Consumer climate: Germans in the mood to buy

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Findings of the GfK consumer climate survey for June 2007
Nuremberg, June 25, 2007 â€“ The upward trend in the consumer climate continued in June, with economic expectations just about sustaining Mayâ€™s record level. The propensity to buy is catching up fast with Germans increasingly in the mood to buy. Only income expectations were more modest. After the revised figure of 7.4 points for June, the consumer climate indicator is forecasting 8.4 points for July.

The rapid recovery of the job market and a continuing advantageous global economy are ensuring that the positive economic climate is sustained to the beginning of summer. The propensity to buy benefited from this to rise four times in succession. Conversely, income expectations were slightly down for the first time since 2006, although they remain at a pleasing level.

Economic expectations: record level just about sustained
The economic optimism of the German population has remained unabated in June this year. At 69.0 points, the record high of the previous month was just about sustained. Compared with the previous month of May, the indicator fell by a negligible 0.5 points. In a year-on-year comparison with the previous year, the indicator is recording an increase of just below 50 points.

This economic high is attributable in part to psychological factors and the current general optimism of politics, the experts and the corporates, as well as to economic factors supporting the buoyant mood, such as the positive development of the job market. This is due in the main to the marked increase in those in employment paying social contributions, ensuring that in tandem with rising incomes, the burden on social security is easing. Beyond this, the rise in the number of employed and the particularly good level of income recorded by companies are again delivering healthy tax revenues, which in turn have resulted in surprisingly speedy progress towards consolidating the national finances. Even the positive growth on the stock markets is an indicator of the expectations of a sustained upward trend. The rise in the interest rate recently announced by the European Central Bank does not appear to have triggered any lasting negative effects where consumers are concerned.

All this puts the upswing onto a solid basis, and accounts for the recent upgrading of growth forecasts for the year across the board. To quote one example, the IfW (Institute for Global Economy) in Kiel is currently predicting that a 3.2% rise in GDP for the year is quite feasible.

Income expectations: at a high level
With income expectations rising five times in succession since January 2007, the indicator has now fallen by 4.9 points to its current level of 28.7. However, compared with the previous year, this still represents a marked increase of just below 38 points. The level of income expectations remains good. Apart from in April and May 2007, similarly high values were last recorded in spring 2001.

One of the reasons for the present stagnation may be accounted for by the resurgence of the debate concerning care benefit insurance reforms. Seen from a political point of view, there is no doubt that an increase in the care contributions payable is inevitable, although the rise is likely to be more than offset by the reduction in the unemployment insurance contributions.

However, the outlook for continuing high income expectations in the coming months remains good. This is particularly due to the fact that wages and salaries, which have again risen, are ensuring that the majority of the working population will have more money in their pockets this year than in past years.

Propensity to buy: a marked recovery
The positive mood in respect of the economy and income is increasingly filtering through to the propensity to buy. After a weak phase caused by the increase in the rate of VAT at the beginning of the year, the indicator has now risen four times in a row. Up 13.2 points in June, the rise is even higher than that recorded in the previous three months. The indicator has subsequently achieved a positive reading and currently stands at 9.1 points, which is above its long-term average of 0 points.

It is evident that the propensity to buy is benefiting from the effects of the positive income expectations, making the temporary blip caused by the VAT increase well and truly a thing of the past.

Consumer climate: the upswing continues

The upward trend in the consumer climate is continuing this summer. After the revised figure of 7.4 points for June, the consumer climate indicator is now forecasting 8.4 points for July. Along with the positive trend in income expectations, the propensity to buy is again making a significant contribution to the upturn in the consumer climate.

In the light of the current general climate, it is reasonable to assume that the upswing in the consumer climate will be sustained into the coming months. The positive development of the job market and resultant improvement in earnings are mainly responsible for the fact that where domestic demand is concerned, the best is yet to come. All this supports the upward revision of the forecast for 2007 published by GfK last month, which predicts 1% growth in private consumption.

For both companies and consumers, sustaining a positive level of consumer development is contingent on political stability and accountability. It is possible that disruptive elements, such as protracted debates concerning tax increases and other potential financial burdens or a drastic rise in energy prices could have negative effects on the development of the consumer climate.

The survey
These findings are extracts from the "GfK consumer climate MAXXâ€• 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 27, 2007.

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