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Press Release

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Germany: lively start to 2008

GfK TEMAX Index: modest growth in the domestic appliances market

Nuremberg, May 16, 2008 – Positive growth in virtually every product sector monitored and growth of around 3% have given a lively start to the year. There has been pleasing growth in the consumer electronics, small and major domestic appliances, photographic, IT, office equipment & consumables markets. Only big losers telecommunications are casting a shadow over the consumer landscape.

The overall market volume for domestic appliances tracked by GfK TEMAX in the first quarter of 2008 amounted to EUR 10.2bn, which corresponds to growth of 2.7% compared with the same period the previous year. This lively start is attributable to a number of different market segments.

The start of the first quarter 2008 with growth of 8.3% compared with the prior year is the consumer electronics market, closely followed by small domestic appliances with growth of 7.9%. Photographic goods also registered a good performance with 4.4% growth, and IT added 3.7% growth to its total. Major domestic appliances achieved a positive growth rate of 3.3%, , while office equipment & consumables recorded only modest growth of 0.7%. The big loser here is the telecommunications market, which suffered a massive 15.2% decline, and which is the only sector to cast a shadow over the overall TEMAX landscape by recording a loss.

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Commercial register
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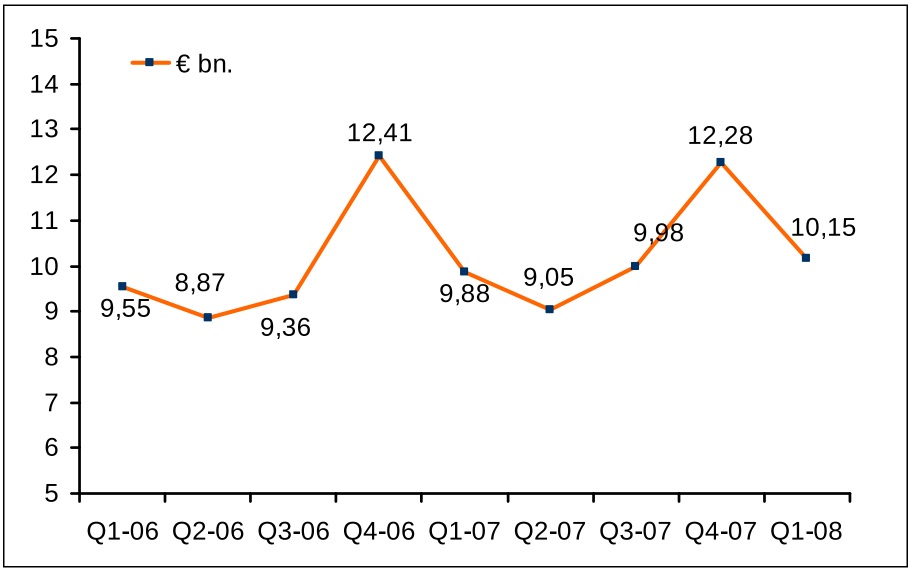
Sales trend for Technical Consumer Goods in Germany



Source: GfK TEMAX, GfK Retail and Technology

Quality more important than price

At 8.3%, the strongest growth rate of the first quarter 2008 was achieved by consumer electronics. The best selling products recording the most growth are LCD televisions, which are well ahead at more than a third up on their volume in the same period the previous year. In fact, approximately one in two euros currently spent on consumer electronics goes to flat screen TVs. Digital TV receivers (set top boxes) are also registering double digit growth now, a situation signaling that consumers are ready to invest more in reception quality and consequently spend more on their peripheral equipment. Conversely, unable to sustain their past growth rates, sales of USB sticks and navigation devices recorded only modest increases, while those of blank CDs, blank DVDs and memory cards declined, in some cases by double-figure rates, due to collapsing prices.

However, sales of small domestic appliances continue to develop positively and with growth of 7.9%, the outlook for the future is bright. The best selling product group, hot beverage makers, has recorded double digit growth and vacuum cleaners, the second largest product group, are also performing very well. Sales of razors, the third biggest product group are rising steadily and there has also been a noticeable upward trend in sales of hairstyling products, particularly hair straighteners.

With a growth rate of 4.4% compared with the same period in the prior year, the photographic market also developed positively. While sales of digital cameras, which now account for in excess of 75% of total sales in the photographic market, were still able to record at least modest growth, sales of peripheral product groups, lenses and camera bags, recorded double figure growth. The absolute stars in terms of sales growth are digital image displays and tripods, which managed to triple their sales compared with the previous year.

Consumers value service and efficiency

With sales amounting to EUR 2.5bn representing 3.7% growth, information technology recorded a slight upswing. This is supported by notebooks, sales of which grew by more than ten percent compared with the same period the previous year. This growth is attributable to the fact that older computers, both laptops and PCs, are frequently being replaced by mobile, powerful, efficient and consequently higher-priced notebooks.

The major domestic appliances market recorded disparate, but still positive growth. The weak growth rates of 2007 were attributable to the fact that consumers had brought forward purchases of major domestic appliances to 2006 in order to beat the increase in the rate of VAT. Washing machines, tumble dryers and dishwashers are on a sound upward trend, while sales of freezers were almost 10% to record the highest growth rate in terms of volume. More energy-efficient models and higher-priced product variations account for the rising prices in these products groups. The losers out of the major domestic appliances in the first quarter of the year were cooker hoods and microwaves. Although with sales totaling EUR 1.7bn and a growth rate of 3.3%, the sector nevertheless recorded respectable growth.

Conversely, with sales amounting to EUR 1.4bn and growth of just 0.7% in the first quarter of 2008, the office equipment & consumables segment is only just in the positive range. Multifunctional devices (MFD) sustained double digit growth to remain the major growth drivers in the segment, and sales of projectors also grew at an above-average rate. However, compared with the same quarter the previous year, sales of printer cartridges, the highest selling product group, dropped back slightly. At the same time, the declining trend in stand-alone equipment (printers, scanners) was sustained.

The end of the golden era of mobile phones?

The telecommunications market appears to have caught a cold. With sales totaling EUR 839m, the decrease in this market segment amounted to 15.2%. Most surprising was that the highest decline was recorded in mobile phones, the most important product group in the segment. The prepaid segment, in particular, has recorded high losses. Alongside little impetus on the part of the network operators, there do not seem to be enough product innovations to excite consumers around at the present. A small chink of light is provided by the small telephone systems product group, whose generally sound growth is accounted for mainly by sales of Voice-over-IP (VoIP) units.

Fears of inflation versus higher income expectations

In essence, the GfK TEMAX for the first quarter 2008 reflects a generally positive picture of a lively start to spring 2008, apart from for the big loser, the telecommunications market. Since the beginning of the prior year was still very much influenced by the increase in the rate of VAT, based on the lower initial values for the next quarter, healthy growth can be expected.

The degree to which the reduced propensity to buy and at the same time, the higher economic and income expectations of consumers will affect sales of Technical Consumer Goods for the rest of 2008 remains to be seen. The impact of inflation, which has lately become apparent, and consequent consumer reticence to make purchases evident in the first quarter have not yet had any noticeable effect on the domestic appliance market.

Summary in table format

In EUR m	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q1 2008 / Q1 2007 +/- %
Consumer Electronics	1,951	2,361	3,442	2,564	8.3
Photographic	657	644	821	573	4.4
Major Domestic Appliances	1,588	1,779	1,927	1,675	3.3
Small Domestic Appliances	507	551	774	624	7.9
IT	2,155	2,348	2,758	2,483	3.7
Telecoms	907	985	1,084	839	-15.2
Office Equipment & Consumables	1,281	1,308	1,473	1,394	0.7
TEMAX	9,048	9,976	12,279	10,152	2.7

Source: GfK TEMAX, GfK Retail and Technology

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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