Moody's
INVESTORS SERVICE

2022 MOODY'S OUTLOOKS

Changing State of the US Consumer

2022 Outlook

January 2022

The credit landscape in 2022

Debt sustainability
Debt levels have climbed to unprecedented highs, which will create repayment risks where growth and earnings prospects weaken or liquidity wanes

New technologies
Technological advances, from blockchain to electric vehicles, will offer competitive advantages to some entities and present threats to others; cybersecurity risks will continue to grow

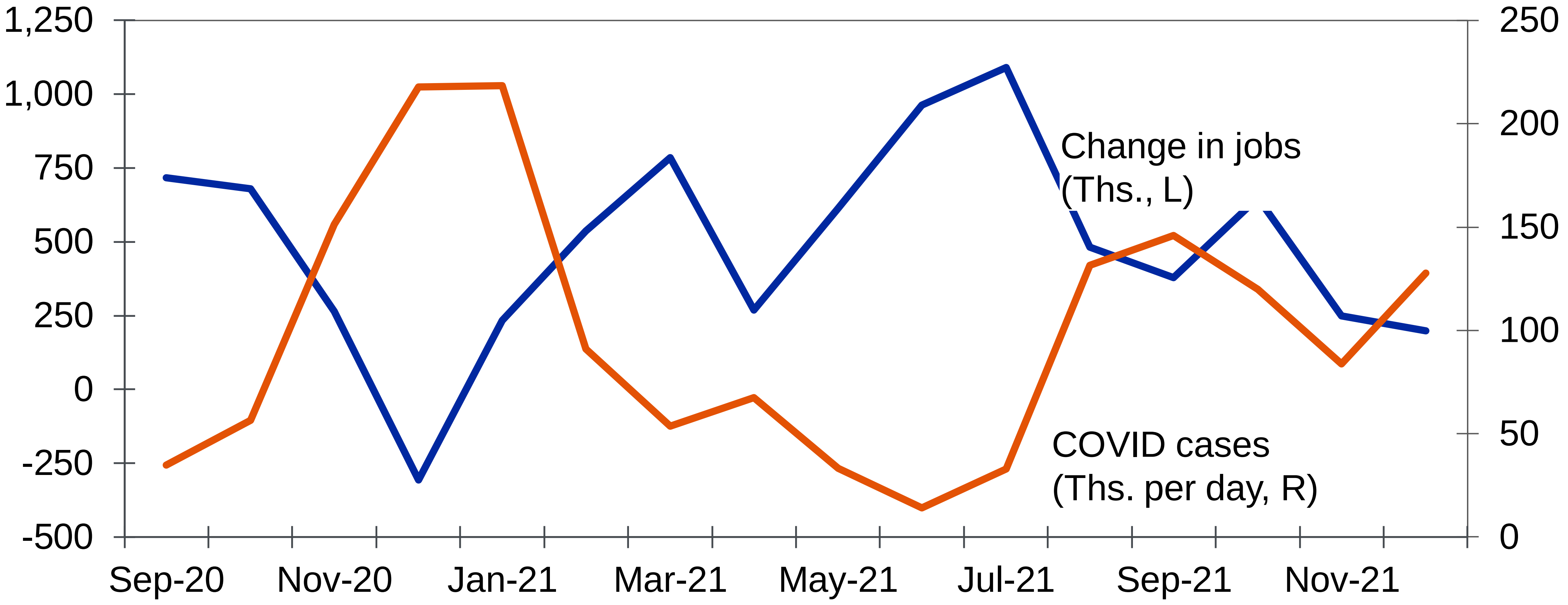
Inequality & social risk
COVID-19 has exacerbated disparities in employment, incomes and healthcare access, which have the potential to weaken social cohesion and diminish economic progress

Reshaped economies
The global economic recovery will solidify as pandemic effects lessen and businesses and consumers adapt, but prospects will diverge across regions and sectors

Policy shifts
Policymakers will scale back fiscal and monetary support to varying degrees; domestic politics, geopolitical risks and regulatory actions will set credit context

Path to net zero
Policies to meet net-zero carbon emission commitments will heighten credit risk and raise the cost of capital for carbon-intensive sectors; disclosure around climate issues will be in focus

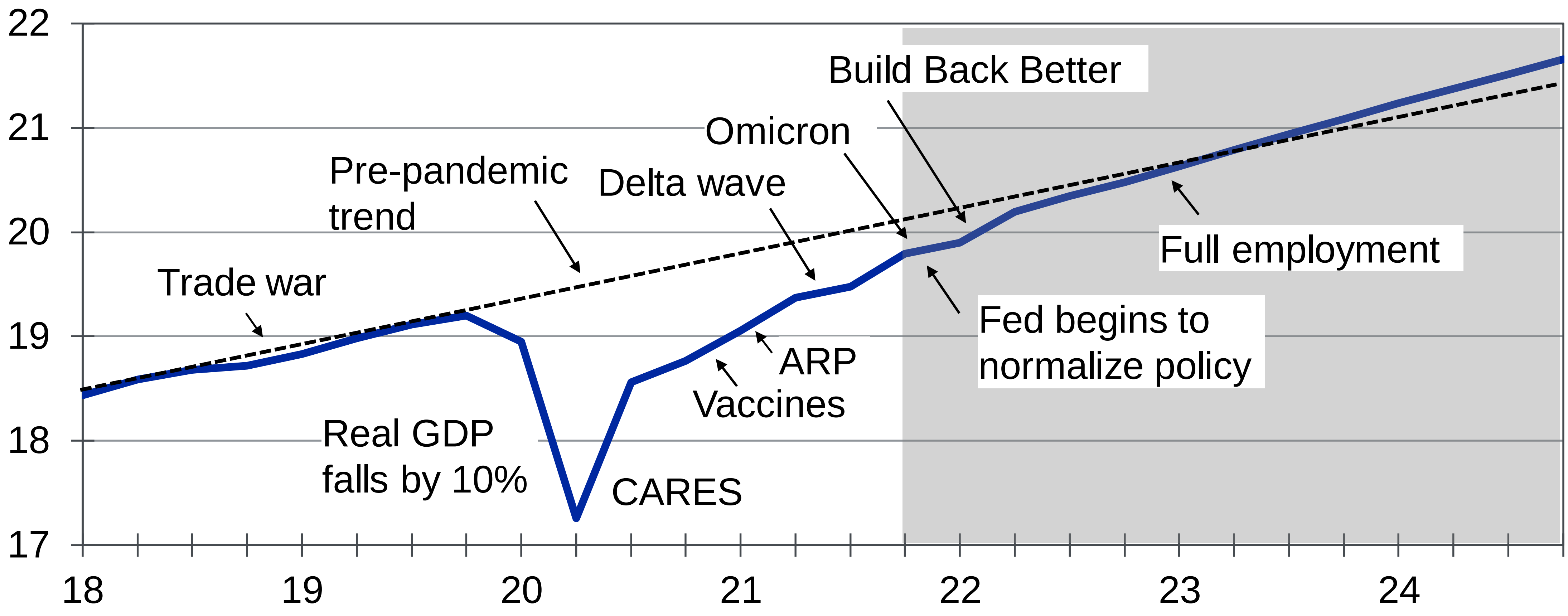
Economy Remains Tetherred to the Pandemic



Sources: CDC, BLS, Moody’s Analytics

Overcoming the Pandemic

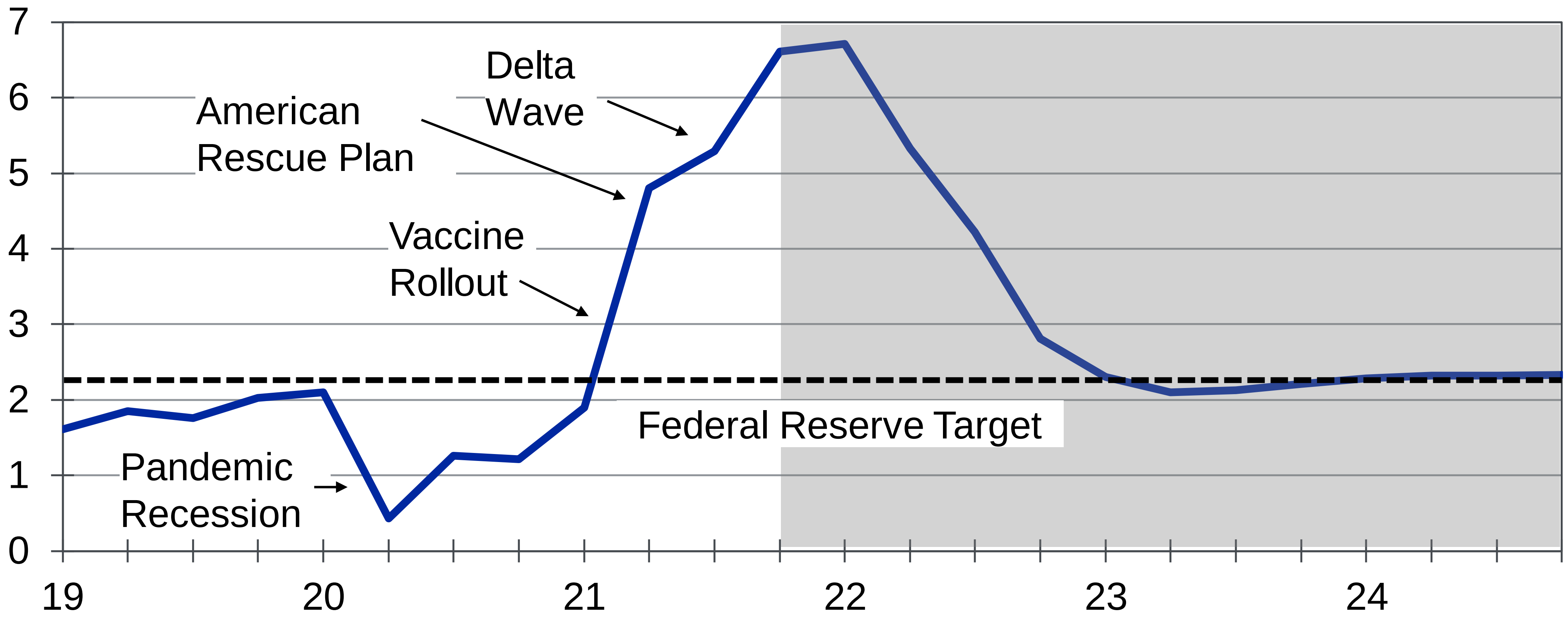
U.S. real GDP, trillions 2012$



Sources: BLS, Moody's Analytics

Inflation Is Peaking…

Consumer price inflation, % change yr ago



Sources: BLS, Moody's Analytics

Global Consumer Products: Outlook Is Positive

Most subsectors will benefit from the ongoing recovery from coronavirus disruptions, plus pricing and efficiency initiatives, but inflation and supply chain challenges will be headwinds in 2022

Moody's growth forecasts for consumer product subsectors

SUB-SECTOR		12-18 month OPERATING PROFIT GROWTH RATE
Beverages	●	6-8%
Packaged Foods	●	2-4%
Packaged Goods	●	3-5%
Durable Goods	●	5-8%
Tobacco	●	5-6%
Global Consumer	●	**4-6%**

Global Consumer Products

Our 2022 outlook for the **global consumer industry** including the global beverages, consumer packaged goods, consumer durables, tobacco and packaged food sectors is positive

1 Diverging performance by sector and geography

Companies hurt by pandemic shut-downs will continue recovery although the pace of improvement will slow

Those that benefitted from extraordinary pandemic demand still face tough comparisons as demand moves closer to pre-pandemic levels

2 Inflation and supply chain headwinds

Rising input, transportation costs and labor shortages will be the biggest challenges in the next year.

Some companies will see sales growth as prices rise but…

Margins will be pressured at least until the rate of inflation slows and pricing is fully realized.

3 Pricing will offset some inflationary pressures

Prices increases have been met with little push back from retailers or consumers so far, but they still lag cost increases

Profit margins will be pressured until pricing full catches up with cost increases – and this assumes inflation moderates

4 Cost cutting efficiency programs will help

Most companies will not cover dramatically higher costs through price increases alone.

Efficiency programs remain an important tool to help offset cost inflation.

5 Innovation and premiumization yield competitive advantages and support pricing power

Innovation supports price increases because consumers will spend more if they get more value.

Premiumization advantages branded companies over private label.

But there is some risk that high prices will force more consumers to choose private label alternatives.

6 On-line sales, e-commerce increasing

The pandemic reshaped routes to market when brick and mortar stores were closed.

Sectors most likely to see continued growth in on-line shopping include cosmetics, toys and alcohol.

Consumer ABS

The positive credit effects of pandemic-sparked consumer support and caution are fading. Fallout from normalizing conditions and evolving credit policies will depend on the degree to which lender maintain discipline and household strength endures.

1

Performance metrics will continue to normalize from extraordinary strength

Delinquencies, defaults, payment rates and other metrics will remain solid.

But weaken somewhat as a strong job market fails to fully offset fading consumer support and lingering effects of the pandemic, including displaced workers and higher inflation.

2

Lenders will ease credit standards, but seek to retain discipline

Low losses, strong economic and market conditions, and higher competition will push lenders to further ease standards.

But they will likely still guard specific risks, such as from high auto loan-to-value ratios (LTVs) amid greater vehicle price volatility, or from especially low credit scores.

3

Innovation continues to drive credit conditions

The pandemic accelerated use of technology, with growth in online shopping and capital for startups. The unusual credit environment and new competition further deepened interest in new processes and underwriting approaches.

4

Effects of vehicle production disruptions will linger for used car prices and auto securitizations

Global auto production snarls will ease, but the unwinding of inventory shortages and unprecedented car market conditions will take time.

Implications for recoveries and residual values (RVs) from the record used car price surge and increased used collateral in new deals depend partly on when the imbalances are resolved.

5

Policy decisions will remain key for credit

A range of legislative, monetary, regulatory, supervision and enforcement actions will likely affect credit as policymakers seek to address the still-ongoing pandemic, consumer protection, and other priorities.

6

Credit options for consumers will further proliferate

New and growing lenders and debt categories will compete with incumbents, pressuring standards and potentially masking risks. But in some cases, new financing types are serving complementary niches, covering specific needs or risk profiles.

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