

Consumer climate: growth forecast for private consumption raised from 0.5% to 1%

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Findings of the German GfK consumer climate survey for May 2007

Nuremberg, May 25, 2007 – The upward trend in the consumer climate continues. Economic expectations reached another record high, with consumer income expectations also making significant gains. Even the propensity to buy, which was still very restrained at the beginning of the year, showed a moderate rise. As a result, after the revised figure of 5.7 points for May, the consumer climate indicator is forecasting 7.3 points for June. Given the considerable improvement in the framework conditions for private consumption, GfK has raised its original growth forecast for this year from 0.5% to 1%.

Positive business sentiment, visible successes in the job market and renewed wage and salary rises are ensuring a very optimistic assessment of the economic prospects. Income expectations too have risen to a level last seen in spring 2001. The propensity to buy is benefiting from this trend and has recorded its third moderate rise in a row.

Economic expectations: record levels continue

Economic sentiment is currently breaking all records in Germany. After a new historic high was reached in April, the indicator recorded further significant gains. At 69.5 points, the figure was 8.5 points higher than the prior month. Since the start of the year, the indicator has risen by almost 39 points.

A major factor behind the optimistic economic expectations is the surprisingly strong recovery in the job market. The reduction in unemployment and increase in the number of those in paid employment subject to social security contributions are currently forging ahead even faster than at the end of 2006. The pace of economic growth is reflected not only in business confidence but also in the once more burgeoning tax revenue. Potential risks for the German economy, such as the weak dollar or an economic downturn in the USA, are being pushed into the background and dominated by the positive aspects. Even the probability of interest rate risks relating to the European Central Bank in June is presently playing a subordinate role in consumer considerations.

Forecasts for this year have again been revised upwards in the light of these positive signals and growth in gross domestic product of nearly 3 percent is no longer being ruled out.

Income expectations: upswing continues

There was a further rise in income expectations in the wake of seemingly limitless economic expectations. After an increase of nearly 14 points in the previous month, the indicator gained another 4 points in May. It currently stands at 33.6 points. Similarly high values were last recorded in spring 2001.

The economic upturn and associated improvement in the job market is persuading consumers that the modest pay rises of recent years are a thing of the past for the moment. The tariff agreements concluded to date support this view. Given Germany's current moderate inflation rate of less than 2%, employees can assume that they will have more money in their pockets again in real terms. This should also make it easier for employees to cope with the additional financial burden on households, such as higher VAT, the cessation of the commuter allowance and the savers' tax free allowance.

Propensity to buy: moderate improvement

After a weak phase at the beginning of the year, the propensity to buy is presently also benefiting from optimistic economic and income expectations. The indicator is now recovering, although the gains are moderate. In May, the propensity to buy was 2.4 points higher than in the prior month and now stands at -4.1 points. This is the third rise in succession.

The weak phase in propensity to buy caused by the VAT increase is consequently at an end. As a result, consumers will again be more inclined to loosen the purse strings and make larger purchases.

Consumer climate: growth forecast for private consumption revised upwards

The consumer climate has maintained its significant upturn in the early summer of this year. After the revised figure of 5.7 points for May, the consumer climate indicator is now forecasting 7.3 points for June. The steep upward trend in income expectations is mainly responsible for the considerable recovery. However, the propensity to buy is again making a positive contribution, although on a smaller scale, towards improving the consumer climate indicator.

In line with the fact that the key relevant factors, such as the development of the job market as well as incomes, are in much better shape than had been assumed in autumn 2006, GfK has upgraded its forecast for the growth of private

consumption for the year from the original figure of 0.5% percent to 1%.

This is contingent on consumers having confidence in the political reliability and stability of the coming reforms. Beyond this, there may not be any added financial burden on private households, either from political decisions or emerging fears of inflation, possibly caused by a sharp rise in energy prices, for example.

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 June 25, 2007 .

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