

# Healthy consumer climate shows stability

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## Findings of the German GfK consumer climate survey for July 2007

Nuremberg, July 27, 2007 – The consumer climate showed stability at a strong level in July. Income expectations and buying propensity almost matched the record figures of the prior month. Conversely, the economic outlook proved slightly more cautious this summer. Following the revised 8.5 points in July, the consumer climate forecast for August is 8.7 points.

Rising interest rates, unyielding high energy prizes and the stronger euro are leading consumers to expect that the current dynamic growth in the German economy might start slowing down. In view of the labor market trend remaining favorable, these risks are largely compensated by the expected future income trend. This means that the level of the economic outlook indicator and income expectations remain pleasing. In this context, buying propensity also held its level.

### Economic outlook: euphoria ebbing slightly

The marked economic euphoria displayed by Germans, which resulted in an all-time high in the economic outlook indicator in May this year, lost some of its pace in July. Compared with the prior month, the indicator was down by a good 4 points and now stands at 64.8 points. Precisely one year earlier, the indicator reflecting economic sentiment was a considerable 49 points lower.

The level of the indicator remains strong. However, German consumers do not believe that the current high growth rate of the economy can be maintained at quite the same level and expect the upturn to slow down over the coming months.

Current risks to the economy include the strong euro, rising interest rates and higher energy prizes. If the euro continues to be valued at the present high level or even higher, this may impact negatively on export prospects in the medium term, which have been the key driver of the strong economy to date.

### Income expectations: consistently stable

In July, the income expectations of German consumers remained almost as high as before. The indicator decreased by a negligible 0.8 points and now amounts to 27.9 points. Year-on-year, an increase of almost 32 points is evident.

The labor market trend remains favorable and, coupled with strong collective wage agreements, represents the key support of positive income expectations expressed by Germans. The development is slightly affected by high energy prizes, which are impacting on the fuel, gas and electricity bills of households. In the event of interest rates continuing to rise, this is likely to impact unfavorably on consumers. Higher capital costs result in a lower propensity of companies to invest, which in turn curbs employment numbers. This would significantly increase the fear of unemployment and the associated reduced income.

### Buying propensity: practically unchanged

Following a marked increase of some 13 points in the prior month, the buying propensity remained practically unchanged in July. A minimal decrease of 0.1 points was recorded. This signals that the propensity to buy has firmly stabilized in the positive range. With an indicator value of 9.0 points, the buying propensity continues to outstrip its long-term average of 0 points.

On the basis of the healthy level of income expectations, there is further growth potential for the buying propensity indicator. With consumers in the mood to spend even more, retailers can hope to achieve higher sales in the second half of 2007.

### Consumer climate: short break

The upward trend in the consumer climate lost some pace in midsummer this year. This is mainly attributable to income expectations, which have stopped rising overall. Following the revised 8.5 points in July, the indicator forecast for August is 8.7 points.

In view of the favorable labor market trend, which is likely to continue in the coming months, it is assumed that this latest development represents a short break. Assuming that unemployment will continue to decrease, the indicator should pick up pace again subsequently. In fact, in its recently published summer forecast, the Deutsche Institut für Wirtschaftsforschung (DIW) indicated that consumption would be a key economic driver next year.

The above developments will only materialize in the absence of any unwanted surprises in terms of interest rates and

energy prizes. If economic risks increase as a result of a further considerable interest rate hike, this is likely to affect the willingness of consumers to spend. The same applies to increasing energy prizes, which impair purchasing power.

The consumer mood also continues to require political backing. Reliability and the avoidance of any additional financial burden on private households remain the decisive factors for a positive consumer climate trend.

#### 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 August 29, 2007.

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