

ICPS newsletter

Ukrainians expect economic growth

During H1'01, the Consumer Confidence Index in Ukraine increased by 3.7 points. In Q2'01, consumer confidence of the population improved mainly thanks to an increase of positive expectations regarding economic development of the country, especially in the long run. In June 2001, positive consumer confidence was revealed among most young Ukrainians. At the same time, the confidence and expectations of the least wealthy population deteriorated. These results, found during a survey of Ukraine's households, have been published in the latest issue of ICPS's Consumer Confidence newsletter. Consumer confidence survey is a joint project of the company GfK-USM and the International Centre for Policy Studies

Positive economic expectations shape consumer confidence

June's survey of consumer confidence revealed that during Q2'01 the consumer confidence of the Ukrainian population continued to improve. During this period, the Consumer Confidence Index (CCI) in Ukraine increased by 2.5 points and totalled 83.2 points (possible range 0 to 200). During H1'01, therefore, the CCI increased by 3.7 points.

As at the beginning of the year, the Consumer Confidence Index in Q2'01 improved thanks to increased positive expectations of the population regarding economic development of the country, both in the short and the long run; the Index of Economic Expectations (IEE) grew by 6.4 points during this period. Furthermore, the survey demonstrates that currently the majority of Ukrainians expects that the

next five years will be a good time for the country's economy. For the first time during the yearlong history of consumer confidence study in Ukraine, the corresponding x4 index in June surpassed the benchmark of 100 and totalled 105 points.

The increase of positive expectations regarding the economic development of the country is apparently related to the more positive expectations of the population regarding changes in unemployment and inflation. During Q2'01, the Index of Expected Changes in Unemployment (IECU) decreased by 7 points, and the Index of Inflationary Expectations (IEE) dropped by 3 points. Since the beginning of the year, the overall decrease of these indexes totalled 11.4 and 4.9 points, respectively. The survey demonstrates that currently 47% of the Ukrainian population believes that during the year the number of unemployed in Ukraine will increase, while in September of last year 54% of

the population shared this opinion. By the same token, ten months ago 40% of respondents expected that prices on consumer goods and services will grow faster in the near future. At the same time, only 23% of respondents shared such an opinion in June.

Index values

Index of current personal financial position (x1)	72.8 +0.5
Index of expected changes in personal financial position (x2)	92.6 -2.0
Index of expected economic conditions in the country within the nearest year (x3)	91.3 +11.7
Index of expected economic conditions in the country within the nearest 5 years (x4)	105.0 +9.6
Index of propensity to consume (x5)	54.1 -7.2
Consumer confidence index (CCI)	83.2 +2.5
Index of the current situation (ICS)	63.5 -3.5
Index of economic expectations (IEE)	96.3 +6.4
Index of expected changes in unemployment (IECU)	136.9 -7.0
Index of inflationary expectations (IEE)	177.1 -3.0

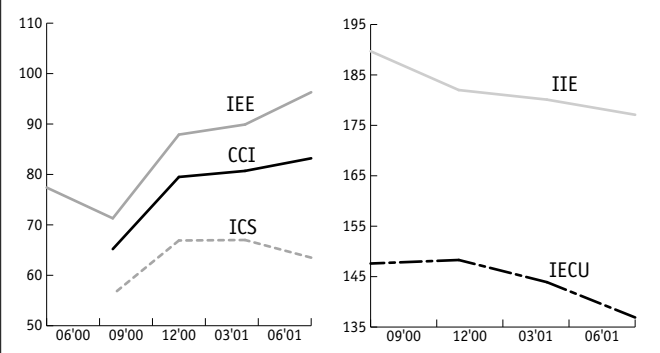
Kyiv and the Northern Region are in the lead

During Q2'01, the most increase of CCI was observed in Kyiv and the Northern Region. At the same time, the CCI of Kyiv exceeded the 100 benchmark for the first time during the history of consumer confidence study in Ukraine. Other indexes of these regions underwent positive changes as well. Such results indicates that the residents of Ukrainian capital city and of adjacent oblasts react in the fastest way to the economic growth and corresponding improvement in wellbeing of the population.

Countryside and cities approaching each other

During the yearlong history of the Consumer Confidence Index study in Ukraine, we observed a rather significant divergence in the consumer confidence of the population, depending on the type of the settlement where they reside. However, the indexes calculated for different types of settlements levelled out in Q2'01. In June, the difference

Index dynamics



between the highest (villages) and the lowest (towns) indexes did not exceed 0.5 points. This was primarily due to the decrease, during the two last quarters, of the CCI calculated for large cities and the significant increase, during the last three quarters, of the CCI calculated for villages.

During the last quarter, the number of positive assessments regarding the economic development of the country increased among residents of large cities (IEE of such settlements increased by 7 points). However, urban residents, as previously, tend to be more cautious regarding the prospects for economic development of the country in the short run. In particular, the x3 index of short-run expectations in large cities turned out to be lower than the corresponding index calculated for smaller settlements. Residents of large cities also revealed worse expectations regarding changes in unemployment in the country during the year.

Positive confidence prevails among youth

Analysis of the CCI by age category demonstrates that in Q2'01 confidence improved among representatives of all age groups. The IEE of the youngest age group, for the first time during the yearlong history of the index study in Ukraine, exceeded the 100-point benchmark. In other words, the majority of young Ukrainians expects economic growth both in the short and long run. Overall, the analysis of indexes, including IECU and IIE, shows that the consumer confidence of different age groups from quarter to quarter usually changes in the same direction.

Least wealthy: the trend halted

During Q2'00, the CCI of the population with below-average income decreased by 4.1 points. This change happened after consecutive growth in the index during the two previous quarters. Analysis of partial indexes reveals that the number of individuals who expect a deterioration of their personal financial position in the next six months increased in this group during the previous quarter (the x2 index dropped by 7.1 points). In addition, the number of pessimistic expectations regarding economic development of the country in

How consumer confidence index is calculated

In Ukraine, the CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. Statistical deviation does not exceed 3.2%.

To define the CCI, the respondents are asked the following questions:

- 1. How has the financial position of your family changed over the last six months?*
- 2. How do you think your family's financial position will change in the next six months?*
- 3. Speaking of the economic conditions in the country as a whole, do you think the next twelve months will be a good or bad time for the country's economy, or something else?*
- 4. And if we are to speak of the next five years, will they be for the country's economy a good or bad time?*
- 5. Speaking of large purchases for the home (such as furniture, refrigerator, household gadgets, TV set), do you think it's generally a good or bad time to make those purchases now?*

With regard to each of these questions, the corresponding index is calculated:

- index of current personal financial position (x1);*
- index of expected changes in personal financial position (x2);*
- index of expected economic conditions in the country within the nearest year (x3);*
- index of expected economic conditions in the country within the nearest 5 years (x4);*
- index of propensity to consume (x5).*

Indexes are constructed in the following way: from the portion of positive answers the portion of negative answers is deducted, and to this difference 100 is added in order to eliminate the appearance of any negative values. On the basis of these five indexes, three aggregated indices are calculated:

- consumer confidence index (CCI) – arithmetic average of indexes x1–x5;*
- index of the current situation (ICS) – arithmetic average of indexes x1 and x5;*
- index of economic expectations (IEE) – arithmetic average of indexes x2, x3, and x4.*

Index values range from 0 to 200. The index value equals 200 when the entire population positively assesses the economic situation. The index totals 100 when the shares of positive and negative assessments are equal. Indexes less than 100 indicate the prevalence of negative assessments.

the short run increased in this group (x3 index decreased by 1.1 points). At the same time, the number of individuals who belong to this group and who indicated an improvement of their personal financial position increased (x1 index grew by 2.1 points). These data imply that representatives of this group believe that the effect of the factors which fostered the improvement of their financial position at the end of 2000 and at the beginning of 2001 is exhausted, and they do not expect any improvement in their personal well-being in the nearest future. To improve the confidence of this income group, new government actions are needed to increasing the income of this stratum. In particular, these actions should include an increase of pensions and wages for employees of budget-funded organisations, as well as deep reforms in the realm of social protection.

In December 2000 and in March 2001, the confidence of consumers with average income had gradually approximated the confidence of those with below-average incomes. During Q2'00, however, this process terminated, with the difference in the confidence of these two income groups increasing. However, this change was caused by the deteriorated confidence of the below-average income group rather than by the improved confidence of the average-income group. ■

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