# The 2023 Consumer: Back to the Future

NRF

State of Retail & the Consumer

# Introduction

Much has been speculated about the enduring impacts of the COVID-19 pandemic on consumers' behavior. After all, how could such a seismic event dominate lives for the last few years without permanently changing the way consumers live, work and shop? Yet, as attention shifted away from the pandemic and to other issues like the conflict in Ukraine and record levels of inflation, the much-heralded "new normal" seems remarkably similar to the old normal. Yes, consumers have become more adept at using technologies that make their lives easier like buy online, pick up in store or contactless payments, and online's share of retail spending has grown as a result. But many of these behavioral changes reflect long-term trends that were in play well before the onset of COVID-19.

Many of the behaviors that were expected to become entrenched habits were actually just momentary shifts that can be traced back to two external forces:

**FORCED BEHAVIORS**
Pushed on consumers because of shutdowns, spikes in COVID-19 cases and other restrictions

**FUNDED BEHAVIORS**
Powered by the influx of stimulus funding and excess savings

Using data from Affinity Solutions Consumer Purchase Insights, NRF examined how, once these underlying factors receded, consumers reset to their typical, pre-pandemic habits and preferences.

NRF State of Retail & the Consumer

The National Retail Federation, the world's largest retail trade association, passionately advocates for the people, brands, policies and ideas that help retail succeed. From its headquarters in Washington, D.C., NRF empowers the industry that powers the economy. Retail is the nation's largest private-sector employer, contributing $3.9 trillion to annual GDP and supporting one in four U.S. jobs — 52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring and communicating the powerful impact retail has on local communities and global economies. nrf.com

Now in its third year, the State of Retail & the Consumer convenes leaders across the retail industry to discuss the future of the American consumer and the economic outlook for the coming year. https://nrf.com/state-retail-and-consumer-2023

affinitysolutions

Affinity Solutions is the leading Consumer Purchase Data Platform. We provide comprehensive purchase Insights and media measurement via exclusive, fully permissioned real-time, consumer purchase data, integrated with key ecosystem partners. This allows for seamless, privacy-centric, data access at unprecedented scale. Affinity powers solutions for financial institutions, marketers, investment firms, consulting firms and media & marketing enterprises by providing real-time demand signals and insights on consumer spend which drive high value decisions that lead to better business outcomes.

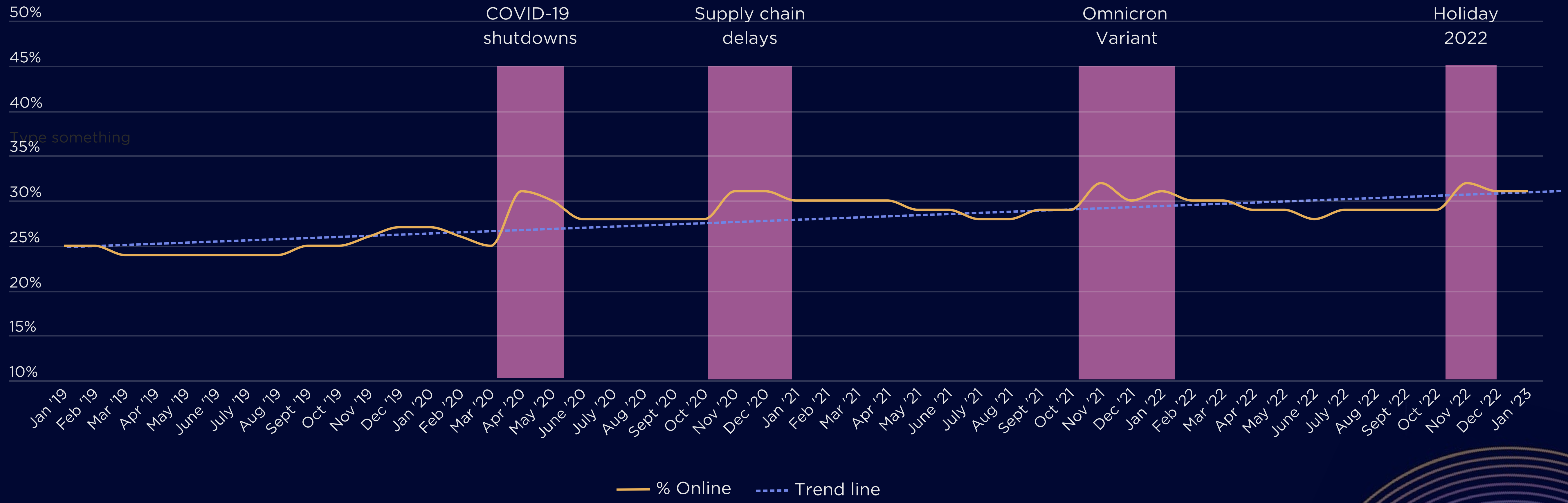
# FORCED
## Behaviors

Forced behaviors are **changes, like the shift to online interactions and eating-at-home, that consumers were temporarily pushed to adopt** in response to shutdowns, spikes in COVID-19 cases and other restrictions.

# Online's share of retail sales spiked in the early months of the pandemic but has since reverted to its long-term growth trend

Online sales peaked in the spring of 2020 when the pandemic forced many retailers that were deemed nonessential to close their stores. And online gained meaningful market share as a channel, growing from 25% in 2019 to 29% at the end of 2020. Since then, online sales continue to spike whenever external factors such as a rise in COVID-19 cases or supply chain events impact consumer behavior. However, after each event, online's share reverts back to its long-term growth trend.

**Online's share of retail sales (2019 - 2022)**



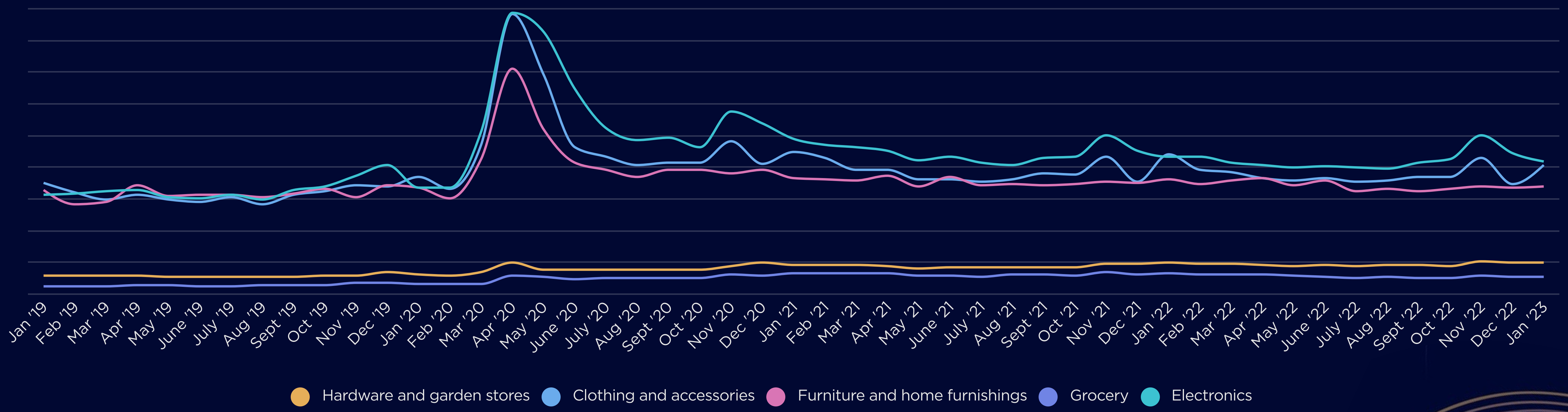



Source: Affinity Solutions, Consumer Purchase Insights

## The impact of pandemic restrictions varied across retail categories, depending on whether or not they were deemed essential by the government

Early in the pandemic, retailers designated as "essential" businesses like grocery and hardware stores were allowed to stay open while others were forced to close temporarily and move entirely online. This had an immediate impact on consumer behavior. "Nonessential" retailers in categories like clothing and accessories, electronics and furniture saw an outsized spike in their online channels in the spring of 2020 compared with businesses like grocery. However, after restrictions eased, online's share of spending at these businesses reset to long-term trends.

**Online's share of retail sales for select sectors (2019 - 2022)**



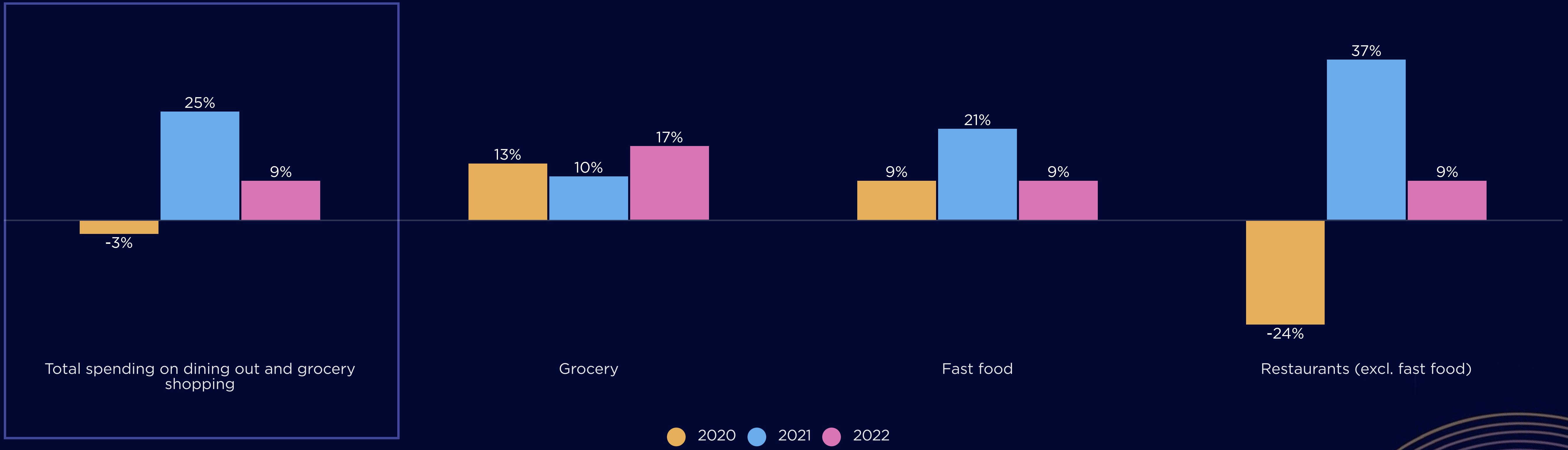



Source: Affinity Solutions, Consumer Purchase Insights

# The pandemic initially forced a shift toward fast food and grocery that was funded by a decrease in restaurant spending

As consumers adapted to mandated shutdowns and social distancing, much of their dining shifted from restaurants to eating at home. Many consumers honed their home-cooking skills — aided by purchases of appliances like bread makers and air fryers — which helped drive a 13% increase in grocery sales. However, even with the shift toward cooking at home, shoppers continued to dine out, when they could. While traditional restaurants saw a 24% decrease in sales during the first year of the pandemic, fast food establishments, which were already geared toward socially distanced options like drive-through and takeout, grew by 9% in 2020. As restaurants were allowed to reopen and operate with options like open-air dining or other socially distanced protocols, consumers returned in force.

### Year-over-year change in spending on food and restaurants



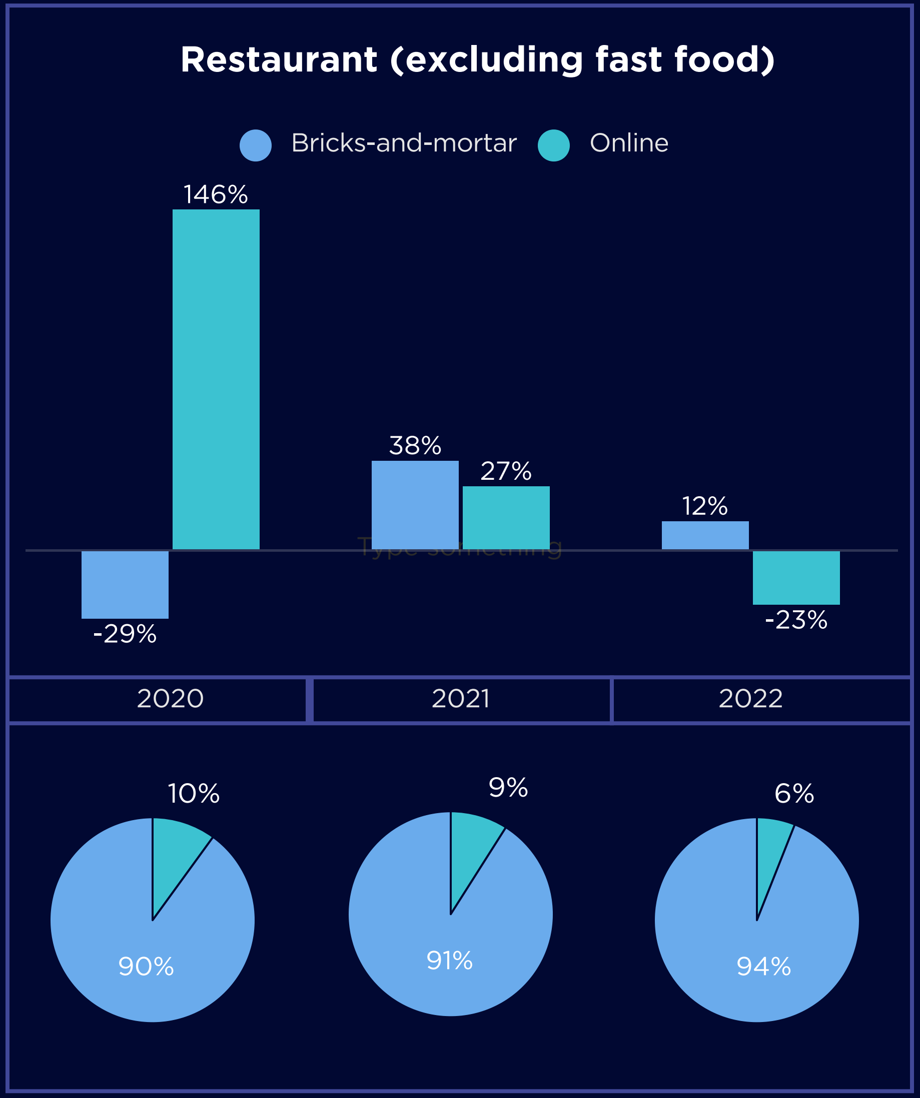

Source: Affinity Solutions, Consumer Purchase Insights

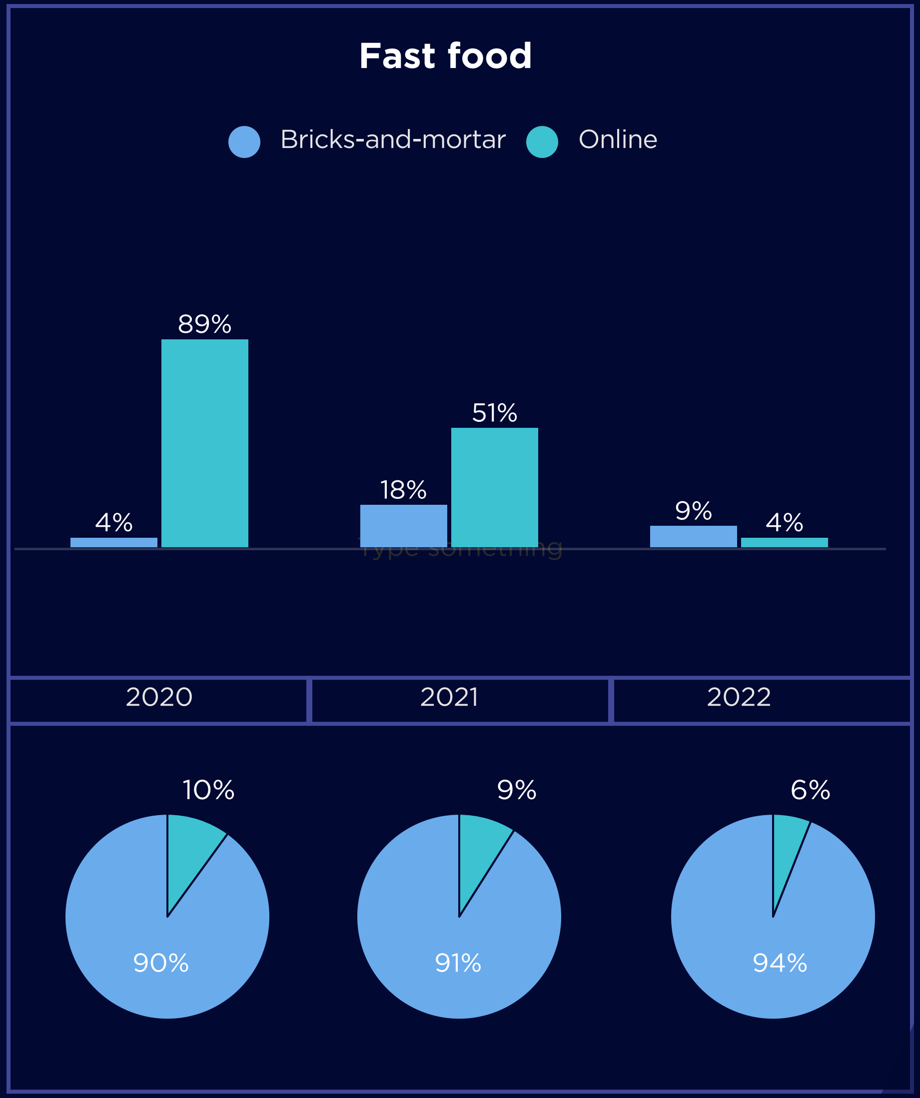
# The growth in restaurant spending was not fueled by online or delivery

In addition to operating under local guidelines and restrictions during the pandemic, many restaurants expanded their delivery and pick-up options, begging the question that if consumers could experience their favorite local restaurant from the comfort of their home, would they ever want to return in person? The data points to a resounding yes. Online orders from restaurants and fast food surged in 2020 but quickly tapered off in 2021 as vaccines and the lifting of many restrictions made consumers more comfortable dining inside. However, even with the tremendous growth of online during the pandemic, bricks-and-mortar remains the dominant channel.

**Year-over-year change in spending**

**Share of spending by channel**






Source: Affinity Solutions, Consumer Purchase Insights

# FUNDED

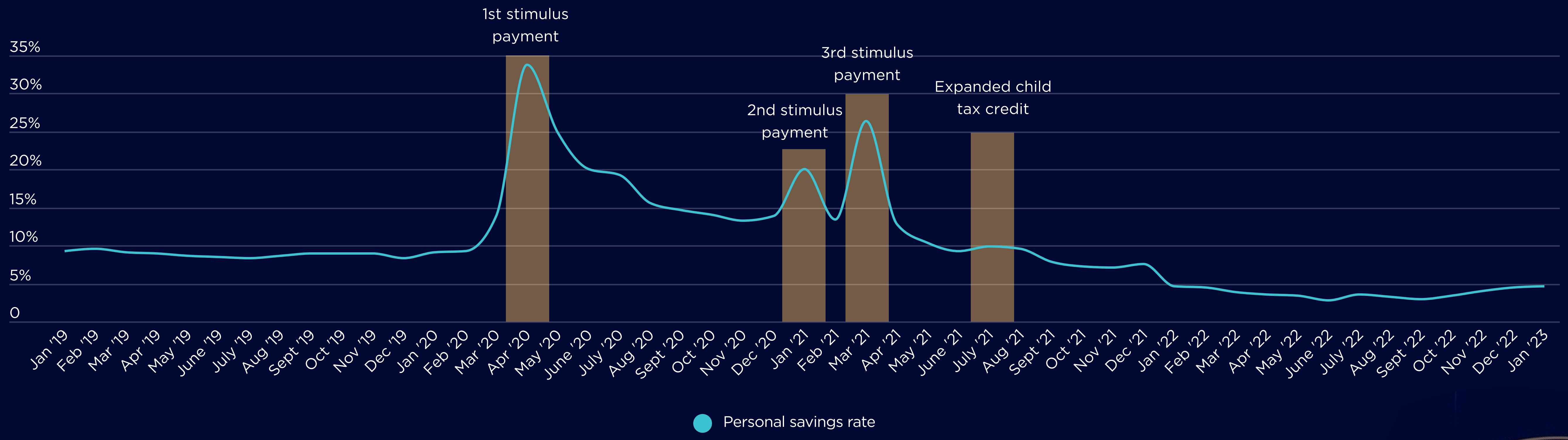
## Behaviors

**Increased spending on discretionary categories** was powered by the influx of stimulus funding and excess savings that consumers built up during the pandemic.

Unlike forced behaviors where it is easy to identify specific moments that impacted consumer behavior, pandemic-funded changes have a more dispersed effect as households built up and subsequently spent down their savings at different rates. Highly discretionary categories like luxury and accessible luxury brands in categories like apparel and footwear can reveal how the tides of consumer spending ebbed and flowed in response to pandemic-led savings.

# Consumers built up such considerable savings during the pandemic that they have continued to draw down, even after stimulus payments dried up and inflation caused prices to rise in 2022

Record fiscal stimulus and constrained spending on services due to the pandemic allowed consumers to build a considerable financial cushion. The personal savings rate peaked at 33.8% in April 2020 when the first stimulus went into effect, alongside mandated shutdowns in many parts of the country. It spiked again around each subsequent stimulus. However, as of January 2023, the savings rate had dropped down to 4.7%. Even as the personal savings rate has dropped, strong labor markets and meaningful growth in wages have continued to help consumers pay for essential items. However, many households are now in a much different financial situation than they were during the pandemic.



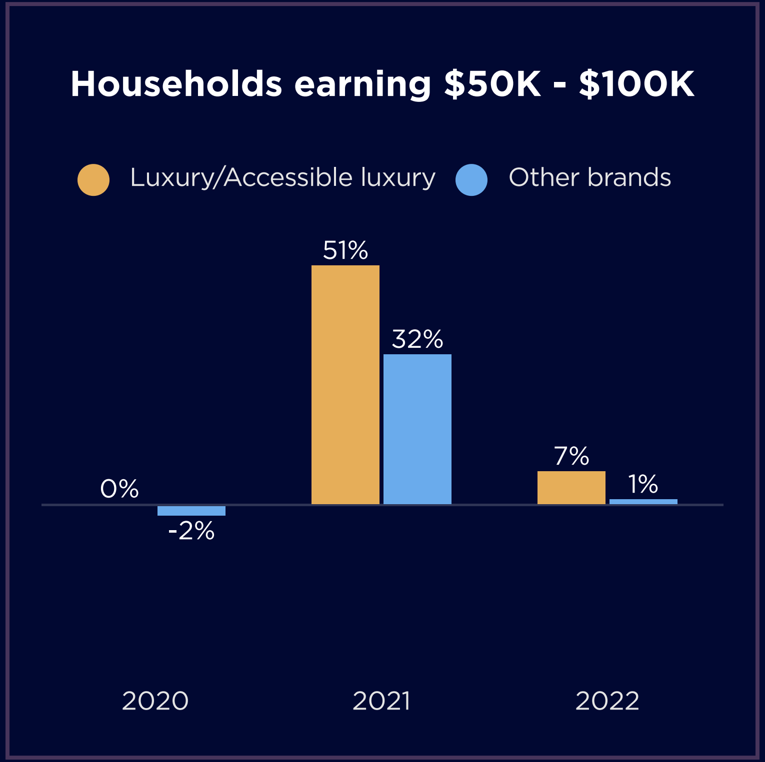



Source: FRED, Federal Reserve Bank of St. Louis

## Spending on luxury and accessible luxury items illustrates the impact of stimulus funds on consumer spending

With the first influx of stimulus payments and the spike in personal savings in 2020, lower-income households were the first to increase their spending on luxury and accessible luxury apparel, accessories and footwear, growing their spending at a faster rate than on other, non-luxury, brands in these same categories. However, these households were also the fastest to pull back on their spending on these same luxury and accessible luxury items in 2022, as their savings dried up and they faced higher costs in other areas of their lives. Notably, higher-income households, who make up the bulk of spending on luxury and accessible luxury goods, initially pulled back on these items in 2020 before rebounding in 2021. They have yet to feel pressured to pull back.

### Year-over-year change in spending on luxury and accessible luxury apparel, accessories and footwear



Source: Affinity Solutions, Consumer Purchase Insights

## Conclusion

In hindsight, the sudden shifts in consumer behavior that occurred during the pandemic were rational reactions to a unique set of external pressures and stimuli. As those factors are being removed, or as in the case of pandemic funding, starting to dry up, consumers are returning to their typical spending habits and behaviors.

While ecommerce appears to have reverted to its long-term growth trend, the topline numbers do not tell the full story. The type of product — food versus apparel or electronics versus hardware — is a significant factor when understanding online share. Options like contactless payment and buy online, pick up in store that became more widely available during the pandemic also streamlined store experiences and helped consumers become more comfortable shopping across channels, depending on what is most convenient or cost-effective for them.

As consumers deal with a new set of challenges in 2023, they remain resilient. We expect that shoppers will continue making the purchasing decisions that make the most sense for their household and budget. But it is important not to view consumers as a monolith — different income and savings levels will impact the choices shoppers make in terms of spending on services and discretionary categories.

**To learn more about how retail leaders and industry leaders view the post-pandemic consumer, visit https://nrf.com/state-retail-and-consumer-2023**

**METHODOLOGY**

This analysis was made possible through Affinity Solutions' Consumer Purchase Insights. Consumer Purchase Insights analyzes credit and debit card transactions from 100M cards sourced from 3,000+ financial institutions representing more than $400 billion in annual spend.