
CONSUMER MOOD HITS 8-YEAR LOW IN UKRAINE

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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The economic crisis has hit consumer confidence in Ukraine with a vengeance. In October 2008, this was reflected in a 26.6pp drop in the Consumer Confidence Index (CCI) to 69.3, which indicates an exceptionally pessimistic mood among the majority of Ukrainian consumers. The last time the CCI was this low was at the very beginning of such surveys in Ukraine, that is in Summer–Fall 2000, more than eight years ago. Moreover, this is the first time in the history of these reports that the survey recorded such an enormous drop in the consumer mood.

Nearly all the components of the CCI showed unprecedented levels and trends in October. For instance, the Index of the Current Situation (ICS) plunged 25.9pp, to 72.6. Moreover, the only time this index was ever so low was in 2000–2001. This dramatic worsening in the ICS is largely the result of extremely negative assessments by Ukrainian consumers of their current financial standing. This index x1 fell 24.7pp to 65.5. Although Ukrainians have never been prone to especially optimistic assessments of their personal material standing, they have never given it such a poor assessment since September 2000.

The Index of Propensity to Consume x5, which is generally more volatile than other components in the CCI, continues to register at a high level. And although it has fallen 27.0pp to 79.6, indicating that the majority of Ukrainians are not prepared to make major household purchases at this time, it still indicates that a significant proportion of Ukraine's consumers continue to have relatively high buying power. Moreover, given the devaluation of the hryvnia and accelerating inflationary processes, for many consumers, major purchases are one way to preserve their savings by putting the money into durable goods.

Data from the expanded survey indicate that, in October 2008, the absolute majority of respondents traditionally connect a worsening in their personal material standing with growing inflation. Among the reasons given for not wanting to make major purchases at this time, Ukrainian consumers most often blamed the lack of money and more restricted access to credit.

The Index of Economic Expectations (IEE) also plunged, 27.1pp to a record-low 67.2. In other words, the overall economic situation in Ukraine and its prospects have never been so poorly rated by the country's consumers. Short-term expectations were particularly pessimistic, which can be seen in the biggest plunge in this index x3 among all the components of the IIE: it nosedived 36.7pp to 54.1. Interestingly, most Ukrainian consumers expect changes in their personal material standing to be less negative than the economic situation as a whole. This is supported by the dynamic of the index of expected changes in personal material standing 2, which fell 26.0pp to 71.4.

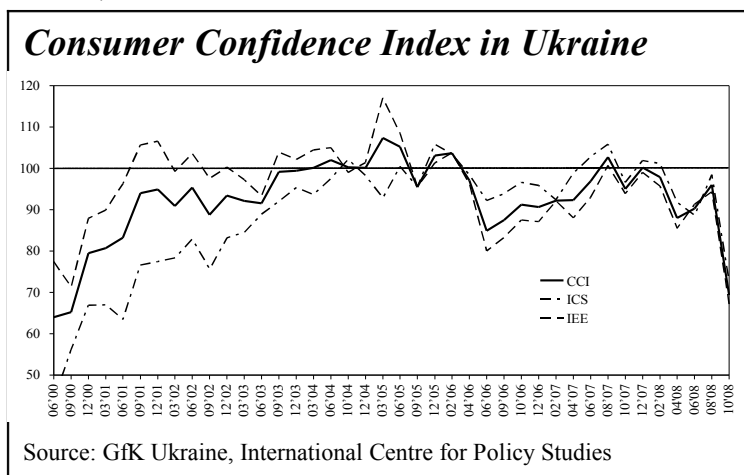
Ukraine's consumers rated the country's longer-term economic prospects somewhat more positively, although still largely pessimistically: the index of expectations of economic growth over the net five years x4 fell 18.7pp, to 76.0. The reasons for the worsening economic situation given by most Ukrainians, according to the expanded survey, were growing inflation and unemployment, as well as ineffective economic policy, cutbacks in industrial output, and political instability.

Against the background of an economic and financial crisis, inflationary expectations have barely changed: the IIE slipped only 0.6pp in October, to 186.5. This can be explained by the fact that inflationary expectations have been very high among Ukrainian consumers for a long time already. Notably, for all eight years that this survey has been run, the IIE has fluctuated within a relatively narrow range, that is, 170–190. Expectations of changes in unemployment, on the other hand, grew considerably worse in October, with the IECU skyrocketing 34.8pp to 143.4. With cutbacks in many industries, recent massive layoffs in some sectors of the economy, and negative economic forecasts, this level of expectations is hard to call overly pessimistic, although they are considerably ahead of the real unemployment rate, which the State Employment Service claims has hardly moved in Ukraine.

Over September–October 2008, the consumer mood worsened and became pessimistic in all regions of the country. The worst were in the East, where there is a concentration of enterprises in sectors that were the first to feel the impact of the economic crisis. Thus, the CCI for the region took a nosedive, plunging 34.9pp to 59.2. The most optimistic were residents of the capital, whose CCI only went down 5.2pp, to 85.8. Interestingly, the readiness of Kyivites to make major purchases has remained neutral. Moreover, in September–October this index actually inched up 1.6pp to 100.0. One explanation for this might be retailer efforts to maintain sales of durable goods at a high level through various special offers and discounts. Given the relatively high buying power of Kyiv consumers and the cheaper hryvnia, this kind of actions are likely to result in a temporary spike in sales of certain categories of goods.

The worsening consumer mood was seen across all types of settlements in October 2008. The lowest CCI, at 63.8, was registered among residents of major cities, while the highest, 75.7, was in mid-sized towns. Consumers proved equally pessimistic by age and income groups as well in September–October 2008. Naturally, the least pessimistic

remain young and better-off consumers, whose CCIs were 78.9 and 75.1. The worst consumer mood was, as is traditional in Ukraine, demonstrated among older consumers, whose CCI was 60.1, and those with below-average incomes, whose CCI was 54.5.



Trends in the Consumer Confidence Index 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)	Index of Propensity to Consume (x5)
10'08	69.3	72.6	67.2	143.4	186.5	79.6
08'08	96.0	98.5	94.3	108.6	185.9	106.6
06'08	90.2	88.7	91.3	112.7	188.0	97.4
04'08	88.0	91.8	85.5	112.8	183.8	106.5
02'08	97.9	101.2	95.7	115.6	190.1	113.5
12'07	100.2	101.9	99.0	110.4	182.7	113.7
10'07	95.0	96.6	93.9	117.1	185.6	105.2
08'07	102.7	105.8	100.7	112.8	185.3	113.9
06'07	96.9	102.8	93.0	113.4	188.9	112.3
04'07	92.3	98.8	88.8	109.7	181.8	110.0
02'07	92.2	92.4	92.1	109.5	183.7	103.7
12'06	90.6	95.9	87.1	115.6	186.4	107.3
10'06	91.2	96.6	87.5	116.9	187.5	106.3
09'06	87.5	93.9	83.3	113.6	181.2	99.7
06'06	84.9	92.2	80.0	120.8	189.2	101.6
04'06	97.1	98.4	96.2	116.3	186.9	107.5
02'06	103.7	103.5	103.8	111.6	185.4	113.5
12'05	103.1	105.8	101.3	111.7	184.3	113.1
09'05	95.5	95.5	95.5	117.7	187.2	107.9
06'05	105.2	100.5	108.4	111.0	182.2	106.3
03'05	107.3	92.9	117.0	98.9	182.0	92.4
12'04	100.1	98.3	101.4	107.3	180.0	93.6
10'04	100.3	102.2	99.0	116.2	182.5	105.8
06'04	102.0	97.6	105.0	112.6	169.5	96.4
03'04	100.1	93.7	104.4	114.6	178.3	93.8

Source: GfK Ukraine, International Centre for Policy Studies

How the indices are calculated

Field stage of the research was held on October 17-31.

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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