

RESULTS OF CONSUMER SURVEY¹⁾ FOR THIRD QUARTER: CONTRACTION IN HOUSEHOLD CONSUMER SENTIMENT

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Downturn in Consumer Sentiment

The Consumer Survey Index, which had been rising in 2001, started to decline in the third quarter, indicating more pessimistic household sentiment regarding the economy. The composite consumer survey index (CSI) had fallen during 1999 to bounce back 9.3 points to 66.8 in the first quarter of 2001 and climb again by 13.9 points in the second quarter to 80.7. In the third quarter however, the CSI fell to 73.4. In addition to consumer sentiment, most other indexes related to the economy's present and future have fallen well below 100.

Future prospects are even gloomier than current performance. While the composite consumer survey index fell by 9.0% from the second to third quarter, the

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

	1999				2000				2001		
	I	II	III	IV	I	II	III	IV	I	II	III
Consumer Survey Index	76.8	86.6	93.3	94.9	94.4	90.0	70.7	57.5	66.8	80.7	73.4
Consumer Expectation Index	96.1	105.0	107.4	108.9	106.5	99.5	77.5	68.6	80.4	95.7	82.9
Consumer Sentiment Index	79.2	83.5	88.6	91.4	91.5	91.8	83.6	74.4	80.1	87.0	84.0

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 (785 people surveyed)
- Method : Telephone survey by random selection
- Period : September 28, 2000~September 30, 2000
- Institute : Hyundai Research Institute (Survey conducted each quarter since June 1995)

Table 2. Income and Consumption Indexes

Income and Consumption Indexes							
	CSI for current income	CSI for future income on services	CSI for current consumption on services	CSI for future consumption on durables	Demand change of durable goods	CSI for current consumption on durables	CSI for future consumption
First Quarter	49.5	79.3	48.9	74.5	88.9	96.0	92.3
Second Quarter	60.9	96.1	63.6	93.1	85.6	97.7	95.0
Third Quarter	66.2	86.4	64.6	80.6	89.2	97.2	88.5

consumer expectation index, which indicates future prospects, fell by 13.4%. The CSI for current income (which compares past and present income levels) actually rose in the third quarter from 60.9 to 66.2, but the CSI for future income fell steeply from 96.1 to 86.4. The index that reflects expectations for the economy six months into the future fell from 103.2 to 75.5, indicating household anxiety about future prospects.

Overall, consumer sentiment fell more than evaluations of income, and plans for future consumption fell more than present consumption. Compared to the rise in the CSI for current income (8.7%), the rise in CSI for current consumption on services was relatively weak (63.6 to 64.6, 1.5%). Meanwhile, the fall in the CSI for future consumption on services (93.1 to 80.6, -13.4%) was steeper than the fall in the CSI for future income (-10.1%). Looking at the demand change for durable goods and the CSI for consumption on durables, the desire to purchase durables increased, but most people were unlikely to make such purchases within six months.

Concern regarding the economic slump

The survey results suggest that the current low consumer sentiment is due to psychological factors rather than an actual fall in purchasing power. As seen above, consumption and expectation indexes fell more than income-related indexes. This means that consumption sentiment has contracted not because of an actual decrease in income, but due to the current economic situation and anxiety about the future. According to measures of actual income, monthly incomes of urban workers in the second quarter increased 6.2% from the previous year.²⁾

The rapid decline in household sentiment is probably due to disappointment over the continued economic slump despite hopes for recovery. The unemployment rate, which was 4.8% in the first quarter, fell to 3.4% in August, while the inflation rate fell from 5% to 3.2% in September. Therefore, the performance of these indicators does not seem to have directly caused the decline

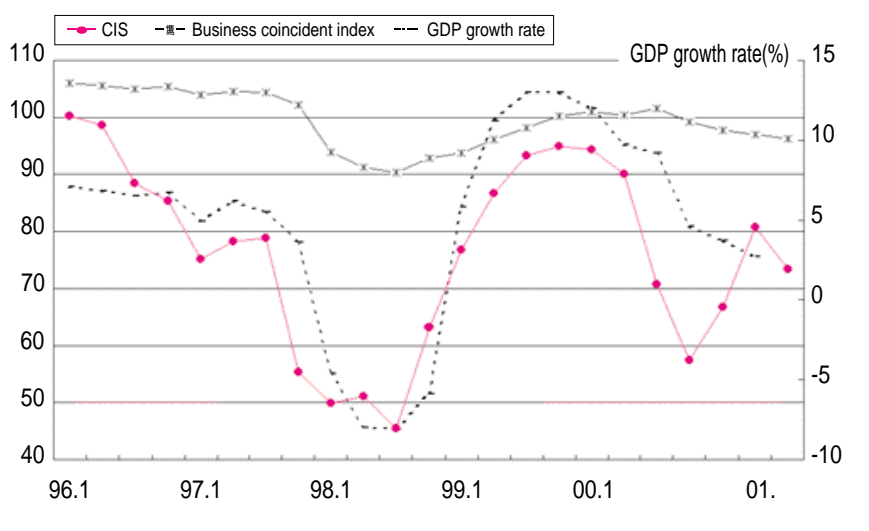
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2) National Statistical Office, "Second Quarter 2001, Domestic Indexes for Urban Workers' Households".

Figure 1. Fluctuation of CSI and Business Cycle



Note : GDP growth rate refers to annual growth, and the business coincident index is based on August's level

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in household sentiment. Instead, the sentiment decline seems to have arisen from the lack of an economic recovery in the second half despite modest hopes in the first half, as well as additional factors of instability such as September's terrorist attacks in the US. In other words, the past pattern of the economy improving one quarter after a CSI upturn (see figure) has not occurred, and households have been disappointed.

With the decline in consumer sentiment, an overall economic decline has become a possibility.

Recovery unlikely before first half of 2002

With the decline in consumer sentiment, an overall economic decline has become a possibility, and it is unlikely that the economy will recover before the first half of next year. The economic decline began in the second quarter of 2000 with a slowdown in investment, and the export downturn that started early this year has worsened the situation. The contraction of household sentiment has put consumption, which had been relatively strong³⁾, at risk. This would result in a downturn for all sectors of the economy. The advanced countries' economies, including that of the US, are not expected to recover in the short term, and considering that investment has slowed along with exports and domestic demand, an actual recovery is not expected until the first half of 2002. **VIP**

3) In the second half of this year, the annual growth rate of real GDP was 2.7%, with private consumption accounting for 2.9%, construction investment 0.9%, facility investment - 10.8%, and exports 1.2%.