



## Press Release

Date

February 2, 2009

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### Consumption crisis?

#### Consumer behavior forecast for Germany 2009

**Nuremberg, February 2, 2009 – How will consumption develop in Germany this year? Today's press conference held by GfK AG in Nuremberg focused on just this question. The level of unemployment is not expected to affect consumption until the end of the year and so consequently, consumers are unlikely to experience much of a crisis this year. Overall, the different sectors, industries and consumer groups will be affected to varying degrees. GfK is forecasting growth in consumption of up to 0.5% for 2009.**

The effects of the financial and economic crisis have yet to reach consumers, and consumer mood has proven incredibly resilient in recent months. Despite the turmoil in the markets, the consumer climate index rose from 1.6 points last September to 2.2 points in January 2009, with a stable trend most recently. The mood is supported by the rapid drop in the rate of inflation and the marked decrease in gas and energy prices. This has resulted in a perceptible rise in purchasing power, which has been further strengthened by the favorable pay deals achieved last year. The labor market, which has been stable up until recently with a low rate of unemployment, has further boosted purchasing power.

This provides the conditions for hope that consumption may balance out the downturn in exports to some extent, at least in the first half of the year, despite the flood of bad news. Professor Dr. Klaus L. Wübbenhorst, CEO of GfK AG, concluded, "GfK is assuming growth in consumption of up to 0.5%." However, consumption will not completely replace export as the engine of economic growth. For this to happen, consumer sentiment is currently too modest overall.

Unlike companies, where the critical situation has an immediate impact on order books, the crisis only starts affecting consumers once it manifests itself in the labor market. Despite a pleasing decline in unemployment numbers in the past three years, there is widespread fear of unemployment in Germany, so that the loss of one job triggers fear of losing their own jobs in at least three other workers. This has also resulted in significant

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consumer restraint in the past, including in a European comparison. However, at present, the propensity to buy remains higher in Germany than in other European countries.

Although the most recent unemployment figures are already indicating a rising trend, experts generally anticipate that the crisis will not impact decisively on the labor market and consequently consumption until 2010. Although the relief package now adopted will not be able to prevent the current crisis, it may stabilize the economy and the labor market and accordingly, mitigate the recession and fear of unemployment.

In this respect, the economy and politics in particular have great responsibility. Every effort needs to be made to maintain jobs, promote new jobs and promote confidence by implementing measures that ease the financial strain on consumers. The gap between gross income and net take-home pay must narrow further, in order to give consumers greater financial leeway.

In the longer term, it will also be necessary to continue the process of reforms, for example with regard to tax, rather than focus on tactical election measures. Tax and duties remain too high, despite some corrections and this is putting pressure on German households and preventing investments.

### **When will the crisis reach consumers?**

Rolf Bürkl, Senior Research Consultant at GfK Marktforschung explained the main reasons for the noticeable improvement in the propensity to buy over recent months: "Since crude oil prices and with them, gas and heating oil prices peaked in September 2008 and then started falling rapidly, the rate of inflation has also gone down considerably." Most recently, the crude oil price amounted to less than a third of its peak value of almost USD 150/barrel recorded in July last year. Significantly reduced energy costs ease the strain on the budgets of private households and improve the mood generally. In this sense, they act like an economic program without incurring additional debt. According to estimates of the German Institute of Economic Research (DIW), the pressure taken off consumers and companies as a result of the massive reduction in energy prices is the equivalent of some EUR 25 billion to EUR 30 billion. In addition, a number of workers can expect a further windfall in the form of the reimbursed commuter allowance.

The extent to which consumption will have a positive impact on the economy in this year of recession will largely depend on the extent to which the crisis affects the labor market. However, other factors may also contribute to preventing consumption from being too greatly affected. The rate of inflation is expected to remain very low, which will support the purchasing power of consumers. The annual economic report of the

German government assumes an increase in prices of 0.5% this year. In addition, the first half of 2009 is still likely to benefit from the good collective wage agreements of last year, with income rising in real terms. The recently passed Economic Package II is also likely to provide further impetus for consumers this year. Since the sharp fall in exports can only be compensated in part by domestic demand, these measures will not completely prevent a possible economic slump. However, they will lessen the impact of such developments.

### **How does the crisis affect consumers?**

Evidently, the daily dose of bad news is unsettling consumers. However, so far private households have (still) shown uncharacteristic composure compared with frantic activity by the public sector. Nevertheless, it is important to take into account the different social groups to which consumers belong. The financial situation of consumers is also decisive when it comes to assessing personal income prospects and the propensity to buy. While previously, people tightened their belts, the willingness to spend has been rising steadily for months. Admittedly, spending relates mainly to "minor luxuries", rather than major investments. Consumers primarily turn to food retailing for these small extras. While spending on non-food items, such as products in the electrical and electronics, textile and durables sectors, has been on a downward trend for years, spending on fast moving consumer goods is steadily rising. According to Wolfgang Twardawa, Division Manager Strategic Marketing at GfK Panel Services Germany, consumers' current approach is best summarized as: "If there is no money to buy a new refrigerator, at least I can fill up my old one."

However, consumers will be feeling the impact of the crisis far more over the coming months and will have to adjust their daily habits and attitudes accordingly. There are already clear signs pointing in this direction, which are not necessarily detrimental to food retail. In times of economic crisis, the cocooning effect tends to emerge and this involves consumers focusing increasingly on activities within their own homes. For example, they will go out less in favor of enjoying evenings in. This behavior will impact primarily on the restaurant industry, with the lack of consumption outside the home made up for by the purchase of food products to be eaten at home.

The extent to which individual households will be affected by the crisis depends on their job situation and their scope in financial terms. GfK has established that one fifth of households are at high risk from the crisis. When it comes to shopping, the wallet is all that counts. For a third of households, the crisis has already meant that, although still following their preferences, they now shop "smartly". Almost 50% of all households show resilience to the crisis. They continue to look for quality and buy (premium) brands.



Although only around half of consumers will actually be affected by the crisis, the situation will have a major impact on food retail. The various sectors, industries and retail will all be affected by the economic crisis to varying degrees. There will be losers, but also winners in this crisis. Discount stores and cheap brands will certainly be among the winners. However, the premium segment and brands which boast high levels of customer loyalty will also survive the crisis better than others and emerge from it stronger. The demand for chocolate, ready meals, convenience products and soft drinks is set to rise due to the cocooning effect. Conversely, consumers are likely to save when it comes to products such as wine, spirits, coffee, butter, margarine etc. and cosmetics. They will save in two ways, by consuming less and by choosing more favorably priced products with the same product features.

#### **The GfK Group**

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