

Economic Expectations

2024

Executive summary:
Economic Expectations

In times of low operating margins, almost stable food prices, and high employment rate retail and consumer goods are amidst structural transition.

The inverted rate curve (ST<LT interest rates) will shift and The Long Term interest rate will rise again, impacting long cycles (capex) in the financing of retail & consumer goods. Belgium's retailers will face fierce competition from Low end retail (Action,...), cross border sales and ecommerce.

Experts guess a value increase (price-volume) of +15<+3%, and a volume decline of approximately -0.5% for 2024. The retail war is fought with PL promotions, impacting brands price and promotion strategy.

The geopolitical instability, but also climate change will impact the global supply chain (e.g.: maritime transport) while Belgium also suffers local logistic constraints.

Without systemic change, the pressure in the value chain of retail, consumer goods, and food will only grow. The economic opposites will continue to do well: both luxury and low end retail will continue to grow, as food faces 2 major dangers: commoditising (and pressure on price and margins) and hard interventionism from the Belgian State.

Silvie Vanhout, Managing Partner Gondola Academy
Pierre-Alexandre Billiet, CEO Gondola Group

KBC – Tom Simonts

- Interest Rate Inversion Predicts Economic Impact:** A detailed analysis predicts a decline in Short Term interest rates over the next few years, but growing LT rates influencing retailers and suppliers with refinancing conditions but also influencing positive overall economic sentiment. To Gondola this means that Belgian retailers and suppliers are **financing the economic transition (green, digital,...) with cash from previous years**, but not yet with recurring incomes (low operating margins: retail 0.98%; food suppliers 2.7%).
- Recession: Market Positioning and Inflation Expectations:** Lowering (expected in 2024 ECB) of the interest rates has always led to recession in the past. BUT: recessions come less often and less deep since 20 years almost (except 2008). Although we are already amidst an invisible recession NOW: all manufacturing business and imports in the world are in decline; since 2022: **it's a hidden recession: -0.3%**. Strange because GDP per capita is still growing : we earn more and still we are in recession. This recession feeling is fuelled by consumption of poor media (Tik-tok,...) with cheap of short headlines;
- Corporate and Consumer Debt:** An examination of corporate and consumer debt levels, highlighting potential challenges in refinancing and the implications for consumer spending. Companies have too much cash and too low debts, which is also called: inefficiency. Consumption will be under pressure: USA is facing **10% credit card delinquency**; +-10% of all credit card loans are not being repaid.

4. **Growth and Employment Trends:** Insights into the current and future state of market growth, employment rates, and their effects on economic stability and consumer confidence.
5. **Sustainability and Circular Economy:** The increasing importance of sustainability in business operations and consumer preferences, emphasising the shift towards circular material use and its impact on market differentiation. Sustainability will impact our global supply chains that are in danger: the supply chain is drunk. Also in Belgium: standstill in Flanders (with electric cars instead of petrol cars)

These insights provide a comprehensive overview of how to navigate the complexities of the current economic landscape, with a focus on strategic planning and sustainability.

National Bank – Raïsa Basselier

1. **Global Economic Resilience:** Despite challenges, including regional conflicts and supply chain disruptions, global economic resilience was underscored by strong service sector growth and robust labour markets, contributing positively to consumer confidence.
2. **Inflationary Pressures and Monetary Policies:** Central banks' monetary tightening, through raised interest rates, aimed to balance inflation without stifling investment. Headline inflation for Belgium. **Headline inflation in 2024 is expected to be around + 4%** and for 2025 +1.8% (close to the target of ECB). Inflation in clothing and footwear were lower than in food (+9%): the Belgian Retail Trade index (pg. 33 Economic expectations) showing a volume growth of +12% volume and +25% value creation since 2015. Belgium versus EU volume: food +12% and non-food + 0.2.(2015)
3. **Euro Area and Belgian Economic Performance:** Slow Economic Growth: Belgium expected to grow +1.3% in 2024, but unlike 2023 where growth was driven by business investments and household consumption, in 2024 will grow by automation, greening, digitalisation and business investment, and robust purchasing power.
4. **Investment and Consumer Spending Trends in Belgium:** Significant business investment, spurred by automation and sustainability efforts, contrasted with the Euro area's overall trend. Consumer spending remained strong despite inflation, supported by wage indexation mechanisms unique to Belgium. Expected to lower but remain positive in 2024.
5. **Retail Industry and Price Trends:** Volume growth lagged behind nominal increases, highlighting the need for strategic focus on value and efficiency. Total inflation food & beverages in 2023 came with a lag, in 2023 (+25%).
6. **Other important points:**
 - **Corporate profit margins** expected to slow down from 45% to 42% in 2024
 - **Employment:** will slow down in 2024 but remain high: 2023/ from 100.000 job creation to 40.000 people and will decline. Lowering employment can impact HH consumption
 - **Business Investments remain in 2024:** according to Piette & Tielens (NBB 2023) business did not profit enough to invest in low rates , but they built a buffer -the cash or the stash- that they can invest now.
 - A quick poll (n125) during the congress of Economic expectations (08/02/2024) shows that **60% of managers believe prices will go up** in 2024, 40% expect prices will remain stable or slightly decline.

CPS GfK – Davy Van Raemdonck

Here are the five pivotal insights for leaders in the Belgian food retail and FMCG industries:

1. **Shift in Purchasing Behaviour:** The FMCG market grew by 9% in 2023, driven primarily by price increases rather than volume, which saw a decline. This indicates a shift towards cost-conscious buying, with consumers opting for cheaper alternatives and demonstrating a cautious approach to spending. 15% of households that will buy cheaper if prices continue to grow.
2. **Growth of Private Labels:** Private labels continued to gain market share at the expense of A-brands, fuelled by consumers prioritising value over brand loyalty. This trend underscores the need for brands to revisit their competitive strategies and value propositions. 55% of private label lovers indicate that they will even increase their private label purchases. The shift to Private Labels will slow down, but will not stop in 2024.

3. **Rise in Cross-border Shopping:** There was a notable increase in cross-border shopping. This highlights the importance of competitive pricing and promotions to retain customer loyalty and prevent revenue leakage to foreign markets. Adapting promotional strategies to align with consumer behaviour and preferences is crucial for maintaining market share and driving growth. In 2023 853M€ of the FMCG value was 'lost' to neighbouring countries. This equals 2.7% of total turnover.
4. **Ecommerce:** e-commerce growth stabilised - decline in online food purchases mainly linked to decline in meal kits.
5. **Educated guess for 2024:** Volume decline of -0.5% - Price increase of 2.2% - value increase of 1.7%. 60% of the participants agreed that prices will rise again. And also 60% of the participants think value will increase between 0 and 3%.

NIQ – Tom Penninckx

1. **Historic Price Increases:** an unprecedented price increase of 10.7%, the highest in 50 years, comparing the current situation to the oil crisis of '74, emphasising the significant impact on consumer spending and basket costs. 17% price increase in 2 years, from 2013 to 2021 the price increase in total was also 17%.
2. **Volume and Value Growth:** Despite a 9% market growth driven by price increases, volume compression was minimal, indicating robust consumer demand for essential goods despite inflationary pressures. –the value growth in 2023 was the same as in 2020, **+2.7B€**.
3. **Private Label Surge:** A notable shift towards private label goods over branded products was observed, driven by consumer price sensitivity, impacting brand dynamics and market share. The PL share is now 40.7% and will probably keep on growing, but at a slower pace. The max share will be around 45%.
4. **E-commerce and Online Growth:** There is a growing importance of digital platforms in consumer shopping habits and the potential for brands. Do not underestimate the impact of influencers. In the UK the brand Prime, which was launched nearly 2 years ago, brick & mortar sales is already **156M€**. This is the same turnover as Lays in 2023. (Quote Tom)
5. **Educated guess for 2024:** Volume decline of -0.4% - Price increase of 3.4% - value increase of 3.0% - 82% of the participants think prices will rise between 0 and 5 % (39% between 0-3% and 43% between 3-5%)

In essence, the FMCG and food retail sectors in Belgium are navigating a landscape marked by inflationary pressures, changing consumer behaviours, and the strategic importance of pricing and promotions. Businesses must stay agile, leveraging insights into consumer preferences and market dynamics to develop strategies that resonate with cost-conscious consumers while fostering loyalty and growth.

Some other results on the questions posed during the session:

- 66% of participants think prices and margins are the biggest challenge for the sector in 2024.
- In which social class group did the overall volume decline the most? 82% thought it was either medium upper or medium lower class – but in fact it is upper class which lost 3.6% in 2024 (where the average was -2.0%)
- What will people do the most if prices continue to rise? 53% of the participants went for the option 'buy cheaper', but in fact people will buy less.
- 91% of the participants think prices will not decrease again on the long run