

ICPS newsletter

Consumer confidence among Ukrainians stabilised

During Q4'01, an increase of the Consumer Confidence Index in Ukraine turned out to be the lowest among all the previous measurements of the index. The consumer confidence of Ukrainians has begun stabilising after the steep increase which had been observed during the first three quarters of the past year. 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 ICPS

In the last quarter of 2001, the consumer confidence of Ukrainians started to stabilise. During this period, the Consumer Confidence Index (CCI) increased by merely 0.9 points and reached 94.9 (possible range is from 0 to 200) in December 2001. The quarterly increase of the index turned out to be the lowest of the entire time of consumer confidence research in Ukraine that started in September 2000.

The Index of Current Situation (ICS) and the Index of Economic Expectations (IEE) increased by almost the same extent as the CCI did: the ICS increased by 0.9 points and the IEE by 1 point. However, the increase of the IEE is due solely to the improvement of consumers' expectations regarding long-term economic development. Simultaneously, at the end of last year, the number of Ukrainians who believe that the year 2002 would be a favourable time for economic development decreased.

More cautious assessments regarding the development of the economy in the near term are likely to be related to the deterioration of consumers' expectations regarding changes in consumer prices during this time. In particular, the Index of Inflationary Expectations (IEE) during the

last three months increased by 2.1 points. This deterioration took place following on continuous improvement of this indicator beginning in September 2000.

Another reason for the increasing pessimism among Ukrainian consumers is apparently the sharp deterioration of the world's economy that will negatively affect the economic development of Ukraine in the nearest future. However, we should note that the majority of the population continues to expect an improvement of their personal financial situation during the next six months.

In Q4'01, the number of citizens optimistic about unemployment dynamics in the country during the nearest year rose again; the Index of Expected Changes in Unemployment (IECU) fell by 3.6 points and equalled to 122.2 points. By and large, expectations of Ukrainians as to unemployment changes started to pick up in 2001.

Confidence of middle-aged population wavers

In December 2001, for the first time in the history of consumer confidence research in Ukraine, a decrease in the CCI calculated for

the middle-aged population (31–45 years old) was revealed.

Compared to September, the index of this age group decreased by 2.1 points and totalled 92.3, that is, 2.6 points less than the average index in Ukraine.

The major negative factor which affected consumers' confidence

Index values

Index of current personal financial position (x1)	87,2 +0,8
Index of expected changes in personal financial position (x2)	107,3 +1,5
Index of expected economic conditions in the country within the nearest year (x3)	100,7 -3,2
Index of expected economic conditions in the country within the nearest 5 years (x4)	111,7 +4,6
Index of propensity to consume (x5)	67,7 +0,9
Consumer Confidence Index (CCI)	94,9 +0,9
Index of current situation (ICS)	77,5 +0,9
Index of economic expectations (IEE)	106,6 +1,0
Index of expected changes in unemployment (IECU)	122,2 -3,6
Index of inflationary expectations (IEE)	169,6 +2,1

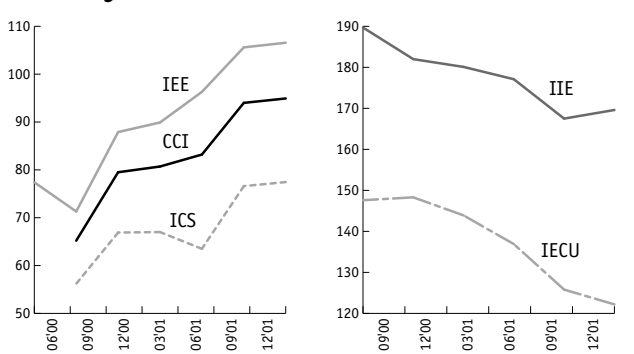
in this age group was likely the deterioration of expectations regarding short-term economic development.

At the same time, the confidence of consumers who belong to youngest and oldest age groups picked up. Moreover, for two quarters in a row the majority of young people have indicated an improvement of personal financial situation during the previous six months.

The most important positive change in the confidence of the elderly population of Ukraine was the increase in the index of expected economic conditions in the country within the nearest 5 years,

The deterioration of confidence among middle-aged consumers along with the simultaneous improvement in the confidence of the two other age groups probably implies that middle-aged residents are the most sensitive to the economic slowdown which started in the country at the end of 2001 and which, according to forecasts, will continue in 2002 as well. Since the middle-aged population makes up the largest group of consumers, we are likely to observe an overall slowdown in consumer demand that will mostly be the

Index dynamics



consequence of deteriorated consumer confidence among the representatives of aforementioned age group.

Consumer confidence worsened in the Eastern and Northern region

During Q4'01, the consumer confidence in the Eastern region of the country deteriorated, the CCI in this region decreased by 6 points and dropped to 83.7, that is, it was lower than the nation-wide index by 11.2 points. In our opinion, the deterioration of consumer confidence in this industrial region is related to the abrupt slowdown in industrial growth that started at the end of last year and which, according to forecasts, will continue in 2002 as well.

In December 2001, a negative change was observed in the consumer confidence of residents in the Northern region. The CCI of this region totalled 92.5, that is, 5.4 points lower than the result in September 2001. However, unlike the Eastern region, we are likely to observe a "correction" of consumer confidence in the North that has followed the brisk improvement in Q3'01, when the CCI of the Northern region totalled 97.9 points and exceeded Ukraine's average by 3.9 points.

More optimists in the countryside, fewer in large cities

During Q4'01, the consumer confidence in different types of settlements levelled out. In particular, in December 2001 the gap between the highest and lowest CCI value, calculated for consumer groups by type of settlement, amounted to merely 3.6 points, while in September of that year this difference went above 13 points. This levelling out happened primarily thanks to the improved confidence of countryside residents, on the one hand, and to the deteriorated confidence of the population in large cities, on the other hand.

The CCI of Ukrainians who reside in villages increased during the last quarter of the past year by 7.3 points and reached 96.3. Expectations of countryside residents regarding changes in their personal financial situation improved the most substantially, as did their propensity to make large purchases. Unlike the residents in other types of settlements, the rural population turned out to be the only group where the number of optimists regarding short-term economic development

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.

increased. These results imply that the record-breaking high growth in Ukrainian agriculture that was registered in the past year led to a substantial improvement of confidence among countryside residents. Furthermore, these good results helped to cultivate optimistic expectations regarding not only personal financial standing but also overall economic development.

Changes in the consumer confidence of those who live in large cities turned out to be the opposite to changes in the confidence of countryside residents; the CCI in large cities decreased by 5.5 points during Q4'01 and totalled 92.7. In particular, December's survey revealed fewer residents in large cities who expect improvement of their personal financial position during the next half-year; compared to September 2001. Another worrisome change was the decrease of the index of expected economic conditions in the country within the nearest 5 years.

In our opinion, the consumer confidence of those who reside in large cities deteriorated

as a result of the abovementioned slowdown in economic growth. This change probably indicates the end of a period when the growth rate of incomes in large cities substantially exceeded the one in smaller settlements.

In December 2001, the CCI of Ukrainians who reside in towns equalled to 92.7 points, that is, 8.7 points lower compared September of the same year. We are inclined to believe that consumer confidence stabilised rather than deteriorated, since in September there had been a steep increase of all indices calculated for this group. ■

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