

U.S. Consumers Tighten Belts & Spending

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The U.S. economy is in a very precarious situation. Recent information from The Federal Reserve indicates that economic activity remains weak. Household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters. And while readings on core inflation have improved somewhat, energy and other commodity prices have increased, and some indicators of inflation expectations have risen in recent months. The Committee expects inflation to moderate in coming quarters, reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization.

U.S. consumer confidence has plummeted 50 points...

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With all this activity, U.S. consumer confidence has plummeted 50 points since January 2006 to 57, the worst performance since the recession levels of 1992. With good reason. Everything costs more these days, from fuel oil (a 48% increase), to gasoline (up 35%), eggs (27%), bread (16%), milk (13%) chicken (10%) and that menu staple of large families, ground beef (7%).

With the average wage inching up a mere 3%, it's clear that family finances are losing ground. For a real double whammy, as the cost of living rises, people face the specter of their primary asset—the family home—losing value by the minute, an average decline of 8% so far in 2008.

Global confidence declines

The U.S. isn't alone in its gloomy economic forecast. A Nielsen Global Consumer Confidence survey found that 56% of global online consumers believed their country was in a recession. For 39 of the 48 countries surveyed, confidence levels posted double-digit declines in the past six months, with New Zealand, the USA and Latvia recording the steepest declines.

Conversely, Taiwan bucked the trend, with a confident 14-point uptick in consumer confidence over the last six months, followed by the Netherlands (5%), Russia, Poland and the Czech Republic (3%), Brazil (2%) and Belgium (1%).

Word travels fast

The Internet has had a profound effect on financial markets and consumer confidence due to its near-instantaneous relay of information. To get another angle on U.S. consumer confidence, Nielsen Online, through its BuzzMetrics service, monitors consumer chatter on the Internet, tracking consumer-generated content on more than 70 million blogs.

Results showed dramatic jumps in economic discussions on the heels of critical events. For example, when the Federal Reserve announced a 0.75% rate cut and the Dow Jones Industrial Average plummeted 400 points in January, economic discussion increased 26% compared to the prior week.

Competitive advantage will require a pulse on consumer sentiment...

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Negative sentiment inched up again between February and March to 65%, as news of the sub-prime lending fiasco and ethics violations spread. In this age of consumer control, the new building blocks of competitive advantage will require a pulse on consumer sentiment as one of the best ways to foster consumer engagement and loyalty.

Coupon activity has jumped noticeably by 10.2%...

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Retailers feel the squeeze

U.S. non-discount retailers are feeling the pinch. From 2001–2007, shopping trips per household are down 4%. There are some bright spots, however. Bargain shoppers are shifting spending to value channels, making 35% more trips to supercenters, 10% more trips to club stores and 9% more trips to dollar stores to stretch their budget. Regardless of channel or department type, coupon activity in the year ending April 2008 has jumped noticeably by 10.2% driven by in-store offers.

Shrinkage is redefined

U.S. consumers might find more than their budget shrinking. Food manufacturers are taking action in price-sensitive categories by opting to downsize packages—a less for more philosophy. Consumers find that 12 ounce bags of potato

chips are now 10 ounces. Nineteen ounce cereal boxes are now 18 ounces. Sixty sheet paper towel rolls are now 52 sheets—the list goes on.

Consumers would prefer larger sizes with lower price per serving...

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Bad move, according to consumers. New findings from a recent Nielsen Panel Views study in the U.S. reveal that when given a choice, consumers would prefer that manufacturers offer larger sizes with lower price per serving rather than downsize or reduce the frequency/amount of price breaks (sales) to offset costs. However, with price increases at such staggering levels, more manufacturers have been offering smaller packs as a better approach than passing on double-digit price increases to consumers.

Economic impact segmentation

Recognizing the relationship between consumer confidence and purchase behavior, Nielsen conducted an analysis of 47,000 members of the Nielsen Homescan Panel in the U.S. across 36 product categories. The panelists sorted into eight Economic Impact Segments ranging from the light coupon & sales segment (22%) made up of older, smaller households that take advantage of coupons and sales, to the panic-stricken segment (6%) comprising large, bustling families who will do whatever it takes to save money—from switching stores to changing brands, to stocking up, to using less product.

Each of the eight segments represents a different belt-tightening strategy, both in terms of how they plan to save and which products they look to for savings. Pet food, for example, registered as the most recession-proof category, and air fresheners were one of the most recession-sensitive ones. Getting into the mindset of consumers during these tricky times could prove golden to marketers as they struggle to develop strategies that not only keep shoppers happy but that deliver profitability as well.

Gas burned up 12%–16% of the weekly consumer retail budget...

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Road wage

U.S. gas prices are another factor taking a big bite out of household budgets. Nielsen determined that in 2007, gas burned up 12%–16% of the weekly consumer retail budget. That number is expected to grow to 19%—almost one-fifth of planned retail expenditures—as gas prices hit four dollars per gallon. While consumers try to limit their per trip gas spending, they cannot control the weekly gas spend, despite economizing efforts such as combining errands and trips, eating out less and doing more things at home to offset gas costs. Overall weekly gas spending in 2007 increased by 46% from a weekly average of \$32.02 to \$46.72 per household.

And as gas prices rise, so does Internet chatter. As the majority of U.S. consumers are feeling the impact of rising gas prices, they are turning toward social media to discuss which vehicles are the most fuel-efficient on the market that meets their needs. Discussions are centered on alternative methods for fuel, more efficient cars and commutation options.

Consumers make tough choices about their spending habits...

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Product immunity and vulnerability

As spending power declines, consumers reevaluate necessities and are forced to make tough choices about their spending habits and the product categories they purchase. Knowing which products are most affected by a recession can guide effective strategic decisions with regard to pricing, promotion and assortment tactics.

Nielsen's analysis of macroeconomic variables, historical trends and consumer behavior reveal that products such as seafood, dry pasta, candy, beer and pasta sauces are most immune to a recession and are expected to weather the troubled financial waters. Conversely, the most vulnerable product categories included carbonated beverages, eggs, cups/plates, food preparation/storage and tobacco.

Higher prices drove private label dollars, not national brand abandonment...

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Private label sales grow

While private label products have traditionally been touted as the low-cost alternative to national brands, contrary to conventional wisdom, Nielsen analysts discovered that the 9.1% private label sales growth in the U.S. during these tight financial times was more a function of rising commodity and food prices than consumer preference.

The telling fact: while dollar sales climbed to \$77 billion, unit sales decreased slightly. Turns out that higher prices for commodity categories like eggs, milk and cheese drove private label dollars, not national brand abandonment.

Escape from reality

The movies have always provided an escape—a reality transport from everyday concerns, which might explain why U.S. movie-going box office sales has increased 9% in the five years between 2003 and 2008, according to official figures released by Nielsen EDI. And while January–June 2008 box office sales are slightly down year-to-year (-3%), a May 2008

survey of adult moviegoers report that fully 78% of respondents said that rising gas prices did not keep them from going to see a movie over the weekend.

DVD sales, on the other hand, have suffered. In a separate Nielsen VideoScan study, findings show that approximately 18,000 DVD sales are lost each week in the U.S. for every one-cent increase in the price of a gallon of gas. While a variety of other factors affect DVD sales as well, rising gasoline prices appear to have a direct correlation to weekly sales levels of both new release and catalog titles.

There are opportunities in a slowing economy...

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Opportunities exist

When market volatility defies convention, how do companies plan for the future? All is not doom and gloom. There are opportunities in a slowing economy to lead the recovery and Nielsen has developed a model to help clients cope with these uncertain times. The Predictive Macroeconomic Impact System explores the macroeconomic landscape along more than two dozen variables, evaluates the impact on client business by product category and proposes a holistic business response to optimize outcomes.

Category-specific opportunities exist to maximize in-store efforts. For products that are performing strong and showing immunity during a recession, manufacturers and retailers in these industries have the opportunity to increase product exposure even further. For products at the other end of the spectrum, companies would be well-advised to target their marketing efforts to shore up performance and maintain traction during tough times. Now is the time to plan for recovery.