

Ukraine

Development of Ukrainian car market in 2009-2010 depends on consumer confidence

A forecast of interdependence between income and consumption is made for a period of economic stability. Under unstable and uncertain conditions forecast errors increase, because both the objective factors change and the reaction to them. At the same time, when consumers do not have past experience of adapting to a situation, as at present, their actions become promiscuous and chaotic and this increases the importance of subjective factors (consumer mood and expectations). This means that the consumer makes a choice according to his/her own evaluation and expectations for the future. This is why models which take into account short-term changes in consumer mood as a factor of consumer behavior are in demand at the present time. Taking into consideration both objective and subjective factors, GfK Ukraine has created a model to forecast the development of the Ukrainian car market. This model has shown that the changes in objective indicators at the beginning of 2009 gave rise to only 30% of the fall in the car market whilst a further 40% was as a result of subjective factors.

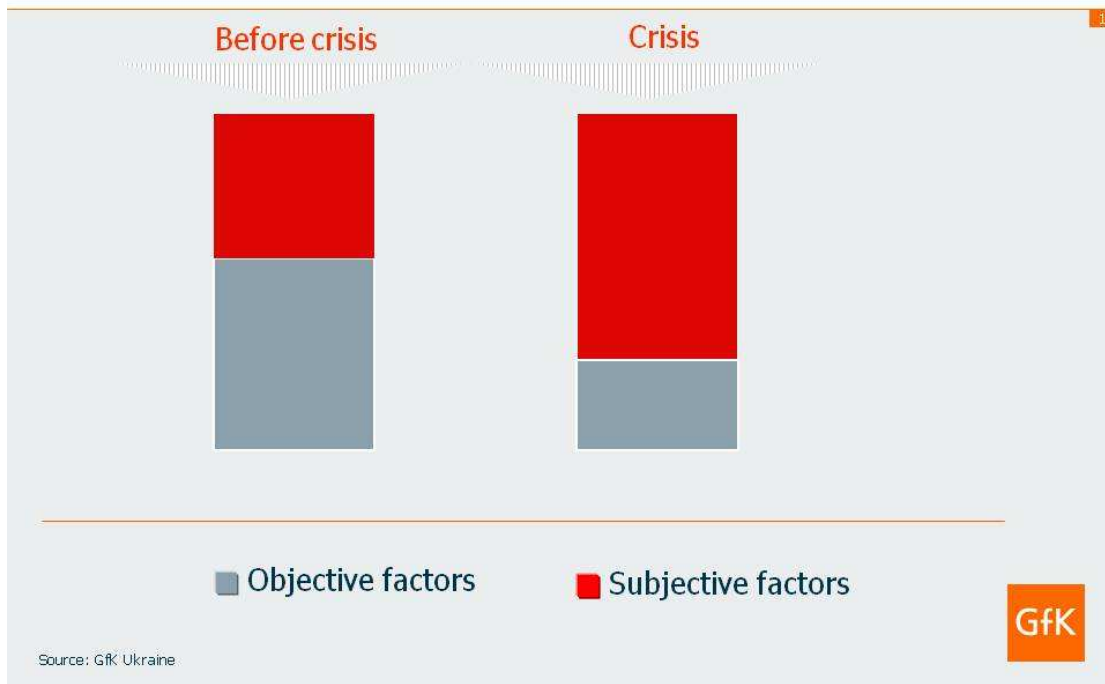
Usually, the majority of the car market representative analysis is of trends and prepares forecasts of new car sales based on objective indicators. One of the most important indicators in Ukraine is the availability of bank loans. However, even during the period when there was the greatest expansion in loans, the share of the car market bought on credit was only 40% (according to Autoconsulting). The other 60% of cars sold were bought by Ukrainians using their own capital. As our analyses show, people's subjective feelings are of great importance, especially during uncertain periods (chart 1). This is primarily consumer mood, which results in a subjective evaluation of the current situation and expectations for the future.

GfK Ukraine

Prediction of Ukrainian car market development in 2009-2010

2009

Relative influence of factors on new car sales



In order to illustrate the increased importance of consumer mood, let us examine two contrasting periods of development in the Ukrainian car market:

- a period of intensive growth: 2007 – first half of 2008;
- the crisis, with a sharp decrease in sales of new cars: beginning of 2009.

In 2007, the car market grew as a result of loans for purchasing cars and the optimism of the Ukrainian consumers

The intensive development of the Ukrainian car market during 2007 and at the start of 2008 is mainly to be explained by people's incomes and the availability of loans to buy cars. The incomes of Ukrainians were growing steadily and the share of cars bought on credit reached its peak at 43%.

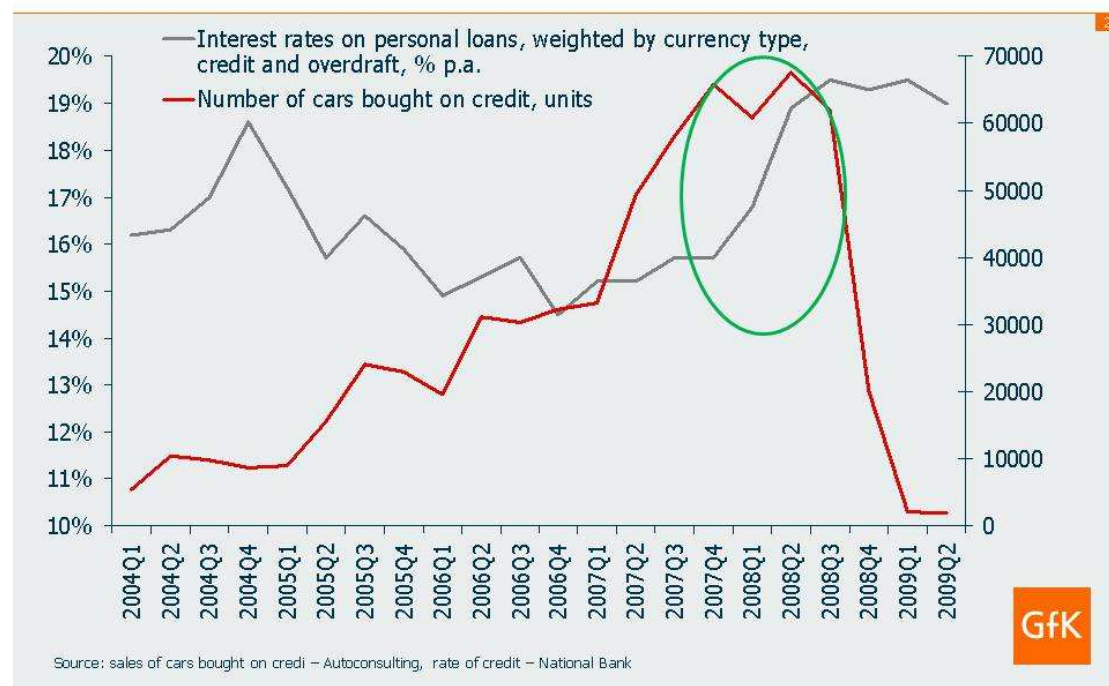
Our calculations show, on the other hand, that another important factor was that the general subjective expectations of the Ukrainians were optimistic. During this period, the Ukrainian consumers evaluated their own well-being and the economic situation in the country very optimistically and it was exactly this factor which facilitated the readiness to take on credit agreements.

Consumer moods restrain development of car market in 2009

In the first quarter of 2009, there was a 70% fall in sales of new cars compared to the first quarter of 2008. Furthermore, the share of bank loans taken out for car purchase decreased from 40% in the first quarter of 2008 (61,000 cars) to 5% in the first quarter of 2009 (2,500 cars). It is worth mentioning that, amongst the 40% of people who took out a loan for a car in 2008, there were people who could have afforded to buy a car with their own capital. Consequently, a significant decrease in availability of credit can only explain a fall in the car market of 58,500 cars, or 38%.

Usually, an increase in the rates charged for credit is followed by a slackening in the amount of credit taken out. In Ukraine, the interest rate began to increase significantly in the second quarter of 2008, rising from 15.5% to almost 20% (chart 2), so that the conditions for taking out credit became more difficult. Nevertheless, the sales of new cars remained stable.

Conditions for credit for car purchase and sales of new cars

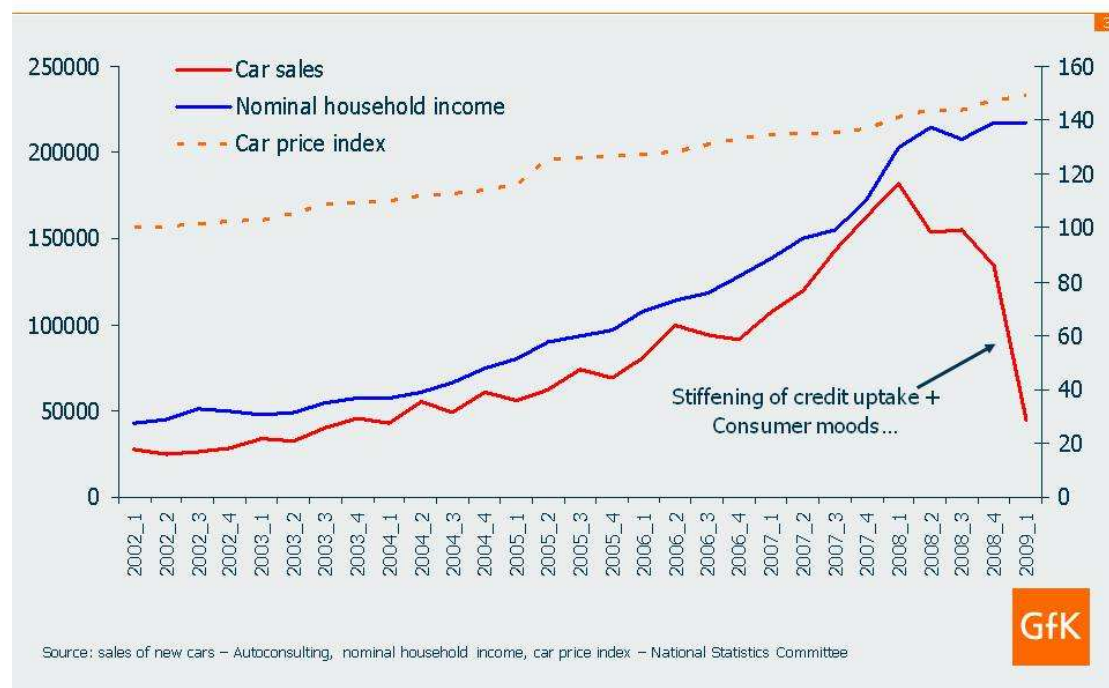


So we can see that there is another effect that contributes to building of consumer mood. The Ukrainians were optimistic and so continued to take out loans to buy cars even under worsening conditions. Only in the fourth quarter of 2008, when consumer mood reached its lowest level at a global level, did the number of cars bought on credit fall almost to zero. At the same time, the interest rate remained the same as in the second quarter of 2008. An almost total cessation of credit facilities for buying cars only occurred in the first quarter of 2009.

The other objective factor – the income of the Ukrainians – increased nominally in the first quarter of 2009 in comparison to the first quarter of 2008, by 4.8% (according to National Statistics Committee) (chart 3).

The devaluation of the hryvnya had a significant influence, however, at the beginning of 2009 but the majority of the market players did not raise the prices. In contrast, there were huge discounts for the cars from the previous year, which were sitting in the car manufacturers' storage facilities in large numbers. This is also shown by the car price index which is calculated by the National Statistics Committee and which only increased by 24% in the first quarter of 2009 compared to the first quarter of 2008 (chart 3).

Association of market dynamics with "objective" indicators

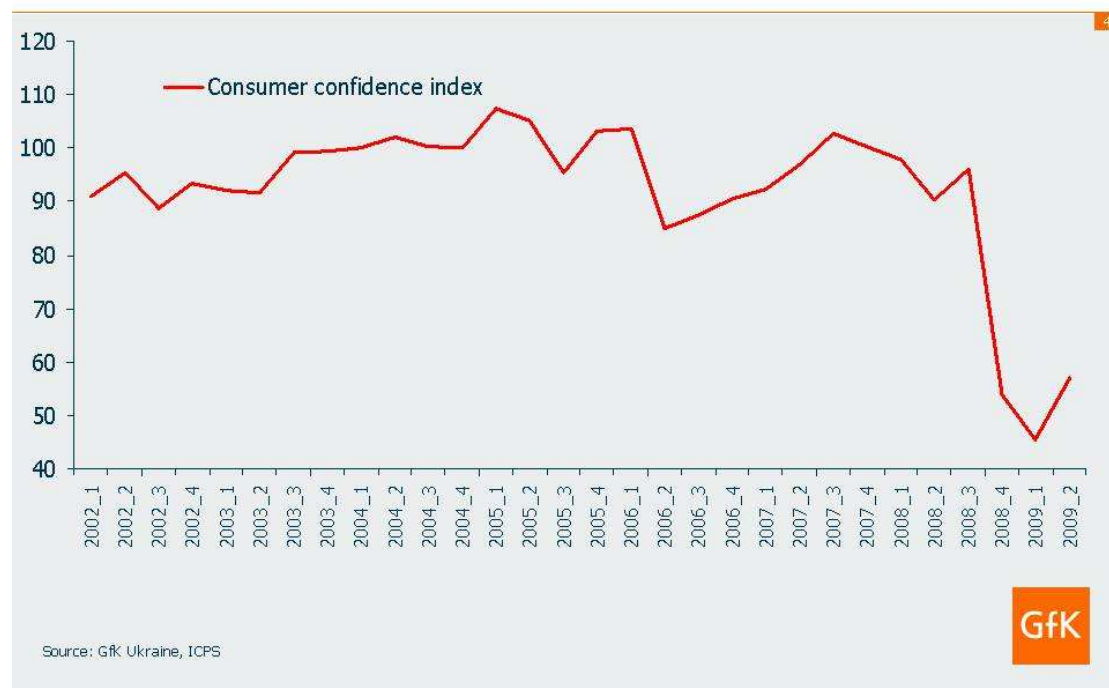


Consequently, the question is whether the objective factors, the availability of credit and the devaluation of the hryvnya, were the only things which led to the collapse of the Ukrainian car market.

The Ukrainian consumer regards a car as a "strategic purchase," which requires a significant financial investment for its purchase and also to cover servicing, maintenance, fuel, and insurance costs. This is the reason that people are driven by their subjective expectations, especially during a crisis.

At the beginning of 2009, consumer confidence and the evaluation of the future economic situation in the country reached its lowest level in the last 10 years (chart 4). Despite many advantageous offers from the car dealers, people are in no hurry to buy a car. We consider that the Ukrainians are being restrained by their subjective evaluation, the uncertainty about their future ability to repay a loan and the unfavorable situation in the country.

Consumer confidence index



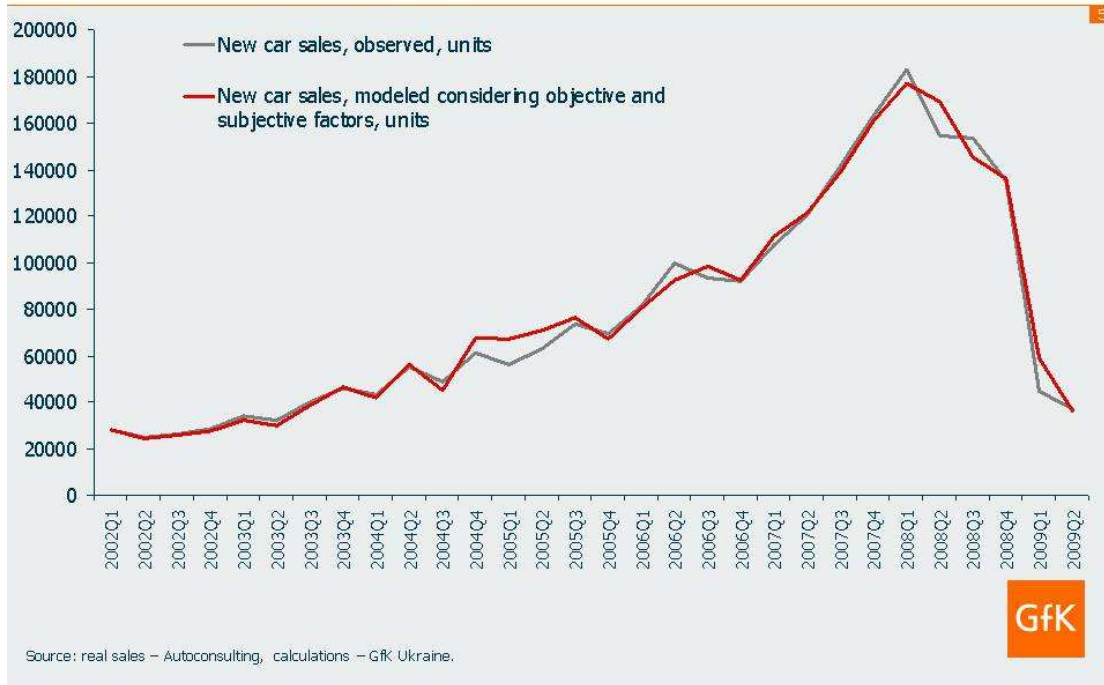
In June-July 2009, car dealers started to offer loan programs to people. However, this has not resulted in a significant rise in sales. The 16% growth in July compared to June is more likely to be explained the seasonal changes. Further proof of this may also be seen in the 77% fall in new car sales in July 2009 compared to July 2008.

In consequence, we can come to the conclusion that the negative expectations of the Ukrainian consumers are not only causing them to refrain from buying a car with their own capital but also from taking out bank loans whilst they are not sure of their ability to pay them off.

To prove our hypothesis about the importance of consumer confidence for the car market, we have analyzed the association between the main objective factors (income, availability of loans, car prices, currency exchange rate, etc.) and the subjective factor (consumer confidence) in the context of sales of new cars. As an example, we have modeled a situation where consumer mood in the first quarter of 2009 remained the same as in the third quarter of 2008. Taking the objective factors into consideration, the sales of new cars should reach approximately 100,000. This would account for 30% of the fall. From this point of view, the rest of the decrease was due to consumer mood.

As our research has shown, only consideration of both the objective and subjective factors can allow an accurate explanation of consumer behavior (chart 5).

Real and modeled data for new car sales



Reference information

The syndicated research “Forecast for sales of new cars in Ukraine in 2009-2010”, carried out by GfK Ukraine, provides answers to the following questions:

- provides a forecast for the volume of the market for new cars in 2009-2010;
- considers the influence of various subjective and objective factors on market size;
- forecasts the dynamics of the key factors: people’s income, credit and deposit interest rates, consumer mood in 2009-2010.

The research “Consumer moods in Ukraine” is a joint project by GfK Ukraine and the International Centre for Perspective Research and has been conducted since 2000.

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