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## Consumer Morsel

# Supermarket swap

**01 December 2022**

## Key takeaways

- Consumers are responding to surging inflation by changing their spending patterns when grocery shopping. Bank of America data suggests they are "trading down" (i.e. shifting spending from more to less expensive items within the same category) with the year-over-year (YoY) growth in spending at value grocery stores up more than triple than that at premium stores.

- So who is "trading down" the most? Middle- and higher-income consumers have more scope to trade down and shift spending to less expensive versions of items, since lower-income consumers are more likely to be shopping at less expensive grocery stores already. For the higher-income consumers, spending at value tier grocery stores in October 2022 was up 22% relative to January 2019, according to Bank of America data, likely due to persistent negative real wage growth this year.

- How might lower-income consumers react to cope with rising food prices? Bank of America data suggests they might also be cutting back on discretionary goods spending: holiday spending for this group has been consistently weak in November 2022 on a %YoY basis compared with higher-income groups.

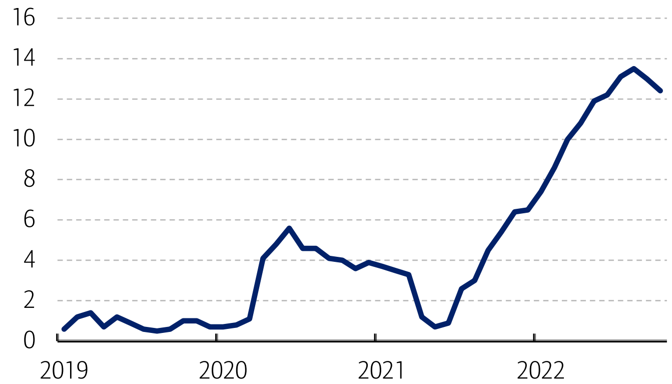
## Price raise on aisle four

As with most spending categories, inflation has pushed up the price of grocery items since the beginning of the year. According to the Consumer Price Index (CPI) from the Bureau of Labor Statistics, prices for 'food at home' grew 12.4% year-over-year (YoY) in October (Exhibit 1), more than 10 times faster than the average YoY growth rate of 1% in 2019. This is meaningful because grocery spending is considered "necessary" (as opposed to "discretionary") and accounts for approximately 8% of the total consumer spending basket in 2022, according to data from the Bureau of Economic Analysis.

How have consumers reacted to surging food prices? Bank of America data suggests they are trading down. As Exhibit 2 shows, real (inflation-adjusted) grocery spending per household, estimated using Bank of America card data and CPI inflation, has slowed substantially since 2021 and was below 2019 levels in October. And this is not because consumers are making fewer trips to the grocery store. In fact, we found that the number of transactions per household is in line with 2019, suggesting it is real grocery spending per household per transaction that has dropped meaningfully.

**Exhibit 1: Consumer Price Index of food at home year-over-year (YoY) growth rate through October 2022 (%)**

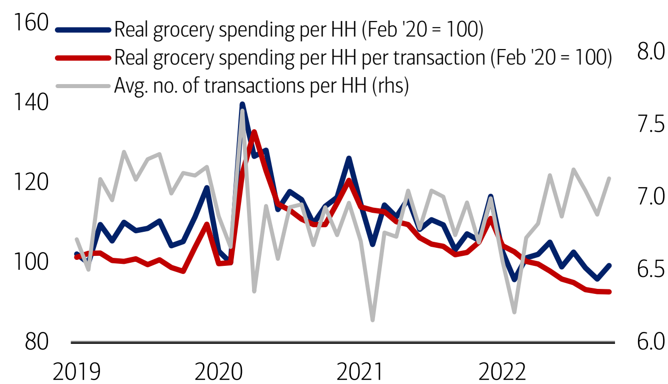
Food inflation has risen sharply YoY% since the end of 2021




**Source:** Bureau of Labor Statistics

**Exhibit 2: Monthly inflation-adjusted grocery spending and avg. no. of transactions per household (HH) (non-seasonally adjusted)**

Real grocery spending has been trending sharply downwards




**Source:** Bank of America internal data, BofA Global Research

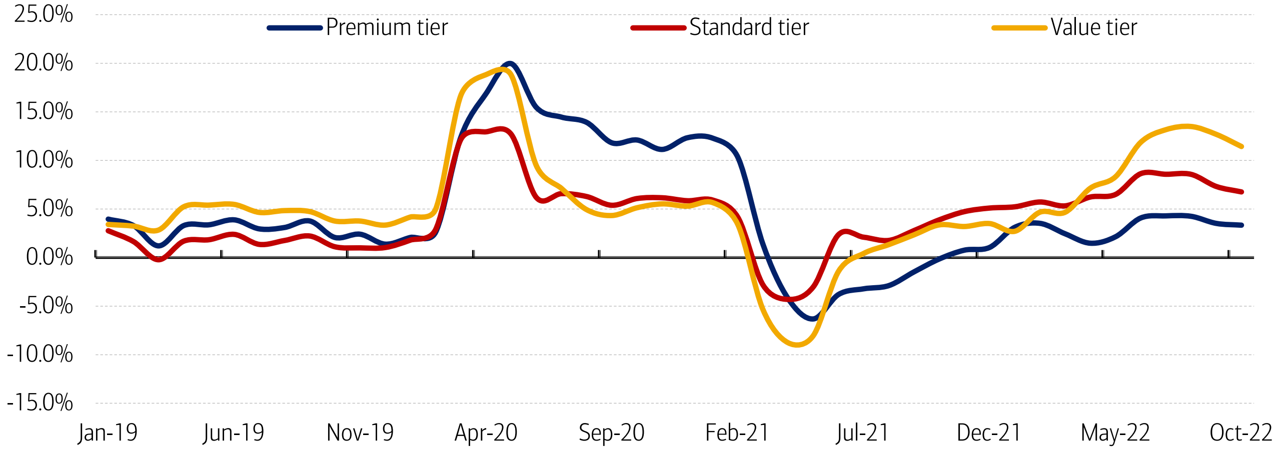
## Time for a trade

Another way to look at the trading-down effect is to examine the tiers of grocery stores at which consumers shop. Specifically, using Bank of America data, we define three grocery store tiers (premium, standard, and value) based on the median income of customers that frequently shop at them. For example, grocery stores with the highest median-income customers would be categorized as "premium tier" (see Methodology for more information). In our view, this is a proxy of price levels at these stores with "premium tier" likely being the most expensive.

As Exhibit 3 shows, spending at all three tiers of stores surged in 2020 as consumers stayed at home at the beginning of the pandemic, with premium tier grocery stores seeing the biggest increase in the %YoY rate. In our view, part of the strength in premium tier store spending could be attributed to the distribution of stimulus checks, which allowed consumers to allocate more funds towards groceries of a higher tier than their previous "norm."

However, it's been a different story in 2022. Since early this year, consumer spending at value tier grocery stores has outpaced the other two tiers consistently on a %YoY basis. As of October 2022, spending at such grocery stores was up 11.4% YoY, compared with just 3% YoY for those in the premium tier. Perhaps more meaningful is that the gaps between the %YoY of value tier grocery spend and the other two tiers has also widened noticeably this year, suggesting an increasing rotation into cheaper grocery options. This adds further evidence that consumers might have been looking for alternative ways to save on groceries by trading down and purchasing from less expensive stores.

**Exhibit 3: YoY% growth in consumer spending at grocery stores by tier through October 2022 (%, 3-month rolling average)**
During the pandemic, YoY% growth at premium tier grocers was well above the other tiers




**Source:** Bank of America internal data

## Value stores draw higher-income consumers

So who is trading down the most? Middle- and higher-income consumers have more scope to trade down since lower-income consumers are more likely to be shopping at value tier grocery stores already. We therefore look only at middle- and higher-income groups, specifically with annual incomes of $50k-$100k and >$100k, to see if there are any differences in trading-down patterns.

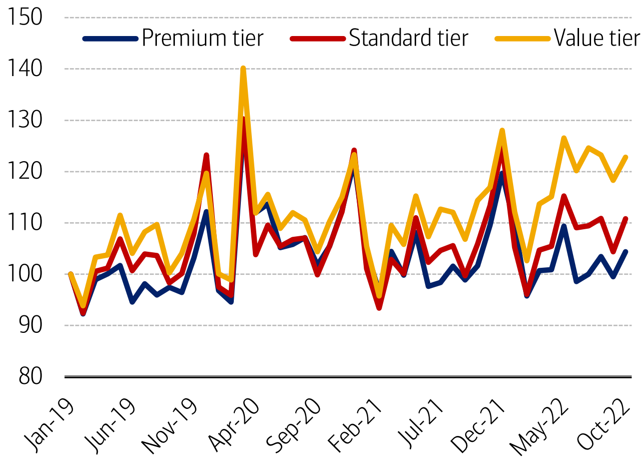
As Exhibit 4 shows, for consumers with annual income >$100k, spending at value tier grocery stores in October 2022 was up 22% relative to January 2019, 18 percentage points higher than the 4% increase for premium tier grocery stores. The gap between premium and value tier grocery spending has widened significantly since March of this year and peaked in July, around the time of the peak in food inflation. Meanwhile, we see a similar pattern for those with annual income between $50k and $100k, though the gap between premium and value tier grocery spending is less notable (Exhibit 5).

Why are we seeing higher-income consumers increasingly shifting to cheaper groceries? One possible explanation is that they have experienced negative real wage growth for most of this year and persistent inflation is taking a toll. According to the Atlanta Fed, wage growth for the top-income quartile was 4.5% YoY in October, well below various measures of inflation. For the bottom-income quartile, wage growth was at 7.4% YoY in October.

Keep in mind that while higher-income households seem to be trading down more in grocery shopping, it doesn't mean other income groups are not feeling the squeeze from higher food prices.

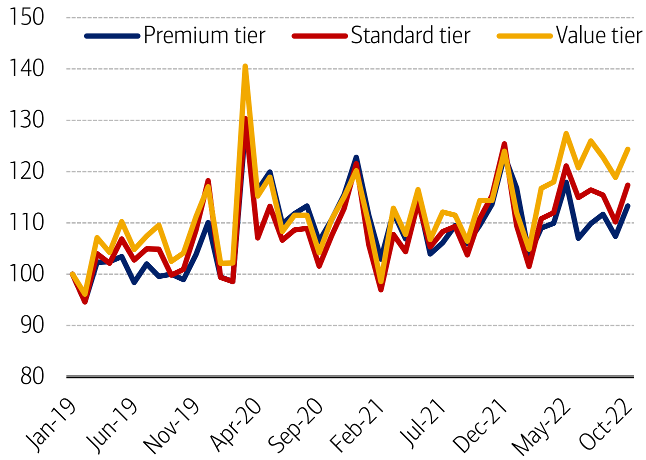
So how else might lower-income consumers deal with rising food prices, given many are likely already shopping at cheaper grocery stores? Bank of America data suggests they might also be cutting spending elsewhere, especially for discretionary goods. When we look at daily holiday spending in November, which includes categories that usually receive a big boost in sales during the winter holidays such as clothing and electronics, lower-income households have consistently shown relative weakness compared with higher-income groups on a %YoY basis (Exhibit 6).

**Exhibit 4: Higher-income (>$100k) consumers' level of spending at grocery stores by tier through October 2022 (index, Jan 2019 = 100)**
Higher-income consumers' spending at Value tier grocers is noticeably higher as of October 2022



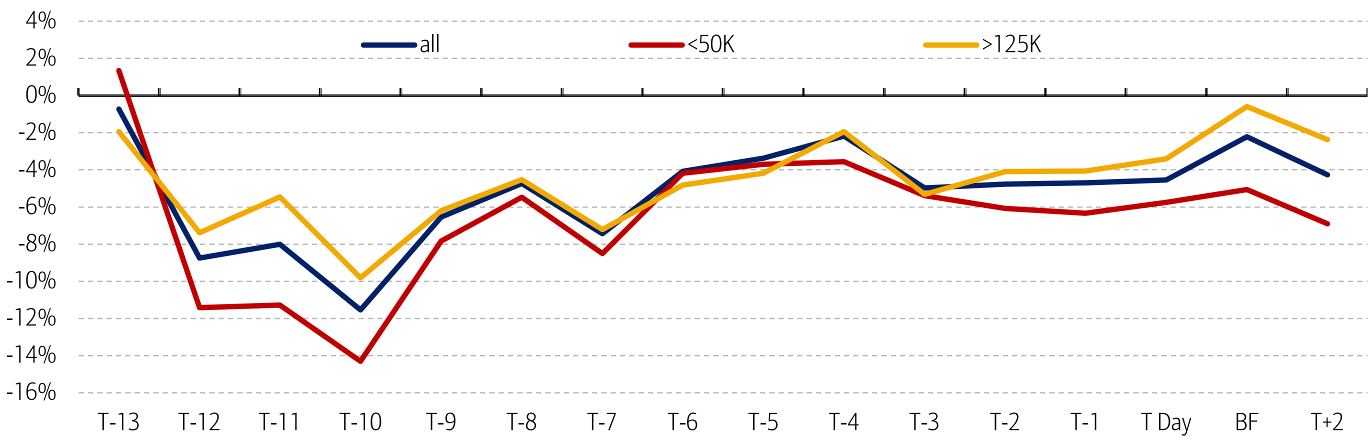

**Source:** Bank of America internal data

**Exhibit 5: Middle-income ($50k-$100k) consumers' level of spending at grocery stores by tier through October 2022 (index, Jan 2019 = 100)**
Middle-income consumers increased their spending at Premium tier grocers during the pandemic




**Source:** Bank of America internal data

**Exhibit 6: Daily holiday spending per household by income group, based on aggregated Bank of America card data (%YoY)**
The lower-income group is showing relative weakness in holiday spending on a %YoY basis




**Source:** Bank of America internal data, T Day = Thanksgiving Day, BF= Black Friday

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## Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Three grocery store tiers (premium, standard and value) were based on after-tax median income derived from payroll direct deposit of individual customers who have shopped at such grocery store(s) (as defined by MCC code) for at least six out of the past 12 months. In our view, such categorization is a fair view of price levels at those stores. Any grocery store included has had at least 100,000 individual Bank of America customers making at least one purchase during the past 12 months. The sample of customers in this analysis includes a static pool of customers that have a checking, a saving or a credit card account with BAC consecutively each month between October 2017 and October 2022.

Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Additional information about the methodology used to aggregate the data is available upon request.

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