Europe Economic Outlook

A slow recovery hides a split in consumer behaviour

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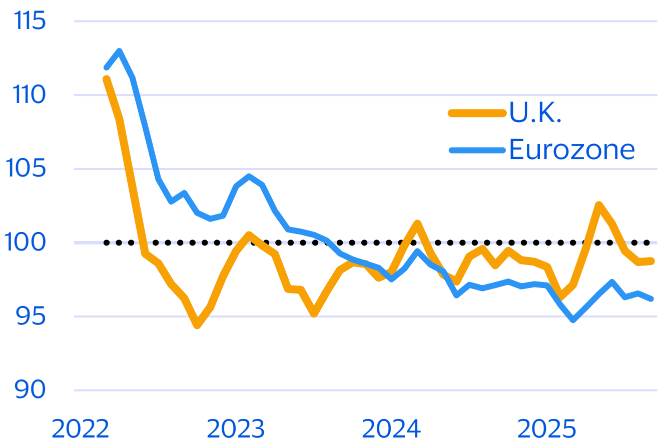
Key Points:

- Consumer spending is set to gradually recover, although patterns diverge across countries
- As rates settle at higher levels, consumers are adjusting to a new cost of borrowing
- Multiple headwinds persist, but there are signs of improvement

The European business cycle is about to enter a new phase. For the last few years, large common shocks—the pandemic, geopolitical uncertainty, the sharp increase in energy prices, a cost-of-living crisis, and trade wars—have largely dictated macroeconomic conditions. This may change soon, as we anticipate more divergence in economic performance across the region. Countries like Germany and Sweden are set to experience growth from a boost in government spending; others such as France will face structural imbalances amid political uncertainty. In Italy and Spain, the end of post-COVID European support creates new uncertainty and unknowns, while the United Kingdom faces hard trade-offs as it attempts to balance fiscal discipline with the need for new investment in infrastructure and government services.

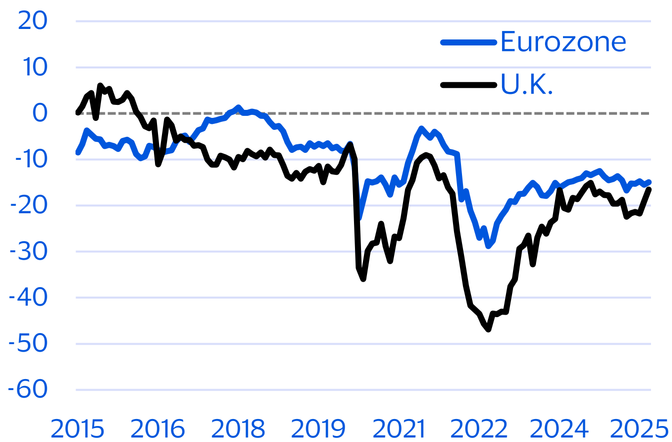
While we expect the differences to play out over the course of 2026, a normalization in consumer spending is still unfolding. Pace varies across countries, and evidence is mixed. Visa's proprietary Spending Momentum Index (SMI), which tracks consumer spending relative to the previous year, indicates that momentum stalled over the summer after some improvement earlier in the year (Fig. 1). Uncertainty still clouds the outlook,[1] as shown by lacklustre consumer confidence (Fig. 2). Yet fundamentals remain supportive: the labour market has shown resilience, and wages and salaries continue to grow above their long-term averages, suggesting some gradual repair in purchasing power.

Fig. 1: Spending Momentum Index
Not seasonally adjusted, index, 3-mma, >100=expansion



Source: Visa Spending Momentum Index

Fig. 2: Consumer confidence
Seasonally adjusted, percent balance



Sources: Visa Business and Economic Insights, GfK NOP/ European Commission/ Haver Analytics

On this backdrop, we are encouraged by the relative strength in day-to-day essential spending; meanwhile, spend on discretionary categories continues to lag. It is a story of a glass half-full versus half-empty: jobs and pay-checks make consumers confident enough to re-engage in non-discretionary outlays, but not yet confident enough to do so more broadly. Many households are delaying discretionary purchases, reflecting a preference for financial resilience over increased consumption—in the euro area, the saving rate has steadily risen, and now sits at 15 percent as a share of total disposable income.[2]

So, it all boils down to a key factor: consumer confidence. Are households willing to spend their real income? Or will they prefer a more guarded stance, where savings are prioritized? Lower inflation should further help restore purchasing power, but lingering uncertainty may weigh in favour of precautionary savings. After a period of restraint, the appetite for non-essentials remains in the balance. Confidence, not just income, will drive the next phase of recovery.

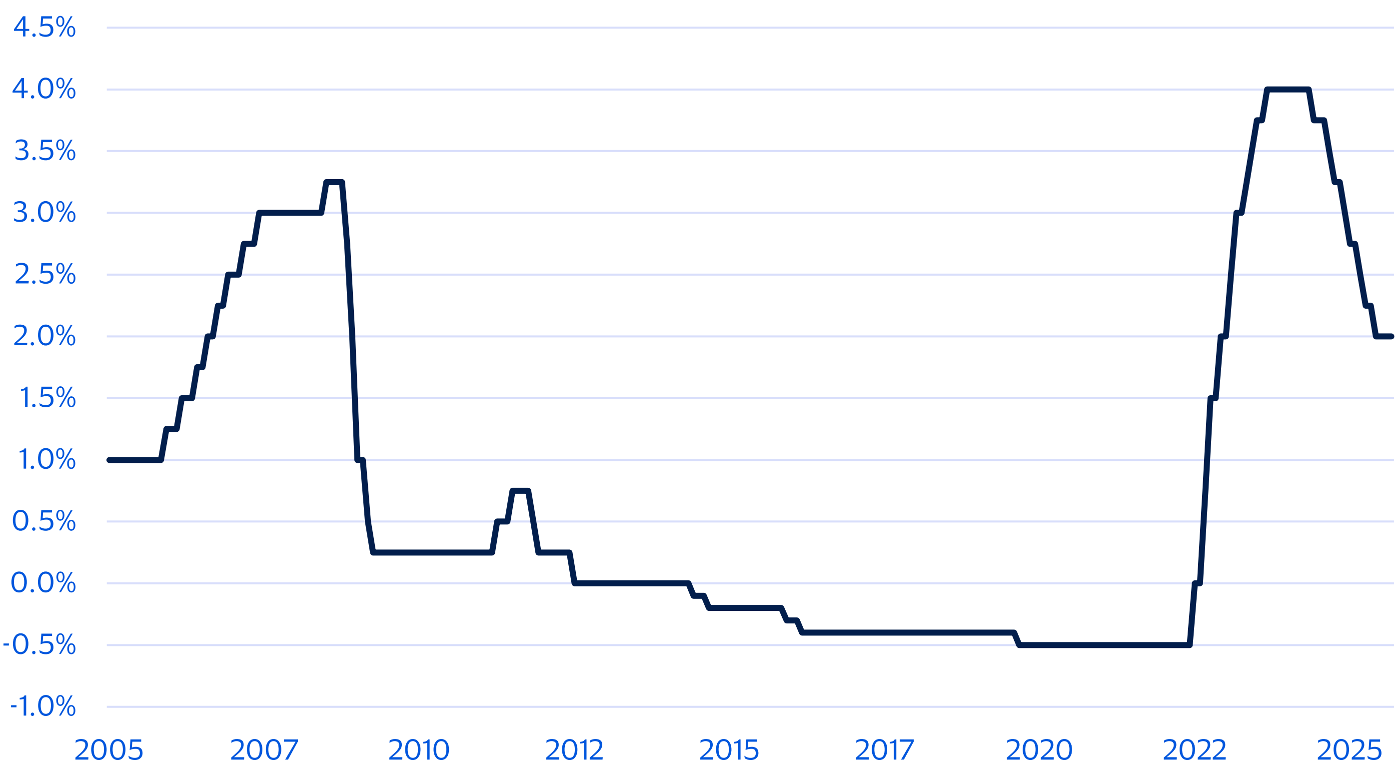
A generation confronts a new reality

A generational shift is reshaping financial behaviour across Europe. Many professionals who began their careers during or after the Great Financial Crisis around 2008 have only experienced an environment of ultra-low, often negative interest rates. For them, the idea that long-term interest rates would normalize to 4-5 percent feels unfamiliar, even unsettling. As rates return to levels more typical of the pre-2009 era, both consumers and businesses are adjusting to a cost of borrowing that introduces greater volatility and complexity into decision-making (Fig. 3). Planning and investing now require a recalibration of expectations.

At the same time, the cost-of-living crisis continues to cast a shadow on household budgets. While inflation is easing, price increases remain embedded in everyday expenses. Consumers are gradually adapting by reassessing priorities and adjusting spending habits, but the process is far from complete. The legacy of elevated prices still shapes purchasing decisions and although the pressure is softening it will take time before households feel fully confident in their financial footing.

Fig. 3: A younger generation meets "older" interest rates

Euro area deposit rate, percent



Sources: Visa Business and Economic Insights, European Central Bank/ Haver Analytics

New trade and energy concerns emerge as headwinds

One of the most immediate concerns facing Europe's economic outlook is the shifting landscape for international trade. With approximately 9-10 percent of euro area exports directed to the U.S. (15 percent in the U.K.'s case and 19 percent for Switzerland), transatlantic trade remains a critical growth engine.[3] Recent changes in U.S. trade policy and the potential for new tariffs have introduced fresh uncertainty. Just as European manufacturers are beginning to recover from the energy-driven downturn of 2023 and 2024, new headwinds are emerging that could stall momentum.

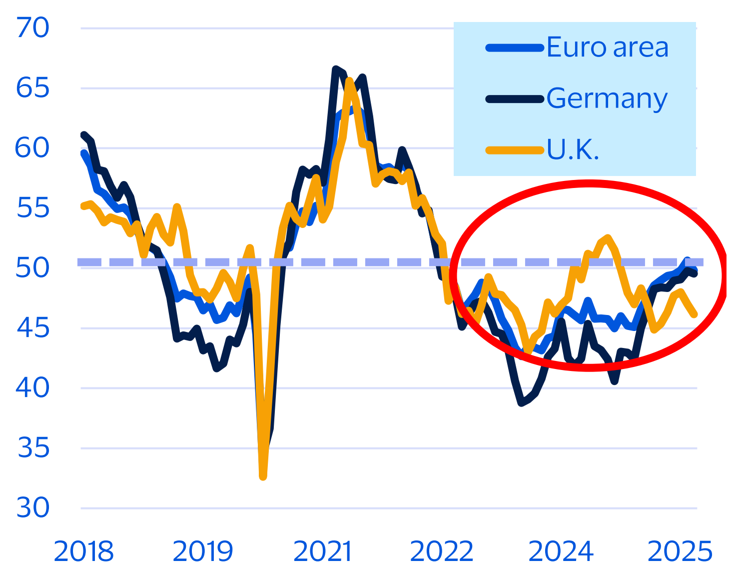
Furthermore, geopolitical tensions, especially along Europe's eastern borders, continue to inject volatility. Energy costs remain unpredictable despite efforts to diversify away from Russian natural gas. Meanwhile, the EU's green energy transition has yielded mixed results, adding complexity to an already fragile recovery. These factors collectively weigh on business confidence and investment decisions, especially in sectors highly integrated into global supply chains.

Manufacturing, which plays a pivotal role in Europe's export economy, is one of the sectors most exposed to these risks. While it is not as dominant in employment as it used to be, it still contributes significantly to value added per worker. The recent signs of stabilization in activity are encouraging (Fig. 4), but the sector remains vulnerable to external shocks and policy shifts.

Public finance is another key factor shaping Europe's economic outlook. Here, expectations are anything but uniform. Germany is loosening its fiscal stance, injecting fresh support into the economy; Sweden is also leaning towards expansion ahead of political elections in September 2026. Italy remains cautious, with the government hesitant to increase investment despite an ongoing stagnation lasting several years. At the opposite end of the spectrum, France and potentially the U.K. appear to be moving towards fiscal tightening. In the U.K., discussions around raising taxes are unfolding alongside plans to boost public service spending, which could ultimately offset one another. France, however, seems poised for fiscal tightening.

Fig. 4: Manufacturing, a key sector in Europe, is showing signs of stabilization

Manufacturing purchasing managers index (≥50 = expansion)



Sources: Visa Business and Economic Insights, Standard and Poor's Global/ Hamburg Commercial Bank/ Haver Analytics

Final thoughts: Despite challenges, momentum is building

Looking ahead, the outlook for the rest of the year and 2026 remains cautious, and possibly cautiously optimistic. Headwinds are likely to be felt earlier on, with some deceleration in growth expected in the first half of 2026 as supply chains adapt to the new trade realities. Nonetheless, gradual normalization should follow the latter part of the year. By year-end 2026, growth is expected to settle around 1-1.5 percent, a level broadly consistent with Europe's long-term potential.[4] With demographic contributions largely flat, future growth will hinge on capital investment and productivity improvements.

Notwithstanding challenges, we should not lose sight of signs of progress. The SMI has improved since the start of 2025, even in countries like Italy, Germany and Greece. Confidence may have temporarily stalled, but it's not retreating. Even with political uncertainty and economic headwinds, Europe's economies are working hard to regain their footing. The region continues to navigate a complex landscape of risks, but both consumers and businesses have shown resilience and adaptability over the past few years. The foundations for recovery are in place, and the momentum, though measured, is building.

Spending Categories

Discretionary (airlines, lodging, auto rental, appliance retail, computer retail, fashion retail, florist, general department store, home goods retail, leisure goods retail, luxury goods retail, repurposed goods retail, sporting goods retail, attractions & amusements, duty free, entertainment, gambling, marina services, sport & recreation, transportation, travel agencies, construction services, electric goods repair, home repair services, personal services, professional services, spa/beauty services, telecommunication, charity, direct marketing, membership clubs).

Non-discretionary (medical/health services, pharmacy, food retail, supermarkets, postal/courier, utilities, education, tolls/fees, wholesale).

Methodology

The Visa Spending Momentum Index (SMI) measures the breadth of year-over-year change in household spending within an economy, including the share of households with increased spending compared with those where spending was stable or declined. The index is generated using proprietary techniques that extract economic signals from business-related noise inherent in VisaNet transaction data, such as portfolio flips, routing changes, or evolving acceptance across geographies or merchant segments. Regional and national aggregates are population-weighted averages.

The resulting sample data is then aggregated using a diffusion index framework in which index values are scored from 0 to 200. Values above 100 indicate broad-based net acceleration in economic momentum. Values below 100 indicate contraction on an annual basis.

Disclaimer

The Visa SMI is based on a sample of aggregated, depersonalized VisaNet and third-party data; it is not reflective of Visa operational and/or financial performance. SMI is provided "as is" without warranties of any kind, express or implied, including, without limitation, as to the accuracy of the data or the implied warranties of merchantability, fitness for a particular purpose, and/or non-infringement. Visa is not responsible for your use of the information contained herein, including errors of any kind, or any assumptions or conclusions you might draw from its use. Each SMI report is as of the publication date, and Visa has no obligation to update data contained therein. The views, opinions, and/or estimates, as the case may be ("views"), expressed herein are those of the Visa Business and Economic Insights team and do not necessarily reflect those of Visa executive management or other Visa employees and affiliates. This presentation and content, including estimated economic forecasts, statistics, and indexes are intended for informational purposes only and should not be relied upon for operational, marketing, legal, technical, tax, financial or other advice and do not in any way reflect actual or forecasted Visa operational or financial performance. Visa neither makes any warranty or representation as to the completeness or accuracy of the views contained herein, nor assumes any liability or responsibility that may result from reliance on such views. These views are often based on current market conditions and are subject to change without notice.

*The discretionary and non-discretionary categories exclude restaurant and gas spending; both restaurant and gas are included in the total SMI.

Footnotes

1. European Commission: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys_en
2. Eurostat: Household saving rate increases to 15.4% in the euro area - Euro indicators – Eurostat
3. Visa Business and Economic Insights and Oxford Economics
4. Visa Business and Economic Insights analysis of Eurostat data

Accessibility notes

Fig. 1: A line chart displays the Spending Momentum Index for the Eurozone and the United Kingdom from early 2021 to late 2025. The chart includes a neutral benchmark line set at 100. The UK series starts at 111.08 and ends at 98.74, with a high of 111 in March 2022 and a low of 94.41 in October 2022. The Eurozone series begins at 111.87 and ends at 96.19, with a high of 113 in April 2022 and a low of 94.75 in March 2025.

Fig. 2: A line chart presents seasonally adjusted consumer confidence levels for the Eurozone and the United Kingdom from January 2015 to December 2025. The Eurozone series begins at -8.5 percent and ends at -14.9 percent, with a high of 1.3 percent in January 2018 and a low of -28.8 in September 2022. The UK series starts at 0.2 and ends at -16.6, with a high of 6.1 in June 2015 and a low of -46.9 in September 2022.

Fig. 3: A line chart illustrates the monthly euro area deposit rate. The rate begins at 0.01 percent in January 2005 and ends at 0.02 percent in September 2025. The highest recorded rate is 0.04 percent from late 2023 to early 2024, and the lowest is -0.005 percent, which lasted from late 2019 to mid-2022. The previous high was 0.03 percent in late 2008.

Fig. 4: This line chart shows the Manufacturing PMIs for the euro area, Germany, and the United Kingdom from January 2018 to September 2025. Values of 50 or greater indicate expansion in manufacturing activity. The euro area series starts at 59.6 and ends at 49.8, with a high of 63.4 in June 2021 and a low of 33.44 in April 2020. Germany begins at 61.1 and ends at 49.5, with a low of 34.5 in April 2020 and a high of 66.6 in March 2021. The UK series starts at 55.2 and ends at 46.2, with a low of 32.62 in April 2020 and a high of 65.6 in May 2021.

Forward Looking Statements

This report may contain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook”, “forecast”, “projected”, “could”, “expects”, “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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