Consumer Spending on Food Signals Deeper Economic Pressures

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Dana Peterson: Welcome to C-Suite Perspectives, a signature series by The Conference Board. I'm Dana Peterson, leader of the Economy, Strategy & Finance (ESF) Center of The Conference Board, and the host of this podcast series. Today we'll discuss recent research from The Conference Board on consumers changing spending habits, especially around food and discretionary items.

Joining me is Malala Lin, economic research associate with the ESF Center at The Conference Board. Welcome, Malala.

Malala Lin: Thank you.

Dana Peterson: Your report shows nearly nine in 10 consumers are actively trying to save money on food. What does this shift look like in real life?

Malala Lin: What we're seeing is that being cost conscious is almost a universal mindset. Like you said, nearly nine in 10 consumers, so about 87% of the consumers who answered our survey, report taking at least one action to save on food. In real life, this doesn't necessarily mean they're making one big change where you completely cut off something. So maybe you're cutting out all dairy products.

I don't think that's what that really looks like. It's probably a series of small trade-offs. People are clipping coupons, they're switching to cheaper brands, or maybe they're waiting for sales and promotions to go on. We also see some consumers who are buying in bulk when they can because the unit costs are lower and some are even changing what they're eating. They're choosing to buy frozen food or canned goods instead of fresh foods because they last longer.

It's less about cutting food altogether and more about reoptimizing the same grocery list or the same grocery basket to make it cheaper. That's why in the report we're describing it as "recession-mode behavior." Even though the broader economy is not in a recession, the way consumers are choosing to manage their food costs is telling on how they are reacting to the current economic situation.

Dana Peterson: Thank you, Malala. That's really fascinating. Cutting back on dining out and delivery is the most common response. Why is that the first behavior consumers change?

Malala Lin: In our data, about 46% of consumers said cutting back on dining out or delivery was their top strategy. That makes a lot of sense because when budgets tighten, consumers don't really start changing their essentials. They're probably looking to trim on what you would consider a luxury, something more discretionary.

It makes a lot of sense that the top strategy is cutting things like dining out. Cooking at home becomes the most immediate substitute for something like that.

Dana Peterson: Consumers are trading down, buying fewer premium items, switching brands, and even substituting fresh food with canned food or frozen food, as you mentioned. How significant is this shift?

Malala Lin: Consumers aren't technically just doing one thing, right? Say just switching brands. They're stacking these strategies. Over one-third are buying fewer premium items. We've got almost 40% switching to cheaper, less expensive brands, and we've got 17% even substituting fresh food for frozen and canned alternatives.

That last point is especially important because it signals a shift of not just where people are shopping but also in quality, freshness, and consumption habits. I would say this is not necessarily a marginal adjustment. It's more of a broad-based reset toward value in food.

Dana Peterson: Thank you. Malala. Bargain hunting is happening apparently across all income levels. Why are even higher-income consumers behaving in a more price sensitive fashion right now?

Malala Lin: What's especially striking about this is that trying to save on food, it isn't just about financial stress. Even higher-income consumers are using coupons. They're switching stores, buying in bulk, and trying to take advantage of reward points. But I think the motivation might be a little bit different for lower-income consumers. I would think they are reacting out of necessity while higher-income households are optimizing for value and efficiency. Higher-income consumers can afford these higher prices but they are choosing not to. That really tells us inflation has shifted some of the consumer psychology. Being price conscious is no longer just about personal financial situations but more about how you're choosing to spend the money based on what you're seeing outside. What does the price tag look like?

Dana Peterson: That makes sense. The report also highlights the K-shaped economy.

Now there is always a K-shaped economy. You always have people with lots of money and people who don't. When times get tough, the people with lots of money may economize here and there but for the most part they're going to consume. They just don't carry out a shopping bag with a logo. It's just a brown paper bag. Meanwhile, when times get tough, middle-income and lower-income persons respond very differently. It seems like the gap between how much and what lower-income consumers spend on versus higher-income consumers appears to be widening. How are food shopping behaviors different between higher- and lower-income consumers? Anything different that you already haven't said?

Malala Lin: It just comes down to flexibility and constraint, mostly what I just mentioned earlier, where higher consumers are buying in bulk and leveraging credit and rewards. They're focusing more on lowering their unit costs while lower-income consumers, they're probably shopping more frequently with smaller baskets. This might look like trying to time your purchases around your pay cycles. That might also mean you're relying more on cheaper brands and discount stores, and that's where substitution comes in. We also saw that lower-income consumers are more likely to use food banks and assistance programs.

Overall, both groups are saving but, just to summarize, higher-income consumers seem to be optimizing the way they are spending money on food, while lower-income consumers are more likely to be coping with their financial situations.

Dana Peterson: Understood. Makes sense. We're going to take a short break and we will be right back with more of my conversation with Malala Lin.

Dana Peterson: Welcome back to C-Suite Perspectives. I'm your host Dana Peterson, leader of the Economy Strategy & Finance Center of The Conference Board. Again, I'm joined by Malala Lin, who is an economic research associate with the ESF Center at The Conference Board.

Let's dive back into this, Malala. Some consumers, as you just mentioned, are turning to food banks or assistance programs, while others are buying in bulk or optimizing purchases. Both of these suggest that there's some kind of stress level here or financial strain. Can you talk about that please?

Malala Lin: Yes. The financial strain is somewhat more related to inflation than incomes because higher inflation means it decreases the amount consumers can buy with the same income. Wage growth for most people in the US is still faster than before the pandemic, except for consumers in the lowest-income quartile. But prices are rising faster again due to tariffs and increasing costs for shelter, insurance, and health care. This is on top of the already elevated costs of goods and services post pandemic.

Another significant inflationary shock is the current war in Iran. US consumers are feeling this impact through gasoline and fuel prices, especially because oil prices are soaring. If the war persists then costs for goods containing oil-based products may also start to rise. This will continue to force some consumers to economize on things like food. Too much inflation negatively affects everybody but it's worse for consumers who have to use a large share of their paychecks for necessities like food.

Dana Peterson: Thank you, Malala, for providing more detail and also giving us an update on how current events are impacting or could impact the decisions that consumers make around food. When we look at how consumers are buying food, traditional payment methods still dominate. That's cash and credit cards, but we're noticing that younger consumers are adopting mobile wallets and even buy now, pay later for food purchases. That's seems almost extreme. I get it if you're buying tickets to Taylor Swift or a new video game or something like that, you might want to try buy now, pay later. But for food? What stands out in how people are paying their food in general and who's paying, who's using cash and credit cards versus buy now and pay later?

Malala Lin: Just as you mentioned, the top payment methods for food in general are debit cards, credit cards, and cash. If we break those down by income you'd see that debit cards and cash are mostly used by lower income and credit cards for higher income, which makes a lot of sense because debit cards and cash are more readily available money and credit cards for higher income. They get to reap the rewards that come with it but they're also the group that is likely to be able to maintain credit card and all the fees that come with it. When we break those down by age, you'll see that the more traditional payment methods are mostly used by the older age groups rather than the younger ones.

Like you mentioned, mobile wallets and alternative financing payment methods like buy now, pay later are mostly used by the younger generation. Our survey found over 20% of those under the age of 44 use mobile wallets more frequently but most of that is concentrated in the group of consumers between 25 and 35.

As for buy now, pay later, it's emerging. Our survey found about 5% of people use it for food but there are a lot of reputable surveys out there who are reporting about 20% to 25% use buy now, pay later in food shopping. But what makes this story very interesting is that it's generational. Younger consumers are more open to digital and flexible payment methods while older consumers stick to more traditional methods.

Dana Peterson: Did the survey ask about crypto? Anyone using crypto?

Malala Lin: Yeah, we did ask about crypto but it's almost non-existent. I actually wouldn't know how you would go into the grocery store and use crypto.

Dana Peterson: Maybe we need to do a study on where you can buy anything with crypto, anything physical. Let's look ahead. Which of these consumer behaviors do you think are temporary responses to inflation and which are likely here to stay?

Malala Lin: That might differ probably in your current financial situation or your income because when and if the current inflationary environment eases or ends and the downward pressure on financial assets lifts, consumers with higher incomes will probably revert back to prior spending behavior. Maybe they decided to cut a little bit on dining out and then when you don't see that much of an inflationary impact on the prices of dining out, maybe it's time to go back for your Taco Tuesday. While consumers with lower incomes may continue to economize because they have fewer financial safety nets to manage unexpected price hikes. That might be what that looks like. It might look different for income groups depending on what the economic situation will look like in the near future.

Dana Peterson: Absolutely. What we do know going forward is that there's still probably going to be a lot of uncertainty. So it absolutely makes sense that consumers across different income groups and ages are thinking about food costs and oftentimes food is one of the areas that you can easily adjust. Whereas something like childcare, you probably had a difficult time finding a daycare in the first place.

Malala Lin: Yeah.

Dana Peterson: So you're probably not going to jump to a cheaper one. It does make sense where people can economize they do. And certainly for the lower-income consumers, it's been shock after shock after shock.

This has been fantastic Malala. Thank you so much for joining us today.

Malala Lin: Yeah. Great to be with you.

Dana Peterson: And thanks to all of you for listening to C-Suite Perspectives.
Again, I'm Dana Peterson, and this series has been brought to you by The Conference Board.

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