



Press Release

The next GfK consumer climate will be published on April 28, 2008

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GfK revises expected consumption to 1%

Findings of the German GfK consumer climate study for March 2008

Nuremberg, March 27, 2008 – The mood among German consumers has slightly improved in March. While the economic outlook indicator increased only modestly, income expectations and the propensity to buy climbed significantly. As a result, the consumer climate indicator for April has a value of 4.6 points after 4.5 points in March. However, this tentative recovery cannot obscure the fact that achieving the prior consumption forecast of 1.5% will be difficult in the face of continued high rates of inflation.

If the rate of price increases is well above the 2% mark throughout 2008, which would be considerably higher than originally assumed, private consumption in real terms would only rise by up to 1% during the remainder of this year.

Nevertheless, the positive trend in the labor market coupled with considerable increases in collective wage agreements boosted income expectations and the propensity to buy in March. The ongoing mortgage crisis and the risk of a recession in the USA are likely to be the main reasons for the economic expectations indicator lagging slightly behind the other two indicators, with a modest increase only.

Economic expectations: restrained optimism

After the setback last month which amounted to a decrease of more than 14 points, the economic expectations of German consumers stabilized again in March. The indicator rose marginally by 0.4 points and now stands at 15.0 points.

A degree of uncertainty persists among German citizens with regard to economic developments. The effects of the US mortgage crisis, which have resulted in significant capital losses and the associated credit squeeze for major banks, have somewhat dampened optimism regarding the economy. The weak US dollar and the growing number of signs pointing towards recession in the USA are also depressing consumer sentiment. As consumers are currently unable to assess the extent to which these negative

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developments will ultimately affect the German economy, they have remained cautious.

Income expectations: collective wage agreements provide hope

Following the marked gains of more than 4 points in the prior month, the indicator for income expectations continued to climb in March. With an increase of 2 points, the rise remains lower than in the prior month. The indicator currently stands at 1.5 points and has returned to the positive range for the first time since September 2007.

The latest collective wage agreements in the metal industry and for train drivers, which were favorable from the point of view of consumers, have achieved the intended effect. It appears that hopes of also achieving a good outcome in the imminent negotiations are outweighing inflation-related concerns. Respondents are slightly more confident that wages and salaries will rise above the rate of inflation, making an increase in income possible in real terms.

Propensity to buy: signs of a slow recovery

The propensity to buy indicator has gone up again in March. However, the increase of almost 5 points means that the losses of the prior month can only partly be compensated. At currently -10.2 points, the propensity to buy in March is a good 2 points above the corresponding figure for the prior year. However, the propensity to buy indicator remains considerably below the long-term average of 0 points.

Despite ongoing fears of inflation, consumers appear more prepared to make major purchases. Nevertheless, some uncertainty remains in the wake of rising energy and food prices.

Consumer climate: stable developments with slight upward trend

The positive development of the indicators this month has resulted in a slight upward trend for the consumer climate. The overall indicator forecasts 4.6 points for April, which represents a minor improvement. The current greater tendency towards savings prevented a more substantial increase in the indicator. In the first three months of this year, the indicator has hovered at 4.5 points.

It would certainly be too soon to speak of a trend reversal. High rates of inflation and new record values for the US dollar and the price of crude oil are likely to stop consumers from immediately giving up their restraint in terms of consumption. For a trend reversal to materialize, prices will need to settle down in particular. This would put the focus back on positive conditions, such as the good situation in the labor market.



In view of current price trends and the continued high rates of inflation, the previous consumption forecast of 1.5% in real terms does not seem attainable. GfK is therefore revising consumption expectations for 2008 to 1%.

The table below provides an overview of the trend in the individual indicators:

| | March 2008 | February 2008 | March 2007 |
|--|------------|---------------|------------|
| Economic expectations | 15.0 | 14.6 | 53.1 |
| Income expectations | 1.5 | -0.5 | 15.9 |
| Consumption and buying propensity | -10.2 | -15.0 | -12.3 |
| Consumer climate | 4.5 | 4.5 | 4.4 |

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.

The next publication date will be April 28, 2008.

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The table below provides an overview of the individual indicators:

| | |
|--|---|
| Economic outlook | This index is based on the following question to consumers: "How do you think the general economic situation will develop in the next 12 months?" (improve – stagnate – deteriorate) |
| Income expectations | This index is based on the following question to consumers: "How do you think the financial situation of your household will develop in the next 12 months?" (improve – stagnate – deteriorate) |
| Consumption and buying propensity | This index is based on the following question to consumers: "Do you think it is advisable to make major purchases at the moment?" (good time – neither good nor bad time – bad time) |
| Consumer climate | This index is used to describe private consumption. Key factors are income expectations, buying propensity and savings trends. The economic outlook has a more indirect effect on the consumer climate, generally as a result of income expectations. |



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