

POLITICAL CRISIS LEADS TO WORSENING ECONOMIC EXPECTATIONS



Press release Results of the Ukraine consumer confidence survey project implemented jointly by GfK-Ukraine and the International Centre for Policy Studies

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www.icps.com.ua, www.gfk.ua

Contact person: Yevhenia Akhtyrko, Project Manager
Tel: (380-44) 484-4403, e-mail: eakhtyrko@icps.kiev.ua

From February to April 2007, the Consumer Confidence Index (CCI) in Ukraine remained practically flat. In April 2007, the CCI registered 92.3. A CCI value below the 100-mark shows that the majority of Ukrainians continue to feel pessimistic.

The survey revealed a decline in economic expectations among Ukraine's consumers. In April, the Index of Economic Expectations (IEE) was 88.0, 4.1 points below the value registered in February. Economic expectations deteriorated as a result of a sharp increase in negative expectations among Ukrainian consumers of the economy's short-term prospects. The index x3 fell 13.7 points from February to April 2007, to 76.6, a record-low value since September 2006. Such a decline in economic expectations was apparently in response to the aggravated political situation over the President's call for pre-term Verkhovna Rada elections.

Despite extremely pessimistic short-term economic expectations, evaluations of their current financial standing improved among Ukrainian consumers: the Index of the Current Situation (ICS) rose to 98.8 in April 2007, 6.4 points above the value registered in February. The Index of Propensity to Consume (x5), which shows the readiness of Ukrainians to purchase large household items, was 110.0 in April, a record high for the past 12 months. The opposite trends in the ICS and the IEE shows that Ukrainian consumers are not inclined to link their well-being to the economic situation in the country.

Consumer confidence in Southern Ukraine deteriorated steeply. In April 2007, the CCI for southern oblasts was 92.0, 13.5 points below the value registered in February and a record low since 2001. As in other regions, the decline in consumer confidence in southern oblasts was mainly the result of worsening economic expectations: this index plunged 20.4 points from February to April, to 90.4.



Economic expectations grew worse in all sizes of communities. The most pessimistic expectations were registered in rural areas and in major cities, where the CCI was 88.3 and 88.6. Residents of big cities, who have the most information about political events, also showed the worst short-term economic expectations: their index x3 plunged 25.8 points from February to April, to 67.8.

Consumer confidence among better-off, young Ukrainian consumers also slipped. From February to April, the CCI of those with above-average incomes slipped

3.9 points, to 103.7, while the CCI of young consumers, aged 15–30, shrank 2.7 points, to 101.4. Still, consumer confidence in these two groups remains mostly optimistic.

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)
04'07	92.3	98.8	88.0	109.7	181.8
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.

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