

Apparel and Footwear Brands

European economics call takeaways:
Constructive on the consumer

Industry Overview

PVH, BIRK, VFC, RL: highest Europe exposure in coverage

We hosted an investor call with Ruben Segura-Cayuela, head of BofA European Economics Research, to discuss the current economic landscape in Europe and his views on inflation, consumer sentiment, interest rates, and other topics. Ruben expects to see progressive improvement in the European consumer as we move through this year and into 2025. Within our apparel and footwear coverage, the following companies have over 25% sales exposure to Europe: **PVH, BIRK, VFC, RL, CPRI, NKE, and LEVI** (Exhibit 1). We think global brands will successfully navigate the environment in Europe, but we remain more cautious on the wholesale businesses in the near term.

Expecting inflation in Euro-area to be stickier NT

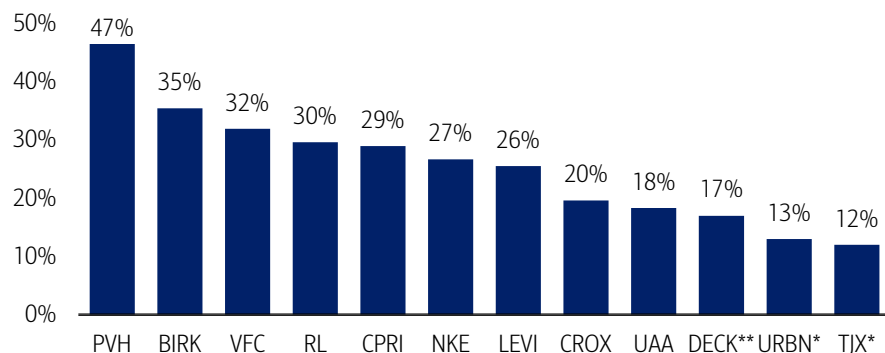
Inflation in the Euro area moved below 3% at the end of 2023 and remains below US inflation levels. BofA expects inflation to come down more quickly than consensus but in the very near term, Ruben expects inflation in the Euro area could be a bit stickier than expected before undershooting the target levels by late 2024 and throughout 2025. BofA's base case is for 75bp of ECB rate cuts in '24, with the first cut expected in June (in line with consensus) but much faster in 2025, with rates at 2% by mid-year.

Outlook incorporates slow improvement; 1% growth in '25

Wage growth in the Euro area has probably peaked, in Ruben's view, and will continue to moderate in 2024-2025. Current forecasts expect real wages to recover back to pre-pandemic levels by 2026. However, with consumer confidence slowly improving and declining levels of inflation, Ruben is constructive on the consumer in the foreseeable future. He expects consumer consumption slightly below 1% in 2H24 and slightly above 1% in 2025 driven by consumer confidence improvement, real wage growth, and rate cuts from the ECB. **See page 2 for color on specific countries and savings rate....**

Exhibit 1: US softlines coverage: companies with European sales above 10% of total sales

Companies with the highest concentration of sales coming from Europe are PVH, BIRK, VFC, and RL



Source: Company filings, Note: TJX, URBN represent int'l but mostly Europe, DECK represents BofA estimate

BofA GLOBAL RESEARCH

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Equity
United States
Apparel and Footwear

Christopher Nardone
Research Analyst
BofAS
+1 646 743 2016
christopher.nardone@bofa.com

Lorraine Hutchinson, CFA
Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
+34 91 514 3053
ruben.segura-cayuela@bofa.com

Alice Xiao
Research Analyst
BofAS
+1 646 743 0227
alice.xiao@bofa.com

[Europe Economic Weekly: Not fashionably late 23 February 2024](#)

ECB: European central bank

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Savings rate a key metric to watch

The savings rate in the Euro area is a key statistic to watch; Ruben views consensus forecast for savings rate recovery to be too optimistic. Also, he thinks most excess savings won't be used. The distribution for fiscal support during the pandemic was disproportionately towards the top income brackets (90% of benefits going to top 25%) and mostly utilized to pay down debt and purchase investments rather than accrue to excess savings. Key indicators to watch are consumer sentiment, labor market, and inflation, in Ruben's view.

Quick takes on major countries

Germany: Ruben expects the slowest recovery in Germany, as the economy has been in a quasi-permanent recession. Ruben expects moderate real income improvement from here and notes that it will be from a lower starting point than the rest of the European countries.

France: Ruben sees France as one of the strongest and most resilient countries in Europe. Capital expenditures and private and public consumption are all healthier in France. This means the reacceleration in consumer demand would be a bit slower vs. other countries given the higher starting point.

Italy: Fared well in 2023, boosted by healthy tourism, strong capital expenditures, and decent employment. Ruben expects these tailwinds to the Italian economy to fade into 2024, but for benefits from continued real income growth and lower interest rates from here to boost the recovery and aid reacceleration in 2025.

UK: Ruben expects near-term to be driven by consumer demand and lower energy prices, although expects persistent shocks to supply to constrain the economic growth. Ruben expects the first rate cut from the Bank of England to be this August, which is behind his June expectation for the ECB.

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