Hopes of economic recovery in Europe

NUREMBERG, GERMANY: Consumer sentiment in many European Union countries is improving for the first time since the financial and economic crisis, despite the uncertainty created by discussions around the Greek rescue package.

This is one of the key findings of the GfK Consumer Climate Europe survey which provides an overview of the development of economic, price and income expectations and willingness to buy among consumers in Austria, Bulgaria, the Czech Republic, France, Germany, Greece, Italy, Poland, Romania, Spain and the UK. These 11 countries account for around 80% of the total population of the 27 EU member states.

The recession in Europe appears to have bottomed out, and the economy in most European countries is beginning to recover from the worst downturn since the second world war. In many countries, the economic data have for the first time returned to a slight upward trend since the first quarter of this year. However, the consequences of the financial and economic crisis have by no means been overcome yet. Many consumers are still unsettled and unconvinced that the upswing in their respective countries will be sustained. Some countries are still faced with difficulties following the financial crisis and its effects - most notably Greece. Uncertainty about how the situation will progress there, as well as in Ireland and Portugal, is affecting consumer confidence in the economic development of their respective countries.

The second major issue for Europeans is inflation. Bulgaria, for example, is expecting a general price increase of between 5% and 6% by the end of this year. In particular, rising food and fuel costs are worrying European consumers.

Economic expectations: government crisis is unsettling Czech consumers

In almost all countries monitored in the survey, the recession appears to have bottomed out. In general, economic expectations have risen in the second quarter, or at least remained steady at levels recorded in March. Many consumers are hopeful that their country can overcome the crisis in the medium term. The exceptions are Austria, where the indicator has dropped since the start of the year, and the Czech Republic. Germany continues to be the growth driver in Europe: the indicator currently stands at 50.3 points there.

The indicator has also recorded particularly strong growth in Spain, the UK, France and Poland. Romania has been on a steep upward trend for the past 12 months: the indicator has continuously climbed from its level of -71 points in June 2010 to a current -26.2 points.

Despite an anticipated growth level of 1.9% for this year, the Czech population has little confidence in the country's economy at present. This is reflected in consumers' economic expectations which reached their lowest level (-48.1 points) since the beginning of 2006, when records began. The principal reasons for this uncertainty can be found in the country itself: the Czech government is in crisis. Citizens fear that the announced reforms, in particular pensions reform, will not be implemented on schedule, and the fact that unemployment is set to climb in the second half of the year is a further concern. Together with the ongoing rise in food and energy costs, these prospects are causing Czechs to take a rather pessimistic view of how the national economy will develop over the coming months.

In Austria, the indicator fell by almost 10 points in the second quarter to the present level of 21 points. Ongoing discussions about the European financial crisis and the multi-billion Greek bailout are troubling consumers. Like the Czechs, Austrians also fear that their own economy will suffer disproportionately as a result.

Economic expectations in Greece appear to have briefly stabilised, remaining steady in the second quarter, although the level is still extremely low: the indicator now stands at -54.7 points. Nevertheless, the austerity measures being imposed by the Greek government - the condition for receiving EU aid - mean that Greek citizens face even deeper cuts, and this will have a knock-on effect on the country's economy as protesters make their voices heard. It is now extremely important that the Greek government includes the country's high earners and economic elite in the savings measures and finally manages to curtail the black economy, otherwise efforts at budgetary consolidation will not be successful and accepted by the population.

Price expectations: British population hopes to see inflation fall

In many of the countries monitored in the survey, consumers' price expectations have passed their peak and dropped in the second quarter. Italy is currently recording the lowest level (-18.4 points). Although the indicator is still very high in France, at 32 points, the situation in the country has eased considerably: in April, the indicator still stood at 49 points. In Austria too, price expectations are at a high level, with 30.6 points. The indicator has risen in the UK, the Czech Republic and Greece.

In the UK, consumers' price expectations fell more than 19 points between March (17.3 points) and May (-1.9 points). However, inflation remains at around 4.5%, with the main drivers being rising food and fuel costs. Following marked increases in the past few months, consumers appear to be expecting a reversal in price trends. The British government's package of austerity measures, relatively high unemployment and widespread pay freezes could also contribute to a lower level of inflation. If consumers have less money in their pockets, retailers cannot pass on the rise in commodity prices directly to their customers. As a result, the upward price spiral is likely to be halted in the medium term.

In Greece, the development in price expectations is inconsistent. From April to May, the indicator dropped by 15.2 points to -17.6 points. In June, however, price expectations rose very strongly again to a current level of 8.7 points. Discussions about tax increases as part of the new package of austerity measures seem to be having an impact here. For example, VAT on various products and services such as food and drink in restaurants has been increased from 11% to 23%, which is further directly affecting the day-to-day lives of Greeks. Going out with family or friends is an intrinsic part of life in this Mediterranean country. Consumers are therefore feeling the effects of this tax hike particularly keenly. In addition, tobacco duty is set to rise for the cheaper brands.

Income expectations: signs of recovery in Spain

Income expectations have also climbed across Europe in the second quarter of 2011. The indicator rose in Germany, Spain, Austria, Romania and Poland, and in some cases the increase was significant. At 44.6 points, Germany continues to record by far the highest value. The indicator has stabilised, albeit at a low level, in Bulgaria and the Czech Republic, whereas in France it dropped to a record low of -41.9 points in June. Only Greeks are more pessimistic in view of their income expectations: the indicator value stood at -58.6 points in June. The drastic measures in connection with the second austerity package, including tax increases, further scrapping of benefits and salary decreases in the public sector, are all having an impact in Greece.

Spaniards believe there will be a gradual economic recovery in Spain and consequently anticipate an improvement in their financial situation. Although unemployment currently still stands above 21%, it has fallen slightly in all economic sectors. This is primarily attributable to tourism: there is currently once again a higher demand for workers in the seasonal tourism industry and naturally, this is having a direct effect on the spending power of seasonal workers. The decline in travel to North Africa has also benefited Spain. However, there does not yet appear to be an improvement in the overall situation on the labour market, which is essential in order for the mood of Spanish consumers to brighten once again.

In Poland, the indicator reached an all-time low of -47.5 points in April. It has since climbed to a present level of -27.4 points. The Polish economy has been able to recover from the global economic crisis very well and recorded 3.8% growth last year. In the first quarter of 2011, the gross domestic product improved by around 4.5% and Poles hope to benefit from the upswing with salary increases in the coming months. Although unemployment remains rather high at around 13%, a 4.1% rise in employment was recorded in the first quarter of the year, signifying the start of a turnaround.

Willingness to buy: increasing prices becoming a problem in Bulgaria

The gradually improving economic situation and anticipation of a return to higher incomes are having an effect on willingness to buy. The trend appears to have bottomed out in most countries and the indicator is either climbing slightly or stabilising. In this respect, Germany has recorded the highest value of 35.1 points, while Greece stands at the other end of the scale, with -41.8 points, closely followed by the UK, at -41.5 points.

In Bulgaria, the indicator dropped further in the second quarter, though not as sharply as previously. Since March, it has fallen almost 6 points and currently stands at -3.1 points, the lowest value since February 2005. Inflation could potentially become a serious problem in Bulgaria in the medium term. An inflation rate of just under 6% poses a threat to both the country's political stability and its prospects of a lasting upswing. Given the fact that disposable incomes are already barely covering standard living costs and that this is unlikely to change in the foreseeable future on account of high inflation rates, consumers do not consider now to be a good time to make any major purchases beyond those that are absolutely necessary. They must first concentrate on consolidating their household budgets.

Following debates in Greece on a further raft of austerity measures including tax rises, benefit cuts and increases in various contributions, willingness to buy here has fallen by 13.7 points to a current level of -41.8 points.

The survey

These findings are taken from the "GfK Consumer Climate MAXX survey", which is based on consumer interviews conducted in all European Union countries each month on behalf of the EU Commission. The monthly interviews are distributed as follows among the countries observed:

Austria 1500
Bulgaria 1000
Czech Republic 1000
France 3300
Germany 2000
Greece 1500
Italy 2000
Poland 1000
Romania 1000
Spain 2000
United Kingdom 2000