Consumer Spending Remains Strong as Headwinds Build

Inflation's Impact on U.S. Consumer Spending Through February 2023

Commerce Signals

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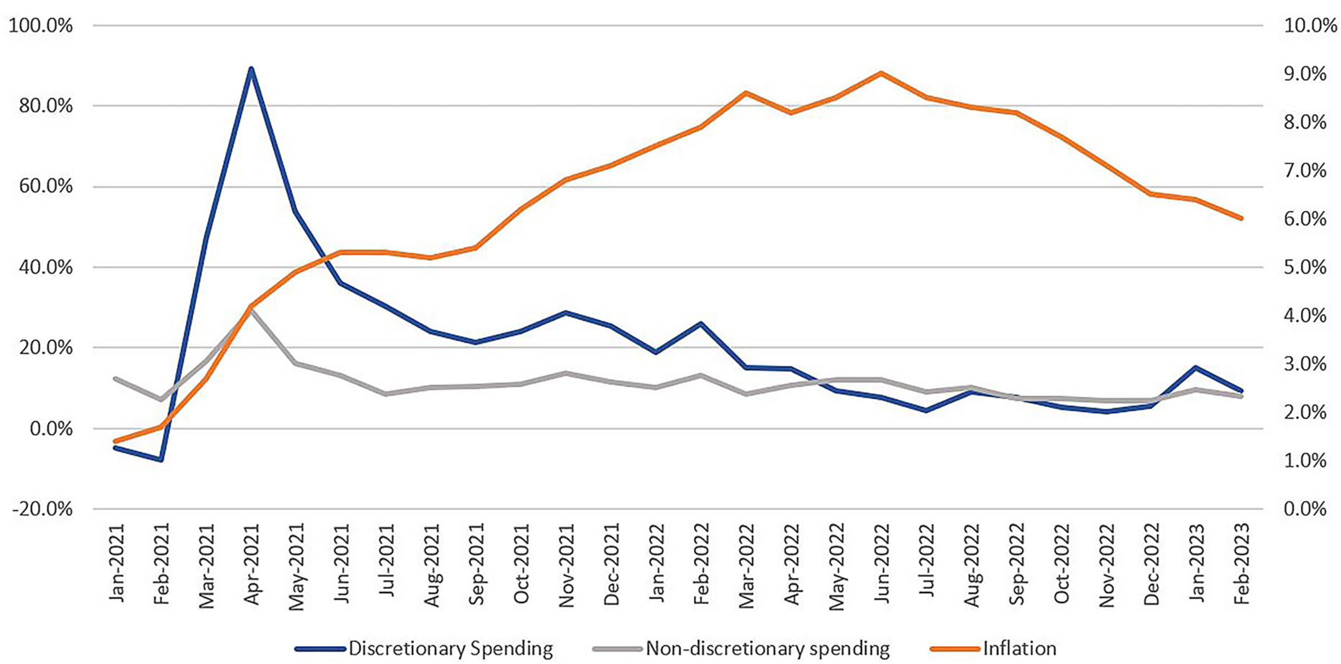
When we last looked at inflation's impact on consumer spending in **July 2022**, the growth rate of consumer discretionary purchases was slowing. Forced to spend more on non-discretionary purchases such as food, gas and utilities, consumers were trading down and buying less. The downward trend combined with inflation near 40-year highs made many people wonder how long consumer spending growth could continue. Furthermore, with consumer spending accounting for about 68% of U.S. GDP, a spending decline could push the U.S. into a recession.

With that backdrop, we are happy to report that consumer discretionary purchases and consumer spending overall have continued to show growth through February 2023. The chart below illustrates how discretionary spending growth slowed throughout 2022 in the face of high inflation, but it remained positive.

January and February actually showed an uptick in discretionary spending, to the surprise of most. Let's dig into which categories drove this spending growth and which ones lagged.

U.S. Consumer Card Spending vs. Inflation YOY



Source: Commerce Signals' Spend Analytics Suite

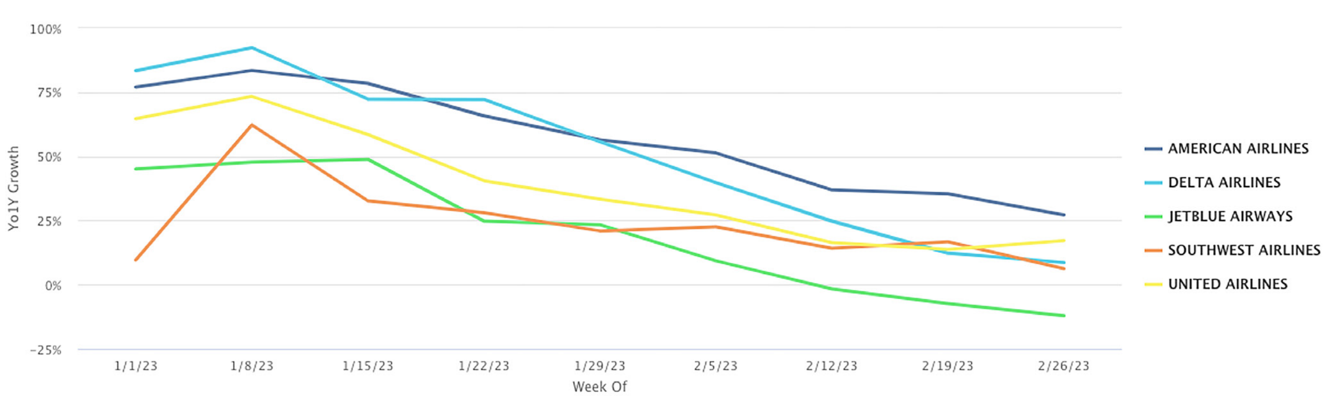
Discretionary Spending Priorities

Travel spending saw the highest growth rates to start 2023, with dollar spending increasing 34.5%. The number of transactions also increased by 21.3%, which illustrates that consumers are travelling more than they were a year ago, despite higher prices. The "Other Transportation" category, which includes cruises, ride sharing, taxis and trains had the highest increase in spending at 79.6% vs 2021. Airline spending also started the year very strong with growth of 50.3% vs last year.

January/February 2023 Spending Growth YOY		
Category	**Dollars**	**Transactions**
Other Transportation	79.6%	28.0%
Airlines	50.3%	17.7%
Travel Agencies	25.4%	12.9%
Hotel/Motel	18.2%	14.8%
Auto Rental	6.8%	6.1%
Travel Total	***34.5%***	***21.3%***

Within airlines, American and Delta are leading the growth YTD among the major players. Southwest appears to be recovering with travelers after their December issues. Jetblue is lagging and slipped into a decline during February (see chart below).

Consumer Purchase Growth ($) by Brand



Recreation and Restaurants also experienced solid growth in January and February with purchase dollars up 30.5% and 16.5% respectively. Transaction counts in those categories were up 18.3% and 9.3% indicating that most of this growth came from an increase in purchases, not just higher prices and changing mix. Maggie Moo, Donatos Pizza, Fresh & Co, Jersey Mike's and Chuck E. Cheese's outpaced the growth of other restaurant chains. But growth among restaurants was widespread. The chart below illustrates the year over year growth trends among a sampling of the largest chains.

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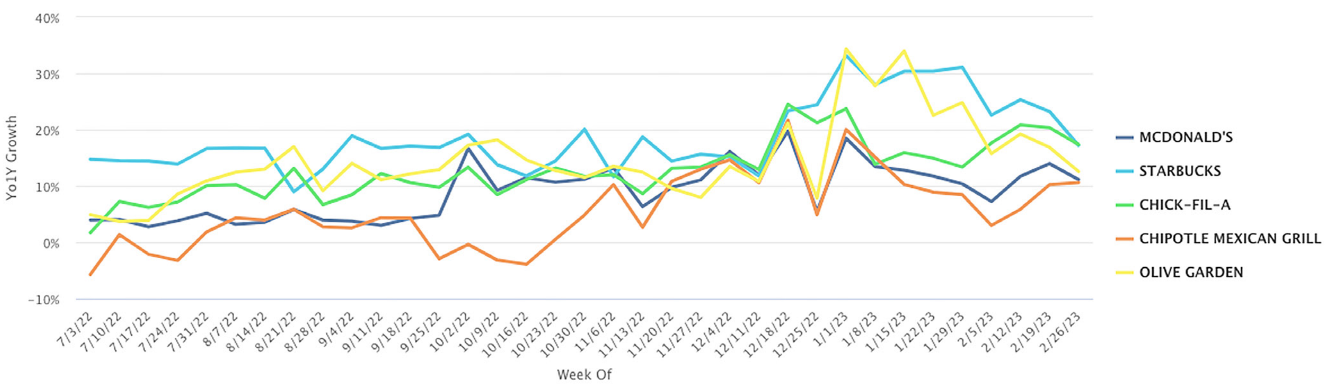

Lower on the list

Clothing and department stores did modestly well in comparison to other consumer categories with purchase dollars up 6.3% and 6.0% respectively. Among department stores, TJ Maxx, Kohls, Nordstrom and Bergdorf Goodman all gained market share at the expense of Macy's, Nieman Marcus and Saks.

Home stores (-4.4%) and Electronics stores (-2.6%) saw consumer purchase declines to start the year. Electronics interestingly experienced a 10.4% increase in transactions, yet still saw dollar purchases decline. The difference between transaction and dollar change year over year is likely due in large part to product mix. Best Buy, the largest pure retailer in the category, saw purchase dollars fall 19%, while transactions were down only 5.3%. Their online business fared worse than in-store sales. In their Q4 quarterly report, they announced a decline of 9.8% driven by declines in computing, home theater, appliances and phones but somewhat offset by increases in gaming and tablets. The trends in mix make sense when you consider the broader picture of consumers prioritizing travel rather than improving their homes.

Non-discretionary spending growth

Among non-discretionary categories, Professional Services, Education, and Healthcare saw the highest spending increases at 15.8%, 15.0% and 12.5% respectively. All three categories were well north of the non-discretionary average increase of 8.8% YTD through February.

While the national average gasoline price in February was still $3.62 per gallon, that price was relatively flat vs 2022, resulting in just a 3.2% increase in dollars purchased at gas stations YTD. This of course helps the overall inflation outlook in the US for as long as it lasts. However, a recently announced oil production cut by OPEC could push gas prices higher still.

Grocery purchase dollars are up 5.2% YTD despite food prices having risen more than **10% per the BLS**. While food is certainly not the only thing in the grocery store, it would seem that consumers continue to trade down to reduce the impact of higher prices

Looking ahead

With consumer-focused businesses bracing for a possible recession, some advertisers are holding back their marketing investments. But as consumer spending continues to grow, companies that go against the grain may earn big share gains this year. With less competition for share of voice, ads that are relevant and compelling will drive consumer purchases.

They key question is how long can this spending growth continue? Based on the latest spending trends, we expect consumer card spending growth will remain positive through at least Q2. However, there are economic headwinds and tailwinds with potential to impact the trend. And as noted throughout this report, results will vary by category as consumers prioritize their discretionary purchases.

Among the several economic factors conspiring against continued growth, are:

- *Inflation remains historically high at 6%, well above the Fed's target of 2%. Most economists expect inflation to continue to come down this year (***Bloomberg news***).*
- *Credit card debit is at an all-time high (***Transunion***) and delinquencies are rising at the fastest rate since 2009 (***WSJ***).*
- *The monthly personal savings rate has been below 5% since January 2022. This is very low compared to historical averages (***St. Louis Fed***).*
- *The pause on student loan payments is set to end this summer (***WSJ***) impacting 45 million Americans. The Supreme Court is also expected to rule on student loan forgiveness at the same time.*

Fuel for continued growth exists as well, including:

- *Unemployment is near historical lows, despite recent tech layoffs (***US Dept of Labor***).*
- *Consumers still have more than half of the $2.7 trillion saved during the pandemic (***WSJ***).*
- *Travel and dining out, the biggest drivers of recent spending increases, remain top priorities for consumers as measured in a* **February 2023 study**.

We will continue to monitor consumer spending for changes ahead, but you don't need to wait for our next report to keep up with consumer habit changes. Our Spend Analytics Suite is updated weekly and includes both category and merchant spending down to the zip code level. Please **contact us** for more info.

To learn more about Commerce Signals' processes, **visit our website** and **follow us on LinkedIn**. Or **contact us** with any questions you have about how Commerce Signals can help your business.

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Footnote:
For this analysis, we included the following categories in non-discretionary spending: Grocery, Drug Stores, Gas Stations, Health Care, Education, Utilities, Auto Parts, Mass Retail, Club Stores and Professional Services.

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