

GOVERNMENT PLANS SPOIL CONSUMER MOOD

Press release

Results of consumer confidence survey in Ukraine, a joint project between GfK Ukraine and the International Centre for Policy Studies

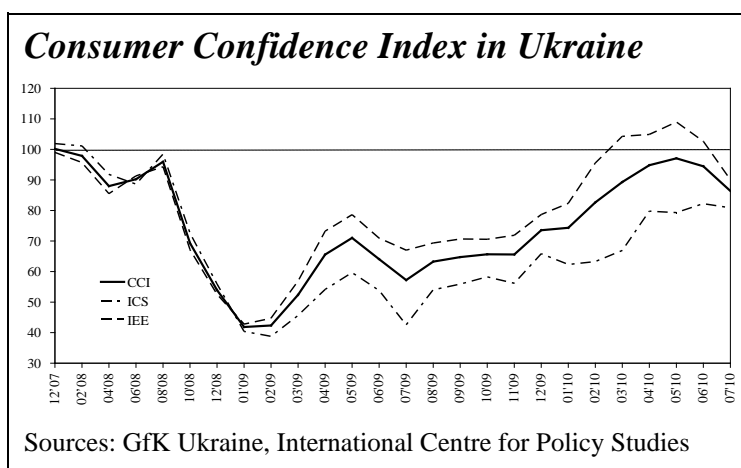
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Ukraine's consumers greeted the second month of Summer 2010 with an 8.1pp plunge in the Consumer Confidence Index (CCI), which fell to 86.4. This is the second month that this downward trend in the consumer mood has been seen, after three quarters of steady improvement. The drop in the CCI in July 2010 was the result of worsening economic expectations, as the IEE plunged 12.6pp to a once-again pessimistic 90.1, after hovering between neutral and optimistic. Estimations of the current situation also declined, although the ICS slipped a mere 1.4pp to 80.9.

Negative evaluations of the prospects for Ukraine's economy also affected consumers' expectations regarding inflation and unemployment trends. The two indices grew almost the same, with the IIE rising 6.8pp to 182.4 and the IECU jumping 6.2pp to 113.1.

“The Government's plans to institute a series of unpopular reforms, especially to raise rates for energy and increase the pensionable age have been received rather coldly by most Ukrainians,” says ICPS Social Economy Program Manager Maksym Boroda, “although the pressure to do so is the result of revived cooperation with the IMF. At the same time, a slowdown in the economic revival coupled with a heatwave that has been threatening this year's grain harvest has caused Ukraine's consumers to feel more pessimistic about economic prospects.”



Month, year	Consumer Confidence Index (CCI)	Index of the Current Situation (ICS)	Index of Economic Expectations (IEE)	Index of Inflationary Expectations (IIE)	Index of Expectations of Changes in Unemployment (IECU)
07'10	86.4	80.9	90.1	182.4	113.1
06'10	94.5	82.2	102.6	175.7	106.9
07'09	57.2	42.6	67.0	187.3	136.8

Sources: GfK Ukraine, International Centre for Policy Studies

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How the indices are calculated

From January 2009 consumer confidence survey is conducted on a monthly basis.

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 Ukrainian research company, offering a comprehensive range of survey services and market research in Ukraine, Moldova and Belarus. GfK Ukraine is a member of the worldwide GfK Group which is the No. 4 market research organization worldwide. The Group has 115 companies covering over 100 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.