Hilco Global
AN ORIX COMPANY

SMARTER PERSPECTIVE: CONSUMER

The Consumer Economy Under Macro Pressure: What It Means for Demand, Pricing, and Lending Risk

By Robert Gorin

August 2026

Consumer companies entered 2026 facing a familiar but intensified set of pressures: persistent inflation, elevated interest rates and softening discretionary demand. Geopolitical instability, including the Iran conflict and resulting disruption risk in the Strait of Hormuz, has added further volatility to energy, freight and global supply chains. Layer in tariffs, stubborn labor costs and uneven consumer confidence, and forecasting has become significantly more fragile across the sector.

For operators, lenders, and investors, the challenge has shifted beyond inflation alone. The current environment brings the simultaneous pressure of uneven and weakening consumer demand, sustained margin compression driven by input cost inflation and limited pricing flexibility, as well as tighter liquidity conditions resulting from higher interest rates and ongoing refinancing requirements. These forces are now increasingly interacting with one another rather than occurring in isolation, which makes the operating environment significantly more difficult to forecast and manage.

Trade-Down Behavior Is Reshaping Demand

Consumers remain under pressure. Grocery inflation across staples such as eggs, meat, beverages and packaged foods continues to erode purchasing power, while wage growth has lagged for much of the middle-income consumer base. The impact is visible across nearly every aisle of the consumer economy.

The clearest expression of this pressure is trade-down behavior. Consumers are increasingly replacing national brands with private-label alternatives. A household that previously bought Kellogg's cereal may now choose store brand equivalents instead. That shift is not marginal. Circana estimates U.S. private-label sales have reached roughly $330 billion and now represent about 24% of unit share in U.S. CPG categories, underscoring how embedded value-seeking behavior has become.

This dynamic extends beyond simple brand substitution. In many categories, even "value innovation" products are losing pricing power. Detergent pods, once positioned as an upgrade versus liquids and powders, are seeing partial reversal in some consumer segments as price sensitivity increases. Similar pressure is evident across snacks, beverages and prepared foods.

Importantly, consumer pullback is not uniform. Some consumers remain within the same category but trade down to lower-cost private-label or store brands. Others shift consumption patterns more materially, moving away from premium or convenience-driven products altogether in favor of lower-cost meal structures like frozen value entrées or basic staples such as rice and pasta. A third group is not substituting but delaying purchases entirely. For lenders and investors, the distinction is critical because each behavior carries different implications for volume stability, pricing power, and inventory risk.

Discretionary Categories Are Showing a Deeper Pullback

This pattern is not confined to grocery and CPG. It extends across discretionary categories such as electronics, toys, apparel, and home goods. Households are extending replacement cycles for higher-ticket items like smartphones, laptops, and appliances, while also reducing non-essential spending such as toys and seasonal goods. Retailers have increasingly leaned on discounting and promotional activity to clear inventory, reflecting slower underlying demand rather than purely competitive pricing pressure. These categories often serve as early indicators of broader consumer caution and are more exposed to tariff-driven cost pressure given global sourcing dependence.

Restaurants Reflect the Same Market Split

The restaurant sector illustrates these same pressures in real time. Higher-end restaurants serving affluent consumers have largely preserved pricing power, while value-focused chains have maintained traffic through promotions and bundled offerings. The middle of the market remains the most challenged, as consumers cut back on discretionary dining frequency.

This has driven increasingly explicit competition on value. Chili's Grill & Bar, for example, has directly compared its burger-and-fries value proposition against McDonald's pricing in its marketing, highlighting how brands are now competing on perceived value per dollar rather than price alone. Today's diners increasingly prioritize the overall experience, portion size, and ingredient quality over the base cost of a meal. Consequently, restaurants that elevate this perceived value can successfully justify higher menu prices and build stronger customer loyalty than those competing on price alone. At the same time, McDonald's has extended its $5 value meal offering in response to affordability-driven traffic softness, reflecting a broader value-driven competitive cycle across quick-service and casual dining segments.

Forecasting Complexity and Cost Volatility Are Rising Together

Against this backdrop, consumer forecasting has become more complex. Purchasing behavior is now inconsistent across income bands and categories, meaning that income is no longer a reliable predictor of spending patterns. For restaurants and consumer product companies alike, this shift means broad demographic targeting is dead; brands must now micro-target specific product categories with precision to capture highly unpredictable consumer dollars. Some companies have absorbed tariff-related costs to preserve volume, while others have prioritized margin recovery through pricing actions. The difficulty is distinguishing cyclical softness from structural shifts in demand.

Operating costs remain equally volatile. Shipping disruptions tied to geopolitical instability continue to affect freight reliability and pricing. Energy swings ripple through manufacturing, logistics and packaging costs. Tariffs continue to reshape sourcing decisions, particularly for companies reliant on imported inputs or finished goods.

Many companies entered this environment with capital structures shaped by years of low interest rates. As refinancing costs rise, balance sheet pressure is increasing, particularly for firms already experiencing weaker top-line growth or margin compression.

Implications for Lenders and Credit Underwriting

Lender oversight has becomes more consequential. Traditional underwriting models anchored in trailing performance are increasingly becoming insufficient in consumer sectors. Instead, lenders now must evaluate how business models perform under multiple demand, pricing and cost scenarios, not just historical averages.

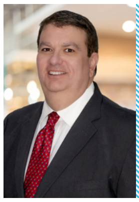
This requires deeper diligence into pricing elasticity, promotional dependency, supplier concentration, inventory quality and customer retention trends. It also requires a clearer view into whether management teams understand where and how consumers are trading down, and whether margin structures can absorb additional freight, tariff or input cost shocks.

Inventory and receivables risk are also becoming more dynamic. Products that once turned predictably may now experience slower velocity and higher markdown exposure. Receivables quality can weaken quickly if retailers, distributors or restaurant operators face traffic declines and tightening liquidity.

Conclusions

The broader reality here is that disruption is no longer episodic. Inflation, tariffs, geopolitical instability and shifting consumer behavior are now interacting continuously, making static forecasting assumptions unreliable.For lenders and investors, risk assessment must therefore become more operational and adaptive. The central question is no longer whether a borrower can just withstand today's environment, but whether it can repeatedly adjust as that environment changes.

The consumer economy remains resilient overall, and well-managed operators should continue to find opportunity. But the margin for error has narrowed and companies that misread consumer behavior, mismanage liquidity or fail to adapt quickly to changing conditions are increasingly exposed. In this environment, disciplined underwriting, active lender engagement and operational agility are not differentiators. Recent experience proves that they are now baseline requirements



ROBERT GORIN
EXECUTIVE DIRECTOR - RESTRUCTURING
GETZLER HENRICH
PROFESSIONAL SERVICES

Robert can be reached directly at
rgorin@getzlerhenrich.com