Durables Sales Slow Down Across Europe

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GfK TEMAX Western Europe reflects slower market trend in the first quarter of 2009

In the first quarter of 2009, consumers in Western Europe spent EUR 45 billion on technical consumer goods, which represents a decrease of 8% compared with the same period in the previous year.

The principal reason for the reduction in revenue was price erosion with an additional loss attributed to currency effects, in particular the decline of the pound sterling against the euro, rather than lack of consumer demand.

These findings are based on GfK TEMAXÂ® Western Europe, an index for technical consumer goods comprising 15 countries which, based on merged data, is now also available for the first time for the entire Western European region.

GfK TEMAXÂ® is a market information service developed by GfK Retail and Technology, a business sector of GfK SE.

With -2.4%, the market for small domestic appliances started the year with the least significant downturn across the 15 Western European countries surveyed. Negative growth resulted from the depreciation of non-euro currencies against the euro.

Excluding this factor, the small domestic appliances market would then be the only segment not to record cutbacks in the first quarter of this year.

All other markets in the technical consumer goods sector â€“ telecommunications, major domestic appliances, consumer electronics, photo and office equipment and consumables â€“ recorded heavier revenue reductions ranging from -6.6% to -11.0%.

Despite the crisis, tighter budgets and a downturn across all segments, some product groups were not affected by consumers cutting down on their overall spending. These were, in particular, personal well-being products and mobility supporting products.

The new usage values have overridden the general consumer restraint resulting from the economic crisis.

Cocooning trend boosts sales
In total, consumers spent EUR 3.2 billion on small domestic appliances in the first quarter of 2009, which represents a decline of 2.4% compared to the same period in 2008.

The product groups of hot beverage makers, namely espresso machines, and products for food preparation, which all cater to the personal well-being of consumers, supported the small domestic appliances market in particular.

One of the reasons for this is the positive influence of the current cocooning trend on consumer behavior.

Consumers stay at home more often and therefore spend more on in-home appliances and equipment.

Ranked next in terms of the growth rate is the telecommunications market. Overall, the sales volume amounted to EUR 4.5 billion in the first quarter of 2009, which represents a 6.6% decrease.

In the telecoms markets, the number of mobile phones per capita now exceeds one. However, innovations that would trigger replacement or upgrades are not strong enough to lift the market into positive growth.

Within this sector, smart phones represent the only segment with positive growth, a strong signal that indicates higher penetration of high-end usage models.

The sales trend in major domestic appliances decreased by 7.5% to stand at EUR 7.5 billion. This was in part the result of currency losses, but mainly driven by the slowdown in built-in products.

The significant impact of the crisis on the construction sector and planned home improvements noticeably hit the large domestic appliances segment.

With sales of EUR 11.9 billion, consumer electronics is the biggest market. The segment recorded a reduction of 7.8% in the first quarter of 2009. Despite positive volume trends for stylish and highly innovative LCD and plasma screen TVs, the market decreased in terms of sales value across Western Europe as a result of price erosion.

The photographic market has also primarily faced pricing difficulties in particular product groups, while demand has presented less of a challenge. Although the continuous price erosion was halted over the past five months, particularly for digital still cameras, the current negative figure does not yet reflect this development. Increasing demand has been observed for accessories.

On an aggregated basis, the information technology market, worth EUR 11.3 billion, declined by 9.1% across Western Europe.

However, this decline was not equally shared across countries and product categories. While the shift from desktop computers to small, easily stowed away notebooks drove dynamic growth in the past five years, the first quarter of 2009 reflected an underlying trend towards usage factors over form factors.

Compact netbooks contributed to unit growth by capturing true mobility customers. At the same time, notebook sales also increased in volume. Since last December, all-in-one desktop computers have had a stabilizing effect on this segment.

However, all of these positives were gained at lower price points and this resulted in the negative value trend. These overall developments in terms of increasingly differentiated usage segments will have a positive impact on the IT market in the long term, especially with regard to dedicated accessories and upgrades.

In the first quarter of 2009, storage media were the star product group in this segment.

Particularly hard hit by the economic uncertainty and restraint in terms of investment and spending by companies, total sales of office equipment and consumables amounted to EUR 4.6 billion in the first quarter of the year, a decline of 11.0%.

No uniform sector and country developments in Western Europe
Developments in the first quarter of the year showed marked differences between the individual Western European countries, highlighting the fact that local market structures and consumer preferences differ considerably and impact significantly overall.

In recent years, when market trends were predominantly positive, this observation had been somewhat disregarded.

Spain and Portugal, for example, were the biggest growth regions in the last five years, but have been hardest hit by the latest negative developments.

This is probably linked to the dependency of local consumers on real estate, the most affected sector in the present financial environment.

Spain recorded a 15.9% and Portugal a 13.7% decline in sales of durables. Other countries where assets have not been affected to the same extent showed greater resilience, with Germany, for example, recording 3.2% growth.

Outlook
It is now evident that 2009 will not be catastrophic, as some doomsayers were predicting, but it is clear that it will be a tough year. Markets and sales channels continue to suffer from the underlying financial difficulties, which impact on credit lines, credit insurance and other elements that are only indirectly linked to consumer spending.

Products with a high usage value will continue to sell, provided that the relevant benefits are actually demonstrated.

Early signs in 2009 show that demand in the world of consumer electronics is positive, although prices are declining due to the prevalence of aggressively priced offers, e.g. for flat screen TV sets.

However, there is the chance of prices stabilizing in the near future, given a healthy level of consumer demand.

This is caused by rising component prices for attractive new TV-related products with innovative features such as 200Hz, HDTV and LED.

With regard to IT, demand for PCs has picked up since mid-March and the trend was sustained in April and May. The office sector is still slow, despite government measures aimed at supporting economic recovery having been implemented in all countries. It will take some time for these measures to translate into investment decisions.

Thanks to the strong emotional significance of images, cameras and related accessories remain popular with consumers.

The established trend in consumer behavior with regard to the small domestic appliances sector is very likely to continue. The last category likely to be affected by budget cuts are products that contribute to personal well-being.

All national major domestic appliances markets have been affected to some extent by the repercussions of the economic crisis. Following the collapse of the respective housing markets, the UK and Spain were heavily affected in April.

Overall, no quick recovery can be expected in this segment, although demand in value segments, e.g. energy efficient appliances and induction hobs, is still rising.

Underlying demand has continued to remain strong, despite the ongoing bad news. Accordingly, there is confidence that although the year will be remembered as tough, the market will be returning to a positive trend. When exactly this trend reversal will occur remains to be seen.

The survey
GfK TEMAXÂ® is an index developed by GfK Retail and Technology to track the consumer durables markets. GfK TEMAXÂ® is published internationally.

The findings are based on surveys carried out by the retail panel of GfK Retail and Technology. The retail panel comprises data from over 200,000 retail outlets worldwide.
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