

# ICPS newsletter

## From optimistic expectations to increasing confidence

*During Q3'01, the consumer confidence of the Ukrainian population improved significantly. The Consumer Confidence Index (CCI) increased by 10.8 points and reached the value of 94. Compared to September of last year, the CCI in Ukraine increased by 28.8 points. For the first time in the history of Consumer Confidence Index research in Ukraine, the survey showed that the majority of the population expects positive economic changes as well as the improvement of their personal financial position in the short run. The most remarkable shifts happened in the confidence of the middle-age population with average income. 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*

### Most Ukrainians expect economic growth

According to the results of the survey that took place in September 2001, the consumer confidence of Ukrainians during Q3'01 improved substantially. The Consumer Confidence Index (CCI), which in September totalled 94 points (possible range from 0 to 200), increased by 10.8 points during the quarter, by 14.5 points since the beginning of the year, and by 28.8 points since September of last year.

The Index of Economic Expectations (IEE), which in September totalled 105.6 points, exceeded the 100 benchmark for the first time in the history of consumer confidence research in Ukraine. This shows that currently the optimists outnumber the pessimists with regard to economic development in the country. The positive

changes in the IEE resulted largely from the improvement of expectations regarding economic development in the short run.

During Q3'01, the Index of the Current Situation (ICS) renewed its positive trend and increased by 13.1 points compared to the value registered by the previous survey in June. The renovation of the positive trend of the ICS is a very important fact, since this change indicates that the prior increased positive expectations of the population regarding economic development finally resulted in increased positive assessments of their own personal financial position. The continuation of such a tendency in consumer confidence in the future will mean that more and more people will tend to regard changes in their personal financial position and trends in the economic development of the country as two inter-related realities.

During Q3'01, the Index of Expected Changes in Unemployment (IECU) and the Index of Inflationary Expectations (IEE) continued their positive trend, which we have been observing since the beginning on the research on these indexes in September of last year. During

### Index values

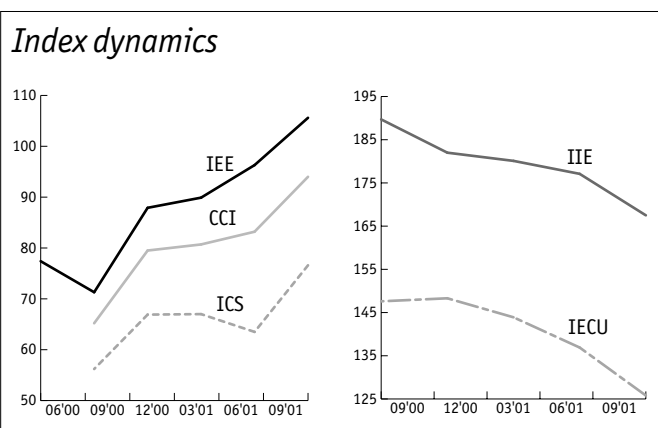
Index of current personal financial position (x1)	86.4 +13.6
Index of expected changes in personal financial position (x2)	105.8 +13.2
Index of expected economic conditions in the country within the nearest year (x3)	103.9 +12.6
Index of expected economic conditions in the country within the nearest 5 years (x4)	107.1 +2.1
Index of propensity to consume (x5)	66.8 +12.7
<b>Consumer confidence index (CCI)</b>	<b>94.0 +10.8</b>
Index of the current situation (ICS)	76.6 +13.1
Index of economic expectations (IEE)	105.6 +9.3
Index of expected changes in unemployment (IECU)	125.8 -11.1
Index of inflationary expectations (IEE)	167.5 -9.6

the past quarter, the IECU decreased by 9.6 points and the IEE by 11.1 points.

### Middle-aged consumers with average income are the consumer vanguard

The analysis of consumer confidence by age and income groups shows us to state that during the past year the confidence of middle-aged individuals with average income has improved significantly. The consumption behaviour of this group is a very important feature of this research, since middle-aged people are considered to be the most economically active members of society, and therefore they should be the most active consumers. Individuals with average income make up the largest income group, so the changes in confidence of this group should affect to a large extent the overall development of the consumer market in the country.

During the previous quarter, the consumer confidence of representatives of the middle-aged group improved the most. In particular, the CCI of this group increased by



13.9 points and reached 94.4 points. For the first time in the history of consumer confidence research in Ukraine, the CCI of the middle-aged group exceeded the average CCI in Ukraine. This means that now the overall consumer confidence in Ukraine is influenced most by the confidence of the middle-aged group.

The consumer confidence of the younger population improved as well. For the first time in the history of the consumer confidence study in Ukraine, the CCI of the youngest age group exceeded the 100 benchmark. That is, optimists now prevail in this age group. Furthermore, most young Ukrainians noted that their financial position improved during the last quarter (the corresponding index x1 increased by 18.1 points and totalled 101.1).

Compared to the two other groups, the CCI of the older-aged group in Q3'01 increased the least—by 5.5 points. After a continuous decrease during the two preceding quarters, the ICS of this age group increased. This positive change mostly results from their increased propensity to consume. Considering the fact that the Index of Propensity to Consume x5 of the population with average income increased the most during this period, we may conclude that ICS of the older-aged group increased mostly thanks to the improved current situation of older-aged people with average income.

## Economic growth fosters confidence of population with average and low incomes

Analysis of indexes by income group demonstrates that consumer confidence of all income groups improved over the previous quarter. However, the confidence of consumers with average and below-average incomes improved the most.

While comparing the confidence of average and below-average income groups, we can see that during the period from September of last year to March of this year, consumer confidence of the population with below-average income improved faster than the confidence of the average-income group. However, the changes in confidence of the low-income population have not been consistent since March. From March to September, the CCI of this income group increased insignificantly, by 6.6 points. At the same time, the consumer confidence of the average-income population during this time improved significantly, with the CCI increasing by 13.7 points. These results show that low-income consumers primarily

## 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.*

reacted to the increase of social payments and assistance that took place mostly in 2000. As for the population with average income, the major factor in their improved consumer confidence is the recent wages increase.

As previously, wealthy Ukrainians turned out to be the most active and optimistic consumers last quarter. Beginning in December last year, the CCI and IEE of the above-average income group have exceeded the 100 benchmark. In September 2001, the ICS of wealthy Ukrainians also exceeded 100 points. These results arise from substantial improvements in their financial over the last quarter (the corresponding index x1 increased by 16.4 points) and also a moderate increase of their propensity to consume (the corresponding index x5 grew by 2.8 points).

## Unexpected deterioration of Kyivites' confidence

A big surprise came from the deterioration of consumer confidence among Kyiv residents that was revealed during this iteration of the consumer confidence survey. Kyiv's CCI decreased by 11 points during the third quarter and totalled 91.1 points in

September. This indicator is almost 3 points lower than Ukraine's average. The results of all previous surveys of consumer confidence in Ukraine (started in June of 2000) showed that Kyiv's CCI was always the highest among all the CCI calculated by region.

The consumer confidence of Kyivites should always be scrutinised, since the most educated and wealthy people of the country reside in the capital city. We should note that according to the results of the survey, the value of the index x3, which reflects the expectations of Kyivites regarding short-term economic development, decreased by 17.8 points and turned out to be lower than 100 points. A more pessimistic attitude regarding economic growth in the short run was also noted among the residents of other large cities in Ukraine. ■

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