GfK Marktforschung

Press Release

The next consumer climate report will be published on November 25, 2008

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Consumer climate defies financial crisis

Findings of the GfK consumer climate study for October 2008

Nuremberg, October 28, 2008 – In spite of the financial crisis and some turbulent times on the stock markets, the consumer climate for October appeared to stabilize at a low level. A slight rise in income expectations, in particular, associated with a decline in the propensity to save are also contributory factors. By contrast, economic expectations and the propensity to buy both fell. The indicator for November is therefore forecasting 1.9 points after a revised value of 1.8 points for October.

Consumers have kept a level head amid the sometimes dramatic developments on the international financial markets, and this is particularly true of their income expectations. With falling rates of inflation, consumer purchasing power is in less danger of shrinking and income expectations are even increasing somewhat. On the other hand, the turbulence on the stock markets is fueling fears of a recession and as a result, Germans' economic expectations have fallen considerably. Up to now, the propensity to buy has not been able to benefit from the recent marked reductions in energy prices to drop back moderately. In addition, at the time of the survey, the German government had neither concluded discussions regarding nor resolved upon a financial rescue package in the context of the bank bailout plan. As a result, this measure, whose main aim is to restore confidence in the financial markets, has not impacted on the consumer mood.

Economic outlook: growing fears of recession

The improved economic expectations for September were evidently a one-off anomaly. In October, the indicator fell again considerably by 11.8 points to its current level is -27.5 points, which is a good 66 points down on the value of the same period in the prior year. The indicator is now at its lowest level since May 2003.

Consequently, fears of a recession amongst Germans have exacerbated. Major contributing factors are the panic on the international stock exchanges, which has shaken consumer confidence in the future economic outlook. Germans are therefore currently in line with a number of financial

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experts, who believe the German economy is “on the brink of a recession”, which is the name of the report for the fall (Q3) 2008 recently published by the leading financial research institute experts. It remains to be seen whether the bank rescue package proposed by the German government in the meantime will provide for more calm on the stock markets and contribute to a change in consumer mood.

Income expectations: purchasing power not in any greater danger

Significant drops in oil prices, in particular, have also supported income expectations in October. The easing price pressure brought about a positive development for the third consecutive time. The indicator rose by more than one point to its current value of -12.9 points. Nevertheless, the level remains low, a fact that is further born out by the -12.2 point drop compared with the same period in 2007.

Up to now, consumers have reacted extremely calmly to the extreme turbulence on the international financial markets where income expectations, which are a major determinant of the consumer climate, are concerned. A GfK survey on the effects of the financial crisis on investment behavior and consumer confidence in the banking sector carried out in mid-October also produced a similar result. On the one hand, relatively few Germans have invested in stocks and shares, whose value is well down due to the financial crisis. On the other, general conditions, such as the job market and the diminishing pressure of inflation, continue to remain positive.

Propensity to buy: fears of a recession leading to consumer reticence

After marked growth in September to the tune of a good 15 points, consumer reticence is currently on the increase once again. The propensity to buy indicator fell back by 5.4 points to its current level of -18.2 points. This is still a good five points down on its value compared with the prior year.

Fears of the German economy lapsing into recession means consumers remain reluctant to make larger purchases. This has become particularly noticeable in the automotive and construction industries, two industry sectors already reacting to the decline in demand by curtailing their production to some extent. The easing of inflationary pressure has obviously not generated any perceptible stimulus in the current state of affairs, with the result that many Germans are playing a waiting game as far as their purchases are concerned.

Consumer climate: stabilization continues at a low level

For the time being, the consumer climate continues to stabilize. The overall indicator for November is forecasting a value of 1.9 points after a revised 1.8 points in October.

Aside from stable income expectations, a lower propensity to save also contributed to preventing a fall in the consumer climate. Reductions in both the propensity to save and buy seem contradictory at first glance. This, however could be proof that the conscious decision to spend and save does not meet approval at present and that funds – probably also in the form of cash – are being held back.

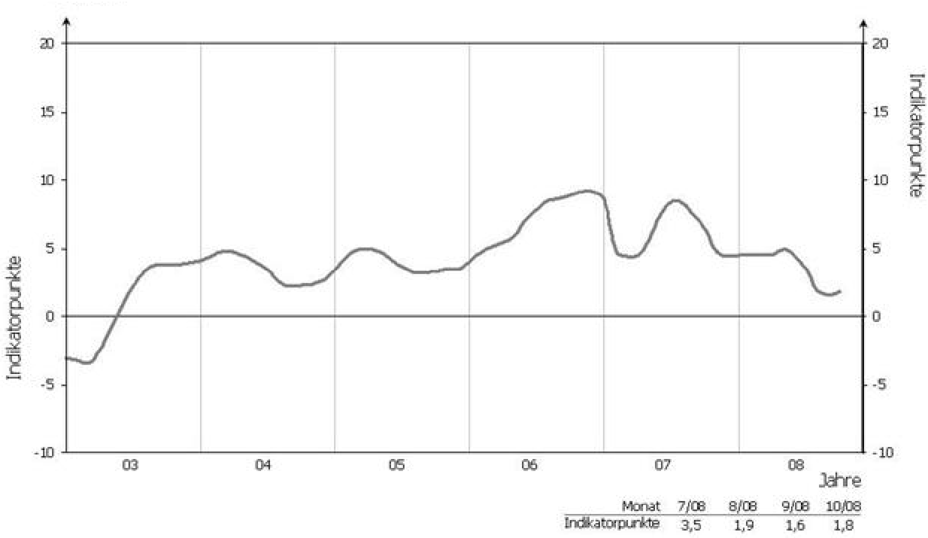
As no serious developments are anticipated to stimulate consumption this year, all hopes are now being pinned on 2009. It is very much hoped that consumers regain their confidence in the financial markets and that a recession can be avoided, in which case, the hope that the job market will emerge as more or less stable would seem realistic. This, in connection with a moderate rate of inflation, would have a stimulating effect on private consumption.

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

	October 2008	September 2008	October 2007
Economic expectations	-27.5	-15.7	39.1
Income expectations	-12.9	-14.1	-0.7
Consumption and buying propensity	-18.2	-12.8	-12.9
Consumer climate	1.8	1.6	6.4

The chart below illustrates the trend in the consumer climate indicator over the past few years:

GfK Consumer Climate indicator (as at October 2008)



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 November 25, 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.

The GfK Group

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