



Press Release

The next GfK consumer climate will be published on June 24, 2008

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Germany: fears of inflation dampen consumer mood

Findings of the German GfK consumer climate study for May 2008

Nuremberg, May 27, 2008 – Rising inflation in May of this year has clouded the mood among consumers. The economic outlook indicator, income expectations and the propensity to buy all suffered considerable losses. As a result, the consumer climate indicator for June is forecasting a value of 4.9 points after a revised 5.6 points in May.

Gasoline prices constantly hitting new record highs and further looming price increases are causing German consumers to worry about their purchasing power. This has led to income expectations being assessed less positively than in the prior month. Price increase expectations also meant that the propensity to buy fell sharply in May. Concerns about price stability and uncertainty resulting from the crisis on the financial markets and the flagging US economy are currently fueling economic fear amongst German consumers. This has resulted in the economic downturn becoming somewhat more pronounced than at the beginning of the year.

Economic expectations: consumers skeptical

The significant gains in economic expectations last month could not be maintained in May. The indicator dropped back by almost 10 points to stand at 13.4 points.

Despite the German economy doing surprisingly well in the first quarter of the year, German consumers are regarding further economic development cautiously. It seems increasingly apparent that the crisis on the financial market is far from over and the current developments of the US economy are not particularly encouraging either. Evidently, Germans are assuming that the outstanding development of the gross domestic product (GDP) in the first quarter of 2008 will not continue and as a result, an economic slowdown should be anticipated. The sustained strength of the euro and high rates of inflation are intensifying the picture.

In this light, economically positive developments, such as the good conditions on the job market, are currently taking more of a back seat.

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However, the positively developing GDP in the first quarter of 2008 – even if it is somewhat exaggerated due to the knock-on effects of the mild winter – testifies to the fact that the German economy remains in good shape and a recession in Germany does not seem likely.

Income expectations: overshadowed by climbing prices and high energy costs

After three months of successive growth, income expectations incurred marked losses in May. The indicator fell by 14.8 points to stand at -4.3 points. As a consequence, the gains made over the previous three months were almost completely negated.

In addition to the general concern about household purchasing power, the particularly high energy prices seem to be a major cause behind the current pessimism concerning future personal finances.

Beyond this, discussions of price increases are currently drowning out the positive effects of the wage agreements concluded at the beginning of the year. The good developments on the job market and the resultant positive effects for income development are presently being eclipsed by the subject of inflation.

Propensity to buy: inflation is the predominant theme

In the wake of falling income and economic expectations, the propensity to buy also suffered major losses in May. The indicator dropped back 15.7 points, to now stand at -20.4 points.

The drop in buying propensity is mainly attributable to the increased fears of inflation. In light of soaring energy and food prices and the fear of further price hikes, any funds allotted to these increases could not be used for other purchases.

Consumer climate: price development hampers further recovery

The more pessimistic development of consumer mood in May has dealt a considerable blow to the consumer climate. The general indicator is forecasting a value of 4.9 points for June after a revised 5.6 points for May.

Growing pressure of inflation and fears of further price increases are currently preventing the consumer climate from recovering. For this reason, it will depend, first and foremost, on the further development of the cost of living, as to whether the favorable conditions, such as the booming job market, are implemented again, spurring consumers on to buy. Only if consumers expect their incomes to increase in real terms this year - and as long as fears of inflation are also allayed - will they then be keen to loosen their purse strings once again. If this does turn out to be the case, consumption will be able to fulfill its intended purpose by supporting economic activity.



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

	May 2008	April 2008	May 2007
Economic expectations	13.4	23.3	69.5
Income expectations	-4.3	10.5	33.6
Consumption and buying propensity	-20.4	-4.7	-4.1
Consumer climate	5.6	4.7	5.7

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 June 24, 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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