

Korean Consumer Sentiment Survey

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1. Introduction

Household consumption, although accounting for over 50% of the GDP in the Korean Economy, has not received much attention as in other countries. After the shock of the economic crisis which began in late 1997, it was believed that changes in private consumption expenditure would be a useful means to understand the business cycle. Therefore, Koreans began to feel the need for reliable economic analysis for the private consumption sector, especially, subjective factors such as consumers' expectations. National Statistical Office(NSO) launched the first Consumer Sentiment Survey(CSS) in February 1998. In November 1998, the survey period was changed from quarterly to monthly in order to enhance the relevance and timeliness of the survey. The CSS, which acquires information on the consumers' sentiments on the business condition and their consumption plans, is expected to provide basic data not only for analyzing and forecasting the trend of consumption expenditure and business condition but also for the management planning of establishments and government economic policy making.

2. Summary of CSS and Methodology

The CSS covers all persons aged 20 and over, married or ever married, living in an urban area. The sample of the survey consisted of 2000 households selected by purposive sampling method. The CSS sample is designed as a rotation panel to minimize response burden. The rotation scheme follows 4-8-4 pattern. Households are interviewed for four consecutive months, then not surveyed for the next eight months, and then again interviewed for the next four months. This survey was indexed as a result of the household responses based on the attitudes and expectations of the consumers concerning the present and future state of the economy, household living standard and consumption expenditure plans, etc.

The Consumer Sentiment Index(CSI) is calculated as follows.

$$I = \frac{\sum w_i f_i}{n} \times 100, i = 1, 2, \dots, 5$$

where w_i is the weight attached to the i th response such as better(w_1) = 2.0, good(w_2) = 1.5, same(w_3) = 1.0, bad(w_4) = 0.5, worse(w_5) = 0.0, f_i is the number of households selecting i th responses, and n is the total number of sample households of the survey.

The CSI is composed of the Consumer Expectation Index(CEI), the Consumer Present Situation Index(CPSI) and other individual indexes. The CEI is constructed on five questions: business conditions, living conditions and expenditure(total household consumption, durable consumer goods and eating-out). The index gauges the consumers' spending expectations for the coming six months. The CPSI compares the level of current consumption with the level posted six months ago, with business and living conditions. On the other hand, the other responses were also indexed as a result of the attitudes on employment outlook for the next six months, subjective valuations of housing, real estate and stocks, compared with six months ago, and so on.

3. Index analysis

The indexes are based on 100. An index of 100 means that the number of households expecting to cut consumption expenses is equivalent to those planning to increase consumption. The CEI above 100 indicates that the number of people who expect to spend more in the next six months is larger than those who intend to spend less. The trend in CEI showed a little rise from November 1998 to January 2000, and a little decline from February 2000 to December 2000, then continued to rise again from January 2001.

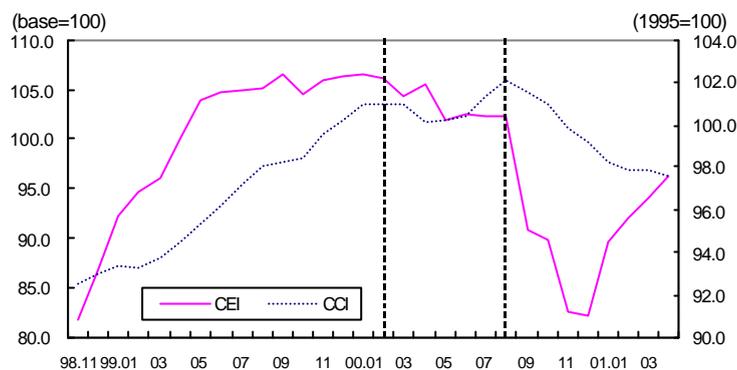


Figure 1. Trend in CEI and CCI

We compared CEI with the cyclical component of coincident composite index(CCI), which shows the current phase of the business cycle. According to this, the CEI appears to be about six months ahead of the cyclical component of CCI. Thus, the CEI seems to serve as a fairly useful means for business forecasting. As the time-series data for CSS have not been accumulated long enough(beginning from November 1998), it is difficult to draw definite conclusions as of yet. When we accumulate sufficient amounts of time-series data, we can undertake a more systematic analysis

including volatility, persistence and causality analysis with relevant variables.

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