

ICPS newsletter

Consumer confidence falls sharply

In the course of Q3'02, the Consumer Confidence Index shrank by 6.5 points and anchored at 88.8 points (possible range 0 to 200). Compared to last September, the CCI value slid by 5.2 points. The confidence of middle-aged consumers with average incomes deteriorated most of all. A sharp fall in the consumer confidence was reported in rural area and mid-size cities. Such a nosedive of the index is reported for the first time since the consumer confidence survey in Ukraine was launched by the International Centre for Policy Studies jointly with the GfK-USM company in June 2000

Number of pessimists mushroomed

The survey results obtained in September 2002 demonstrated that Ukrainian consumer confidence sank deeply from July through September. In September, the Consumer Confidence Index stood at 88.8 points. This value was 6.5 points lower compared to the previous survey in June, and 5.2 points lower than last September's value. It is the second decline in consumer confidence reported since the beginning of the year; the previous deterioration occurred in Q1'02, when the CCI value dropped by 4 points.

Unlike the deterioration of consumer confidence, which took place early this year, the recent change for the worse was triggered not only by the larger number of negative expectations among people regarding economic conditions in the country, but also by their lower assessments of their current situation. Specifically, the Index of Economic Expectations (IEE) lost 6 points during the quarter, while the Index of Current Situation (ICS) went down by 7.3 points.

The economic outlook of Ukrainians sank mainly because of increasing numbers of pessimistic expectations as to changes in financial position and expectations

regarding economic conditions in the country within the next 12 months; the corresponding indexes fell by 8.8 and 7.8 points, respectively. As to consumer expectations regarding their personal financial position, the Index of Propensity to Consume plummeted by 10 points and anchored at 66.1. It was the first decline of the Index of Propensity to Consume since last September, when the value of this index was higher than the current one, at 66.8 points. Such a decline of the index signals that a share of Ukrainians who believe that now is generally a good time for large household purchases dramatically dwindled.

The survey also reported the deterioration of inflationary expectations of Ukrainian consumers; the corresponding index climbed five points over the quarter and reached 174.2, which was 6.7 points higher than the value last September. People's expectations regarding the unemployment dynamic during the next 12 months also deteriorated; the corresponding index increased by 2.6 points, up to 124.5.

Changes for the worse expected across all regions

The deterioration of consumer confidence was reported across all regions of Ukraine.

Over the quarter, consumer confidence dropped most sharply in the northern and central regions of the country; the CCI of these regions dropped by 17.7 and 20.7 points, respectively, and anchored at 78.3 and 80.8 points. Specifically, in the northern region the Index of Propensity to Consume collapsed by 33.9 points, to a

record-low value of 36.5 points. Falling consumer confidence in agricultural regions dropped even further this year, because of decreased purchasing prices for agricultural commodities.

Consumer sentiment was least affected in Ukraine's southern and eastern regions; the CCI constructed for these regions of the country fell by 1.4 and 1 points, respectively. The decline in consumer confidence in the south was evidently mitigated by the positive impact of the summer vacation season. In the east, the adverse impact of the overall economic slowdown was to some extent offset by accelerated industrial growth in Q3'02, and particularly by a noticeable upswing in the metallurgy sector.

In Kyiv, worsened consumer confidence has been observed for two quarters in a row. During Q3'02, the CCI for the Ukrainian capital dropped by 10 points, to 85.7 (in Q2'02 it had fallen by 24.3 points).

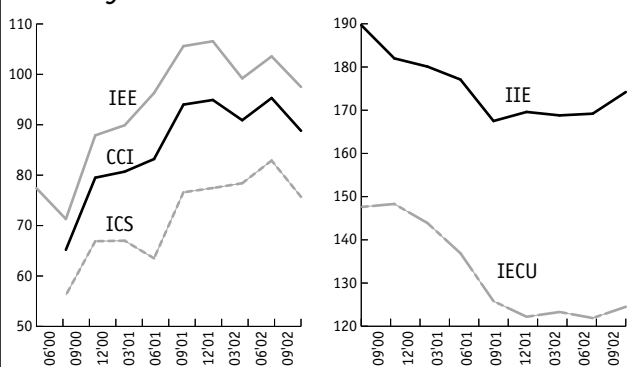
Confidence of average-income consumers fell most sharply

The overall national decline in consumer confidence was triggered mainly by more depressed expectations of the average-income population; the CCI for this group slid by seven points during Q3'02 and

Index values

Index of current personal financial position (x1)	85.2 -4.5
Index of expected changes in personal financial position (x2)	100.1 -8.8
Index of expected economic conditions in the country within the nearest year (x3)	90.8 -7.8
Index of expected economic conditions in the country within the nearest 5 years (x4)	101.7 -1.5
Index of propensity to consume (x5)	66.1 -10.0
Consumer confidence index (CCI)	88.8 -6.5
Index of the current situation (ICS)	75.7 -7.3
Index of economic expectations (IEE)	97.5 -6.0
Index of expected changes in unemployment (IECU)	124.5 +2.6
Index of inflationary expectations (IEE)	174.2 +5.0

Index dynamics



stopped at 87.8 points. Compared to the last September, the CCI of the average-income group sank by 5.9 points.

The CCI constructed for the below-average income group lost 2.2 points and regressed to 75.0. Poor population turned out to be the only income group, whose unemployment and inflationary expectations improved. The Index of Expected Changes in Unemployment (IECU) of this income group lost 4.5 points, while the Index of Inflationary Expectations—1.8 points.

Over Q3'02, the consumer confidence of the above-average income population picked up. The corresponding CCI improved by 2.5 points and attained 116.2. Concurrently, over the past quarter, fewer wealthy people believed that in the next 6 months their financial position would improve or that the next 12 months would be beneficial for the development of the national economy; the corresponding indexes fell by 1.2 and 4.2 points, respectively.

The most pessimistic consumers live in rural Ukraine and middle-size cities

Over Q3'02, the consumer confidence among people residing in settlements of all types grew more pessimistic, with confidence declining most among people from villages and middle-size cities. The CCI constructed for villages decreased by 7.5 points and amounted to 87.4 for the quarter. The sharper slump in consumer confidence in rural Ukraine can probably be explained by the drop in purchasing prices for agricultural commodities.

The CCI constructed for middle-size cities dropped during the quarter by 8 points, sinking down to 81.9. Moreover, economic expectations in middle-size cities worsened most of all; the corresponding IEE fell by 10.7 points, to 89.6, which was the lowest value among the different types of Ukrainian settlements.

The confidence of consumers residing in large cities of Ukraine slumped least sharply; the corresponding CCI lost 4.6 points and fell to 98.1 over Q3'02. The fallen CCI in large cities was offset by an improvement of consumer confidence in wealthy people.¹ Compared to settlements

¹According to the results of a joint project of the International Centre for Policy Studies, the GfK-USM company, and the *New Marketing* journal, the majority of wealthy Ukrainians reside in large cities (see "Research on Ukraine's Middle Class" at http://www.icps.kiev.ua/projects/eng/middle_class).

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.

of smaller size, large cities also showed the most optimistic expectations regarding unemployment and inflation.

Pessimists prevail in all age groups

Over Q3, the consumer confidence of all age groups has taken a change for the worse. The share of pessimists surged most among the middle-aged population (31–45 years old); the corresponding CCI decreased by 9.2 points, down to 86.4. The outlook of representatives of this age group worsened mostly because of deterioration of the Index of the Current Situation, rather than due to sinking economic expectations; the ICS of the middle-aged group regressed by 12.7 points, down to 71.6, while the IEE fell by 6.9, to 96.3. Specifically, the Index of Propensity to Consume in this age group slumped by 14.4 points over this quarter.

The CCI of the youngest age group (15–30 years old) lost 4.6 points and declined to 99.8. Such a CCI value signals that over

the September survey, the share of optimists among the young approximated that of the pessimists. However, throughout previous surveys (September 2001 through June 2002), young consumers have been mostly optimistic.

Unlike the young and middle-aged groups, the consumer confidence among older Ukrainians (46–59) took a turn for the worse, mostly because of an increase in negative economic expectations. The IEE of this group dropped by 8 points to 85.2 over the quarter, while the CCI fell by 5.2 points to 76.8. Over the quarter, the inflationary expectations of representatives of the older group worsened noticeably; the corresponding index increased by 6.3 points to 181.4, while the overall national indicator grew by 5 points, to 174.2. ■

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