

Visa Europe: EU Consumer Spending Barometer

Compiled by Markit on behalf of Visa Europe

EU consumer spending continued to rise modestly in Q4 2010, but poor weather and subdued sentiment hit growth.

Key findings

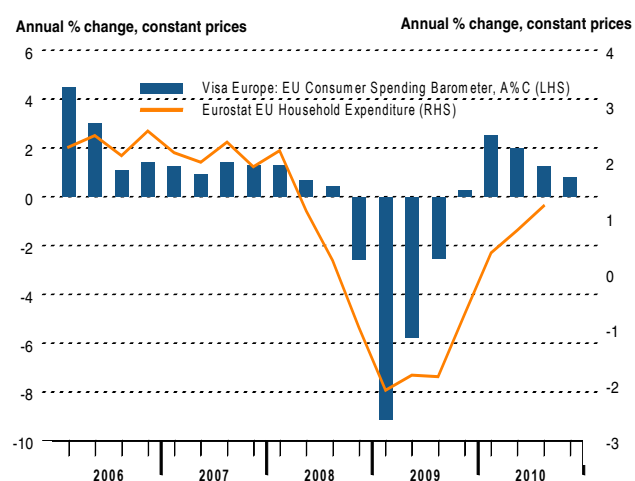
- Household consumption in the European Union rose for the fifth straight quarter during Q4 2010, according to latest data from Visa Europe. However, the pace of increase slowed to the weakest in 2010.
- The Visa Europe: EU Consumer Spending Barometer signalled a 0.8% year-on-year rise in real consumer spending during the final quarter of 2010. This represented a slowdown from 1.2% annual growth in the previous quarter. This is based on data adjusted for card issuance, payment preferences and inflation to provide a robust indication of real consumer spending trends.
- Slowing trends in certain Northern European nations, particularly France and the UK, may highlight the impact of adverse weather conditions on spending towards the end of the year. Nevertheless, the general trend across the region was one of moderation.
- Particularly strong rates of growth were seen in Eastern Europe (notably in Latvia, Poland and Estonia). The ongoing weakness of consumer spending and confidence in Greece and Ireland saw both nations continue annual declines in spend. In both cases, however, rates of contraction were slower than in Q3.
- The data further highlight the ongoing divergences within the Union, as many of the so called 'peripheral' Eurozone nations continue to struggle with weak consumer confidence and concerns regarding forthcoming public cuts, while solid growth continued to be recorded in the UK, France and Eastern Europe.
- Overall, the EU Consumer Spending Barometer suggests that official data, when released, will show only a modest rise in household expenditure in Q4 (see chart 1).
- In Q4, unadjusted spend on all Visa cards totalled €253 billion, up some 17.2% on the same period in 2009. Moreover, the average number of transactions undertaken on Visa cards rose to a fresh high of 19.0, up from 17.6 in Q4 2009. Average Transaction Values fell slightly for the second quarter in a row during Q4 to €50.1, down from €50.8 in Q3, and below the €50.7 seen in Q4 2009.

Commenting on the latest results, Philip Symes, Chief Financial Officer at Visa Europe said:

"Consumers within the EU have faced rising inflation, government cutbacks, weak economic growth and in many cases difficult weather conditions in the last quarter of 2010. It is therefore encouraging to see that spending continues to grow.

"In the face of all these difficulties it is perhaps unsurprising that the rate of spending growth has slowed. While the consumer makes up an important part of the EU economy, this trend of slower growth is however likely to be reflected in GDP figures for the first part of 2011."

Chart 1: Visa Europe: EU Consumer Spending Barometer & Household Expenditure



Sources: Visa Europe, Eurostat

Household consumption in EU grew at modest pace in Q4.

European household expenditure continued to grow in Q4 2010, but the rate of expansion slowed to one which was modest and the weakest in 2010. Growth rates remained uneven throughout the Union, but weakening trends in some cases may have reflected adverse weather conditions at the end of the year.

EU household spending increased 0.8% compared with one year earlier during Q4 2010. This marked a slowdown from Q3, when annual growth of 1.2% was registered. This is based on data adjusted for card issuance, preferences and consumer price inflation – which help to provide a better indication of changing consumer spending than raw, unadjusted data.

Growth in consumer spending has now been maintained for five straight quarters, following the emergence from recession. However, the pace of increase has slowed since hitting a peak in Q1 in 2010. There was evidence that weaker growth trends across Northern Europe may have been, in part, driven by adverse weather conditions at the end of 2010.

Divergent growth paths within the Union remained evident in the final quarter of 2010. Particularly strong expansions in consumption were signalled in Eastern Europe (notably in Latvia, Poland and Estonia), while a modest rise in spending in France contributed strongly to overall growth. Spend in Germany and Italy fell mildly, but rates of contraction moderated over the quarter. Spanish consumers posted a further rise in expenditure, although growth slowed since Q3.

Elsewhere in the EU, UK consumer spending continued to expand, although the pace of increase slowed. Ireland and Greece continued to see strong falls in overall spend.

Official Data

Although the data from the EU Consumer Spending Barometer have tended to move in a wider range than equivalent official data – probably reflective of factors such as a tendency to use cards for higher valued purchases or different attitudes to card use across age

Chart 2: Visa Europe: EU Consumer Spending Barometer & Gross Domestic Product (GDP)

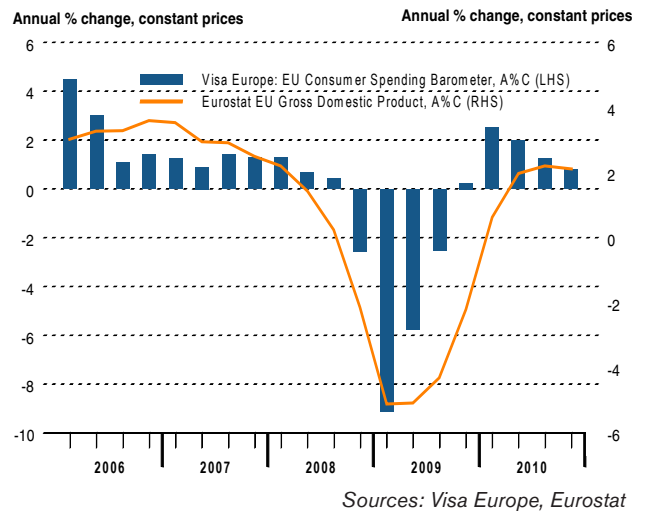
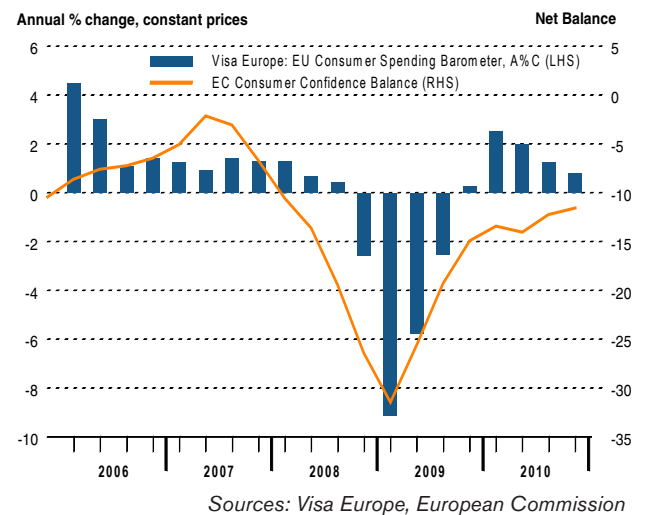


Chart 3: Visa Europe: EU Consumer Spending Barometer & Consumer Confidence



Visa Europe: EU Consumer Spending Barometer

groups – the series have exhibited a strong relationship over time. The latest data therefore indicate that official household spending will have increased only modestly, at best, in Q4 2010 (see chart 1).

As consumer expenditure makes up an important part of the total economy, it is no surprise that the EU Consumer Spending Barometer data have an equally positive relationship with GDP (see chart 2). Moreover, the Barometer has tended to highlight turning points in GDP in advance of the official figures. This suggests that overall growth in the EU-27 is set to remain subdued into early 2011.

Although rising for the fifth straight quarter, real adjusted card spend levels in the European Union remained below the pre-recession peak (recorded in Q4 2007) in Q4 2010. This story is confirmed by sentiment data from the European Commission, which suggests that while consumers have become more optimistic since the recession, the data in the latest EU Spending Barometer remains down on the levels seen prior to the financial crisis (see chart 3).

Visa Card Spend

The nominal trend in spending on all Visa cards (debit, credit and prepaid) across the European Union has been strongly positive in recent years, apart from a brief pause in growth during the financial crisis. In Q4 2010, spending on all Visa cards was €253 billion, up from €216 billion in the same quarter in 2009. That represented a 17.2% annual rise.

The ongoing strength in Visa card spending data, however, in part reflects the increased usage of cards by European consumers. As a result, the Average Transaction Value (ATV) for all Visa cards has seen a general downward trend over time in line with increasing consumer and retailer preference for lower-valued transactions by card. These trends highlight the importance of adjusting the data for card issuance, payment preferences and inflation to provide an accurate representation of consumer spending.

Chart 4: Visa Europe: Total EU Visa Card Spend

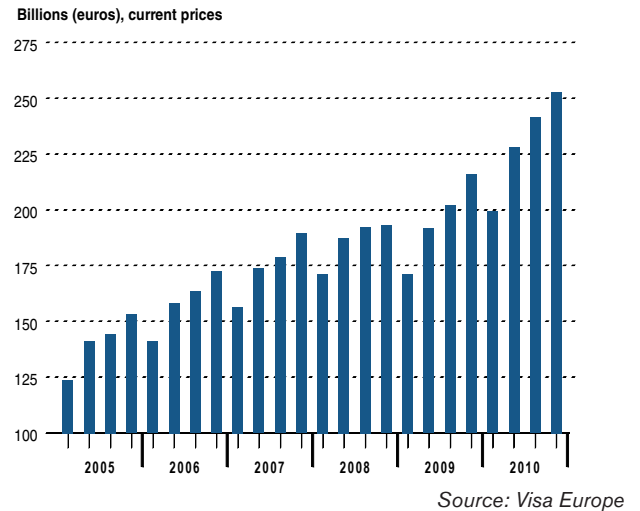
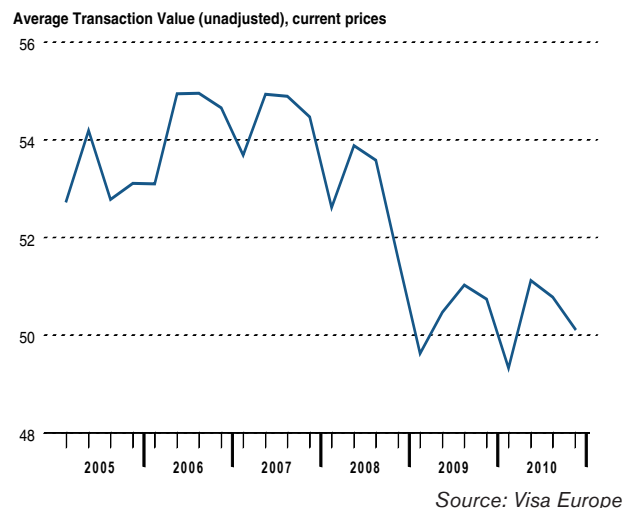


Chart 5: EU Average Transaction Value¹



¹All Visa cards (debit, credit and prepaid)

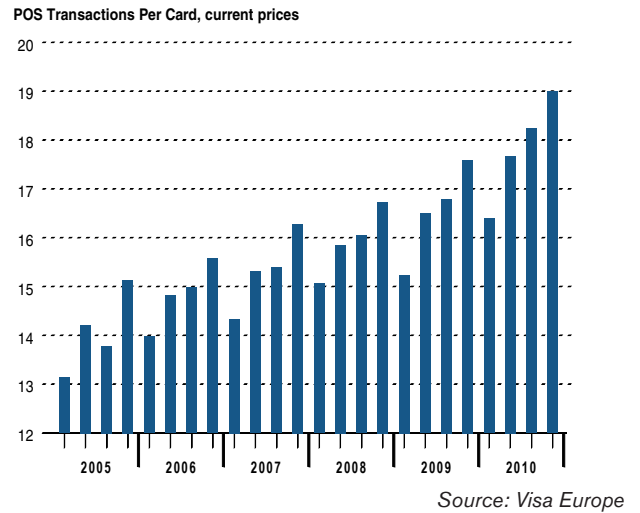
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ATV fell slightly for the second quarter in a row during Q4 to €50.1, down from the €50.8 seen in Q3, and below €50.7 in Q4 2009.

Highlighting the key role played by debit cards in the overall growth of card usage in the European Union, the average number of transaction per debit card rose to a fresh series-high during the final quarter of 2010. On average 19.0 transactions were made per debit card during the reference period. This represented a 7.9% increase from 17.6 transactions in the same period in 2009.

In Q4 2010 there were over 230 million debit cards in circulation in the EU, with over 70% of total spend and transactions on this card type.

Chart 6: EU Average POS Transactions Per Card²



²Visa debit and pre-paid cards only

Notes and Further Information

Visa Europe is comprised of 36 countries across Europe, the EU states, plus Andorra, Gibraltar, Greenland, Iceland, Israel, Liechtenstein, Norway, Switzerland, and Turkey. This report, however, is based on data from the EU states only.

The headline 'Visa Europe: EU Consumer Spending Barometer' data are based on spending on all cards issued by Visa – debit, credit and prepaid – in the EU. Figures are expressed in euros and a number of adjustments have been made to ensure that the data provide an accurate indication of consumer spending trends.

First, the data are deflated by changes in the number of Visa cards in order to account for the expansion of Visa's card operations, particularly on the debit side. Secondly, an adjustment is made to offset changing consumer preferences for card usage. This is based on an assessment of the trends in cash withdrawals and point-of-sale (POS) transactions on Visa cards. Finally, to account for inflation, the data are deflated by changes in the consumer price index.



Visa Europe is a membership association of more than 4,000 European banks that have collectively issued more than 419 million Visa debit, credit and commercial cards in Europe. In the 12 months ending September 2010 those cards were used to make purchases and cash withdrawals to the value of €1.5

trillion. 12.5% of consumer spending at point of sale in Europe is with a Visa card.

In October 2007, Visa Europe became independent of the new global Visa Inc., with an exclusive licence in Europe.

As a dedicated European payment system it is able to respond quickly to the specific market needs of European banks and their customers – cardholders and retailers, and to meet the European Commission's objective to create a true internal market for payments.

Visa enjoys unsurpassed acceptance around the world. In addition, Visa/PLUS is one of the world's largest global ATM networks, offering cash access in local currency in over 200 countries

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