

CONSUMER SURVEY : REBOUND OF CSI AND POSSIBLE ECONOMIC RECOVERY

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Rebound of consumer survey index

The consumer survey index rebounded in the first quarter.

The consumer survey index (CSI)¹⁾, the weighted average of indexes related to economic conditions and consumption, rebounded in the first quarter. As shown in Table 1 and Figure 1, the CSI peaked in the fourth quarter of 1999 and fell continuously until the recent survey, when it rose 9.3 points to 66.8. One especially positive sign was the rise of the Consumer Expectation Index from 68.6 to 80.4, which shows that more consumers are optimistic about the future. However, none of the indexes came close to 100.

Table 1. Composite Indexes in the Consumer Survey

	99. I	II	III	IV	00. I	II	III	IV	01. I
Consumer survey index	76.8	86.6	93.3	94.9	94.4	90.0	70.7	57.5	66.8
Consumer expectation index	96.1	105.0	107.4	108.9	106.5	99.5	77.5	68.6	80.4
Consumer sentiment index	79.2	83.5	88.6	91.4	91.5	91.8	83.6	74.4	80.1

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Consumer survey index: Sentiment on present and expected future economic conditions, income and spending.

Consumer expectation index: Expectations on future economic conditions, income and spending.

Consumer sentiment index: Sentiment regarding present and expected future spending.

According to consumption-related indexes, consumer sentiment related to services recovered significantly from last quarter 's trough. However, the services

1) Outline of the Survey

- Objective : To understand consumer sentiment and expectations of general economic conditions and consumption.
- Target : Married persons over twenty across Korea (820 people surveyed)
- Method : Telephone survey by random selection
- Period : March 19, 2000 March 21, 2000
- Institute : Hyundai Research Institute (Survey conducted each quarter since June 1995)

index was still lower than that for durable goods. As shown in Table 2, CSI for current and future consumption on services were 48.9 and 74.5 respectively, while the indexes related to durables were much higher at 89 to 90.

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Table 2. Consumption Indexes

	99.I	II	III	IV	00.I	II	III	IV	01.I
CSI for current consumption on services	36.2	47.9	64.6	71.1	74.7	77.9	63.2	39.6	48.9
CSI for future consumption on services	74.0	82.4	89.3	98.0	98.5	94.8	76.7	58.3	74.5
Demand change of durable goods	90.9	93.5	91.3	91.8	95.8	86.0	86.4	84.2	88.9
CSI for current consumption on durables	96.7	98.6	100.4	99.6	98.1	106.0	98.8	95.4	96.0
CSI for future consumption on durables	98.0	95.0	97.5	96.6	90.6	94.3	93.0	94.4	92.3

CSI for current consumption on services: Present spending on services compared to past spending

CSI for future consumption on services: Expected spending on services compared to present spending

Demand change of durable goods: Present demand for durables compared to past demand

CSI for current consumption on durables: Present spending on durables compared to past spending

CSI for future consumption on durables: Expected spending on durables within six months

Meanwhile, despite the overall rise in indexes, current and future consumer sentiment varied with the subjects' income, sex, location, education, and occupation. Income was an especially significant factor. As seen in Table 3, subjects with monthly income over 2.01 million won had a CSI of 74 to 78, while those earning less than 1.5 million won had a CSI of 54 to 65. CSI for current income level and CSI for future income expectations were particularly sensitive to income. This is because a low income earner is more likely to think that his present income has fallen from the past and that his earnings will continue to fall in the future.

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Table 3. Consumer Sentiment by Income Level

Index Income Level	CSI	Consumer expectation index	Consumer sentiment index	CSI for current economic state	CSI for future economic state	CSI for current income level	CSI for future income expectations
Below 1.5 million won	55 66	70 80	76 78	14 24	62 74	14 46	50 82
Above 2.01 million won	74 78	90	82 90	22	86 88	69	91 97

Do higher indexes mean economic recovery?

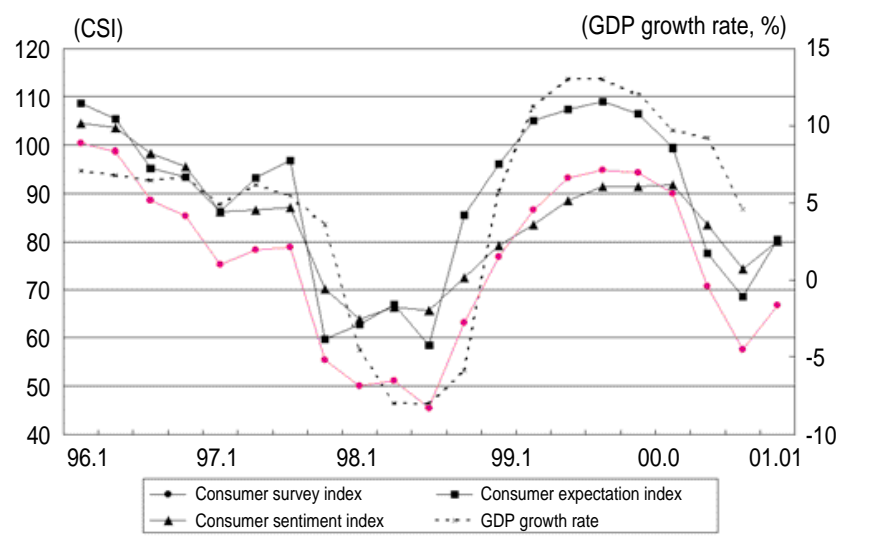
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Seeing how all indexes increased from the previous quarter it is possible that an economic rebound, however weak, will occur in the second half of 2001. As seen in Figure 1, GDP growth rate has a tendency to move with or follow the Household Living Index. The Household Living Index generally leads GDP growth by one quarter. Therefore, considering the marked improvement in both the Household Living Index and the Household Expectations Index, we may expect faster GDP growth in the second half.

— Table 4. Relation of Household Living Index and GDP Growth(96.1/4 2001.1/4) —

	GDP Two quarters earlier	GDP One quarter earlier	GDP	GDP One quarter later	GDP Two quarters later
Household Living Index	0.30	0.63	0.82	0.85	0.58
Household Expected Index	0.11	0.48	0.76	0.90	0.67
Consumer Sentiment Index	0.44	0.63	0.73	0.69	0.44

— Figure 1. Composite Indexes in the Consumer Survey and GDP growth—



Possibility of economic rebound

Despite the improvement, none of the consumption indexes reached 100, which makes it difficult to guarantee a quick recovery.

Despite the improvement, none of the consumption indexes reached 100, which makes it difficult to guarantee a quick recovery. A figure of 100 means that respondents are evenly divided between positive and negative forecasts, so the recent figures reflect overall negative sentiment about current and future economic conditions, income, and spending. While 14.0% of respondents thought that consumer spending for services would increase, 39.5% expected it to decrease.

Therefore, the improved figures in this survey only mean that the outlook has become less negative. One should also remember that indexes have often rebounded briefly only to fall again.

A look at consumers' planned spending for income increases also shows that consumer sentiment is still wobbly. According to a survey on private spending, consumers said they would spend only 260 to 280 thousand won if income was increased by 1 million won (Table 5). Such spending levels are much lower than the marginal propensity to consume of 76.3 indicated in the national accounts for 2000²⁾. Although the income increase in the survey was not personal disposable income after taxes, one can see that consumer plans are still depressed for spending in reaction to an income boost.

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Table 5. Expenditure Plans for 1 Million Won Extra Income

(Unit: Thousands of won)

Expenditure Income	Average Spending	Average Savings	Average Debt Repayment
Permanent income	269	488	244
Temporary income	286	464	250

Burden of debt on consumer sentiment

The continued weak consumer sentiment is partly due to consumers' debt repayment, which almost equalled planned consumption in the survey. In late 2000, domestic households were saddled with 320 trillion won in debt, which was about 88% of personal disposable income. Although advanced countries have similar debt levels, domestic consumers have a greater burden because of high interest rates and a tight financial market. For policy to be effective, the government should try to reassure consumer sentiment and improve consumer finance in addition to stimulus policies like tax reduction or public spending.

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Safety net needed for sound recovery

The pessimism of low-income consumers is another problem for expanded consumption or an economic rebound. As seen above, most low-income earners have seen their income fall from previous levels and do not expect their earnings to rise in the future. Because the poor have a relatively higher propensity to consume³⁾, their optimistic attitude is important for the government's stimulus policies to be effective. A confident low-income bracket is also essential for social cohesion and sound economic development. **VIP**

2) Bank of Korea, National Accounts 2000 (provisionary), March 2001.

3) On average, the wealthiest 40% of urban wage earners have a consumption propensity of 60 to 75, while the poorest 40% have a propensity of 90 to 100.