

# ICPS newsletter

## Consumer confidence of Ukrainians continues to improve

*During the first three months of 2001, the Consumer Confidence Index in Ukraine increased by 1.2 points and totalled 80.7 (possible range 0 to 200). Positive changes in the consumer confidence of the country's population were observed over the last six months. Since the time of the last study (December 2000), the number of residents who expect an improvement in their personal financial position over the next six months has increased. The confidence and expectations of consumers with below-average income improved the most. These results, found during a survey of Ukraine's households, have been published in the fourth issue of ICPS's Consumer Confidence newsletter this week. Consumer confidence survey is a joint project of the company GfK-USM and the International Centre for Policy Studies*

### More Ukrainians expect improvement of their financial position

During Q1'01, the Consumer Confidence index (CCI) in Ukraine increased by 1.2 points and totalled 80.7. The CCI has grown during the past two quarters in a row; from October to December of the last year it increased by 15.5 points.

Compared to December, the CCI grew primarily thanks to the increasing number of residents who expect an improvement in their personal financial position over the next six months (corresponding index x2 increased by 5.1 points), and also thanks to improved expectations regarding the development of the country's economy in the long run (corresponding index x4 grew by 1.6 points).

The positive trend of the index during the last two quarters is evidence of qualitative positive changes in the consumer

confidence of Ukraine's population. Over this period, the number of people who mentioned an improvement of their personal financial position and who expect accelerated economic development in the country increased.

The improvement of consumer confidence among Ukrainians is particularly due to more optimistic expectations regarding changes in the levels of unemployment and inflation. Compared to December, the Index of Expected Changes in Unemployment totalled 149.3 (a decrease of 4.4 points), and the Index of Inflationary Expectations amounted to 180.1 (a decrease of 1.9 points). Most Ukrainians believe that in the nearest 1–2 months, prices for major consumer goods will not be increasing faster than now. These expectations are the consequence of a slowdown in inflation, which has been observed since the middle of last year.

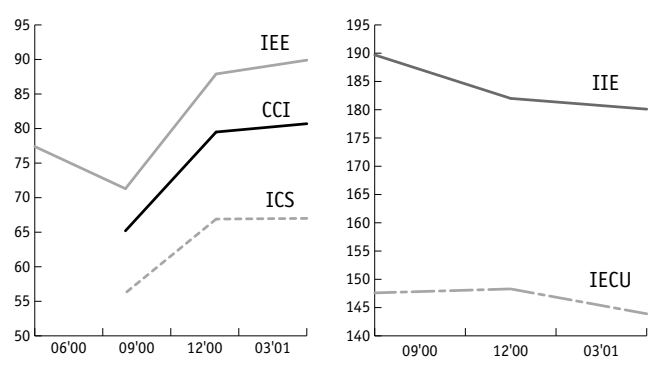
### Index values

Index of current personal financial position (x1)	72.7 -0.3
Index of expected changes in personal financial position (x2)	94.6 +5.1
Index of expected economic conditions in the country within the nearest year (x3)	79.6 -0.7
Index of expected economic conditions in the country within the nearest 5 years (x4)	95.4 +1.6
Index of propensity to consume (x5)	61.3 +0.5
<b>Consumer confidence index (CCI)</b>	<b>80.7 +1.2</b>
Index of the current situation (ICS)	67.0 +0.1
Index of economic expectations (IEE)	89.9 +2.0
Index of expected changes in unemployment (IECU)	149.3 -4.4
Index of inflationary expectations (IEE)	180.1 -1.9

Centre deteriorated somewhat. In the Central region, the CCI decreased because of reduced opinions on current financial positions, while in the West this change was caused by the increased number of pessimistic expectations regarding economic development of the country in the short run.

In the Central region, the Index of Current Situation (ICS) dropped by 9.3 points after a significant growth over two preceding quarters (36.6 points total). During the two previous quarters, consumer confidence in the Centre and South was fostered by the good harvest in 2000. However, at the beginning of the new year the influence of this factor terminated. As a result, the number of people in the aforementioned regions who attested to the deterioration of their personal financial position increased. The increased number of negative assessments regarding economic development of the country by residents of Western regions is possibly a reaction of the local population (which usually closely follows Ukrainian politics) to the political crisis of the past several months.

### Index dynamics



### Regional differentiation persists

During the first quarter, CCI increased primarily thanks to the improved confidence of consumers who reside in Kyiv and the Northern and Eastern regions. At the same time, the confidence of the West and of the

## Number of pessimists increases in large cities

In the first quarter, the Consumer Confidence Index increased thanks to increased optimism among Kyivites and residents of towns and small cities. At the same time, the number of pessimists increased among the residents of large cities (excluding Kyiv) as well as among residents of the countryside, where the seasonal factor caused a reduced assessment of changes in financial position.

The CCI in large cities dropped by 6.5 points. This change resulted from decreases in each of the x3–x5 indexes by more than 16 points. This change looks quite unexpected if we take into account the growth of the index of current personal financial position x1 (by 4.4 points) and of the index of expected changes in personal financial position (by 7 points). This means that in large cities, the number of residents who expect the improvement of their personal financial position increased, but the number of optimists regarding the overall economic development of the country decreased. Possibly, the deterioration of confidence is a reaction of this demographic group to the complicated political situation in the country. This factor was more influential for assessments of residents in large cities, where there is better access to the mass media, and where mass media affect the formation of citizens' opinions.

## Optimism of middle-aged population increased notwithstanding inflationary expectations

Similar to Q4'00, the Consumer Confidence Index grew overall thanks to an increased number of positive assessments given by middle-age residents. During Q1'01, the CCI of the middle-age group increased by 2.2 points and totalled 78.5 points. The major factor which fostered the increased CCI for this group was a significant increase of those expecting an improvement of their personal financial position over the next six months (index x2 increased by 10.1 points).

The middle-age group turned out to be the only one for which the Index of Inflationary Expectations (IIE) changed negatively; this indicator increased by 10.4 points and totalled 188.5, exceeding the IIE of the old-age group. The analysis of indexes by income level (see below) shows that the increase of IIE was more prominent for the average-income group. In other words, inflationary expectations of middle-age

## 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.

people with average income deteriorated. We can assume that higher inflationary expectations of this group of the population is a reaction of this group to increased wages. Representatives of the middle-age group reacted to this change the most because they make up the majority of the country's labour force. At the same time, expectations of this group regarding changes in unemployment have been improving since last September.

## Government policy helps to improve confidence of the least wealthy

During Q1'01, confidence of the least wealthy continued to improve. During the last two studies, a consecutive increase of CCI of this group was observed. In the first quarter, positive changes were revealed in all indexes calculated for the least wealthy people. At the same time, changes in the indexes of the two other groups were not that consistent. The Index of Current Situation for people with below-average income increased by 10.3 points and approached the value of the index of the average-income population (57.2 vs. 60.6). In the same way, the difference between the other corresponding indexes of these

two income groups decreased. Therefore, the difference between the consumer confidence of aforementioned groups was being gradually eliminated during the last half year.

In March 2001, a decrease of the CCI of the population with above-average income was observed. The CCI of this group decreased because of the drop in all partial indexes except the index of propensity to consume x5. At the same time, the December study revealed significant growth of all indexes of wealthy people (CCI increased by 17.9 points, ICS by 14.1, and IEE by 20.3). Therefore, we can assume that the indexes of this income group decreased sooner as a result of consumer confidence "stabilisation", not because of their deterioration. In addition, taking into account the relatively small size of this group, the probability of calculation for this group is the highest. ■

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