

Moderate Rise In Consumer Sentiment Despite Economic Headwind

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Findings of the German GfK consumer climate study for November 2008

The financial crisis may have reached the real economy, but on the whole is not affecting consumer sentiment. Indeed, as in the previous month the consumer climate seems to again be making low level gains towards the end of the year. Both the rise in income expectations and the improved propensity to buy support this. In contrast, expectations regarding the economy continued their downward trend. The overall indicator is forecasting 2.2 points for December after a revised value of 1.9 points for November.

Reports that the Federal Republic of Germany is also being hit by the global financial and economic crisis and is now also in recession have caused German expectations for the economy to slide dramatically. This indicator reached a new record low in November. In contrast, falling prices for heating oil and gasoline have somewhat eased the pessimism when it comes to income expectations and the propensity to buy. The recent collective bargaining wage agreements in the metal and electrical industry are also likely to have contributed to the fact that income sentiment has risen for the fourth time in a row. As a result, the consumer climate was again able to successfully withstand the widespread recessionary trends towards the year-end.

Economic outlook: downward trend continues

Germans' economic expectations continued the downward trend. In November the indicator lost another 3.6 points to stand at -30.1 points. This is the lowest value since the start of the full Germany survey in 1991.

The fears of recession expressed by Germans in previous months have now become reality. The Federal Statistical Office recently reported that Germany is now in recession as the gross domestic product contracted by a further 0.5% in the third quarter of 2008 after shrinking by 0.4% in the second quarter. To date, neither the German government's rescue package for the financial market nor the recently approved economic package have reversed sentiment among consumers. The production stops in the automotive industry are likely to have fuelled this pessimism and made many employees fearful of job losses.

Income expectations: falling energy prices support purchasing power

Sharply falling energy prices also ensured that income expectations in Germany continued their recovery at a low level in November as well. For the fourth time in a row, the indicator made gains and now stands at -6.9 points. This month saw a 6-point rise. However, year-on-year the indicator is still down almost 7 points.

The crude oil price has more than halved since its peak in July 2008 and gasoline and heating oil prices are now also considerably down on their record values. In addition, gas prices are set to be adjusted in line with this development (with a time delay) and a reduction is to be expected in the coming months. This strengthens the purchasing power of consumers and increases the scope for other spending. The German Institute for Economic Research, for example, estimates that the significant price fall in oil and gasoline will save consumers and companies more than 10 billion euros.

In addition, the recent collective wage agreements concluded in the metal and electrical industry have awakened expectations among employees in other sectors of real income rises in light of moderate inflation.

Propensity to buy: clear rise

In November, the propensity to buy indicator appeared to more than make up for its losses from the previous month. The rise of 11.5 points this month is almost twice as high as the drop of 5.4 points recorded in October. At the moment, the indicator stands at -6.7 points, but even so is still below its long-term average of 0 points.

Consequently, the propensity to consume is still withstanding the general recessionary trend. Consumers assume that they will not be particularly affected by the economic low and believe there is no need to further restrict their willingness to buy at the moment. The easing of inflationary pressure is also likely to be a contributory factor to the stabilization of the propensity to buy.

Consumer climate: slight recovery at very low level

The consumer climate appears likely to recover again somewhat by the end of the year. The overall indicator is forecasting a value of 2.2 points for December after 1.9 points in November. Despite the positive development, the indicator is still very low.

Both the rise in income expectations and the improved propensity to buy are contributing to this development. The consumer climate is also supported at present by the declining trend in saving.

Whether the current improvement will be sustained in the coming months will primarily depend on how severe and sustained the recession is. In addition to a moderate price trend, the extent to which the labor market will be affected by the economic downturn is crucial. Should the employment situation deteriorate again, with a significant rise in the number of unemployed, this would also have a lasting impact on consumer sentiment. The slight rise in consumer spending forecast by GfK to date for the coming year of around half a percent would then recede into the distance.Â Â Â

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.