



GfK Marktforschung

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Press Release

The next GfK consumer climate report will be published on July 28, 2008

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Worsening German consumer mood dampens forecast growth

Findings of the GfK consumer climate study for June 2008

Nuremberg, June 24, 2008 – Spiraling energy costs and the threat of a further massive rise in the price of gas are increasingly dampening the consumer mood in Germany. Both economic and income expectations dropped for the second time in a row, and this applies equally to the propensity to make purchases. As a result, the consumer climate indicator for July is forecasting a value of 3.9 points after a revised 4.7 points in June. In light of the inflationary trend which seems to be establishing itself around the three percent mark, GfK has downgraded its previous 2008 forecast for private consumption in real terms from 1%, which was based on an anticipated rate of inflation of 2.5%, to 0.5%.

Repeated announcements of new record petrol and diesel prices have compounded consumer fears of a loss of purchasing power. As a result, they are being rather more pessimistic in their assessments of their income prospects for June. Caught in the wake of this is the consumer propensity to buy. Rising fear of inflation, combined with the sustained crisis in the financial markets, a strong euro and a weaker global economy mean that consumers are not very upbeat in their assessments of future economic growth.

Economic expectations: anticipated cooling

After a loss of almost 10 points in May this year, the indicator of economic expectations once again declined by just under 6 points to stand at 7.5 points. However, this means that the indicator remains in the positive range, which is above the long term average of 0 points.

The crisis on the financial markets, which is evidently not over yet, the foreseeable cooling of the global economy, which is bound to hit the USA particularly badly, and fears concerning personal purchasing power are causing consumer optimism to wane. In addition, the continuing strength of the euro is likely to weaken the positive growth dynamic of exports.

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Income expectations: inflation swallowing up growth in purchasing power

Continuing high rates of inflation are also making their mark on income expectations. In June this year, the indicator fell by a good 3 points to its current value of 7.2 points. The last time the indicator was below this level was December 2006.

The longer the rate of inflation in Germany stagnates around the three percent mark, the greater the danger of an anticipated loss of purchasing power on the part of German households. In addition, any potential real growth in incomes would be largely canceled out by high wage and salary agreements in a number of industries. Even the positive effects on private income generated by the rising rate of employment are likely to be negated by the current discussion concerning the rising cost of living and high energy prices.

Propensity to buy: energy prices dampen consumer enthusiasm

Falling income expectations are leading to a corresponding drop in consumer propensity to buy. After losing 16 points in May, the indicator is again down by at least another three points to its current level of -23.7 points, its lowest value since June 2005.

High energy prices and the threat of further drastic price rises, for example, for gas, are consolidating expectations of inflation, which, in turn, is dampening the enthusiasm of German consumers to make purchases. Consumers are assuming that they will have to pay more for energy in the future and that consequently, this money will no longer be available for other purchases.

Consumer climate: price development is the hot topic

The more pessimistic trend in German consumer mood has also caused a further drop in the consumer climate. The overall indicator is forecasting 3.9 points for July after the revised 4.7 points for June.

Continuing high rates of inflation and the news of further imminent price rises are currently having a detrimental effect on the consumer climate. Price development is right at the very top of the consumer agenda at the moment, putting any potentially positive effects on consumption, such as the sustained rise in employment, into the shade. Even the high wage and salary agreements this year have not had much effect, since any increase in purchasing power has been largely canceled out by the high rate of inflation.

In view of current price development and sustained high rates of inflation anticipated to remain around the 3% mark for the rest of this year, GfK is downgrading its previous forecast for consumption for this year from 1% to 0.5%. The original forecast was still based on an increase in prices of around 2.5% for 2008.

The table below provides an overview of the trend for the individual indicators:

	June 2008	May 2008	June 2007
Economic expectations	7.5	13.4	69.5
Income expectations	-7.2	-4.3	33.6
Consumption and buying propensity	-23.7	-20.4	-4.1
Consumer climate	4.7	5.3	7.4

The survey

These findings are extracts from the "GfK consumer climate MAXX survey", which is based on around 2,000 consumer interviews conducted each month on behalf of the EU Commission. The report contains charts, forecasts and a detailed commentary regarding the indicators. In addition, the report includes information on proposed consumer spending in 20 different areas of the consumer goods and services markets. The GfK consumer climate survey has been conducted since 1980.

The next publication date will be July 28, 2008.

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The table below provides an overview of the individual indicators:

Economic outlook	This index is based on the following question to consumers: "How do you think the general economic situation will develop in the next 12 months?" (improve – stagnate – deteriorate)
Income expectations	This index is based on the following question to consumers: "How do you think the financial situation of your household will develop in the next 12 months?" (improve – stagnate – deteriorate)
Consumption and buying propensity	This index is based on the following question to consumers: "Do you think it is advisable to make major purchases at the moment?" (good time – neither good nor bad time – bad time)
Consumer climate	This index is used to describe private consumption. Key factors are income expectations, buying propensity and savings trends. The economic outlook has a more indirect effect on the consumer climate, generally as a result of income expectations.



The GfK Group

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