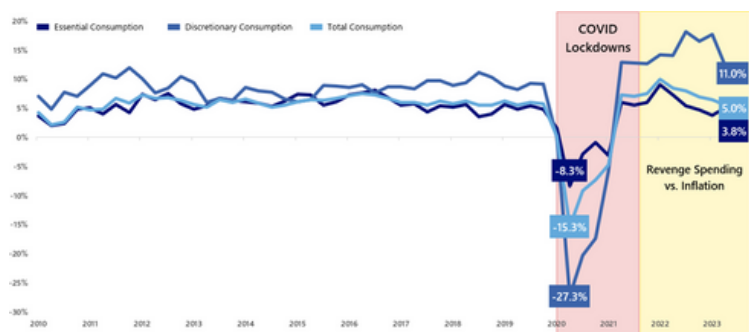


# Consumption Spending through the Eyes of Groceries

by: Allan F. Tripón Jr.

On the surface, the recent release of the 3rd quarter Philippine GDP numbers seems to suggest that the prolonged high levels of inflation and the rapid rise in interest rates have finally put an end to the revenge spending phenomena, with household final consumption growth slowing down to 5.0% (see Figure 1). This print is the slowest since March 2021, at the peak of the pandemic. A deeper look into the numbers, however, shows a different and more interesting story. By dividing consumption between its “essential” and “discretionary” components, it is clear that revenge spending is very much still alive.

**Figure 1:** Essential and Discretionary Consumption Expenditure Growth YoY



Source: PSA Data and NRI Analysis

Discretionary consumption grew 11.0% in the 3rd quarter, led by restaurants (+21.4%) and recreational activities (+18.9%) (see Figure 2). Essential consumption, meanwhile, lagged at 3.8% growth (see Figure 2). Food and beverage, which makes up the largest part of the consumer basket, was the main drag – growing at a flat rate of 0.3% (see Figure 2).

**Figure 2:** Components of Essential and Discretionary Consumption

	Q1	Q2	Q3	YTD Average
<b>Essential</b>	<b>3.8%</b>	<b>5.1%</b>	<b>3.8%</b>	<b>4.2%</b>
Food & Beverage	0.6%	0.4%	0.3%	0.5%
Housing & Utilities	3.9%	6.1%	4.5%	4.8%
Health	7.8%	8.7%	6.0%	7.5%
Transport	14.3%	30.1%	14.5%	19.6%
Communication	5.7%	5.7%	6.3%	5.9%
<b>Discretionary</b>	<b>17.7%</b>	<b>12.3%</b>	<b>11.0%</b>	<b>13.7%</b>
Clothing & Footwear	-2.4%	-27.3%	-11.4%	-13.7%
Household Durables	-2.8%	-2.7%	-1.1%	-2.2%
Recreation	35.5%	25.8%	18.9%	26.7%
Restaurant	34.0%	33.6%	21.4%	29.7%
Others	14.8%	11.2%	10.2%	12.1%
<b>Total Consumption</b>	<b>6.4%</b>	<b>5.5%</b>	<b>5.0%</b>	<b>5.7%</b>

Source: PSA Data and NRI Analysis

**This large disparity in discretionary and essential spending suggests that inflation has affected the different economic classes disproportionately.** The higher classes, who can afford to spend on hotels and restaurants continue to do so, despite high inflation and rising interest rates. On the contrary, the lower classes who only spend on the essentials are forced to cut consumption (on a per capita basis) and change their spending behavior.

To further investigate this divergence, NRI decided to analyze the financial statements and investor presentations of Puregold and S&R. These companies were chosen for three reasons:

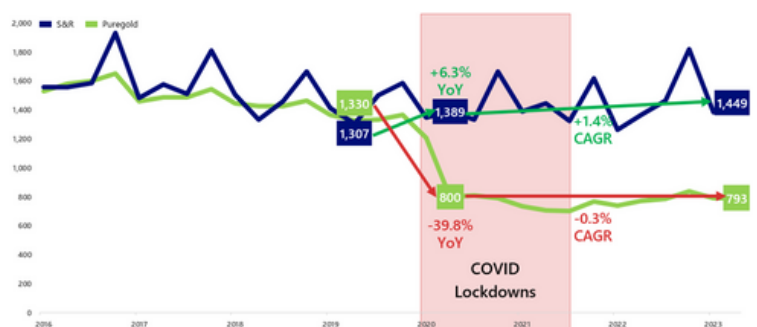
1. Puregold Price Club Inc. (Ticker: PGOLD), which operates both Puregold and S&R, is one of the largest publicly listed retailers in the Philippines – with a market capitalization of ~P80 billion.
2. GOLD has one of the most comprehensive reports, providing transaction volume, basket size, store network, and other data that most of its peers do not provide.'
3. Puregold and S&R have distinct target markets as shown by their average basket sizes (more on this later), lending themselves well to the research objectives of this article.

## Puregold and S&R, A Financial Analysis

In mid-March 2020, the Philippine government placed the country on lockdown to combat the spread of COVID. This enhanced community quarantine caused Puregold’s average daily transaction volume per store to fall off a cliff in the 2nd quarter of 2020, down 39.8% YoY from 1,330 daily transactions to 800 (see Figure 3). This **volume never recovered, even as mobility restrictions were eased in mid-2021** onwards. In fact, traffic even got slightly worse at a pace of -0.3% annually until the 2nd quarter of 2023 (see Figure 3). Currently, Puregold’s **daily same-store transaction volume is still 40.4% lower than 2019 levels.**

**On the flip side, S&R – which caters to a higher economic class – saw the opposite effect. Its average daily transaction volume per store increased 6.3% YoY in the same period – from 1,307 daily transactions up to 1,389 (see Figure 3). It then improved at a pace of 1.4% annually from the 2nd quarter of 2020 to the 2nd quarter of 2023 (see Figure 3). Currently, S&R’s daily same-store transaction volume is 10.9% higher than 2019 levels.**

**Figure 3:** Average Same-Store Daily Transaction Volume for Puregold and S&R



Source: Puregold Quarterly Financial Statements (2016 to 2023) and NRI Analysis

These statistics beg several questions. (1) Why was Puregold's transaction volume more heavily affected than S&R's? (2) Why hasn't it recovered even after the relaxation of mobility restrictions? (3) Is this reduction in volume permanent?

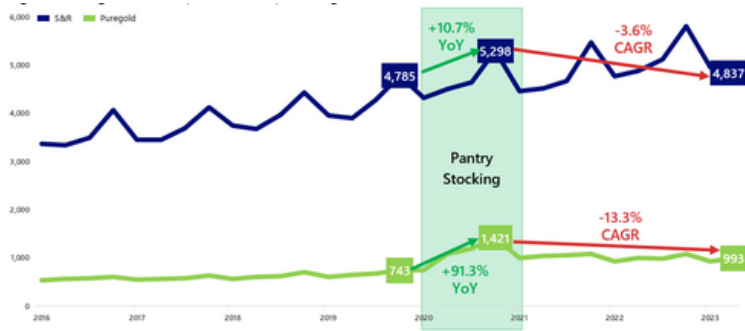
NRI has **two initial hypotheses** to answer these questions.

1. Customers are buying more per transaction – thus, reducing the number of grocery trips needed.
2. Newly built Puregold stores are cannibalizing foot traffic from existing stores.

### Are customers buying more per transaction to reduce the number of grocery trips needed?

In the height of the COVID lockdowns back in 2020, Filipinos panic bought food and supplies (a) due to fear of shortages and (b) to reduce their exposure to the virus. As a result, **the average basket size for Puregold almost doubled – jumping 91.3% YoY from P743 to P1,421 per grocery trip** (see Figure 4). S&R saw a similar (albeit less dramatic) increase, with the average basket size growing 10.7% YoY (from P4,785 to P5,298 per transaction) (see Figure 4).

**Figure 4: Average Basket Size (in Current PHP) for Puregold and S&R**



Source: Puregold Quarterly Financial Statements (2016 to 2023) and NRI Analysis

**As the mobility restrictions were relaxed, this pantry stocking behavior subsided.** Puregold's average transaction size decreased at a rate of 13.3% annually, settling at P993 per transaction in the 2nd quarter of 2023 (see Figure 4) – 33.6% higher than 2019 levels. Removing the effects of inflation, this figure translates to a basket size of P803 using constant 2018 base prices (see Figure 5), which is 9.7% higher than 2019 levels. In other words, **consumers are spending 33.6% more per transaction now vs. 2019. However, because of high inflation, they are only buying 9.7% more in terms of volume of products.**

**Figure 5: Average Basket Size (in Constant 2018 PHP) for Puregold and S&R**



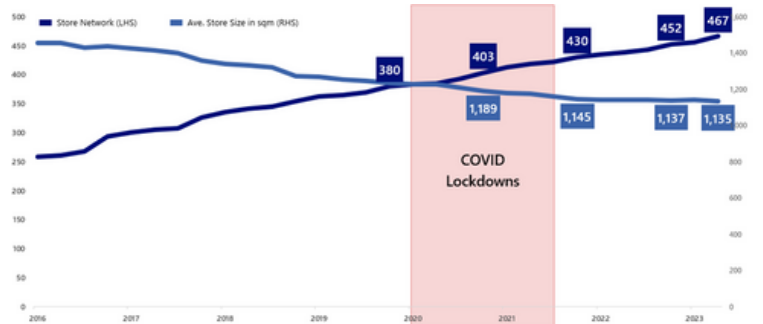
Source: Puregold Quarterly Financial Statements (2016 to 2023) and NRI Analysis

*The Verdict?* The 40.4% decrease in the same-store average daily transaction volume was **partially caused by a 9.7% increase in real basket size.**

### Are newly built Puregold stores cannibalizing foot traffic from existing ones?

The long-term strategy for Puregold, at least based on the numbers, seems to be increasing the store network by **building slightly smaller grocery stores nearer to the consumers.** This strategy is evident in the 22.9% cumulative increase in its store network and an 8.1% cumulative decrease in its average store size from 2019 to 1H-2023 (see Figure 6).

**Figure 6: Store Network and Average Store Size for Puregold**



Source: Puregold Quarterly Financial Statements (2016 to 2023) and NRI Analysis

*The Verdict?* The 40.4% decrease in the same-store average daily transaction volume was **largely (but still just partially) caused by a 22.9% increase in Puregold's store network, which caused cannibalization in foot traffic.**

### What about the rest?

Even with the combined effects of the slightly larger basket sizes and an increase in Puregold's store network, there is still a 7.8% decrease in volume unaccounted for. Unfortunately, there's not enough data in just the financial statements to know for sure. We will, however, try to make an educated guess – starting with a simplified model for estimating the average daily transaction volume and growth (See Figure 7).

**Figure 7: Formula to Estimate Same-Store Average Daily Transaction Volume**

$$\text{Volume}_{\text{Daily}} = \left[ \text{Population} \times \frac{\text{Market Share}_{\text{PGOLD}}}{\text{Store Network}_{\text{PGOLD}}} \right] \times \left[ \frac{\text{Per Capita Consumption}_{\text{Daily}}}{\text{Average Basket Size}} \right]$$

$$\% \Delta \text{Volume}_{\text{Daily}} = \left[ (1 + \% \Delta \text{Population}) \times \frac{(1 + \% \Delta \text{Market Share}_{\text{PGOLD}})}{(1 + \% \Delta \text{Store Network}_{\text{PGOLD}})} \right] \times \left[ \frac{(1 + \% \Delta \text{Per Capita Consumption}_{\text{Daily}})}{(1 + \% \Delta \text{Average Basket Size})} \right] - 1$$

Source: NRI Analysis

**Figure 8: Table of Values**

Variable	Cumulative %Δ (2019 to Q2 2023)	Source
%ΔVolume <sub>Daily</sub>	40.4%	Puregold Financial Statements
%ΔPopulation	5.4%	UN Population Department
%ΔMarket Share <sub>PGOLD</sub>	-26.6%	NRI Estimate
%ΔStore Network <sub>PGOLD</sub>	22.9%	Puregold Financial Statements
%ΔPer Capita Consumption <sub>Daily</sub>	3.9%	PSA Data
%ΔAverage Basket Size	9.7%	Puregold Financial Statements

Source: Puregold Quarterly Financial Statements (2016 to 2023), PSA Data, UN Population Department Data, and NRI Analysis

Plugging in the transaction volume, store network, and average basket size data from Puregold's financial statements, combined with population and per capita consumption data from the Philippine Statistics Authority and United Nations Population Department, **NRI estimates that there was a 26.6% drop\*\* in Puregold's market share** (see Figure 8).

We hypothesize that most of these customers were forced to shift to (1) markets (palengke) or (2) cheaper grocery stores to cope with the high prices.

This hypothesis is the crux of this article. The **prolonged levels of high inflation have forced consumers, especially those in the lower classes, to make permanent changes to their consumption behavior as a means of coping with the decrease in purchasing power.** The biggest change being the shift towards palengkes and cheaper grocery brands. The higher classes (those who can afford to shop in S&R), meanwhile, do not seem to be fazed by inflation – at least that’s what the data tells us.

*\*\*Note: By drop in market share, we mean Current Market Share x (1 – 26.6%). **NOT** Current Market Share – 26.6%.*



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Allan Tripon Jr. is the Business Strategy Consulting Head of Nomura Research Institute Singapore – Manila Branch. He specializes in topics on financial markets, company valuation, economics, accounting, and taxation.

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