



EUROPEAN CENTRAL BANK

EUROSYSTEM

Geopolitical risks and their implications for consumer expectations and spending

SUERF online workshop

*"Europe's Blues: An interdisciplinary
approach to weak economic sentiment"*

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Geoff Kenny
European Central Bank

Disclaimer

The views expressed are my own and do not necessarily reflect the views of the European Central Bank or those of the euro system.

Consumer expectations in the euro area

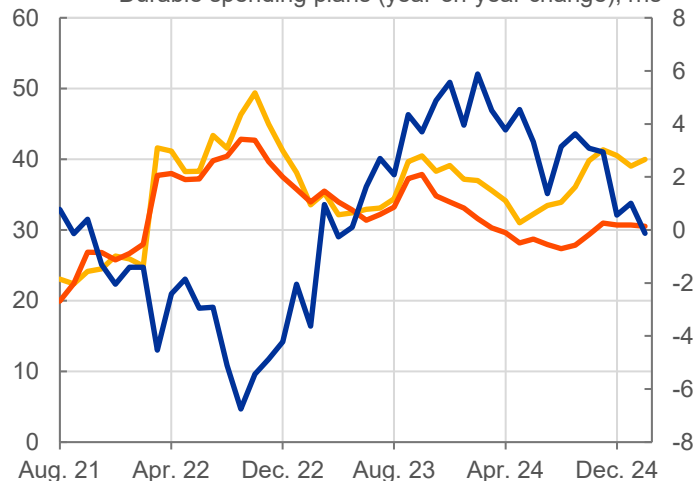
Euro area consumers' sentiment

(lhs: percent of consumers, rhs: y-o-y change)

— Expect a recession (1ya), lhs

— Expect a worse financial situation (1ya), lhs

— Durable spending plans (year-on-year change), rhs



Source: ECB Consumer Expectations Survey (CES), authors' calculations.
Notes: Population weighted data. Durable spending plans include planned purchases for cars and home appliances.
Latest observation: February 2025.

- Data from the ECB CES shows signs of **deteriorating consumer sentiment** during the second half of 2024
- **40% of consumers in February 2025 expect a recession**
- Growing concerns about the personal financial outlook despite recent higher wage growth and declining inflation (Bobasu et al. 2024)
- **Weaker sentiment** may translate into **weaker spending (durables)**

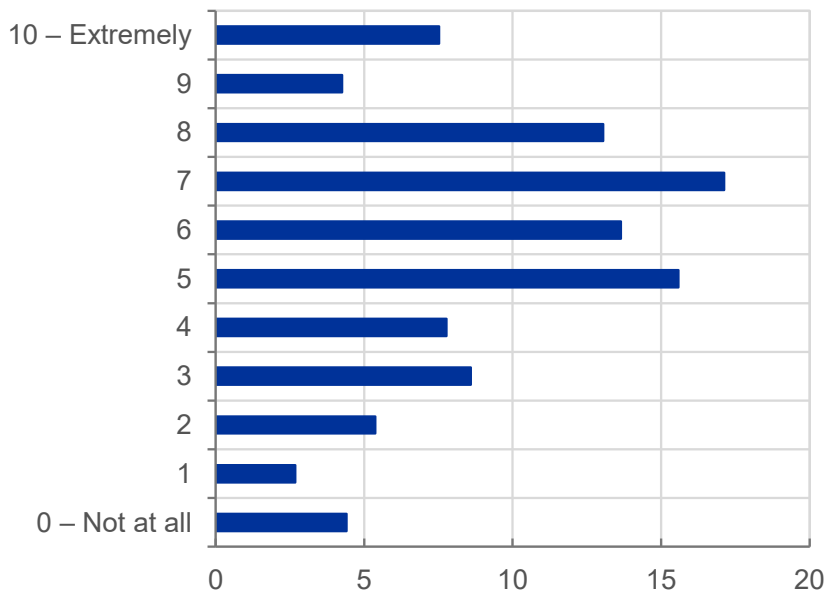
Are rising geopolitical tensions and risks weighing on consumer sentiment?

Background

- We observe **rising military** (e.g. Middle East, Ukraine ...) and **diplomatic tensions** across the globe impacting the peaceful course of international relations
- **Recent literature** has studied the importance of such geopolitical risks especially for **firms, trade and investment**
 - Caldara and Iacoviello (2022) show how **geopolitical risks** affect investments
 - Bloom, Fuceri and Ahir (2022) discuss how to track uncertainty related to multiple economic and political shocks in a rapidly changing global economic outlook
 - Federle et al. (2024) examine the economic impact of military conflict (including spillovers to other countries)
- Using the ECB Consumer Expectations Survey we have recently started to study (Coibion et al. 2025) how / if geopolitical risks are transmitting to the **household sector**

Geopolitical concerns in the euro area

Geopolitical concerns
(percent of consumers)



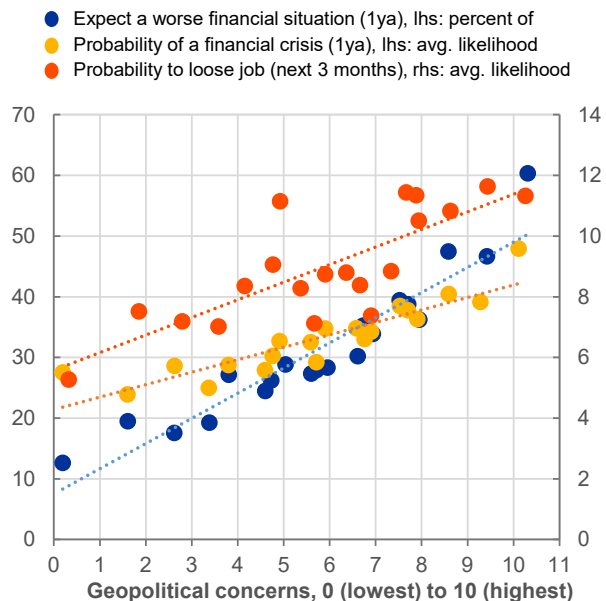
Source: ECB Consumer Expectations Survey (CES), December 2024, authors' calculations.

Notes: Population weighted data. In December, consumers were asked "How concerned are you about the impact of the current geopolitical events on the financial situation of your household, over the next twelve months?".

- Upwardly skewed level of concern in Dec. 2024
- Not all consumers are equally concerned, higher concerns amongst:
 - *Lower income*
 - *Liquidity constrained*
 - *University educated*

Consumer sentiment, income uncertainty and geopolitical concerns

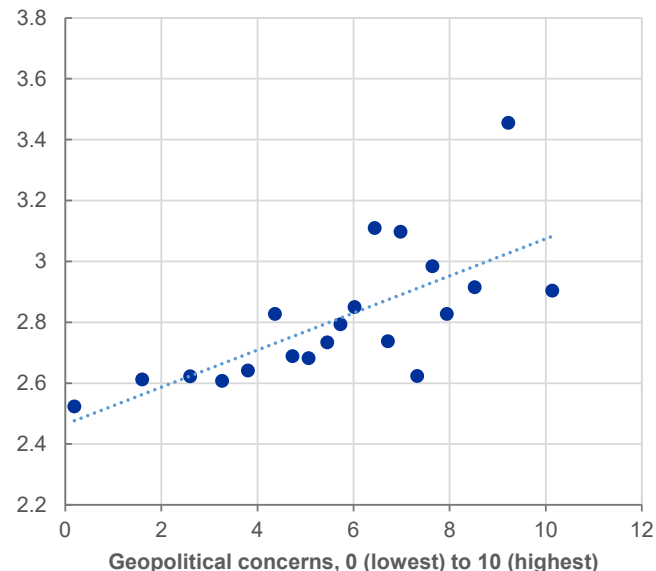
Consumer sentiment and concerns



Source: ECB Consumer Expectations Survey (CES), December 2024, authors' calculations. Notes: Population weighted data. Binned scatterplot net of country dummies

Income uncertainty (1ya) and concerns

(average interquartile range, annual percentage change)

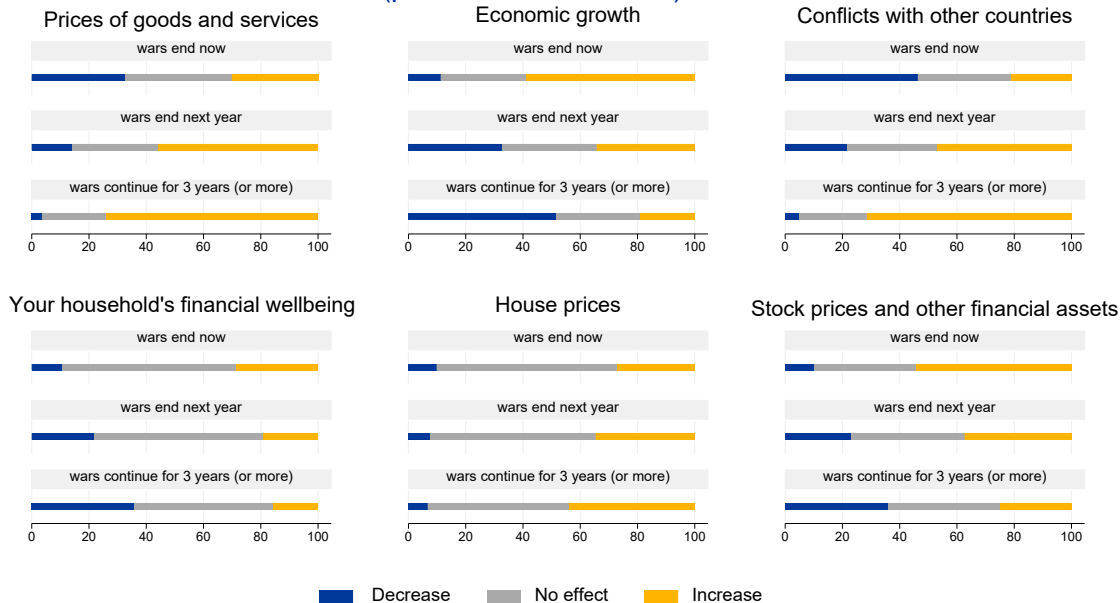


Source: ECB Consumer Expectations Survey (CES), December 2024, authors' calculations. Notes: Population weighted data. Binned scatterplot net of country dummies. Income uncertainty is measured as interquartile range from individual-level probabilistic income forecast (1ya).

From correlation to causation: Conflict duration and consumer expectations

Different duration scenarios of geopolitical conflicts

(percent of consumers)



- Random variation in the duration of military conflict
- **Three scenarios:** quick resolution, more persistent for 1 or 3+ years
- Prolonged conflicts lead to more **gloomy expectations** mainly perceived as a supply-side shock
- Clear **distinction** in how a prolongation of current conflicts would transmit to stock prices or other **financial assets** \vee **house prices**

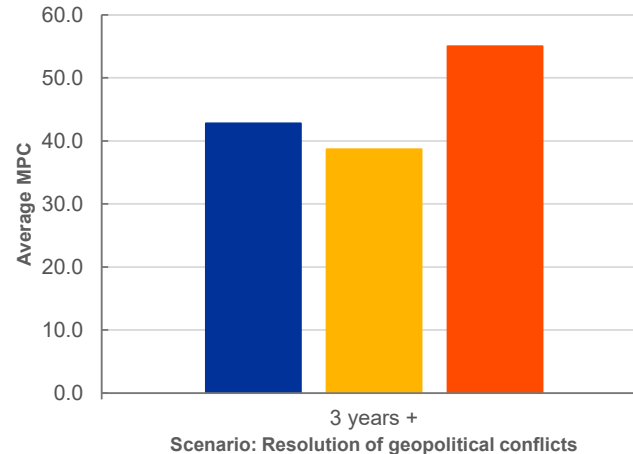
Source: ECB Consumer Expectations Survey (CES), September 2024, authors' calculations. Notes: Population weighted data. Respondents are asked "Suppose that the war in Ukraine and conflict in the Middle East (end by December / continue in the course of next year and end by December 2025 / continue in the next 3 years (and possibly beyond)). How do you think this will affect (if at all) each of the following in the country you currently live in, over the next 12 months?"

Impact on spending: Consumers' MPCs under a prolongation of geopolitical conflicts

Consumers' marginal propensity to consume under different scenarios

(average marginal propensity to consume in percentage of a positive €3,000 payment, durable and non-durable spending)

- Expecting a worsening of their household's financial situation
- Expecting no effect on household's financial situation
- Expecting an improvement of their household's financial situation



Source: ECB Consumer Expectations Survey (CES), Sep. 2024, authors' calculations.

Notes: Population weighted data. The chart displays the average marginal propensity to consume among consumers, categorized by their expected financial outlook in light of different scenarios regarding the resolution of geopolitical conflicts. In September, consumers were also asked how they would use an unexpected net payment of €3,000 from the government: "[h]ow would you use this unexpected extra income transfer over the next 12 months?" among the following categories (i) buy goods and services that don't last for a long time, (ii) buy long-lasting goods and services (iii) save and (iv) repay personal debt. We compute the marginal propensity to consume as the share of money €3,000 reported under (i) and (ii).

Conclusions

- Geopolitical risks and tensions across countries weigh negatively on consumers
- Leading to more pessimistic economic expectations, more elevated income uncertainty, and ultimately a lower propensity to consume
- Effects rise substantially with a prolongation of such tensions and conflicts
- Part of an ongoing research project (Coibion, Georgarakos, Gorodnichenko and Kenny, 2025)

You can read more in this recent [VoxEU column](#) or [ECB Blog](#)



VoxEU



ECB Blog

Thank you !

Email: Geoff.Kenny@ecb.europa.eu

Selected references

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