

Consumer Packaged Goods Practice

# US consumers in 2019 are ready to spend— but wisely

New research from our US Sentiment Survey shows that consumer confidence is near an all-time high. Consumers don't plan to cut back on spending—but they look to spend wisely.

*by Anne Grimmelt, Max Magni, and Alex Rodriguez*



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**Thanks to a strong labor market,** US consumers are feeling good about the economy. Unemployment is at a historical low, wages are rising at their fastest rate since the onset of the recession, and consumption continues to grow at a steady clip.

To flesh out the picture of how consumers in the region are thinking, we analyzed September 2019 data from our US Consumer Sentiment Survey, covering more than 4,500 consumers. The survey is part of our Global Consumer Sentiment Survey of more than 22,000 people, which has run annually since 2008 in the United States and since 2015 globally.

US results show that feelings of financial pressure are at their lowest levels since the recession, and few consumers cut back on spending. Only 39 percent of

consumers feel financial pressure today, compared with 77 percent in 2009; just 27 percent are cutting back on spending today, versus 63 percent during the recession (Exhibit 1).

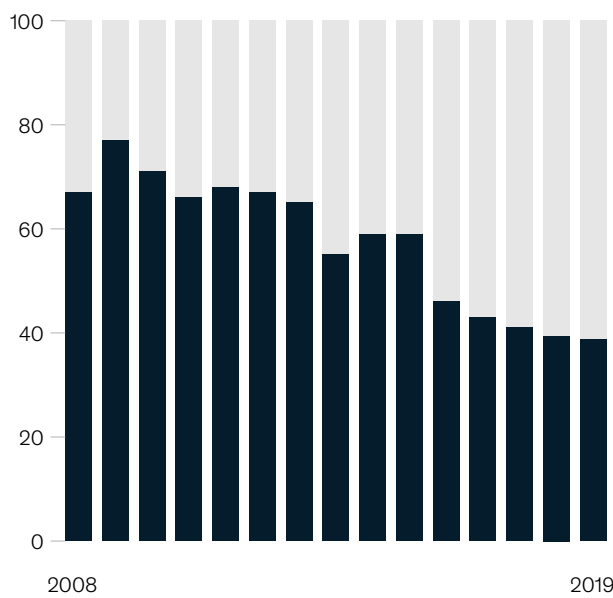
Even though consumers have no plans to cut back on spending, they are still price sensitive and use multiple strategies—such as using coupons and shopping around—to save (Exhibit 2).

While thrifty, consumers are increasingly willing to trade up to more expensive, often premium, products: 11 percent of respondents today are willing to trade up, as opposed to just 7 percent in 2016. In food, consumers are inclined to trade up in the fresh and ready-made-meal categories, such as dairy-free milk, fresh produce, and chilled meals. In good news for premium brands, these consumers

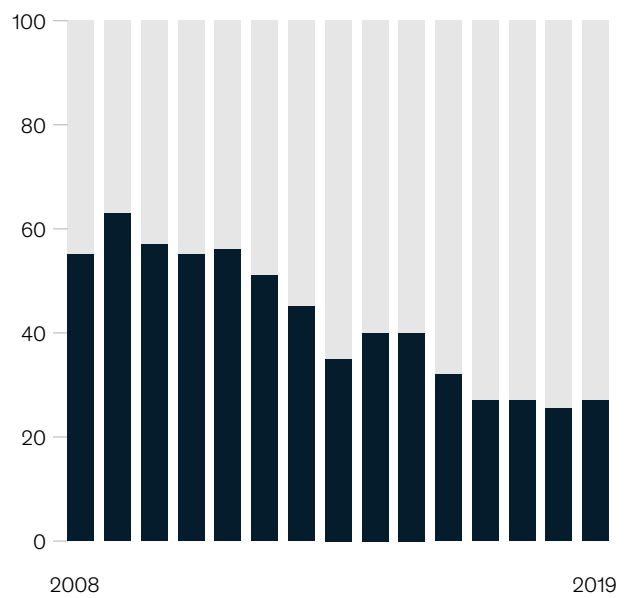
Exhibit 1

## Feelings of economic pressure are at an all-time low.

**People adjusting their spending to make ends meet, having a real hard time, or in crisis, %**



**People “strongly agreeing” or “agreeing” that they have cut spending in the past year, %**



Note: For years 2009, 2010, and 2011, the polling was done twice.

Source: McKinsey 2008–20 US and Global Sentiment Surveys

are happy with their choice, as 81 percent of respondents prefer the higher-priced product and believe it to be worth the extra money.

Of all consumers, millennials are particularly prone to trade up. Strikingly, they are 2.5 times more likely than baby boomers to do so (Exhibit 3).

This gain in trading up, however, is offset by a steady rate of trading down, at 9 percent—a rate that has stayed consistent since 2015. Two-thirds of respondents who trade down buy private-label goods,

and 70 percent of them are satisfied with their choice and do not intend to trade back up, making it hard for national brands to win them back. Relative pricing is key for these consumers when they consider whether to trade back up after trading down.

Yet another continuing trend is consumers' increasing preference for healthier products (Exhibit 4). This trend is especially strong among top-tier consumers (households earning more than \$100,000 annually): 20 percent of them report buying more natural or organic products in the past

Exhibit 2

## Consumers are price sensitive—especially households earning less than \$50,000 annually.

Consumer sentiment regarding groceries and household goods,<sup>1</sup> by annual household income (HHI), % “strongly agreeing” or “agreeing” over the past 12 months, Sep 2019

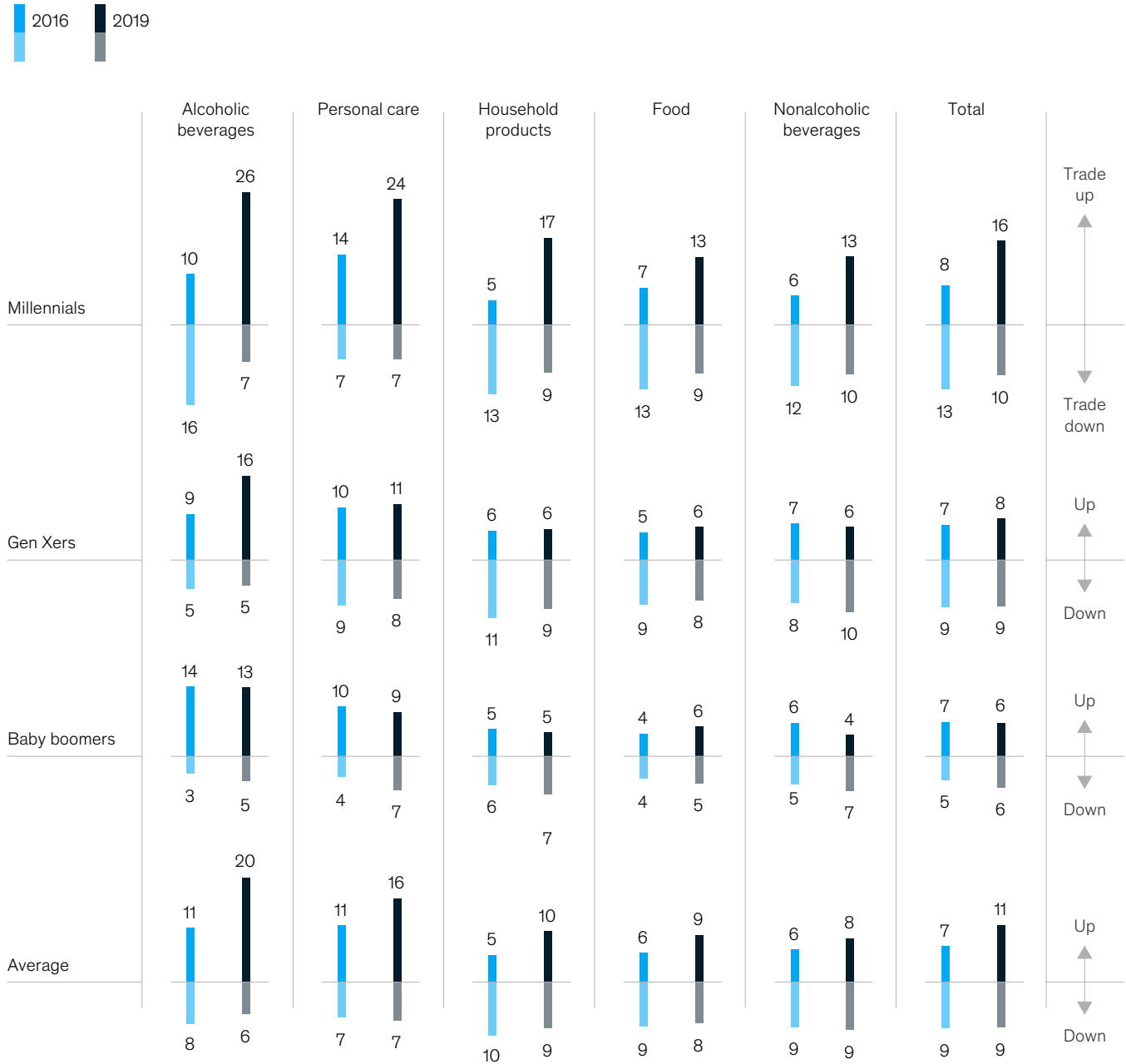


<sup>1</sup>Covers changes in household budget spending on groceries and household goods in the past 12 months. Source: McKinsey 2020 Global Sentiment Survey

Exhibit 3

**US millennials are 2.5 times more likely than baby boomers to trade up in 2019.**

Trade-off rates in the past year among US consumers who changed buying behavior, by demographic segment, %

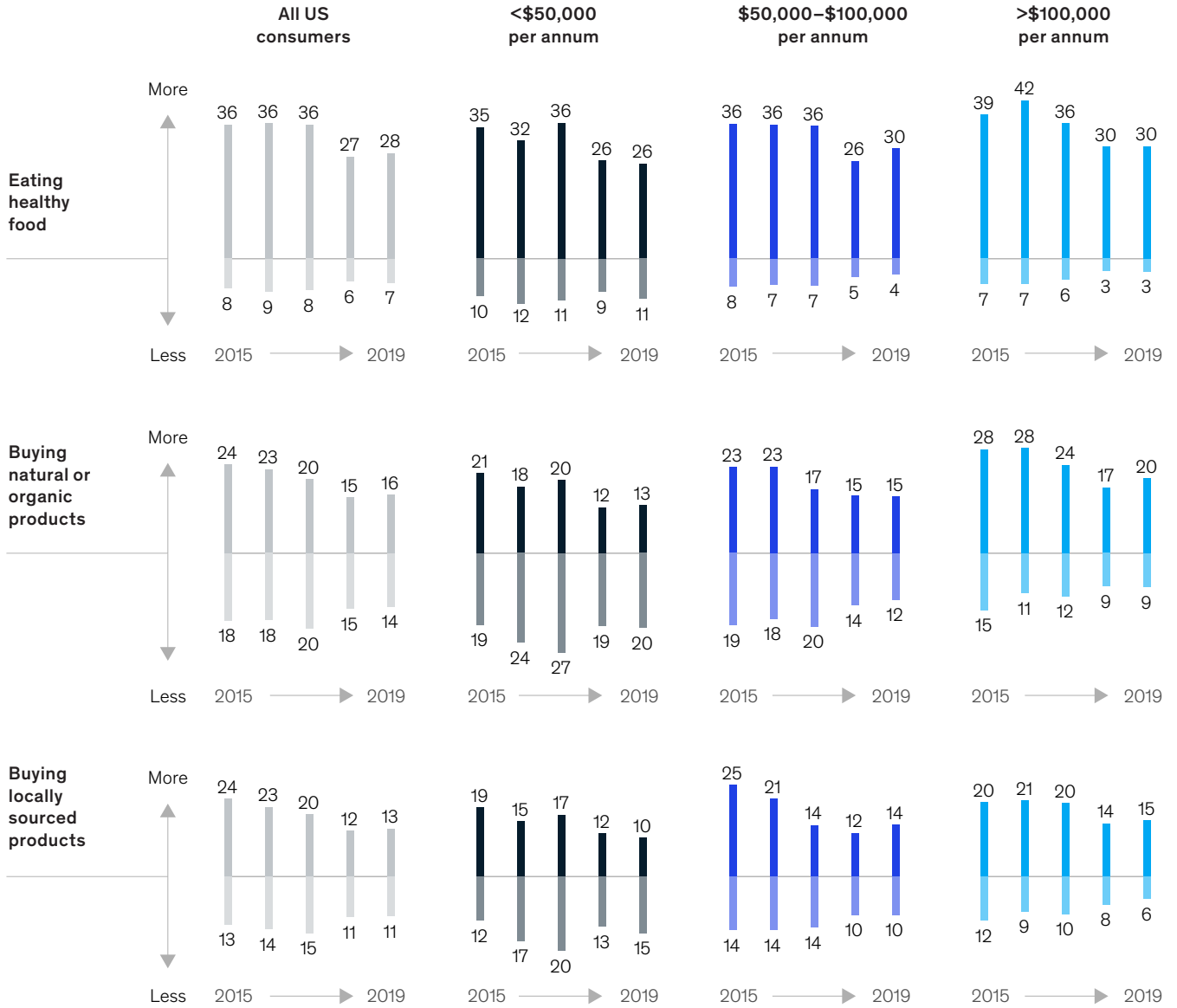


Source: McKinsey 2017 and 2020 Global Sentiment Surveys

Exhibit 4

### Consumers report a net increase of all things healthy since last year.

Changes in eating habits in the past 12 months, by annual household income, %, Sep 2015–Sep 2019



Source: McKinsey 2020 Global Sentiment Survey

12 months, and 15 percent report buying more locally sourced products in that time period.

In addition to tracking ongoing trends, this year's study uncovered some noteworthy new findings. First, distrust of big-name brands influences consumers' shopping behavior: 70 percent of respondents believe that large food companies put their own financial interests ahead of consumers' interests, while only 46 percent believe this to be true of smaller food companies. This belief will continue to fuel sales growth at small companies, which consumers perceive to be more attuned to trends and consumer needs.

Second, consumers are taking an interest in the environmental impact of product packaging. Millennials are particularly disposed to this consideration: 71 percent of them take sustainable

packaging attributes into account in their purchasing decisions, as opposed to just 57 percent of baby boomers.

Overall, there's good reason for optimism this holiday season, thanks to a booming US economy. In fact, a third of consumers plan to spend more during this holiday season than they did last year, according to another McKinsey study, the 2019 Holiday Season Shopping Report. Millennial and Gen Z shoppers express the strongest desires to increase their budgets, the report says.

Looking ahead to 2020, while some indicators (for example, manufacturing, yield curve, GDP growth) have economists understandably concerned about a recession, the work here on the sentiments of US consumers shows consumers have not yet translated those concerns into plans to cut back their spending.

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