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US Equity Strategy | North America

AlphaWise US Consumer Pulse Survey Wave 34

Consumers are continuing to list inflation as their number one concern and trading down at grocery stores, retailers, and restaurants to save money. Few consumers are planning new travel post labor day and cited gasoline prices and the spread of Covid-19 as the primary barriers to travel.

This report provides a full breakdown of data from our thirty-fourth survey of ~2,000 consumers in the U.S., which ran July 29th - August 1st, to gauge consumer behavior, attitudes and outlook.

- Consumers Are Late/Missing Payments:** Overall, 38% of consumers reported a missed or late payment on any bill/loan in the past three months, skewing higher among lower income cohort. One priority for consumers is their cell phone bill, among the 90% of consumers who have the payment obligation, only 16% report a missed or late payment. Another priority for consumers is their mortgage (37% have mortgage and, among those, 86% are on time with payments). Student (35%) and personal loans (27%) are more likely to be missed/paid late, but these loans also have a lower incidence among general consumers.
- Consumers Are Trading Down when Purchasing Groceries...:** Nearly two thirds of consumers are trading down to lower price brands in at least some grocery products. This trend is driven primarily by the lower income households. Consumers continue to be price conscious when shopping for groceries. In-line with two weeks ago and significantly higher compared to two months ago, consumers are paying more attention to prices when grocery shopping, using coupons/offers, and shopping at retailers with lower prices. Purchasing of organic and/or premium grocery products posted a net decline.
- ...and Also Trading Down at Retailers/Restaurants:** Overall, 70% of consumers report at least some changes to their typical shopping and eating out preferences. Switching from name brands to private label brands (41%) and from more expensive to less expensive retailers (34%) is most common, especially among female consumers. Switching from higher priced menu options to lower ones was also a popular way to save money with 29% of consumers engaging in this behavior.
- Travel Plans to Slow After Labor Day:** While approximately 55% of consumers are planning to travel over the next 6 months only about 1/3 of consumers are planning new trips POST labor day implying travel will slow

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Wave 34 Results

Morgan Stanley



AlphaWise U.S. Consumer Pulse Survey: Wave 34

August 5th, 2022

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Survey Highlights

Sentiment

- Inflation remains to be, by far, one of the top concerns for roughly two third of consumers, in line with the past several weeks and significantly higher compared to the beginning of the year (at 56%). The political environment is the second top concern for 40% of consumers (similar to last month), followed by concern over COVID 19 spread at 29% (vs. 25% last month). Around a quarter of consumers expressed concerns over the inability to pay rent/mortgage and/or repay debts (similar to the previous waves). Apart from inflation, low income consumers are generally more worried about the inability to pay rent and other debts, while upper income consumers over index on concerns over investments, the political environment in the U.S. and geopolitical conflicts.

Macro Outlook

- Consumer confidence in the economy reverted slightly in early June and continues to marginally improve with 28% of consumers expecting the economy to get better in the next six months, while 55% (vs. 57% two weeks ago and 59% last month) of consumers expecting the economy to get worse. Consumers' household financial outlook also improved with 30% (vs. 34% two weeks ago and 26% in April) having a negative outlook on household finances and another 29% (in line with last wave) expecting no change over the next six months. The weaker outlook is driven primarily by low and mid income consumers, while upper income consumers are generally more positive, though similar in trajectory.

Inflation & Spending Outlook

- Consumers, on average, have 4 months worth of expenses in savings skewing higher among upper income. Majority of consumers surveyed continue to say they are likely to cut back on spending over the next 6 months because of inflation (65% vs. 69% two weeks ago and 66% last month), with restaurants most at risk of consumer pull back. Overall, 38% of consumers report a missed or late payment on any bill/loan in the past three months, skewing higher among lower income cohort (~47%). Cell phone and mortgage tend to be paid on time more compared to personal and student loans. Pullback in spending outlook for the next six months continues to be elevated, though similar to the last wave.

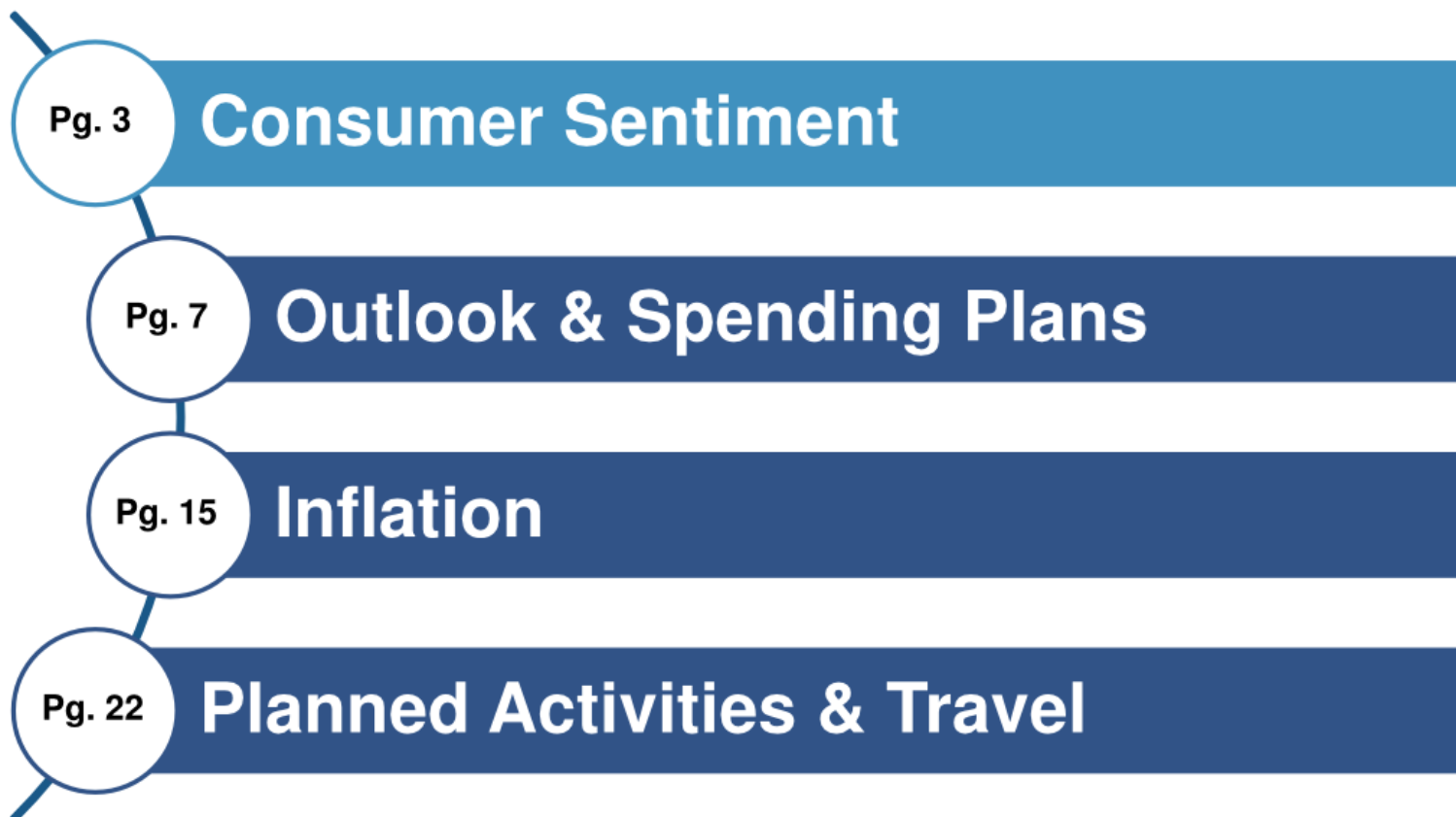
Activities/Going Out

- Consumer participation in out of home activities is relatively stable over the past few weeks. Roughly two third of consumers report eating out at restaurants in the past month; net engagement, however, for the next month continues to be negative and declining at 10% (vs. 13% two weeks ago). Incidence in mall visits reached highest level to date (44%), but net engagement outlook (% who expect to engage in activity more minus less) is continues to trend net negative (-7% vs. 14% two weeks ago). Visits to gyms and indoor fitness clubs are consistent to previous waves.

Travel

- Travel intentions continue to trend somewhat lower compared to the same time last year with 55% of consumers planning to travel over the next six months (vs. 54% two weeks ago and 59% end of July last year). Households with \$150K+ income are resilient in their travel intentions and over index lower income counterparts. Additionally, upper income consumers are far more likely to plan new travel post Labor Day through the rest of 2022. Gas prices, by far, is the main barrier for travel cited by consumers (34% main barrier / 58% top 3). Consumers are also still concerned about COVID 19 with (18% / 45%) and mindful about airline / hotel prices.

Outline

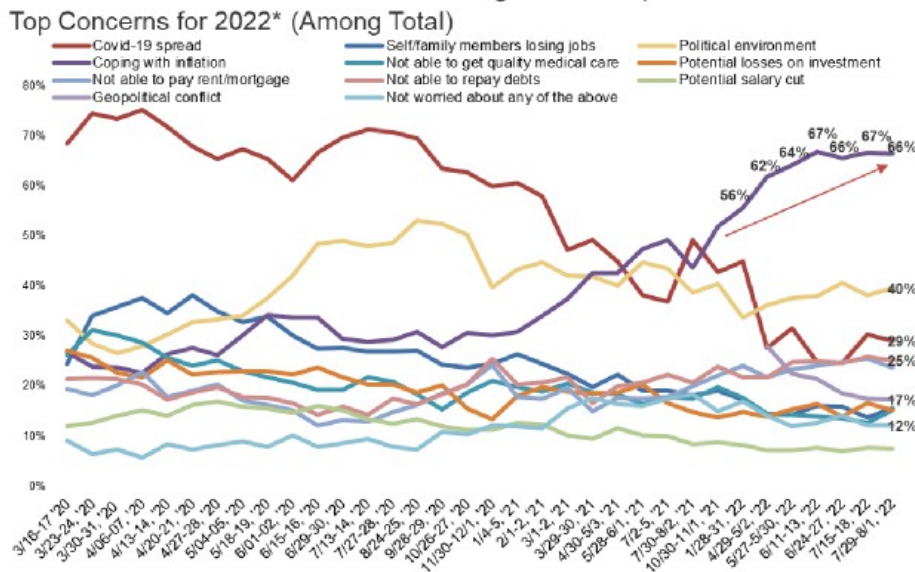


- Pg. 3** **Consumer Sentiment**
- Pg. 7** **Outlook & Spending Plans**
- Pg. 15** **Inflation**
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Sentiment

Inflation remains to be, by far, one of the top concerns for roughly two third of consumers, in-line with the past several weeks and significantly higher compared to the beginning of the year (at 56%). The political environment is the second most listed primary concern with 40% of consumers selecting it (similar to last month), followed by concern over COVID-19 spread at 29% (vs. 25% last month). Around a quarter of consumers expressed concerns over the inability to pay rent/mortgage and/or repay debts (similar to the previous waves).

Possibility of losing a job (self/family) is a concern for 16% of consumers (trending similarly since the beginning of this year and far lower vs. the 2020 average of 30%).

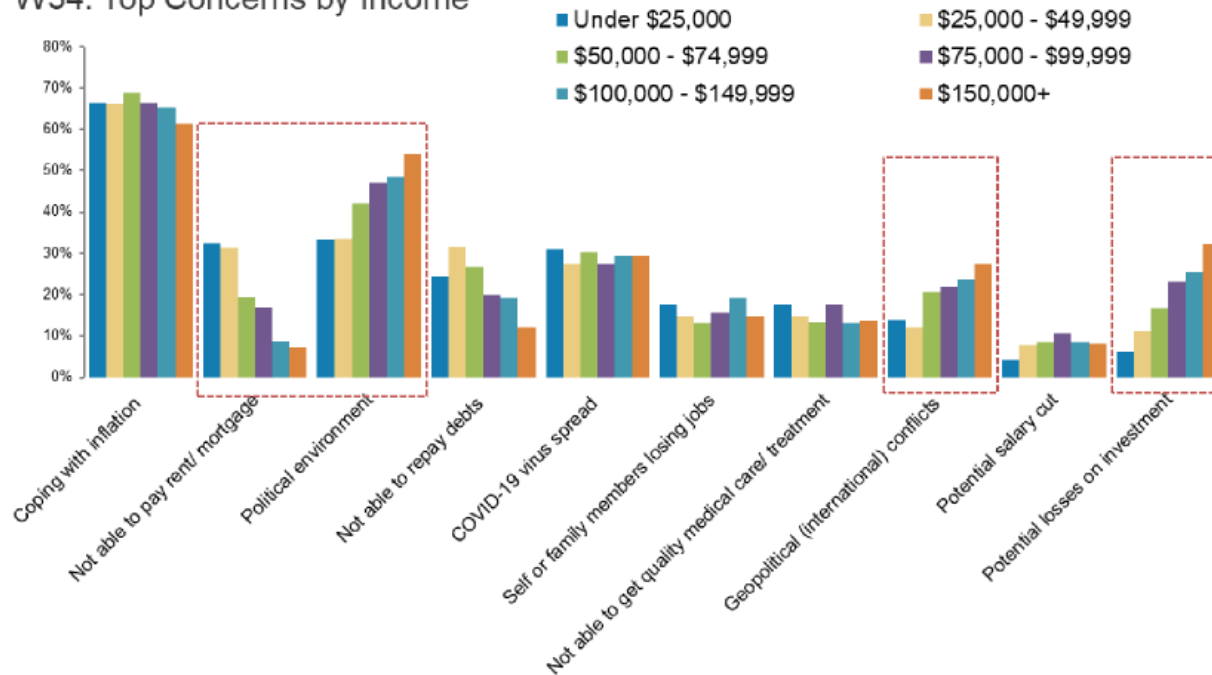


Sentiment: Top Concerns by Income

Consumers across income segments are equally concerned about inflation.

Low-income consumers are generally more worried about the inability to pay rent and other debts, while upper income consumers over index on concerns about investments, political environment in the U.S. and geopolitical conflicts.

W34: Top Concerns by Income

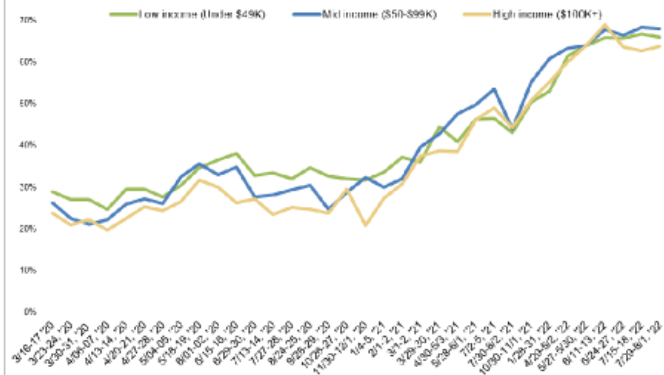


Source: AlphaWise, Morgan Stanley Research

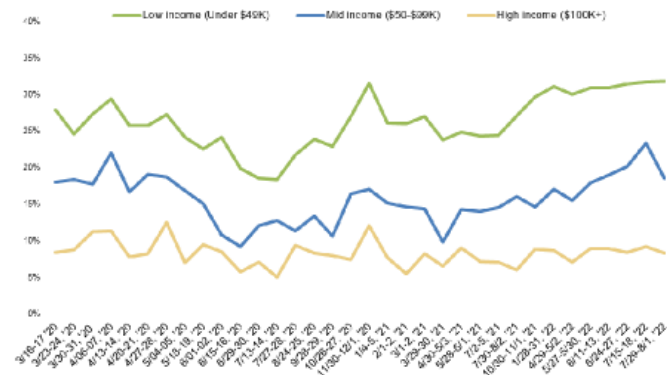
Sentiment: Top Concerns by Income

A similar general trend is also observed in the time series data; income cohorts are directionally aligned, but magnitude varies.

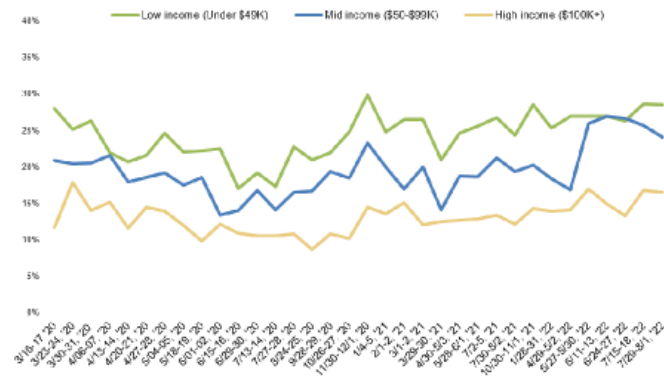
Top Concerns: Coping with Inflation by Income



Top Concerns: Not Able to Pay Rent/Mortgage by Income



Top Concerns: Not Able to Repay Debts by Income



Top Concerns: Potential Losses on Investment by Income



Source: AlphaWise, Morgan Stanley Research

Outline

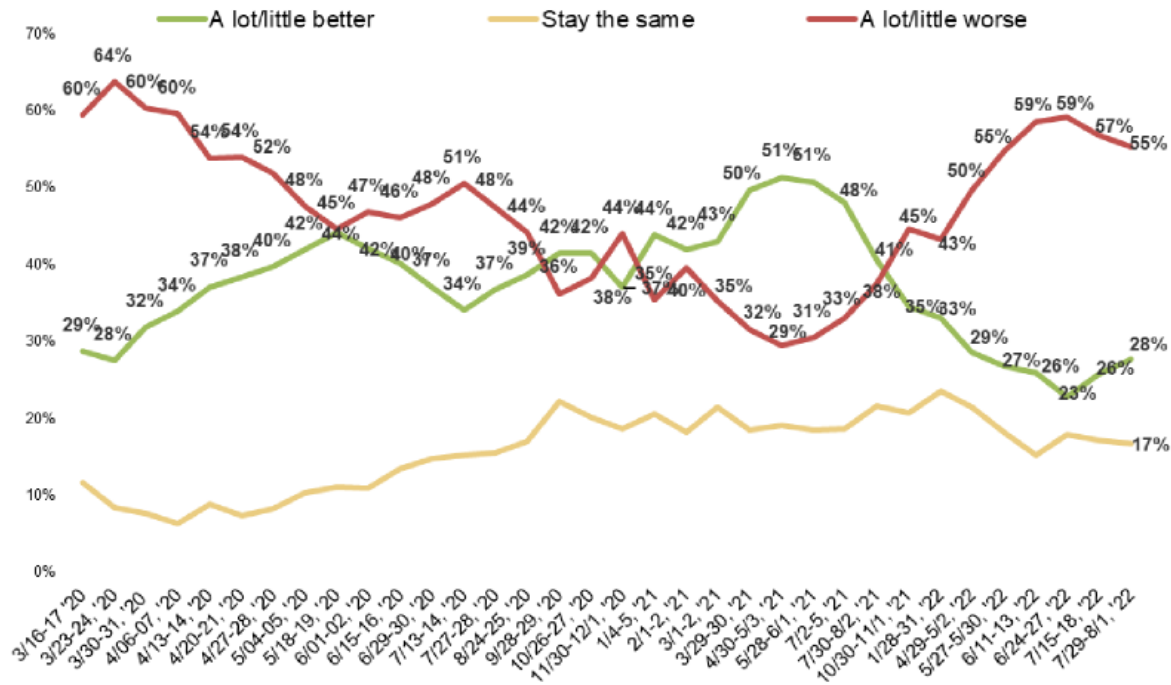


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U.S. Economy Outlook

Consumer confidence in the economy reverted slightly in early June and continues to marginally improve with 28% of consumers expecting the economy to get better in the next six months, while 55% (vs. 57% two weeks ago and 59% last month) of consumers expecting the economy to get worse. The proportion of consumers who believe the economy will remain the same is 17% (in-line with the previous wave).

U.S. Economy Next 6 Months (Among Total)

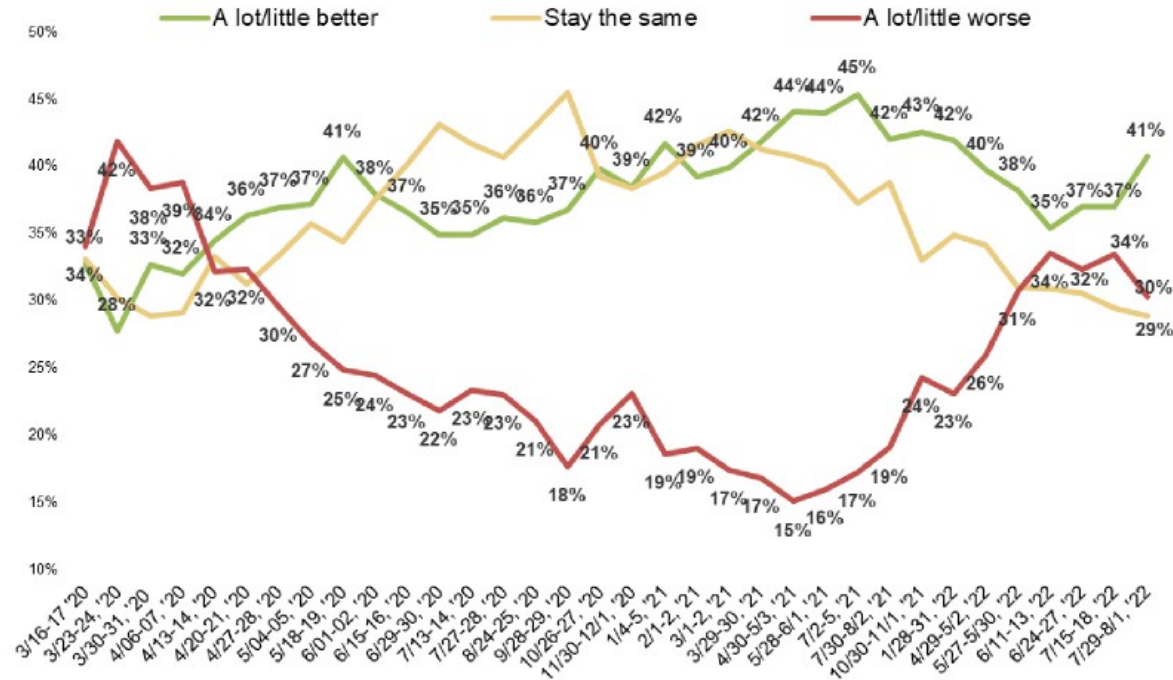


Source: AlphaWise, Morgan Stanley Research

Household Financial Situation Outlook

Consumers' household financial outlook also improved with 30% (vs. 34% two weeks ago and 26% in April) having a negative outlook on household finances and another 29% (in-line with last wave) expecting no change over the next six months. The number of consumers who expect household finances to get better is 41% (up from 37% in the last few waves vs. 42% in the beginning of the year).

Household Financial Situation Next 6 Months (Among Total)



Source: AlphaWise, Morgan Stanley Research

Outlook by Income

The weaker outlook is driven primarily by low- and mid-income consumers (HH income less than \$100K), albeit some improvement over the last two weeks. Upper income consumers tend to be more optimistic, especially around their own finances.

US Economy Outlook for N6M: A Lot / Little Worse ... by Income



HH Finances Outlook for N6M: A Lot / Little Worse ... by Income

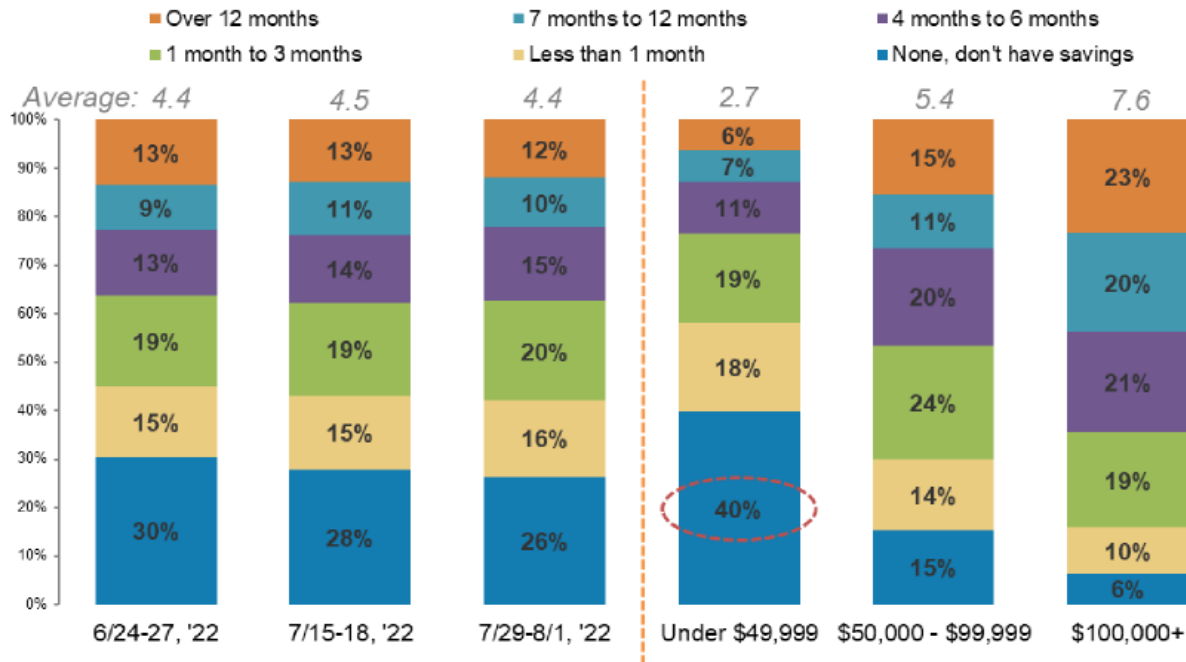


Household Savings Reserves

Household savings reserve unchanged, 26% of consumers do not have savings, another one third have 3 months or less in savings, 25% have 4-12 months and 12% more than a year; yielding to an average savings reserve of 4.4 months.

Savings reserves vary significantly by income, with upper income consumers having on average around 7-8 months worth of expenses in savings.

Household Savings Reserve (Among Total)



Source: AlphaWise, Morgan Stanley Research
Average is calculated by taking mid point for each answer choice, "Over 12 months" equates to 18 months for calculation purposes

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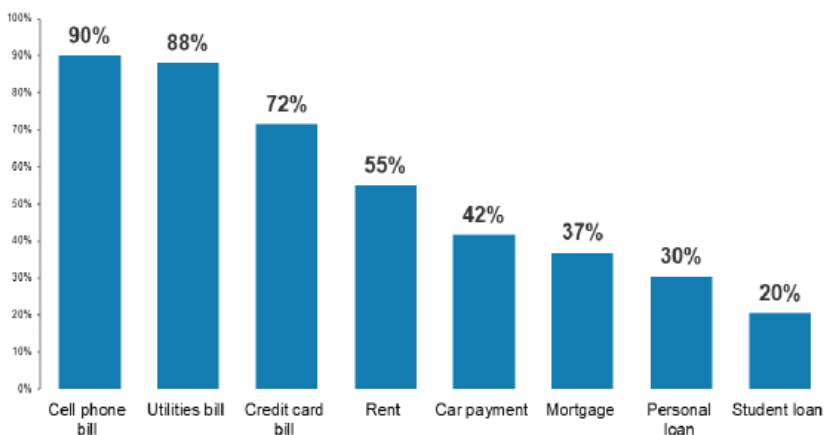
NEW Bill / Loan Payments

Overall, 38% of consumers report a missed or late payment on any bill/loan in the past three months, skewing higher among lower income cohort.

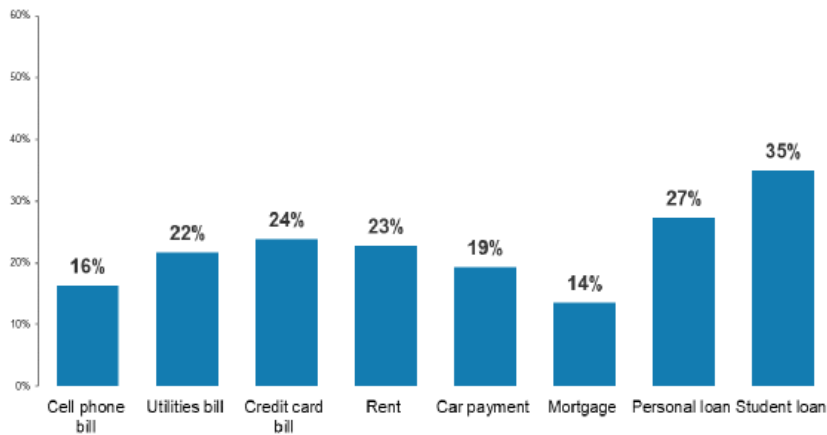
A clear priority for consumers is their cell phone bill, among the 90% of consumers who have the payment obligation, only 16% report a missed or late payment. Another priority for consumers is their mortgage (37% have mortgage and, among those, 86% are on time with payments).

Student (35%) and personal loans (27%) are more likely to be missed/paid late, but these loans also have a lower incidence among general consumers.

W34: Have Loan / Bill Type (Among Total)



W34: Missed Payment/Paid Bill Late P3M (Among Holders)



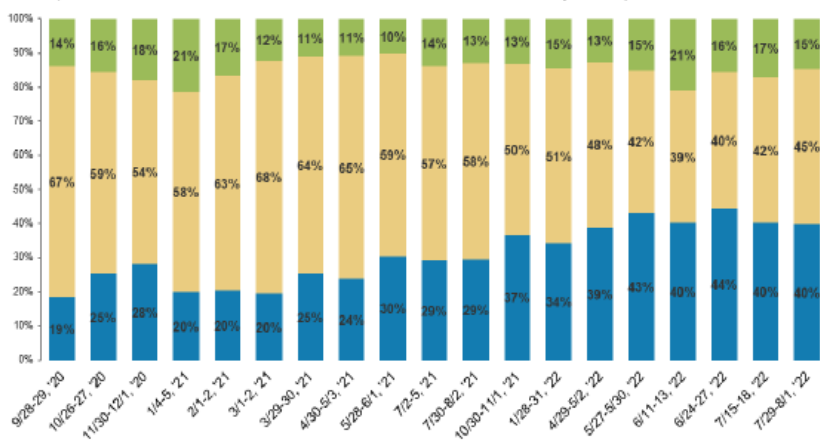
Source: AlphaWise, Morgan Stanley Research

Overall Spend Next Month vs. Last Month

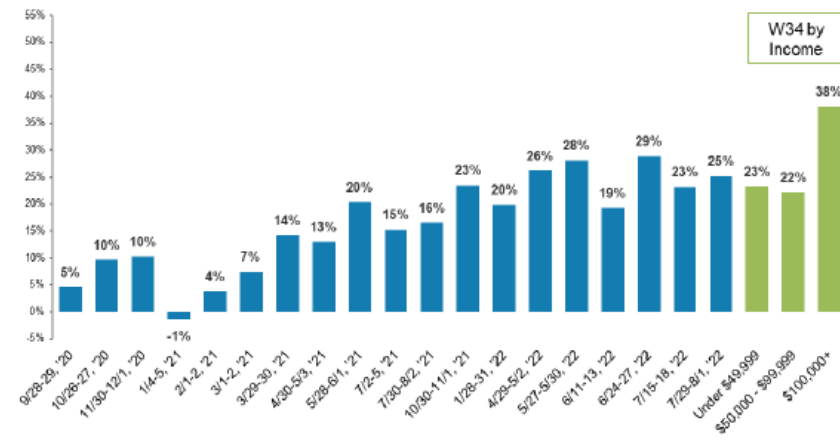
In general, consumers tend to recognize the need to increase overall spending (likely due to inflation), with 40% (in-line with last wave and 44% last month) of consumers expecting to spend more compared to last month and 15% (vs. 17% / 16%) less, yielding a net of +25% (vs. +23% two weeks ago and +29% last month). Another 45% don't plan to change their spending habits.

Higher expected spending is driven primarily by upper income households.

Overall Household Dollar Spending Over Next Month (Among Total)



NET (More - Less) Overall Household Dollar Spending Over Next Month (Among Total)

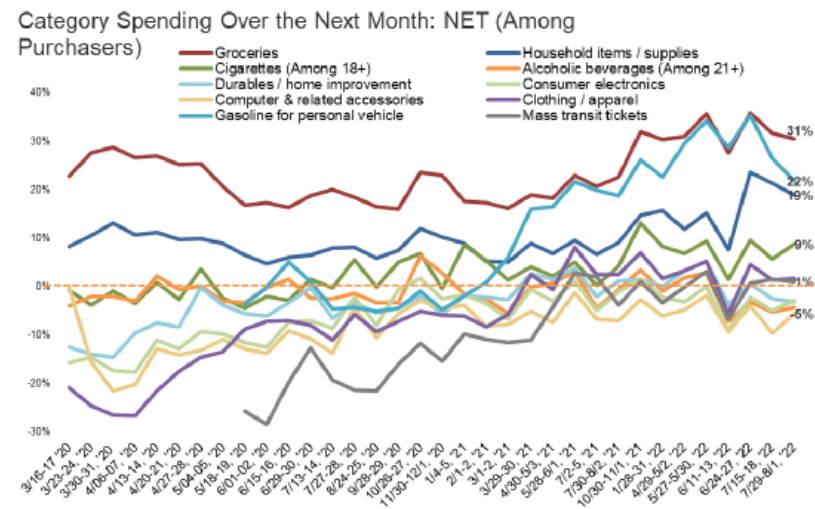
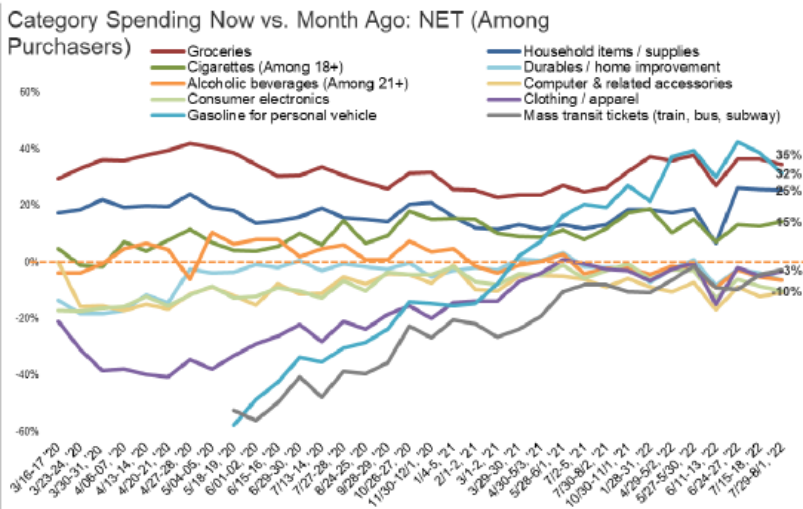


Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" - "Less"

Monthly Category Spend

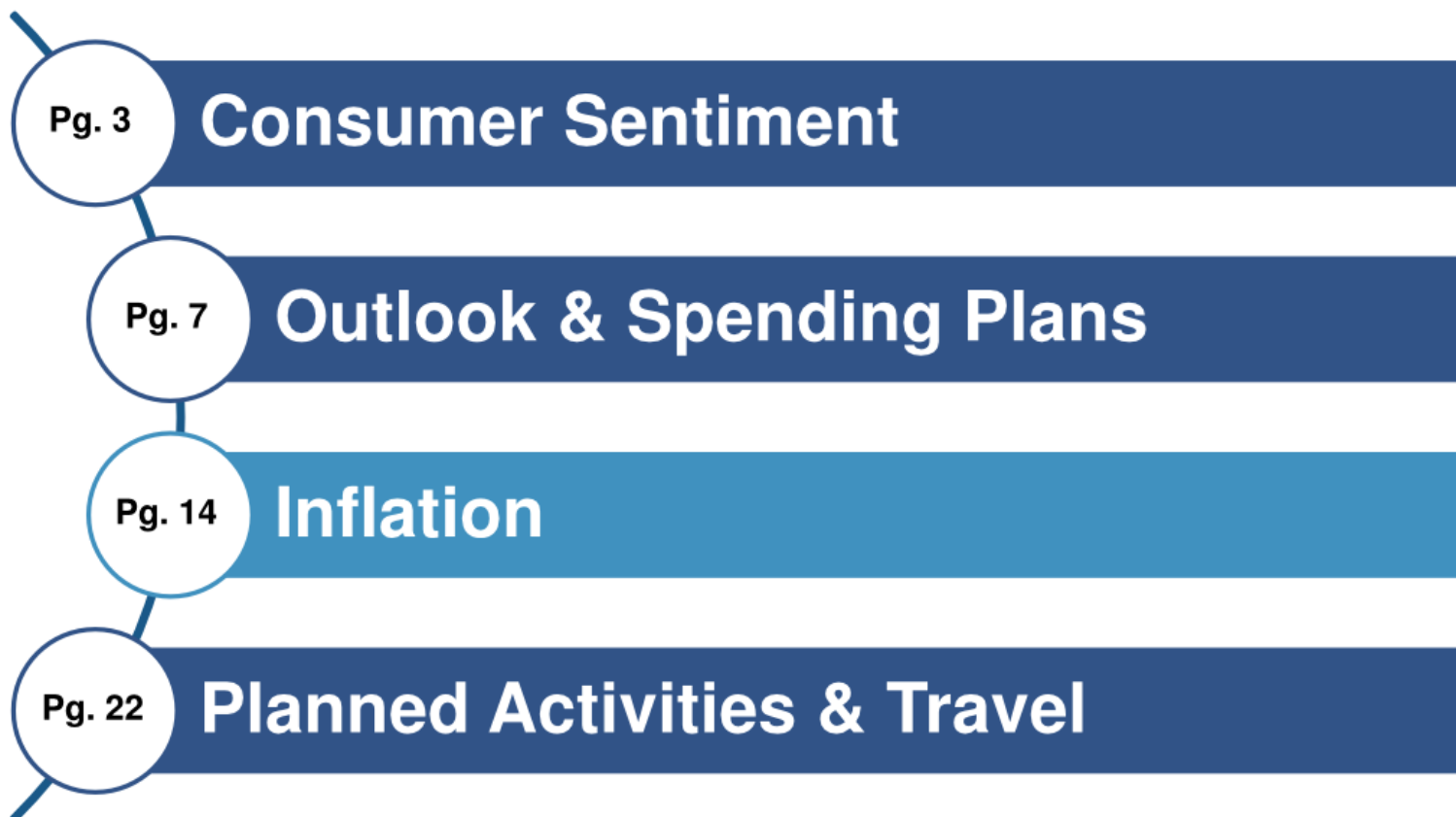
Category spend across most categories is similar to the two weeks ago. Consumer electronics, computers and apparel categories continue to post lower negative net spending compared to net positive essential categories (groceries, gas and household items). A notable decrease in spending is observed for gas (both MoM and over the next month) likely due to prices coming down and summer car travel slowing.

Note, this does not control for effects from inflation.



Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" – "Less"

Outline



The table of contents is presented as a vertical list of four items, each with a magnifying glass icon on the left. The magnifying glass handle is positioned at the top-left for the first item and at the bottom-left for the last item. The items are: Pg. 3 Consumer Sentiment, Pg. 7 Outlook & Spending Plans, Pg. 14 Inflation, and Pg. 22 Planned Activities & Travel. The text for each item is white on a dark blue background.

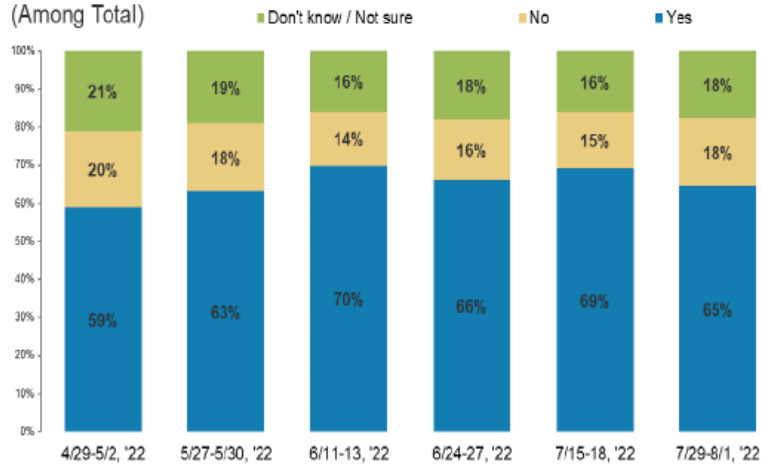
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Plans to Cut Back on Spending Due to Inflation Over the Next 6 Months

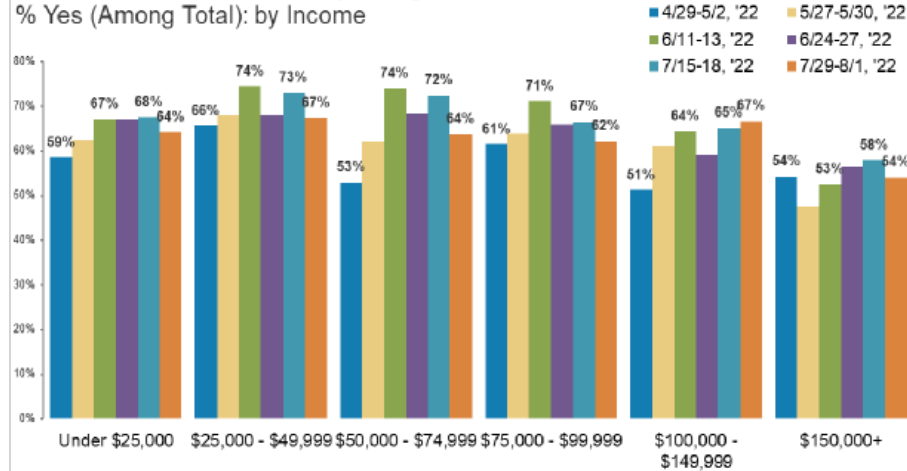
The majority of consumers surveyed continue to say they are likely to cut back on spending over the next 6 months because of inflation (65% vs. 69% two weeks ago and 66% last month). Only 18% of consumers say they are not cutting back and another 18% are not sure.

Households with an income of \$150K+ are more resilient.

Plan to Cut Back on Overall Spending Due to Inflation N6M (Among Total)



Plan to Cut Back on Overall Spending Due to Inflation N6M: % Yes (Among Total): by Income

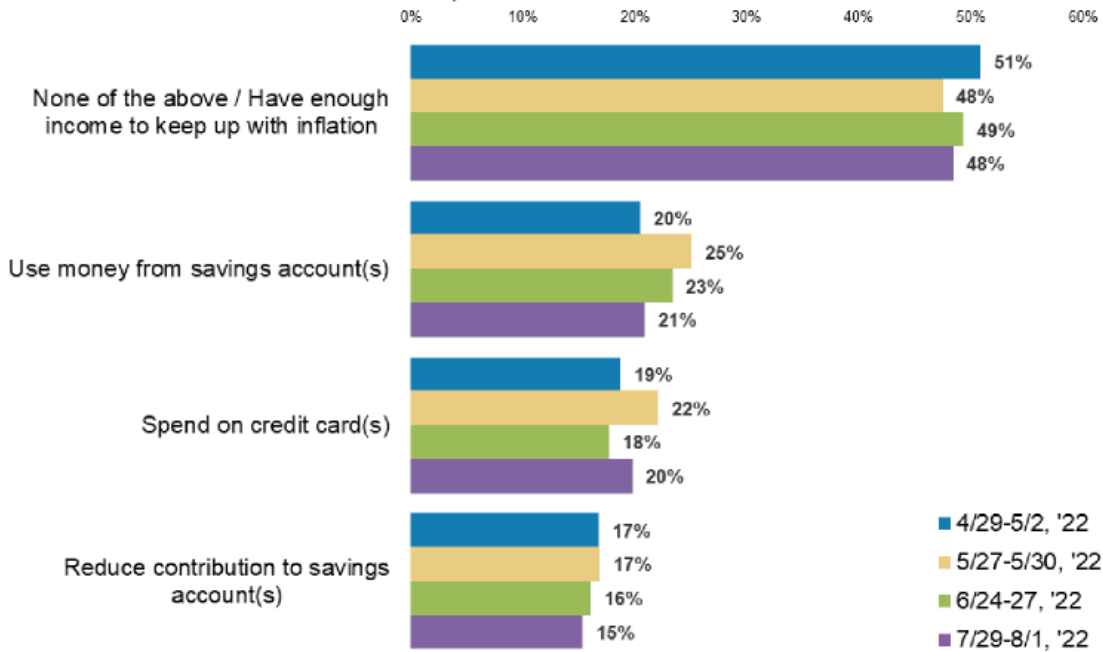


Source: AlphaWise, Morgan Stanley Research

Maintaining Spending Level

Among the 35% of consumers who are planning to maintain their level of spending (including those who are not sure) in the current wave of the survey, around half claim to have sufficient income to keep up with the inflation, 21% plan to dip into savings and 20% spend on credit.

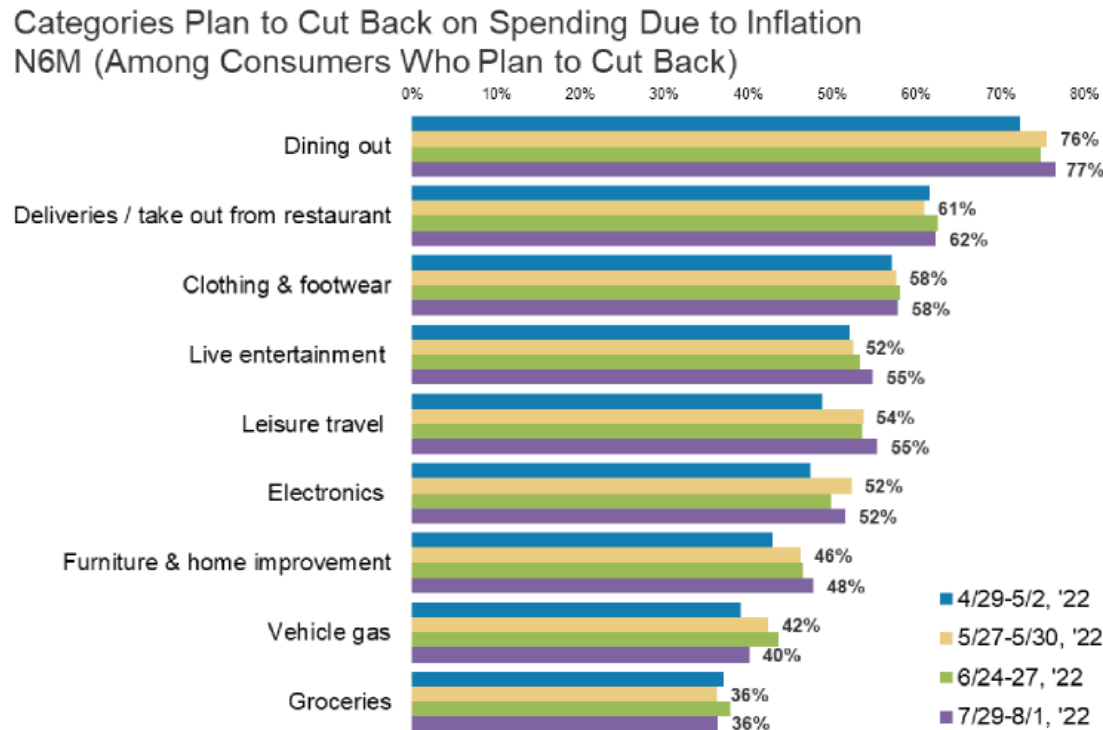
To Maintain Level of Spending N6M ... (Among Consumers Who Do Not Plan to Cut Back)



Source: AlphaWise, Morgan Stanley Research

Categories Impacted by Inflation

Restaurants continue to be most at risk of a consumer pullback in spending with 77% mentioning cutting back on dining out and 62% on deliveries/take-out from restaurants (in-line with previous waves of the survey). Clothing and footwear, live entertainment and leisure travel are also popular areas to cut back.

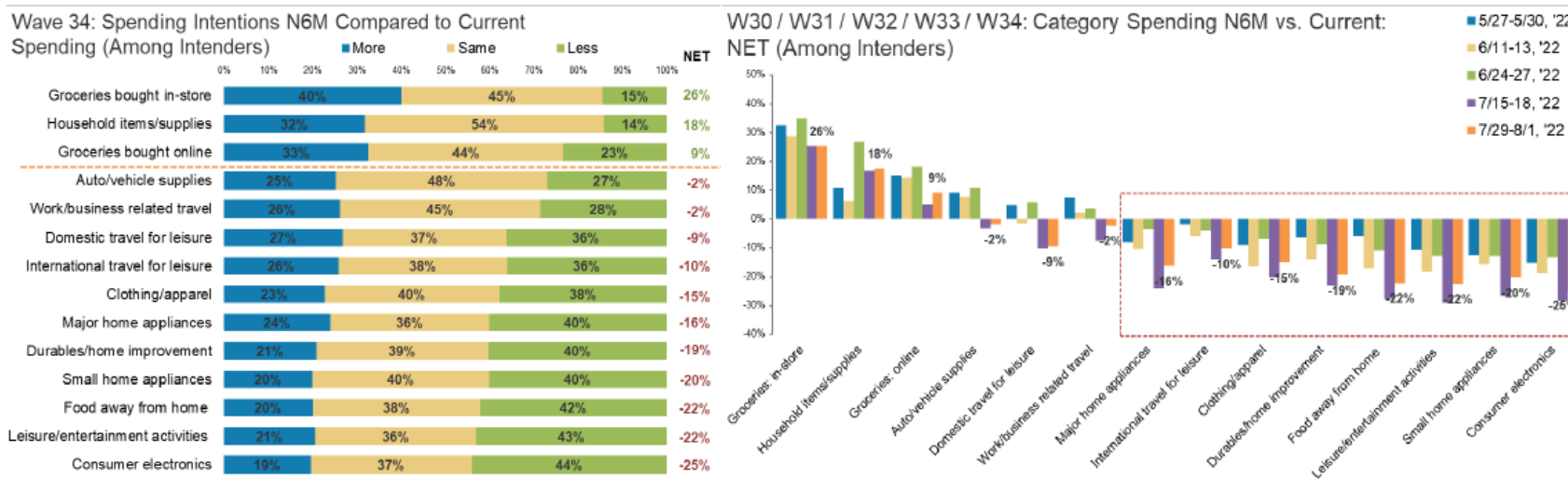


Source: AlphaWise, Morgan Stanley Research

Spending Outlook: Next 6 Months

Pullback in spending outlook for the next six months continues to be elevated, though similar to the last wave. On the net basis more consumers still plan to spend on the essential categories: groceries and household supplies.

Categories with highest negative net spending intentions are consumer electronics, food away from home, leisure activities, and appliances.



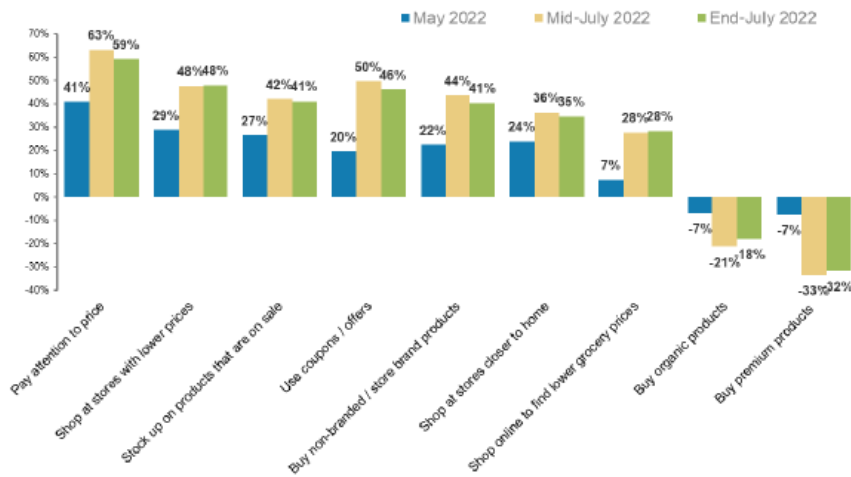
Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" – "Less"

Grocery Shopping Trends

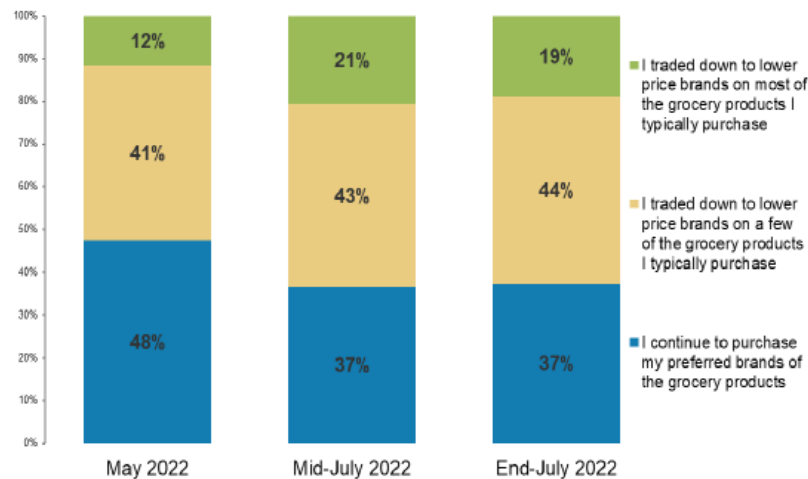
Consumers continue to be price conscious when shopping for groceries. In-line with two weeks ago and significantly higher compared to two months ago, consumers tend to pay more attention to prices when grocery shopping, use coupons/offers, and shop at retailers with lower prices. Purchasing of organic and/or premium grocery products posted a net decline.

Overall, 63% of consumers are trading down to lower price brands in at least some grocery products (in-line with two weeks ago and significantly higher compared to earlier this year). This trend is driven primarily by the lower income households.

Grocery Shopping Trends (excluding NA): NET (%More - %Less)



Trading Down in Groceries (excluding NA)

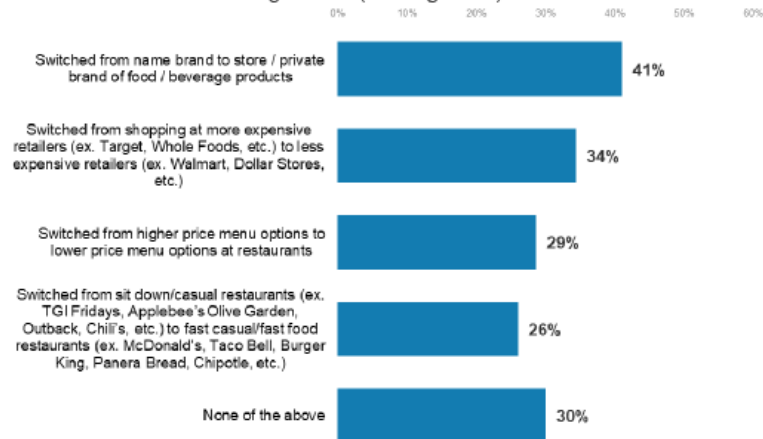


Source: AlphaWise, Morgan Stanley Research
 NET: Percentage of consumers who said "More" "Less"
 May 2022 data is based on the Annual Grocery Shopping Trends survey among grocery shoppers in the U.S.

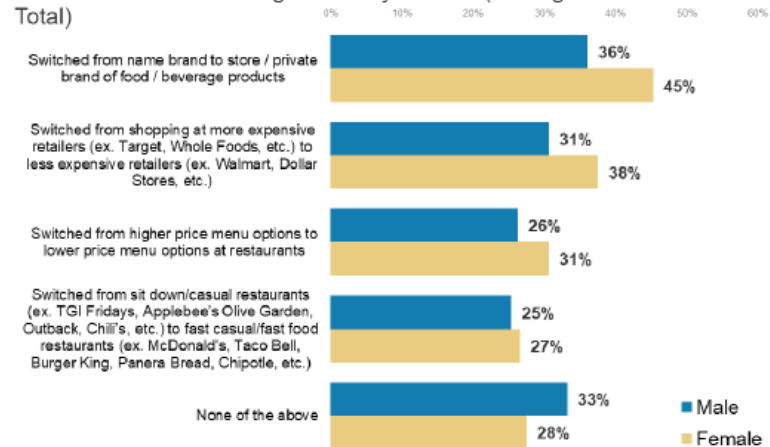
***NEW* Trading Down in Shopping and Eating Out**

Overall, 70% of consumers report at least some switching to their typical shopping and eating out preferences. Switching from name brands to private label brands (41%) and from more expensive to less expensive retailers (34%) is most common, especially among female consumers (who generally tend to do most of the shopping for the household). Switching from higher priced menu options to lower ones was also a popular way to save money with 29% of consumers engaging in this behavior.


W34: Changes in Typical Buying / Shopping / Eating out Preferences Due to Rising Prices (Among Total)



W34: Changes in Typical Buying / Shopping / Eating out Preferences Due to Rising Prices: by Gender (Among Total)



Outline



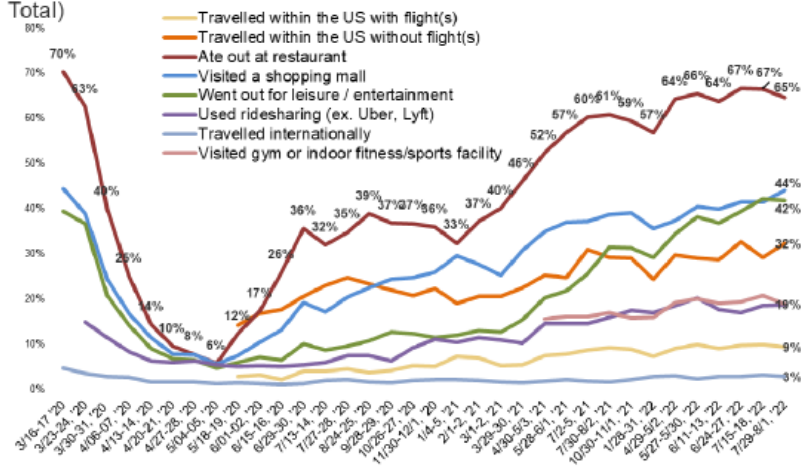
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Engagement in Activities: Out of Home

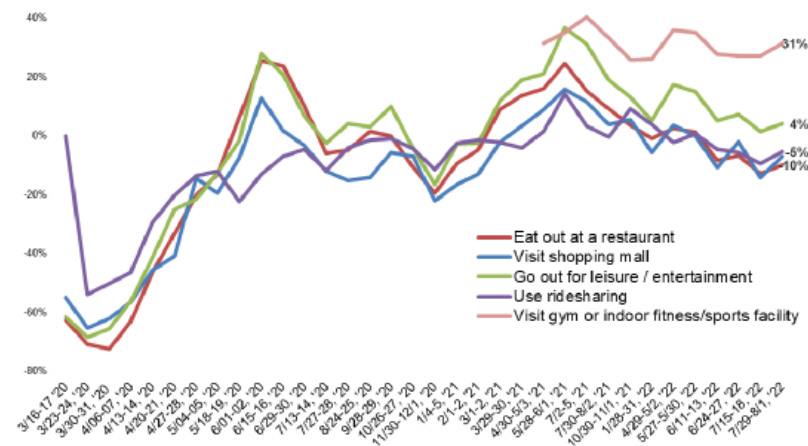
Consumer participation in out of home activities is relatively stable over the past few weeks. Roughly two third of consumers report eating out at restaurants in the past month; net engagement, however, for the next month continues to be negative at -10% (vs. -13% two weeks ago).

Incidence in mall visits steadily increasing to 44%, but net engagement outlook (% who expect to engage in activity more minus less) continues to trend net negative (-7% vs. -14% two weeks ago). Visits to gyms and indoor fitness clubs are consistent to previous waves.

Outdoor Activities Done / Participated in Past Month: (Among Total)



Engagement Outdoor Activities Now vs. Next Month: NET (Among Participants)

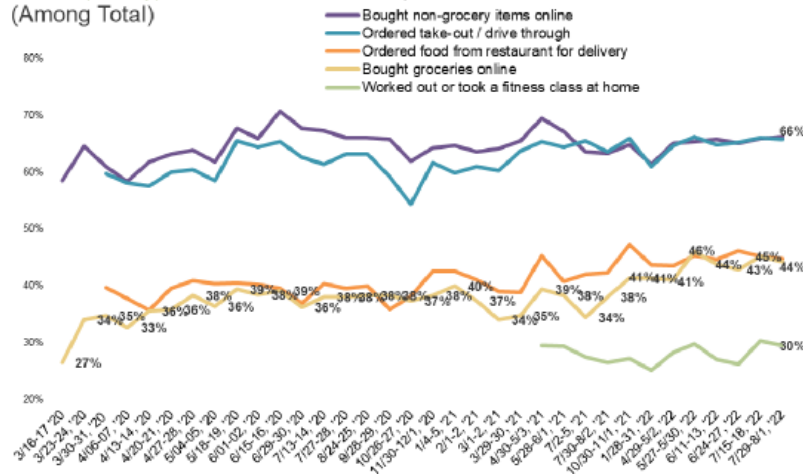


Engagement in Activities: Indoor (Mostly)

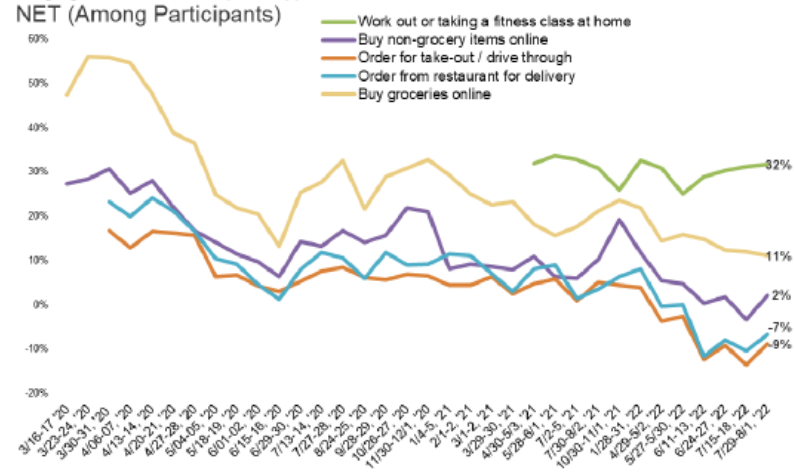
The number of consumers who participated in indoor activities is also consistent with previous waves of the survey. Net engagement outlook, however, continues to trend net negative for take out/drive through (-9% vs. -14% two weeks ago) and restaurant delivery ordering (-7% vs. -10%). Online shopping engagement outlook (excluding grocery) is at +2% compared to -3% two weeks ago.

Working out at home (similar to workouts at the gym) is stable and outlook remains net positive (+32%).

Indoor (Mostly) Activities Done / Participated in Past Month: (Among Total)



Engagement Indoor (Mostly) Activities Now vs. Next Month: NET (Among Participants)



Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" – "Less"

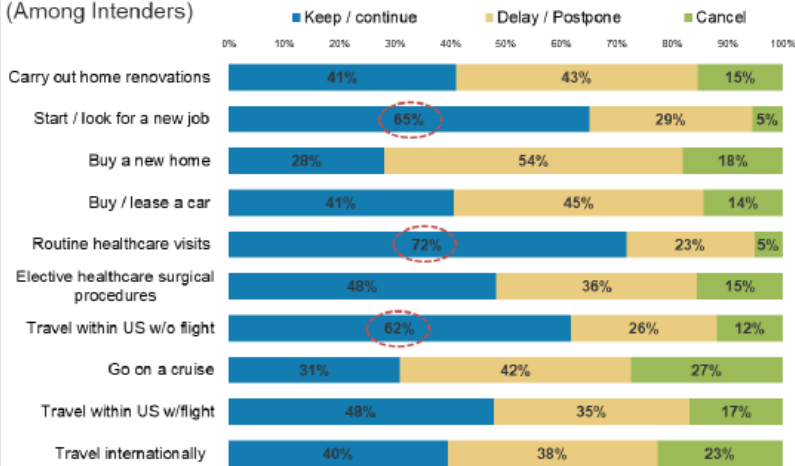
Delay or Cancellation of Planned Activities

Consumers continue to be more cautious to follow through with major plans and purchases (such as purchase of a home or a car, etc.).

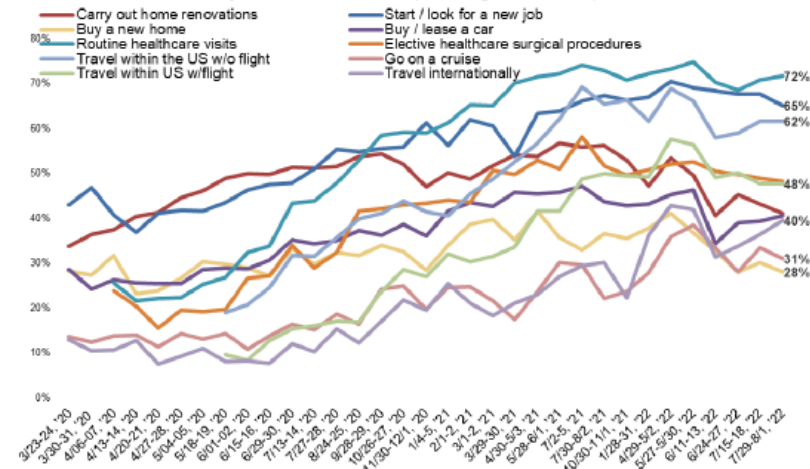
Consumers who plan to follow through with travel without flights is at 62% (in-line with two weeks ago and 59% last month) and with a flight 48% (vs. 48% / 50%).

International travel plans and cruises continue to be canceled/postponed the most, while job hunting and routine health visit follow through rate is the highest.

Delay or Cancellation of Activities in Past Month: Wave 34 (Among Intenders)



Activities Plan to Keep / Continue With (Among Intenders)

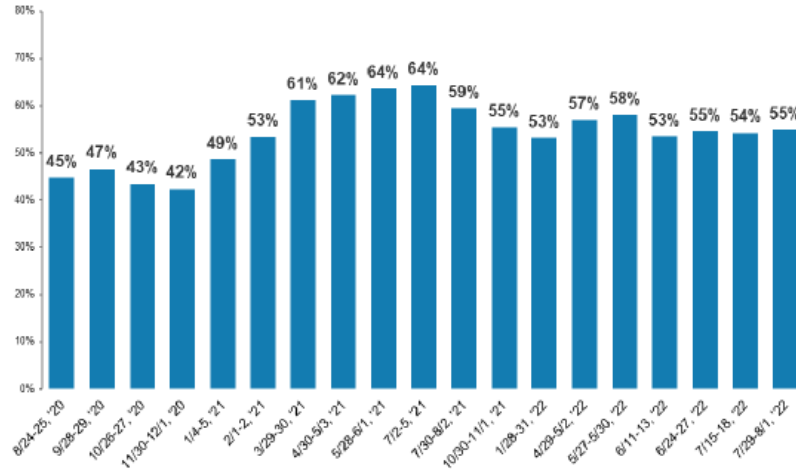


Travel Intentions Next 6 Months

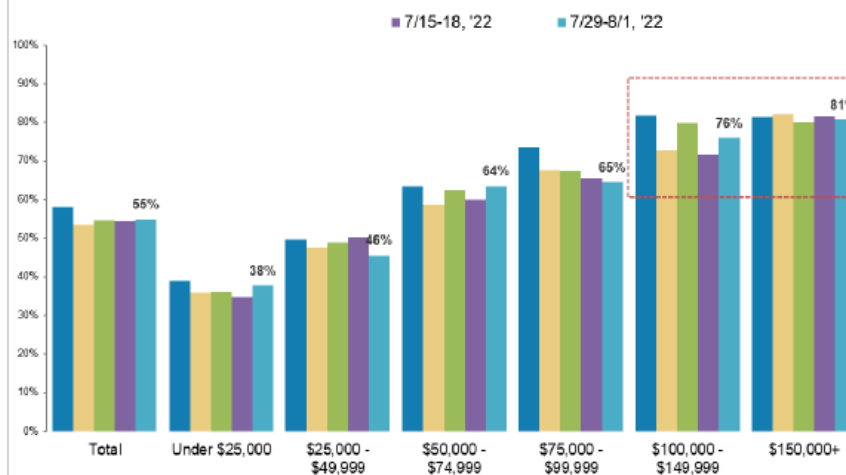
Travel intentions continue to trend somewhat lower compared to the same time last year with 55% of consumers planning to travel over the next six months (vs. 54% two weeks ago and 59% end of July last year). Households with \$100K+ income are resilient in their travel intentions and over index lower income counterparts.

Visiting friends/family and vacation remain to be the most common reasons for travel. Although vacationing as a reason for travel is down vs. same time last year (40% vs. 50% in July 2021).

Plan to Travel in the Next 6 Months (Among Total)



Plan to Travel N6M by Income



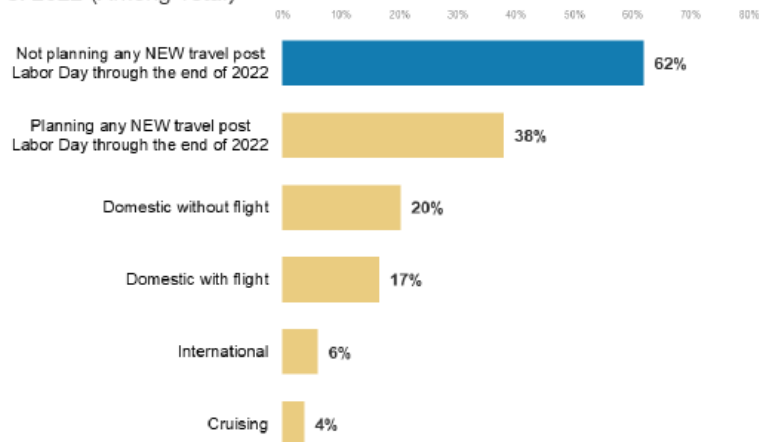
Source: AlphaWise, Morgan Stanley Research

***NEW* New Travel Plans Post Labor Day Through End of 2022**

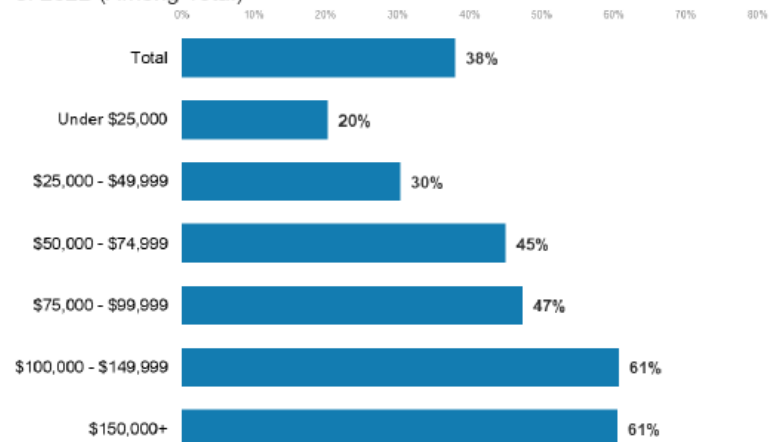
Only about one third of consumers (38%) are planning new travel post Labor Day through the rest of 2022 though this is significantly higher among upper income consumers (61%).

Consumers are much more likely to plan domestic trips than international trips or cruises.

W34: Planning New Travel After Labor Day Through End of 2022 (Among Total)



W34: Planning New Travel After Labor Day Through End of 2022 (Among Total)

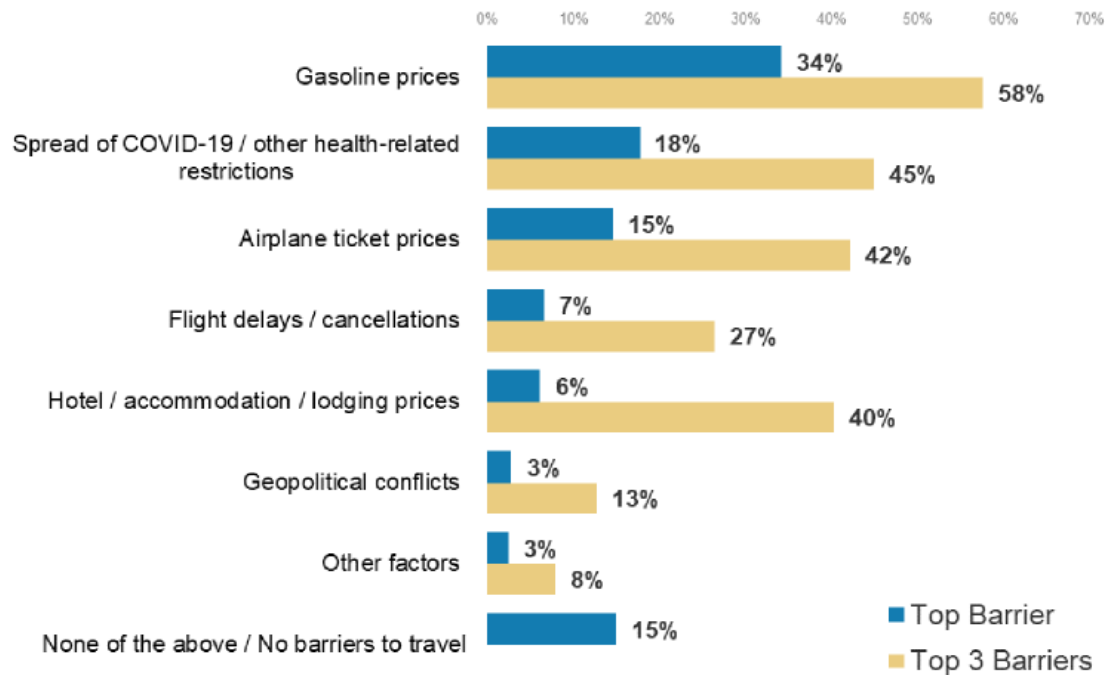


Source: AlphaWise, Morgan Stanley Research

***NEW* Travel Barriers**

The price of gasoline, by far, is the main barrier for travel cited by consumers (34% main barrier / 58% top 3). Consumers are also still concerned about the spread of COVID-19 with (18% / 45%) and mindful about airline ticket prices (15%/42%) and hotel prices (6%/40%).

W34: Top Current Barriers for Travel (Among Total)



Source: AlphaWise, Morgan Stanley Research

Survey Methodology

Online survey among ~2,000 consumers each wave age 16-75 year old in the U.S. Total sample is representative of the U.S. general population in terms of age, gender and region. The margin of error on the total sample is $\pm 1.8\%$ at 90% confidence level; higher for subgroups. Note: cadence of the survey varies, refer to field dates below:

- Wave 1 survey was conducted March 16th – 17th, 2020.
- Wave 2 survey was conducted March 23rd – 24th, 2020.
- Wave 3 survey was conducted March 30th – 31st, 2020.
- Wave 4 survey was conducted April 6th – 7th, 2020.
- Wave 5 survey was conducted April 13th – 14th, 2020.
- Wave 6 survey was conducted April 20th – 21st, 2020.
- Wave 7 survey was conducted April 27th – 28th, 2020.
- Wave 8 survey was conducted May 4th – 5th, 2020.
- Wave 9 survey was conducted May 18th – 19th, 2020.
- Wave 10 survey was conducted June 1st – 2nd, 2020.
- Wave 11 survey was conducted June 15th – 16th, 2020.
- Wave 12 survey was conducted June 29th – 30th, 2020.
- Wave 13 survey was conducted July 13th – 14th, 2020.
- Wave 14 survey was conducted July 27th – 28th, 2020.
- Wave 15 survey was conducted August 24th – 25th, 2020.
- Wave 16 survey was conducted September 28th – 29th, 2020.
- Wave 17 survey was conducted October 26th – 27th, 2020.
- Wave 18 survey was conducted November 30th – December 1st, 2020.
- Wave 19 survey was conducted January 4th – 5th, 2021.
- Wave 20 survey was conducted February 1st – 2nd, 2021.
- Wave 21 survey was conducted March 1st – 2nd, 2021.
- Wave 22 survey was conducted March 29th – 30th, 2021.
- Wave 23 survey was conducted April 30th – May 3rd, 2021.
- Wave 24 survey was conducted May 28th – June 1st, 2021.
- Wave 25 survey was conducted July 2nd – 5th, 2021.
- Wave 26 survey was conducted July 30th – August 2nd, 2021.
- Wave 27 survey was conducted October 30th – November 1st, 2021.
- Wave 28 survey was conducted January 28th – 31st, 2022.
- Wave 29 survey was conducted April 29th – May 2nd, 2022.
- Wave 30 survey was conducted May 27th – 30th, 2022.
- Wave 31 survey was conducted June 11th – 13th, 2022.
- Wave 32 survey was conducted June 24th – 27th, 2022.
- Wave 33 survey was conducted July 15th – 18th, 2022.
- Wave 34 survey was conducted July 29th – August 1st, 2022.

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(as of July 31, 2022)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1366	39%	318	42%	23%	593	39%
Equal-weight/Hold	1559	44%	357	47%	23%	708	46%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	613	17%	91	12%	15%	226	15%
TOTAL	3,538		766			1527	

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