



After a positive second quarter Europe sees a reversal of fortune as volume growth halts in the face of inflation and an uncertain economic backdrop

Nielsen European Growth Reporter Q3 2011

By: Jean-Jacques Vandenheede, European Business Insight Director

SUMMARY: Drawing on Nielsen's unique data assets and geographical footprint, this report compares overall market dynamics (value and volume growth) in the fast moving consumer goods sector across Europe.

Based on the widest possible basket of product categories continuously tracked by Nielsen, third quarter 2011 data shows a halting recovery after a previously encouraging second quarter, as uncertainty in the Eurozone makes for an unnerving backdrop against which consumers need to balance their household budgets.

Executive Summary

Financial turmoil in the Euro-zone continues to dominate headlines across the globe as the levels of sovereign debt become clear. As households are subjected to a negative media onslaught on a daily basis it is unsurprising that they are becoming increasingly reticent to spend on anything other than essentials. Across Western Europe nominal growth reached a disappointing 4.5% versus 5.2% in the previous quarter, with the majority of growth fuelled by inflation. Indeed volumes grew by only 0.5% across the region as inflation continues to bite and in 6 countries price increases exceeded 5%.

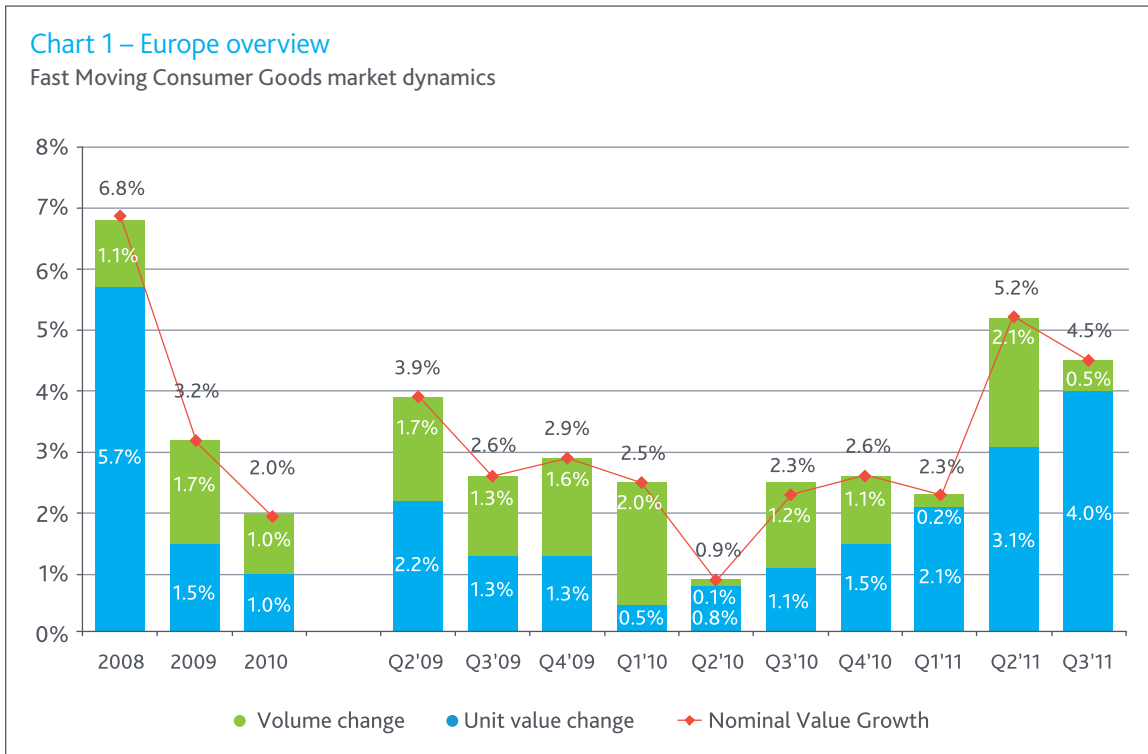
Thirteen of the 21 countries have seen volumes decreasing with only Belgium, Norway and Turkey posting healthy volume growths.

Growth is still generated in the main by price inflation: UK, Finland, Hungary, Denmark, Portugal, Sweden, Czech Republic and Italy completely rely on price to produce any growth.

There is very much an East West split across the wider European region with improving growth rates in Croatia, the Baltic's, Macedonia, Romania and Serbia. However it is not all good news as Albania, Bosnia, Bulgaria, Montenegro and Slovenia are seeing a deterioration in growth rates.

According to the latest Nielsen Global Online Consumer Confidence Survey a recessionary mindset is growing among consumers as more than half of respondents say they are currently in a recession—up four percentage points from last quarter and seven points from the start of the year. This is leading to an inevitable spending restraint as disposable income falls considerably.

The big watch out going forward is managing how price inflation will affect volumes, however recently the UK Central Bank predicted a dramatic fall in inflation throughout 2012, which will hopefully bring some welcome respite to households, and become a pattern across the broader European region.



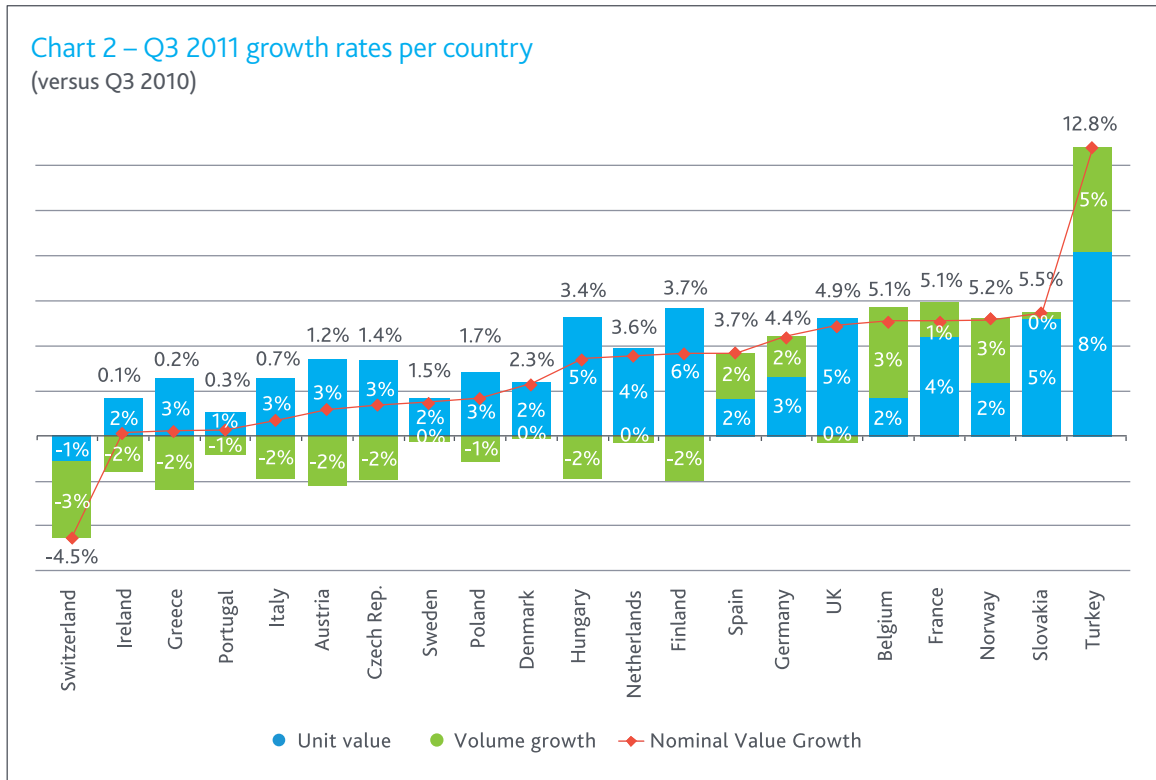
Country Analysis

Turkey continues to lead the region in both value and volume growth with nominal growth rising from 12.6% over the previous quarter, to 12.8% generated from 8% value growth which did not dampen volumes at 5% growth. Norway continues to be one of the few buoyant economies in Western Europe, and despite a rising concern over the economy, low levels of unemployment coupled with low interest rates and energy prices mean that consumers have money to spend.

Germany, UK and France are benefiting from rising nominal growths of 4.4%, 4.9% and 5.1% respectively. Shoppers in the UK and France continue to suffer from rising food prices of 5% and 4% resulting in relatively flat volume growths. Volume growth of 2% in Germany is fairly positive, due in part to inflation running 1% lower than the regional average of 4%.

Despite Greece's poor economic performance it is Switzerland who have the lowest nominal growth rates in Western Europe with negative growth of over 4%: values dropping 1% and volumes subsequently declining by over 3%. One theory is that consumers are trying to maximise value for money by travelling across the border to Germany, Austria and Italy to do their shopping, and benefit from the strong Swiss Frank versus the weak Euro. Exacerbating the situation some (high-priced) brands have been withdrawn, as retailers stopped the distribution of some brands in Switzerland.

Ireland is seeing no growth with volumes declining 2% versus the same period last year. Greece, Portugal, and Italy continue to struggle with low growth rates however Spain is looking refreshingly positive with nominal growth of 3.7% with over 2% volume growth.



Looking at the fourteen nations that make up our extended report, Israel, Russia and the Ukraine are showing strong signs of growth. Nominal growth in Russia is fairly stable and healthy at 13.2%, slightly down on the previous quarter (14%), and made up of 7% value growth and 6.3% volume growth. Growth in Ukraine is slowing from the heady heights of 19.1% last quarter to 9.6% with inflation running at 10.6%, suppressing volume growth completely. Other countries showing encouraging signs of growth include Croatia, Baltics, Macedonia, and Serbia.

On the other hand Albania, Bosnia, Bulgaria, Montenegro and Slovenia are deteriorating with falling nominal growth versus last year, Albania seeing volumes drop a worrying 13.5%.

Global Consumer Confidence: continues its downward transcendence

Global online consumer confidence fell for the seventh consecutive quarter as confidence in 31 of 56 global markets measured declined, according to third quarter global online consumer confidence survey. A weakening manufacturing performance continues to impact Asia; the debt crisis in Europe combined with lack of confidence in local politicians in some countries continues to intensify, coupled with political instability in the Middle East. Consumer confidence fell in 29 of the 56 countries measured in the Nielsen Global Online Consumer Confidence survey.



Europe's Struggling West / Improving East

European nations remain among the most pessimistic across the globe. Across the euro zone, the looming debt crisis and extreme volatility of financial markets is driving consumer confidence levels down, particularly in Portugal (40), Ireland (64), Greece (51) and Spain (56), each reporting consumer confidence index scores well below the European average of 74. Several markets posted double-digit confidence declines last quarter with the largest decrease from France, dropping 13 index points to 56.

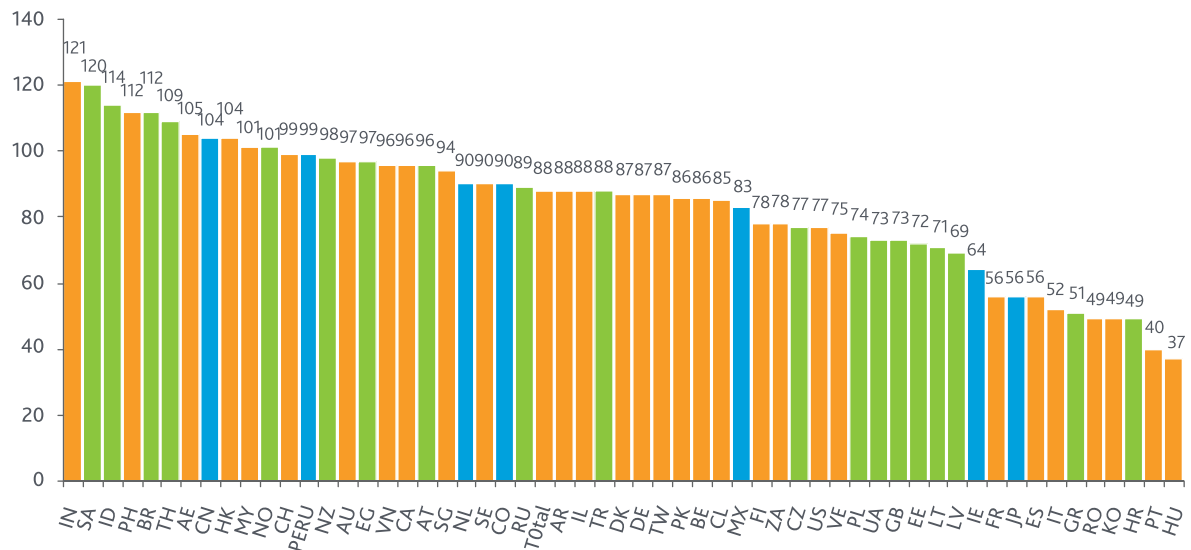
The European debt crisis continues to cause strong uncertainty among consumers, especially in France where the budget deficit is close to 5.8 percent of the GDP and the unemployment rate is close to 10 percent.

The Nordic region also reported a drop in confidence, with Denmark, Finland and Sweden declining in third quarter. Denmark saw the biggest decline, dropping 12 points—straying from a 97 average index performance registered since the 2009 recession, caused in part by a heated national election, whereby duelling party positions resulted in one of the closest races in more than 10 years.

While Western Europe experienced a challenging quarter, several Eastern European nations defied the downward trend and nine of 10 markets tracked by Nielsen enjoyed confidence rebounds. Russia, the largest economy and economic engine of Eastern Europe, posted a healthy seven point increase to an index score of 89. Russian respondents have strengthened confidence in the state of their personal finances, although purchasing power has not yet been fully restored and Russians remain cautious in their expectations about the future.

Chart 3 – Consumer Confidence Index

Country Comparisons



About the Nielsen European Growth Reporter

This report compares overall market dynamics (value and unit growth) in the fast moving consumer goods sector across Europe. It is based on the sales tracking Nielsen performs in every European market, and covers sales in grocery, hypermarket, supermarket, discount and convenience channels.

The report is based on the widest possible basket of product categories that are continuously tracked by Nielsen in each of these countries and channels, and this edition reports on week 27 of 2011 through to week 40 of 2011.

Glossary

Nominal value growth: Percentage change in value sales (expenditures) as measured by the total basket of reported product categories i.e., overall value growth.

Unit value growth (price change): Percentage change in the average retail price per unit in the total basket of reported product categories i.e., price inflation/ deflation.

The unit of volume in the basket varies by category (e.g., litres, kilograms, tons etc).

The change in average price per unit may result from:

- Price changes of individual products
- Change in the mix of purchased products; more or less expensive products, more or less promotions, etc.
- Channel switching; more or less purchases in discount stores, or hypermarkets, or convenience outlets, etc.
- Product or channel mix changes may be induced by price change or may just be the result of market dynamics

The unit value growth reflects how consumers experience 'cost of living' in their actual grocery shopping behaviour. The volume growth is the percentage change in purchased volume (quantity) of products.

About Nielsen

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related properties. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands. For more information, visit www.nielsen.com.