

Slight Improvement In The Consumer Climate

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Findings of the GfK consumer climate study for February 2009 in Germany

The mood of German consumers is improving. Stable prices and the bonus for scrapping old cars have triggered a slight improvement in the consumer climate.

Following the recent decline in economic and income expectations, both indicators were up for February.

Buying propensity, which was up last month, declined only marginally and was higher than its level at the same time in the previous year. The overall indicator is forecasting a value of 2.6 points for March 2009, following a revised value of 2.3 points in February.

The latest inflation rate of below 1% and the bonus for scrapping old cars are currently supporting the consumer mood. Consumers can see that their purchasing power is stronger and are consequently assessing their income prospects more optimistically.

Despite the increasingly recessive trend, the downward slide in economic expectations appears to have halted at least for now, because even this indicator was up.

While the propensity to consume did, in fact, decline marginally in February, the particularly strong gains from the previous month more than compensated for this. The consumer climate is consequently set to improve slightly in March 2009.

Economic expectations: end of the downward slide?

Following four months of decline, February saw an end to the downward slide in economic expectations, at least for now. The indicator rose five points to stand at its current level of -27.9.

However, economic expectations are still down by 42 points from February 2008.

Despite a great deal of bad news concerning slumps in production, reduced working hours and the threat of redundancies, pessimism about the economy has diminished slightly recently.

One probable reason for this is the adoption of Economic Stimulus Package II. Consumers expect that these measures could buoy up the domestic economy to some degree.

However, it is not yet clear whether the downturn in economic outlook has ended and the trend has been reversed. For the moment at least, consumers are in agreement with the financial analysts in their assessment of economic expectations.

Even the ZEW Indicator, the economic indicator of the Centre for European Economic Research, recorded an increase for February.

Income expectations: improved

After two months of decline, income expectations significantly increased by 9.5 points in February. However, the indicator, which currently stands at -11 points, is still approximately 10 points below the corresponding value for the previous year.

In addition to the very low rate of inflation and the financial incentives delivered by the Economic Stimulus Package, the refunding of commuter tax paid which has been announced and partially implemented, has had a positive effect on income expectations.

Refunds to taxpayers of more than EUR 1,000, in some cases, have provided an unexpected windfall in many employee households, and have thereby strengthened purchasing power.

Propensity to buy: remains at a very good level

The surprisingly strong rise in the propensity to buy at the beginning of this year was no flash in the pan. In February, the very good level of the indicator in the previous month was confirmed to virtually the full extent.

The propensity to buy decreased only marginally, by 0.9 points to stand at 14.6 points, which is almost 30 points higher than the value recorded at the same time in the previous year.

Stable purchasing power, government financial buying incentives and discount offers, for example from car dealers, are currently putting consumers in the mood to buy.

The fact that companies in the consumer electronics and household appliance segments are now also offering comparable incentives should also boost the propensity to buy.

Consumer climate: a slight increase

The overall indicator is forecasting a value of 2.6 points for March 2009, following a revised value of 2.3 points in February. The indicator is therefore slightly up, while remaining at a low level.

This reinforces indications that consumption is helping to tone down the economic slump this year. However, the consumer climate is at too low a level to fully compensate the substantial declines in exports and investments.

In addition to the programs promoting the stabilization of domestic demand, the low rate of inflation could also lend important support to the consumer economy this year. GfK is therefore confirming its forecast that private consumption will rise by a total of half a percentage point in 2009.

The further development of the consumer economy will depend on whether the financial crisis will become an employment market crisis, and if so, to what extent. A very large rise in unemployment would also put a considerable damper on the consumer mood. 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.

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