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US Equity Strategy | North America

AlphaWise US Consumer Pulse Survey Wave 35

Consumer concern around inflation remains elevated but is past the highs. Consumers are continuing to trade down when shopping and dining out. Switching from name brand to private label and from more expensive to less expensive retailers is the most common way to save.

This report provides a full breakdown of data from our thirty-fifth survey of ~2,000 consumers in the U.S., which ran September 2nd - 5th, to gauge consumer behavior, attitudes and outlook.

- Inflation Still Concerning, But Past Peak, for Consumers:** Consumers' primary concern is still inflation but the proportion of consumers listing it as their top concern is down slightly vs the last wave (64% now vs 67% mid-July). This lines up with what is likely to be the peak in inflation. 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.
- Consumers Still Planning to Cut Spending:** The majority of consumers surveyed continue to say they are likely to cut back on spending over the next 6 months because of inflation, albeit this is trending down from the peak in mid-July (64% vs. 65% last month and 69% mid-July). Only 19% of consumers say they are not planning to cut back on spending.
- Consumers Continue to Trade Down to Save Money:** Overall, 70% of consumers continue to report at least some trading down to their typical shopping and eating out preferences. Switching from name brands to private label brands (42%) and from more expensive to less expensive retailers (32%) is most common. 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. Consumers continue to be price conscious when shopping for groceries. In-line with the previous wave, consumers tend to pay more attention to prices when grocery shopping, use coupons/offers, and shop at retailers with lower prices.
- Consumers Have a Savings Buffer:** Consumers, on average, have 4-5 months worth of expenses in savings; this skews higher among the upper income cohort. Even with most consumers reporting to have at least some savings, the amount of savings tends to be lower compared to 2019 (pre-COVID) for 44% of consumers. Overall, a third of consumers report a

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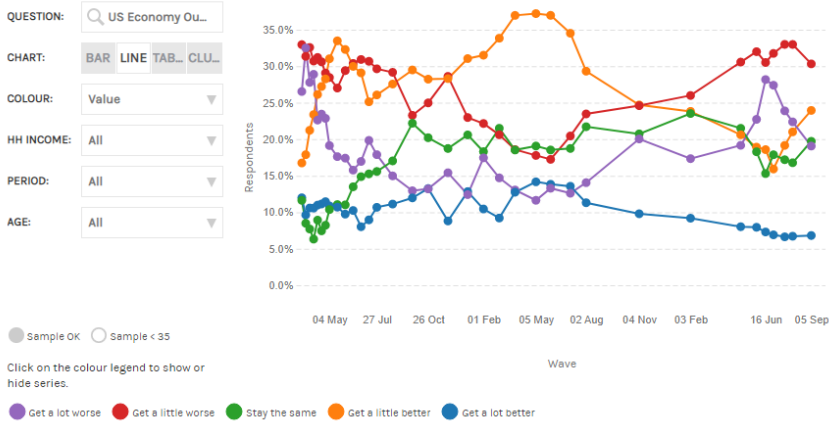
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missed or late payment on any bill/loan in the past three months, skewing higher among lower income. Cell phone and mortgage tend to be paid on time more compared to personal and student loans.

U.S. Consumer Pulse

U.S. Consumer Pulse

Use the inputs below to explore the survey data, choose the chart type and set the layout. Showing: "US Economy Outlook". alphawise 



AlphaWise, Morgan Stanley Research

Wave 35 Results

Morgan Stanley



AlphaWise U.S. Consumer Pulse Survey: Wave 35

September 9th, 2022

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Survey Highlights

Sentiment

- Inflation remains, by far, one of the top concerns for roughly two third of consumers, marginally down from the peak of the past few months (64% vs. 67% mid July), but still higher compared to the beginning of the year (at 56%). The political environment is the second top concern for 41% of consumers (similar to last month), followed by concern over COVID 19 spread at 26% (vs. 29% 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 31% of consumers expecting the economy to get better in the next six months, while 49% (vs. 55% a month ago and 59% in June) of consumers expecting the economy to get worse. Consumers' household financial outlook also improved with 28% (vs. 30% a month ago) having a negative outlook on household finances and another 33% (vs. 29% last month) expecting no change over the next six months. The improved outlook is driven primarily by low and mid income consumers, while upper income consumers have a similar outlook to previous waves.

Inflation & Spending Outlook

- Consumers, on average, have 4.5 months worth of expenses in savings; this skews higher among the upper income cohort. Even with most consumers reporting to have at least some savings, the amount of savings tends to be lower compared to 2019 (pre COVID) for 44% of consumers. The majority of consumers surveyed continue to say they are likely to cut back on spending over the next 6 months because of inflation (64% vs. 65% last month and 69% in mid July), with restaurants most at risk of consumer pull back. Overall, a third of consumers report a missed or late payment on any bill/loan in the past three months, skewing higher among lower income. Cell phone and mortgage tend to be paid on time more compared to personal and student loans.

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 at 9% (vs. 10% and 13% in late and mid July, respectively). Mall visits remain high (42% vs. 44% one month ago), but the net engagement outlook (% who expect to engage in activity more minus less) continues to trend net negative (-7), consistent with last wave).

Travel

- Going into the latter part of the year, 54% of consumers are planning to travel over the next six months (similar to last year during fall/winter months). Households with \$150K+ income are resilient in their travel intentions and over index vs lower income counterparts. Households with \$100K+ income are resilient in their travel intentions and over index lower income counterparts. 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.

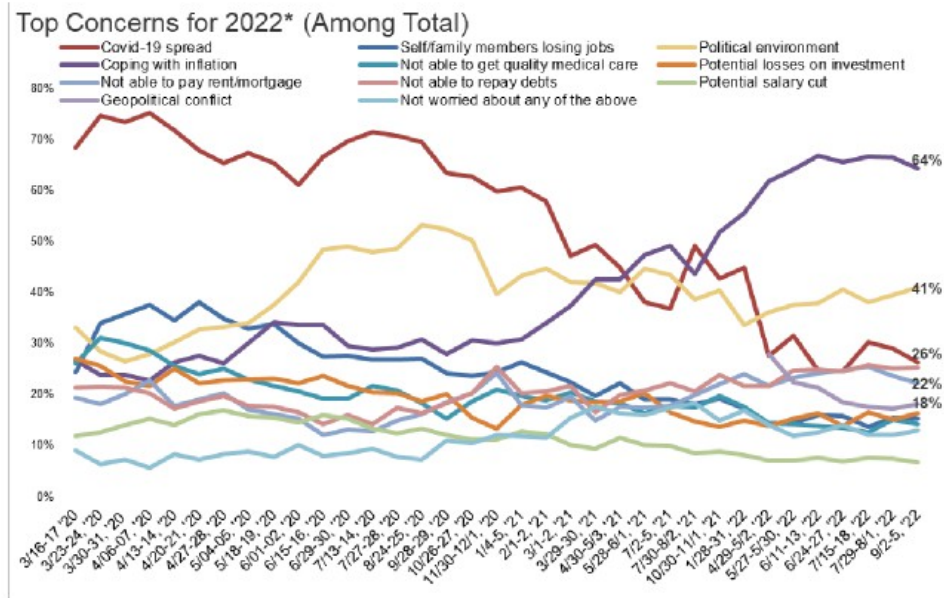
Outline



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

Inflation remains, by far, one of the top concerns for roughly two third of consumers, marginally down from the peak of the past few months (64% vs. 67% mid-July), but still higher compared to the beginning of the year (at 56%). The political environment is the second most listed primary concern, listed by 41% of consumers (similar to last month), followed by concern over the COVID-19 spread at 26% (vs. 29% last month). Around a quarter of consumers expressed concern over the inability to repay debts (similar to the previous waves).



Source: AlphaWise, Morgan Stanley Research

Note: In Wave 18 question wording was changed to identify top concerns for "2021" from "2020".

Note: In Wave 18 "Presidential election" was changed to "Political environment (e.g., the efficiency of the government, government policies, attitude towards the economy, etc.)".

Note: In Wave 27 question wording was changed to identify top concerns for "2022" from "2021".

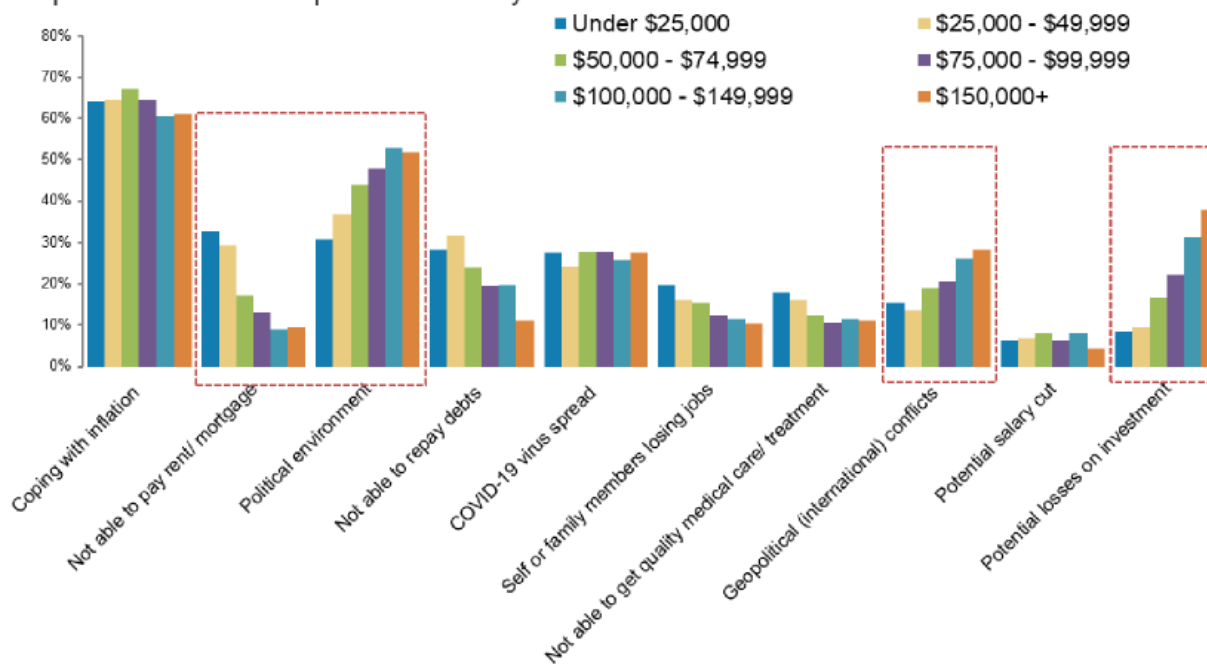
Note: In Wave 29 a new attribute was added to the list "Geopolitical (international) conflict".

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, the political environment in the U.S. and geopolitical conflicts.

September 2022: Top Concerns by Income

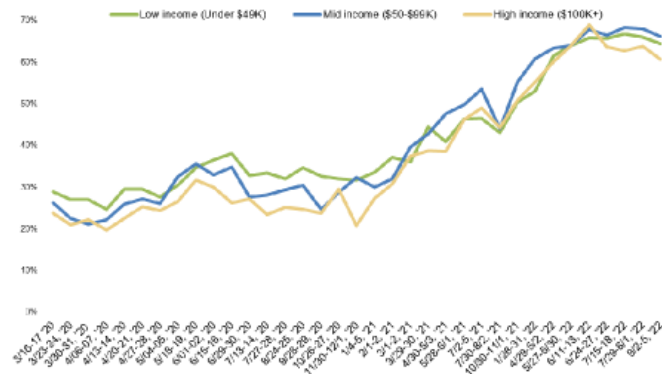


Source: AlphaWise, Morgan Stanley Research

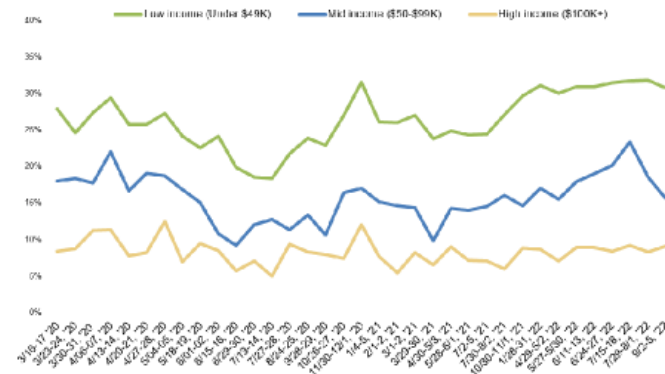
Sentiment: Top Concerns by Income

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

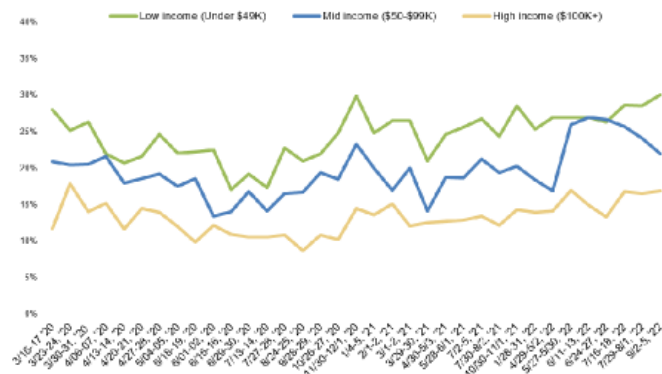
Top Concerns: Coping with Inflation by Income



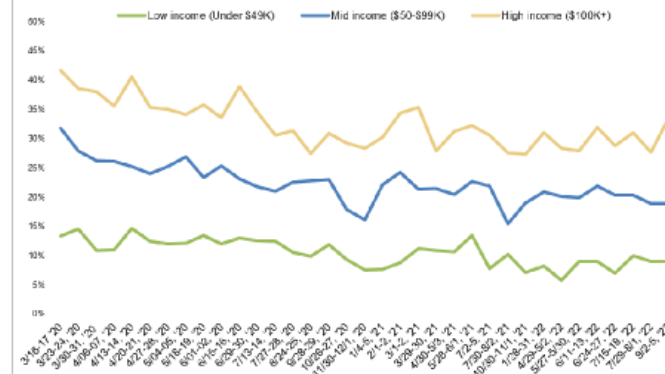
Top Concerns: Not Able to Pay Rent/Mortgage by Income



Top Concerns: Not Able to Repay Debts by Income

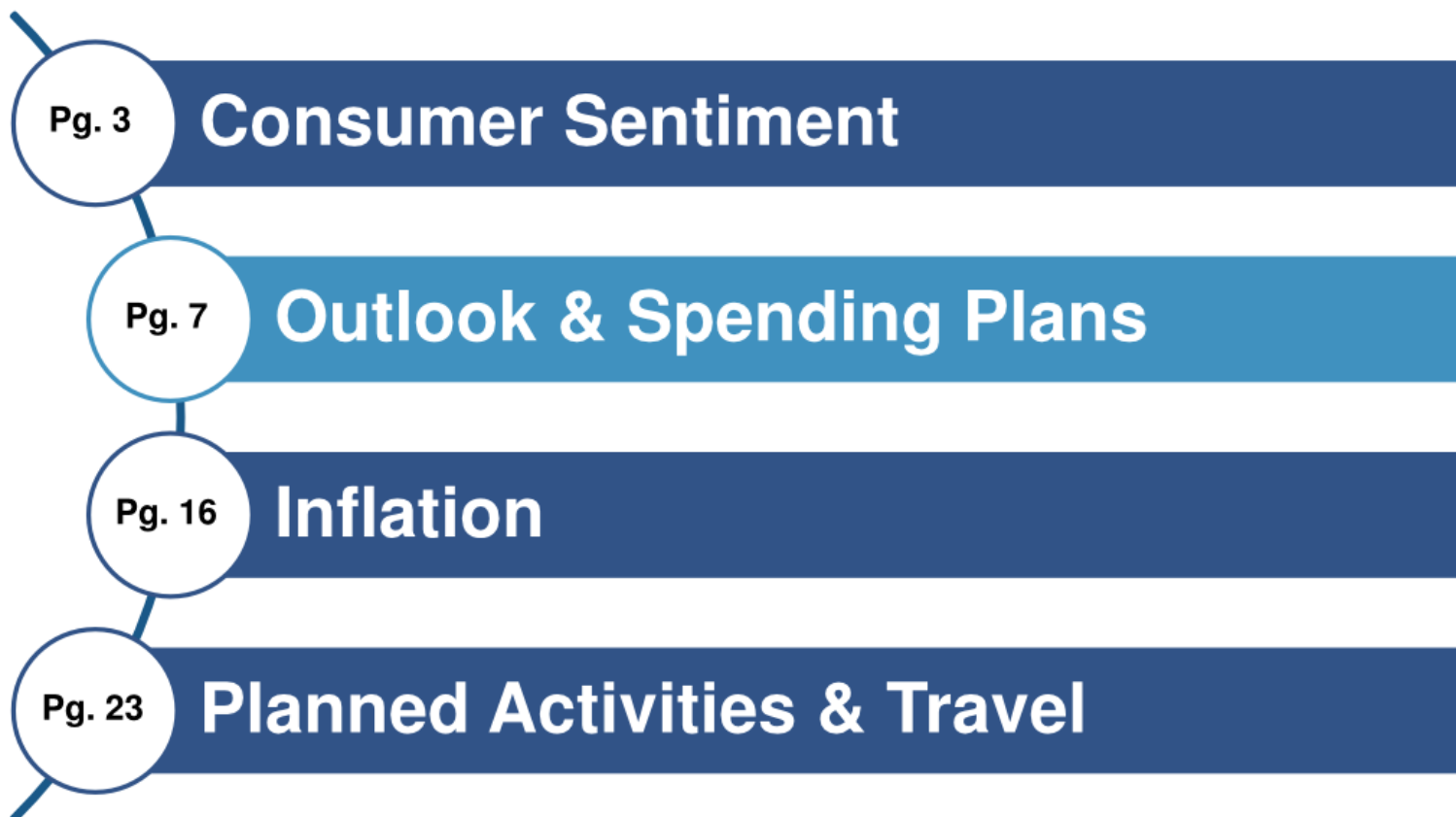


Top Concerns: Potential Losses on Investment by Income



Source: AlphaWise, Morgan Stanley Research

Outline

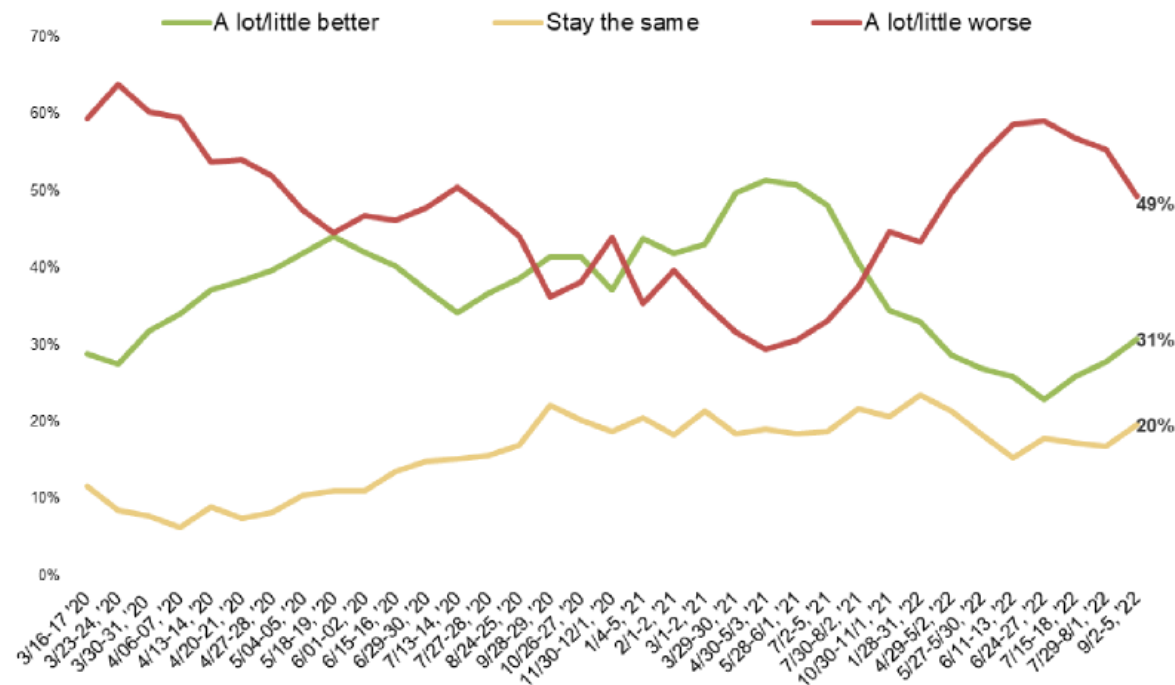


- Pg. 3** **Consumer Sentiment**
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U.S. Economy Outlook

Consumer confidence in the economy continues to improve with 31% (up from 28% last month) of consumers expecting the economy to get better in the next six months, while 49% (vs. 55% last month and 59% in June) of consumers expect the economy to get worse. The proportion of consumers who believe the economy will remain the same is 20% (vs. 17%).

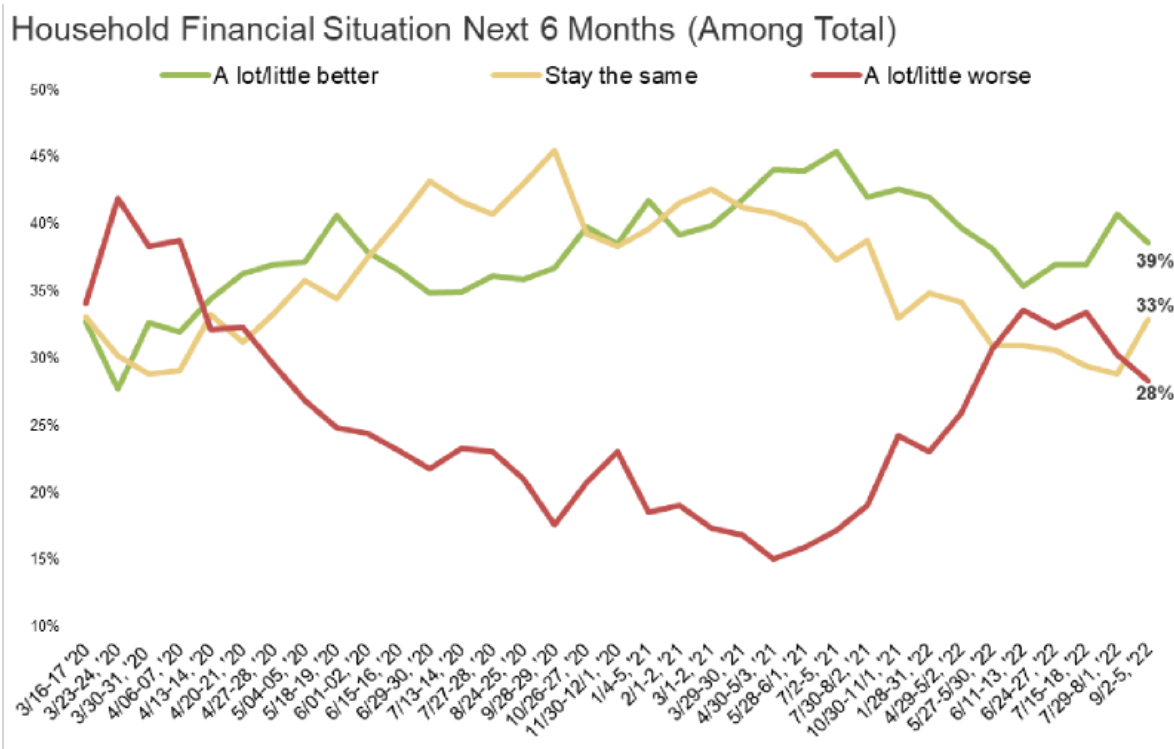
U.S. Economy Next 6 Months (Among Total)



Source: AlphaWise, Morgan Stanley Research

Household Financial Situation Outlook

Consumers' household financial outlook also shows signs of improvement with 28% (down from 30% last month and 34% in June) having a negative outlook on household finances. The number of consumers who expect household finances to get better is 39% (vs. 41% last wave) and another 33% (vs. 29%) expect no change over the next six months.



Source: AlphaWise, Morgan Stanley Research

Outlook by Income

The modestly improved economic outlook is driven primarily by low- and mid-income consumers (HH income less than \$100K), who became increasingly more positive in their views this month; while upper income consumers' view on the economy and own finances is reading similar to the last month.

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



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

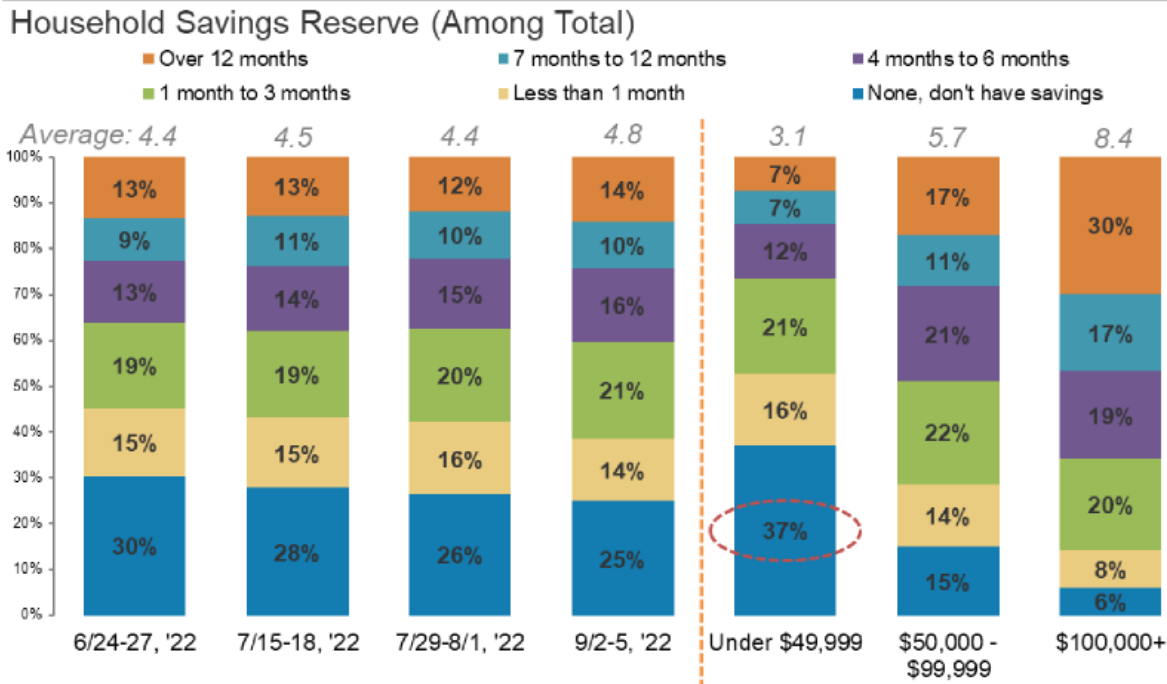


Source: AlphaWise, Morgan Stanley Research

Household Savings Reserves

Household savings reserves were unchanged: 25% of consumers do not have savings, another 35% have 3 months or less in savings, 26% have 4-12 months and 14% more than a year; yielding to an average savings reserve of 4.8 months.

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



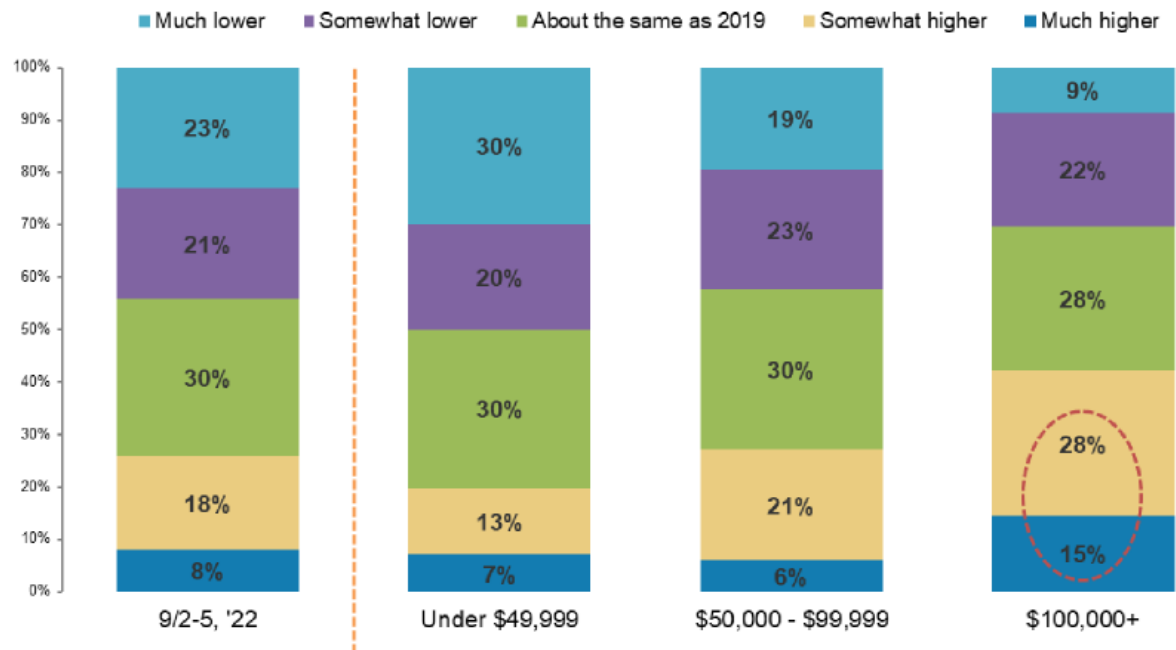
Source: AlphaWise, Morgan Stanley Research
Average is calculated by taking mid point for each answer choice, "Over 12 months" equates to 18 months for calculation purposes

Savings vs. Pre-COVID

Even with most consumers reporting having at least some savings, the amount of savings tends to be lower compared to 2019 (pre-COVID) for 44% of consumers. Another 30% have a similar level of savings and a quarter have higher.

Upper income consumers are more likely to have a higher level of savings vs. pre-COVID than lower and mid tiers.

Current Savings vs. Pre-COVID (2019) (Among Total)



Source: AlphaWise, Morgan Stanley Research

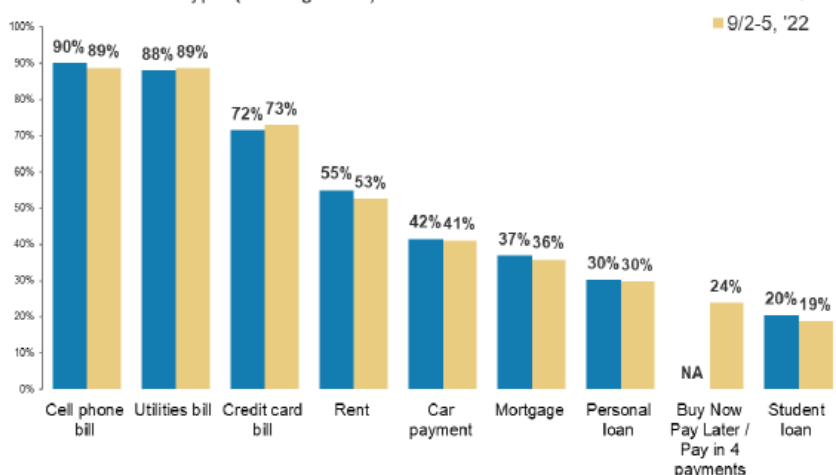
Bill / Loan Payments

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

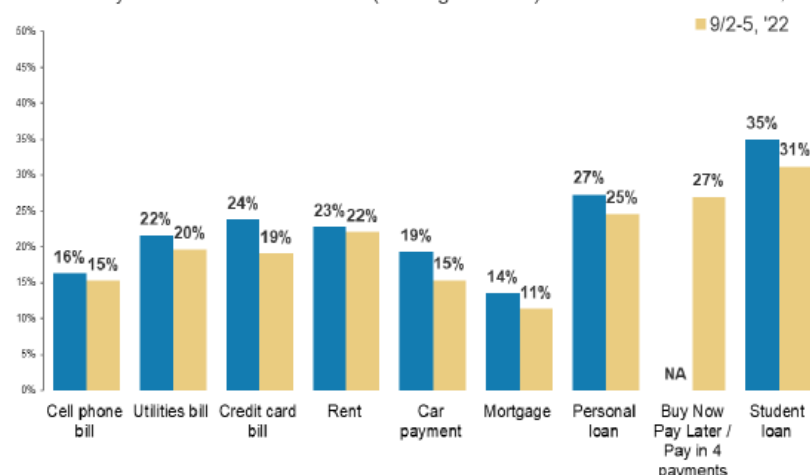
A clear priority for consumers is their cell phone bill, among the ~90% of consumers who have the payment obligation, only 15% report a missed or late payment. Another priority for consumers is their mortgage (36% have mortgage and, among those, nearly 90% are on time with payments). This is in-line with last month.

Student (31%), BNPL (27%) and personal loans (25%) are more likely to be missed/paid late, but these loans also have a lower incidence among general consumers.

Have Loan / Bill Type (Among Total)



Missed Payment/Paid Bill Late P3M (Among Holders)

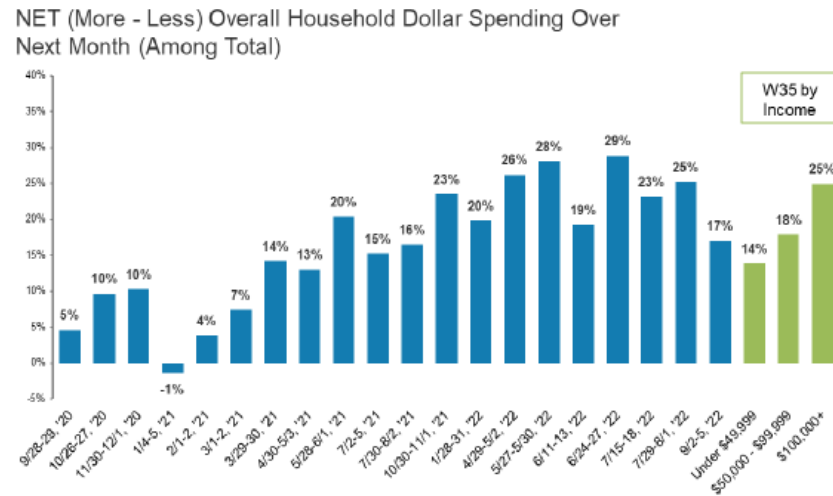
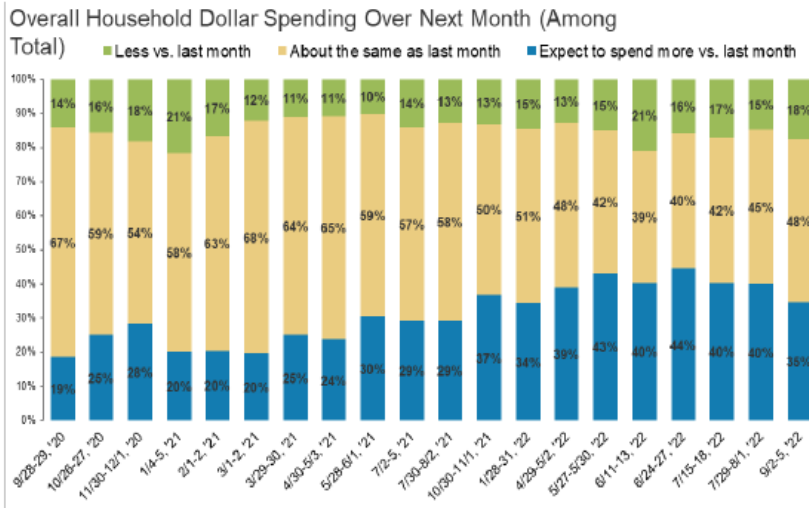


Source: AlphaWise, Morgan Stanley Research

Overall Spend Next Month vs. Last Month

Consumers report a pullback in spending over the next month, with 35% (vs. 40% last month) of consumers expecting to spend more compared to last month and 18% (vs. 15%) less, yielding a net of +17% (vs. +25% last month and +29% end of June). Another 48% don't plan to change their spending habits.

Higher expected spending is driven primarily by upper income households.



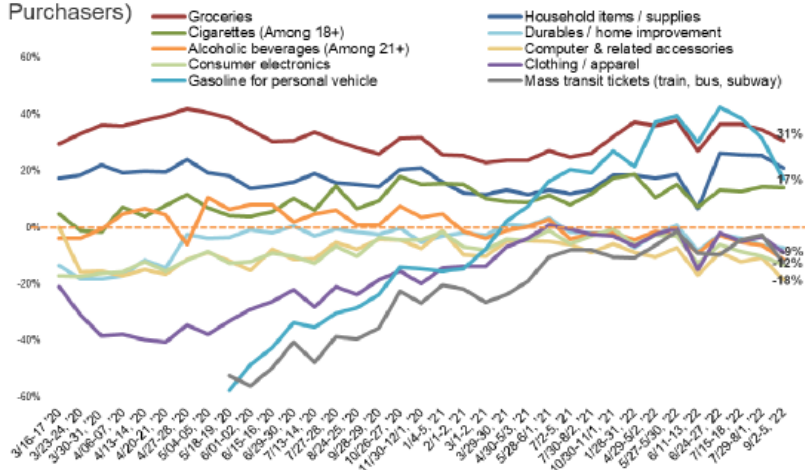
Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" - "Less"

Monthly Category Spend

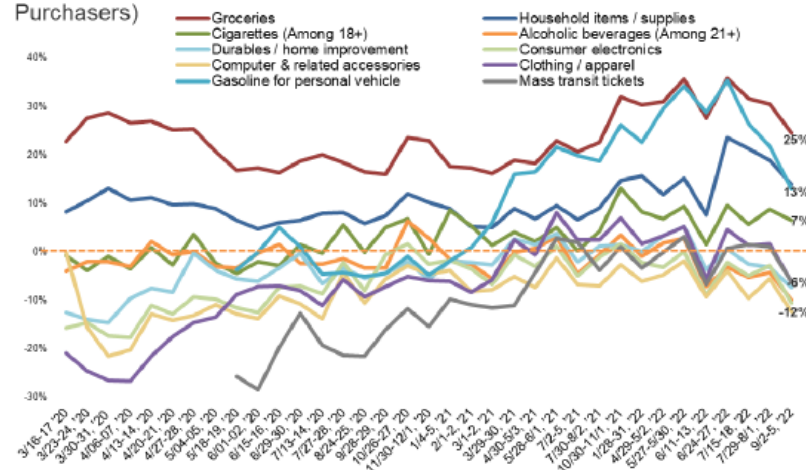
Category spend across most categories ticked down compared to the last wave. Consumer electronics, computers and apparel categories continue to post lower negative net spending compared to net positive essential categories (groceries, gas and household items). A notable decrease in spending is observed 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.

Category Spending Now vs. Month Ago: NET (Among Purchasers)

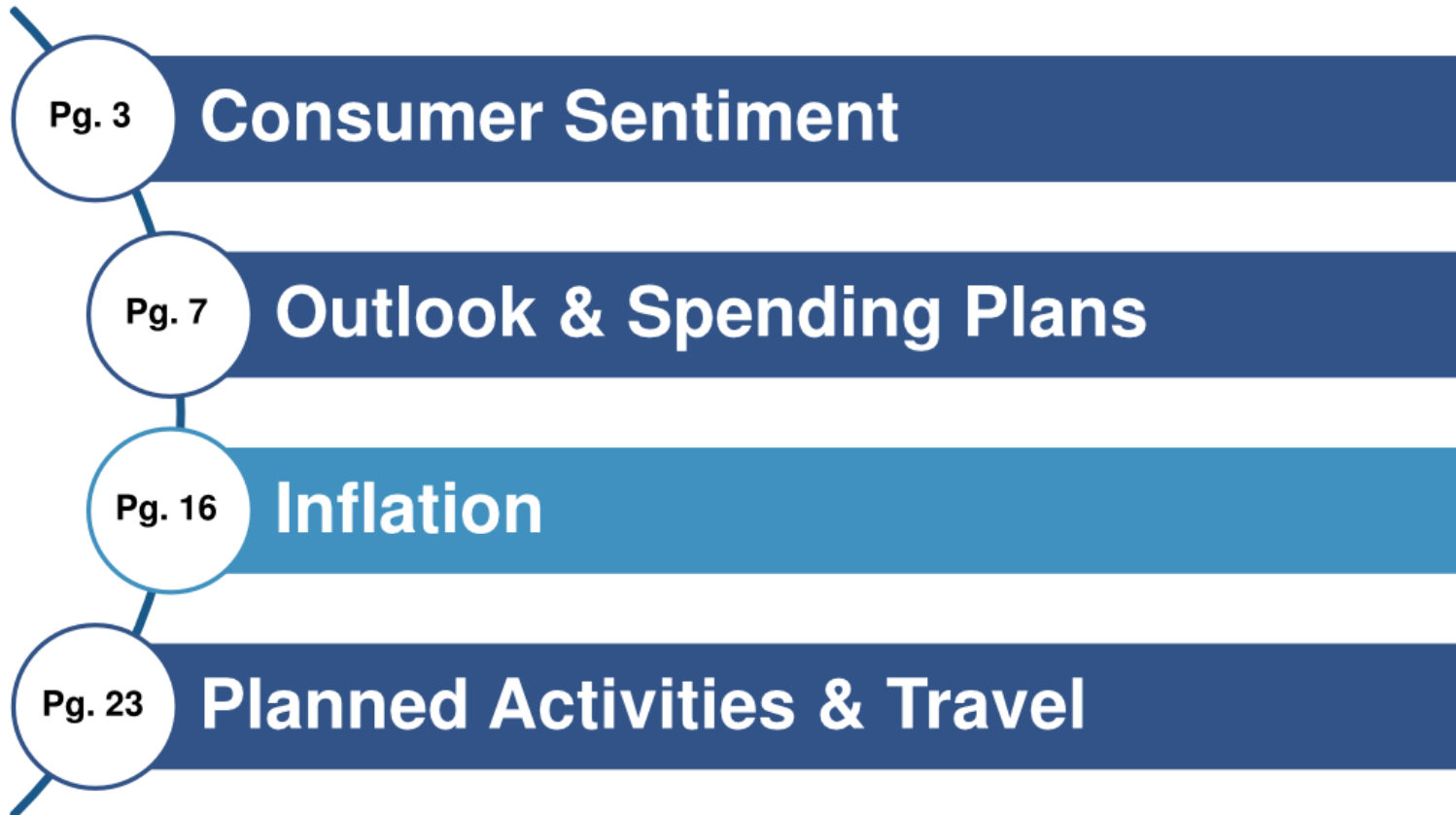


Category Spending Over the Next Month: NET (Among Purchasers)



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

Outline



A vertical table of contents graphic on the left side of the page. It features a magnifying glass icon at the top left. The table consists of four horizontal bars, each representing a section of the report. The bars are dark blue, except for the third bar which is a lighter shade of blue. Each bar is preceded by a white circle containing the page number. The text on the bars is white.

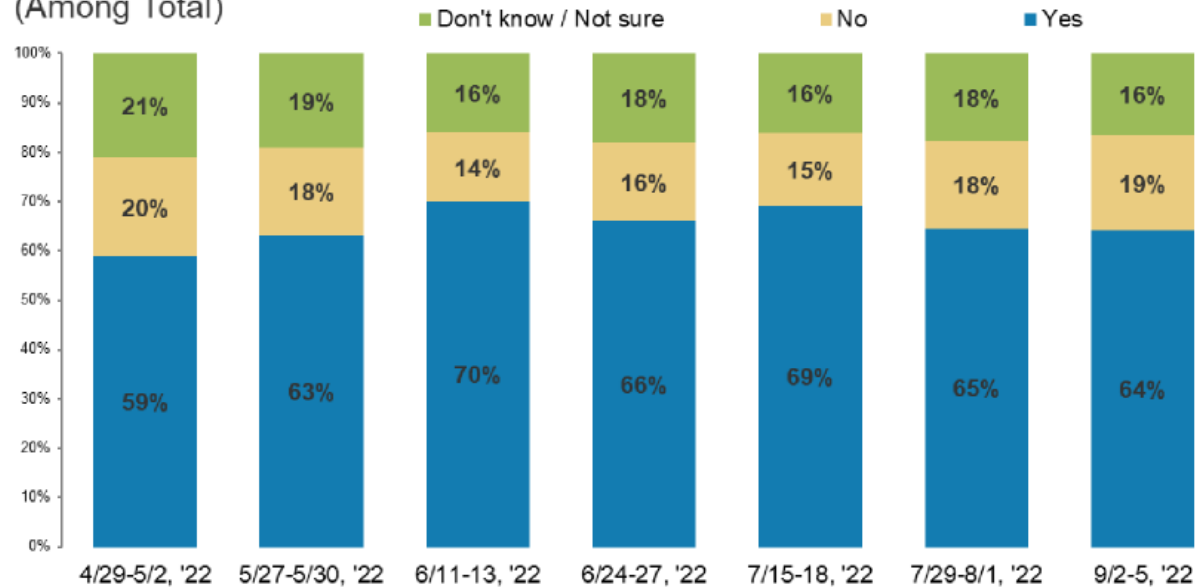
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Plans to Cut Back on Spending Due to Inflation Over the Next 6 Months

The majority of consumers surveyed continue to say they are likely to cut back on spending over the next 6 months because of inflation, albeit trending down from the peak in mid-July (64% vs. 65% last month and 69% mid-July). Only 19% of consumers say they are not cutting back and another 16% are not sure.

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

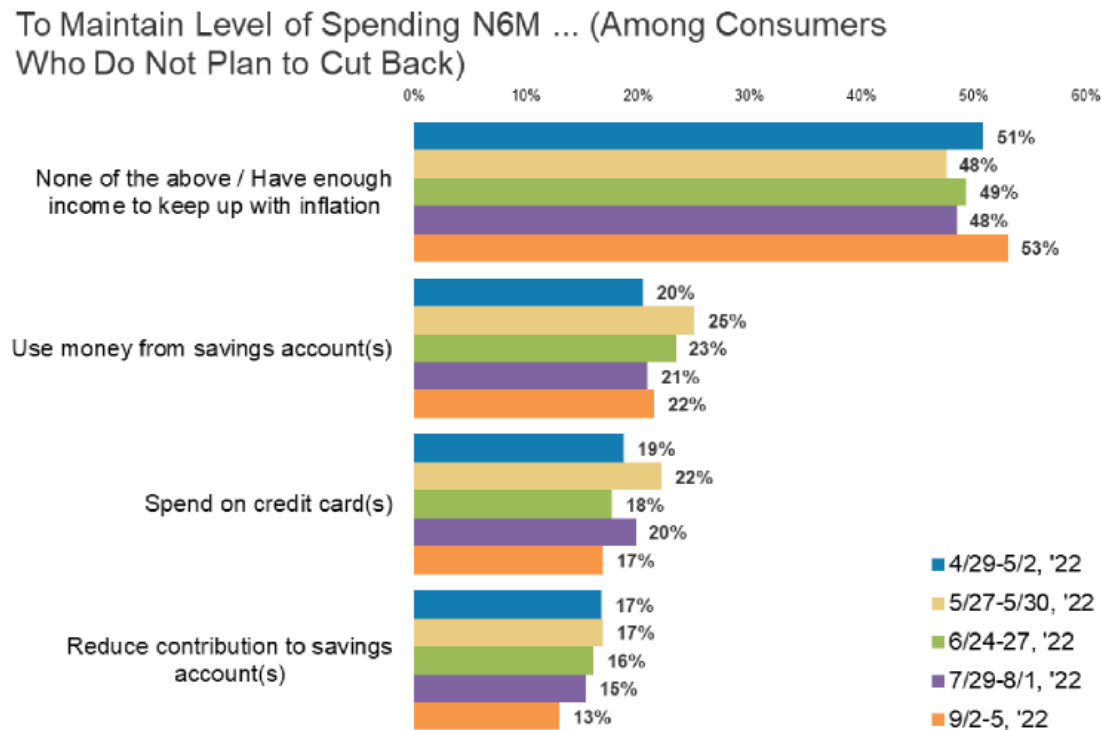
Plan to Cut Back on Overall Spending Due to Inflation N6M (Among Total)



Source: AlphaWise, Morgan Stanley Research

Maintaining Spending Level

Among the 36% of consumers who are planning to maintain their level of spending (including those who are not sure), around half claim to have sufficient income to keep up with the inflation, 22% plan to dip into savings and 17% spend on credit.

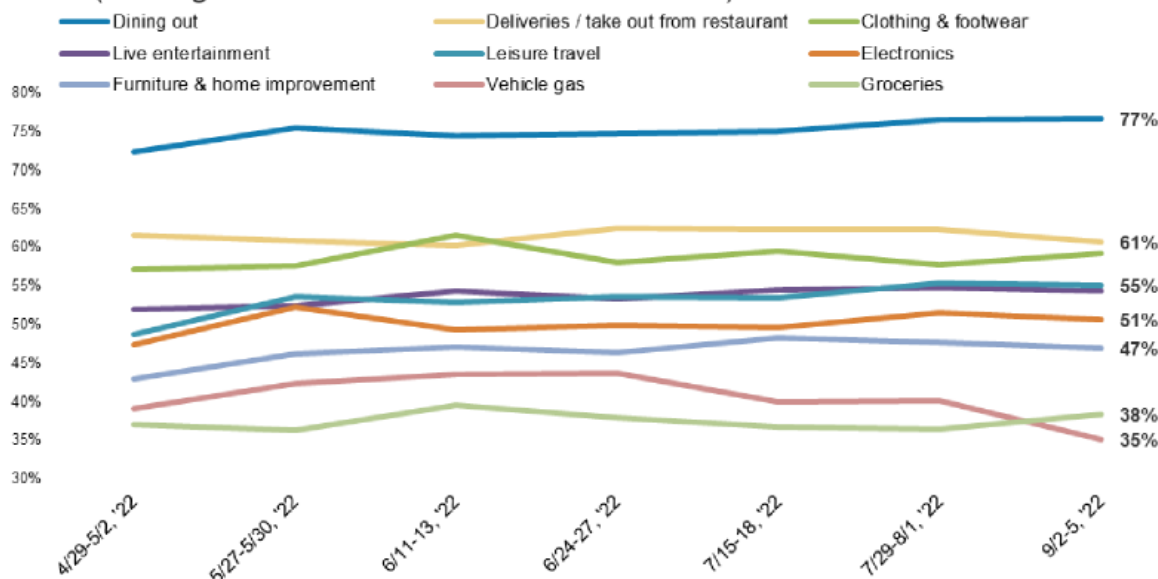


Source: AlphaWise, Morgan Stanley Research

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 61% 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.

Categories Plan to Cut Back on Spending Due to Inflation
N6M (Among Consumers Who Plan to Cut Back)



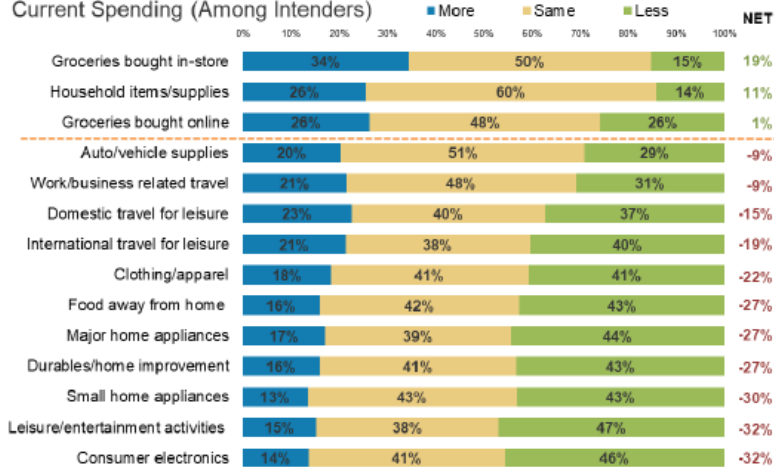
Source: AlphaWise, Morgan Stanley Research

Spending Outlook: Next 6 Months

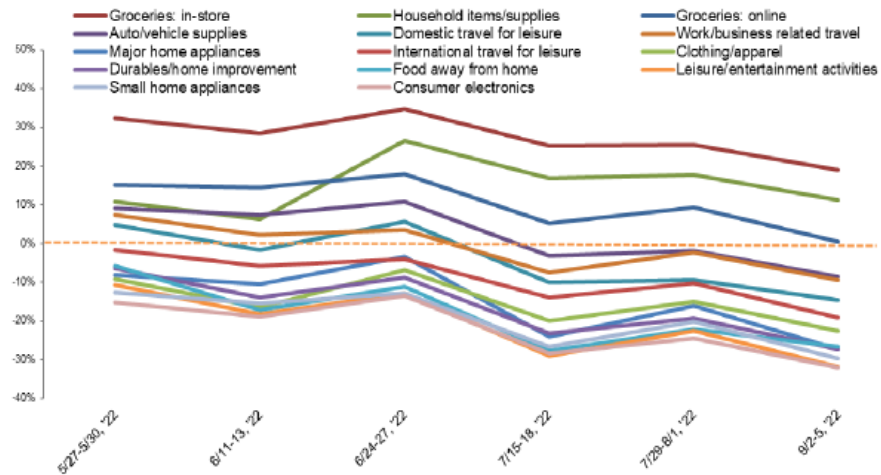
Pullback in consumers' spending outlooks for the next six months continues to be elevated, and net spending trended down further across all categories this wave vs. last month. On a net basis more consumers still plan to spend on the essential categories: groceries and household supplies.

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

September 2022: Spending Intentions N6M Compared to Current Spending (Among Intenders)



Category Spending N6M vs. Current: NET (Among Intenders)



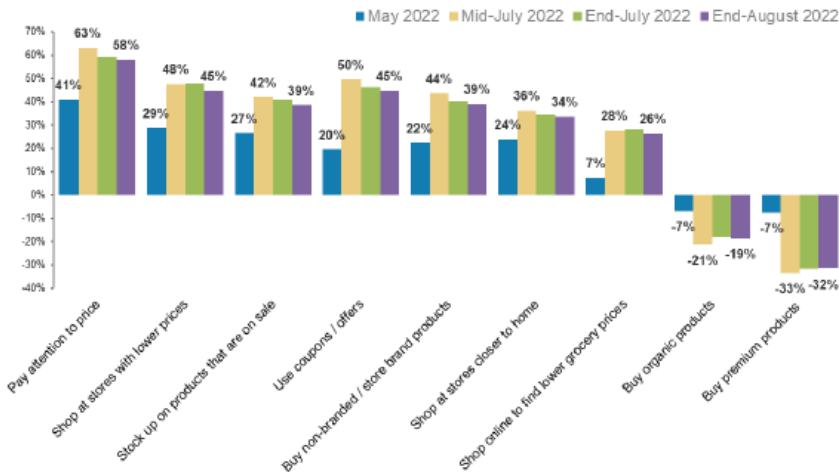
Source: AlphaWise, Morgan Stanley Research
NET: Percentage of consumers who said "More" - "Less"

Grocery Shopping Trends

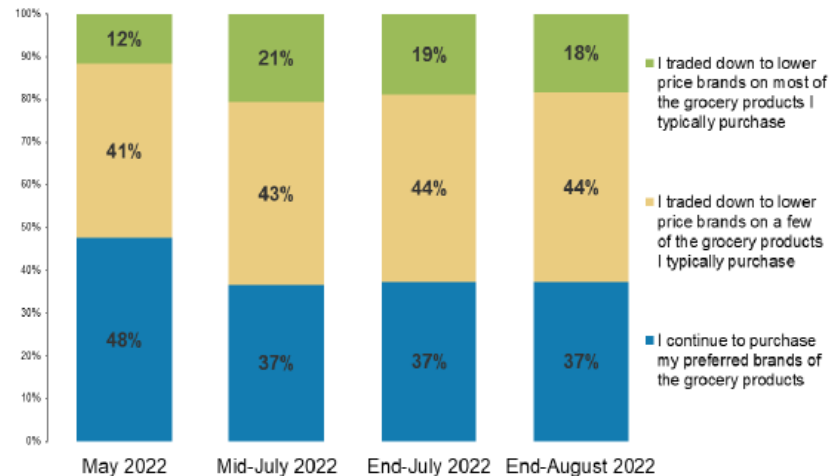
Consumers continue to be price conscious when shopping for groceries. In-line with the previous wave, consumers tend to pay more attention to prices when grocery shopping, use coupons/offers, and shop at retailers with lower prices. Purchasing of organic and/or premium grocery products posted a net decline.

Overall, 63% of consumers are trading down to lower price brands in at least some grocery products (in-line with last month 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)

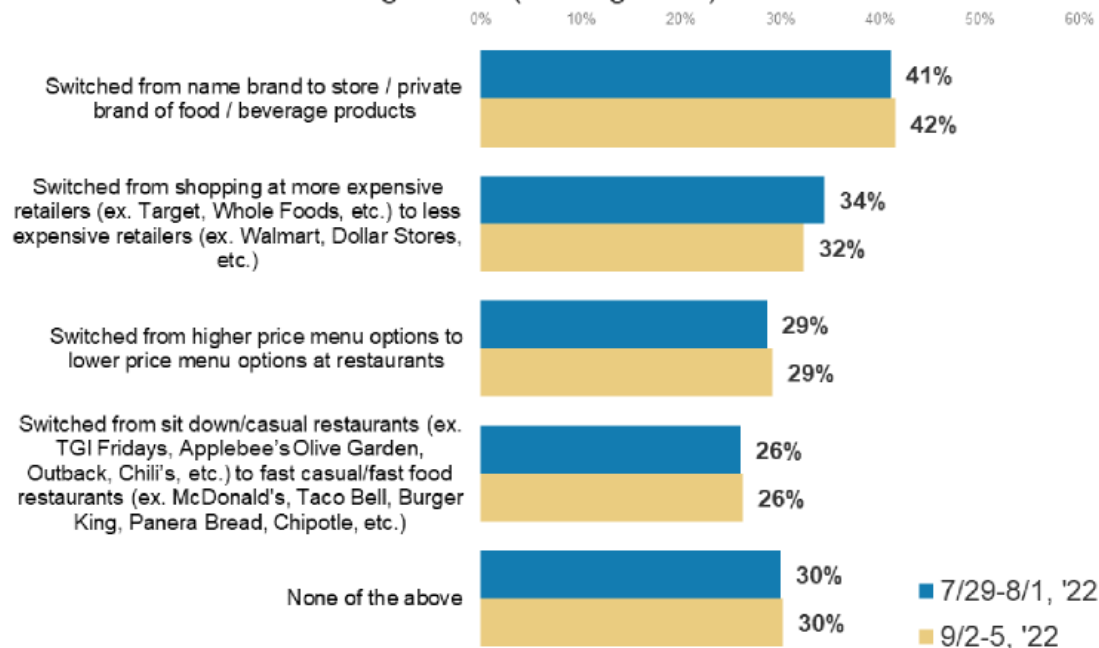


Source: AlphaWise, Morgan Stanley Research
 NET: Percentage of consumers who said "More" "Less"
 May 2022 data is based on the Annual Grocery Shopping Trends survey among grocery shoppers in the U.S.

Trading Down in Shopping and Eating Out

Overall, 70% of consumers continue to report at least some trading down to their typical shopping and eating out preferences. Switching from name brands to private label brands (42%) and from more expensive to less expensive retailers (32%) is most common. 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.

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



Source: AlphaWise, Morgan Stanley Research

Outline



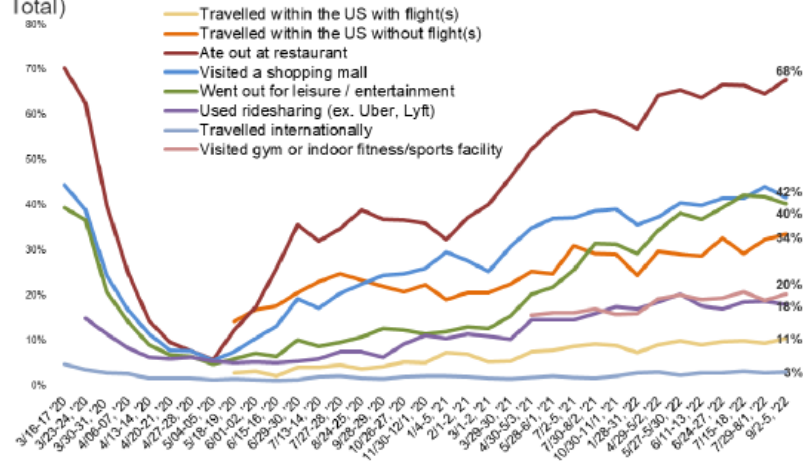
- Pg. 3** **Consumer Sentiment**
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Engagement in Activities: Out of Home

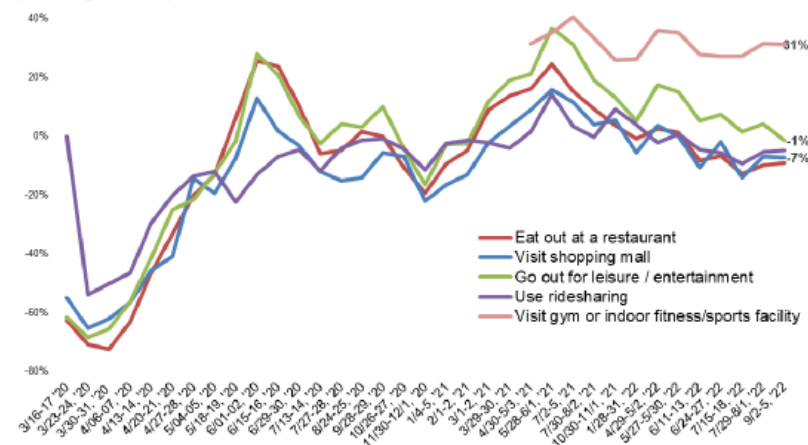
Consumer participation in out of home activities is relatively stable over the past few months. Roughly two thirds of consumers report eating out at restaurants in the past month; net engagement, however, for the next month continues to be negative at -9% (vs. -10% last month).

Incidence in mall visits is on par with last month at 42%, but net engagement outlook (% who expect to engage in activity more minus less) continues to trend net negative (-7%). Leisure and entertainment engagement outlook continues to deteriorate (-1% vs. +4% last month). 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)



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

Engagement in Activities: Indoor (Mostly)

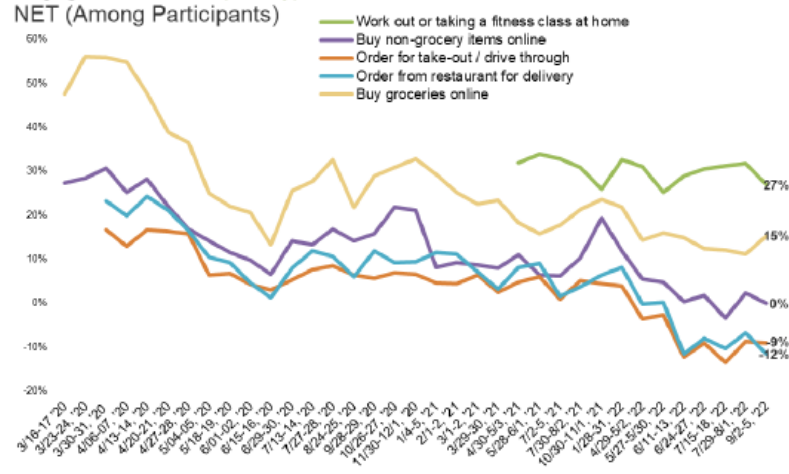
The number of consumers who participated in indoor activities is also consistent with previous waves of the survey. The net engagement outlook, however, continues to trend net negative for take out/drive through (-9% in-line with last wave) and restaurant delivery ordering (-12% vs. -7%). Online shopping engagement outlook (excluding grocery) is at 0% compared to +2% last month.

Working out at home (similar to workouts at the gym) is stable and outlook remains net positive (+27%).

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"

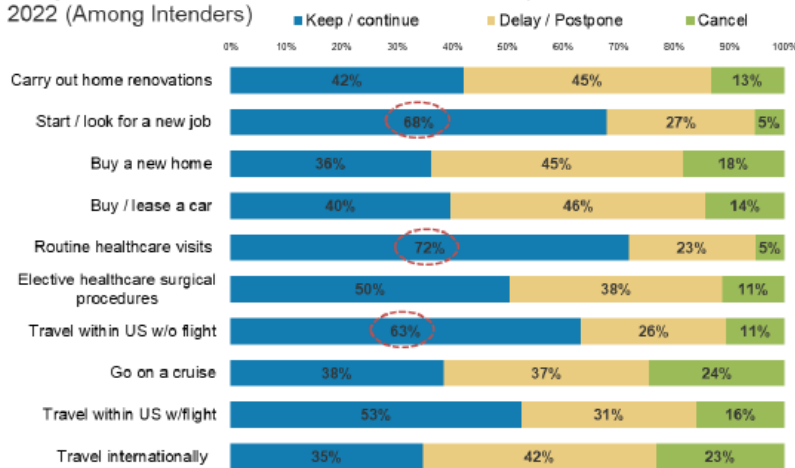
Delay or Cancellation of Planned Activities

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

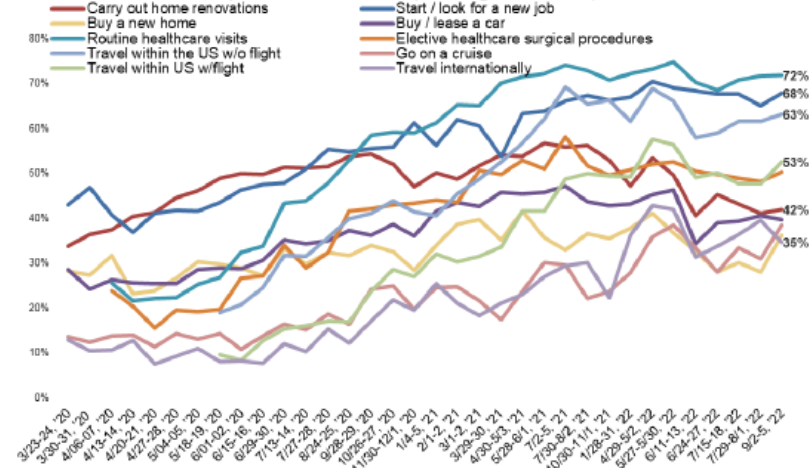
Consumers who plan to follow through on travel without flights is at 63% (in-line with last month) and with a flight is 53% (vs. 48% last month).

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

Delay or Cancellation of Activities in Past Month: September 2022 (Among Intenders)



Activities Plan to Keep / Continue With (Among Intenders)

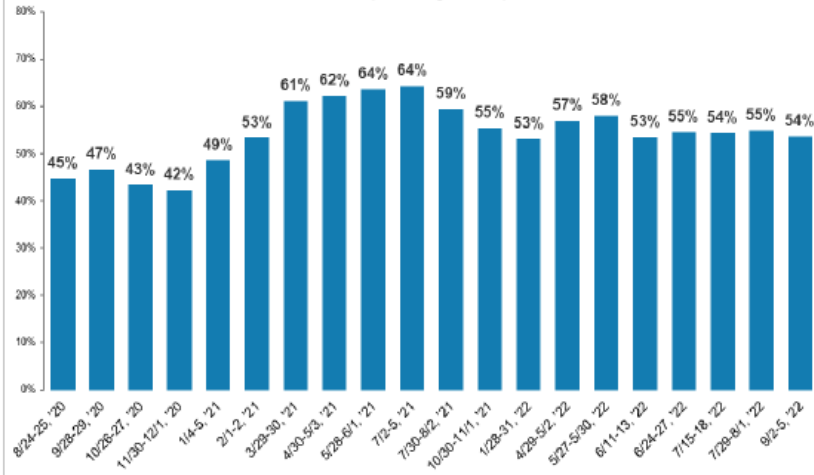


Travel Intentions Next 6 Months

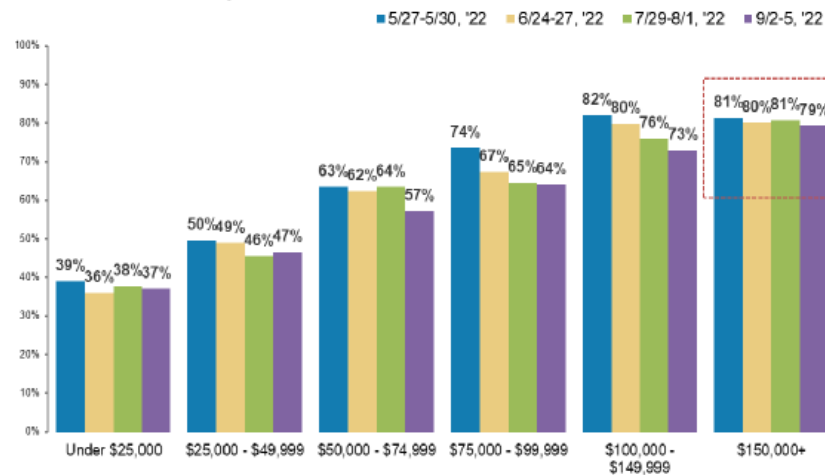
Going into the latter part of the year, 54% of consumers planning to travel over the next six months (similar to last year going into the fall/winter months). Households with \$150K+ income are resilient in their travel intentions and over index lower income counterparts.

Visiting friends/family and vacation remain to be the most common reasons for travel.

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



Plan to Travel N6M by Income



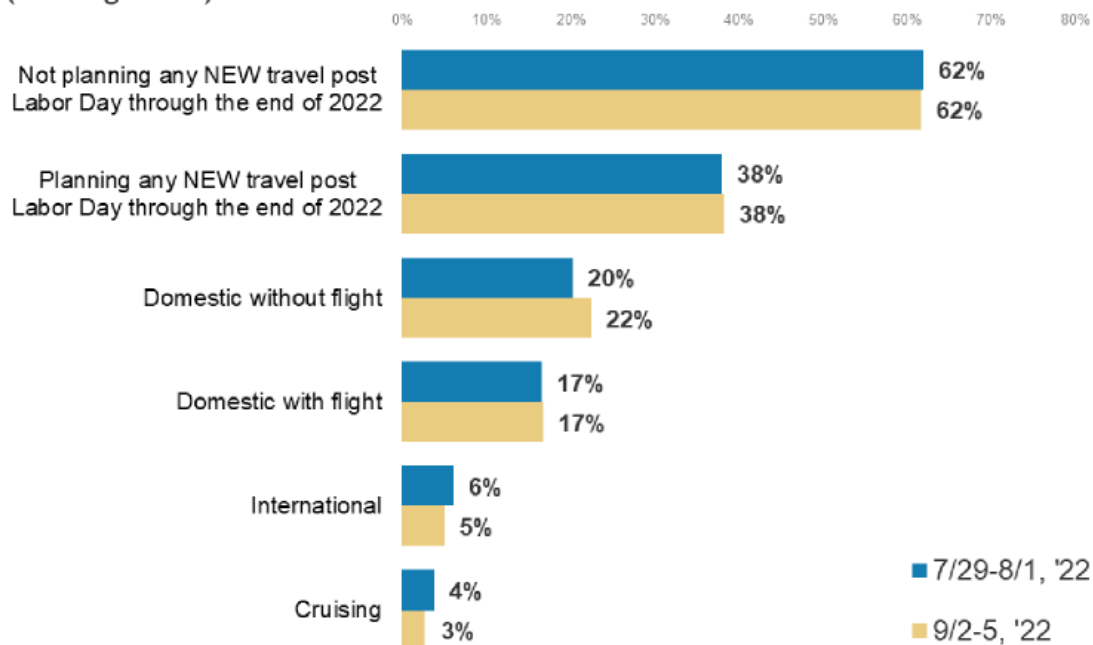
Source: AlphaWise, Morgan Stanley Research

New Travel Plans Post Labor Day Through End of 2022

Similar to the last wave of the survey, around one third of consumers (38%) are planning new travel post Labor Day through the rest of 2022, higher among upper income consumers (64%).

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

Planning New Travel After Labor Day Through End of 2022
(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.
- Wave 35 survey was conducted September 2nd – 5th, 2022.

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(as of August 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	1356	38%	304	41%	22%	596	39%
Equal-weight/Hold	1589	45%	349	47%	22%	716	47%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	610	17%	90	12%	15%	225	15%
TOTAL	3,555		743			1537	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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