

Press release

European consumers fear economic slowdown

April 20, 2016

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Findings of the GfK Consumer Climate Europe study for the first quarter of 2016

Nuremberg, April 20, 2016 – During the first quarter of 2016, the Syrian war as an ongoing cause of the refugee crisis, the terrorist threat in Europe, Great Britain's possible exit from the EU and the continued recession in major developing countries weakened the consumer climate and, in particular, the economic and income expectations of European consumers. Between December 2015 and March 2016, the consumer climate for the EU28 fell by 3.2 points to 9 points.

During the first quarter of the year, a number of wide-ranging topics dominated discussions in the media and among the general public. Although the Islamic State lost some of the territory it had captured, the Syrian war is far from over, meaning that the cause of the huge influx of refugees remains. Initially, people were flocking unimpeded towards Central and Western Europe until the Visegrad countries decided to close their borders and consequently the Balkan route at the start of March. Although this put a stop to the flood of refugees migrating through Europe, people in need of help are now being placed in reception centers in Greece. In France, the government ordered soldiers to clear the illegal refugee camp in Calais known as "The Jungle", where people hoping to travel to Great Britain had been camping. Meanwhile, political discussions continued into how Europe can accommodate the huge quantity of refugees, and distribute them fairly across the member states.

As reflected in the attacks in Brussels in mid-March, the terror threat continued to be extremely high in Europe during the first three months of the year. However, since the explosions in Belgium did not occur until after March's consumer climate survey was complete, the event did not feed into the results.

In Great Britain especially, the referendum due to take place in June on the country's possible exit from the European Union is casting a shadow of doubt on the future. Numerous economic experts as well as many British consumers are predicting strong negative economic consequences should a so-called Brexit come to pass.

Moreover, in the first quarter of 2016, it became clear that major developing countries such as China, Brazil and Russia continue to find themselves in a period of economic weakness. This is diminishing the export prospects of European businesses, and may be having a negative effect on the econo-

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This variety of issues caused considerable uncertainty among European consumers in the first quarter of the year. In particular, economic expectations have declined significantly since December in almost all the countries considered. In Greece, for example, they reverted to the same level as was recorded during the most difficult periods of the debt crisis. The drop in economic expectations additionally affected people's income expectations, which also suffered very considerable losses in the majority of countries. The GfK consumer climate for the EU 28 also fell significantly during the first quarter – from 12.2 points in December to 9 points in March.

Germans continue to spend money despite stagnating economic expectations

Economic expectations remained static in Germany in the first quarter of 2016, in spite of the country's good economic situation. The indicator stood at 0.5 points in March, just slightly above its long-term average of 0 points. This represents a modest drop of 1.4 points in comparison with December of last year. However, the extent by which the indicator has fallen in the last few months can be seen by comparing it with the level reached in March 2015, when economic expectations reached 36.8 points.

In contrast, income expectations remain at a very high level. In March, the indicator stood at 50.5 points, representing a loss of just 0.3 points in comparison with December. What's more, at 53.1 points, it was only very slightly higher this time last year. The Germans therefore still believe that wages and salaries will continue to increase significantly this year. The extent to which these hopes are justified will be demonstrated by the upcoming collective bargaining processes for groups of workers such as public employees.

Standing at exactly 50 points, propensity to buy was also still very high in March. The Germans seem to believe that now is currently the right time to spend money on expensive products and services. While the indicator was only 1 point lower in December of last year, it has fallen by 13 points in comparison with March 2015.

French citizens expect wages and salaries to fall

In France, economic expectations slipped back into the negative range in the first quarter of the year. While in December, the indicator still stood at 7.2 points, by March it had plummeted to -3.7 points, its lowest value since January 2015. In contrast with November of last year, when it temporarily reached its highest level of 16.6 points, French economic optimism therefore plunged completely in the new year.

French consumers are also expecting their personal finances to fare badly over the next few months. In March, income expectations lay at -22 points,

which is more than 17 points less than at the end of last year. One possible reason for this is the persistently high unemployment rate of 10.2 percent. At -19 points, the indicator was only very slightly higher this time last year.

In light of the current situation, it is no surprise that propensity to buy also remains very low at 0.4 points. Despite this, a clear upward trend can be observed overall, as the indicator rose by a total of 5 points between December 2015 and March 2016. In January, it even reached 9.5 points, which represents its highest level since December 2001 (17.2 points).

Threat of Brexit forces economic expectations downwards in Great Britain

The economic expectations of the British fell further during the first quarter of the year. The indicator stood at 2.1 points in March, just slightly above its long-term average of 0 points. This represents a loss of 14.5 points since December, and a staggering drop of 25.8 points in comparison with March 2015. This trend is in stark contrast with the country's actual level of economic growth, which last year increased by between 1.8 and 3.0 percent in comparison with the respective previous quarter. One reason for the rather pessimistic underlying mood among consumers could be the referendum due to take place in June about whether Great Britain should leave or remain in the EU. Many consumers feel irritated, and seem to fear there could be negative repercussions for the domestic economy should the referendum lead to a so-called Brexit.

At the other end of the spectrum, British consumers are expecting a moderate increase in wages and salaries over the next few months. In March, income expectations lay at 17.7 points. Although this figure is more than 5 points lower than in December, it is similar to the level seen in March of last year (15.8 points).

As was also the case in the last quarter, only a few British consumers currently wish to make expensive purchases. This is illustrated by the fact that the propensity to buy indicator lay at 11.1 points in March. This represents an increase of 0.5 points in comparison with December as well as a rise of 2.3 points compared with this time last year.

Italian consumers' propensity to buy reaches a record high

In November of last year, the Italians' economic expectations rose to 1.9 points, which marked the first time the indicator had been in the positive range since March 2010. However, the positive trends which brought about this growth are now a distant memory, as the indicator had dropped back to -21.4 points by March. This represents a loss of 20 points since December. It therefore seems as if Italian consumers do not believe that last year's positive economic figures will continue this year.

Income expectations fell to -3 points in March, despite having reached 8.4

points in January, the highest value since May 2002 (8.5 points). The indicator is, however, 0.8 points higher than it was in March 2015. The main reason for this very low level is undoubtedly the continued high level of unemployment. Although this decreased by 0.7 percentage points last year, in February it still lay at 11.7 percent.

In contrast, propensity to buy continued to increase. The indicator stood at 26.4 points in March, which is 2 points higher than in December. In January, it climbed to 27.8 points, which is the highest value since June 1992 when 30.1 points were recorded. It seems as if Italian consumers believe now is a favorable time to make bigger purchases or spend larger sums of money. However, due to the continued difficult economic situation in which many consumers currently find themselves, it waits to be seen whether they can afford to make such purchases and will actually spend money on expensive products and services.

Income expectations plummet in Spain

As was also the case in most of the other countries, economic expectations dropped significantly in Spain during the first quarter of the year. Although, at 22.4 points, it remained at a high level in March, the indicator is still a long way from the historic high recorded in December (51.4 points).

The income expectations indicator paints a similar picture, as between the end of last year and March it had fallen by almost 17 points to 14.5 points. This suggests that Spanish consumers only expect wages and salaries to rise slightly over the next few months. Above all, these hopes doubtless stem from the continued gradual drop in the unemployment rate, which currently stands at 20.4 percent, having fallen 2.6 percentage points between March 2015 (23.0 percent) and February 2016.

As expected, propensity to buy remains in the negative range due in part to the persistently high level of unemployment. It seems that Spanish consumers still feel unable to afford expensive products or services. In March, the indicator stood at -8.9 points, which is 1 point less than in December.

Portuguese consumers expect wages and salaries to rise

Portuguese consumers continue to assume that their country's economy will experience moderate growth in the months to come. Despite this sentiment, economic expectations fell by 7 points in the first quarter of the year, bringing the indicator to 16.5 points in March. This figure is similar to that recorded at the same time last year, when the indicator stood at 15.8 points.

The Portuguese also anticipate income to climb slightly in the coming months. This is reflected by the income expectations indicator, which still stood at 20 points in March, despite having fallen by 4.4 points in comparison with December. In January, it nevertheless temporarily reached 25.2

points, its highest level since October 1995 when 26.3 points were recorded.

Due to the continued poor economic conditions and the high level of unemployment, the citizens still do not feel they are in a position to make larger purchases or spend significant amounts of money. As such, propensity to buy stood at -24.4 points in March, which is nevertheless still 6 points more than in December. The low level achieved by this indicator illustrates how the people are still a long way from being able to increase their expenditure enough in order to benefit the domestic economy.

Despite favorable economic figures, economic expectations in the Netherlands slide into the negative range

Economic expectations in the Netherlands fell significantly in the first quarter of the year. In March, they stood at -4.1 points, having dropped below the long-term average of 0 points. In comparison, the indicator lay at 19.5 points in December and was as high as 28.1 points exactly one year ago in March 2015. This result does not reflect the country's current economic climate, as, during the last few quarters, its gross domestic product grew between 2.5 percent and 1.6 percent in comparison with the respective same quarter of the previous year.

Dutch consumers are even more pessimistic when considering their future income prospects. In March, income expectations stood at -14.7 points, representing a drop of almost 13 points since December. However, the indicator is only 1 point lower than it was in March 2015.

In contrast with the negative outlook described above, propensity to buy improved significantly. The indicator stood at 13.1 points in March. Although this represents a decline of 4.4 points since December, this score is 12.1 points higher than the level achieved in March of the previous year.

Consumer optimism is dampened in Belgium

The cautious optimism which gradually became more widespread among Belgian consumers at the end of last year was dampened during the first quarter of 2016. Despite the economy growing by a reasonable rate over the last few months, economic expectations fell to -0.5 points in March, dropping below their long-term average of 0 points. By way of comparison, the indicator stood at 15.6 points in December.

The Belgians also still do not expect their wages and salaries to increase. This is evident from the income expectations indicator, which stood at -22.9 points at the end of the first quarter, representing a drop of 6.7 points in comparison with December of last year.

Considering the results recorded for these two indicators, it is astonishing that consumers presently seem highly prepared to spend money on expensive products and services. This could partly be attributed to the fact that

saving is currently not a viable alternative due to the ECB's zero interest rate policy. In March, propensity to buy stood at 23.5 points, its highest value since November 2010. The indicator is currently 9.7 points higher than in December and a staggering 15.5 points higher than in March 2015.

Refugee crisis causes economic and income expectations indicators to collapse in Greece

The worsening refugee crisis and the resurgence of the debt crisis have led to consumer sentiment hitting rock bottom in Greece. Economic expectations fell sharply during the first quarter. After dropping 17 points since December and almost a staggering 65 points since March 2015, the indicator stood at -50.6 points this March, which is the lowest level since April 2012.

The income expectations indicator also suffered significant losses, having plummeted by more than 27 points to -45.2 points between the end of last year and the end of the first quarter of 2016. This is the lowest level to be recorded since September 2013. What's more, the indicator has lost 52.1 points since March of last year.

Propensity to buy was the only indicator to remain stable during the first three months of the year. It stood at -37.6 points in March, which is just 1.5 points lower than in December (-36.1 points). However, given the current climate, it is clear that the majority of Greek consumers are not even able to think about spending money on expensive products or services. For most people, the current level of disposable income is not even enough to pay for everyday items.

Despite the economic gloom, income expectations are at a record high in Austria

The majority of Austrians still do not foresee noticeable economic recovery in their country. Austria's gross domestic product is growing at one of the lowest rates in Europe. As a result, the economic expectations indicator was clearly in the negative range in March, even having declined slightly since December to -18.2 points.

Nevertheless, Austrian consumers are optimistic when it comes to their income prospects. The income expectations indicator climbed by 14.8 points in the first quarter, reaching a strong 36.5 points in March. This represents a marked increase of 28 points in comparison with the same month of the previous year. It is also an historic high, as it is the greatest figure to be achieved since the surveys began in October 1995.

Within the context of the increasing income expectations, propensity to buy also rose slightly during the first quarter. The indicator stood at 6.1 points in March, marking an increase of 5.8 points in comparison with the end of last year. However, overall, the indicator fell significantly in the course of last year, as in March 2015, it still stood at 24.5 points.

Good economic figures encourage Polish consumers to anticipate a rise in income

The Polish economy is growing strongly. Last year, gross domestic product rose by between 3.4 percent and 3.9 percent in comparison with the respective same quarter of the previous year. As can be seen from the income expectations indicator, which stood at a high level of 22.9 points in March, consumers are assuming that this robust growth is set to continue.

Due to the positive economic growth, unemployment also dropped in recent months, falling from 7.8 percent in March 2015 to 6.8 percent in February 2016. Correspondingly, the Poles are expecting an increase in wages and salaries in the months to come. In March, the income expectations indicator reached 33.9 points, which is only 1 point less than in December. This figure also represents growth of 19 points in comparison with March of last year.

Despite the favorable conditions, propensity to buy is still very low. The indicator lay at 7.3 points in March, which is only slightly higher than in December. Consumers are still not convinced that it is currently a good time to make bigger purchases or spend larger sums of money.

Czech consumers expect significantly higher incomes

Czech consumers continue to assume that their country's economy will experience positive growth over the coming months. Although it fell by 4.6 points in comparison with December, the economic expectations indicator remained at a high level in March with 22.8 points. In January, it reached 39.4 points, its highest value since December 2014.

Due to the low level of unemployment of 4.5 percent and the high economic growth rate, which has remained constant at over 4 percent, Czech consumers expect their income to grow considerably in the months to come. Although the income expectations indicator was unable to maintain its December record of 56.5 points, it remained at the very high level of 52.4 points in March.

This positive underlying mood is also evident from the propensity to buy indicator. During the first quarter of the year, it rose by 3.3 points to 25.7 points, which is its highest value since November 2007. The indicator even surged by a total of 21.8 points over the last 12 months.

Slovaks expect unemployment to fall further

The Slovak economy underwent significant growth last year, climbing by 4.3 percent in the fourth quarter in comparison with the same period in the previous year. Nevertheless, it appears as if consumers do not believe this positive trend will last. This is reflected by the fact that, at 16.3 points, the economic expectations indicator only reached a moderate level in March, having fallen by just under 7 points since December.

The unemployment rate declined considerably last year from 11.9 percent in March 2015 to 10.3 percent in February 2016. Consumers also expect their wages and salaries to pick up in the next few months – either as a result of actual pay increases or because more people will return to work. Despite this, the Slovaks' income expectations also decreased slightly in the first quarter, dropping by 4.5 points to 22.9 points.

It seems as if the falling unemployment rate and strong economic growth have led consumers to once again begin to consider more seriously purchasing expensive items which they do not need for their everyday lives. This is evident from the propensity to buy indicator, which recorded a value of 11.9 points in March. This represented an increase of 7.5 points in comparison with December.

Economic expectations experience positive growth in Bulgaria

With rates of between 2.8 percent and 3.3 percent in comparison with the same respective quarter of the previous year, the Bulgarian economy grew significantly last year. Despite this, consumers still do not completely trust this positive trend. This is suggested by the fact that the economic expectations indicator stood at -5.9 points in March, which is just 1 point higher than in December. Nevertheless, a clear positive trend has emerged over the last 18 months. The indicator has increased by 8.5 points since March 2015, and even rose by almost 25 points in comparison with October 2014, when it reached its interim low.

A similar trend has been detected for the income expectations indicator. After a slight slump at the start of the year, this indicator climbed back to 3.9 points, which is exactly the same level as recorded in December. However, in comparison with the same month of the previous year, this represents an increase of 18.8 points.

In contrast, propensity to buy fell by 5.4 points in the new year. This brought the indicator to 1 point in March, as opposed to 8.9 points at the same time in the previous year. It can therefore be seen that the majority of Bulgarian consumers are still unable to make expensive purchases.

Propensity to buy at its highest since September 2008 in Romania

As was also the case in the majority of other European countries, economic expectations fell in Romania during the first quarter of this year. The indicator stood at 3.3 points in March, which represents a drop of 7.3 points in comparison with December as well as a decrease of more than 19 points compared with this time last year. This downward trend is surprising given the fact that the economy grew between 4.3 percent and 3.4 percent in the four quarters of 2015 in comparison with the same respective quarters of the previous year. The last time Romanian consumers had been so pessimistic about the development of the economic situation had been in October 2014.

Unemployment only dropped slightly in the course of last year. Nevertheless, the income expectations indicator climbed by 6.6 points in the first quarter of this year, taking it to 21.5 points in March. Consumers therefore expect their income to pick up in the next few months – either as a result of actual pay increases or because the unemployment rate will continue to fall and more people will return to work.

The Romanians' propensity to buy rose significantly this quarter, with the indicator climbing by 11.1 points between December and March. This growth saw it return to the positive range to reach 3.5 points, which is its highest value since September 2008. The country's decision to cut the VAT rate by four percentage points as of January 1, 2016 has presumably contributed to this result. However, consumers are still a long way from being in a position to spend more money on expensive products and services, as, to date, the majority only have just enough for everyday essentials.

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About the study

The findings of the GfK Consumer Climate Europe study are from a consumer survey conducted on behalf of the European Commission in all the countries of the European Union. Around 40,000 people a month are surveyed in the 28 countries. These are representative of the adult population in the EU.

GfK indicators for the consumer climate in Europe are based on monthly interviews regarding consumer mood. The purpose is to determine both the general economic situation of the individual countries and the situation of the households themselves.

GfK Consumer Climate Europe interviews are conducted monthly, predominantly as part of an omnibus, which is a multi-topic survey conducted either by telephone or face to face.

From the monthly survey program, which consists of 12 questions, 5 questions are selected for the GfK Consumer Climate Europe study, as they play a decisive role in the consumer climate.

Calculating the five selected indicators: economic, price and income expectations; propensity to buy and to save

Indicators are determined on the basis of so-called bottom lines. The proportion of consumers who answered negatively (for example, the household's financial situation will deteriorate (significantly)) is subtracted from the proportion of consumers who answered positively (for example, the household's financial situation will improve (significantly)).

In a further step, this bottom line is standardized using common statistical procedures and transformed so that the long-term average of the indicator is 0 points and has a theoretical value range from +100 to -100 points. Empirically, however, values have predominantly ranged between +60 and -60 points since 1980.

If an indicator shows a positive value, this factor is assessed by the consumer to be above average over the long term. Accordingly, the opposite applies to negative values. Standardization makes it possible to compare indicators from different countries more effectively, since mindset-related differences in levels of response behavior can be evened out without altering the basic course of the indicator.

About GfK

GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. GfK has many years of experience in the collection and evaluation of data. Approximately 13,000 experts combine their global knowledge with analyses of local markets in over 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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