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Five polarising trends in European household consumption

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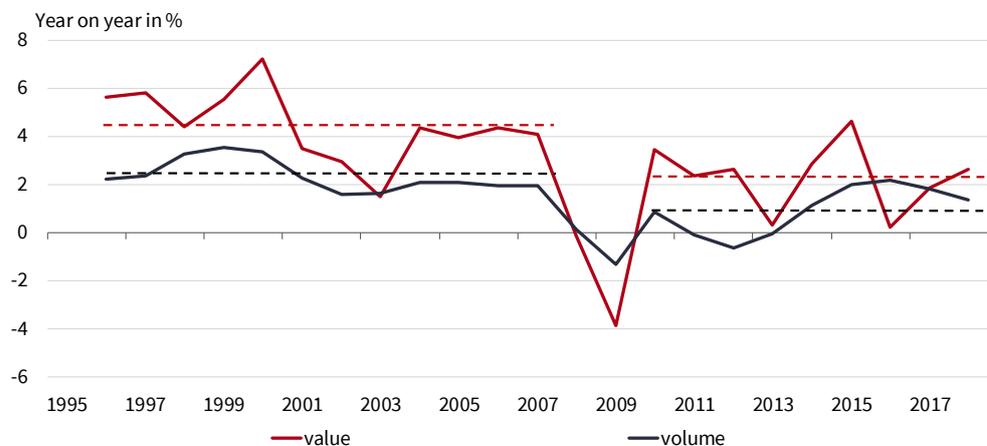
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Written in
cooperation with
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Household consumption in Europe has weakened considerably since the 2008 crisis. This stylised macroeconomic fact hides diverging sectoral trends, observable both on prices and volumes. We pinpoint five profound changes in consumption trends and habits in Europe, which have caused a significant shock to the consumer goods and retail sectors: 1) the increasing share of consumption accounted for by basic necessities and 2) spending on leisure services; 3) the concomitant decline in the share of consumer goods due to severe price deflation and 4) a lack of increase in volumes despite this price drop; and lastly, 5) demographic changes combined with a major disparity in income trends depending on age and place of residence within each country.

In the macroeconomist's eyes, household consumption is the least volatile and least cyclical component in final demand, compared to investment or foreign trade. This relative stability should not obscure the major changes that have occurred in recent years. Indeed, in addition to a clear weakening of consumption growth, in both nominal and real terms, in all of the major Western European countries since 2008, the household consumption profile as it appears in the national accounts has changed dramatically.

Household consumption in the EU-15



Sources: SG Economic and Sector Research, Eurostat

In this piece, we underline five major trends seen in household consumption in Europe that have a significant impact on sectors that are heavily consumer-facing, particularly consumer goods and retail¹. In fact, these trends affect all facets of demand toward these sectors (volumes, prices, variety, geography, and more). In addition, they have the distinction of applying to all five large Western European countries (which is the area of our study), though to varying degrees:

- **The share of basic necessities in consumption rose significantly until 2013 and has remained high.** The corresponding drop in the discretionary share of consumer spending may feed into the consumer sentiment of a loss of purchasing power, especially for income groups with lower revenues and a higher marginal propensity to consume. It also reduces the sphere of action of retail trade, which operates mainly on such discretionary spending;
- **The share accounted for by leisure services has stayed on an upward trend despite the crisis** and remained, in 2017, at an all-time high;
- **Consumer goods (food, furniture, apparel, electronics... see detailed composition on p11) were the big losers in face of the rise in spending on basic necessities and leisure services. This is due to a decline in their prices,** particularly in the apparel, furniture, and electronics segments;
- **The decline in the prices of consumer goods has not supported their sales volumes, and there is even *deconsumption* at play in certain segments.** As a result of the 2008 crisis, per capita spending fell in apparel, furniture, and cultural goods in several large European countries. This phenomenon is visible in Italy, Spain, and France but less so in the UK and Germany;
- **Changes in income vary a great deal by age and place of residence, which can interact with changes in consumption patterns.** Beyond usual public policy considerations, this phenomenon further accentuates the challenges (product supply, location, etc.) that retailers face.

We will develop these five shifts of major consequences for directly consumer-facing sectors in greater detail in the rest of this paper, taking a value approach, which is the most relevant one for highlighting the impact from a business viewpoint.

1. Discretionary spending has declined

The decline in so-called discretionary spending, in favour of spending on basic necessities, is one key point of note in the overall slowdown in consumption. It is having an impact not only on society (by curbing consumers' perceived purchasing power) but also on key industries: indeed, discretionary spending is the primary sphere of action for retail businesses.

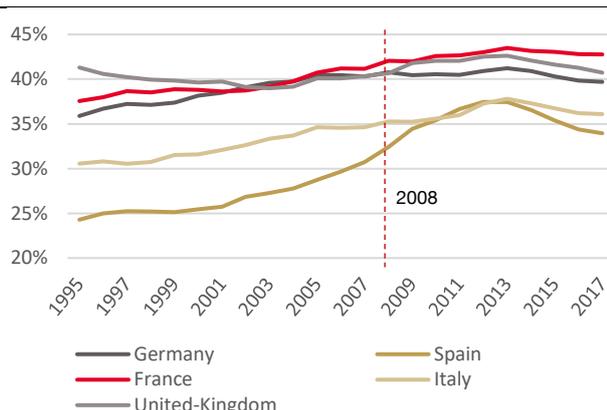
¹ In a separate future note, we will take a specific look at climate-related changes in consumer behaviours.

Spending on basic necessities² has been on an upward trend since the 1990s and now accounts for between 34% (Spain) and 43% (France) of total household consumption:

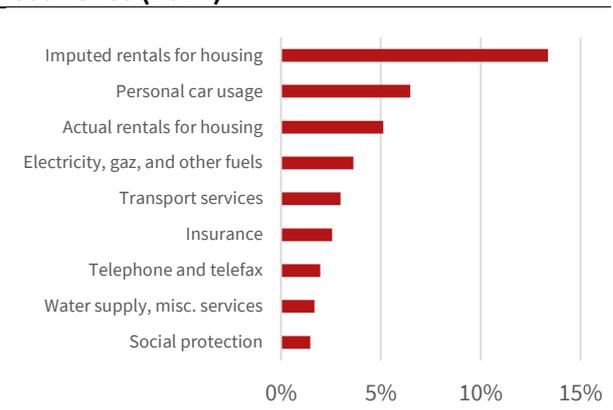
- Since 1995, only the United Kingdom has stood out for its stagnating fixed spending. Meanwhile, fixed spending has climbed in Germany, France, Italy (+3.8, +5.2, and +5.6 percentage points, respectively), and most steeply in Spain (+9.7pp). While the trend has flagged since 2013, France and Italy are still above their 2008 levels.
- Housing (actual and imputed rents) is the largest budget item by far, with the greatest increase since 1995 (+2.2pp) and even 2008 (+1.2pp). Consumer spending on housing is highest in the United Kingdom (23.2% of spending in 2017) and France (19.0%). It is the lowest in Spain (15.2%) and Italy (16.3%). Germany was in the median position in 2017 (16.8%) but stands apart for the decline in this item since 2008 (-0.2pp) and virtual stability since 1995.
- Transport (private vehicle use and transport services) is increasing but fluctuates according to changes in oil prices. This budget item is highest in France (10.1% of spending in 2017), and this has been the case through almost all of the period in question, particularly due to spending on private vehicle use.

This increase in the weight of “fixed” spending has certainly helped heighten the feeling of a loss in purchasing power, particularly in Southern European countries, where consumer spending has contracted in absolute value terms. This feeling is even more apparent in the lowest-income households, which spend a greater share of their consumption on these items in comparison with more affluent households.³

Weight of household spending on basic necessities in consumption, in value terms



Weight of household spending on basic necessities components, average of five countries (2017)



Sources: SG Economic and Sector Research, Eurostat

² Housing, water, electricity, natural gas and other fuels, private vehicle use, transport services, telephone and fax services, social protection, and insurance. See appendices for these line items’ product codes.

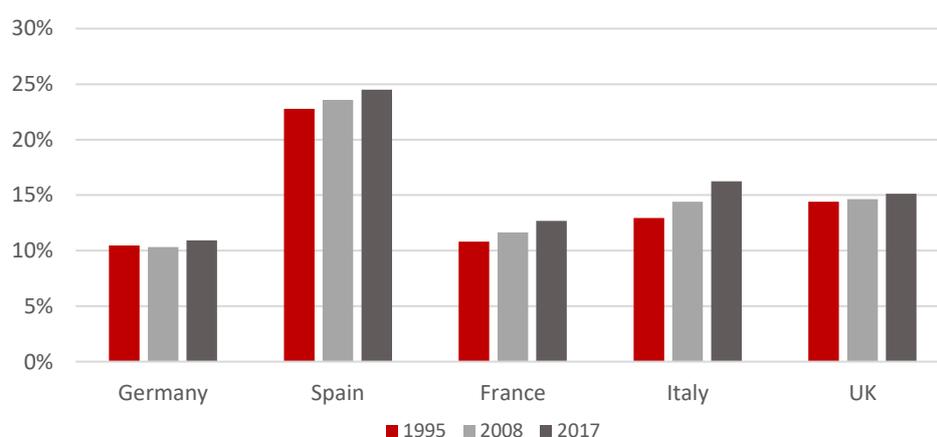
³ See as an example the “Family Budget” surveys conducted by INSEE.

2. A jump up in the “leisure” budget

The reduction of the discretionary portion of household consumption has not come at the expense of leisure services⁴ – quite the opposite. This household consumption segment displays especially robust long-term momentum:

- Spending on leisure services has risen almost without interruption since 1995, with a single slump in 2008, and its weight in total spending has never been so high. In value terms, this type of spending has doubled in nearly all of Europe’s large countries since 1995 (though slightly less in Germany).
- The inflation trend on these types of services (particularly for hospitality, dining, and personal care) only partly explains the momentum in this kind of spending. In fact, data by volume also shows steady growth (of around +1% on average per year since 2009 in France, Germany, and Spain, and +2.5% in the United Kingdom).
- Lastly, this positive trend affects all components of this type of spending, although the hospitality, travel package, and dining segments are especially prominent.

Weight of household spending on leisure services in household consumption, in value terms



Sources: SG Economic and Sector Research, Eurostat

However, on a shorter time horizon, more disparate trends are observed in these categories, with sector breakdowns being redrawn. In hospitality, one example is the boom in the intra-Europe travel market (emergence of low-cost airlines) and the short-stay market, which can force some companies to adapt quickly, despite the sector’s overall momentum.

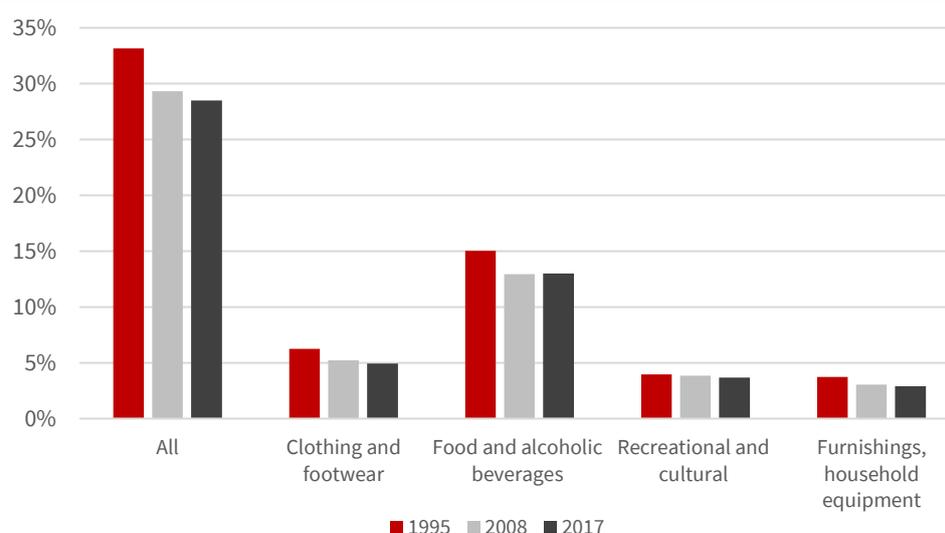
⁴ Recreational and cultural services, travel packages, dining services, accommodation, and personal care. See appendices for these line items’ product codes.

3. Consumer goods are the big losers

The decline of the discretionary spending share and, within it, the growing importance of leisure service spending have resulted in a noticeable compression of the proportion of household consumption accounted for by consumer goods (see detail of consumer goods on p11).

As such, while they accounted for nearly 35% of household consumption spending in the EU-15 in 1995, the share of consumer goods gradually eroded to 29% of household consumption in 2017.

Weight of consumer goods spending in value terms, EU-15 (%)



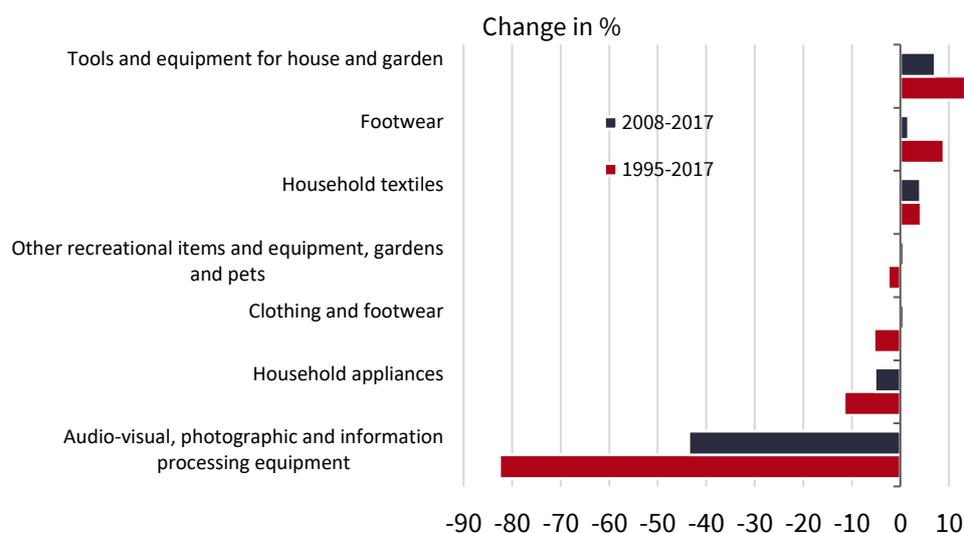
Sources: SG Economic and Sector Research, Eurostat

Above all, this phenomenon is related to a “price” effect because, in volume terms, the share of these expenses has dropped only marginally. However, there has been no notable “rebound” effect: consumer savings made on the prices of these goods have not been allocated to increased volumes on this segment.

Here again, there are major consequences for consumer goods producers and for retail trade. Nonetheless, within these sectors, several segments are notable:

- Deflationary pressures have been especially clear on apparel, household appliances, and other leisure items (including gardening equipment) as well as household electronics since 1995. They coincide with the inclusion in production lines of low-cost labour areas, specifically Eastern Europe (household appliances and electronics) and especially China (textiles, electronics) since it joined the World Trade Organization in 2001. Note that this period also covers the expansion of low-cost distribution to non-food products as well as the boom in e-commerce, both of which have had a clear deflationary impact.

Deflator of consumption by segment (%)



Sources: SG Economic and Sector Research, Eurostat

- For these goods, a partial rebound effect has been seen over the period: their weight in the structure of consumption in volume terms has risen slightly.
- Conversely, the weight of food and alcohol spending has been more resilient in value (-2pp) than in volume terms (-2.7pp) since 1995 in the EU-15, reflecting stronger price momentum. France and the UK are the two countries least affected by this (-1.3pp and -1.2pp, respectively, compared to -4.6pp for Spain). However, the trend has been interrupted of late: since 2008, the share in value terms of these groceries has inched back upward (+0.1pp), driven by the UK and, most of all, France.
- More than anything, this pre-2008 trend on food spending reflects the greater share of meals eaten outside the home in Europe (and thus appearing under leisure services). More generally, the relatively good momentum of food prices can be traced to the development of a so-called “hourglass” consumption structure, i.e. wide at the bottom (discount products and store brands), narrow in the middle (decline of the mid-range) and, increasingly, wide at the top (appetite for products with higher nutritional and environmental value).

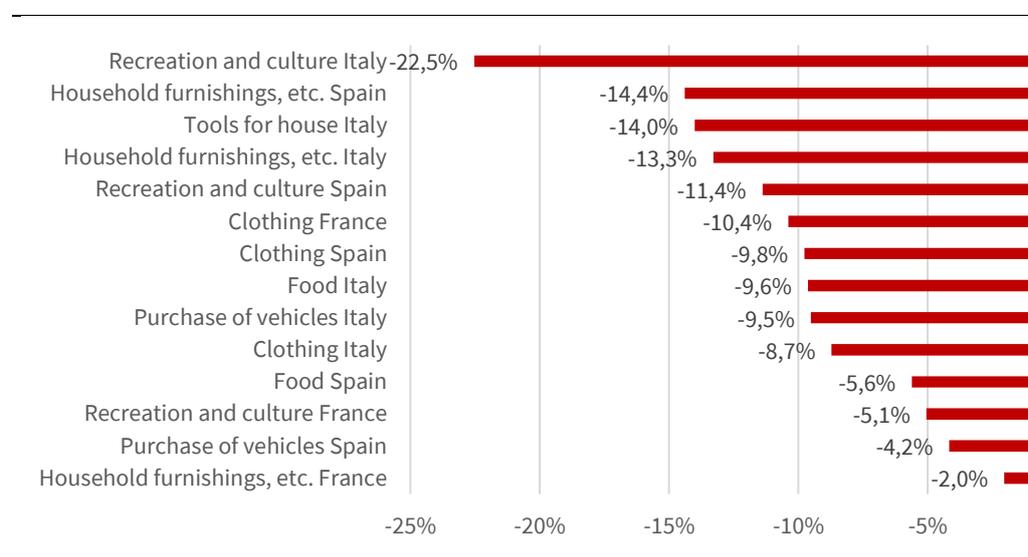
4. Deconsumption - a tough reality

The share of consumption accounted for by consumer goods in value terms has fallen, mainly because lower prices on this segment have supported the rise in “fixed” and leisure service spending.

Still, true deconsumption⁵, i.e. the drop in volumes consumed per capita, can be seen on certain specific consumer goods segments. Partially motivated by economic considerations, deconsumption is sometimes associated with ethical motives, such as in agrifood (the decline in meat and milk consumption, for example). Taking a closer look at the 2008-2017 period, we see:

- Deconsumption has occurred in Italian, Spanish and, to a lesser extent, French households, i.e. in countries where the trend in household income is the weakest over the period. However, it is more difficult to find examples of deconsumption in Germany and the UK. Therefore it would appear that macroeconomic engines are at work and as seen below also distributional aspects as illustrated here by changes to the poverty rate.
- Product by product, deconsumption is especially apparent when looking at spending on recreational and cultural goods, furniture, and apparel in Italy, Spain, and France. This finding is consistent with the difficulties encountered by some of these products’ manufacturers and distribution labels.

Per capita real consumer spending, selected segments (2008-2017)

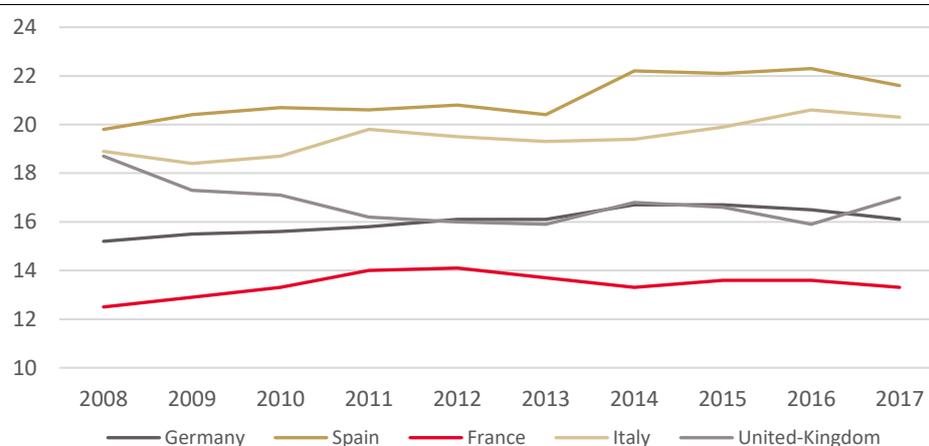


Sources: SG Economic and Sector Research, Eurostat

⁵ Deconsumption refers here to a downward trend in consumption by volume per capita for certain goods or services, regardless of the reason (economic, environmental, etc.).

- In addition, these same segments have been hit by the boom in collaborative consumption⁶. INSEE estimates that one-third of households made use of it in 2017 and that such purchases were essentially furniture (22% of households), cultural goods and services (19%), and apparel (19%);
- In a particularly noticeable trend, Italy and Spain are the focus of a decline in per capita grocery spending in volume terms, which cannot be fully explained by a switch to dining outside the home. We are probably seeing the impact of the dual economic crisis phenomenon (financial crisis then eurozone crisis). In fact, these two countries are those in which the poverty rate has risen most markedly since 2008.⁷

Poverty rate (% of population)



Sources: SG Economic and Sector Research, Eurostat

5. Major disparities by age and residency

The consumption structure shows pronounced differences according to age, income, and place of residence (urban, suburban, or rural) of the household. As such, there is no doubt that the national averages shown up to this point are masking much more marked trends at the local level. In the absence of harmonised data on household consumption, we must use changes in median household income by age and type of urban development to underline three significant findings:

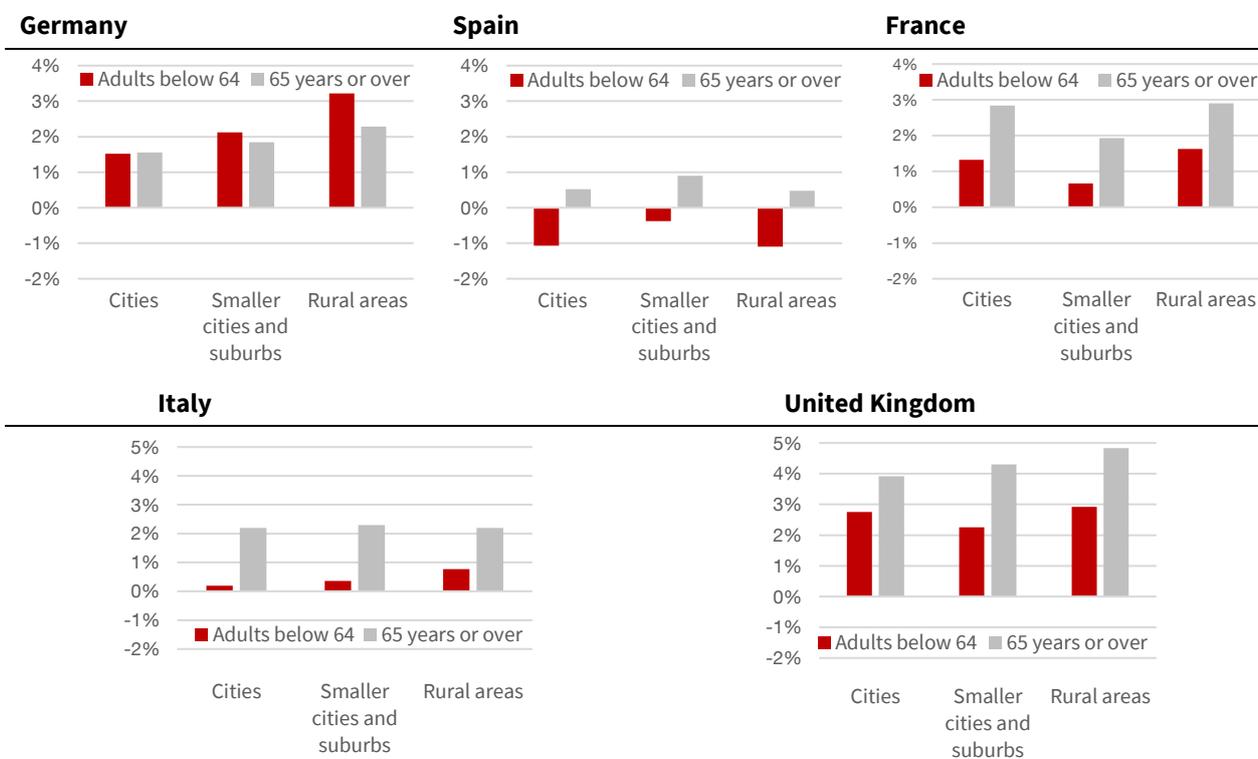
- The trend in median income is more favourable overall in older households, whose consumption structure is distinctly different from that of households in general. The overall ageing of the European population, which is slow but steady, promotes certain types of spending (healthcare) and drags down

⁶ Purchase, sale, rental, sharing, and trading between households. See Insee Première, « Consumer behaviour in 2017 », April 2019

⁷ Share of the population having income of less than 60% of median equivalent income after social and welfare benefits

others (apparel and personal transport⁸). These effects are adding to the distortion in consumer baskets;

Compound annual growth rate of median household income, 2009-2017 (%)



Sources: SG Economic and Sector Research, Eurostat

- The type of urban development is another distinguishing factor. In France and the UK, small cities and suburbs appear to be declining in comparison to all households. And in all of these countries except Spain, it is rural households (which are also the oldest) whose income has risen most rapidly;
- Over the period observed, growth in the median income is often lower than inflation, which equates to a loss in purchasing power. Households in the 18-to-64-year-old age bracket are especially affected.

⁸ Britta Stoeber, 2012. "The Influence of Age on Consumption," EcoMod.

Polarisation, the common denominator

Whether we consider consumer trends by country, by consumption item, or by household feature, one theme emerges quite clearly: polarisation, i.e. the widening gap between the most robust and the most vulnerable factors, with concrete implications for industries that depend on household consumption:

- For consumer goods manufacturers, as we stated previously, this trend appears in the increasingly small proportion of mid-range products and services (hourglass structure) and the need, more than ever, for clearly-defined positioning: cost competitiveness thanks to economies of scale and the continuous effort at efficiency, or a price premium permitted by stand-out products that appeal to the new quality aspirations of a portion of consumers;
- For retail specialists, in addition to the product range considerations mentioned above, this trend demands increasing selectivity in terms of new sales locations and a greater importance given to the local economic trend for existing locations. These considerations are the constants of the industry, but they are made more critical still by the increasing penetration of online retail and the relative disaffection with certain store formats like superstores.

In conclusion, we note that some of these polarisation phenomena might be reaching their limits. The boom in low-end products, for instance, was made possible by a confluence of factors, including the breakdown of the value chains and the integration of large low-cost production areas thanks to international trade. Yet the effects of these changes have now largely played out, and could even be reversed in the event of a more widespread trade war.

APPENDICES

This analysis is based on the nama_10_co3_p3 database published by Eurostat. Included in the annual national account data (nama10), it permits a detailed analysis of household consumption spending by budget item and by country over a long period. The data are available in volume as well as value terms.

The scope of the analysis includes the following product codes:

Products	COICOP Codes	Category	
Food	CP011	Food & beverages	Consumer goods
Alcoholic beverages	CP021		
Clothing and footwear	CP03	Apparel	
Furniture and furnishings	CP051	Furniture, household linens, tableware	
Household textiles	CP052		
Glassware, tableware, household utensils	CP054		
Household appliances	CP053	Audio, video, telecom, electronic appliances	
Telephone equipment	CP082		
Audio-visual, photographic and information processing equipment	CP091		
Tools and equipment for house and garden	CP055	Tools	
Medical products, appliances and equipment	CP061	Healthcare	
Other major durables for recreation and culture	CP092	Recreation and culture	
Other recreational items and equipment, gardens and pets	CP093		
Newspapers, books and stationery	CP095		
Housing, water, electricity, gas and other fuels	CP04	"Fixed" expenses (basic necessities)	
Operation of personal transport equipment	CP072		
Transport services	CP073		
Telephone and telefax services	CP083		
Social protection	CP124		
Insurance	CP125		
Recreational and cultural services	CP094	Leisure and well-being services	
Package holidays	CP096		
Catering services	CP111		
Accommodation services	CP112		
Personal care	CP121		

As to the data on urban development, Eurostat uses the same definitions as the OECD to classify urban development:

- Urban clusters are contiguous cells of 1km², comprising at least 5000 inhabitants and a density of at least 300 inhabitants per km².
- When these clusters contain more than 50,000 inhabitants with a density of at least 1500 inhabitants per km², they are called urban centres.

If, in a given geographic area, less than half the population lives in an urban cluster, that area is considered rural. If more than half the population lives in an urban cluster, and half the population does not live in an urban centre, then these are called suburbs and other cities. If more than half the population lives in an urban centre, these are called cities.

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