

Press release

The next GfK Consumer Climate Study will be published on
August 28, 2020, 8:00 am

July 23, 2020

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Reduction in value-added tax (VAT) supports rapid recovery of consumer climate in Germany

Nuremberg, July 23, 2020 – German consumers are gradually putting the coronavirus shock of earlier this year behind them. While economic expectations have once again gained slightly, income expectations and the propensity to buy have seen a significant increase for the third consecutive time. As a result, GfK has forecast a figure of -0.3 points for August 2020, 9 points higher than its level in July of this year (revised to -9.4 points). These are the results of the GfK consumer climate study for July 2020.

A V-shaped trend is currently emerging for the consumer climate in Germany: A sharp decline in consumer sentiment immediately followed by a rapid recovery. The consumer climate has risen significantly for the third consecutive period, gaining almost 23 points since its low this past spring.

"There is no doubt that the reduction in value-added tax has contributed to the extremely positive progress. It is clear that consumers are looking to make major purchases earlier than planned, which will help boost spending this year," **explains Rolf Bürkl, GfK Consumer Expert.** "Whether this will have a lasting impact is, however, debatable. Retailers and manufacturers must be prepared for the fact that the propensity to consume could decline once more when the standard VAT rate comes into effect in January 2021."

This view is not unfounded. Propensity to buy also rose in the run-up to the last VAT increase in 2007, with purchases being made earlier than planned. However, the indicator quickly returned to its previous level once the higher tax rate came into effect. A similar trend is expected in January 2021 when the original value-added tax rate will apply again.

While, based on past experience, the impact on domestic demand is not likely to last, this measure will serve as an important pillar of the economy.

Propensity to buy in particular is already benefiting from this, gaining 23.1

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points in July to reach 42.5 – just four points lower than at the same time last year.

Income expectations more positive

Income expectations rose for the third consecutive period in July. The indicator gained twelve points and now stands at 18.6. However, this is still around 32 points lower when compared to the same period last year.

The promise of a child bonus payment and a noticeable decrease in price expectations are propping up the income indicator.

Economic expectations gain slightly

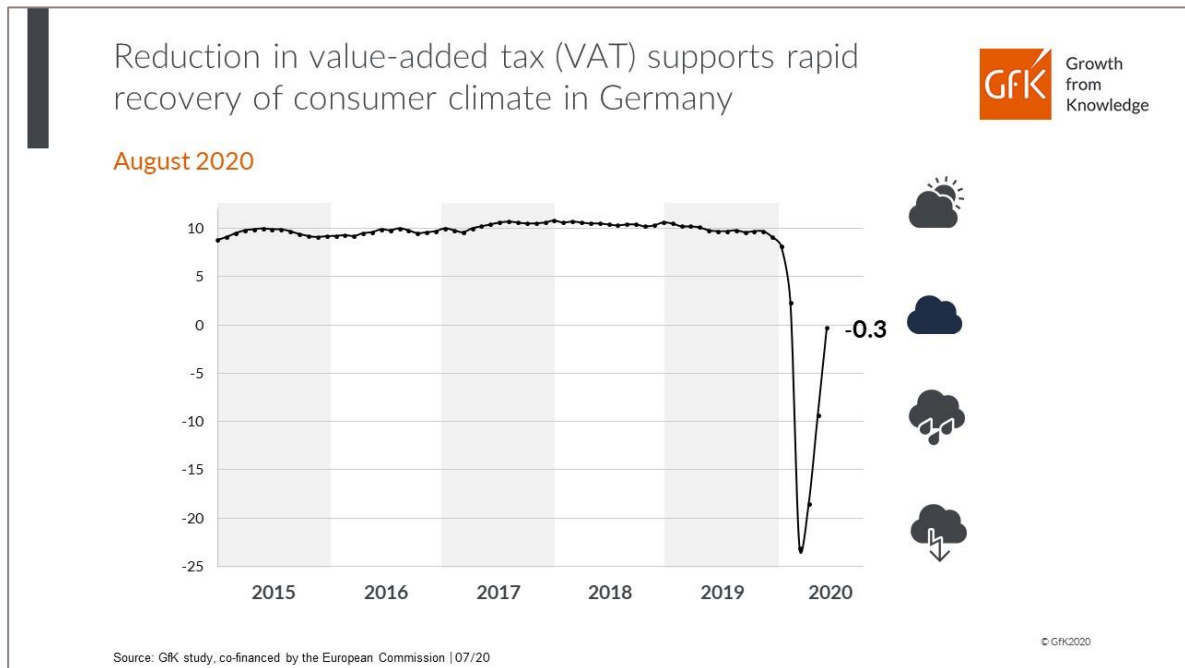
The **economic outlook** of German consumers also improved in July. However, the indicator gained just 2.1 points, a far more modest increase than those seen for income expectations and propensity to buy. The indicator currently stands at 10.6 points. The last time a higher value was recorded was in December 2018 at 10.8 points.

It seems that consumers increasingly believe that the German economy can recover within a reasonable period of time. The economic stimulus package adopted, which provides considerable support for businesses and consumers will also contribute to this, provided that the infection rate in Germany remains low and there is no second wave of infections. A second lockdown would quickly shatter any hope of economic recovery.

The following table shows the change in certain indicators in July in comparison with the previous month and previous year:

| | July 2020 | June 2020 | July 2019 |
|------------------------------|------------------|------------------|------------------|
| Economic expectations | 10.6 | 8.5 | -3.7 |
| Income expectations | 18.6 | 6.6 | 50.8 |
| Propensity to buy | 42.5 | 19.4 | 46.3 |
| Consumer climate | -9.4 | -18.6 | 9.8 |

The following graph shows the Consumer Climate Index over recent years:



Provisional publication dates for Q3 2020:

- Friday, 08/28/2020, 8:00 am
- Wednesday, 09/23/2020, 8:00 am

About the study

The survey period for the current analysis was July 1-13, 2020. 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 graphical form and provides brief comments on the indicators. Consumer climate refers explicitly to all private consumer spending. However, depending on the definition used, retail trade accounts for only around 30 percent of private consumer spending. Services, travel, rent, health services, and the wellness sector as a whole account for the rest. Again, this does not concern retail sales but instead refers to total consumer spending. Propensity to buy, like all other indicators, is a sentiment 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 the money required for such a large purchase and must also

see a need to make this purchase. Furthermore, this only actually concerns durable goods, which also require a larger budget.

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