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Press Release

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Consumer Electronics as a growth driver

GfK TEMAX index continues climbing in Q2 2008

Nuremberg, August 19, 2008 – After a successful start to 2008, the German electrical appliances market sustained its strong growth in the second quarter with a rise of 5.2% on Q2 2007. In the wake of the Euro 2008 football championship, consumer electronics recorded the strongest growth, with LCD TVs doing particularly well. Small and major domestic appliances, office equipment and consumables also developed well, as did IT goods, however, the photographic and telecommunications markets declined. These are the findings of the GfK TEMAX index for the German technical consumer goods market for the second quarter of 2008.

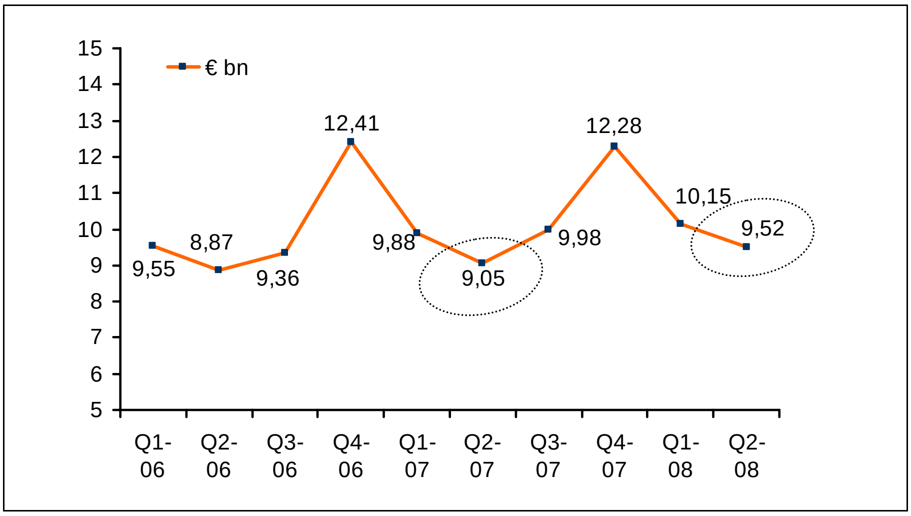
Total sales of technical consumer goods recorded by GfK TEMAX amounted to EUR 9.5 billion for the second quarter of this year, which represents an increase of 5.2% on the same period in the prior year. An undisputed leader in terms of sales growth emerged from the individual markets and with an increase of 19.2%, the consumer electronics market has made remarkable progress. Small and major domestic appliances also developed positively, with growth of 5.3% and 5.2% respectively. The office equipment and consumables sector was also up by 3.3%, and IT sales grew by 2.5%. Whilst the photographic sector suffered only minor losses of 0.5%, at 11.7% down, the marked downswing in telecommunication product groups continues unabated. However, these two markets cannot cloud the overall picture of positive growth of the technical consumer goods market.

Boom of LCD TVs in the wake of the Euro 2008

The consumer electronics market recorded the strongest growth in the second quarter of 2008 with sales growth of 19.2% to total EUR 2.3 billion. This growth is chiefly attributable to sales of LCD TVs, a sub-market which has grown by almost two thirds in value on the prior year and makes up almost half of all sales within the consumer electronics market. The particularly strong growth in the second quarter is by large accounted for by the Euro 2008 football championship. The assumption is that the upward trend will continue, as the market has yet to reach saturation point. Many consumers are only now starting to switch to LCD TVs, which are proving to be the engine of growth in the market. This is particularly the case with models of screensizes 37” and bigger. As in the previous quarters, double-digit growth was sustained by hi-fi system sales, especially receivers, and home cinema systems, with digital set top boxes also achieving positive growth. In addition to good picture quality, excellent reception and sound quality are also important qualities consumers look for. Conversely, massive price cuts have eroded sales of in-car electronics, which have declined by double-figures almost universally and the situation is not much better for sales of recordable media, such as blank CDs and DVDs.

On the whole, the German consumer electronics market can look back on two very successful quarters in 2008. Industry experts are anticipating further dynamic growth triggered by innovative products on show at the IFA International Consumer Electronics trade fair taking place in Berlin from August 29 to September 3.

Sales trend of technical consumer goods in Germany



Source: GfK TEMAX, GfK Marketing Services

Genuine Italian flavor at home

Retailers and manufacturers of small domestic appliances can be very happy with the first half of 2008, with sales recording pleasing growth of 5.3% to total half a billion euros. The best-performing product group, hot beverage makers, continues growth in double figures and espresso machines are crucial here. When not on holiday, German consumers still like to be able to enjoy Italian coffee culture in their own homes. On the other hand, the second most important product group, vacuum cleaners, made just moderate progress. The electric shaver market reported a slight decline but hairstyling products, such as curling irons and styling wands, again showed double-digit growth.

In line with this, the major domestic appliances market was up 5.2% to EUR 1.7 billion. Major product groups, such as washing machine, ‘fridges and freezers, tumble dryers and dishwashers recorded good levels of growth on the same period the prior year and the value of sales of hoods even grew by double figures. However, the level of growth appears high by comparison with the same period the previous year, which was particularly weak as a result of the increase in the rate of VAT and purchases having been brought forward to 2006 to pre-empt the rise. Beyond this, consumers increasingly focused on product qualities, such as energy efficiency, available programs and low noise emission – features on which manufacturers and retailers are placing more emphasis. This trading-up is leading to an increase in the average price and consequently, of the sales total for white goods.

Multi-functional office equipment on the rise

The office equipment and consumables market grew by 3.3% to reach a value of EUR 1.3 billion. With sustained double-digit growth, multi-functional office equipment (combined printer-scanner-copier-fax units) remained the major growth driver here. However, recording even stronger growth, albeit on lesser scale, were video projectors, sales of which were spurred on by the Euro 2008 football championship, as were sales of LCD TVs. Printer cartridges, which make up around two thirds of sales in the office market, achieved slight growth in sales. At the same time, there has been a sustained downward trend in sales of stand-alone printers, which are being steadily replaced by multi-functional office machines.

Similarly, with positive growth of 2.5% and a volume of EUR 2.2 billion, the IT sub-market is developing positively. Notebook sales are up on the same period the prior year, chiefly in the B2C segment and desktop PCs have also achieved slight growth, attributable, in particular to the B2B segment. There are a number of reasons for the positive development in the IT market. In addition to the increasing trend towards innovative mobile technology, replacements for older models and the tendency to buy a second computer are all playing a role.

Photographics stagnate

The photographic market, which declined by 0.5% compared with the same period the prior year to reach a volume of EUR 0.7 billion, is showing signs of stagnation. The principal reason for this is the decline in camera prices, particularly SLRs (single-lens reflex cameras), which up to now, have been a mainstay of the segment and kept sales figures buoyant. Accessories such as lenses, tripods and camera cases, on the other hand, achieved double-figure sales growth. The high flyers in the growth stakes remained digital picture frames, an innovative product group, which is attracting increasing numbers of consumers. Nevertheless, the accessories sub-market was unable to lift the photographic market out of the red. The hopes for this sector now rest on growth impulses provided by further product innovations, which are expected to debut at the Photokina trade fair in Cologne this September.

The telecommunication market lags far behind. With a fall in sales of 11.7%, this sector has dropped back to a volume of EUR 0.8 billion in the second quarter of 2008. All the product groups in the IT market monitored returned negative sales growth and even landline phones and small telephone systems, which were still developing positively in the first quarter, have succumbed to the downward trend. This is attributable to both the high level of market saturation and the weak propensity to buy amongst consumers. Beyond this, there are currently few innovations on the market which offer any real incentive to buy. In any event, the negative growth on the cell phone market is not as pronounced as in the first quarter of the year, which could well signal light at the end of the tunnel.

Summary in table format

In EUR m	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q2 2008/ Q2 2007 +/- %
Consumer Electronics	2.361	3.442	2.564	2.326	19,2
Photo	644	821	573	654	-0,5
Major Domestic Appliances	1.779	1.927	1.675	1.670	5,2
Small Domestic Appliances	551	774	624	534	5,3
Information Technology	2.348	2.758	2.483	2.210	2,5
Telecommunication	985	1.084	839	801	-11,7
Office Equipment & Consumables	1.308	1.473	1.394	1.324	3,3
TEMAX	9.976	12.279	10.152	9.519	5,2

Source: GfK TEMAX, GfK Marketing Services

The outlook is uncertain

The healthy growth outlook for the second quarter forecast in the previous TEMAX index has ultimately been confirmed. Both the lower benchmarks of the prior year and the positive effects of the Euro 2008 football championship have particularly consolidated growth.

The outlook for the next quarter is undoubtedly more difficult. The ongoing deterioration in the consumer climate driven by inflation, price rises and financial insecurity coupled with negative economic and income expectations make for an uncertain second half of the year. While up to now, the downturn in propensity to buy has related mainly to fast moving consumer goods and fuel, such reticence was not evident in the technical consumer goods markets, at least, not yet in the second quarter.

The survey

TEMAX is a new index developed by GfK Retail and Technology to track the durables market. The findings are based on surveys carried out by the retail panel of GfK Retail and Technology and complemented by sales figures for any sales channel not included in the panel. The retail panel in Germany comprises data from over 6,500 retailers. Tables, graphs and additional information are available at www.gfkrt.com.

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The GfK Group

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