

A bleak economic outlook drives European shoppers to cut back on spending

Article

The trend: A number of signs point to weaker-than-expected sales this holiday season in the UK and continental Europe.

- **Retail sales keep falling.** [August retail sales volume](#) in the eurozone declined 2.0% year-over-year (YoY) and fell 0.3% month-over-month (MoM), per Eurostat, the EU's statistical office. In the UK, [retail sales volume](#) fell 1.4% MoM in September, dropping below pre-pandemic levels for the first time since February 2021, according to the UK's Office of National Statistics.
- **Prices keep rising.** [Eurozone inflation](#) accelerated to 9.9% in September, up from 9.1% in August, according to Eurostat. The situation is even worse in the UK where [inflation](#) hit 13.2% in September, up from 13.0% in August.
- **Consumer confidence keeps plummeting.** Soaring prices are a primary reason that [consumer confidence](#) is at its lowest point in the eurozone since Eurostat began measuring the metric in 1985. UK consumer confidence fell for the fifth consecutive quarter in Q3 and hit a historic low, per Deloitte's Consumer Tracker.
- **People are adjusting their shopping patterns.** Across six key European markets, 71% of consumers have made significant changes to [how they shop](#), according to IRI.

Winter is coming: Russia's cutbacks in supplies of natural gas have pushed prices so high that it no longer is economically feasible for companies to produce energy-intensive products such as fertilizer. And the worst has not yet arrived as winter is coming (both literally and figuratively) and increased demand for gas will cause energy prices to rise even higher, further weakening the economies in the UK and continental Europe.

- **Bad news for restaurants, bars, and hair salons.** Twenty-nine percent of consumers are taking cost-cutting measures such as bringing their lunch to work, staying in for drinks with friends rather than going to a bar, and replacing visits to the salon with hair styling and grooming products that can be used at home, per IRI.
- **Even worse news for retailers.** UK shoppers' holiday spending is expected to be 22% less than last year, according to Retail Economics. Another survey, by Kantar, found roughly half of Britons plan to spend less on the holidays this year.

There are some winners: The situation does present an opportunity for retailers that can effectively [communicate value](#) to consumers.

- For example, **Pepco**—which operates stores across Europe under the names Pepco, **Poundland**, and **Dealz**—reported a 17.4% increase YoY in group revenues in the year ended Sept. 30.

- Danish variety store operator **Flying Tiger Copenhagen**, which operates roughly 900 stores, said sales rose 23% in September YoY, per The Wall Street Journal.
- Yet even discount retailers face challenges as many shoppers won't tolerate price increases even as retailers' costs rise, **Mat Ankers**, Pepco's interim chief financial officer, told the Journal.

The big takeaway: The economic situation is likely to get worse before it gets better, which is bleak news for retailers that rely on a Q4 sales surge to meet their sales targets. To capture a larger share of a shrinking pie, merchants should aggressively push promotions as early in the season as possible.

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