German Consumer Climate Remains Stable In The Crisis

Contributed by GfK
Thursday, 04 June 2009
Last Updated Thursday, 04 June 2009

Findings of the GfK consumer climate study for May 2009

Consumer sentiment remained virtually constant in May this year. While economic expectations were slightly up for the second time in a row, the prospects for income were down somewhat.

Consumer propensity to buy remained virtually unchanged at a good level.

The overall indicator is forecasting a value of 2.5 points for June, following a value of 2.5 points for May and with this, the consumer climate has remained stable since March.

Increasingly, the indicators have been signalling that the steep contraction of the German economy is bottoming out, giving rise to hopes of reasonable stabilization before the end of the year.

The economic outlook, although remaining at a very low level, has also risen for the second time in a row and the propensity to buy also defended its positive level to remain virtually unchanged in May.

Conversely, however, income expectations dropped back as a result of escalating fears of job losses, concerns which are rising in the wake of increased short-time work and declining income prospects.

The consumer climate index for June continues to indicate that the consumer mood remains stable. However, consumer sentiment has yet to face a real test when confronted by the anticipated rise in unemployment. Â

Economic expectations: is this the turning point?
For the second time in succession this year, economic expectations are signalling a slight rise with a 2.9 point increase, with the indicator currently standing at -28.3 percentage points.

The downward trend in the economic climate appears to have halted, at least for the time being, however, whether this represents a turning point in economic recovery remains to be seen.

With an index value at least 40 points below that for the same time the prior year, the indicator remains at a very low level.

In spite of the ongoing marked economic pessimism, consumers are nevertheless assuming that the worst is behind us. Even the financial analysts and companies have been a little more optimistic recently in their assessments of the economic outlook.

With this, the potential that the economy may have stabilized by the end of 2009 has risen.

Income expectations: slight downturn
After an increase of 3.4 points last month, income expectations took a slight downward turn of 1.3 points in May. The index currently stands at -9.3 points.

On the one hand, the markedly calm price climate and forthcoming pension increases averaging 2.5% have had the effect of stabilizing purchasing power and buoying up income expectations. On the other hand, growing fears of job losses are impacting on German citizens which is also shown in the GfK survey "Challenges of Europeâ€•.

Following a period of continuous decline in job anxieties in recent years, German citizensâ€™ concerns about unemployment are once again creeping up, rising by 4 percentage points in 2009. At 57%, problems on the labor market are by far the biggest worry for Germans.

However, the true test of the mood will only come if the job market contracts significantly during the course of the year, which is what many experts fear. Â

Propensity to buy: holding steady at a sound level
The propensity to buy defended its positive level of May to good effect. The index recorded a minimal rise of 0.1 points to reach its current level of 12.5 points. Compared with the same time in the prior year, the index has risen by just under 33 points.

In tandem with the scrappage allowance on vehicles and other financial incentives relating to economic booster package II, moderate prices are presently keeping the consumer propensity to buy at a stable level.

Added to this, is the fact that the scrappage allowance has meanwhile been adopted by a series of other industries. This means that consumers can look forward to continued falling prices and this is currently supporting the consumer propensity to buy.

Consumer climate: remaining stable
The overall indicator is forecasting a value of 2.5 points for June, which is unchanged from its May level of 2.5 points. With this, the consumer climate has remained at its March 2009 level, which, however, remains on the low side.

Whether this generally robust development of the consumer climate will be sustained in the coming months will depend very much on the extent to which job market prospects contract.

If the short-time work measures implemented by companies prove not to generate any identifiable economic revival, organizations will be compelled to introduce staff redundancies, leading to an increased level of unemployment.

In turn, this would further fuel fears of job losses and severely impact the consumer climate. However, consumption should still be able to mitigate the steep downturn in exports and investments to some extent this year, although it will not be strong enough to fully offset the losses.

The survey
These findings are extracts from the "GfK consumer climate MAXX surveyâ€•, 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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Nuremberg - May 2009