Economic Currents

EU Edition · Third-Quarter 2026 Outlook · August 2026

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A note from our Chief Economist

This is the European companion to the inaugural issue of Economic Currents, Board's new quarterly perspective for retail, CPG, and manufacturing leaders.

If there's one message I want you to take from this report, it's that "resilient" and "confident" are not the same thing, and Europe this quarter is a good illustration of why that distinction matters for planning. Our State of the Consumer Index sits just below its long-run average, a modest softening driven almost entirely by geopolitical tension and renewed energy-price concern. The labor market, however, has not cracked. Firms are managing uncertainty through hiring caution rather than layoffs, unemployment remains close to historic lows, and real wages are still positive. That combination is what's kept European consumers spending even as confidence has lagged behind the hard data.

The other theme I'd flag is dispersion across the bloc — not just across income groups, as in the U.S., but across countries. Southern Europe, Spain and Italy in particular, is carrying more momentum than the core. Germany and France are more cautious, still working through manufacturing softness and fiscal-policy uncertainty, respectively. Treating the eurozone consumer as one market will increasingly understate how differently the outlook is unfolding by country.

Boyd, Lucas, Matthew, and Maria take you through the detail below. I'll close with what I think it means for your commercial planning across the region.

Michelle Green - *Chief Economist*

European Consumers Remain Resilient as External Headwinds Weigh on Confidence

Consumer conditions have stabilized and continue to support household spending despite a more challenging macroeconomic backdrop

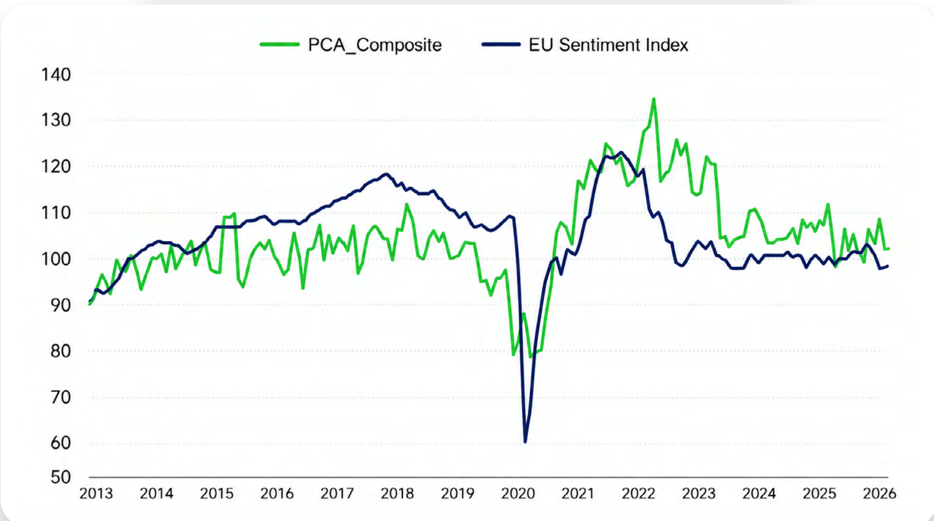
Geopolitical tensions and renewed concerns about energy prices are weighing on confidence more than on realized consumption

A stable labor market and positive real wage growth continue to support household resilience

Board's State of the Consumer Index, a dynamic factor composite of leading consumer indicators spanning the labor market, incomes, and household sentiment, shows that European consumers remain broadly resilient despite a more challenging macroeconomic environment. The second-quarter reading of 99 remains just below the composite's long-run average of 100, indicating that household conditions have softened but remain consistent with an economy that continues to expand rather than contract. Confidence has weakened following renewed geopolitical tensions and higher energy prices, yet the index suggests that the worst is behind the consumer and that underlying consumer fundamentals remain considerably stronger than sentiment alone would imply.

The broader economic backdrop supports this interpretation. The European economy is entering the second half of 2026 with a positive but more constrained outlook, reflecting higher energy prices, geopolitical uncertainty, weak sentiment, and tighter financing conditions. Even so, the economy is on pace to continue expanding through 2026, as public investment, defense-related spending, and a labor market that is cooling rather than contracting offset headwinds. In this context, private consumption is anticipated to remain one of the main stabilizers of the EU economy in 2026, though it is not expected to provide sufficient momentum for a strong acceleration in the second half of the year.

Figure 1. State of the Consumer Composite Index[1]

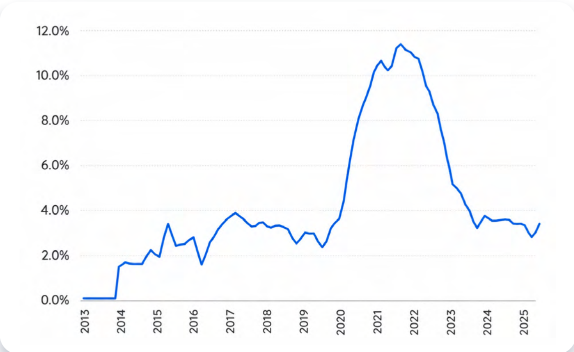


Source: Board

[1]The composite index is derived from a dynamic factor model estimated across leading consumer indicators spanning the labor market, incomes, and household sentiment.

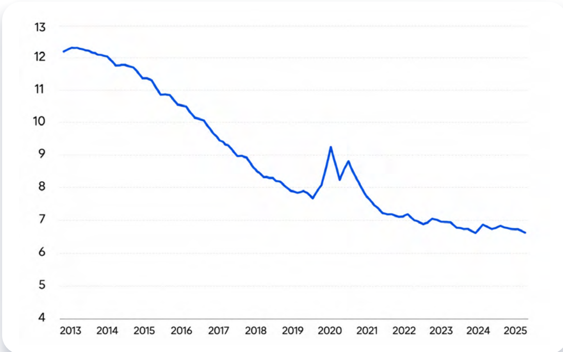
The labor market is supportive and remains the main source of stability in this environment. Employment growth has moderated to around 0.6% year-over-year and hiring intentions have eased. But crucially, firms are not laying people off. They are managing uncertainty through more cautious staffing plans and incremental productivity gains rather than cuts. The result is a stable unemployment rate of around 6%, close to historic lows in the bloc. That stability has kept household income, and therefore spending, from deteriorating. At the same time, inflation pressures are not eroding purchasing power at the same pace as during the 2022–2023 shock, giving households room to keep spending, particularly on services and necessities.

Figure 2. Personal Consumption, Year-over-Year %



Source: OECD | Board

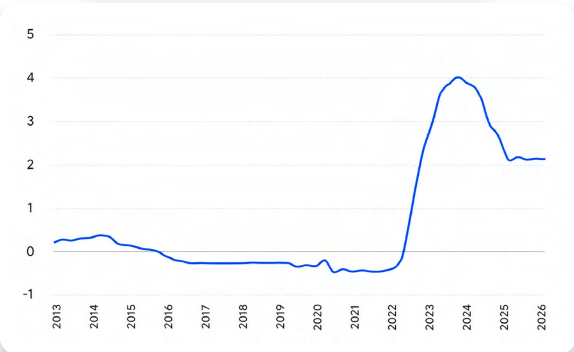
Figure 3. Unemployment Rate, %



Source: OECD | Board

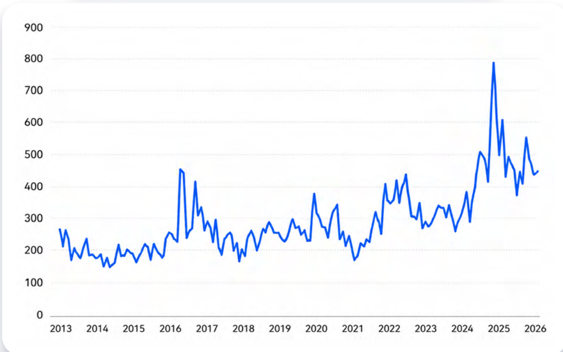
However, consumer sentiment remains cautious and consistently lower than the hard data alone would suggest. This captures one of the most telling features of the current EU economy: the gap between what the hard data show and how households feel. The reason is that households' economic fundamentals and their perceptions are moving at different paces, especially since the shocks of recent years have altered how they perceive economic security.

Figure 4. EU Short-Term Interest Rates, %



Source: OECD | Board

Figure 5. Economic Policy Uncertainty, Index



Source: FRED | Board

Additionally, the backdrop over the last six months has deepened that caution. Geopolitical risk, energy volatility, and renewed inflation concerns have made households less willing to treat real income gains as permanent. This helps explain why consumption can grow without sentiment fully recovering. In this environment, households may keep spending, but they are less likely to become confident enough to reduce precautionary saving or increase durable goods purchases aggressively.

Wage dynamics are also changing. The earlier phase of catch-up wage growth is fading as inflation normalizes from its peak and firms face less pressure to grant large nominal increases. While this is positive for inflation convergence, it also means that real income growth is becoming more dependent on employment stability than on rapid wage gains.

Figure 6. Consumer Headwinds & Tailwinds[1]

		Quarterly Growth Rates			Yearly Growth Rates		
		Current	One Quarter Ago	One Year Ago	Current	One Quarter Ago	One Year Ago
Headwinds	Economic Policy Uncertainty - Europe	0.5%	9.8%	26.5%	-26.0%	-6.9%	107.4%
	Employee Total Compensation	0.8%	0.9%	1.1%	3.6%	3.8%	4.6%
	Short-term Interest Rates	0.0%	0.0%	-17.6%	-4.6%	-21.3%	-44.7%
	Unemployment Rate	-0.8%	-0.8%	0.1%	-1.5%	-0.7%	-0.7%
Tailwinds	EU Nat Gas Prices	14.9%	33.0%	-18.0%	32.2%	-5.6%	18.1%
	Private Consumption	0.8%	0.8%	0.6%	3.1%	2.9%	3.5%
	EU Sentiment	-3.9%	0.8%	-0.7%	-1.1%	2.2%	-1.3%
	Employment	0.2%	0.2%	0.2%	0.6%	0.6%	1.0%

Source: Board

[1] The top tailwinds and headwinds are selected based on their contribution to the first dynamic factor.

Country Perspective:
Diverging Consumer Dynamics Across Europe

Although the aggregate State of the Consumer Index suggests that European households remain broadly resilient, important differences persist across member states. These divergences reflect varying labor-market conditions, wage dynamics, and fiscal support, all of which are shaping household spending decisions and consumer sentiment differently across the region.

Southern European economies continue to display comparatively stronger consumer momentum. Spain has benefited from robust employment growth, sustained tourism activity, and stronger domestic demand, keeping private consumption a key contributor to economic growth. Italy has also shown resilience, supported by Recovery and Resilience Facility (RRF) and continued investment under the gradual improvements in real household incomes.

Consumer confidence remains below prepandemic levels in both countries, but improving purchasing power has helped sustain spending on services and other discretionary categories. In contrast, several of the euro area's largest economies continue to face a more subdued consumer environment. Germany has experienced weaker household spending, as softness in manufacturing, and elevated uncertainty continue to weigh on confidence. Although real wages have improved and government investment programs are expected to provide additional support over time, consumers remain relatively cautious, and precautionary savings remain elevated. France presents a similar picture, with household consumption constrained by persistent uncertainty surrounding fiscal policy and a slower recovery in consumer confidence despite improving inflation dynamics.

These differences are also evident in survey indicators. Consumer confidence has recovered more rapidly in countries where labor-market conditions have remained strong and inflation has eased more quickly, while confidence remains comparatively weaker in economies facing greater exposure to external demand or policy uncertainty. This divergence suggests that businesses should avoid viewing Europe as a homogeneous consumer market. Commercial strategies, pricing decisions, and demand expectations are likely to differ meaningfully across countries, making local market conditions increasingly important for forecasting consumer behavior through 2026.

What this means for your business

The consumer backdrop in Europe is easier to plan around than the sentiment headlines suggest, but only if you build your plan around the right unit of analysis, which this quarter is the country, not the bloc.

Expect moderate, not muted, growth.

The data support continued expansion in European consumption through the second half of 2026, but not an acceleration. Build your plans around steady, unspectacular demand rather than either a downside or upside surprise.

Localize your commercial strategy.

The country-level divergence in this report is not noise — it's the story. Spain and Italy continue to outperform, with tourism, resilient labor markets and continued gains in real household incomes supporting discretionary and services spending. Germany and France warrant a more cautious commercial posture while manufacturing softness and fiscal uncertainty work through. A single pan-European plan will systematically misallocate investment in one direction or the other.

Reinforce value the way you would anywhere demand is positive but confidence is lagging.

Households are not retrenching, but they're also not yet willing to treat income gains as permanent. That combination rewards clear, credible value messaging over aggressive premiumization.

Watch wages and hiring intentions, not the headlines.

The labor market — specifically the fact that firms are managing through caution rather than cuts — is doing more work to support this outlook than any single sentiment indicator. A shift from hiring caution to actual headcount reduction in any major economy would be the signal that changes this call.

Keep energy and geopolitical volatility in your contingency plans, not just your commentary.

Confidence in this report is being held down almost entirely by external, not domestic, factors. That risk is real, but it is also outside any one company's ability to forecast precisely, which is exactly why it belongs in scenario planning rather than a single base case.

What we're watching next quarter: whether Southern European momentum broadens or the core catches up, the path of energy prices, and whether consumer confidence begins to close the gap with the hard data. We'll be back with an update in our Q4 edition.

Michelle Green - *Chief Economist*

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