

Upward trend of consumer climate ends

NUREMBERG, GERMANY: The largely stable development of the mood among German consumers continued in spring this year. Economic expectations improved slightly once again and willingness to buy almost remained at the same high level, but income expectations fell, reversing the strong improvement of the previous month. Following a value of 6 points in March, the overall indicator is forecasting 5.9 points for April.



Record prices for petrol and diesel at German petrol pumps have clearly affected the mindset of consumers in March. This is reflected by the indicator for income expectations, which decreased considerably, virtually negating the gains of the previous month. Willingness to buy, however, remained at a high level and only dropped marginally. The slight easing of the debt crisis as a result of the second rescue package for Greece being agreed is evidently triggering a slight improvement in consumers' economic expectations.

Economic expectations: moderate improvement

Following a slight drop in the previous month, economic expectations improved a little again in March. The indicator value almost offset the decrease of 1.6 points in February, rising by 1.3 points to a current level of 7.2 points.

The stabilisation of the economic mood is seemingly linked to the conclusion of a second rescue package for Greece. The final agreement, which prevented the potential bankruptcy of the country, is strengthening optimism about the economy. In addition, the media focus also eased off considerably once the rescue package had been concluded and the issue therefore slipped down on the agenda with consumers.

The indicator is still more than 42 points below the corresponding value in 2011, which suggests that the German economy will be significantly less dynamic in 2012 than in the prior year. Germany's export market will be affected by the pronounced recessionary trends in some European countries. The fifth consecutive rise of the ifo business climate index shows that companies continue to have a positive outlook for the German economy.

Income expectations: considerable fall

The greatest drop was registered for the income expectations indicator, which fell 7 points to a current value of 34.3 points and therefore virtually negated the rise of 7.2 points in the previous month. Despite the decline, income expectations remain at a comparably good level.

Record prices for petrol and diesel particularly affected the income indicator in March. Consumers, and above all commuters, consider their purchasing power to be under threat as a result of these high prices, having to spend an ever larger share of their available income on energy and fuel at present. Following the price hikes, the rate of inflation once again rose to 2.3% in February. It remains to be seen whether this is a lasting trend, but according to forecasts currently available, average inflation should drop below the 2% mark this year.

In view of current wage negotiations, there is also as yet not an identifiable trend of what salary increases employees can expect this year. This uncertainty is surely also not contributing to an improvement in income optimism.

Willingness to buy: almost unchanged

Willingness to buy did not change dramatically in March 2012. The indicator only fell a nominal 0.6 points and currently stands at 38.6 points, remaining at a very good level and above the corresponding value in the prior year.

It certainly can also be regarded as a positive sign that willingness to buy is remaining at an extremely good level despite rising inflation and declining income expectations. The stable labour market in Germany, in particular, is a major reason for this desire to spend.

Given the lack of trust in financial markets and historically low interest rates, consumers also continue to be more likely to make high-value purchases rather than saving their money.

Consumer climate: upward trend does not continue

Following a value of 6.0 points in March, the overall indicator is forecasting 5.9 points for April 2012. The upward trend of the consumer climate over the last 6 months has therefore ceased, for now at least.

Despite the slight decline, the consistent level of the indicator value does suggest that private consumption will be fulfilling its intended function as a fundamental base for economic growth in Germany this year. As published in the annual forecast in February, GfK continues to predict that in real terms consumption will increase by 1% on average in 2012. The domestic economy will therefore play a considerable role in ensuring that the German economy does not fall into recession this year.

The survey

These findings are extracts from the "GfK Consumer Climate MAXX survey", which is based on around 2000 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.