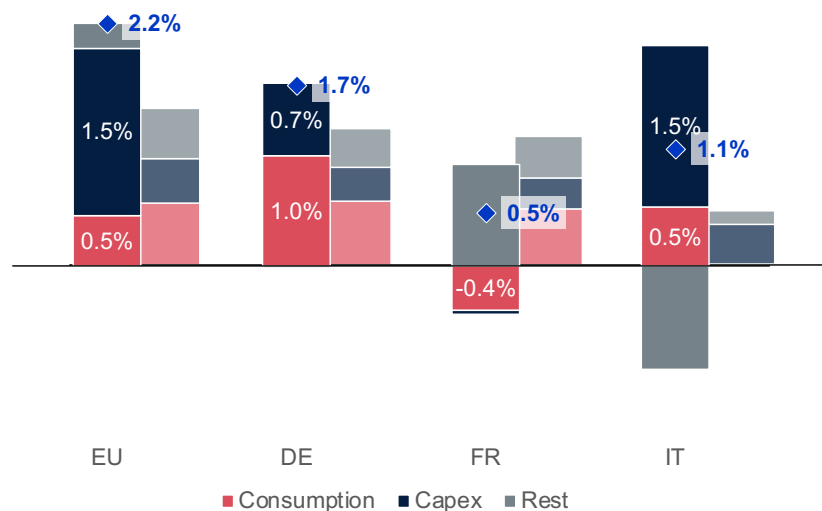


Consumer research: Lessons on winning in 2025 from macro to psychology

The weakness of consumer expenditure has been a recurring theme in coverage of the European economy, with growth of only 1% growth p.a. since 2010 across the EU, as well as in Germany and France. Italy stood out with zero real consumer expenditure growth over the past 15 years. This has continued in the beginning of 2025: Capex has contributed 4-times as much as consumption to growth. On a positive note, consumers in Italy and Germany increased spending above historic trend.

GDP growth and contribution

Annualised Q1-2025 and since 2010 (lightly shaded)



Source: Eurostat

There is a wealth of research on the drivers of weak consumer spending, with most approaches taking either a highly macro, global trade perspective (cf. Trade Wars are Class Wars) or focusing on behavioral explanations. The (seemingly infinite) chain of crises since 2019 provide a fascinating real-life laboratory for consumer behavior. Two recent research notes by the central banks of Italy and France respectively analyzed the data to provide some interesting insights into the European consumer.

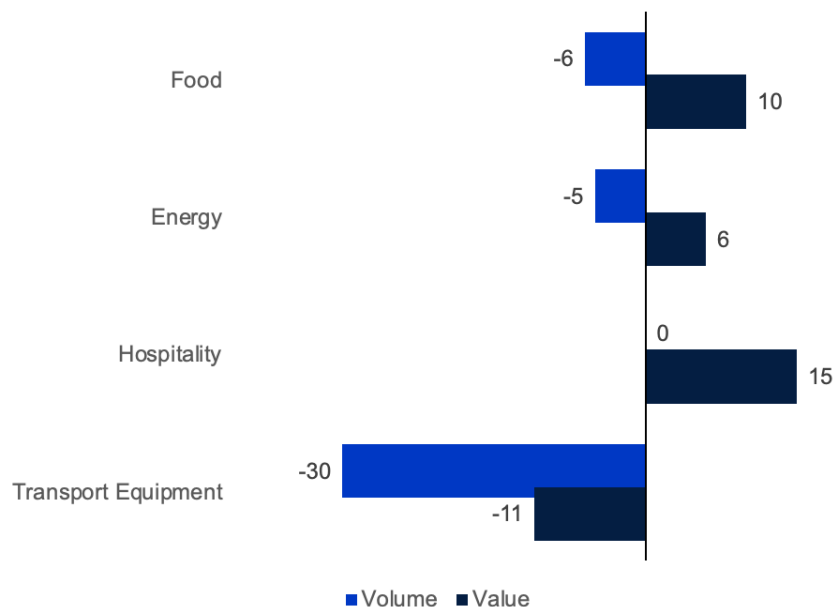
Unexpected macro elasticities

Banque de France (Coueffé, 2024) starts with the observation that French consumer spending was 8% higher in Q3-2024 than the pre-Covid trend. At the same time, the consumption volume was 4% below trend – as to be expected in a high inflation environment. Interesting is how consumers shifted spending in response to uneven price changes:

Firstly, overall **consumption shifted from goods to services** because inflation hit the former harder. In the grand scheme of things, everything can be a substitute in terms of spending, and even at quite short notice.

Change in value & volume of consumer spending

Percentage-point deviation from trend in Q3-2024



Source: Coueffé, 2024

Secondly, **basic needs are not necessarily shielded:**

- At the end of 2024 consumption in volume terms of the quintessential basic needs items food and energy were 5% and 6%-points below trend, respectively, while consumption of hospitality and foodservice, as well as financial services had caught up with the trend.
- Similarly, food and energy spending in value terms exceeded trend by less than hospitality.
- Car purchases are a special case where we can see the structural industry shifts also here: 30%-points below trend in value terms. This is for another note, however.

What drove the post-Covid consumer slump?

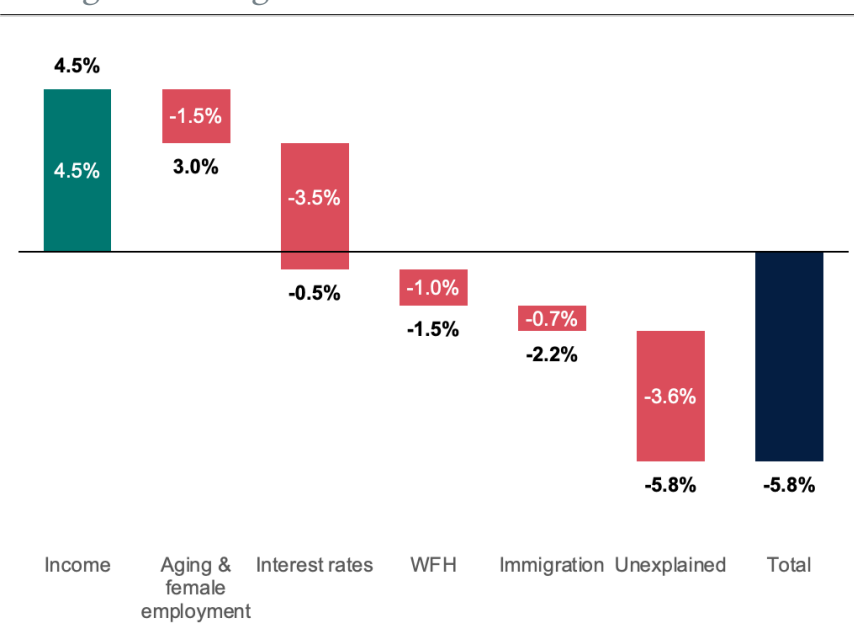
With the exception of France, major EU economies have not reached the pre-Covid trend in disposable income – Italy is even below. Banca d'Italia asked what drives consumer spending over the medium term beyond the traditional consumption theory determinants income, interest rate, wealth, and expectations. Carta & Depalo (2025) identify socioeconomic factors that pushed consumption higher until 2019 but then slowed it post Covid. Disposable income alone would have increased consumer spending

by $\pm 7\%$ pre Covid and 12% since Covid over 4 years. Actual spending increases were, however 7% and 1%, respectively since Covid. What drove the delta?

- I. **Interest rates** shifted from an unnoticeable tailwind to a 3%-point drag.
- II. Increased **work from home** subtracted another percentage point
- III. Long-term structural consumption drivers **population aging and increasing female employment** (double-income households spend more) weakened from 4.5% to 3% contribution.

Drivers of change in post-Covid consumer expenditure

Change in annual growth contribution 2015-'19 vs. 2019-'23



Source: Carta & Depalo, 2025

Italy has the second lowest female employment rate in the EU at barely above 50% (an 18% gap to men), which suffered a further setback during Covid. Diving deeper into this is beyond the scope of this note, but it clearly shows ample consumption growth potential from higher employment.

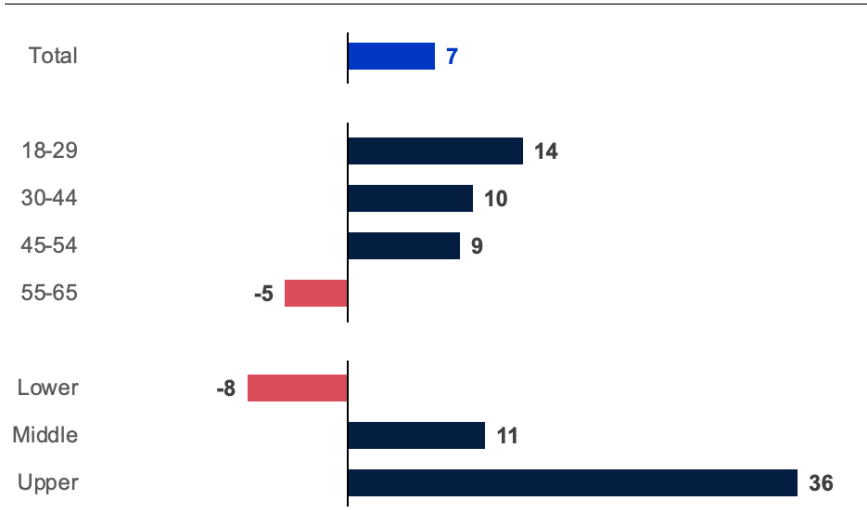
You will have seen that, still, unexplained effects are tied with interest rates for the second biggest effects. This captures all other effects of consumers prioritizing savings over spending, which will be heavily psychological and behavioral.

Shifting values and consumer outlook

The consumer research arm of Italy's largest grocery retailer, Coop, publishes a highly insightful annual consumer research report, which can help understand both drivers of overall consumption and its allocation.

A key determinant of spending is how optimistic or pessimistic consumers look to the future. Within Italian consumers asked in December 2024 about this year, some clear differences emerge by demographic. Most optimistic, and thus most **likely to drive consumption growth are Gen.Z as well as those in the upper income bracket**, the latter even with an extremely positive outlook.

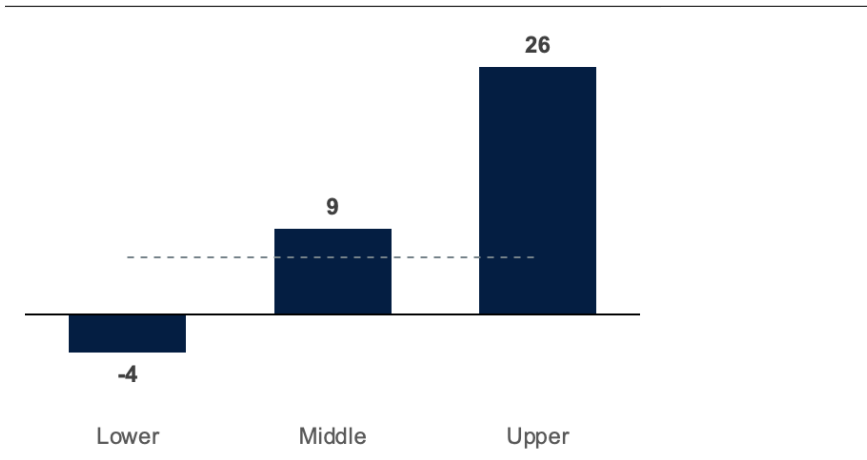
Net share with very positive outlook
Reply to “Quale sensazione prova pensando al 2025?”, %



Source: Ufficio Studi Coop - Nomisma, 2024

Millenials, Gen.X, and middle income consumers also have solidly positive outlook, and should thus not be expected to scale back consumption. In fact, optimism of outlook and expected spending development align very well:

Net share expecting to spend more in 2025 than in 2024
%



Source: Ufficio Studi Coop - Nomisma, 2024

That on average consumers plan to spend more is in line with MasterCard’s forecast of 1.1% real consumer spending growth for

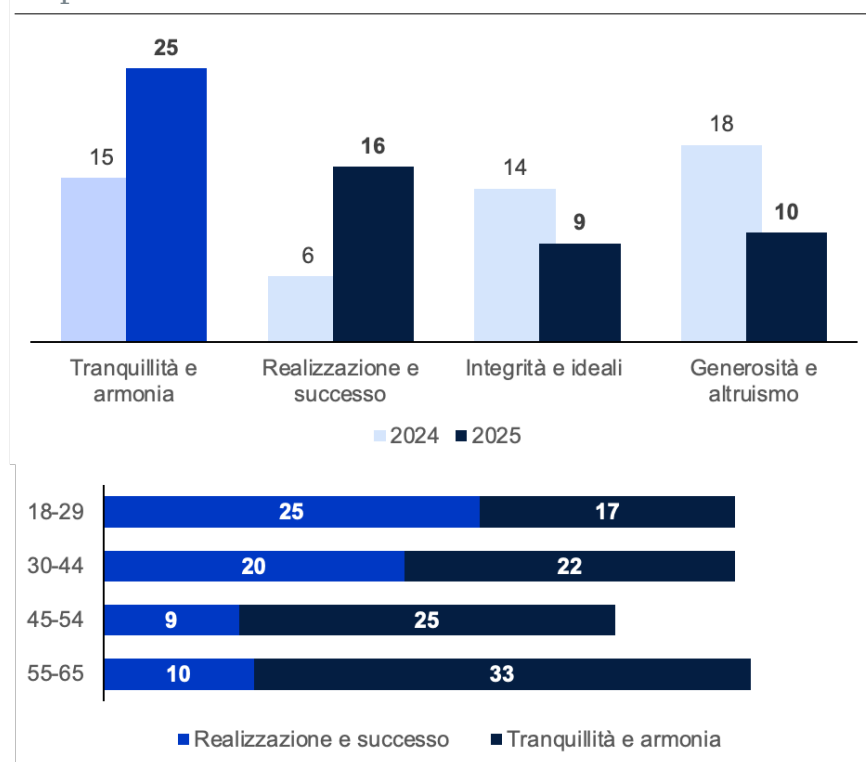
2025. Where will that spending go? The answer, again, depends on the demographic.

Top Quartile: Cautious optimism for luxury?

Overall, there is a clear refocusing on self: Asked about their new year's resolutions, the biggest winners for 2025 were tranquility and success, while the biggest losers were integrity and altruism. Difficult times for sustainability-focused brands, but a positive for brands that transmit an image of success and dependability. Interestingly, there is an important nuance by generation: Gen.Z and millennials want self realization and success, whereas Gen.Y and boomers look for tranquility and harmony. Combined with the macro spending trends by demographic above, it appears **brands conferring buyers with a sense of achievement, realization, and success should find a fertile growth market** in Gen.Z and millennials.

Change in desired goals for 2025 as opposed to 2024

%-point difference between share in 2025 and 2024

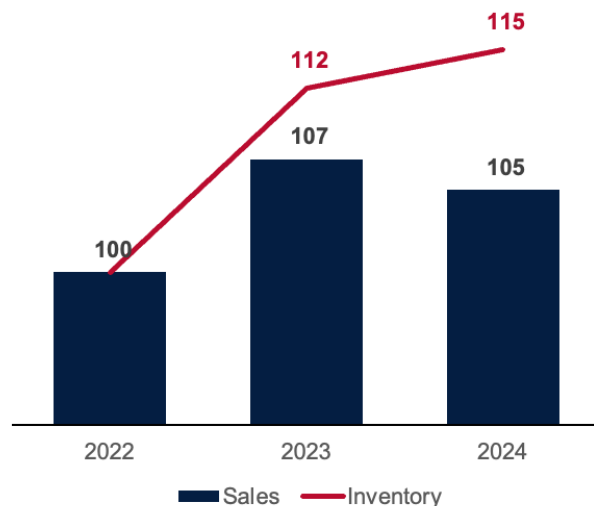


Source: Ufficio Studi Coop - Nomisma, 2024

While there is thus reason to be optimistic about premium and luxury, there are still some headwinds to grapple with. Luxury fashion is still fighting with the results of excessive price increases over the past few years, as among others Gucci's former CEO, Marco Bizzarri, likes to point out. Or as Brunello Cuccinelli said in a recent interview with La Repubblica, "I clienti non si sono stufati del lusso,

ma di pagare cifre insensate.”¹ The slowdown and then decline in luxury over the last 2 years has been accompanied by inventory build-up, clogging channels. Taking just 7 big publicly traded luxury groups, we estimate **excess inventory at the end of 2024 in the amount of €4.5bn** – almost an entire year’s worth of Prada.

Aggregate luxury revenue & inventory Indexed to 2022=100



Source: Data for Kering, LVMH, Hermès, Dior, Capri Holding, Prada, and Burberry retrieved on June 17th, 2025 from Koyfin

Middle & lower incomes: Spending on necessities

Overall, Italians overwhelmingly plan to spend more on necessities and less on “treats” like dining out or entertainment. Items that can be perceived as an **investment in self** like education, sport, and wellbeing on the other hand, will not be scaled back.

The difference between this result and the Banque de France analysis shown above may be a combination of

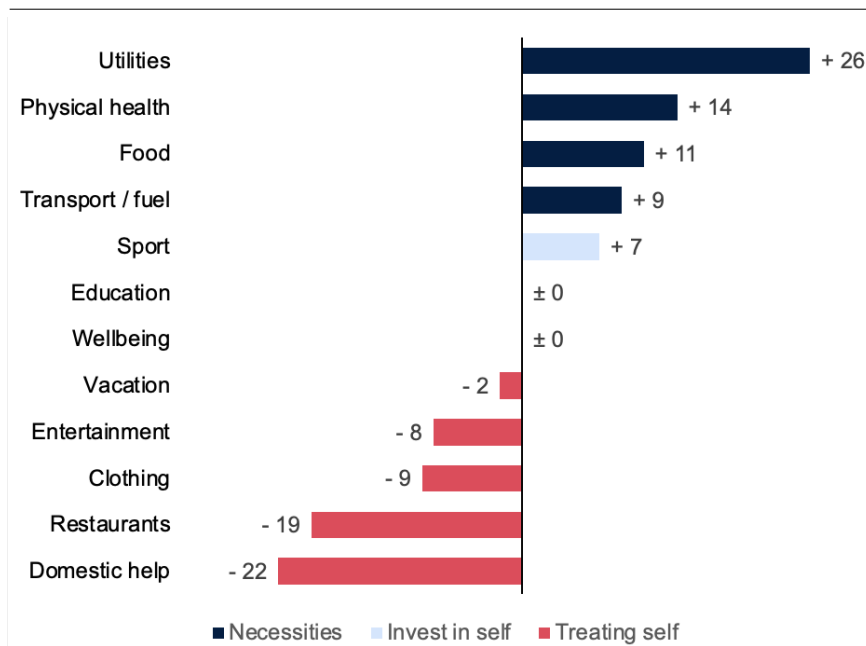
- I. The Coop study groups together people of all income brackets in this; spending on non-necessary items is, however, driven by higher income households.
- II. There is an important difference between ex ante stated preferences and ex post actions.

Cultural differences, while a possibility, are unlikely here. In fact, GfK-NielsenIQ reports in their European retail in 2023 and 2024 study that “in Spain, France and Italy, people tend to look at the total

¹ Customers are not tired of luxury, but of paying senseless amounts of money.

Net share expecting to spend more in 2025 than in 2024

%



Source: Ufficio Studi Coop - Nomisma, 2024

amount in their shopping baskets rather than buying from discounters.”

Takeaway: Defy the gloom in premium?

While there appears to be no end to the string of geopolitical crises, data indicates a strategy catering to the following to be growth-accretive:

- I. Upper middle class households below 50
- II. Products or services that confer a sense of achievement
- III. A calm and harmonic brand image with strong heritage
- IV. An attractive value proposition that fills a need currently met by another category under cost pressure –even an entirely unrelated one

Structural tailwinds of increased female labour force participation and population aging are likely to resume, while interest rates' consumption drag is already reversing course. The once hoped (or feared) work from home revolution is not happening, meaning all signs point towards a robust baseline consumption growth.

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