

Consumer and Retail in a Recessary Environment

An increasingly recessionary environment is top of mind for US investors, especially for the Consumer and Retail sectors. S&P Global Ratings analysts recently visited several U.S. investor firms to discuss sector trends and individual issuers.

Major macro trends top of mind for Consumer and Retail in the U.S.:

- For **Food and Groceries**, most of the inflationary pricing has been passed down to the consumer. Investors raised concern over when the consumer will no longer be able to bear these price increases. Groceries are staples and necessary, while other discretionary spending has tapered off sooner. Lower-income consumers are most squeezed with the inflationary environment and are trading down from major name brands to private-label alternatives. The impact on consumers is slowly inching its way up to more middle-income consumers, though consumers at the higher end of the spectrum are largely cushioned and continuing their spending habits. All the while, this is juxtaposed with certain services and experiences, like travel and lodging, which remain stable due to pent-up demand from the pandemic.
- For **Consumer Goods**, there is also a trend of consumers trading down and decreasing spend. At the same time, buyers at big box stores have already purchased excess inventory in response to earlier strong demand. This could ease some pricing challenges for consumers, as they may expect to see upcoming discounting for these stores to clear out the extra inventory on their hands. Retailers want to position themselves well for the traditional major shopping periods coming up, such as back to school and holiday spending.
- Among the consumer sectors traditionally defined as 'sin stocks' in an ESG lens, here is the latest on **Tobacco and Alcohol**: U.S. investors in tobacco are watching the FDA's recent litigation on vaping, as well as a potential ban on menthol, albeit any ban is still years away. In the beverage space, alcohol and soft drink partnerships are becoming increasingly common as companies expand their offerings and try to innovate in their product offerings.

With consumer spending increasingly impacted by the recessionary signals in the environment, investor sentiments and industry trends may likewise continue to closely follow the dynamic changes in the Consumer and Retail sectors.

For research on the Retail & Consumer Products Sector, please visit: [S&P Global Ratings \(spglobal.com\)](https://www.spglobal.com)

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