

August 1, 2014

Dear clients and colleagues,

As you may be aware, consumers play a vital role in the economy. On average, consumer spending represents 50%-70% of a nation's GDP. In some cases, economic recovery experienced in the past years has been largely driven by consumers.

Apart from Germany, most of the consumer sentiment released this month deteriorated. Part of the weakening was the result of growing geopolitical turmoil and slower economic development toward the end of the second quarter.

Here is an update on the latest economic indicators that we feel are crucial to gauge the current consumer environment. We selected 6 major European countries.

|                     |  |  |  |  |  |  |
|---------------------|---|---|---|--|---|---|
| Unemployment        | ↘   | ↘   | ↗   | =  | ↘   | ↗   |
| Consumer confidence | ↘   | ↗   | ↘   | ↘  | ↗   | ↘   |
| Disposable income   | ↘   | ↗   | ↘   | ↘  | ↘   | ↘   |
| Retail sales        | ↗   | ↗   | ↘   | ↘  | ↗   | ↗   |

**UK**

For the past years, UK economy has certainly exceeded expectations delivering solid performance. The jobless rate has continued on its negative trend but the disposable income in real term is impacting the workforce. Retail sales in June remain robust but the trend is showing deceleration.

The latest consumer confidence reading was negative for the first time in 6 months. Like many other European countries, households' financial situation is becoming a concern. The probability of an interest rate hike has increased. This could have a major impact on consumption and household finances as 33% of the income is allocated for mortgage repayment.

**Germany**

Recent data shows that consumer sentiment and consumption continues strengthening. Steady wage growth in real terms together with an improvement in the labour market should be favorably for the second half of 2014. In addition, the World cup victory will likely reinforce the consumer mood in the short term.

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### **France**

The latest figures on the labour market and consumer confidence were not encouraging. On top of a sluggish economy, the lack of reforms promised by the government may explain why companies are still reluctant to hire in the short term. In the meantime, consumer mood remains weak with household spending being slightly less than expected.

### **Italy**

As shown by the latest consumer confidence data, Italy remains downbeat regarding the economic situation. On a positive note, labour market seems to have stabilized but real wage growth remains anemic.

### **Spain**

Household consumption was an important growth driver in Q2. Retail sales are still growing but at a much slower rate. Although consumer confidence has slightly improved, households remain preoccupied about their overall financial situation. Looking ahead, we expect domestic demand to continue to improve over the year.

### **Sweden**

Thanks to soaring wages and cheap credit to finance consumption, Sweden's economy has outperformed most of its European counterparts since the debt crisis began. Currently the unemployment rate is at its highest level in 3 years. Sweden has one of the highest household debt to disposable income ratio, and a reason why consumer mood is becoming quite pessimistic. This high debt overhang combined with an inflation rate that is close to 0% could be bad news for consumption.

The Global Alpha Team

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