CONSUMER CONFIDENCE SURVEY, METHODOLOGY

The nationwide quarterly random sampling survey mainly focuses on Consumer Confidence Index estimation.

In order to measure Consumer Confidence Index and to identify household characteristics, the questionnaire was designed to contain 5 sections such as appraisal of the current state of the economy, expectations about changes in near future, short-term outlook of consumer purchases, anticipation of price level changes, and household characteristics.

A. Household's assessment of the current state of the economy[1]

The objective of section A is to evaluate Mongolian households' assessment of the current state of the economy. There are 4 questions in section A: job availability, business conditions, household are spending on durable goods and changes in household's financial state within the last year.

B. Household's expectation about economic changes in near future

The objective of section B is to evaluate household's expectation about changes in business conditions, job availability, and income in coming 6 months. Questions of section A and B are standard questions regularly used in consumer confidence surveys in different countries.[2] Two questions from section A and three questions from section B provide data useful for CCI calculation.[3]

C. Short-term outlook of consumer purchases

Section C provides information about short-term outlook (6 months) of consumer purchases of immovable assets such as apartment, ger, land and durable goods such as automobiles, major electric appliances and tourism.

D. Household's expectation about changes in main price levels within 6 and 12 months

In section D, we evaluate household's expectation about changes in main price levels such as inflation, interest rate, exchange rate and apartment price.

E. Opinion on government policy

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[1] Consumer confidence index surveys usually cover a half year, a year and a 5 year time period. This survey did not cover the 5 year time period because the economy changes a lot in a short time in Mongolia.

[2] In household decision-making, the permanent income of households is important. If the permanent income increases, households increase their consumption, whereas an increase in transitory income does not have an impact on consumption. As permanent income is defined by current and future incomes, questionnaires in this kind of surveys include questions about current and future income.

[3] Conference Board, Michigan, Washington-ABC News Consumer Comfort Index MasterCard Worldwide index of consumer confidence

The objective of section E is to identify household's opinion on influencing factors of inflation, Central Bank's independence and labor participation of Mongolia.

F. Household characteristics

In order to identify households' demographic, social and economic characteristics, section F consists of questions about household members, housing conditions, employment status, income, immovable asset ownership and education.

CCI computation

As mentioned above, questions on the current state of the economy, job availability, expected economic changes in the near future, expected changes in job availability and expected changes in household income provides data for computation of the CCI. An index is computed for each of these 5 questions and for the computation only "affirmative" and "negative" responses are counted. Indexes are calculated in the following way: affirmative responses are multiplied by 2 and divided by the sum of affirmative and negative responses; afterwards this number is multiplied by 100.

$$I_i = \frac{2G_i}{(G_i + B_i)} 100$$

Where: I_i - index of the question i, G_i - number of households provided "affirmative" response, B_i -number of households provided "negative" response. According to this formula, the index I_i takes a value of 100, if the number of households that provided affirmative responses is equal to the number of households that provided negative responses. However, an index value smaller than 100 indicates a prevalence of negative evaluations among respondents and an index value larger than 100 indicates household optimism. CCI is a simple average of these 5 indices. There are two more indices; the current state index-a mean of two indicators reflecting the current economic situation and the expectation index-a mean of 3 indices reflecting household's anticipation of near future changes.[4]

As mentioned above, the CCI takes value between 0 and 200 and a value greater than 100 indicates higher consumer confidence in the overall state of the economy and a value less than 100 indicates a lower consumer confidence.

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[4]Some institutions calculate CCI as comparison with a particular year index. For example, the Conference Board in USA compares the answers of each question with the index in 1985 and explained it as a normal period of the economy (without boom or depression).