

ANALYSIS OF SURVEY RESULTS

CONSUMER BAROMETER

Ing. Ján Seman, National Bank of Slovakia

Continued from issue 10/2004

3. Analysis of consumption growth expectations

Besides the issue of price growth, respondents in the framework of the Consumer Barometer have the possibility to also give their opinion on other questions concerning the economic situation of their households and the whole economy. From the Consumer Barometer we will focus here on assessing the reactions of consumers to questions concerning their consumer preferences (assessing their current and expected financial situation, possibilities to make today and in the future large purchases, possibilities to build up savings) and their comparison of these with the actual development of household consumption.

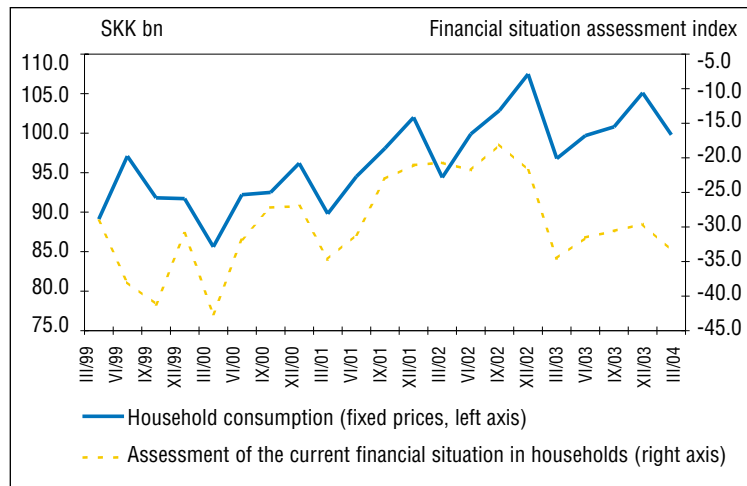
In the survey of consumer preferences, similarly as in the case of inflation, one part of the questions focuses on assessing the development over the period of the past twelve months and the other part on expectations for the coming twelve months.

3.1. Analysis of answers concerning current development

Graphs 1 and 2 show the mutual relationship between respondents' assessments of their financial situation and household consumption¹, and the relationship between their assessment of the advantageousness of making large purchases in the current period² and household consumption.

From these graphs it can be seen that in a period of relative balance without economic and political changes a relatively significant dependence exists between household consumption growth and consumers' perception of their financial situation (correlation coefficient = 0.72), as well as between household consumption growth and the assessment of the advantageousness of large pur-

Graph 1 Comparison of household consumption with assessment of households' current financial situation



chases (correlation coefficient = 0.75). On the other hand, in periods of adopting large economic measures the volatility in households' assessments rises and their answers are more pessimistic. Evidence for this is the development in the second and third quarters of 1999, when the increase in indirect taxes, energy prices and the introduction of import surcharges with an impact on price growth led to a significant worsening of consumer confidence. A similar situation occurred at the turn of 2002/2003 when the consumer assessments fell significantly compared to the actual development of final consumption.

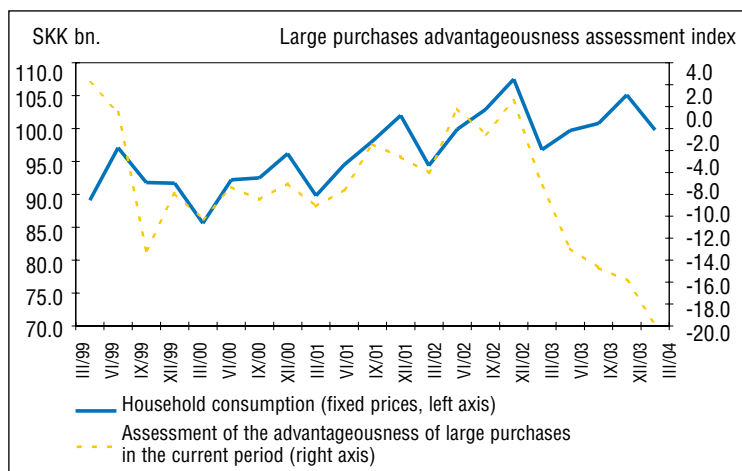
When we assess respondents reactions to the above two questions in relation to the actual figures for household consumption, again we reach the conclusion that differences arise between reactions given during periods of adopting fundamental economic measures. Whereas in 1999 households' assessments of their financial situation and the advantageousness of making large purchases developed in line with one another, since the second quarter of 2003 they have started to be mutually opposing. The

meter survey are for the last month of the respective quarter, data on household final consumption is the average for the whole quarter.

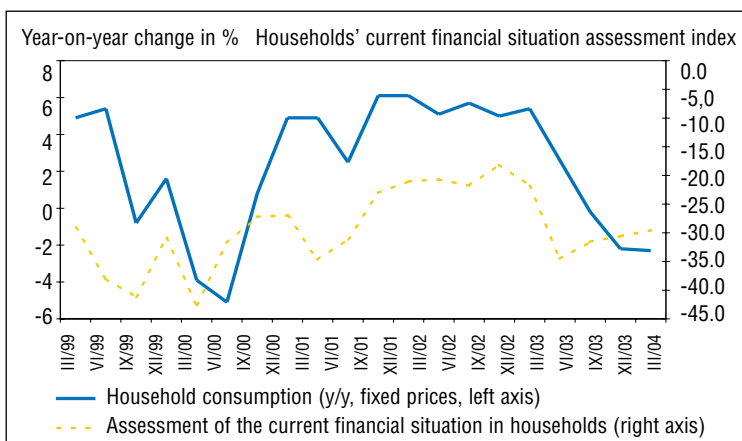
² The precise wording of questions in the Consumer Barometer survey is: What is the current financial situation of your household, when you compare it with the period 12 months ago? What do you think, in Slovakia is it advantageous or disadvantageous to make large purchases now (e.g. furniture, a washing machine, television, fridge-freezer)?

¹ If we work from the precise wording of the question concerning households' financial situation, it would be more appropriate to compare the household financial situation assessment index with the year-on-year change in household consumption. However, a significant correlation has been confirmed also between the given index and household consumption growth in SKK billion, both comparisons are stated. Respondents' answers from the Consumer Barometer survey are for the last month of the respective quarter, data on household final consumption is the average for the whole quarter.

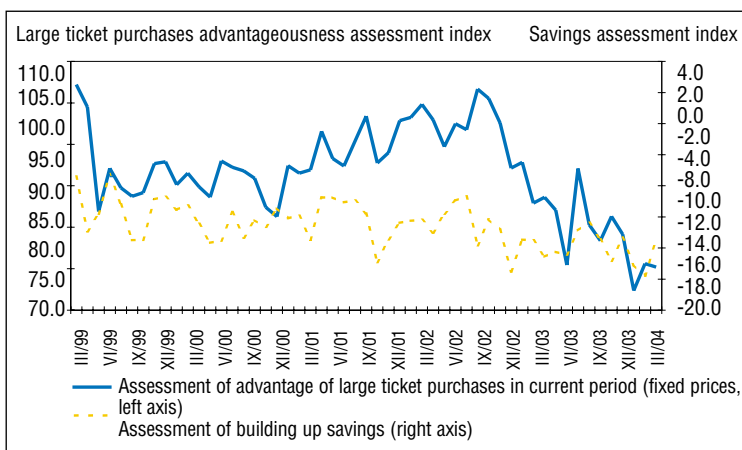
Graph 2 Comparison of household consumption with the advantageousness of large purchases in the current period



Graph 3 Comparison of household consumption with assessments of households' financial situations



Graph 4 Comparison of the assessment of current expenditures and savings (on a monthly data basis)



probable reason of this new trend in 2003 is the fact that during the given period, in the framework of household consumption, the total share of large purchases was falling, while housing and transport costs were rising. Therefore, for the long term, in comparing with the actual

values of household consumption, households' assessment of their financial situation has greater predictive ability.

Graph 3 shows a comparison of the financial situation of households with the year-on-year change in household consumption (at 1995 prices).

In this graph too there can be seen a common trend (even despite certain discrepancies) of the year-on-year change in household consumption and consumers' assessment of their financial situation. Household consumption grew most quickly from the third quarter of 2001 to the end of 2002, which corresponds with respondents' assessment. This faster growth in domestic demand is confirmed also by consumers' reactions to questions concerning the advantageousness or disadvantageousness of making large ticket purchases and of the conditions for saving (graph 4).

According to respondents' answers at the turn of 2001/2002, and throughout 2002, there was an increase in their willingness to make large purchases and concurrently a fall in the willingness to save. This development was in accordance with the actual growth in real wages in 2002 and with the declining trend in the propensity to save. In 2003, when real wages fell, assessments of the advantageousness of making large purchases and assessments of building up savings³ developed in a similar manner.

3.2. Analysis of expectations

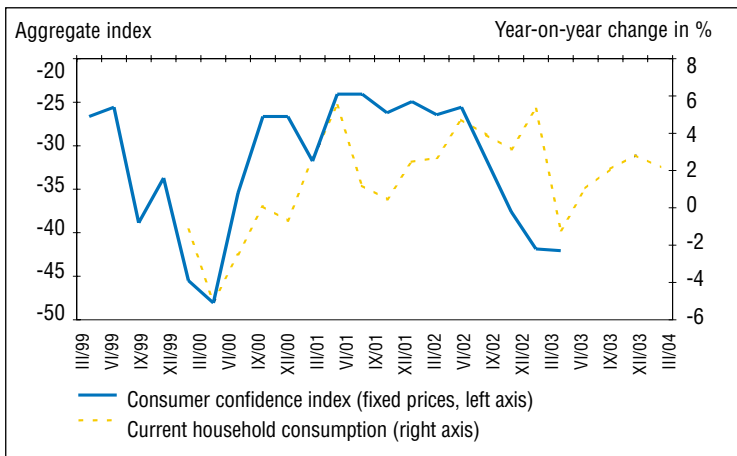
For comparing household consumption and respondents' expectations for the coming twelve months we can use the development of the aggregate consumer confidence indicator (graph 5). The aggregate consumer confidence indicator summarises the overall mood of the population in four fields: expectations of the economy's development and unemployment in the state, expectations of households' financial situation and savings. From the graph it can be seen that a certain dependence exists between private consumption in the current period and respondents' opinions from the period a year earlier, even if their mutual dependence (correlation coefficient = 0.40) is not that significant as in assessments

of the current development given by respondents (graphs

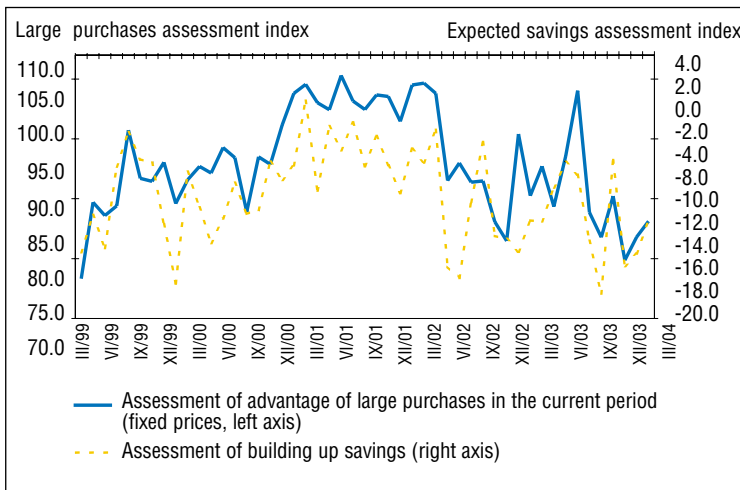
³ The precise wording of the question in the Consumer Barometer survey is: In your opinion, in Slovakia now, is it or is it not a suitable time for saving?



Graph 5 Comparison of the consumer confidence index with the current development of household consumption



Graph 6 Comparison of the assessment of expected expenditures on large purchases and savings



1 – 4). This is confirmed also by a comparison of households' planned spending on large purchases and expected savings⁴ in graph 6, from which it can be seen that their expectations do not develop in line with the actual year-on-year change in household consumption. This means, that if for example in 2002 the assessment of current expenditures and savings given by respondents (graph 4) reflected quite faithfully the actual development of private consumption, their expectations from the period a year earlier were not in line with the actual development of private consumption in 2002. This indicates that in explaining the actual development of household consumption respondents' assessments in the current period indicate a better predictive ability than do their expectations.

⁴ Here the question is: Is your household planning to spend over the course of the coming 12 months more or less money than over the past 12 months on large purchases (e.g. furniture, a washing machine, television, fridge, carpets)? Do you expect or not expect that in the coming 12 months your household will save any money?

Conclusion

The analysis of the Consumer Barometer survey results is divided into two main parts. In the first part we focused on assessments of current and expected inflation given by respondents, and compared them with the actual development of inflation. The second part has focused on an assessment of consumers' reactions to questions concerning their current and future consumer preferences and comparing these with the actual household consumption growth.

The results confirmed that during a time of insignificant intervention by the state in economic development consumers' opinions reported a trend comparable to the development of the overall inflation. Conversely, during a period of adopting significant economic measures respondents overestimated their perception of price development. We reached similar conclusions also in the case of inflation expectations. A positive feature is the fact that consumers are able to relatively reliably estimate the future development of inflation, where this is proven not only by the common trend to date in the development of prices and inflation expectations from the period twelve months earlier, but also by a comparison of respondents' predictions and prognoses of inflation from the NBS Monetary programmes. On the other hand, a negative feature is the fact that during periods of adopting fundamental economic measures consumers' evaluations differ, for a short

time, from the current development, whereby during these periods the trends reported by the development of current inflation and consumers' expectations are dissimilar.

Similarly as in the case of the analysis of inflation expectations, also in the assessment of consumers' reactions to questions concerning their consumer preferences and in their comparison with the actual development of household consumption we are focused both on assessing the current period, as well as expectations for the or coming twelve months. Accordingly, in periods of relative stability in the economy respondents are able to assess quite realistically the current development of private consumption (or development for the past twelve months), but during a time of implementing large economic measures the volatility in households' assessments is increased towards greater pessimism. In the creation of expectations from the side of respondents the dependence between actual household consumption and respondents' expectations from a year earlier is significantly lower, if we compare it with respondents' assessments in the current period.



The basic difference between estimates of the future development in inflation and household consumption as given by respondents is their different levels of reliability. One of the main reasons is probably the manner of formulating questions in the Consumer Barometer survey. The content of the questions concerning expectations of future price development is essentially almost identical to the consumer price index, expressing the development of inflation, in consequence of which respondents' assessments are qualitatively and quantitatively comparable with trends in the development of inflation. On the other

hand, it is not possible to use one specific question and thus also one answer to express respondents' expectations regarding the future household consumption, but instead a series of questions are needed, concerning the expected financial situation, the advantageousness of large purchases and building up savings. This fact is reflected also in the answers of those respondents who cannot very reliably predict their consumer behaviour 12 months in advance. This limits the possibility of using the consumer barometer for short-term prognoses of private consumption.