



WHITE PAPER

Impact of Inflation on Consumer Lifestyles



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Introduction

Inflation is a major economic issue that affects every person in one way or another. As prices for essential goods and services continue to rise, many consumers find it harder and harder to make ends meet. It can erode the standard of living, distort consumers' choices, and affect the very foundation of the US economy.

The Federal Reserve strives to maintain prices stable, but sometimes factors beyond their control can lead to inflation. This puts pressure on businesses, which in turn may raise prices on the goods and services they provide.

Inflation's impact is widely seen across most consumer goods and services, with 1-in-2 consumers feeling less financially stable.



The inflation rate, at 8.5%, is nearly as high as it was in the early 1980s, according to the Bureau of Labor Statistics. While many factors contribute to inflation, this whitepaper will explore how it impacts consumers' lifestyles across different socio-economic backgrounds and what market researchers and brands can do to brace for impact.



What We Found

In rapidly changing and volatile markets, consumer preferences often shift, making historical data and past research less relevant. To understand what consumers want now, brands must perform market research regularly. When prices rise quickly during periods of high inflation, consumers become more price-sensitive, and their reference points change.

We wanted to dig deeper, so an online survey was sent to a general population sample and fielded from September 1 through September 27, 2022. 1,132 respondents completed the survey, and here is what we discovered:

- 1.** Respondents making more than \$100k a year are significantly less likely to feel less stable compared to other income groups. They were also considerably more likely to blame the **stock market** for any financial instability.
- 2.** **Gas** is the most affected by inflation, with 1-in-10 respondents saying they've stopped buying it completely.
- 3.** While purchase habits have not shifted drastically, respondents do report lifestyle changes. 2-in-3 respondents are **cooking at home more** and **going to restaurants less**, while 2-in-5 are **traveling by car less**.
- 4.** Usage of financial services is up; 1-in-3 respondents use **gas station loyalty programs**, **retailer-sponsored loyalty programs**, and **credit cards more**.
- 5.** **Maintaining price and decreasing quantity** is the preferred approach when adjusting products due to inflation. Most respondents also want retailers to acknowledge when they must increase prices due to inflation.

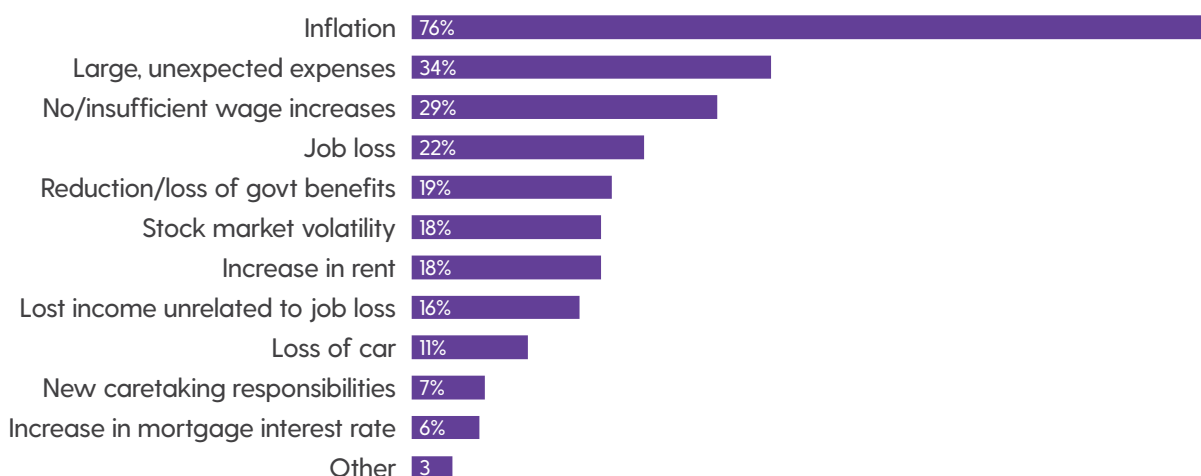


Changes in Consumer Product Purchase Behavior Funnel

Likely Future Purchase

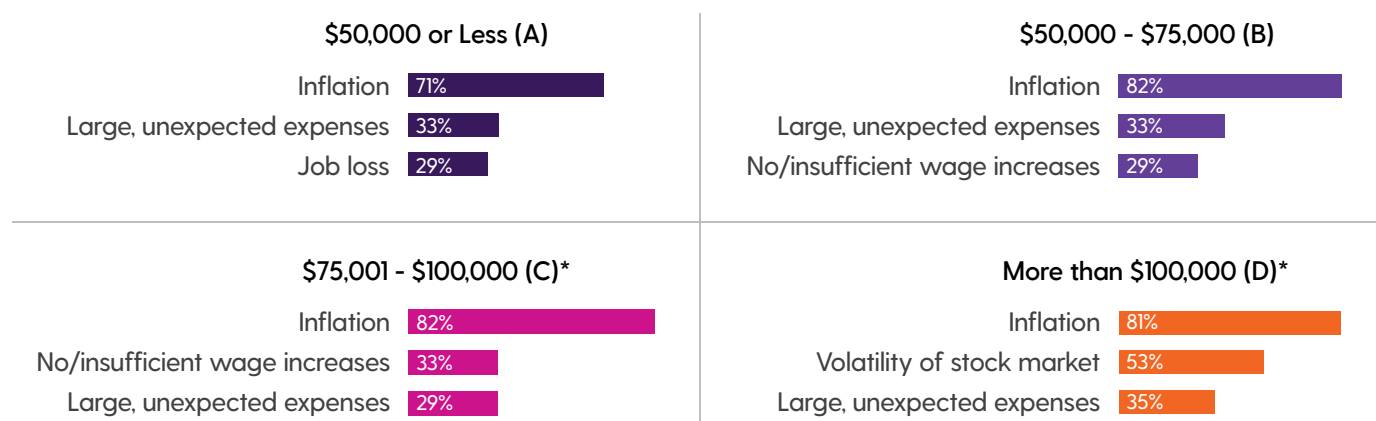
1-in-2 respondents said they have become less financially stable, with most identifying **inflation** as the main culprit and large, unexpected expenses being the next reason.

Reasons for Less Financial Stability



Unsurprisingly, respondents with a \$50k or less annual income were more likely to feel financially unstable, while those making more than \$100k felt the most stable. While all income groups identified inflation as the top reason for instability, the \$100k+ group also cited **stock market volatility** as a reason for financial instability.

Top 3 Reasons for Less Financial Stability



Conversion Funnel

Regardless of income, roughly half of all respondents noticed inflation's impact, with only 1-in-5 changing purchasing habits in response; many have continued making purchases despite inflation.

Most consumers noticed the influence of inflation on gas and fresh foods, with 1-in-4 decreasing their budget to adjust. Less than 1-in-10 completely stopped purchasing either category.

Top 10 CPG Categories Impacted by Inflation

CPG Category	Inflation Noticed	Conversion	Purchased P12M	Conversion
Gas prices (I)	84% BCDFHJLM	89% BCL	75% BCDFJLMO	49% CLM
Fresh foods (H)	78% BCDFJLMO	95% BCIJLMO	74%	53% CLM
Dry/frozen packaged foods (F)	65% BCDJLMO	94% BCIJLM	61%	51% CLM
Cleaning supplies (D)	60% BCJLM	94% BCIJLM	56% BCDFJLMO	52% CLM
Personal care products (O)	60% BCM	93% BCIJLM	56% BCDJLMO	55% CFJLM
Housing costs (L)	54% BCM	67% C	36% BCJLM	36%
Health (J)	51%	87% CL	44% BCJLM	50% CLM
Non-alcoholic beverages (M)	47%	89% BCL	42% C	41% L
Apparel (B)	46%	85% CL	39% BCL	53% CLM
Car expenses (C)	43%	52%	22% CL	43% L

CPG Category	Change Habits	Conversion	Decreased Budget	Conversion	No Longer Purchasing
Gas prices (I)	37% BCDFJLMO	70% DFHJLMO	26% BCDFJLMO	34% DFHMO	9% CDFHJLMO
Fresh foods (H)	39% BCDFJLMO	61% L	24% BCDFJLMO	24% M	6% CDLM
Dry/frozen packaged foods (F)	31% BCJLM	62% L	19% CJLM	23% M	4% M
Cleaning supplies (D)	29% BCJLM	61% L	18% CJLM	21% M	4% M
Personal care products (O)	31% BCJLM	61% L	19% CJLM	24% M	5% CLM
Housing costs (L)	13% C	49%	6%	46% BDFHJLMO	3%
Health (J)	22% CLM	64% L	14% CLM	31% DFHMO	4% M
Non-alcoholic beverages (M)	17% CL	64% L	11% CL	18%	2%
Apparel (B)	21% CLM	88% CDFHJLM	18% CJLM	37% DFHJMO	7% CDFJLMO
Car expenses (C)	10%	67% DFHLO	7%	45% BDFHJLMO	3%

Those with incomes of \$75k or less noticed inflation's impact on the same CPG categories. Those making \$50k or less were more likely to decrease their fresh foods budget and totally stop purchasing gas.

\$50,000 or less	Inflation Noticed	Conversion	Purchased P12M	Conversion	Change Habits	Conversion	Decreased Budget	Conversion	No Longer Purchasing
Gas prices (I)	84% HFOD	86%	73% FDO	52%	38% FD	73% FD	27% H	38% FD	10% H
Fresh foods (H)	78% FOD	96% IF	75% OD	56%	42% FOD	67% FOD	28%	25% FOD	7%
Dry/frozen packaged foods (F)	65%	93% I	60%	52%	32%	69%	22%	23%	5%
Personal care products (O)	60%	94% I	56%	58% I	33%	69%	23%	21%	5%
Cleaning supplies (D)	60%	94% I	56%	55%	31%	69%	21%	19%	4%

\$50,001 - \$75,000	Inflation Noticed	Conversion	Purchased P12M	Conversion	Change Habits	Conversion	Decreased Budget	Conversion	No Longer Purchasing
Gas prices (I)	85% DFO	92%	78% DFO	47%	36% O	73% DFHO	27% DFO	27% DHO	7% DO
Fresh foods (H)	80% DFO	97% I	78% DFO	46%	36%	56%	20%	16%	3%
Dry/frozen packaged foods (F)	65%	97% I	63%	46%	29%	65% DHO	19%	19%	4%
Cleaning supplies (D)	64%	99% I	63%	48% I	30%	55%	16%	14%	2%
Personal care products (O)	62%	98% I	60%	46%	28%	55%	15%	15%	2%

Those with incomes above \$75k saw inflation affecting the same categories as those making less. However, respondents with incomes above \$100k saw more inflation with travel expenses than other income groups.

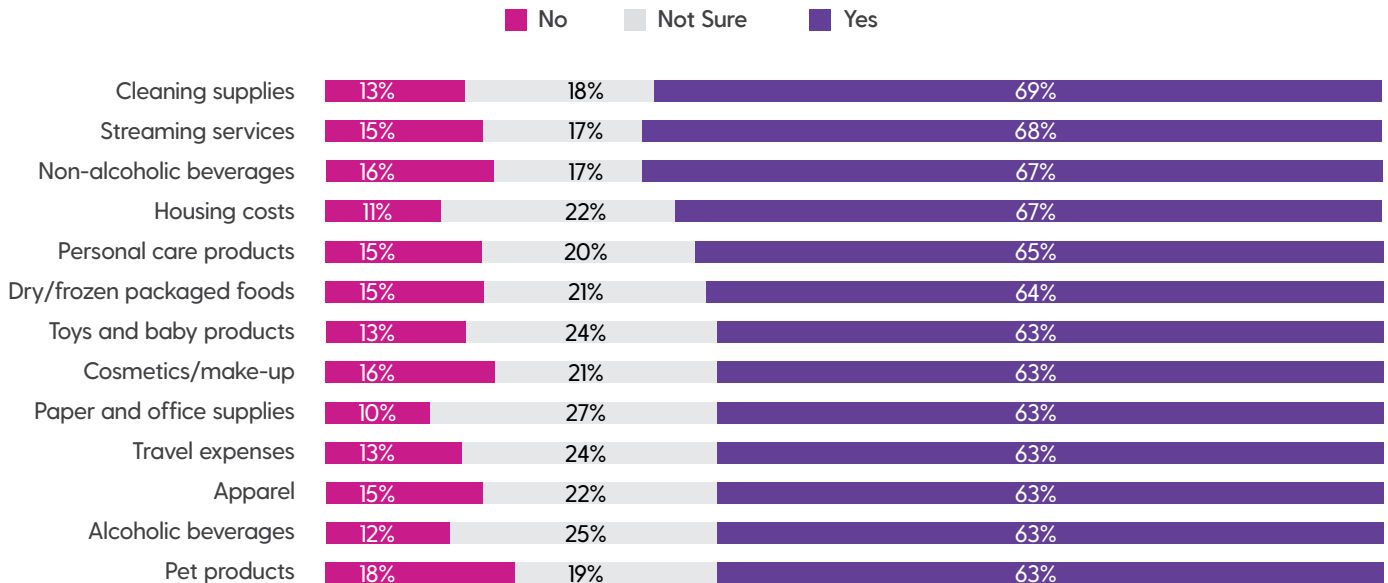
\$75,000 - \$100,000	Inflation Noticed	Conversion	Purchased P12M	Conversion	Change Habits	Conversion	Decreased Budget	Conversion	No Longer Purchasing
Gas prices (I)	85% DFO	91%	77% DFO	44%	34%	68% DFHO	23%	19%	4%
Fresh foods (H)	80% DFO	92%	73% DFO	54%	40%	56%	22%	26%	6%
Dry/frozen packaged foods (F)	65%	86%	56%	55%	31%	47%	14%	30% I	4%
Personal care products (O)	65%	92%	60%	51%	31%	51%	16%	27%	4%
Cleaning supplies (D)	60%	93%	56%	67% DFHI	37%	56%	21%	31% I	6%

More than \$100,000	Inflation Noticed	Conversion	Purchased P12M	Conversion	Change Habits	Conversion	Decreased Budget	Conversion	No Longer Purchasing
Gas prices (I)	84% FHOS	91% S	76% FOS	48%	36% OS	61% FO	22% FO	43% FH	9% FH
Fresh foods (H)	74% FOS	93% OS	69% FOS	48%	33% OS	52%	17%	23%	4%
Dry/frozen packaged foods (F)	62%	94% OS	58% S	50%	29% S	45%	13%	29%	4%
Cleaning supplies (D)	58%	84.76% S	49%	47%	23%	45%	10%	47% FHS	5%
Personal care products (O)	58%	73%	42%	45%	19%	86% FHO	16%	37% H	6%

Maintaining New Purchase Habits Post-Inflation

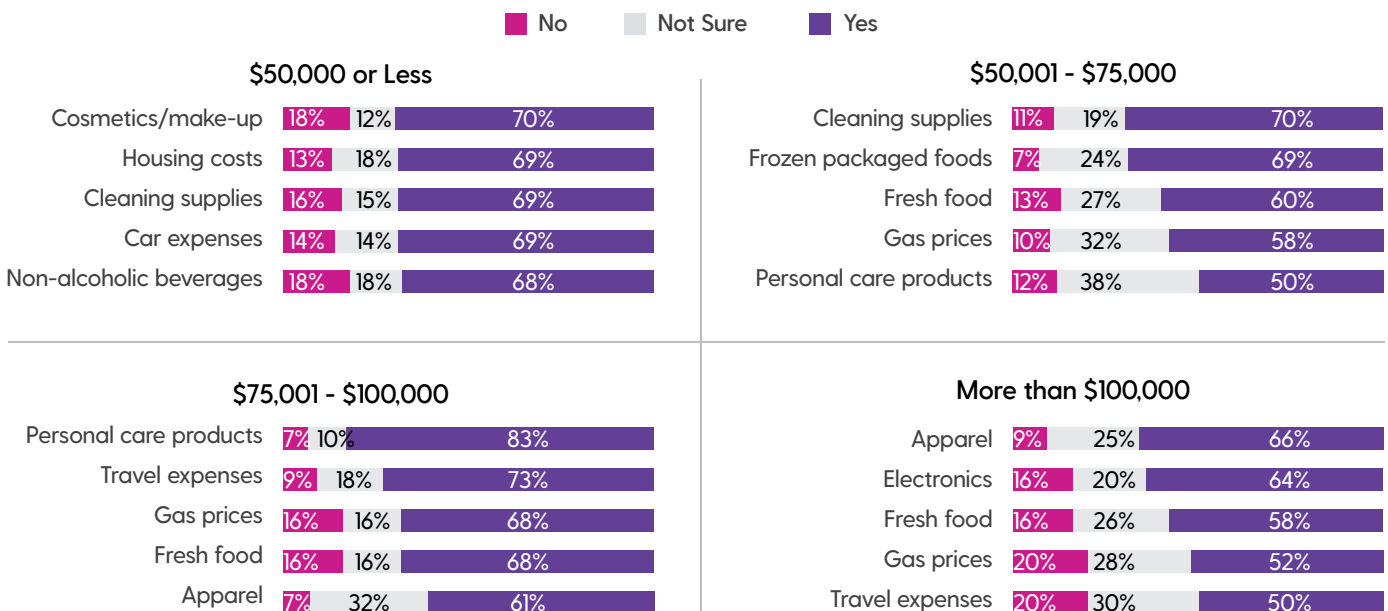
Even if inflation decreases, many respondents intend to continue their new purchase habits, such as using coupons, changing brands, or sharing costs with others.

Top Categories Consumers Will Keep Changed Purchase Habits for If Inflation Decreases



Across all income groups, most respondents intend to preserve their changed purchase habits for consumer goods and services, even if inflation decreases.

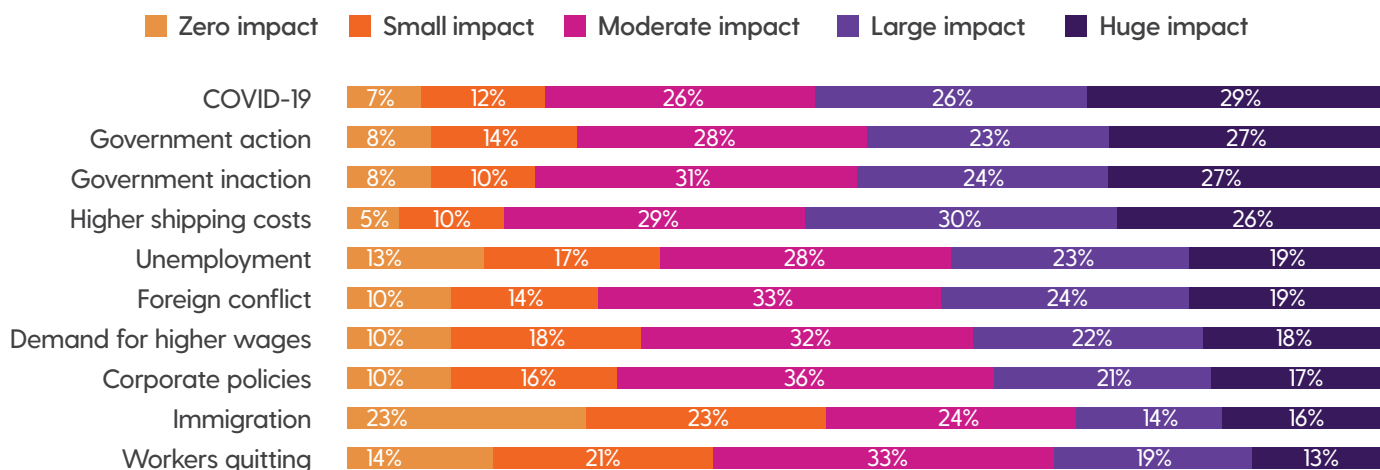
Top 5 Purchase Habits Consumers Will Keep If Inflation Decreases



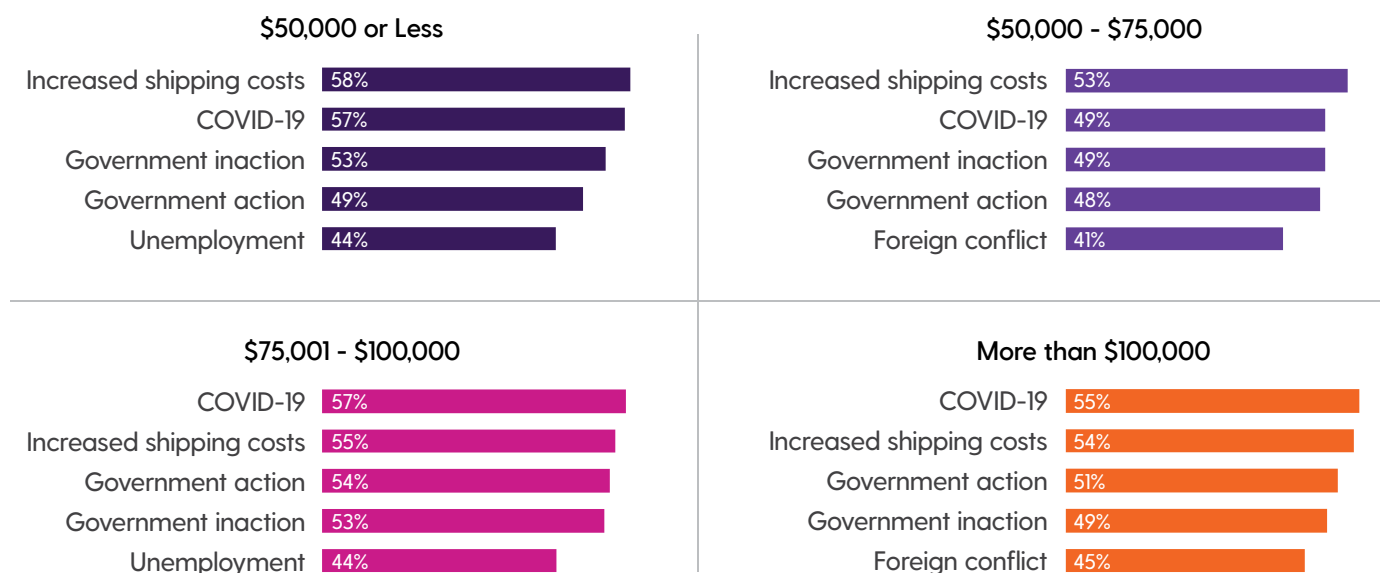
Reactions to Inflation and Desired Retailer Responses

Perceived Drivers of Inflation

Most respondents believe that higher shipping costs, COVID-19, and even government inaction or action are major contributors driving inflation. However, others also cited CEOs gouging the price for their benefit, gas prices, and supply chain issues for manufacturing companies as a cause for inflation as well.



Top 5 Perceived Drivers of Inflation



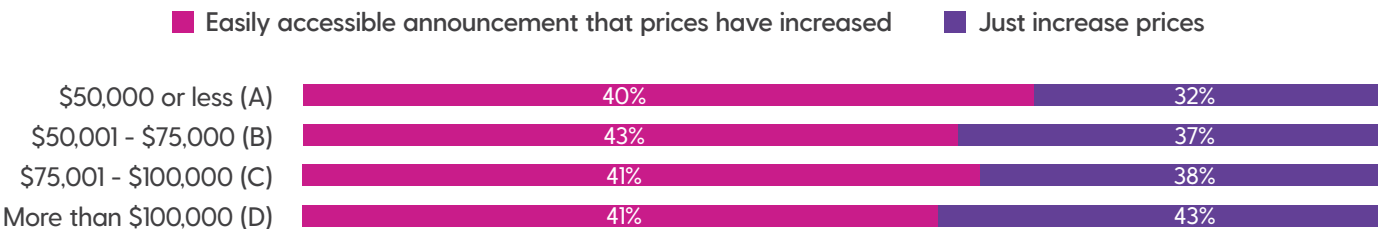
Response to Inflation Price Increases

Since most consumers of all income levels appreciate retailers' transparency in informing them of inflation price increases, 2-in-5 respondents were willing to settle for a smaller product if the price remained the same in light of inflation.

Preferred Approach to Product-Specific Price Increases



Preferred Approach to Retailer-Wide Price Increases

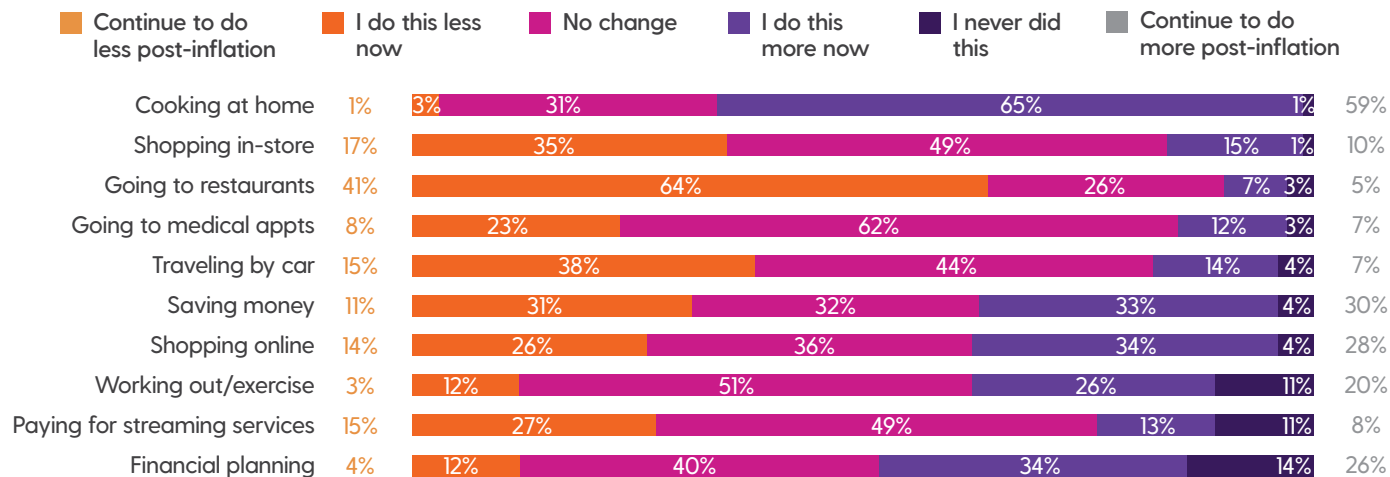


Lifestyle Changes Due to Inflation

Impact of Inflation on Consumer Habits

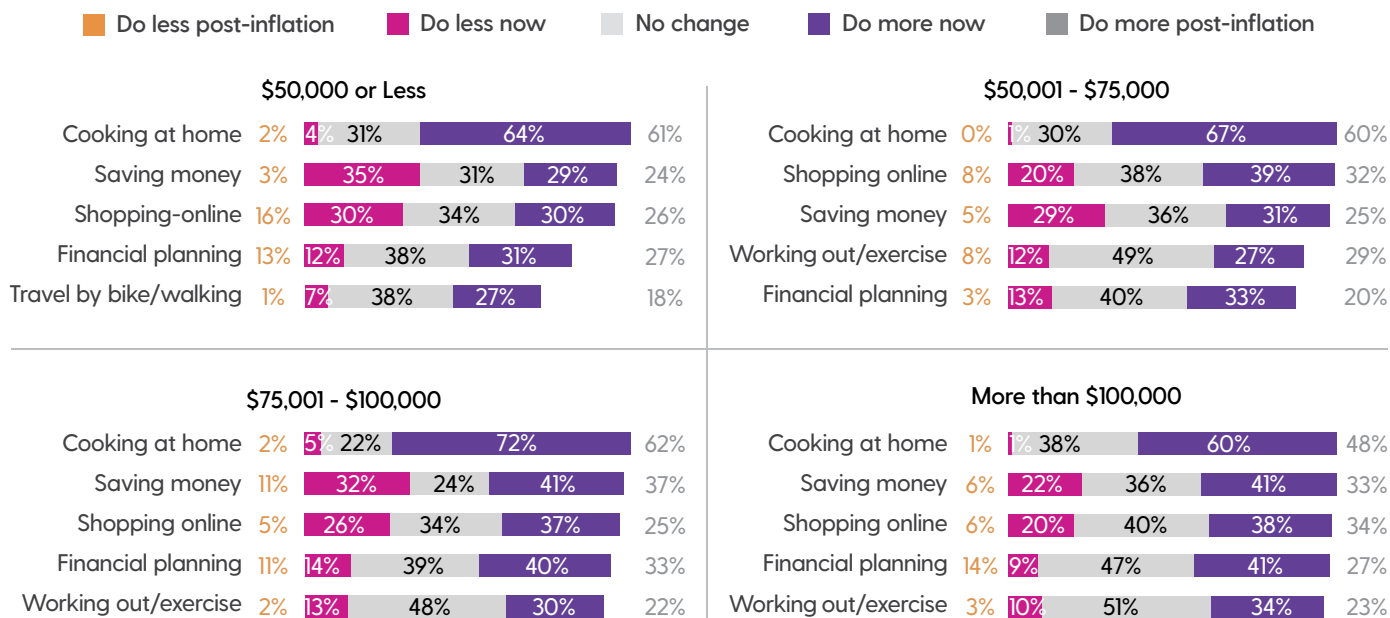
3 respondents started to cook more meals at home and go to restaurants less. Also, 1-in-3 respondents increased their financial planning and money saving, while another 1-in-3 reported saving less. As a result of increased gas prices, 2-in-5 respondents drive less.

Impact of Inflation on Top 10 Most Common Consumer Habits



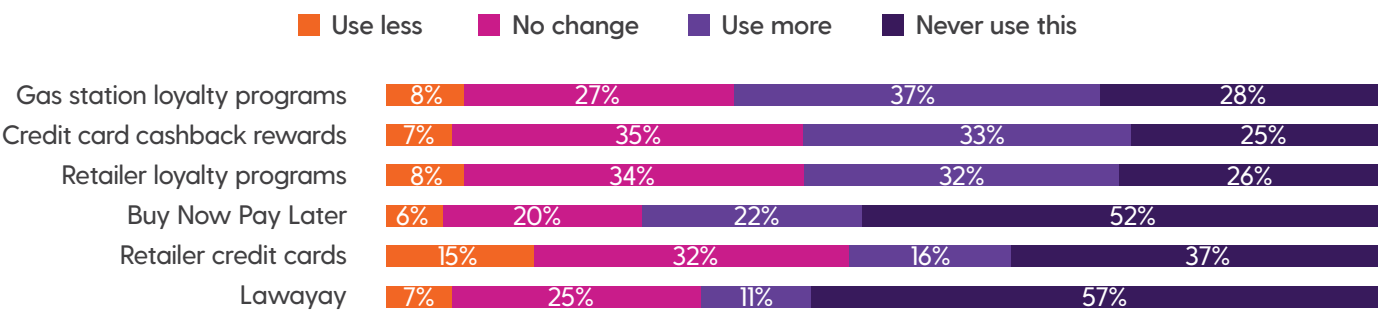
These trends carry through across all income levels. However, more affluent homes see a lower overall change in consumer habits.

Impact of Inflation on Top 5 Most Common Consumer Habits

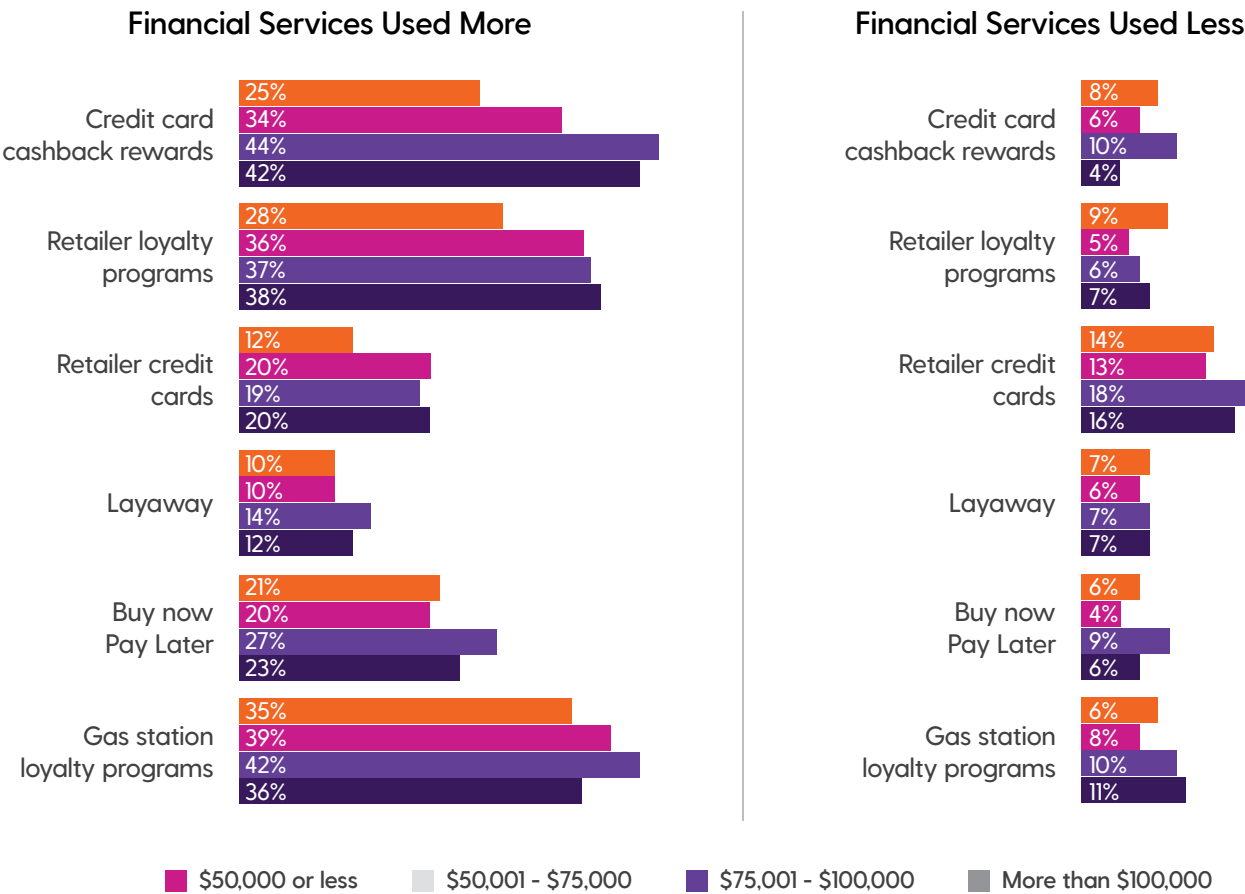


Changes in Financial Services Used Due to Inflation

As an effect of inflation, 1-in-3 respondents report using gas station loyalty programs, credit card cashback rewards, or retailer loyalty programs more frequently.



Unlike higher income groups, respondents with incomes of \$50k or less are significantly less likely to increase their use of credit card cashback rewards, retailer loyalty programs, or retailer credit cards.



Will Inflation Continue to Linger?

There is no simple answer to the question of whether inflation will still linger. Some economists believe that it may, while others contend that it is likely to dissipate in the near future. The determining factor to which scenario plays out is the actions of the Federal Reserve. If it maintains a tight monetary policy, inflation is likely to stay elevated. But inflation will not continue at this pace forever.

According to investment research firm, Morningstar, the highest rate of inflation will peak in 2022 at 5.2% before gradually decreasing. It is believed that the **average inflation rate will be around 1.5% between 2023 and 2025**. Therefore, this year is predicted to have the worst inflation rates, but by 2023 prices are estimated to decrease again.



How Brands Can Navigate Inflation

Brand preferences can shift due to ever-changing consumer sentiment along with economic and psychological changes induced by inflation. Also, the importance of attributes, particularly price and emotional benefits, may change when consumers' purchasing power decreases as an effect of inflation. Here are a few ways brands can navigate inflation:



Pricing strategies are crucial

In order to remain profitable, brands need to be able to either increase prices without losing customers or find ways to reduce costs without compromising quality. If inflation and consumer sensitivity are considered when creating pricing strategies and marketing plans, you can avoid losing your best customers.

By considering both margin performance and consumers' willingness to pay, you can tailor your inflationary price response by customer and product segment instead of implementing broad price increases that may erode customer trust. The goal is to find the perfect balance between the two.



Stay ahead by gathering competitor intelligence

Gathering competitor intelligence allows more agility so that you can make informed decisions in your pricing strategies to protect your profit margins while navigating inflation. It also provides an early warning signal of potential changes in the market. A consumer's value perception of a brand is not only based on comparison to similar stores.

Inflation can cause businesses to lose money in two ways: through economic changes and psychological changes. The order of importance for things like price and emotional benefits may change when high inflation makes it harder for consumers to buy products.

Market research can help businesses decide, for instance, what benefits to re-emphasize and which claims have become stronger.



Assess advertising effectiveness

If executed properly, advertising can make customers more loyal to your brand and less price-sensitive. However, you should always test ads before releasing them to the public. Otherwise, you would risk running a campaign that falls flat or—even worse—creates a negative sentiment.

No matter the state of the economy, it's critical to always have a detailed view of what is to come. And that starts with understanding your customer base and what will make them purchase from you. Market research provides this data-driven insight so you can confidently move forward with strategic decisions.

What Fuel Cycle Can Do to Help

Fuel Cycle's Community helps businesses expand their research community, as community-led growth is essential for acquisition, expansion, and retention. Community also removes difficulties and bottlenecks due to its world-class UI and completely DIY approach. It has become **the #1 tool for brands** to put the customer at the center of every business strategy.

Since social trends and personal preferences change over time, giving product, marketing, and customer insights teams access to online forums, discussion groups, and influencer circles where they can all maintain a live pulse on peoples' evolving attitudes about the product, brand, or customer experience is crucial for your strategies to remain effective and relevant.

With a fully loaded research community, successful brands can maintain continuous connections with their prospects, customers, and product users. Community is the ultimate customer panel platform for brands to identify and track market attitudes, behaviors, and preferences in real-time, where traditional research methods cannot keep up.



Contact Our Experts

You can enable your teams to do more by continuously engaging with customers and delivering actionable intelligence. Contact us to learn more about Fuel Cycle's suite of solutions that will take your brand to the next level.

