



INDUSTRY SNAPSHOT

Winter is coming

Trading down and consumption cuts hit consumer goods and retail companies



Key facts

01

After the COVID-19-driven “trading up” (reaching for higher-value products and/or branded products) in 2020/21, actual and anticipated budget constraints due to inflation are currently leading to “trading down” effects: Private labels (“white labels”), discount channels, second-hand and special offers are gaining market share for everyday consumer goods.

02

While consumers try to maintain their accustomed lifestyles with products for everyday use by taking advantage of lower-priced offers, an increasing number of consumers are postponing and forgoing consumption, especially in the case of **durable consumer goods**. On the one hand, they are subject to compensatory effects, as purchases during the lockdowns were often brought forward (e.g. furniture, sports equipment), on the other hand, consumers find it easier to do without these products temporarily. Here in particular, Christmas sales in 2022/23 threaten to fall short of earlier expectations.

03

The positive special effect of the **consumption shift** from services to consumer goods in 2020/21 reverses due to loosened restrictions and pent-up demand. The available budget for consumer goods in the second half of the year will be further constrained by increased spending on travel and dining in the summer of 2022. Even **e-commerce**, which has benefited for many years from structural market change at the expense of bricks-and-mortar business, is reporting declining sales.

04

The **disruption of supply chains** continues. Due to the sharp rise in **energy costs**, European manufacturers are coming under increasing pressure. The consequences of the Russia-Ukraine war, especially the uncertainty of energy supply and cost development, will intensify in the winter of 2022/23. In addition, as a result of China’s Zero-COVID strategy, many goods with delivery delays are still in transit by sea. Once again, **limited availability of goods** is to be expected during the important Christmas sales period.

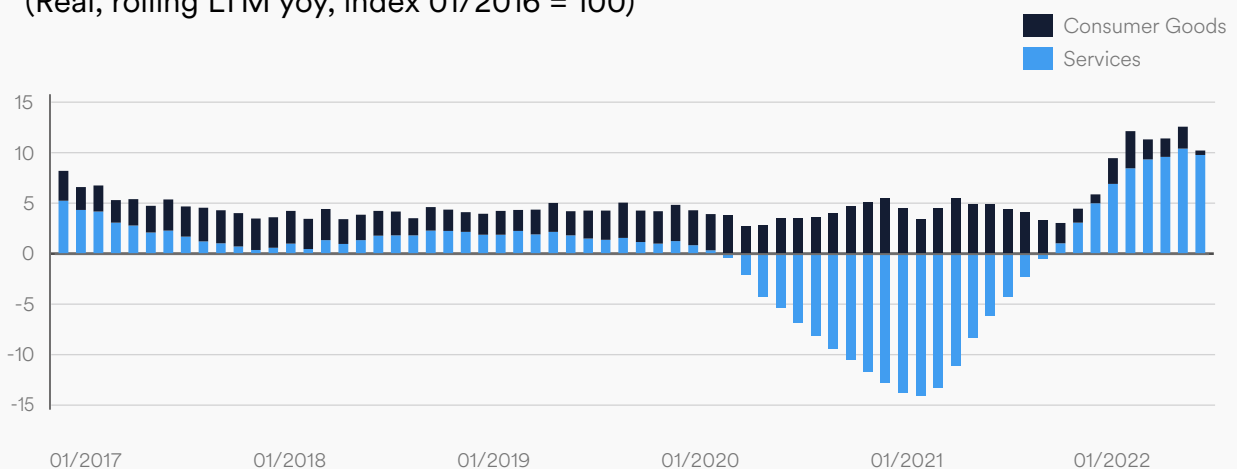


Winter is coming: Trading down and consumption cuts hit the consumer goods sector

The current volatile situation in the consumer goods market cannot be compared with previous crises. The 2008-10 financial crisis had a comparatively small effect on consumption, and COVID-19 in particular was perceived as a temporary special effect. However, the effects of ongoing supply chain disruptions, the “energy crisis”, and geopolitical instability will linger in the market and create an unfavorable environment for manufacturers, retailers, and consumers. The German Retail Association (HDE) warns: “Some products such as electronic devices, toys and textiles from Asia are likely to be scarce around Christmas [...] 90 percent of retailers continue to report delivery problems”. Inflationary effects from high energy costs, for example, have not yet fully materialized for many households, and Germany as a manufacturing location is also groaning under increasingly uncompetitive energy costs and wages.

Consumers are already anticipating this: While the downturn in consumption realized so far is still largely moderate, despite the recent decline in real wages, expectations for the second half of the year paint a gloomy picture. Consumers currently still often try to maintain their lifestyle by “trading down” to private labels, discount channels and second-hand and special offers. However, consumer spending is expected to decrease, especially for non-durable consumer goods. The German discounter LIDL, for example, adjusted its assortment in the apparel and electronics segments in mid-August, and ALDI also recently recorded weak demand outside the FMCG sector – despite the fact that discounters are benefiting from the current “trading down” effects.

Sales of consumer goods and services
(Real, rolling LTM yoy, index 01/2016 = 100)

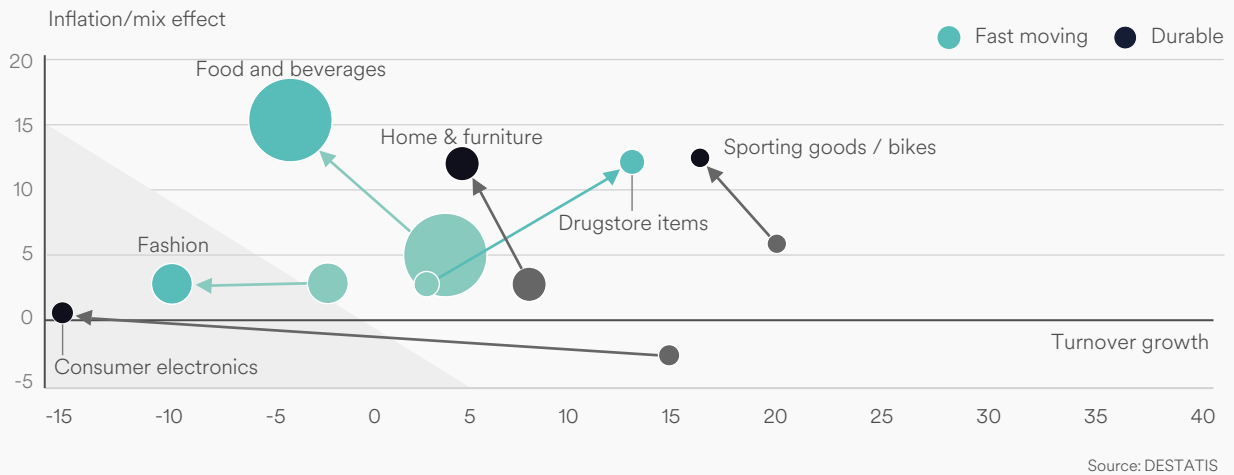


Source: DESTATIS



An additional challenge for the consumer goods industry is that positive effects from COVID-19 are dissipating: The “trading up” during the pandemic has already reversed, e-commerce growth is declining, and consumption shifted in the first half of the year from consumer goods to consumer-related services, which were only available to a limited degree during the last two years (vacation travel, gastronomy, etc.).

Sales of consumer goods in June 2022 and June 2021 (% change vs. June 2019)



Fast moving goods

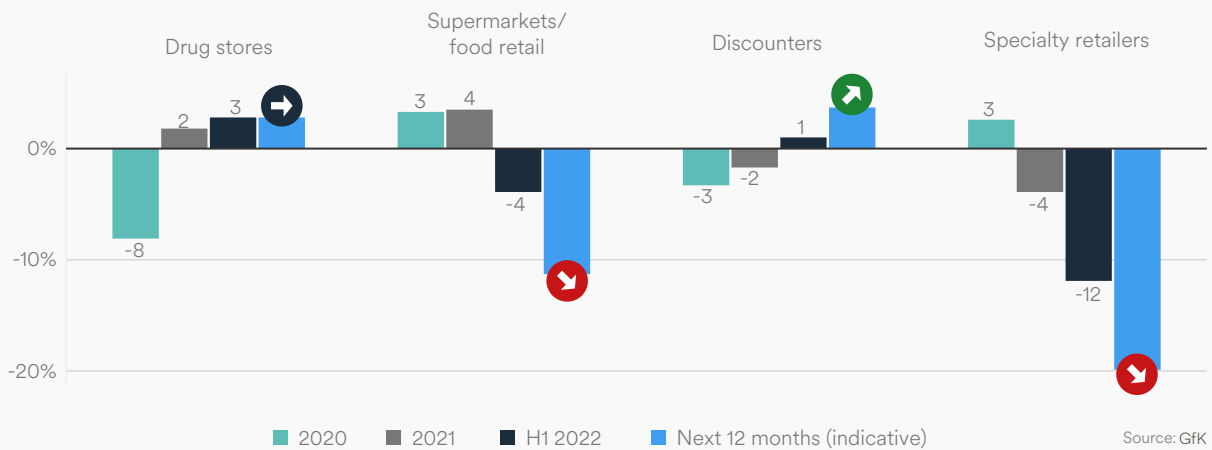
Food and beverages

Against the backdrop of rising food prices, “trading down” and cutting back on consumption are currently dominating: Due to increased price sensitivity, consumers are turning to private labels and promotional products and are visiting discounters more frequently – especially since April 2022. This particularly affects manufacturer brands and specialty retailers (e.g. small organic food retailers, bakeries, butcher shops, health food shops) while consumers seek to maintain lifestyles at lower costs and switch their shopping locations.

The remaining year is expected to see a continuation of the structural market trends that have been in place since the start of the Russia-Ukraine crisis.



Development of sales by food distribution channel (% yoy)

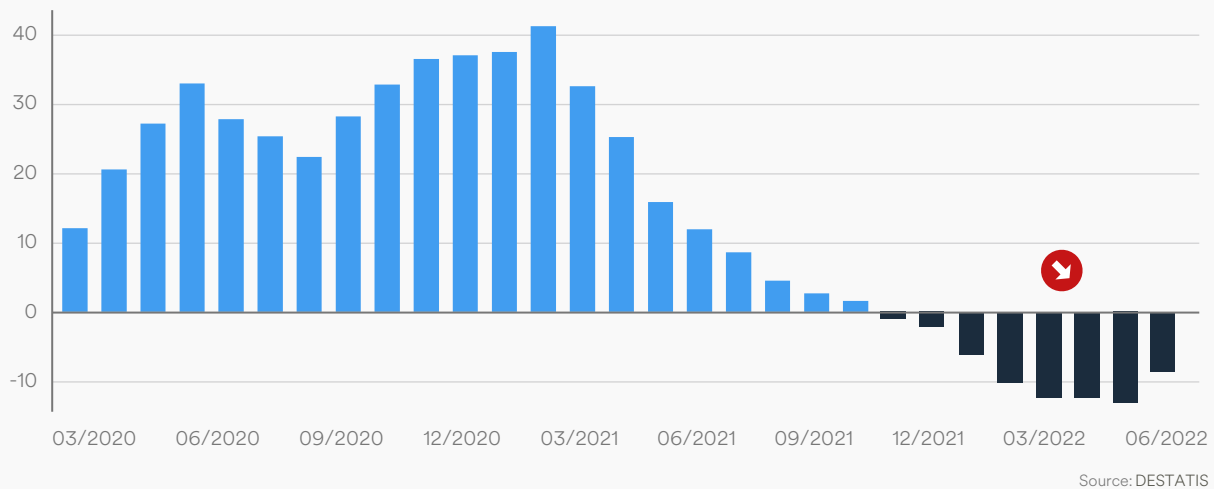


Fashion

The apparel sector is facing similar challenges to the food industry: Retailers are increasingly turning to private labels, and textile discounters are booming.

The current situation is particularly tense for German apparel manufacturers: the industry association Textil+Mode recently spoke of “unacceptably” high production costs. At the same time, online sales, the mainstay of hope in the last two years, have recently declined. The luxury segment currently appears to be isolated from the current situation due to less inflation-sensitive consumers – however, negative demand effects are also expected to manifest themselves as the crisis continues.

Internet and mail order sales (Real, rolling 3 months, % yoy)





Personal & home care products

After years dominated by COVID-19 with a partly negative effect on demand for personal & home care products, the relaxation of pandemic control measures showed a positive impact on sales. The mix also shifted recently as a result of the increased return to offices. As in the food sector, sustainability trends such as natural cosmetics remain intact in the personal care segment, although they are increasingly being sold by private labels.

On the manufacturing side, however, similar challenges are emerging as in apparel: The private label manufacturer DALLI recently closed a plant in Austria and laid off a third of its employees across the Group – production in Europe is now only competitive to a limited extent. HENKEL, too, recently recorded sharply declining margins.

Renewed COVID-19 waves and possible restrictions in the fall/winter of 2022/23 continue to pose a risk for personal & home care products, as they do for the entire retail sector.

Electricity price (peak load) in Germany
(€ per MWh, rolling 28-day average)



Source: SMARD



Durable goods

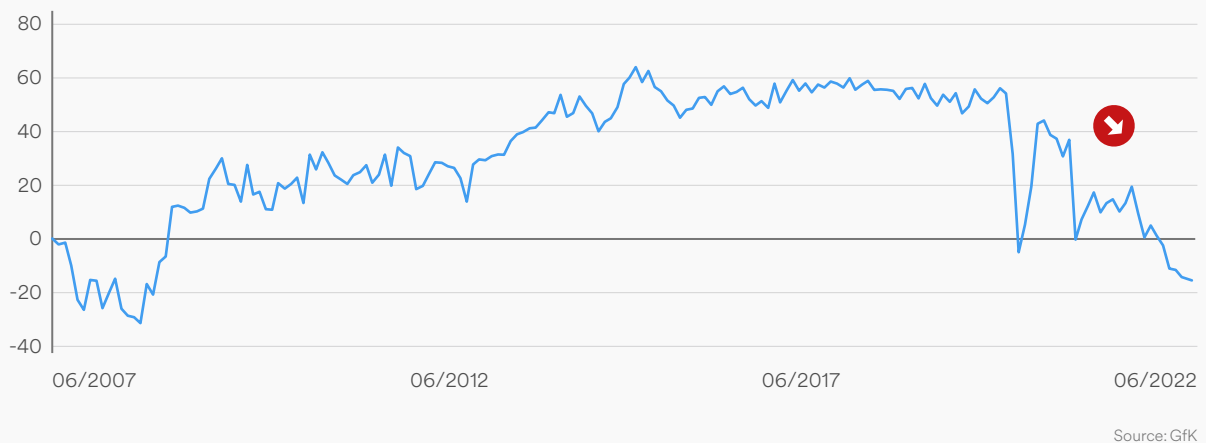
Consumer electronics

While consumer electronics in e-commerce benefited from COVID-19, there have recently been signs of a slowdown, especially since June 2022. TV sales in LTM Q3/2022 were down -18% year-on-year, while smartphones, the long-standing growth driver, were only up +1% year-on-year. The market for appliances, on the other hand, continued to develop positively. Overall, the market leader CECONOMY revised its sales forecast for 2022. Slowing starts and increasing cancellations in residential construction are expected to impact consumer electronics demand negatively.

“Trading down” and cutting back on consumption continue to increase: around one-third of consumers would opt for a cheaper model in household electronics when making a purchase, and the popularity of refurbished appliances has gained strong momentum. At the same time, the propensity to buy is at a 10-year low, partly due to increased awareness of sustainability.

Current demand booms for individual product groups such as air purifiers, fans and fan heaters play a subordinate role in the context of the overall market.

GfK propensity to buy
(values >0 „favorable”, <0 „unfavorable”)





Home & furniture

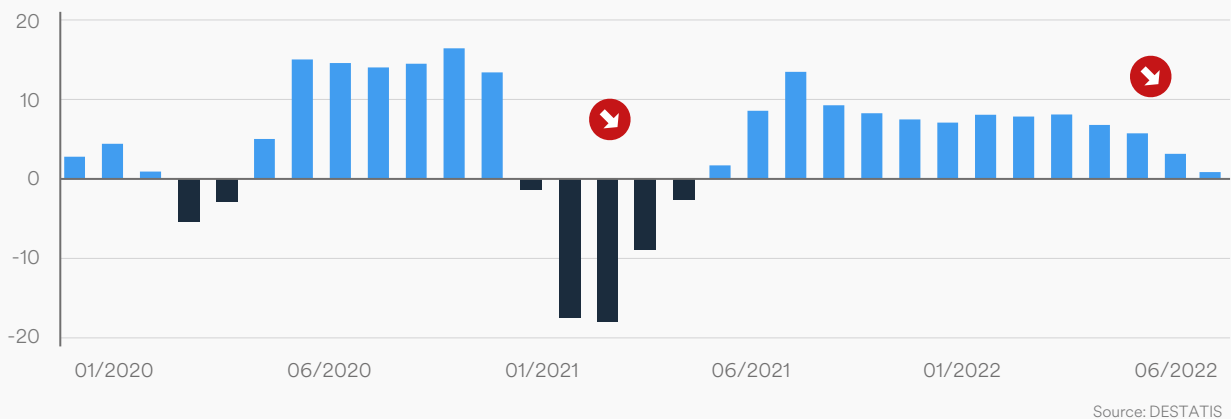
The “cocooning” effect during COVID-19 was particularly evident in HY2/2020, followed by a weak HY1/2021. By May 2022, the home & furniture market showed robust performance well above 2019 levels – even as supply chain disruptions and rising production costs continued to challenge the industry.

In June/July, however, sales of the upholstered furniture and home furnishings segments, which had grown during COVID-19, fell by more than -30% vs. 2021 – also due to the shift in consumption towards travel and catch-up effects.

For the year 2022, the industry association VDM revised its growth forecast from approx. 10% to 6–8%. Due to growth in HY1/2022 by 13%, this means stagnation for HY2/2022 or a real decline, owing to the fact that 49% of consumers are currently delaying furniture purchases.

At the same time, housing cancellations have recently risen sharply – as a consequence, furniture demand for new buildings is expected to further decline in 2023.

Sales turnover furniture, furnishings and household
(Real, rolling 3 months, % vs. 2019)





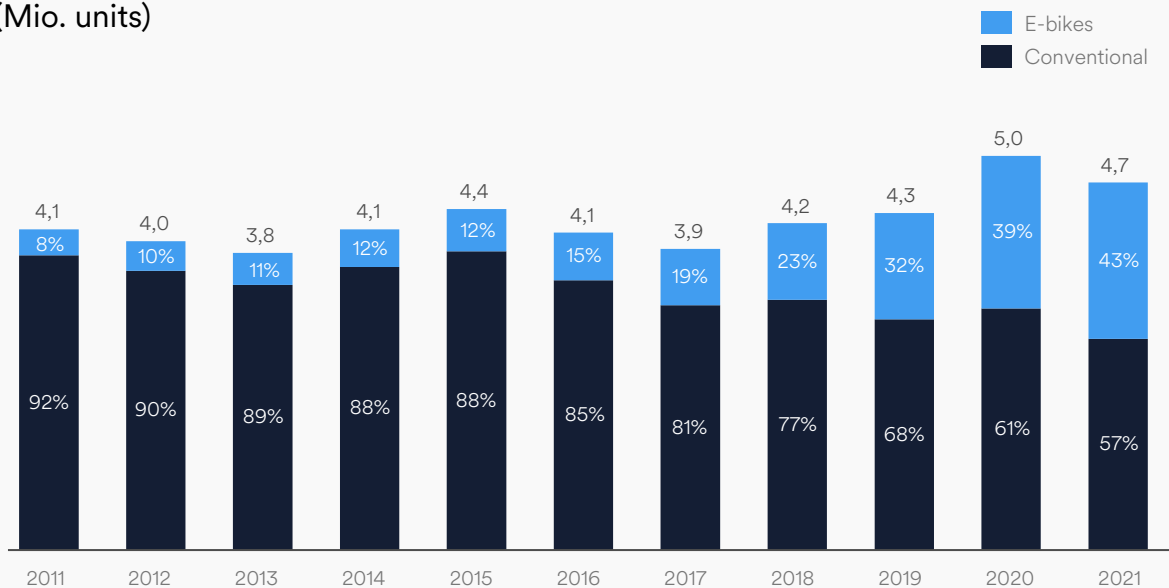
Bicycles

Over the past two years, sales in Germany have been well above historical levels. Growth drivers were e-bikes and high-end conventional bikes, and cargo bike sales tripled. Demand for conventional bicycles, however, has been trending downward since 2015. In total, the average price in 2021 was 50% higher than in 2019.

The strong previous years lead to a high comparables for 2022 and onwards. Declining demand for lower-priced models by lower-income households is already evident, whereas according to component manufacturer SHIMANO, there is still excess demand for e-bikes and high-end models due to isolated supply chain bottlenecks. However, the challenge of nationwide supply problems and empty warehouses, as in mid-2021, has now eased.

In the medium term, there continues to be a tailwind for e-bike demand: with a stock of 8.5 Mio. (2021), market saturation in Germany is still a long way off; at the same time, tax-advantaged leasing offers are increasingly making their mark via employers.

Sales development of bicycles in Germany (Mio. units)



Source: ZIV

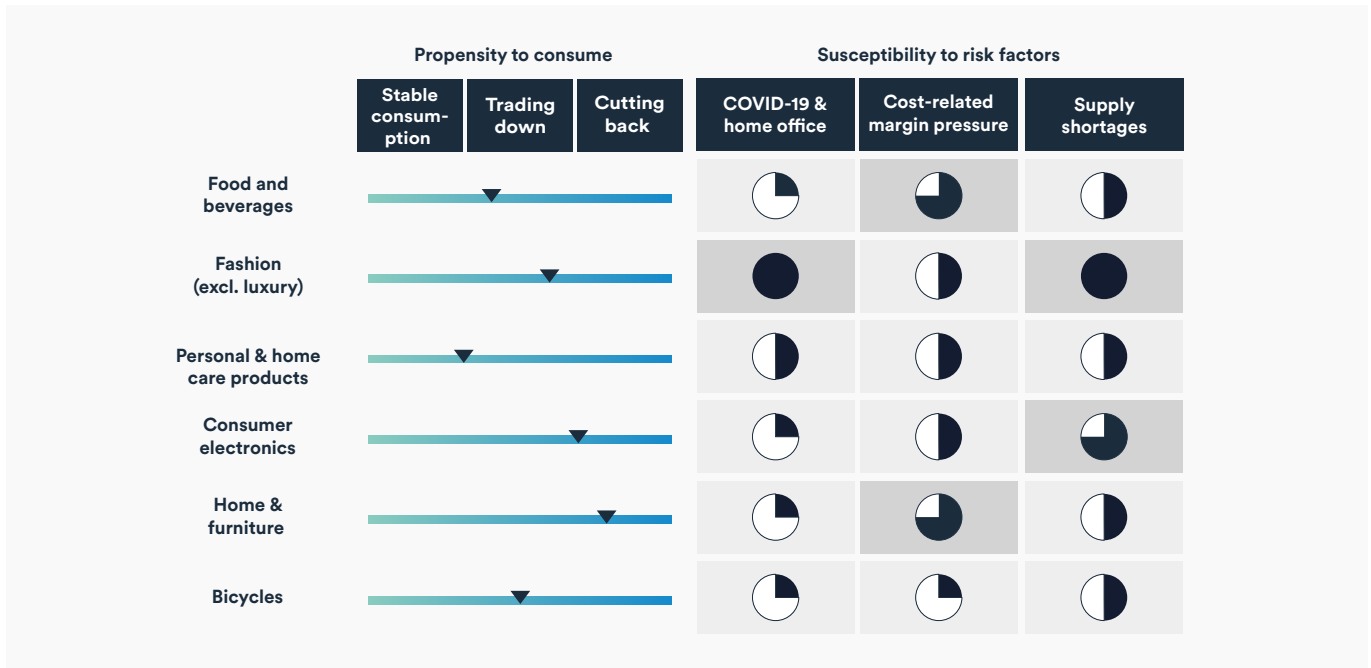
Text sources:

Focus; GfK; GFU; Handelsblatt; Handelsjournal; PwC; Spiegel; Tagesschau; Textilwirtschaft; Textil+Mode; VDM, WiWo; Zeit; ZIV; Company information; FTI-Andersch



Outlook

Propensity to consume and susceptibility to risk factors



Further insights into the retail and consumer goods industry from FTI-Andersch:

Impact of the COVID-19 pandemic on German inner cities

Future store concepts – new opportunities for stationary retail

Business model transformation in stationary retail



More information and download at:
<https://www.fti-andersch.com/en/insights/>

Your contact:



Mike Zöller
 Senior Partner und Vorstand
mike.zoeller@fti-andersch.com



Dorothee Fritsch
 Head of Business Development & Strategy
dorothee.fritsch@fti-andersch.com