Consumers budget for summer

Traveling more,
spending less

Summer 2023

Consumer pulse survey

kpmg.com/us

Taking the consumer's temperature for summer

To gather insights into how economic conditions are influencing summer 2023 spending and travel, KPMG polled more than 1,000 consumers across the United States.

Consumers still have a pent-up urge to vacation from the pandemic shutdown days. They want to travel as much this summer as last, but at the same time, inflationary prices and economic worries have them pulling back on discretionary spending.

Without a clear start to a recession or another event that makes waves, consumers are likely to stick to their vacation plans and treat themselves—without fully opening their wallets—to some summer fun.

Among the key findings:

Income is stable while spending rises

Four out of five consumers have maintained or increased their household income, but they will pay 10 percent or more in monthly expenses this summer compared to two years ago. Their response is to pull back on discretionary spending—planning to spend less of their monthly budget than last year—including categories they typically spend money on during the summer, such as restaurants, entertainment, and apparel.

Consumers feel the weight of inflation

The vast majority of consumers, 95 percent, remain under inflationary pressure without relief. Everything costs more, especially groceries and dining out. Consumers still plan to travel and are willing to spend on summer fun as long as the economy doesn't slip into recession. If it does, consumers will make their first budget cuts in restaurant dining (53 percent), travel and vacations (37 percent), and entertainment/media (33 percent).

Summer travel has a tighter budget

Desire to travel remains strong as 61 percent of consumers have plans compared to less than half who traveled in summer 2021. More will vacation internationally, especially younger consumers. And while preferences for accommodations and transportation haven't changed dramatically since last year, airline prices may have reached a level consumers aren't as willing to pay. Many will look to combine trips or simply drive instead.

Drivers keep an open mind to gas alternatives

Approximately 85 percent of consumers own a gas-powered vehicle today. But nearly half of those drivers, 47 percent, are considering purchasing an electric or hybrid vehicle and 57 percent expect to make the purchase within the next two years. The desire to actively manage long-term budgets by reducing highly volatile gas and maintenance costs has become as important to potential buyers as protecting the environment.

Workers reluctantly inch back to the office

Significantly more employees are expected to work on-site now, nearly 80 percent compared to 20 percent a year ago. Average days per week also have increased to 2.3 from 1.7 days. In-person networking events have become increasingly popular, especially among women. Nearly 60 percent still have the flexibility to work from home, and those who prefer it point to better productivity as the top reason.

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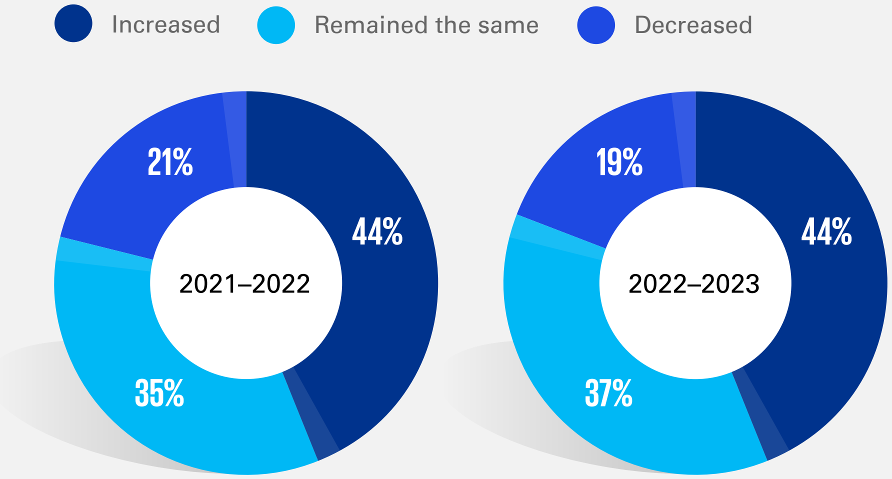
Income is stable while spending rises

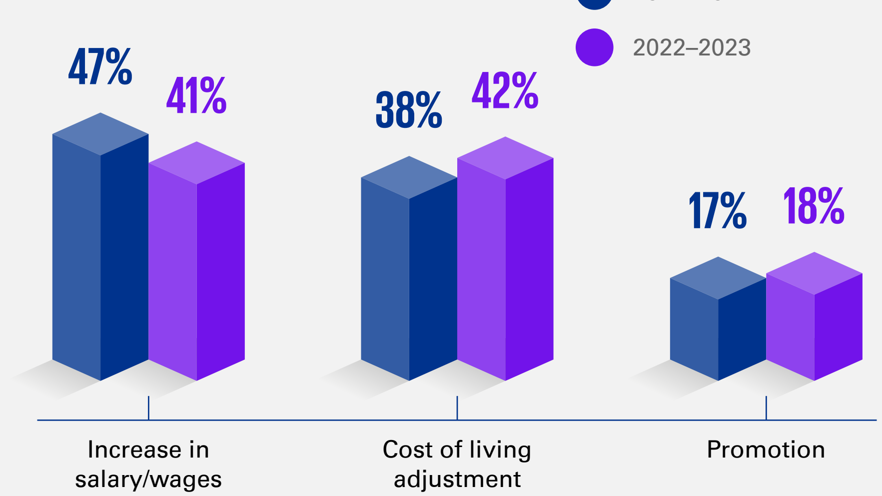
Household incomes are holding steady, according to 81 percent of consumers who report the same or increased income in the last 12 months, up slightly from 79 percent for the previous 12-month period.

Those consumers bringing home more money since last year point most often to a bump in pay or a cost-of-living adjustment. For the one in five consumers whose income declined, job loss was the primary reason, although layoffs are affecting a smaller percentage of households. More consumers reduced income due to retirement.

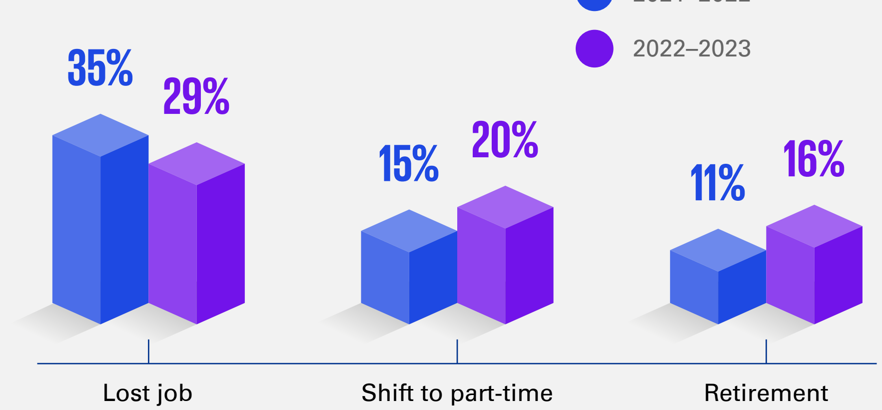
Household income change



Reasons for increase in income



Reasons for decrease in income



Living expenses continue to climb.

Given fast-rising inflation, consumers expect to spend 10 percent more of their income on housing, utilities, insurance, and other monthly living expenses in summer 2023 than they did just two years ago. They also anticipate spending more on essential goods and services, specifically for groceries, automotive costs (including gas, tolls, insurance, and maintenance), prescription medications, and personal care products.

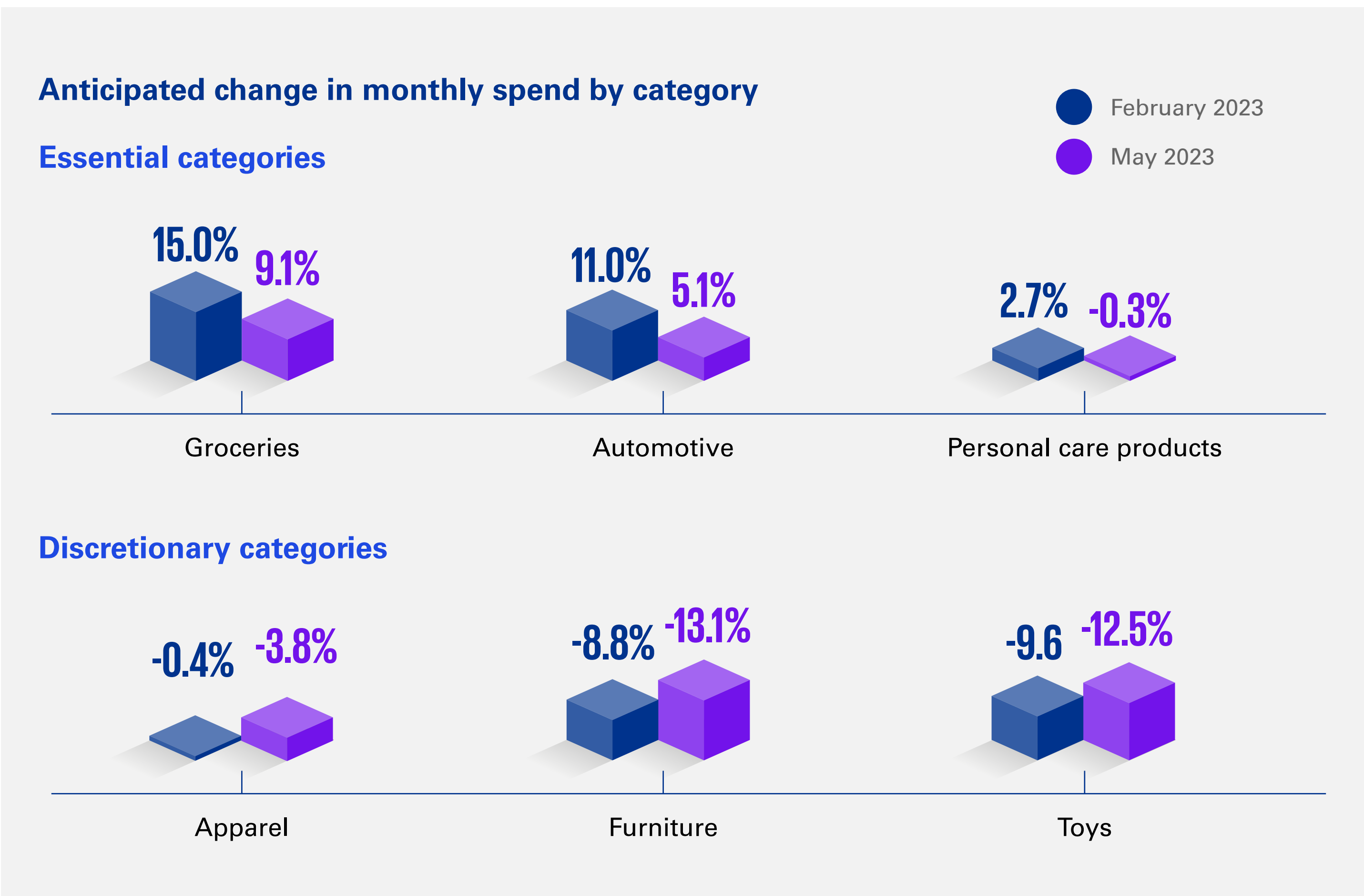
Consumers are expected to spend

10% more

for regular monthly living expenses in May 2023 compared to May 2021.

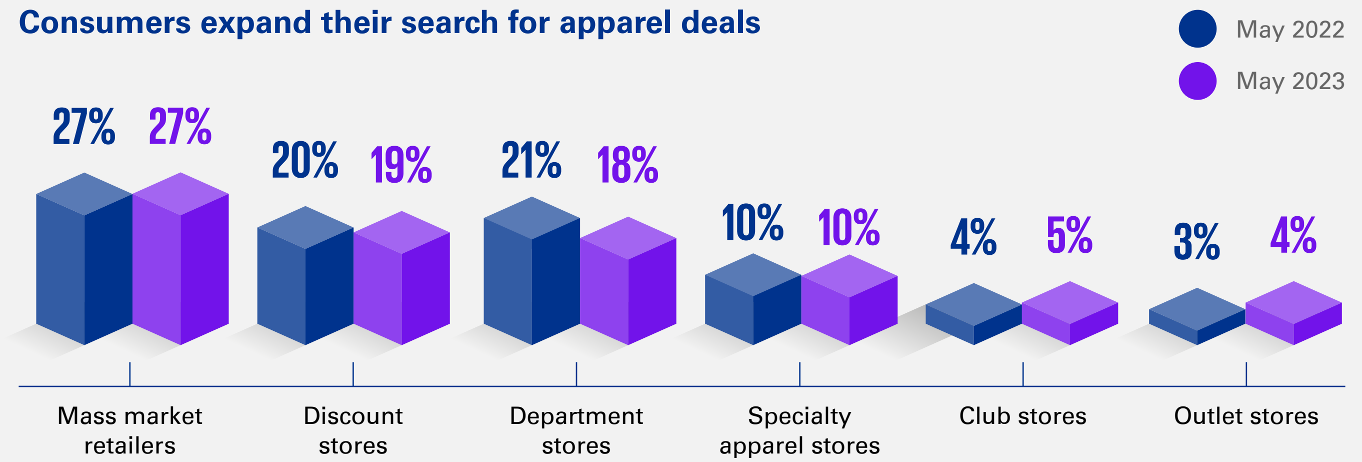
Consumers pull back across all categories, but especially in discretionary spending.

The larger cutbacks this summer could come in spending on furniture, toys, and hobby supplies, as well as for larger and historically financed purchases such as home improvement, electronics, and appliances. Consumers also expect to spend less on restaurants and entertainment than they did in the spring, appearing to choose some of their favorite experiences while reducing the total number of events they attend. They also plan to reduce their budget for new clothes.



While mass market and discount stores remain the preferred location for in-store apparel shopping, outlet and club stores will likely attract a greater share of a smaller pool of dollars this summer. Consumers are more willing to bargain hunt for deals in person than they were during the pandemic when they consolidated trips and prioritized health and safety.

Consumers expand their search for apparel deals



Consumers feel the weight of inflation

The US annual inflation rate, while lower, has declined in such small increments that consumers haven't felt much relief. More than half of consumers say their households can't handle higher prices—a warning to consumer goods and retail organizations still looking to make targeted price increases that they may turn loyal customers away, reducing sales conversions in the process.

95% of consumers say they are still under inflationary pressure without relief over the last 12 months

Everything is more expensive than it was a year ago, consumers say, especially

83% groceries

78% dining out

>80% report cost of living has risen **>5%**

33% have experienced a cost-of-living increase of **>10%**

53% say their household budgets just can't absorb any more price increases

Summer spending could continue as long as the economy is stable.

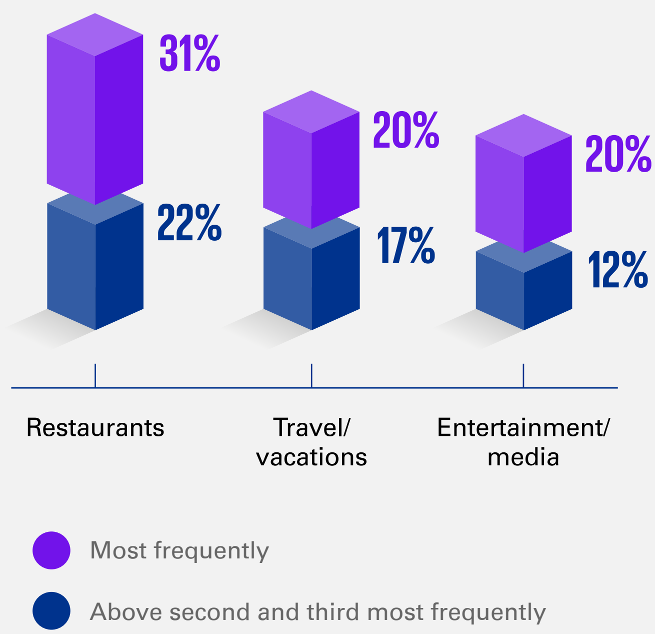
Consumers are willing to buy where they see value and need essentials, or where they're inspired by on-trend and promotional retailers in discretionary areas as they plan for travel and events. They've already cut back on furniture and other durable purchases, but a downturn would bring another wave of belt-tightening. The majority of consumers who anticipate and are planning for a recession will reduce discretionary spending even more.

>70% of consumers think a recession is coming

54% have $5,000 or less in savings

Those who plan to reduce budgets in a recession have targeted restaurants, travel, and entertainment more than other categories, some of the last discretionary categories available to consumers who have already limited or pushed off large durable goods purchases, including housing, new cars, furniture, etc. If we move into a recession, then the consumer will be forced to make hard budget decisions on the categories they least want to address.

Top discretionary spending categories consumers would reduce in a recession



Among those with a financial plan for a recession,

67% will reduce expenses

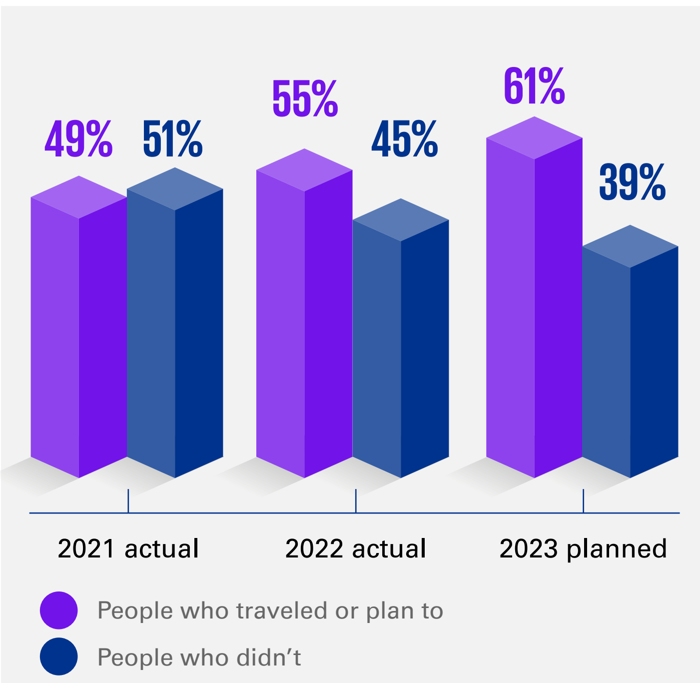
57% will increase savings

72% of consumers plan to change discretionary spending due to high prices, and would cut back in a recession.

Summer travel has a tighter budget

The number of consumers interested in summer travel has continued to climb over the last two years. Compared to summer 2021 when not quite half (49 percent) took trips, more consumers (61 percent) made plans this year. Among them, the travel bug is stronger in men, Gen Zs, and higher-income households.

2023 summer travelers



68% men

76% Gen Z

69% with household income of $100,000–$199,999

85% with household income over $200,000

COVID-19-related barriers to travel—new variants, complex testing requirements, etc.—have fallen away. The Russia-Ukraine war may have been a deterrent for some travelers in 2022, but that does not seem to be the case in 2023. However, inflationary prices combined with economic conditions have likely taken COVID-19's place as a damper on more travel-related spending.

Although more consumers have travel plans, they expect to decrease discretionary spending overall. Their dollars can't go as far this year when everything they need for a vacation—transportation, accommodations, clothing, food, and fun—costs more. As a result, consumers will be much more thoughtful with shopping around for deals on travel accommodations, travel leisure activities, and transportation.

International travel is heating up...

18% plan to visit international destinations in 2023 compared to

13% who crossed borders in 2022

...especially for younger generations.

32% of Gen Z consumers plan overseas trips, **2.5x** more than the

12% of Baby Boomers

Women are more likely to stay stateside.

72% of women plan domestic travel this summer compared to

64% of men

Hotels remain the most-preferred accommodation, for now.

Hotels, where 62 percent of travelers expect to sleep this summer, are still the most popular option. One-quarter of consumers also plan to book vacation homes through Airbnb-type platforms, relatively the same percentage as last year but growing since 2021. These platforms will likely get a boost from Gen Z, who prefer to vacation in rentals more than older travelers and shop for deals through Airbnb and similar companies.

The return to air travel may have finally hit a price ceiling.

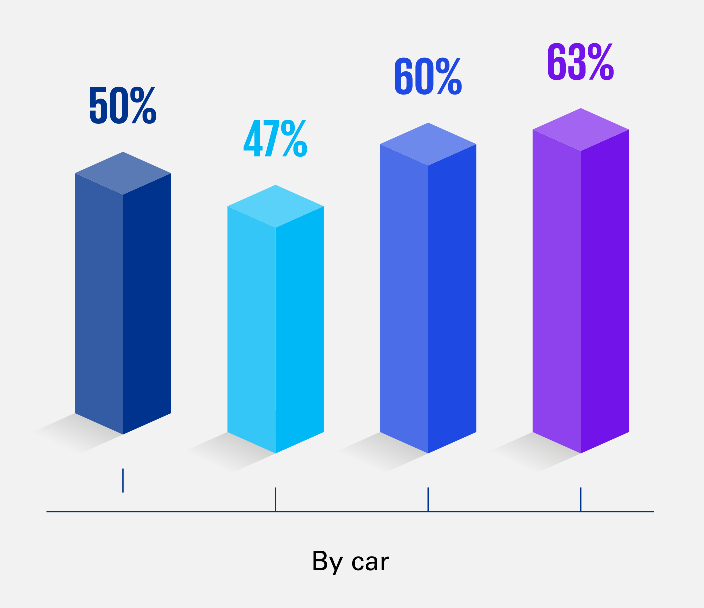
Approximately the same percentage of travelers plan to drive and fly this summer as last year, with a slight bump up for road travel and down for air travel.

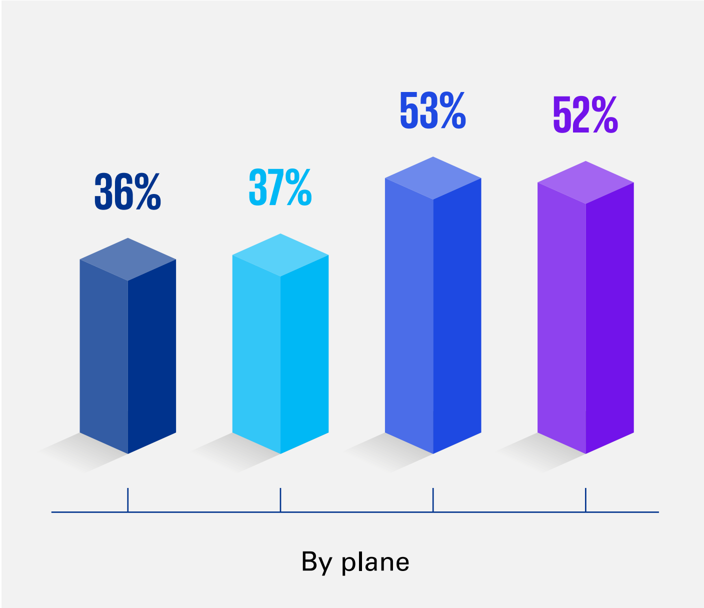
Airline travel climbed significantly after 2021 as health risk concerns faded, but the trend appears to have leveled off. Comfort with flying is back to prepandemic levels but historically high prices for airline tickets are causing sticker shock. Airfare prices, while down from record highs in May 2022, were nearly 10 percent higher in April 2023 than before pandemic lockdowns. Additionally, hotel/motel lodging is 15.3 percent higher than prepandemic; car rentals, 51.4 percent; food away from home (restaurants), 24.2 percent; and movies/theaters/concerts, 18.2 percent.

At the same time, travel credit extensions have been mainly used or expired.

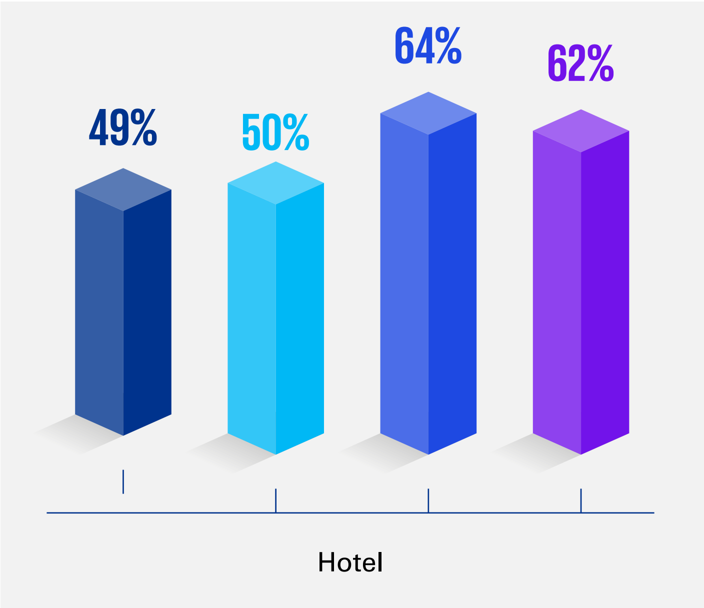
Source: Bureau of Labor Statistics, NerdWallet analysis

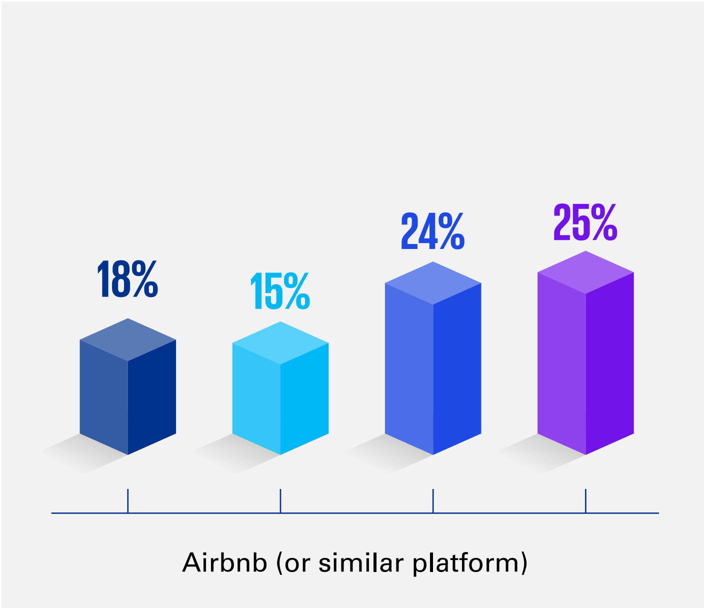
Travel method preference by year





Travel accommodation by year





2021 actual 2022 planned 2022 actual 2023 planned

Drivers keep an open mind to gas alternatives

Alternative fuel vehicles haven't made much of a dent in ownership share, but that may be about to change; almost half of consumers who own gas vehicles say they are thinking about buying an electric (EV) or hybrid-electric vehicle (HEV).

While there are many reasons the majority of consumers have stuck with internal combustion engines to date, one key issue has been cost. The purchase price is still prohibitive for many consumers, so it's no surprise that EV and HEV ownership corresponds with higher income. But the influx of EV cars expected to hit the market in the next couple years will likely lower prices and bring more consumers into the EV market.

The opportunity to reduce expenses is attracting consumers.

Drivers signal they are interested in switching to EV and HEV alternatives as much or more to save money as to save the environment—and many could act quickly.

Of those who don't yet own an alternative fuel vehicle, close to half are considering an EV or HEV purchase. Rising gas prices is the top reason given, although the percentage of consumers who describe themselves as "moderately" or "extremely concerned" with the cost of fuel as summer travel is about to kick off is much lower this year (49 percent) compared to last year (67 percent).

Among those considering EVs or HEVs, more than half plan to make a purchase within just two years. Men (57 percent) and millennials (60 percent) are more enthusiastic about gas-alternative engines than other demographic groups. Higher-income households continue to express greater interest in making an EV or HEV purchase and are more likely to do so sooner.

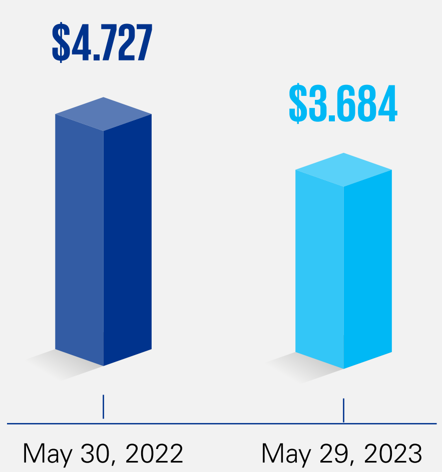
85% of consumers own a **gas-powered** vehicle, which they use relatively equally between summer travel and other leisure activities (47%) and commuting to work (46%).

Household income of current **electric or hybrid** vehicle owners tends to be higher:

18% earn > $100,000

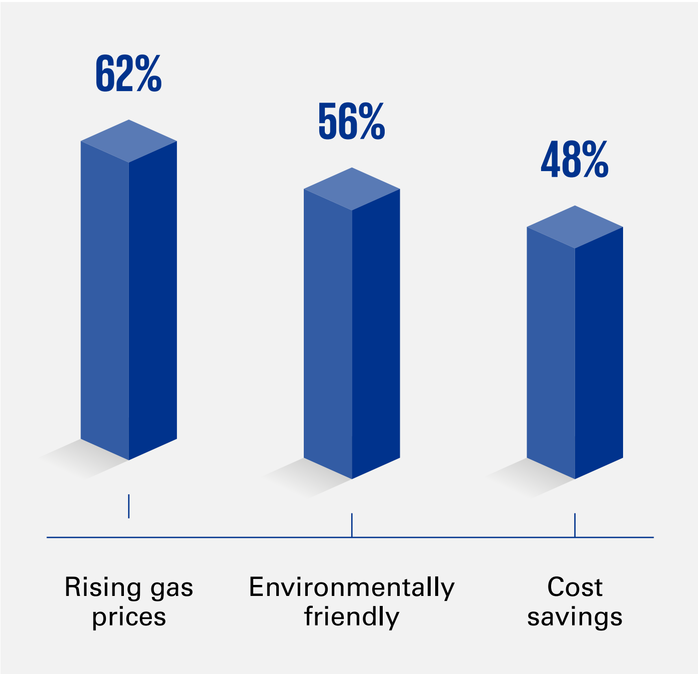
7% earn between $50,000 and $100,000

The average retail price of gas/gallon was 22% lower on Memorial Day 2023 compared to Memorial Day 2022.



Weekly U.S. All Grades All Formulations Retail Gasoline Prices (Dollars per Gallon)
U.S. Energy Information Administration

Purchase considerations for alternative fuel vehicles

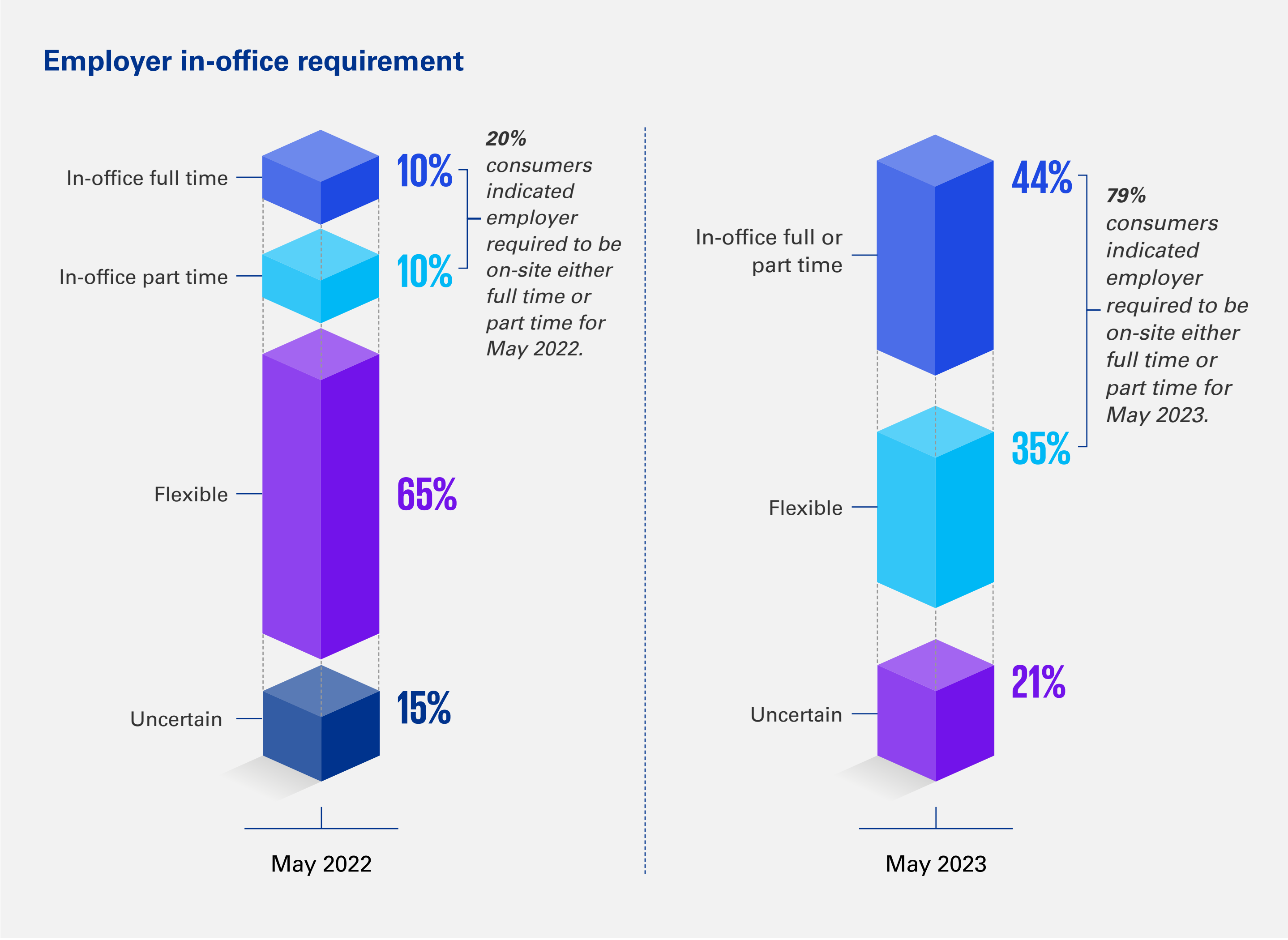


47% of gas vehicle owners are considering an EV or HEV purchase.

57% expect to make their EV or HEV purchase within the next two years.

Workers reluctantly inch back to the office

As summer approaches, significantly more employees are expected to be on-site, at least in some capacity. Nearly 80 percent of consumers indicated that their employers require them to physically be at work full or part time, compared to only 20 percent who said the same just last year.



Work week shopping and dining patterns disrupted by the pandemic are changing again, impacting consumer and retail companies.

For example, if more people are stopping at their favorite coffee shops on their way to work and taking lunch breaks with colleagues near the office, they could be buying fewer groceries for their morning and midday breaks. Restaurants benefit as the trend continues; consumer packaged goods companies and grocery retailers may not.

Employees want to keep their flexibility.

Slightly fewer consumers have the flexibility to work from home this year (59 percent) compared to last (62 percent). Women are more driven to seek out remote work so they can balance their role as caretakers, 13 percent compared to 6 percent for men.

The older generations, Gen X and Baby Boomers, say they care most about their work flexibility. Yet millennials indicated they are more likely to do something about it, switching jobs in exchange for flexibility and even considering a lower salary to work from home permanently.

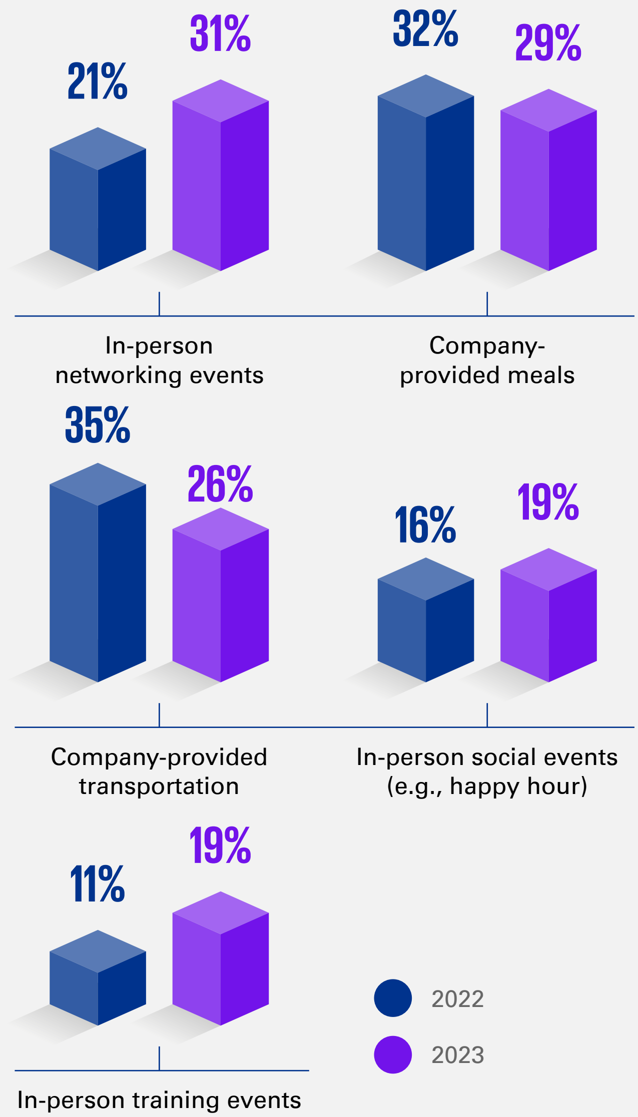
Among those reluctant to go back more frequently, better productivity at home was cited the most, by 40 percent of consumers. Productivity was the only barrier consumers pointed to more this year than in 2022. Employees may have overcome many of the challenges of virtual work experienced in the pandemic's early days and appreciate the efficiency of eliminating commuting time.

The right incentives can entice at least a portion of the workforce to return.

A preference toward in-person networking has grown since last year among consumers who work on-site less than two times a week, 31 percent compared to 21 percent in 2022. In fact, networking has become a bigger draw than other face-to-face events such as social gatherings and trainings. Networking events are particularly appealing to women, 36 percent, compared to men, 26 percent.

It will be important for consumer and retail companies to provide meaningful networking and interactions if they want to achieve the cultural benefits of in-office workdays.

Preferred incentives to return to in-office work



77% of consumers **willingly work on-site** at least 1x week, compared to **24%** just 12 months ago

Employees with flexibility have increased their **average time in the workplace** to

2.3 days in 2023 from

1.7 days in 2022

KPMG insights

Amid continuing uncertainty about the economy, consumers are becoming more thoughtful about their spending. Despite the continued inflationary pressure consumers are experiencing across all incomes and demographics, our research shows consumers have not closed their wallets and continue to spend, although with more of a watchful eye in discretionary categories. To stand out in these more challenging macro-economic conditions, it is important to keep your eye squarely on the consumer and how you provide flexibility, exceptional experience, and responsiveness to your core customer needs. We believe these four areas should be the key focus:

Value focus

In an environment where consumers manage household budgets more tightly, making frequent trade-offs and bias spending toward everyday essentials, consumer and retail organizations need to amplify their value messaging while investing in a value assortment, such as differentiated products and merchandise and appealing opening price points. Span every consumer touchpoint from app to online to in-store to reinforce value.

Customer-centricity is a winning formula

Through the lens of your customer, design service offerings, marketing, promotions, and assortments. Increasingly, retail strategies are one-to-one, supported by technology in tandem with knowledgeable store staff. Customer-centricity is such an important discipline when volumes are challenged and consumers need to be inspired to spend.

Own your omnichannel and execute it

The pandemic revealed the value of a physical store in helping close the gap on the last mile, a distrubution center, and pickup point. Seamlessly connect online with in-store and remove friction to create superior customer experiences.

Customer experience

Even when shoppers are primarily looking for value, retailers can create a great customer experience. Offer a good mix of quality and value products, while providing great customer service to achieve high product satisfaction and create an emotional connection with shoppers.

Visit us at visit.kpmg.us/consumer-retail.

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