



Press release

Europe: Rising infection rates slow sustained recovery in consumer spending

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Julia Richter
Public Relations
T +40 911 395 4440
public.relations@gfk.com

Nuremberg, October 15, 2020 – COVID-19 continues to hold European consumers firmly in its grip. In the six months since the outbreak of the pandemic, we've witnessed the sharp drop in the propensity to buy from April of this year and a following recovery. September saw a rather restrained and mixed picture. While Italy and Spain experienced moderate growth in willingness to buy compared with the previous month, France and the UK remained stable, albeit at a low level. Germany, on the other hand, has had to accept losses, but spending is still at an extremely high level. These are the findings of the GfK Euro Climate data from September 2020.

COVID-19 has plunged Europe into a deep recession. The lockdown caused a sharp drop in consumer spending. "With the end of the lockdown and the easing of the containment measures, the mood in Europe had recovered by early summer. However, with the renewed rise in the number of infections, this recovery process has come to a halt" **explains Rolf Bürkl, GfK consumer expert.** "The spread or containment of infection in the coming autumn and winter months will determine whether the European economy can resume its recovery course."

Germany: Stagnation bites after rapid recovery

German consumers propensity to buy recovered significantly following the sharp slump in April of this year but has not yet reached pre-crisis levels. The indicator stood at 38.4 points in September, five points less than in August. Compared with the previous year, the decline is currently just under 17 points. Germany is and remains the clear leader among the Big 5 EU countries under review.

After the lockdown and the easing of a number of containment measures, such as the reopening of numerous stores, consumer purchasing began to recover rapidly. Extensive government economic stimulus packages, such as the reduction of the value-added tax and the child bonus, plus the intensive use of the extended short-time work regulations prevented a slump in the labor market. This stabilized consumption.

GfK SE
Sophie-Germain-Str. 3-5
90433 Nuremberg
Germany

T +49 911 395 0

Management:
Peter Feld (CEO)
Lars Nordmark (CFO)

Chairman
of the supervisory board:
Thomas Ebeling

Commercial register:
Nuremberg HRB 25014

Italy: (Low) pre-crisis level almost reached again

In contrast to the picture in Germany, the willingness of Italian consumers to spend improved in September. The indicator gained almost five points and now stands at 3.1. Compared to the same period last year, the indicator is only slightly down, by three points.

However, it should be noted that after decades of economic stagnation the willingness to buy in Italy has already slipped from a quite low level into a severe crisis. Due to the pandemic in April it was not possible to survey consumer sentiment in Italy in April, so the severity of the slump cannot be tracked completely. However, it is undisputed that the indicator recovered in the summer and almost reached pre-crisis levels again.

The current rise in infections in Italy is still quite moderate. This has certainly contributed to the positive development, which is also attributable to the disciplined behavior of citizens. Presumably, many people still have the images from northern Italy in March and April in mind, when the health system was overloaded, and the number of deaths escalated.

France: Rising unemployment dampens consumer spending

French consumers' willingness to buy experienced a remarkable recovery in early summer following the coronavirus shock in April. The indicator is currently stagnating. It gained only a meager 1.2 points in September, thus closing at -13.2 points. In comparison to the corresponding value of the previous year, the indicator is down by 20 points.

The willingness to buy has now been plateauing since July of this year. This coincides with a noticeable increase in unemployment. According to Eurostat*, the number of unemployed in France rose from 1.9 to 2.2 million between June and August, an increase of about 16 percent. Not surprisingly, the fear of job loss is growing as a result, the consumer mood is being dampened.

The sharp rise in the number of new infections also pushes the fear of additional restrictions to the business. Finally, overall uncertainty feeds negative effects on willingness to buy.

Spain: Willingness to buy increases, but level still very low

The willingness to buy in Spain increased by a good six points in September compared with the previous month, climbing to -24.8 points. Compared to the corresponding period of the previous year, there is a 17-point gap.

Even before the Corona crisis, Spain had the lowest propensity to buy among the Big 5 EU. As a result of the financial and economic crisis, the country was struggling with very high unemployment. According to Eurostat, the unemployment rate in Spain in August was 16.2 percent (Germany 4.4 percent, France 7.5 percent, Italy 9.7 percent and UK 3.9 percent (June 2020)).

Due to its already low level of consumer spending, the COVID-19 generated slump in April was comparatively moderate. Unfortunately, this also applies to the subsequent recovery, which was weaker than in the other countries. In addition to the persistently high and still rising unemployment rate, Spain is also currently showing very high infection rates. So protective measures have recently been tightened once again. For example, in Madrid, where freedom of movement and social contacts have been restricted more severely again by order. In addition, Germany, for example, has classified the country as a high-risk area, which has a particularly severe impact on tourism, a very important economic sector for Spain.

UK: Covid-19 and Brexit negotiations burden consumer sentiment

Consumers in the UK currently show the weakest willingness to buy among the Big 5 EU countries. After a slight increase of 1.5 points in September, the indicator currently stands at -36.3 points. In a year-on-year comparison, the UK is also the worst performer with a minus of 36 points.

The UK has also been severely affected by the pandemic. Containment measures, such as a strict exit restriction, were implemented, which severely impacted economic life. In April and May, the willingness to buy slumped sharply. However, the subsequent recovery of the indicator was modest. Additionally, uncertainty about Brexit contributed additional strain to consumer sentiment. So far, negotiations on a trade agreement with the EU have been unsuccessful. If no agreement is reached by the end of the year, the trade of goods and services between the UK and the EU would be noticeably impeded, e.g. by the imposition of customs duties.

Recently, the number of infections has also risen again, which is likely to increase the fear of further containment measures among the population and to have a negative effect on consumer sentiment.

Ends

Notes to editor

*Eurostat is the statistical authority of the European Union.

The survey period for the current analysis was from September 1 to September 20, 2020. The results are extracted from the EU Consumer Sentiment study published and co-financed by the EU Commission and are based on around 2,000 consumer interviews per country per month (France 3.300 interviews). In France, Italy, Spain and UK interviews are conducted by telephone, in Germany online.

Propensity to buy, like all other indicators within the consumer sentiment study, is a sentiment indicator. It indicates whether consumers currently consider it wise to make larger purchases. Even



if they answer "Yes" to this question, there are two further requirements for making a purchase: the consumer must have the money required for such a large purchase and must also see a need to make this purchase. Furthermore, this only actually concerns durable goods, which also require a larger budget.

Press contact: Julia Richter, T +49 395 4440, public.relations@gfk.com

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