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German consumers demoralised by inflation: GfK



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Widespread German price increases, including those of butter and electricity, are starting to weigh heavily on consumer confidence, a monthly poll by the GfK institute showed Friday.

Its barometer fell to 4.9 points from 6.7 at the end of September, when it had already fallen for the second month in a row.

The findings "not only recorded a downturn in both economic and income expectations, but also in the propensity to buy," a statement said.

"Restraint is evident everywhere," it added.

The latest drop was much sharper than expected, with an analyst survey by Thomson Financial forecasting a decrease to 6.4 points.

Consumer morale has suffered in the past few months from fears of inflation, a reaction to sometimes drastic increases in food products on top of high energy prices, GfK noted.

"The fear of inflation which arose suddenly in summer is one of the main factors responsible for the subdued consumer sentiment," it said.

German inflation is rising sharply and could hit 3.0 percent by the end of the year, according to the central bank.

Meanwhile, major suppliers of electricity have announced price hikes of up to 10 percent, sparking debate across the country.

Food prices have been driven higher by competition for farmland from crops used in biofuels, and some areas have also suffered from poor harvests even as international demand has surged.

The German federation of industrial bakers has revealed that the price of bread rose by an average of 10 euro cents (14 US cents) in September, the second increase this year.

GfK found that consumers had also become more sceptical of the economy as a result of an international banking crisis sparked by the collapse of the US market for high-risk mortgages.

On Thursday, the government lowered its economic growth forecast for 2008 to 2.0 percent from a previous estimate of 2.4 percent.

With the economy slowing and inflation rising, "the result is more modest income expectations and rather more restraint in the inclination to buy," the study found.

That ran counter to findings released Thursday by the Ifo research institute, which said business sentiment among retailers had improved in October, leading one analyst to suggest that German consumers might have begun to "open their wallets amid a continuing improvement in employment."

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