

How Have Consumer Expectations Changed in the Last Year?

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The Consumer Confidence Index (CCI) is an indicator that measures how consumers assess their financial situation and current economic conditions. This index is also designed to measure consumers' future expectations, as well as expenditure trends in the immediate future. Awareness of the expectations of the community has a positive impact both on governmental and business structures. With the CCI, companies, on the one hand, have been able to control their operations and, on the other hand, the government has been prepared for changes related to tax revenue. When there is a decline in consumer confidence, and the propensity to save goes up, then the majority of producers look to reduce their production volume. In the contrary case, the opposite will be observed.

It is clear from the figures published by the State Statistics Committee that Azerbaijan has posted double-digit inflation rates for 16 consecutive months since January 2022. According to recent data, the inflation rate in the country has reached 13,5%. This means that the rate is more than double the top end of the inflation target range of the Central Bank (2-6%). The unemployment rate is also higher than before the pandemic outbreak, yet it has plunged since 2020, when the pandemic began. These indicators are affected by the expectations of the community.

Unlike in other countries, a CCI is not published in Azerbaijan. Taking this into account, in May 2022, we at the Baku Research Institute (BRI) [published](#) our calculation of this index. A year later, we again conducted an alternative survey of the same index and made a calculation based on the

survey results. Our main objective is to study the changes that have taken place in terms of consumers' economic expectations compared to the same period last year.

Socio-economic demographics of the survey

To measure the index, we conducted an online survey between the dates of 17 February and 31 March 2023. Note that the 2022 survey also covered as closely as possible the same period (17 February – 20 March). The socio-demographic indicators of this year's survey participants are in line with those of the 2022 survey participants. The accumulation and processing procedure of data on research questions was organized in the following way:

To assess the present conditions and future expectations of households, we conducted an online survey through *Google Forms*. An announcement about the survey was made through social networking platforms where we asked citizens to participate in it. The total number of participants was about 360, and the questionnaire covered the following issues:

- i. General information about the respondents (age, gender, place of residence, education, income level, employment, and marital status);
- ii. Respondents' thoughts on the state of the country's economy over the past 12 months;
- iii. Respondents' expectations of the country's economy in the next 12 months;

The demographics of the respondents were as below:

1. 62% of the respondents were men, while women comprised 38%; 222 and 138 people, respectively;
2. The percentage of the respondents aged 29 was 68,6%. The figures for other groups aged 30-49, 50-64, and over 50 were 30,3% and 1,1% respectively;
3. Thirteen out of the fourteen economic regions were represented in the survey. East Zangezur was the only

economic region which did not have a respondent.

4. Most of the respondents were from the capital city of Baku (66,4%), followed by Central Aran (10,6%), Karabakh (8%) and Absheron-Khizi (6,4%) economic districts. The rest were respondents living in other economic districts;
5. The majority of the respondents held a university degree (84%). Only 8% of the respondents were college or vocational school graduates and another 8% had complete or incomplete secondary educations;
6. The majority of respondents were employed (61%), another 11% of them were unemployed, while 7% and 21% were individual entrepreneurs and economically inactive population representatives (students, retirees, housewives, among others), respectively;
7. 39% of respondents were people with a monthly income over 1000 AZN. People earning 0-344 AZN per month constituted 21% of all participants. 13% of respondents received a monthly income of 700-100 AZN, 11% of them had a monthly income of 345-499 AZN, and 7% of them had a monthly income of 500-699 AZN;
8. Most of the respondents (71%) were single; only 29% of them were married;
9. Most of the participants were people with three family members (24,4%). The second highest percentage (24,2%) belonged to those who had two family members. People with five and four family members constituted 18% and 15,3% of the respondents, respectively, while 6,9% of the respondents had more than five family members, and 11,1% of respondents lived alone.

As can be seen, the socio-economic demographics of those surveyed do not fully overlap with the socio-economic demographics of the Azerbaijani population. The main reason for this is that the survey was disseminated specifically through social media. Nevertheless, we do not think that any increase in the number of participants living in the provinces

and that of retirees could make any significant difference in the results of this analysis.

A method of calculating the index

We have calculated our Consumer Confidence Index based on the responses given to the questions classified under the categories "Respondents' thoughts on the state of the country's economy in the last 12 months" and "Respondents' expectations about the state of the country's economy in the next 12 months."

First, we classified answers, relating to the questions, into the following categories: positive, semi-positive, neutral, semi-negative, and negative. In the next stage, we determined the proportion of the negative and positive answers of the total answers. For this purpose, we adopted the following formula to maintain the balance.

$$\text{Proportion of positive answers} = (\text{positive} + \frac{1}{2} \text{ semi-positive}) / \text{total answers} * 100$$
$$\text{Proportion of negative answers} = (\text{negative} + \frac{1}{2} \text{ semi-negative}) / \text{total answers} * 100$$

To determine the index per component, we adopted the balance method. As the method necessitates, obtaining the index, we subtract the number of negative answers from that of positive ones and add 100 to the result, to keep clear of sub-zero results. In other words, we use the following formula:

$$\text{Proportion of positive answers} - \text{proportion of negative answers} + 100 = \text{index indicator per-question}$$

The CCI is an average number of two indicators. The first of the two represents the assessments of the current situation, while the other is related to expectations. In our survey, questions were divisible into two: "Respondents' thoughts about the state of the country's economy in the last 12 months" and "Respondents' expectations about the state of the

country's economy in the next 12 months." Keeping this in mind, after obtaining the index indicators for each question we aggregated them in groups. Index indicators for each group were obtained through the average number method. As a result, we obtained the following consumer confidence index formula:

$$\text{Consumer Confidence Index} = (\text{current situation} + \text{expectations}) / 2$$

Categories into which results are classified:

0-99 – negative expectations

100 – neutral expectations

101-200 – positive expectations

Survey results

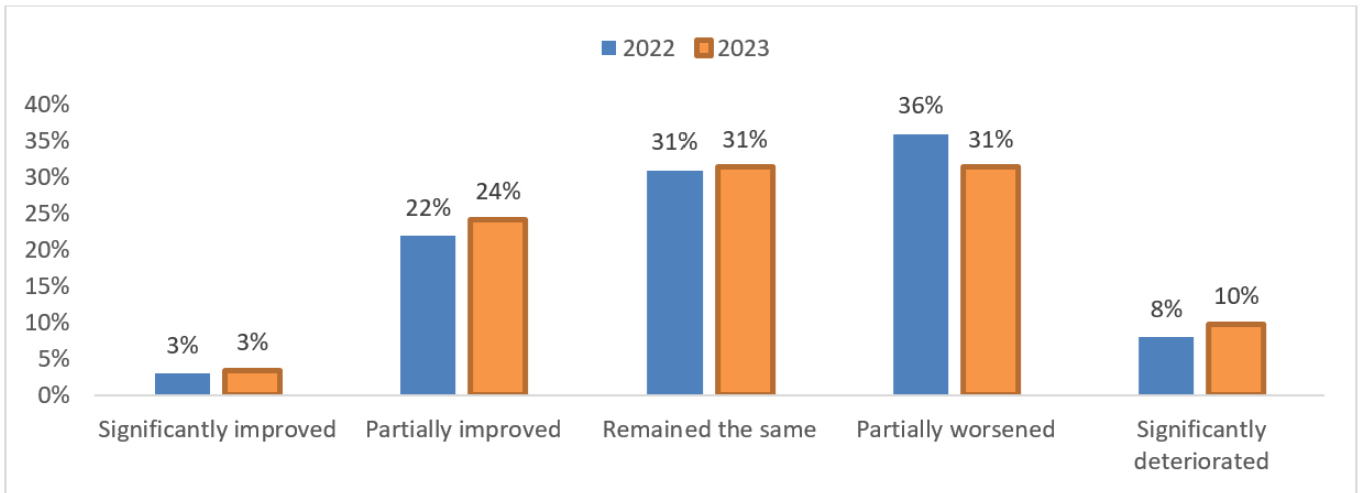
During the survey, 10 questions related to the CCI were directed to the respondents. As mentioned earlier, these questions were divided into two. There were five questions related to each group. The following results are presented in accordance with these questions.

Respondents' thoughts on the state of the country's economy in the last 12 months.

Question 1: How has the financial situation of your family (household) changed over the last twelve-month period?

People's future expectations are formed based on past events. Therefore, we included questions intended to divulge the respondent's sentiments about the previous year.

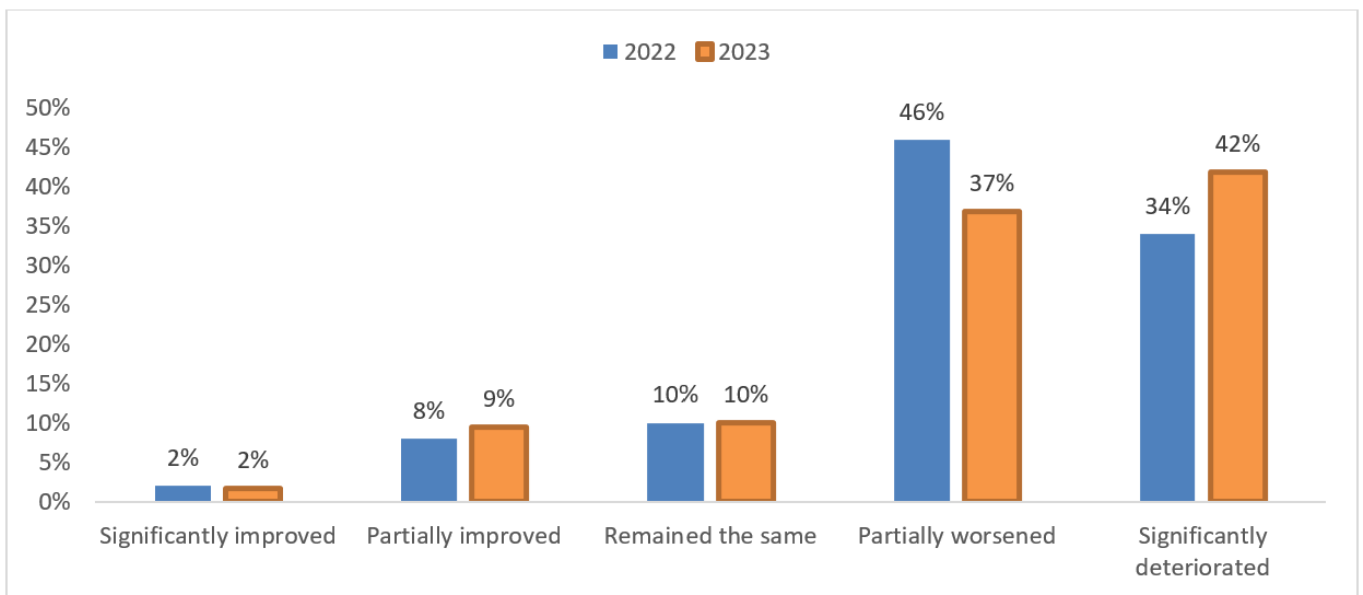
Figure 1. How has the financial situation of your family (household) changed over the last twelve-month period?



Question 2: How do you evaluate the country's overall economic situation over the last twelve-month period?

Regarding the country's economy, respondents were near unanimous in their assessment like last year. There are just more pessimists this time.

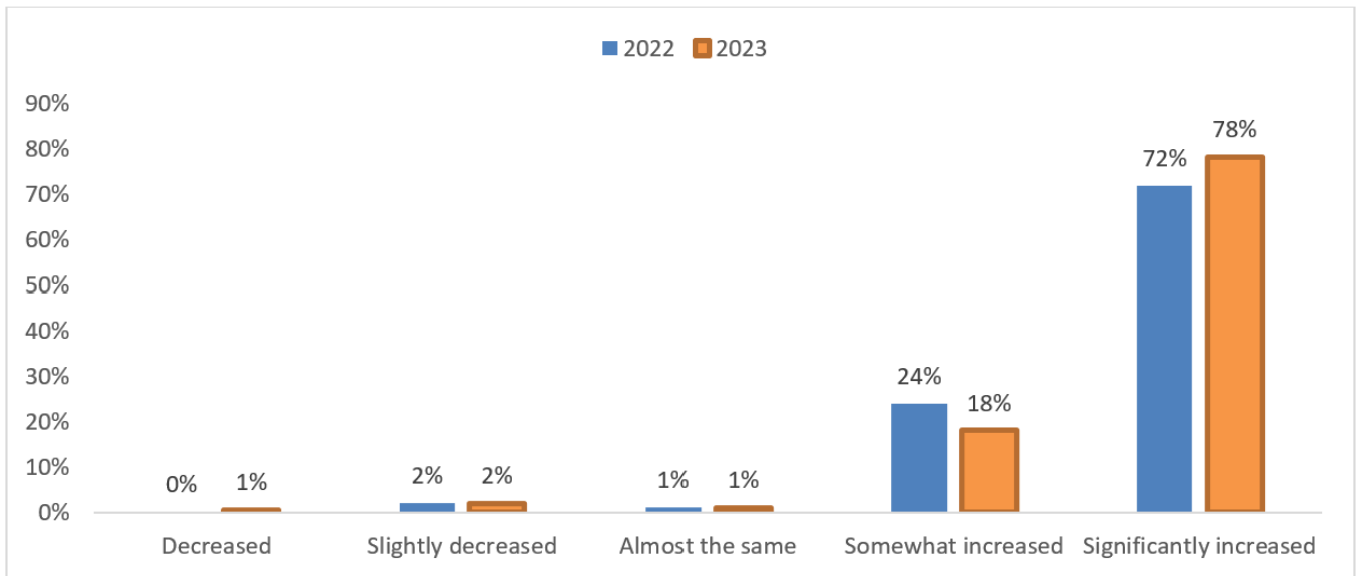
Figure 2. How do you Evaluate the Country's Overall Economic Situation over the Last Twelve-Month Period?



Question 3: How do you evaluate the changes in consumption expenditures over the last twelve-month period?

Regarding the price changes witnessed throughout the last year, respondents were again near unanimous.

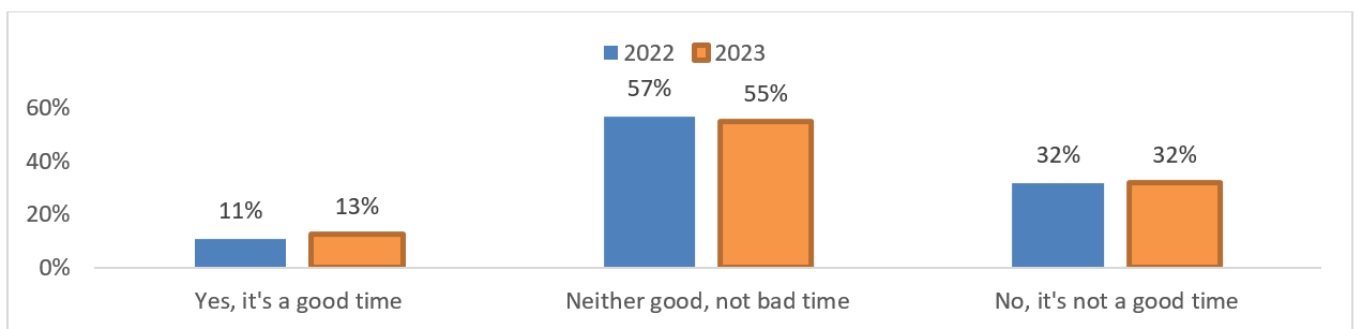
Figure 3. How do you Evaluate the Changes in Consumption Expenditures over the Last Twelve-Month Period?



Sual 4: Do you think it is the right time to purchase durable goods (furniture, home appliances, car, house, and so on)?

One of the things to represent people’s views about the present situation is their willingness to make big purchases. If it is considered a good time for purchasing, then the economic condition is favorable. In the opposite case, one can predict negative conditions in the economy.

Figure 4. Do you Think it is the Right Time to Purchase Durable Goods (Furniture, Home Appliances, Car, House, and so on)?

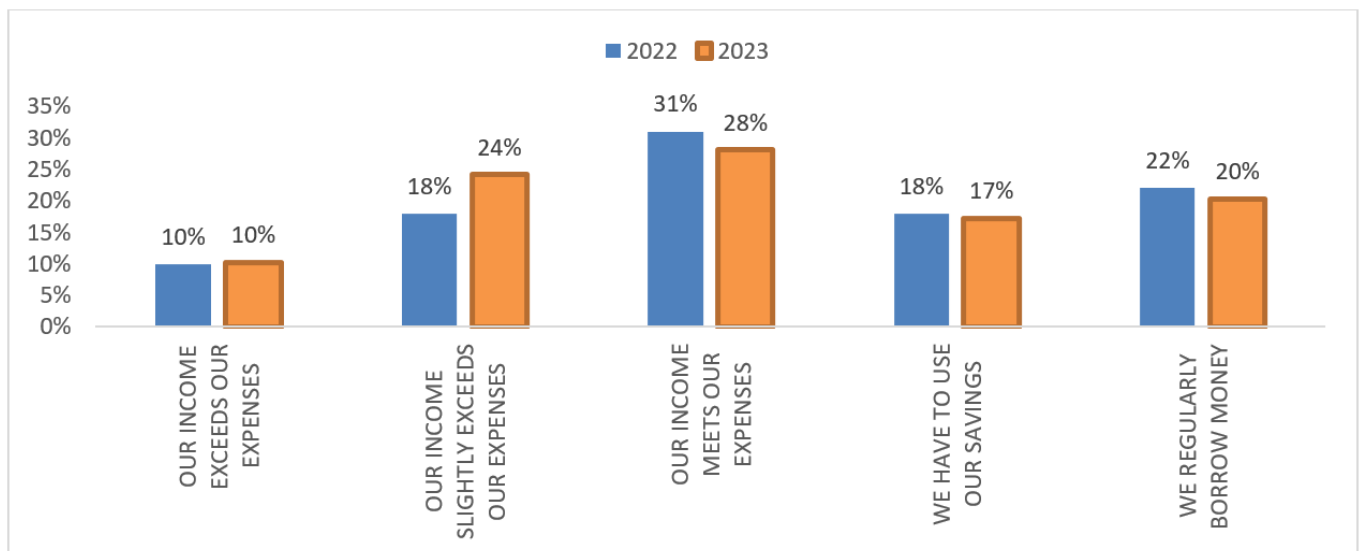


Question 5: Which of the following best represents your family’s current financial circumstances?

When asking a question related to the current financial situation surveyors took income and expenditure ratio as a standard. If income exceeds expenses, it is a sign of positive financial standing; otherwise, a household's financial circumstances should be regarded as negative.

Among the respondents who indicated that they “regularly borrow money,” a relative majority belongs to the low-income group, accounting for 48% of the group. But overall, these people are equally distributed among the groups (for example, the share of those borrowing money in the high-income group is 11%). The current financial situation is not just dependent on one's income level, but also on the number of family members. Thus, 50% (66%, hereafter, unless otherwise noted, the figures for 2022 will be shown in parentheses) of the families who “regularly borrow money” consist of four or more people. In the other group (“people with savings”), 52% (45%) of the respondents have 1-3 people in their families.

Figure 5. Which of the Following Best Represents Your Family's Current Financial Circumstances?

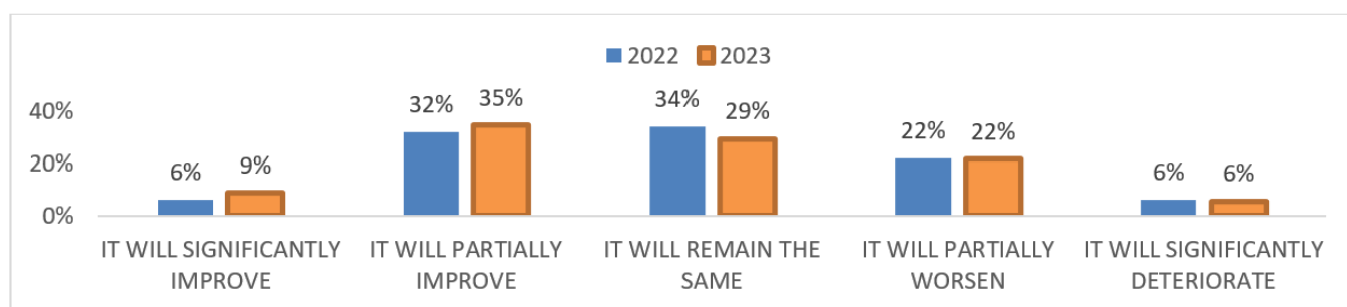


Respondents' expectations about the state of the country's economy in the next twelve-month period

Question 6: What is your expectation of your family's financial situation in the next twelve-month period?

The expectations of the population are relatively optimistic with regard to their households' financial status in the coming 12 months. As shown in figure 6, the 2022 figures are optimistic, and the 2023 figures are even more optimistic. On the other hand, among the respondents who noted a deterioration in the last 12 months, 19% (26%) believe that their financial situation will improve significantly or partially over the next 12 months. And this figure is down from 2022. It should be noted that among those who believe that their financial situation will improve, 43% belong to the group with the highest income and 28% belong to the group with the lowest income.

Figure 6. What is Your Expectation of Your Family's Financial Situation in the Next Twelve-Month Period?



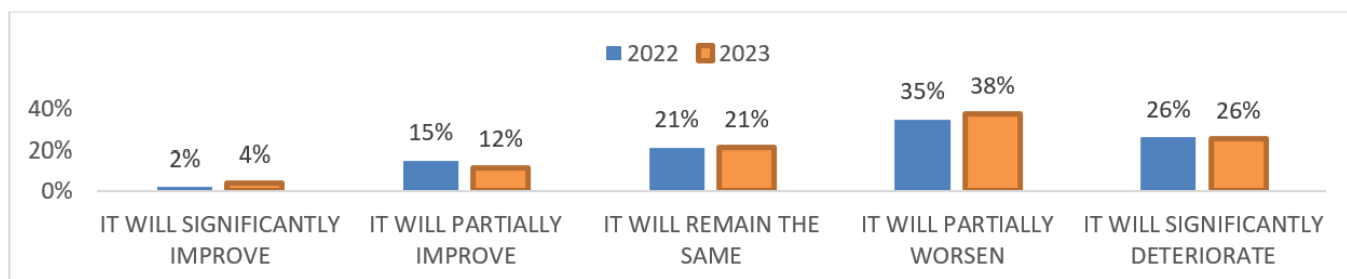
Question 7: What are your expectations of the country's overall economic state over the next twelve-month period?

As in the past year, the optimism related to the family's financial status had no effect on respondents' thoughts on the country's economic state.

Even if we compare, we can see that the number of people viewing the country's overall economic state as poor has increased, although insignificantly. At the same time, there are fewer pessimists among those who believe that the family's financial status will improve. Thus, only 48% of the respondents belonging to the respective group believe that the situation will worsen. Another 23% predict that the situation

will not improve. In other words, we can assume that assessments of future growth of family income are unrelated to assessments of the country's economic situation.

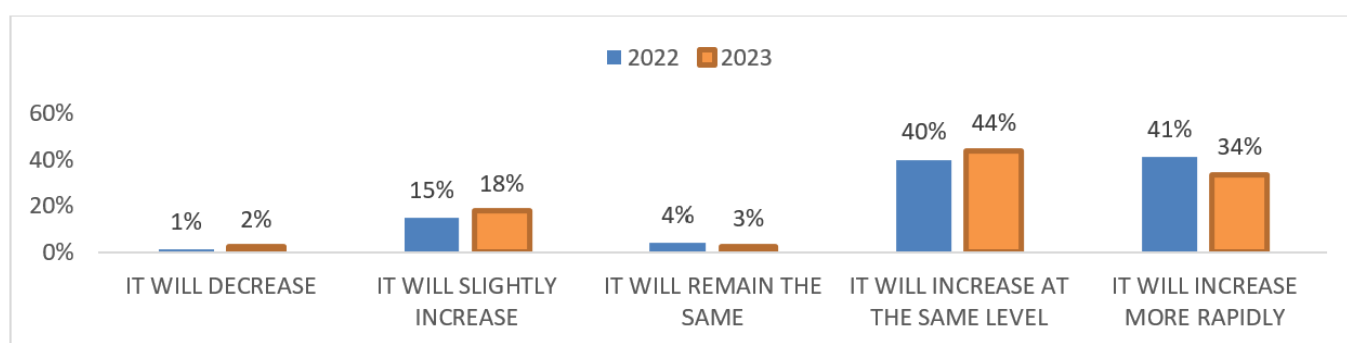
Figure 7. What are Your Expectations of the Country's Overall Economic State over the Next Twelve-Month Period?



Question 8: How do you evaluate the year-over-year changes in consumption expenditures over the last twelve-month period?

Price-related uncertainty can be assumed to be the main reason for the negative perceptions about the future of the country's economy. The recent high inflation rates do not allow us to look optimistically at the future.

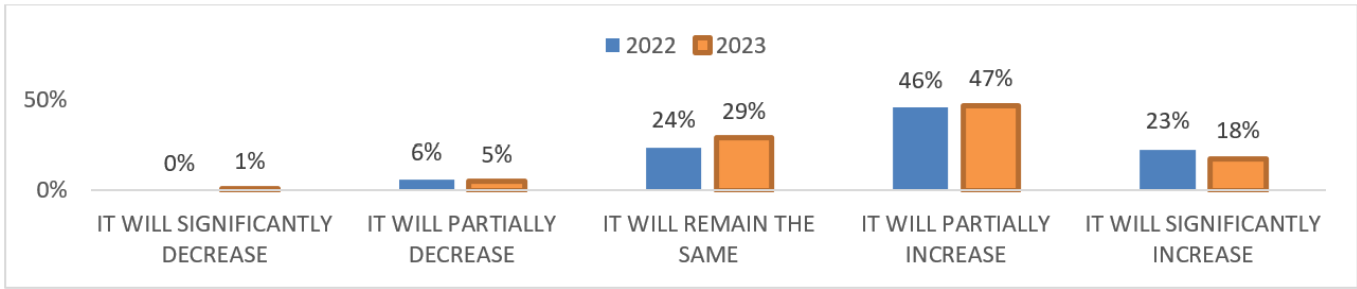
Figure 8. How do you Evaluate the Year-over-Year Changes in Consumption Expenditures over the Last Twelve-Month Period?



Question 9: How do you evaluate expectations concerning changes in unemployment in the next twelve-month period?

Responses to this question, again, reveal pessimism. This also has to do with the number of unemployed in the country over the next 12 months. Unlike last year, this time one percent of the respondents think that unemployment will fall sharply.

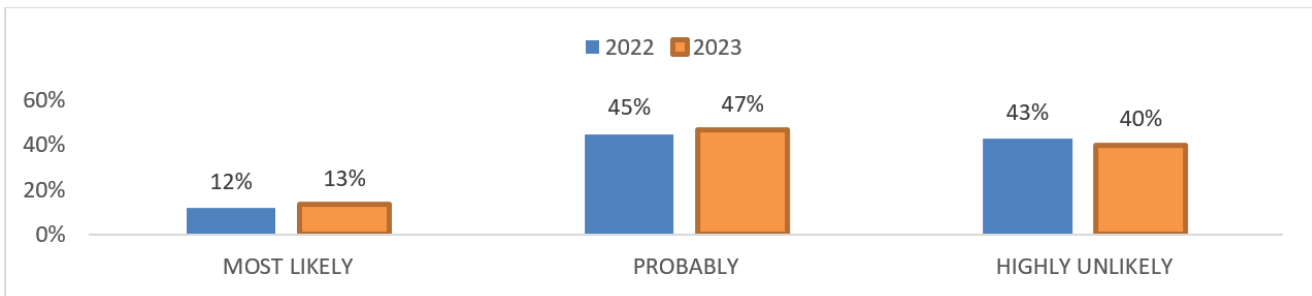
Figure 9. How do you Evaluate Expectations Concerning Changes in Unemployment in the Next Twelve-Month Period?



Question 10: Are you planning to save money in the next 12 months?

It is understandable that expectations for saving money in the next 12 months are low.

Figure 10. Are you Planning to Save Money in the Next 12 Months?



Index Calculation

When calculating the index, we do not see any significant changes compared to 2022. If we look at the overall situation, we see that the vast majority of respondents do not assess the current situation positively, and they have no positive expectations about the future situation. Consequently, as last year, only one question – *What are your expectations of your family’s financial situation in the next twelve-month period?* – was considered positive. The index number for this question is 109,58. The index indicators for the other questions are well under 100: that is, those who hold negative perceptions are the majority.

Question	2022	2023
How has the financial situation of your family (household) changed over the last twelve-month period?	88,05	90,00
How do you evaluate the country's overall economic situation over the last twelve-month period?	48,50	45,97
How do you evaluate the changes in consumption expenditures over the last twelve-month period?	17,03	14,17
Do you think it is the right time to purchase durable goods (furniture, home appliances, car, house, and so on)?	73,59	80,56
Which of the followings best represents your family's current circumstances?	87,15	93,47
What are your expectations of your family's financial situation in the next twelve-month period?	104,92	109,58
What are your expectations of the country's overall economic state over the next twelve-month period?	65,86	65,28
What are your expectations of changes in consumer prices in the next 12 months compared to the previous year?	47,39	55,56
How do you evaluate expectations concerning changes in unemployment in the next twelve-month period?	57,31	62,08
Are you planning to save money in the next 12 months?	69,34 [1]	73,33
Consumer Confidence Index	65,92 [2]	69,00

As mentioned in the methodology section, CCI is built upon two measures, one of which represents the current situation, and

the other expectations. According to our survey, the index of the situation during the last twelve-month is 64,83 (62,87%). In other words, there is only a slight increase compared to last year's figure. The index of expectations for the future is 73,17 (67,76). Here, we see a higher increase. Apparently, confidence in the future among the respondents has been comparatively higher during the year. The average of these two forms the CCI. For our calculation, this is equal to 69 (65,31) points.

Additional Questions

In addition to the measures used to calculate the Consumer Confidence Index, respondents were asked several additional questions as part of the survey. About half of them stated that banks are their loan source. The share of banks among loan sources has slightly increased compared to the previous year.

Table 1. Results of Respondent Answers to the Question Regarding their Loan Source Based on Surveys Conducted in 2022 – 2023

Loan Source	Share, %	
	2022	2023
Loans from credit agencies (banks)	44,0%	49,4%
I have no debt	33,6%	30,3%
A family/friend loan	17,7%	14,2%
Debt loans from business centers	3,4%	4,2%
Interest-bearing loans from other natural persons	0,6%	1,4%
Pawnshop loans	0,7%	0,6%

Table 1 shows that in 2023, the share of loans from business centers and interest-bearing loans from other individuals

among the loan sources relatively increased compared to 2022. The proportion of the respondents borrowing from relatives and other acquaintances decreased compared to 2022. The share of respondents having no financial obligation has also decreased. If in 2022, about 67 out of every 100 had financial obligations, in 2023, this number rose to 70.

The survey also asked survey participants whether they trusted the country's economic policies. The responses show that the vast majority of them – 69,4% – do not trust the country's economic policies. Only 9,4% said that they trust the country's economic policies, while 21,2% said that these policies were partly reliable.

Table 2. Results of Respondent Answers to the Question “Do you Trust the Government’s Economic Policy” Based on Surveys Conducted in 2022 – 2023

Survey participants' confidence in the government's economic policy	Proportion, %	
	2022	2023
Reliable	5,30%	9,44%
Partly reliable	22,10%	21,12%
Unreliable	72,60%	69,44%

As can be seen from the table, although there has been a relative increase in the proportion who reported having confidence in the government's economic policy compared to 2022, seven out of every 10 survey participants reiterated their mistrust in the government's economic policy.

Conclusion

The survey results show that the presence of socio-economic indicators in the negative range results in economic expectations of the population becoming negative as well. An index score under 100 points indicates negative consumer expectations and one over 100 points indicates positive

consumer expectations. Although the growth of the index from 66 to 69 showed a slight year-over-year increase, it still means that consumer expectations were negative. Consumer expectations are formed primarily on the basis of past experiences. The survey results show that everything that has taken place in the past 12 months has had mostly a negative impact on consumers. Out of the 10 questions used to calculate the index, respondents' expectations were negative in nine, while only positive in one, which was related to their outlook on their family's personal future.

According to the answers to the question about socio-economic changes in the country compared to the previous 12 months, the population believes that this year the economic situation in the country worsened compared to 2021. All of this suggests that the government has failed to adequately respond to the challenges arising from the socio-economic conditions of the population over the past year. As a result of the lack of adequate response, the population's confidence in the government's economic policymaking has also remained largely unchanged. The survey shows that 90% of respondents continue to mistrust government decisions. In order to fulfill the population's expectations, the government needs to revisit its socio-economic policies.

Notes:

[\[1\]](#) Last year's measures for the answers to the question *Are you planning to save money in the next 12 months?* have been recalculated and clarified because of some methodological issues. This has not had much of an influence on the overall indicator.

[\[2\]](#) According to the previous note, the index itself has been refined. But an increase of 0,61 was recorded compared to the previous index. It will have no impact on either the overall result or the conclusion we came to through these measures.