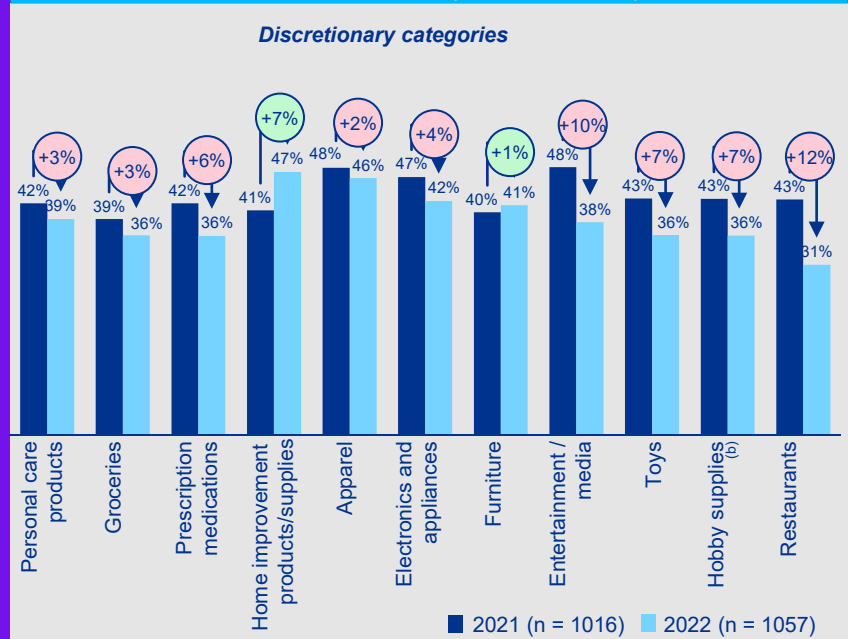
Following the accelerated shift to e-commerce during the pandemic lockdowns, consumers are increasingly returning to shop in brick-and mortar stores. In fact, when given an option to return to stores or continue to shop online, our research indicates many consumers prefer to return to in-person shopping for 9 out of the 11 product and service categories. More shoppers returned in person to restaurants, entertainment/media, toys, and hobby supplies versus online in 2022, when compared to the same period in 2021.<sup>28</sup>

## Striking a balance

Consumers surveyed have been spending less online than they did during the spring of 2021 across a variety of product and service categories.<sup>29</sup> Sales slowed at many digital storefronts specializing in apparel, home furnishings, and other categories where consumers may prefer to purchase products in person, according to a report in the *Wall Street Journal*. The report contends that the rise in foot traffic, along with slower but continued growth in online sales, supports an omnichannel strategy for retailers that provides the best of both worlds for customers.<sup>30</sup>

Census Bureau data adjusted for seasonal factors shows that consumers continue to buy online at a healthy but slower pace following sales highs during the pandemic. In the second quarter of 2020, the share of U.S. online retail sales surged more than four percentage points to 16.4 percent. By the first quarter of 2022, that share had dropped to 14.3 percent, showing a dip in online shopping; although still above pre-pandemic levels.<sup>31</sup>

Percent of online household spend per product/service category over the last 3 months (2021 versus 2022)



*Many consumers are enjoying a return to in-store shopping. As consumer preferences shift, striking the right balance requires recalibrating strategies to enable better online and instore experiences.*

**Julia Wilson**

KPMG Managing Director, Strategy and Research Lead



<sup>28</sup> Slide 7

<sup>29</sup> Slide 7

<sup>30</sup> The pandemic was supposed to push all shopping online. It didn't." *The Wall Street Journal*, By P. Rudegeair, C. Scott, S. Herrera, April 16, 2022.

<sup>31</sup> U.S. Department of Commerce, May 2022.

# Managing stockouts and the supply chain

In addition to price increases, most consumers have observed stockouts, with 59 percent of survey respondents having observed stockouts in grocery over the last three months.<sup>32</sup>

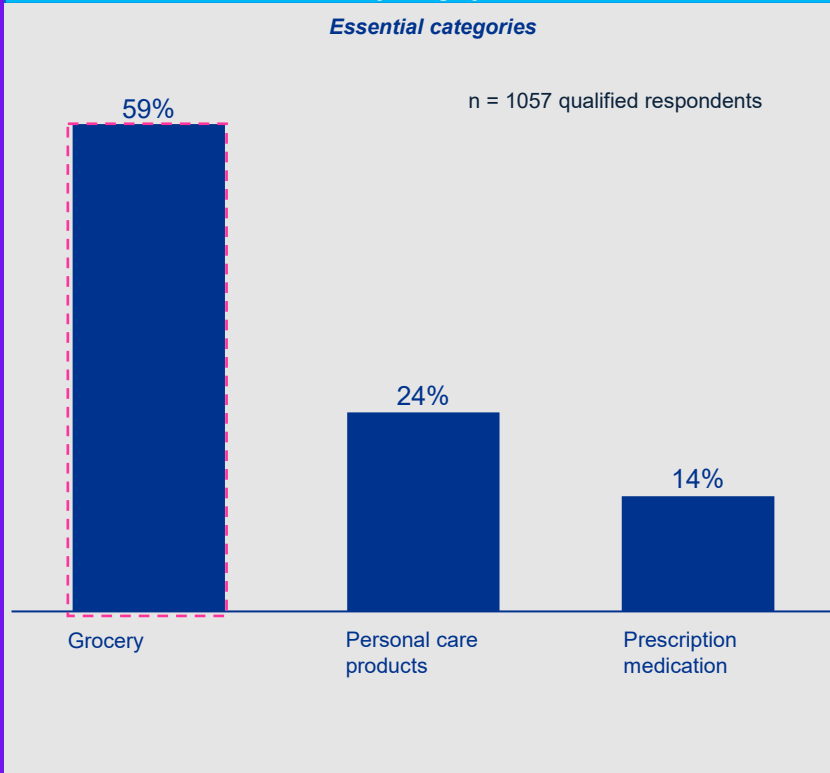
Nearly 70 percent of consumers surveyed are at least “somewhat concerned” to “extremely concerned” about stockouts and product shortages.<sup>33</sup> Such concerns are greatest in essential categories such as groceries, prescription medication, and personal care products.

## Supply chain challenges persist

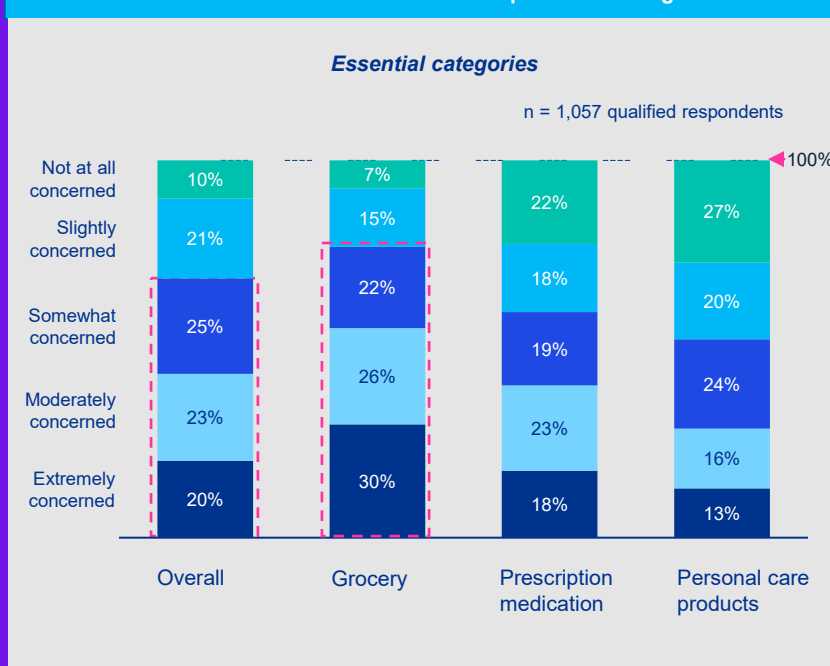
Intensified by ongoing inflation, rising fuel and transport costs, shutdowns, and geopolitical uncertainty, supply chain issues continue to present challenges for retailers. For example, the Russia-Ukraine war is further straining the supply chain for products produced in Ukraine, such as wheat, oil, and fertilizers. In addition, China’s Zero-COVID lockdowns are substantially disrupting the flow of various goods, especially for technology products.

Such disruption complicates retailer inventory management. As several earnings reports recently revealed, many retailers have excess inventory of discretionary categories at a time when consumers are pulling back on their spending. This flips the situation experienced a year ago when retailers were able to sell products at full price or markups to meet robust consumer demand. However, now many retailers are struggling with excess inventory from getting late shipments or seeing less consumer demand than anticipated, which leads to markdowns and adds to margin pressures.

Percent of consumers who have noticed stockouts over the last three months by category



Level of concern for stockouts and product shortages



<sup>32</sup> Slide 20

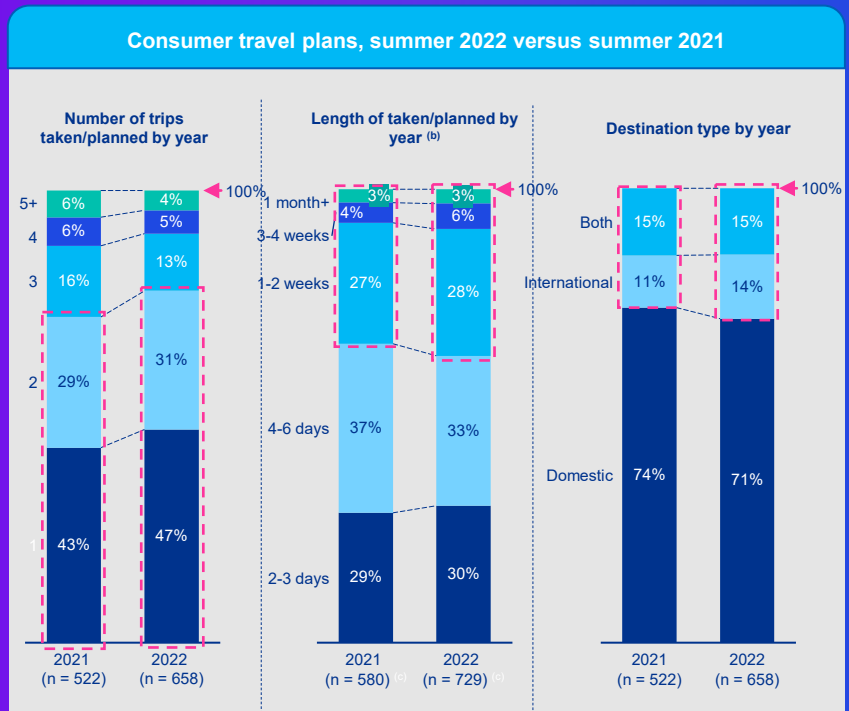
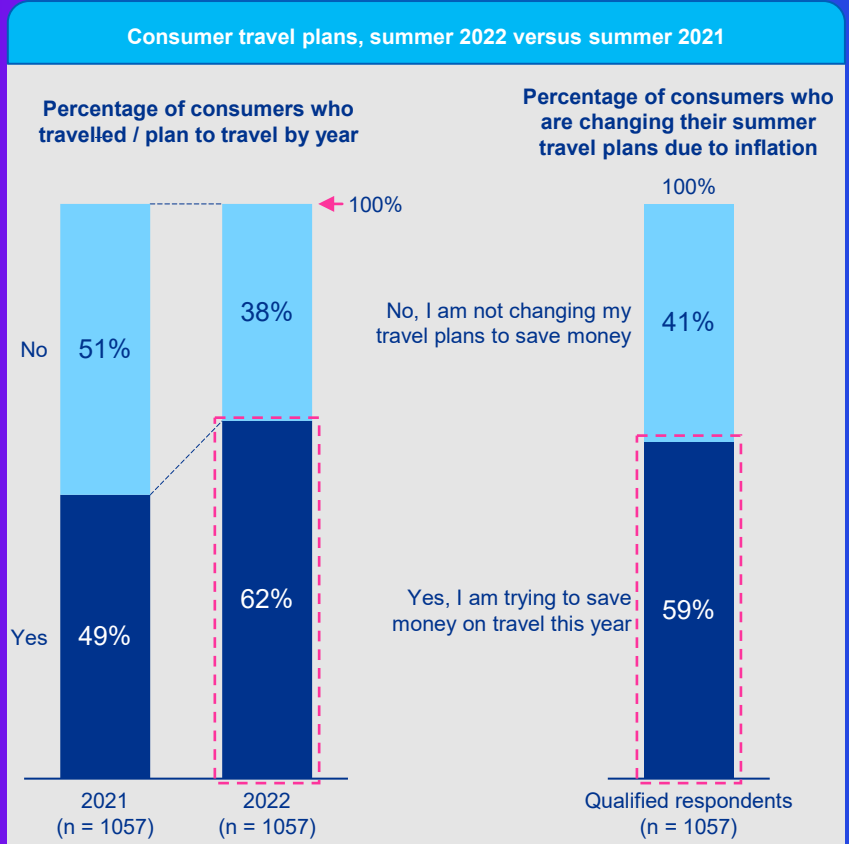
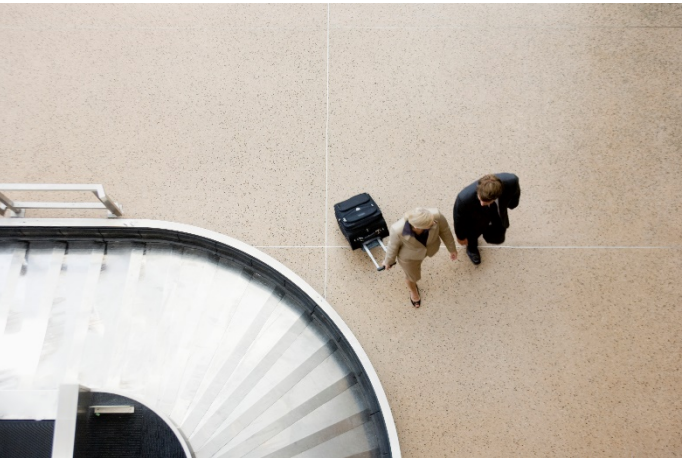
<sup>33</sup> Slide 21

# Getting ready to travel

If consumers are worried about budgets, it's reasonable to think they may hold off on traveling. However, following COVID-19 restrictions and pent-up demand, consumers are ready to travel and enjoy some vacation time. According to survey results, consumers plan to travel more this summer than they did a year ago. Sixty-two percent of consumers plan to travel during summer 2022, up from 49 percent in summer 2021.<sup>34</sup> However, 59 percent admit they are trying to save money on travel this year due to inflation.<sup>35</sup>

Overall, more consumers (78 percent) are planning to take fewer trips—one to two—this year, and 30 percent plan to have a two to three-day length of stay.<sup>36</sup> Survey results also show a slight increase in trips to international destinations this summer compared to summer 2021.<sup>37</sup>

Nearly 40 percent of consumers feel more comfortable traveling this summer than last and 50 percent equally as comfortable as they did in 2021.<sup>38</sup> Consumers comfortable with traveling this summer attribute it to being vaccinated.<sup>39</sup>



<sup>34</sup> Slide 26

<sup>35</sup> Slide 26

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<sup>37</sup> Slide 28

<sup>38</sup> Slide 23

<sup>39</sup> Slide 24



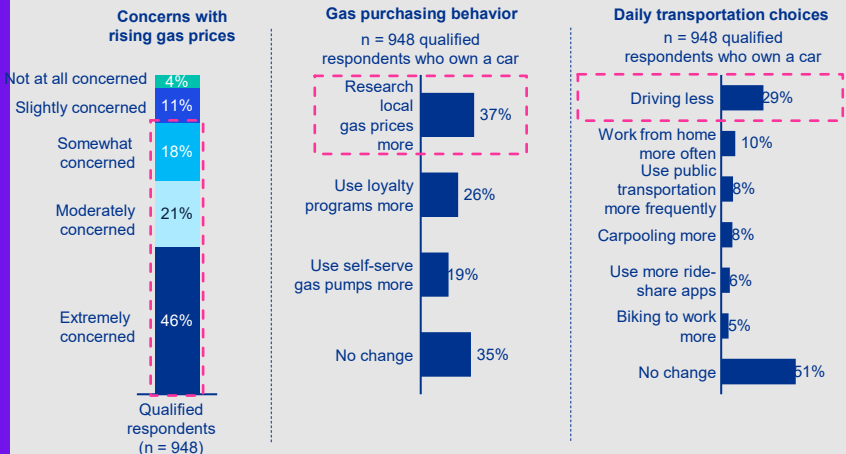
# Fueling change

Rising gas prices are a concern for 85 percent of consumers in our survey.<sup>40</sup> As such, car owners are adjusting their gas buying behaviors and commuting practices. For example, 37 percent are researching local gas prices more before purchasing. Another 29 percent are driving less, which may impact consumers returning to shopping in store.<sup>41</sup>

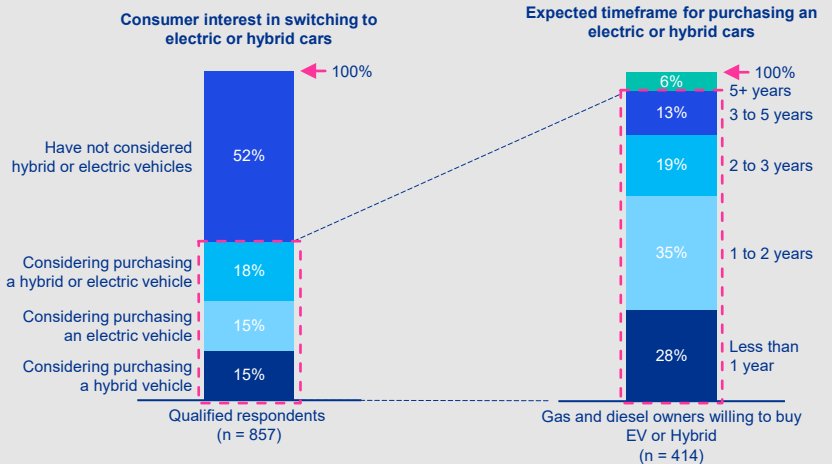
Rising gas prices may also be driving consumer interest in switching to electric or hybrid vehicles, according to 48 percent of survey respondents. Approximately 35 percent of consumers are considering purchasing an electric or hybrid car within one to two years, while 28 percent plan to do so within a year.<sup>42</sup>

Currently, most consumers drive gas-powered vehicles. However, certain demographics are more likely to drive hybrid or electric vehicles than others. For example, males, Gen Z and millennials, and higher-income demographic segments are leading the pack of consumers that are most likely to own hybrid or electric vehicles.<sup>43</sup>

## Buying behavior and commuting practices to adjust the increase in gas prices



## Gas and diesel powered car owner interest in purchasing an electric or hybrid vehicles



<sup>40</sup> Slide 17  
<sup>41</sup> Slide 17  
<sup>42</sup> Slide 43  
<sup>43</sup> Slide 42

# Moving forward

As consumers shift buying habits from wants to needs, retailers and consumer goods companies must adjust their strategies, moving from an environment of robust consumer spending to cost-conscious shoppers concerned about economic uncertainty. To do so, consider the following recommendations.

- **Emphasize strategic revenue growth management:** Retailers can navigate supply and demand challenges of inflation by taking a strategic approach to revenue growth management. Use analytics to understand what pricing decisions can increase revenue while limiting the impact to unit volumes, implement category/assortment strategies toward more profitable products, optimize trade promotions, and increase marketing efficiencies.
- **Be hyperfocused on full range of assortment opportunities:** As prices climb higher, consumers are becoming more careful with their spend. Many are seeking greater value and lower prices offered by feature alternatives or private label. Retailers can find pockets of growth by looking at expanding their inventory of private label and other value oriented products.
- **Focus on innovation, automation, and managing labor:** Many companies made the easy cost cuts to survive the pandemic. To help preserve margins, focus on innovation, automation, and other ways to improve efficiencies, and manage labor costs. For many, cost and availability of labor is seen as the greatest threat to profitability, challenging already razor-thin margins. Automating back-office functions and maximizing distribution and logistics efficiencies can help drive down costs and recapture margins.

We look forward to continuing to share with you the pulse of the consumer and insights on the most important themes and seasons for consumer and retail organizations.

For additional KPMG Consumer & Retail research reports, visit us at [visit.kpmg.us/consumer-retail](https://www.kpmg.us/consumer-retail).





## Contacts



**Matt Kramer**  
National Sector Leader  
KPMG LLP  
E: mattkramer@kpmg.com



**Kenneth Kim**  
Senior Economist. Office of the Chief  
Economist (Acting Head), KPMG LLP  
E: kennethkim2@kpmg.com



**Scott Rankin**  
National Advisory & Strategy Leader  
KPMG LLP  
E: scottrankin@kpmg.com



**Monica Rodriguez**  
Manager, Advisory  
KPMG LLP  
E: monicarodriguez@kpmg.com



**Julia Wilson**  
Advisory Managing Director, Strategy  
KPMG LLP  
E: juliawilson@kpmg.com

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