

# IMPLICATIONS OF RECENT CONSUMER SURVEY 1)

Sung-won Cho  
(swcho@hri.co.kr)

## Consumer confidence falls sharply

The consumer survey index (CSI), which is the weighted average of all specific indexes related to general economic conditions and consumption activities, fell sharply in the third quarter. The consumer expectation index, which is the weighted average of indexes related to expectations for the economy, future income and future consumption plans, also dropped significantly, more than a 20p fall from the previous survey in the second quarter.

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Composite indexes reached a peak in the fourth quarter of 1999 and have been declining since then. The significant drop in both indexes reflects the fall in consumer confidence over general economic conditions and future outlook.

Meanwhile the consumer sentiment index which reflects general consumer sentiment on durable goods and service expenditures, dropped for the first time since the third quarter of 1998, showing flagging consumer sentiment in the third quarter of this year.

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**Table 1. Composite Indexes in the Consumer Survey**

	98.9	98.12	99.3	99.6	99.9	99.12	00.3	00.6	00.9
<b>Consumer survey index</b>	45.5	63.2	76.8	86.6	93.3	94.9	94.4	90.0	70.7
<b>Consumer expectation index</b>	58.5	85.5	96.1	105.0	107.4	108.9	106.5	99.5	77.5
<b>Consumer sentiment index</b>	65.6	72.5	79.2	83.5	88.6	91.4	91.5	91.8	83.6

## Worsening perception on general economic conditions

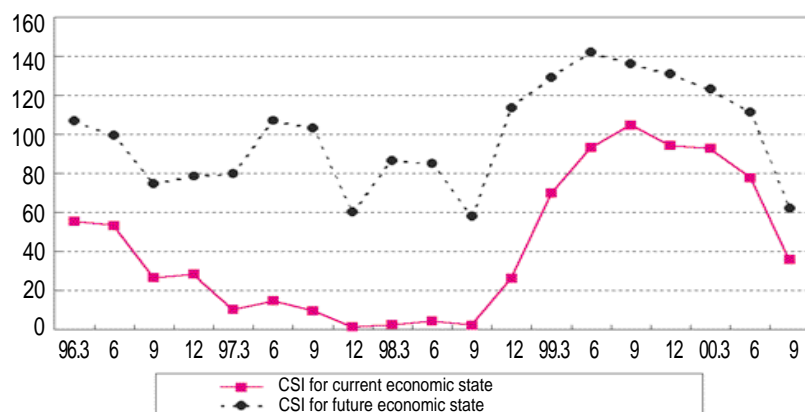
Looking at specific indexes, the CSI for the economic outlook, which measures consumers' confidence in economic activities in the year ahead, plunged to 62.1 in the third quarter, which was more than a 50p drop from the second quarter survey. An index of less than 100 means that consumers who are pessimistic about future

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### Outline of the Survey

- Objective : To understand consumer sentiment and expectations of general economic conditions and consumption.
- Target : Married persons over twenty across Korea (980 people surveyed)
- Method : Telephone survey by random selection
- Period : September 25, 2000 to September 27, 2000
- Institute : Hyundai Research Institute (Survey conducted each quarter since June 1995)

Figure 1. CSI for Current and Future Economic State



economic conditions outnumbered those who are optimistic. The CSI for the current economic state also dropped sharply from the second quarter, reflecting the public's worsening perception on general economic conditions.

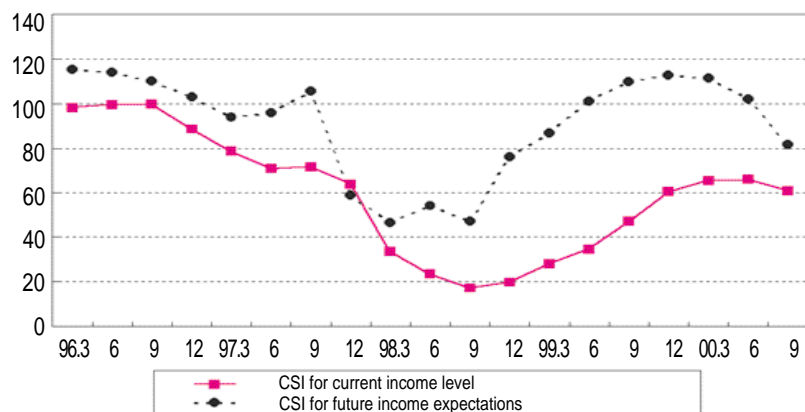
Pessimistic outlook on income growth

The CSI for future income expectations, which measures consumers' outlook for the change in average monthly income in the year ahead, fell below 100 for the first time since the second quarter of 1999. The result shows that households are pessimistic about future income outlook as the number of consumers who are optimistic about future income growth is being outnumbered by those who are pessimistic.

The CSI for current income levels; the index derived from whether the respondent's average household income increased from a year ago, also declined in the recent survey. The index of the high income bracket, however improved over the second quarter survey, while that of the middle and lower bracket worsened, which implies that the situation of income inequality between the rich and the rest of the population worsened in the third quarter of this year.

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Figure 2. CSI for Current and Future Income



*The situation of income inequality between the rich and the rest of the population worsened in the third quarter of this year.*

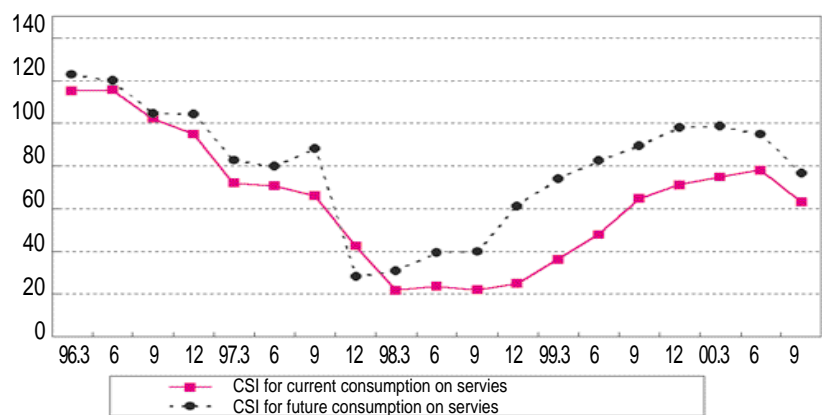
*The CSI for future consumption on services fell to 76.7 in the third quarter from 94.8 in the previous quarter.*

**Consumers plan to spend less**

The CSI for future consumption on services fell to 76.7 in the third quarter from 94.8 in the previous quarter, indicating that less consumers are willing to spend more on items such as dining, cultural events, and leisure in the next six months.

The CSI for current consumption on services; an index derived from whether respondents increased spending on service items during the recent six months, also fell for the first time in 7 quarters, implying that consumers have spent less on service items during the recent months.

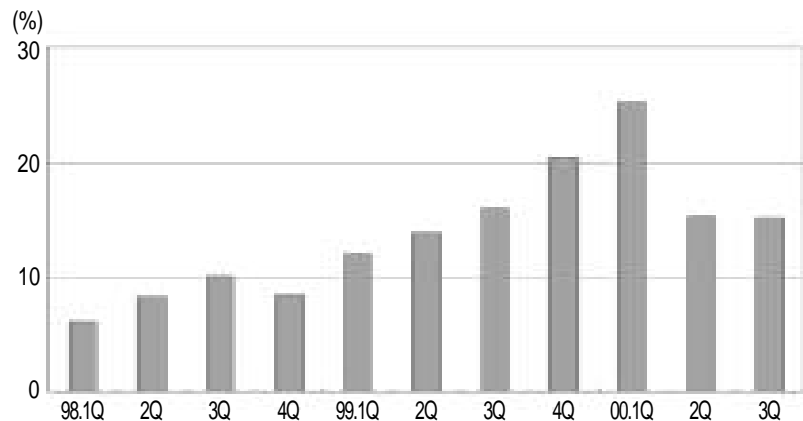
**Figure 3. CSI Related to Consumption on Services**



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The percentage of respondents who plan to purchase durable goods such as household appliances, furnitures and automobiles declined to 15% in the second and third quarter of this year, significantly declining from the 25% level in the first quarter of 2000. Demand for durable goods have declined since the second quarter of this year due to a fall in consumer sentiment and the fact that many households are already equipped with newly purchased durables from last year.

**Figure 4. Percentage of Respondents Who Plan to Purchase Durables**



### Negative wealth effect

The value of financial assets owned by households has declined as 84% of the total respondents said that the value of the bank trusts and stocks that they are holding have decreased during the recent six month period. The majority of respondents also replied that real estate values dropped in the last six months, while most renters said that the rent prices rose.

One fifth of the respondents said that they are investing in stocks and 90% of those investors answered that they lost money by speculating in stocks this year. Almost 52% of those who lost money said that they lost more than half of their original investment.

### Policy priority on restoring market confidence

The large drop in consumer confidence in the third quarter of this year could be attributed to external factors such as the hike in crude oil prices, a drop in semiconductor prices and Ford Motor's withdrawal from its original plan to purchase Daewoo Motors. The possibility that such negative factors could delay the restructuring process and slowdown the Korean economy made consumers jittery over future economic conditions in Korea.

The value of financial assets owned by the general household fell as stock prices nose-dived to an annual low in September, which exerted a negative impact on consumer sentiment. The rise in housing rent and overall consumer prices along with worsening income conditions of the middle and lower income brackets also negatively affected consumer sentiment.

Recently, the growth rates of major consumption indexes have been declining amid worsening consumer sentiment. Falls in consumer sentiment have the tendency to worsen the real economy by dampening consumption and thus reducing domestic demand. Therefore in order to prevent an excessive fall of the real economy, policy priority should be put on preventing a hard landing of the economy through a flexible monetary and fiscal policy along with restoring market confidence on the restructuring process of the financial and corporate sectors. **VIP**

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**Figure 5. Losses from Stock Investment**

