

CONSUMER CONFIDENCE REMAINS VERY LOW



Press release

Results of the joint Ukraine consumer confidence survey project
by GfK Ukraine and the International Centre for Policy Studies

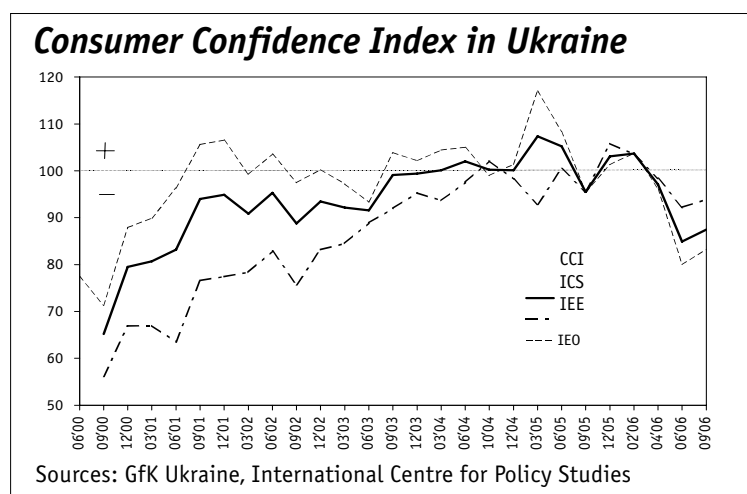
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In September 2006, the Consumer Confidence Index in Ukraine moved back up slightly, to 87.5. This is 2.6 points above the value registered during the previous poll, in June 2006. Despite a slight improvement in the evaluation of their current standing and in economic expectations compared to the previous poll, consumer confidence among Ukrainians remains extremely low.

The Index of Propensity to Consume, which indicates the readiness of consumers to make large household items, has been deteriorating steadily since April 2006. From June to September 2006, the index lost 1.9 points, slipping to 99.7. A value below the 100-mark for this index shows that the majority of Ukrainians did not think that now is generally a good time to make large household purchases. This deterioration in the propensity to consume is, apparently, related to Ukrainians' extremely pessimistic expectations of their personal financial standing, which have hit a record low since 2000.

The Index of Economic Expectations (IEE) grew 3.3 points compared to the June value, to 83.3. Short-term economic expectations of Ukrainian consumers continue to be extremely pessimistic: this index stood at 74.8 in September 2006.



Despite the overall pessimistic economic expectations of Ukrainians, inflationary expectations have eased off. The Index of Inflationary Expectations (IIE) fell 8 points over June–September 2006, to 181.2—a record low since December 2004. Ukrainian consumers appear to be responding to slower growth in consumer prices—especially, food prices—which has been slowing down throughout 2006.

Expectations among Ukrainians of changes in unemployment have

improved after declining since April 2006. The Index of Expected Changes in Unemployment (IECU) fell 7.2 points over June–September 2006, to 113.6. At the moment, expectations of changes in unemployment are close to the values registered in late 2005.

Consumer confidence in rural areas continues to deteriorate. The relevant CCI was 78.8 in September 2006, 3.4 points below the value registered in June 2006. The Index of the Current Situation (ICS) of rural consumers fell 5.9 points to 84.1, while their Index of Economic Expectations slipped 1.5 points to 75.4.

Consumer confidence among better-off Ukrainians has been deteriorating since the beginning of 2006. Over June–September 2006, the CCI of Ukrainians with above-average incomes shrank 4.5 points, to 98.8. A CCI value below the 100-mark shows that the majority of better-off Ukrainian consumers currently feel pessimistic. This is the first time the CCI for Ukrainians with above-average incomes has fallen below the 100-mark in the entire history of consumer confidence research in Ukraine. Such research has been conducted since September 2000.

CCI trends in Ukraine

Month, Year	Consumer Confidence Index (CCI)	Index of the Current Situation (ICS)	Index of Economic Expectations (IEE)	Index of Expected Changes in Unemployment (IECU)	Index of Inflationary Expectations (IIE)
09'06	87.5	93.9	83.3	113.6	181.2
06'06	84.9	92.2	80.0	120.8	189.2
04'06	97.1	98.4	96.2	116.3	186.9
02'06	103.7	103.5	103.8	111.6	185.4
12'05	103.1	105.8	101.3	111.7	184.3
09'05	95.5	95.5	95.5	117.7	187.2
06'05	105.2	100.5	108.4	111.0	182.2
03'05	107.3	92.9	117.0	98.9	182.0
12'04	100.1	98.3	101.4	107.3	180.0
10'04	100.3	102.2	99.0	116.2	182.5
06'04	102.0	97.6	105.0	112.6	169.5
03'04	100.1	93.7	104.4	114.6	178.3
12'03	99.4	95.3	102.1	115.4	186.1
09'03	99.1	92.0	103.9	119.8	185.5
06'03	91.6	88.9	93.3	120.0	184.7
03'03	92.1	84.5	97.2	122.5	175.6
12'02	93.4	83.2	100.3	119.0	178.7
09'02	88.8	75.7	97.5	124.5	174.2
06'02	95.3	82.9	103.6	121.9	169.2
03'02	90.9	78.4	99.2	123.3	168.8
12'01	94.9	77.5	106.6	122.2	169.6
09'01	94.0	76.6	105.6	125.8	167.5
06'01	83.2	63.5	96.3	136.9	177.1
03'01	80.7	67.0	89.9	143.9	180.1
12'00	79.5	66.9	87.9	148.3	182.0
09'00	65.2	56.2	71.3	147.6	189.7

Sources: GfK Ukraine, ICPS

*If you would like to receive the **consumer confidence** bulletin, with a detailed quarterly analysis of the CCI in Ukraine, contact our client relations manager Andriy Starynskiy by telephone at (380-44) 484-4410, or via e-mail at marketing@icps.kiev.ua. You can also order ICPS publications through the Centre's website, at <http://www.icps.com.ua/eng/subscribe/>.*

How the 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 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 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 that 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.

GfK Ukraine is a leading Ukrainian market research company. In 1998, the company joined the worldwide GfK research network, which includes 130 companies in 63 countries.

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