

# consumer confidence

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## Optimism recovering slowly

**In Q4'02 the Consumer Confidence Index in Ukraine increased by 4.7 points and totalled 93.4 points in December (possible range 0 to 200). Confidence improved predominantly thanks to increased numbers of positive assessments of the current situation, with confidence improving the most in eastern oblasts of Ukraine. The survey also showed continuing pessimism in large cities**

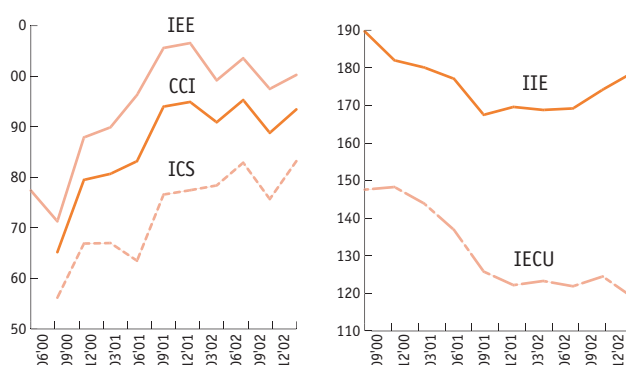
### Political situation affects confidence

The results of the survey held in December 2002 show that the Consumer Confidence Index (CCI) totalled 93.4 points (possible range 0 to 200), which was 4.7 points more than the index from the previous survey in September 2002. Despite the increase, the CCI in December 2002 was still 1.9 points lower than the record-high record value observed in June 2002, and 1.5 points lower than that observed in December 2001. The CCI dynamic in Ukraine was bumpy since the start of 2002, with the index value fluctuating constantly due to the political perturbations affecting national confidence in the country. The improved consumer confidence in December can evidently be attributed to a relative political stabilisation during this period.

In December 2002, the Index of Current Situation (ICS) reached a record-high value—83.2 points, improving by 7.6 points compared to September and by 5.7 points since the start of the year. This movement in the index reflected the steep increases in personal incomes of Ukrainians, which grew by more than 20% over the year.

Index of current personal financial position (x1)	91.7 +6.5
Index of expected changes in personal financial position (x2)	103.3 +3.2
Index of expected economic conditions in the country within the nearest year (x3)	96.5 +5.7
Index of expected economic conditions in the country within the nearest 5 years (x4)	101.0 -0.7
Index of propensity to consume (x5)	74.7 +8.6
<b>Consumer confidence index (CCI)</b>	<b>93.4 +4.7</b>
Index of the current situation (ICS)	83.2 +7.6
Index of economic expectations (IEE)	100.3 +2.7
Index of expected changes in unemployment (IECU)	119 -5.5
Index of inflationary expectations (IEE)	178.7 +4.5

The results of a more comprehensive survey held in October 2002<sup>1</sup> revealed that the major reasons for improved financial situations in Ukrainian households were increased incomes of a household member or members, as well as finding new or additional jobs and increased assistance from friends and family. In particular, such reasons were mentioned by 71% of the respondents who stated that their financial standing had changed for the better during the previous six months. Conversely, the following major reasons for deterioration in financial situation were named: decreased incomes of some family members, layoffs, decreased assistance from friends and family, increased household spending, and impossibility of adapting to new conditions.



The significant growth of individual incomes was reflected in the propensity of Ukrainians to make large purchases; the corresponding index of propensity to consume x5 increased by 7 points during the year, including by 7.6 points in Q4'02, up to 74.7. The major motivation encouraging consumers to make big purchases was the good selection of products and the possibility to easily find what was needed. In October 2002, this factor was mentioned by 80% of the respondents who believed that now is generally a good time to make large purchases. On the other hand, the major obstacles to buying durable goods were mentioned by Ukrainians as being their poor financial situation, low income levels, and the impossibility of accumulating money for such purchases.

Economic expectations of the population during Q4'02 improved to a lesser degree than their assessment of personal financial situation; the Index of Economic Expectations (IEE) move up by only 2.7 points compared to September, to 100.3. Moreover, compared to December 2001, the IEE decreased by 6.3 points—that is, the share of consumers who expected an improvement of the economic situation in the country decreased during the year 2002. More than half of the Ukrainians who expected deterioration of the

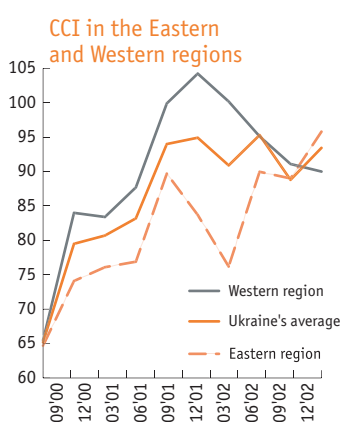
<sup>1</sup> Comprehensive surveys began in 2002, and are to be held once a year.

economic situation believed that in the near future their standard of living would worsen, prices would increase, and unemployment would grow; about one-third expected that economic policy would be ineffective, public finances would be wasted, and the problem of arrears (including wage arrears) would worsen.

At the end of the year, the inflationary expectations of Ukrainians deteriorated; the Index of Inflationary Expectations (IIE) increased by 4.5 points during Q4'02, up to 178.9—the highest value in the previous eighteen months. Such results reflected the reaction of the population to the accelerated inflation at the end of the year.

Expectations regarding changes in unemployment during the nearest months improved substantially; the corresponding index decreased by 5.5 points down to 119—which was the lowest value during all the time this index has been under observation (starting September 2000). Such expectations corresponded to the trend of falling unemployment during the year 2002.

### More optimists in the East, fewer in the West



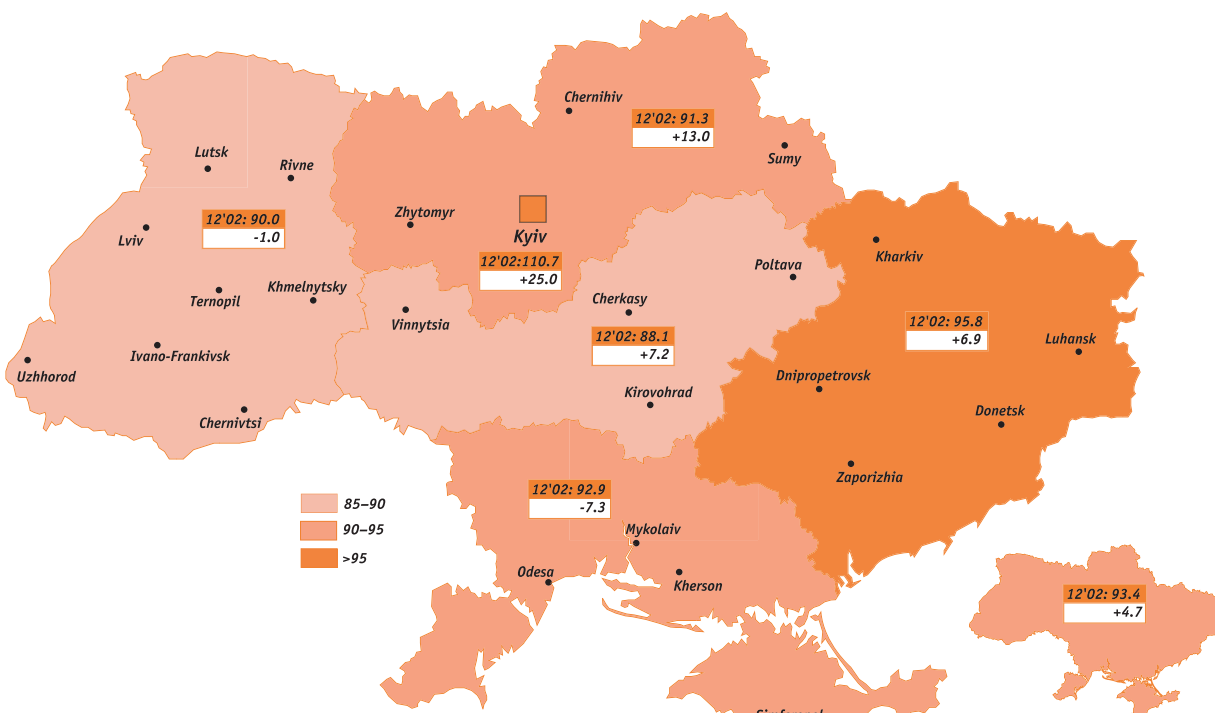
In December 2002, consumer confidence advanced the most in the Eastern region of Ukraine, where the CCI during Q4'02 increased by 6.9 points, up to 95.8. The assessments of residents in the Eastern region improved regarding their financial situation; the Index of Current Situation during the quarter increased by 11.7 points, up to 88.4, and was higher than in other regions (excluding Kyiv). The improvement of confidence in the East was

Index	Kyiv	North	West	Center	South	East
x1	105.4 +35.7	84.3 +2.6	85.3 -1.4	94.1 +21.8	94.2 -7.7	94.4 +9.5
x2	130.4 +33.9	105.2 +4.3	103.7 -2.8	97.5 +5.0	101.9 +3.2	100.9 +1.2
x3	103.6 +12.5	82.6 +2.6	100.0 +9.2	99.2 +28.6	93.6 -17.3	98.5 +6.2
x4	117.9 +8.9	96.5 +4.3	103.2 -0.9	95.8 -2.5	94.9 -16.0	103.0 +3.6
x5	96.4 +33.9	87.8 +51.3	58.1 -9.2	53.8 -16.8	80.1 +1.3	82.5 +13.9
<b>CCI</b>	<b>110.7</b> <b>+25.0</b>	<b>91.3</b> <b>+13.0</b>	<b>90.0</b> <b>-1.0</b>	<b>88.1</b> <b>+7.2</b>	<b>92.9</b> <b>-7.3</b>	<b>95.8</b> <b>+6.9</b>
ICS	100.9 +34.8	86.1 +27.0	71.7 -5.3	73.9 +2.5	87.2 -3.2	88.4 +11.7
IEE	117.3 +18.5	94.8 +3.8	102.3 +1.8	97.5 +10.4	96.8 -10.0	100.8 +3.7
IECU	123.2 +10.7	131.3 -10.4	116.1 -16.1	118.5 -14.3	117.3 +7.7	116.9 -2.7
IIE	178.6 -5.4	173.0 -4.3	178.3 -1.4	165.5 -5.0	185.3 +16.0	182.2 +10.4

probably due to the acceleration of industrial growth at the end of the year. In particular, industrial growth during H1'02 totalled 5.8%, while the overall year-end result for this indicator totalled 7%.

In Q4'02, the confidence of consumers deteriorated in the Southern and Western regions of Ukraine. In the South, confidence worsened primarily as a result of reinforced negative economic expectations; the IEE of the Southern region decreased by 10 points during the quarter and totalled 96.8 points in December 2002. Apparently, the negative confidence of the population in the Southern region was reinforced in December as a result of negative expectations regarding the future harvest, which could be affected by the severe winter. Due to seasonal dismissal of the work force in the Southern region, there were negative expectations regarding changes in unemployment as well; the corresponding index increased by 7.7 points, up to 117.3.

### Consumer Confidence Index by region



Here we use the following classification of regions: Northern: Zhytomyr, Kyiv (excluding Kyiv), Sumy, Chernihiv oblasts; Southern: Crimea Republic, Mykolaiv, Odesa, Kherson oblasts; Central: Vinnitsia, Kirovohrad, Poltava, Cherkasy oblasts; Western: Volyn, Zakarpattia, 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, 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, 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).

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 (AA) of indexes x1–x5;
- index of the 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 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 (IEE), 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 indexes can vary within the range of 0 to 200. The index totals 200 when all residents expect an increase in unemployment (inflation).

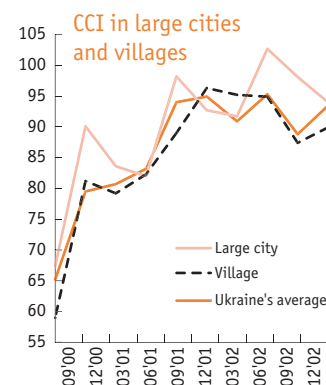
Consumer confidence in Ukraine's Western region deteriorated, along with a decrease in the propensity to consume; the corresponding index diminished by 9.2 points during Q4'02, down to 58.1, which was 8.3 points lower y-o-y. The continuing deterioration in the propensity to consume is apparently due to the general dissatisfaction of residents in Western Ukraine with the political and economic situation in the country.

### Pessimism deepened in large cities

The December 2002 survey revealed that consumer confidence at the year-end deteriorated among residents of large cities, while the confidence of Ukrainians in smaller settlements improved; compared to September 2002, the CCI for large cities fell by 4.1 points, to 94.0. The confidence of Ukrainians in large cities worsened mostly due to deteriorated expectations; the corresponding IEE totalled 96.8 in

Index	Village	Town	Small city	Large city
x1	91.0 +3.5	88.6 +4.9	93.7 +13.7	92.4 -3.2
x2	99.3 +2.8	108.4 +5.8	100.0 +0.5	95.5 -8.3
x3	95.2 +5.2	97.4 +1.3	96.3 +19.5	95.5 -3.2
x4	102.1 +1.0	102.3 -1.3	93.7 +1.1	99.4 -8.9
x5	61.9 0	75.3 +10.4	76.8 +16.3	87.3 +3.2
<b>CCI</b>	<b>89.9</b> <b>+2.5</b>	<b>94.4</b> <b>+4.2</b>	<b>92.1</b> <b>+10.2</b>	<b>94.0</b> <b>-4.1</b>
ICS	76.5 +1.7	82.0 +7.6	85.3 +15.0	89.8 0
IEE	98.8 +3.0	102.7 +1.9	96.7 +7.0	96.8 -6.8
IECU	122.5 -4.5	113.3 -10.1	118.4 -19.5	122.9 +12.7
IIE	176.1 +1.0	182.8 +8.1	175.3 0	179.0 +11.5

December 2002, which was 6.8 points lower than in September and 5.3 points lower y-o-y. The expectations of large cities' residents regarding inflation and unemployment deteriorated as well. The corresponding index of inflationary expectations increased by 11.5 points during Q4'02 and totalled 179—the highest value in the previous eighteen months. The corresponding index of expected changes in unemployment increased by 12.7 points, up to 122.9, which was 3.9 points more than the average indicator for Ukraine.



Compared to settlements of smaller size, the composition of the population in large cities has the highest percentage of individuals with higher education, who are the most sensitive to political and economic changes. The increased pessimism of residents in large cities of Ukraine apparently increased as a reaction to the economic slowdown and deterioration of the political situation.

Despite some improvement during the last quarter of 2002, the consumer confidence of Ukraine's rural population was the lowest; the corresponding CCI in December totalled 89.9 points, which was 6.4 points less than the value observed in December 2001. The deterioration of consumer confidence in the countryside was apparently related to the slowdown in agriculture; specifically, agricultural growth in Ukraine in 2002 totalled 1.9%, while in 2001 this indicator amounted to 10.2%.

### Poorest are doing worse

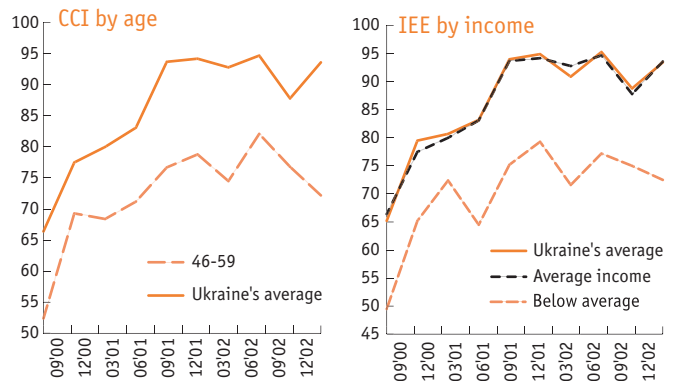
The December survey revealed a decline in the confidence of senior citizens (46–59 years old), as well as of individuals with average incomes. During the last quarter of 2002, the CCI of the oldest age

Index	Higher-than-average income	Average income	Lower-than-average income
x1	119.2 +6.6	93.5 +8.9	64.2 -6.4
x2	122.0 -1.4	103.4 +5.2	87.7 -2.7
x3	123.7 +9.8	96.9 +3.2	73.1 +1.8
x4	120.9 -9.5	100.5 -1.1	85.8 +0.2
x5	106.2 +5.6	73.5 +12.6	51.9 -5.1
<b>CCI</b>	<b>118.4</b> <b>+2.2</b>	<b>93.6</b> <b>+5.8</b>	<b>72.5</b> <b>-2.5</b>
ICS	112.7 +6.1	83.5 +10.8	58.0 -5.8
IEE	122.2 -0.4	100.3 +2.4	82.2 -0.2
IECU	107.9 +4.7	117.7 -8.3	132.1 -1.7
IIE	172.9 +2.0	179.9 +4.4	179.7 +5.8

group fell by 4.7 points to 72.2, while the CCI of individuals with below-average incomes decreased by 2.5 points, down to 72.5. However, only these two groups stated that their financial situation worsened. This occurred because during 2002 there were fewer effective government actions than in 2001 to improve the wellbeing of the poorest population. In particular, the average pension grew by 64% in 2001, and by only 5% in 2002.

During Q4'02, the confidence of the Ukrainian population with middle incomes increased; the corresponding CCI grew by 12.6 points, up to 73.5. Unlike the two other income groups, the confidence of individuals with middle incomes turned out to be better at the end of 2002 than at the end of 2001, when the

Index	15–30 years old	31–45 years old	46–59 years old
x1	103.4 +8.7	92.5 +10.9	74.3 -2.4
x2	117.7 +9.2	104.0 +5.8	81.4 -9.6
x3	114.0 +9.8	95.1 +6.7	73.2 -2.4
x4	114.3 +3.4	102.3 0	80.3 -8.6
x5	89.6 +8.9	76.0 +14.5	51.7 -0.3
<b>CCI</b>	<b>107.8</b> <b>+8.0</b>	<b>94.0</b> <b>+7.6</b>	<b>72.2</b> <b>-4.7</b>
ICS	96.5 +8.8	84.2 +12.7	63.0 -1.3
IEE	115.3 +7.5	100.5 +4.2	78.3 -6.9
IECU	113.5 -5.5	121.7 -6.9	123.4 -3.5
IIE	173.0 +7.6	183.2 +4.8	180.7 -0.7

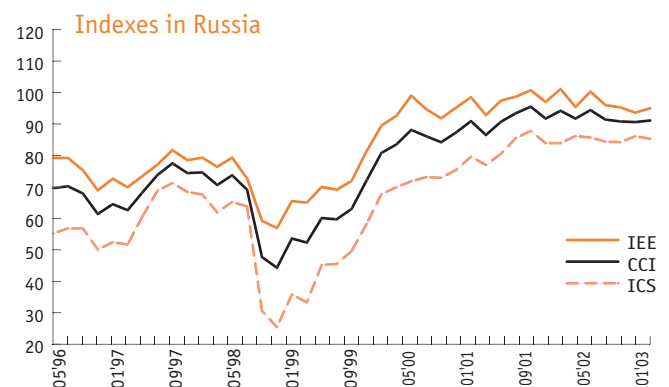


corresponding index totalled 64.0. Such results show that the strong income growth in Ukraine during 2002 affected more particularly the growth of well-being and improvement of consumer confidence among people with middle incomes.

### Russians expect inflation

In January 2003, the Consumer Confidence Index in Russia totalled 91.1 points, 0.5 more than the index observed during the previous survey in November 2002. However, the seasonally adjusted index showed a decrease of 2.5% during this period. This means that the revival of consumer confidence observed at the beginning of autumn 2002 ceased. In comparison with November, the seasonally adjusted Index of Current Situation decreased by 3.4% (85.3 versus 86.1 actual index value), while the Index of Economic Expectations—by 2% (95 versus 93.6). Falling assessments of current situation were related to a halt in the growth of real incomes at the end of the year.

Surveys in November 2002 and January 2003 revealed the continuing deterioration of inflationary expectations among Russians; the corresponding index totalled 183.3 points in November and 186.5 in January. The inflationary expectations observed in January 2003 were the worst during the whole post-crisis period in Russia. Such expectations of Russian consumers were caused by accelerated inflation in the country; consumer prices grew by 1.5% in December 2002 and by 2.4% in January 2003.



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 objective is to facilitate the improvement of Ukrainian policy research.

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