

Affordability steers consumer spending trends

- Affordability is top of mind for consumers and the companies serving them
- Consumers feel gloomy, but continue to grow their spending
- Scaled value retailers, off-price and second-hand are benefiting

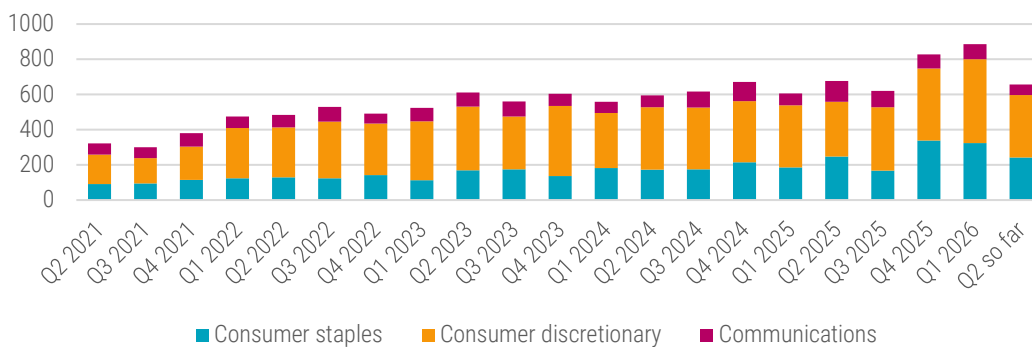
Inflation is easing, but consumer sentiment and purchasing behavior suggest that households remain vigilantly focused on value and affordability. Spending patterns are diverging, with affluent households driving consumption growth, while lower-income cohorts cut back. The battle for consumer hearts (and wallets) is heating up with retailers competing on not just lowest price but on their ability to deliver the greatest value.

Affordability has become the defining word of 2026 for consumer companies

Listen to a corporate earnings call from a consumer company today and you will hear one topic being discussed with striking frequency: *affordability*. In the second quarter of 2021, executives at consumer discretionary companies discussed affordability 167 times. By the first quarter of 2026, that count had risen to 478 – a near three-fold increase.

The terms growth in popularity was equally strong among consumer staples’ executives who mentioned it 323 times in the same recent quarter, up from 91 times five years earlier. In the two most recent quarters, the number of times affordability was discussed stepped up considerably (see Figure 1). Boardroom vocabulary now mirrors kitchen-table conversations. Households are watching every dollar, and the companies that sell to them have noticed.

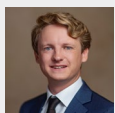
Figure 1 - Mentions of affordability topics in company calls



Source: Bloomberg, 2026. Affordability topics include affordability, lower prices, value seeking and cost consciousness.

ARTICLE JUNE 2026

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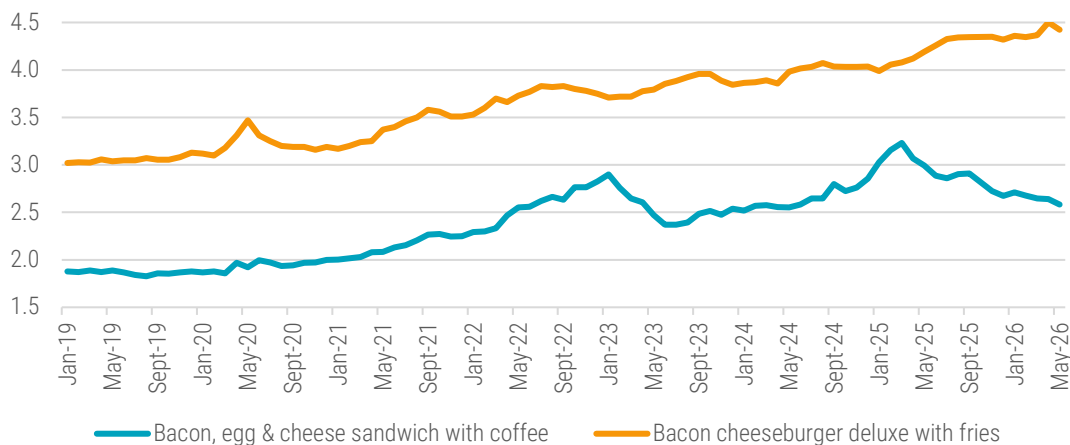


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Global Consumer Trends

The squeeze in numbers

Everyday items are now causing many consumer 'sticker shock' – the unpleasant surprise experienced upon seeing an unexpectedly high price. Bloomberg's price index for an American bacon, egg, and cheese sandwich with coffee has climbed from USD 1.87 in January 2020 to USD 2.58 in May 2026 – a 38% increase. The cheeseburger-deluxe-with-fries combo rose from USD 3.12 to USD 4.43, up 42% (see Figure 2). These are not abstract inflation figures like those quoted in the CPI; they are the kind of prices a diner sees on a deli board every morning, and they explain why so many shoppers feel poorer, even when official US inflation has cooled from a peak of 9.1% in 2022 to 4.2% in the most recent May reading.

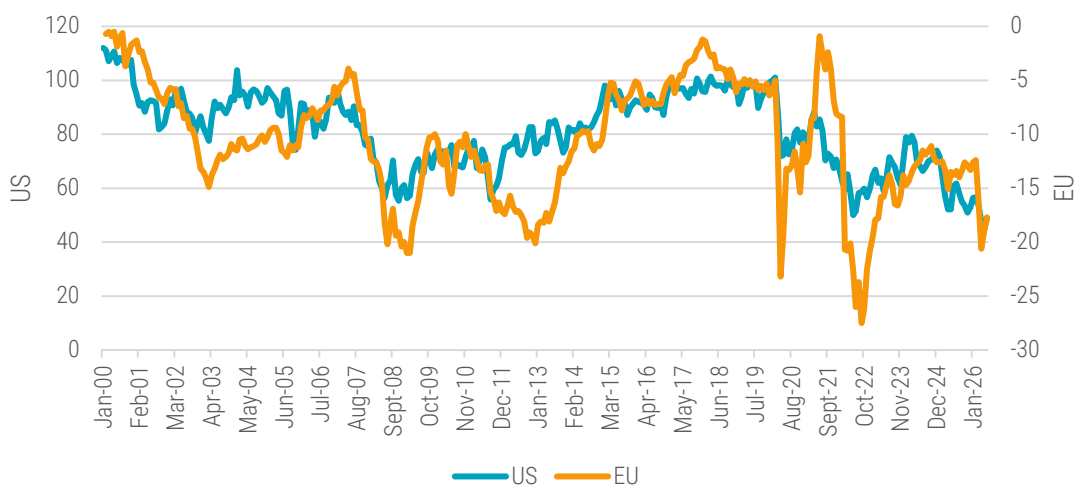
Figure 2 – Price index of widely consumed meals in the US



Source: Bloomberg, 2026.

Mood data confirms that consumers are conscious of rising prices and future economic slumps. The University of Michigan's US Consumer Sentiment Index collapsed from around 100 in 2020 to a new all-time low of 45 in May, before jumping slightly to 49 in June. These are levels normally only seen during recessions. European sentiment is no better: the EU's index slipped from -12 in February to -18 in June, its sharpest two-month deterioration in many years. Households on both sides of the Atlantic feel they are losing ground (see Figure 3).

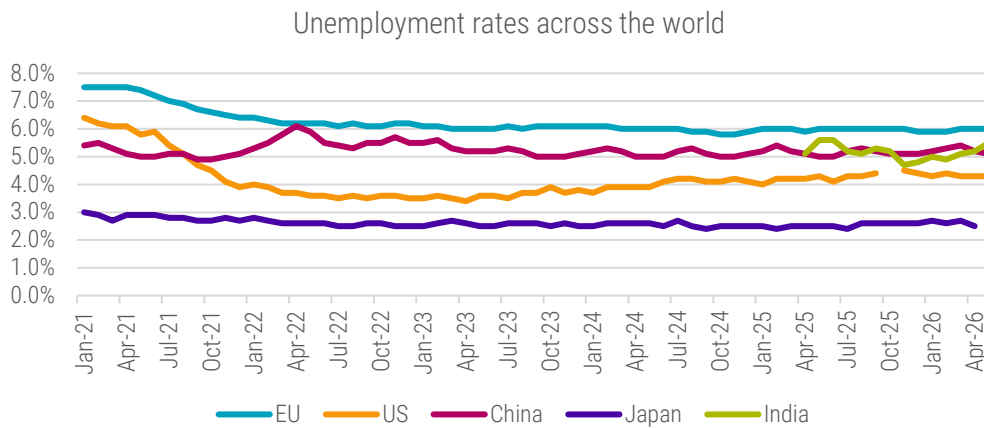
Figure 3 – Consumer sentiment index



Source: University of Michigan, Eurostat, 2026.

Despite the gloom and doom many consumers are feeling on a daily basis, most can still count on a crucial thing: their jobs. US unemployment has risen from a 3.4% low to 4.3% in May 2026, but this is a healthy level that supports consumer spending growth. In recent months, US unemployment has trended down slightly. In other regions, unemployment rates are also healthy. In Europe, jobless rates are hovering around 6.0% and are at a low 2.5% in Japan. In emerging markets such as India (with a population of 1.4 billion), unemployment is 5.5% according to official statistics. Meanwhile, China’s jobless rate is just above 5%.

Figure 4 – Unemployment rates are generally healthy

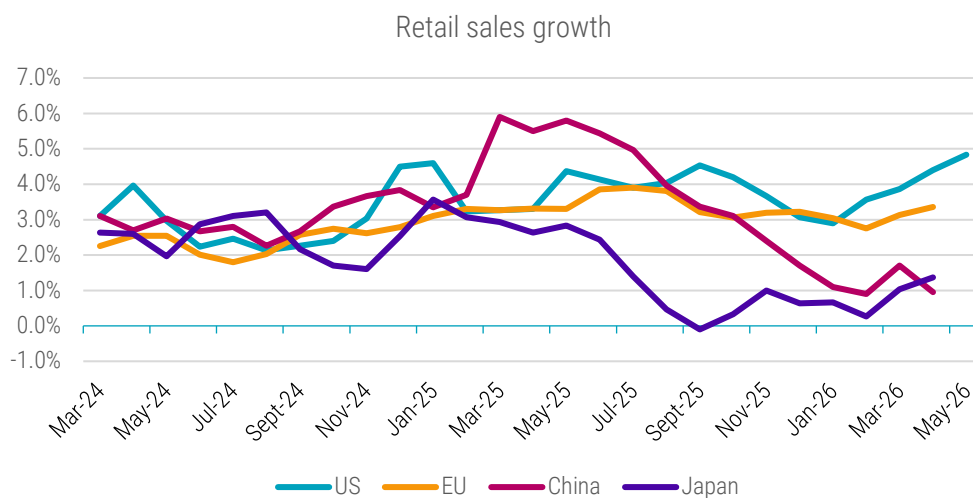


Source: US BLS, Eurostat, Japan Ministry of Internal Affairs, China National Bureau of Statistics, Central Statistics Office India, 2026.

Watch what they do, not what they say

Despite subdued consumer sentiment, healthy employment levels and rising wages – ahead of inflation in most countries – are supporting consumer spending. Retail sales are growing in major economies and accelerating in the US, EU and Japan, suggesting the correlation between retail spending and sentiment is surprisingly weak. US payment volume growth confirms this, rising about 9.0% through April, up from 7.5% in Q1. Globally, volumes grew 9.0% in Q1 up from 8.0% in Q4, reinforcing the adage: ‘watch what consumers do, not what they say’ (see Figure 3).

Figure 5 – Retail spending is on the upswing in most major economies



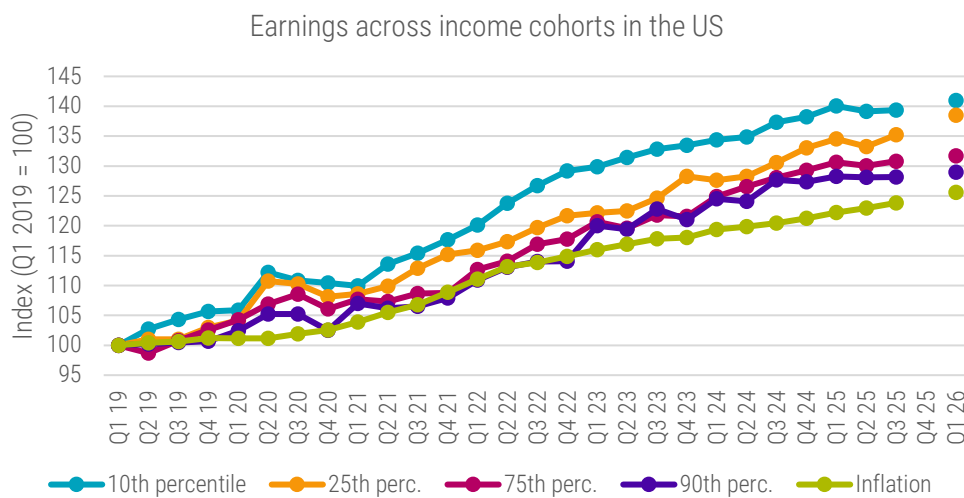
Source: US BLS, Eurostat, Japan Ministry of Internal Affairs, China National Bureau of Statistics, Central Statistics Office India, 2026.

A K-shaped paradox

Yet the picture beneath the headlines is more complicated and even counterintuitive in places. US Bureau of Labor Statistics data show that since the start of 2019, *real* wages (after inflation) have actually grown more for low earners than for higher ones. Workers at the 10th and 25th income percentile (i.e., the lower end of earners) have seen wage gains of 41% and 39% between the first quarter of 2019 and the first quarter of 2026.

Meanwhile the 75th and 90th percentiles (i.e., the upper end of earners) have gained 32% and 29% respectively. Over the same period, consumer prices increased a cumulative 26%. Statistically, the bottom of the income ladder caught up; moreover, all income cohorts outperformed inflation.

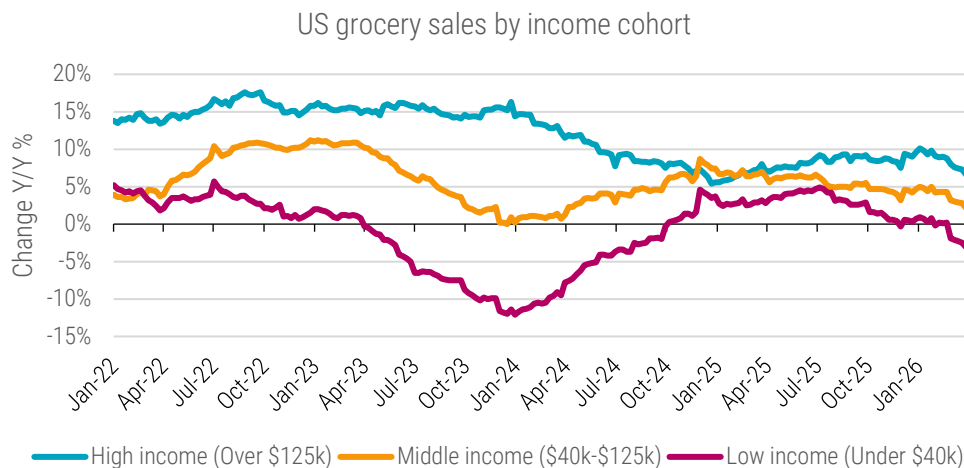
Figure 6 – Wage growth has outpaced inflation in the US



Source: US BLS, April 2026.

At the same time, the spending data reveals a starkly two-track economy. Data from Numerator, a consumer market research company, shows higher-income US households (above USD 125k) increasing grocery purchases between 5% and 10% since the start of 2025, while households earning less than USD 40k have seen below 5% and even negative change in grocery spending.

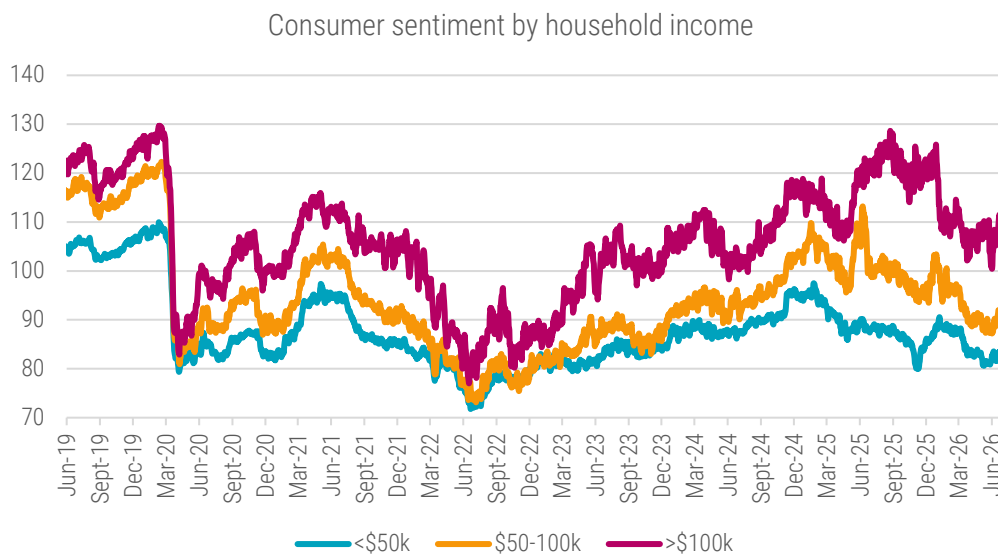
Figure 7 – US grocery sales by income cohort



Source: Barclays, Numerator, April 2026.

Similar trends are observed by travel companies who say wealthier consumers are spending freely on travel, dining and premium experiences. For instance, luxury hotelier Hyatt said demand from premium customers was exceptionally strong in Q1 2026, increasing approximately 7% compared to last year, with the strongest demand realized by Hyatt’s luxury brands.* This is the ‘K-shaped’ consumer economy that companies and investors keep talking about, and it explains why companies must speak to two audiences at once: the wealthier shopper still willing to pay for performance and the squeezed shopper who needs everyday prices to come down.

Figure 8 – Consumer sentiment is diverging for low- and high-income households



Source: Morning Consult, Bloomberg, May 2026.

Consumer behaviour shifts to value seeking and cost consciousness

After several years of stubbornly high inflation and uncertainty triggered by geopolitical conflicts such as Trump’s trade wars and the recent Middle East conflict, shoppers are changing how they buy. Global consultant, McKinsey’s State of the US Consumer Report finds that roughly three in four households are trading down to cheaper brands and retailers, and half are delaying discretionary purchases. A survey from YouGov, a global market research firm, shows 53% of Americans set a household budget for 2026, up from 46% the year before. Among those who expect their finances to deteriorate, two in three plan to cut back on eating and drinking out.

The behavior is not confined to lower-income households. Even consumers earning above USD 150,000 a year report switching to private-label brands and using cash-back apps. Tariffs introduced in 2025 added a fresh layer of price pressure on top of pandemic-era inflation and research by consultancy Simon-Kucher suggests consumer tolerance for further price increases has narrowed.

Importantly, affordability does not simply mean buying the cheapest product. Consumers are not just price-sensitive, they are value-sensitive. Leading market intelligence firm, NielsenIQ’s 2026 Outlook describes a consumer who has redefined the term to encompass trust, reliability, and quality alongside price. Shoppers are not just hunting bargains, they are comparing unit prices, stacking loyalty points, and gravitating towards brands they believe offer good value.

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How US retailers are responding

The corporate response has been swift, with those that have or make affordability a structural feature of their business model likely to win. Others, that treat affordability as a temporary marketing campaign to drive traffic will likely draw the short stick. Convincing customers to buy once is easy through a steep promotion, but for customers to come back time and time again, companies must offer real value.

Scaled value retailers are the clearest beneficiaries. Walmart’s grocery customer reach climbed to 72% of US consumers, drawing in higher-income shoppers without losing its low-income base.* Households earning more than USD 100k a year now account for the majority of Walmart’s market share gains – a reversal of decades of brand stigma. Management has leaned into combining *every day, lower prices* with convenience, offering same-day shipping to over 90% of US households. The company is leaning into value further, expanding its private-label *Bettergoods* range and rolling out the first major redesign of *Great Value* this year.

Amazon is using its scale and logistics network to offer compelling prices across categories but especially in everyday essentials and grocery, which grew nearly twice as fast as all other categories in the US in 2025 and now represents one in three units sold.* The company has expanded same-day delivery on low-priced items to make the value proposition even better. Recently, Amazon raised the bar further by offering to fulfill customer’s most urgent needs in 30 minutes or less for an extra fee.

Costco – famous for its large pack sizes at rock-bottom prices – is benefitting too, consistently reporting same-store sales growth around 7%, which is best-in-class, and growing membership fees around 14% year-on-year.* Private labels have moved from an afterthought to anchor. US private-label sales reached a record USD 283 billion in 2025 and now account for 24% of unit volume sold.

Costco’s Kirkland Signature brand alone generates an estimated USD 80 billion in annual sales – larger than all but a handful of consumer-goods companies in the world. Moreover, its quality reputation has reached a point where many shoppers actively prefer it to traditional brands. Numerator projects that by mid-2026, Gen Z will spend a higher share of their budgets on private-label goods than any other generation, suggesting the shift is structural rather than cyclical.

Figure 9 – Costco has kept the price of its hot dog combo at USD 1.50 since 1985



Source: Costco, May 2026.

Consumer are flocking to off-price models. TJX (parent of TJ Maxx, Marshalls and HomeGoods), Ross Stores and Burlington have seen their sales growth accelerate to 9-12% in the most recent quarter.* They are capitalizing on department store closures, excess inventory among brands and strong consumer preference for 'treasure hunting' for branded goods at 20% to 60% discounts.

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Ecommerce and the 'cha-ching' in China

In China, where the slowdown in retail sales has been pronounced – although turning up recently – ecommerce companies are doubling down on providing affordability to consumers. Alibaba has refocused its core online shopping platforms' Taobao and Tmall around price competitiveness after losing share to ecommerce giant, PDD's Pinduoduo, with management explicitly citing affordability as a strategic priority on recent earnings calls.* Chinese auto manufacturers are aggressively discounting to gain market share and are succeeding in beating international brands gaining 5%-points of market share compared to a year ago (as of April 2026).

New growth in 'used' goods

Second-hand has also gone mainstream. A growing share of value-seeking consumers no longer associates 'great value' exclusively with new goods. The online marketplace eBay has emerged as a quiet beneficiary of the affordability shift: its refurbished electronics business, 'Certified Refurbished', has posted double-digit growth, and management has highlighted on recent calls that pre-owned and re-commerce categories are attracting younger, higher-income shoppers who view second-hand as both economical and sustainable.*

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The trend extends well beyond eBay. Resale platforms such as Vinted, Depop and Poshmark have continued to scale, and ThredUp's 2026 Resale Report projects the global second-hand apparel market will reach roughly USD 350 billion by 2028, growing several times faster than the broader apparel market. For a generation of shoppers, paying half-price for a barely used designer item feels less like compromise and more like savvy.*

Retail food – serving up value

Fast-food restaurants illustrate how quickly the value message can move the needle – in both directions. McDonald's spent much of 2023 and 2024 losing low-income traffic after a series of menu-price increases alienated parts of its customers base. The chain's response was a national McValue menu offering with USD 5 meals, a USD 4 breakfast menu, and a 'Buy One, Add One for USD ' promotion. These have helped restore momentum across most of its markets. Same-store sales rose 4-6% in the most recent four quarters (where it was down to flat before). Traffic among low-income consumers has recently improved as well. Taco Bell, Wendy's, Chipotle and even fast-casual Panera have followed with their own value menus.*

Operators that fail to communicate value clearly – chains that look expensive on the menu board even when they offer app-only deals – continue to lose traffic. Fast-casual dining chains have been hit especially hard. Whilst many fast-food chains have improved their value offerings, they continue to face headwinds including more people eating at home and adoption of weight-loss drugs reducing calorie intake.

“ Fast-food operators that fail to communicate value clearly ... continue to lose traffic.

Take-aways in travel

The cruise industry is emerging as a counterintuitive beneficiary of the affordability theme. The world's two largest cruise lines, Royal Caribbean and Carnival, have posted record bookings and pricings in 2025 and 2026 because a cruise – which bundles accommodation, meals and entertainment into a single fare – is perceived as one of the best-value vacations available, especially when compared with the all-in cost of comparable land-based holidays. Cruise companies' management teams explicitly highlight 'value relative to land-based alternatives' as a core driver of bookings strength, with onboard spend and repeat-guest rates both running at record levels.*

Figure 5 – A cruise is often cheaper to compare land-based alternatives



Source: Royal Caribbean, 2026.

Winning companies among these very different businesses share three characteristics: they offer transparent, everyday value rather than promotional gimmicks; they invest in product or service quality so that 'cheap' does not mean 'low quality'; and they communicate the value proposition clearly.

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