

consumer confidence

Issue # 13
July 2003

A joint publication by GfK-USM Company
and the International Centre for Policy Studies

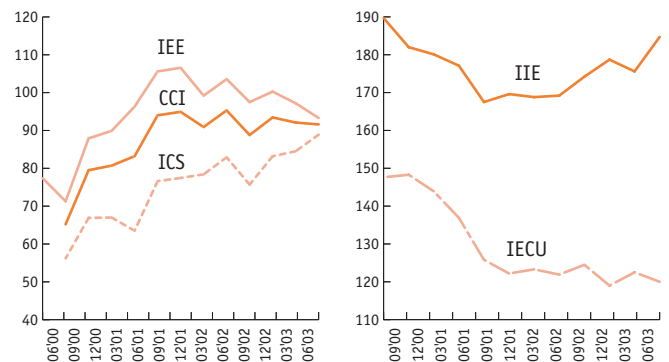
Consumers expect a poor harvest and rising prices

In June 2003, the Consumer Confidence Index (CCI) in Ukraine totalled 91.6 points (with a possible range from 0 to 200), which was 0.6 points lower than the previous value, observed in March 2003. The survey revealed further deterioration of economic expectations and a substantial increase of inflationary expectations among Ukrainians. Economic expectations in the central oblasts of Ukraine deteriorated sharply. Consumer confidence worsened among residents of the countryside, poor people, and middle-aged and senior citizens

Downward trend persists

During Q2'03, the Consumer Confidence Index (CCI) dropped by 0.6 points and continued the downward trend that had appeared at the beginning of 2003. The Index of Economic Expectations (IEE) decreased by 3.9 points, down to 93.3 during Q2'03, and it is currently more than 10 points lower than the record-high value observed in December 2001. Expectations regarding the development of the national economy within the nearest 12 months deteriorated the most; the corresponding index decreased by 8.7 points, down to 81.3, the lowest value in the last two years. The number of consumers who expect the deterioration of their personal financial situation increased, as well; the corresponding index dropped by 4.8 points, to 101.1. The major reason for the decline in economic expectations of Ukrainians was the destabilisation of prices in the food market in June, as well as low forecasts for the harvest. These factors resulted in a sharp increase of inflationary expectations; in June, the Index of Inflationary

Expectations totalled 184.7 points, which was 9.1 points higher than the March value and the highest in the past two years.



Despite the downward trend of the IEE, the Index of Current Situation (ICS) has been growing for three quarters in a row. In Q2'03, the ICS gained an additional 4.4 points and reached a new record high—88.9. The increase of this index was mostly due to the substantial growth of the Index of Propensity to Consume; in comparison with March, this index increased by 7.5 points, up to 87.5. This situation developed thanks to a lasting period of growth in real incomes of individuals, as well as thanks to improved access to consumer loans. In particular, the survey conducted by the company GfK-USM in April 2003, where 3,000 households in Ukrainian cities with a population over 50,000 were interviewed, showed that 2.2% of respondents used loans to buy household goods or automobiles, which exceeded the number of deposit account users (1.9%). Inflationary expectations of consumers were apparently another reason for their increased propensity to consume.

During two quarters in a row, we have observed the tendency of the ICS and IEE to converge, that is, the situation where more respondents report an improvement of their current situation but at the same time there are more respondents with worse economic expectations. To explain this phenomenon, we can suppose that with the increase of their wellbeing, citizens become more demanding with regard to the government's economic policy. In order to give a positive boost to the economic expectations of the population, more radical reforms are needed.

In addition to the increased positive expectations regarding their current situation, the survey revealed that long-term expectations of Ukrainians regarding the development of the economy improved; the corresponding index during Q2'03 increased by 1.8 points, up to 97.6. These facts indicate that Ukrainians believed the June crisis would not last long.

Index of current personal financial position (x1)	90.3 +1.3
Index of expected changes in personal financial position (x2)	101.1 -4.8
Index of expected economic conditions in the country within the nearest year (x3)	81.3 -8.7
Index of expected economic conditions in the country within the nearest 5 years (x4)	97.6 +1.8
Index of propensity to consume (x5)	87.5 +7.5
Consumer Confidence Index (CCI)	91.6 -0.6
Index of the Current Situation (ICS)	88.9 +4.4
Index of Economic Expectations (IEE)	93.3 -3.9
Index of Expected Changes in Unemployment (IECU)	120.0 -2.5
Index of Inflationary Expectations (IIE)	184.7 +9.1

The expectations of the population regarding changes in unemployment improved; the corresponding index during the quarter decreased by 2.5 points and reached a record low-value of 120 points. Such results correspond to the downward trend of the unemployment rate in the country (ILO methodology), which dropped by 0.9 p.p. last year and reached a record-low value of 9.4% in Q1'03.

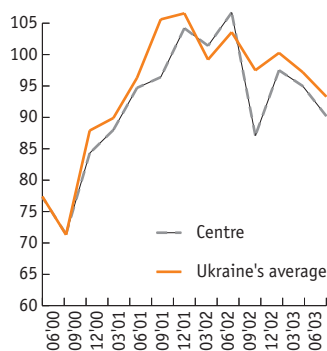
East and South demonstrate a high propensity to consume

During Q2'03, economic expectations deteriorated the most in the agriculturally oriented Central region of Ukraine. The IEE here totalled 90.2 points in June and was the lowest among all the regions. The index of short-term expectations x3 in the

Index	Kyiv	North	West	Center	South	East
x1	108.9 +8.9	88.7 +7.0	89.4 +4.6	78.2 -5.9	83.3 -5.1	95.8 +1.5
x2	103.6 -19.6	107.0 -7.0	98.6 -10.1	99.2 -12.6	100.0 +3.2	101.5 +0.9
x3	85.7 +5.4	82.6 +1.7	80.6 -12.4	68.1 -13.4	91.7 -7.7	80.4 -11.0
x4	121.4 +12.5	93.9 +3.5	99.1 -4.6	103.4 +11.8	100.6 +7.1	90.5 -2.4
x5	146.4 +28.6	60.9 -1.7	60.8 -3.2	82.4 +10.9	100.6 +2.6	100.0 +15.4
CCI	113.2 +7.1	86.6 +0.7	85.7 -5.2	86.2 -1.8	95.3 0.0	93.6 +0.9
ICS	127.7 +18.8	74.8 +2.6	75.1 +0.7	80.3 +2.5	92.0 -1.3	97.9 +8.5
IEE	103.6 -0.6	94.5 -0.6	92.8 -9.1	90.2 -4.8	97.4 +0.9	90.8 -4.2
IECU	100.0 -16.1	138.3 +8.7	119.8 -5.5	128.6 -4.2	107.7 -2.6	119.9 -1.5
IIE	169.6 -17.9	187.0 +1.7	177.9 -3.7	189.1 +6.7	191.0 +30.1	186.4 +15.4

Central region dropped by 13.4 points, down to 68.1. At the same time, the long-term expectations of residents in this region improved; the corresponding index x4 increased by 11.8 points,

Index of Economic Expectations



up to 103.4. Such a dynamic in the indices implies that the deterioration of consumer confidence in this region is sooner a short-term fluctuation caused by hardships in agriculture, while the long-term expectations of residents are optimistic.

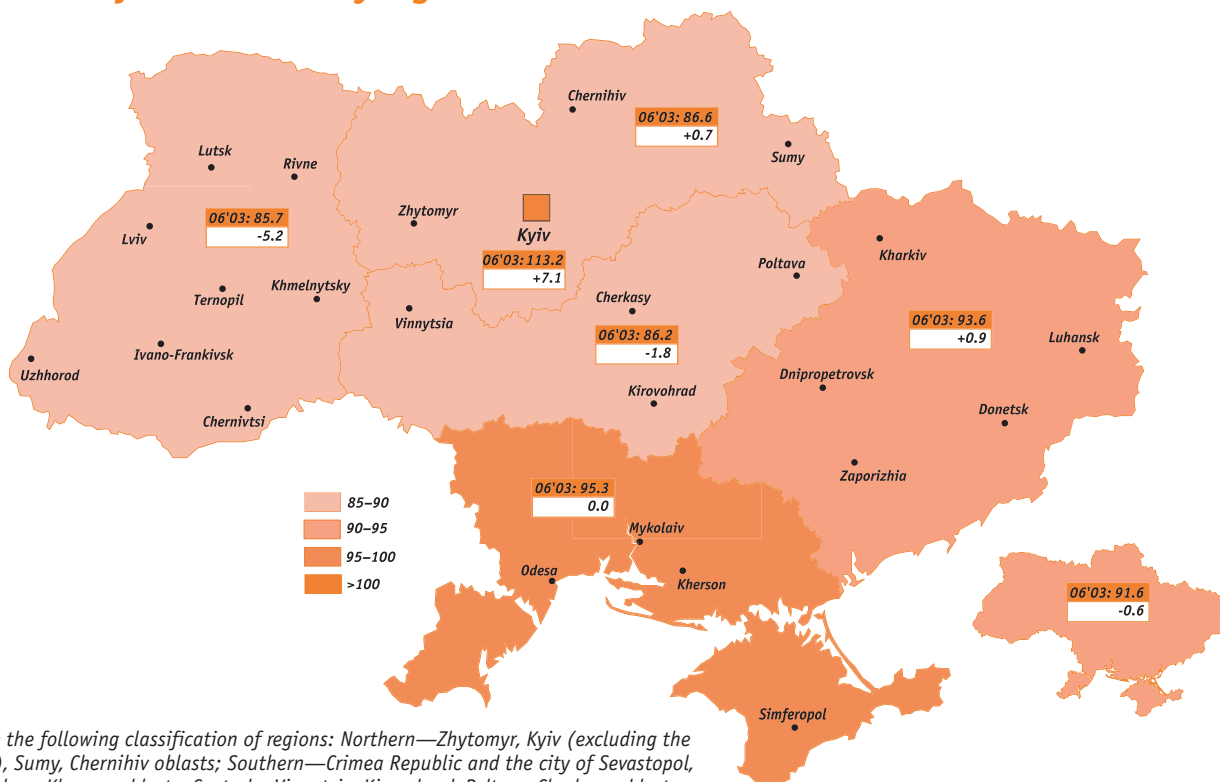
In the Eastern and Southern regions, the index of propensity to consume x5 exceeded the 100 benchmark in June. This means that most

residents of these regions believe that now is generally a good time to make large purchases for households. The confidence of consumers in Ukraine's Eastern region was apparently bolstered by the accelerated industrial growth that has been observed there since the beginning of the year. Increased positive assessments among residents of the Southern region were due to substantial income growth in this region. In particular, the income of individuals in Mykolaiv and Odesa oblasts, as well as in the city of Sevastopol, grew faster than in Ukraine on average. The increase in propensity to consume in these regions was accompanied by worsened inflationary expectations; in the East, the IIE during the quarter increased by 15.4 points, to 186.4, and in the South more than by 30 points, to 191.

Confidence is lowest in the countryside

In June, the worst consumer confidence in Ukraine was registered in rural areas. During Q2'03, the corresponding CCI dropped by 7.2 points, to 85. The IEE in the countryside

Consumer Confidence Index by region



Here we use the following classification of regions: Northern—Zhytomyr, Kyiv (excluding the city of Kyiv), Sumy, Chernihiv oblasts; Southern—Crimea Republic and the city of Sevastopol, Mykolaiv, Odesa, Kherson oblasts; Central—Vinnytsia, Kirovohrad, Poltava, Cherkasy oblasts; Western—Volyn, Zakarpatia, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Khmelnytsky, Chernivtsi oblasts; Eastern—Zaporizhia, Dnipropetrovsk, Donetsk, Luhansk, Kharkiv oblasts.

How indexes are calculated

In Ukraine, the CCI is determined through a random survey of 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?

With regard to 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).

Indices 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 indices are calculated:

- consumer confidence index (CCI)—arithmetic average (AA) of indices x1–x5;
 - index of the current situation (ICS)—AA of indices x1 and x5;
 - index of economic expectations (IEE)—AA of indices 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. Indices 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), the 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, will remain roughly the same, or will decrease?
2. Do you think that the prices for major consumer goods and services will change in the next 1–2 months?

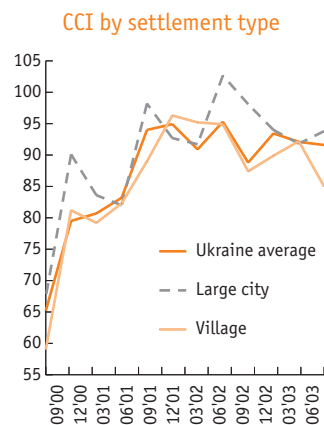
The IECU and the IIE are calculated in the following way: from the portion of answers which indicate the growth of unemployment (inflation), the portion of answers which indicate the decrease of unemployment (inflation) is subtracted, and to this difference 100 is added to eliminate the appearance of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

dropped by 13.6 points, to 88.8—the lowest record in 2.5 years. The increase of negative expectations worsened the expectations of the rural population regarding changes in unemployment; the corresponding index IECU during Q2'03 increased by 5.2 points, to 119.7, and exceeded the value observed in June 2002 (115.9).

In large cities of Ukraine, the CCI increased by 2 points during the quarter, to 93.8. However, this value was lower by 8.9 points than the record-high CCI observed in large cities in June 2002. At the same time, the index of propensity to consume x5 in large cities reached a new record high—108.9—increasing compared to the previous valuation in March by 15.8 points. This implies that the residents of large cities believe that now is generally a

Index	Village	Town	Small city	Large city
x1	86.9 -0.7	90.3 +1.0	89.5 +8.4	91.1 +1.6
x2	96.9 -10.7	106.2 -0.6	98.9 -1.6	100.6 +1.7
x3	76.8 -20.1	87.3 +3.2	82.1 -4.7	75.2 -6.9
x4	92.7 -10.0	101.6 +9.1	95.3 +5.3	93.0 -2.3
x5	71.6 +5.5	77.6 +5.5	93.2 +10.5	108.9 +15.8
CCI	85.0 -7.2	92.6 +3.6	91.8 +3.6	93.8 +2.0
ICS	79.2 +2.4	83.9 +3.2	91.3 +9.5	100.0 +8.7
IEE	88.8 -13.6	98.4 +3.9	92.1 -0.4	89.6 -2.5
IECU	119.7 +5.2	122.4 -2.6	118.4 -20.5	124.8 +6.4
IIE	183.7 +18.3	189.3 +10.1	183.7 -1.6	184.1 +0.4

good time to make large purchases for households. In addition, unlike settlements of a smaller size, the number of residents who expect that their financial situation will improve within the next six months increased in large cities; the corresponding index x2



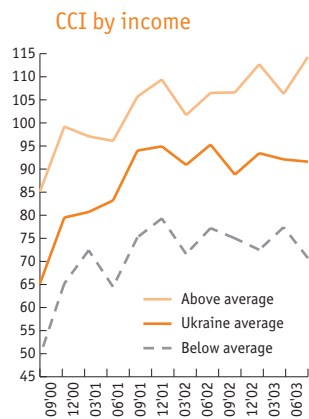
increased by 1.7 points, up to 100.6. Such a value of the index indicates that about half of the population in large cities expects the improvement of their personal financial situation in the nearest period.

Both rich and poor expect price rises

The speculative price jumps in June affected the confidence of the least wealthy Ukrainians. The survey revealed a sharp deterioration in the confidence of individuals with below-average incomes. The CCI of this group decreased during the quarter by 6.7 points, to 70.7, and the IEE of this consumer group decreased by 12.2 points, to 75.6—the lowest record in 2.5 years. Inflationary expectations of the poorest Ukrainians are currently the highest in the entire history of consumer confidence research in Ukraine; the IIE totals 190.6 points, which is 8.6 points higher than the value observed in March. The sharp increase of

Index	Higher-than-average income	Average income	Lower-than-average income
x1	123.0 +12.4	88.3 +4.6	62.4 -5.0
x2	123.0 +5.1	100.7 -3.2	79.7 -10.6
x3	94.7 -8.4	82.5 -3.5	63.9 -16.0
x4	114.4 +12.2	96.6 +3.3	83.2 -9.9
x5	116.3 +14.2	85.4 +10.4	64.4 +8.1
CCI	114.3 +7.1	90.7 +2.3	70.7 -6.7
ICS	119.6 +13.3	86.8 +7.5	63.4 +1.6
IEE	110.7 +3.0	93.3 -1.1	75.6 -12.2
IECU	110.5 -11.9	119.4 -2.4	131.7 +6.0
IIE	187.1 +15.5	181.8 +5.8	190.6 +8.6

inflationary expectations among this group can be explained by the prevalence of cereals and bread in their diet, that is, foods the prices of which increased noticeably in June.



The consumer confidence of the two other income groups in Ukraine improved during Q2'03, with the CCI of the above-average income group increasing by 7.1 points, to 114.3, and the CCI of the average income group increasing by 2.3 points, to 90.7. The survey revealed a substantial improvement of the current financial position of above-average income Ukrainians; the corresponding ICS gained 13.3 points and

reached a new record high of 119.6 points. This situation indicates that the accelerated economic growth that has been observed since the beginning of 2003 predominantly affected positively the confidence of wealthy Ukrainians.

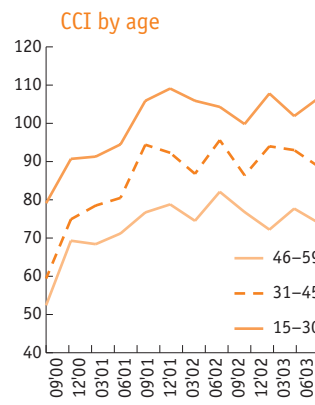
The index of propensity to consume x5 of the above-average income group also reached a new maximum—116.3 points—by gaining 14.2 points during the quarter. The propensity to consume of this income group was apparently affected by inflationary expectations; the corresponding IIE grew by 15.5 points.

The trend of an increasing gap in the confidence of different income groups implies that the current situation, when the acceleration of economic growth is not accompanied by government actions directed to improving the confidence of vulnerable

Index	15–30 years old	31–45 years old	46–59 years old
x1	104.2 +6.3	87.7 -3.2	73.6 -1.1
x2	118.9 +0.4	97.5 -7.3	80.1 -9.6
x3	96.8 -1.1	77.4 -12.0	64.4 -15.3
x4	110.0 +4.8	93.0 -0.3	86.2 +0.5
x5	103.7 +13.7	87.2 +0.7	65.1 +6.2
CCI	106.7 +4.8	88.6 -4.4	73.9 -3.8
ICS	103.9 +10.0	87.5 -1.2	69.3 +2.6
IEE	108.6 +1.4	89.3 -6.6	76.9 -8.1
IECU	113.9 -6.7	120.6 +0.4	127.6 -0.3
IIE	181.6 +13.3	188.3 +8.2	184.3 +4.6

population groups, mainly helps to improve the confidence of wealthy Ukrainians.

Optimists increased only among youth



During April–June 2003, the confidence deteriorated of middle-aged consumers (31–45 years old) and of older ones (46–59 years old). The share of middle-aged people who indicated a deterioration of their current situation increased; the corresponding ICS dropped by 1.2 points, to 87.5. The highest inflationary expectations were registered among middle-aged individuals; the IIE totalled 188.3 in June. Economic

expectations deteriorated the most among the oldest survey group; the corresponding IEE diminished by 8.1 points, to 76.9.

The CCI of the youngest age group (15–30 years) increased by 4.8 points, to 106.7, during Q2'03. The propensity to consume of this group increased sharply; the corresponding index x5 increased by 13.7 points, to 103.7. For the first time in the history of consumer confidence research in Ukraine, this index exceeded the 100 benchmark, which means that among young Ukrainians, the majority believe that now is generally a good time to make large purchases for the household. However, the same as for representatives of the high-income group, the confidence of the young population was apparently affected by inflationary expectations, since the corresponding IIE increased during the quarter by 13.3 points, to 181.6, which was the highest value in the last 2.5 years.



The Consumer Confidence Index is researched jointly by the GfK-USM company and the International Centre for Policy Studies.

GfK-USM is one of the leading Ukrainian market research companies. In 1998, the company joined the worldwide GfK research network, which includes 104 companies in 42 countries.

The International Centre for Policy Studies is an independent research organisation whose goal is to facilitate the improvement of Ukrainian policy research.

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