

ANALYST REPORT

U.S. Consumer Spending Report

Consumers slashed discretionary spending as inflation weighed down sentiment

APRIL 2022



ABOUT THIS REPORT

Morning Consult's monthly U.S. Consumer Spending Report provides a detailed assessment of purchasing patterns reported by consumers across a variety of categories of goods and services.

Businesses and investors rely on this report to understand emerging trends in consumer demand and shopping patterns across demographics.

The report draws on Morning Consult Economic Intelligence, a high-frequency, global economic dataset reflecting more than 19,000 daily economic surveys across the 44 largest global economies.





SECTION 1

MARCH SPENDING SUMMARY

U.S. consumers slashed spending on discretionary goods and services in March. Elevated inflation — acutely visible in sky-high gas prices — elbowed out purchases in nonessential categories that were competing for space in household budgets.



Spending fell in March as rising inflation and geopolitical uncertainty tanked consumer sentiment.

Gas and food prices soared last month, and consumers responded by cutting back on nonessential purchases. Affordability concerns for household expenses like groceries and housing payments escalated, affecting higher-income adults as well as the most financially vulnerable.

Consumers are showing signs of shifting purchases from goods back to services.

Discretionary purchases' share of wallet trended lower to make space for the rising cost of household staples in recent months. The pullback in spending has been more pronounced for physical products than for services, as consumers increasingly revert to pre-pandemic trends.

Purchase intentions for used vehicles fell as driving costs increased, and a declining share of prospective home buyers will likely hold back demand for furniture, appliances and home improvement supplies going forward.

Looking ahead, there remain hopeful signs for a “soft landing” for the consumer.

Some of the most stressed areas of budgets, including housing and vehicles, are seeing a moderation in demand that could flow through to pricing. Gas prices have already declined from their March peak, coinciding with a modest recovery in consumer sentiment in early April. Meanwhile, strong labor market gains continue to support spending.

SUMMARY



Housing

Rising interest rates and prices are beginning to weigh on housing demand. Although price expectations remain elevated, a growing share of adults consider homebuying to be a bad investment, and the share of adults planning to buy homes in the next 12 months fell to a series low.



Home Furnishings

Consumers cut back on furniture and appliance purchases as inflation soured perceptions of current buying conditions. Still, furniture purchase intentions remain elevated, suggesting some demand may be deferred rather than lost altogether. Home improvement projects, however, registered a decline in purchasing intent.



Grocery & Restaurants

Soaring prices and persistent shortages restrained grocery purchases. Price-conscious consumers are avoiding online grocery orders, which often come with a delivery surcharge. Unlike most discretionary categories, restaurant spending increased last month, as the cost differential with dining in narrowed.



Apparel & Personal Care

Apparel and personal care categories contain a mix of household essentials — like clothing and soap — and discretionary goods and services, like jewelry and spa treatments. Spending on these categories declined slightly overall, driven by consumer groups that allocate relatively more of their spending to discretionary products and services.



Transportation

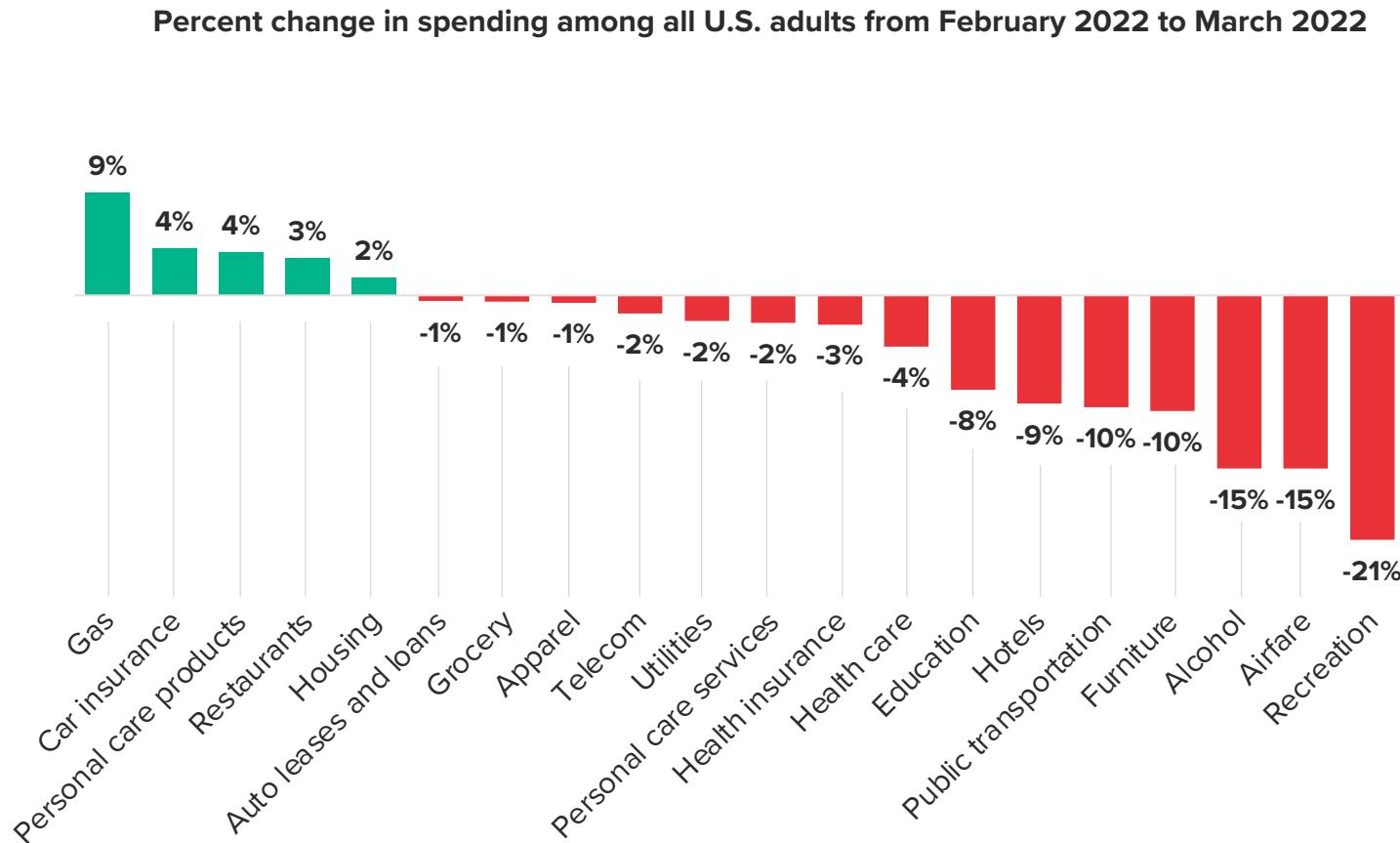
U.S. adults cut back on driving, the car ownership rate declined slightly and prices and purchasing intent for used vehicles slipped lower. Souring views on driving did little to push consumers toward public transit, however — spending plummeted as many preferred to walk or stay home.



Telecommunications & Electronics

Telecommunications spending has been relatively stable, especially among older demographics, for whom a large share of spending on this category is tied to cable TV services. Although consumers are showing signs of transferring more spending from goods to services, purchasing intent for electronics has increased from a year ago.

Elevated inflation is discouraging nonessential spending



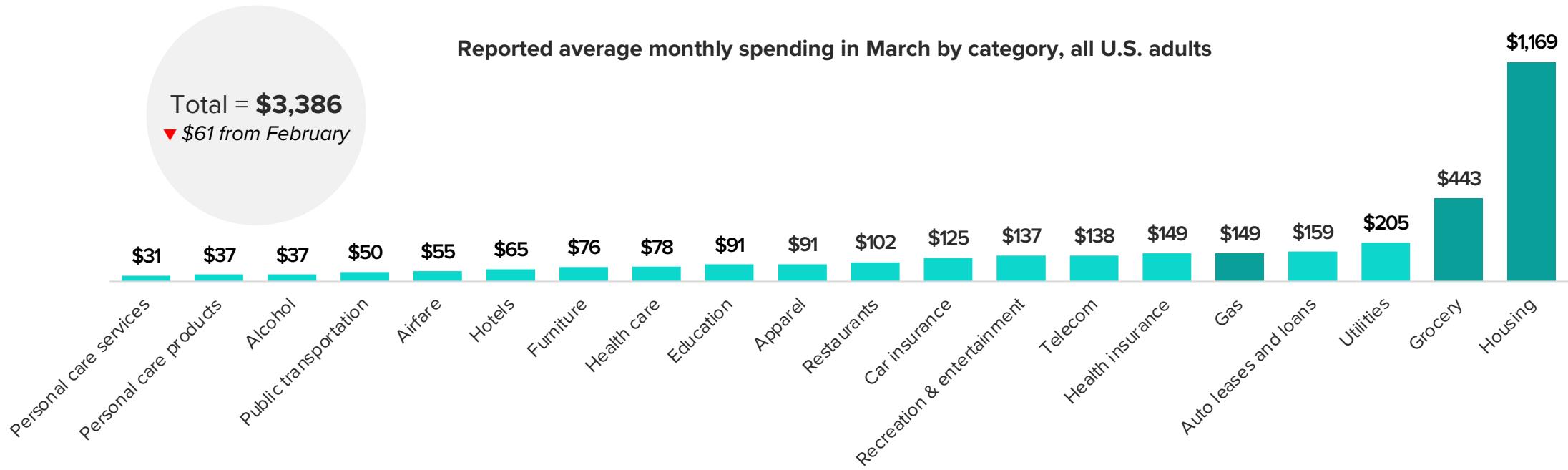
Source: Morning Consult Economic Intelligence

Spending declined across most categories as inflation concerns spurred increased price sensitivity among consumers. Spending on gas continued to capture a larger share of spending, as already-elevated prices soared higher in March and car-reliant Americans had little choice but to absorb the increase.

As essential products like gas and housing have grown more expensive, nonessential purchases have been forced to cede space in budgets. The biggest declines in March were for discretionary categories like recreation, alcohol, airfare and furniture.

Lower-income adults — who tend to have a slimmer savings buffer for absorbing increases in living costs — were the first to show signs of [cutting back on nonessential spending](#). By March, as prices for items like gas and food continued to climb, inflation pains spread further along the income spectrum, leading higher earners to cut spending as well.

Housing, groceries and gas accounted for 52% of total spending in March



Elevated inflation is impacting a wide range of spending categories, but three are top of mind for U.S. consumers and play a major role in shaping consumer purchasing behavior — housing, grocery and gas:

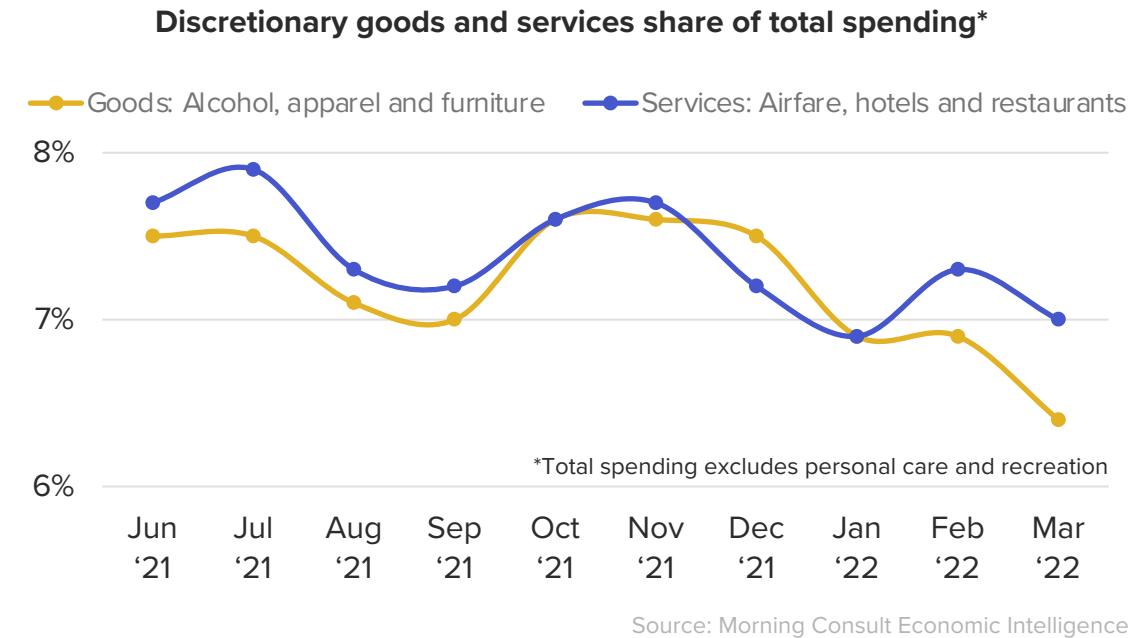
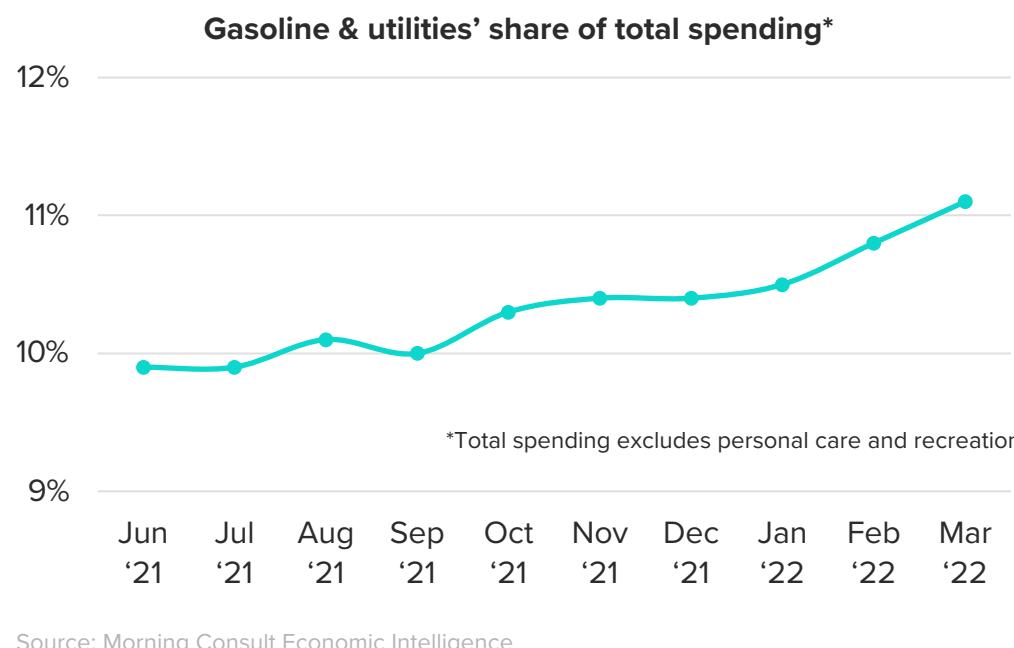
- While housing prices haven't risen quite as rapidly as some other categories, rents or mortgage payments are the single largest cost for most households each month, so even a small percentage increase in price can result in a large increase in total expense.

- Grocery prices are up 10% year over year, and supply chain disruptions continue to limit availability for certain items. Food spending makes up the second largest living expense, and U.S. households' ability to find and afford groceries is critical to overall well-being.
- Gas prices shot up in March, disrupting spending allocations as they climbed. By the end of the month, however, fuel prices had begun to retreat, potentially signaling that the near-term peak energy price is in the rear view.

Source: Morning Consult Economic Intelligence

Discretionary goods' share of spending is shrinking faster than that of nonessential services

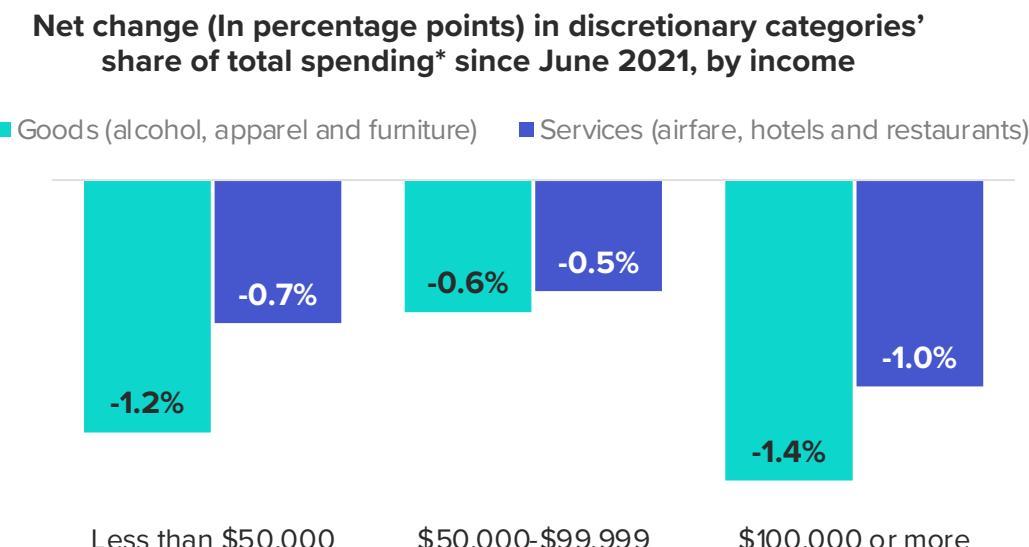
Rising energy costs are forcing many households to allocate a higher share of total spending to gas and utilities. As the Russia-Ukraine conflict continued to roil energy markets, gas prices jumped 18% from February to March, capping off a 48% annual gain. While milder spring temperatures may provide some relief from heating costs, consumers who rely on personal vehicles to commute to work and shop for food have little alternative but to absorb higher prices.



As spending on gas climbs, consumers have cut back on discretionary purchases. But the cuts have not been uniform across categories: As Americans grow more accustomed to living with the pandemic, consumers are expected to reallocate spending away from goods and toward services. There is some evidence of this in the milder reduction in discretionary services relative to goods. Alcohol, apparel and furniture's combined share of total spending has fallen just over 1 percentage point since June 2021, compared with a 0.7-point decline for travel and dining.

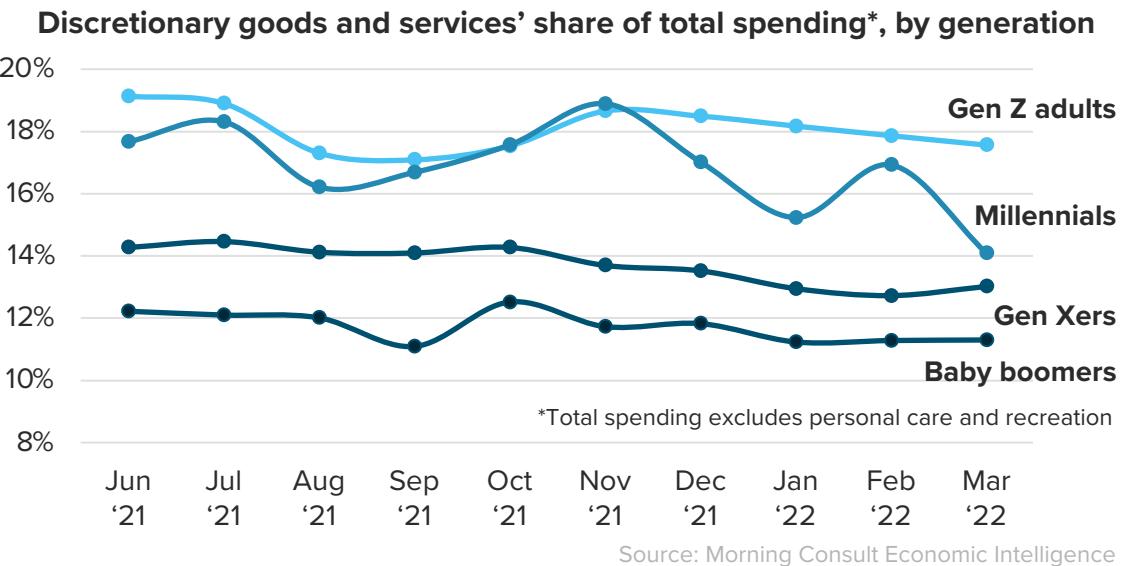
High-income adults and millennials are driving decline in discretionary spending

Adults across all income groups were more likely to reduce their share of budget allocated to discretionary goods than to cut back on discretionary services over the past 9 months. Despite their stronger financial situation, the highest earners posted the biggest decline in nonessential categories' share of total spending. This group spends larger amounts on discretionary goods and services overall, allowing for more "fat" to trim.



*Total spending excludes personal care and recreation

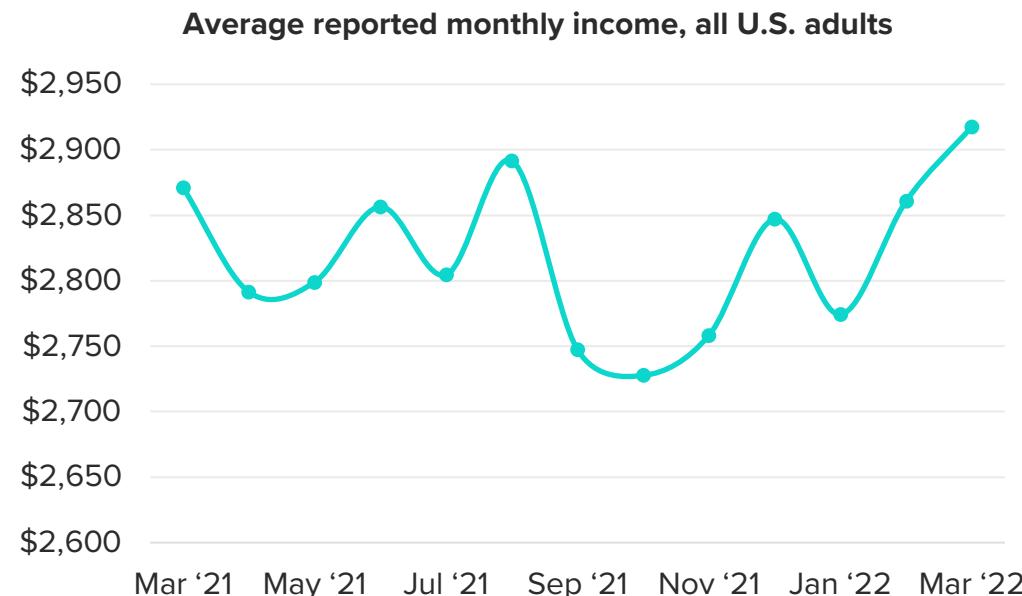
Source: Morning Consult Economic Intelligence



Younger adults consistently spent more than older adults on categories like travel, dining out and new clothes over the past 9 months. However, the millennial generation reported a dramatic pullback in discretionary spending in recent months. In March, this group registered a spike in financial vulnerability concerns, with a growing share doubting their ability to afford housing and auto payments. Millennials are entering their prime earning years, where they will play an important role in overall growth. Further declines in purchasing power by this cohort could present a stumbling block for continued overall consumer spending growth.

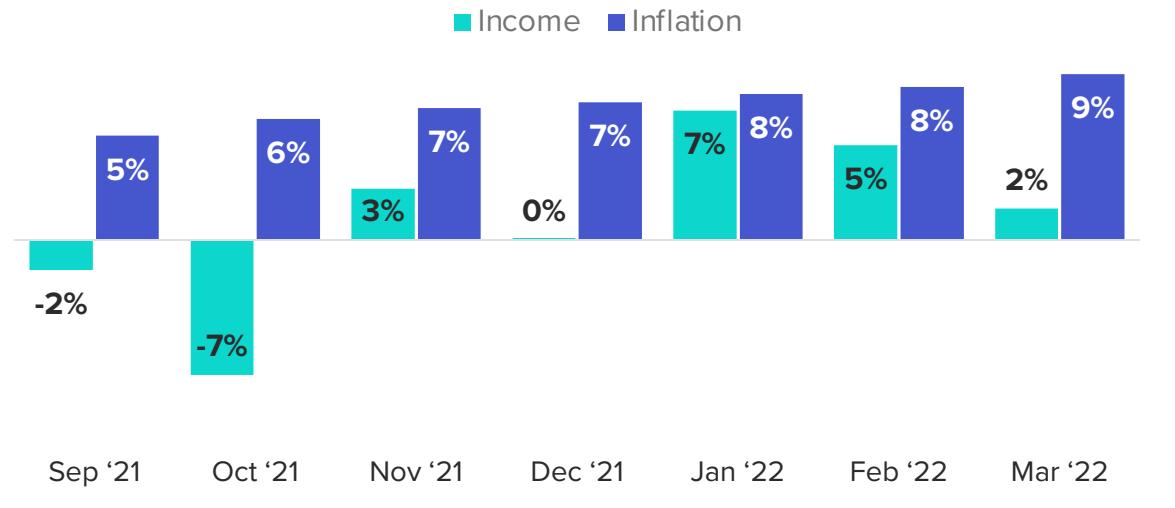
Incomes are rising — but not enough to keep pace with inflation

As inflation drives up the cost of living, the trajectory of household incomes is a critical factor in determining consumers' capacity to spend. U.S. adults reported their household incomes increased on average in March, helped by continued growth in employment and wages and, for some, a tax refund from the IRS. However, incomes aren't growing as quickly as top-line inflation.



Source: Morning Consult Economic Intelligence

Annual change in average reported monthly income and CPI inflation

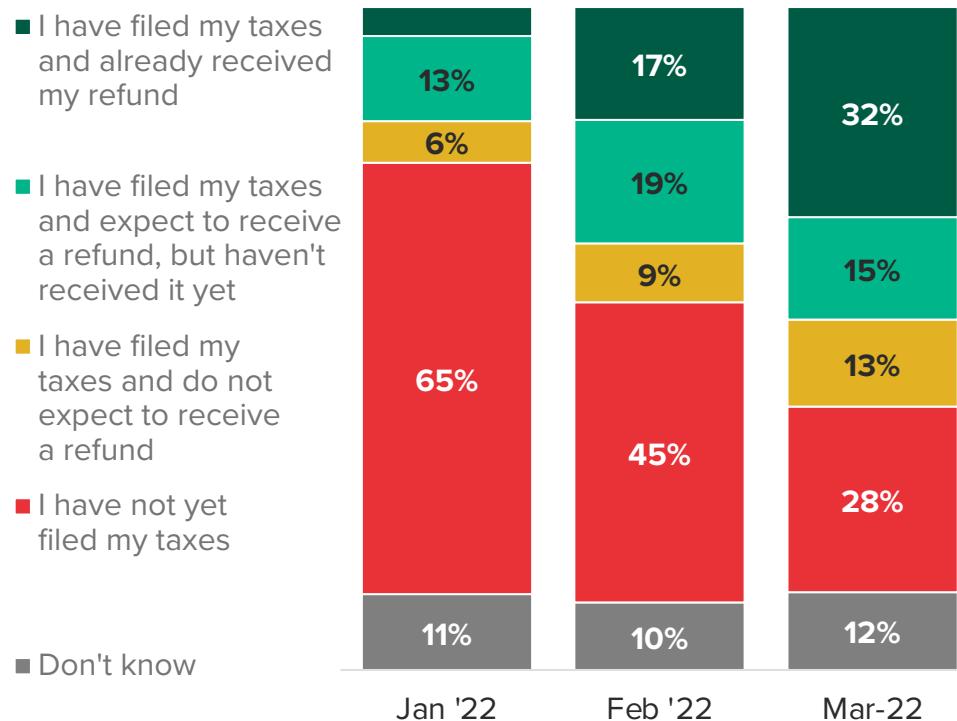


Source: Morning Consult Economic Intelligence

If the inflation rate continues to outpace wage growth, consumers will increasingly need to dip into savings to cover monthly expenses, putting more households in a precarious financial situation. If wage growth accelerates to catch up with inflation, however, rapid price growth runs the risk of becoming more deeply entrenched in the economy, especially if price and wage growth expectations shift permanently higher. Bringing down the inflation rate as soon as possible is likely the best path forward in order to preserve economic stability.

Less than a third of adults had received tax refunds in March

Respondents were asked which of the following best represents the status of their 2021 tax filings:



Average reported tax refund amount, among U.S. adults who already received their tax refund



Source: Morning Consult Economic Intelligence

For most adults, tax season comes with a boost to incomes when refunds are paid out. Those who had filed early and already received refunds in March reported payouts averaging \$2,265.

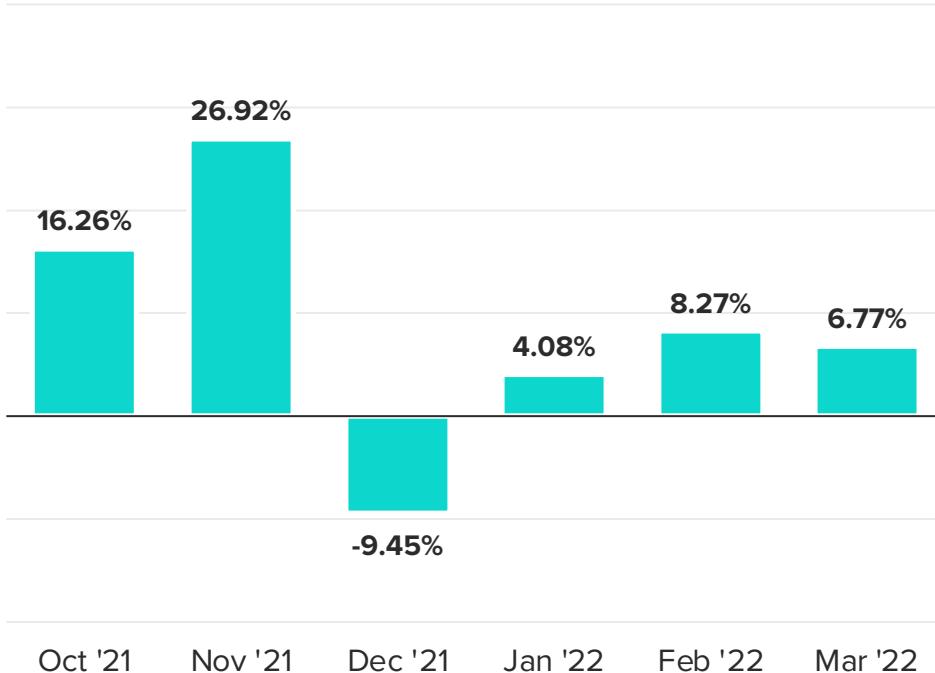
Although spending fell overall in March on a nonseasonally adjusted basis, the extra income from tax refunds may be helping to support demand from groups with a higher marginal propensity to spend. For instance, for those with lower incomes, a tax payout might have a relatively larger impact on monthly finances.

About 43% of consumers expected to receive a refund and either hadn't filed yet or hadn't received refunds by the end of March. More refunds being paid out in April could help support spending in the coming months.

Source: Morning Consult Economic Intelligence

Adults who expect increased spending in April exceed share who plan to cut back

Share who expect to spend more in the next month minus the share who expect to spend less in the next month, in percentage points



Source: Morning Consult Economic Intelligence

Looking ahead to April, the share of adults planning to spend more than they did in March was slightly larger than the share who said they plan to spend less. If consumers follow through with their intentions, spending may be poised for a modest recovery.

Morning Consult's [Index of Consumer Sentiment](#) is a leading indicator of spending. The index fell to a series low in mid-March as soaring gas prices compounded overall inflation concerns, war in Europe continued and financial market volatility bred unease among investors.

Through the beginning of April, sentiment had rebounded slightly. Gas prices have fallen from their recent peak, alleviating some pressure on budgets and allowing consumers to redistribute spending back to other categories. Tax refunds could also provide an added boost to demand. Additionally, the [tight labor market](#) continues to add jobs and support wage growth, replenishing consumers' personal finances even as inflation exacts a rising toll on purchasing power.

Inflation and supply chain disruptions for products like groceries will continue to serve as a headwind for spending, but gently easing demand for certain categories and a supportive labor situation could provide the right balance to facilitate a soft landing for overheating prices and consumer demand.