



# European Economic Outlook

Consumer Confidence | Behaviour Changes | Big Ticket Purchases



# AlixPartners' Insight

The findings of this poll show that the majority of Europeans are still pessimistic about the current economic situation. Furthermore, only a minority of people who responded to our survey think that a full economic recovery will be before 2012. We are therefore, according to those surveyed, less than halfway through a recessionary trough of five years from the last economic peak in 2007. This timeframe puts Europe in line with the recent G-20 meeting which described the major industrialised and developing economies as being "in the midst of a critical transition from crisis to recovery<sup>1</sup>".

The effects of the recession, reflected in this survey, on what and where people spend their money is fascinating. A first glance at the results indicates Europeans appear simply to have tinkered at the edges, temporarily reining in spending on what might be considered discretionary items. However, scratch beneath the surface and what is revealed is a range of major implications. For example, this recession has probably forced the biggest change on the UK restaurant industry that it has seen in recent times; likewise, across Europe the shift away from branded groceries and from premium stores has been huge.

And whilst the Europeans surveyed believe many lifestyle changes have been temporary, they predict permanent behavioural change in some areas. For example, the findings indicate that discount stores will be net winners along with supermarket-branded groceries; it may be that the definition "value for money" has changed significantly. The results also indicate that fear of recession, on top of the financial reality of it, has affected buying behaviour, most likely further deepening the effects of the recession and delaying the potential upturn.

It is not just the little things that have been sacrificed. For example, more than one in ten Britons, French, Italians, Germans and Swedes have delayed a foreign holiday. If extrapolated across the whole populations of these countries<sup>2</sup>, these changes would mean that 32 million people have delayed a foreign holiday – and 34 million have delayed household furniture purchases and 29 million have delayed new car purchases.

Despite the fact that we may not see as drastic a "new normal"<sup>3</sup> landscape in Europe as predicted by consumers last spring in the US, expectations of Europeans seem to discount the possibility of a sharp V-shaped recovery. It appears that not only will the industries currently in the media spotlights, such as automotive and real estate, see significant challenges, but that consumer-goods companies need to find a way to reach the long-term cost-conscious consumer, while still having enough cash to keep their businesses competitive.

The research points to a lengthy and cautious "bathtub-shaped" recovery, driven, in the eyes of those surveyed, by individual consumers themselves rather than the actions of business leaders or politicians.

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1. Leaders' statement, the Pittsburgh Summit, September 24 – 25 2009

2. Source: UN adult (aged 18+) population estimates, 2007 (<http://data.un.org/>)

3. According to an AlixPartners survey published in March 2009 in which the 5,000 Americans polled indicated that even after the recession ends, their spending will return to just 86% of pre-recession levels, which equates to an approximate 10% drop, or more than \$1 trillion annually, in GDP. They also said this new, lower level of spending is structural and could last for nearly a decade after the recession ends.

# Research Results Summary

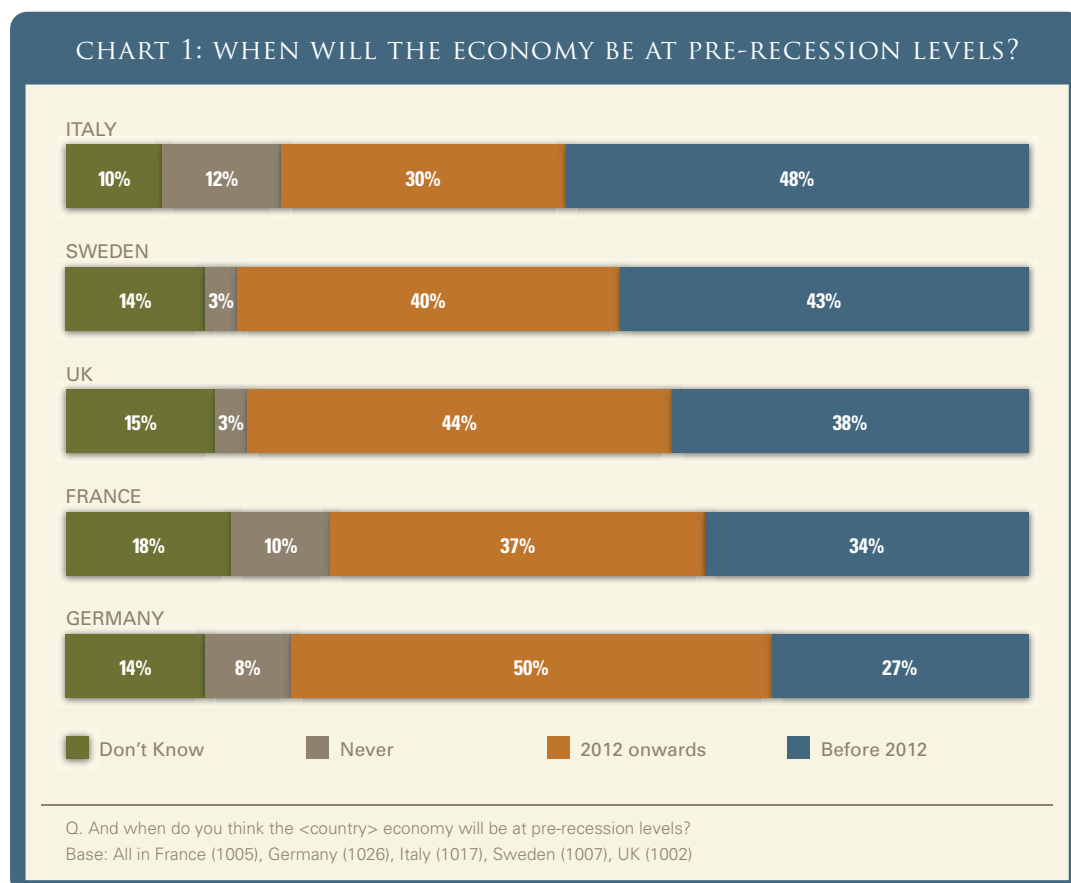
Despite talk of economic “green shoots” starting to appear of late, the majority of consumers in five key European markets do not expect a full economic recovery until at least 2012 or could not put a date against if or when recovery will happen, according to research commissioned by AlixPartners, the global turnaround firm. On behalf of AlixPartners, Brunswick Research polled 5,000 consumers in France, Germany, Italy, Sweden and the UK. The recent, and in many countries on-going, recession is likely to have a permanent legacy affecting premium and budget-brand consumer goods, their associated retailers and supply chains.

Regardless of official GDP figures, more people are still seeing their personal financial situation deteriorate than improve. This “personal recession” is more closely reflected in some key economic indicators including unemployment and investment, which are not yet showing a sustained upward trend. European consumers have greater confidence in their own ability to take effective action to improve their financial situation and that of the wider economy than they do in their governments’ ability to affect positive change.

## CONSUMER CONFIDENCE: PESSIMISTIC CONSUMERS PERCEIVE THEY ARE LACKING LEADERSHIP

The majority of people in the five European countries covered by the survey are concerned with the economic situation in their country, including around 80% of those in Italy, France and Britain; two-thirds of Swedes; and half of Germans.

The majority of consumers are looking beyond 2012 for recovery, believe it will never happen or simply do not know when recovery will happen (as shown in Chart 1). Around one in ten Italians and a similar proportion in France believe that their economy will never reach pre-recession levels.



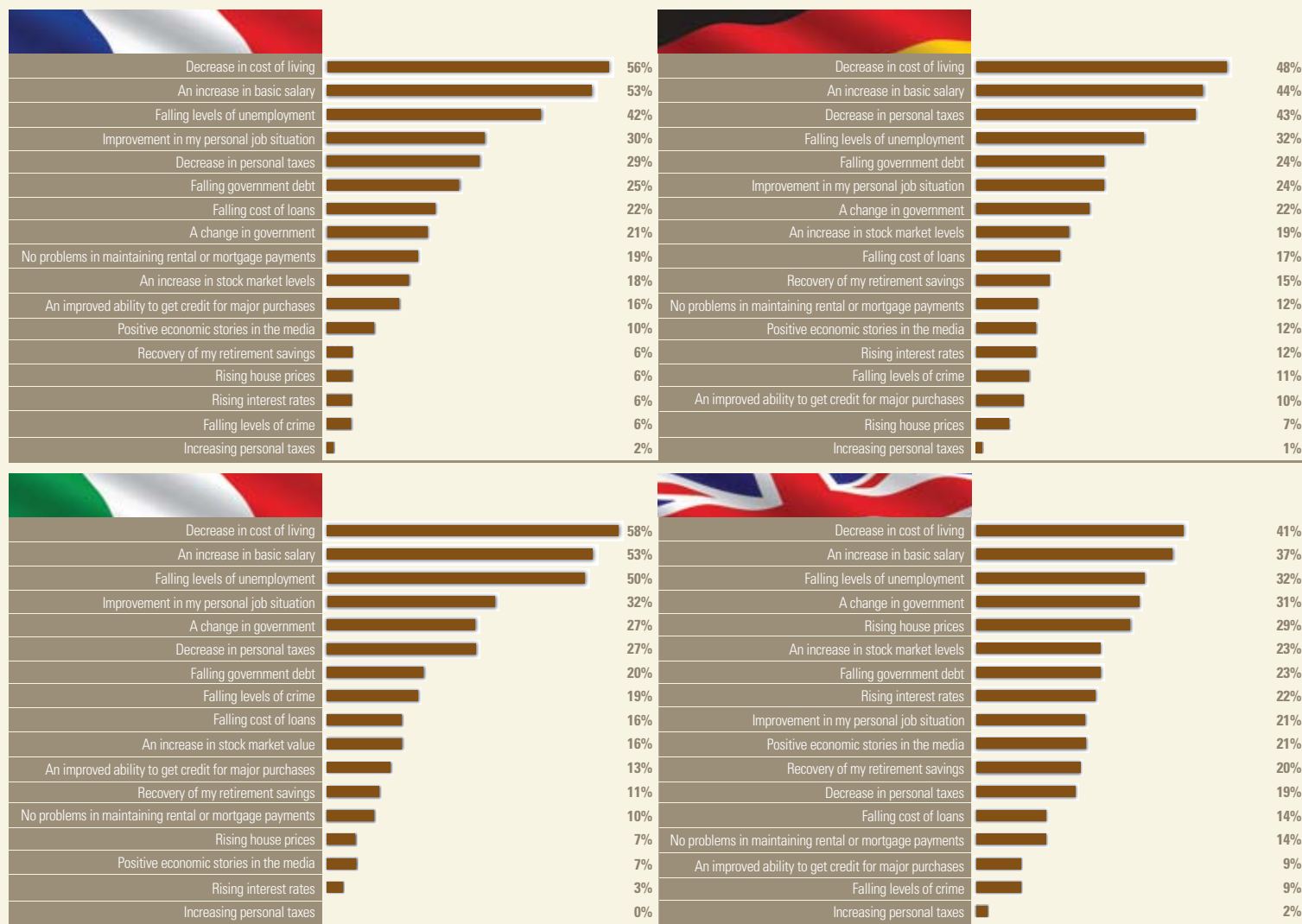
One factor likely to be behind concern for national economies is that many people believe their own financial situation is deteriorating:

- In Italy 5% say their personal financial situation is improving compared with 36% who say it is deteriorating.
- In France and the UK 9% and 10% respectively say their situation is getting better vs. 38% and 36% who say it is getting worse.
- In Germany the gap is closer, though still on balance negative (17% say their personal finances are improving and 25% say they are getting worse).

The exception is Sweden where slightly more consumers are seeing an improvement in personal finances than see deterioration.

To boost confidence, consumers are looking for a decrease in the cost of living, increases in basic salaries and improvement in the unemployment rate. In addition, those in the UK point to a change in government and rising house prices as other personal “feeling-better” factors (as shown in Chart 2).

CHART 2: CONSUMERS WILL FEEL MORE CONFIDENT IN THEIR PERSONAL FINANCES WHEN THEY SEE...



Q. I will feel more confident in my own personal or household financial situation when I see...

Base: All in France (1005), Germany (1026), Italy (1017), UK (1002)

Consumers from all countries are most likely to say that falling levels of unemployment will be the primary indicator of the beginnings of economic recovery, despite this traditionally being a lagging indicator of economic performance.

Adding to this, no one institution or group stands out as providing leadership in improving the economy or consumers' own personal finances; instead, consumers put faith in themselves. Across the European nations included in the survey, confidence in the ability of national governments, politicians, business leaders and trade unions to take effective action is relatively low (as shown in the table below).

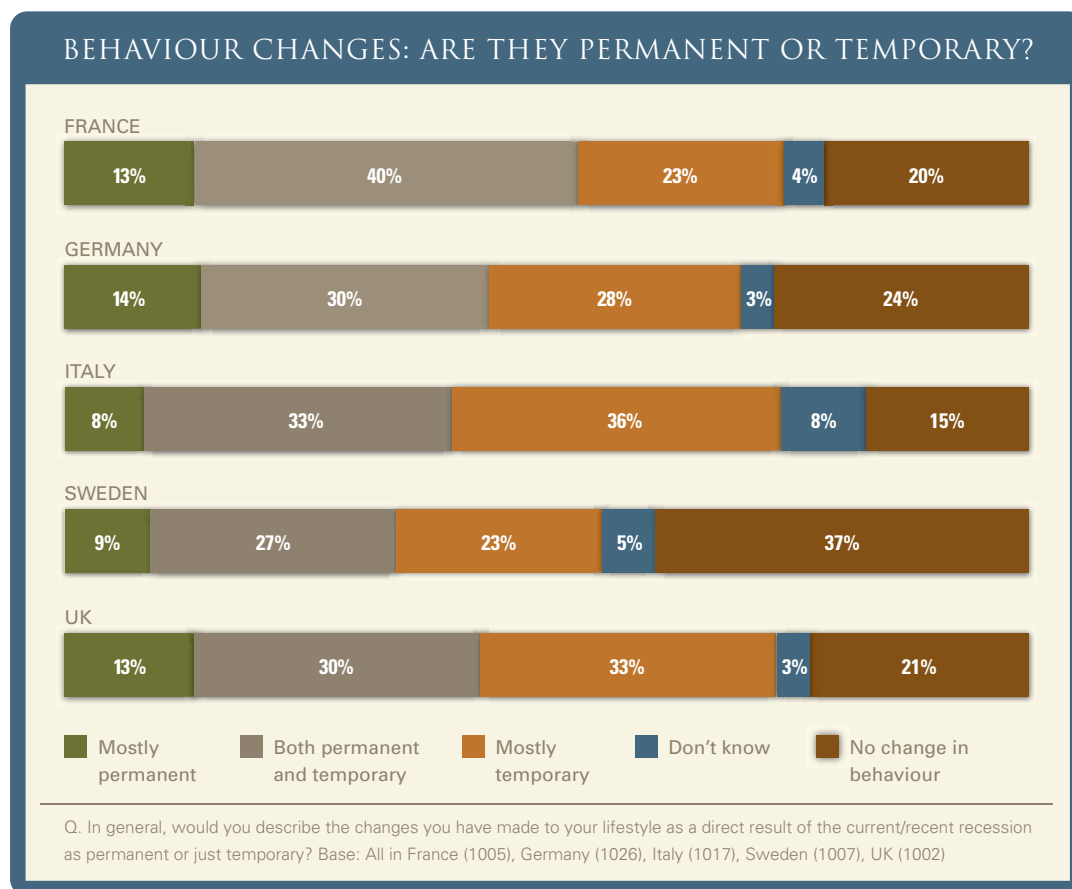
% saying they have complete/a fair amount of confidence in...to take effective action to improve <country> economy	France	Germany	Italy	Sweden	UK
National Government	31%	20%	30%	36%	14%
Politicians in general	9%	7%	12%	20%	8%
Business Leaders	27%	16%	19%	31%	22%
Trade Unions	18%	15%	15%	22%	15%
'Me'	63%	60%	58%	53%	44%
% saying they have complete/a fair amount of confidence in...to take effective action to improve your personal financial situation	France	Germany	Italy	Sweden	UK
National Government	23%	14%	26%	29%	10%
Politicians in general	7%	7%	12%	14%	5%
Business Leaders	21%	12%	17%	21%	14%
Trade Unions	15%	12%	21%	16%	9%
'Me'	69%	66%	62%	65%	57%

## BEHAVIOUR CHANGES: EATING OUT AND BRANDED GROCERIES LOOK SET TO TAKE A LONG-LASTING HIT

Across Europe there has been a range of changes in behaviour as a direct result of the recession – some small, others large – but only a minority say they have not changed what they do as a consequence, ranging from 15% in Italy to 37% in Sweden. In fact, more people have changed their behaviour than feel their financial situation has deteriorated. To put it another way, consumers have responded to the fear of the recession as well as to the financial reality of it (as shown in the table below).

	% saying their financial situation has gotten worse as a result of the recession	% saying they have changed their behaviour as a direct result of the recession
France	39%	80%
Germany	25%	76%
Italy	47%	85%
Sweden	25%	63%
UK	47%	79%

The changes seen as mostly permanent are reflected in the types of cutbacks people have made and what they expect to do post-recession. Across most European markets, permanent changes are more likely to have been made by older age groups and those who are not working – although in Italy, the country reporting least permanent change, it is the younger consumers who are more likely to say they have permanently changed what they do.



The biggest casualty of the recession has been dining out, followed by sales of premium-branded groceries. Conversely, the activities that have seen the biggest pick-up since the recession hit are shopping at discount stores and shopping for own brand goods – the top two winners in each European market (as shown in the table below).

	% saying they are eating out less as a direct result of the recession	% saying they are buying less premium branded groceries as a direct result of the recession
France	53%	47%
Germany	49%	38%
Italy	68%	62%
Sweden	32%	28%
UK	59%	51%
	% saying they are shopping more at discount stores as a direct result of the recession	% saying they are buying more supermarket own brand groceries as a direct result of the recession
France	41%	35%
Germany	29%	23%
Italy	38%	34%
Sweden	26%	18%
UK	46%	52%

Eating out is also the most missed activity and is the one that likely will quickly benefit from an economic upturn or returning consumer confidence (as shown in the table below). Other activities missed by Europeans include driving the car, going to the cinema, and, for Italians, buying premium-branded groceries.

### BEHAVIOUR CHANGES: MOST MISSED ACTIVITY

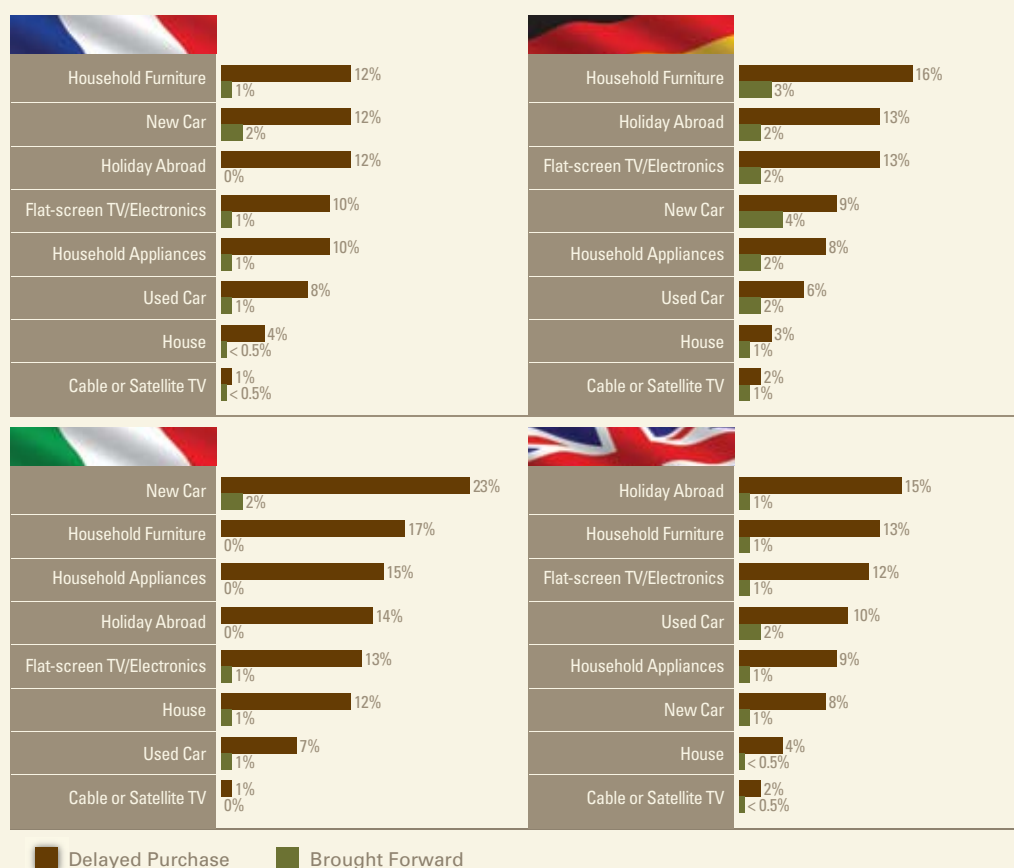
Most missed activities in each country - RANKED POSITIONS					
	France	Germany	Italy	Sweden	UK
Eating out	1	1	2	1	1
Driving the car	3	2	5	2	2
Going to the cinema	2	3	4	10	5
Buying home furnishings	6	5	6	3	4
Buying premium branded groceries	8	9	1	7	8
Going to the gym	5	8	7	6	9
Shopping at premium stores	7	6	3	9	10

Q. Which of these things you said you do less of do you miss...the most? Base: All in each country who do less of activities because of recession in France (407), Germany (405), Italy (448), Sweden (288), UK (439)

### BIG TICKET PURCHASES: REAL ESTATE MARKET LAST IN LINE

More than one-third of people surveyed have delayed a big-ticket purchase as a direct result of the recession; few have brought forward such a purchase. In France, 12% of people say they have delayed a purchase of household furniture, a new car and a holiday abroad. In Germany, the most frequently delayed purchase is household furniture; in Italy, new car sales have suffered the most and in the UK, spending on holidays abroad has been most affected.

### MAJOR PURCHASES: WHICH HAVE BEEN DELAYED OR BROUGHT FORWARD



Q. Which, if any, of the following have you bought earlier than you planned/delayed buying as a direct result of the current/recent recession? Base: All in France (1005), Germany (1026), Italy (1017), UK (1002)

Unlike the lengthy time-span expected for an economic recovery, the delay for many of these purchases is expected to be only temporary. Most purchases will be complete by the end of 2010, those polled said, with the exception of house purchases, which most do not expect to complete until 2011 onwards.

## FINAL WORD

Though there are differences across Europe, the overall picture painted in this research is one in which individuals perceive they are only part-way through a lengthy downturn, and one in which, they say, will have some permanent effects on their behaviours and attitudes. This long-term “bathtub” outlook – especially in Germany, France and Britain is, at least in part, self-perpetuating; many more say they have changed their behaviours as a result of the recession than have actually felt any negative financial effects of it. The public also has relatively high levels of confidence in their own ability (compared to both political and business leadership) to take action to improve their and their nation’s finances. Meanwhile, as more say their finances continue to decline than improve, many people claim to have adapted the way they eat, the food they buy, the places they go, how they get there and how they furnish their homes. Whether these changes in behaviours and attitudes, and the knock-on effects, will hasten or delay recovery remains to be seen.

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# Methodology

*AlixPartners European Economic Outlook was produced in collaboration with Brunswick Research. Brunswick Research specialises in exploring opinion leader and public attitudes towards companies and topical debates; it is the opinion research practice of Brunswick Group. The findings do not necessarily reflect the views of AlixPartners or Brunswick Group.*

*A nationally representative quota sample of around 1000 adults aged 18+ in each of France, Germany, Italy, Sweden and the UK were interviewed online between 19 and 31 August 2009. Data has been subsequently weighted to reflect the national population profile.*

# About AlixPartners

AlixPartners is a global business advisory firm offering comprehensive services to improve corporate performance, execute corporate turnarounds, and provide litigation consulting and forensic accounting services. The firm's specialty is urgent, high-impact situations when results really matter. The firm has more than 900 professionals in 14 offices across North America, Europe, and Asia, and is on the Web at [www.alixpartners.com](http://www.alixpartners.com).