A Prevedere Report

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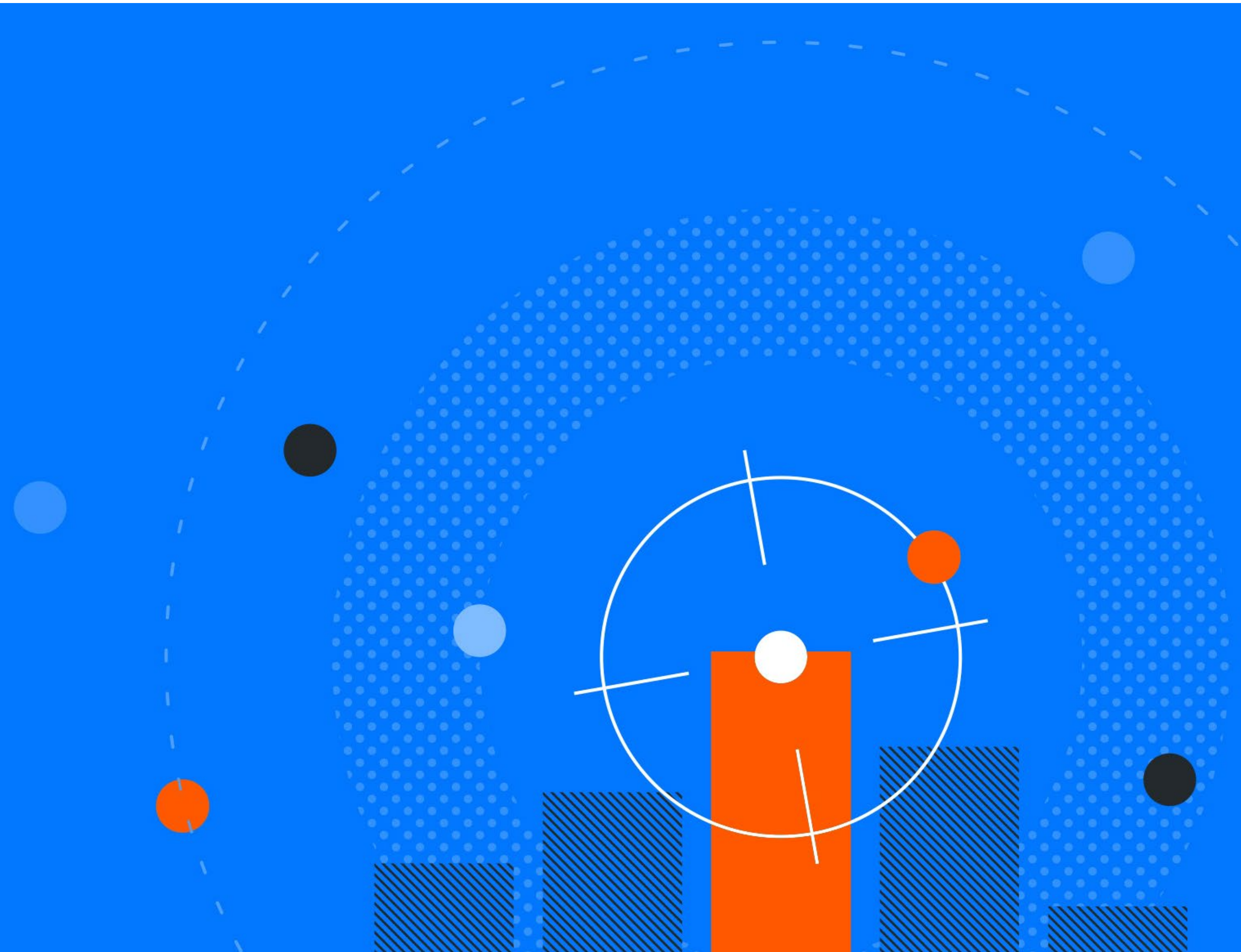
Tracking consumer behavior trends in 2024



A soft landing via a rolling recession

The most anticipated recession in history may never occur. Despite facing a pessimistic outlook for more than a year, the economy has proven resilient and a soft landing seems to be in sight.

Yet, while it is becoming a very real possibility that the U.S. Economy averts a technical recession this year, and sees economic growth throughout 2024, that doesn't mean there won't be a bump in the road towards the end of 2023. In fact, it is likely that consumers will experience a short pullback in spending during the fourth quarter, followed by a rebound that will begin in the first half of next year.

Prevedere is categorizing this hiccup as a *rolling recession*, in which different sectors of the economy will have their own "mini-cycles," and potentially experience "mini-recessions." This trend was already set in motion earlier this year as the rate hikes by the Fed caused contraction within the residential real estate industry that started last year. The downturn of the housing market is now beginning to bottom out in Q3 of 2023, which is happening concurrently with a contraction in the manufacturing industry, causing its own mini-recession. Leading indicators suggest that the manufacturing industry will bottom out late this year, at least a full quarter after the housing market traverses its trough.

The housing market and manufacturing industries are just a few examples that illustrate the ways that different industries will experience these conditions in their own spread-out timeframes. As a result of this timing, the overall U.S. economy may avert a technical recession but individual companies will need to navigate challenging conditions when the time comes for their sectors and sub-sectors, including consumer-facing brands.

Evolving consumer behavior patterns

Consumer spending has been strong in 2023. In fact, this resiliency has played a significant role in keeping the economy out of a downturn. Yet, while the premise of averting recession could be viewed as good news overall, a short-term hiccup in consumer spending will lead to a contraction in consumer-facing industries and make things very challenging for companies to accurately plan for a quick reduction in consumer spending and the recovery that will follow that challenging environment.

Our expectation is that consumers will pull back in spending towards the end of 2023. This occurrence may not be significant enough to put the economy into a recession as it will happen as a "blip" rather than a long-term trend. However, it will have a significant impact on consumer brands as it will most likely take one to two quarters for spending to regain acceleration, which will most likely happen in the second half of next year. As such, maximizing potential revenue at the end of this year and the first half of 2024 is paramount.

Anticipated consumer behavior changes

There is a confluence of factors that will lead to slowed consumer spending, including the reintroduction of student loan payments, and increased cost of living due to inflationary pressures, among others. As a result, there are five overarching behavioral changes that brands should expect consumers to show during this time period.

- **Budget-Conscious Mentality:** Consumers will adopt a budget-conscious mindset, prioritizing the search for the best prices and values on essential items. As expenses like shelter, utilities, transportation, and groceries consume a larger share of their budget, cost-effectiveness will be a key consideration.
- **Preference for Experiences and Services:** Consumer preferences will continue to lean towards experiences and services, with a preference for these over non-essential goods. This shift reflects a prioritization of meaningful experiences and convenience over material possessions.
- **Strategic Spending:** While consumers will maintain their spending habits, they will become more strategic and discerning in their choices. Services will take precedence over goods, emphasizing the importance of functionality and utility.
- **Value-Centric Luxuries:** When indulging in luxury or discretionary purchases, consumers are likely to favor value-centric luxuries or smaller indulgences. This signifies a desire for high-quality, meaningful splurges that provide lasting value.
- **Shift in Borrowing Perspective:** Consumers will reconsider their approach to borrowing, particularly for higher-priced items such as vehicles and durable goods that typically require financing. This shift in thinking may involve more careful evaluation and consideration of borrowing options.

Consumer segments

In the realm of consumer behavior, it's worth noting that not all consumers will respond to economic shifts in the same manner. Just as various sectors of the economy experience distinct business cycles, consumers exhibit diverse behaviors influenced by demographic factors and the specific challenges they face.

For instance, among the older demographic, those relying on fixed incomes are currently grappling with the escalating cost of living, a situation expected to persist for some time. Meanwhile, individuals in the lowest household income quartiles have rapidly depleted their pandemic-era savings. These individuals are already adjusting their spending habits by becoming more budget-conscious, and actively seeking price comparisons and coupons.

Another demographic shift is expected around the fourth quarter of this year, primarily affecting consumers aged 20 to 40 burdened by student loan repayments. They will experience a more delayed adjustment in their behavior due to the constraints imposed by their loan obligations. As we move into early 2024, the focus of consumer behavior changes will shift away from demographics. Instead, it will be driven by the delayed impacts of rising unemployment rates and job losses. This shift will primarily affect the small percentage of consumers facing potential job loss in the midst of the ongoing consumer spending pullback.

Recognizing these distinct consumer behavior patterns among different demographic groups, especially within their company's target buying groups, is essential for business leaders to track as they navigate the evolving economic landscape.

Planning for 2024

As business leaders and FP&A teams build their forecasts and plans for next year, it is imperative to consider the evolving economic landscape, which most likely will become more challenging before they improve. Despite optimistic headlines and discussions of economic resurgence or a smooth landing, companies should be prepared for a potentially bumpy road before the U.S. economy experiences a full recovery. Fortunately, this period of uncertainty is expected to be relatively short-lived.

As such, it will be vital to understand that consumers will likely be more price-sensitive than in recent years. Brand awareness will play a pivotal role, and offering incentives such as coupons, promotions, and competitive pricing will be essential. Shoppers will actively seek out the best deals and values, so ensure that offerings are easily visible to the target audience with the greatest spending power.

It is imperative that companies avoid the pitfall of limiting this planning to just growth or a downturn. Instead, business leaders should acknowledge the wide range of possible scenarios, including a soft landing, a deep recession, or a fluctuating economy. In developing these comprehensive plans, business leaders can adapt to various circumstances, ensuring that their company is in the best position to maximize revenue regardless of the outcome of the larger economy.

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– *Gartner report on Emerging Technologies*

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