

CONSUMERS' PERCEPTIONS IN A VOLATILE ENVIRONMENT - A CASE STUDY FOR THE 2012 SOCIETY

PERCEPȚIA CONSUMATORILOR ÎN CADRUL UNUI MEDIU VOLATIL – STUDIU DE CAZ PE SOCIETATEA ANULUI 2012

ASSOCIATED PROFESSOR DR. VERONICA ADRIANA POPESCU
ACADEMY OF ECONOMIC STUDIES, BUCHAREST
PROFESSOR DR. GHEORGHE N. POPESCU
ACADEMY OF ECONOMIC STUDIES, BUCHAREST
LECTURER DR. CRISTINA RALUCA POPESCU
UNIVERSITY OF BUCHAREST

Abstract:

The paper aims to present the consumers' perceptions in a volatile environment such as the one dominated by the economic crisis phenomenon. Our research starts with a short analysis of previous research papers that were focusing on the subject of consumers' perceptions, putting an accent on the most reliable sources that we had access to. Furthermore, our paper reveals the general trends in consumers' perceptions, having in mind studies already done on countries such as Brazil, India, Saudi, Indonesia, China, Russia, Egypt, during the time period 2010 and 2011. Also, we have made our own research studies during the time period 2010 – 2011 on a number of Romanian individuals in order to generate a specific consumer's trend here as well.

The study presents as well the prediction that specialists and we have made for the year 2012 in terms of consumers' perceptions, based on the statistics offered by the years 2010 and 2011.

Key words: *economic crisis, consumer, economic trend, economic growth, optimism and pessimism in economic terms, business and economics*

JEL classification: *O11*

Introduction

In the introduction part we aim to present some general answers to three main questions that we had in mind when we have decided to approach the subject of consumers' perceptions in a volatile environment and to give some examples very concluding to this subject.

Our first question that we tried to answer is "What is the field that the paper covers?" In this respect, this paper covers the subject of consumer's perceptions, which has been a constant source of inspiration for many other researchers and academics during the last decades. Our major concern, for us as research economists, is that our society has fundamentally and dramatically been influenced by the recent economic crisis, and due to this fact the consumer's perceptions are not the same as we used to know them. Our second question is as follows: "What is the importance of the subject chosen and what are its main objectives?" The subject that we have chosen for our research theme is very important, because we believe that by knowing how consumers have started seeing different changes that took place in the marketplace due to the economic crisis, we are able to measure their interests and future aims in the near future.

Of course, due to the fact that such introspection would prove to be extremely time requires and resource demanding, we have decided to emphasize in our study the evolution of consumers perceptions only in some countries. The objectives of our study are: firstly, to present some key literature review studies that have focused upon consumer's perceptions, in general; secondly, to reveal the general trends in consumers perceptions, having in mind studies already done on countries such as Brazil, India, Saudi, Indonesia, China, Russia, Egypt, during the time period 2010 and 2011; thirdly, our aim is to bring into discussion the situation of our country, respectively of Romania, and focusing on the results that we have discovered in a personal study that we made, that also focused on consumer's perceptions during the time period 2010 and 2011, but this time, of course, on the Romanians consumer's perceptions; fourthly, our study presents in form of a comparison, the perceptions that consumers have in Indonesia, China, Russia, Egypt and Romania; fifthly, another purpose that our study has taken into account is the main trends that the year 2012 will have in the field of consumer's perceptions worldwide. Our third question that we tried to provide an answer to in our study is "What are the methods and means that we are going to use in order to conduct our study?" In terms of the methods used in our study, we would like to emphasize certain facts, such as: for the literature review part, we have tried to put a special accent on the most important studies on consumer's perceptions in our opinion, and, of course, to the ones that we had access to; for the part concerning facts and figures revealing consumer's perceptions in countries such as Brazil, India, Saudi, Indonesia, China, Russia, Egypt, during the time period 2010 and 2011, we have used the data that already exists and was made public by Credit Swiss Emerging Consumer Survey; for the part concerning the Romanians consumer's perceptions we have used the data provided by our personal research that we made during the years 2010 and 2011, using the questioner method, each time registering information provided by a number of 150 Romanian individuals.

Literature review

The sources that we used in our research article are based on searches of library materials, electronic databases, Google Scholar and other Internet sources. Taking into account the sources that we have focused on, it can be seen that predictions at the general level vary according to the severity of the current global downturn. Starting from this idea, the International Monetary Fund (IMF) stated in March 2009 that the world economy would shrink by 1.3 per cent during 2009, the first contraction for 60 years (IMF 2009a), despite the fiscal stimulus implemented by many of the G20 governments. Of course, between this prediction and the forecast of 0.5 per cent growth in January (IMF 2009b) is a significant difference. Moreover, the National Institute for Economic and Social Research (NIESR) predicted in May a decline of 0.5 per cent (NIESR 2009a). The most pessimistic approach came in June when the World Bank reported a more pessimistic outlook, predicting global Gross Domestic Product (GDP) will contract 3 per cent, a marked drop from its March 2009 estimate of 1.7 per cent (World Bank 2009).

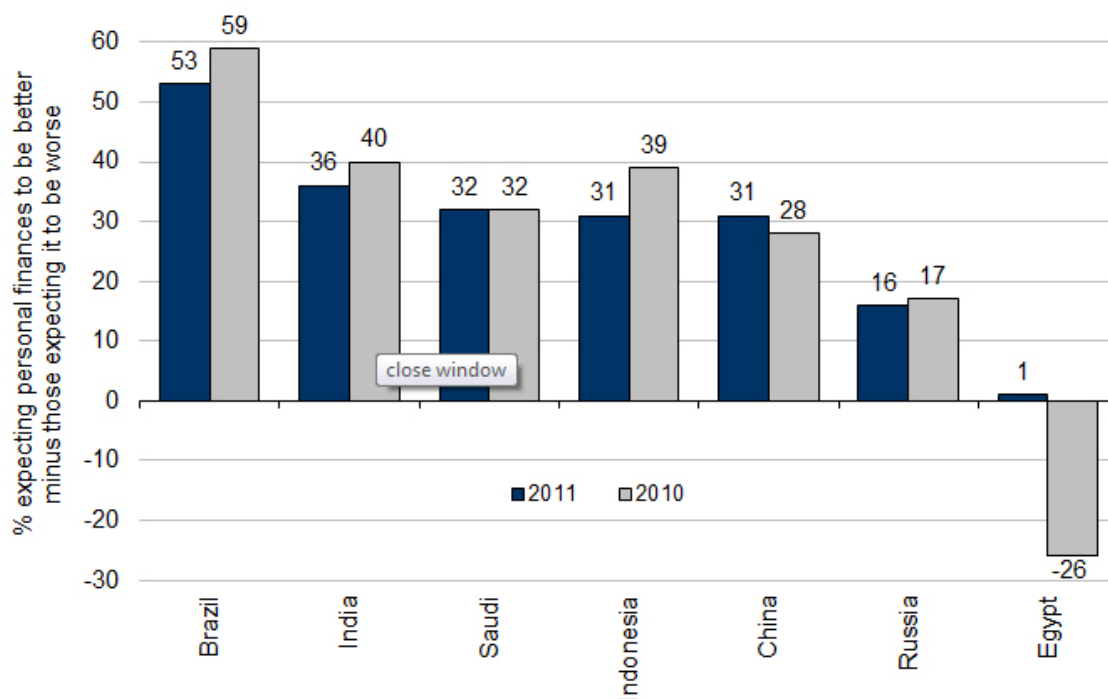
1. General trends in consumers perceptions

In the part called "General trends in consumers perceptions" we focus on the data provided by Credit Swiss Emerging Consumer Survey on the years 2010 and 2011 (<https://infocus.credit-suisse.com>). Credit Swiss has done a survey on more than 14.000 adults across eight markets concerning the level of confidence among emerging consumers.

The aspects that Credit Swiss Survey covered are as follows:

A. Consumers' optimism in terms of personal finance: Firstly, referring to general trends in consumers' perceptions, the survey done by Credit Swiss shows us that by comparing the aggregate results in the survey carried out in 2010 with the ones gathered in 2011, the consumers, on average, are less optimistic. Analyzing the data shown in the figure bellow (see, in this matter, Figure no. 1: Answers to the question: "Do you think the state of your own personal finances over the next six months will be better, worse or about the same?") for example in Brazil's case, the balance of consumers expecting better rather than worse financial prospects over the next six months has fallen from 59 percent in 2010 to 53 percent in 2011, in China's case, the same statistic has slipped from 39 percent to 31 percent, and in India it has fallen from 40 percent to 36 percent. The mood has improved in only two of the markets. Furthermore, the data shows that in Indonesia, a net 31 percent now expect personal finances to improve over the next six months compared with 28 percent last year and the Egyptian consumer is much worse compared with last year.

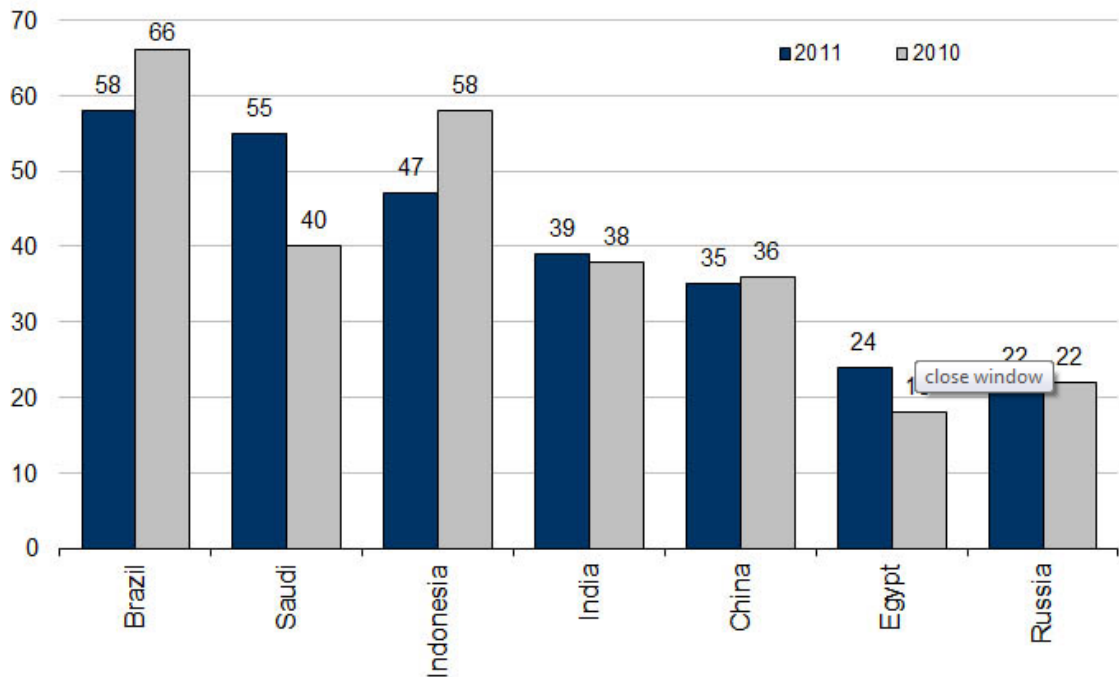
Figure no. 1: Answers to the question: "Do you think the state of your own personal finances over the next six months will be better, worse or about the same?"



Source: Credit Swiss Emerging Consumer Survey on the years 2010 and 2011 (<https://infocus.credit-suisse.com>)

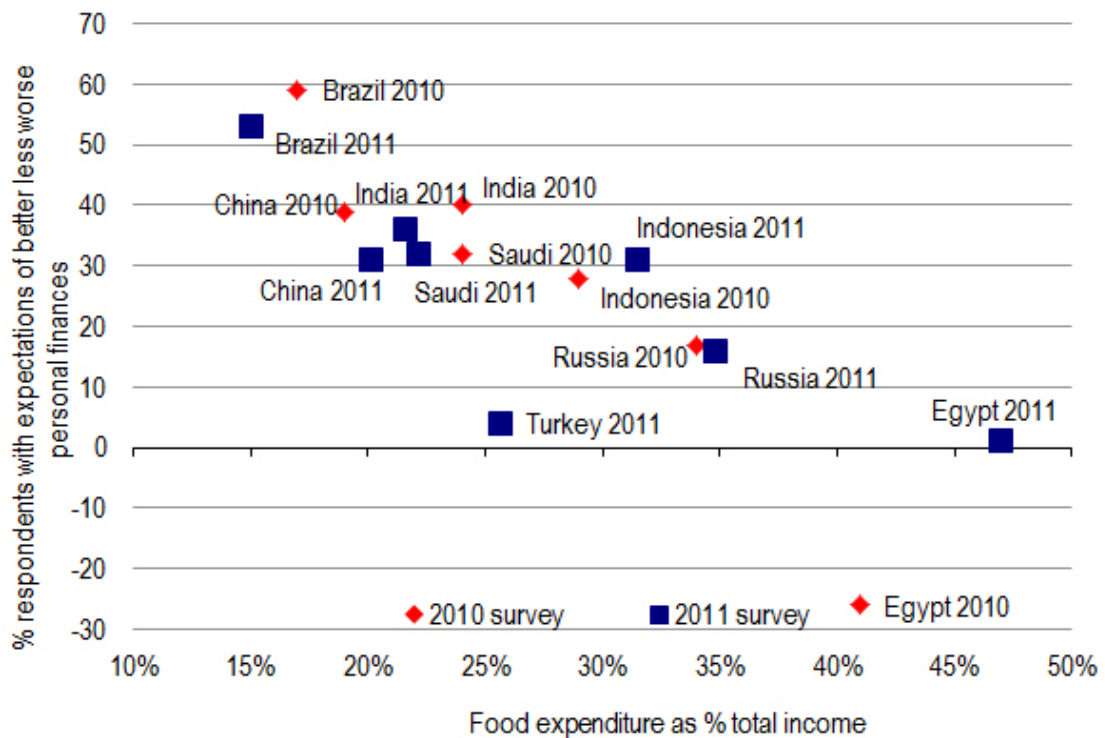
B. Consumers' optimism in terms of wage expectations: Secondly, in terms of wage expectations, the data provided bellow shows that there has been a moderation in consumers future wage expectations compared with the year 2010 (see, in this matter, Figure no. 2: "Percentage expecting better less worse household income in 2011 versus expectations in 2010."). Wage expectations for the next 12 months have declined considerably in Brazil and have come a little bit more down in China. In this context, Saudi Arabia is one market where there has been a clear rise in wage expectations, which could have happened due to the increase in social spending programs and the rise in the minimum wage that the authorities have pursued in the wake of the political upheaval in other North African and Middle Eastern markets.

Figure no. 2: “Percentage expecting better less worse household income in 2011 versus expectations in 2010.”



Source: Credit Swiss Emerging Consumer Survey on the years 2010 and 2011 (<https://infocus.credit-suisse.com>)

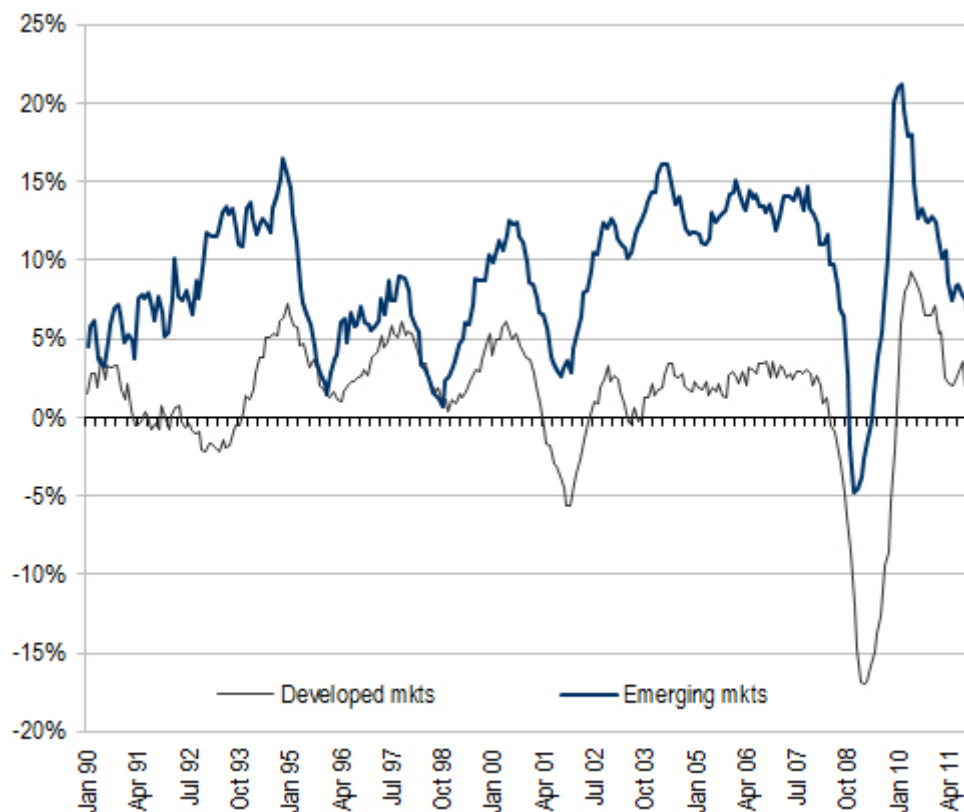
Figure no. 3: “Weight of food expenditure versus optimism on personal finances outlook”



Source: Credit Swiss Emerging Consumer Survey on the years 2010 and 2011 (<https://infocus.credit-suisse.com>)

C. Food inflation and its impact on consumers' perception: Thirdly, in terms of food inflation we can also see from the data provided by Credit Swiss Survey that the consumers were very sensible as well. While comparing the proportion of expenditure that is directed towards food against the optimism embodied in expectations on the state of personal finances we can see that there is a specific pattern that arises: the most important aspect here is that food price inflation has negatively impacted consumer feelings; the most optimistic consumer can be found in Brazil, where consumers have the lowest relative expenditure on food and the least optimistic consumer can be found in Egypt, where consumers allocate over 40 percent of their total income toward food expenditure (*see, in this matter, Figure no. 3: "Weight of food expenditure versus optimism on personal finances outlook"*). On one hand, analyzing the data above in terms of weight of food expenditure versus optimism on personal finances outlook, the respondents in countries such as Brazil, India, China and Indonesia can be considered optimistic. On the other hand, the respondents in countries such as Saudi Arabia and China have proved to be maintaining their level of optimism during the time period 2010 and 2011.

Figure no. 4: "Emerging versus developed market industrial production (% YoY)"



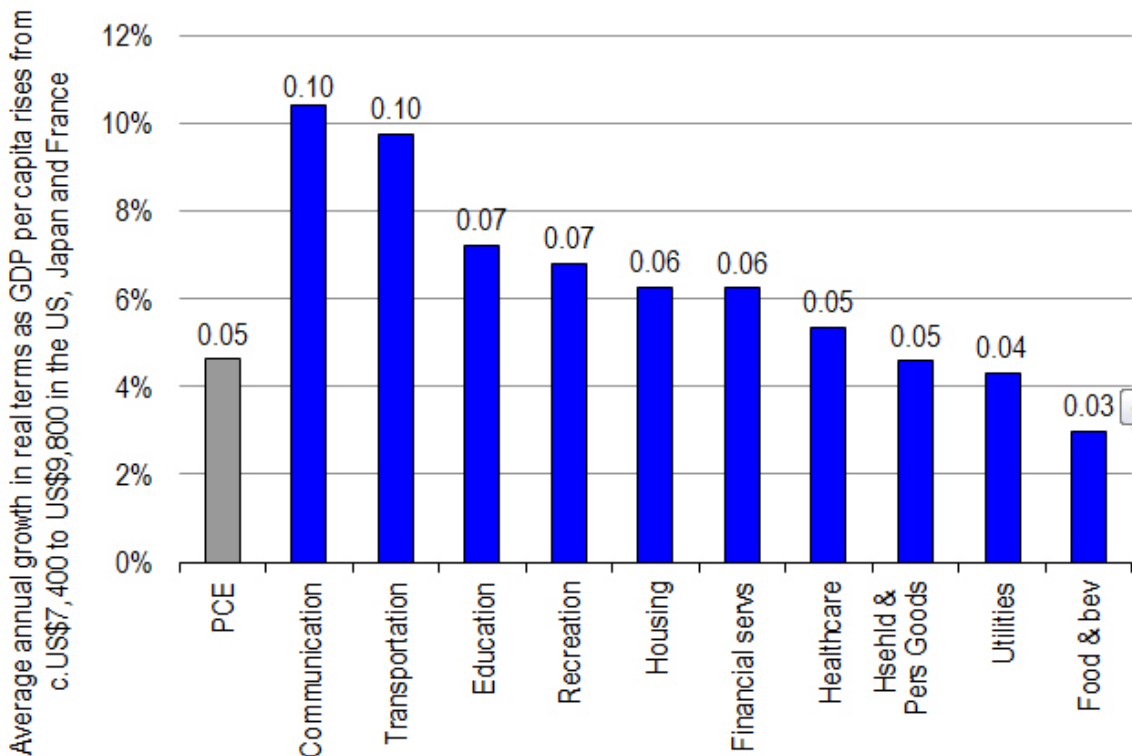
Source: Credit Swiss Emerging Consumer Survey on the years 2010 and 2011 (<https://infocus.credit-suisse.com>)

D. Evolution in terms of economic indicators: Fourthly, the next step that we focus on is the gross domestic product (GDP) ratio for the emerging economies compared to the developed economies. In terms of percentage, the emerging economies have a relatively high 35 percent ratio is the gross domestic product (GDP), which shows they are inevitably going to feel the slowdown and contraction in key developed markets (*see, in this matter, Figure no. 4: "Emerging versus developed market*

industrial production (% YoY)”). While analyzing the data encountered in the figure above we can state that on one hand there can be encountered a normal steady evolution between the points Jul 02 and Jul 07, both for the emergent markets and for the developed markets. On the other hand, between the points Jul 07 and Jan 10 there can be seen a clear downturn both for the emergent markets and for the developed markets.

E. Consumer spending: Fifthly, the survey focused also on the outlook for emerging markets in the matter how income and demographic drivers could change the make-up of consumer spending in these economies in years to come. The data obtain concerning the consumer spending made us consider that there is a specific pattern that exists in the developed markets through the last century. In this matter, aggregate emerging market GDP per capita now stands at 7,600 US dollars in purchasing power parity (PPP) terms. Moreover, the IMF forecast for the next five years has shown that this will increase to 10,100 US dollars. Countries such as USA, France and Japan (*see, in this matter, Figure no. 5: “Average* annual real growth in the volume of consumer expenditure as GDP per capita rises from USD 7,500 to USD 10,000”*) have felt similar changes in the level of their GDP per capita in the 1930s, the 1950s and the 1960s. While analyzing the shifts of USA, France and Japan in terms of spending patterns during this transition, it is clear that growth in spending on the more discretionary items was far stronger than the growth in expenditure on basic essentials. Furthermore, growth in volume demand for “essential items” (such as food and beverages and utilities) was, on average, still positive, but not as strong as the growth in discretionary spending. Meanwhile, consumption of “useful items” (such as transportation, education, financial services or healthcare) proved to be much more sensitive to the rising income levels.

Figure no. 5: “Average* annual real growth in the volume of consumer expenditure as GDP per capita rises from USD 7,500 to USD 10,000”



Source: BEA, INSEE, Ministry of Internal Affairs and Communications, Credit Swiss research (<https://infocus.credit-suisse.com>)

F. Growth in household demand: Sixthly, taking into account the data provided by the Credit Swiss Survey it can be clearly seen that strong growth in household demand for communication services reflected the shift in technology that was taking place at the time and also the substantial decline in prices that took place as the technology gained scale. In terms of communication costs there can be encountered a fall due to the pattern of demand for basic mobile services which is very much in line with that of other essential utilities. The data provided by last year's survey confirmed that similar patterns of consumer expenditure were visible across the emerging economies.

2. Consumers' perception in Romania

Speaking about consumers' perceptions in Romania we have made our own survey gathering data during the years 2010 and 2011. Our main interest was to create a questioner to which we could find as many adult respondents as possible, in order to be able to make predictions, have relevant data's and also generate patterns. In this matter, we have asked in each of the two years a number of 150 Romanian individuals, wanting to know which their consumptions objectives in terms of beliefs and patterns. Consequently, we have compared the growth in spending rates between 2010 and 2011 for a range of goods and services in order to be able to see the household consumption. Having in mind the same patterned that Credit Swiss has based their enquiry, we have synthesized our data as follows: referring to general trends in consumers' perceptions, the survey done by us revealed that Romanian adults were less optimistic concerning their personal finance evolution in the year 2011, compared with 2010; also, consumers' optimism in terms of wage evolution was on a descending scale in 2011, compared to 2010, mainly due to the continuous insecurity in the economic sector; in terms of consumers' spending's, the year 2011 proved to be a better than 2010, but also better than even the year 2006, the year before the economic crisis. In regard to private healthcare in Romania, during the years 2010 and 2011, from the data gathered by us there can be seen a decline in the number of households who allocated spending to private healthcare. Of course, at a theoretical level this could reflect an improvement in state provision of healthcare services, but however, in practice, since the detailed data show the decline was most obvious across the lowest income groups, it suggests that healthcare spending was forfeited to offset high food prices. Also, property ownership in Romania during the years 2010 and 2011, declined on aggregate at the country level. Moreover, in the education sector a more significant proportion of Romanian respondents said they had allocated money to private education courses in 2011 compared with 2010.

3. Predictions for the year 2012 in terms of consumers' perception worldwide

The world is facing continuous and unprecedented change in all the sectors, especially in the economic and financial sector. We consider that reaching a balance is a necessary step in the worldwide economic and financial evolution. According to the Statement by the WB, EC and IMF on the Review of Romania's Economic Programme (http://ec.europa.eu/economy_finance) the continued fiscal consolidation has improved Romania's credibility. In 2011, Romania was able on one hand to reach its general government budget deficit target of 4.4 percent of GDP (in cash terms), and also the government succeeded in paying off a substantial amount of arrears and unpaid bills at the end of the year. Initial estimates suggest that it has also achieved a deficit in accrual (ESA) terms well below the 5 percent of GDP programme target. On the other hand,

there was a slight underperformance on the revenue side, due mainly to lower than planned grants from the EU, which was more than compensated by savings on the expenditure side. In terms of predictions for the 2012, the government continues to be firmly committed to reducing the general government budget deficit to below 3 percent of GDP in accrual (ESA) terms. Of course, there is a constant need for prudence, and due to this fact the authorities continue to target a 1.9 percent of GDP cash deficit, or 2.1 percent of GDP including expenditures of the National Development and Infrastructure Program. In order to reach these ambitious fiscal targets it will be require continued expenditure restraint.

4. Conclusions and limitations

In the years that will come, the world has to find its balance in terms of economic and financial trends. Our paper aimed to present only a small part of the economic and financial evolution that took part in only some countries, such as Brazil, India, Saudi, Indonesia, China, Russia, Egypt and Romania, during the time period 2010 and 2011, but the analysis can be much more extended.

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