

Recession in the EU: its impact on retail trade

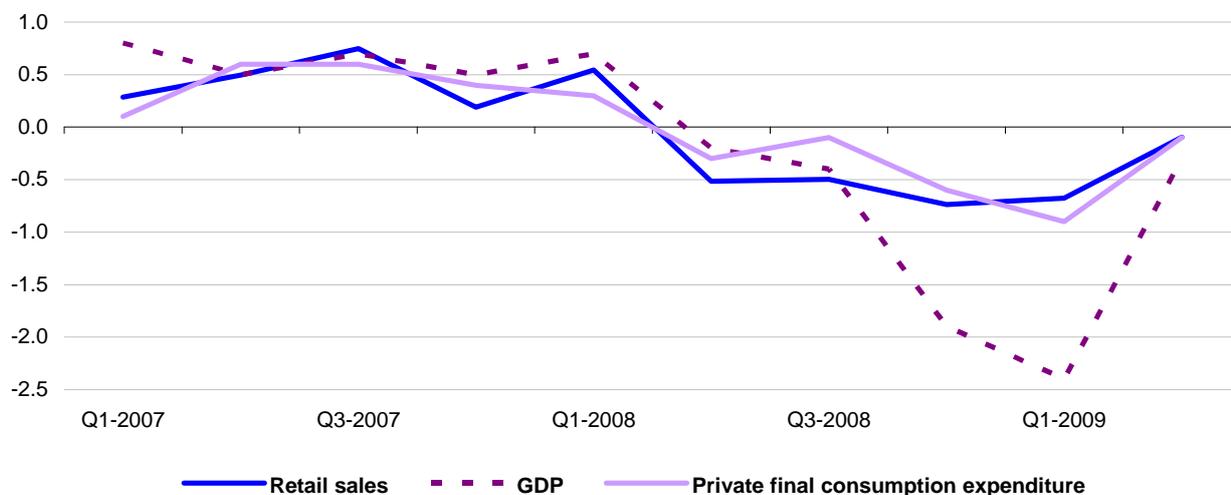
The financial crisis during the summer of 2007 resulted from a fall in asset prices after a period of asset price inflation, leading to a liquidity shortage among financial institutions and concerns over their solvency. These concerns were subsequently transmitted to the non-financial sectors (the so-called 'real economy'), as credit facilities were withdrawn and business and consumer confidence fell. The resulting recession saw household demand retract, particularly in relation to major purchases of consumer durables (for example, cars) and housing, both highly credit dependent markets.

This publication uses (principally) short-term business indicators to look at the impact of the recession on trends in the EU's retail trade sector. It is the third in a series of Statistics in Focus publications – following on from issues 17 and 60/2009 – which provided information relating to the effects of the financial crisis/recession on output and on employment in the EU-27's business economy.

Rising unemployment and reductions in working hours (no overtime, reduced working week or temporary stoppages), coupled with the scarcity of credit and concerns over possible further contractions in labour markets, among others, may explain the downturn in consumer confidence and retail sales witnessed during the past year and a half. The largest quarter on quarter reduction in the volume of retail sales for the EU-27 was recorded in the final quarter of 2008 (-0.74 %).

Economic theory suggests that when a recession takes place consumers will defer some of their purchases – in particular, discretionary purchases and major purchases, such as a new car, furniture, holidays or a new house. In contrast, other types of consumer goods are considered as 'necessities', for example, food, and it is expected that demand for these will remain relatively stable even in times of recession.

Figure 1: Volume changes for retail sales, GDP and private final consumption expenditure, EU-27 (seasonally adjusted, growth rates compared with the previous quarter, %)



Source: Eurostat ([sts_trtugr_q](#), [teina011](#), [teina021](#))

**Table 1: Evolution of volume of retail sales and GDP
(seasonally adjusted)**

	Volume of retail sales			GDP volumes		
	Q2-2009 latest index (2005= 100)	Maximum value	Overall change: maximum to latest (%)	Q2-2009 latest value (EUR million)	Maximum value	Overall change: maximum to latest (%)
EU-27	104.3	Q1-2008	-2.5	2 573 846	Q1-2008	-5.1
Euro area	100.8	Q3-2007	-3.1	1 861 003	Q1-2008	-5.1
Belgium	104.9	Q2-2008	-0.9	70 554	Q3-2008	-3.7
Bulgaria	128.3	Q2-2008	-8.5	:	:	:
Czech Republic	120.8	Q2-2008	-2.0	20 390	Q3-2008	-5.9
Denmark	96.0	Q4-2006	-8.7	45 221	Q4-2007	-7.4
Germany	95.4	Q2-2006	-5.2	537 603	Q1-2008	-6.4
Estonia	105.7	Q1-2007	-19.6	2 206	Q4-2007	-18.0
Ireland	107.3	Q4-2007	-9.8	34 540	Q4-2007	-10.1
Greece	99.6	Q1-2008	-15.2	47 240	Q4-2008	-1.0
Spain	94.6	Q3-2007	-10.4	193 620	Q1-2008	-4.2
France	107.6	Q1-2008	-0.9	400 768	Q1-2008	-3.2
Italy	98.9	Q1-2007	-3.4	302 403	Q1-2008	-6.5
Cyprus	119.1	Q2-2008	-3.3	3 308	Q4-2008	-1.0
Latvia	96.4	Q2-2007	-31.0	3 113	Q4-2007	-21.2
Lithuania	101.7	Q1-2008	-21.6	4 361	Q2-2008	-20.4
Luxembourg	:	:	:	7 035	Q1-2008	-6.3
Hungary	97.6	Q3-2006	-7.4	15 871	Q1-2008	-7.5
Malta	89.4	Q3-2007	-21.9	1 190	Q3-2008	-3.1
Netherlands	102.5	Q2-2008	-5.1	116 087	Q1-2008	-5.3
Austria (1)	103.9	Q2-2009	-	59 091	Q2-2008	-4.5
Poland (1, 2)	134.4	Q2-2009	-	65 053	Q2-2009	-
Portugal	102.3	Q1-2008	-2.4	31 957	Q2-2008	-3.7
Romania	156.3	Q3-2008	-13.4	15 203	Q2-2008	-8.3
Slovenia	107.5	Q4-2008	-13.5	6 894	Q3-2008	-9.7
Slovakia	111.0	Q1-2008	-11.5	8 359	Q4-2008	-9.0
Finland	108.7	Q1-2008	-4.0	37 953	Q1-2008	-9.0
Sweden (1)	111.0	Q2-2009	-	76 724	Q1-2008	-6.3
United Kingdom	110.6	Q2-2008	-0.2	457 877	Q1-2008	-5.6

(1) The maximum value for the volume of retail sales was recorded for the latest reference period available (Q2-2009).

(2) The maximum value for the volume of GDP was recorded for the latest reference period available (Q2-2009).

Source: Eurostat ([sts_trtu_q](#), [namq_gdp_k](#))

A recession is normally defined in terms of zero or negative growth of GDP in at least two successive quarters. As shown in both Figure 1 and Table 1, the volume of GDP within the EU-27 peaked in the first quarter of 2008, after which there were five consecutive quarters of reduced economic activity; although the most recent contraction for the second quarter of 2009 showed signs that the recession may be nearing an end, as the volume of economic output was reduced by 0.3 % in relation to the previous quarter (a marked recovery on the 2.4 % contraction recorded the quarter before).

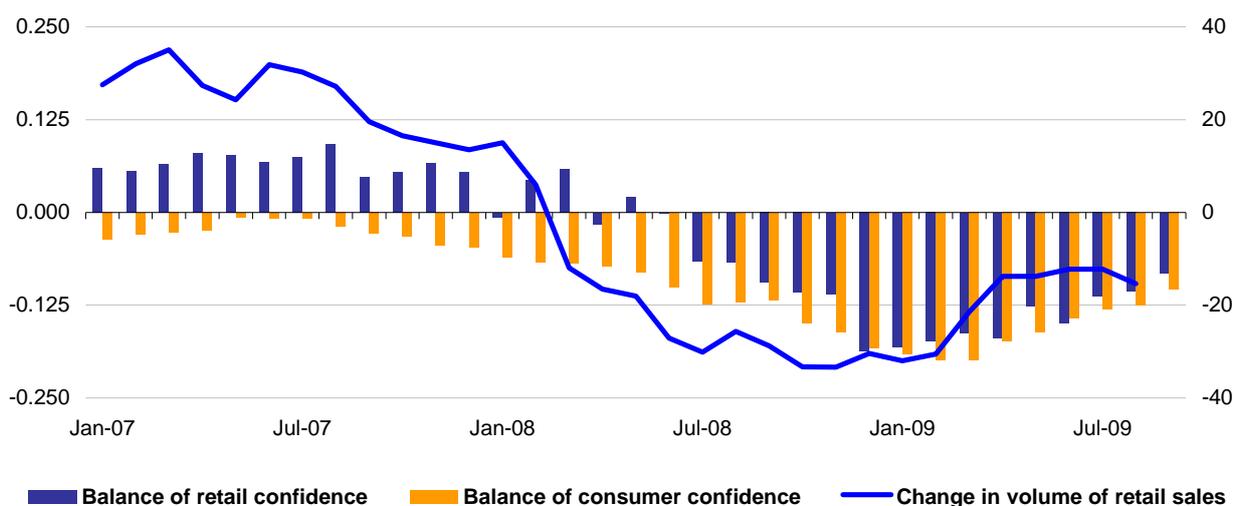
While the decline in the volume of retail sales during the recession was not as sharp as that recorded for overall economic activity, there was nevertheless a similar pattern, as EU-27 sales fell for five successive quarters from a peak recorded in the first quarter of 2008; within the euro area, the volume of sales fell from a peak in the third quarter of 2007.

Among the Member States, those countries that recorded a large reduction in their overall levels of economic activity also tended to display some of the biggest reductions in retail sales. This was notably the case for the Baltic Member States, while the pattern was also repeated in Ireland, Romania, Slovenia and Slovakia.

In contrast, there were a number of Member States, where despite falling overall economic activity, the volume of retail sales remained relatively stable, for example, Belgium, France and the United Kingdom.

Finally, the volume of retail sales in Austria, Poland and Sweden continued to grow, despite the recession, as all three of these countries recorded a peak in sales volumes for the latest period available, namely, the second quarter of 2009.

Figure 2: Retail and consumer confidence and the volume of retail sales, EU-27
(seasonally adjusted, growth rates compared with the previous month for retail sales (%), left-hand axis),
monthly balance for retailer and consumer confidence (right-hand axis))



Source: Eurostat ([bsrt_m](#), [bsco_m](#), [sts_trtugr_m](#))

The confidence of both consumers and retailers appears to reflect quite well the evolution of retail sales (as shown in Figure 2). Note that the series presented for the volume of retail sales is the month-on-month rate of change and that despite a slowdown in the rate at which sales were expanding, the EU-27 volume of retail sales did not peak until February 2008.

In contrast, the indicators for consumer and retailer confidence are based on a balance of replies to a monthly survey. As such, turning points (the peaks and troughs) in consumers' and retailers' confidence can be observed through the highest and lowest bars in the graph above, irrespective of whether overall sentiment is positive or negative. During the period January 2007 to September 2009, a majority of EU-27 consumers consistently gave an unfavourable assessment of the economic situation. After reaching its least worst level in May 2007, EU-27 consumer confidence fell continuously through to March 2009, improving thereafter for six consecutive months.

A similar picture was observed for EU-27 retailers, who recorded their lowest level of confidence in the business situation in December 2008.

Among the Member States, consumers' and retailers' confidence usually started to decline several months in advance of the volume of retail sales. This was particularly true for retailers, with Denmark, Germany and Slovakia the only Member States to report that their retailers failed to lower their assessment of the business situation in advance of retail sales falling.

Table 2: Retail and consumer confidence and the volume of retail sales
(seasonally adjusted, balance for retail and consumer confidence, 2005=100 for retail sales)

	Peak for consumer confidence	Peak for retail confidence	Peak for volume of retail sales
EU-27	May-07	Aug-07	Feb-08
Euro area	May-07	Aug-07	Jan-08
Belgium	Oct-06	Feb-07	May-08
Bulgaria	Apr-07	Feb-08	Apr-08
Czech Republic	Oct-06	Nov-07	May-08
Denmark	Nov-06	Jun-06	May-06
Germany	May-07	Dec-06	Dec-06
Estonia	Apr-06	Apr-07	Feb-08
Ireland	Jan-06	Jun-06	Nov-07
Greece	Oct-07	Sep-07	Mar-08
Spain	Apr-06	Jan-06	Jul-07
France	May-07	Dec-07	Feb-08
Italy	May-06	Nov-06	Aug-07
Cyprus	Sep-08	Apr-07	Apr-08
Latvia	Sep-06	Mar-07	Jul-07
Lithuania	May-07	Jan-07	Feb-08
Luxembourg	May-07	:	:
Hungary	Apr-06	Jun-06	Sep-06
Malta	Mar-08	:	Oct-07
Netherlands	Jun-07	:	Feb-08
Austria	Jun-07	May-07	Jul-09
Poland	Apr-08	Nov-07	Aug-09
Portugal	Dec-06	Jan-06	Jan-08
Romania	Jul-07	Apr-08	Jun-08
Slovenia	Jul-07	Dec-07	Feb-08
Slovakia	Dec-06	Mar-08	Feb-08
Finland	Jun-07	Aug-07	Feb-08
Sweden	Apr-07	Jul-06	Jul-09
United Kingdom	Feb-06	Apr-07	May-08

Source: Eurostat ([bsrt_m](#), [bsco_m](#), [sts_trtugr_m](#))

The remainder of this publication focuses on developments within the retail trade sector. Note that the data presented relate to the volume (as opposed to value) of sales.

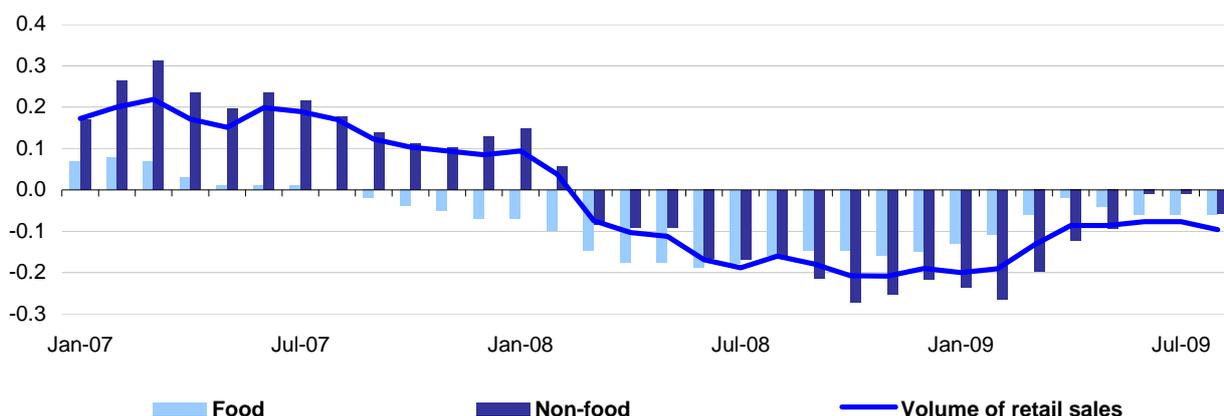
During a recession, it is likely that consumers will change, to some degree, their shopping habits. There are likely to be fewer major purchases, and when purchasing necessities such as food, consumers may choose, among others, to visit discount stores instead of supermarkets, take advantage of in-store promotions, purchase own label goods instead of branded items, substitute one cut of meat/type of fish for another that is less expensive.

Figure 3 shows the effects of the recession on the breakdown of retail sales between food and non-food products. Prior to the recession, there was more rapid growth in the volume of EU-27 non-food sales. The reduction in food sales (as of September 2007) began seven months in advance of any contraction for non-

food sales. However, the contraction in non-food sales was, from mid-2008 onwards, generally larger than the corresponding declines recorded for food sales.

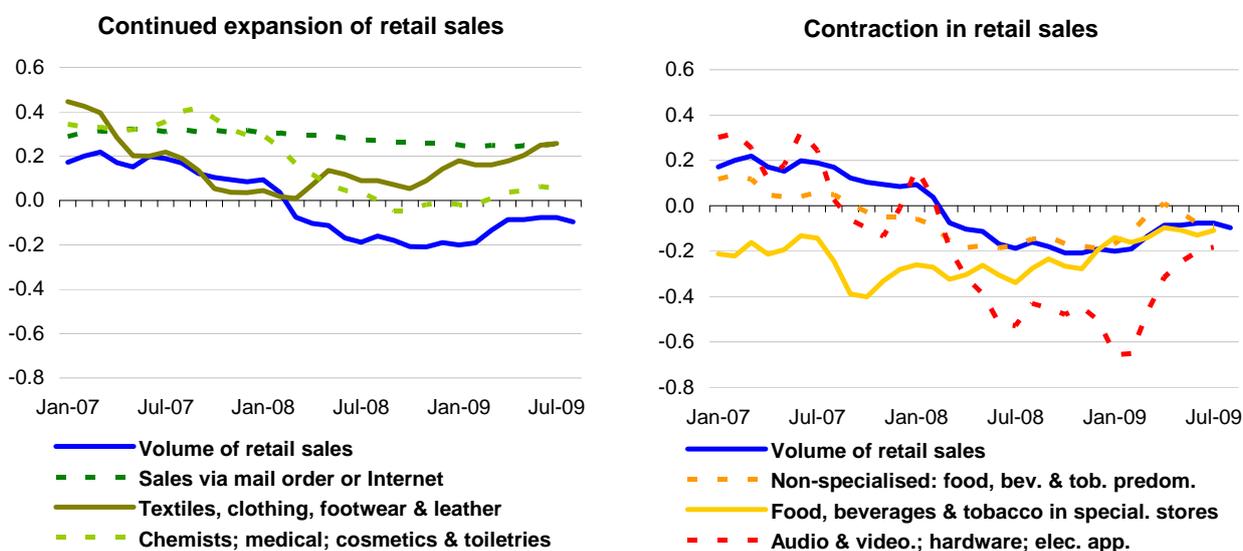
The first part of Figure 4 shows there were, however, a range of activities where EU-27 retail sales continued to grow despite the recession. This was particularly the case for sales via mail order and the Internet, where volumes continued to increase each month by around 0.3%. Otherwise, despite a period of decelerating sales growth in 2008, there was nevertheless, an almost uninterrupted pattern to increasing sales of textiles, clothing, footwear and leather, as well as pharmaceuticals, medical supplies, cosmetics and toiletries. These two groupings may be considered as necessities (to clothe and to care for one's health), while the continued growth in Internet sales may, in part, reflect consumers deciding to stay at home, rather than spend their leisure time in shops or consumers hoping to find lower prices through on-line shopping.

Figure 3: Evolution of the volume of retail sales – comparison of food and non-food items, EU-27 (seasonally adjusted, growth rates compared with the previous month, %)



Source: Eurostat (sts.trtuqr.m)

Figure 4: Evolution of the volume of retail sales – selected items, EU-27 (seasonally adjusted, growth rates compared with the previous month, %)



Source: Eurostat (sts.trtuqr.m)

In contrast, EU-27 sales volumes for audio and video equipment, hardware and electrical appliances (including, for example, items such as television sets and fridges) declined at a relatively rapid pace during most of 2008 and 2009. Sales of food, beverages and tobacco in specialised stores (butchers, bakers, greengrocers, fishmongers, etc.) also contracted throughout the period from the start of 2007 to the summer of 2009, while sales of these items in non-specialised retailers (principally in supermarkets) were relatively less affected by the recession.

Table 3 presents information based on a comparison of the volume of sales between August 2008 and August 2009. It shows the average rate of change for total retail sales in the first column (Member States are ranked in descending order according to this criterion); five countries reported an expansion in their retail sales over the period considered. In contrast, the volume of sales decreased more than 20 % in all three Baltic Member States, while double-digit reductions were also registered in Greece and Romania.

The table also presents (from a selection of six categories for which data are widely available) those activities which recorded the highest and lowest rates of change. The results confirm that retail sales of chemists; medical and orthopaedic goods, cosmetics and toiletries, as well as sales of food, beverages and tobacco generally held up relatively well (in comparison to other items). Indeed, 18 countries reported the former as recording either the highest or second highest rate of change (among the six categories considered), while a similar analysis for food, beverage and tobacco sales shows that they featured among the two highest rates of change in 14 of the Member States.

Often among those most affected by the recession were sales of audio and video equipment, hardware, paints, glass and electrical household appliances, as well as sales of computers, peripheral units, software and telecommunications equipment. The former featured among the categories with either the lowest or second lowest rates of change in 16 of the Member States, while the same was true for sales of computers, peripheral units, software and telecommunications equipment in ten countries.

Table 3: Evolution of the volume of retail sales – country analysis, August 2008-August 2009 (1)
(working day adjusted, growth rates, %)

	Total retail sales	Highest rate of change	Lowest rate of change
EU-27	-1.8	Textiles, clothing, footwear, leather 2.9	Audio/video; hardware; electrical app. -3.7
Euro area	-2.6	Chemists; medical; cosmetics, toiletries 1.6	Audio/video; hardware; electrical app. -3.5
Poland	6.8	Textiles, clothing, footwear, leather 17.0	Audio/video; hardware; electrical app. -4.7
Austria	1.3	Chemists; medical; cosmetics, toiletries 6.4	Food, beverages & tobacco 1.2
Czech Republic	1.2	Chemists; medical; cosmetics, toiletries 7.5	Audio/video; hardware; electrical app. -10.8
United Kingdom	0.9	Textiles, clothing, footwear, leather 3.9	Chemists; medical; cosmetics, toiletries -9.7
Sweden	0.2	Chemists; medical; cosmetics, toiletries 3.7	Textiles, clothing, footwear, leather -2.7
France	-1.0	Chemists; medical; cosmetics, toiletries 5.5	Textiles, clothing, footwear, leather -1.7
Belgium	-1.3	Chemists; medical; cosmetics, toiletries 4.2	Textiles, clothing, footwear, leather -13.9
Portugal	-2.1	Food, beverages & tobacco -0.5	Textiles, clothing, footwear, leather -9.0
Denmark	-2.4	Computers, peripherals, telecom equip. 4.3	Audio/video; hardware; electrical app. -12.4
Italy	-2.4	Computers, peripherals, telecom equip. 3.0	Food, beverages & tobacco -2.7
Germany	-2.7	Chemists; medical; cosmetics, toiletries 2.5	Computers, peripherals, telecom equip. -6.1
Netherlands	-3.3	Textiles, clothing, footwear, leather 1.0	Computers, peripherals, telecom equip. -11.8
Finland	-3.9	Chemists; medical; cosmetics, toiletries 5.5	Audio/video; hardware; electrical app. -10.1
Spain	-4.1	Chemists; medical; cosmetics, toiletries 7.7	Audio/video; hardware; electrical app. -10.3
Ireland	-5.5	Chemists; medical; cosmetics, toiletries 0.2	Audio/video; hardware; electrical app. -16.8
Hungary	-6.7	Chemists; medical; cosmetics, toiletries -1.1	Audio/video; hardware; electrical app. -18.4
Bulgaria	-9.5	Food, beverages & tobacco 2.5	Computers, peripherals, telecom equip. -20.4
Greece	-10.3	Textiles, clothing, footwear, leather 5.9	Computers, peripherals, telecom equip. -24.4
Romania	-11.7	Textiles, clothing, footwear, leather 18.9	Computers, peripherals, telecom equip. -27.8
Lithuania	-20.3	Food, beverages & tobacco -17.5	Audio/video; hardware; electrical app. -24.5
Estonia	-20.6	Chemists; medical; cosmetics, toiletries -4.2	Computers, peripherals, telecom equip. -34.8
Latvia	-30.3	Chemists; medical; cosmetics, toiletries -22.5	Audio/video; hardware; electrical app. -50.8

(1) Luxembourg and Malta, not available. Cyprus, Slovakia and Slovenia, only partial information available for the breakdown of retail trade. Czech Republic, Ireland, Greece, Italy, Hungary and the Netherlands, ranking and comparisons are made on the basis of the rate of change between July 2008 and July 2009.

Source: Eurostat (sts.trtugr.m)

One of the retail areas most affected by the recession has been the motor trades. Retail sales of motor vehicles are not included within NACE Division 47, but instead are classified as NACE Group 45.1.

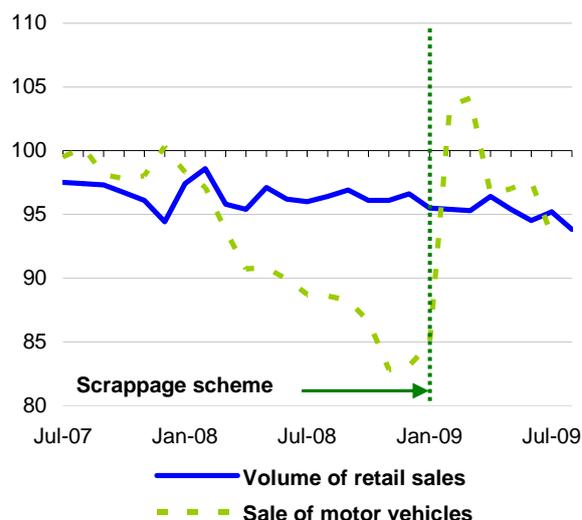
Unfortunately, there is very little data available for this activity; nevertheless, among those Member States that did provide information, the situation in Germany provides a striking example of the downturn in demand for motor vehicles during 2008. Figure 5 also shows the immediate effect of the introduction of a car scrappage scheme (Umweltprämie) at the end of January 2009 introduced by the German government. This scheme offered consumers purchasing new cars a EUR 2 500 discount if they scrapped a vehicle that was more than nine years old.

Similar schemes have been introduced in many of the other Member States, sometimes linking the cash incentive paid to consumers to the eco-performance of the new car (for example, greater rewards for purchasing a fuel efficient car or a vehicle that has particularly low levels of carbon dioxide emissions).

As noted above, one retail sector which appeared relatively immune to the effects of the recession (at least at the aggregated EU level) was that of retail sales via mail order or the Internet. Figure 4 above shows that seasonally adjusted sales via mail order or the Internet expanded each month during the period from January 2007 to July 2009 (on the basis of a comparison with the month before).

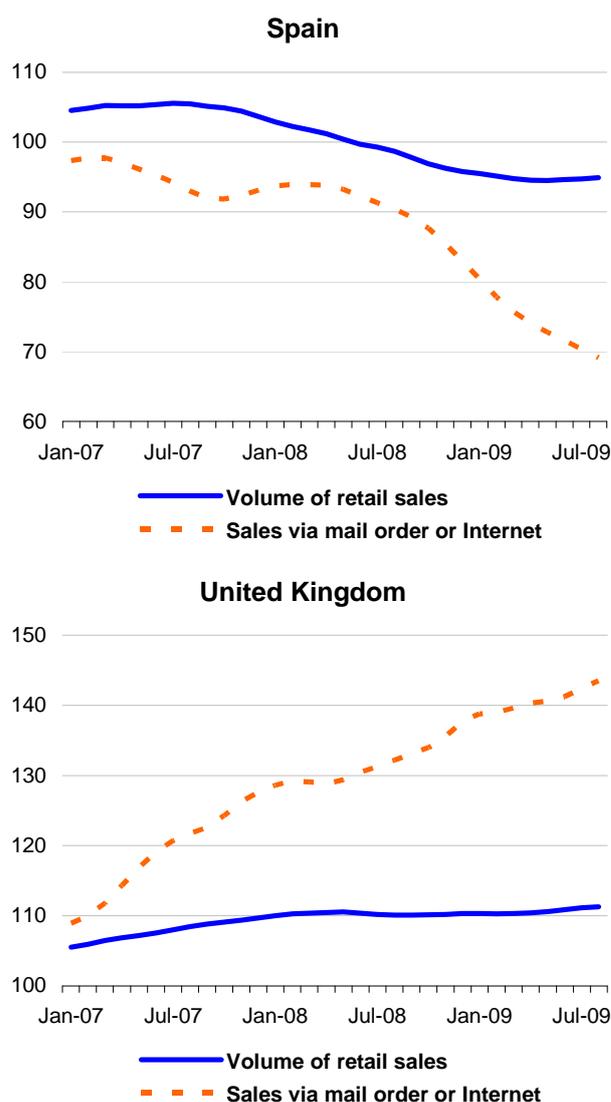
Among the Member States the evolution in the volume of sales via mail order or the Internet varied considerably between countries. Two contrasting examples are given in Figure 6, with the evolution of the trend-cycle indices for Spain and the United Kingdom. Aside from rapid growth in the United Kingdom, there were also considerable expansions in the volume of retail sales via mail order or the Internet in Romania, Poland, the Czech Republic and Bulgaria.

Figure 5: Volume of retail sales, Germany (seasonally adjusted indices, 2005=100)



Source: Eurostat (sts.trtu.m)

Figure 6: Volume of retail sales (trend-cycle indices, 2005=100)



Source: Eurostat (sts.trtu.m)

METHODOLOGICAL NOTES

The source for the majority of the data presented in this publication is Eurostat's short-term business statistics (STS). The legal basis for the STS is Council Regulation No 1165/98 of 19 May 1998 ⁽¹⁾ concerning short-term statistics and Regulation (EC) No 1158/2005 of the European Parliament and of the Council of 6 July 2005 ⁽²⁾ amending Council Regulation (EC) No 1165/98.

Definitions

The definitions of short-term statistics variables are laid down in Commission Regulation (EC) No 1503/2006 of 28 September 2006 ⁽³⁾.

The volume measure of the retail trade turnover index is more commonly referred to as the index of the **volume of (retail) sales** and is a short-term indicator for final domestic demand. It is a deflated version of the turnover index. Turnover comprises the totals invoiced by the observation unit during the reference period. This corresponds to market sales of services supplied to third parties. It includes all duties and taxes on the services invoiced by the unit with the exception of the VAT invoiced by the unit vis-à-vis its customer and other similar deductible taxes directly linked to turnover.

Classifications

The classification of activities used in this publication is NACE Rev. 2 ⁽⁴⁾. Under NACE Rev. 2, retail trade is defined as NACE Division 47. The retail sale of motor vehicles is classified as NACE Group 45.1.

Decomposition – forms of indices

The basic form of an index is its gross (also known as unadjusted) form. To facilitate analysis this has been adjusted in a number of ways.

When making comparisons with the same period of the previous year, the volume of sales indices in this publication have been adjusted for working day effects, in other words to adjust for the impact of calendar effects (such as weekdays/weekends, official holidays, leap years).

These indices have also been adjusted to account for seasonal effects. Seasonal adjustment aims to take account of the impact of the known seasonal factors

that have been observed in the past. These indices are generally used to compare indices with previous periods (month-on-month growth rates or quarter-on-quarter rates).

The trend-cycle form of an index is often used to graph those series where the irregular component of the time-series is relatively important; it generally offers a better series for analysis of longer-term past developments.

If the national statistical office providing the data does the seasonal or trend-cycle adjustment, these series are used. If no seasonally adjusted or trend-cycle series are supplied, Eurostat perform the adjustments.

Other sources

There are two other sources of information (outside of short-term business statistics) within this publication, namely national accounts and business and consumer surveys.

The main aggregate from national accounts is that of **gross domestic product (GDP)**, which is most frequently used to measure the overall size of an economy. It corresponds to the final result of the production activity of all producer units. For more information, refer to:

http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/introduction

Business and consumer surveys are compiled by the Directorate-General for Economic and Financial Affairs. Confidence indicators are computed for industry, services, building (construction), retail trade and consumers. Figures are presented as seasonally adjusted data based on the arithmetic average of balances. For more information, refer to:

http://ec.europa.eu/economy_finance/indicators/business_consumer_surveys/userguide_en.pdf

Abbreviations and symbols

EU-27	European Union of 27 Member States
EA	Euro area of 16
NACE	statistical classification of economic activities in the European Community
-	(in tables) not applicable
:	(in tables) not available

For more information:

http://epp.eurostat.ec.europa.eu/portal/page/portal/short_term_business_statistics/introduction

⁽¹⁾ *Official Journal No L 162, of 5 June 1998.*

⁽²⁾ *Official Journal No L 191, of 22 July 2005.*

⁽³⁾ *Official Journal No L 281, of 12 October 2006.*

⁽⁴⁾ *Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006. Official Journal No L 393/1 of 30 December 2006.*

Further information

Eurostat Website: <http://ec.europa.eu/eurostat>

Data on "short-term business statistics"

http://epp.eurostat.ec.europa.eu/portal/page/portal/short_term_business_statistics/data/database

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