Consumer and Shopper Insights
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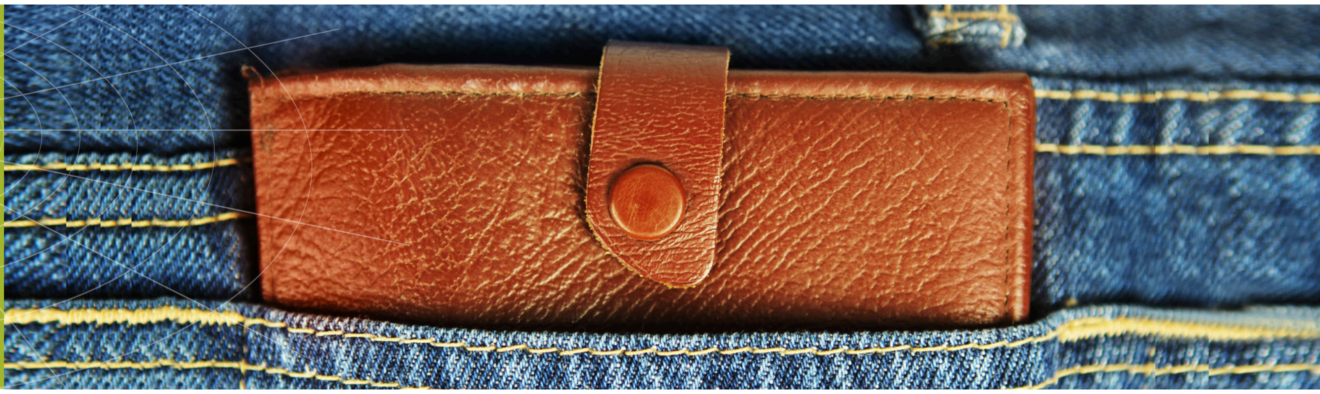
The U.S. consumer: Sticking to the “new normal”



Whew! The worst is over: That is what America’s consumers are saying with their wallets. Fewer are worried about losing their jobs, and more are confident that they can manage their budgets.

By Richard Benson-Armer and Betsy Bohlen

This optimism is highly cautious, however. Americans are still concerned both about the economy in general and their personal economic situation in particular. Two-thirds (67%) report feeling economic pressure, for example, almost exactly the same as in September 2010. Only 35% believe their ability to make ends meet will improve in the next year.

Every six months since August 2008, McKinsey has been surveying more than a thousand consumers about their attitudes and behavior; this has created a unique data set that allows us to understand how these have changed over time.

Their behavior reflects their concerns. On the whole, consumers are not relaxing. Since August 2008, they have adopted five major strategies to save money:

1. **Changing habits:** There’s a lot more home cooking going on. Fifty-five percent said they are dining out less than a year ago; and a year ago, 55% said the same. Moreover, almost half report ordering in less, too. And this isn’t so bad, they tell us. Almost 60% report that they are finding the experience of cooking at home better than they expected—but 63% say they miss eating out. Brown-bagging is making a modest return, too, with 31% saying they are bringing in their own lunch; only 30% report enjoying it, though.

   Grooming is also increasingly a do-it-yourself activity: more than half of respondents say that when it comes to getting their nails done, their hair colored or getting a facial, they are either doing it on their own, or doing it less. But consumers are not thrilled with the result; fewer than a third report that finding the substitute better than they expected. And the minority (34%) that has cut back on having a cleaner really, really misses it.

Exhibit 1:
Consumers’ views about economic pressures improved in March 2011

Improving outlook vs. prior period | Worsening outlook vs. prior period

	Mar 2011	Sep 2010	Mar 2010	Sep 2009
Optimistic about our country’s economy	20%	21%	21%	27%
Having a hard time making ends meet	38%	43%	37%	48%
Living paycheck to paycheck	42%	48%	42%	51%
Somewhat or very worried about losing a job	45%	53%	54%	50%
Optimistic about ability to manage household budget	53%	49%	51%	48%
Making lifeplan changes due to declining asset values	57%	61%	73%	68%

SOURCE: McKinsey Consumer Sentiment Survey III, IV, V, and VI (Sep 2009, Mar 2010, Sep 2010, Mar 2011)

2. **Cutting back:** Common sense rules. Americans have been sensible, for example, buying much less candy, carbonated soft drinks and even ice cream and more pasta and fresh produce. And this holds true for larger trends, too. When consumers decided to curb spending, they made a sharp distinction between discretionary spending and necessities. Solid majorities, for example cut back on travel, entertainment and luxury items and fewer than a quarter spending less on groceries, health care, gas and utilities.

   This pattern is unchanged since August 2008, and has stabilized in the last year, with the numbers staying almost exactly the same since March 2010.

3. **Penny pinching:** The same is true for squeezing more out of the dollar. More than half say they are looking for ways to save money (70%), waiting for sales (62%), paying more attention to prices (59%) or using more coupons (51%).

4. **Trading down:** This refers to decisions to make do with products that might be considered inferior—store brand coffee versus gourmet versions, for example. Again, the numbers have barely budged since the surveys in September and March 2010. And while the behavior is not as strongly marked as when it comes to penny-pinching, it is still significant. More than half (52%) are seeking out and buying lower-cost household products; 46% do the same for clothes and 37% for electronics. The numbers are big enough, then, to impose much greater pressure on prices.

   In theory, the flip side of such attitudes would be a certain reserve when it comes to high-end brands. And in practice, this is the case: only 14% said they get a sense of satisfaction from using premium brands and 15% believe that they are worth the price. But people have their priorities: When it comes to coffee, beer, and dog food, they are less likely to trade down compared to, say, laundry detergent and cough medicine.

5. **Shifting channels:** What kinds of stores are the likeliest venues in which to reward these four kinds of behavior—(changing habits, cutting back, penny pinching or trading down)? Consumers are answering that question emphatically. Since the very first survey, in August 28, there has been a strong trend toward shopping more in dollar stores, clubs and supercenters—and much less in groceries, convenience and drug stores.

   This pattern holds true across income groups; households making more than $75,000 were actually more likely to shift spending toward dollar stores, 50% to 37%, (but somewhat less to clubs). Perhaps this group didn't frequent such outlets before; the implication, though, is that the hunt for value is all but universal. And it could also prove enduring; more than half (54%) said that they found shopping at dollar stores better than they expected.

What all this adds up to is that many consumers are sticking with the frugal habits they picked up during the recession. Only 15% say they are beginning to relax about how much and where they shop. The one place where there seems to be a reversion to old habits has to do with those who buy luxury products on a regular basis. Only 19% say they are not considering or putting off such purchases—half the level of September 2010 (37%) and a huge change from September 2009 (61%).

This more conscious attitude toward spending is what many are calling "the new normal." Considering the consistency of consumer behavior over the past six surveys, perhaps the better term is "the old new normal."

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Exhibit 2:

Consumers intend to stick with purchasing behaviour adopted since the beginning of the downturn

+/ ●/ – Positive, neutral or negative indicator of consumer sentiment vs. prior wave

Behavior since the beginning of the downturn	Percent intending to keep behavior[1] Mar 2011	Sep 2010	Mar 2010	Sep 2009	Feb 2009
Purchase high-end designer/luxury brands *less*	86 ●	87 ●	84 ●	83 ●	81
Shop at mass merchants *more*	85 ●	84 ●	82 ●	81 +	75
Purchase private label/ store brand products *more*	85 ●	84 ●	87 ●	85 +	78
Shop at dollar stores *more*	80 ●	79 ●	78 ●	82	N/A
Shop at club stores *more*	75 –	80 ●	84 ●	80 +	72
Go out to eat *less*	68 ●	71 ●	73 ●	70 ●	67

1 Consumers who would keep their new behavior as it is now completely or for the most part

SOURCE: McKinsey Consumer Sentiment Survey II, III, IV, V, and VI (Feb 2009, Sep 2009, Mar 2010, Sep 2010, Mar 2011)