

Industry trends

Consumer durables/retail

High inflation and interest rates have knocked consumer confidence



Global overview

With an eye on the cost of household expenses, consumers are reining in their spending.

Although inflationary pressures are decreasing, high interest rates are continuing to weigh on household real incomes and consumer confidence across most of the world.

These economic challenges are resulting in a reduction in demand for consumer durables, with goods bought using credit also decreasing due to higher interest rates. In Europe, sales of consumer durables are

expected to contract in 2023, while other major regions are also seeing a slowdown of sales growth.

The credit risk of consumer retailers in advanced markets is deteriorating, with smaller players becoming especially vulnerable to defaults and insolvency. The sector operates in a fierce competitive environment with thin margins. These are being further squeezed by more frequent markdowns, as consumers seek discounts year-round.

Online retailers are increasing their market share, putting pressure on

bricks-and-mortar operators. According to the International Trade Association, consumer goods sold online will account for about 22% of total global retail sales in 2024. Among individual segments global ecommerce will increase as indicated below between 2020 and 2025:

- **Fashion**
USD 753 billion to USD 1.165 trillion
- **Electronics & Media**
USD 601 billion to USD 774 billion
- **Furniture & Appliances**
USD 383 billion to USD 522 billion

Industry performance forecast

Europe		Asia and Oceania		Americas		<p> Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p> Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p> Fair The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p> Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p> Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p>
Austria	Netherlands	Australia	New Zealand	Brazil		
Belgium	Poland	China	Philippines	Canada		
Czech Republic	Portugal	Hong Kong	Singapore	Mexico		
Denmark	Slovakia	India	South Korea	USA		
France	Spain	Indonesia	Taiwan			
Germany	Sweden	Japan	Thailand			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey					
Italy	UK					

Industry trends

Consumer durables/retail

Consumer durables: Global key figures	2022	2023*	2024*	2025*
Production	2.6	0.0	3.3	4.4
Gross output (sales) (real, USD)	2.8	1.2	3.4	4.9
Investment (real, USD)	13.5	3.5	3.7	5.2
Gross operating surplus (profits)	-0.2	-0.5	4.2	8.1

Year-on-year, % change /*forecast – Source: Oxford Economics

Consumer durables: Gross output (sales) per region	2022	2023*	2024*	2025*
Asia Pacific	3.3	1.8	4.6	6.6
Europe	2.6	-1.1	2.0	2.5
North America	1.5	1.2	0.4	1.4
South America	-3.8	2.6	1.3	2.3

Year-on-year, % change /*forecast

Source: Oxford Economics

Strengths and growth drivers

Emerging markets growth. Urbanisation and the number of middle-income families is growing, driving demand for consumer durables in the coming years. This, together with increasing internet penetration and digitalisation, will make many emerging markets attractive for retail investment.

New technologies. Retailers can leverage AR/VR technology to create immersive shopping experiences and chatbots for conversational commerce, enriching the brand-consumer relationship through one-to-one interactions. Conversing with consumers at scale makes chatbots a strategic medium for customer engagement.

Sustainability. Sales of eco-friendly recycled and refurbished goods provide an increasing business opportunity for retailers. Higher consumer acceptance is likely to result in increased competitiveness for retailers.

Constraints and downside risks

Elastic demand. Compared to essentials like food, demand for consumer durables is more closely aligned to incomes, prices and economic cycle volatility.

Margin issues. In many markets, retail profit margins are structurally thin and under pressure. In a fiercely competitive environment, the bargaining power of online retailers is increasing, and their price transparency is adding pressure to margins along the whole value chain.

Higher input costs. Retailers in many markets are facing higher costs for logistics, labour and energy.

Business realignment. Bricks-and-mortar retailers need to expand their online business, enhance their digital capabilities and possibly offer additional services if they are to survive in today's digital world. However, this requires major investment and the willingness to change; a difficult task amid tight profit margins, especially for smaller retailers.



Consumer durables/retail outlook Americas

Retail sales	2021	2022	2023*	2024*
Brazil	1.9	1.0	1.9	-2.3
Canada	8.6	0.3	0.9	-0.5
Mexico	13.3	7.2	3.3	-0.4
United States	11.2	0.5	0.7	0.8

Year-on-year, % change /*forecast – Source: Oxford Economics

USA

We expect US sales of consumer durables to grow only modestly in 2023 (up 1.3%) and 2024 (up 0.3%).

One reason is that households have shifted their spending away from goods towards services like leisure and travel. Another is the fact that high interest rates are persisting for the time being. We expect that the Fed will cut rates gradually in the course of 2024, but only once it is clear the economy is in recession and underlying wage and price pressures are receding significantly.

For US retailers supply chain and inventory challenges have abated, but they are facing other headwinds. There are more distressed debt exchanges from retailers recently, and high interest rates are another challenge for companies loaded down with debt. Inventories that are not properly managed could lead to lower profit margins and higher credit risk.



Bricks-and-mortar retailers continue to lose share to ecommerce. More than 60% of the retail sales growth in the 2023 festive holiday season will occur online, putting sales growth in bricks-and-mortar stores at under 2%. This segment is vulnerable to bankruptcies due to supply chain and inventory challenges, as well as inflation and other macroeconomic concerns. So far in 2023, over 400 corporations have gone bust in the US, and corporate bankruptcies are running higher than in either 2022 or 2021.

Mexico

After a 0.6% decline in 2022, we expect sales of consumer durables to increase by 3.4% in 2023, supported by a tight labour market and high remittances.

However, in 2024 growth will slow down to 0.6%, as the labour market cools and accumulated monetary restriction takes full effect.



Industry performance forecast	
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	Canada
	Mexico
	USA
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Consumer durables/retail outlook Asia Pacific

Retail sales	2021	2022	2023*	2024*
China	12.6	0.5	9.4	4.1
India	13.8	9.7	7.5	8.1
Indonesia	0.0	6.0	2.8	6.0
Japan	1.4	-0.2	3.0	1.0

Year-on-year, % change /*forecast – Source: Oxford Economics

China

We expect sales of consumer durables to increase by 5.8% in 2023, with overall retail sales to grow by as much as 9.4%.

Growth has been supported by a rapid normalisation of consumer spending after the economy reopened from Covid lockdowns in early 2023. However, despite the recent Golden Week holiday spending boost, retail sales remained around 8% below the pre-pandemic spending. Additionally, some housing-related segments like furniture have registered a decline in H2 of 2023 due to difficulties in the Chinese residential property construction sector.

As the one-off effect from lifting Covid measures wears out, the retail sales growth

of consumer durables is likely to weaken in 2024. Stronger growth would require consumer confidence-boosting measures, improvements in income growth or structural reforms that reduce households' tendency to save.



India

Sales of consumer durables are predicted to increase by 6.9% in 2024, with overall retail sales to grow by 7.5%.

While private consumption growth is about to slow down somewhat in the course of 2024, the long-term outlook remains positive due to increasing household purchasing power and a growing middle class.



Japan

We expect sales of consumer durables to increase 3.2% in 2023 and 1.3% in 2024, almost in line with overall retail sales.

Consumption has recovered modestly from a dip in March-April, as wage increases mitigated some of the inflationary pressure. But the pace of recovery will remain moderate despite decreasing inflation. In the long-run, the ageing and declining population size will mean weaker consumption prospects.



Industry performance forecast

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Consumer durables/retail outlook Europe

Retail sales	2021	2022	2023*	2024*
France	10.3	3.3	-2.6	-1.2
Germany	0.6	-0.5	-2.8	2.0
Italy	8.1	0.3	-2.3	0.6
United Kingdom	4.4	-3.7	-2.1	1.0

Year-on-year, % change /*forecast – Source: Oxford Economics

Eurozone and UK

Soaring inflation and interest rate hikes have rocked consumer confidence and reduced spending power.

High costs of property, food and fuel are forcing many consumers to put non-essential purchases on hold.

In many European markets, large post-Covid inventories have weighed on the operating costs of retailers of consumer durables and driven up working capital requirements across the sector. Operating costs have increased as energy prices remain high, and credit is more expensive. Discount battles during the Christmas sales season could lead to deteriorating margins.

The credit risk of retailers of consumer durables is likely to deteriorate in the coming months, with smaller bricks-and-mortar stores becoming especially vulnerable to defaults and insolvency. This is exacerbated by the continuing rise of ecommerce.



France

Retail sales are expected to contract in 2023 and 2024.

During the 2023 Christmas peak shopping season many retailers are likely to have to offer major discounts to clear stock. But this risks reducing margins and hitting profits. We expect an increase in defaults and insolvencies in the first half of 2024.

Germany

For German retailers, high levels of inventory is still an issue after the Covid pandemic and last year's supply chain challenges.

Consumers are reluctant to spend on anything but necessities, and have less money to do so. At the same time, retail costs are rising as energy prices remain high and credit is expensive. The credit risk of retailers can only increase as a result.

United Kingdom

Inflationary cost pressures have been the major driver behind retail insolvencies and defaults this year.

This is likely to continue into 2024, as retailers struggle with subdued demand and higher costs. There have been contractions in some areas, including home and furniture. Smaller players will suffer most in a shrinking market, as many are unable to access more favourable pricing and payment terms.

Industry performance forecast	
	Austria
	Belgium
	Czech Republic
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