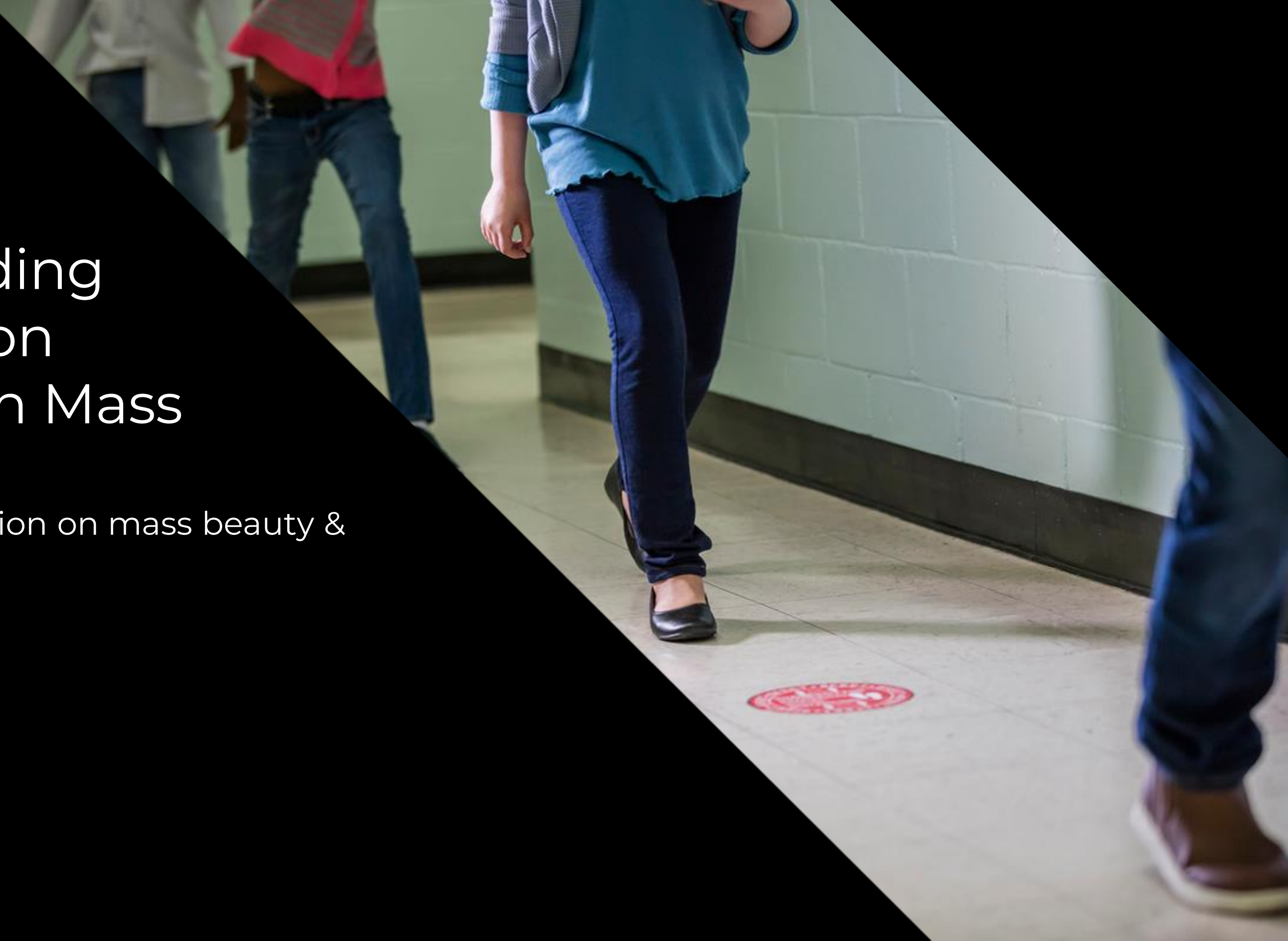




Understanding New Inflation Dynamics in Mass Beauty

The impact of inflation on mass beauty & personal care

Nov 2022



Executive Summary

The rise in inflation has been a key theme throughout 2022, we have watched as prices have shot up over 8% across the CPG landscape. Consumers are noticing, and we have seen their anxieties reflected in declining consumer confidence, as well as an increased level of concern about rising prices of everyday items.

The beauty and personal care category has not been immune to these rising prices, in fact, we have seen avg unit prices rising faster in each quarter of 2022 so far. The consumer response has been to cut back on the number of items they are purchasing, which is reflected in a slowdown in unit sales. The pinch is being felt particularly strongly by consumers on the lower end of the income spectrum, who are having to make choices or forgo impulse purchasing as their budgets are stretched. Manufacturers across the spectrum are taking this opportunity to adjust their pricing up, though the biggest impact of rising prices is coming from the largest manufacturers.

Looking ahead, we foresee this dynamic of rising prices to continue through at least the first half of 2023. Beyond that, we expect beauty & personal care sales to return to historical dynamics of modest in store dollar growth, and a bigger contribution to growth from online outlets.



Consumer confidence improved in September due to unemployment and gas prices declining

Consumer Confidence

108.0

▲ +4.4 pts Sep '22 vs Aug '22

▼ -1.8 pts Sep '22 vs Sep '21

Unemployment

3.5%

▼ -0.2 pts (Sep '22 vs Aug '22) Unemployment is down

▼ -1.2 pts (Sep '22 vs YAGO)

Savings Rate

3.5%

0.0 pts (Aug '22 vs Jul '22) Savings rates continue to fall

▼ -6.0 pts (Aug '22 vs YAGO)

Average Wages

\$32.46

▲ \$0.10 (Sep '22 vs Aug '22) Average wages up significantly

▲ \$1.54 (Sep '22 vs YAGO)

As expected, the majority of consumers are concerned about rising prices



How concerned would you be if prices were to increase for everyday items over the next 12 months?

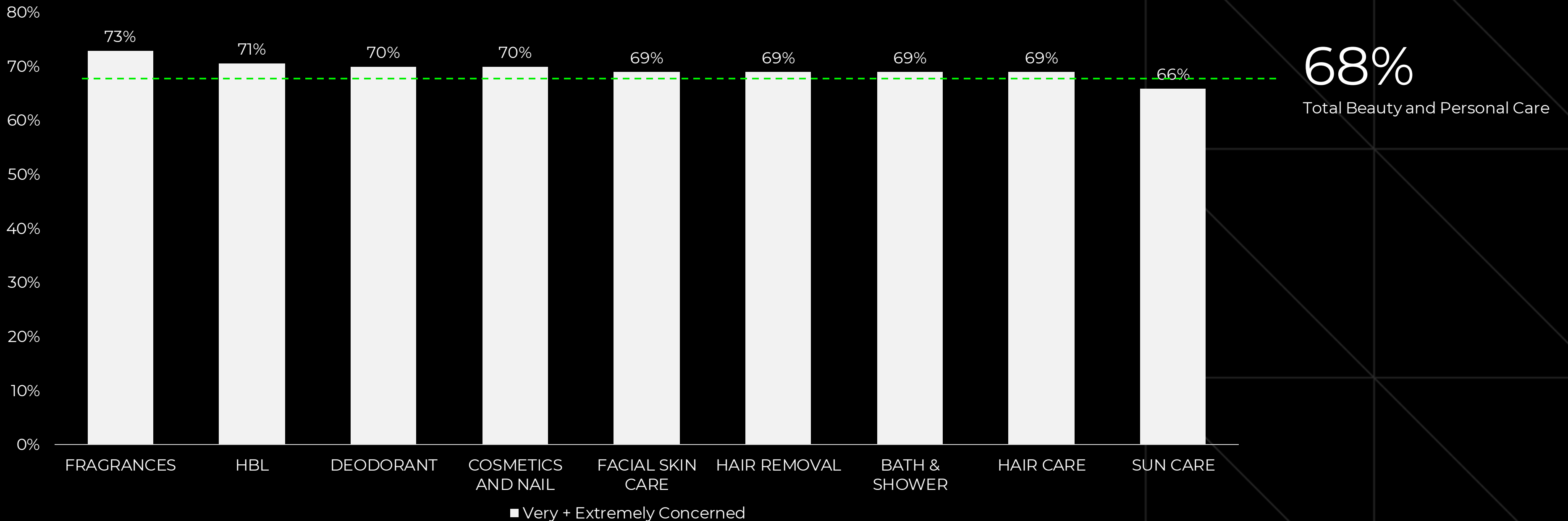
Yes: **97%**

Level of Concern

45% 41%	Extremely
26% 27%	Very
20% 23%	Somewhat
6% 6%	A Little

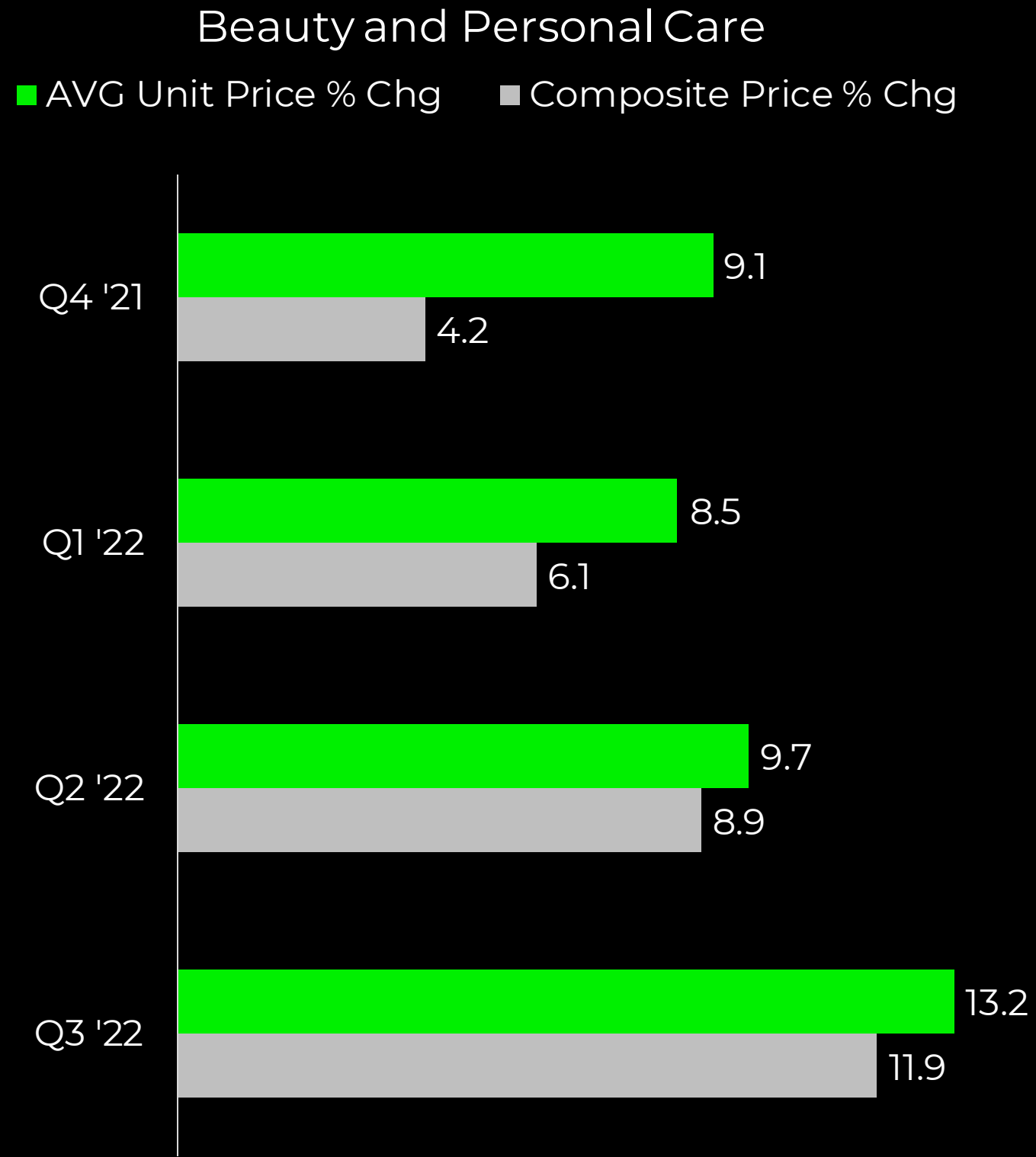
Fragrance and HBL buyers are most concerned about price increases

How concerned would you be if prices were to increase for everyday items over the next 12 months?



Source: NielsenIQ, Total US Homescan Panel Views Survey May 2022

Inflationary impacts continue to grow



**September US Inflation Rate:
8.2%**

**Food:
11.2%**

US Consumer Price Index All Items Percentage Change



Beauty and Personal Care Q3 '22

Source: Nielsen Total US RMS

Composite Pricing: based on top 1000 UPcs Facts: Weighted AVG EQ Price Change YA and Base EQ Price Change YA . Composite Pricing removes the affects of new items

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Forecasting the future state of beauty & personal care

Beauty & personal care is currently facing headwinds that many in the CPG industry can relate to such as price increases and changing consumer shopping behaviors. Despite these challenges, tailwinds, such as social media influence, the clean beauty movement, and premiumization remain strong and beauty is seeing dollar growth

To understand the likely future performance of beauty & personal care, we ran a 5 year forecast to predict how beauty is likely to trend across both in-store and online

Methodology – Syndicated Univariate Forecast Model

Forecast Overview:

- For each category, we evaluate performance of dozens of time series models' predictions to find the best fit for the period
- The best fit model is applied to the entire historical period and projected into the future, to create a forecast

Facts:

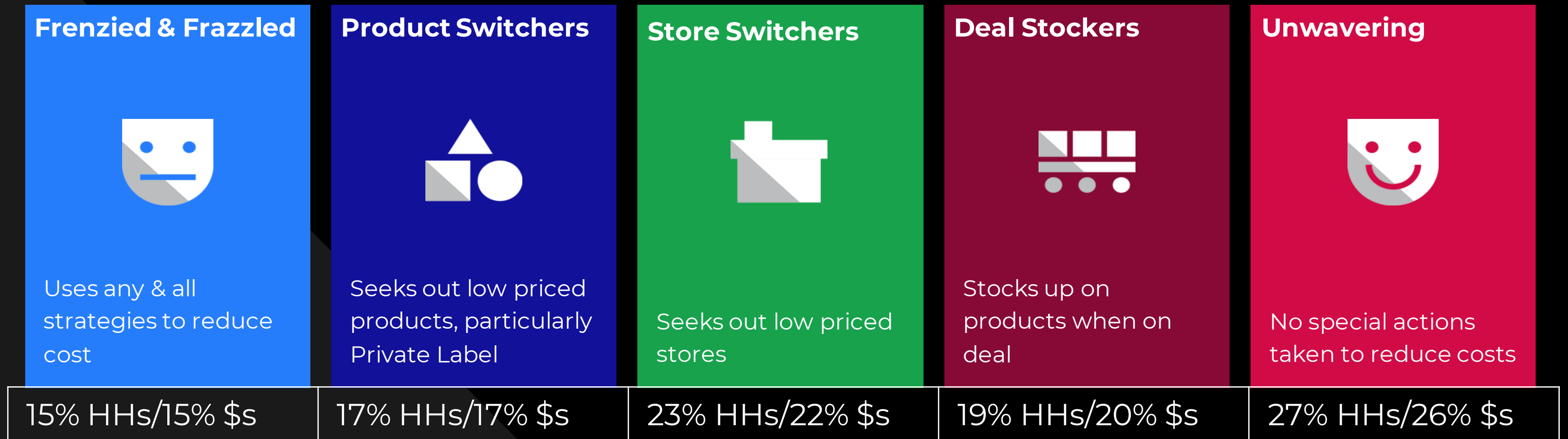
- Dollars
- Volume (in-store only)
- Pricing ((in-store only)

Markets

- In-store (mass)
- Online (mass + luxury)



Introducing the 5 ATI segments



← Most concerned with rising prices

→ Less concerned with rising prices

Key Takeaways

Inflation has been top of mind for all those in the industry as we continue to monitor how consumers shift their behavior in reaction to rising prices. Consumers will need to allocate more of their dollars towards essentials and make more calculated decisions on how they spend their discretionary dollars.

The beauty and personal care category is seeing prices rise as a result of both inflation and category dynamics such as premiumization. Beauty is unique in that while some categories will be impacted by consumers pulling back and having fewer out of home occasions, others may benefit from a rise in money saving driven by at home self care. Moving forward, it will be important to monitor how more constrained shoppers are reacting to inflationary pressures.





Thank you.

For more information visit our insights hub at:
niq.com/beauty