# German Consumer Climate Defies Escalating Crisis

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Findings of the GfK Consumer Climate study for Germany for June 2012

The consumer mood in Germany was quite varied in June. While the rise in income expectations was substantial and willingness to buy improved slightly, economic expectations plummeted. Following a value of 5.7 points for June, the overall indicator is nonetheless forecasting a value of 5.8 points for July.

At the time of the survey, turbulence in the eurozone due to the unknown outcome of the Greek elections and rescue measures for the Spanish banking sector put a considerable damper on the economic optimism of consumers. Evidently there is growing concern that Germany could then also be drawn into the escalating downward trend. Until now, however, Germans regard the international threat as being a risk to the economy in general rather than to their personal circumstance. Assessment of the private financial situation was significantly more positive than in the previous month and, as a result, willingness to buy also improved slightly on its already high level.

Economic expectations: increase halted abruptly

Following three consecutive increases, economic optimism of Germans fell quite noticeably in June. The indicator value dropped 16.6 points and now stands at 3 points, the lowest value since December 2011.

The worsening international environment is seemingly now also having an impact on the economic outlook of Germans. In their view, the ongoing discussions about the future of the single currency and the allocation of financial resources to stabilize the Spanish banking system have increased the risks for the German economy. Consumers are clearly worried that sooner or later Germany will also be affected by the downward trend in the eurozone. As a result of the recession, the development of exports, above all, is at considerable risk in key European sales markets. This is also reflected in the attitudes of business. Companies fear that the negative impact on their business will be exacerbated by the euro crisis. Accordingly, the ifo business climate index has also fallen further this month.

Income expectations: further increase at high level

The fall in economic optimism does not seem to have had an effect on income expectations this June. Quite the opposite, in fact, as the indicator rose quite substantially, improving on its already high level. In comparison with the previous month, the indicator value for income expectations increased by 8.1 points to stand at 40.1 points.

Both rising employment and noticeably improved salary agreements on previous years have fueled expectations of further positive income developments. On top of this, inflationary pressure also appears to be abating recently. In May, price rises for living costs dropped below the psychologically crucial margin of 2%. As a result, consumers consider their purchasing power to be strengthened.

Willingness to buy: slight improvement

In the wake of strong increases in income expectations, willingness to buy also went up slightly in June. It again improved on its already good level, rising by 0.7 points to a current indicator value of 32.7 points.

Despite growing fears for the economy, conditions for consumption are remaining favorable. As for income expectations, the improvement in employment is a crucial factor. This reduced fear of unemployment is improving the planning security of consumers, which is a key factor for major purchases, in particular. As a result of deficient trust in the financial markets and historically low interest rates, many consumers do not consider it sensible to put their money in the bank and are instead making higher value purchases.

Consumer climate: stable development

Following a value of 5.7 points for June, the overall indicator is forecasting a value of 5.8 points for July. This is confirmation of the overall stable development in the consumer climate in Germany. The indicator has so far been able to defy the escalating crisis.

The domestic economy is therefore fulfilling its intended function as a fundamental basis for economic growth this year. This will become increasingly important as the rising trend towards recession in Germanyâ€™s key sales markets for exports, which until now have acted as growth drivers, is likely to considerably dampen trading. Consequently, stable consumption is vital in order to prevent Germany sliding into recession. GfK confirms its forecast from the start of the year that private consumption in real terms will increase by approximately 1% in 2012.

Alongside favorable domestic conditions for consumption, such as employment and income development, the threat posed by external risks should not be underestimated. Growing uncertainty due to the escalating euro crisis, intense debate of a possible Greek exit from the single currency and the crisis in the Spanish banking sector could in time also have a greater impact on German consumers. This would also weigh down on the consumer climate and bring to an end to the positive development of consumer demand.

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.

You can find information on the development of the indicators in the first quarter of 2012 in twelve select European countries in GfK Consumer Climate Europe at http://www.gfk.com/consumer_climate_europe/index.de.html .

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