Consumption In 2011 – Germany On The Ascent

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Outlook for consumer behavior in 2011

At a press conference held in Nuremberg today, GfK presented a review of private consumption in 2010 and an outlook for 2011. As forecast by GfK, private consumption rose last year by 0.5%.

For 2011, the market researchers are expecting private household expenditure to increase by a significant 1.5% and therefore make a strong contribution to the economic upturn. In a European comparison, Germans are by far the biggest optimists when it comes to consumption.

Germany has shown impressive momentum in recovering from the financial and economic crisis. Whereas the gross domestic product (GDP) in the 2009 crisis year shrank by 4.7% and the country experienced its worst recession since the second world war, GDP last year shot up by 3.6%, which was the strongest rise recorded since German reunification.

As economic researchers revised their forecasts upwards, GfKâ€™s consumer climate surveys reveal that consumersâ€™ economic expectations also began a steep upward trend from summer 2010 onwards. The upswing had a very positive effect on the labor market.

According to the Federal Employment Agency, the average number of unemployed people for 2010 as a whole stood at 3.244 million and was therefore 5.2% down on the prior year.

In autumn 2010 the figure fell below the psychologically important three million mark, and this positive development in the labor market gave a decisive boost to consumersâ€™ confidence in their personal financial and professional futures.

Income expectations also rose considerably over the course of 2010. The indicator rose from 12 points in January to 40 points in December, almost reaching the high that was recorded in the years 2000 and 2001. German consumers expected the upturn to have a significantly positive effect on their salaries, and the most recent wage agreements confirm this expectation.

The good framework conditions and increasing planning security for consumers also had a noticeable effect on the propensity to buy, which continued to rise steadily from an already high level.

The average value of this indicator in 2010 was 27 points, which meant that it was six points higher than the already very pleasing value in the previous year. Correspondingly, the GfK consumer climate index followed a continuous upward trend and reached a three-year high at the end of 2010/start of 2011.

Retail sector back in positive figures
According to GfKâ€™s calculations, food retail outlets and chemistâ€™s stores in Germany saw an increase in sales last year. With a rise of 1.2%, they achieved a sales volume of EUR 154 billion, which is a new record high. The non-food segment â€“ areas such as electronic goods, textiles, furniture and DIY â€“ also recorded a marked improvement in sales.

A climb of an estimated 2.6% and total sales of almost EUR 148 billion were the best sales result for the non-food segment since 2002. Technical consumer goods, including among others consumer electronics, information technology (IT), telecommunications products, the photographic segment and household appliances, enjoyed particularly strong growth: sales increased by over 8% to EUR 47 billion.

Among consumers, a sustained trend towards quality and away from low prices as the sole focus can be observed. One example is the textile retail segment. Last year, the industry achieved a sales volume of around EUR 40 billion, with sales value growth of 2.4% and a slight decline in sales volume. On average, consumers spent more on each purchased item and tended to opt for higher quality products.

Promising consumption prospects for 2011
Germansâ€™ consumption optimism has further increased at the beginning of 2011. The propensity to buy has climbed to a value of 41.8 points in January â€“ the highest level since December 2006 â€“ in spite of the recent rise in price expectations. The positive prospects on the labor market are further improving consumer sentiment.

"GfK expects private consumption to increase considerably by 1.5% in 2011 and to triple its growth rate compared with the previous year. The new propensity to consume that we are observing among Germans is not only adding stimulus to the economic upturn, but is also becoming a sustained and reliable source of support for the domestic economy,â€• says Professor Dr. Klaus L. WÃ¼bbenhorst, CEO of the GfK Group.

For food retail outlets and chemistâ€™s stores, GfK is forecasting a sales increase of approximately 1.7% for 2011, and experts are also anticipating a further sales surge in the non-food segment, with estimated growth of 1.7%, although the rise will not be as high as in the previous year.

Germanyâ€™s employment "miracleâ€•
German consumersâ€™ propensity to buy is striking when compared with Germanyâ€™s European neighbors. Last year, Germanyâ€™s economy significantly outstripped that of the other major European countries and embarked on an upward trend, contrary to all predictions. While the gross domestic product in Germany increased by 3.6%, France (+1.6%), the UK (+1.8%) and Italy (+1.1%) were not able to match this growth spurt.

GDP in Spain was even slightly negative, showing a decline of 0.2%. Among EU countries with large populations, only Poland (+3.5%) recorded positive growth on a similar level with Germany.

Germanyâ€™s exceptional position becomes even more apparent when comparing unemployment figures. Across Europe, Germany was the only country to see a reduction in the number of unemployed people compared with the level before the financial and economic crisis in 2007. With a decrease of 17%, Germany clearly stands out among its neighbors.

The Baltic states are bottom of the rankings in this regard, as unemployment here more than tripled. Ireland and Spain also recorded a marked rise in unemployment figures, which is a sign of the major impact of the property and financial crisis.

There are various reasons for the positive developments in Germany. The structural reforms introduced under Agenda 2010 have placed the country in a competitive position internationally. In the 2009 crisis year, the transition to flexible working hours, more opportunities for short-time working and government economic stimulus programs buoyed the labor market, so there were hardly any redundancies as a result of the economic situation.

Consequently, the German economy was able to react immediately last year when global demand began to rise once again.

French people fear a decline in their standard of living
Positive reports from companies increased the economic expectations of German consumers in 2010 to an average of +29 indicator points. In France, however, people assessed their countryâ€™s economic prospects far more negatively: economic expectations reached a value of only -11 points in 2010.

In comparison with neighboring Germany, higher social security payments and shorter working hours as a result of the legally imposed 35-hour week are weighing on the economyâ€™s competitiveness.

French consumers currently fear a major reduction in their standard of living. This is reflected in the average level of the income expectations indicator in 2010, a distinctly negative -27 points, compared with +28 points in Germany.
The two countries in Europe with the largest populations also recorded divergent development in terms of the propensity to buy: the average indicator value for 2010 reached +27 points in Germany and only -32 points in France.

Government austerity measures have a negative impact on consumption in the UK
In the UK, the end of the long property boom and the governmentâ€™s measures to consolidate the budget have had a significant impact. Last year, the propensity to buy reached a value of just -29 indicator points, and the average indicator value for income expectations was also negative, at -5 points.

The public sector is the largest employer in the UK, and the governmentâ€™s austerity measures are therefore having a correspondingly large effect here. In addition, pay freezes and a high rate of inflation in comparison with Germany have reduced the living standards of British people.

Italians cut down their consumption
Italian consumers also took a pessimistic view of the economic prospects in their country last year. An indicator value of -15 points for economic expectations and -19 for income expectations clearly reflect the populationâ€™s anxieties about the future.

Economic growth was already very low before the financial crisis, the national debt was massive and last year unemployment reached its highest point since 2001.

In addition, the situation on the labor market is being negatively impacted by a significant increase in temporary employment contracts and the number of low-paid jobs.

The countryâ€™s middle class is shrinking and Italian consumers are reacting by consuming with caution and displaying a high level of price sensitivity. The average value for the propensity to buy stood at just -19 indicator points in 2010.

Real Estate crisis affects Spain
Spain is heavily affected by its real estate crisis. The unemployment rate has more than doubled from 2007 to 2010 due to the enormous weight of the real-estate sector for the countryâ€™s economy. In contrast to almost all European countries, the gross domestic product even kept declining slightly over the last year.

Correspondingly, the average indicator value for the economic expectations of Spanish consumers in 2010 was negative, at -18, and personal income prospects were assessed even more bleakly, with an indicator value of -22 points.

The government is combating the high national deficit by making cuts to some social services, reducing civil servant salaries and applying higher taxes: for example, the VAT rate has been increased from 16% to 18%. With the propensity to buy standing at -8 points on average in 2010, the reaction of Spanish consumers to the economic situation was very moderate compared with their neighbors in France and Italy.

Polandâ€™s economic growth stands out
The gross domestic product in Poland grew by 3.5% in 2010 and was therefore almost as high as the German growth rate. The eastern European countryâ€™s unemployment figures were also impressive in 2010, remaining at the same level as in 2007.

However, the positive economic growth recorded last year was only noticed by Polish consumers to a limited extent, as the low average indicator value (+5 points) for economic expectations compared with Germany shows. Anxiety fuelled by the media about the potential consequences of the financial crisis influenced Polish consumers more in their assessments than the visible economic growth.

This is evident from the income expectations indicator, which stood at -1 points on average for the year. However, the propensity to buy reached a very positive value compared with the rest of Europe, at +6 points.
Greeks and Romanians hardest hit by the crisis

Consumers in Romania and Greece felt the effects of the financial crisis and the high level of debt of their respective countries very strongly last year. The gross domestic product fell in Greece by 4.2% and in Romania by 1.9%, and consumersâ€™ economic expectations were correspondingly negative: with an average of -50 points in 2010, the Romanians were bottom of the rankings in Europe, followed by the Greeks with -39 points.

The governments of both countries are under a great amount of international pressure to reduce their budget deficits, because they have received financial aid from the International Monetary Fund, the European Central Bank and the EU. Deep cuts in social services and increases in duties and taxes are the result.

In line with this, the income expectations of consumers in both countries were negative in 2010, standing at an average of -47 indicator points in Romania and -43 points in Greece. The propensity to buy was also affected by consumersâ€™ fears for the future.

With an average indicator value in 2010 of -38 points in Greece and -33 in Romania, these two countries â€“ together with Portugal, where the value fell as low as -47 â€“ came in last in a Europe-wide comparison.

"Reluctantâ€• consumers become "optimisticâ€• consumers
This comparison with other European countries shows that Germany is currently in an exceptional position. The upturn is not only giving a boost to companies, but has also led to a sustained improvement in consumer sentiment.

Whereas Germans might previously have been considered panic savers and extremely price-sensitive consumers, they are now increasingly focused on quality and are happy to spend money. "German consumers have changed. Even back in the 2009 crisis year they were defying the negative headlines, and since last year they are the optimists of Europe.

Private consumption has become a vital source of support for a sustained economic upturn,â€• concludes Professor Dr. Klaus L. WÃ¼bbenhorst, CEO of the GfK Group.

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