

consumer confidence

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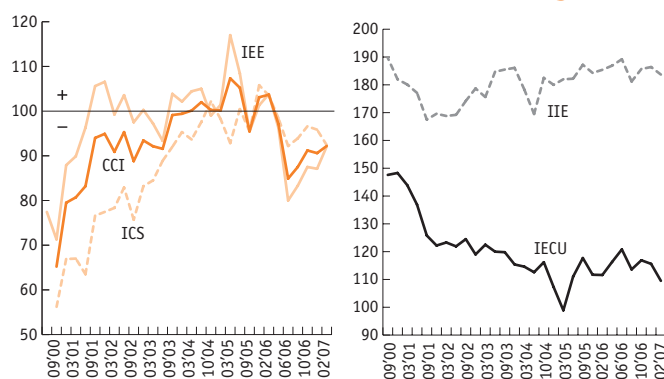
Ukrainian consumers' economic expectations improve in February

In early 2007, the consumer confidence of Ukrainians improved, but pessimistic expectations continue to prevail. In February 2007, Ukraine's Consumer Confidence Index (CCI) inched up to 92.2, 1.6 points above the value registered in December 2006. The share of positive evaluations of the prospects for the development of the country's economy increased. However, evaluations of current personal standing deteriorated. The poll did not register deterioration of consumer confidence in any of the Ukrainian regions. However, residents of metropolises grew more pessimistic. The poll also revealed deteriorating consumer confidence among middle-aged Ukrainians and consumers with average incomes

Pessimistic moods continue to prevail

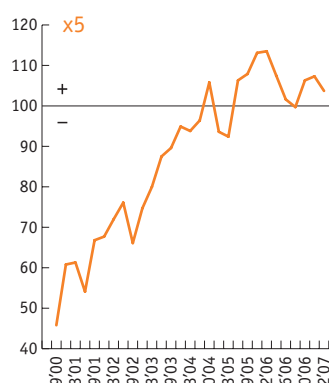
In February 2007, Ukraine's Consumer Confidence Index (CCI) inched up to 92.2, 1.6 points above the value registered in December 2006. This is the highest recorded value for the CCI since June 2006. An increase in the index indicates an improvement in consumer confidence among Ukrainians, but a CCI value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

| | |
|---|----------------------|
| Index of Current Personal Financial Standing (x1) | 81.1 -3.3 |
| Index of Expected Changes in Personal Financial Standing (x2) | 93.0 +3.8 |
| Index of Expected Economic Conditions in the Country Over the Next Year (x3) | 90.3 +8.4 |
| Index of Expected Economic Conditions in the Country Over the Next 5 Years (x4) | 92.9 +2.7 |
| Index of Propensity to Consume (x5) | 103.7 -3.6 |
| Consumer Confidence Index (CCI) | 92.2 +1.6 |
| Index of the Current Situation (ICS) | 92.4 -3.5 |
| Index of Economic Expectations (IEE) | 92.1 +5.0 |
| Index of Expected Changes in Unemployment (IECU) | 109.5 -6.1 |
| Index of Inflationary Expectations (IIE) | 183.7 -2.7 |



The share of optimistic evaluations of the prospects for the country's economic growth has increased. The Index of Economic Expectations (IEE) rose 5 points, to 92.1—the highest recorded value 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 during this period, to 81.1—the lowest recorded value since June 2001. These evaluations of the financial standing of Ukrainians do not correlate with the dynamic of their incomes. According to data from Derzhkomstat, the state statistics committee, disposable personal incomes continued to grow at a rapid pace in 2006, rising 16.1% in real terms against the previous year, adjusted for inflation.

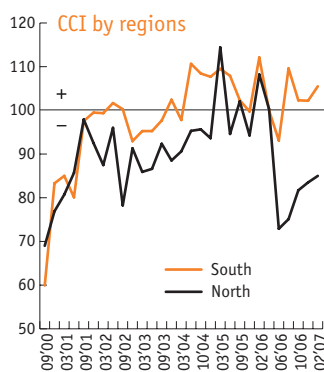


This dynamic of indices resulted in the three indices—the CCI, the ICS and the IEE—reaching one point. Traditionally, the IEE was higher than the ICS. This means that, overall, Ukrainians evaluate the prospects for the country's economy better than their current personal financial standing. This situation changed in 2006, since the IEE was lower than the ICS.

The negative evaluations of personal financial standing among Ukrainians are, evidently, the reaction of consumers to the rising costs of utilities, which grew much faster than personal incomes in H2'06. The share of these expenditures in household budgets has grown significantly, leaving fewer resources for other consumption. This is evident in the contraction in the propensity of Ukrainians 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 during this period, to 183.7.

Optimistic expectations prevail only in Southern Ukraine



During the first two months of 2007, consumer confidence improved across all regions of the country, except for the central oblasts, where the CCI remained unchanged at 88.2.

Optimistic consumer confidence continues to persist in southern oblasts. In February 2007, the CCI for Southern Ukraine was 105.5, 3.3 points above the value registered in December

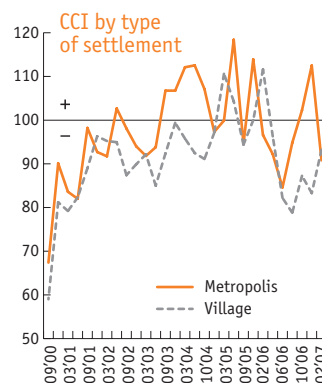
2006. Optimistic economic expectations renewed in this region in February 2007: their IIE grew 12.7 points to 110.8. This growth was "balanced" by an 11-point decline in the ICS to 97.4. Despite this decline, the ICS for southern oblasts continues to be the highest of all the Ukrainian regions. Residents of Southern Ukraine were also the most optimistic in terms of expectations of changes in unemployment and the least pessimistic in terms of inflation. In February 2007, the IECU for the southern oblasts

| Index | Kyiv | North | West | Center | South | East |
|------------|----------------------------|----------------------------|----------------------------|---------------------------|-----------------------------|----------------------------|
| x1 | 76.7 -13.3 | 75.7 -13.9 | 79.5 +0.5 | 80.3 -1.8 | 86.4 -11.0 | 82.7 -4.0 |
| x2 | 78.3 +13.3 | 90.4 +2.6 | 96.4 +8.9 | 94.9 +4.3 | 106.5 +5.9 | 87.3 +6.4 |
| x3 | 83.3 +31.6 | 69.6 +5.3 | 90.2 +11.6 | 70.1 -9.4 | 120.8 +23.4 | 91.2 +15.4 |
| x4 | 96.7 +33.4 | 76.5 -6.1 | 98.7 -0.4 | 88.0 +3.4 | 105.2 +9.1 | 89.4 +3.6 |
| x5 | 96.7 -28.3 | 113.0 +20.0 | 103.1 -2.3 | 107.7 +3.4 | 108.4 -11.1 | 98.2 -1.2 |
| CCI | 86.3 +7.3 | 85.0 +1.5 | 93.6 +3.7 | 88.2 0.0 | 105.5 +3.3 | 89.8 +4.1 |
| ICS | 86.7 -20.8 | 94.3 +3.0 | 91.3 -0.9 | 94.0 +0.8 | 97.4 -11.0 | 90.5 -2.5 |
| IEE | 86.1 +26.1 | 78.8 +0.5 | 95.1 +6.7 | 84.3 -0.6 | 110.8 +12.7 | 89.3 +8.5 |
| IECU | 110.0 -31.7 | 123.5 +4.4 | 104.9 +1.8 | 117.1 -17.9 | 96.8 -9.0 | 111.5 -12.4 |
| IIE | 191.7 -5.0 | 189.6 +3.5 | 186.2 +4.1 | 195.7 +4.2 | 172.7 -14.3 | 180.0 -4.8 |

was 96.8, 9 points below the value registered in December 2006. An IECU value below the 100-mark shows that the majority of residents of the southern oblasts expect that the rate of unemployment in the country will shrink in the next 12 months. In January–February 2007, the IIE for Southern Ukraine dropped 14.3 points, to 172.7, 9 points below the national average.

In February, residents of northern oblasts were the most pessimistic. Their CCI was 85, 7.2 points below the national average. Economic expectations in this region were also the worst: in January–February 2007, their IEE grew a mere 0.5 points, to 78.8.

Consumer confidence in metropolises deteriorates sharply



In early 2007, consumer confidence in metropolises deteriorated sharply. Their CCI was 90.8 in February 2007, a whopping 21.7 points below the value registered in December 2006. Evidently, rising utility rates have had the strongest impact on residents of metropolises. In February, they were the most pessimistic in terms of inflation: their IIE shrank to 187.3, 3.6 points

above the national average. Consumer confidence improved in settlements of smaller size. The share of optimistic assessments grew significantly in rural areas: their CCI was 93.2 in February 2007, 9.9 points above the value registered in December 2006, while their IIE grew 11.7 points during the same period and rose to 92.2.

In February 2007, the highest CCI was registered in mid-sized cities at 97.5, 2.6 points above the value registered in December 2006. Accordingly, the least pessimistic economic expectations were registered in mid-sized cities: their IEE was 98.7, 7.9 points above the value registered in December 2006. Specifically, in February 2007, the majority of residents

| Index | Village | Town | Midsized city | Metropolis |
|------------|----------------------------|----------------------------|----------------------------|-----------------------------|
| x1 | 82.8 +8.6 | 74.3 -12.8 | 82.5 -1.7 | 90.4 -5.8 |
| x2 | 94.6 +8.5 | 89.4 +5.6 | 100.0 +9.8 | 94.3 -19.0 |
| x3 | 88.9 +18.4 | 89.1 +12.5 | 92.9 +3.2 | 93.6 -22.2 |
| x4 | 93.2 +8.5 | 91.4 -0.7 | 103.3 +10.9 | 81.5 -23.6 |
| x5 | 106.8 +6.1 | 104.0 +12.9 | 108.7 -9.2 | 94.3 -38.0 |
| CCI | 93.2 +9.9 | 89.6 +3.5 | 97.5 +2.6 | 90.8 -21.7 |
| ICS | 94.8 +7.3 | 89.1 0.0 | 95.6 -5.5 | 92.4 -21.8 |
| IEE | 92.2 +11.7 | 90.0 +5.8 | 98.7 +7.9 | 89.8 -21.6 |
| IECU | 108.8 -9.5 | 112.5 -4.3 | 108.7 -7.1 | 106.4 +8.3 |
| IIE | 183.8 -4.0 | 181.8 -3.7 | 182.0 -6.6 | 187.3 +8.2 |

How 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.

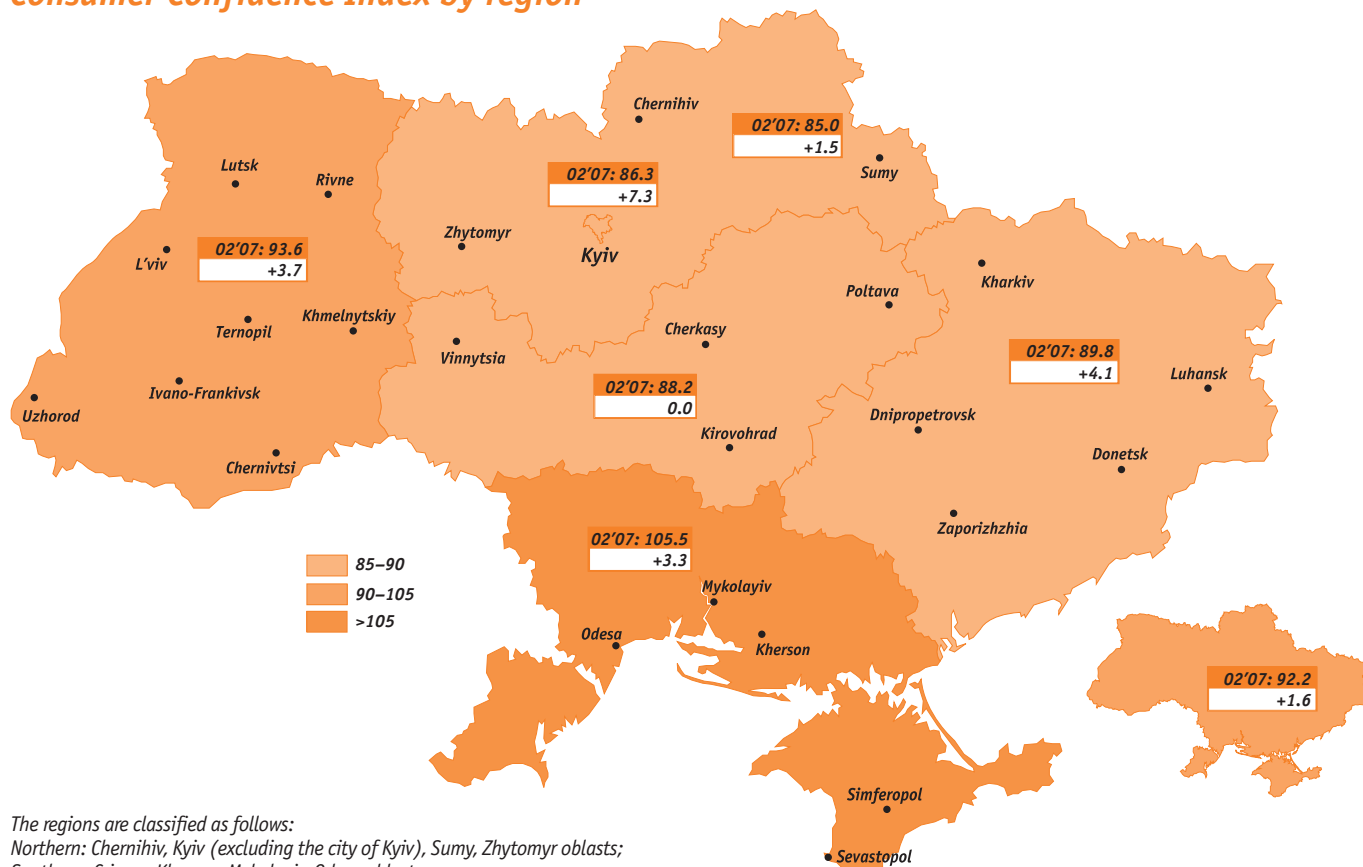
Index values range from 0 to 200. The index equals 200 when all respondents positively assess the economic situation. It totals 100 when the shares of positive and negative assessments are equal. Indices below 100 indicate the prevalence of negative assessments.

To determine the Index of Expected Changes in Unemployment (IECU) and the Index of Inflationary Expectations (IIE), 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 which 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.

Consumer Confidence Index by region



The regions are classified as follows:

Northern: Chernihiv, Kyiv (excluding the city of Kyiv), Sumy, Zhytomyr oblasts;

Southern: Crimea, Kherson, Mykolayiv, Odesa oblasts;

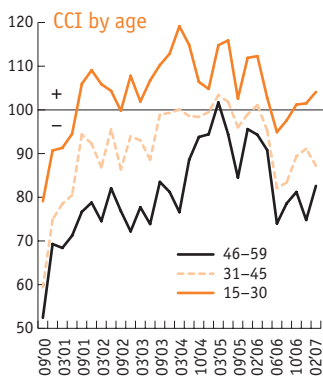
Central: Cherkasy, Kirovohrad, Poltava, Vinnytsia oblasts;

Western: Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, L'viv, Rivne, Ternopil, Volyn, Zakarpattia oblasts;

Eastern: Dnipropetrovsk, Donetsk, Kharkiv, Luhansk, Zaporizhzhia oblasts.

of mid-sized cities expressed positive long-term economic expectations. Approximately 50% of residents expected that the financial standing of their families would improve in the next six months.

Expectations of middle-aged Ukrainians with average incomes worsen

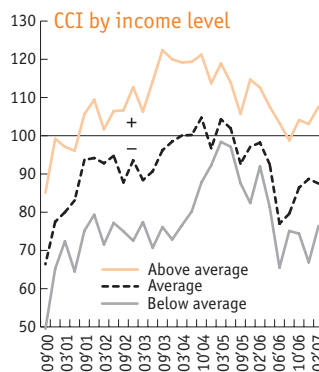


The poll registered deterioration in consumer confidence among middle-aged Ukrainians (aged 30–45) with average incomes. The CCI for middle-aged Ukrainian consumers was 87.2 in February 2007, while the CCI for Ukrainians with average incomes was 87.5, 3.9 points and 1.2 points respectively below the values registered in

December 2006. Consumer confidence among these consumers deteriorated mainly because of the poorer evaluations of their current standing. The deteriorating consumer confidence in this age and income group is a negative trend, as consumption by representatives of this group has the biggest growth potential.

The consumer confidence of wealthy Ukrainians improved. Their CCI grew 4.5 points in January–February 2007, to 107.6.

| Index | Above average income | Average income | Below average income |
|------------|-----------------------|----------------------|----------------------|
| x1 | 102.5 +2.5 | 75.7 -5.4 | 56.9 -1.7 |
| x2 | 108.0 +5.3 | 85.8 -1.1 | 87.4 +23.3 |
| x3 | 110.7 +11.9 | 82.2 +4.8 | 73.7 +15.1 |
| x4 | 100.9 +3.0 | 89.9 +0.4 | 85.0 +11.6 |
| x5 | 116.0 -0.2 | 103.9 -4.7 | 79.0 -0.7 |
| CCI | 107.6 +4.5 | 87.5 -1.2 | 76.4 +9.5 |
| ICS | 109.2 +1.1 | 89.8 -5.1 | 68.0 -1.1 |
| IEE | 106.5 +6.7 | 86.0 +1.4 | 82.0 +16.6 |
| IECU | 96.9 -9.8 | 113.8 -4.2 | 119.8 -8.3 |
| IIE | 179.4 -2.9 | 185.0 -3.2 | 189.2 -0.6 |



Consumer confidence in this income group improved largely thanks to growing optimistic economic expectations. In February 2007, the IEE for this group was 106.5, 6.7 points above the value registered in December 2006 and also the highest recorded value since February 2006. The propensity to consume among better-off Ukrainians continues to be

high: their index x5 was 116 in February 2007, 12.3 points above the national average.

The CCI of Ukrainians with below-average incomes was 76.4 in February 2007, 9.5 points above the value registered in December 2006 and also the highest recorded value since April 2006. Expectations of changes in unemployment improved among low-income Ukrainians: their IECU was 119.8 in February 2007, 8.3 points below the value registered in December 2006.

Simultaneous deterioration of consumer confidence among Ukrainian consumers with average incomes and improvement of consumer confidence among poor Ukrainians was, evidently, the result of different consequences of rate hikes for utilities for these income groups. Unlike consumers with average incomes, low-income Ukrainians are eligible to receive government subsidies to compensate payments for utilities.

| Index | 15–30 | 31–45 | 46–59 |
|------------|-----------------------|----------------------|----------------------|
| x1 | 95.7 +0.4 | 74.6 -7.6 | 69.8 -2.1 |
| x2 | 107.1 +4.8 | 84.0 -2.8 | 85.1 +11.4 |
| x3 | 98.5 +5.5 | 88.7 +4.8 | 81.6 +18.1 |
| x4 | 102.0 +3.6 | 90.0 -4.4 | 85.1 +11.4 |
| x5 | 117.3 -0.9 | 98.7 -9.5 | 91.3 +0.1 |
| CCI | 104.1 +2.6 | 87.2 -3.9 | 82.6 +7.8 |
| ICS | 106.5 -0.3 | 86.7 -8.5 | 80.6 -1.0 |
| IEE | 102.6 +4.7 | 87.6 -0.8 | 83.9 +13.6 |
| IECU | 104.1 -4.5 | 110.7 -9.5 | 114.9 -4.8 |
| IIE | 177.3 -2.6 | 187.1 -3.3 | 186.8 -3.7 |

The Consumer Confidence Index is researched jointly by GfK Ukraine Company and the International Centre for Policy Studies.

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