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## Summary

- Inflation has increased to nearly 9% in the European Union (EU). Consumers in Germany, France and the Netherlands – Aotearoa New Zealand's three main EU markets for goods – are reportedly buying less or cheaper products in response, shifting to discount chains, bargains or private labels.
- The impact on New Zealand exporters may vary. Some New Zealand products may in fact become more price-competitive, other products target less price-sensitive consumers and could continue to sell well, but some exporters may find that customers now tend to prefer cheaper alternatives.

## Report

- Inflation has increased to [nearly 9%](#) in the EU, a rate not seen in decades. Whilst this is mainly driven by skyrocketing energy prices, food price inflation has also increased significantly, driven by dropping commodity supplies out of Ukraine and higher energy prices. How are consumers in our three main EU goods exports markets responding?

### Germany

- German inflation has increased to 7.9%, and the Bundesbank now forecasts >7% over the entire year. German consumers are taking notice of increasing prices, in particular for food: In a recent survey, 98% observed that supermarket prices had increased over the year, including for dairy products, meat, fruit and vegetables, fish and sweets. Asked how they were reacting, about half of the respondents were buying less or cheaper fish, 45% less or cheaper meat, nearly 40% less or cheaper fruit, and about a third less or cheaper vegetables; demand for dairy products seemed to be slightly more robust.
- German general retail sales seem to be confirming this. For the month of April, retailers reported a drop in turnover of nearly 5% in nominal terms and more than 5% in real terms, with food retailers even reporting a 6.5% drop in nominal terms and nearly 8% in real terms, a record drop largely attributed to high food price inflation. Emerging evidence suggests that in order to compensate for inflation, consumers are shifting away from supermarkets to discount chains, and from more expensive brands to bargains and cheaper private labels, marking a "trading down" trend. In response, food retailers are running price-focused promotion campaigns and fighting hard with their suppliers.

### France

- Still relatively low compared to neighbouring countries, inflation in France has reached 5.2%, largely driven by rising energy prices (up 28%), as well as food (up >4%). The French Central Bank is currently forecasting 3.7-4.4% for 2022. Declining purchasing power contributed to a fall in household consumption of 1.5% in Q1 2022 (the biggest quarterly drop in 70 years outside the Covid pandemic period), including a fall in household food expenditure of 2.5%. In a recent consumer survey, six out of ten said that they had reduced their food spending, while supermarkets are reporting that customers are tending to spend less on fresh produce, meat, fish and cheese, as well as 'feel-good' items such as beer, spirits and ice cream. In the meat category, beef sales in particular have fallen sharply as consumers opt for cheaper options such as chicken and pork.
- As in Germany, there is evidence of shifting spending patterns away from well-known brands towards low-cost

alternatives, with leading supermarket chains expanding the range and visibility of their private label products and increasing promotional activity. A recent market report revealed 12% annual growth in sales of private label foodstuffs. Likewise, many consumers are switching to discount chains to seek cheaper food, with 'hard discounters' such as Lidl and Aldi gaining market share.

### **The Netherlands**

- Inflation in the Netherlands is currently at 8.8%, and the Dutch National Bank expects a record inflation of 8.7% over the whole of 2022. The most pressing issue for Dutch households are the rising energy costs, which put a strain especially on lower income households. According to the Central Bureau for Statistics, consumer trust in April 2022 was the lowest it has been since measurements started in 1986. Consumers, according to a monthly survey, were especially negative of their financial situation, the economic situation of the past twelve months, and their willingness to make large purchases.
- While most retail sectors are expecting growth over 2022, this is mostly due to the recovery from the pandemic. In 2023, the Dutch Rabobank expects increasing energy prices due to the war in Ukraine to start putting more pressure on consumer expenditure. Similar to Germany and France, the 'hard discounter' chains stand to gain as prices continue to rise. In horticulture, rising and volatile energy prices mean higher prices as well. In dairy, the milk price is currently 30% above last year's level, although Rabobank expects a stabilisation in the coming months. For beef, producers are benefitting from low supply of beef, but rising transportation and energy costs increase prices for consumers.

### **Outlook**

- Inflation is expected to remain high, and food price inflation may even increase further before softening again. Meanwhile, the [growth forecast](#) for the EU has recently been lowered. On the upside, employment remains resilient for now, European consumers still sit on considerable savings after going through the pandemic, and national governments are cutting taxes and/or offering subsidies to soften the impact on households. Still, European consumers now find themselves in a completely different environment, after a decade of low inflation combined with growing income. New Zealand exporters who keep their prices stable or sell less price-sensitive products may still be able to maintain or even grow their business in Europe, whereas others may experience a dip in demand.

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