



Press Release

Consumer sentiment hit hard by inflation

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Nuremberg, Germany, July 27, 2022 – The downward spiral of German consumer sentiment does not come to an end in July due to rising inflation. While the propensity to buy has only suffered a slight decline, both economic and income expectations have once again fallen significantly. As a result, GfK is forecasting a decrease of -30.6 points in consumer sentiment for August 2022, down 2.9 points from July of this year (revised from -27.7 points). These are the findings of the GfK Consumer Climate Study for July 2022.

This means that consumer sentiment has once again undercut the all-time low reached last month. Since the collection of data for the whole of Germany started in 1991, the current value is the lowest that has ever been measured. "In addition to concerns about disrupted supply chains, the war in Ukraine and soaring energy and food prices, there are now worries about sufficient gas supplies for businesses and households next winter. This is currently causing consumer sentiment to hit rock bottom," **explains Rolf Bürkl, GfK consumer expert.** "Especially as a tight supply of natural gas is likely to add to the pressure on energy prices and thus inflation."

In addition to fighting inflation through a less expansionary monetary policy from the European Central Bank, it will be crucial for a recovery in consumer sentiment that their concerns about inadequate gas supplies are alleviated and that all possibilities of alternative suppliers are utilized to replace any Russian gas supplies that may fail to materialize.

Increasing fears of recession

Fears of an impending recession are rising among consumers. Economic expectations dropped 6.5 points in July compared to the previous month and have sunk to -18.2 points. This is the lowest value since April 2020, when Germany went into lockdown due to the pandemic. The measurement then was -21.4 points. Compared to the same period of the previous year this actually represents a decrease of almost 73 points.

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Concerns about a shortage of natural gas are weighing heavily on economic sentiment, along with the war in Ukraine and ongoing supply bottlenecks due to interrupted supply chains. Parts of the German economy are potentially facing production restrictions because there is not enough natural gas available. On the one hand, this can lead to short-time work, on the other hand, worries about one's own job are rising slightly again – but are currently still at a moderate level.

Income expectations fall to a record low

Income expectations are continuing their rapid descent. The indicator dropped by 12.2 points in July, falling to -45.7 points. Since the collection of data for the whole of Germany started in 1991, the current value is the lowest that has ever been measured. Compared to July 2021, income expectations have dropped almost 75 points.

Currently high inflation rates of between seven and eight percent are diminishing the purchasing power of private households. Should natural gas supplies from Russia be restricted or even stopped altogether in coming weeks, energy prices are likely to rise further. In addition, the current weakness of the euro against the dollar is making German imports from the US even more expensive. This is likely to put further pressure on prices and weigh heavily on Germans' income sentiment.

Moderate losses in propensity to buy

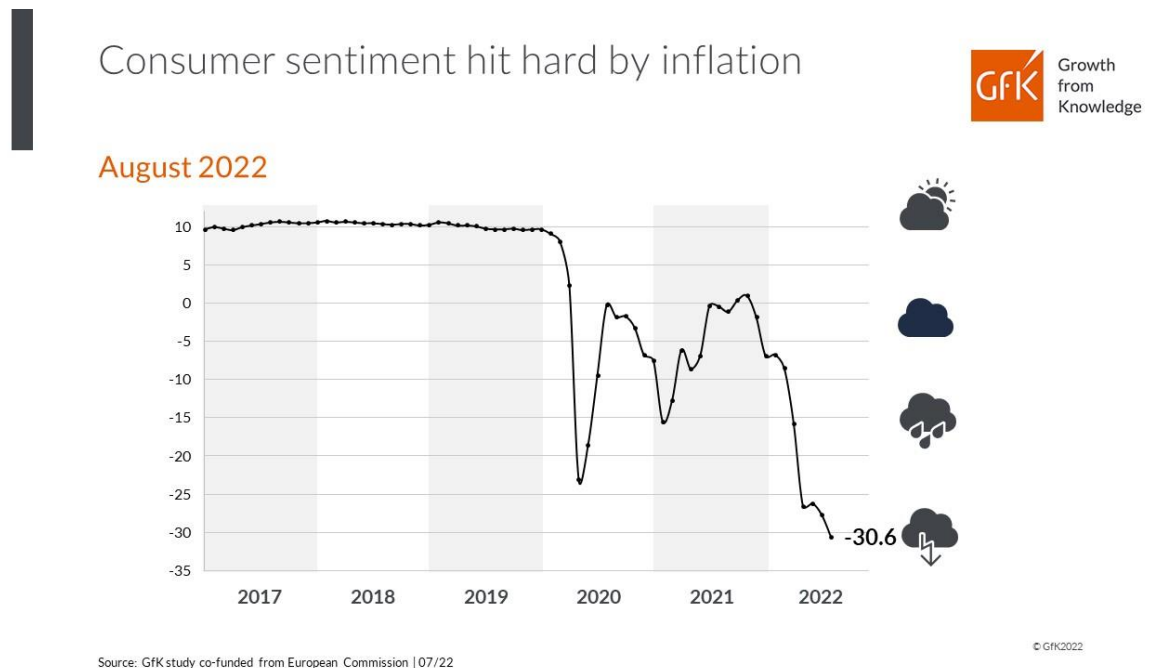
The propensity to buy cannot completely escape the pull of falling economic and income expectations. With a decrease of 0.8 points, the indicator drops only slightly to -14.5 points. The last time a lower value was measured was in October 2008, at the time of the financial and economic crisis, with -20.1 points.

The significantly higher burden of sharply rising energy and food prices on private households is increasingly affecting the propensity to buy. If far more must be spent on oil and gas, correspondingly fewer financial resources remain for other purchases.

The table below shows the development of individual indicators in July compared to the previous month and the previous year:

	July 2022	June 2022	July 2021
Economic expectations	-18,2	-11,7	54,6
Income expectations	-45,7	-33,5	29,0
Propensity to buy	-14,5	-13,7	14,8
Consumer sentiment	-27,7	-26,2	-0,3

The following chart shows the development of the consumer sentiment indicator in recent years:



Planned 2022 publication dates:

- Friday, August 26, 2022, 8 a.m.
- Wednesday, September 28, 2022, 8 a.m.
- Thursday, October 27, 2022, 8 a.m.
- Friday, November 25, 2022, 8 a.m.
- Wednesday, December 21, 2022, 8 a.m.

About our method

The survey period for the current analysis was June 30 to July 11, 2022. The results are extracted from the “GfK Consumer Climate MAXX” study and are based on around 2,000 consumer interviews per month conducted on behalf of the European Commission. This report presents the indicators in the form of graphics accompanied by brief comments. Consumer sentiment refers explicitly to all private consumer spending. Depending on the definition used, however, retail accounts for only around 30 percent of private consumer spending. Services, travel, housing costs, healthcare services, and the wellness sector as a whole account for the rest. Again, this does not apply to retail sales, but instead to total consumer spending. Like all other indicators, propensity to buy is a confidence indicator. It indicates whether consumers currently consider it advisable to make larger purchases. Even if they answer “Yes” to this question, there are two further requirements for making a purchase: The consumer must have both money required for such a large purchase and must also see a need to make this purchase. Furthermore, this only concerns durable consumer goods that also require a larger budget.

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