

# consumer confidence<sup>®</sup>

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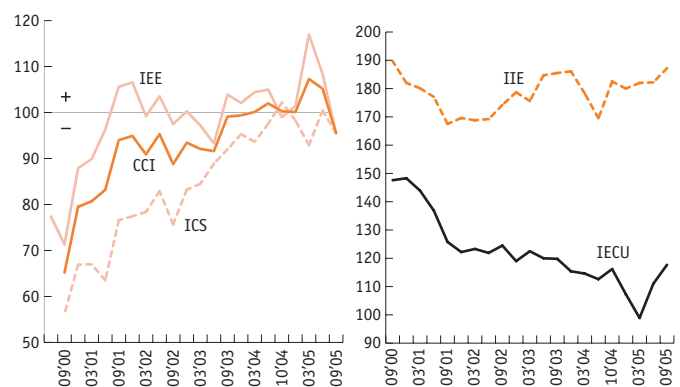
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## CCI hits record low for the last two years

**In September 2005, the Consumer Confidence Index in Ukraine hit 95.5, 9.7 points below the value registered in the previous poll, taken in June. This deterioration in consumer confidence was mainly the result of a steep rise in negative economic expectations among Ukrainians, especially short-term expectations. Expectations among Ukrainians with average incomes deteriorated the most. The propensity to consume continued to grow. The highest inflationary expectations were registered among older Ukrainians**

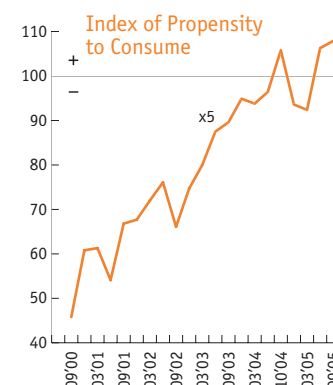
### A political crisis and inflation led to a steep fall in expectations

During Q3'05, the Consumer Confidence Index (CCI) in Ukraine dropped 9.7 points to 95.5—a record-low value for the last two years. Moreover, the CCI dropped below the 100-mark for the first time since 2004, showing that negative attitudes prevail among Ukrainians today. According to ICPS, this sharp decline in consumer confidence was primarily the result of the Government's failure to meet the high expectations that formed in early 2005, in the afterglow of the Orange Revolution. Disenchantment grew more intense in early September, when the political situation in Ukraine suddenly came to a boil, resulting in the dismissal of the Tymoshenko Government and an apparent split in the "Orange coalition."



Consumer confidence fell mainly because of a steep increase in negative economic expectations. The Index of Economic Expectations (IEE) was 95.5 in September 2005, 12.9 points below the value registered during the June poll. Short-term economic expectations deteriorated the most: this index x3 plunged 24.2 points during the quarter, to 86.6. The majority of Ukrainians say the main reasons behind a deteriorating economic situation are price rises and growing unemployment, which will lead to a worsening in the living standards of Ukrainians. 57% of those who expect economic conditions in the country to deteriorate over the next 12 months mentioned this factor. At this time in 2004, 60% of pessimistic Ukrainians thought so.

Ukrainians connect improved economic conditions in the country, first of all, with more effective economic policy on the part of their government. The number of respondents who expect the shadow economy to shrink and corruption to subside has grown significantly compared with 2004: in September 2005, 33% of those who expect economic conditions to improve over the next 12 months pointed to this factor, whereas only 11% of optimistic Ukrainians did so at this time in 2004.



Over this quarter, the Index of the Current Situation (ICS) slipped 5 points, to 95.5. The Index of Current Personal Financial Standing (x1) went down 11.3 points, to 83.1. According to Ukrainian consumers, the main factor behind deteriorating personal financial standing is growing prices. 79% of those who said their financial standing had deteriorated over the last six

Index of Current Personal Financial Standing (x1)	83.1
	-11.5
Index of Expected Changes in Personal Financial Standing (x2)	96.4
	-6.3
Index of Expected Economic Conditions in the Country Over the Next Year (x3)	86.6
	-24.2
Index of Expected Economic Conditions in the Country Over the Next 5 Years (x4)	103.4
	-8.3
Index of Propensity to Consume (x5)	107.9
	+1.6
<b>Consumer Confidence Index (CCI)</b>	<b>95.5</b>
	<b>-9.7</b>
Index of the Current Situation (ICS)	95.5
	-5.0
Index of Economic Expectations (IEE)	95.5
	-12.9
Index of Expected Changes in Unemployment (IECU)	117.7
	+6.7
Index of Inflationary Expectations (IIE)	187.2
	+5.0

Index	Kyiv	North	West	Center	South	East
x1	71.2 -12.1	88.0 +4.5	92.8 -16.1	86.2 -8.7	88.4 -13.5	73.6 -13.7
x2	111.9 +5.2	106.8 +18.1	99.1 -25.0	88.8 +2.5	107.7 -9.2	85.8 -5.7
x3	91.5 -16.8	98.3 -0.8	98.7 -47.7	89.7 -23.1	89.0 -7.1	70.9 -26.4
x4	86.4 -23.6	111.1 -7.2	107.2 -21.4	97.4 -19.7	114.8 +3.8	97.9 +1.2
x5	76.3 -43.7	106.0 +22.5	97.8 -4.0	112.1 -0.7	111.6 -2.0	117.6 +8.5
CCI	87.5 -18.2	102.1 +7.5	99.1 -22.9	94.8 -10.0	102.3 -5.6	89.2 -7.2
ICS	73.7 -28.0	97.0 +13.5	95.3 -10.1	99.1 -4.7	100.0 -7.8	95.6 -2.6
IEE	96.6 -11.7	105.4 +3.4	101.6 -31.4	92.0 -13.4	103.9 -4.1	84.8 -10.4
IECU	130.5 +20.5	124.8 +3.9	105.8 +13.4	120.7 +8.7	109.0 -13.7	123.9 +9.4
IIE	194.9 +13.2	183.8 +4.7	187.0 +11.1	188.8 +5.0	183.2 +4.6	188.8 0.0

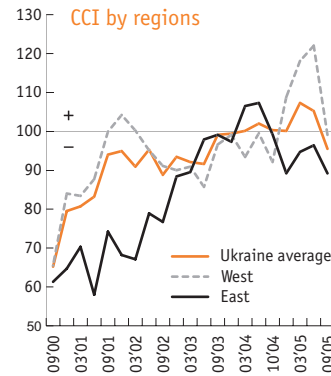
months noted this factor. The impact of inflation on the personal financial standing of Ukrainians grew stronger compared to 2004: in Fall 2004, 56% mentioned inflation as the main factor behind their deteriorating personal financial standing. During Q3'05, the Index of Inflationary Expectations (IIE) climbed another 5 points, to 187.2—a record high for the last five years.

Despite this significant decline in economic expectations, the country registered an increase in the propensity to make major household purchases: the relevant index x5 inched up another

1.6 points over Q3'05, to a new record high of 107.9. As in 2004, the main factor encouraging Ukrainian consumers to make large purchases is a good choice of goods. The number of Ukrainians who indicated accessibility to consumer loans as a factor also grew, from 39% in 2004 to 46% in 2005. This appears to be the result of a growing consumer lending market in Ukraine and shrinking real interest rates for loans because of inflation.

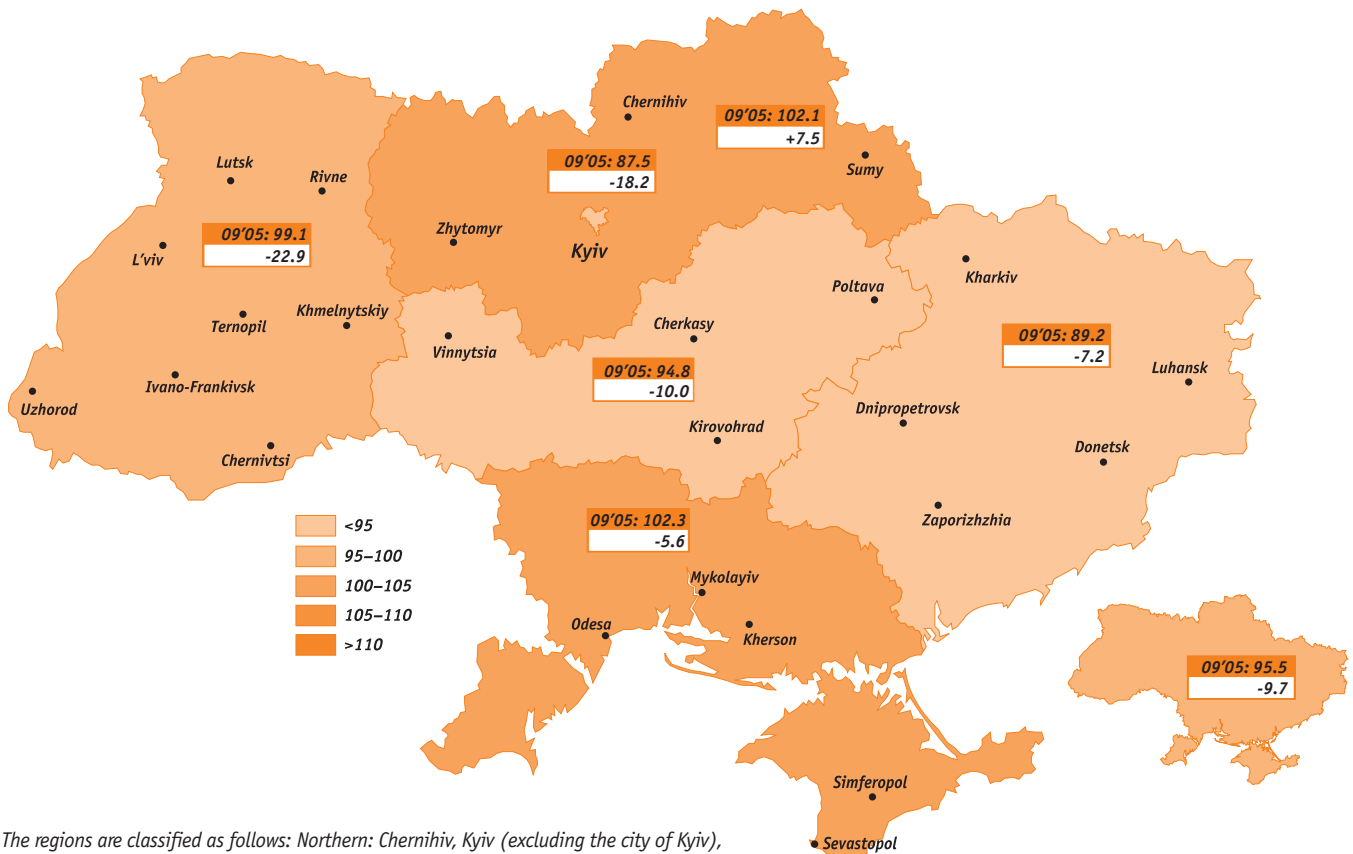
Expectations of change in unemployment deteriorated. In September, the Index of Expected Changes in Unemployment (IECU) grew to 117.7, a record high for the last two years.

## Ukrainians across the country are disappointed with economic prospects in the near term



Consumer confidence declined the most in western Ukraine, where the CCI plunged 22.9 points, falling to 99.1 over the quarter. Still, consumer confidence in this region is better than the national average. Short-term economic expectations among consumers in western oblasts deteriorated the most: the relevant index x3 fell 47.7 points over the quarter, to 98.7. However, short-term economic expectations in this part of Ukraine are more optimistic than those registered in October 2004, when the relevant index x3 stood at 93.8.

## Consumer Confidence Index by region



The regions are classified as follows: Northern: Chernihiv, Kyiv (excluding the city of Kyiv), Sumy, Zhytomyr oblasts; Southern: Crimea, Kherson, Mykolajiv, Odesa oblasts; Central: Cherkasy, Kirovohrad, Poltava, Vinnytsia oblasts; Western: Chernivtsi, Ivano-Frankivsk, Khmelnytskiy, L'viv, Rivne, Ternopil, Volyn, Zakarpattia oblasts; Eastern: Dnipropetrovsk, Donetsk, Kharkiv, Luhansk, Zaporizhzhia oblasts.

## How indices are calculated

In Ukraine, the Consumer Confidence Index is determined through a random survey of domestic households. The poll involves 1,000 individuals aged 15–59, an age group that represents 61.3% of Ukraine's population and the country's most active consumers. A representative sample is selected by gender and age, also by type and size of settlement. The margin of error is 3.2%.

To define the CCI, respondents are asked these questions:

1. How has the financial standing of your family changed over the last six months?
2. How do you think your family's financial standing will change in the next six months?
3. Looking at economic conditions in the country as a whole, do you think the next 12 months will be good or bad?
4. Looking at the next five years, will they be good ones or bad ones for the country's economy?
5. In terms of large purchases for your home, do you think now is generally a good time or a bad time to make such purchases?

Each of these questions is related to a corresponding index:

- Index of Current Personal Financial Standing (x1);
- Index of Expected Changes in Personal Financial Standing (x2);
- Index of Expected Economic Conditions in the Country Over the Next Year (x3);
- Index of Expected Economic Conditions in the Country Over the Next 5 Years (x4);
- Index of Propensity to Consume (x5).

Indices are constructed thus: the share of negative answers is deducted from the share of positive answers, and 100 is added to this difference in order to eliminate negative values.

On the basis of these five indices, three aggregate indices are calculated:

- Consumer Confidence Index (CCI) as the arithmetic average of indices x1–x5;
- Index of the Current Situation (ICS) as the arithmetic average of indices x1 and x5;
- Index of Economic Expectations (IEE) as the arithmetic average of indices x2, x3, and x4.

Index values range from 0 to 200. The index equals 200 when all respondents positively assess the economic situation. It totals 100 when the shares of positive and negative assessments are equal. Indices below 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 these 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 work) will increase, will remain roughly the same, or will decrease?
2. How do you think that prices for major consumer goods and services will change in the next 1–2 months?

The IECU and the IIE are calculated thus: the share of answers that indicate a decrease of unemployment/inflation is subtracted from the share of answers which indicate the growth of unemployment/inflation, and 100 is added to the difference to eliminate negative values. The values of indices can vary from 0 to 200. The index totals 200 when all residents expect an increase in unemployment/inflation.

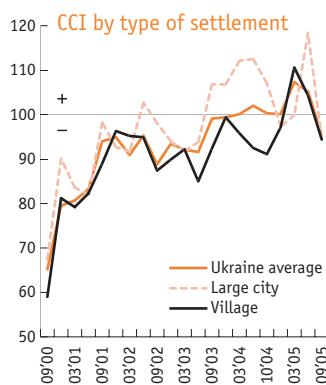
The poorest consumer confidence was registered in Kyiv and eastern Ukraine. The CCI in Kyiv dropped 18.2 points to 87.5, whereas the CCI in eastern Ukraine fell only 7.2 points, to 89.2. As in western regions, the main reason behind deteriorating consumer confidence in eastern Ukraine was a steep increase in negative expectations around short-term prospects for the country's economy: the relevant index x3 dropped 26.4 points from June to September, to 70.9—the lowest value since June 2001. At the same time, long-term expectations among Ukrainians in eastern oblasts regarding the country's economy improved: the relevant index x4 inched up 1.2 points to 97.9. In addition, the poll revealed that consumers in eastern Ukrainian have the highest propensity to consume. Over this

quarter, the index x5 calculated for this specific region climbed 8.5 points to a new record high—117.6.

### Ukrainians in small towns and villages are spending more

Consumer confidence deteriorated the most in large cities. The relevant index fell 24 points over the quarter, to 94.4—the lowest value for the last two years. In addition, the index of short-term economic expectations plunged to 68.1—the lowest value over the last five years, losing a dramatic 52.8 points compared to the value registered during the June poll. At the same time, long-term economic expectations of consumers in large cities continue to be mostly optimistic: although 9.7 points below the value registered in June, the relevant index x4 was still 110.6 in September 2005.

Index	Village	Town	Small city	Large city
x1	82.3 -9.6	86.6 -10.8	85.2 -9.4	80.0 -18.7
x2	94.6 -4.0	96.1 -6.5	94.0 -1.7	98.1 -19.0
x3	94.2 -20.4	85.6 -31.2	90.7 +3.7	68.1 -52.8
x4	99.7 -17.9	103.9 -4.0	108.2 +6.6	110.6 -9.7
x5	102.0 +1.3	109.5 +12.8	118.6 +16.4	115.0 -19.8
<b>CCI</b>	<b>94.6</b> <b>-10.1</b>	<b>96.3</b> <b>-8.0</b>	<b>99.3</b> <b>+3.1</b>	<b>94.4</b> <b>-24.0</b>
ICS	92.2 -4.1	98.0 +1.0	101.9 +3.5	97.5 -19.3
IEE	96.1 -14.2	95.2 -13.9	97.6 +2.9	92.3 -27.1
IECU	111.2 -2.0	121.6 +18.0	117.5 -3.2	116.9 +6.8
IIE	182.7 +5.1	188.2 -0.2	191.8 +13.5	185.0 +1.5



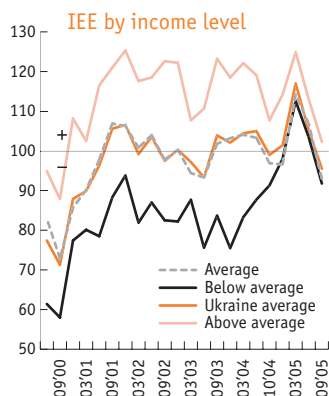
Unlike smaller settlements, the propensity to consume in large cities declined over Q3'05: the relevant index x5 lost 19.8 points, falling to a still-positive 115. This propensity to consume in large cities is comparable to that registered in Fall 2004.

The propensity to consume in rural areas continued to grow: the relevant index climbed 1.3 points, to 102. Unlike urban residents, the propensity to consume among rural consumers is less dependent on inflationary expectations, as the IIE calculated for rural areas was 182.7 and was lower than

Index	Above average income	Average income	Below average income
x1	96.4 -10.2	79.8 -10.6	71.3 -10.8
x2	106.8 -1.0	92.3 -10.2	92.5 +0.8
x3	91.8 -24.3	85.0 -23.1	82.8 -25.5
x4	108.2 -7.0	102.2 -7.6	100.0 -10.3
x5	125.3 +1.4	104.2 +5.5	91.4 -1.7
<b>CCI</b>	<b>105.7</b> <b>-8.2</b>	<b>92.7</b> <b>-9.2</b>	<b>87.6</b> <b>-9.5</b>
ICS	110.9 -4.3	92.0 -2.5	81.3 -6.3
IEE	102.3 -10.7	93.1 -13.7	91.8 -11.6
IECU	119.6 +10.0	114.9 +6.8	123.0 -1.8
IIE	187.9 +7.0	187.0 +4.9	186.8 +1.3

the urban IIE. Expectations of changes in unemployment among rural dwellers were also different from those of urban residents. The number of rural consumers expecting unemployment to subside shrank compared with June figures as the IECU slipped 2 points, to 111.2.

### The expectations of average-income Ukrainians are close to those of poor Ukrainian consumers



Economic expectations among Ukrainians with average incomes have deteriorated the most. Their Index of Economic Expectations fell 13.7 points during the quarter, to 93.1. However, in March 2005, when the poll registered record-high values of consumer confidence, positive expectations among average-income consumers had grown the most. Such a dynamic

indicates that positive expectations grew the most in this particular group at the beginning of the year and that the number of those who were disenchanted six months later was the largest in this income group.

Currently, economic expectations among Ukrainians with average incomes are close to those of poorer Ukrainian consumers. The IEE calculated for low-income Ukrainians was 91.8 in September 2005, 11.6 points below the value registered in June.

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

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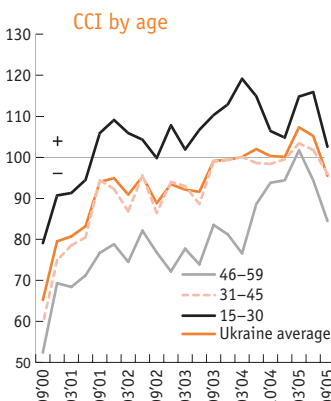
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Index	15-30	31-45	46-59
x1	92.6 -14.3	80.1 -8.7	73.1 -11.2
x2	104.1 -11.3	97.6 0.0	83.4 -7.7
x3	93.6 -25.2	87.2 -21.0	75.3 -27.6
x4	107.1 -16.6	103.6 -4.3	97.8 -1.8
x5	115.6 +0.9	111.3 +4.7	93.0 -1.3
<b>CCI</b>	<b>102.6</b> <b>-13.3</b>	<b>96.0</b> <b>-5.8</b>	<b>84.5</b> <b>-9.9</b>
ICS	104.1 -6.7	95.7 -2.0	83.0 -6.3
IEE	101.6 -17.7	96.1 -8.4	85.5 -12.4
IECU	113.0 +9.1	118.7 +6.6	123.2 +3.6
IIE	182.9 +4.8	189.6 +3.5	190.4 +7.2

The propensity to consume shrank only among Ukrainians with below-average incomes: this index x5 slipped 1.7 points, to 91.4. Still, the propensity to consume among representatives of this income group is higher than any time before June 2005. The poll did not register any significant differences among inflationary expectations of different income groups.

### Young Ukrainians are the most disappointed



Consumer confidence among representatives of the youngest age group, aged 15-30, has deteriorated the most. Over Q3'05, their CCI slipped 13.3 points to 102.6—the lowest value for the last four years. Short-term expectations among young people are mainly pessimistic: the index x3 calculated for this age group was 93.6 in September 2005, 25.2 points below the value registered in June.

Unlike young and middle-aged Ukrainians, the propensity to consume among older Ukrainians, aged 46-59, has declined: their index x5 was 93 in September 2005, 14.9 points below the value registered in June. The highest inflationary expectations were also registered among older Ukrainians: their Index of Inflationary Expectations was 190.4. These results indicate that older Ukrainians are less inclined to connect their purchases of durable goods with accelerating inflation.

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