

Press release

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Brexit brings the upward trend in the German consumer climate to a halt

Findings of the GfK Consumer Climate Study for Germany for July 2016

Nuremberg, July 27, 2016 – The consumer climate in Germany weakened slightly in July. Also as a result of Brexit in the United Kingdom, the Consumer Climate overall indicator forecasts 10.0 points for August, down from 10.1 points in July. Economic and income expectations suffered losses, while propensity to buy increased slightly again.

German consumers, too, have evidently been affected by the Brits' decision to leave the EU. This is signaled by the decline of both economic and income expectations. In contrast, propensity to buy was able to exceed its already very high level.

Economic outlook somewhat dampened by the referendum

For the first time after three successive increases, the economic expectations of German consumers have suffered a setback. The indicator lost 8.6 points in July and is now at 9.4 points, noticeably weakening the positive trend seen over the last few months.

Consumers do not seem to believe that the German economy can continue to grow in the coming months at quite such a significant pace as in previous months. They put this down to the Brits' decision to leave the EU. This is also shown by the results of an additional survey carried out this month in addition to the consumer climate study. GfK asked citizens how they thought Brexit would affect the economy and labor market in Germany. Over half of those surveyed (51 percent) said they believed it would have negative effects on the German economy, while around 40 percent dismissed such concerns.

They were somewhat less worried about jobs in Germany in general, however. All the same, around 40 percent of consumers believe the referendum in the United Kingdom will also affect jobs in Germany. However, in contrast to the consequences for the economy, optimists are in the majority when it comes to the labor market, with 52 percent not fearing any disadvantages for employment in general.

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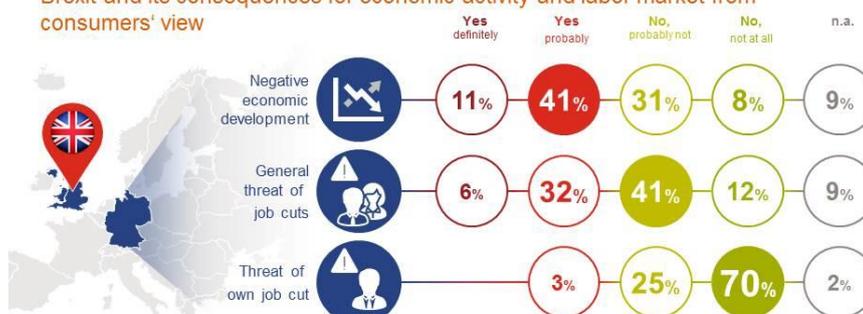
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In addition to the topic of Brexit, the economic outlook for the coming months will also be determined by how the tense security situation/increased terror threat affects the mood of consumers.

Employed persons in Germany do not perceive a threat of losing their own job because of Brexit



Brexit and its consequences for economic activity and labor market from consumers' view



Basis question 1 and 2: adult persons from 14 years onwards (n=2,022) | Basis questions 3: work full oder part time (n=1,130)
 Question 1: What do you think, in your opinion will this decision have a negativ impact on the further economic development in Germany?
 Question 2: What do you think, are jobs at risk in general in Germany because of this decision?
 Question 3: And what's about you personally, do you perceive your own job at a risk?

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Income expectations: Constant ups and downs

The constant fluctuations in income expectations, which began in November 2015, also continued into July. However, in contrast to previous months, this time the decline was somewhat more pronounced at minus 9.9 points, compared with June's increase of plus 7.8 points. At 49.7 points, the indicator stands just under the 50-point mark.

In the face of the weaker economic outlook, the income indicator also suffered losses. The Germans still remain very optimistic about how their income will develop, however. And rightly so – against the background of the very stable job situation and absence of inflation, employees have considerable purchasing power through the last wage negotiations. Furthermore, statutory pensions in Germany increased markedly in July.

Unabated appetite for consumption

While economic and income expectations suffered marked losses this month, the Germans' appetite for consumption remains unabated. The propensity to buy indicator even gained a point, climbing to 55.4 points. This puts it at exactly the same level as this time last year.

It would seem that Brexit cannot affect the propensity to consume in the long term. This is surprising at first glance, especially given the decline in income expectations. At second glance, however, this seems very plausible. While the Germans expect the Brits' vote to negatively impact the German labor market in general, when asked whether they believe their own workplace to be at risk, the vote was clear: 95 percent of employees said they are not currently worried about their job. Just 3 percent are inclined to believe their workplace is at risk.

This supports the theory that GfK has already voiced several times: Propensity to consume – especially for larger purchases – depends considerably on whether employees are worried about their jobs. Job security creates certainty with which consumers can plan for the future, and this is a decisive aspect, especially for larger purchases for which consumers may need a loan, tying them down financially in the long term.

Consumer climate stops upward trend

The overall index is forecasting 10.0 points for August 2016, following 10.1 points in July. This means that the upward trend – at least for the moment – has come to a halt.

The Brits' decision to leave the EU is an important reason for the slight rise in uncertainty with regard to further economic development.

Despite this slight decline, private consumption should remain an important pillar of the German economy this year. GfK confirms its prognosis that real private consumer spending will rise by around 2 percent this year. This is supported by the sustained good conditions in the employment market and the considerable growth in income coupled with very low inflation.

The consumer climate could be hit hard in particular if consumer concerns about losing their jobs rose significantly. This is not currently the case, however. That being said, the increased terror threat currently prevalent in Germany could fuel the uncertainty further. This could then also have a negative impact on consumer mood.

Provisional publication dates for 2016

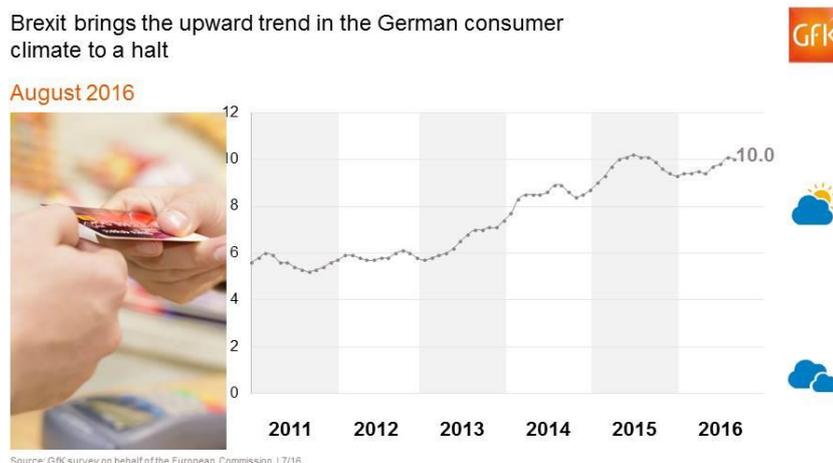
Friday, August 26, 2016, 8am	Wednesday, September 28, 2016, 8am
Wednesday, October 26, 2016, 8am	Thursday, November 24, 2016, 1pm
Friday, December 23, 2016, 8am	

The following table shows the development of each indicator in July in comparison with the previous month and previous year:

	July 2016	June 2016	July 2015
Economic expectations	9.4	18.0	18.4
Income expectations	49.7	59.6	58.6
Willingness to buy	55.4	54.4	55.4
Consumer climate	10.1	9.8	10.1

The following graph shows the development of the consumer climate indicator over the past few years:

GfK Consumer Climate indicator (as of: July 2016)



About the study

These findings are extracts from the “GfK Consumer Climate MAXX survey,” which is based on approximately 2,000 consumer interviews conducted each month on behalf of the European 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 durable consumer goods, non-durable consumer goods, and services markets. The GfK Consumer Climate survey has been conducted since 1980.

The consumer climate explicitly refers to all private consumer spending. However, depending on the definition, only 30 percent of private consumer spending is attributable to retail. The remainder is attributable to services, travel, rent, health services, and the entire personal care segment.

GfK’s forecast for 2015 was a rise in consumption of at least 1.5 percent. According to data from the German Federal Statistical Office, private consumption rose by 1.9 percent in real terms in 2015. Again, this does not concern retail sales but instead refers to total consumer spending.

Willingness to buy – like all the other indicators – is an indicator of sentiment. It examines whether consumers think it is currently advisable to make major purchases. Even if they answer “yes,” two further requirements need to be fulfilled for a purchase to be made: Consumers must have the money that is required for such a major purchase and they must also view this acquisition as necessary. In addition, it only concerns durable consumer goods, which also require a larger budget.

The findings of the consumer climate survey are based on approximately 2,000 interviews conducted each month on a representative sample of the German population. This survey tool is subject to continuous quality controls, particularly with respect to its representativeness. The fact that the results are used and recognized in the field of empirical legal research (for example, with respect to the likelihood of confusion between products) is a testament to the exceptionally high quality of this survey. This means that the results are quality approved by experts and must stand up in court.

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The table below provides an overview of the individual indicators:

Economic expectations	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 – remain the same – 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 – remain the same – deteriorate)
Propensity to consume and willingness to buy	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 personal consumption. Key factors are income expectations, propensity to buy and savings trends. The economic outlook has a more indirect effect on the consumer climate as a result of income expectations.

About GfK

GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. More than 13,000 market research experts combine their passion with GfK's long-standing data science experience. This allows GfK to deliver vital global insights matched with local market intelligence from more than 100 countries. By using innovative technologies and data sciences, GfK turns big data into smart data, enabling its clients to improve their competitive edge and enrich consumers' experiences and choices.

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