

ICPS newsletter

Ukrainian consumer behaviour: three years of surveys

The ongoing survey of consumer confidence of Ukrainian households is celebrating its third anniversary. The most recent survey, held in September 2003, registered record Consumer Confidence Index (CCI) growth, which increased to 99.1 points (with a possible range of 0 to 200). The results of this quarter's survey and the dynamic of consumer confidence of Ukrainians during the past three years can be found in the new issue of the Consumer Confidence bulletin, which will be published next week

Since the commencement of regular surveys in Ukraine three years ago, in September 2000, the national Consumer Confidence Index has increased by 34 points, the Index of Current Situation has increased by 36 points, and the Index of Economic Expectations has increased by 33 points.

Consumers are sensitive to the economic growth rate

The CCI improved continuously since the beginning of the surveys until the end of 2001; during this period, the index increased by 29.7 points. The CCI then stagnated during 2002 and the first two quarters of 2003, fluctuating around the mean of 92 points. Finally, the index increased sharply during Q3'03 and reached a historic high of 99.1 points.

Although the CCI in Ukraine did not change significantly during 2002 and H1'03, the IEE and ICS underwent substantial changes. In particular, while the CCI continued its upward trend, the IEE during this time experienced generally negative change. This means that during this period, consumers had been reporting improvement in their personal financial standing, while

their expectations regarding the development of the domestic economy continued deteriorating overall. Presumably, the long-lasting economic growth in Ukraine resulted in respective increased income, which affected consumer confidence; at the same time, Ukrainians became more demanding as regards the quality of economic growth. Only a high rate of growth can now bring about an increase of positive consumer expectations regarding the development of the economy.

Ukrainian consumers are known for their "reserve of optimism"

A comparison of GDP and CCI trends in Ukraine shows that during a period of overall economic growth, consumers react somewhat belatedly to changes in the growth rate of the economy. In particular, the steep increase in the GDP growth rate from H2'00 to Q3'01 created among Ukrainians a substantial "reserve" of consumer optimism; as a result, consumers did not react immediately to a steep deceleration of the economic growth rate that took place during the four following quarters, and the slight downward trend of the CCI became evident only in H2'02. Again, Ukrainians reacted belatedly to the acceleration of economic growth that began at the end of 2003; the improvement of consumer confidence became apparent only in Q3'03. However, it should be noted that

In the new issue of Consumer Confidence:

- Consumers' economic expectations are improving
- Reasons for optimism and pessimism: results of the expanded consumer survey
- In which regions of Ukraine will consumption grow at the highest rate?
- Whose optimism is better grounded: that of the rich or that of the poor?
- Analysis of the dynamics of consumer confidence in Ukraine over 3 years.

the consumer confidence at the beginning of this summer was negatively affected by destabilisation in the Ukrainian food market.

Consumers respond to inflation

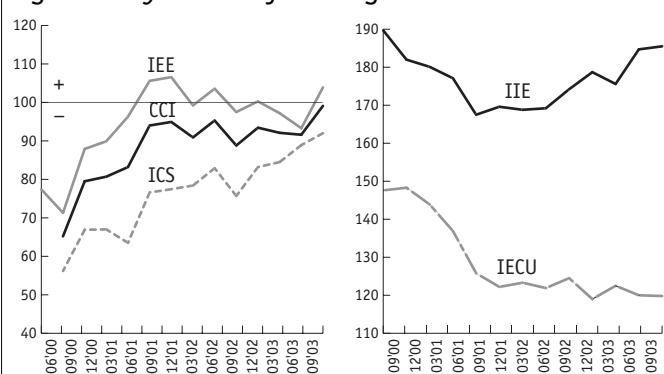
As comparison of the consumer price index (CPI) and the CCI shows, Ukrainian consumers are more sensitive to inflation. In particular, inflationary expectations of consumers were in line with the downward trend of inflation from H2'00 to H1'02. In Q3'02, consumers "predicted" the price increase that started at the end of 2002. The high inflationary expectations that were observed in Q2 and Q3'03 indicate a high probability of a new period of inflation at the end of 2003 and at the beginning of 2004.

Over the three years of consumer confidence research, the Index of Expected Changes in Unemployment dropped by 27.8 points, from 147.6 to 119.8, which shows the significant increase of positive expectations regarding the situation in the labour market. Such expectations of Ukrainians are in line with real trends in the unemployment rate, which according to the methodology of the International Labour Organisation dropped over the past three years by more than 2 p.p.

How consumer indexes are calculated

In Ukraine, the Consumer Confidence Index is determined through a random survey of

Figure 1. Dynamics of leading indicators



the country's population; the survey includes 1,000 people aged from 15 to 59. The people of this age make up 61.3% of the Ukrainian population, and they are the most active consumers. The survey sample is representative by gender and age, and it also accounts for the type and size of settlement. Statistical deviation does not exceed 3.2%.

To define the CCI, 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, do you think it's generally a good or bad time to make those purchases now?

Using the responses to these questions, the corresponding indexes, listed below, are 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 aggregate indexes are calculated:

- consumer confidence index (CCI)—arithmetic average (AA) of indexes x1–x5;
- index of current situation (ICS)—AA of indexes x1 and x5;

- index of economic expectations (IEE)—AA of indexes x2, x3, and x4.

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

To determine the Index of Expected Changes in Unemployment (IECU) and the Index of Inflationary Expectations (IIE), respondents are asked the following two questions:

1. Do you think that within next 12 months the number of unemployed (people who do not have job and are looking for it) will increase, remain roughly the same, or decrease?

2. Do you think that the prices for major consumer goods and services will change in the next 1–2 months?

The IECU and the IIE are calculated in the following way: from the portion of answers which indicate the growth of unemployment (inflation), the portion of answers which indicate the decrease of unemployment (inflation) is subtracted, and to this difference 100 is added to eliminate the appearance of negative values. The values of indexes can vary within the range of 0 to 200. The index totals 200 when all respondents expect an increase in unemployment (inflation).■

consumer confidence is a joint project of the International Centre for Policy Studies and GfK-USM—one of the leading companies which surveys the Ukrainian

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If you wish to receive the **consumer confidence** bulletin, with a detailed analysis of the dynamics of the Consumer Confidence Index in Ukraine, please contact Maksym Korepanov at tel. +380-44-236-5464 or e-mail: marketing@icps.kiev.ua. You may also fill out a subscription form or buy individual publications on ICPS's web-site: <http://www.icps.com.ua>.

Figure 2. Dynamics of Ukrainian GDP and consumer confidence index

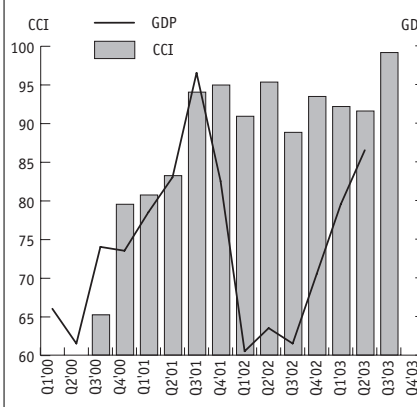
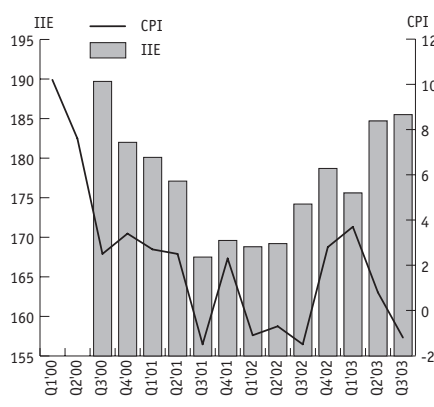


Figure 3. Dynamics of inflation in Ukraine (CPI) and index of inflationary expectations (IIE)



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