



Press release

The next GfK consumer climate press release will be published on September 26, 2007

Date

August 29, 2007

Rolf Bürkl
GfK Marktforschung
Tel. +49 911 395-3056
Fax +49 911 395-4084
rolf.buerkl@gfk.com

Marion Eisenblätter
Corporate Communications
Tel. +49 911 395-2645
Fax +49 911 395-4041
marion.eisenblaetter@gfk.com

Consumer climate slightly gloomier

Findings of the German GfK consumer climate survey for August 2007

Nuremberg, August 29, 2007 – Late summer has seen a slightly gloomier consumer climate this year. While buying propensity remained generally stable, the economic outlook and income expectations were slightly down on their previous strong position. Following the revised 8.5 points in August, the consumer climate forecast for September is 7.6 points.

Along with the prevailing economic risks such as the strong euro and rising interest rates, the unexpected turmoil in the international financial markets has affected the economic outlook in August, putting a damper on the euphoria of prior months. In addition, an increase in the price of some food products, for example dairy foods and bread and bakery goods, induced consumers to revise their income expectations downwards. However, buying propensity remained largely unaffected by these developments, virtually holding its current level with comparatively low losses.

Economic outlook: euphoria waning

The economic euphoria among Germans reached its all-time high in May, but is now declining. Compared with the prior month, the indicator lost a good 16 points and stands at 48.4 now. However, this level is still very good compared with the same period one year ago, when the indicator was 37 points lower.

The current turmoil in the international financial markets is consolidating the consumer assumptions that the dynamic economic growth Germany has been enjoying is likely to lose some of its pace. The strong euro and rising interest rates are also supporting this negative assumption.

However, with the indicator still at a high level, it is evident that consumers are not concerned about the risk of a recession in the German economy at present. At worst, they assume a slightly slower growth rate in the upswing.

The trend in economic outlook of the different social groups highlights the fact that the previous euphoria is equally on the wane in all sections of

GfK Aktiengesellschaft
Nordwestring 101
D-90319 Nuremberg

Tel. +49 911 395-0
Fax +49 911 395-2209
public.relations@gfk.com
www.gfk.com

Management Board:
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society. The decline in the economic outlook is only comparatively low among young people and students.

Income expectations: less optimistic

The income expectations of German consumers were dampened in August. The indicator lost almost 19 points on the prior month to stand at 9.2 points, although it is still up 13 points on August 2006.

A growing number of consumers see the significant price increases for dairy products and bread and bakery goods as a threat to their purchasing power. In addition, they fear that the price increases may start affecting other areas. This is also reflected by a considerable rise in the price expectations of consumers recorded in August.

All of this is overshadowing any positive factors influencing income expectations, such as continued favorable labor market development. If it emerges that the debate surrounding further price increases has no real basis, fundamental factors, such as rising employment, are once again likely to reassert themselves and strengthen income expectations.

All social groups have been affected by a downturn in income expectations, but to varying degrees. The average income groups recorded the most significant losses, while the decrease among OAPs was relatively small. The income of this group, especially from their state pension, is usually a very stable figure that is hardly affected by economic fluctuations.

Buying propensity: virtually unchanged

Buying propensity has remained virtually unaffected by the downward trend in economic outlook and income expectations. The indicator lost a negligible 2 points and is now 6.4 points.

This confirms the stabilization of consumption and buying propensity in the positive range towards the end of the summer and at a level that exceeds the long-term average. It has helped to keep alive hopes that the pleasing development in the labor market will eventually also be reflected more strongly in the consumer mood and especially, in consumer willingness to spend.

Overall, the trend in propensity to buy indicated a more marked polarization between high and low income groups this month. While the high income groups are sustaining a much greater appetite for consumption, the propensity of OAPs to spend declined more than the average. Buying propensity was also lower for the other low income group, which includes the unemployed and recipients of Hartz IV benefits.



Consumer climate: slightly weaker

The consumer climate has dropped for the first time since March this year, mainly as a result of a marked deterioration in income expectations. Following a revised 8.5 points in August, the indicator forecast for September is 7.6 points.

In view of the highly positive employment trend, which is set to continue in the coming months, the conditions are in place for the consumer climate to resume its upward trend once again. However, for this to happen, the debate concerning further, massive price increases needs to be resolved, and this applies equally to the upheaval in the financial markets. If this does not prove possible, a sustained impact on the consumer climate cannot be excluded. To ensure stability, consumers should not live in fear of unwelcome surprises regarding interest rate trends and energy prices.

From a political point of view, the consumer climate needs to be supported by reliable policies and avoidance of any additional financial burden on private households.

Consumer mood according to social group and region in August 2007

	Economic outlook		Income expectations		Buying propensity	
	Figure ¹⁾	Change on prior month ¹⁾	Figure ¹⁾	Change on prior month ¹⁾	Figure ¹⁾	Change on prior month ¹⁾
Students, trainees	58.0	-7.0	61.1	-13.3	19.2	-0.9
High income ²⁾	63.4	-6.2	52.5	-10.8	34.7	+15.0
Average income ²⁾	45.7	-20.9	11.0	-25.9	11.5	+2.1
Low income ²⁾	36.1	-15.7	14.4	-12.1	-15.3	-4.7
OAPs	42.5	-19.7	-43.6	-6.2	-6.8	-12.4
Western Germany	51.9	-16.6	17.0	-20.6	7.1	-2.2
Eastern Germany	33.4	-15.7	-20.7	-15.7	4.0	-3.4
Total	48.4	-16.4	9.2	-18.7	6.4	-2.6

1) Indicator points. 0 is the long-term average for all respondents.

2) Career stage

Source: GfK Consumer Climate MAXX, GfK Marktforschung

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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For more information contact Rolf Bürkl, GfK Marktforschung,
Tel. +49 911 395-3056, rolf.buerkl@gfk.com

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.

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

	August 2007	July 2007	August 2006
Economic outlook	48.4	64.8	11.4
Income expectations	9.2	27.9	-3.8
Consumption and buying propensity	6.4	9.0	56.1
Consumer climate	8.5	8.4	8.5

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Responsible under press legislation:
GfK AG, Corporate Communications
Marion Eisenblätter
Nordwestring 101
D-90319 Nuremberg
Tel. +49 911 395-2645
Fax +49 911 395-4041
public.relations@gfk.com