Numerator

ANNUAL REPORT

NUMERATOR VISIONS '24

2024 CONSUMER TRENDS

NUMERATOR VISIONS '24

ABOUT THE REPORT

NUMERATOR VISIONS '24 is our annual perspective that looks back at the past year, provides forward-looking insights into the year to come, and serves as a starting point to prepare for the future.

Every year, we will share several visions on what to expect for US consumer trends and how industry leaders and executives should act. These visions are drawn from our comprehensive understanding of the consumer, which we gain through Numerator's full suite of products and industry expertise.

Source: Numerator

AN UNBELIEVABLY RESILIENT YEAR

2023 defied expectations, evolving into a series of intriguing paradoxes instead of the anticipated year of cautious spending.

- Despite 2 in 3 Americans perceiving a recession, US GDP growth soared from 2.1% in Q2 to an impressive 5.2% in Q3.
- While half of the US expressed concerns about prices, an unexpected $8.5 billion boost in Q3 US growth was attributed to expenditures on concerts and films.
- Analysts, anticipating a consumer pullback to counteract inflation, were surprised as 79% of brands were able to continue growing through strategic pricing.

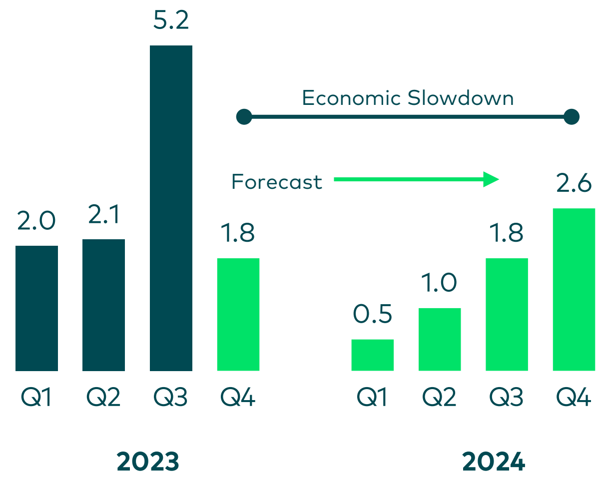
A decade ago, these facts might have seemed implausible, yet recent years have demonstrated that nothing is off the table. How does one prepare when public sentiment and actual behavior diverge?

The foundation of these shifts lies in consumer spending, perceptions, and actions. Brands empathizing with consumer desires while comprehending their actual purchasing behavior can identify opportunities for meaningful growth, benefiting both the bottom line and the consumer.

In Numerator's latest economic update, 2024 GDP suggests a year of growth, albeit at a more moderate pace. Consequently, strategic thinking becomes imperative for brands to identify where to act and which levers to strategically pull to continue growing.

To help you prepare, Numerator presents four perspectives for business leaders to navigate the uncertainties ahead. We encourage you to delve into these insights, make notes on their implications for your organization, and motivate yourself and your teams to revisit them as you seek avenues for sustainable growth.

QUARTERLY GDP GROWTH
% Change – Seasonally Adjusted Annual Rates



Source: Numerator, US Bureau of Economic Analysis

EXECUTIVE SUMMARY

1. INCOME DIVIDE
2. HEALTH EMPOWERED
3. RETAIL RETALIATION
4. CONSUMER DIGITALIZATION

As we look back and review what trends went viral and recalling key historical moments, we found four key themes:

- **Income Divide:** Brands must navigate changing financial perspectives of consumers across income ranges, particularly as low-income households face disproportionate challenges.
- **Health Empowered:** Leaders should adopt a more physical and proactive approach to health and wellness, utilizing functional foods and partner with mobile apps to meet consumer demands.
- **Retail Retaliation:** Retailers fight for lower prices to appeal to consumer demands, with private label emerging as a winning solution, often at the expense of established brands. However, macro trends, from mergers and acquisitions to shifts in mobility, could pose challenges for specific retail channels.
- **Consumer Digitalization:** Consumers wholeheartedly embrace technology, with GenAI poised to be a game-changer for brands. However, consumers are discerning, and trust may wane if GenAI is not executed thoughtfully.

You may notice that the first three visions for this year echo earlier insights shared in our inaugural report. While initially surprising, we observed the evolution of each narrative and crafted an updated vision for the upcoming year.

Numerator

TABLE OF CONTENTS

Numerator

1

INCOME DIVIDE

HOW ARE AMERICANS FARING TODAY?

In the current consumer landscape, personal finance concerns remain at the forefront, although they have slightly receded as global instability takes precedence in the closing months of the year. Notably, personal finance concerns dropped by four percentage points in November 2023 compared to the previous year, while concerns about world events experienced a significant seven-percentage-point surge the month before, coinciding with the 2023 Israel-Hamas War.

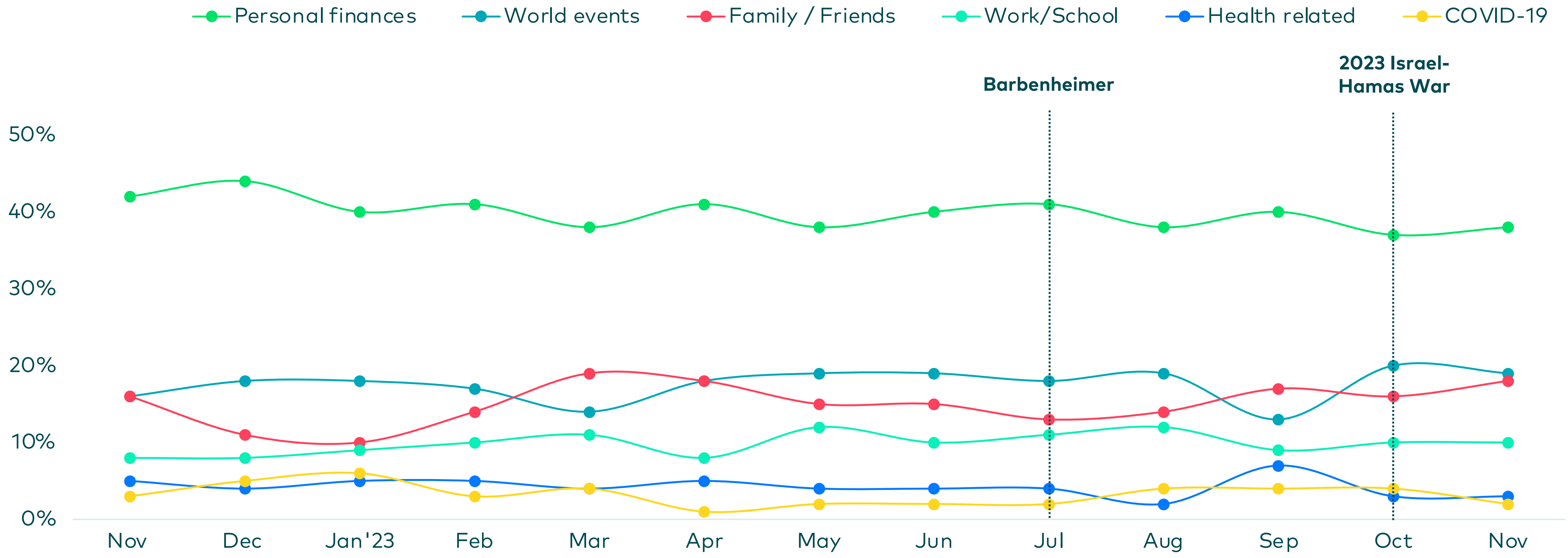
Throughout the entirety of 2023, more than one in three Americans consistently cited personal finances as their primary worry, even as consumer spending displayed resilience. Key indicators highlight this trend with retail sales maintaining an elevated status, posting a 4.1% growth in November 2023 compared to the previous year.

Additionally, consumers exhibited a willingness to splurge on experiences such as attending concerts by superstars Taylor Swift and Beyonce and indulging in back-to-back showings of blockbuster films like Barbie and Oppenheimer last summer. This spending spree contributed a substantial $8.5 billion to the US GDP. During that period, discomfort levels associated with tapping into savings or retirement accounts reached their lowest point in 2023.

But what goes up, must come down. An analysis from the Federal Reserve Bank of San Francisco has estimated that cumulative monthly savings above the pre-pandemic average since March 2020 sits at just $0.4 trillion in September 2023, down significantly from the $2.1 trillion estimated back in August 2021. If the current trajectory continues, **depletion of those funds could occur near the start of 2024.**

PRIMARY CONCERN OVER THE NEXT FEW MONTHS

% of Households



Source: Numerator Monthly Consumer Sentiment Study | Q. What do you think your primary concern will be over the next few months?
Sample varies by month (All Months >1000 respondents total)

Numerator

Our tracking of consumer spending throughout the year reveals three noteworthy trends:

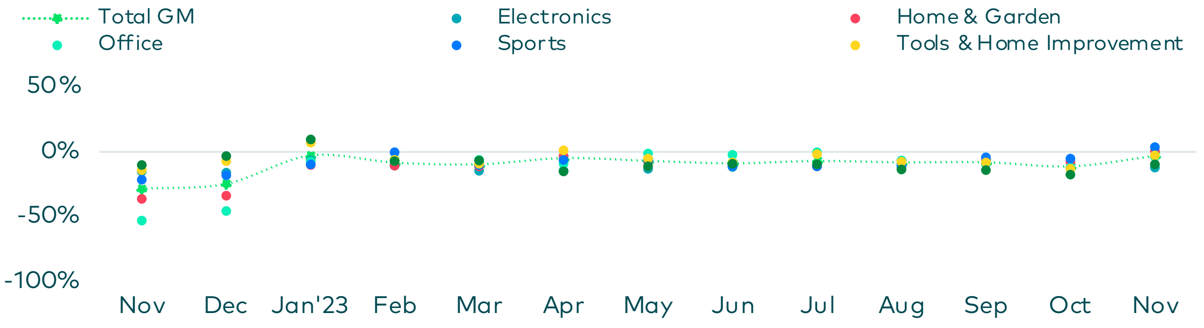
Home-Centric Purchases: Consumers are increasingly investing in general merchandise to enhance their at-home experiences to replace out-of-home entertainment. The latest tracked month indicates a rising trend, with positive volume growth observed in sports and home & garden categories for the first time this year.

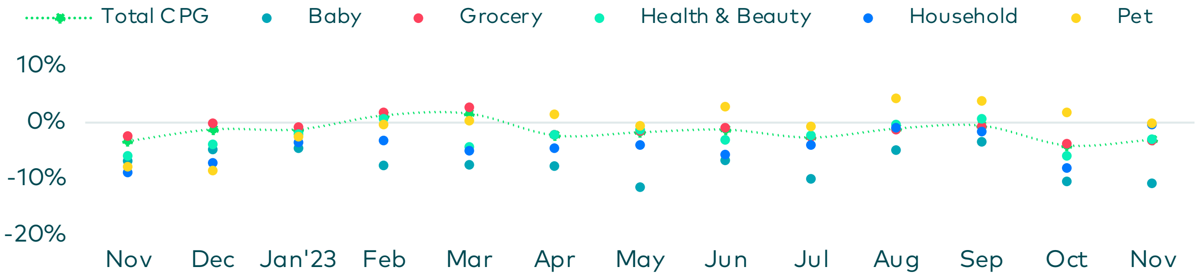
Affordable Indulgence at Limited-Service Restaurants (LSR): Seeking cost-effective treat-yourself options, consumers are flocking to LSRs. Since August, there has been a substantial increase in traffic to LSR establishments– particularly among high-income households.

A Potentially Transient Shift: To accommodate a preference for fast-food indulgences, consumers are slightly scaling back on CPG purchases. Unit volume declines are evident across all CPG sectors, except for the pet category. Should further reduction in out-of-home experiences continue, this trend could reverse and benefit food CPGs.

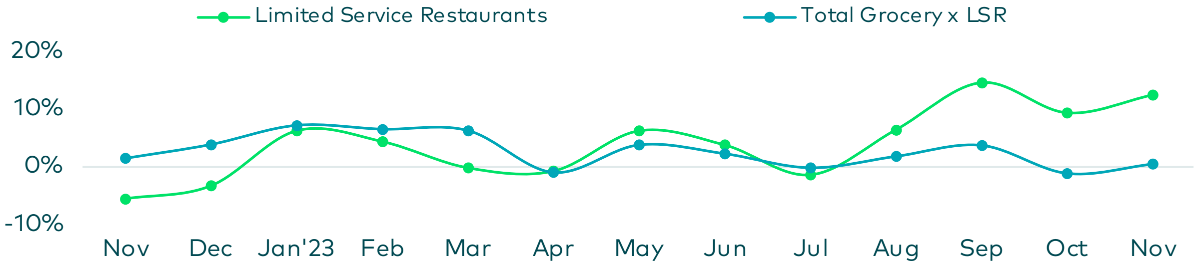
For leaders to succeed in the next year, understanding how occasions are shifting to the home in 2024 will be imperative in finding growth pockets for your brand.

MONTHLY UNIT VOLUME CHANGE VS YEAR AGO BY SECTOR



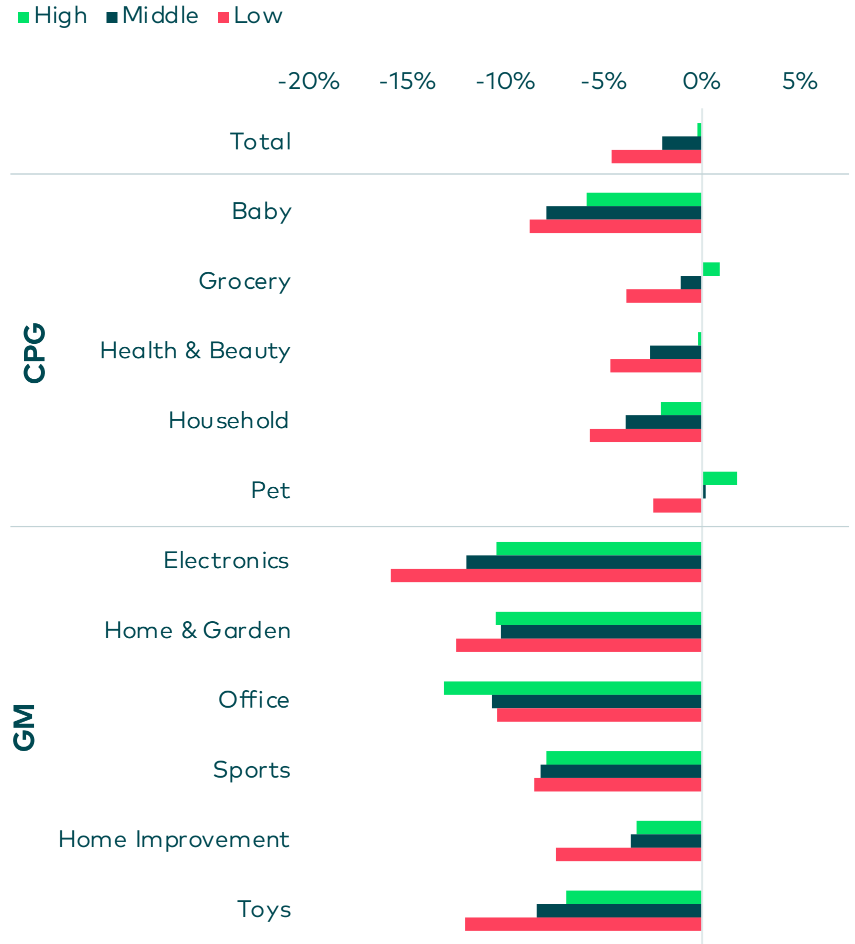


MONTHLY TRAFFIC CHANGE VS YEAR AGO BY CHANNEL



UNIT VOLUME PERCENT CHANGE VS YEAR AGO BY INCOME GROUP

Latest 12 Months Ending 11/30/2023



A DIVIDE BETWEEN INCOMES

While the trends we've outlined provide a broad overview of the US, it's essential to recognize that these trends manifest differently across income groups and as such, will require you to shape your commercial strategy differently. **Despite an overall drop in financial concern, low-income households experienced a six-percentage-point increase in financial worry year over year.**

These nuances also emerge in actual purchasing behavior:

The first nuance lies in the unexpected unit volume growth observed in Grocery and Pet categories among high-income households this year. This means that brands should take heart in discovering a consumer segment eager to expand consumption habits at home, presenting an opportunity to foster growth within this demographic.

The second nuance emerges from the substantial consumption declines driven by low-income households across almost all sectors, impacting CPG and general merchandise. This observation becomes less surprising when considering the events of the year.

In early 2023, the SNAP emergency allotments, estimated by Numerator at nearly $45 billion worth of spending, were finally repealed, leaving a gap in what brands and retailers were able to capture. Additionally, the resumption of student loan repayments, coupled with uncertainty surrounding loan forgiveness, has imposed unforeseen costs on recent college graduates entering entry-level jobs and parents who co-signed loans, forcing many to carefully manage their budgets.

Numerator

Based on these findings, industry leaders must focus on three actions for 2024:

1. **Track the election.**
   Keep a vigilant eye on the ongoing election, staying informed about policy changes and discerning which consumers will be most affected. Implement sentiment and tracking studies as we approach the 2024 election to gauge public reactions.
2. **Leverage occasions**.
   Observe shifting consumer behaviors in both in-home and out-of-home entertainment and self-indulgence. Conduct purchase-verified occasion trackers to accurately identify whitespace opportunities for growth, allowing brands to align with evolving consumer preferences.
3. **Engage low-income homes.**
   Recognize the challenges faced by many lower-income families in 2023, as opposed to the relatively better-off higher-income households. As these households scale back volume, running targeted promotions and closely tracking their activations will enable brands to evaluate the effectiveness of providing relief to this consumer group.

2

HEALTH EMPOWERED

A PHYSICAL AWAKENING

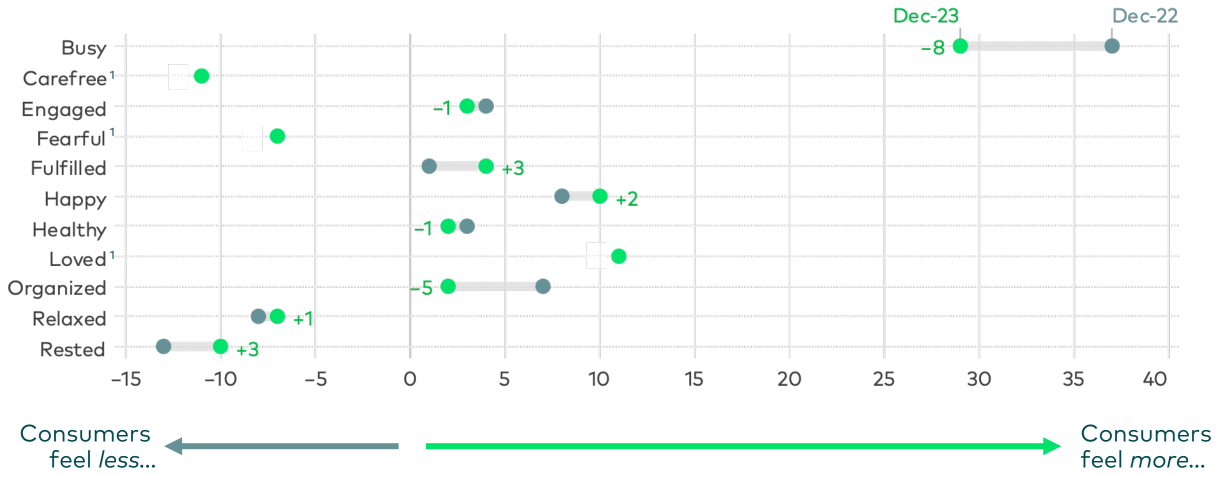
As 2022 ended, consumers were signaling a collective desire for a balanced state of mental and physical well-being as the world attempted to resume normalcy.

As we approach the end of 2023, a prominent shift is evident: consumers are returning to an equilibrium of emotions. Consumers report their state of mind being more restful and less busy, resulting in a renewed commitment to their physical health. In our latest health pulse, **34% of consumers now prioritize their physical well-being—an increase of 13 percentage points from the preceding year's 21%.** Similar to last year, this trend is universal, transcending income levels, generations, and ethnicities.

If 2023 was characterized by a quest for internal harmony, then 2024 is poised to be the year for rekindling focus on the physical self.

CURRENT CONSUMER STATE OF MIND

Compared to Last Year | Net Effect Point Change



¹New in 2023

With a greater focus on physical health, there are three main trends that leaders should look to understand:

- Americans are becoming more aware of their overall health.
- Diet is redefining health more than ever.
- Healthcare innovation is having an impact on consumption.

THE GROWING AWARENESS OF HEALTH

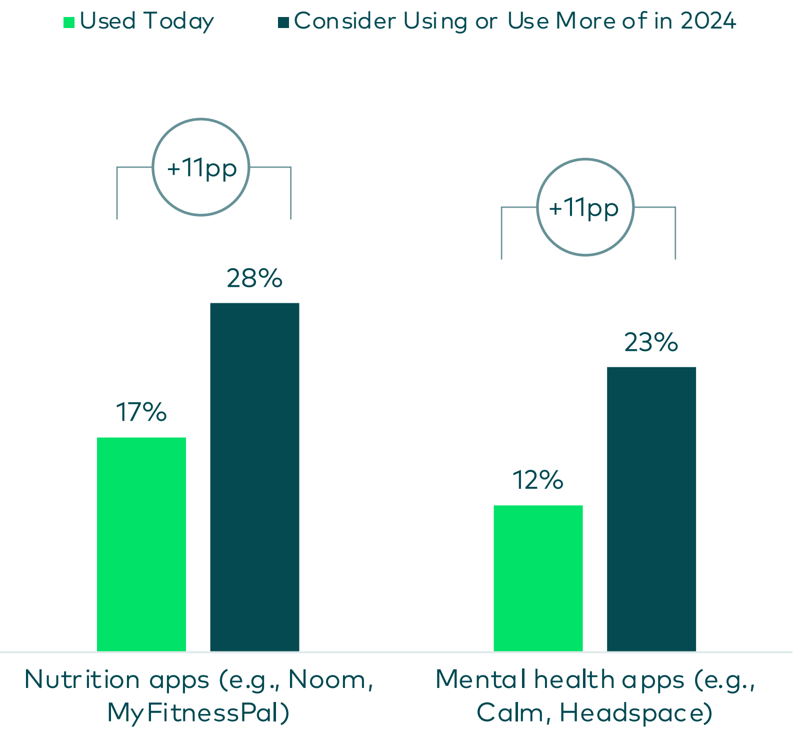
Americans are finding themselves more focused on understanding and tracking their health. In the past year, 65% of Americans claimed to get their annual check-up / physical, which is up by 5 percentage points compared to last year.

Additionally, consumers are looking to leverage mobile apps to help track the foods they eat and their mental health. Eleven percent of the population is looking to start using or use more nutrition and mental health apps in the next year– the highest of any health tools we surveyed.

Brands have opportunity to tap into their newfound awakening by partnering with health-focused mobile apps to drive equity or sponsor their products. They can also investigate front-of-packaging changes that drive clarity in nutritional information and health claims while preparing for upcoming FDA initiatives.

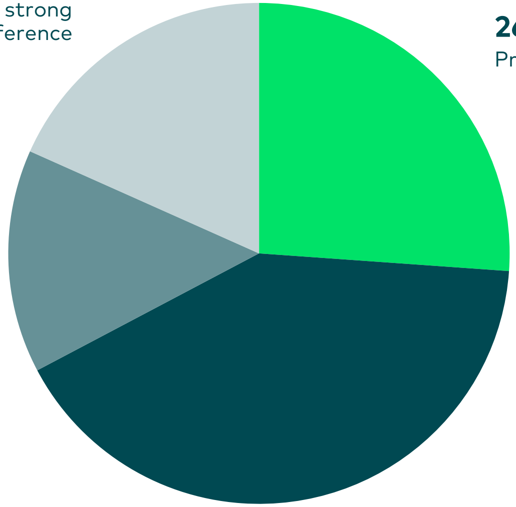
HEALTH TOOLS USED TO MANAGE HEALTH

% of Respondents



PREFERRED NUTRIENT FORMAT

% of Respondents



FUNCTIONAL FOODS ARE PRIMED TO CONTINUE WINNING

While the ascendancy of functional foods is not a novel revelation for Numerator, its significance remains paramount in our ongoing research. The prominence of consumers monitoring what they eat and adopting specific diets has witnessed a substantial year-over-year growth, growing by 6 percentage points.

In 2023, one prominent trend is the **nearly twofold increase in consumers favoring obtaining nutrients primarily through food rather than supplements.** Gen Z, higher-income homes, and multicultural consumers are at the forefront of this preference. When seeking indulgence, consumers are opting for whole foods with flavor profiles reminiscent of their desired treats. For instance, our Stomach Share analysis revealed **a growing preference for raw ingredients with sweet flavor profiles**, with consumers favoring exotic fruits such as lychees and pitayas over dessert items like cookie dough, candy-making wafers, or low-calorie sweeteners.

As brands both in the food and non-food sectors explore avenues for innovation, the incorporation of whole foods into ingredient lists, coupled with their functional benefits, stands as a strategic imperative via innovation or M&A activity. The alcohol industry offers a compelling example, presenting a clear case with the introduction of non-alcoholic beverages infused with adaptogens and nootropics.

Numerator

INNOVATION SPARKS DISRUPTION

On October 4, 2023, Walmart's US CEO, John Furner, revealed to Bloomberg News that users of GLP-1 were reducing their unit purchases and slightly cutting back on calorie consumption. This revelation triggered a cascade of movements in the consumer market, prompting analysts in subsequent financial earning calls to include inquiries about the impact of GLP-1 as part of their requisite questions.

How did this unfold, what are the repercussions, and how should leaders respond?

Originally intended for type-2 diabetes management and obesity, GLP-1 agonists gained prominence, with approximately 38% of GLP-1 users for diabetes management starting usage before Q4'2022. Recognizing its benefits for broader weight management, health providers witnessed a surge in off-label use, with 3 in 4 current GLP-1 weight loss users starting in 2023.

In a syndicated Numerator analysis of post-usage grocery purchasing patterns revealed a small yet noticeable change. **In Q1'2023, GLP-1 weight loss users exhibited a 5.4% greater decline in buy rates year over year than their control group in the quarter after initiating GLP-1.**

This observation was corroborated by an analysis from JP Morgan, utilizing Numerator data, which estimated a potential -3% decrease in food intake in North America by 2030E.

For food manufacturers, this reduction necessitates strategic adjustments, either realigning portfolios with trending consumer categories or enhancing existing products to justify increased pricing and premiumization.

Beyond the food industry, the impact of GLP-1 extends to sectors like lower fuel costs for airliners and increased apparel purchasing for renewed wardrobes.

While GLP-1's large-scale impacts may still be on the horizon, the key executive takeaway is that leaders cannot afford to overlook the broader implications of innovations that directly influence consumer lifestyles. When such innovations occur, brands must swiftly and comprehensively quantify their impact to stay ahead of the curve.

Numerator

TOTAL GROCERY PURCHASING CHANGE

Among GLP-1 Weight Loss Only Users

Buy Rate — First quarter after they started GLP-1

Started GLP-1 since...	Pre-Post % Change - GLP Users	Pre-Post % Change - Control Group	PPT. Difference Vs. Control
Q4 2022	-4.7%	-0.9%	-3.8%
Q1 2023	-6.1%	-0.8%	-5.4%
Q2 2023	10.7%	11.7%	-1.0%

GLP-1 could also affect...

Jet Fuel Costs

29%
of GLP-1 weight loss only users flew on **Southwest Airlines** last year.

Wardrobe Changes

35%
of GLP-1 weight loss only users purchased from **Nike** last year.

Food Consumption

43%
of GLP-1 weight loss only users ate at **Olive Garden** last year.

3

RETAIL RETALIATION

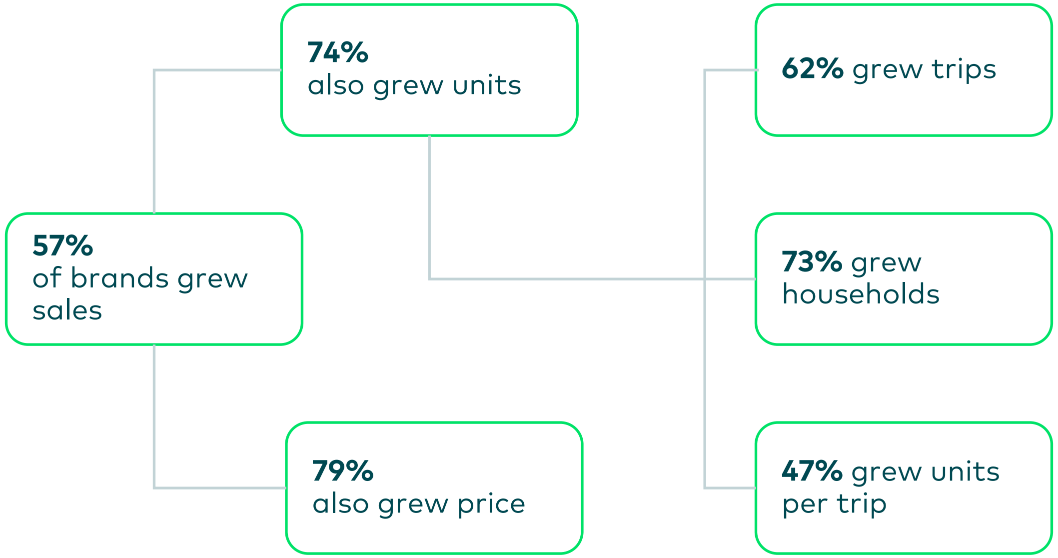
TRANSFORMATIONAL CHANGES CONTINUE

Over the past two years, supply chains grappled with heavy inflation amid surging consumer demand. In 2023, as anticipated in our Visions 2023 report, brands focused on volume growth— resulting in a 9-percentage point increase in brands achieving simultaneous sales and volume growth. **However, 79% of growing brands also raised prices (86% for CPG and 65% for General Merchandise).**

The question lingers on whether we've hit the peak of consumer tolerance for price hikes. While consumers haven't noticeably pulled back to impact total sales, retailers in the US and abroad are not wanting to wait.

Looking to 2024, retailers must swiftly devise strategies for affordability and value, as transformative structural forces are set to reshape the retail landscape.

2023 GROWTH DRIVERS



PRIVATE LABEL CONTINUES TO RISE

Just like what we shared last year, CPG private label continues to take unit share from name brands. Since February 2023, private label brands have consistently expanded their unit share every month, driven by all income brackets and even more so with lower-income households. This growth in unit share has accrued to be worth over $1 billion.

With prices expected to remain elevated in 2024, both retailers and consumers are likely to rely on private label to enhance affordability. **Contributors to the growth in private label unit share include Great Value (+1.3B units vs YAG), Aldi (+188M), Kirkland Signature (+140M), Bowl & Basket (+130M), and Trader Joe's (+129M).**

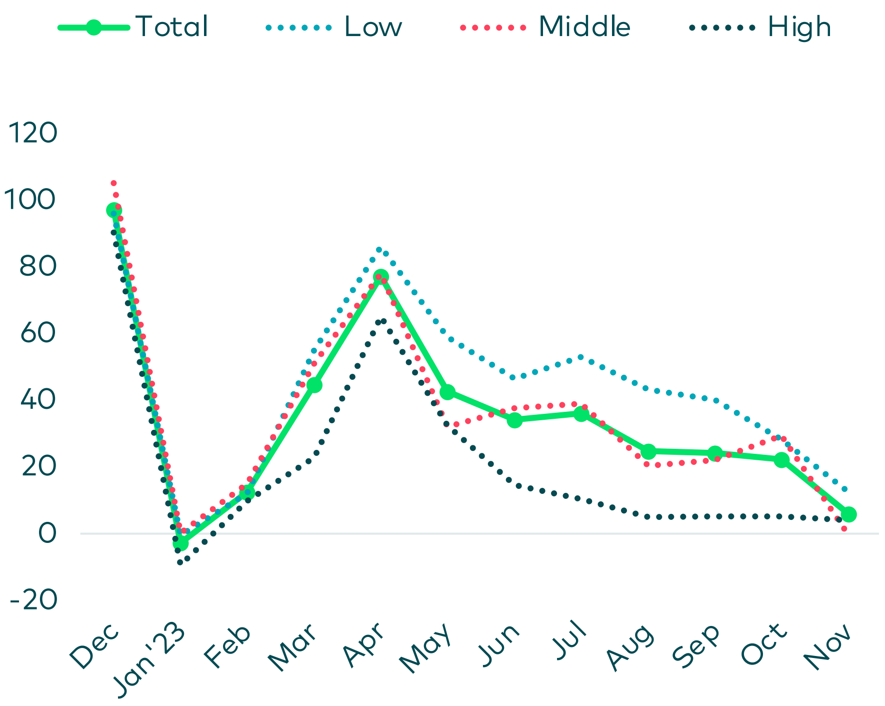
For brands contemplating price increases, mitigating strained relationships with retailers necessitates two key considerations:

1. **Reassessing Price Pack Architecture:** A shift towards shrinkflation is likely to be the primary strategy for adapting to new costs. Leveraging consumer data becomes crucial in identifying which pack sizes will either retain customers or encourage trade-ups.

2. **Refining Brand Value Proposition:** Emphasizing and reinforcing your brand's value drivers is imperative not only for consumers but also retail buyers. Showcasing consumer and psychographic niches your brand covers is essential in building a distinct value proposition.

MONTHLY PRIVATE LABEL UNIT SHARE CHANGE VS YAG (IN BPS)

CPG | Latest 12 Months Ending 11/30/2023



Numerator

THE NEED FOR CONTIGENCY PLANS

Retail is on the edge, awaiting the FTC decision on the potential Kroger/Albertsons merger. As the decision looms, both retailers grapple with dollar share losses in total CPG, with Kroger down 30bps and Albertsons down 16bps as of November 2023.

Amidst this merger anticipation, other transformative movements have unfolded for retail, such as: **Rite Aid's Chapter 11 filing, ongoing shifts in consumer mobility, and streamlined global supply chains.**

Considering these changes, there's an imperative for brands and retailers to craft strategic playbooks based on channel specific trends. The reason is straightforward: success hinges on understanding and mitigating risks.

Take Rite Aid, for instance. Regional grocers and drug stores have an opportunity to absorb Rite Aid's consolidation in key markets like LA, New York, and Philadelphia, bringing in over $3 billion. Through targeted geographic marketing activations, brands can attract new shoppers and potentially secure lucrative prescription trips.

In the c-store channel, despite recent growth, existential headwinds may emerge as US mobility evolves in the next decade. Shifting car ownership trends, with a decrease in 3 and 4+ cars and an increase in single car ownership, signal potential challenges. McKinsey's predictions of a 38-percentage point drop in private vehicle share in car-reliant metropolises by 2035 validate these headwinds.

As mobility changes, c-stores must evolve beyond mere fueling stations, focusing on the key element of convenience to retain traffic. Casey's General Store serves as an example, transforming into a prepared foods haven in the Midwest, posing a market share threat to Walmart and Pizza Hut.

Furthermore, as global shipping logistics make warehouse-to-home purchases more accessible, the retail landscape for general merchandise becomes more competitive. **Numerator research reveals that Temu, an online marketplace shipping discounted goods directly from China, could pose threats to online businesses in electronics and home improvement channels,** where Temu shoppers' general merchandise share of wallet 2x larger online compared to the total US. Retailers must be agile in preparing for potential price wars and identifying areas where global retailers could make a significant impact on their bottom line.

TOP RITE AID RETAIL SALES BY CBSA

Rite Aid | Latest 52 Weeks Ending 9/30/2023

$1.2B

New York, Newark, Jersey City CBSA

$1.2B

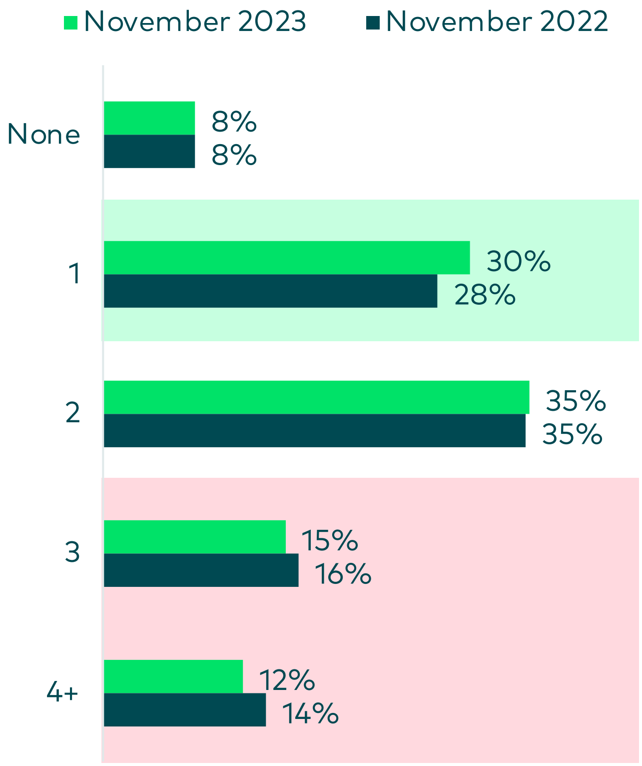
Los Angeles, Long Beach, Anaheim & Riverside, San Bernardino, Ontario CBSA

$831M

Philadelphia, Camden, Wilmington CBSA

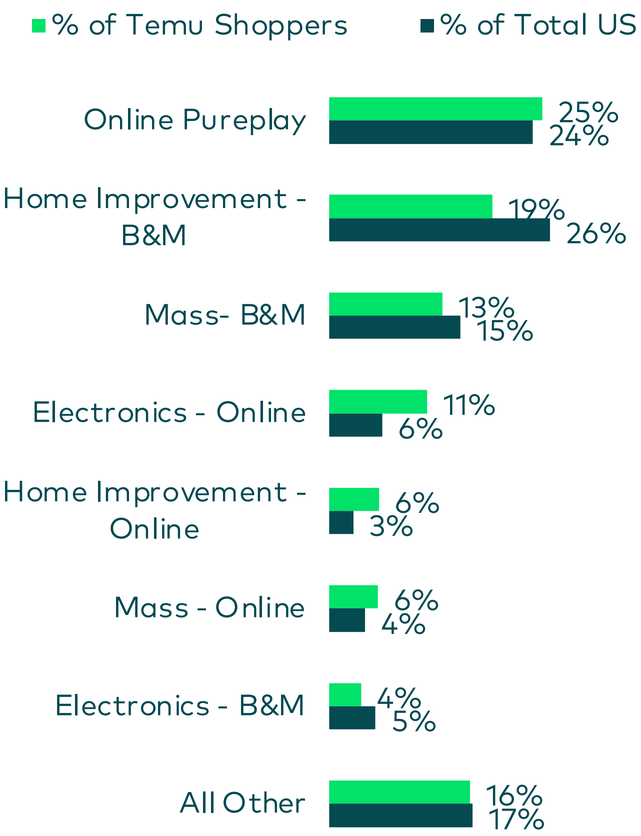
NUMBER OF PRIVATE CARS OWNED

Total US | % of Households



SHARE OF GM WALLET BY SHOPPER

Total US | % of Spend



4

CONSUMER DIGITALIZATION

HOW TECH AND AI IS CHANGING CONSUMER BEHAVIOR

In an ever-growing digital world, consumers are leveraging technology to enhance various aspects of their lives, from the promotions they engage with to the overall shopping experience. These shifts are fundamentally altering how Americans make purchases and perceive brands.

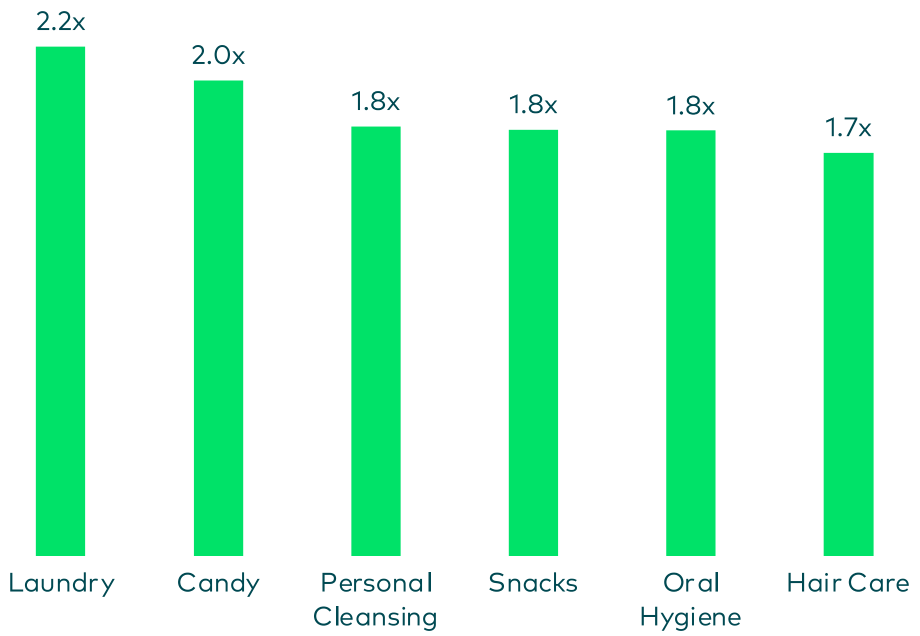
DIGITAL PROMOTIONS, ELEVATED GROWTH

Consider the realm of promotions, where a substantial digital transformation is underway. **In 2023, 3 in 4 promotional ad blocks for essentials were digital.** For non-essentials, nearly half (48%) were digital, marking a 5-percentage-point increase compared to the previous year. The impact of digital promotions on consumer purchasing habits is noticeable. Numerator's analysis across highly penetrated categories revealed that digital promotion redemptions substantially boost purchase frequency, which has shown a 71% increase in spending within the year.

Leaders tasked with managing trade budgets must strategically optimize their allocation to digital channels. The key lies in aligning the rate of digital investment with the unique dynamics of their category to drive effective and incremental sales.

BUY RATE INCREASE FOR HOUSEHOLDS PURCHASING ON DIGITAL PROMOTION

Total US | Against those who are not purchasing digital promo



TECHNOLOGY FLOURISHES IN 2024

In our annual shopping technologies survey, a noteworthy revelation emerged: **not a single shopping technology we surveyed has experienced a decline in adoption for 2023.**

In fact, technology adoption has surged, with mobile technology experiencing a pronounced boost. Mobile payments and downloadable content witnessed significant growth, ascending by 10 and 6 percentage points year over year, respectively.

In the relation to our vision on Health Empowerment, our findings pointed to mobile apps emerging as pivotal players in tracking and managing health in 2024.

These trends underscore the imperative for industry leaders to recalibrate their approach, emphasizing a digital- and mobile-first strategy in reaching consumers. This encompasses everything from activations to sourcing consumer insights.

At Numerator, our commitment to a digital-first understanding of the consumer is unwavering. Leveraging not only receipt capture technology but also NuLink capabilities, which capture trips transcending traditional formats, we continue to elevate our approach.

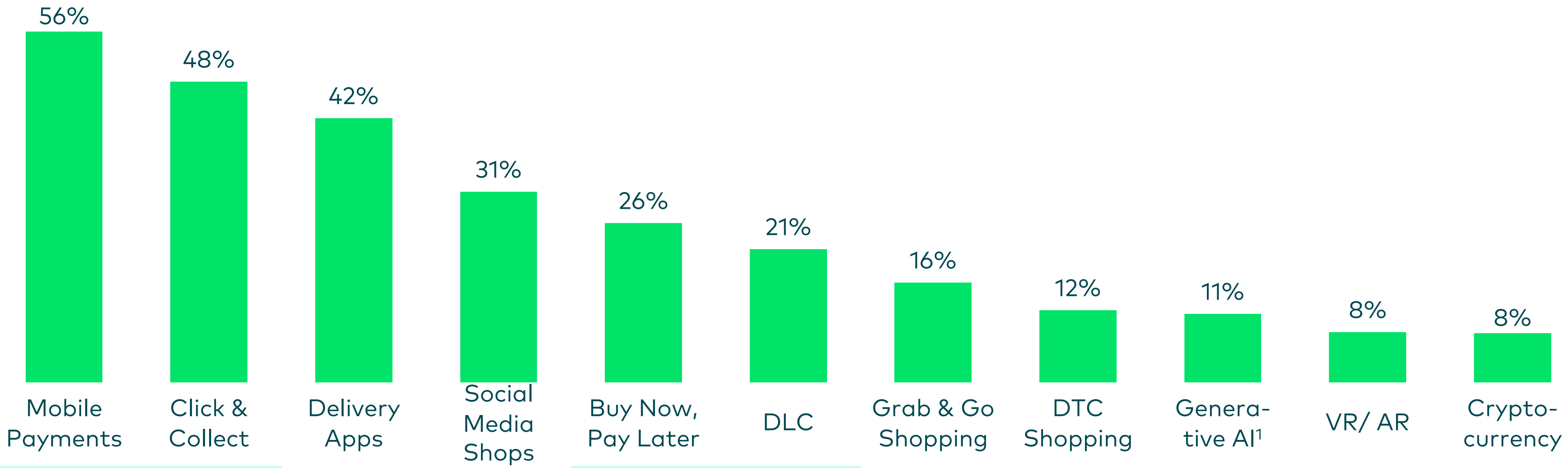
Furthermore, Numerator identified the growing prominence of Buy Now, Pay Later, with adoption increasing by 4pp in the past year.

This aligns with earlier research findings and the observable rise in credit levels where November 2023 showed credit share of personal income at a 2-year high of 4.4% and returning to 2020 levels.

For brands and retailers, unlocking methods to enable consumers to manage their cash flow effectively becomes crucial. This strategic shift will be significant as the market enters an inflection point where consumer savings return to normal.

TECHNOLOGY USAGE TRENDS

Total US | % of Households



Point Change vs 2022	+10pp	+4pp	+1pp	+3pp	+4pp	+6pp	+1pp	+3pp	-	+1pp	0pp

Source: Numerator Technology Survey | Fielded December 2023 and December 2022 | [1]New In 2023 | N=2504
Q. Which of the following technologies have you used?

WHICH IMAGE IS AI-GENERATED?

READ THE NEXT PAGE TO FIND OUT

THE AI WAVE:
BALANCING POTENTIAL AND RISKS

To discuss 2023 without delving into the realm of AI would be remiss. Generative AI (Gen AI), in particular, has emerged as the precursor for this generation's industrial revolution for the business world, promising accelerated content creation, enhanced data insights and a transformative impact on online search.

In just one year, **Generative AI has outpaced the adoption rates of both VR/AR and cryptocurrency, with over 1 in 10 consumers experimenting with the technology in 2023.** However, experimentation does not necessarily translate into full endorsement.

The lack of comprehensive governance for such technology highlights the need for leaders to follow three essential actions:

- **AI security & governance is paramount.** 45% of consumers express concerns about the privacy policies associated with AI technologies. To address this, businesses should engage legal counsel and collaborate with AI consortiums to establish robust governance frameworks.
- **Build AI trust incrementally.** Trust in AI-generated product recommendations remains low, with only 1 in 4 consumers expressing confidence. Brands should prioritize leveraging GenAI for technical solutions initially to foster trust before fully committing.
- **Test AI concepts and creatives before running.** Brands assuming their target audience won't discern GenAI content should exercise caution. 60% of consumers can accurately identify the AI-generated image on the left. **Notably, Boomers were the most adept at identifying the correct image among all generations.**

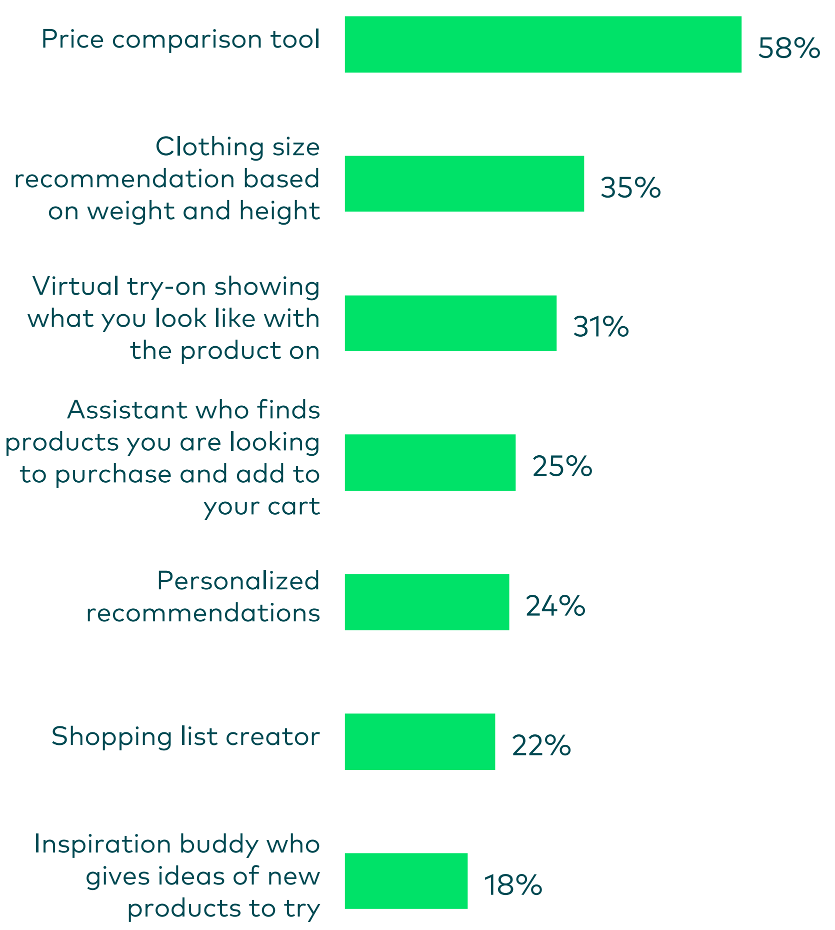
Generative AI holds the transformative potential to revolutionize various aspects of business operations. Yet, our research underscores a cautionary note: if brands fail to tread carefully, they risk alienating their consumers. When consumers discover that brands are using GenAI for their purchases and marketing efforts, negative sentiments outweigh the positive ones. Consumers become cautious, curious, skeptical, and unimpressed, with only a minority expressing excitement.

As leaders harness GenAI to reshape their businesses, a crucial lesson emerges: **in the realm of marketing, the focus of GenAI needs to be on benefiting the consumer rather than the business.** Rather than solely streamlining back-end processes, the emphasis should be on utilizing GenAI to enhance the consumer experience. Consumers desire GenAI as a value-add for their shopping journey, whether through facilitating price comparisons, offering clothing size recommendations, or enabling virtual try-ons using realistic clothing layering. Walmart is making this case with GenAI-powered search on their mobile app, allowing customers to search by use case.

Crucially, this technology needn't be perceived as sterile and transactional. Through consumer interviews, a prevalent desire emerged for AI personalities to possess a human touch– **making jokes, mimicking celebrities, or reflecting the fun nature of the user's own personality.** This aspiration for a touch of joy hints at the potential landscape for 2024 and beyond, where GenAI can seamlessly integrate into consumers' lives in a more personalized and engaging manner.

AI SHOPPING TECHNOLOGIES CONSIDERED

% of Respondents



Answer: The top image is AI-generated.

numerator.com/visions-consumer-trends

Reach out to your Numerator account partner for the full presentation.