

Consumer Climate – Upwards Trend Continues

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Findings of the GfK consumer climate study for July 2009

In Germany, the upwards trend in the consumer climate continues on through the summer.

Both economic and income expectations have increased and there has been a considerable rise in the propensity to buy.

The overall indicator is forecasting a value of 3.5 points for August 2009, following a revised value of 3.0 points in July, and has therefore improved more strongly than in the previous month. In a longer term comparison however, the consumer climate is still at a very low level.

After some economic institutes signaled an end to the economic downturn, the economic pessimism on the part of consumers also declined.

Following a moderate climb in the previous month, July saw a somewhat stronger improvement in the economic outlook. Inflation is disappearing and people have more money in their pockets.

Consumers are rewarding this situation with another rise in income expectations. Furthermore, stable and indeed falling prices led to the propensity to buy recording the biggest gain of all the indicators in July.

Alongside favorable prices, the fact that the labor market has not slumped yet plays an important role here. However, the acid test for the consumer climate still lies ahead should there be a significant rise in unemployment figures again in late autumn.

Economic expectations: improvement continues

Economic pessimism declined again in July this year. The current upswing of 8.6 points is the fourth rise in a row.

The indicator now stands at -14 points and is only 6 points below the corresponding figure in the previous year. Economic expectations have therefore moved significantly away from their recession low at the start of the year when the indicator was down at almost -33 points.

Consumers obviously assume that the steep downturn in the economy has come to an end, even if they do not consider the recession to be over and they therefore share the opinion of several economic experts who have arrived at a similar assessment.

In its recently published monthly report, Deutsche Bundesbank for example believes that the free fall in the German economy is over for the time being. The ifo Business Climate Index also rose the fourth time in a row in July, supporting this theory.

Reports from industry also give cause for cautious optimism. Most recently, the Federation of German Industries (BDI) reported that there were signs of an end to the downturn.

Moreover, the major shock in the labor market has so far not materialized. Companies are presently still trying to absorb losses by using short-time working. However, to avoid large scale redundancies in the future, the economic situation would have to stabilize on a sustained basis.

Income expectations: back in positive territory

After a significant rise of 6 points in the previous month, income expectations gained a further 5 points in July. Currently the indicator stands at 1.8 points, in positive territory again for the first time since April 2008.

In addition to the absence of inflation, the pension increases as of 1 July of 2.4% on average should have helped improve sentiment regarding incomes.

Since the middle of the year, measures under economic package II, such as lower health insurance premiums and income tax relief, have also eased the situation. In conjunction with stable prices, these measures continue to support income expectations.

Propensity to buy: significant gains

The propensity to buy improved significantly in July this year from its already high level. With a rise of 10.6 points, the

upswing even hit double digits.

The indicator currently stands at 25.1 points. Compared to the figure for the previous year, the indicator has improved by a good 51 points.

Above all, low prices are currently acting an important driver for the propensity to buy. Experience in the past has repeatedly shown that there is a direct link between consumer price expectations and their willingness to spend money.

Technical consumer goods such as entertainment electronics and household appliances are currently popular with consumers. This is confirmed by the corresponding GfK retail surveys, which show growth for technical consumer goods in the first five months of this year.

According to the GfK Retail and Technology Non-Food Index there were significant rises in terms of sales between January and May 2009 above all in the areas of entertainment electronics (+3.3%), information technology (+5.5%) as well as large and small household appliances (+8.6% and +6%).

In the car segment, new registrations recorded a double digit increase, although this was primarily due to economic policy in the form of the scrappage allowance.

The propensity to buy is also likely to have been boosted by the fact the current low interest rates and the financial crisis have made saving unpopular at the moment. This is confirmed by the decline in the propensity to save.

Consumer climate: upwards trend continues

The overall indicator is forecasting a value of 3.5 points for August 2009, following a revised value of 3.0 points in July. Again there has been a stronger rise in the consumer climate.

Consequently, private consumption currently remains a significant support for the economy. However, the level of the indicator is still comparatively low.

A sustained stabilization in the consumer climate will depend above all on the further development of the labor market.

Should there be a considerable rise in the number of unemployed again in late autumn, this would be likely to become an endurance test for consumer sentiment.

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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