

Inflation causes German consumer climate to plunge still further

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Findings of the GfK consumer climate study for July 2008

Nuremberg, July 28, 2008 – New record highs in energy prices, stronger fears of recession and the renewed persistence of the crisis in the financial markets have rocked consumer confidence. While the index reflecting the propensity to buy was only slightly down, the indicator of economic and income expectations dropped significantly. The consumer climate for August is consequently forecasting a value of 2.1 points for August after a revised 3.6 points in July. The indicator has not been as low since June 2003.

Record price increases, triggered primarily by rocketing energy prices, are leaving consumers increasingly fearful of their purchasing power. As a result, income expectations were markedly down in July and in the wake of this, economic expectations also fell significantly, in particular, in the light of growing fears of a recession and the fact that the crisis in the financial markets seems far from over. Fear of shrinking purchasing power has led to a renewed reduction in the propensity to buy, although the drop is markedly more moderate than the fall in the indicator for income expectations.

Economic expectations: no recovery in sight

Once again, economic expectations were down again in July by 15.5 points in to stand at their current level of -8 points. Not since November 2005 has the indicator reached a similar low.

Along with fears of high inflation, many Germans are concerned that there will be a more marked cooling of the economy than previously anticipated. News from the USA of the continuing gloom in the financial markets support these assumptions and not least, the continuing high value of the euro represents a hazard to exports.

Income expectations: any increase in purchasing power is melting away

The sustained high rate of inflation in Germany is putting the squeeze on German income expectations. The indicator for income expectations dropped 12.8 points in July to stand at the present level of -20 points. The last time a similarly low value was reached was just under four years ago in August 2004.

It appears that the rate of inflation is initially stagnating around the three percent mark. This means that consumers are watching any pleasing increase in their purchasing power generated by the significant wage and salary increases in some industries being steadily demolished by inflation. Even the positive effects on income of a buoyant job market are negated by price increases and so relegated to the background for the moment.

The dramatic rise in German concerns relating to purchasing power is confirmed by the recent "Challenges of Europe" survey carried out by GfK. According to this, the number of Germans worried about price rises has more than doubled within the space of one year.

Propensity to buy: increasingly high prices are depressing the consumer mood

Fear of further erosion in purchasing power as a result of inflation is also being reflected in consumer sentiment. The propensity to buy dropped in July by a relatively moderate 2.5 points to stand at the current level of -26.2 points. However, compared with the same period the previous year, the indicator is a good 35 points down.

So, while they are waiting for their next energy bills, such as the account for supplementary costs or the bill for heating oil, consumers will no doubt be putting the brakes on their purchasing in the belief that in future, a large proportion of their household budget will be going towards energy costs. Consumer sentiment is accordingly reticent in terms of the propensity to buy and in many cases, larger purchases will have to wait or will even be abandoned for now.

Consumer climate: beneficial wage and salary agreements are not enough to offset inflation

The noticeably gloomier consumer mood is making its mark on the consumer climate. The overall indicator is forecasting a value of 2.1 points for August, which is down from the revised 3.6 points for July.

The recent explosion in energy prices had ensured that household budgets will be increasingly allocated to paying energy bills and with correspondingly less to spend on other purchases, consumers are decidedly reticent to buy at the moment. The positive momentum generated by the job market and the beneficial wage and salary increases compared with last year are consequently being demolished by inflation.