

EXPECTATIONS OF UKRAINIAN CONSUMERS IMPROVED IN FEBRUARY



Press release

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

Kyiv, 10 April 2007
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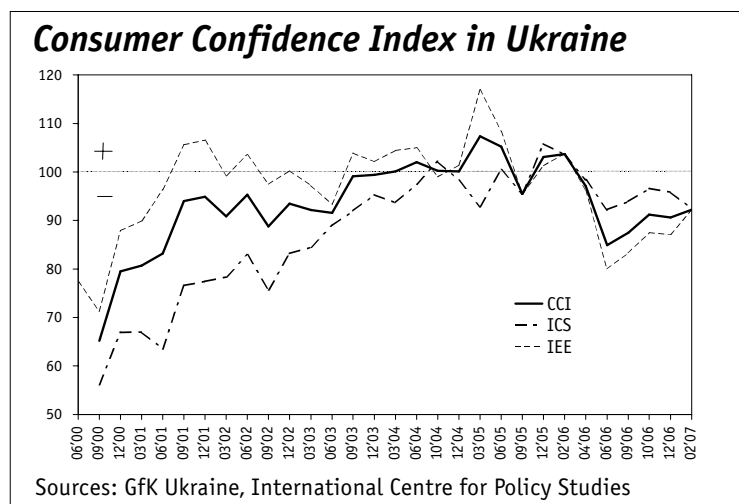
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In February 2007, Ukraine's Consumer Confidence Index (CCI) inched up to 92.2, 1.6 points above the value registered in December 2006. This is a record high since June 2006. An increase in the index indicates an improvement in consumer confidence among Ukrainians. However, a CCI value below the 100-mark shows that the majority of Ukrainians continue to feel pessimistic.

The share of optimistic evaluations of the prospects for the country's economy has grown. The Index of Economic Expectations (IEE) rose 5 points, to 92.1—a record high since April 2006. Short-term economic expectations improved the most among Ukrainians: the index x3 jumped 8.4 points, to 90.3.

However, the Index of the Current Situation (ICS) deteriorated. In February 2007, it stood at 92.4, 3.5 points below the value registered in December 2006. The Index of Current Personal Financial Standing x1 shrank 3.3 points over the period, to 81.1—a record low since June 2001. Such evaluations of the financial standing of Ukrainians do not correlate with the dynamic of their incomes. According to data from Derzhkomstat, real personal incomes grew at a rapid pace in 2006, rising 16.1% in real terms, that is, adjusted for inflation.

Negative evaluations of personal financial standing among Ukrainians are, evidently, the reaction of consumers to rising costs for residential services and utilities. These grew much faster than personal incomes in H2 2006. The share of these expenditures in household budgets has grown significantly, leaving fewer resources for other consumption. This is evident in a contraction in the propensity to consume. In February 2007, the Index of Propensity to Consume, which is the indicator of the readiness of Ukrainian consumers to purchase durable goods, was 103.7, 3.6 points below the value registered in December 2006.



Along with growing optimistic economic assessments, expectations of changes in unemployment and inflation have also improved. The Index of Expected Changes in Unemployment (IECU) dropped 6.1 points from December 2006 to February 2007, to 109.5. The Index of Inflationary Expectations (IIE) slipped 2.7 points, to 183.7.

Consumer confidence in major cities has deteriorated sharply. Their CCI was 90.8 in February 2007, a whopping 21.7 points below the value registered in December 2006. Evidently, rising rates

residential services has had the strongest impact on urban residents. In February, they showed the most pessimistic inflationary expectations: their IIE was 187.3, 3.6 points above the national average.

The poll registered deterioration in consumer confidence among middle-aged Ukrainians (aged 30–45) with average incomes. The CCI for middle-aged Ukrainian consumers was 87.2 in February 2007, while the CCI for Ukrainians with average incomes was 87.5, 3.9 points and 1.2 points below the values registered in December 2006. Consumer confidence among these consumers deteriorated mainly because of poorer evaluations of their current standing.

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)
02'07	92.2	92.4	92.1	109.5	183.7
12'06	90.6	95.9	87.1	115.6	186.4
10'06	91.2	96.6	87.5	116.9	187.5
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. The company is a member of the worldwide GfK research network, which includes over 130 companies in 70 countries.

The International Centre for Policy Studies is an independent research organisation whose mission is to introduce public policy concepts and procedures in Ukraine. ICPS focuses on key programs of importance for the reform efforts of the Ukrainian government.