



# Consumers share their changed behavior:

**Inflation, essentials, shopping, and purpose**

March 2023

**Consumer pulse survey**

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# Executive summary

Throughout 2023, consumer behavior will be shaped by economic conditions, largely inflation, driving consumers to increase spend mostly on the essentials. It won't be a complete pull back, as consumers will seek to spend on travel, events, and services while they delay the large purchases traditionally financed, including homes, cars, and furniture.

In February 2023, KPMG polled more than 1,000 consumers across the United States to understand how their shopping and buying habits are changing and to assess purchasing intentions in the year ahead.

## Among the key findings:



### **Inflation continues to take a toll.**

Consumers say they will delay purchases in big-ticket discretionary categories and expect to spend more on essentials, experiences, and services.<sup>1</sup> When consumers shop for essentials, they are willing to shop around for bargains and even trade down on certain items to lower price or private-label brands.



### **Mall trips are likely to decline modestly.**

Survey responses indicate that consumers may make fewer trips to the mall this year,<sup>6</sup> a clear indication of the intention to reduce discretionary spending. However, spending per trip to the mall is up, except for Millennials, with Gen Z driving a mall resurgence.<sup>7</sup>



### **In-store grocery shopping is back.**

Consumers are planning to spend 15 percent<sup>2</sup> more on grocery in 2023 and plan to shop in-store for more than three quarters of their monthly grocery purchases.<sup>3</sup> More than a third of consumers say they will use online grocery shopping less in 2023.<sup>4</sup> Value pricing is top of mind, and one in three consumers say they visit multiple grocery stores for price, selection, and quality.<sup>5</sup>



### **Environmental sustainability and social responsibility are rising forces.**

More than 35 percent of consumers report that environmental sustainability is important to purchase decision,<sup>8</sup> and one in three consumers say a company's social responsibility is important.<sup>9</sup> Gen Zs are the leading demographic on the importance of sustainability<sup>10</sup> and social responsibility<sup>11</sup> to purchase decisions.



**With shoppers dealing with persistent inflation eating away at their budgets, retailers will need to delight customers with a great experience and must-have, on-trend merchandise.”**

—Matt Kramer, *National Sector Leader, Consumer & Retail*



*Matt*

**Matt Kramer**

*National Sector Leader,  
Consumer & Retail*



*Duleep*

**Duleep Rodrigo**

*National Advisory Leader,  
Consumer & Retail*



*Julia*

**Julia Wilson**

*Principal,  
Advisory Strategy and ESG*



*Monica*

**Monica Rodriguez**

*Director,  
Advisory Strategy*

<sup>1</sup> Consumer pulse Winter 2023 report, KPMG LLP, March 2023. Survey fielded January 31, 2023-February 10, 2023. Slide 12 (All slides referenced in this report are from this source unless otherwise noted.) <sup>2</sup> Slide 13; <sup>3,4</sup> Slide 26; <sup>5</sup> Slide 31; <sup>6</sup> Slide 39; <sup>7</sup> Slide 43; <sup>8,10</sup> Slide 56; <sup>9</sup> Slide 63; <sup>11</sup> Slide 64

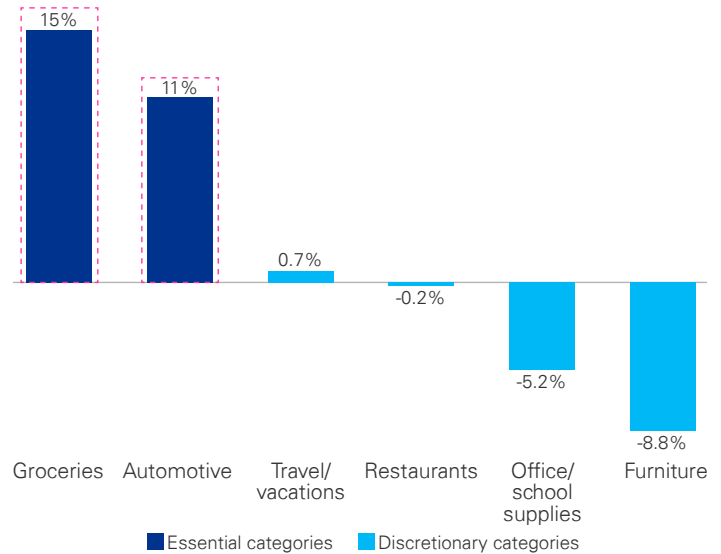
# Inflation continues to take a toll



February's inflation report at a 6.0 percent annualized rate was the lowest since September 2021<sup>12</sup> and has moderated slightly (from December through February, it averaged 6.3 percent, down from the peak of 9.1 percent in June 2022).<sup>13</sup> So, rising prices continue to limit purchasing power and impact near-term consumer demand across several discretionary categories. Consumers are anticipating a 15 percent increase in monthly grocery spending and an 11 percent increase in monthly automotive spending<sup>14</sup> primarily driven by inflationary pricing. When Walmart reported fourth quarter earnings in February, it cited food inflation rates in the mid-teens as a reason for increased grocery sales.<sup>15</sup> This is a clear indication of how the consumer has shifted spending from wants to needs.

## Consumers shift from wants to needs

Consumer expectation on spend



## Economic environment: Where is the recession?

The ongoing efforts by the Federal Reserve to curb inflation through interest rate hikes continue the discussion of a Fed-induced recession. Higher interest rates have already hit housing, slowing construction and depressing sales at home center chains. However, the strong jobs market and resilient consumer are the counter-balances that remain, and last year's fears of a serious downturn have faded. KPMG economists now expect a mild recession in the second half of 2023 and inflation easing in 2024.<sup>16</sup> Real GDP growth in Q4 2022 came in at a surprisingly strong 2.7 percent rate<sup>17</sup> and the U.S. added 311,000 jobs in February after a revised +304,000 in January.<sup>18</sup> Consumer spending was surprisingly strong in January and February, with retail sales up 5.1 percent for the two-month period, blowing past expectations following modest growth during the 2022 holiday season.<sup>19</sup> And, in our survey, consumers are expecting further gains in income in 2023. Overall, this creates a mildly positive backdrop for retail sales as the year unfolds in 2023.

**Unemployment.** In February, unemployment edged up to 3.6 percent, from January's 3.4 percent, the lowest rate since 1969.<sup>20</sup> Continued interest rate pressure by the Fed has KPMG economics projecting an unemployment rate approaching 4.0 percent by year-end 2023.<sup>21</sup>

**Income.** Forty-four percent of consumers in our survey said they expect their incomes to increase in 2023, and 35 percent say they expect household income to be flat with 2022.<sup>22</sup>

**Household balance sheets.** Consumers have largely spent down savings they piled up during the recession. In 2022, the savings rate declined to 4.7 percent in January 2023, from the 33.8 percent high hit in April 2020.<sup>23</sup> Consumers have also reversed their borrowing habits. Credit card debt has risen to \$1.2 trillion in the fourth quarter of 2022, up from \$1.0 trillion in the year ago period.<sup>24</sup>

<sup>12</sup> BLS Consumer Price Index, February 2023, released March 14, 2023; <sup>13</sup> USA inflation summary for February 2023, updated March 14, 2023; <sup>14</sup> Slide 13;

<sup>15</sup> Walmart, 4<sup>th</sup> quarter, Walmart Financial presentation to accompany management commentary, Q4 FY2023; <sup>16</sup> KPMG New Year; Old Challenges January 20, 2023;

<sup>17</sup> BEA Gross Domestic Product, Fourth Quarter and Year 2022, Second Estimate, news release February 23, 2023;

<sup>18</sup> BLS Employment Situation Summary March 10, 2023; <sup>19</sup> Census Bureau, Advance Monthly Sales for Retail and Food Services, February 2023, released March 15, 2023;

<sup>20</sup> BLS Employment Situation Summary March 10, 2023; <sup>21</sup> KPMG Economics forecast, What's your home worth? Special housing market edition, March 2023; <sup>22</sup> Slide 10;

<sup>23</sup> BEA, "Personal Saving Rate," February 24, 2023; <sup>24</sup> Board of Governors of the Federal Reserve System, Consumer Credit – G.19, March 7, 2023

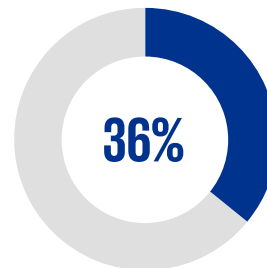
# In-store grocery shopping is back



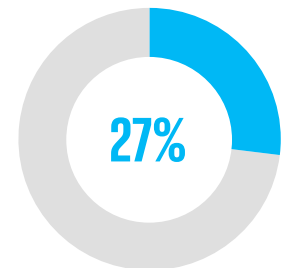
With inflation, value-seeking has re-emerged as the top criterion for many shoppers. According to our survey, approximately one out of three consumers visit multiple stores for the best price.<sup>25</sup> Shoppers are mindfully making choices weekly regarding their essential and discretionary purchases and price is seven points higher in importance than quality.<sup>26</sup>

## Shopping around for value

**Grocery behavior**  
(respondents may select multiple responses)



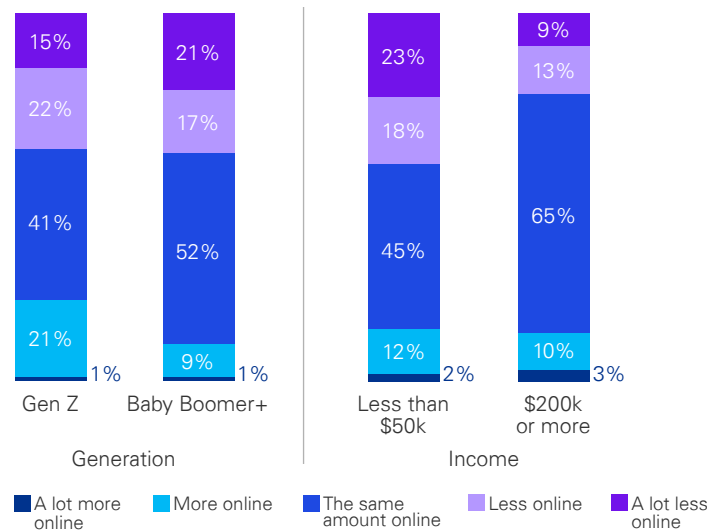
I go to multiple stores to get the best prices.



I go to one store to do all my grocery shopping.

American shoppers still like visiting grocery stores and grocery departments at mass-market chains, even after discovering the ease of online grocery shopping. Food and fast-moving consumer goods remain firmly planted in physical stores post pandemic. Online share of wallet is expected to decline for more than a third of shoppers,<sup>27</sup> which could be an indication that the consistency of retail execution is not yet meeting customer expectations. The category spending online is expected to remain consistent, so no particular category is surging in digital demand for consumers.

## Consumers expect to spend less on online grocery purchases



<sup>25, 26</sup> Slide 31; <sup>27</sup> Slide 26

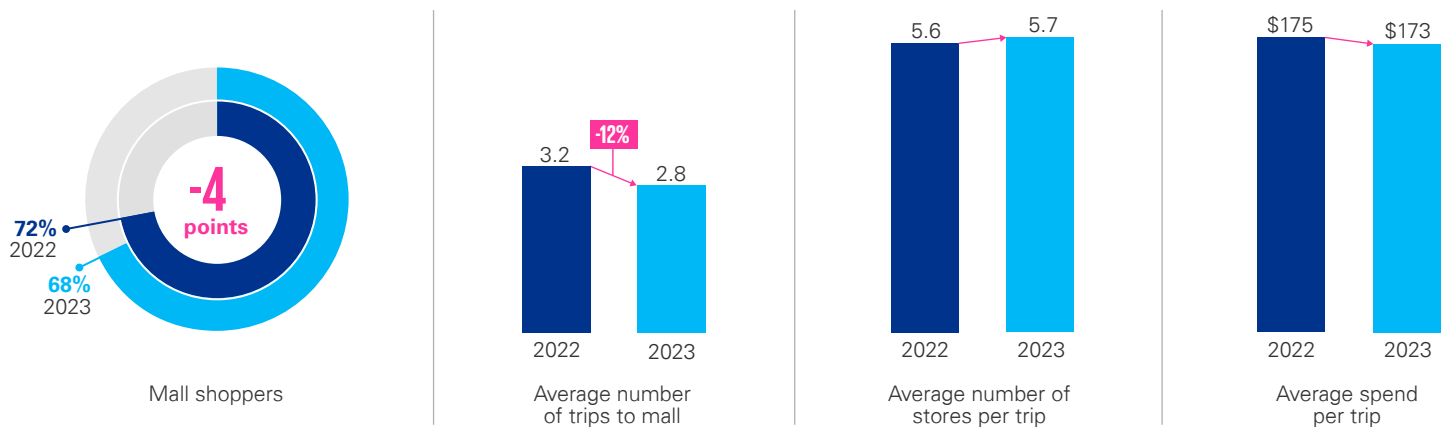
# Mall trips are likely to decline modestly



Intended mall trips are modestly down for all age groups.<sup>28</sup> Mass merchants are elevating apparel, beauty, and home offerings in the hopes of holding onto more affluent shoppers, who came in during the pandemic to consolidate shopping trips, and now are more willing to shop around for promotions. This could have a ripple effect across retail, further reducing mall visits in the future as

shoppers recalibrate their retailers of choice. Gen Zs and Millennials are already shopping mass-market retailers more frequently than supermarkets for their monthly grocery needs. So, mass merchants could emerge as the department store of the future for these cohorts, meeting both discretionary and non-discretionary needs for a large contingent of U.S. shoppers.

## Mall shopping trends this winter



<sup>28</sup> Slide 41

# Back to the mall: Will young Gen Z shoppers spark a mall resurgence?

Malls are in style again with teenage Gen Zs, who are interested in engaging with new brands and products, touching, feeling, and trying on items and just walking the mall for socializing and hanging out in the food court. Overall, U.S. shoppers plan fewer shopping trips to the mall the first half of 2023 but expect to visit more stores and spend about the same per mall visit.<sup>29</sup> While this implies overall reduced mall-based retail sales for the first half of 2023 versus last year, there is a silver lining—increased store visits provide retailers with the opportunity to surprise and delight shoppers with fresh merchandise and an enhanced experience. The chance to excite consumers still willing to spend on upcoming events could lift transaction value, mitigating the impact of intended fewer trips.

These young Gen Zs will be the primary shoppers of the future and they are enthusiastic mallgoers. This cohort leads consumers in terms of intended mall visits this Winter, with roughly four out of five planning mall trips;<sup>30</sup> and they intend to increase their spend per trip, up 6 percent to \$209 versus Winter 2022. In fact, the

spending intentions of these young teens surpasses that of all other demographic segments this Winter. Gen Zs (including 18-24 years old) have more muted spending intentions, trailing Millennials, who plan a 10 percent drop in mall spending versus Winter 2022, but remain the top spending demographic segment.<sup>31</sup> Spending intention per mall trip this Winter rose for all demographics except Millennials.<sup>32</sup> Apparel retailers should benefit as 32 percent of consumers intend to spend more on apparel this Winter with 38 percent of consumers expecting to spend more at restaurants.<sup>33</sup>

**“ Younger Gen Zs are actively visiting malls and spending money. To build on this trend, retailers should provide a blend of experiential offerings, multiple payment alternatives, and clearly articulated messaging around corporate social and product sustainability efforts.”**

—Duleep Rodrigo, *National Advisory Leader, Consumer & Retail*

## Experiential shopping is back

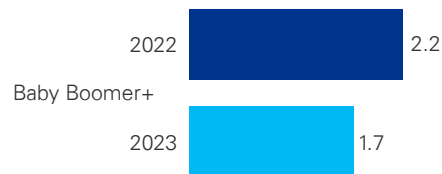
More than half of consumers<sup>34</sup> opting for mall shopping are going there to feel, see, and try on. Experimental shopping is in vogue again following the pandemic, with more than half of consumers choosing this as a reason for a mall visit. More than a third of all consumers want to compare prices and products physically across multiple stores, despite the ease of digital price shopping.<sup>35</sup>

**“ Shoppers generally and especially the younger cohorts are discovering products online and visiting the mall to check out the product, color, fit, and feel. They expect items they see online to be in the store. Execute omnichannel. Don’t let them be disappointed or surprised by not finding products in store that they discovered online.”**

—Julia Wilson, *Principal, Advisory Strategy and ESG*

### Trips to the mall

Winter 2022 vs. Winter 2023



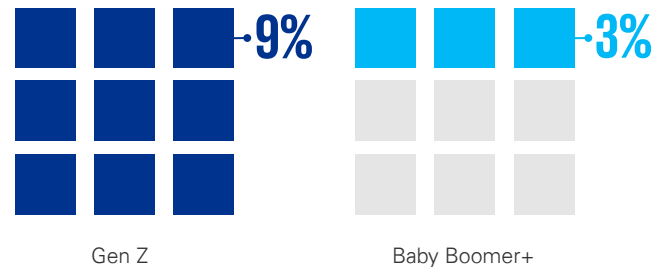
<sup>29</sup> Slide 39; <sup>30</sup> Slide 40; <sup>31,32</sup> Slide 43; <sup>33</sup> Slide 12; <sup>34,35</sup> Slide 44

## More payment options

Shoppers are becoming increasingly more comfortable with their phones as the payment method of choice given the increased acceptance and familiarity. Smart phones are an easily accessible payment method for approximately 45 percent of consumers at least some of the time for in-person purchases.<sup>36</sup> Most consumers still select debit card, credit card, and cash as their top three most frequently used payment methods.<sup>37</sup> However, smart phones have emerged as an important payment option. More than two-thirds of Gen Zs pay for in-person goods and services with smartphones, at least some of the time.<sup>38</sup> Almost 50 percent of credit card users pay their entire credit card balance monthly.<sup>39</sup>

### Phone use for in-person purchases

Percentage of consumers who always use their phone to pay



## How will a hybrid work environment impact retail sales?

The U.S. workforce appears to be opting for a hybrid work environment, revealing how important flexibility is to workers following the pandemic. Nearly 40 percent of employees who are required to be in-office plan to seek a job with more flexible working arrangements; and surprisingly over half of them would consider lower pay in order to work remotely.<sup>40</sup> More than half of consumers prefer fully remote work.<sup>41</sup> This preference certainly impacts consumer needs, from breakfast and lunch,

to apparel and childcare. And these nuanced individual and family decisions regarding work-life balance will alter the consumer buying behaviors and the economic landscape for years to come. Men who say they are more likely to work from home say they prized better work-life balance, reduced commuting time, and lower lunch expenses.<sup>42</sup> Women say the primary benefits of work-from-home are better productivity and lower stress.<sup>43</sup>



<sup>36, 38</sup> Slide 21; <sup>37</sup> Slide 18; <sup>39</sup> Slide 19; <sup>40</sup> Slide 81; <sup>41</sup> Slide 82; <sup>42, 43</sup> Slide 78

# Environmental sustainability and social responsibility are rising forces



Shopping for brands and products that align with their values is growing in importance for many consumers today and is likely to define the consumer of tomorrow. More than a third of consumers say environmental sustainability is important to purchase decisions, and more than 75 percent of these consumers are looking for environmentally friendly products and packaging.<sup>44</sup> Corporate social responsibility is an important factor in consumer purchasing decisions for one in three consumers, with 75 percent or more indicating that

employee human rights and living wages are important to their purchase decisions.<sup>45</sup>

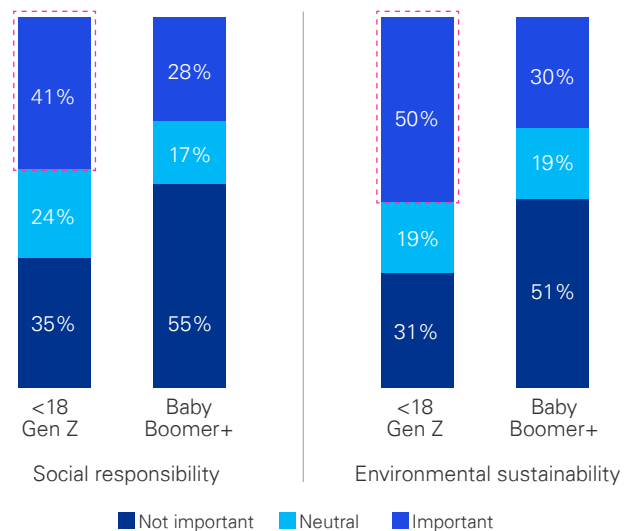
More than 40 percent of those surveyed say they have tried these alternative channels and plan to continue to use them.<sup>46</sup> Retailers from REI to Saks Off Fifth are offering previously owned (not necessarily used) goods. A third of consumers haven't tried resale as inflation remains persistent and economic conditions unstable, but we expect more consumers will explore the resale channel.<sup>47</sup>

## Brand purpose is becoming a real factor for consumers

Under 18 Gen Z shoppers are most likely to say sustainability and social responsibility are important to purchase decisions (50 percent<sup>48</sup> and 41 percent,<sup>49</sup> respectively). In our survey of consumer and retail CEOs, 28 percent said they are taking a more active approach to issues such as living wages, human rights, and carbon reduction efforts, in part to align with consumer values.<sup>50</sup> These efforts can help attract consumers and establish brand trust with the next generation of Gen Z shoppers and employees.

More than half (51 percent) of consumers use product labeling, descriptions, marketing, and images to determine sustainability<sup>51</sup> and social responsibility,<sup>52</sup> highlighting the importance of clear messaging on these issues and avoiding greenwashing in marketing communications.

### Environmentally conscious consumers' key indicators



<sup>44</sup> Slide 55; <sup>45</sup> Slide 63; <sup>46, 47</sup> Slide 61; <sup>48</sup> Slide 56; <sup>49</sup> Slide 64; <sup>50</sup> KPMG U.S. CEO Outlook for Consumer & Retail 2023; <sup>51</sup> Slide 57; <sup>52</sup> Slide 68



# 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 distribution 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.

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# Contacts



**Matt Kramer**

*National Sector Leader,  
Consumer & Retail*

614-241-4666

[mattkramer@kpmg.com](mailto:mattkramer@kpmg.com)



**Duleep Rodrigo**

*National Advisory Leader,  
Consumer & Retail*

213-817-3150

[drodrigo@kpmg.com](mailto:drodrigo@kpmg.com)



**Julia Wilson**

*Principal,  
Advisory Strategy and ESG*

404-222-3511

[juliawilson@kpmg.com](mailto:juliawilson@kpmg.com)



**Monica Rodriguez**

*Director,  
Advisory Strategy*

917-671-7973

[monicarodriguez@kpmg.com](mailto:monicarodriguez@kpmg.com)

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