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WORRIED WHILE PROSPERING

A Study of the Contradictions Between Consumer Confidence and Spending in Hungary

Ph.D. dissertation

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1. INTRODUCTION

As the cold season approaches, animals prepare for a rough winter. Bears consume a significant amount of food to survive the so-called hibernation period. Squirrels collect and store nuts. Other animals look for shelter and fill up their reserves. This behaviour is so common in nature that it even became part of the most well-known stories. Who wouldn't remember La Fontaine's fable, The Ant and the Cricket? While the ant was stocking up food for winter, the cricket was just playing music. Ultimately, the ant's preparedness paid off while the cricket was facing a harsh time.

Such stories are not intended only to provide a child a good night's sleep. They are also meant to explain social norms in a way that is easy to comprehend. The story of the ant and the cricket describes why one needs to prepare when expecting a future hardship. According to the theory of precautionary saving (Friedman, 1957), people adjust their actions based on their expectations of the future. Namely, when expecting challenges like financial hardship, they prepare for that with saving to help themselves survive the upcoming scarcity. Agents who are uncertain about their future income will lower their level of current consumption, in order to save up for the future (Acemoglu & Scott, 1994)

The comparison of people's expectation to their subsequent action is not only in theory, but is measured by well-founded, continuous empirical research. Consumer confidence, a scientific indicator of how people perceive their current and future financial situation is widely used for the projection of the changes in consumer spending. Consumer confidence measures are based on the Keynesian theories on income (1936) and Friedman's theory on permanent income (1957), suggesting that people's perception of their financial situation can forecast their spending and that this attitude can be measured via a proper survey. The first official consumer confidence indices were launched in the 1940s and 1960s, and as of 2019, they are conducted in more than 60 countries.

In half a century since the measure was founded, the ability of consumer confidence to represent people's financial perception and to predict consumption has been tested by several studies and the most impactful of such studies confirmed this relationship to be valid. As a result, consumer confidence has been widely accepted and continuously utilized by research agencies, political and social decision-makers, and the broader business community.

However, there is barely any focus on those cases when this relationship fails. But if a research method works only “in most cases”, without being able to explain the exceptions, it does not provide a level of confidence that social scientists would need when trying to reveal the reasons behind a shift towards an optimistic or pessimistic financial attitude in the society, or economists would require for understanding the changes in spending levels that ultimately determine a country’s economic performance.

Consumer confidence measures, similarly to any market research or public opinion research, cannot allow having inexplicable outcomes. When economic actors invest millions of euros in a product or service launch, conducting a market research that works in the majority of cases but fails for that specific forecast may set back the trust towards such research. Political parties invest years of time as well as a significant amount of money and workforce into winning elections. When research agencies provide a public opinion research result that is reliable in general, but fails in some specific cases, it may receive a negative spotlight that could shake the foundations of the measures and the whole discipline of market and social research, or in a broader perspective even the whole fields of sociology, economy or political science. Yet, it might happen that even the most trusted, commonly used research malfunction.

Failures of broadly used measurements are relevant not only in countries with unstable society or economy, but also in those with more solid circumstances and developed research methods. Furthermore, these phenomena happen not only occasionally and over a rather long time period; there were several cases in recent years. In 2016, the U.S. presidential election was a close race; still, all the most influential and methodologically solid and trusted measures forecasted the Democrat’s candidate to win the race for presidency. Finally, the Republican candidate succeeded. Just months before that, the UK’s EU referendum in 2016 resulted in a surprise outcome as most polls predicted the results incorrectly. Even financial markets were almost perfectly priced for a “remain” outcome. But polls overestimated the young voter turnout, which later on turned out to be the main driver of the surprising result of the majority of votes given for leaving the EU. A few years prior, the impact of the global economic crisis of 2008 was misjudged by economists as they relied on models that expected consumers and businesses to behave "rationally" and did not consider scenarios that ultimately got realized, like consumers maintaining their spending habits when economic models would have expected them to be set-back. Going even a few years back, in 2002, Hungary's governing party, Fidesz, was forecasted to be re-elected by the significant majority of the surveys. At the end, they lost. Almost two decades later, in 2019, the municipal elections substantially underestimated the potential in the opposition votes, resulting again in a shocking outcome for the governing party's candidates. All these surprises put research organizations and polling agencies under scrutiny.

The upside of such disruptive situations is the increased need for accurate and reliable measurements that are able to properly comprehend and account with the exceptional cases, outliers as well. The same applies to consumer confidence measures where its main benefit is also its biggest risk: in general, they are continuous and tend to work according to expectations, so when they occasionally deteriorate from the general trend and present unexpected results, those cases may easily get ignored. However, these failures within the continuous measurements can be at least as important as those that occasionally shake the foundations of the social, economic, and political research fields, because even minor biases in the day-to-day business and economy may become impactful due to the volume, duration, and reoccurrence of such failures[1].

This study will analyse the temporary discrepancies between the consumer confidence and consumer spending, with a special focus on Hungary, where such cases were recognized several times between 2005 and 2019. The relationship between changes in the consumer confidence and consumer spending in Hungary is in general expected to be strong. Findings of Vadas (2003) indicated that consumer confidence index was capable of explaining 51 percent of the variance of the consumption expenditure's growth rate. In Hungarian economics and economic policy, consumer confidence has been widely used as a predictor of

1 In the context of this study, the expression of "failure" should be comprehended as biases, deteriorations from the expected outcome. In those cases mentioned above, this would mean for example an election won by the candidate who was not forecasted to win, or when consumption expenditures' trend would increase even if consumer confidence measures would predict a decline. These deteriorations usually remain without proper explanation.

consumer spending. However, several times during the examined period the two metrics contradicted each other. In 2011-2012 this contradiction was so intense that while Hungary had become the most “pessimistic” country in the world (financially, as measured by the consumer confidence index, within 56 countries surveyed), the spending was increasing so intensely that it put Hungary among the top European countries of spending growth. This carried a message that while Hungarian people were becoming increasingly discontent with their financial situation and expecting even worse to come, they were not saving up and preparing for that hardship but were significantly increasing their spending. Comparing this situation to the story of the ant and the cricket, it would mean that the ant had prepared for each previous winter but at a point it rather decided to use up its reserves even if expecting a harder winter than ever before.

What are those dormant, latent, or neglected drivers that are capable of temporarily deteriorating people’s perceptions or actions? That is the main question that this research intends to answer. What made Hungarians so discontent with their situation that even if they were able to afford to increase their spending, they became more discontent with their financial situation? Or is there a social phenomenon capable of driving how people feel about their financial situation without having any impact on spending? Or was the increased spending generated by external forces?

The main paradigm of this study is that consumer confidence does indeed predict consumer spending and that biases between these measures are not unexpected and irrational incidents, but something we can understand and take into account as a factor when evaluating the results of consumer confidence. The explanation for the temporary deteriorations will be sought for from two different perspectives. One approach will focus on those potential determinants that could generate a negative financial attitude even in times of financial prosperity. The second approach will focus on those drivers that could lead to increased spending levels indifferent of how people perceive their financial situation.

Finding adequate answers for the research questions carries great importance for both the theoretical foundations as well as for the applied science. The ability of consumer confidence to predict consumer actions needs to be considered as a phenomenon with several layers: is consumer confidence a strong predictor of spending, and if so, does that carry additional information above and beyond other measures? While the latest scientific standpoint leans towards a consensus that this relationship exists, there are ongoing debates on its strength and added value. Furthermore, there is a scarcity of research that analyse and explain irregularities; cases that may actually have an impact on the strength of this relationship.

This study will focus on very impactful examples with the intention to reveal connections that could help understand how the relationship between consumer confidence and spending works, ultimately leading to more accurate and valid research. In regard to the utilization of the consumer confidence, revealing latent drivers may help economic and social decision-makers better understand the changes in the attitudes of the society, being the perceptions of financial circumstances or the spending habit. With the help of this knowledge, social policies, services and products could become more broadly accepted by the society, leading to higher satisfaction and prosperity.

The study will be constructed in the following way. The review of the theoretical foundations in the next chapter will demonstrate how consumer confidence measures are constructed, their ability to predict spending and the open scientific questions in regard to the strength and additional value of this relationship. In contrary to the theoretical background, there were several empirical cases that temporarily deteriorated from these expectations; the third chapter will present these exceptional cases. The fourth chapter will filter the conclusions from the theoretical background and the empirical cases to construct the potential explanations, and summarize the research questions that primary research should answer. Chapter five will introduce the primary research, followed by the evaluation of the research results in chapter six. The final chapter will draw the conclusions based on the theoretical background, empirical review, and findings of the primary research, and will also provide recommendations for the application of the outcomes and further research opportunities.

This study will be conducted and led through an investigation, one that would not build up the story to a fixed resolution but would actually be looking for answers during the progress, with the intention to find an explanation for the discrepancies between how people perceive their financial situation and how they ultimately act in relevant decisions.

2. THE THEORETICAL BACKGROUND OF CONSUMER CONFIDENCE

2.1 The history and current utilization of consumer confidence

The history of the consumer confidence measurement is rooted back to John Maynard Keynes (Keynes, 1936) and his notion of "animal spirit" (that expectations are created with little knowledge about the future), which first pointed out the importance and impact of expectations on the economy, and subsequently raised the interest towards understanding how expectations are constructed. Since then, economists have been exploring how the "animal spirit" could be influencing the economy through the consumer and investor sentiment (Ludvigson, 2004).

As the economic and social sciences evolved in the 20th century, it became more important, as well as more feasible to understand the impact of individual actions on macroeconomics. The impact of consumer confidence (CC) on spending started to receive more spotlight in the macroeconomic analyses, built on the general assumption that the expectations of consumers could have a significant impact on macroeconomic outcomes, because consumer spending accounts for 60-70 percent of the GDP of highly industrialized countries (Cotsomitis & Kwan, 2006). In order to understand how social attitudes could impact economic performance, and potentially to increase the latter one through higher spending, discussions slowly started to include the topic of consumer sentiment, the consumer confidence as well.

Consumer spending is determined by the ability to buy and the willingness to buy; the prior standing for the assets and the latter for the motivation. While the ability to purchase has been in the focus of scientific debates and studies, such empirical examples like the decline of spending in the United stated in 1951 in parallel to a growing income, made it clear that the ability to buy is not capable of its own to predict consumer spending. Ou et al. (2014) attributes the importance of the willingness to buy to its ability to respond much quicker to macro-level changes (being economic or political news) than the ability to buy. Hunneman (2015) also reinforced that the willingness to buy may play an important role in the spending, arguing that ultimately the measures of consumer confidence may be better predictor of consumer behaviour than the GDP (and its changes) because consumer confidence captures both the ability and the willingness.

In 1946, George Katona, one of the founding fathers of modern behavioural economics, initiated the measurement of consumer expectations through the consumer confidence (CC) survey of the University of Michigan (Curtin, 2019). Katona founded the measurement of the Index of Consumer Sentiment at the Social Research Center of the University of Michigan (Ou et al., 2014): the Index of Consumer Sentiment (ICS) is still one of the most recognized consumer confidence surveys in the world.

In 1957, Milton Friedman's (1957) permanent income hypothesis also turned the spotlight to consumer confidence, arguing that the spending of consumers depend not only on their income level, but also on the expectations set towards its level in the future. His Permanent Income Hypothesis (often referred to as PIH) relies on the assumption that expectations of future income of the consumers determine their consumption behaviour. Positive, optimistic expectations could lead to higher spending while a pessimistic sentiment would motivate for moderated spending. "From this perspective, if we are interested in understanding the household consumption dynamic, it is important to know what consumers think about their future and this can be achieved through an analysis of consumer sentiment indices" (Carneiro Rios Lopes & de Jesus, 2016, p.1227). Decades after Friedman's theory was formulated, Carroll (2001) revisited Friedman's permanent income theory in comparison to computational models of consumption behaviour in the 1980s and 90s. He found that if there is uncertainty in future labour income, the consumers' behaviour is better described by Friedman's original permanent income theory than by explicit maximizing models. Furthermore, studies since have also confirmed that Friedman's intuition of the marginal propensity to consume would be correct. These results confirm that people do not spend their entire income because of the uncertainty; ultimately this also means that the higher the future instability, the more they would be wanting to save.

In 1963, Eva Mueller evaluated the first ten years of consumer attitude measurement by testing the predictive success of the survey on consumer optimism and confidence. Her results confirmed that the measure is capable of capturing information above and beyond general financial and business indicators, so the Index of Consumer Attitude "…is consistently good in the sense that a number of alternative formulations of the time series regressions lead to the same conclusion: attitudes contribute significantly to our ability to account for fluctuation in durable goods spending…" (Mueller, 1963, p. 899). As the reliability and visibility of the measure increased in the following decades, it became the focus of several other research and studies that attempted to reveal its true strength and potential; the most relevant of which will be presented and reviewed in the following chapters of this study.

The results of these research as well as the increased interest towards the potential utilization of the consumer confidence measures led to the launch of several new surveys, all across the globe. In 1967, The Conference Board launched its own index, followed by many others; all of them based on a similar foundation, in a similar framework. While "The University of Michigan's Consumer Sentiment Index and The Conference Board's Consumer Confidence index are the most widely followed measures of U.S. consumer confidence" (Bram & Ludvigson, 1997, p. 4.), in 2019, consumer sentiment measures were conducted in more than 60 countries (Curtin, 2019). Besides the University of Michigan and The Conference Board, several government institutions and market research agencies conduct consumer confidence research: Gallup Poll, Nielsen's Consumer Confidence Survey[2], GFK, Ipsos (Hampson, Gong & Xie, 2021) as well as the European Commission's Business and Consumer Survey (BCS) in its Economic Sentiment Indicator. The first consumer confidence measurement in Hungary, conducted by the Corvinus University of Budapest between 1996 and 2002, also relied on the University of Michigan's method (Agárdi et al, 2003).

BCS and its local versions are the most frequently used consumer confidence surveys in Europe: "Currently, the harmonized questionnaires are conducted in 33 countries. Results of the surveys are published at the end of each month and are freely available at the website of the EC" (Claveria, 2021, p. 121). The survey of BCS is conducted in Hungary by the GKI Institute in and will be a crucial part of this study as well. It is conducted monthly in the EU and applicant countries, with a survey of twelve questions, out of which four are used for the creation of the final index value (Gausden & Hasan, 2018).

2 Recently merged with the Conference Board.

Since the 1960s, consumer confidence measures have been providing crucial information about current and future economic conditions for economic and social comprehensions and decision-making. „The rising demand for these results both by the public and the business sectors, as well as the expanding coverage in the press, seems to confirm their importance and usefulness” (Cotsomitis & Kwan, 2006, p. 599).

Financial markets, media and businesses in general rely heavily on these indices (Bram & Ludvigson, 1997). “Today, the outcome of monthly consumer confidence surveys provides steady fodder for the business and financial press and is treated as an important piece of economic information. (…) Consumer confidence is often cited by Federal Reserve Chairman Alan Greenspan as a key determinant of near-term economic growth…” (Ludvigson, 2004, p. 1.). Chopin & Darrat also highlighted the widespread utilization of the consumer confidence results, noting that: “The perceived importance of consumer attitudes is evidenced by the attention paid to announcements made by the Conference Board and the inclusion of the Index of Consumer Confidence (ICC) in the Commerce Department’s Index of Leading Economic Indicators” (Chopin & Darrat, 2020, p.34). Malovaná, Hodula & Frait’s (2021) study also emphasized that the consumer confidence measures are used continuously by policymakers due to its timely information on consumer perceptions. Carneiro Rios Lopes & de Jesus (2016) also confirmed that economists as well as policymakers use the consumer confidence measure as a barometer for the behaviour of the economy. Lehrer, Xie & Zeng (2019) summarized the value of consumer confidence and the level of interest towards it with a telling example: „Until 2013, many Wall Street firms willingly paid an extra subscription fee to Thomson Reuters to gain access to monthly consumer confidence data a full two seconds earlier than the rest of its subscribers at 9:54:58 a.m., as opposed to 9:55:00 exactly”. (Lehrer, Xie & Zeng, 2019, p.1)

There are several, major areas in the economy, where consumer confidence is deeply embedded through explaining past situations or creating expectations for the future. National economic performances are measured by the GDP, which is impacted by the consumer confidence through consumer spending, but subsequently also through inflation, price level, and the quality of products and service purchases. Financial markets’ results also depend on consumer expectations. Furthermore, major economic shocks often look towards consumer attitudes for explanations. Consumer confidence is also used as a tool for testing fiscal or social policies.

In macroeconomics, consumer confidence is expected to have a significant impact on the GDP through consumption; an expectation based on numerous empirical studies. The general assumption is that high confidence will result in higher spending level, and as consumption is one of the most important component of GPD, consumer confidence could have a significant impact on a country's economic performance. "Consumption expenditure accounts for about two thirds of U.S. GDP and a similar proportion in other developed economies. It follows that fluctuations in consumption that may result in significant changes in the state of the macroeconomy, particularly as far as productive activity and employment are concerned". (Bryant & Macri, 2005, p.2). Basarir, Bicil & Yilmaz (2019) analysed the relationship between consumer confidence and macroeconomic and financial variables following the 2008 economic crisis in Turkey. Their study revealed that the consumer confidence is not only an indicator of the general condition of the economy but can also have an impact on consumption expenditures. Matošec & Zoričić (2019) came to a similar conclusion, noting that the economic decisions of households are impacted by how they sense and evaluate their financial situation and general economic outlook, and such sentiment is measurable by consumer surveys. Barsky & Sims (2012) summarized in an analogy that people may not know exactly how the GPD would be changing for next year, but they may know how their working conditions would change and they would adjust consumption accordingly, which would ultimately align with GDP trends. Furthermore, improvement in consumer confidence may lift some of the burden on fiscal policy as well. As Özerkek & Çelik (2010) noted: "...a 1 percent increase in consumer confidence decreases government spending about 0.11 percent, signalling a tightening of the government budget when the private sector is leading the economic cycle" (Özerkek & Çelik, 2010, p.480).

Schmidt & Simeon (2009) emphasized the importance of consumer confidence measures not only through the weight of consumption in GDP but also through the timely availability of the measures. As the data on private consumption is released with one month lag (in the US, that their study focused on), indicators like the consumer confidence, could be of great help not only in forecasting the future trends but also explaining the present, especially in times of macroeconomic turbulences, great uncertainty or unique (Schmidt & Simeon, 2009). A major benefit of consumer sentiment measures is that they are based on agents with a first-hand, real market experience and that the results precede other qualitative data. “Additionally, above all, they {Economic Tendency Surveys} are available ahead of the publication of official quantitative data. These characteristics make them particularly useful for prediction” (Claveria, 2021, p. 114).

The explanatory power of consumer confidence in times of shocks is even greater than in regular times: “The contribution of CCI {Consumer Confidence Index} in explaining consumption is even increasing when households experience some major changes or when there is evidence of certain economic shocks” (Matošec & Zoričić, 2019, p.346). Descroches & Gosselin (2004) examined whether a new evaluation of consumer sentiment (the consumer confidence measurement as per the University of Michigan’s survey) could better predict consumer spending in times of economic and political uncertainty, where consumer sentiment shows increased volatility. Their study found that in times of elevated uncertainty, the consumer sentiment has an even stronger impact on spending than in regular time. Sudeshna (2022) examined the potential impact of monetary policy uncertainty, financial stress and stock market (share price) shocks on the Japanese consumer confidence, on data between 1995 and 2018. Her results confirmed a substantial (negative) correlation between consumer confidence and overall uncertainty and financial stress. The main motive of the findings was the need for stable, reliable policies and financial market conditions: „… only sound policy frameworks can positively influence consumer confidence, which, in turn, has favourable impact on the broad macroeconomic performance of the country” (Sudeshna, 2022, p. 60). As in Japan 55 percent of the nominal gross domestic product was contributed by the private consumption, “… a major downfall in consumer confidence because of the feeling of uncertainty of the economy will lead to economic decline” Sudeshna, 2022, p. 60). Furthermore, the study formulated recommendations for policymakers to improve transparency, credibility and communication of the policies, to lessen uncertainty towards monetary policies. Hollanders & Vliegenthart (2009) even revealed the role of the media in amplifying the severity of the 2008 crisis through consumer confidence. They argue that the media failed to represent a critical standpoint towards rising corporate profits, stock and housing prices, “…thereby arguably ‘cheering’ on the asset- and housing-bubble that increased consumer confidence and private consumption” (Hollanders & Vliegenthart,2009, p.2).

Following major turbulences in the economy, like the global financial crisis in 2008 or the Covid-19 pandemic, the consumer confidence may help reveal the potential drivers of the shocks. According to the Nobel Memorial Prize-winner economist Paul Krugman, the global economic depression of 2008 was sparked by the individual intention to decrease debt: “Why is unemployment so high and economic output so low? Because we – where by “we” I mean consumers, businesses, and governments combined – aren’t spending enough” (Krugman 2013, p. 23.). In his 2013 book End this depression now! Krugman argued that individual intention was so powerful that it shook the financial and economic system and led to a global crisis. Ahmed & Casson’s (2016) study emphasized the potential of consumer confidence to help the economic recovery after such shocks: “In the wake of the Great Recession of 2008-09, there have been numerous calls that suggest confidence-boosting policies could help speed up the recovery” (Ahmed & Casson, 2016, p.1).

With the Covid-19 pandemic having a significant, global, and local impact on societies and economies, experts are looking for positive signs of recovery. Consumer confidence, as a measure to predict economic improvement, has been examined in detail for this purpose. In a study of Carlsson-Szlezak, Reeves & Swartz (2020), the authors examined whether the drawdown of the market due to the Covid-19 indicated a recession and if so, how severe it would be. When looking into the potential, long-lasting consequences on the economy, one of the three scenarios was focusing on the Covid’s direct hit on the consumer confidence: “While financial market performance and consumer confidence correlate strongly, long-run data also shows that consumer confidence can drop even when markets are up. Covid-19 appears to be a potentially potent direct hit on confidence…” (Carlsson-Szlezak, Reeves & Swartz, 2020, p.9). Claveria also emphasized the potential of consumer sentiment measures in the time of economic uncertainty, noting that: “All this evidence points to the importance of ETS to complement and refine economic forecasts, especially in a context of growing uncertainty such as the one we are in due to the unexpected impact of the pandemic” (Claveria, 2021, p. 127). Bahadurin, Waked & Paimen (2021) were interested in understanding the impact of Movevement Control Orders (MCO) as a response to Covid-19 pandemic on the consumer confidence in Malaysia. The focus of their research was the potentially disproportional impact on different income groups. In this research they assessed the household’s short and long-term expectations with the help of consumer confidence. Ilmiah & Wonoseto (2021) analysed the consumer confidence in Indonesia in order to forecast its future trend, and subsequently – through consumer spending - the expectations in regard to economic growth following the Covid-19. Kisielyté-Reches (2021) used consumer confidence for understanding the quality of life in the Baltics during Covid-19. The issue was raised by the ambiguity of the low GDP growth and the high consumer confidence in Lithuania in comparison to Estonia and Latvia: consumption in Lithuania continued increasing during the Covid-19 even as consumer confidence declined, in contrary to what would be expected based on the consumption drop in Latvia and Estonia. Unfortunately, the research was rather descriptive and did not investigate the potential drivers beyond the assumptions about the level of vaccination, tolerance to being cautious and weather conditions.

The effect of consumer confidence can be found not only in the general level of spending, but also in its detailed determinants like price, quality of products and services purchased, or even consumer loyalty. Yadav & Shankar (2014) noted that purchase choices affect prices and subsequently the inflation as well: "...higher inflation expectations tend to result in greater current household spending and higher inflation expectations make consumers decrease their future spending" (Yadav & Shankar, 2014, p.66). Ou et al (2014) found a similar mechanism in consumer loyalty, highlighting that in time of low consumer confidence, like during recessions, brands and firms lose customer loyalty, and to fix that, "...firms need to adapt their strategies during recessions since customers with different levels of CC have different preferences" (Ou et al., 2014, p. 10.).

Consumer confidence is a factor through which even the stock prices impact consumption. Karnizova & Khan's (2014) study found that "…movements of the stock market may also affect consumer spending by influencing consumer confidence" (Karnizova & Khan, 2014, p.1) and recommends policymakers to reduce the uncertainty in the financial markets in order to increase consumer confidence. "Our main conclusion is that stock market developments affect consumer attitudes not only through the conventional wealth channel, but also through an independent confidence channel" (Karnizova & Khan, 2014, p.19). When Rojo-Suárez & Alonso-Conde (2020) investigated if consumer confidence could help consumption models used on the Tokyo Stock Exchange between 1992 and 2018, they found that „CCI does an excellent job when used as an instrument in single-factor consumption models, contributing to significantly improve their performance for most frequencies and portfolios under study"

(Rojo-suarez & Alonso-Conde, 2020, p.23).

Consumer confidence measures are also utilized in economics for validating theories. Lahiri, Monokroussos and Zhao (2015) highlighted the importance of consumer confidence in monitoring the economy in real time, optimizing economic policy and testing economic theories. Testing expectations becomes important in times of economic uncertainty, especially since the 2008 financial crisis. “BCS have also been used in testing different expectations formation schemes and other economic hypotheses, such as the Phillips curve or the rationality of agents’ expectations...”. (Claveria, 2021, p. 113).

This broad utilization of the consumer sentiment measures is well supported by promising study results. Some of the most impactful studies that analyse the reliability and efficiency of the consumer confidence measures specifically recommend the index to be included in the higher-level decision-making. “…Forecasters and government policy makers would do well to pay attention to them, especially during periods of economic fluctuation” (Kwan & Cotsomitis, 2004, p.143). Matošec & Zoričić also recommended policymakers and managers to properly consider consumer confidence, as in times of crisis it would enable quicker reaction and even under normal circumstances it could generate higher aggregate consumption and economic growth. “…By paying close attention to movements in consumer confidence, they could anticipate potential changes in macroeconomic developments, which might be especially important in cases of potential economic downturns” (Matošec & Zoričić, 2019, p.351). Bryant & Macri (2005) also emphasized the importance of having proper models that can explain and forecasting consumption, with the consideration of consumer confidence measures, so that policy makers would have the necessary knowledge to act upon the sudden changes in consumption. Descroches & Gosselin (2004) recommended economists and forecasters to pay special attention to the consumer sentiment in times of high uncertainty. Madlopha (2019) formulated a recommendation after having analysed the relationship between consumer confidence and economic growth in South Africa that policymakers should consider ways in which they can increase consumer confidence and thus enhance economic growth (Madlopha, 2019). Carlsson-Szlezak, Reeves & Swartz (2020) suggested political and economic decision-makers to mitigate the economic risk of Covid-19 through “Focus on consumer confidence signal” (Carlsson – Szlezak, Reeves & Swartz, 2020, p. 10).

2.2 The theoretical foundations of the measurement

2.2. 1 Capturing the consumer sentiment

Since the launch of consumer confidence measures in the 1940s, this index of consumer sentiment has become a fundamental part of economic and business decision-making. But is the measure capable of reflecting how people feel about their current and future financial situation and to predict consumption? If so, does this information contain additional value above and beyond other quantitative measures? These questions have been in the focus of several studies in the past half a century. The results generally support the assumption that consumer confidence captures consumer sentiment and predicts spending, but there is less consensus about its power and additionality. This chapter will present the most relevant arguments in regard to the reliability of consumer confidence measures.

When Katona initiated the first survey in 1946, his main intention was to quantitatively measure the willingness to spend, which he assumed to be a crucial part – besides the ability to spend – of the individual spending. Although it is important to raise the question of how efficiently the index can capture consumer sentiment, there have been relatively few discussions on this topic in the past few decades, because the measure itself had a solid theoretical foundation and promising empirical results as well. Furthermore, the great majority of those studies that touched upon this question consistently confirmed its availability to capture attitudes.

The initial question to consider is whether respondents can be expected to provide an honest answer for a survey that covers such a sensitive topic like the financial matters. A study by Betti et al. (2007) confirmed that the responses do reflect an honest opinion: "…households are generally honest in reporting their debt situations in household surveys and our subjective approach" (Betti et al., 2007, p.153).

Daas & Puts (2014) performed a Granger causality test that compared consumer confidence to sentiment measures in social media platform and found a very strong correlation, further confirming that consumer confidence measures are indeed capable of reflecting general consumer attitudes: "... social media sentiment in publicly available social media messages in the United Kingdom correlated highly (r = 0.8) with UK consumer confidence... All our results are consistent with the notion that changes in an apparent "mood" of the Dutch population both affect that part of the population responding to the consumer confidence survey and that part of the population creating public Facebook and Twitter messages in the same direction" (Daas & Puts, 2014, p.17 & p.20).

Richard Curtin argued that in case of consumer confidence, the micro-level expectations can properly relate to macro-level results, noting that "…even though expectations were personalized, when aggregated across the entire population, those expectations still consistently tracked national trends. Consumer expectations thus reflected both micro considerations as well as macro realities" (Curtin, 2019, p. xvi.). A study of Hampson, Gong and Xie (2021) also confirmed that consumer confidence is capable of predicting consumer behaviour.

2.2. 2 Consumer confidence predicting spending

While there is a scientific consensus about the ability of consumer confidence measures to reflect the consumer attitude, there have been numerous studies testing its ability to predict spending. As Carroll, Fuhrer & Wilcox's (1994) summarized it in their study, there are two fundamental questions that need to be answered: a) whether the consumer confidence index has any predictive power for the changes of consumer spending, and b) whether the index contains information above and beyond other indicators.

This question about the forecasting of spending is more complex than the previous one that challenged the measure's ability to capture social attitudes because the willingness to spend is only one part of the equation that leads to spending, besides the ability to spend. Furthermore, both approaches could be unequally impacted by the motives covered in the three main theories on consumption and spending: the relative income hypothesis (Duesenberry, 1949), the permanent income hypothesis (Friedman, 1957) and the life-cycle hypothesis (Ando & Modigliani, 1963). "The life-cycle and permanent income hypotheses are the most popular which are also relatively similar; both theories assume that individuals attempt to maximize their utility or personal well-being by balancing a lifetime stream of earnings with a lifetime pattern of consumption”(Yadav & Shankar, 2014, p.41). Findings of Belessiotis (1996) stated that whether one or the other theory works properly in a society is determined by the proportion of people that base their spending on their current income or their permanent income.

Some of the most well-founded and frequently referred research clearly confirm the relationship between consumer confidence and spending to exist. Even though there are studies to challenge this relationship with reasonable arguments, stating that it is not consistent or strong enough or have serious exceptions to consider, there is a wide range of studies that found this relationship to be valid. Such conclusions were drawn from many different perspectives, for different countries, and some of them even calculating the level of correlation, being in the interval from medium to strong.

Jason Bram and Sydney Ludvigson (1997) investigated the role of consumer confidence in forecasting expenditures, based on the University of Michigan’s Consumer Confidence Index and the Conference Board. They found that the latter index has explanatory power – both economically as well as statistically – for several expenditure categories with significant incremental predictive power above and beyond other economic variable like income, interest rates and stock prices (Bram & Ludvigson, 1997).

Sydney Ludvigson (2004), when analysing the relationship between consumer confidence and spending, found that the prior had statistically and economically significant predictive power for consumption growth. She noted that: “Lagged values of both the Conference Board and Michigan overall index explain about 15 percent of the one-quarter-ahead variation in total personal consumption expenditure growth. The probability that this explanatory power was generated by chance is very small, less than 1 percent” (Ludvigson, 2004, p. 37). The study clearly emphasized that consumer confidence has important predictive power for spending growth. Gelper, Lemmens & Croux (2006) came to a similar conclusion, that the consumer sentiment can predict consumption. When they studied the time lag at which the consumer sentiment offers a relevant explanation for consumption, they found that for the total consumption, an average causality gap of 4-6 months – compared to the sentiment index

– should be considered (Gelper, Lemmens & Croux, 2006). Heim's (2010) study also emphasized that "...consumer confidence, measured by ICC, is significantly related to overall consumer demand and each of its parts after a one year lag" (Heim, 2010, p.9.) Cotsomitis & Kwan came to a similar conclusion: "... indices of consumer confidence and household spending are correlated…" (Cotsomitis & Kwan, 2006, p. 602). Acemoglu & Scott (1994) also found that "…confidence indicators are also a leading indicator for consumption. Whether we use confidence lagged one or two periods, we find consumption growth to be predictable" (Acemoglu & Scott, 1994, p.4).

Richard Curtin, who has been directing the University of Michigan's consumer sentiment survey for more than four decades, found that unlike the conventional views of economics, psychology, political science and sociology was expecting people not being able to make a rational and reasonable economic expectations, the empirical data rather presented that expectations data from the University of Michigan's surveys were corresponding with trends of federal statistical agencies (of the U.S.) and furthermore even predicted future economic trends. In addition to this, people were forming expectations easily, naturally, and automatically "by fully utilizing their conscious and non-conscious cognitive abilities, their emotional resources, and by social interactions" (Curtin 2019, p. xvi). Curtin (2019) found that that The University of Michigan's data on inflation expectations outperformed other forecasts in accuracy in unbiasedness. When Kwan & Cotsomitis (2004) analysed whether the ICS {Michigan Index of Consumer Sentiment} can self-forecast future household spending, they also found that consumer confidence reflects consumers' perception of future economic trends.

But it is not only the Michigan Index of Consumer sentiment that worked according to expectations, and not only in the United States. In a working paper of the European Central Bank (ECB) by Stéphane Dées and Pedro Soares Brinca, this relationship was also confirmed, noting that "Overall, the results show that the consumer confidence index can be in certain circumstances a good predictor of consumption" and that "...larger swings in confidence could be useful indicators of consumption" (Dées & Soares Brinca, 2011, p. 10 & p. 5). Andreas Jonsson and Staffan Lindén (2009) examined what would be the most efficient collection of consumer indicators to best correlate with consumption growth, using the measures in EU, and found the Consumer Confidence Indicator a timely pointed of the consumer consumption trend.

Bryant & Macri (2005) analysed the relationship between the indices for Australia and found that for Australian data the consumer sentiment does predict changes in consumption. "… changes in sentiment seem to predict changes in aggregate consumption expenditures. So the answer to the first question asked by Carroll, Fuhrer and Wilcox (1994) is 'yes, for this sample of Australian data, sentiment seems to help forecast consumption" (Bryant & Macri, 2005, p.21). Carneiro Rios Lopes & de Jesus (2016) had similar findings for Brazil: "The study's main result is that the consumer confidence index is important variable in explaining household consumption in Brazil, both directly and indirectly" (Carneiro Rios Lopes & de Jesus, 2016, p.1232). A study of Matošec & Zoričić about Croatia found that "…CCI should serve as a fine leading indicator of economic activity in Croatia" (Matošec & Zoričić, 2019, p.350). Madlopha (2019) analysed the short- and long-term relationship between the economic growth and consumer confidence in South Africa between 1994 and 2017 and found that „For both periods, an increase in consumer confidence was associated with a positive and significant increase in economic growth" (Madlopha, 2019, p. 20.).

Confirming results were recognized also for Hungary. Research by Vadas (2003) with similar approach as in a Bram and Ludvigson' study (1998) analysed the efficiency of the GKI confidence index (one of two confidence measures in Hungary, which I will explain in the next paragraph) to forecast the expenditure of Hungarian consumers. This research was published first in 2001 in the Background Analyses of the National Bank of Hungary, as well as in 2003 in the Statisztikai Szemle (Journal of Statistical Review). Findings of this research of Vadas indicated that consumer confidence index per se explained 51 percent of the variance of the consumption expenditure's growth rate. This finding suggests that consumer confidence is a strong determinant of changes in consumption expenditures in Hungary even if this determining impact was observed exclusively for consumption expenditures and was lacking for purchases of durable goods. According to Vadas (2003), the possible explanations for the strong predictive power are that on one hand if people can afford to purchase more, they might become more confident (a hypothesis he considers less feasible), and that on the other hand consumer confidence contains the perception of both the current and the future income conditions.

In addition to the question of whether consumer confidence explains spending, there lies a further dilemma, the issue of causality. Do the changes in attitude precede changes in consumer behaviour or is it the other way around and spending determines consumer confidence level? While in the prior case the attitudes can help explain consumer spending and saving patterns, in the latter cases consumer confidence will not contain additional value for the forecasting models. Heim's (2010) research came to a conclusion that: "…causation runs from consumer confidence to consumption and investment, and not the other way around" (Heim, 2010, p.1). However, it does not mean that spending would be entirely isolated, without any impact on how people perceive their financial situation. Özerkek & Çelik (2010) argued that favourable spending levels do have the ability to spiral back and positively impact consumer confidence, noting that the increase of consumption could make consumers feel better, which would be then further amplifying the consumer confidence: "Our empirical findings show that a 1 percent increase in private consumption causes about 0.07 percent increase in consumer confidence in the corresponding term" (Özerkek & Çelik, 2010, p.479). As a result, while consumer confidence is primarily expected to precede spending, one should not ignore that current spending levels may also have an impact on future consumer confidence levels, even if this relationship is marginally considered in theoretical or empirical discussions.

While studies overwhelmingly lean towards the assumption that consumer confidence measures are capable of forecasting spending, the strength of this relationship, as well as whether it works in every country, is intensely debated. When examining the strength of relationship in France, Belessiotis (1996) found only a moderate correlation: "The findings based on the French data reflected a correlation between consumer confidence and spending to be between 0.45 – 0.51" (Belessiotis, 1996, p.4). Furthermore, there were countries that reported this relationship to be missing. A study of Fan & Wong (1998) argued that unlike in Western countries like US or Great Britain, the consumer confidence has almost no explanatory power in forecasting consumption in Hong Kong. "An interpretation of the result is that the consumer confidence indices in Hong Kong contain information on people's expectation of their future well-being rather than simply their future income" (Fan & Wong, 1998, p.78). In a working paper Croushore found no evidence of the confidence indices improving forecasts of consumption spending. However, this argument strongly depended on the forecasting model used. In his summary he added that "It may be that using better forecasting methods could show that consumer confidence indices do indeed have marginal significant explanatory power, if any such methods can be found" (Croushore, 2005, p. 16-17.). He also admitted that confidence indices could be used to predict current-quarter consumption growth.

While there are studies pointing out special cases and circumstances where the relationship between consumer confidence and spending could not be validated, numerous research findings support and strongly confirm the existence of this relationship. Accordingly, this study does acknowledge the lack of comprehensive scientific consensus in this matter, however, it endorses the standpoint that the relationship between consumer confidence and spending exists. The statements made in the following chapters will be based on the main paradigm of this study that consumer confidence is capable and should explain and predict consumer spending, however, those cases where this relationship deteriorates must not be ignored and excluded as an outlier but should be considered properly for the conclusions to be accurate and inclusive. This research will present an example of such discrepancy, with the intention to help formulate better comprehension when assessing the findings of consumer confidence measures and subsequently to help make better fiscal, economic, and social policies that increase the satisfaction of the society.

2.2. 3 The additional value of consumer confidence indicators

The two main questions economic forecasters may raise in regard to consumer confidence are whether it has any predictive power for future changes in consumption spending, and "whether it contains information about future changes in consumer spending aside from the information contained in other available indicators" (Carroll, Fuhrer & Wilcox, 1994, p.1397). As Bryant & Macri (2005) summarized this questions, relying on the above-mentioned findings of Carroll, Fuhrer and Wilcox (1994), the consumer confidence index should only be included in the consumption function if meeting the following criteria: "…(i) that there are theoretical reasons to believe that 'sentiment' may influence consumption behaviour, and (ii) that sentiment has empirical explanatory power over and above the explanatory power of the standard macroeconomic variables traditionally suggested by economic theory and regularly incorporated into empirical models of consumption" (Bryant & Macri, 2005, p.3).

In line with the scientific evidence enlisted in the previous subchapter, this study also assumes that the answer for the first question is positive: consumer confidence can indeed predict consumer spending – in general, but not in every case. However, the scientific standpoint in regard to the second question is less consistent. Does consumer confidence contain additional information above and beyond other economic indicators or does it only accumulate the information already captured in those metrics? These two approaches are summarized in the scientific theories as the "animal spirit" view and the "information or news" view: the prior arguing that consumer confidence has an independent, personal driver, while the latter assumes that it simply accumulates the information that consumers receive about the economic presence and prospects (Barsky & Sims, 2012).

In case consumer confidence only reflects other indicators, it would carry marginal, if any, additional value. On the other hand, if consumer confidence contains a notable amount of "animal spirit", meaning, an information that is generated by the individual consumer and not captured by other economic indicators, then consumer confidence measures would carry an explanatory power above and beyond other economic indicators. Chopin & Darrat summarized the importance of this question well, when stating that "If consumer attitudes do nothing more than reflect past or prevailing economic conditions, then measures of consumer confidence will add little or nothing to models including measures of economic performance upon which consumer attitudes are based" (Chopin & Darrat, 2020, p.35). Malovaná, Hodula & Frait, (2021) also emphasized the importance of the question: "…whether consumer confidence indicators contain meaningful and independent information about economic developments, or if they just repackage the information already contained in basic economic indicators" (Malovaná, Hodula & Frait, 2021, p.10).

Numerous studies tested and confirmed the additional power of consumer confidence measures. Some found solid evidence of the "animal spirit", emphasizing the measure's ability to capture economic uncertainty, besides its other major advantage that it has a timeliness like no other indicator. Acemoglu & Scott (1994) emphasized that "The predictive ability is over and above the influence of other macroeconomic variables…Considerable evidence is displayed to show that the growth of labour income (or any other macroeconomic variable) does not predict future consumption growth, whilst confidence does" (Acemoglu & Scott, 1994, p.1). Öztürk & Stokman's (2019) study investigated whether CC has meaningful independent information about the economy, above and beyond other economic indicators that impact economic activities and found that "…animal spirits exist and may have a considerable impact on spending growth, both in Europe and the US" (Öztürk & Stokman, 2019, p.9).

Researchers, like Curtin (Curtin, 2019) argue that consumer confidence measures outperform other economic indicators. In a study, Lahiri, Monokroussos & Zhao (2015) measured the strength of consumer confidence in the forecasting models and found its ability to improve the measurements to be very significant: adding consumer confidence measures to the models improved it in 90-88 percent of the time, with an avarage improvement of 25-9 percent (quarterly and monthly models, respectively): "In 65 percent of all cases, this improvement is statistically significant, while deteriorations that are statistically significant are very rare – only 1.4 percent of the time" (Lahiri, Monokroussos & Zhao, 2015, p.17). Olowofeso & Doguwa's (2015) study came to a similar conclusion, noting that the inclusion of consumer confidence index in the consumption model led to a notable increase of the predictive performance in Nigeria: "The results of the out-of-sample forecast showed that the model generated an improvement of about 13.8 per cent in the forecast performance of the baseline consumption model" (Olowofeso & Doguwa, 2015, p.10). Côté & Johnson' (1998) research examined if the consumer confidence measures can improve the consumption models even if income and wealth, the two most important determinants of consumption, are taken into consideration. "Not surprisingly, real per capita disposable income and real per capita wealth are the most important determinants of real per capita consumption. However, the index is statistically significant when included in the short-run dynamic equation, and its inclusion increases the explained variation in consumption by 18 percentage points" (Côté & Johnson, 1998, p.26).

Belessiotis' (1996) study also confirmed the additional explanatory power of consumer confidence, which is assumed to originate from consumers' ability to include the factor of certainty into their calculations: "…the data suggest that it also has additional explanatory power in consumption equations, which likely relates to uncertainty about such matters as employment and income prospects, taxes, and government transfers" (Belessiotis, 1996, p.26). Côté & Johnson's (1998) study provided a similar explanation for this additional power, noting that "…the index's additional explanatory power over and above the information it contains about perceptions of income may lie in its ability to convey the consumer's assessment of the general economic environment, including views regarding economic uncertainty" (Côté & Johnson, 1998, p.26).

Côté & Johnson (1998) added a further perspective, noting that even if consumer confidence only captures other indicators like changes in income or wealth, it can still have an additional value due to its timeliness and risk assessment, because "…households have immediate knowledge of large changes that will affect their lives (announced layoffs, for example) well before they appear in the aggregate statistics" (Côté & Johnson, 1998, p.2). Barsky & Sims (2012) argued that the consumer confidence is primarily made up of the information of other indicators, however, the value of the "animal spirit" is not negligible: "News shocks explain roughly one-half of the innovation variance in measured confidence. Animal spirits shocks explain 25 percent of the confidence innovation variance, pure noise (measurement error) accounts for 22 percent, and the innovation in the current level of technology accounts for a mere 1 percent" (Barsky & Sims, 2012, p.1362).

These previous examples presented several, impactful studies that confirmed the ability of consumer confidence index to capture information that other measures cannot. The index also incorporates uncertainty, risk assessment and has a timeliness like no other measures. However, even if this power was present, its strength was not always found to be significant. For example, Carroll, Fuhrer & Wilcox's (1994) study noted that while the index has predictive ability for various measures of household spending, yet "...sentiment likely has some (though probably not a great deal) of incremental predictive power relative to at least some other indicators for the growth of spending" (Carroll, Fuhrer & Wilcox, 1994, p.1401). The same question was raised and then answered by Schmidt & Simeon (2009), arguing that a large part of the consumer confidence may only be a reflection of the respondent's knowledge of economic conditions.

While there are studies that question the explanatory power of the consumer confidence measures, assuming it to be either not present or negligible, most research unequivocally confirm this capability. The common ground between their statements is that consumer confidence could and probably does reflect other indicators, but it does also contain a value above and beyond them, due to capturing the consumers' perceptions, like uncertainty levels as well. It is due to these reasons, and in line with the standpoint of the majority of the scientific and economic community, that this study will consider consumer confidence as being able to provide additional explanatory power above and beyond other economic indicators. As a result, the focus of this research will be the relationship – especially the temporary discrepancies in the relationship – between consumer confidence and consumer spending.

2.3 Space for improvement in the scientific knowledge

In the past more than half a century since the first consumer confidence measure was launched, the ability of the index to capture consumer sentiment and to explain and forecast consumer spending has been tested by various studies. Based on their results, the consensus is that the index does possess these capabilities; a standpoint that is shared by the significant majority of the business community, but which is less unanimously shared in the scientific community. The reason for lacking a definitive, general agreement is that this knowledge is far from being comprehensive: there are ongoing scientific discourses about what could determine the predictive and explanatory power of the consumer confidence measures. As Barsky & Sims (2012) also argued that while the business community heavily relies on the prognostic and causal role of the consumer confidence measures in macroeconomics: "…the stance of the rather limited academic literature on confidence is far more ambiguous. The judgments range from the conclusion that confidence measures have an important role both in prediction and in understanding the causes of business cycles, to the view that they contain important information but have little causal role, to the verdict that they have no value even in forecasting" (Barsky & Sims, 2012, p.1343). Schmidt & Simeon, (2009) also highlighted this inconsistency, opposing the examples that: "Carroll et al. (1994) and Ludvigson (2004) find in in-sample regressions that consumer sentiment indicators have explanatory power for US consumption additional to that contained in other macroeconomic variables. On the other hand, Croushore (2005) who uses real-time data for out-of-sample forecasting experiments, find that the MCSI and the CCI are not of significant value in forecasting consumer spending" (Schmidt & Simeon, 2009, p.4-5).

Whether researchers are satisfied with the efficiency of the consumer confidence measures depend on two separate perspectives. The first perspective is based on what determinants are included in the evaluation. As the previous subchapter also presented, there are numerous factors that could potentially alter this relationship: from the methodology of the confidence measures, through the economic conditions of the place and time it was measured in, even to the state of the society. The other perspective that determines the final evaluation of the confidence measure's explanatory and predictive ability is based around the question of what the study is expecting from it: would it aim at validating if the consumer confidence captures the attitudes, whether it forecasts or explains spending, or whether this predictive power is incremental? Furthermore, what would count as incremental: would it be sufficient to contribute 1 percent, or 10 percent, or should the majority or the entire predictive power be incremental, something that other indicators could not capture?

The intersection of these two perspectives can differ significantly, leading to different evaluations sometimes based on a difference in what is analysed, other times in what is expected, or both. The difference between the two sides of the arguments, one confirming and the other rejecting this relationship, is often driven purely by the research looking at the two different sides of the same coin. While one side emphasizes those examples where and when the relationship is present and significant, the other side presents those cases where the relationship is either weak or non-existent. Until researchers have a thorough understanding of the way the measure works – and especially why it fails to work occasionally – and acknowledge all the factors, one cannot expect the two sides to come to an agreement.

So, what are these areas where the comprehension could be further improved? The core of the evaluation is the question of whether consumer confidence can predict spending. While the most impactful and referred studies confirm this ability, others present cases where this is not entirely so. Such cases usually point at the a). methods that the consumer measures use, b.) the time and place of the measure, c). the state of the economy and society during the measurement.

Differences in the methods used for the survey that the consumer confidence measure is based on can cause significant differences in its final predictive efficiency: “The results vary, depending on the sample period chosen, the frequency of observations (monthly or quarterly), and the different survey methodologies employed to gauge consumer attitudes” (Cotsomitis & Kwan, 2006, p. 598). For the problem of the frequency of observations, Lehrer’s (2019) study recommended forecasters developing a tool that would potentially add further, high frequency financial measures into the calculation of CCI; for example, a sentiment measure based on Twitter could greatly improve the accuracy of the consumer confidence index.

The selection of the surveyed households may also lead to bias if it does not represent the entire society (Malovaná, Hodula & Frait, 2021). It is important to consider whether the factors that drive consumer confidence impact the society proportionally. Should the drivers represent different importance for different parts of the society, the final, aggregated index results would then be incorrectly assumed to represent the whole society; a question also raised by Souleles (2001), noting that: “Expectations are also inefficient, in that people’s forecast errors are correlated with their demographic characteristics and/or aggregate shocks did not hit all people uniformly” (Souleles, 2001, p.32). A study of Hampson, Gong and Xie (2021) analysed if there are distinct types of confidences in UK’s consumer confidence measures, whether consumer confidence is related to financial vulnerability and to price conscious behaviour. They argue that business leaders intensely utilize the results of consumer confidence in hope for a prediction of growth of consumer spending; rightfully, based on the scientific findings that consumer confidence changes in spending, consumer satisfaction and loyalty. However, the authors felt that a distinction of consumer confidence is needed to understand how consumer confidence impacts consumer spending. They found that the effects of consumer confidence, so whether that leads to increased or decreased spending, depends on the individuals’ “locus of control”.

The disproportional impact of the society could be further amplified by the state of the economy, making it very challenging to estimate the accurate level of the additionality of the consumer confidence index. When Ahmed & Casson (2016) analysed whether the relationship between consumer confidence and consumer purchases is equally strong in good economic times as in bad economic times, their study found that “…the impact of consumer confidence on durable goods consumption is dependent on the state of the economy and that the response during bad economic times is small" (Ahmed & Casson, 2016, p.2). Such situation may lead to weak economic recovery even in times when consumer confidence is improving.

In addition, the survey questions may only capture some, but not all the aspects of consumer confidence (Malovaná, Hodula & Frait, 2021). In a study, De Bruijn, Segers & Franses (2014) were looking for ways to improve the consumer confidence measurement. They considered three different angles: a) the questions asked and the way indicators are constructed, b) better understanding how the different socioeconomic and demographic characteristics impact the consumer confidence, and c) to replace the current cross-sectional survey method with a high-frequency, individual level, randomized panel data measurement. They demonstrated that such method could improve the forecasting accuracy by 20percent. Van Oest and Franses (2007) study, although preceded De Bruijn's study, it contributes to the last point that De Bruijn's summarized above, namely, the improvement through the survey method. They examined whether the method of sampling, especially the surveying of different set of respondents each month could impact the shifts in confidence, based on the data from United States and Netherlands. They tested and ultimately recommended using a new change-in-confidence index to decrease the uncertainty caused by the different respondents.

The formulation of the survey questions and their composition in the final index number received further constructive criticisms recently. Gausden and Hasan's study examined whether the survey questions that add up to the CCI have the same influence on the predictive accuracy or should be weighted differently and non-proportionally, and whether other survey questions should be adopted. The study found that: "…use of the collective measure, the CCI, is still merited for those categories of consumption for which the behaviour over time is relatively smooth. However, for those Consumer Confidence and Consumption types of expenditure which are more volatile, a disaggregated strategy appears to be beneficial" (Gausden & Hasan, 2018, p.28). As such, there is further space for improvement even in regard to how the survey is constructed.

The time period used for the evaluation may also lead to different results. As a study of Acemoglu & Scott (1994) noted, the surveys might work in some time periods but may fail in other: “Forecasts that were intended to predict the consumption in the UK in the 1980s and 1990s failed. The previously successful equations were up for a re-specification, with “increasing emphasis upon measures of consumer confidence as a means of monitoring consumption trends” (Acemoglu & Scott, 1994, p.1).

2.4 Contribution of this study to the scientific understanding

These examples mentioned in the previous subchapter intended to present those aspects of the consumer confidence measures that lack perfect consistency. When interpreting the results of the consumer confidence index and making assumptions for spending, one needs to take into account all these determinants: the methodology of the measure, the time period, the place where it was measured, the society that was surveyed, the state of the economy when the survey was conducted and whether the final index carries any additional information. Therefore, the mission of future research in this topic should be to provide further clarifications for these open questions to improve the scientific understanding of how expectations work and how they influence actions. The main goal of this study is to support these improvements.

One of the most unique contributions of this research is going to be its focus point: unlike most of the studies that analyse consumer confidence and the consumer spending through econometric measures, this research will be looking at empirical discrepancies in consumer behaviour. Therefore, the results will fill the gaps in the scientific theories in three different areas: a). by analysing not the theory but whether that theory worked in practice, via looking at empirical examples, b). by not excluding the discrepancies from the evaluation measures but instead embracing them, and c). by shifting the focus of the research from the macro level theories to the micro level, individual actions and opinions and revealing the reasons, motives, and drivers behind them.

The backbone of this research will be given by empirical cases that present a discrepancy between consumer confidence and spending. Unfortunately, relevant science as well as the businesses scene rarely focus on the irregularities even if they are an important matter:

„temporal instabilities being a prevalent concern in macroeconomic forecasting" (Lahiri, Monokroussos & Zhao, 2015, p.18). This study will therefore explore and explain irregular cases in the final outcomes of these measurement, taken place in Hungary between 2005 and 2019. The goal will not be the evaluation of the predictive power of the consumer confidence but revealing why it appears to forecast spending in some cases but contradicts it in other times. Furthermore, instead of econometric measurement, this study will approach the explanation from the point of view of individual actors through quantitatively researching the potential explanations for the discrepancies.

Revealing the reasons why consumer confidence predicts spending in some periods but contradicts it in other periods would shed light on important determinants of both the consumer confidence and of spending. This study would provide valuable information for the scientific as well as for the business communities. Based on the results of this study, recommendations would be given for the academic fields on how to improve the actual consumer confidence measurements as well as explanations for irregularities in the behaviour of the confidence index and its relationship to spending. Policymakers and sociologists will be provided with useful findings about what determinants could impact the general satisfaction level of the society and how it may be improved. The study will also help the business community better comprehend the consumer confidence index so that they could make more accurate assessments and planning. Ultimately, this knowledge should help the different academic standpoints moving closer to each other and to a mutual standing point in regard to how consumer confidence works and what it could provide to the social and economic sciences.

3. EMPIRICAL DATA – A CASE STUDY OF CONTRADICTIONS

3.1 Consumer confidence in an international comparison

The biggest global market research company during the time of this study, called The Nielsen Company, conducted the global consumer confidence measure in cooperation with The Conference Board[3]. This global survey measured the opinions in 56 countries on a sample of more than 28.000 respondents, focusing on people's perception of their financial circumstances, and enabling a harmonized cross-country comparison.

The results in the 2nd quarter of 2012 indicated that Hungarian people had the lowest confidence in the world regarding their financial situation. In that period, the Hungarian consumer confidence was lower than any other country in the measure, and there were 56 countries in total, from various parts of the world. The economic and business community was shocked by these outcomes[4] and had a difficult time coming up with explanations, or even making assumptions. The global financial crisis in previous years had a negative impact on consumers' perceptions, but macroeconomic indicators already started to indicate positive trends and even in the lowest point during the crisis the setback was not as severe as in several other European countries. In 2012 with income as well as spending growing, Hungarians still felt that their financial situation and prospects had never been worse; on a level that indicated the most severe, most negative attitude across the measured 56 countries. This chapter analyses whether this historically low level of consumer confidence could be explained by macroeconomic indicators or if there are underlying mechanisms with useful information on how the consumer confidence works as well as on what may have happened to the Hungarian

3 While The Conference Board conducted the measures since 1967, the Nielsen Company initiated such measurement in 2005. Nielsen's main advantages were its global scale that enabled not only local but regional and global comparisons as well as the ability to compare the confidence results to the spending levels as Nielsen also monitored the consumer spending on daily consumption goods. These two confidence measures of The Nielsen Company and The Conference Board relied on similar methodological foundations and were ultimately merged in 2017-2018.

4 In 2012, the author of this study was a market research expert at the Nielsen Company, specialized on spending habits and providing consultancy to major manufacturing companies of consumer goods, so had a first-hand experience of the level of shock that this discrepancy meant for both the scientific experts as well as for the business community.

society that led to such discontent.

Nielsen's consumer confidence measure results are summarized in an indicator called Consumer Confidence Index (CCI), representing the level of the financial optimism or pessimism by accumulating and comparing the respondent's answers for 3 questions:

a) What they predict about their job prospects in next 12 months,

b) How they feel about their own personal finance in next 12 months,

c) To what extent they consider their current situation to be suitable for purchasing the goods they want and need.

The answers for these questions contain the expressed opinion for both the present conditions and the future expectations. The responses for these three questions are merged into a single-digit index value with a scale between 0 and 200, where the value of 100 is separating the state of pessimism (below 100) from optimism (above 100), as called by the survey. The sample is representative for the age and sex of the Hungarian internet users. In 2012, the penetration of Hungarian internet users was 69 percent[5].

In this examined period, the global average of CCI (for the measured countries) was 91 points. The country with highest consumer confidence was Indonesia with 120 points. On the other end of the scale, we can find the country with lowest level of consumer confidence: Hungary with 30 points. The level of consumer confidence in 2012 in Hungary was at 15 percent of the possible maximum value of the index (200 points), and at one-third of the global average (91 points).

As Figure 1 also presents[6], the 30 points that CCI reported in the 2nd quarter of 2012 was the lowest ever measured in Hungary, tied with the same results in the 4th quarter of 2011, which means it hit the bottom twice within 9 months. The index dropped to one third of its starting value within 7 years. Furthermore, this is also the lowest point of confidence in Hungary even if we expand the scope until 2019, so within a measure period of 14 years.

5For a detailed explanation of the consumer confidence through a decomposition of its elements see chapter 3.4.

6 Data for global average not available for Q4 2017

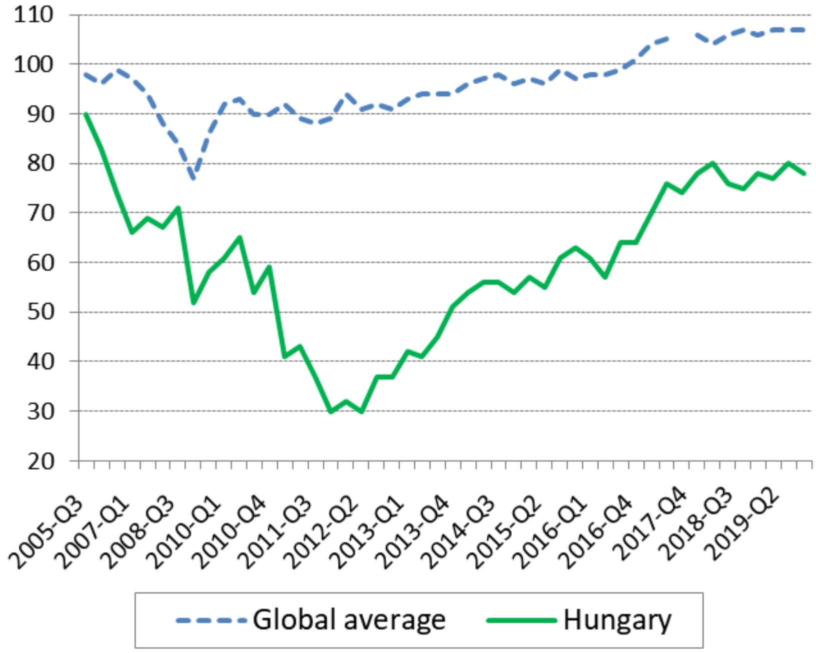

Figure 1 - Consumer confidence index.

Source: The Nielsen Company

While there is a clear long-term decline between 2005 and 2012, we can also observe a medium-term decline after the breaking point in the 2nd half of 2008, as well as short-term – but rather steep – declines in 2005, 2008, 2010, and 2011. These breaking points will receive special focus later on in the comparisons and analysis.

There are several questions that this situation may raise. First, if this level (or lack) of confidence is indeed an extraordinary phenomenon, an outlier case in an international comparison. And second, if there is an obvious economic or social explanation for such a low level of financial confidence: was the financial situation in Hungary indeed that bad, or was there something else driving this?

In order to answer the first question of whether Hungary is an outlier, I will compare it to countries in similar circumstances[7]. Hungary (with a CCI score of 30) was followed on this list of consumer confidence, moving towards the more financially confident direction on the measure, by Portugal (40 points), Italy (41), Greece (43) and Croatia (45). The European countries following them were Spain (52), France (61), and Romania (62). Further countries

7 This phase only validates the questions. For a detailed review of potential determinants please see chapter 4.

from Central and East Europe were Poland (69), Baltic countries (70-71) and Czech Republic (71).

These comparison countries will be grouped into two benchmark groups. The first group will be consisting of those countries that have relatively similar economical and historical background as Hungary: Poland and Czech Republic as the most important Visegrád Four (V4) countries, as well as Romania, the neighbouring country from Southeast Europe, with a similar strength of economy and a significant amount of Hungarian minority. The reason these countries should serve as a proper comparison benchmark is the similarity with Hungary regarding historic and cultural background, the strong level of mutual influence and the similar geopolitical situation.

In 2012, South European countries like Spain and Greece as well as Portugal and Italy were severely impacted by the global financial crisis of 2008. As these countries were suffering the heaviest impact of the economic crisis in Europe, comparing them to Hungary would provide a strong benchmark of how the most challenging economic and financial circumstances would impact a country’s consumer confidence.

The choice of this clustering was validated by a research paper of Medikiené, Dapkus & Maditinos (2018), which conducted a hierarchical cluster analysis to map different clusters of consumer confidence of 18 European Union countries. Their starting assumption was similar to mine, that socio-cultural similarities and historical backgrounds are the base for macroeconomic linkages. The authors classified 4 sub-regions of countries, one of them being Central and Eastern Europe countries and separately Southern Europe. Furthermore, they found that Central & Eastern and South European show unique characteristics and cannot be clustered like Northern and Western European countries.

The following comparison of these countries’ economic and financial situation should reveal whether this low level of consumer confidence in Hungary is something extraordinary or could easily be explained by the differences in the basic macroeconomic situation of the countries.

3.2 Consumer confidence drop in a cross-country comparison

The assumption that would probably come up first when looking for an explanation for financial pessimism being higher in one country than in others: maybe they are more confident because their country is in a better economic situation. Or in our case, a less improved economic situation in Hungary may explain the lower consumer confidence. For this, let us review and compare GDP as the first potential indicator.

According to the Worldbank (2008) "Gross domestic product (GDP) is the measure most often used to quantify economies' economic activity, and GDP and consumption per capita are basic indicators of economic productivity and well-being". For the cross-country analysis, I will use not simply the GDP but the GDP per capita in purchasing power standards (PPS) because GDP per PPS controls for the different price levels, to indicate the actual purchasing value of the GDP.

There are two scenarios to potentially encounter as a result of this comparison. First, if the GDP per PPS shows similar differences across the countries as consumer confidence, it means that Hungarian GDP per PPS should be below the GDP per PPS of other countries with a similar magnitude as the CCI. In this case, I would assume that the economic situation in a country should be taken into consideration as a potential determinant of consumer confidence and the low level of confidence in Hungary can be linked to – probably besides several other factors – to the less developed economic level of the country, in comparison to other countries. The second scenario would be the opposite of the previous one: if the levels of GDP per PPS do not show the same consistency across the countries as consumer confidence, then I would not contribute the low level of consumer confidence to the economic performance and would look for further potential explanations.

Figure 2 compares the consumer confidence index as measured by Nielsen (blue columns) to the GDP per capita in PPS (indexed to EU 27, with red dots), in the second quarter of 2012. Hungary is on the left side, serving as a starting comparison point. The graph presents some consistency but even more variety.

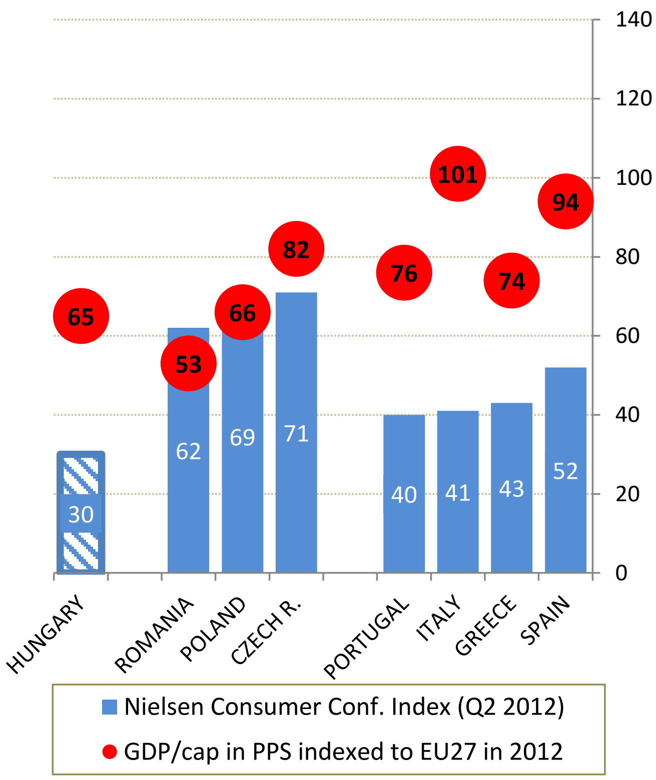

Figure 2 - Hungary and comparison countries, 2012.

Source: Nielsen, Eurostat

The two clusters of countries seem to be a reasonable selection, form the perspective of this comparison, representing internal consistency within and external differences between the two groups. Central and Southeast European countries (CSEE) indicate a confidence level more than twice as high as the Hungarian, while their economic situation – based on the GDP per PPS – was relatively similar to the Hungarian. The GDP per PPS is within a minus 18 percent to plus 26 percent range compared to Hungary, while the confidence levels are 107-137 percent higher. What this means is that the value of goods and services generated in these countries is around the same level as in Hungary, yet their citizens are more than twice as financially confident. Or turning the argument the other way around: Hungarians are less than half as optimistic about their financial situation even as the economic value the country generates is around the same level. What this comparison would suggest is that the link between the economic situation and consumer confidence in Hungary is either non-existent or at least not as direct as one would assume.

South-European countries, on the other hand, contradict this. All 4 benchmark countries have higher CCI as well as higher GDP per PPS than Hungary. Although the magnitude of this gap differs quite significantly across these countries, for the sake of this initial review and hypothesis creation I would draw a general conclusion that in case of these countries there is a consistency that higher confidence appears along with higher economic performance. Although a correlation analysis would need to be conducted to validate this, at this point I would argue that it may actually be possible that people in a country with lower GDP are less optimistic about their financial situation. This argument would be in line with other research, like Myers (2000) that also noted a trend of wealthy nations having more satisfied people. However, as seen in case of CSEE countries, this expectation would need to be carefully constructed as the other cluster of comparison countries indicate an opposite conclusion.

GDP is the primary measure of economic productivity and well-being, but it may not be the most direct indicator of the financial situation of individuals, so it represents a slightly different factor than what is reflected by consumer confidence measure. GDP rather aggregates the value of all goods and services produced in a country, which does actually contain the private consumption, but there are other measures (government spending, gross investment, net balance of export and import) included as well. In the 2nd quarter of 2012, final consumption expenditure was contributing to 74 percent of the GDP in Hungary (Eurostat, 2019) and to 69-92 percent in the other benchmark countries, but the remaining 26 percent in Hungary (and 31 percent to 8 percent in the other countries) that consist of other factors might bias this cumulated measure to the extent that it would not fully reflect the financial situation of individuals.

Just as the consumption is the most important determinant of the GDP (from the perspective of expenditure), the metric of final consumption of households is the main indicator of the overall consumption expenditures in the analysed countries. In the 2nd quarter of 2012 in Hungary, the final consumption of households was contributing to 52 percent of the total GDP, while its importance in the benchmarking countries was between 48 percent (Czech Republic) and 67 percent (Greece) (Eurostat, 2019). The consumption of households could be a more accurate and direct indicator of the financial situation of consumers and should serve as a proper base for the comparison against consumer confidence. Just like in the case of GDP, what I would like to evaluate here is whether the cross-country difference in the financial situation indicates a similar trend as consumer confidence. If so, we may argue that the record low confidence in Hungary was a result of the record weak financial situation of Hungarian consumers. Yet, if the cross-country metrics do not show such a clear and consistent result, it should strengthen the ambitions to search for the actual explanation. In the meantime, it is important to emphasize again that at this stage I am just reviewing – as an initial validation, a sense check – whether there is a reasonable argument to consider a country's (and its citizens') economic situation as the driver of cross-country confidence gaps without an actual correlation check, which will be a separate, subsequent research.

Comparing the final consumption expenditures of households to the confidence levels would be a reasonable decision at this point, but in order to do so, a few adjustments are required. The measure of expenditure is usually measured and reported in market value (in million € in the reports of Eurostat that serves as the source data), but it does not take into consideration the purchasing power standard of the country. Fortunately, GDP is measured and reported in PPS (as GDP/capita and indexed to EU 27 in the report of Eurostat that serves as the source data). This provides the opportunity to calculate the expenditure as a percent of GDP and then adjusting this by the PPS (as noted above). The end result is a metric that indicates the final consumption of households taking into consideration the actual value of that expenditure within the price level, through the GPD in PPS which controls for the price levels8.

Figure 3 presents the result of this aggregated measure. Consumer confidence and the final expenditure of households as a percent of GDP/capita in PPS are compared across the benchmarked countries. All the measures take the level of Hungary as the reference point, so the 100 percent show the difference of the other countries versus the level measured in Hungary. Every value in the plus interval means that the given country has a higher value in that measure than Hungary, while negative values mean the opposite.

The countries are ranked by their consumer confidence level. It starts from the left with Portugal that has the lowest confidence in this comparison (so right after Hungary). The confidence value of 33 percent means that consumer confidence in Portugal in the 2nd quarter

8 Method of calculation is the following: Final consumption expenditures of households is divided by the GDP per capita on PPS indexed to EU 207 in order to nominalize the importance of such expenditures within the GDP. As a last step, these aggregated metrics are benchmarked to Hungary to present the levels of difference.

of 2012 was 33 percent higher than in Hungary (40 in Portugal versus 30 in Hungary). In case the assumption is supported and the countries with higher confidence indicate higher levels of expenditure, we should see the two columns of the country on a relatively similar level, or at least both of them showing a similar cross-country difference.

The chart – at least at first sight – contradicts the prior assumption. As the confidence increases from country to country, the measure of the final consumption expenditure indicates an opposite trend: it is relatively stable, or even indicating a declining trend from the country with the lowest confidence to the country with the highest one.

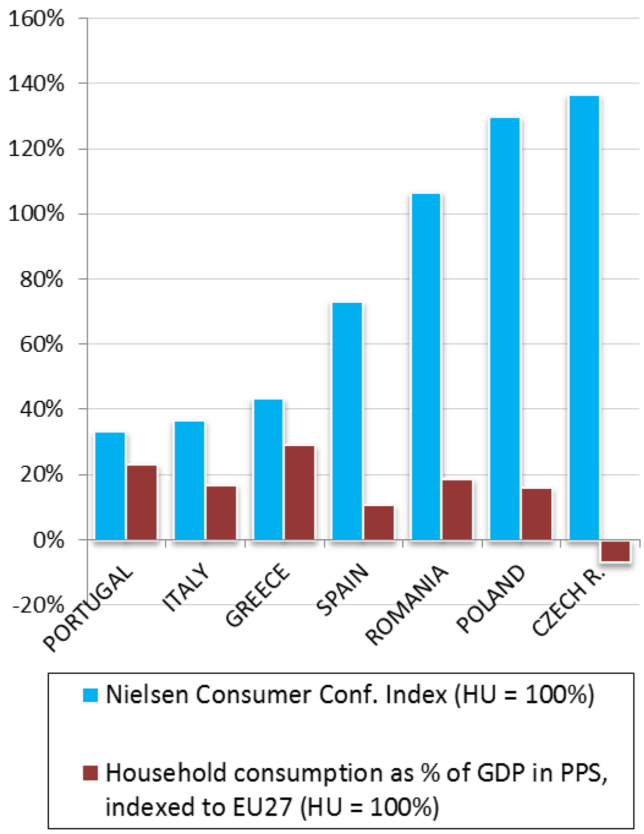

Figure 3 - South-European & CSEE countries, 2012. Consumer confidence (Q2) and final consumption expenditure of households as a percent of GDP.

Source: Nielsen, Eurostat.

South-European countries – with confidence levels higher than in Hungary, but not as much as in CSEE countries – achieve this level by higher consumption expenditure. If looking only at these countries, one may conclude that it is only the magnitude of expenditure that differs, which means that the gap in consumption is consistently smaller than the gaps in confidence – but in general a higher level of expenditure may presume a higher level of consumer confidence.

Looking at CSEE countries, I must draw a different conclusion. In case of these countries, consumer confidence level achieves values that are from 100 percent to 137 percent higher than in Hungary, meaning a more than twice as high confidence. Yet, these are the countries that possess similar or even lower consumption expenditure rates than Hungary. Romanian consumption expenditure is only 19 percent higher than in Hungary while the confidence exceeds the Hungarian one by 107 percent. Czech Republic serves as the most extreme example: confidence is 137 percent higher with an expenditure level that is actually 7 percent lower than in Hungary.

As concluded also in the previous part about GDP, South European countries would support the assumption that individuals in a wealthier country – one that also provides more purchasing value for the consumers – feel more confident about their financial situation. However, CSEE countries show a different picture: these countries present that high consumer confidence does not necessarily require a high level of consumption expenditure; an assumption that will be thoroughly analysed in a later chapter.

Without any correlation check, the intention of this part of the analysis was to review the magnitudes in order to see if it indeed makes sense to question the “validity” of the Hungarian confidence level in comparison to other countries. After the review of both the GDP and final consumption expenditures the pattern that starts to unfold is that Hungarian people have a quite different evaluation of a seemingly similar financial reality. Thus, it still remains an important question: what deteriorates this perception?

3.3 Trend of the consumption expenditures

The previous chapter reviewed and compared consumer confidence to GDP and to the household consumption expenditures for a specific period. However, this perspective would be far from enough to provide a full picture. The evaluation of a situation may happen in two dimensions: one would be a horizontal dimension, in which the conditions would be evaluated for a specific period and with comparisons to specific benchmarks in a given period. As for this study, this means reviewing the measures for 2012, specifically for the 2nd quarter when the initial phenomenon was visible most, by comparing the actual difference to another benchmark in that given period, just like I did in the previous chapters. The other dimension would be a longitudinal one: comparing the trend, the different levels of a measure for several time periods in order to evaluate the status in a longitudinal dimension. This will be the focus of this chapter.

As highlighted by Figure 1, consumer confidence in Hungary had been in a long-term decline from its first measurement by Nielsen in 2005[9] until it hit the bottom by late 2011 and early 2012, which was the lowest point even since. Within this interval, there are two further breaking points: the years of 2008, when the medium-term decline started, and 2010 when this decline accelerated.

During this period of seven years leading up to 2012, the confidence in Hungary declined to its one third, from the initial 90 points (on the scale from 0 to 200) in 2005 to the value of 30 in 2012. In this longer term, from the 2nd half of 2005 to the 2nd quarter of 2012, consumer confidence in Hungary declined by 67 percent. In medium term, from the 2nd half of 2008 – which indicates another breakpoint – to the 2nd quarter of 2012 the confidence declined by 58 percent. On short term, from the 4th quarter of 2010 – considered as the 3rd breakpoint – by 49 percent. Previous comparisons presented that the level of confidence in Hungary in 2012 was on such a low level that could not be explained neither by the GDP of the country, nor by the household's expenditure in a cross-country comparison to benchmarked countries.

The historical trend may showcase one of the following scenarios. If the decline of confidence is less, or at least similarly intense as in other countries, we may conclude that the confidence in Hungary has been traditionally so low and as a result, cross-country comparisons should be cautiously comprehended, taking into consideration the "tradition" of low confidence. This is a warning also raised by Csikszentmihalyi (1999) noting that self-

9 Consumer confidence was also measured in Hungary by the Gazdaságkutató Intézet (GKI) since 1993, but for the purpose of international comparison, Nielsen's index was used as that was run with same method across the countries of comparison. GKI's index will be analyzed in depth in the later chapters.

reported surveys may have different meanings in in different languages, in different cultures, so the cross-country comparisons whould consider this detail properly. On the other hand, should we find the confidence decline in Hungary to be steeper than in other countries, it would even strengthen the initial question of why there is such a low – and so intensely declining – level of confidence in Hungary.

Figure 4 below presents the changes of confidence, between the 2nd quarter of 2012 and the breaking points of the 3rd quarter of 2005 (the starting point of the measure and the long-term decline), the 3rd quarter of 2008 (the 1st breaking point) and the 4th quarter of 2010 (when the confidence started to decline again after a short period of stability). The analysed countries are

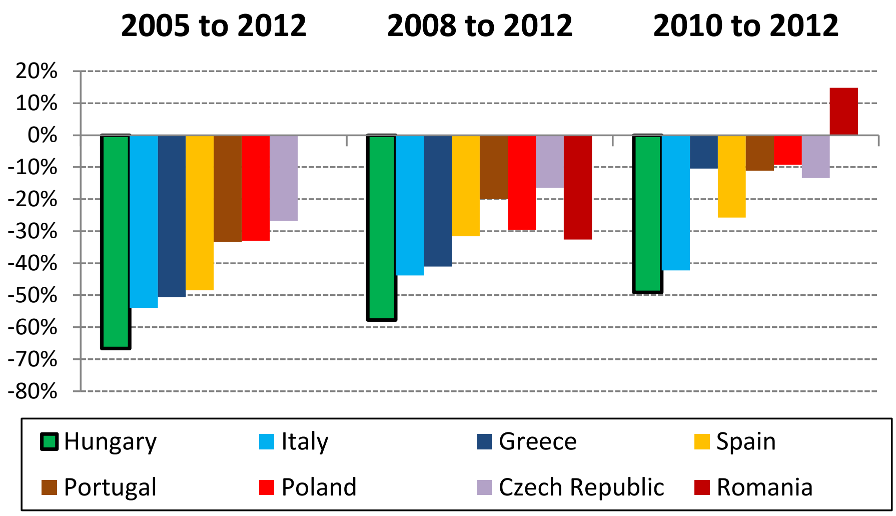

Figure 4 - Changes of Consumer Confidence Index.

Source: Nielsen

ranked based on the trend of their decline between 2005 and 2012 to better represent the magnitude of long-term decline, which is the primary focus in this part of the analysis. The columns that reach below zero on the vertical axis indicate a decline of consumer confidence in the time comparison noted above the group of columns (so either for the long, medium or short term), while the columns that reach the interval above zero on the vertical axis show an increase of consumer confidence.

There are two consistencies across these three analysed intervals: Hungary indicates the most intense decline of confidence, with Italy showing a similar picture, being in the second position with the pace of change similar to Hungary’s. Yet, the rest of the countries present a smaller decline rate, as well as a moderation of the decline as we are getting closer to 2012.

The long and the medium-term changes show a similar picture: the rest of the benchmark countries had a smaller decline than Hungary (with the other end of the scale being Czech Republic with only a 27 percent decline in long term, and a 16 percent in medium term vs. Hungarian 67 percent and 58 percent, respectively), but all of them did also encounter a setback, with many of them on a quite similar magnitude as Hungary. Unlike between 2010 and 2012, when the decline of confidence (except for Italy) either slowed down or stopped in the benchmark countries, but not in Hungary: minus 49 percent in Hungary and minus 42 percent in Italy, while the other countries ranged between minus 28 percent (Spain) and plus 15 percent (Romania), with only a really moderate decline in Czech Republic (-13 percent), Portugal (-11 percent), Greece (-10 percent), and Poland (-9 percent).

What this means is that the confidence level in Hungary in 2012 was not only lower than the benchmark countries – as argued in the previous chapter – but was also declining over the years much steeper than in the benchmark countries. Furthermore, this difference even intensified between 2010 and 2012 when the benchmark countries' confidence was either slightly declining or even growing, while in Hungary it fell to almost half of its value within 2 years.

What further amplifies this situation is that this is not just in relative measures, but also in absolute values: except for Portugal, all the countries in the comparison (which were measured in 2005) were on quite similar consumer confidence level as Hungary in 2005. Confidence in Hungary was at a value of 90, just slightly exceeded by Czech Republic (97), Spain (101) and Poland (103), while confidence in Italy (89) or in Greece (87) were below the Hungarian level. All these countries were within an interval of minus 1.1 to plus 14.4 percent compared to Hungary in 2005 while in 2012 they all became 33 to 137 percent more confident than Hungary. Or formulating this statement the proper way: Hungary became this much less confident than those countries which were on the similar level in 2005.

Just like in the case of the horizontal review of the confidence, so when analysing it for 2012, the final consumption expenditure should be taken into consideration at this longitudinal approach as well when looking at how the confidence was changing over the years. Even if this comparison was indicating a mixed result at the previous approach, it may still provide a valid explanation now: if the decline of expenditure shows the same trend – at least in magnitude – as the confidence, it should indicate a situation where people became more concerned about their financial situation because their financial situation was deteriorating.

The presumption – in line with the paradigm set in the previous chapter, based on the theoretical findings – is that the decline of consumer confidence in Hungary was happening in parallel to a significant set-back of consumption expenditures. If people were feeling less confident about their financial situation, this should then be reflected by the amount of money they spent.

The adequacy and strength of this relationship will be reviewed in a following chapter in details, but for this initial review, I would still apply this assumption: consumer confidence and spending should be showing similar trends, so if people are less confident about their financial situation, it should be presented by a decline of consumption expenditures.

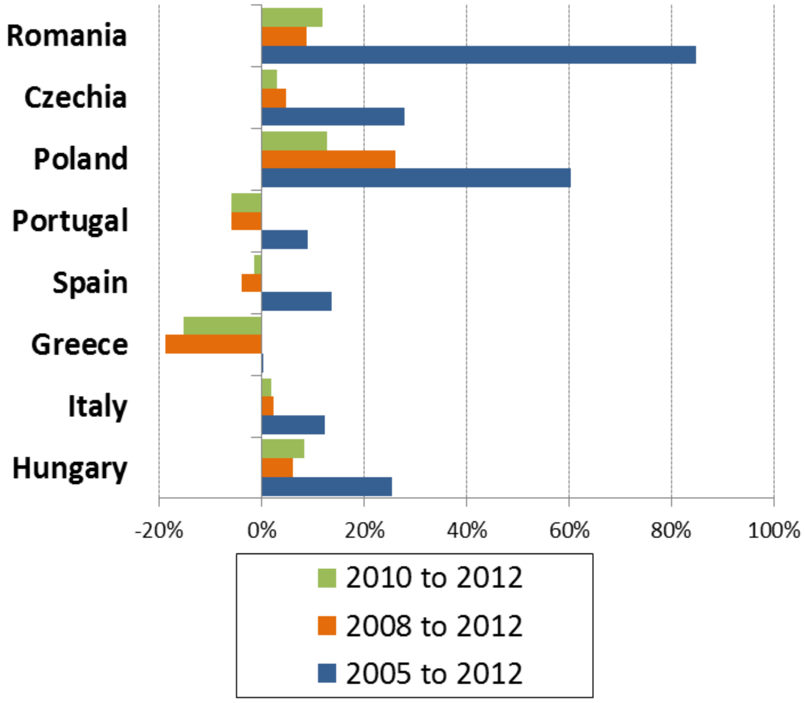

Figure 5 - Changes of final consumption expenditure of households in national currency, on current prices. Seasonally and calendar adjusted. Source: Eurostat

Figure 5 presents household expenditure changes to 2012, on long, medium and short terms[10]. The bars at the bottom for each country indicate the long-term change of consumption expenditures, from 2005 to 2012. The bars in the middle indicate the medium-term changes from 2008 to 2012, while bars at the top represent the change of expenditure from 2010 to 2012. The order of the countries is similar to the ranking based on the long-term change of confidence, so with Hungary and Italy – with the most intense confidence decline – being at the beginning of the list, and then moving towards countries that suffered less decline between 2005 and 2008 (while Romania was moved to the top as this confidence index was not available there for 2005).

If the changes of confidence were driven entirely by the changes of expenditure, we should be observing the bars for Hungary to indicate the highest decline or the least intense growth, especially for the short-term comparison where Hungarian confidence was still declining

10 Consumer price inflation may be impacting these results, but it would not be feasibly to include that factor at this early phase of the review without overcomplicating this initial assessment. Later on I will contribute a separate subchapter to a thorough analysis of how and when inflation impacts spending and what effect it may have on consumer confidence.

significantly while the other countries rather got to a moderate level, or even improved[11].

In a longer term, from 2005 to 2012, the final consumption expenditure indicates a 25 percent increase in Hungary, which is visibly below the level of increase realized in several other CSEE countries: Poland (60 percent) and Romania (85 percent). However, South-European countries show a less promising increase of expenditure than CSEE countries or Hungary: households in Spain increased their expenditures only by 14 percent, in Italy by 12 percent, in Portugal by 7 percent and in Greece it remained stable. Based on this, we may suspect that a more intense growth of expenditure seems to coincide with a more intense growth of confidence – except for Hungary where the expenditure exceeded that of South-European countries' and was on the same level as of Czech Republic; and yet, confidence was set back more intensely than in other countries.

There is another interesting finding here: a nominal increase of the expenditure was still resulting in a decline of confidence, which suggests that the relative income could be potentially even more important in the evaluation of financial confidence than I would have initially expected; an argument to further support the validity of the relative income theory as one of the main approaches of this research[12]. This was intense in Hungary (67 percent decline of confidence in parallel to a 25 percent increase of expenditure) but was likewise noticeable even in case of other countries with much better performance: in Czech Republic the confidence declined by 27 percent while expenditures grew by 28 percent, in Poland confidence declined by 33 percent while expenditures grew by 60 percent. All these re-emphasize what an important role the relative income could play through setting the expectations when people evaluate their financial situation.

Medium and short-term changes indicate quite similar results to each other, as both the directions and the magnitudes of the changes are alike: either a country in 2012 was still

11 The measures are calculated from national currencies for each country. This choice was made in order to better comply with the later part of the research that will go into more details of Hungarian consumption expenditure. As using euro as the currency of calculation would provide a slightly different result in the perspective of the levels of changes, yet, would not have impacted the main consequences drawn, in order to avoid the potentially artificial bias of the changes of the currency exchange rates, I chose to use the national currency for this comparison.

12 At this point, I am not going into a review of the inflation and income as potential explicators; that will be done at a later stage along with a proper theoretical explanation, which would be inappropriate at this early part of the research.

performing below its level of 2008 and 2010 (Greece, Portugal, Spain), or exceeded both of these years (Czech Republic, Poland, Italy, Romania and Hungary). What is also equally important is that in both time comparisons there were several countries that performed worse than Hungary: all the Southern-European countries in both medium and short term, while Czech Republic in short term.

As a result, I would not be reasonable to conclude that the changes of confidence would be perfectly reflecting the changes of expenditure, because while Hungary suffered the most intense decline in the prior, it was not the country with the worst expenditure trend in either time period. Also, and in contrary to one of the expectations set for this part of the comparison, while the short-term trend of confidence indicated a major gap between Hungary and the other countries, there is no such trend in expenditure where Hungary performed much better than almost all the benchmark countries, with the exceptions being Romania and Poland.

From these three comparisons, it becomes clear that although there are some countries like Poland and Romania where the expenditures were growing more intensely than in Hungary, there are several countries on the other end of the scale with lower increase, or even a set-back of expenditures. If consumer confidence fully and exclusively reflects the trend of expenditures, then the confidence in Hungary should not have declined to the lowest level within this group of comparison, as its expenditure performance is one of the most promising among these countries; a firm argument to further support the initial suspicion that the examined discrepancy in Hungary is an extraordinary phenomenon.

A further interesting detail to be pointed out on Figure 5 is the case of Greece. While Hungary indicated an intense loss of confidence, Greece, on the other hand, suffered the most intense decline of consumption expenditure since the global economic crisis: in 2012 it could only reach the level it previously had in 2005, while suffered a 19 percent loss between 2008 and 2012, and a 15 percent loss between 2010 and 2012. According to an analysis of Gerstberger and Yaneva for Eurostat (2013), it was indeed Greece that had the most severe cut-back of expenditures also in volume: “…the effects of the financial and economic crisis have varied significantly. The Baltic economies and Greece were the most severely affected, with loss of actual individual consumption (in volume terms) of 12 percent to 15 percent between 2008 and 2011”. As this chapter intends to validate whether consumption expenditure could be explaining the level of consumer confidence, Greece would serve as an excellent unique benchmark in this comparison.

It was not only the amount of consumption expenditures that made Greek people’s life difficult, but also how many of them managed to – or encountered hardship in – maintain(ing) their income level. In 2008 the unemployment rate was at 7.3 percent. By 2012 it went up to 26 percent, so unemployment more than tripled. As a comparison: in 2008 the unemployment in Hungary was on a similar level, and by 2012 it went up only to 12 percent. Unemployment in Greece increased almost four times as intensely as in Hungary: in 4 years by almost 19 percentage points in Greece while only by 5 percentage points in Hungary. In case of people basing the evaluation of their financial situation strictly on how confident they are about their income and employment situation, people in Greece should have been significantly more concerned.

Yet, with an almost four times higher chance of people becoming unemployed and people cutting back their expenditures by almost twice as much as in Hungary, Greek people still did not lose as much confidence about their financial situation as Hungarians. In the 3rd quarter of 2008, the confidence in Hungary was at the level of 71, and in Greece at the level of 73. By the 2nd quarter of 2012, Hungarian confidence declined to 30 points (-58 percent), while the Greek only to 43 points (-41 percent).

Before proceeding to the next chapter – which splits the confidence into its determinants – it would be important to summarize the conclusions of these first three chapters. The record-low confidence in Hungary raised the question whether this reflects such a challenging financial situation or if there could be other underlying drivers. Comparing the GDP to consumer confidence presented that in countries with a GDP level similar to the Hungarian, consumer confidence could be even twice as high. The same argument was made for the household expenditure: other countries with similar expenditure managed to reach much higher confidence levels. The longitudinal analysis indicated that while most of the countries started from a similar confidence level in 2005, Hungary suffered the most intense set-back in confidence, yet, not the most intense set-back of expenditures: changes of which in Hungary was similar to or even more positive than in the several other countries that still managed to remain more confident. The comparison to Greece even highlighted an intense contrast. These findings make it reasonable to argue that at first sight neither the general economic performance of a country nor the level or trend of household consumption expenditure is capable of thoroughly explaining the level of Hungarian confidence in – and its changes to - 2012. The following chapter will decompose consumer confidence in order to provide more understanding on what could be driving it.

3.4 Decomposition of the Consumer Confidence Index

Not being able to explain the confidence level by the wealth the country generates or by the level of consumption expenditure left me raising a more crucial question: what does consumer confidence represent – what does it stand for? Could the answer for the record low confidence in Hungary lay in a different, maybe more proper comprehension of what the measure represents? In order to answer this question and to present what this index actually means from the perspective of the perception of personal financial situation, this chapter will split this index to its three components: financial prospects, job prospects, and adequacy of purchase.

As mentioned in a previous chapter, Nielsen’s Consumer Confidence Index (CCI) survey consists of the cumulated results of the answers for three questions:

- How people feel about their own personal finance in next 12 months,
- How people predict their job prospects in next 12 months,
- To what extent they consider their current situation to be suitable for purchasing the goods they want and need.

Although the index is usually reviewed only in this cumulated, final format, the response rates for all the separate questions are also available. All these components – from which the final consumer confidence was constructed – even separately indicate that a very significant majority of the Hungarian society had a negative perception about their financial situation, and that there was also a strengthening negative trend behind it.

In the second quarter of 2012, when this record-low confidence was reported in Hungary, in the survey run by Nielsen, 87 percent of Hungarians said that their financial prospects are not good or are even bad. This indicator was at 81 percent a year before, so in a year's time there was an additional 6 percentage points of people that felt less positive. At the same time, 96 percent of Hungarians said that their job prospects were not good or were even bad. This indicator was at 90 percent a year earlier, so the negative perception increased by 6 percentage points. For the question whether the actual moment was suitable for buying the things they want or need, 95 percent responded negatively, which means that they did not find that time being suitable to purchase what they need. This level was reached after an 8-percentage point increase compared to the same period a year before.

Although these measures may seem shocking, there is a methodological detail that we need to take into account and evaluate for a potential bias: the sample of respondents was the Internet user, not the whole society. This raised the question whether this negative perception represents the whole society, or could this low level of confidence reflect only the perception of Internet users, from which the sample of the survey consisted of and was representative for? It would be impossible to go back to 2012 and conduct this survey again on a total country level to be representative for the whole society; however, it is possible to create a proper estimation to enable digging deeper into the topic. As the survey was representative for the Internet users, and the penetration of internet usage was 69 percent in 2012, from these measures there can be a range of actual consumer confidence estimated.

One end of the range would be the scenario where those who have Internet access share the same perception of financial situation as those who do not have access to Internet. In this case, by extrapolating the same attitude for the whole society would mean that 87-96 percent of the Hungarians were pessimistic about their financial situation, with an increasing trend. We can assume that the other end of the scale would show the scenario where only those who have Internet have such a low and declining confidence, unlike the rest of the society, and those without Internet would on the contrary be confident about their financial situation. Still, in this latter case, calculating with the 69 percent Internet penetration within which the above-mentioned questions reached 87-96 percent negative answer ratios, we are still talking about

60-66 percent of the whole society[13] having a negative perception of their financial situation. As a result, the actual negative attitude in the total society should have been between 60-96 percent.

Even though this potential 60-96 percent might question the assumption whether this measure accurately represents the attitude of the whole society, there are two arguments to still support the adequacy. First, it would be an unrealistic expectation that the access to Internet entirely separates those with positive and those with negative financial perception in Hungarian society, especially in a way that those without Internet would be fully optimistic while those with Internet access being so extremely negative. Thus, the country-level confidence had most likely been closer to the ratio examined within Internet users (87-96 percent) than to the 60-66 percent. The second argument for still considering this attitude to be at a crucial level in Hungary is that within this range of 60-95 percent even the worst case would still cover 60 percent, so the majority of the society (in the magnitude of at least 2 out of every 3 people), while the other end would mean more than 9,5 out of 10 people; and as noted just above, I assume it to be closer to this latter level.

Based on these details and conditions, I would draw the following conclusion: there was a significant majority of the society that was getting more and more concerned about their financial situation, and this resulted in the confidence level declining to its historically lowest point. So low this point was that Hungary became the least financially confident – or as the survey calls it, the most (financially) pessimistic – country in the world.

What was the source and the driver of this irregular situation? And were people acting in line with this perception? The question of what a reasonable action in this situation could be will be analysed from many different angles in the coming chapters, but there is another, separate question in this survey which may guide our expectations. In parallel to this consumer confidence measure, Nielsen ran – on the same panel, same sample, among same respondents – a further survey question, asking whether the responder had changed their spending habits to save more. Not surprisingly there was an increasing amount of people that indeed expressed that they started saving: 91 percent of the respondents noted that they had

13 Calculated the following way: penetration of internet within the whole society multiplied by the percentage of negative values within the sample.

changed spending to save more, which increased from 79 percent in a year. That is a 15-percentage point increase of the share of respondents who – at least perceive – they started saving.

If such a high percentage of people said that their financial situation was getting worse, and that they started saving, what is the result of this trend? Do we see it impacting the actual spending, and through the set-back of consumption having a negative impact on the financial performance of the country? The following chapter will provide several potential answers for these questions.

3.5 Spending contradicting consumer confidence

The most important argument of the previous chapters was that consumer confidence in Hungary reached a level beyond expectations. Looking at its components further revealed that it was not just a cumulated index that drew a concerning picture, but all parts of it, all three survey questions potentially reflect a low level of consumer confidence. This finding is interesting even on its own, but it becomes even more thrilling when comparing consumer confidence to actions of spending.

According to the handbook of the National Bank of Hungary's (MNB) Handbook[14] for the usage of Hungarian economic data and in line with the most impactful theories on consumer confidence, as presented in the 2nd chapter, consumers should be expected to act in line with their perception of their financial situation, thus the consumer confidence should predict consumer spending. According to the Handbook, "the consumer confidence index of GKI is a lagged indicator of the consumption expenditure" (Ferenczi & Jakab, 2002, p. 28.). The Handbook also notes that this practice – using the consumer confidence to predict expenditures – is not unique in Hungary, but rather a general international practice applied by several other national banks (e.g., Bank of England, Bank of Canada). This Hungary-specific argument is in line with findings of several studies, as mentioned in the previous chapter as

14 Original title: Kézikönyv a magyar gazdasági adatok használatához (2002)

well, that found a similar relationship in several countries, all over the world: in USA (Bran & Ludvigson, 1997 and Gelper, Lemmens & Croux, 2006), in Indonesia (Juhro & Iyke, 2020), India (Das, Lahiri & Zhao, 2019), Croatia (Matošec & Zoričić, 2019), Australia (Bryant & Macri, 2005), South Africa (Madlopha, 2019), or in Brazil (Carneiro Rios Lopes & de Jesus, 2016).

The previous chapter that focused on the confidence index presented that consumer confidence as measured by Nielsen was declining almost continuously since its initial launch in Hungary in 2005, and reached its historically lowest point by the end of 2011, beginning of 2012. The consumer confidence index of GKI[15] is part of the Economic Sentiment Indicator, the European Commission's Business and Consumer Survey, the most broadly used and referred confidence survey in Europe. It is measured quite similarly to Nielsen's index, and although there is a difference in the sample, GKI's Index indicated a similar trend to Nielsen's, both in long and short term, as presented by Figure 6[16].

What trends are indicated by the confidence indices and how are they reflected in spending? To provide a trended comparison, the two confidence measurements need to be aligned. Although there are strong similarities in the indices of GKI and Nielsen (e.g. questions are focusing on personal finance, jobs/economy, adequacy of purchases, with final values being measured on a scale of 200) there are two major details that differ. First that GKI's index ranges from minus 100 to plus 100, while the index of Nielsen ranges from 0 to 200. For a transparent comparison in this research the values of the GKI index would be shifted upwards by 100 values, meaning that 100 would be added to each value to move them between 0 and 200. According to Richard Curtin, this adjustment would not bias the results and conclusions: "The only difference between the US data and the data for other countries is

15 GKI's consumer confidence survey is based on the methods of European Commission's Business and Consumer Survey. In Hungary, the Nielsen and GKI surveys are the two most solid research of consumer confidence, both relying on the foundations of the most reliable surveys in the world: Nielsen is based on the methods of The Conference Board, while GKI is based on the EC-BCS.

16 While both trends indicate the same discrepancies in comparison to expenditures, there are two differences between the indices outside of these periods. While Nielsen's index measures the period of 2012 to be the lowest point, GKI's index recorded the lowest value in 2009. Both periods will be focused on in the following analysis. Furthermore, according to the ESI measure, in the first half of 2012, Hungary was the second most "pessimistic" country in Europe, while on Nielsen's list it was the most "pessimistic" globally. As both cases still represent a deeply discontent sentiment, contradicting the expenditures, indifferent of the actual ranking among the countries, the analysis will continue focusing on this discrepancy and not on the ranking.

that the neutral baseline in the US data is 100 and it is 0 in other countries; this difference in the published data has no impact on time-series correlations" (Curtin, 2019, p. 48.). The reason why it would be the GKI measure that is adjusted is that the calculations of changes over time require positive values, so having some values of the trend in negative while the others in positive values (like in case of the GKI index) would have led to confusing, incomparable results.

Second difference is that while Nielsen's index was measured semi-annually until 2010 and even after that only quarterly, GKI's index was measured monthly, so the periodicities had to be aligned. Making Nielsen's measurement into monthly, by using the same values for multiple months, would add artificial dynamics into the trend, so a more reasonable solution would be to create semi-annually or quarterly averages of GKI's monthly index. The result is presented on Figure 6[17], along with the final consumption expenditure of households.

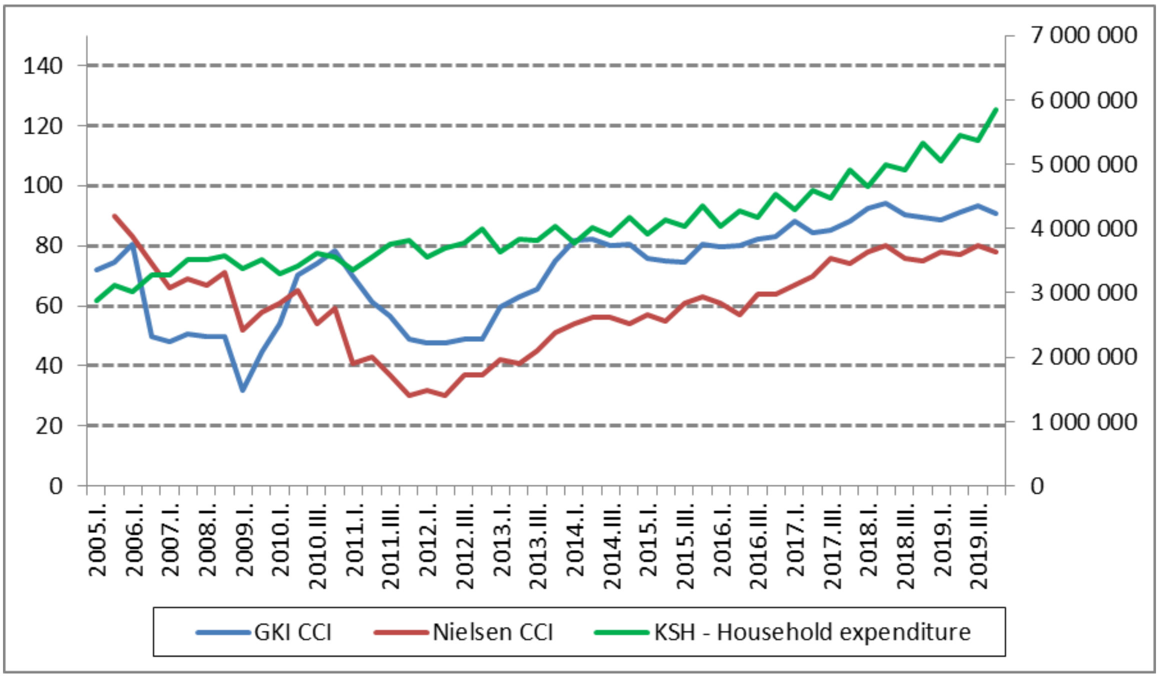

Figure 6 – Hungarian consumer confidence indices and consumptions expenditures of households.

Source: GKI, Nielsen, KSH

17 GKI Index adjusted upwards by 100 values and periodicities were aligned with Nielsen's Index. For the Nielsen Index, the measurement lacked the data for Q1 2017. Also, Nielsen's CCI measures co-created from 2017 with The Conference Board (https://www.conference-board.org/data/consumerconfidence.cfm). Household consumption expenditure calculated as part of the GDP, in million HUF. Data with semi-annual periodicity until 2009 and quarterly from 2010.

The comparison of these three measures, the two confidence indices and the spending as represented by the household expenditure data of the Statistical Institute of Hungary (KSH) presents a high level of similarity along with one major difference right away. What is quite visible – in line with previous findings – is the long-term trend as all three measures indicate an improvement over the examined period. This is in line with the expectations based on the findings of previous research. In parallel to this resemblance, there are several time periods when the confidence indices showcase an opposite trend to the expenditure: short-term declines (like from 2006 to 2007 or recently in 2018), and longer periods of set-back (like between Q4 2010 and Q4 2012); all these happening alongside a continuous growth of expenditure, without any visible set-back.

Let's first review the similarities. Looking at the long-term trend, we can observe that from 2012 even up to 2018 both the confidence and the household expenditures present a trend of growth. There are some drops and peaks on all the measures, but the trend appears to be similar. However, looking at the periods leading up to 2012, we can find a really different situation: while the expenditures were moderately but continuously growing, the confidence suffered major set-backs from time to time. A drop from 2006, another one from 2008, and a third – and the most significant one – from 2010-2012[18].

These critical time intervals are present on both consumer confidence indices. The initial finding of Nielsen's confidence measure – that consumer confidence declined in the long run from 2005 to 2012 – is presented by GKI's measure as well, even if the magnitude differs. While Nielsen's measurement indicated a 66 percent decline from the 2nd half of 2005 until the 1st half of 2012, GKI's measurement indicated a 36 percent set-back. The sharp, short-term setbacks of confidence are also indicated by both measures: from 2006 to 2007, from 2008 to 2009 and from 2010 to 2012. In a short-term comparison, so between 2010 and 2012 there can be a rather strong similarity observed as both measures present a significant decline

18 While GKI's index registered a significant improvement of confidence between Q1 2009 and Q3 2010, the Nielsen index shows a more moderate decline. With this difference, GKI's index first dipped below and then rose above Nielsen's index. Yet, for the purpose of this review I would not challenge the validity of either measures due to two reasons. On one hand, it is only the magnitude of this improvement that differs, not the direction of the change, and even with the difference in magnitudes none of the other periods of interest are impacted the way to change the questions that we just raised. Second, it is not the intention of this research to evaluate the efficacy of these measurements. Fortunately, the trends prior to and following this period remain similar to Nielsen's, which allows us to maintain the same questions as were recognized based on the trends of Nielsen.

starting in the 4th quarter of 2010 and reaching the lowest point in the first quarters of 2012. On this timeline, GKI's index measured a confidence decline of 39 percent, while Nielsen's index measured a 49 percent decline.

With this being said, I set these three periods and types of changes to focus on: the long-term decline between 2005 and 2012, by 36-66 percent (GKI and Nielsen respectively), the short-term drops of confidence in 2006-2007, 2008-2009, and the robust set-back between 2010 and 2012 (by 39-49 percent, GKI and Nielsen respectively). These changes were consistent across both measures, and based on the previously referred research and reviews, we should be observing a similar set-back of consumption expenditure.

However, the expenditure of households does not indicate even a nearly similar picture: it was growing every year, with the only exception being 2009. Even though there were some quarters that suffered a set-back, those never lasted more than a half a year and in a full-year impact it still resulted in a growth. When there were short-term drops of confidence like between the 1st half of 2006 and the 1st half of 2007, expenditures were growing continuously[19]. In a medium term, from 2010 to 2012, expenditures indicated a 5-12 percent increase on a quarterly basis, and an 8 percent increase on a yearly basis, in parallel to a continuous decline of confidence that – during the same period – dropped by 12-37 percent (according to GKI's measure) and by 31-54 percent (according to Nielsen's measure). Equally, in a longer term, between 2005 and 2012 KSH (Statistical Institute of Hungary) registered a consumption expenditure growth of 22-27 percent on a quarterly basis, and a total of 25 percent on yearly basis. At the same time, consumer confidence declined by 34-62 percent on a yearly average base (GKI and Nielsen, respectively). At this initial view, consumption expenditures contradict the expectations that should be set based on consumer confidence: while confidence was declining, household expenditures were increasing. These topline measures indicate a strong contradiction between the temporary changes of confidence and the temporary changes of expenditures, as well as in their long-term trends.

There is a further important detail to consider on the chart. Between 2012 and 2018, the

19 There was a similar drop of confidence in the 1st and 2nd half of 2009. However, during this period the expenditure also encountered a set-back. Although this change of confidence looks similar to the one between 2006-2007, it will not be considered as an additional period with a contradiction, as expenditures were following the same trend, even if the magnitudes were different.

changes of consumer confidence and household expenditure indicate similar trends: there are minor temporary changes, but in a medium and long term, they both grow, almost with a similar intensity. However, for 2018 and especially for 2019, these two trends get separated: consumer confidence stabilizes on a relatively fixed level while expenditures keep increasing. This should be considered as a warning for the years of 2020 and after: if people spend more yet they are not more confident about their financial situation, it suggests underlying, latent factors that might ultimately even ignite a decline of consumer confidence; a situation that would result in a similar outcome as the examined phenomenon in 2011-2012 or in 2006-2007.

What we have seen at the beginning of this chapter as well as on this latest figure is that consumer confidence may correlate with the spending in a longer term, just as expected based on the secondary data and empirical findings noted previously. However, there are significant discrepancies in several time intervals when they present contradictory trends, almost like if some other factor completely overwrites this relationship between spending and consumer confidence. In the following chapter, I will review the potential theoretical explanations, along with cross-checking these theories against the secondary data in order to evaluate its explanatory potential for this specific phenomenon. As this phenomenon may be impacted by numerous factors that can be analysed from quite different points of view, the main intention of the 4th chapter will be to help mapping those approaches that can bring the highest level of explanation from the fields of economy and sociology.

4. POSSIBLE DETERMINANTS AND EXPLANATIONS OF THE DISCREPANCY

Consumer confidence, as the previous chapters presented, should help explaining current and predicting future consumer spending. Although this is a well-founded expectation, it has a lot of conditions to consider. The list of areas where a determinant may appear to deteriorate this relationship is quite widespread and ranges from the subjective personal evaluation through social conditions to economic drivers. There might be several factors to change how people perceive their situation and how they express it in a social environment. Furthermore, a difference may appear also between what they think and how they ultimately act. In addition, we should even consider economic factors like income (which, based on the Keynesian approach, should determine spending), inflation, increase of income gaps (linked to the relative income theory) or past tendency of the changes of income (linked to the permanent income theory), just to mention the most relevant factors in the field of spending.

The following part of the research will present a detailed review of possible explanations that are the closest linked to the observed discrepancy, with three important conditions that set the cornerstones of the research.

1. The first and most important condition is originating from the complexity of the topic: as the phenomenon, the discrepancy that this study investigates can be impacted by a wide range of determinants; we should not expect a single determinant to explain the whole phenomenon. As noted also by Hedström and Swedberg (1998), the explanation for social events might require the comprehension of not only a single mechanism, but multiple ones.
2. The second condition that determines the expectations is that even though the research should cover several fields of possible explanations, it would not be feasible to cover each perspective to its deepest details as it would fall outside of the limitations of this study. Based on this – and the previous – condition the only rational intention of the study should be to focus on the most plausible explanations, to reveal and review them, and in case they do not explain the phenomenon thoroughly, provide a suggestion for further research.

3. The third condition to be considered at every point of the research is that the phenomenon we are looking at is only a temporary deterioration from the general rule, as presented in the previous chapter as well. It is crucial to bear in mind that the research would not aim at explaining why opinions and actions should be aligned (i.e., why confidence and spending should correlate), but to reveal the determinants that drive the temporary but reoccurring deteriorations from this general rule.

This chapter will enlist and analyse the possible determinants that may impact the discrepancy by comparing empirical, secondary data to the relevant theories. Some of the theories will be supported by the findings of empirical data, while others would seem less likely – at least at this primary point – to be impacting the phenomenon. By the end of this chapter, the comparisons will provide a clear assumption of the most plausible drivers that would be further investigated in the following chapters through a primary research.

Due to the complexity of the phenomenon, this chapter will be split into three subchapters. All three subchapters will focus on a specific income theory and will be expanded with theories from other disciplines. The reason this review focuses intensely on income theories is that the relevant theoretical findings on the potential drivers of spending are also income heavy. Heim (2010) argued that: "…the demand for consumer goods was principally driven by factors suggested by Keynes (1936): income, wealth, fiscal policy (taxes) and possibly the rate of interest" (Heim, 2010, p.4). Côté & Johnson's (1998) study emphasized a similar point, noting that the consumer confidence index a spending behaviour that is "...presumably based on economic variables such as recent and expected income growth, net levels of total wealth, inflation, interest rates, employment prospects, other aspects of the business cycle, and the availability of other economic opportunities" (Côté & Johnson, 1998, p.2). When in a study Malovaná, Hodula & Frait (2021) proposed a new index of various economic aggregates, they also noted that while GDP is the most frequently used indicator of economic performance, the living standards of households can only be understood properly if the income and savings are added to the equation (Malovaná, Hodula & Frait, 2021). A similar recommendation was provided by Bryant & Macri (2005), arguing that the consumption function should contain the metrics of "…real disposable income, forecast of income growth, a measure of income uncertainty, wealth, real interest rates and demographic variables" (Lattimore (1994) and Muellbauer and Lattimore (1995) in Bryant & Macri, 2005, p.17). Sorić, Žokalj & Logarušič (2020) found evidence that the general growth of the eonomy, especially the metrics of wages, inflation and interest rate, embrace a positive consumer confidence on the long run, while on the short run it seemed to be most reponsive to GDP growth rate, unemployment and stock market movements.Van Oest and Franses (2007) found inflation and economic performance to have a strong impact on confidence. As a result, the basis of this comparative analysis will be the income theories, but other, relevant sociologic theories will also be considered.

The first subchapter will review the hypotheses from the Keynesian approach (1936). This will be a direct continuation of the previous chapter that reviewed GDP and household consumptions expenditures. These measures centre around economic determinants that reflect the financial side of the question, namely, what may have been driving the spending: was it the amount of money people had at disposal, or was it the change of prices that could explain the discrepancy between the confidence and spending?

The second subchapter will look at the possible explanations from the perspective of relative income theory. This subchapter is called Benchmarking and will focus on how people's aspirations could have changed solely due to their social or economic aspirations potentially distancing from the reality or vice versa.

The third subchapter will focus on theories linked to the permanent income theory. The main assumption of the hypothesis here will be that people base their aspirations and evaluation – in the form of confidence or the lack of it – on the preceding trends and the future extrapolation of their financial situation. The expectation set for their present financial situation would be based on what they forecasted based on the past trend of income and income growth. If people perceived their current financial situation to be different from what they estimated previously, it may have created a lack of satisfaction, manifested in the form of low and declining confidence even if people's financial situation would actually be improving in an absolute value.

4.1 Income as the Keynesian explanation

The consumer confidence index measures the perception of individuals' financial situation and is composed of three closely linked topics. What the confidence questions have in common is the intention to understand whether people can afford to buy what they want, and how this is expected to change over the course of the next year. The questions that make up the final confidence measures cover three aspects: a). the financial situation of the individuals, by asking whether they can purchase the goods they want and need, b). their aspirations, by asking how they feel about their financial situation, and c). the perceived or expected trend of financials – by inquiring about their employment and financial situation in next 12 months.

Each of these three questions can be linked to one of the three income theories and will be analysed from that perspective. The actual financial situation of people may be revealed by the Keynesian theories on income (1936) and will be the focus of this subchapter. The aspiration of people will be looked at though the relative income hypothesis, while the experienced and/or expected trend of income would be analysed from the perspective of the permanent income hypothesis, with the former two being the focus of the following subchapters.

The most relevant attribute of the Keynesian theories on income (1936) – with possibly the highest relevance for the analysed case – is the expectation that spending depends on income. This theory would sound reasonable even for those with a sparse knowledge of economy: the more income people have at disposal, the more they spend. If this theory explains the temporary discrepancies between the growing income and the declining confidence (in those specific time periods I specifically highlighted in the previous chapter), it would be manifested in one of the following three situations, depending on whether the trend of income and spending are similar or contradictory.

The first scenario, which is the easiest to comprehend, is if the growth of income is in line with the growth of spending. In other words, if the increase of spending would be enabled by the increase of disposable income: people were spending more because they earned more and had more money to spend. This case can be validated even by the simple and direct comparison of income and spending: if they show the same trend and magnitude, then we may consider this as a likely explanation for the changes of spending. However, this may only explain why spending grows, and would not explain – but rather amplify – the discrepancy regarding confidence. If people were able to afford to spend more, why would they perceive their financial situation to be getting more challenging? Or vice versa: if people were getting less confident, why wouldn't that set back the spending and create rather a saving attitude?

The next two potential scenarios are based on the direction of the different trends of income and spending. If income increased more intensely than spending, that means that people would still act according to the initial expectation. They would not spend all the disposable income; on the contrary, they would start to accumulate savings in time of – and in line with – declining consumer confidence. In addition, this would still result in an increase of spending on a macro level as the saving would be proportional to an increasing income (so as a relative saving compared to the total income, and not an absolute saving in absolute amount)[20]. What this means in the examined case is that if the growth of income exceeds the growth of spending, it might explain a major amount of the discrepancies: spending would grow, and people would be saving, just as expected based on the declining confidence. Yet, this would not explain why confidence declines in times when disposable income grows so intensely that people can increase spending and even accumulate their savings.

The third possible scenario is the opposite of the previous one: if spending increased more intensely than income[21]. There could be several reasons for such situation. On one of the extreme ends of the list of options is that people would really feel more confident about their financial situation, prompting them to spend more. On the other end of the scale, we may find potential explanations like people losing the motivation to save and rather looking for an immediate reward by the purchases and consumption. While the prior explanation would need to also drive an increase of confidence, the latter one may happen in parallel to a decline of confidence, thus, may explain the phenomenon, except for one question: why didn't people adjust their spending habits in times of financial hardness? The answer for this may be hidden in the relative or permanent income theories, or in other social changes.

The relevance of these scenarios could be validated by the analysis of the secondary data.

20 For example, if somebody spends 30 percent of its 100 unit of income (30 percent of 100 units = 30 units spent), and then its income grows to 150 units, even if he or she cuts back spending from 30 percent to 25 percent (25 percent of 150 units = 37,5 units spent) it results in 7,5 units higher spending level.

21 The further possible explanation could be the consumer price inflation, which will be included in the following subchapter as it is easier to approach it from the perspective of that review.

The first step is to understand whether changes of income follow, exceed, or fall behind the changes of spending, especially in those periods when spending and confidence indicate opposite trends. In addition, should we find the increase of income to fall short of increase of spending, the savings and debt levels need be looked at. Data on the yearly changes of consumer confidence indices[22], expenditure and income, are presented on Figure 7.

The yearly changes of this data are included for each year between 2006 and 2018 (depending on the availability of data). Changes of income, however, are not applied for the specific year when it happened but as an “income delayed” metric, with a one-year delay. This is required as previous theories and empirical findings confirmed a time lag between 4 and 12 months. The findings of Katona and Mueller (1968) suggest considering a lag of six to nine months when comparing spending to income. On the other hand, Gelper, Lemmens & Croux (2006) found that a causality gap of 4-6 months should be considered between consumption and sentiment index. As there was no opportunity to adjust the data by exactly 4, 6 or 9 months, the only feasible option was to adjust by 1 year and to consider that the actual time lag may be between 4 and 9 months. The way this income delay should be considered is that the change of spending happening in a given year should be compared to the change of income of the previous year[23].

Figure 7 presents two very important details. First, the trend of income seems to follow the same path as the trend of spending. What this proposes is that the income could be a strong determinant of spending, which seems reasonable and in line with the theoretical assumption. The fact that the two metrics move together also helps with the analysis, making it easier to compare them (both) to consumer confidence. Especially for 2009, where the consumer confidence suffered a significant decline: as this comparison shows, this was happening in parallel to an absolute decline of income and spending. So, for this period of discrepancy in 2009, it would be reasonable to assume that the deteriorations in the financial circumstances –

22 Consumer confidence indices are included as a numeric average of the measurement waves in a given year. Also, for the GKI index, the adjusted version is used to avoid any bias that would be otherwise arising from creating yearly changes on the initial scale which was ranging between minus and plus 100.

23 Although Katona & Mueller assumes this delay to be 6-9 months, in case of this comparison data has been shifted by a full year: at this higher level of review even this time delay should (and actually does) clearly present the expected impact which should be sufficient for the review as it will not make any assumptions, which could potentially be impacted by the time delay actually being between 6-9 months and not exactly 1 year.

declining income, set-back of spending - led to the decline of consumer confidence.

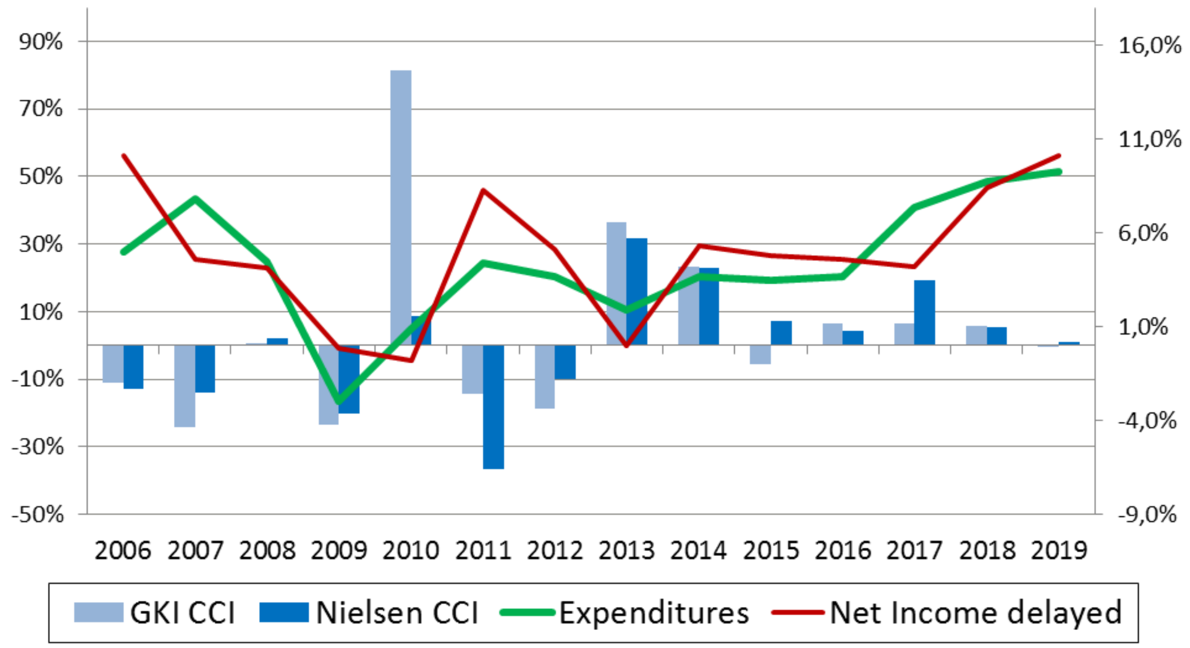

Figure 7 - Yearly changes of consumer confidence indices, expenditures and income in Hungary.

Sources: GKI, Nielsen, KSH

The other two periods of intense confidence declines remain questionable. The years of 2006-2007 and 2011-2012 are specifically interesting as spending and income were growing in parallel to declining consumer confidence. Seeing income growing alongside spending in times of declining confidence in two out of the three observed periods presents a clear answer for the questions of how income could have impacted spending and consumer confidence. First, it seems to support the decision of applying a time shift on the trend of income; a correlation analysis will be conducted in a subsequent study, but at this initial stage the trend indicates similarities with the trend of spending: in 11 of the 13 periods presented they were either both growing or both declining, with differences only in their magnitudes[24].

Second, the fact that the trend of income and spending seemingly correlate confirms the first scenario raised at the beginning of this subchapter: assuming that people were spending more and more over the years – in long term as well as in specific years – because they were earning more and could afford to upscale their spending. Subsequently, this also means that

24 That may be driven by the actual time lag between income and expenditures being different than the one yer applied here; but the question of the actual lag is not a focus of this study.

the question linked to this scenario is amplified: if people were earning more and could afford to increase their spending in two out of three examined periods, why was confidence declining, both in the long term as well as – and even more interestingly – in these specific short-term periods? Between 2005-2006 and 2006-2007 confidence indicated a double-digit decline, in parallel to a 10.1-4.6 percent delayed income growth and a 5.0-7.8 percent increase of spending. Between 2010-2011 and 2011-2012 there was again a double-digit decline of confidence along with 8.3-5.1 percent of delayed income growth and a 4.4-3.7 percent spending growth. If spending and confidence correlate – as this study assumes – what driver(s) could be so impactful that for two years in a row (and twice within a 7-year period) they overwrite this relationship?

Figure 7 provided several important insights. First, that income should be considered as a major determinant of spending, being a measure that might explain its changes; a finding which is in line with the hypothesis based on the Keynesian approach (1936). Second, confidence can indeed be capable of forecasting the direction of the changes of spending, at least in a longer term. However, there remain several cases when the decline of confidence is not explained or even contradicted by the increase of income: people were earning more and spending more, yet they felt less optimistic about their financial situation.

Closely linked to income – and being a major economic and social issue after the global economic crisis of 2008 – the level of the debt remains a further interesting question. The measures on Figure 7 indicated that people were able to finance the increase of spending from the increase of income; having seen quite similar levels of change of these two metrics. What this would also suggest is that people were not getting more indebted. But was that really the case? The picture is mixed. Looking a bit deeper into the previous comparison shows that in 2011-2012 the increase of income (both in regular and in delayed forms) exceeded the increase of spending, indicating that in this time people could indeed finance a higher level of spending from the income. However, in 2007, spending was growing more intensely than income. If people were increasing their spending more intensely than how their income was increasing – either willingly, or out of necessity –, it means that they were using up their savings, or maybe even getting more indebted. However, this might be relevant only for this first period of discrepancy, not the second one.

Decline of savings is confirmed by the relevant secondary data, and not only for 2006-2007 but also for 2011-2012. According to the measures of KSH (2019), the gross savings rate of households declined in 2007 as well as in 2012. While the savings rate was at 13 percent in both 2005 and 2006, by 2007 it went down to 9 percent. Similarly, while savings rate was 11.9 and 12.4 percent in 2010-2011, by 2012 it went down to 10.8 percent.

However, it would be advised not to draw a general conclusion but to treat these two periods as two different cases, because the source situations of the two cases as well as the level of impact are different and suggest a different explanation. In 2007 spending was growing more intensely than income, while savings significantly declined: from 12.8 and 13.4 percent in previous years to 9.4 percent. This was the lowest level of savings throughout the examined period, way below the average value of 11.7, the maximum value of 13.4 and the lowest value (besides these two year) of 10.8 percent.

The second period of discrepancy, 2011-2012 may present a different case. It does not fully fit into the previous logic: savings level was actually growing from 2010 to 2011 and only declined by 2012. Even for 2012, the drop was less intense than in 2007-2008: only by 1.6 percentage points, unlike between 2006 and 2007 when it dropped by 3 percentage points. Furthermore, and perhaps even more importantly, during this second period of discrepancy, the growth of income exceeded the growth of spending, so theoretically people had more disposable income. Due to this, I would suggest considering these two periods of discrepancy to have slightly different underlying drivers and different explanations.

What is still common across these two periods of discrepancy is that the savings was declining in a time of income growth. So how can a more disposable income lead to a lower level of savings? One of the explanations could be the increase of prices, which I will review in a following subchapter. Another explanation could be the increasing consumer confidence that may lead to higher spending and lower savings levels. Based on the findings of Katona and Mueller (1968) people with transitory income put their money into savings and only in case of sustainable income would upgrade their everyday spending. This decrease of savings may be a result of people perceiving their financial situation to be not just a temporary improvement but a sustainable one. So, when income started to significantly grow in 2010 (8.3 percent, compared to the previous year’s 0.8 percent) people could have perceived it first as a temporary revenue, and put it into savings, thus, we can observe a growth of savings in 2011. Following that, as incomes were still growing in 2011, people most likely started to upgrade their spending and were not building up savings anymore; a situation which puts further focus on the question of why confidence was declining – especially in 2012 – if people were doing better off and were considering the income growth to be sustainable, not just a one-off benefit?

Debt levels present a quite similar picture as savings, potentially confirming the assumption for the first period of discrepancy but not holding water entirely for the second period. Households' debt as a percent of GDP (as reported by Eurostat, 2019) indicates an increase from 2005-2006 to 2007 (23-26 and 30 percent, respectively), and peaked in 2010 at a value of 39 percent after which it started to decline to 37 percent in 2011 and 32 percent in 2012. However, the trend does not present any sudden peaks and drops unlike the confidence: there was a continuous and consistent increase of debt until 2010 and decline since then (at least until 2018). Due to this, I would consider debt levels to be in line with general economic conditions, like the impact of the economic and financial crisis after 2008 and a high burden of loan following that period, and less of a financial condition to explain the changes in consumer confidence.

This review of savings and debt indicates a major similarity as well as a major difference for these examined two periods. For both 2006-2007, when the consumer confidence was declining or remaining on a stable but low level, as well as for 2011-2012, savings declined for the last year of this time period. However, the two cases seem to differ: while the first period was rather an instance of spending growing more intensely than income and the debt of households were growing continuously as well, in the second time period income growth exceeded the growth of spending and household debt also declined.

Disposable income can obviously have a major impact on a person's willingness to spend. Yet, there is another side of this equation: the offer. The available products and services and the motivation to purchase them can also be capable of increasing the final spending. Should there be a very favourable proposal, a good price on the product, an attractive promotion, or some other personal motivation – as a result of effective marketing –, people may end up buying things they would otherwise ignore or in a quantity they would actually not need, potentially leading to a rather unwanted increase of spending. Unfortunately, the topic of purchase-motivating marketing tools is too extensive to thoroughly review in this study. Yet, there may be parts of it that could be tested during the primary research. The perceived intensity of price changes and promotions, for example, can be conscious parts of spending, so these perspectives might be also investigated. Furthermore, the type of payment could also be a topic worth considering and testing. What this may reveal is whether there was a sudden switch from cash-payments to credit card-based payments, as the latter one is scientifically proven to lead to lower financial control over the spending; meaning, just by switching to using credit cards more often, people could have adopted a more open-handed spending attitude without even recognizing it. “Studies show that we are more willing to pay more when we use credit card. We make bigger purchases and leave larger tips with credit cards. We are also more likely to underestimate or forget how much money we spend.”. (Ariely, 2018, p. ix). Even if all the potential determinants that make people purchase more cannot be covered in the research, I will try to still cover a reasonable part of it during the primary research. However, the relevance of such tools and circumstance, like different payment methods or purchase-motivating marketing tools, for the examined phenomenon is very questionable. It would be highly unrealistic for these motivators to have such significant impact only for specific 2-year periods and then entirely losing their relevance. Thus, this matter would only be considered in this study with strict limitations; including them if they arise in the primary research, but not conducting an extensive research on.

This review of income, savings and debts led to the following conclusion. The confidence decline of 2006-2007 could have been driven by people overspending, beyond the level they would be entirely comfortable with, probably driven by an external factors that motivated towards taking more risk and higher spending. The confidence decline in 2008-2009 could have been a result of actual financial hardship, when a long period of income and spending growth halted – in line with the main impact of the global financial crisis and the surrounding concerns. The confidence decline of 2011-2012, however, is most likely a further, different scenario: while the financial situation was improving, people were also getting more relieved of their debts, potentially even decreasing the savings due to perceiving this improvement to be sustainable; yet, the overall financial mood was extremely negative. As a result, for the first period of discrepancy, I would suspect a driver of spending increase to be primarily responsible for the declining confidence. In the second period, I suspect the actual financial challenges to be the most relevant factors. While in the third period, I would expect mainly non-financial factors to be responsible for oppressing the link between income, spending, and confidence.

4.2. Benchmarking

The previous subchapter – with the help of an assumption built on the Keynesian theory on income – argued that it is highly likely that income plays a major role in the changes of spending, but it does not seem to explain the changes of confidence. Furthermore, not only does it fail to explain it but even amplifies the question of why confidence declined times of financial prosperity. There were several years when both income and spending were growing but consumer confidence was on a decline (2006-2007 as well as 2011-2012), besides the long-term trend that indicated a confidence decline in parallel to a growth of income.

We have seen it previously that consumer confidence is intended to measure not only the actual affordability of purchases, but also the perception of individuals, so whether they feel that they can afford such purchase, along with how they expect this to be changing over time. The aspect of how people perceive their financial situation will be the focus of this chapter called Benchmarking, while the aspect of changes in time will be analysed in the following chapter called Referencing.

As we have started the journey to understand the confidence and spending from the theories on income, let us follow that path. As the Keynesian theory on income (1936) appeared to be a potential, although not perfect contributor to the equation, it would be advised to continue with a theory that does not reject the Keynesian findings and focuses on income, but adds another, potentially important aspect to it: the relative income hypothesis of Duesenberry (1949) and Friedman (1957). The relative income theory builds on the Keynesian approach to income but adjusts it with another determinant, with its main hypothesis suggesting that consumption also depends on the distribution of income within a community or even in the whole society.

Furthermore, it is not just the consumption – and subsequently, the spending – that may be impacted by the relative income, but also the consumer confidence. Findings of Richard Easterlin suggest that the comparison of the objective status to the subjective aspirations is an important driver of the self-evaluation: "Judgments of personal well-being are made by comparing one's objective status with subjective living level norms, which is significantly influenced by the average level of living of the society as a whole” (Easterlin, 1995, p. 34.). Loxton’s (2020) study also noted that: “Consumer behaviour literature and neuroeconomic analysis highlight that social context is a major driver of consumer decisions” (Loxton et al, 2020, p.6). Research of Ariely (2008) in behavioural economics also highlighted the importance of benchmarking: “Relativity affects our sense of self-worth too... Happiness too often seems to be less a reflection of our actual happiness and more a reflection of the ways in which we compare ourselves to others” (Ariely & Kreisler, 2017, p. 38.). A famous and often used concept he also quoted to emphasize this effect was that “A man's satisfaction with his salary depends on... whether he makes more than his wife's sister's husband” (Ariely, 2008, p. 18.).

As the personal financial situation is evaluated based on – or at least with the strong consideration of – this comparison, when overall improvement of wealth does not impact the whole society in an equal way, the aspirations of many may get elevated above and beyond their financial situation. Richard Easterlin argues that “The material norms on which judgments of well-being is based increase in the same proportion as the actual income of society” (Easterlin, 1995, p.44.). Findings of Csikszentmihalyi (1999) also support this assumption, noting that “…when resources are unevenly distributed, people evaluate their possessions not in terms of what they need to live in comfort, but in comparison to those who have the most” (Csikszentmihalyi, 1999, p. 823). Malovaná, Hodula & Frait also emphasized in their study that: “Households’ perceptions of their economic situation are also influenced by structural factors such as income distribution, participation, demographic patterns, etc.”. (Malovaná, Hodula & Frait, 2021, p.2). The analysis of Fan & Wong (1998) that focused on the relationship between consumer confidence and spending in Hong-Kong, found that the two main drivers of the changes were the concerns regarding politics and income inequality: ”… the decrease of the Economic Confidence Index may result from the deterioration of the income distribution in Hong Kong…” (Fan & Wong, 1998, p. 83).

As a result of the elevated aspiration which is not realized by a part of the society, overall dissatisfaction may rise. There are numerous research that support the assumption that social comparisons may result in such an unpleasant state for individuals that it can set back consumer confidence. Findings of Coleman (1990) recommends considering that a widening gap compared to those people who are doing better than a specific individual can be a condition to create stress, and as a result, create discontent and a lack of confidence: "...When there is rapid improvement in conditions, those of some improve more rapidly than those of others. Those for whom conditions are not improving very rapidly see others, perhaps no more qualified, doing much better than they are. It is from this perspective that they perceive a widening gap, which leads them to feel frustration" (Coleman, 1990, p. 475.).

The expectations that a widening gap in wealth improvement may lead to frustration can actually be quite relevant in the case of Hungary. In a research of Skrabski, Kopp and Kawachi (2004), the authors stated that: "The theory of relative deprivation suggests that invidious social comparisons triggered during periods of rapid economic change may lead to stress and frustration, especially among those who are left behind on the socioeconomic hierarchy" (Skrabski, Kopp & Kawachi, 2004, p. 343.). A few years later, Kopp & Skrabski (2008) confirmed the relevance of these conditions for Hungary. They found that there were parts of the Hungarian society that could not achieve a stable and certain life quality: "…live their life in a continuous chronic stress and uncertainty*"* (Kopp & Skrabski, 2008, p. 4.).

Beyond the impact of social comparison and closely linked to the topic of relative deprivation and to the argument above from Coleman (1990) that a part of the society may get frustrated by seeing others not fully deserving their better circumstances, one may recognize some similarity between this situation and the famous findings of The American Soldier study. The reason that study may be important to consider is that it provides an excellent example for a case when the general satisfaction declines in times of affluence. Stouffer's study about the U.S. Army in The American Soldier series (Stouffer el at. 1949) found that those branches where promotions happened more rapidly (like the air corps) were less satisfied with their promotions than those branches where promotions were happening quite moderately (like in the military police). This was contributed to two factors: those with promotions evaluating it as less of an extraordinary achievement, as well as those left without a promotion feeling being excluded from an improvement that can be achieved by so many others.

This phenomenon is also referred to as relative deprivation and could indeed be an important determinant in case of uneven financial circumstances. Curtin (2019) found that news that indicate an improvement are less considered than those that raise the attention to deteriorations: “A common hypothesis for staggered updating (of expectations) holds that it is due to asymmetric responses to economic information, with agent updating their expectations much more quickly in response to bad news” (Curtin 2019, p. 43).

The relevance of news in forming attitudes is confirmed by several research. Loxton’s (2020) study argued that especially in times of shocks, media could be capable of causing major changes in the consumer attitudes: “In the age of information, mass media plays a pivotal role in forming, remodelling and leading public opinion (Yang et al. 2019). This relationship becomes even more apparent during situations of crisis (Ghassabi and Zare-Farashbandi 2015), where the media has the capability to inform, dispel misinformation or insight hysteria through headlines” (Loxton et al, 2020, p.6). Hollanders & Vliegenthart’s (2009) study even presented several examples of how significantly media could impact consumer confidence through the news they provided. What was even more interesting is the actual level that the study measured for The Netherlands: “The main finding is that amount of negative news, as operationalized by the monthly referrals to negative economic developments in one of the Dutch leading newspapers, Granger-causes consumer confidence, controlling for economic circumstances, as proxied by the stock market. In particular, each article containing a negative economic reference results in 0.02 points decrease in consumer confidence” (Hollanders & Vliegenthart, 2009, p.12).

The theory that these findings suggest is that in times of economic improvement (as observed for the periods of discrepancies) even if one part of the society would benefit from the improvement and increase their consumer confidence, the other part would be moving towards a negative confidence with a more intense pace. As a sum of these two trends, the lower intensity of confidence improvement for a part of a society and a more intense drop of confidence for the other part of the society may accumulate into an overall confidence decline, especially in times of prosperity, or as Skrabski, Kopp and Kawachi (2004) noted, in times of rapid economic change.

The assumption that may be constructed based on these previous research findings is that in those specific periods with a discrepancy between trend of spending and consumer confidence, the spending as well as the confidence would be determined not exclusively by the absolute and current level of income, but by individuals' financial situation in comparison to their benchmark points within the community or society.

The way this may be working in the analysed phenomenon is the following. Spending may be primarily driven by income and may subsequently be adjusted by consumption aspirations, impacted by the closer or broader environment. For example, this could happen through purchases that contain the element of conformity or act as a communication of social status. In parallel to this subordinate impact on spending, the benchmarking would play a fundamental role in determining the confidence level of individuals, based on how distant or close the person considers its financial situation to be to the aspired level. Those specific cases when confidence declined despite of financial prosperity could have been a result of an increasing gap between the aspired level – or as will be called in this chapter, the benchmark – and the actual financial situation of individuals, due to having set the expectations regarding the level of expenditures, consumption or material well-being much higher than where it was in reality.

The validity of this assumption may be tested by two metrics in this initial phase of empirical data review, each of which may cover one specific scenario. First, a potentially growing income gap may be investigated by reviewing the Gini coefficient. Based on the relative income theory, a decline of confidence could be caused by the wealth of the rich getting more distant from the wealth of the rest of the society, and as a result, we should observe a growing income gap. Should the coefficient be growing in those specific periods when confidence declined in parallel to growing income, we may assume that the uneven distribution of prosperity led to – or at least contributed to – the decline of confidence.

The second metric to observe would be consumer price inflation. Based on the relative deprivation theory, people could be suffering a loss of goods and services required to maintain their life quality. It may be hard to imagine how people would be downgrading their spending and consumption during a time of prosperity – like in the examined times when there was both a general growth of income as well as spending – but there are two conditions where downscaling may happen. One option would be if relative poverty increases, meaning that even though the society, as a whole, achieves higher life quality, an important part of the society would still be experiencing a shortage; a situation that may be indirectly referred to from the Gini coefficient. The other option would be if the growth of spending is not driven by the higher volume of spending but by the higher price of goods and services, basically through a significant increase of consumer prices, in a magnitude that would exceed the level of income increase. If products and services cost more from year to year and the growth of income is not sufficient to cover this price increase, it may result in a decline of consumer confidence. Not being able to afford covering the necessary consumptions may lead to discontent through the necessary cut-back on the quantity or quality of their consumption in order to still fit into their tightening budgets.

What this assumption suggests is that in times of financial prosperity if aspirations exceed the actual financial situation or inflation makes it harder to maintain the quality of life, it may create frustration. This discontent would be so intense for that part of the society that experience only a moderate – or none – financial improvement that it would oppress the positive attitude of those who were benefiting more from the prosperity. What we saw in the previous chapter was that between 2005 and 2007, and again between 2010 and 2012 income as well as spending was growing, but consumer confidence was declining. In this next part I will examine the trends of social gap, relative poverty, and consumer price increase.

With the help of secondary data, I will conduct an initial validation check, first for the theory around income inequality. The yearly changes of the Gini coefficient, relative poverty and of consumer confidences are presented on Figure 8. What we should be looking for is whether in periods of 2006-2007 and 2011-2012 we can observe a growth of the coefficient.

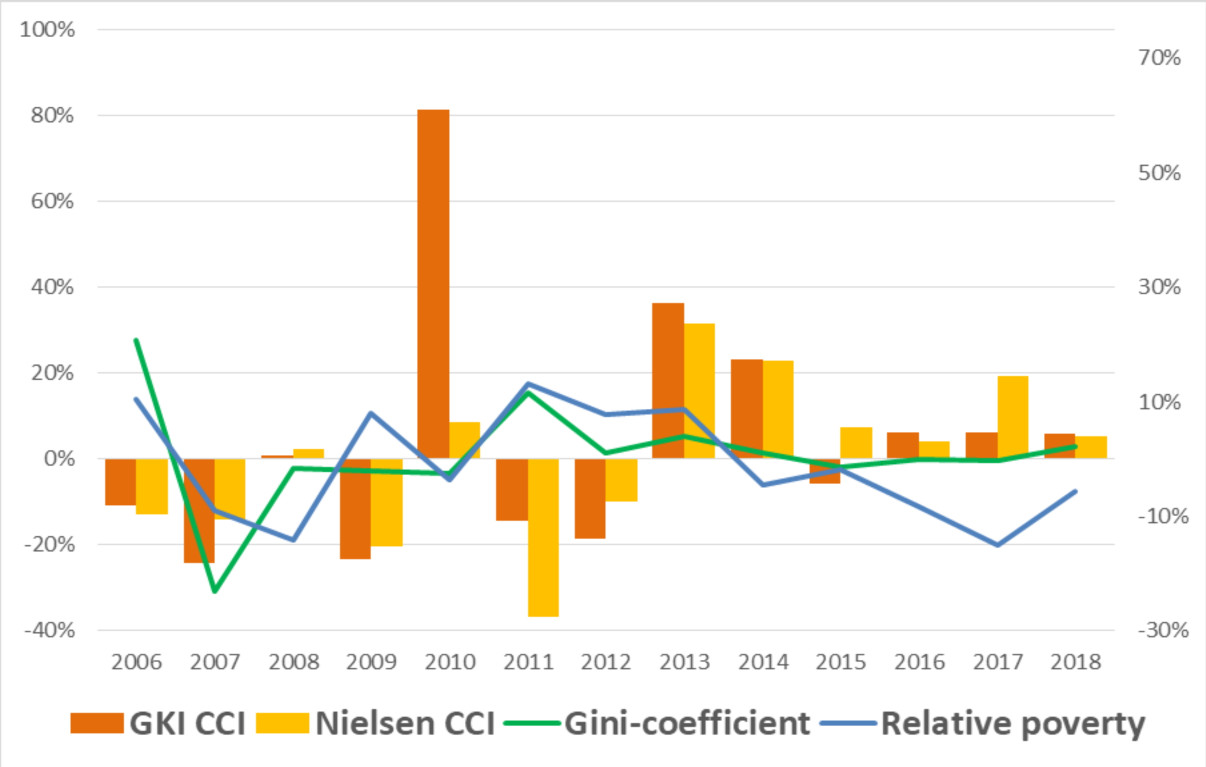

Figure 8 – Yearly changes of consumer confidence indices, Gini-coefficient and relative poverty in Hungary. Sources: GKI, Nielsen, Eurostat

The answer that the chart presents is both a "Yes" and a "No". In both periods, the declining tendency of confidence starts with a growth of income gap as the Gini-coefficient grows when consumer confidence suffers a major decline: in 2006 by 21 percentage points, from 27.6 to 33.3 percent and in 2011 by 12 percentage points, from 24.1 to 26.9 percent. It is also important to note that during the 13 years of this examination, the Gini-coefficient was relatively stable, with the only exceptions being these two years that indicate the most intense growth of the coefficient, exactly in the years when confidence started its decline. On the other hand, the growth of the coefficient can only be observed in the 1st years of the periods of confidence decline, while in the 2nd years (2007 and then 2012) inequality either decreased or at least remained stable, with consumer confidence still declining. Furthermore, if there is an interaction, the impact seems to work only in one direction: the decline of social inequality did not – or at least was not able to visibly – boost the consumer confidence in 2007. As this finding is slightly different from what I expected in advance and does not seem to clearly and consistently prove or disprove the presumption, I need to adjust my expectations. Social inequality might contribute to the start of consumer confidence decline; however, it may not be solely responsible for it.

Fortunately, there is another indicator that may help understanding a very important contributor of social inequality: poverty. Relative poverty was mentioned also as one of the potential indicators of relative deprivation. Figure 8 also presents the changes of relative poverty gap[25]. What the chart reveals is that in almost every year when relative poverty was growing, consumer confidence declined, with the only exception being 2013. In addition – and unlike in the case of the Gini-coefficient – the relationship seems to work in the other way around as well, because in almost every year when relative poverty was declining, consumer confidence increased, with the only exception being 2007. So, there are only two years that are not in line with this general concept, and these are 2007 (both were declining) and 2013 (both were growing).

Although this may create an impression that confidence was declining from time to time because relative poverty started to increase, I would be more cautious than to draw such conclusion. The trend of relative poverty strongly depends on whether we use the median or mean as the base of the calculation, as well as on which cut-off point we use. There is a large amount of inconsistency between these calculations, regarding the conclusion whether we can observe an improvement or a decline. Having said that, I would rather not draw this afore-mentioned conclusion at this point. I would still consider relative poverty as a potential indicator – or even driver – especially in the starting periods of confidence decline, as there was a high level of consistency across the calculations for 2006 (all indicating an increase) as well as for 2011 (5 out of 6 calculations indicated an increase of relative poverty). This also reflects back to the conclusion drawn in case of the Gini-coefficient that growing social inequality may have added to the decline of consumer confidence, but it would be unreasonable to expect it to be continuously driving it.

After reviewing income inequality, let us observe the other metric that may present an unintentional increase of spending, which could have led to declining consumer confidence

25 The cut-off point is 60percent of mean equalized income. For the years of 2006, 2007, 2012, 2013 both the mean and the median equalized incomes indicate the same direction of change, for the cut-off points being 40percent, 50percent or 60percent. For 2009 and 2011, 5 out of 6 cut-off point types indicate a similar trend. Also, the metric of severe material deprivation indicated a very similar trend as the relative poverty in this calculation: in 12 out of the 13 examined years either they are both growing or declining, with only 1 year (2006) indicating different trends.

through downgrading the consumption: the consumer price increase, i.e. inflation. Figure 9[26] presents the changes of consumer confidence, along with the yearly values of consumer price index (meaning, the changes of prices), the net income (in a delayed version, as that was assumed in the previous chapter to better correlate with expenditure) and spending. The assumption regarding these measures is that if inflation was higher than the increase of income, people could have been challenged to maintain their quality of life due to not being able to afford the same quality or quantity of goods and services. Ultimately this pressure for downscaling or downgrading could have led to a declining consumer confidence[27].

The way this should be represented by the chart is the following: when the blue bar reaches higher than the green line and the consumer confidence bars (brown and yellow) are in a negative interval, it means that the prices were growing more intensely than the income, and this was happening in parallel to a decline of consumer confidence. Between 2005 and 2019, there were only two years when this can be observed: in 2007 and in 2012.

In 2007, consumer prices were increasing by 8 percent and spending was growing by 7.8 percent while income was growing only by 4.2-4.6 percent (regular and delayed, respectively). Confidence declined by 24-14 percent (GKI and Nielsen, respectively). This constellation may present a situation where people were spending more because the goods and services they needed and wanted cost more, but they actually did not feel confident about it, and they could not finance this from their budget without renouncement.

26 Scale is intentionally set to not fully present the value of GFK CCI in 2010 (=81percent).

27 The other potential scenario would be that people intentionally purchase products of a higher price, due to a claim of higher quality or convenience. The assumption at this point is that if people make such upgrades of consumption, it should happen in a positive financial environment, which would contradict the declining confidence. As a result, the intentional upgrade to higher priced products is not considered a valid option for times of consumer confidence decline, unless further research would confirm this otherwise.

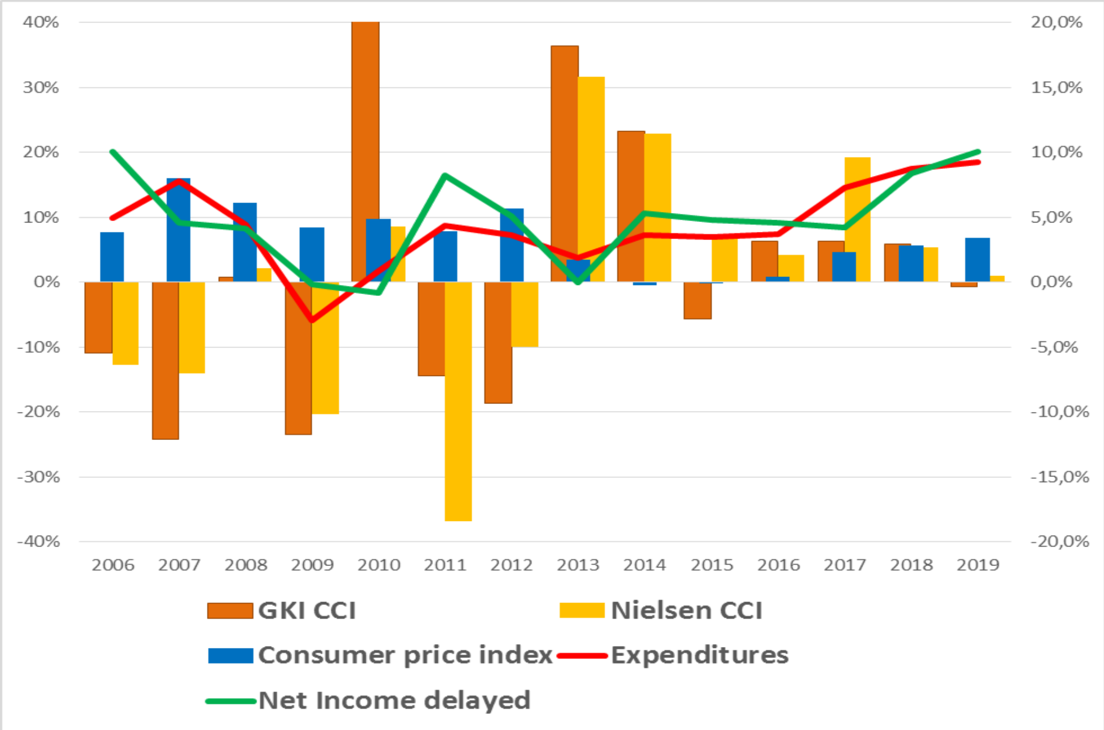

Figure 9 – Yearly changes of consumer confidence, consumer price index (inflation), net income (delayed) and household expenditures in Hungary. Sources: GKI, Nielsen, Eurostat

In 2012, inflation was at 5.7 percent while delayed income was growing only by 5.1 percent. Although growth of spending (3.7 percent) did not exceed that of the income, I would still suspect that this situation was similar to the one observed in 2007 that people were potentially not open and willing to finance higher levels of spending; instead, they were "forced to" by the increase of prices. As a result, it would be reasonable to suspect that if inflation exceeds income growth, it may set back consumer confidence. However, I would not commit the entire confidence decline to this factor as the above assumption cannot be applied to each period of confidence decline. Just like in the case of the Gini-coefficient, which seemed to consistently appear in the 1st years of confidence decline, inflation exceeds income in the 2nd year of confidence decline[28]. Furthermore, we can find periods like 2008 and 2010, which discourage using this assumption as a general rule: in 2008 as well as in 2010 inflation also exceeded income, yet confidence did not decline.

What these patterns reveal is a seemingly strange variety of results, but there is also a level

28 2009 is not highlighted here as a period to be specifically analyzed because the focus is mainly to explain the periods when confidence was declining in contradiction to increasing income, and in 2009 the income was also on a decline.

of consistency in it. Throughout periods of discrepancies, neither the growing income gap nor the poverty nor the inflation was able to explain the entire decline of confidence. However, this does not make any of these determinants irrelevant in the analysis, but are rather in line with one of the main principles that I set, that we should not look for a single explanation but a variation of different factors. Applying this mindset helps revealing the following, interesting and important pattern. In general, the increase of relative poverty presented a consistent trend with confidence, meaning that in almost every year when relative poverty was growing, consumer confidence declined. Furthermore, a growing income gap was potentially fuelling the intense decline of consumer confidence, being consistently present in the first years of discrepancy.

What this suggests is that a widening income gap made people discontent about their financial situations and perspectives in the first years of the discrepancies. Following this period, in the second half of the discrepancy periods this was further aggregated by the increase of price. A this point people probably felt that either their relative situation was deteriorating, or that they could not even afford the same quality and quantity of spending as before, and they had to downgrade. Ultimately the major consumer confidence drops could have been a result of the uneven distribution of income gap leading to frustration and discontent, and the following price increase further adding to this by a less fortunate part of the society practically not being able to maintain their quality of life. In parallel to this, the growing income gap could have led to higher expenditure level as well: for some due to having more disposable income, for others due to trying to maintain their quality of life under more costly circumstances. As a result, the above factors might be able to explain – at least partially – both the decline of consumer confidence as well as the increase of expenditures.

4.2.1. Values

Relative income and its potential to impact on the consumer confidence and spending – like the need to maintain the relative level of spending even if it is getting too costly to cover, as assumed at the end of the previous chapter – builds on the assumption that social conditions matter for the members of the society. In order to evaluate to what extent social comparison would be a determinant factor in the society, we need to primarily turn to the topic of social values. Values can indicate whether a society relies heavily on social comparisons. If social values accept inequality, then an increase of income inequality might be better accepted and lead to a more moderate impact than if social values would motivate towards equality. Values may also help us understand if sudden changes in the financial circumstances would be able to lead to a high level of stress, like in case of an uncertainty avoiding society. Furthermore, values could also reveal if a society appreciates individual success, accepts corruption or deviance, besides several other determinants that may directly or indirectly impact how people perceive their financial situation (or even their general satisfaction level).

While the review of social values may provide important information about the Hungarian society, it is highly unlikely that it would be able to explain the changes of consumer confidence. Even if a report of the OECD noted in 2001 that: “Important shifts are taking place in values, norms and patterns of social behaviour in most OECD countries” (OECD, 2001, p. 50.), values should not be expected to change as swiftly as the consumer confidence, for example back and forth twice within eight years[29]. Hofstede et al. (2010) also argued, when applying the results of a research several decades after the survey, that the values in a culture should be expected to remain stable: „…the IBM national dimension scores (or at least their relative positions) have remained as valid in the year 2010 as they were around 1970, indicating that they describe relatively enduring aspects of these countries’ societies” (Hofstede, Hofstede & Minkov, 2010, p.39) . Hence, the values in Hungary should not be able to directly explain the changes in consumer confidence. At least not as a parallel comparison on a time scale.

As a result, the intention of this subchapter is not a like-for-like comparison of values and consumer confidence (beyond the fact that data about values is not even available with such frequency) but to present the “circumstances” in the society. Due to the stability of the values, the following data will not be reviewed in its trend but considered at a period closest to the examined phenomenon. Here the circumstances should be comprehended as sets of values that may provide a “fertile soil” for the social attitude that would then impact the consumer

29 The duration between 2005, the first measurement of Nielsen’s CCI in Hungary, and 2013, when the consumer confidence decline was over and the index bounced back to trend that appears to be correlating with spending even since.

confidence, and this would not be a factor to be analysed for changes over the years. Should the society lean towards one or the other end of a value dimension may potentially indicate a sensitiveness for that value, ultimately leading to a harsh reaction when those values are breached, with a potential impact on consumer confidence.

The dimension of values as defined by Hofstede (2011) may provide important insights on how values could explain variations in consumer confidence. Out of the six dimensions of values that Hofstede defined[30], there are two with specific importance for this research. Power Distance and Uncertainty Avoidance could provide valuable information as they can manifest in a behaviour with clear and direct impact on the how the society handles material-related dilemmas.

The first dimension, the Power Distance focuses on whether a society expects the power to be distributed equally. In case of a small Power Distance the society might be expecting the power to be distributed equally and may react intensely to its breaches like uneven distribution of income, power to be dominating relationships, fear and obedience spreading, corruption increasing or scandals being covered up. Uncertainty avoidance presents the extent to which a society feels comfortable in unstructured, novel, surprising situations. Uncertainty avoiding cultures apply strict behavioural codes and disapprove deviance, appreciate stability (Hofstede, 2011). In Hofstede’s research (Hofstede, Hofstede & Minkov, 2010) Power Distance and Uncertainty Avoidance were measured in 76 countries. The results are presented on Figure 10.

30 The six dimensions are: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Masculinity versus Femininity, Long Term versus Short Term Orientation, Indulgence versus Restraint

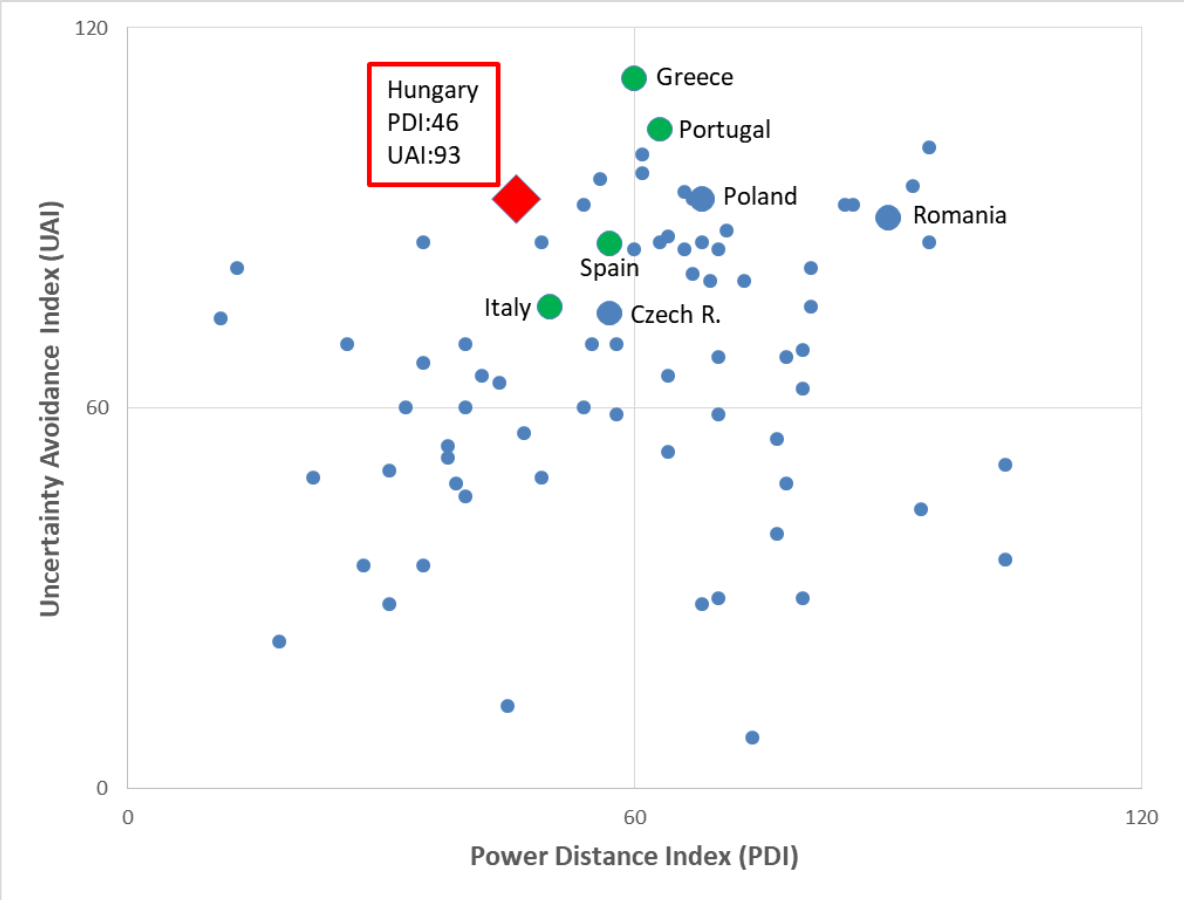

Figure 10 – Power Distance versus Uncertainty Avoidance

Source: Hofstede, Hofstede and Minkov – Value dimensions (2010

The results of the measure indicate that in 2010, around the time when the major variations were observed in the consumer confidence, Hungary had a culture of low Power Distance and high Uncertainty Avoidance. What these positions on the value dimensions propose is the possibility that the Hungarian society would react intensely for breaches towards the other end of the scale: uneven distribution of income, domination by power, spread of fear and pressure for obedience, increase of corruption or scandals being covered up – based on the low PDI – and loss of stability, breaches of behavioural norms, deviance – based on high UAI.

Inglehart and Welzel (2005) may provide a further, important insight about the potential strength of social comparison, but from a different perspective. "Cultural shift towards rising emphasis on self-expression values is a component of human development (...) economic growth, rising level of education (...) makes people's cultural emphasis shift from collective discipline to individual liberty, from groups conformity to human diversity" (Inglehart & Welzel, 2005, p. 4.). On the Inglehart-Weltzel's Cultural Map of the World (on Figure 11 below) we may find Hungary in the left corner of the Catholic Europe value group, which means that it is the country with the strongest attribute of survival values. For example, neighbouring countries like Czech Republic, Slovenia, Slovakia, and Croatia are rather around zero value, so halfway between the two extreme sides of the value scale, while Hungary is much more determined by survival values. This indicates that survival values are probably higher in Hungary than in neighbouring countries.

There are two elements in this previous argument of Inglehart and Weltzel (2005) that may be relevant for the consumer confidence drops in Hungary. First, the importance of survival values, which also suspects the financial security to have a high focus. Second, a potential shift back from the trend from individual liberty to group conformity. The high emphasis on survival values could be an interesting factor in light of the findings of the previous subchapter (when the consumer confidence significantly declined, inflation could have been a driver of financial discontent). As survival values were already high on the priority list, encountering an increase of prices and a need to cut back on spending could have tipped this already important value into a critical interval, beyond a breaking point where people got significantly more focused on financial security. The end result of this could have been a higher importance of material well-being, including financial security, ultimately making people less satisfied with their actual financial situation which was deteriorating.

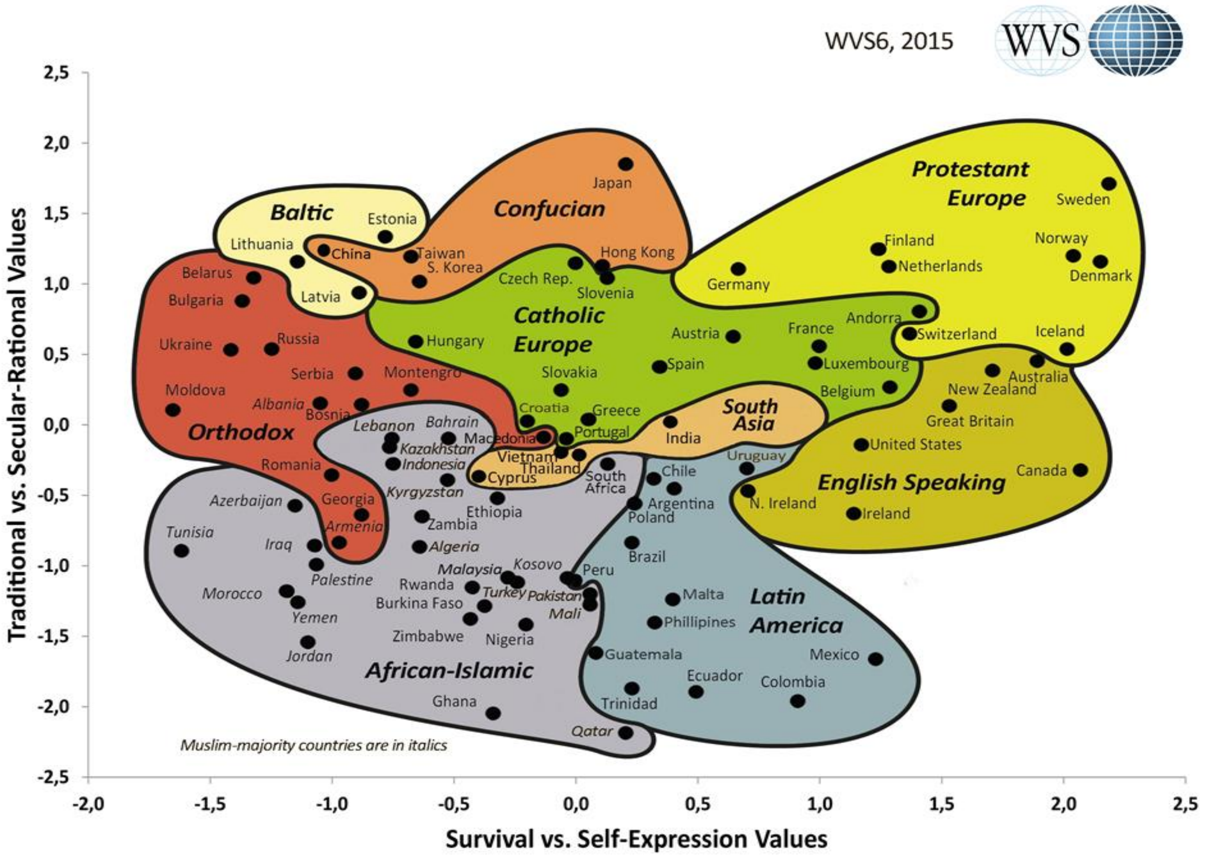

Figure 11 - The Inglehart – Weltzel Cultural Map of the Word in WVS6. 2015.

Source: World Values Survey

The second potential impact of values could have been through the turn-back of human development. Inglehart and Weltzel's argument would suggest that in times of economic growth, values would move towards individual liberty and diversity. A study of the OECD also pointed out – with regards to changes in values – that in the modern societies there is am evolution towards more personal autonomy and less hierarchical and group control (OECD, 2001). Should this development be halted, for example through pressuring conformity or higher level of authority, the halt of human development and increase of survival values in Hungary could have contributed to the increase of discontent.

An increasing pressure to conform to the general sentiment of the society could be further amplified in case of a society that relies heavily on envy and complain. A study of Tóth (2011) examined a personal emotional factor that could influence human motivation and subsequently the economic behaviour: the envy, the eagerness to own something that others do. Tóth argued that envy, as a micro level motivation can influence the social and economic circumstances and actions, the manifestation of which could impact - among others – the general well-being, the level of cooperation, income equality, consumptions and economic growth. Furthermore, envy on the level of the society may decrease efficiency, lead to lack of trust and patterns of behaviour prohibited by law. Tóth also noted that this phenomenon may only be comprehended through the culture, in a given social and economic context. Post-socialist countries like Hungary are often considered by others – as well as considering themselves – as being driven by envy; a standpoint that was shared and confirmed by several scientific studies. Based on a qualitative, empirical research, the study found that envy is so widespread in the Hungarian society that it can be considered an institutionalized behaviour, a socially approved reaction, meaning that people can express it without constrains. A behaviour that is driven by envy could lead to increased spending to reach the aspired level, and the pressure to maintain this race in times of scarcity of income or when the savings are depleted can lead to a subversive sentiment; a situation called “Keeping up with the Joneses”. The interview responses from the survey that the study (Tóth, 2011) conducted found that 61 percent of respondents think that envy leads to negative reactions: pulling back or discrediting the target. This lack of trust and the low level of cooperation due to envy could result in the set-back of innovations, delayed projects, cancelled cooperations and to additional costs, with a high risk of further eroding the general level of trust. Furthermore, the author also noted that envy may lead to higher spending levels of the individuals, with the intent to have a status similar to the person(s) envied.

Based on the review of values in Hungary in 2010-2011, the following assumptions could be drawn. The low Power Distance Index may indicate that uneven distribution of income, domination by power, spread of fear and pressure for obedience, increase of corruption or scandals lead to social discontent. The high Uncertainty Avoidance Index may be the reason why – and if – the Hungarian society reacted intensely to loss of stability, breaches of behavioural norms, or deviance. Furthermore, based on Inglehart & Welzel’s (2005) cultural map, raised the question whether there was an increase of survival values and importance of material well-being, as well as if there was a set-back of human development, of individual liberty any a pressure to confirm. In addition, as the study of Tóth (2011) confirmed that the Hungarian society had been capable of reacting negatively to inequality, leading to complain, discontent and loss of trust in parallel to increasing the spending. The question that the primary research will need to answer – within its limitations, that values are not the focus on this study – is whether these value dimensions would be relevant and leading to social discontent and ultimately to a decline of consumer confidence.

Although most of the measures that may indicate the direction of values are rather indirect, fortunately there are some that could still be used. One of the first measures that I would review is the one that examines the changes in the political system in Hungary, with special focus on whether the Hungarian society would be moving from a previous state-socialist setup (which was the case in Hungary until the political system change in 1989-1990) towards a democratic setup. While the state-socialist system in Hungary is associated with a higher level of conformity, the latter one rather contains a much higher element of individual values. According to a report called Nations in Transit (2015) from the Freedom House (Habdank – Kołaczkowska, 2015) the level of democracy in Hungary has been declining since 2006 and the country has been moving towards a less democratic state. An even more interesting insight is that the most significant decline was happening from 2011 to 2012, just when the consumer confidence hit rock-bottom.

The suggestion that changes in political circumstances would be able to impact consumer attitude so significantly, especially in regard to the confidence that is based on financial security, might seem unexpected at first sight. Studies that analysed the drivers of consumer confidence rarely – and even then, very lightly – touched upon this topic. However, there have been examples for cases when concerns regarding the political direction very significantly determined consumer confidence. Fan & Wong’s (1998) study examined a similar situation as the contradiction in Hungary and that political conditions were the main drivers of confidence decline: “Our explanation is based on the observation that the pattern of the changes of income (or consumption) in Hong Kong is just opposite to that of consumer confidence indices for the period. From 1985 to 1996, Hong Kong experienced rapid economic growth, which significantly increased people’s income. Consistent with the prediction of the existing literature that income is the major determinant of consumption, Hong Kong people’s consumption increased significantly for that period. Despite the rapid economic growth, however, confidence index (both ECI and PCI) were decreasing. The question, then, was: Why did the consumer confidence index in Hong Kong fall when average income kept growing? What the revealed was that the consumer confidence index in Hong Kong had been an indicator of people’s expectation of their future welfare rather than simply their future income. For example, the index also reflected people's expectations of some political factors, such as freedom and democracy, or even their concern about human rights issues in China.

De Boef and Kellstedt (2004) investigated whether there is a more complex relationship between consumer confidence and politics, beyond the general expectation that economic conditions determine consumer confidence which then influences trust in government and towards policies. Their study intended to understand what role political actions can play in economic sentiment. They argued that there are several scenarios through which politics may influence consumer confidence: a) if people trust the leaders that shape economic policies they may have higher confidence in the future of the economy, b) politics intends to influence not just the economics but economic sentiment as well, and c) that politics matter for economic evaluations at the individual level. They analysed the consumer confidence as measured by the Survey Research Center at the University of Michigan, between 1981 and 2002 and found periods where the consumer confidence presented „irrational pessimism or optimism" compared to the objective economic conditions. They expected that confidence in the management of the government/president and subsequently in their fiscal an monetary policies could impact consumer confidence. Their research found that „...politics defines the long-run behaviour of consumer sentiment" (De Boef & Kellstedt, 2004, p. 645), like how people perceive the president's ability to to manage economy, as well as fiscal policies that have such long-term effects on consumer confidence. Wars, elections, policies, economic management and economic news affect how people view the economy in both long and short run, thus, „...politics also exhibits a short-run effect on consumer sentiment" (De Boef & Kellstedt, 2004, p. 645). They also noted that major political-economic scandals are capable of temporarily depressing consumer confidence.

Those who are familiar with Hungarian politics may know that one of the principles of the Hungarian government in 2012 – which they were openly communicating – was that Hungary should be moving towards a – so called – "illiberal state". Both the measured level of the democracy as well as the consistent communications and actions of the government may raise the question whether this less liberal direction counteracted with the human development and the shift to human diversity. If so, it may have resulted in the decline of consumer confidence through generalizing discontent, increasing the importance of material values or through obstructing the human development towards self-expression values.

This assumption is also supported by a further indicator that may reflect human development, or the lack of it. According to Inglehart and Welzel (2005) "...growing mass emphasis on self-expression values, which in turn lead to growing public demand for civil and political liberties, gender equality, and responsive government, helping to establish and sustain the institutions best suited to maximize human choice – in a word, democracy " (Inglehart & Welzel, 2005, p. 2.). For the estimation of the changes in the level of political and civil liberty, I would consider the number of social or civil associations as a feasible indicator to review. The halt of human development towards a higher level of conformity could potentially be indicated by the decline of the civil organizations. Measures of KSH (2015) indicate that the growth of non-profit organizations as well as the number of people employed (measured between 2003-2013) peaked in 2007, but the growth trend slowed down and even turned into an absolute decline from 2011 to 2012; the year when the confidence index hit its historically lowest point. The number of volunteers declined from 2011 to 2012. The revenue and spending of civil organizations was growing until 2008 but this trend then almost halted: from 2011 to 2012 only grew by 0.3-1.5 percent, while its top yearly growth was 12.1-13.4 percent from 2007 to 2008.

Both the measured level of democracy as well as the importance of civil organizations clearly and consistently indicates that the level of democracy was most likely in a decay in Hungary during either or both periods of discrepancy, with the steepest fall from 2011 to 2012. Although these measures are only indirect indicators, they clearly suggest the consideration of the halt of human development and a potential pressure to conform to the general pessimistic attitude (in the sense of low or declining consumer confidence) as potential determinants of the examined phenomenon.

The question of whether the Hungarian society experienced a sudden increase of materialist values, in a sense of the material success becoming essential, is a bit more complex to be assumed, but fortunately there are both theoretical findings as well as empirical data to use. Findings of Brathwaite, Makkai, Pittelkow (1996) provide a really important perspective to consider: "materialist values are the concern of those who have experienced economic or physical insecurity… those who have postmaterialist values have been exposed to greater security and, as a result, are oriented towards satisfying other needs, needs associated with social bonds, self-esteem and self-actualization” (Brathwaite, Makkai, Pittelkow, 1996, p. 1536.). What is important here is that sensing insecurity – or being concerned about it – would lead to high and increasing materialist values. According to Hofmeister and Bauer (1995), post-socialist countries do indicate a high level of uncertainty-avoidance, driven by the changes of political and economic system of these countries.

These previous arguments note the high importance of survival values, the avoidance of uncertainty and potentially the high relevance of materialist values in Hungary. If insecurity in economic or social scenes of life increased, it could have triggered an increase of materialistic values, like financial well-being. This scenario being valid would actually mean that it was not (only) the objective or subjective material situation or other circumstances that were leading to the decline of confidence and its discrepancy versus the spending, but the importance of materialism, like material security and well-being increased.

As noted already by Figure 11, the Cultural Map of the World, Hungary was the country in Catholic Europe with the strongest attribute of survival values, the furthest from self-expression values. Research of Kopp and Skrabski (2000) also support this finding that materialism is a fundamental attribute in Hungary: “The material situation became the plummet in the Hungarian society… Meanwhile the feeling of nation was strictly suppressed… this is a heavy legacy and impossible to face since 1989” (Kopp & Skrabski, 2000, p. 12-13). Under such circumstances where the material situation is so much embedded in the society it may be a realistic scenario that a (or more) specific event(s) drive the society towards higher importance of such values. Ultimately this may result in a situation where people are concerned about the financial situation not because of the scarcity of financials but because of the topic of material well-being becoming more important.

These research about the values are perfect for providing a snapshot of Hungary and helping us evaluate whether the materialist values could even be a relevant factor to consider in this study. However, as such research does not possess longitudinal data with the granularity to enable a yearly comparison to consumer confidence, I can only turn to indirect metrics. Based on the findings of Merton (1938), the increase of materialist values may go hand-in-hand with the increase of corruption and crime. “The extreme emphasis upon the accumulation of wealth as a symbol of success in our society militates against the completely effective control of institutionally regulated modes of acquiring a fortune. Fraud, corruption, vice, crime, in short, the entire catalogue of proscribed behaviour, becomes increasingly common when the emphasis on the culturally induced success-goal becomes divorced from a coordinated institutional emphasis" (Merton, 1938, p. 675.). A study of the OECD on the well-being of nations also cites social distrust and inequality – factors that were in the centre of some of my preceding assumptions – to be correlating with higher crime rates (OECD, 2001).

A similar conclusion was drawn by Csikszentmihalyi (1999), who argues that it would be reasonable to expect an increasing level of violence and crime to be reflecting an increase of general dissatisfaction: "The indirect evidence that those of us living in the United States today are not happier than our ancestors were comes from national statistics of social pathology – the figures that show doubling and tripling of violent crimes, family breakdown, and psychosomatic complaints since at least halfway mark of the century" (Csikszentmihalyi, 1999, p. 822). Even though Csikszentmihalyi was referring to lack of happiness, which is not the same as the decline of consumer confidence, reviewing the changes of crime and corruption should provide at least an indication whether the importance of material success increased in Hungary, at least throughout the course of long-term confidence decline, but potentially for the periods of discrepancy.

There are two metrics that can be reviewed and compared to the consumer confidence: corruption and crime. Let me start with the measure of crime, as it provides more consistent results. Figure 12 presents the rate of yearly registered crime and the yearly change of main types of crime until 2012 (only available until 2012). Should there be observed a continuous increase of crime rate, it may suggest a similar change in the importance of material success; peaks of crime in the times of discrepancies (so to 2006-2007 and to 2011-2012) may suggest that due to some specific reasons the importance of material success increased for these years, which then set back consumer confidence.

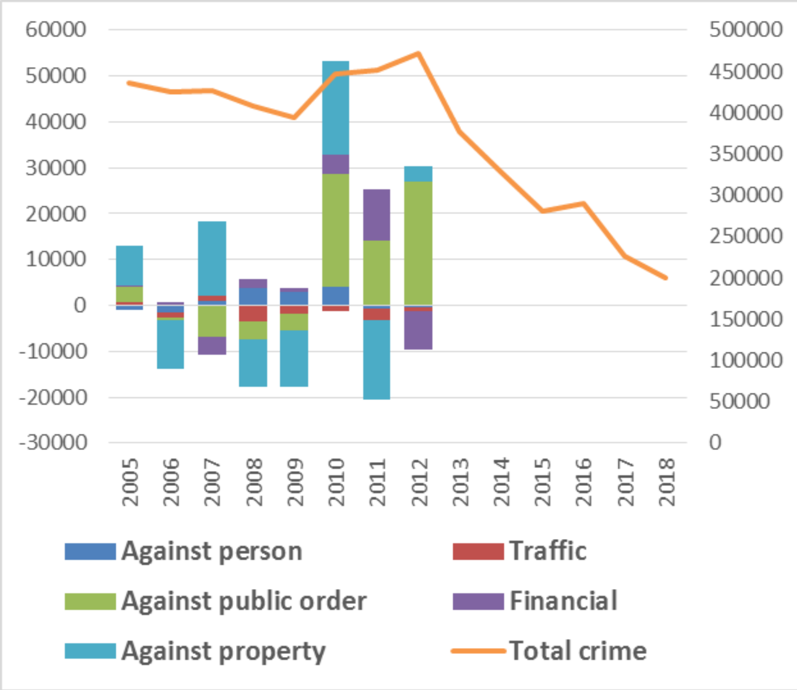

Figure 12 – Registered crime in total (right scale) and the yearly changes of types of crimes (left scale) in Hungary, 2019.

Source: KSH

Based on the trend of the total crime, I would suspect the first suggestion to be plausible. Crime levels were increasing from 2005 to 2012, with a moderation from 2012; just the opposite of how the consumer confidence was declining from 2005 to 2012. This assumes a potential relationship in the long term between consumer confidence and crime, but it would be more relevant to examine the short-term changes, and with more focus on the types of crimes.

Just like the longer term, the specific years present an interesting result: there was a significant increase of crime from 2009 to 2012, by almost 20 percent. From 2009 to 2010, this was mainly driven by crimes against public order and against property, these two contributing to 49 and 38 percent of total growth of crime. Throughout these 3 years, crimes against public order kept growing; in total it almost doubled (95 percent), which means it contributed to 84 percent of the total crime growth during this period of four years, with financial crimes and crimes against property giving a further 17 percent of the growth[31].

31 In total, these percentages add up to more than 100 percent because these were declining types of crime (e.g. traffic crimes), thus adding a negative value into this calculation.

Furthermore, there was a growth of crime not just in 2010-2012 but also in 2007 – so during the first period of discrepancy –, driven by crime against property increasing by more than 6 percent. Although this is just an initial validation check, the data intensely suggest considering the increase of crime as a potential manifestation of increasing material values in the time of consumer confidence drops, especially in the period of latest discrepancy, so between 2010-2012.

Corruption is slightly more complicated to draw conclusions from, yet it may still be a relevant indicator of the increase of materialist values. According to a paper that OECD (2013) prepared for the G20 summit of 2013, “corruption undermines public trust in the government, thereby diminishing its ability to fulfil its core task of providing adequate public services and a conducive environment for private sector development. In extreme cases, it may entail the legitimization of the state, leading to severe political and economic instability” (OECD, 2013, p. 2.). What this means is that corruption may be not only a result of increasing material values, but be part of a vicious circle, where it further leads to instability, which then increases the need of material safety[32].

The Corruption Perception Index of Transparency International is available for the examined periods and may provide some important hints. Unfortunately, the periods until 2011 cannot be used for a year-on-year comparison, only for evaluating a country’s position in comparison to other countries. Still, in order to draw a really careful conclusion (which, obviously, is impacted by the performance of other countries as well, not only of Hungary), I would highlight that in this form of comparison the measures show a relatively stable situation between 2005 and 2009, with a steep drop for 2010 and 2011[33], which translates to an increase of the perceived corruption level. Starting from 2012, the Index uses a new methodology that allows yearly comparisons. What this indicates is that until 2014 the Corruption Perception Index was stable, which was followed by a decline starting in 2015, which again suggests the increase of corruption perception.

32 Although this research primarily focuses on the individual consumption and confidence, and does not intend to evaluate political actions, there is a relevance of this finding even beyond pointing at a potential change of values: it may also stand as a sign of a high economic risk.

33 We need to take into consideration that the yearly result of a country is not just compared to other countries’ performance, but also contains the previous two years’ data.

It is not just the perception of corruption which increased in the period of discrepancy, but also the actual level of corruption, even if the timing is slightly different[34]. Results of the Corruption Research Center Budapest (CRCB) indicated in a presentation of Tóth and Hajdu (2016) about the Hungarian public procurements that corruption risk[35] was on a stable level from 2009 to 2011, mainly between the range of 20-30 percent of the examined cases. By 2012, this skyrocketed to the level of around 50 percent, indicating a roughly 20 percentage point increase, or almost the doubling of the risk of corruption versus the preceding periods of 2009-2011. With some ups and downs this trend was continuing even until 2015. What we may conclude from these results is that the perception of corruption does also indicate sudden and steep drops from time to time, while remains relatively stable in the interim periods. These findings would be especially important in the light of the small Power Distance Index, as reviewed previously, that could fuel an intense reaction to corruption.

Reviewing the values provided an interesting insight, even if it was quite challenging to draw clear and direct conclusions from some of the measures. Based on the value dimensions of Hofstede (2011) and the Cultural map of Ingleharts & Weltzel (2005) the Hungarian society requires equality and stability, has a strong emphasis on survival values, and a potentially high relevance of material values and an institutionalized level of envy. During the period of 2006-2012, the country was moving away from a democratic setup, with its sharpest decline in 2011-2012. The growth of civil organizations also slowed down between the first and second periods of discrepancy, encountering a major set-back in 2012. These measures indicate a halt of human development, in the sense of Inglehart's cultural values, potentially obstructing the cultural shift to individual liberty. Crime rates also peaked in 2012, driven by an increase of crime against poverty in 2010, then by financial crimes in 2011 and a significant increase of crime against public order throughout the period of 2010-2012. The perception as well as the actual level of corruption indicates an increase from 2010 (at least) to 2012. Corruption also showed a major increase in 2012.

These measures, although indirect, seem to be consistently indicating that the values could

34 It remains an open question why there is a time gap between the perception of corruption and the corruption itself, however, it not feasible to analyze this within the framework of this research.

35 Corruption risk indicator with two components (CR2) analyzed for the periods between 1st period of 2009 and 12th period of 2015. N=120,221

play an important role here, especially in 2011-2012. The potential increase of material values – based on the increase of crime – along with the aforementioned halt of human development – based on the decline of democratic state and civil organizations – strongly implies a shift towards survival values and conformity. Should this assumption be valid, it would mean that the increase of consumer confidence was also impacted by a). a frustration due to halt of human development, b). an increase of material values that put more focus on financial success and c). breaches of social norms through corruption, scandals, inequality and crime.

Summarizing these topics of benchmarking and values, there are three key takeaways to highlight. First, that both income inequality and inflation may have played an important role in the confidence decline in years of prosperity and should be further investigated. Second, that although these measures should be kept in scope for analysis, we shall not expect them to fully explain the changes of confidence or the changes of spending. And third, that such behaviours that breach the norms and values, like a shift toward conformity, increase of material success, or corruption, may have contributed to the confidence decline especially in 2011-2012, giving another push to the consumer confidence to plummet to its lowest point ever.

4.3. Referencing

While benchmarking was taking into account a comparison at a rather fixed time period, focusing on the gap between what individuals wanted to achieve and where they actually were financially, there is another dimension to examine: the expectation based on previous experience. This phenomenon will be called Referencing and will be the topic of this chapter.

There are several research that assume the importance of previous experience in the evaluation of current times. Duesenberry (1948) noted that it is not only the current income that determines the expenditure but also its current level compared to its highest level previously reached. Thus, confidence would be determined by the gap between the current and past state of income and the expectations set based on the latter. A half a century after Duesenberry's findings, Easterlin (1995) confirmed the same, noting that "the utility one attaches to one's current income level depends also on one's past income" (Easterlin, 1995, p. 36.). What this means for this study is that the answer for the temporary discrepancy between spending and confidence may be soughed for in comparing the current income and its trend to its preceding highest level and latest trends.

Csikszentmihalyi (1999) concluded that when people reach a higher level of income, they aspire for more and that the key to being satisfied with that level of income mainly depends on how quickly the individual adjusts to it: "Several studies have confirmed that goals keep getting pushed upward as soon as a lower level is reached. It is not the objective size of the reward but its difference from one's "adaptation level" that provides subjective value" (Csikszentmihalyi, 1999, p. 823.). Myers (2000) summarizes this in a brilliant way, saying that "Thanks to our capacity to adapt to ever great fame and fortune, yesterday's luxuries can soon become today's necessities and tomorrow's relics" (Myers, 2000, p. 60.). As a result, we should not be expecting the actual level of income to be solely explaining the confidence but understanding how individuals got to that point may provide better understanding of the satisfaction.

Although these findings seem to be pointing towards the confidence rather than the spending to be impacted by the changes of income, let us not forget that confidence is expected to forecast expenditure. Even those theories that focus on the income can provide important insights about the confidence, and vice versa. For example, Katona & Mueller (1968) found that the increase of everyday expenditure can sometimes indicate that people expect their income to increase. Thus, when there was an increase of spending over several years, it could have been the result of individuals expecting their income to increase, which should have been presented also by a growing consumer confidence (especially because confidence measures directly ask a question about how people feel about their financial situation in the near future). Growth of income may not be solely and directly impacting the spending but may work through setting the confidence: as time passes and income continues to grow, people start expecting this improvement to continue and then adjusting to this level. Having observed a decline of confidence in years of financial prosperity raises the question of what the expectation of people was. If their income was growing, they were even able to afford more; yet they felt that their financial situation was getting worse, so what was the level of improvement they were aspiring for?

Based on these theoretical findings, it would be reasonable to expect that the historical trends of income and spending provide a significant addition to the assumption. What this assumes is that overall satisfaction with the financial situation depends not exclusively on the absolute value of the income, but on how that income was changing over time and how people adjusted their expectations – and subsequently their satisfaction – to this new level. This process, which I am going to call Referencing, will be the focus of this chapter and is expected to work in the following way.

The focus will still be on those two time periods of discrepancy, 2006-2007 and 2011-2012 when confidence was declining despite of the growth of spending and income[36]. What the previously mentioned theoretical findings suggest is that a past experience determines the expectations. In the examined case this means that potentially the trend of income growth – experienced prior to these periods – could have made people expecting this trend to continue or even to intensify. Having failed to maintain this trend of improvement in the periods of discrepancy, people could have lost confidence (which was amplified by several other determinants noted in the previous subchapters). On the other hand, even if income was not growing as intensely as before, it may have been still growing and still contributing to the general increase of spending. Such situation may explain both the decline of confidence and the growth of spending.

For an initial validity check of this assumption, I will review and compare the income and consumer confidences. Figure 13 presents these metrics: it is similar to Figure 7, but with a few differences. First, all metrics are taken in their actual values (e.g., consumer confidences have values between 0 and 200, and obviously the GKI index is adjusted). Second, the change of net income of households is included in a non-delayed form. The reason why in several previous reviews I used the delayed form (so shifted by a year, e.g., the change of 2005 shown at 2006) was that theoretical findings suspected a 4-9 months period for people to adjust the spending to the changes of income. As those chapters were reviewing the potential link between income and spending, the change in income as a delayed form appeared to be more

36 In 2009, there was also a major decline of consumer confidence, but as this was happening along with a decline of spending backed by a decline of income, I would not consider this period as an irregularity to be further analyzed, at least not until finding an answer for the other two time periods that actually indicate a discrepancy between spending and consumer confidence.

informative. However, the current question is not whether people scale their spending according to income, but whether people compare the income (and its trend) of a given year to the preceding years, and if so, could a halt or moderation of income growth create discontent and lead to a decline of confidence. Such evaluation is assumed to most likely not require any delay: if the comparison is real, it happens with every income received and the consequences – so whether it matches the expectations or not – are probably drawn in that moment, not four to nine months later[37].

Figure 12 presents the yearly average of consumer confidence indices and the percentage changes of net income of households[38]. The current presumption is that if the change of income is less favourable in a given year than it was previously, then confidence would decline. This could be a decline or even a moderation of income after previous years' stability or a more intense increase. What we should be looking out for on the chart is the direction of the line representing the change of income: if it is in a downward trend in 2006-2007 and again in 2011-2012 compared to the preceding states, it may suggest the assumption to be valid.

At first sight, the measures may seem to be confirming the assumption. We can see that the way income changes is similar to how confidence changes: income growth slowed down from 2005 to 2006 and 2007, followed by a major set-back for 2008 and by a significant increase in 2010. By 2012, there was another major set-back of income growth, and an increase in 2013. This movement is similar to how the confidence was changing. In addition, whenever the confidence hits historical depths like in 2009 for GKI's and in 2012 for Nielsen's, it was happening in times when the income growth practically disappeared, while in most other years it was growing between 4 and 10 percent. So, after several years of significant increase of the revenue of households, by 2008, 2009 and 2012 this trend slowed down and the growth even disappeared, as a result of which households experienced no improvement of their revenue conditions, unlike in preceding years.

37 This assumption will be tested later on by the primary research.

38 The reason why confidence is included in absolute values and income is included as percent changes is that the hypothesis assumes the set-back of the growth of income to be contributing to confidence decline. This can be presented by the chart the way that a set-back of income growth makes the relevant chart line flat, or even result in a peak & decline of income. When this flattening of decline coincides with flattening or decline of confidence, it provides the information we are looking for.

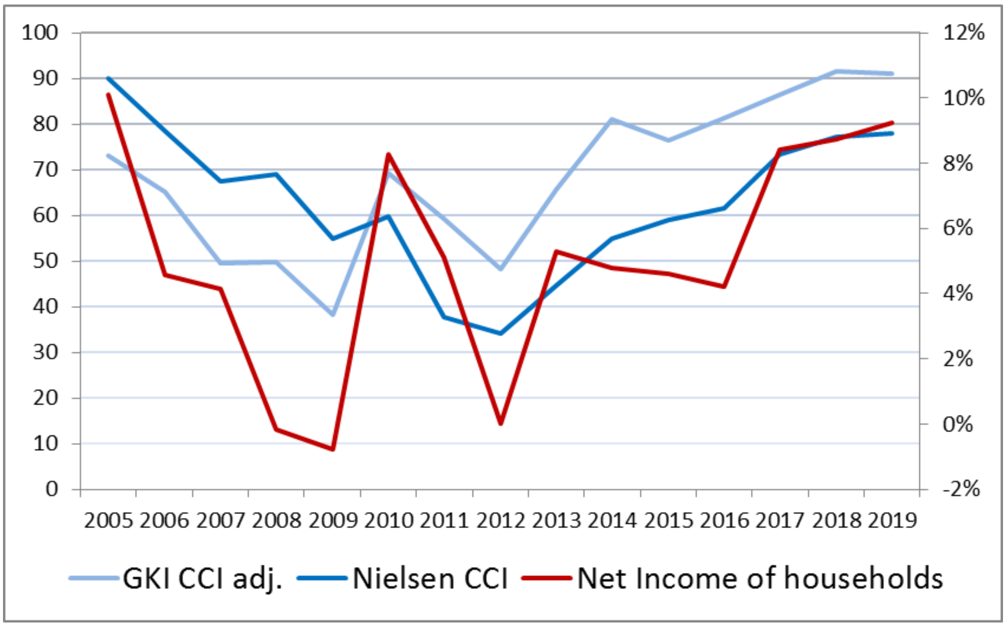

Figure 13 – Yearly averages of consumer confidences (GKI adjusted) – left scale, yearly change of the net income of households in Hungary - right scale. Source: GKI, Nielsen, KSH.

Having no income growth for one or two years, while in other years there was even up to 8 or 10 percent growth suggest that people did really insist on income growth, and when income remained stable, it could have set back confidence as well. A further evidence to support this assumption is that spending was also increasing in these years (with the exception of 2009), which either means that people did really expect their income growth to be sustainable or that the increasing prices drove the higher spending, with both scenario potentially leading to consumer confidence decline, unless supported by an increase of income. As the consumer price inflation was present in every year between 2005 and 2012, on a relatively stable level – at least compared to the trends of spending, income or consumer confidence – I would consider the impact of inflation to be rather stable, if any, in the creation of expectations towards income.

However, the prior scenario – higher spending being a sign of expecting a sustainable income growth – seems quite relevant here. This assumption is based also on the findings of Katona and Mueller (1968), queued previously, noting that spending might go up when people perceive their income increase to be continuing. People could upgrade their living conditions when they perceive their income growth to be permanent and not just temporary, so in this scenario it may be assumed that people were setting their expectations based on the years when income was growing by 4-10 percent year-on-year. Having failed to maintain that level of financial development could have set back the financial confidence of the society, without any temporary negative impact on spending.

What this suggests is that the more intensely the income increases, the more confident people are about their financial situation, and if this increase gets less intense, or even halts, people lose financial confidence. This may not sound surprising. Yet, this is rather a general finding, while what I am now specifically looking for are intense setbacks of the growth of income prior to 2007 and 2012, probably getting to a moderate level after a peak of income growth. This is what could potentially prove that even if income were not declining, people would aspire for more and more growth, and they would not be satisfied with a lower growth or stability.

Comparing the change of income in 2006 and 2007 to 2005 indeed showcase a significant set-back: while in 2005 income was growing by 10 percent, in 2006 it went down to 5 percent and by 2007 to 4 percent. Similarly, in 2011 there was only a 5 percent income increase and a zero percent increase in 2012, while in the preceding time (in 2010), income was growing by 8 percent. What we see here is that the income growth indeed slowed down, after quite significant peaks of 10 and 8 percent (2005 and 2010, respectively), and the confidence was declining in parallel to this.

The year of 2009 is not investigated in detail as a period of discrepancy, because the spending was following the path of confidence and both were declining, which is in line with the initial expectations. However, this chart also adds one more detail to this equation: in 2008 and 2009 it was not only the inflation[39] but also the lack of income growth that could have driven the decline of consumer confidence, especially seeing here what an intense moderation this meant after the previous years' positive trend.

Based on these findings, I would draw the following conclusion. On the level of an initial validity check, this presumption seems plausible. When the growth of income halted, the decline of confidence intensified. It may have happened immediately, like in 2011, or with a bit of delay, like in 2006, but the trend looks consistent at this initial view. Furthermore,

39 As seen on Figure 9 – inflation, the price of products and services were growing by 6 and by 4 percent (2008 and 2009, respectively).

should this assumption be true, it can also explain the growth of spending: even though people were spending more because their income was also increasing, they were not confident with the slow-down of their income growth. Obviously, this assumption needs to be cross-checked against other factors like inflation, but at this point the significance of Referencing – the expectation towards income growth – seems to be an important determinant of the consumer confidence. Due to its potential capability to explain the cases of discrepancy, I would keep this assumption within the scope of the study.

4.3.1. Certainty and stability

There is another determinant, which is closely linked to referencing: stability. Lack of stability could potentially be impacting confidence through making it more difficult to draw clear conclusions based on present or past events and then to forecast what the future would bring, thus, whether the individual should be concerned about it.

According to Kahneman (2011), "the internal consistency of a pattern of inputs is a major determinant of one's confidence in predictions based on these inputs" (Kahneman, 2011, p. 423). This argument would also be supported by the findings of Côté & Johnson (1998) noting that: "…the inverse of the confidence index could be viewed as a proxy for uncertainty" (Côté & Johnson, 1998, p.2). Loxton (2020) also argued that: "When presented with a situation in which foresight is limited and information is ambiguous, consumers panic and look to their peers for behavioural guidance (Brooks et al. 2012)" … "During periods of stress or shock, such as during the COVID-19 period, herd mentality manifests itself in several different key areas including stock prices, consumer purchase behaviours and collective societal anxiety" (Loxton et al, 2020, p.4). As a results, instability could also work through further amplifying the Benchmarking effect, which, as noted earlier, is hypothesized to be able to set back consumer confidence.

It is not only the general attitude that may be impacted, but the habits of spending as well. In times of uncertainty, relying on something comforting, like purchasing and consuming goods and services may become more frequently a favoured option, resulting in an overall increase of spending. Loxton et al. (2020) argued that the fear of the unknown may result in – as the study called it – panic buying, because purchases could be comforting, alleviating stress and providing some sense of security. However, this impact on spending is not straight-forward as increased uncertainty may also lead to lower spending due to postponing some of the purchases: "…At times of increased uncertainty, consumers may prefer postponing major purchases until they feel more confident about their income" (Karnizova & Khan, 2014, p.1). As a result, uncertainty may be considered as a factor to push the increase of spending, but this relationship cannot be generalized.

A previously referred study of Hofmeister and Bauer (1995) assumed that Hungary is a country with a high level of uncertainty-avoidance. The findings of Neumann-Bódi, Hofmeister-Tóth and Kopp (2008) based on the 2006 Hungarostudy also supports this finding even 10 years after their initial findings: the Hungarian society does require stability and certainty.

The presumption I would construct regarding stability is that the decline of stability could negatively impact consumer confidence. The evaluation of the current situation as well as of the expectations towards whether that would be sufficient in the future may depend on how well it can be evaluated and forecasted in the present. In a situation where circumstances would be changing promptly, uncertainty could be setting back consumer confidence. Furthermore, instability may also result in higher spending, so ultimately resulting in both the effects that the analysed discrepancy is manifested in.

In order to check the validity of the presumption about the level of stability as a possible determinant of confidence, secondary data would be reviewed. Should this be valid, it would mean that the level of the uncertainty increased through unexpected or unmanageable changes in financial, political, or social spheres. Ultimately, this would negatively impact confidence; however, it would not be necessarily setting back revenues, so spending might still be increasing. Thus, the decline of stability, growing uncertainty may be another possible explanation for the periods of discrepancy.

As a first step, I will review if there were signs of instability in factors that may impact the personal financial situation. Data of KSH (2019) should reveal if there were sudden and negative changes in employment status, income, debt and poverty as factors that I assume based on the previous findings to be potentially resulting in an increase of uncertainty. These four factors may not cover the whole spectrum of the determinants of stability but should still be capable of highlighting if there was any relevance of this topic.

Based on the findings of Neumann-Bódi, Hofmeister-Tóth and Kopp (2008) – that the short-term orientation is dominant in Hungary – I will primarily focus on the periods preceding the discrepancies, to look for sudden changes prior to 2006-2007 and 2011-2012. The first measure to review would be unemployment. Losing jobs could have a significant impact on the stability of a person and might cause a major change in their life perception as well as in income conditions. Measures of KSH (2019) show that unemployment[40] was stable, preceding both periods of discrepancy: it was 7.2 percent in 2005 and 7.5 percent in 2006 as well as in 2007[41]; 11.3 percent in 2010, followed by 11.1 percent in 2011 and 2012 as well. It seems safe to argue that most likely there was no major uncertainty around the employment, thus, this may not have contributed to the decline of confidence through stability.

Although the employment situation was stable in the examined periods, the income of the employed could still have indicated variations, leading to instability. For example, in economically challenging times the employers may cut back on the costs, including salaries, benefits or bonuses, to maintain the operational capacity of the organization. If this happens on a country level, like it happened in several countries after the global economic crisis of 2008 (resulting in salaries with no increase or even decrease, or people taking on lower-paying jobs just to stay employed), it could negatively impact the financial conditions of the individuals, without a visible impact on the unemployment rates.

What the measures of KSH (2019) indicate is that there were actually major changes of income in years leading up to the periods of discrepancy: 10.1 percent income growth in 2005 while only 4.6 percent in 2006 and 4.2 percent in 2007; and similarly an 8.3 percent increase in 2010 with 5.3 percent in 2011 and 0 percent in 2012. Although these may seem like a major variation in income levels, it cannot be assumed without any doubt from the number itself whether these levels of changes were really perceived as a source of instability. On one

40 Unemployment rate of age 15-64, as a percentage within the economically active population.

41 Unemployment data prior to 2006 was not available.

hand, the trend of income changes is quite hectic, and on the other hand, it does not have a general impact on everyone but probably impacting some people more intensely than others.

There is a further detail that rather suggests that income was not a source of uncertainty. When there were major changes in positive directions, like in 2010 and in 2013, confidence was significantly growing – a finding which strongly suggests that the actual level and trend of income has higher impact on confidence than the variation during the examined period. Based on these two measures, the level of employment and level of income, I would conclude that these initial measures do not support the presumption of instability leading to declining confidence.

As noted in the previous chapter in details, the level of savings rather followed the trend of confidence, with drops during the times of discrepancy. However, debt levels present a consistency, with a trend of continuous increase until 2010 and a decline after that. Based on these circumstances it might seem reasonable to suspect that in 2007-2008 the decrease of savings may have led to higher uncertainty and ultimately to the decline of confidence, but the debt level does not indicate an increase of uncertainty in the periods of discrepancy.

Having reviewed these four factors (unemployment, income, savings and debt) that were expected to provide a sign of financial instability in the periods of discrepancy, I would argue that it is highly unlikely that sudden changes in these conditions would have created higher uncertainty, leading to a decline of confidence in both cases of discrepancy. The unemployment was on a stable level. Income had major changes, but the increase did not result in confidence drops. Savings and debt may seem to have presented an increasing level of uncertainty in the first period but not for the second period. If stability contributed to the decline of confidence, it could have been due to other, non-financial determinants, originating from social or political turmoil; most of which could not be reviewed here from secondary data but would be investigated in the primary research.

4.4. Conclusions, hypotheses and research questions

During the examined time scale of 2005-2019, there were three periods with significant decline of consumer confidence: 2006-2007, 2009, and 2011-2012. Adding income and expenditures into the equation provided important insights. First, that for 2009 there is no discrepancy: people earned less, so they could spend less and in parallel also felt discontent about their situation, which was then represented by the decline of consumer confidence. As this situation is in line with the general expectations, and as the study focuses on the cases of exceptions, this period was not considered in the later sections as a discrepancy.

In 2006-2007 and 2011-2012, while the consumer confidence was declining, income and spending were growing. Both periods experienced an increase of income, but also a broadening income inequality and growing relative poverty in the first years, so in 2006 and 2007. In the second years of the periods (2007 and 2012) prices were growing more intensely than income, and the decline of savings could also be observed. These indicators led to the assumption that during both periods people were spending more because they had more disposable income and/or the cost of maintaining the same life quality increased.

While the income and inflation could provide a potential explanation for the higher spending level, the decline of consumer confidence requires a deeper analysis. As a first step on this path, values helped us better comprehend the reactions in attitude. The Hungarian society at the time of the discrepancies had a low power distance and high uncertainty avoidance, meaning, people could have felt uncomfortable if experiencing uneven distribution of income, dominating power, increasing corruption, instability or breaches of norms. Furthermore, the country had a strong attribute of survival values, assuming the high importance of material success as well as a high level of envy. Empirical data showcased that these norms were most likely breached in the periods of discrepancies: increasing income inequality, corruption, crime, fluctuating income growth, surrounded by a political shift with the risk of slashing back civil liberty.

Based on the previous empirical and theoretical review, the way these conditions and determinants could have impacted spending and consumer confidence is hypothesized the following way and summarized on Figure 14.

- H1: income growth had a positive impact on both the spending as well as on the consumer confidence,

- H2: increasing inequality contributed to spending growth but to the confidence decline as well: people wanted to maintain their relative financial well-being and status, but were discontent with the increase of inequality,
- H3: increasing prices drove the higher spending level but also led to financial hardship and declining consumer confidence,
- H4: the uncertainty due to the halt of previous year's income growth negatively impacted the consumer confidence,
- H5: higher emphasis on material success, driven by income inequality and financial challenges, led to increased consumption, while creating concerns and frustration,
- H6: breaches of norms due to corruptions and crime, as tools that are used for achieving prosperity, further contributed to the discontent,
- H7: the pressure to conform and to oppress civil liberty led to frustration, which then cascaded into the financial sentiment as well.

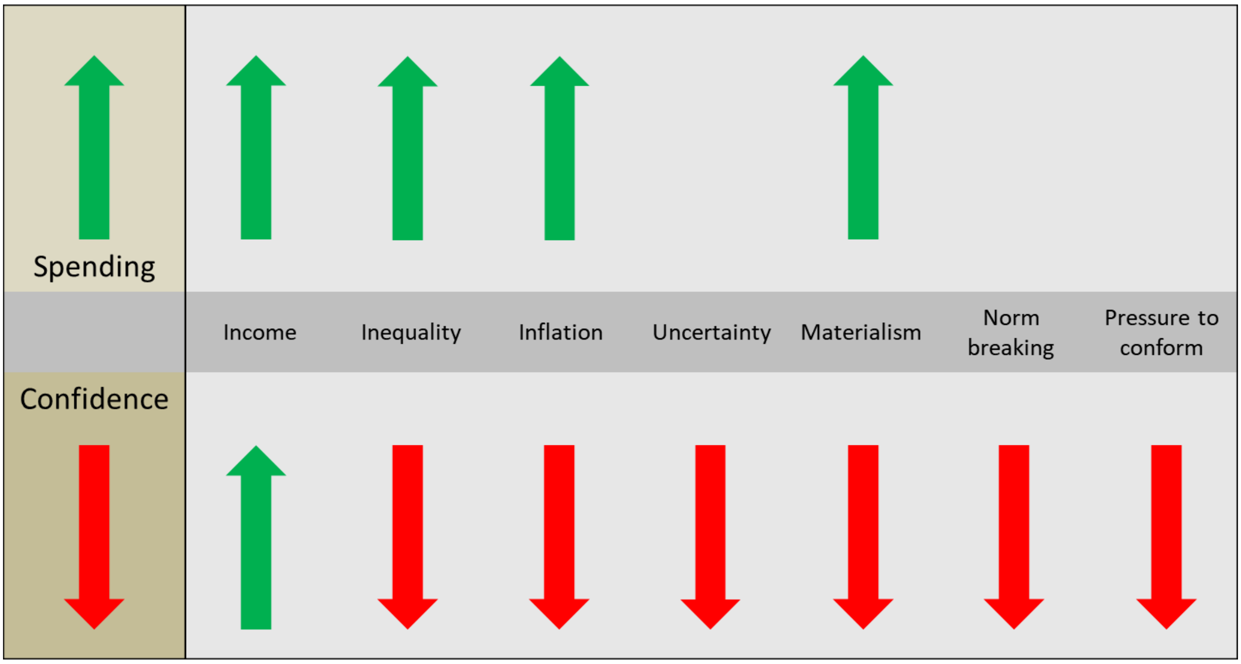

Figure 14 – Summary table of the potential explanatory determinants

These hypotheses should be considered as parts of one, extensive hypothesis, which is split to such details to enable accurate validation. As the phenomenon is complex, this was required for the creation of measurable research questions and a transparent final evaluation. The primary research would have to measure and validate these hypotheses through the following research questions:

#1: Would those people that benefit from the prosperity express a positive sentiment, in a form of proportionally higher consumer confidence? In parallel to this, would people increase their spending if their confidence declines?

Finding an answer for these questions would help evaluating the first three hypotheses on Figure 14: whether higher income generates higher consumer confidence if the prosperity is not equally shared, as well as whether financially discontent people would increase their expenditures if that is driven by price increase or other external factors. In case the primary research confirms that people with higher level of prosperity express their content in the form of proportionally higher confidence, it would validate H1. On the contrary, if they would restrain from expressing a higher level of financial satisfaction – in order to avoid envy, or out of solidarity for the norms of equality – would mean that income growth does not necessarily lead to improved consumer confidence. H2 and H3 could be validated upon the confirmation that people did increase their spending to maintain their consumption level or social status, even if that required much more investment due to the inflation.

However, should the primary research disprove all of these three hypotheses, indicating that those with financial improvement do not express a proportional confidence increase and that people with a declining consumer confidence avoid the increase of spending, we could argue that on individual level there is no contradiction: some have negative sentiment, others have improving financial situation, but those are – in general – not the same people. Subsequently, this would also mean that the macro level increase of expenditures and the declining consumer confidence does not represent a general attitude for the entire society, but are driven by different parts of the society. Those in already better financial situation prospered more and were able to cover a higher level of spending. The less fortunate part of the society tried to maintain their relative life quality, but as the prices went up in the second year, they could only afford it with constrains. So while the higher spending was driven by higher income and higher prices, the decline of consumer confidence was a reflection of the discontent with income inequality and the financial challenges that the inflation led to. As a consequence, the relationship between consumer confidence and spending on macro level should be questioned, or at least no conclusions drawn unless confirming that the two indicators represent the entire society in the same way to avoid ecological fallacy.

#2: Was the intense decline of consumer confidence driven by the deterioration of the actual financial circumstances or did it rather reflect a relative discontent, as a comparison to other people or previous states?

For this, the primary research would need to measure whether the relative financial situation – compared to others and/or to previous trends of prosperity – would be able to generate a higher level of discontent than the actual financial circumstances. In this case we would see strong references to other people, to previous times of prosperity, the high importance of financial success and a sensitivity towards corruption and crime. The Hungarian society had high emphasis on the values of material success, equality, stability and obedience of norms, as well as a high level of envy. If the primary research confirms a high relevance of the relative evaluation and breaches of norms, it would allow us to assume that the discontent was primarily driven – at least temporarily, during the times of discrepancy – by the less fortunate strata experiencing a decay compared to the past situation and compared to the present opportunities as well.

First, the sentiment towards income inequality should be measured (H2), to validate whether it can lead to intense discontent; the acceptance of other's success, the amount of social benchmarks and the level of envy would serve as proper indicators. The impact of the halt of previous income growth trend (H4) would be indicated by the relevance of backward-looking references in the evaluation of the current financial circumstances. The importance of material success (H5) could be manifested in cases of extensive spending and the relevance of accounting such success. The perception of corruption and crime as tools for prosperity and the sentiment people attach to them could validate H6.

#3: Did the decline of consumer confidence reflect only the financial conditions or also a general dissatisfaction with other important areas of life?

One of the main goals of the primary research should be to reveal determinants that are occasionally capable of impacting the consumer confidence but are in general not considered as a driver of it. It should provide a view on what other circumstances could impact the consumer confidence and if they would have the gravity to occasionally dominate it. Findings could validate H7, as well as map any other potential determinants.

Based on the review of the values, the financial challenges may have been set in an environment where the previous decades of development towards democracy and civil liberty was halted. Furthermore, this shift was initiated not from the individual level, but by the governing political forces. This society, which was not in favour of power domination, could have sensed a pressure to conform to the majority attitude and opinion, the set-back of the development towards civil liberty and democratic setup. The pressure to conform to the general standpoints could have led people to express their discontent in a multitude of platforms, for example, to reflect a broader scale of dissatisfaction even in the financial-related surveys.

While the scientific theories and the empirical data consistently points towards these factors to explain the discrepancy, the validity of such assumption need to be tested. In the second part of this study these assumptions will be evaluated through primary research.

5. THE PRIMARY RESEARCH

5.1. The purpose of the primary research

The correlation between consumer confidence and spending – and especially the temporary discrepancies – is a complicated subject: it can be impacted by the economic situation of individuals, social norms and attributes, or personal conditions, just to name a few. This complexity also means that the explanation for the phenomenon of discrepancy may originate from several scientific areas, and as we have seen in the previous chapter, many of these areas had to be involved and at least partially considered to shed light on the most important drivers.

We have seen in the previous chapters that even though previous studies were capable of providing relevant information on what may cause the discrepancy, they were not able to fully answer all the questions. In this second part of the study, I will conduct a primary research, with the intention to provide the answers for the questions that still remained open following the review of empirical and theoretical findings.

Just like in the previous chapter, in this following one there are important prerequisites to keep in mind. First, that at every point of the primary research we should be looking for explanations for the exceptions, not for the rule: conditions that result in a different outcome than expected between confidence and spending. It would still not be an aim of the research to evaluate or analyse this aforementioned, general relationship. Second, that the research should look for answers specifically to the questions that were raised in the previous chapters. Obviously, any additional and important insight should be taken into consideration, but due to the immense amount of topics that can be linked to the subject, it is important to focus the research on the main questions.

5.2. Selecting the research method

Selecting the proper research method is usually one of the most challenging parts of any research. Making an incorrect decision to apply, for example, multiple, partially unnecessary methods would lead to a waste of time, effort, resources and ultimately to an overcomplicated result with more questions raised than answered. Failing to choose the proper amount and type of method, the research may end up finding only partial explanations, duplicate the previous knowledge with low added value, or lead to false findings. Even if this mistake of incorrect selection is recognized during the process of the research, it can be costly to course-correct it. Due to these risks, there is always a great amount of focus on selecting the proper method for the primary research. Fortunately, in case of this study, the choice is obvious, as it will be presented by the below argument.

There are three main research methods that could be considered. First, econometric modelling, as it could evaluate the relationship between the examined phenomenon and the potential explanations, like income, inflation, income gap, values, and so on. Second, quantitative research, which may add insights through measuring the distribution of confidence levels and spending levels on the same sample, with the same periodicity. The third option is the qualitative research, which may provide answers for the questions raised around how the determinants could be working, or what other explanation may be underlying.

I do share the belief that there could be an important benefit in combining a wide range of methods, being econometrics, qualitative and quantitative methods within one research. However, the complexity of this study makes it necessary to narrow down and focus the attention, otherwise it would leave a high risk of shallow consequences without impactful and actionable insights. As a result, in the primary research I will need to focus on the method that could score highest on the following criteria: a). add the most value, b). provide the most solid foundation for the other research methods in a scientifically reasonable link, c). would be most feasible, considering the constraints of time, workload and financial resources.

From these research methods, the qualitative research would score highest in comparison to these three criteria set. The hypotheses and the research questions at the end of the 4th chapter focus around understanding the motives, the “why” and “how” of the phenomena. Would people always express a positive sentiment, or if not, what would make them disguise it? Would people in a negative sentiment still increase their spending, and if so, why? What conditions are considered when individuals assess their financial circumstance? Qualitative research would be able to reveal the motives behind the actions and sentiments, generate explanations for a phenomenon, and unpack meaning (Ritchie and Lewis, 2003). Furthermore, the complexity of the analysed phenomenon would also require qualitative research to be applied, as "…qualitative methods are often applied to complex, rich-in-interpretation questions, and generally put emphasis on aspects of meaning, process and context: the 'why' and the 'how', rather than the 'how many'" (Litoselliti, 2003, p.11).

It is not only the criteria of added value where qualitative research could score high, but also in supporting other research methods. Qualitative research may reveal hidden factors (Litoselliti, 2003), identify relevant variables and indicate the type of association between them (Ritchie & Lewis, 2003) which could later help making an econometric modeling more solid and thorough. It may also provide understanding on how decisions on spending or evaluation of financial situation works, which could then be utilized during a quantitative research. From the perspective of feasibility, which is the third criteria that I set, a qualitative research would be superior to the others due to needing only a limited amount of research cases that can be completed in a significantly shorter timeline.

While the qualitative analysis would be the method of choice at this stage of the study, the other methods should also be considered as subsequent research. Econometric modelling would be capable of answering essential questions: to what extent would income growth, inflation, change of values, levels of crime, income inequality, or other factors be responsible for the discrepancy between spending and confidence. However, using econometric modelling as a first and sole research method would not be advisable, because it would not be able to provide the perfect explanation of why and how those factors impact the phenomenon. In the previous chapter I enlisted several, important perspectives and created plausible assumptions, but jumping from those assumptions to the conclusion of the numerical impact would skip the essential step of explaining why and how that relationship would be working. As a result, the method would score high with regard to added value but would score low on reasonably linking to the secondary research and providing the foundation for the other two methods.

Conducting a quantitative research would also be reasonable as a subsequent research, considering that the examined discrepancy appears between the macro-level data of spending and consumer confidence, which are measured quantitatively. Running a representative survey where both the spending and confidence would be measured on the same sample could reveal the reasons behind the contradiction. Should a discrepancy arise, then the research could check the demographics of those respondents who contributed to the discrepancy and additionally conduct qualitative research to understand the source of the gap. It is this occasional relevance of this method that makes it unrealistic for the current study. The discrepancy between consumer confidence and spending is not continuously present. In most of the periods, the initial measures seem to work as per the general expectations, and it is only occasionally that they indicate a difference. Between 2005 and 2019 it was only in 2006-2007 and 2011-2012 when a major discrepancy could be observed. There is no guarantee that conducting a quantitative survey with questions on both the confidence and the spending would instantly result in a discrepancy and a comprehendible explanation. It may take several months, maybe even years for such a period to appear. That is a timeline which this study cannot afford neither from a chronological, nor from a financial perspective.

While conducting a quantitative survey would be reasonable as a subsequent research, the added value would be rather small for the current phase of this study, due to its immense complexity and resource-demand. A major part of the knowledge that this study could generate is already available from quantitative sources: consumer confidence is measured continuously by a survey, and spending is measured by macro-level economic data. From the perspective of feasibility, this option would score low. I would support and advise for conducting such research, but only as a separate, continuous one.

Based on these arguments, I chose to conduct a qualitative research as the primary research part of this study. This will aim at revealing and comprehending the underlying reasons of the phenomenon. Furthermore, this is the research method that could add the most extra value to the subject of the study: majority of previous research, being theoretical or empirical ones, rather focused on the measurable relationship between confidence and spending. They left the area of the “individuals, the consumer” rather intact, especially with regards to cases of discrepancy, in such minor countries like Hungary.

Although the primary research would be a qualitative research, considering the entirety of this study, it would be reasonable even to consider this method as a mixed method with explanatory sequential design, consisting of a quantitative and a qualitative research, where the quantitative precedes the qualitative phase. These two stages are linked using the findings of the prior, quantitative phase to construct the qualitative phase, and then using the findings of this latter one to expand the comprehension and interpretation of the prior, quantitative phase. This design is especially useful when explaining outliers and surprising results (Király, Dén-Nagy, Géring, Nagy, 2014). Looking at the entirety of this study, this design is perfectly applicable: the qualitative research is to be built on the findings of the secondary, quantitative data, with the intention to reveal hidden explanations and to interpret findings of the secondary research.

Even if the research of choice would be the qualitative one, I do also believe that a proper quantitative study and an econometric modelling is advised for as following steps, in a separate study. For these, a thorough qualitative study is essential; one that reveals and defines all the underlying determinants, connections and methods so that the quantitative study and modelling can focus on delivering measurable and comprehensible results.

5.3. Selection of data collection method

There have been several questions remaining unanswered after the review of secondary data and theoretical findings. These questions focus on the understanding of the reasons behind what could have happened and in what way, to reveal the “why” and the “how” behind the examined phenomenon. The aim of this research is to provide a detailed understanding of how individuals’ perception of material and social circumstances impacts the subsequent financial behaviours. As both the econometric modelling and the quantitative research seemed to fit at a later stage of the research, when the above-mentioned questions are answered, and as the qualitative research is the more promising method, this latter one was chosen for the primary research method in this study. This choice of using qualitative research as a sole method here is also in line with the recommendations of Ritchie and Lewis (2003), arguing that when the goal is to understand the context of a process, especially if the subject is complex, using alone the qualitative research may be the wisest choice.

Within qualitative research, the most appropriate type would be explanatory applied research, because the general goal is to provide explanation and build a more solid understanding of the phenomenon, including the influencing factors, motivations, decision-making, context and general perception of this action. The main question is what lies behind the cases of deterioration when the general rules and expectations are significantly refuted or overwritten; what impacts it and in what way? Applied research could provide an understanding of the economic and social phenomenon.

Even though there would be arguments for choosing a research method like observation that relies on data in its natural environment (arguments like the intention to understand the values and social expectations in the evaluation of personal financial situation), I would rather lean towards using a generated method. There are several reasons for this. The context, setting, or the environment of the research is not expected to be impacting the results in a way to require a natural experiment. The evaluation of personal financial situation and consequent actions through naturally occurring data like observation would require efforts and skillset exceeding the current study's framework. Furthermore, my intention is to reveal the conscious elements of evaluation and actions, and to have a direct discussion about the potential determinants, the motivations, the meanings. Even if such discussions may not be entirely unbiased, it would be critical for the results to be based on the interpretation of the participants and not on the researcher, that could be achieved via generated data (Ritchie & Lewis, 2003).

There are two qualitative research methods that may initially seem to be suitable for application here: the individual interviews and the focus groups. Both have their potential benefits for the study, as well as deficiencies. The choices between them – or a decision to use them both in a mixed method – need to be carefully considered.

The key strength of the in-depth interviews would lie in its ability to reveal the personal perspectives, motivations, decisions, and context, on an individual level, and in its deepest details. The primary research focuses on how individual perceptions are created and how final decisions of spending are made. These are delicate and sensitive question: participants of the interview would need to assess and expose parts of their financial situation and reveal motives that influence this situation. This method would also enable a proper discussion on a topic where – due to the complexity of the studied phenomenon – proper time and focus would be required to consider all potential determinants and the mechanisms.

Focus groups may be another method to consider. The reason using focus groups would also make sense is that the two main areas of the research, the self-assessment and the actions of spending rarely happen in a purely neutral and isolated environment, so social interactions very often impact them. Evaluation of the personal financial situation may be determined by others. Actions of consumption or spending may supersede the purely survivalist level and include elements of aspirations, image, social status, or communication, just to name a few. As a result, the way assessment and actions of spending happen could be altered in social interactions and focus groups can generate insights on how group interactions shape the opinions and actions.

Furthermore, a focus group may generate a creative discussion by intentionally – or unintentionally – reacting to the actions or opinions of others. With the help of projective techniques, the discussion may result in a common agreement about a topic or generate an idea that would be contributed to and shared by all the participants. So, to summarize the main arguments for using focus groups would be: a) it may potentially represent a situation that could "mirror" how opinions and actions are generated, b) with the collision of ideas it may generate or surface insights and explanations.

At first sight, both these methods (the in-depth interview and the focus group) would be reasonable choices, even if used in parallel or in addition to each other in this study. However, using only in-depth interviews could still provide the most detailed answer in an efficient way, without overlapping with the focus groups. Although the focus group would also be a proper method, in some of the perspectives it overlaps with in-depth interviews while in several other perspectives it makes this method less of a good choice. First, that the way purchases are made, or perceptions are created cannot be recreated by the focus groups. There are different methods, like shopper observations, which could provide insights on how purchases are made, but focus groups are not a proper platform for that. Second, that even if the collision of ideas may generate extra responses, the sensitivity of the topic itself may actually prevent some of the ideas to be shared during the group discussion. The amount of information lost due to ideas remaining unshared may exceed the added value of the collision of ideas. Such phenomenon may arise not only in case of sensitive topics, but even in the focus groups with a more general topic, as mentioned also by Vicsek (2010); a need for a common agreement may arise, which would ultimately decrease the diversity of answers; answers that were otherwise more willingly shared by the participants during an individual interview. Third, that inviting participants and assuring their final participation in a focus group with such a sensitive topic may mean a major challenge, with the risk of important attributes getting left out from the sample due to systematically preventing candidates, for example, with negative opinions or financial hardships, to refuse participating in a group discussion.

On the other hand, personal interviews would avoid this risk by allowing participants to talk about this topic in a place and time where and when they feel most comfortable with. Furthermore, while focus groups would be perfect for creating a joint, common agreement, a mutually accepted point of a view is not what this study would like to achieve. Instead, the main value would lie in individual-level ideas, understanding each and every opinion, without the need to lead to any general consensus; this would actually be a great function of a focus group but not fully serving the purpose of the current research. As noted also by Ritchie & Lewis (2003), the in-depth interview should be preferred over the focus groups when detailed, individual-level insights are required. It is due to these reasons why in-depth interviews should be the sole research method to use here.

The general approach of the research would contain elements of both the critical theory and constructivism. The main pillars from the prior are based on the aspiration to understand which conditions – being economic, social, or political – and through which process we can determine the perception and the expressed opinion of individuals. On the other hand, the constructivist approach should help the research reveal the potential impacts not just from the learnings of theoretical and empirical secondary research but by gathering input also from the individuals.

This study fundamentally relies on an inductive approach, but the primary research will contain deductive elements as well. The secondary data and scientific theories were reviewed with the intention to investigate and find patterns for creating assumptions. However, the primary research intends to answer those questions; an approach which would be closer to the deductive way.

From the perspective of ontology, the approach of materialism would be the wisest choice. I consider economic measures like spending to be presenting the absolute reality. On the other hand, those factors that are linked to the consumer confidence, so the perception of financial situation, referencing or benchmarking, and especially the values, cannot hold a universal reality; it can only be comprehended and interpreted subjectively. My approach to the research would be closest to that of the coherence theory of truth, arguing that consumer confidence may not be a fully factual and objective attitude but one that can be constructed and comprehended in relationship to its circumstance. In regard to what extent the research may affect the studied phenomenon I would approach with empathic neutrality. Despite having a fundamental intention towards it, I do not believe that a researcher could be entirely objective, however, can have a conscious intention to avoid biases through providing transparency where such objectivity might play a role.

5.4. The research questions

Clarifying the research questions is a crucial part of a research, especially in case of a qualitative research. Well-constructed questions may gather the information needed to answer the open questions. On the other hand, mistakes in the structure or the content of the questions may lead to opinions not being revealed, resulting in misleading conclusions and ultimately in no added value for the study.

There are several requirements that the research questions must meet. First, the questions need to be relevant, and connected to the previous part of the study. They need to be clear, focused and make a valuable contribution to the study. To assure the conformity to these criteria, the questions would be constructed in the following way. The interview questions will be based on the open research questions formulated following the theoretical and empirical review at the end of chapter 4, but will be restructured and split to separate details, in order to allow the proper flow of the interview.

There were numerous assumptions made during the secondary research, but the main question remains this: what causes the increase of spending when consumer confidence declines, or what makes people discontent when they can afford an increase of spending? In order to avoid generating a confusing number of perspectives and answers, the interview questions will be based on the following three pillars:

1. Consciously increasing spending while the decline of confidence is driven by dissatisfaction with the material conditions and perspectives.
2. Consciously increasing the spending while the decline of confidence is driven by dissatisfaction with other, non-material conditions and perspectives.
3. Unconscious drivers of the increase of spending in times of confidence decline.

The study initially started with assumptions along the first option: if the increase of spending happens intentionally and the confidence decline originates from the dissatisfaction with financial conditions. In practice, this would be manifested in a situation where spending increases due to the growth of the income (exceeding the level of inflation) while the confidence declines due to the aspirations even exceeding the level of reality. There were two main scenarios assumed during the secondary research. The first scenario was around benchmarking, suggesting that the level of improvement for a significant part of the society would be falling behind compared to the level of improvement of those people who are used as benchmark for the aspirations. The potential signs of these were the increase of income gap and subsequently the crime levels. The other scenario to explain this situation could be that of referencing, a situation during which a period of high-level income growth is followed by a period of moderate level of income growth: individuals having set their income expectations based on the most prosperous periods and then being discontent with the lower level of improvement. Both of these phenomena – benchmarking and the referencing – and especially its combination may lead to a situation where the increase of spending is actually supported by the increase of income, but people become dissatisfied due to having even higher aspirations.

While the intentional increase of spending and the decline of confidence due to material challenges gives the core of the study, it is equally important for the research to reveal other, underlying determinants that can impact either the spending or the confidence. The second main pillar of the research is the case where the increase of spending is intentional, but the decline of confidence is driven by non-material drivers. The area from which such explanation may originate is extremely wide, so it would be unrealistic to cover them extensively in this research. However, several of them surfaced during the secondary research and even more importantly, the primary research should perfectly serve the purpose of not just evaluating them but also to reveal more of them. Topics raised during the secondary research include the importance of material success, breaches or norms like corruption and crime, or the obstruction of individual freedom and the pressure towards conformity. The main question here is whether these factors are relevant and capable of explaining the decline of confidence, and furthermore, whether there are other factors with similar impact worth considering.

The third main pillar of the potential explanations for the discrepancy focuses on the situation where the spending would be increasing due to rather unconscious – or at least unintentional – drivers. Even though the secondary research of the study did not focus on the unconscious drivers of spending with the same depth of details as on the conscious drivers[42], it would be important to consider this perspective during the primary research. Unfortunately, it would not be realistic to expect the qualitative research to reveal all potential factors; however, there are some well-known ones which may be evaluated: the impact of inflation, the impact of distancing from cash (the use of bank cards) and the impact of other marketing and sales methods that drive up purchase. Above and beyond, the interview should be capable of revealing other drivers that can result in the increase of spending without significantly impacting the confidence levels.

The questions of the interview must in all cases contribute to these open topics, providing answers and findings. However, the interview questions should be formulated in a different way so that they could be addressed to the interviewees. The reason these open topics cannot be used directly during the interviews is that they build on assumptions and findings of the secondary research, which might bias the answers, unless restructured into proper interview questions.

The final version of the interview guide can be found in the Addendum, in both English as

42 This prior field of research would have required much more involvement and a very different scientific approach and methods of hypothesis testing

well as in the original, Hungarian form. The interview questions were grouped into five sections, each focusing on a specific part of the above mentioned three pillars. The sections aim at using a funneling questions technique, opening with a rather broad question that is easy to discuss, narrowing down to the more specific questions. According to Vicsek (2006), this would be a proper approach to exploit the benefits of both the more structured as well of the less structured discussions. Examples of this approach can be found in the first and third sections. The first section starts with asking about the latest spending occasions, then followed by the general spending habit to lead to a discussion about specific cases of – and explanation for – final spending exceeding the initial plans. The third section starts with a discussion on whether the financial sentiment may impact other areas of life, followed by the exact opposite – non-material satisfaction impacting financial confidence – to finally lead to a discussion of specific non-material areas of life that the interviewee may be discontent with. However, the entirety of the interview guide could not follow this technique: five sections separately focus on different topics, and the logical line of thought to proceed through these sections did not allow the utilization of funnelling technique across the sections.

While the sections of the interview guide are intentionally grouped around specific topics of the research, the logical links between such sections assure that there would not be any gaps or major changes in the flow of the discussion. Within each section, the content and order of the questions all support this logic: there is always a reason why a given question is raised, why it is raised at that point, and last but not least why the question is formulated that way.

The starting topic of the interview would be the spending, as this perspective is expected to be the easiest for the participants to think through and evaluate (questions from #1 to #6). It would open with an introductory question about the latest spending occasion, in order to lead the discussion towards spending (questions #1), followed by general spending habits (#2) that could help understanding the participant's spending attitude. Then the discussion turns towards cases (#3) where final spending exceeds the initial plans – being one of the main pillars of the discrepancy that this study examines –, including aspects and potential drivers that may not be intentional (#4 - #6): prices, promotions[43], and usage of credit card.

43 In commerce as well as in economics, price and promotions are two separate details of products and services. The reason I did not separate them in the question but kept them together are twofold. On one hand, my experience after more than 10 years in market research and consultancy – specifically focusing on consumer goods and its

The second section of the interview (#7 - # 14) revolves around consumer confidence, specifically on those perspectives of the general satisfaction that are linked to material circumstances. The opening questions (#7 - #8) ask for a self-assessment of material satisfaction and aims at revealing material aspirations. The following questions (#9 - #12) are similar to the questions of Consumer Confidence Survey, with the main purpose to crosscheck whether the general satisfaction would be fully in line with these three core material conditions, or alternatively non-material explanations might play a role. Question #10 is intended to target the case of discontinued saving, where people would increase spending due to losing the willingness to save. The last two questions (#13 - #14) in this section dig deeper into the potential drivers of the material satisfaction and ambitions to provide insights for the assumptions on referencing, whether past changes of income could be impacting the confidence levels.

The third section (#15 - #18) is quite similar to the previous one, but instead of the material drivers of the confidence, it investigates the non-material determinants of the consumer confidence. As a direct continuation of the previous section, the first two questions (#15 - #16) opens the topic by asking whether the material circumstance has any impact on other, non-material aspects of life. It is only following this part when the interview shifts the focus onto whether other aspects can impact material satisfaction by asking the respondent about areas of concern and its potential impact on material satisfaction (#17 - #18).

The fourth section (#19 - #30) assesses the impact of social comparisons, i.e. the benchmarking, as called in this study. It starts with looking at whether financial well-being is important in the society (#19), leading to the next questions that should reveal who or what are used as social comparisons, benchmarks (#20 - #21) and how important benchmarking could be in the creation of consumer confidence. The next question (#22) focuses on understanding the respondent’s social circumstance, so whether the respondent is part of the

4P – is that people rarely differentiate between the base price of the products and services and the promotional price, especially in countries like Hungary where the volume on deal of several consumption categories are high. In order to avoid any misunderstanding between the interviewer and the participant on what the price and what the promotion is, I kept them both in one question, allowing the respondent to share the feedback on whichever one he or she is familiar with. Secondly, from the perspective of this research, there is no major difference between the impact of the price or the impact of the promotion(al price) on the final spending. What really matters is whether this final spending exceeds or not and for the research – at least at this point, in order to maintain keep the complexity on a manageable level – it would be sufficient to distinguish between these two determinants only as much as the respondent is willing to and not investigate it above and beyond that level.

social strata that benefited from the improving conditions or not; an important information to evaluate the assumptions that those who benefited most from the growing income would not have achieved a similar magnitude of confidence improvement.

The role of the fifth section is to assess other determinants that may be impacting either the spending or the confidence but should not be raised in the previous sections in order to avoid any bias of the responses. This part includes questions about the importance and prevalence of materialist values (#23), the sense and potential impact of crime and corruption (#24), and the perception of the pressure towards conformity versus individual liberty (#25 - #26). The final question (#27) intends to understand the respondent's actual income level, also as a cross-check against previous notes about their financial situation. Finally, the closing part would contain demographic-related questions, in case those would not be clarified prior to or during the interview.

Should such details not be revealed prior to the actual interview, the discussion would end with demographic questions about the employment status of the interviewee; the educational level and the number of people living in the same household. Two further specific attributes that are required for the quota would not be asked directly during the interview: gender and age (as age interval) would be noted separately by the researcher.

While it is likely that several demographic details would be already noted during the interview, there was a further argument towards placing this section at end: the sensitivity of the topic. As Ritchie & Lewis (2003) also recommended, the opening topics should set up an unthreatening atmosphere; starting the discussion with a question that enquires them about their personal experience instead of their demographic details was expected to avoid a situation where participants could have felt as they were interrogated in such an important and personal topic as their financial situation. The hesitancy that the research experienced during recruitment, that in several cases the potential participants' felt that this interview would be measuring their financial knowledge and that it required further explanation to course-correct this first impression, was also taken as a proof that starting the interview with an inquiring approach instead of a questioning one was the proper choice.

In some cases, I added sub-questions in order to assure that the questions raised would cover the most important details as well. I expected the majority of these sub-questions to be answered already when raising the main question, but I felt it important to assure that the main goals of the questions would be achieved.

The questions were constructed with the following principles in mind, and they only diverge from these intentions where there was a fundamental reason for that. That being a said, all the interview question had to:

- not be suggestive,
- not determine subsequent answers,
- not be complex and/or multidimensional,
- be of proper length to avoid “exam-like” perceptions.

5.5. The design of the research

Before conducting the research, it is fundamental to determine what/whom to be measured by the research, who to be chosen for the research, and what method to use for such selection. These questions and decisions will be covered in the following subchapter that focuses on the study population, the sample frame, the sampling method, and the size of the sample.

The main challenge this section faces is that it should involve participants in a way to provide the widest range of relevant information and variety of responses, however, it is challenging to assume where that information could originate from and how to cover that with the participants of the sample. As Ritchie and Lewis (2003) also noted, sampling needs to be constructed in a way so that it includes all constituencies, conditions and processes that may have salience to the subject matter under study. Fortunately, there are some general cornerstones and the extensive secondary research is able to provide a useful guidance for important criteria.

Determining the study population in this research would be one of the less challenging tasks. The main topic of the research is the comparison of consumer confidence to final spending. The initial measures that proved the validity of the examined phenomenon are the Consumer Confidence Index and the national level final expenditure amounts, both of which are intended to represent the entire Hungarian society. In order to be consistent with that, this primary, qualitative research should generate answers for the same population (i.e., the entire Hungarian society). On one hand, this makes the research easier by not applying additional conditions for the study population, while on the other hand it creates a challenge for the phase of the sample creation.

While the study population would include the entirety of the Hungarian society, the sample frame should be created in a way to make the sample reliable yet feasible. At this point, several learnings from the secondary research could be considered for the creation of the sample criteria. The first and most important one being that the members of the sample have to be decision-makers regarding the spending in their household. This will be a basic criterion, required to assure that the person has a solid opinion about the financial situation and its actions would be represented directly by the macro-level spending results, without any bias from somebody else (e.g., the primary budget owner like parents). This also means that within one household, only one person would be interviewed.

It would be worth considering that even those who are not the main decision-makers regarding the budget could have an opinion about their financial situation. These perspectives are expected to be reflected by the responses of the decision-makers that would ultimately be part of the sample. This limitation had to be made in order to assure the efficiency of this research[44].

There is a second condition to be considered for potential exclusion criteria: being a Hungarian resident for a proper duration and earning income in Hungary. These conditions are required to become familiar with the values and habits of the Hungarian society as well as in order to receive and use the income in a similar economic environment. Migration from Hungary to other countries has been a major economic and social issue, with its impact estimated to be above 5 percent of the total population in working age (Hárs 2018) or around 600 thousand people, more than 16 percent of total population (Portfolio, based on Eurostat, 2018), so a considerable amount of the population who may impact spending and confidence. The decision I made was to allow in the research both those who migrated to Hungary as well as the emigrated people who consider themselves to be familiar with the local conditions. If

44 Nevertheless, a subsequent or additional research may focus on the impact of those people who are not budget owners or decision-makers in financial matters.

they fulfil the prior selection criteria and have relevant insights for the spending, attitude or confidence of Hungarian people, a prior or current experience in other countries should not make their opinions less interesting.

With this in mind, the factors to determine the sample are the following:

- Ownership of own budget and direct involvement in spending: this means that budget owners of the household would be included, others excluded. In case there is no clear hierarchy between different budget owners, any of them would be eligible to participate,
- Age: 18+ years, assuming that for the significant majority of the people below this age the 1st criteria would not be met, or at least not for a proper duration[45],
- Gender: both male and female to be included,
- Type of location: both the capital and major cities as well as townships,
- Employment status: primarily employed or pensioner. If temporarily unemployed but still fitting the 1st criteria, it would still make them eligible.
- Education level: every education level to be included.
- Income level: all income deciles are eligible, and the research should focus on involving the widest range possible. However, it would not be feasible to set the quotas based on income in advance to the research due to the income level not revealed prior to the interview.

While these previous pillars of the research design, so the population and the sample frame were quite easy and straightforward to determine and clarify, the sampling method showcases a higher level of complexity. The sampling would be purposive – or as previously called, criterion-based. The aim is to validate the assumptions about the phenomenon and to cover gaps in the explanations by representing the widest range of attributes and assure the highest

45 It might worth having a separate research focusing on the impact of this age group restricted from this sample. A study among people of age 18 and below may be separately designed and conducted, considering their potential contribution to spending as well as to the confidence level, even if their impact is expected to be indirect, determined by others, e.g. parents who own the budget. At this point I had to make a decision to confine the research to the age group above 18 years of age to assure the focus on those who have the most direct impact on the analyzed phenomenon.

level of heterogeneity and diversity, for which the purposive sampling suits best. In order to assure such heterogeneity and variety of perspectives, it would be advised to do a quota sampling and mix it with the snowball method – also called chain sampling – due to the topic (the income and the financial situation) being highly sensitive, and because of the sample conditions require only the main budget owner to be selected. Mixing these two sampling methods should also assure that the diversity of the sample frame would not be compromised. Having said that, the method chosen for this topic would be a hybrid of these methods: first, a quota would be selected in order to assure that all the sample conditions are met and fully covered, following which snowball method would be used to acquire participants.

As a following step in the research design, the attributes of the sample should be clarified. It is fundamental for the research to assure that the widest variation of those conditions is measured that may influence either part (the spending or the confidence) of the initial discrepancy. This is required to assure that all the voices would be heard, with all opinions and explanations being surfaced and considered.

There are several characteristics that have to be present in the quota. The selection and construction of the quota would rely on the findings of the secondary research as well as on general knowledge about the society, considering those attributes that are expected to serve as breaking points between different opinions and behaviour. For example, employment status might impact the income level as well as the sense of stability; type of location – due to the major income gap between the capital and small townships – may impact the type and level of aspirations. The goal of quota setting is to determine the attributes that should be included in the sample in order to observe the relevant opinions.

There are six attributes to be considered in the quota. These are selected due to their potential impact on income and its changes (for example the employment status), on spending habits (for example the number of people in the household), on confidence (for example the level of education), or any conditions in between these two attributes, like attitude towards stability, perspective of the future, or values. The attributes to be used for the quota and its values are the following:

- Age groups: 19-39, 40-64, 65+[46]
- Gender: male, female, other
- Level of education: non-graduate, high-school graduate, university or college degree
- Employment status: unemployed (incl. students), pensioner, self-employed, employed in public sphere, employed in competitive sphere
- Place of residency: urban or rural, with a special focus on the townships and the capital.
- Marital status: single (incl. divorced, widow, widower) without kid(s), single (incl. divorced, widow, widower) with kid(s) in same household, partnered/family without kids in same household, partnered/family with kid(s) in same household.

These six attributes contain nineteen different values. The proper combination of them into a quota matrix grid would exceed the aims and capabilities of this research. Fortunately, the qualitative research should be able to capture the spectrum of perspectives even without fully representing the matrix of these factors, so a full variation of these values will not be sought after. Instead, my preferred approach would be the following. First, constructing a primary combination of attributes and values that appeared to be most influential based on the prior assessments. The research must assure that at least one interviewee with those exact attribute values is included. As a second step, I will construct a grid of attribute values to register the number of respondents that own that attribute. The research will need to make sure that each of these attributes would be presented at least by one interviewee.

The primary combination of attributes to stand as the core of the research would be the following:

1. Age 19-39, unemployed, graduated, living in a village/township, single,
2. Age 40-64, employed, with a degree, living in a village/township, partnered/family with kid(s),

46 This split of age groups was required because participants below 18 years of age would be excluded from the research (due to potentially not being primary budget owners) and above 65 would be pensioners (with low relevance of the consumer confidence measures that enquire about future employment status as well as low flexibility in the pension levels). Beyond these two limits, a further split was applied in this range in order to provide a more granular insight, along the lines of Millennials vs Gen X and Baby boomers.

3. Age 65+, pensioner, graduated or with degree, living in a village/township, widow/widower,
4. Age 19-39, employed, graduated, living in the capital/city, single,
5. Age 40-64, employed in public or competitive sphere, non-graduate, living in the capital/city, partnered/family with kid(s),
6. Age 65+, employed or self-employed, graduated or degree, living in the capital, partnered/family without kid(s).

The remaining values of the quota attributes would be filling up the quota above and beyond these primary combinations, until the interviews reach a level where no additional values are brought to the surface. For the quota, the minimum number of cases would be 20. Although this sample size may seem rather small for those working with quantitative research, it is reasonable for this research: opinions need to appear only once to be considered in the analysis, and any re-appearance would only be duplication, with low contribution. This size of sample is expected to provide the sufficient amount of perspective due to a). the sampling criteria – being a budget owner and decision-maker – assure that respondents are involved in the topic and could provide insights, and b). the analysed subject is rather extensive within the population in the sense that the assessment of the financial situation and the expenditure actions are present for a significant majority of the population. However, the research would be open for supplementary samples should the variety of responses suggest so.

6. FINDINGS OF THE PRIMARY RESEARCH

6.1. Assessment of the general circumstances

Prior to evaluating the results of the interviews, it is important to assess first the general circumstances that determine – or reflect – the situation that the respondents, as part of the Hungarian society, were facing during the time of the research, which was conducted in the 4th quarter of 2019, with interview sessions held between October 2019 and early January 2020. Understanding these conditions would be essential to properly comprehend the situation in which the respondents generated their responses. For this review, I would take the same approach as I took during the initial review of the studied phenomenon and the secondary data: understanding the general level of satisfaction with the financial situation and then cross-checking against the trend of spending, followed by macroeconomic indicators of income and inflation.

The consumer confidence indices showcased a general improvement at the end of 2019. GKI's CCI indicated that in two years' time (from 2017 to 2019) there was an increase in consumer confidence. However, this improvement halted from 2018 to 2019 and the level was rather stable, with the first half of 2019 even showcasing a decline on a year-on-year comparison every month, while in the second half of 2019 there was an increase of consumer confidence almost every month: 4 out of 6 months, on a year-on-year basis (GKI, 2020). Still, compared to the times when consumer confidence was on a record low level, 2019 stands as a sign of strong recovery and close to record high levels. A similar picture is presented by Nielsen's CCI, although its quarterly measurement frequency and recent change[47] in measurement makes it less informative: between the 4th quarter of 2018 and the 3rd quarter of 2019, there was an increase of consumer confidence, however, throughout 2019 – so between

47 Nielsen discontinued its own measurement of consumer confidence and merged it with The Conference Board; the latter institute thus replaced its prior data supplier of TNS with Nielsen. As a result, during the time of this transition there were issues with continuity and later on accessing data was also more challenging.

the 1st and the 3rd quarters which were available at the time of this study – the numbers rather reflect a fluctuation than a solid growth, with the 1st and the 2nd quarter of 2019 showing similar level and growth coming back again for the 3rd quarter (Nielsen & The Conference Board, 2019). In comparison to Europe, a similar trend is visible, with growth from the 4th quarter of 2018 to the 3rd quarter of 2019, but with relative stability in the middle of 2019 (The Conference Board, 2019).

What this translates to in regard to consumer confidence is, first of all, a major recovery since the periods of confidence crisis, the result of which being positive for the general attitude as well as for the economy. However, it also means that during the period when the primary research was conducted, the loss of confidence was not comparable to that of the original cases of discrepancy. This situation made it challenging to reveal all the determinants of the initial discrepancies as more than 7 years passed since the last time a significant gap was observed between consumer confidence and spending. The second important detail is that the improvement of confidence not only stabilized or halted by 2019, but it also suffered a decline in some periods of the year. So, although there was no reason to expect that the primary research would be able to fully reflect the circumstances experienced during the time of major discrepancies, there should still be important findings of factors that challenge or even set back consumer confidence in times of spending growth.

Spending, just like consumer confidence, presented an improvement. Between 2012 and 2018, yearly spending per capita increased by 47 percent and between 2017 and 2018 by 11 percent, with a further 9 percent increase for 2019 (KSI. While in this latter, 1-year period the increase was relatively similar and around the average for every income decile, in the longer term those in higher deciles managed to increase their spending much more intensely than those in the lower ones: while the lowest two deciles increased by 36 and 34 percent, the top 2 deciles did so by 53 and 49 percent.

The net income of households indicated a continuous increase since 2012, with an intense growth in the latest year: by 62 percent between 2012 and 2019, with the biggest yearly increase between 2018 and 2019 (13 percent). Income inequality expanded in the long and short term as well: the Gini-Coefficient rose from 27.2 in 2012 to 28.7 in 2018 and then slightly moderated to 28.0 in 2019 (Eurostat, 2022).

The share of individuals living in poverty or social exclusion was on a medium-term decline: in 2013 it went up to 33.5 percent (was at 28.2 percent in 2008), following which it steadily declined to 31.1 percent in 2014 and 25.6 percent in 2017 (Branyiczki, Gábos, Szívós, 2019). As per the relative income poverty, the rate increased from 2007 to 2014 (from 12.3 percent to 15 percent) followed by a drop to 13.4 percent in 2017 (Branyiczki, Gábos, Szívós, 2019) which was a relatively good performance – in the meaning of a low poverty level – among EU countries. The material deprivation, in which Hungary historically performed poorly, also indicated an improvement: the ratio of severely materially deprived reached a peak of 27 percent in 2013, which steadily declined to 24 percent by 2014 and to 14.5 percent by 2017, and the ratio of materially deprived went from its 45.4 percent peak in 2013 to 28.9 percent in 2017 (Branyiczki, Gábos, Szívós, 2019).

Unemployment rate also decreased significantly between 2012 and 2019, and at a moderate rate between 2017 and 2019 as well. However, it rather remained stable from 2018 to 2019: 3.8 percent in 2017, 3.6 percent in 2018, and a forecasted 3.6 percent for 2019 as well (GKI, 2019).

Inflation was on the rise through the years leading up to 2019: despite not reaching the level of 2012 (5.7 percent), after a moderate start in 2016 (0.4 percent), it speeded up in 2017 (2.4 percent), 2018 (2.8 percent) and 2019 (3.3 percent between January and November[48]), driven by everyday consumption goods (incl. tobacco) and petrol (KSH, 2019). The level of inflation does not exceed the increase of income, so theoretically people could be affording more purchases and/or savings which could lead to higher confidence, but the actual picture, as we will see from the interview results, is not that plain and simple.

What these indicators present is a situation which, in overall, is much more positive than those times where the major discrepancies between spending and confidence were observed. Confidence in 2019 was much higher and stable over the preceding years. There was a visible level of inflation, but the increase of income exceeded this level, so theoretically people should have had more money to spend or to put into savings, supported by an increase of income that every income decile benefited from, and a low and stable unemployment level.

48 December data of 2019 was not available during the time of this study.

This trend is reflected by the level of spending, which was increasing, above the level of inflation. On the other hand, income inequality was also increasing, just like in times of the major discrepancies, and the improvement of consumer confidence also halted, and even deteriorated at certain points in 2019. Still, it would seem reasonable to expect people having no major concerns regarding their financial situation, but rather a positive situation, appreciating the general improvement in incomes, employment, spending.

6.2 Evaluation of the research design and the interview guide

The previous subchapter that presented the selection of the research method, the creation of the interview guide and the sampling may have seemed straightforward, but, it was a time-consuming phase of the research that took several months to get to its final form. Even when all the pieces of the puzzle got to their place, some unexpected challenges came up. The first challenge arose already during the recruitment of the attendees. In several cases of recruitment, when the research topic was first mentioned to the potential participants, they felt that it would be a test of their financial knowledge. This perception had to be then course-corrected with additional explanation. In some cases, there was a hesitation even after this explanation. It was later on mentioned in several interviews that people are sensitive of their financial situation, and they would rarely share relevant details in their everyday lives.

On the other hand, the efficiency of the interview guide exceeded my expectations. Following a few minor changes that I applied after the first few interviews, the flow of the discussion was much smoother than initially imagined. The introductory questions were sufficient, and at the 3rd and the 4th question, which took place about 5 minutes after the start, the conversation often moved from a rigid atmosphere to an open discussion. Even as the topic was sensitive and people hesitated to open up initially, the introductory questions helped softening the atmosphere and led the respondents into a topic which they then seemed interested in and were willingly and proactively sharing many thoughts and stories. There was no pause or hesitation during the conversations. The respondents often went into such a broad scale of answers that they answered almost half of the questions without those questions even being raised.

Closely linked to this quickly achieved openness, in numerous interviews I experienced that the sensitivity of the topic was reflected not only in the initial hesitation but also in the engagement with the topic. There was a high level of tension that manifested in a motivation to speak up and share the opinions regarding specific parts of the topic, being the values, benchmarking, or injustice, for example. It sometimes gave the impression that people were grateful for the opportunity to have such a discussion. This enthusiasm also manifested in situations where the respondents were asking for a further personal, off the record chat on the topic after the session was over. Nevertheless, I do also contribute this to the fact to the selection effect, that those who accepted the participations were already motivated to share their thoughts in this topic.

6.3. Details of the interviews and the analysis

The interviews were held in four different locations between October 2019 and January 2021:

- Budapest, the capital of Hungary, also the social and economic center,
- Kaposvár, a major city and the capital of Somogy county, South-West of Hungary,
- Böhönye, a small township in Somogy county, South-West of Hungary,
- Eger, a major city, and the capital of Heves county, North-East of Hungary.

The variety of these regions in their size and type as well as in their locations, including the capital, major cities, as well as a small town, and the Western, Central, and Eastern parts as well ensured a variety of circumstances, which – as would be also mentioned by participants – was necessary due to the differences between these regions and locations.

Interviews were held either in the home of the respondents or at a public location of their choice, with an obvious focus on minimal external impact to allow a proper, open and undisturbed discussion. The discussion was always recorded and lasted between 25 and 100 minutes, averaging around 45 minutes, with additional 5-10 minutes of open conversation after the recording was over.

20 interviews were conducted. The final number of respondents with the specific values is presented in the below table. The quota goals were achieved, both for the primary combination of attributes (shown by the last line, at the bottom of the table, that represents which primary attribute the interviewee was a match for, and their columns highlighted in grey) as well as with regards to representing each attribute value at least by one interviewee (noted in the 3rd column as #). Respondents were allocated coded names; during the analysis and the findings they will be referred to on these names, but these do not represent any part of their original names.

Coded name		#	Anna	Bella	Cecil	Dóra	Edit	Fanni	Gábor	Hugo	Iván	Judit	Károly	Liza	Máté	Nóra	Olivia	Petra	Róbert	Simon	Tamás	Vera
Age	19-39	10								1		1	1	1	1			1	1	1	1	1
	40-65	6	1	1			1	1	1							1						
	65+	4			1	1					1						1					
Gender	Male	9			1				1	1	1		1		1				1	1	1	
	Female	11	1	1		1	1	1				1		1		1	1	1				1
Education	Non-grad	2							1								1					
	Grad	9	1				1	1		1	1				1	1			1		1	
	Degree	9		1	1	1						1	1	1				1		1		1
Employment	Unemployed	3								1			1						1			
	Pensioner	3			1	1											1					
	Self-employed	3									1				1							1
	Public servant	1														1						
	Employed	10	1	1			1	1	1			1		1				1		1	1	
Residency	Township	5	1	1	1			1											1			
	Cities	4				1	1		1								1					
	Capital	11								1	1	1	1	1	1	1		1		1	1	1
Marital status	Single no kid	6			1					1		1	1				1		1			
	Single + kid	2	1																			1
	Partner no kid	7				1		1			1			1	1			1			1	
	Partner + kid	5		1			1		1							1				1		
Priority attr. selection				2	3				5		6	4							1			

For the analysis of the interview responses, I chose thematic analysis. This method appeared to be the most reasonable choice, mainly due to the complexity of the research topic. Several different areas, such as economic and social perspectives, as well as psychological factors were expected to influence the responses, furthermore, even the topic of financial situation has been sensitive. It is due to these reasons that the interviews were considered and analysed from the semantical aspects as well as for the latent meanings. According to Braun and Clarke (2012) the thematic analysis enables the examination of particular aspects, semantic or latent meanings, as well as identifying patterns, while still allowing the researcher the flexibility of interpretation. What I required was a method to provide an analytic framework without removing the flexibility, and the thematic analysis perfectly lived up to this expectation.

The interview recordings were put into writing. The documents were then cleaned and formatted in a way to allow an automatic and transparent separation of the questions and responses as well as the identification of the interviewees. The analysis was conducted using QSR Nvivo, as this qualitative data analysis software allows text analysis with coding in a flexible way, while also minimizing research bias (Feng & Behar-Horenstein, 2019).

Word count, as a step generally used at the beginning of the research, was not applied here, because the main strength of this feature is not relevant for the goal of this study, which aims at revealing the reasons and determinants, and not finding common patterns. Fortunately, open coding, the method of breaking down the text into parts, examining and comparing them (Babbie, 2016) was productive. This required several read-throughs, during which important themes were organized into nodes. Themes were objectively selected: if they had any relevant information for the research, they were added to nodes, indifferent of whether they answered any specific questions or whether they were in line with the previous assumptions or not. The themes were selected not in an exclusive way, so they could end up under several nodes if they were relevant from multiple perspectives. The nodes were then reviewed, cleaned, named, and put into a thematic tree structure. This structure was dynamic throughout the analysis, so it was adjusted continuously until reaching the final form.

The final structure of nodes is presented by Figure 15 below (based on the similar figure of Zoltay-Paprika & Derecskei, 2014). This structure had two main pillars: one contained those nodes that could be directly linked to the interview questions (Direct Answers, which was then split to specific questions, but are merged here on this figure). The other pillar (Insights) contained nodes that were relevant for the research topic but required a deeper analysis and were focusing on important topics, even if not entirely in line with the questions raised. Within the Insights, the lower-level nodes were further split to at least one additional level. In case of the node of confidence, it was not only a financial – non-financial split, but the letter one contained ten more lower-level nodes[49]. The analysis then continued with the examination of the nodes, within themselves as well as across each other. The findings will be presented in the following subchapter.

49 This abundance also certifies that in-depth interview was a good choice of method, as one of the main intentions of the primary research was to map factors that would not be linked to consumer confidence in the general scientific literature.

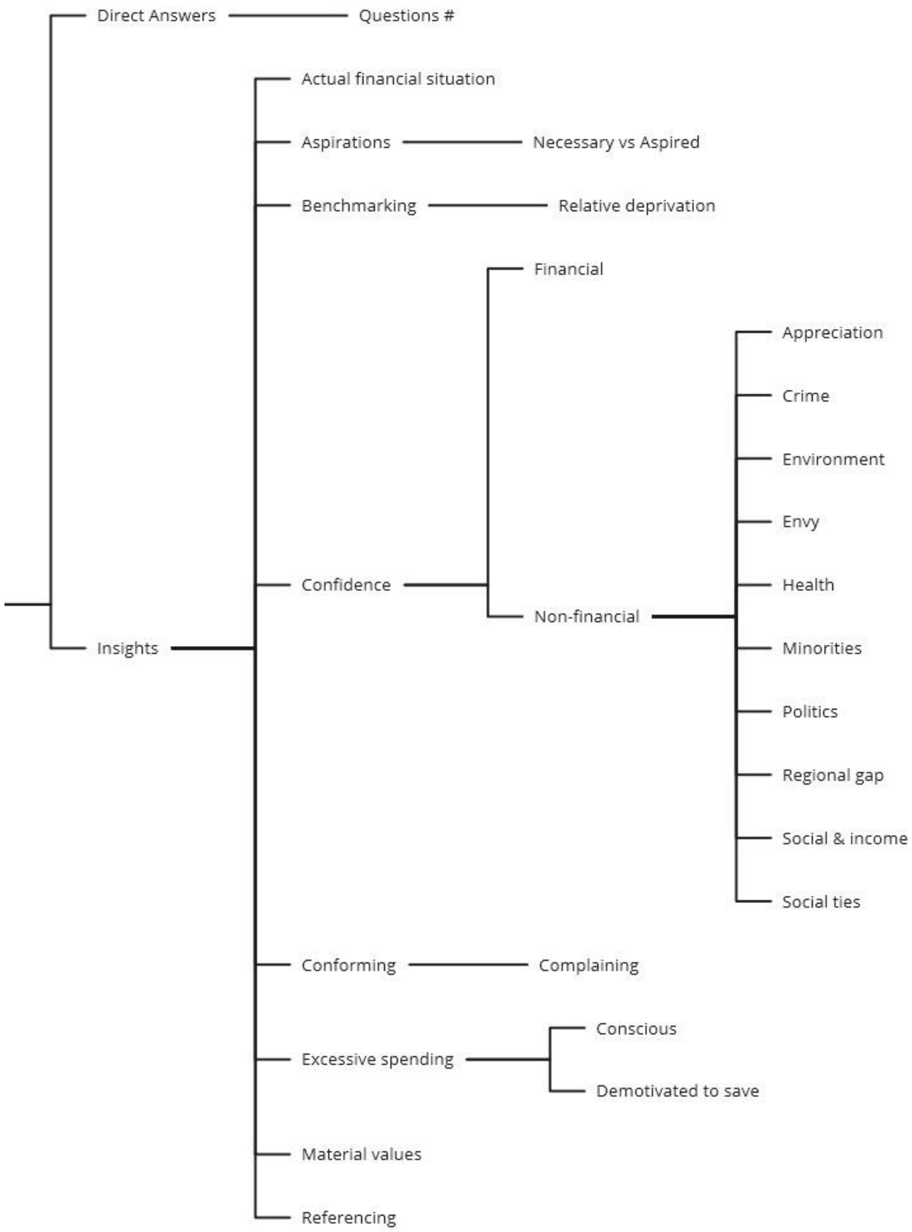

Figure 15 - The structure of nodes in the NVivo analysis

6.4. Findings

The in-depth interviews were very efficient in generating insights. A wide range of mechanisms and determinants were recognized, all of which could be impacting the gap between confidence and spending in different ways, different times, triggered by different events and impacting different people. Following the review of these determinants, I will draw a conclusion of what seemed most plausible to explain those periods of contradiction between consumer confidence and spending.

However, the final combination of these circumstances under which they accumulate into a major shift in confidence would be left for following, separate research – being a quantitative or econometric one – to decide. It has been neither the intention nor the capability of this qualitative research to determine an accurate weight of these factors. My recommendation for the following subchapters would be to comprehend the factors as potential determinants to consider, with no intention of this study of setting a hierarchy or to allocate probability to them. The ingredients of the recipe for the comprehension would be provided here, but the perfect combination – mixing these ingredients – would be the opportunity and the responsibility of a subsequent research.

The review of the results will be structured along these main cornerstones:

1. What makes the spending increase in time of low confidence? Analysing the factors that could lead to an excessive spending even in times of low confidence.
2. What is the financial situation of individuals and how does that translate into consumer confidence? Review of the financial situation of respondents and the material factors of consumer confidence.
3. To what extent does the relative financial situation contribute to the consumer confidence? Evaluating the importance of benchmarking and referencing.
4. What other, non-financial factors may further contribute to the consumer confidence?

6.4.1. Excessive spending

The main phenomenon that this study examines is the discrepancy between increasing spending and declining consumer confidence. To have a thorough understanding, I analysed the two sides of this equation separately. While confidence appeared to have a very wide range of potential determinants, spending was slightly easier to review. The spending side of this equation, which will be reviewed first, contains two potential scenarios, along which a quite broad aspect of explanations will be revealed: a) not everyone increased spending, and b) everyone increases spending but was discontent about it.

The first scenario to be reviewed is related to the macro-level measure of expenditures, as the indicators originate from nation-wide measurement of the statistical office, which sums up the measured points into a total spending level. However, that is not the same as the spending of each and every individual. Even more importantly, just based on this single macro indicator, it is impossible to guarantee not only that an overall growth would mean a growth for everyone (with a different magnitude), but even to assess the ratio of those people who can spend more in contrast to those who can spend less.

This leads to the first important detail: overall spending growth does not mean a general spending growth; it may still be a result of a part of a society setting back their spending or keeping it stable while the other part is generating this increase. This would result, on one hand, to a macro level increase of spending, but on the other hand could also result in a declining confidence if that part of the society that suffers relative loss of purchasing power decreases their consumer confidence, and those who can afford higher spending would not balance this out.

Secondary data, as I noted in the previous section, indicate that every part of the society managed to increase both their income as well as their spending. However, during the time of the research there was no major drop of consumer confidence. As a result, this theory could not be validated. What is still interesting is that public opinion still senses as if an uneven distribution of growth would be taking place, making it rather plausible that this phenomenon could actually happen (in due time), and an uneven trend in spending increase could lead to a declining confidence. As one of the interviewees, Dóra, with admitted dissatisfaction regarding the financial situation, noted “I do sense that they tried to increase prices, apologies, the salaries, but those increases do not mean much because as much as those increased, the prices were going up the same way. So, for those people there is no progress in their budget, maybe they make ends meet or even go below zero”. The notion of a part of the society suffering from degradation of their financial situation came up during several interviews. Later on in this analysis, I will examine the potential determinants that may make people feel less confident about their own financial situation, but for now I would only note here that secondary data would not confirm this assumption of income and spending growth only favouring a part of the society. However, the public perception is slightly different and would make this theory plausible.

Let me turn back to the original topic and highlight another finding along the scenario, which is about the increase of spending being relevant for everyone in the society. If financial growth is present for a wider part of the society, this increase of spending may be triggered by different factors. I grouped those options that seemed most relevant in the interviews into three cases: a). when the increase of spending cannot be planned in advance, b). when it can be planned but cannot be avoided, and c). when the increase is not just accepted but even allowed. I will explain these situations in detail.

Unplanned increase of expenditure

This first situation – when the increase of spending is not planned in advance –, is related to getting too little or too much information on the intended purchase. Several respondents reported cases where they were planning a given amount of spending in advance, but at the final point of payment, their costs turned out to be much higher than initially planned. In these cases, the individuals were not experts in the field, the information was hard to gather and it was almost always inaccurate. The most frequent example of such situations was home renovation, which came up during several discussions. “For example, when we renovated our house, it had a high price tag of several million HUF. So, you try to figure out in advance how much that would cost, but I was lucky to have received a bonus of retirement money that we spent on it entirely. Still, we did not know in advance how much it would cost” (Dóra). Examples of overrunning construction or home renovation costs came up in several interviews. As housing is a major topic for the individuals as well as for the economy in the years of the study, I assume that in other times similar cases may happen regarding other major items of spending, with similar conditions that individuals struggle to estimate the costs in advance. Once they commence with it, there is no turning back and they need to finance the excessive amounts as well. The result of this situation could be an unexpected increase of spending in parallel to a decline of confidence.

Like these examples where information was not sufficient to make an accurate estimation and people ended up spending more, the opposite situation was also noted, although in a much smaller number of cases. This situation is based on the fact that once a person starts gathering information about a product or service it intends to purchase, it starts to comprehend and appreciate the benefits or higher quality additions, which ultimately makes this person purchase a much more costly item than it was planned before the research. Petra told a similar example: “My partner was planning to purchase a headphone for 27.000 HUF, then started doing some research on the internet and ended up buying one for 40.000 HUF”. During the research, it appeared to me that while the situation of not being able to acquire enough information was rather relevant in case of high-value items (like a house), too much information rather seemed to upscale the spending in case of medium-cost purchases, like consumer electronics. Still, this remains a theory to be tested separately.

Unavoidable increase of expenditure

The second scenario is an increase of spending that is seen in advance but cannot be avoided. The best representation of this case would be a price increase for those individuals who only purchase the necessary items. If the spending of people is narrowed down to the basic necessities, an increase of prices would mean an excessive cost on a consumer basket which the individuals cannot change, or at least not with the magnitude to compensate for the price increase. Several interviewees, like Bella and Gábor, reported that they sensed an increase of prices and that they were not able to adjust their spending to compensate for that: “Prices have gone up but we have not changed (spending habit), because 80percent of what we buy are the necessary items”, or that: “Prices have increased, quite intensely, if I look back at past year. I did not change (the spending habits) because what we like, those products have proven worthy, so we buy them even at a higher price". There are also situations where the purchase definitely results in an unintended expense that remains slightly unrecognized. As Bella mentioned: "When I buy gasoline for my car, I always fill up for 10.000 HUF and do not pay attention to how much the gas per litre it costs that moment". Just like in the previous scenario, total spending would go up, but consumer confidence would go down, potentially due to individuals needing to step over more challenges and compromises to cover for this extra spending.

Should the individuals perceive the costs – especially if driven by price – to be increasing, those who are conscious of financials would definitely intend to cut back on spending. Dóra shared that: "We have just decided not to order food for home delivery, because it has become so expensive that I can spend the same amount on ingredients, and if we cook for ourselves, we can prepare food for three days". Nóra's financial situation had gotten worse due to an unplanned moving to another location, which was more costly. It was due to this extra cost that they started cutting back expenses: "There is a thin line now. My husband likes purchasing bulks, but I am not that kind of person and we have gotten into a situation recently when we do not buy five boxes of washing powder. We only buy one when we run out of the last one. I don't feel comfortable with spending more money on stockpiling such items". Although the examples that they shared were different, the opinions were quite homogenous about the fact that once facing increasing costs, people would definitely attempt to cut back on spending.

Besides the increase of prices for those that have a rigid spending habit, I mapped two more motives that may lead to the same results: the need to provide for the family, and not paying close attention to the spending. The former one – the need to provide for the family – is a situation that speaks for itself. "There are priorities, for example my grandchildren. So, if they want something, they should get it". Even if willing to cut back spending, commitments like family expectations cannot allow it. This could be crucial for those who need to take care of family members, being a child, a spouse, or an elder. "I need to learn not to think about my family during purchases, because quite often I want to buy things for them, even if I do not have the budget for that. When you go into a store and see something, then you get seduced". Even if this would be the general intent, not everyone would be able to do so. As I noted previously, especially those who have an already rigid consumption basket may not be able to cut back on costs, which may lead to higher spending in parallel to a declining consumer confidence.

In addition to the spending habits and cases of excessive spending, I interviewed the respondents about one of the motives that are mapped by behavioural economics as the driver of unplanned spending: the method of payment. Qualitative research is not capable of evaluating the strength of the relationship between using credit card and unwillingly exceeding spending, however, the interviews were able to reveal that such situation does exist: using credit card instead of cash meant a disadvantage in controlling the spending. “I prefer cash. I can account for it much better. I withdraw an amount and seeing it getting less creates limitations, so that I would not buy so many unnecessary items. With a credit card, I cannot track it; I would spend as much as I have on my account”. Another interviewee noted: “I do not have cash on me. I pay by card, and when I get the settlement at the end of the months, then I realize that, wow, I have purchased this and that”. It was interesting that in some case the respondent did not even acknowledge at first that they would be using a credit card. Dóra shared this example of how much additional account this would require: “We do have a credit card, but we never use it. Well, that is not the right way of putting it. We rather use cash. We do not use the credit card that way, but I always use credit card for payments”. There was a rather common agreement by those who acknowledged credit card usage that it either creates surprising situations of excessive spending, but there were also respondents who were not conscious about their spending and were willing to sacrifice the control of spending over comfort.

Allowing an increase of expenditure

This latter situation – not making a special effort to control costs in a way to avoid excessive spending – leads us to the third scenario of excessive spending, which I summarized under the expression “allowing extra expenses”. The best examples for such purchase attitude are the spending on item or service due to a benefit, a higher quality, or any other advantage (for example, prestige, indulgence) that the individual may be rewarded with. Later on in the analysis, I will explain the difference between wanting and needing to buy something; in this situation, we are definitely talking about wanting to purchase something. “If I go shopping clothes, then I look around and buy not only clothes but anything else as well, for example for an upcoming party, and then I exceed (my budget). If it's about clothes, you always buy a few extra ones that you like, so these cases you cannot plan in advance". This motive was regarded to external pressure: "There is a pressure on people, I think, to buy more and more, but they actually do not need it".

It is at the point of external pressure when things get interesting. Excessive spending due to an external pressure does not necessarily mean that people would be dissatisfied with the situation, so this may not automatically lead to a decline of consumer confidence. The choice to buy something different or something more than they initially aspired for may be still within the financial limits of the individuals, and the benefits of such purchase may even result in a satisfaction and an increasing consumer confidence. "Yes, it does happen to me from time to time (that it exceeds initial spending plans). I cannot plan my expenses in advance and pressed by a spontaneous motivation I buy unnecessary things. But I like it and buy them for an immediate gratification". adding that "I like possessing things... I find something, get to like it and get excited and then start feeling the need, so I buy it. This does not last long but, in that moment, I am very happy... I would call myself a shopper of happiness" – as explained by Bella. Such purchase may happen even for consumption, as explained by Károly, who actually was price aware and regularly planning in advance, but still tended to exceed the previously planned amount if it was about quality dining: "When I go out for food, I quite often exceed my prior plans, because I really like eating".

However, this is not always the case, or at least not for everyone. Some may find this stressful, leading to frustration and unintentionally spending beyond their optimal budget: "I think that many people cannot manage the stress and the pressure, and rather buy those things without appreciating what they have. They want to conform to their environment, rather than to itself. This has an impact on a wide range of areas. I had a classmate in high school whose family did not have much money, but she always bought fashionable clothes, bags, because she wanted to be cool this way". As seen in this example, social pressure to conform or to build prestige can be a strong force; still, such pressure may make people irresponsible: "Some people spend without even having the money for it. For Christmas, they get involved in credits with really unfavourable construction".

Trying to maintain a quality of life that is desired may also be a driver of such spending: “Last summer I went to Ibiza and spent a lot of money on this trip, although I did not have the income level to make this reasonable. This was a bit of nostalgia for me, referring back to those times when I could still afford it, so I decided to do it. I have developed a need for this and I did not want to let it go, I want to maintain that quality of life that I previously got used to”.

This phenomenon – spending due to social pressure or to achieve a previously experienced quality of life – will be reflected also later on by the impact of benchmarking and referencing. I will go into more detail in specific sections, but it is important to note that these factors can have impact also on how people spend, not only on how they perceive their financial situation.

The list of factors to increase spending does not stop at the previous examples. Commercial tools, like promotions, discounts, favourable propositions, or product placements can also play a crucial role in motivating for buying a higher quantity or higher cost items. The impact of commercial drivers is extremely widespread and would be impossible to fully review in this study. In general, the cases that came up during the interviews were focusing on the motivation to purchase something extra due to the commercial tools. “We used to go to visit stores, but not anymore. I buy only the necessary goods locally. If I go to a hypermarket, I would surely see something that is not on the list and start looking around a bit more, and there is just too much of these”. In this latter situation, the respondent was conscious not only regarding consumption, but also in their purchasing habits in a way that they even intentionally avoided going into stores with promotional pressure, knowing that the commercial motivation to upgrade spending would be intense. It was not only in everyday consumption goods where such impact can happen, but also in durable goods: “I went to buy a bed at a store, so I decided in advance which one I would pick, but when I got there, I bought a different one, which was more expensive. I did it because it was nicer and better quality than what I previously chose”.

The impact of offers and promotions can accumulate into a negative outcome. In times of really intense commercial activity, people may get overwhelmed with information about options and may find the potential gain of conscious decisions less important than the investment needed for that: “I do not (follow prices) because they change too frequently. I look for the best proposal at the exact time when I am doing the purchase, but I do not follow the prices”. Hence, if there is a time when promotional frequency speeds up, people may lose sight of the actual price, get lost in these changes and may either let go of keeping account of it or just get confused and fail to recognize the underlying increase of spending. This may also happen if the items in their purchase basket get a different promotional strategy with some getting promoted and others not, while the overall sight of total spending may go unrecognized. “...the world has accelerated so much that there is such a flow of information that one cannot filter properly”. Even if there is an intention to minimize or even to avoid such impact, it is hard to do so: “I pay attention to what I buy, so I am conscious about it... They cannot lure me into a store with promotions, but once I am in a store, I consider them”. As a result, changes in the promotional methods or intensity may create such a complex situation that people get lost in it and would avoid conscious spending – maybe even avoid cutting back on the expenses, even if wanting to – which may ultimately lead to higher discontent and higher overall spending.

There was a further phenomenon that was challenging to map during the interviews but was interesting to recognize: spending due to a conscious decision to stop savings. What this situation consists of is mainly a loss of motivation to save, and then starting to spend the remaining amount for imminent purchases: “There were always and still are some major projects, like a travel abroad, that I really like spending on. There was previously an occasion when, I had to admit, I could not finance the trip I planned... then I probably used up that amount for everyday, I started to spend that money”. This case may be further amplified by an increasing need for immediate gratification when a purchase and the pleasure it provides would motivate towards spending. When aspirations distance too much from reality, it may make people numb, unwilling to work towards reaching the goals: “For us to be able to improve on our lifestyle, well, I do not know what path leads there, so I am not forcing it, that is why I do not earn much... that would just lead to dissatisfaction, and even if I push my limits, I would not be able to live the life of a Hollywood star, if that was my goal”. The situation of somebody letting go of a goal of saving up may be quite relevant in those conditions when financial conditions swiftly change, like prices going up or salaries being cut, for example during the latest economic crisis. However, the importance of this determinant may have been lower at the time the research was conducted.

Summary of the findings on excessive spending

This section about spending provided some really interesting insights. My first assumption was that an unequal split of income led to an overall spending increase along with a decline of confidence. Secondary data showed that during the time of the research, spending was increasing relatively equally, and as consumer confidence did not suffer a decline either, this assumption could not be validated. However, based on the responses in the interviews, this theory cannot be disproved either. Moving over to the other scenario, in which spending was equally relevant for the broader society, I found numerous determinants to increase spending in a way that might even lead to confidence decline. People may be unable to properly estimate the costs and end up spending more than planned or may get too informed and ultimately purchase a much more costly item than planned in advance. Prices may be going up, and if individuals cannot adjust their consumer basket downwards, they may also end up with an unpleasant spending experience, prompting them to lose confidence. Two important examples for this were the need to provide for a family and losing control of the finances due to using a credit card instead of cash. People may also decide to adopt a more lavish spending attitude due to social pressure or to maintain a life quality. Besides the personal motivation or social pressure, they may be impacted by commercial tools – like irresistible offers – that serve as external factors of increased spending. Furthermore, they may even decide to increase spending because of not seeing it worth to continue saving up. Most likely these options are so scattered in the society as well as time wise that separately they would not lead to a change in spending or confidence. However, should they coincide with each other due to a (or several) trigger(s) that potentially appear at the same time, it might then have a visible impact on the increase of spending as well on the decline of consumer confidence.

What this also translates to is an affirming answer to the first research question: yes, people can be increasing their expenditure even in a negative financial sentiment. There appear to be several circumstances when people spend more while feeling pessimistic about their financial situation. Hence, we cannot attribute the increasing expenditures on a macro level to only those who benefit from financial improvement as even those with financial hardship can end up contributing to the overall spending increase. Even if this argument may sound evident, it was important to validate it, in order to assess whether the increasing income and the declining consumer confidence could be based on the same or different parts of the society.

6.4.2. Aspirations

In this preceding subchapter, I reviewed those factors that can contribute to the increase of spending. As I mentioned at the beginning of that subchapter, spending was the side of the equation with less complexity, at least from the perspective of this study. Moving from the spending to consumer confidence, the situation becomes more complex. In the following subchapters I will review how and why confidence may decline, starting with the aspirations, then through the financial drivers to close this chapter with the non-financial factors.

There is a wide variety of potential determinants to influence the level and change of consumer confidence, so to create a comprehensible structure among these determinants, we have to understand first what the actual starting point is: what people would like to achieve, what would make them fully satisfied and grant them high confidence. The gap between these goals and the reality is what may lead to dissatisfaction, so to understand the confidence – or the lack of it –, I should start by reviewing the aspirations of people, and that is what this subchapter will focus on.

Let me define first what "aspirations" and "reality" would mean in the context of these research findings. Aspirations contain everything that the individual would like to achieve or acquire. By reality I mean the actual situation of the individuals or at least how they perceive it. I intentionally did not narrow this term down to the financial situation but rather kept it as a general situation, because it may not be exclusively the financial details that determine consumer confidence.

Consumer confidence is expected to reflect the financial situation and perspectives of people, and its efficacy to deliver upon this expectation was tested and confirmed in several research. However, based on my research findings I would suggest a different way to comprehend this measure: consumer confidence is not simply the reflection of the financial present and expected future, but rather the gap between aspirations, financial and non-financial determinants, in the following way:

$$CCI = A - (FA+NA),$$

where:

CCI = Consumer confidence (Index),

A = Aspirations,

FA = Financial aspects of confidence,

NA = Non-financial aspects of confidence.

Should the sum of this equation on the right be zero or a positive amount, confidence would be high, as the reality would exceed expectations, while a negative result would mean a shortage and dissatisfaction, which would mean a low or declining confidence.

Among these three details, aspiration is the most complex one, with several layers of components. In order to have a better clarity, I applied a further segmentation within this determinant, along what seemed to be the most consistent separation in how aspirations were assessed during the interviews: needing or wanting something. One of the questions of the interview guide – that intended to directly measure the consumer confidence as per in some of the consumer confidence surveys[50] – asked the respondents whether they can buy the things they want and need. In the interview responses there was a clear separation between these two options: being able to afford the necessities or being able to afford also what goes a bit beyond what is „needed for making ends meet", i.e., what they want, what they aspire for.

This strong separation was reflected by several interview responses: "Are you enquiring about what I want or what I need? What I need, that I can buy", or "For what I need to buy, it is sufficient, but not for what I want" and "We have to be more conscious in our purchases, we have to plan the monthly purchases. We achieve what we plan, but we do not have any unrealistic plans".

50 Not every CCI measure formulates the question the way to include both the wanted and the needed purchases. Yet, as this is how the Nielsen CCI is surveyed, I used the same question here. Obviously, I do acknowledge that Other measures can and do formulate this question in a different way.

The difference of meaning between these two, is probably best presented by this note: “I definitely cannot buy what I want. What I need is a different discussion. What I need is for surviving, not for feeling fine”. It is down to this motive that I found it to be best suited to think about the aspirations not as a state, but as a scale. The transition from the basic necessities to the most ambitious ones were happening along the following three major milestones. Reaching these milestones – or aspiring for them – seemed to make a difference in the confidence levels.

1. The most fundamental level of the aspirations was the ability to cover everyday necessities of consumption, lodging, utilities, medicine, credit interest/debt, so basically a subsistence level.
2. The next level of aspirations was to accumulate savings: creating a security to cover any potential future financial challenge.
3. Beyond that, the subsequent level of aspirations was to be able to afford a proper quality of leisure lifestyle: nice clothes, new electronics, owning a house or a car, holidays abroad, entertainment or culture, dining out / ordering home delivery, moving to a nicer neighbourhood, applying to a university, or just being able to provide to the family, especially supporting children and grandchildren.
4. The fourth level of aspirations – should the preceding three levels be achieved – include everything that may be considered as a luxurious lifestyle, with no given limitation of its scale upwards.

If this split of aspirations seems familiar for someone with a deeper knowledge of the measurement of material deprivation, it should not be a misunderstanding. These levels of aspirations resonate with the living standards that the definition of material deprivation contains, starting with the ability to cover costs, the ability to cover unexpected costs, to have items of comfort, and to be able to go on vacation.

Each of these levels appeared to have a different relationship with the respondents’ confidence levels. Before going into a bit more details about what these levels contain, it would be worth to thoroughly analyse one of the responses, which is a perfect example of these different levels as it contains all of them. Dóra noted that: “This does not mean that we couldn’t be much better off, but I am happy for what we have. I am 67 years old and we have a home, a car, I love my grandkids and like providing them what they need, though I would like to give them much more, which really troubles me. So, if I win the lottery, I could support my kids more. They have a burden of credit interest, cost of building a new house, and it would be nice to have a financial situation to help their progress". This one answer contains every stage: the pressure of costs, the need to accumulate savings, the ability to provide what the family would like to have, and also to go even beyond that and win the lottery to be able to achieve all these levels and even more. In majority of the cases, this is how aspirations of the respondents were constructed, so it was quite rare when only one specific level would be aspired for. Still, among this complexity, those stages that I created seemed to accurately represent the biggest turning points, which I will review now in details.

Level of subsistence

The level of subsistence, i.e., living through, surviving on the bare necessities, was well presented by several examples as a relevant aspiration. When asked about the latest high value purchase, Anna replied that "I had to buy firewood for winter seasons, for which I had to accumulate savings. That was my last major purchase". For this, the respondent had to entirely save 2 months' salary, working in three jobs, 12-14 hours a day. Several other interviews represented a similar situation: "I do have (a general philosophy towards spending). What is important for me is to have what we need for the monthly subsistence".

Being able to afford only the necessary spending may be expected to unequivocally relate to a low level of confidence, but the situation is not that linear. When I compared the financial satisfaction of the respondents to whether they could afford only the necessary or also the aspired spending, no consistency was visible. When they could only afford the necessities, there were also cases with a generally positive sentiment. In several cases, the respondents expressed that they were satisfied with their financial situation – meaning that they evaluated their overall financial situation to be acceptable, satisfying or good – even if being fully aware that they could cover only the necessary purchases. They admitted that they can only buy what they need but not what they want, and despite they had to plan spending any amount of their income consciously, they could still face some challenges. "When I go to a store, I have a goal, a plan of what I want to purchase, what I need. I cannot put anything in my basket just because of wanting it, as it would be outside of the budget. So, I buy what I need. And if there is some unexpected spending, if something breaks down and needs to be fixed, then I cover it from my savings”.

What enabled a positive, high consumer confidence even when not being able to afford more than just the basic necessities was the acceptance of this situation and adjusting the aspirations and spending to it. When this subsistence level was not a result of a major and sudden set-back or if there was no better situation in the past, some respondents were even speaking prideful about their ability to make smart and economical spending choices: “Maybe the situation has gotten better, or people just have different aspirations: they got used to living off of what they have. I don’t think they would be earning more – they rather changed their attitude”. This required an adjustment to the new circumstances, and not just regarding aspirations, but also in the way the spending would be managed: “For those who do not comprehend money, it becomes like a creek: it floats away so fast that one doesn’t even see where it went, only recognizes that it’s gone”, a guidance by an interviewee regarding how to manage a – rather modest – budget.

Although it may sound promising that, by slowly adjusting the aspirations (even if it is downwards), it could be possible to avoid sudden drops in consumer confidence, this carries a significant threat: the loss of future perspective and motivation. As one of the interviewees noted: “If I am not paid (properly), I cannot make savings, and without savings how can I plan for the future”? Such motives were then raised many times later in that discussion with Anna: “I also see that people are very frustrated because of lacking financial or emotional security or future perspectives”. When asked about the reasons behind this, the Anna explained that “It is not entirely their fault. Many people live in the past as that provided more security, compared to the present. People around 55-60 years old do not want to pick up the pace, they do not want to learn, to progress”, further adding that “... even at workplaces, there are no joint celebrations like birthdays or other parties, because everyone is depressed by the financial insecurity, as well the as lack of job security. The next day they may tell you at your job that you are laid off, without any reason – such things did not happen in the past”. Ultimately, not having the opportunity to incorporate savings, to improve the financial situation, and in addition to this, seeing most people around them – or those that are used as benchmarks – do better may not only make people frustrated but also hopeless and depressed. Such case would then be really hard to turn around, while keeping up this trend may lead to the loss of motivation to work, to be socially active or even to migrate to another country: “I am thinking about going to Austria to work. I have a degree (in medical field) here, but I will leave and will do housekeeping there, because you can get paid there”. I could really sense throughout this interview that the combination of not being able to accumulate savings and seeing others doing better off were probably what directly led to a general discontent and hopelessness.

Accumulating savings

There was a significant difference in the perception of those circumstances when people could and when they could not accumulate savings. As one of the previous quotes also showcased, without savings, people cannot plan for the future. Moving from a subsistence level to a situation when one can also accumulate savings seemed a major life goal for several respondents and also a factor which I frequently sensed as a driver of the confidence sentiment. The ability to save came up as the driver behind the need for a higher income in several interviews. “My level of satisfaction (with the financial situation) on a scale of 1 to 10 is 8-9”. When asked what would make this satisfaction rate 9-10, the response was: “I don’t know. Well, if I had more savings”. Olivia also emphasized this: “I am modest, I would be satisfied with a pension of 200.000 HUF, from which I could make a lot of savings”. Being able to accumulate savings to provide the sense of security against any potential challenges that the future may bring has been a common theme in several interviews. As Máté expressed it: “My philosophy regarding spending is quite basic: every month there has to be more (money) on my bank account”.

Those people who can afford some savings, even if that is just a few steps beyond covering the costs of living, were able to be satisfied with their financial situation: As Cecil mentioned: “Well, I cannot make any purchase for hundreds of thousands of HUF. I always save some amount that I do not touch. I make sure I stay within my limits. I don’t have any hardship”. Fanni explained that: “I am satisfied with our (financial) situation, even if both I and my spouse earn minimum wage. We do not have our own house yet, but we do have a savings in cash for roughly 60-70percent of its price... We used to really suffer due to our previous credit debt, and our son was still in school then. Now we can do a saving for our house”.

In parallel to this, in cases where respondents clearly noted that they cannot make any savings, this inability came up as one of the reasons behind their low confidence. Not having savings made the future unpredictable, creating a continuous fear of any potential challenge – even something like household equipment breaking down – leading into a financial crisis, with a long-lasting burden of a credit interest or setting back the quality of life. Nóra, whose costs just previously increased and was concerned about not being able to do saving – a condition that seemed to be really impacting their lack of financial confidence – noted that "Having an extra 100.000 HUF would be nice, because we could have savings of this amount, but now we cannot. It would be nice to have this again... it would make me much more reassured". And further on, when I asked if there is something that they are discontent about, they responded that: "I am worried about our financial situation now that we are in this new situation (of moving to another location and the higher costs)... we do have our fixed monthly income, but I am always worried about the financials because I want to have savings, and this is what concerns me now".

The amount of savings may be especially important not just for those with lower income but even for those who could afford more. The issue of savings may rise also when a person with high and/or a growing income would accordingly upgrade their spending as well. On one hand, higher income and higher spending would be expected to result in higher consumer confidence levels. On the other hand, if the purchased products or services do not bring a high enough level of satisfaction to compensate for the lack of savings, it may still lead to a stable or only moderately improving consumer confidence level. Iván mentioned an example that presents this situation accurately: "I know someone who thinks they have financial challenges but actually do not… It is because they spend a lot, maintains a life quality that their income can cover without being able to accumulate savings". In this specific case, if the growth of income is translated into spending – which may be driven by several different factors – the end result may present a growing income and spending level in parallel to a declining (or at least just moderately growing) consumer confidence.

Having a financial security might be capable of overwriting other conditions of financial confidence. Károly, who at that time had no stable income and experienced a significant drop of its income compared to previous times, still considered their financial situation very satisfying due to feeling financially secure: "Basically, I am absolutely satisfied (with financial situation), because my family supports me in the situation that I am in. So, they can help me any time, and I could not get into a situation where they would not support me. I have no job for more than two months now, and I would like to get a steady income that does not depend on anyone. So, this perspective could be improved, but this is a special case as I am satisfied with my situation". This sentiment was so positive even that some restrictions had to be done to fit into the budget: "My situation was ideal about three months ago. I would need a new pair of training shoes as the current one is worn off, but that purchase does not fit into my budget now". In this specific case, when not being employed, having just suffered a major drop in income and not being able to purchase the things they need, the overall financial satisfaction was still very positive due to financial security. This is how important financial security could be.

The ability to accumulate savings was an exceptionally important point in those cases when the respondent was expecting a major change in their life, for example retiring or divorcing/separating. In most of these cases, costs remain the same, but the income/budget gets significantly decreased. Not being able to accumulate savings and facing a decline of life quality significantly decreased the overall perception of the financial situation. Even if the responses for the standard questions of confidence were positive and affirming a good financial situation at that time and in one year to come, not having a financial security in the form of sufficient savings for years to come overshadowed the financial situation. Bella's situation stood as a great example for this: "Compared to my aspirations, my financial situation is not good. What I was planning to achieve for my retirement years I could not achieve. This makes me nervous, and I do not know how I will live on that. I do not know yet if I will need to take on another job to satisfy my financial needs or would need to lower my expectations". Interestingly, at another question, Bella expressed a high level of satisfaction, including being able to afford buying things they want and expecting a stable income and job level for the following year.

Besides these major life-changing events (retirement and divorce/separation), I mapped further cases when the financial situation and subsequently the consumer confidence changed. When a family member (especially if the spouse) passes away, or when health issues come up, or if someone loses their job, financial conditions suffered a major blow. On the other hand, getting rid of a mortgage burden or having kids growing up and becoming independent would carry a positive impact on the finances.

Leisure

On the third level of aspirations there are objects of leisure, comfort, entertainment, but only once financial security is achieved. Anna, who had a very low level of consumer confidence – due to not having a financial security – noted: “Should I reach an income of 300.000 HUF, I could transfer 50.000 to a pre-savings account, which is not much, but maybe then I could also spend on things I want: going to theatre, cinema, or a trip. Recently, my fridge just broke and it was my sister who could afford buying me a new one”. On the other hand, Liza, with positive confidence noted that “I am satisfied (with the financial situation). It would be better to have more, but I can make a living out of this amount. I have everything I need to make a smooth living, and also that I can be content with things,”. This is also the level where the impact of benchmarking appeared to be the strongest, especially through creating the need for items and services that are perceived to be necessities of a “good life”.

Luxury

The fourth level of aspirations is hard to fully determine and separate from the third one, at least based on the responses of the interviewees of what they aspire for. Still, I considered it reasonable to separate this from the previous type of aspiration due to this level of aspirations having loose connections to financial conditions and being more related to the drivers and the purpose of the spending. This level includes everything beyond the goods that are necessary for survival, the savings, or well-being purchases. At this level we talk about a luxurious lifestyle, where benchmarking might either be important or absolutely not – these options I will explain at a later section –, but definitely reaching beyond the previous three types, and in some cases even beyond the individual’s current financial capabilities. Bella’s response summarized this quite clearly, in a confident matter: “(The financial situation compared to others) is really important. I see that there is a stratum of imitating apes. For them, it is not based on their need, but they saw someone else doing it and then they also want it, even if that would not be needed for their everyday life” adding that “In our consumer society, it is really difficult to be on the top continuously with the latest trendy things, and many people try to achieve that way above their capabilities, like in case of phones, cars, clothes, shoes, as this is a crazy race and if someone gets stuck into the herd – as the bandwagon effect is really strong in Hungary – then it would get involved in bad credits in order not to get left behind the herd”. What this type of aspiration covers are those goals which are more distant from a state of necessity, security or well-being, and closer to an exclusive goal, which would be more impacted by external pressure than by internal ambitions and personal opportunities.

In many cases, it is impossible to separate these types, as all these levels of aspirations are simultaneously present: “I am absolutely satisfied with my (financial situation), not because there would not be anyone wealthier than me, but because we have everything we need for our life. I am not aspiring for anything luxurious. What I want is to have a family holiday, to be able to afford that”. In this one sentence, every element of aspirations are included: comparison to wealthy benchmarks, being able to afford the necessary and the aspired purchases, letting go of luxurious items, and being able to enjoy life. This evaluation was provided by Iván, who admittedly had an outstandingly solid financial situation and a personality that appreciated all the achievements and letting go anything unreasonably luxurious. Nevertheless, the two most important determinants behind its satisfaction appeared to be the ability to save and get closer to the aspired dreams, as well as the referencing, so being humble and remembering the challenging and harsh situation where they started several decades ago and from which point their current situation would seem like a dream come true.

Aspirations do contain not only an element of referencing, as in case of this response that I just quoted, but of benchmarking as well. When asked about how much income would count as satisfying, the respondents determined it based on what a decent level would be, and not based on factors of spending or lifestyle: “For the work that I currently do, a net salary of 300.000 HUF would be worth it, that amount would be appropriate”. Hugo, who clearly admitted a very negative financial confidence, explained that they left their job due to it not allowing them to close the income gap: “The gap between those who earn well and those who don’t is getting wider. I left my previous job as I saw no opportunity there to progress, not just regarding the salary, but also in position. It is impossible to achieve a proper salary increase, there are only a few percent increases on a yearly basis, which may only follow the inflation level, but it is rather just a joke”. Hugo was satisfied with the absolute level of their income level but was still discontent due to the benchmarked people doing much better off and progressing more intensely, which made the respondent feel left behind and undervalued.

Summary of the findings on excessive spending

The most important finding of this subchapter is that the consumer confidence should be analysed not only as an alternative indicator of the financial situation but as a distance between the financial situation of individuals and what they aspire for. Based on the interview responses, I mapped four major types of the aspirations. The level of subsistence is actually a basic need, and although people can adjust to this financial situation, it can also lead to an intense and hardly irreversible dissatisfaction. Being able to accumulate savings was the first major turning point towards a higher confidence level, which appeared to have a high importance. As a next step, being able to afford goods and services of leisure or convenience appeared to lead to another major determinant of confidence. The fourth stage in the scale of aspirations was where obtaining goods and services was less dependent on the financial situation of the individual and more determined by external factors. It was along these major milestones that I found significant changes on the level of consumer confidence, even if not everyone is aspiring for a different, higher level. Furthermore, setting these aspirations and even achieving them was not exclusively a guarantee for a low or high confidence. It was also a question of how the individual considers and appreciates this situation – and this is where the financial and non-financial determinants of consumer confidence come into the picture.

6.4.3. Consumer confidence

The main contribution of this research to the comprehension of consumer confidence would be the understanding of the potential determinants and how these ultimately construct confidence. To be able to evaluate the financial and non-financial factors and the way they interact, as I will do in the following subchapters, I would first like to summarize the findings on the consumer confidence levels, with a special focus on some additions that I would recommend for consumer confidence measurements.

I included four questions in the interview guide that focused directly on consumer confidence levels and its components: first asking about the general level of satisfaction with the financial situation, followed by three questions as per the original confidence index[51]: those that enquire about the ability to purchase, the perspective of income and perspective of job in the next one year. Regarding the interview section about the actual financial situation, I did not have high hopes for ground-breaking insights. As mentioned earlier, this research was not conducted in a period when confidence would have declined in contrast to increasing spending but was on a rather high and stable level. My goal with this part of the interview guide was twofold: on one hand to assess and to survey the importance of the "standard" components of confidence measurement (availability to purchase, future perspective of income, and job perspective) in comparison to non-financial determinants that would be surfacing later on in the interview, and on the other hand to reveal whether the respondent would share their perspective from an optimistic or pessimistic point of view.

As the question about the financial confidence was not specifically directed towards the topic of spending or income but left rather vague and just asked the respondent about their level of financial satisfaction, the answers were rather formulated from a different perspective than just scaling between good and bad. The answers did include elements of a purely financial background, but it did not stop there. The impact of social benchmarks as well as previous experiences also weighed in much more frequently than I initially expected.

For the question about the general satisfaction with the financial situation (of the respondents) the responses were often provided as a comparison to social strata or to income level of people that serve as benchmarks, noting for example that the respondent is in an average (in a social comparison) financial situation or slightly above the poor but below the medium: "What can I say, where should I put myself? I am not poor; I can make a living on a daily basis. I'm not in the middle class, but a bit below that... I have a house, a car, I can go on a holiday, so this is my financial situation". In this specific case those determinants that contain a purely financial element like making a living, having a house or a car were not

51 There is no complete consistency among the different types of consumer confidence measures with regards to the number, formulation and composition of the questions that ultimately add up to the final index. The most common attributes are the questions about the ability to spend, and a future perspective, usually focusing on income and job security, so I decided to create these questions as its representation. Also, these were the closest to the Nielsen and GFK indices that I used as the basic reference.

considered purely and independently as attributes of the financial situation but rather as manifested symbols of some type of financial situation that can be evaluated only is a social environment. The final word on how the respondent assessed their financial situation was not made based on these financial elements but based on where this would put that person in a social comparison. Similar responses applied in other cases as well: “We are not poor; we get by. I think we are in the average” which also notes that in specific cases it is not only about the actual income level but also where that would stand within the society.

Benchmarking to other people and referencing to cases in the past was quite clearly visible in some of the responses: “It is a difficult question (the satisfaction with the financial situation), because this is relative thing, you always see people who make a better or worse living than you do”. In some case, this gap compared to benchmark people were originating from several decades back, yet still have an impact on the current evaluation. For example Dóra felt bad about the situation that several decades ago their colleagues with less experience but with a college degree earned more, leading into a dissatisfaction even for several years to come, and even noted during the time of the interview, when the person was already retired.

Referencing was occasionally even part of the first response to the question about the satisfaction level with the general financial situation. One of the interviewees, Edit shared an example, that: “I am not satisfied (with the financial situation). We do not have any credit burden, but I remember that in 2006 the salary of my spouse was as much as the total income of the two of us now. I believe we are witnessing a downward trend”. In this case, the main determinant of the confidence appeared to be not the actual purchasing power of the income, or how it would stand within social comparison, but how distant it was compared to the best previous situations.

I recognized two further details regarding benchmarking and referencing. Obviously, referencing and especially benchmarking was not relevant for everyone. Regarding benchmarking, it appeared during the interviews that if people get to subsistence level, they seem less impacted by other benchmarks, people being in a worse or in a better situation, and more interested in sustaining or increasing their financial situation on itself[52].

52 Although this seemed quite valid for several cases, it means that people in different social strata and different income deciles would be impacted differently by these comparisons, with lowest income levels impacted less by benchmarking. However, this remains the task of a separate research to validate this assumption.

In case of referencing, the interesting finding was how long-lasting an increase or decline could be, not just on confidence but on the level of trust. It was also in the above example mentioned by Dóra that looking back from the retirement years still created a dissatisfaction due to an unfair situation several decades earlier. In another case, when asked about the future expectations in regard to their financial situation, Edit noted that “This lack of trust is always with us, because my spouse lost their job and this causes uncertainty in our thoughts. Even if we do not talk about it, this is embedded in our mind so deeply that although I really like doing this current job, I feel insecure. Not because of the job itself, but due to what we have gone through”; an interesting situation which most likely is not capable of suddenly changing the status of consumer confidence, but a major financial shock for many people, leading to a long-lasting negative impact.

The third important detail that I recognized in regard to the standard measurement of consumer confidence is the time scale in the survey questions: they ask respondents about their perspective for the upcoming 12 months. However, based on what I found during this research, I need to question whether that is sufficient. There were interviewees for whom financial confidence was determined not by the expectations of the next year, but what was beyond that. In these cases, the respondents were facing a major change in their life: retiring within 2-3 years, graduating in 2 years and getting a full-time job. These future milestones were containing expectations of such major changes that they significantly overwrote their current financial situation and current confidence. Quoting again Bella, who was in a good financial situation but deeply worried about a major change in income in the future: “Compared to my aspirations, my financial situation is not good. What I was planning to achieve for my retirement years, I could not achieve. This makes me nervous, I do not know how I will live with that. I do not know yet if I need to take on another job to satisfy my financial needs or would need to lower my expectations”.

A further turning point where the specific confidence questions may be misleading is the ability of purchasing the things needed and wanted. If someone can only finance these purchases from their savings – i.e. getting into a more challenging situation day-by-day, month-by-month – that person would still give affirmative answers to this question. As one of the respondents noted: “This is a complicated situation because I have an income and also some savings. My income is only enough to cover the necessary purchases, but I buy all those things that I actually want from my savings". As a result, the answer for this question would be impacting the overall consumer confidence index positively even if the actual situation were quite the opposite.

This may have been also one of the reasons why the same CCI measures represented major variations in the responses: it is highly plausible based on the findings of the interviews that people were switching their attitudes between satisfaction with basic needs and satisfaction with an aspired level of prosperity, either of them being extensively important in that given time. This would also be in line with the previous findings of secondary research that income – and income gap – and then prices were increasing in different times. What could have happened is that in year zero, preceding the rise of income, financial and consumer confidence were on a set level. With the income increasing not equally but disproportionally in the society, the aspirational part of confidence got more weight in the total evaluation. In the coming year, inflation led even to dissatisfaction with the necessity part of confidence, due to the basic goods and services being harder for people to obtain. Overall, what we could have seen in times of discrepancy was a mixture of these two trends: first the aspiration taking over the evaluation of the financial situation due to the growing income and social gap compared to benchmarks, followed by the survival part of the confidence getting challenged. Ultimately, these two could have aggregated into a major confidence decline, which we have actually observed in the secondary data.

Improving the measurement of consumer confidence

As a result of this potential risk, I would recommend the revision of the consumer confidence index (CCI) questions in a way to take into consideration the needed and the wanted part of the purchases, probably by having separate questions for them instead of having them merged. In total, its impact on the CCI would still be similar, but at least the decomposition – and as a result, finding the proper explanations – would be easier.

A further condition that should be taken into account when conducting consumer confidence measures would be to assess not just the change in income and job prospects, but also the quality of them. The confidence survey questions only ask about the level or changes in spending, income or job opportunity, but it would be important to re-assess how much these reflect the satisfaction with the work regarding tasks, responsibilities and other factors. Earning money is not the same as being satisfied with the circumstances of the job: “A member of my family is a social worker and goes to work every day by necessity, not because liking that job”. In another case, Hugo was confident about its financial and employment situation improving in the following year but was dissatisfied with the lack of success and the amount of challenges on this path: “I am depressed regarding my profession. It is really hard to get accepted to a company, to get the job you want. You just miss them right in the last step. I have been to several job interviews and in ¾ of them the response was that you are really good, they liked you a lot, but you would only be the 2nd choice. What can you make out of this? Nothing”. Nóra’s note represent a similar situation accurately: “When I joined my current role, I was paid well compared to the intensity of the work, but there was a misunderstanding with my classification which, albeit discomforting, did not jeopardize my income” and that “It might be typical in times of crisis. I was depressed by the situation, I had a job, but I did not feel to have any financial safety”.

A further factor to consider beyond the income and job prospects is the work-life balance. “I am concerned about my free time; trying to find the balance between work and free time, how much time to spend with family. If you think about it, weekdays are ruined. I get home at half past 6, so those days are useless. You are stuck with the weekend to develop a personal relationship, see your family, which is challenging if they live far”. It was quite clear from this response that even if the absolute amount of the income was satisfying for this person, they really needed a significant contribution on the expense of other areas of life, which was really hard to commit to, ultimately creating a discontent sentiment. So, should the factor of the quality of the job and the subsequent satisfaction with it to be ignored and jobs and income looked at only on a macro level, we might be misled by the conclusions drawn: it may seem promising on a macroeconomic levels but could be eroding confidence.

Based on these findings, I would suggest consumer confidence measures (where applicable) to consider the following adjustment. First, separating the “purchase needed” and the “purchase wanted” parts of the question could lead to more reliable answers compared to keeping a single question, in which case many respondents could be confused by being able to afford only one of the options but not both. Second, we should not limit the time interval of the questions to only the upcoming 12 months. And third, the quality of jobs should also be considered.

Furthermore, adding a separate question to the surveys directly asking the respondents about their general satisfaction level with their financial situation instead of composing the final consumer confidence index from sub-questions. This would be needed because the general confidence level is not the same as the sum of the ability to spend and how the perspective of income and jobs look in the following one year. This additional question about the satisfaction or confidence level should precede the specific questions about spending, income and employment. It would provide a better understanding of the actual sentiment of people about their financial situation. I do acknowledge that many scientists may consider asking a rather general, vague question to be reflecting on fewer specifics that might even be challenging for respondents to answer; however, there would be several upsides of this.

First, a potential difference between the results of – as I call it – general financial confidence and the detailed components of confidence measurement may also include the impact of those factors that are not purely financial; quite many of which I will enlist and explain later on. Embedding this perspective into the confidence measurement might help increasing its accuracy and relevance, potentially controlling situations where confidence behaves unexpectedly or strangely. Just like the phenomenon this study examines, which could be better comprehended should we understand the other mechanics besides the standard „income & job leading to spending".

My second argument for including such general satisfaction questions is that decisions on spending, savings or investment may also contain elements that are less structured and thought-through. Impulsiveness or rational irrationality might be better understood should the confidence measurement also consider the „general" attitude of people instead only focusing only on the financial components.

An example shared by one of the interviewees perfectly presents the potential gain of these adjustments that I recommend. Liza, who had previously given up a well-paying position in the U.K. and moved back to Hungary, admitted to the significant decline in income and the standard of living that came with it. However, the final assessment of this situation was still positive, balanced upwards by non-financial factors: "When I lived in London, I was in a very good financial situation but decided to come back to Hungary and to have a worse situation financially and knew that it would even be worse if I apply to a university, but I am fine with this. Money itself does not indicate how satisfied I am with things”. If only surveyed by the regular consumer confidence questions, the sum of the ability to purchase, the following year’s income, and job conditions would have presented a low confidence level. However, if surveying also the general satisfaction and the future perspective on a bit longer time scale, it could yield in a result much closer to the reality.

Summary of the findings on consumer confidence

My initial plan with the four questions about consumer confidence was to make a comparison between the “original” confidence questions that focus on the financial sides and the non-financial factors, as well as to be able to understand the financial circumstances of the interviewees. Fortunately, this section of the discussions revealed much more. First, benchmarking to other people or to social strata, as well as to referencing to past cases was more important than I initially thought. Second, the time scale of the upcoming 12 months that the survey question usually focuses on may be misleading in some cases, for example when a major life-changing event would be expected in a person’s life. Third, the survey question of the confidence measures that ask about the ability of buying what is needed and wanted – in the same sentence – is not applicable (at least not at this time) in Hungary. And fourth, the survey should also measure the quality of employment, not just how it would change. As a consequence of the above, I would recommend the following additions to consumer confidence measurements: a) apply a separate question that focuses on the financial satisfaction in general, b) assure that the questions allow the reflection of the relative perspectives (referencing and benchmarking) and the non-financial determinants, c) avoid restricting the future aspect of the survey questions to only 12 months, d) add a question that maps the satisfaction level with the quality of employment.

6.4.4. Referencing

Referencing, which is the phenomenon of people's individual experience of previous income and financial conditions impacting the present confidence levels, was previously assumed to possess the same magnitude of importance in the determination of confidence levels as benchmarking. Although the actual importance of this factor in comparison to benchmarking was not feasible to be validated by the qualitative research, this prior one appeared to be less complex. That is why I would start with reviewing this one first, and benchmarking will be the focus of the following subchapter.

The way I was assuming referencing to work was that people with intense income growth in the past would perceive a less intense improvement as a set-back. As a result, even a growing income would be received with declining confidence should this growth actually be minor than in previous years. As a result, we should look not only for a decline of income as a reason for declining confidence, but potentially a moderation, a slow-down of the income growth can also be a factor to negatively impact consumer confidence. Should this assumption be valid, a general decline of confidence could coexist with increasing income and spending, where the explanation for confidence decline would be that the growth of improvement slowed down compared to preceding years.

The primary research confirmed the existence of the referencing effect, as I noted also in the previous subchapter. The case of Hugo presented a perfect example of a situation where the slowing down of the previous income growth led to a decline of consumer confidence: "I started with a salary of 250,000 HUF 3 years ago, then it went up to 300,000, 320,000, 350,000, and then to 400,000 HUF. I was changing positions quite often... the reason I quit my previous job was that I felt that I cannot get further, neither in position, nor in salary. It was impossible to get a proper raise; they were giving a few percentage increases on a yearly level..". What Hugo felt bad about was that even if the income was continuously growing, its pace slowed down and this was then perceived as a financial set-back, even if the real income trend was positive and the actual financial situation would still be improving.

I also found that the impact of looking back in the past and assessing the improvement/decline compared to that stage in the past appeared to have contributed significantly to confidence levels. This mechanism of looking back at the past for an evaluation of the present provided several interesting insights. First of all, changes, being either upward or downward, can have a long-lasting impact; such long-lasting that interviewees were referring to occasions happening 8, 15 or even 50 years earlier. “I was a quite poor little kid when growing up... We could not afford many things, we had to be conscious (in spending) ... I definitely would not say that I am dissatisfied with my situation”. Dóra was moderately dissatisfied with their financial situation but was still content with it as it was a major improvement since their childhood years. Fanni, for whom the continuous but moderate increase of savings seemed to be the main driver of the positive confidence noted that “15 years ago I went to the store knowing that I cannot spend more than 500 HUF. Now that our son does not live with us anymore, we have no debt, we can save some money”. Concerns that lad to lack of trust or confidence were sourced from various previous experiences: “I am telling you, I do not believe in pension savings funds either, or to keep my money in the bank, because the Hungarian government cannot be trusted. My previous loan was based on Swiss franc and it was a scam, and I think the new family support program is the same as well”. For Edit, the major break in income conditions was in 2010, 9 years before the research; still, those conditions determined everything. When asked about the general attitude of spending, the response quickly turned into a review of how their financial situation changed. Not only in the preceding 1-2 years, but things that happened 5-10 years earlier, which means that the medium term impacted the confidence more than the present income level: “We used to be able to save more money, but now we can save less. My spouse used to work at a successful bank, but that discontinued... We definitely live worse since 2010 than how we lived before” and then clearly confirmed that “I am not satisfied (with the financial situation). We do not have any debt, but I remember that in 2006, my spouse’s salary alone was the same as for the two of us now”.

Although referencing did not appear to be a factor as relevant and impactful as benchmarking during the interviews, it does unequivocally seem to be an important determinant. “My financial situation is catastrophic... I exaggerated a bit; I am in a steady financial situation as I have some savings and people to turn to. I have everything I need. But it is catastrophic compared to how it was 5 years ago”. This note was shared Liza, who used to earn much more during their years working abroad and had to let go that income level when moving back to Hungary.

In addition to my assumption about referencing, I previously assumed that frequent changes in income levels could lead to a sense of instability and subsequently to a loss of confidence. This, however, could not be confirmed during the primary research. In case of those interviewees who experienced frequent income changes in the past, this did not seem to have had an impact on their confidence levels. “It was really hectic, my previous years. I worked during the years at university, first as a babysitter, then in catering, and then at a multinational company. And then, for a while, things were changing a lot. Sometimes I quit and there was a break, and then went to study abroad and could not work there. I got a scholarship, so there were many ups and downs... it was like this for 4-5 years”. This example was shared by Károly, who was at that time unemployed, but very satisfied with their financial situation due to the family providing financial security. Such support was there also in the previous year, and regular changes in the income level did not raise expectations high nor did it create confusion, or a sense of instability regarding the present and the past. The potential effect may have been there, but it was more than compensated for by its financial security.

The impact of the previous financial situation seemed to have an interesting effect on the present levels of consumer confidence. On one hand, I found only a small number of instances where people would be discontent due to setting their income expectations higher than their actual income growth. On the other hand, numerous cases confirmed that not only the short-term, but also the medium- and long-term changes of income can have a significant impact on consumer confidence levels. In regard to the too frequent income changes to potentially lead to instability, the research could not find any clear evidence neither to prove, nor to disprove it.

6.4.5. Benchmarking

My initial expectations regarding benchmarking – having one’s own financial situation evaluated as a comparison to other people – was that this would be a subliminal factor, needing a lot of reading between the lines in the interviews to evaluate its relevance. However, its importance and prevalence exceeded my expectations: it appeared to be fundamental in the creation of perceived financial situation throughout the interviews. This determinant was not an underlying one coming up optionally when digging deeper into the topic of financial situation, but in many cases this was the main manifested determinant of the self-assessment and the aspirations as well: “(the relative income level) is very important”. That is how a significant percentage of the respondents determined their own situation, by comparing to others: to their surroundings, the neighbour’s car to theirs, the brand of the jacket of the kid’s classmate’s to the brand of their own kid, etc. “We are not poor as we manage our money well, so I think we are in the middle class”; a few examples that clearly showcases that the evaluation of the income level strongly depends on comparable external conditions like what other people possess or what the national average is. Anna shared an example: “I know that many people compare. Even my sibling, who stays at home, does not work and is envious of how well I am doing”. Some even referred to this effect as the main source of discontent: “I do not look at what I need, but that somebody else has more or better. This makes our lives miserable…”. What really reflected the strength of this factor was a situation where – after several minutes of complaining about different areas of the financials – the respondent summed up their situation as “not having any reason to complain”. What sparked the change from a complain to neutrality was the point when the respondent started to think about other people in more challenging situations. It is obviously questionable how much these impacts of benchmarking are considered intentionally or how they impact subliminally, but the determinant is definitely strongly present in the assessment and ultimately in confidence levels.

Targets of benchmarking

In regard to who are used as benchmarks, the results were not surprising from a certain perspective, but were unexpected in another way. Those points of comparison that are in the closer surroundings of the respondents were quite numerous and seemed to be in line with the frequency of interactions between the individuals: the list consisted of those who played a regular role in the respondents’ life. On the other hand, the importance of those benchmarks that are more distant and rather indirect came up much more intensely than I previously expected.

So, who are these benchmarks and how are they related to the individuals? Closer or wider family played an important role here. “My brother lives in Switzerland and earns very well”. “Yes, I do (know people in good financial conditions). The parents of my spouse are doing really well, as well as many of my colleagues, and some of my friends”. “Many people around me are doing well financially, I think even my ex-partner does well and is just about to buy an apartment”.

Beyond the family, the friends that the individuals interact with can have an impact on benchmarking as well. “(Material well-being) can influence a person’s situation among its friends, so whether he or she is rich, or has hardship or worn-off shoes”. I would also include in this group those people who meet regularly and have the same background, e.g., previous classmates, schoolmates: “I see it on the class reunions as we have it in every 5 years that some of them pulled themselves together quite well. Although they started from the same base, there are major differences now”.

Colleagues, customers, or other points in business life also serve as comparisons: “I am sure that I am the one earning the least at my workplace...”., or “I would gladly reach (the income) level of an engineer with 5 years’ experience”. Such benchmarking came up in several different forms: “I would be satisfied with twice the income I receive now. I think that if I compare my income to the same managers on my level, mine is really poor”, or “Our accountant, who is a manager at a bank and has a high salary plus a private company, accounting definitely generates him a lot of money”. For Bella, who was involved in a management of an agricultural company, the main benchmarks were exclusively successful managers of similar companies: “I really respect László Bige, who created the fertilizer enterprise. The Fino family running a family company... and there is András Mocz forester, who owns the biggest private forestry in the country”. Cecil also referred to people in the same profession: “When I retired, my pension was 1600 RON... the other person who retired as a doorman not much later than me got a pension of 2400 RON, because pensions got raised in the meantime, and I retired as and M.D., leaving me really frustrated. I just could not get over this social injustice”. But such comparisons were made even with a customer at a petrol station, or a manager of a client company that one had to do a financial audit for.

Furthermore, those people who are met in daily routine, but are not specifically friends or colleagues, can also serve as benchmarks. Dóra mentioned that: “There are some people who live very well, unlike others. For example, my hairdresser and her husband, who is a locksmith, do not pay full taxes, so they can drive their RV in the summer to Lake Balaton every week, or they can go skiing every winter weekend. They buy only branded shoes and clothes for their kids”. Anna, who expressed major discontent regarding their financial situation with a mixture of sadness and hopelessness, strongly considered migrating abroad in a hope for a better life, shared the following perspective: “Wages in my secondary job are really low... I earn 1900 HUF an hour. But I should not complain. People who help me out with gardening earn 5000 HUF a day. So, my hourly salary rate is great. I am really helpful for God and the faith as in these circumstances that I live in I earn well”. In this latter case, a comparison to those people who are met practically only on a monthly basis were still taken into account and even if the general confidence level of the individual was really negative, once this comparison came into the picture, this turned around.

Location and neighbourhood also matter, in a form of direct neighbours or people living in the same premise serving as benchmarks: “There are people in my building (who are considered to be financially successful), I know about a lawyer who was at a good place in a good time and now works in banking”.

The level, frequency, and intensity of consideration of those social benchmarks that were not in the direct environment of the respondents highly exceeded my initial expectations. These included celebrities from media as well as politicians and entrepreneurs; this latter to my great surprise. “I think of celebrities (as wealthy people). Ervin Nagy (actor) is definitely doing well financially, he appears in many movies. I also follow Majka (TV personality) on Instagram. I also follow Viktor Orbán (PM), and my manager who is a sales director”, or “It just came into my mind – GMs, entrepreneurs, many of those in construction industry, and politicians (have a high income level)”.

These type of examples came up quite frequently, and it appeared to be a commonly used comparison, as was noted by this response of Liza: “I know (wealthy people) from the media: Index, Origo, there are many people like that, for example Lőrinc Mészáros has very few financial issues. I don’t know where I read this but this is in the collective subconscious”. Such response even came up swiftly for the question whether the interviewee knew anyone who was doing especially well: “Yes, most people would say Lőrinc Mészáros. Mészáros is

100 percent a person like that. Many of the politicians who are “close to the centre”.

It was interesting that in several cases such examples that referred to politicians and businessmen or businesswomen were treated sensitively; either not being explained with specific details or only added after the interview was over. I will detail the reason behind in a later chapter: “Well, I could name (people who are doing financially well), but I do not want to say any names. There are a lot of them. I am old and I may not see this through clearly, but I have a long life behind me, and I know what can be earned with proper work; I would not say that they earned it in an unjust way, but they got rich very quickly, so how can somebody become a millionaire or billionaire? There are many people on a national level, I can see that from the media, who got rich since the change of system (from socialism, in early 1990’s). I am talking about multimillionaires, who suddenly got rich, leading to grudges and an antipathy in people, big masses of people. Under this current and the previous governments as well. Even these days there is a distaste in people – in many people. Maybe there is some envy involved as well. But there is a real foundation of that as well”. In this response, Cecil explained in great length – and without any specifics – but did not feel comfortable to mention details like names. There were numerous cases with a similar attitude of carefulness in relevant responses, sometimes even disguising responses during the recorded discussion, and only revealing them once the interview was over and the recording stopped.

Besides specific people around them, respondents tend to use also other regions or countries as benchmarks, especially those that are located closely or are in frequent touch with the Hungarian economy. The case of Anna provided several examples: “It is quite a shame when even Romania and Slovakia perform better (in GDP), but I will not be upset about the income levels in Finland being higher than in Hungary as it has no relevance… (My daughter) says that the German economy is on the rise, so it is not true when they say that the situation stagnates. It is a lie. There is a progress also the in the EU, and politicians keep telling us otherwise”. Such comparisons are utilized not just on a country level comparison, but also across the regions of Hungary: “In think the whole county where we live is below the average income level (of the country)” or in another case “Hungary has become concentrated around Budapest (the capital), everything is there, it develops, and the salaries are also like those in Austria” adding that “I do a lot for my life, but I do not understand why I worth less here in my county than those who live in Budapest, or why I worth less a person here than in

Austria”. Olivia referred to regional differences: “Hungary is split into two parts. People in the Western counties were always having a better life, had proper job opportunities, but it is hard to make a living here in the Eastern counties”, even though those people in the Southwest also feel like they are below the average and way below the level experienced in the capital (in Central Hungary).

Another interesting phenomenon was that in those cases when the interviewee was surrounded with people in same situation and in stable circumstances, it was the distant benchmarks that contained relevant information. This means that the importance of these distant benchmarks increased and started to serve as more impactful points of comparisons. Cecil, a retired person living in a township, when asked about how the situation in its surroundings changed, responded that: “I cannot answer that. My neighbours are pensioners as well... I do not know people (who would be facing financial hardship)”. However, this person was able to share quite detailed perspectives about the change of financial situation of people that are known through the media. It was clear from this situation that when there is a stability in the close surround of a person, it is the distant benchmarks that become more relevant.

As these examples presented – which were just a handful selection of the actual amount of comparisons – there has been a really wide variety of potential people and places to serve as benchmarks. It could be a closer personal acquaintance or someone we know indirectly or through the media; it could also be people living in the same neighbourhood, or even in other countries. However, I could not draw any conclusion regarding the hierarchy, or the order of these benchmarks related to how intensely they would impact consumer confidence. There were interviewees where colleagues were the sole benchmarks, for others it was the family; for some respondents a comparison to other countries was the top concern, while others were making comparisons to the people in their neighbourhood. This means that it all depended on the specific life situation of each individual. There seemed to be no socially accepted and harmonized way of which benchmarks to use and how to weight them in the final assessment.

Benchmarking upwards and downwards

I also tried to map whether there would appear a clear relationship between having benchmarks that are wealthier versus benchmarks that are less wealthy, so in short, whether knowing or not knowing "rich people or poor people" determined the final confidence levels. It was quite visible at several interviews that once the interviewee started enlisting benchmarks that were less wealthy, they re-evaluated their own situation: "But I think we have no right to complain because there are people with a 25,000 HUF monthly pension". So, having more and a rather personal impact with less fortunate people seemed to have been a strong force of uplifting the consumer confidence. Such effect was visible in another way as well, to be presented by quite many examples in this chapter. What I found in regard to using one or the other type of benchmarks was an unbalanced phenomenon with three major scenarios:

a) Those whose benchmarking consisted of significantly more comparisons to wealthier than to less wealthy – observed mostly in case of those people in convenient financial situation – did not seem to have negatively influenced their consumer confidence because of seeing people with good financial situation. It appeared that for them the benchmarking to less wealthy was not relevant and benchmarking to more wealthy was also not impactful on their final assessments. This was not only an observation during the interviews, but this was also clearly expressed: "I think (earning well in comparison to others) is somewhat important for everyone, but in higher social classes, like, in the top ten thousand it is less important, as it is more difficult there to assume income levels. It is typically those who earn fixed wages, where 20-30 thousand HUF makes a lot of difference, if they hear that another place pays this much more for the same job". Iván, who admittedly had a strong financial background noted that "Fortunately, in my environment it is not important to anyone how they are doing compared to others". Iván also noted that: "I do not care about other people, because I never cared about whether they are doing well or not. I do not talk about money, because money is not an important part of my life". Máté, also with a comfortable financial situation noted that "I always benchmark upwards... I think about creative people who are more motivated, and want to achieve more, like surrounding themselves with people who are thought to be on a higher level, in any meaning – even financially".

b) Those whose benchmarks contained more references to people with financial hardship seemed to be impacted by this fact, as they used these comparisons quite often in their evaluations. However, there was no consistency in whether this leads to high or low consumer confidence. My experience was that those who could still achieve their own financial situation to be improving could end up with high consumer confidence when comparing to people in worse situations. On the other hand, those who did not experience such improvement in their own conditions and had numerous benchmarks who were also doing badly, aggregated this situation into a general level of hopelessness, with no perspective for any improvement, which obviously led to low consumer confidence levels.

c) In case of people who had similar levels of benchmarks both upwards and downwards, no clear path emerged whether one or the other side would make them lean towards a positive or negative consumer confidence.

Albeit the positive aspirations (people serving as a motivational benchmark) appeared more intense and unequivocal, there were also several comparison points mentioned who were potentially facing financial hardship. In this sense, there seemed to be less structure in the benchmarks regarding how they related to the respondent: close colleagues, friends were frequently mentioned, but even homeless people seen in the media: “I do know (people with financial hardship), more or less. I watched a documentary on YouTube, specifically about people who are in severe poverty, although I do not know anyone like that in person”, a response from Liza, who seemed to know quite a lot of wealthy people directly and indirectly as well. However, the examples were often less direct, more vague than in case of positive benchmarks: “It is really sad how many people live in deprivation. I just saw a kid who did not have proper clothes, but their mother had a shiny new dress “. While the positive benchmarks presented some type of structuring, people who are used as benchmarks in worse situations are not specifically structured, but are much more referenced on an occasional basis, meaning that at this side of the benchmarking it is almost impossible to draw a general conclusion on who these people are and how they can relate to the confidence levels of others.

To have more specific results in this topic, I asked interviewees to evaluate the trends experienced in their closer surroundings, whether they experienced prosperity or decline. What I found was quite interesting: there appeared to be a consistency between how the interviewee evaluated their own financial situation and their closer surrounding, which usually meant the family, friends, colleagues, and place of living. Although there were exceptions, in a significant majority of the cases those who were in a good and improving situation sensed that enrichment was a prevalent phenomenon: "I think in the past 5-10 years (enrichment) is rather common", or that "It (the financial situation of people) obviously improved. Just look at how many cars there are in Budapest, it is hard to drive in this traffic. It is the same in other cities. We have no reason to complain. We do not eat yesterday's bread – we need a fresh one. Where is the poverty here"? On the other hand, those with financial challenges sensed that enrichment is quite rare: "I do not think this would be prevalent. Outside of Budapest, I do not think many people could get wealthier in the past 5-10 years".

Those who classified themselves to be in the middle class but were able to improve their situation regarding financial safety reported a similar trend in their environment: "I think (the financial situation of people around them) was stable, or there are some for whom it improved, but it did not get worse (for anyone)". Those who were oppressed by financial challenges and sensed a lack of improvement also reported that their environment was showcasing a similar trend: "Those who are employed, their situation are stable, but they are merely making ends meet" or "Stagnation is more relevant. Just surviving. There are much more set-backs than cases of spectacular enrichment". Obviously, this could be the impact of people in similar financial situation living in the same environment, surrounded by people in the same situation, so I would not draw a conclusion by saying that people would project their own financial situation to their environment – although this remains a theory worth testing in a following research.

However, it would be reasonable to raise the following question: if people sense that their situation is in line with their closer surroundings, doesn't that contradict the assumption that benchmarking contributes to consumer confidence? The answer for this question is a simple "no". The research was conducted in a period of relatively high consumer confidence. As responses confirm that the individuals' situation changed in a way and magnitude as their closer benchmarks' in general, it is not a contradiction but rather a confirmation that benchmarking is indeed a strong factor here and people moving in the same direction with the same speed – financially – can lead to high or at least a non-declining consumer confidence.

The research managed to reveal a further unexpected phenomenon in regard to benchmarks with financial hardship: envy and frustration, caused by the social support that deprived people receive from the state. Instead of comprehending these as a mechanism to help the situation of people in need, some viewed it as unfair, undeserved. In some cases even the way they shared their relevant responses presented a high level of anger and frustration. Anna, who had one child and received no social support, referred the following ways to those that received support due to having many children: “I do not agree with the standpoint that one child is not a child. Why do only those people receive social support who have many children”? adding that “I think the country is not moving towards a good direction, they oppress people who could contribute to society”. Cecil, when referring to ill-bred kids in the foster-home noted: “Will these kids be useful for the society? This is what the Hungarian government supports. Why the minorities? I don’t understand it” and furthermore: “I do not understand why the government supports the communal works program. Why do they support people who are freeloaders? Especially Roma people. It is outrageous that they go for their government-financed free meals and take away the food and still complain. I even heard that they were going with an Audi to pick up the free food. They get electricity, water and other utilities free of charge. And they do not want to work”.

These opinions were often raised at that part of the interviews when I enquired if they knew anyone who would be doing financially well or having financial hardship. The intention behind these questions was not only to map the points of benchmarks, but also to analyse what would be needed for having someone considered as rich or poor, and to help assessing whether the financial confidence of the interviewee would be more determined by the wealthier or by the less wealthy benchmarks.

Benchmarking’s relevance for sudden consumer confidence change

Throughout the analysis of the responses, I was trying to assess whether benchmarking would be capable of leading to sudden and significant changes (especially drops) of consumer confidence or if this would be a rather stable determinant. If benchmarking could cause sudden drops of consumer confidence, then a discrepancy between spending and consumer confidence might be traced back not to the majority of the society getting into a worse financial situation but their point(s) of benchmarks significantly distancing. For example, neighbours, business partners, friends, colleagues, celebrities, politicians or businessmen/businesswomen showcasing extreme enrichment. The conclusion I had to draw from this analysis was that it was not likely that benchmarking could lead to such major drops of consumer confidence in a short period of time, unless one of the following two cases happens:

1. An inequality and subsequent frustration being initiated in relationship to a point of benchmark that is universally available for everyone to experience, share, and relate to. As the changes of conditions with family, friends, colleagues, neighbourhoods would be hard for others to relate to in a magnitude to drive a society-level change of confidence, it is only cases that would be broadcasted via the media that could be capable of reaching a significant amount of audience. And not just reaching them but making the news relevant for them by showcasing examples of people that the media consumers care about. Should there be extreme examples of aggrandizement broadcasted by the media, while most of the society not experiencing that prosperity, it might be capable of leading to a general dissatisfaction and a decline of consumer confidence.

2. A significant and major widening of the income gap may lead to a broader distance between numerous, different types of benchmarks. Although people look at different compositions of benchmarks, it may be enough to experience only one of these benchmarks distancing from the individuals to ultimately lead to dissatisfactions, it may not be needed for all those benchmarks to distance. Should income inequality cause many people distancing from at least one of their benchmarks, it could aggregate to a general decline of consumer confidence.

Although I noted these two scenarios above as theoretically possible, I constructed this assumption not only on reasonable expectations, but also on the feedback from respondents. People did really sense as if the gaps in income would be growing, and this created frustration. “The country is split. It has a really poor part, which is either responsible for this situation or not, and there is one like us who is not rich but can get by. There is one stratum that is rich and there is one that is astonishingly rich, like millionaires and billionaires. The problem is that the gaps between these four strata are really immense”. They sensed not only this gap to be present but to be increasing. “I read the papers, watch TV and I see that there are people now who can reach higher. I see that the gap between classes is really wide, there will be a rich stratum, the medium strata is shrinking and the number of people in the lower strata is increasing”.

Revealing wealth

In regard to what would make people being perceived as rich, a wide range of examples were shared. Having a house, a new car, going on holidays, having fancy and branded clothes were frequently mentioned, but what was more important is the notion of intentionally showing off wealth: “I consider these people rich not because of having a house or a car, but the style how they represent themselves. I am sure that they are doing financially very well”. and “I do have a friend who makes it really visible that he has more money than others”.

This intent to showcase wealth came up not just in relation to evaluating the financial situation, but also in the discussions regarding spending levels. Respondents explained a tendency in some people to showcase wealth beyond their wealth even in a magnitude that exceeds their actual financial situation. On the other hand – and as will be examined later on in details – there is a general attitude of complaining in the Hungarian society. People expect their peers to be extremely modest, unpretentious, and express dissatisfaction with their situation even if in reality they would feel much better.

During the research I found only scarce explanation for the coexistence of these contradictory values. Complains were attributed to the mournful historical events while bragging was considered as an intention to build social capital, which then could be exploited for financial success: “In their micro-communities this is how people determine their positions, with money and other things”. However, there was no consistent motive to determine whether people would showcase their wealth or not, so it appeared to be more of a personality- or situation-based phenomenon: “I know a person who likes showing off their wealth, but I also know some who don’t do that, who act normal. There are some who still have both feet on the ground. I know people who got rich from their job and are vainglorious. I know some, like a locksmith and a stonemason, who worked a lot and earned well but they do not brag”. I will investigate further details of these attitudes in a later chapter about values.

Further findings on benchmarking

Although benchmarking seemed to have a quite well-structured framework, it is not entirely separable from other determinants. In some cases, benchmarking could be impacting the confidence level in cooperation with referencing. Hugo, one of the interviewees who was between jobs due to not being satisfied with the income opportunities at their latest workplace, shared a really clear example of this: “I used to earn a net income of 400,000 HUF at the company where I was employed last time. I would gladly accept the same amount at my next job, but as a project manager – even for 350,000. I am not saying that these would not be high amounts, but there are lucky people earning 600,000 for this job, regardless of whether they graduated or not”. Even in this specific case, the previous income level determined the base of the aspirations, but the benchmarking to those people who earn even more was also contributing to the satisfaction with the income level.

These previous findings may raise the questions whether those with prosperity would be sensing this improvement or not, due to the same improvement happening to other people in their surroundings? In regard to benchmarking, this would mean that people with a solid financial background would not be content with an improvement if they see that all their benchmarks also benefit from the same trend, ultimately leading to only stable consumer confidence levels for them. In parallel to this, those with less intense or no improvement of financial situation would see this income gap to their benchmarks growing, ultimately leading to a declining confidence on a total, national level.

While the latter one (sensing an increasing gap between people and their benchmarks) was noted by several interviewees, I could not map the prior condition during the interviews. Those who were in a financially successful situation had high consumer confidence and did not seem to be impacted by benchmarks, to the extent of deterring their confidence levels. All such interviewees knew positive and negative benchmarks as well, in their proximity as well as far from them, but their overall confidence levels appeared to be more influenced by their overall success, i.e. their improving situation.

In addition to this, even as they had points of benchmarks, it was not considered that intensely as for others in more challenging financial situation: “When I did not have financial problems, I was falsely under the impression that material success is not important and that others do not have such problems either, so this situation is easy to solve. Now that I do not have money, I am more sensible also to others not having it”. Not caring that much about financial success and especially not relying that intensely on benchmarks to other people – in case of people in a good financial situation – was confirmed by the actual response of the interviewees, many of them quoted above. As a result, I could not find any evidence of people in good financial situation having lower level of consumer confidence due to potentially not sensing their position so much improved in a comparison to other successful people. It was rather the opposite: the topic of material success was not such immense issues for them to create frustration, but a condition in which they had what they aspired for and could even improve.

Summary of the findings on benchmarking

Benchmarking, as a comparison to other people was unequivocally confirmed by the interviewees as one of the most relevant factors to influence consumer confidence. People who serve as benchmarks could be almost anyone who is present in a person’s life even if this is indirect or less frequent: family, friends, colleagues, neighbours, people with occasional interactions like a client or service provider, celebrities and other public figures, but even a different city, a region, or a country. There was no consistency in which these options would be considered and whether there would be a hierarchy level among them – it was more of a personally unique combination. The relevance of these benchmarks depended on how frequently the person got in touch with the benchmark, which was obviously different for everyone, with the only potential common point being that media personalities and public figures possessed a special focus due to being „available” for a wider audience. Some of these comparisons were openly expressed and explained while others, like politicians and closely related businessmen and businesswomen, were rather carefully and anonymously mentioned.

The importance of benchmarking may depend on the financial situation of the individual, in a way that those with a more solid financial background seemed to be less impacted by such comparison: on one hand, due to being more challenging to figure out how wealthy people actually are, and on the other hand due to the topic of material success having less importance. Those with more financial challenges used benchmarking more often, in both directions. In this latter case, facing financial hardship and knowing several benchmarks in an even worse financial situation appeared to have positively impacting consumer confidence if that individual was able to improve its financial situation, but led to a lower confidence if the person's situation was not improving. What the responses also confirmed is that in specific cases benchmarking could lead to a sudden decline of consumer confidence: it may be enough only for one of these benchmarks to distance from the individual to create a frustration and dissatisfaction, with the highest risk being if that would happen in a socially unjust way, like through tax evasion or corruption by a widely known public figure.

6.4.6. Non-financial determinants

One of the reasons I chose qualitative research, especially the in-depth interview as the primary research method, was to assure that I can reveal even those hidden determinants that may not be generally associated with consumer confidence but would still be relevant. Fortunately, the research managed to surface a significant number of factors that may impact confidence. Among these determinants that I will enlist and review in this subchapter, some seemed to possess a high prevalence and a strong impact, while others were rather underlying ones and did not appear to have impacted consumer confidence, at least not in a direct and conscious way. Still, the diversity of these determinants was just fascinating.

What the interviews consistently confirmed is that consumer confidence cannot be isolated from other dimensions of a person's life. The financial situation of individuals fundamentally determines their other perspectives. Based on the interview responded, financial safety was fundamental in a person's life. Through financial security, by enabling the purchase of those goods and services that people require or aspire for, it determines the opportunities in many other areas of life. Financial challenges may also stand as an obstacle, a burden in the way of improving other areas of life.

Interviewees shared an immense number of examples for this. “I think there is (an impact of financial situation on other perspectives). If you are satisfied with the financials, you have a much more positive attitude towards other things in life. If I go to work without motivation, thinking that there is no reason to work hard as I will still not be able to afford what I want, that really determines my happiness”. In another case: “During that time (of better financial situation) I could travel more, buy better quality goods, go to a movie more often, buy better food, dine out, go for a vacation”. “It (money) provides safety through financial security and we feel better, more balanced – I was happier in a case like this”. A prompt and firm response, confirming that financial situation impacts other perspectives of life.

Such impact was present also for financial challenges. A response by Edit presented the direct impact between financial well-being and health: “When the financial situation of the family turned quite bad, my sibling got ill. He became depressed, and developed a compulsive disorder”. Dóra noted that “In my previous marriage our financial situation was bad, so our relationship in the family deteriorated. My divorce had difficulties due to the financial challenge. It was actually my financial situation, but I still decided to get divorced even if that meant more modest opportunities”.

This relationship may impact not only in case of challenges or uncertainty but can also be motivating; a decision which seemed to depend mainly on the personality of the individual. One of the interviewees, Hugo, who was dissatisfied with their financial situation considered this challenge as a motivator: “I would not say that my financial dissatisfaction would be 100percent bad for me, because it motivates me towards things through which I can make it more positive”. However, as I noted in a previous chapter, there are other cases when concerns accumulate to the loss of future perspective which tranquilizes people, putting them into apathy.

Non-financial factors impacting financial sentiment

The relationship between the financial and non-financial aspects of life does not stop at the former impacting the latter, so people in a good financial situation having more opportunities, less risk and higher satisfaction in other areas of their life. Non-financial circumstance can also impact financial confidence. Several interviews confirmed that having major issues in the non-financial areas of life can make people feel worse regarding their financial situation, resulting in lower confidence. This is not because of the financial challenges but because of the frustration, discontent and sadness that non-financial aspects bring into their life. “I can imagine that, for example, if I am not satisfied with my personal relationship, my private life, then it could undervalue it – it’s indifferent if I earn a lot”. Another interviewee, Anna, who recently went through a divorce, also noted that “If you are not okay in your mind, having money is in vain. I also told my child that I earn well, but I cannot be content with that. It is because I cannot use it for what I would like to – I have to pay the bills, my loan, and if there is still some left, I have no partner, willingness, or emotional stability”. “Everything is linked to everything, I think. Every factor has an impact on the financial situation. Even if you just compare yourself to others, even that determines your finances”.

Such relationship (of non-financial aspects impacting the perception of financial background) appeared to be less manifested in people’s life; it was the minority of the respondents who expressively confirmed that such thing can happen, or who had personally experienced and could remember such case. Still, those respondents who confirmed this to be a relevant phenomenon were quite confident in their standpoint. Furthermore, many of those who did not confirm this phenomenon directly, did actually have important parts of their life that they were discontent with. During the interviews and later during the analysis I attempted to map whether these “additional”, non-financial concerns in the respondent’s life contributed directly to a low or declining consumer confidence, but no consistent picture appeared. However, many of these sources of frustration are worth considering in detail due to its potential link to other effects that I recognized and explained in the previous chapters.

One of the general frustrations that respondents noted was regarding media broadcasting news about major turmoil, shocks, crises, and general challenges in the economy. “This is another terrible thing. The news overloads people with political problems. People are annoyed of such news, and the media knows very well how to use this. They broadcast news that makes people sick. We should get rid of it”. “I watch TV and I know the crisis is about to come, which totally wrecks me. Also, my child’s family is about to build a new house, and prices in the construction industry skyrocketed. I am worried about the loans (of the other child), and my health is definitely important”. In another example: “The exchange rate just hit its record high. We are not safe, and the quality of life is deteriorating. I am concerned about what will happen to my family. Due to the climate change, pollution, and material deprivation. What future are they facing”? In another case, the frustration was admittedly originating from the messages of the media: “I am concerned (about the grandchildren). Liberalism is too open, which is not the best thing. I also don’t like that they show on TV that same sex couples get married, things like that. What will happen to youngsters nowadays”? The high level of frustration was contributed not just to the negative news but in addition to those cases when the media misleads people: “In the TV, you do not hear what the truth is, they mislead and then people applaud the idiocy”.

Climate change, as a source of frustration, came up in several interviews, and not only as a hot topic in the media. Dóra, a senior interviewee, who was relatively satisfied with its financial situation, noted this as its main concern: “I am concerned about Earth. We should take more care of it, I do not know what will happen to us and our grandchildren, all these things that cause damage, and the climate change. I am old, I do not have much left, but what future are my children and grandchildren facing”?

The topic of health and the health care system came up during the discussions as a factor that can exclusively determine the sense of an individual’s financial situation: “I am worried about my health. Worried about my dad who has been sick for 4 years now, I do not know when I will receive a call that he is about to pass away. This is really hard to face, it really undermines my happiness. This definitely determines how I feel (about the financial situation)”, noting that facing such issues impact the financial confidence as one would like to do more for their health or that of the loved ones but not being able to finance that creates individual discontent. In one of the interviews, the topic of health was so high on the list of concerns that even when I asked Cecil about the latest purchase they made, the response was a complaint about health: “I bought things today. Medicine as well, for almost 15,000 HUF. I have a heart problem, high blood pressure, as I am 77 years old. When I was younger, I worked too much. First came the rheumatic problems, then the rest”. One of the interviewees, Edit, personally experienced that health issues impact their sense of financial situation: “My husband became sick and several problems came up, and because of this we see our financial situation to be worse, even though we are not actually in such a bad situation”. In another case, Máté shared a story about how their health problems were actually made them want to earn more: “I worked very hard for 2 years, which pushed me towards alcoholism and clinical depression and I compensated that with earning, trying to balance these two”. In regard to what could amplify the concern around health, an assumption was shared once the recording of the interview was stopped: “Another example are the commercials of drugs: they create an impression that just by taking them, people could improve their health. But it is never sufficient – and can even result in severe side effects –, while it decreases the motivation to actually change lifestyle and live healthy. The beauty industry is similar, and they make women unhappy”. Even those interviewees who were personally content about the healthcare system explained that they know that many people are discontent: “Regarding the hospital: I was satisfied with it. There are many who are discontent and dissatisfied”.

Breaches of equal opportunities – corruption and crime

What I also recognized was a high level of frustration, which I would group under the term “need for social justice”, which consisted of a strong engagement towards social fairness, especially in the area of income equality. I found a few interviewees having negative – sometimes even really intense – feelings about those cases where others acquire a fortune, in a way that would not be feasible for an average citizen; this really stood as a source of great dissatisfaction and frustration. The following situation greatly represents the intensity of such cases. The interview with Dóra was held in the apartment. As this was a one-room flat, we moved with the interviewee to one side of the room for the interview, while the spouse was more-or-less in and out of the room (as this was the only common living area), but not intervening in the discussion. Right until the point when my interviewee expressed a handful of concerns about a question, the spouse from the other end of the room added “Let’s add that the business partners of (political) decision-makers steal the whole country”. As a reaction, my original interviewee responded and continued what seemed to be their joint perspective: “There is such an unbelievable emergency here. People, wake up! People dying of infection in the hospitals because of the lack of facilities and everything else is missing”, an example from personal experience, saying that: “I almost died when the doctor did not treat me properly”.

A strong sentiment towards justice and equality in income and wealth was a major motive during some of the interviews, especially if that contained a suspected crime or corruption.

There was a high level of frustration expressed: “Corruption impacts me like it impacts everyone. Because if we build hospitals, jobs, schools, better infrastructure instead of stadiums, it would improve the life of everyone”. Details were share related to the frustration due to government-linked businessmen acquiring a fortune: “I used to be a gas-fitter but I could never earn enough. Those who have well-positioned friends are billionaires. In the U.S. you cannot find people who get rich the way Mészáros or the Market (company) guy. They steal the money of the whole country. It is not theirs, but mine and yours, and they steal the country’s money, and this is getting worse”, clearly referring to one of the wealthiest businessmen in Hungary, later on explaining further details about how they are thought to cheat and steal, which intensely frustrating the interviewee. “People think that the bigger trickster and fraud one can be, the more virtue it entails. The more you are a thief, the more you are respected – this is what people see. And then people get motivated by this and neither morale, righteousness, nor nothing else matters”.

The second research questions I created following the review of the secondary data focused on the understanding of whether relativity, the comparison to other people or to previous times could have a significant impact on how people perceive their financial situation. As shown in the previous subchapters, both referencing and benchmarking was frequently and intensely used in the personal evaluations. Furthermore, it was assumed during the theoretical review that in a society that relies on social justice, equality and strong norms, the cases of immense wealth growth in (perceived) corrupt ways could trigger discontent. The interview responses confirmed this unequivocally. When respondents shared their perspectives on such cases, it was already on top of their mind and was expressed confidently.

If people have such negative feelings about financial success being reached with corruption, while also sensing a growing income gap, would that lead people turning to crime as a valid option? If so, the deviant behaviour would contribute to the decline of confidence by people either suffering as the victims of crime (or at least encountering such occasions in their environment) or by perceiving that this is how other people improve their situation. During the primary analysis, I could confirm parts of this presumption, but not the entirety.

On one hand, in 2019, when the primary research was conducted, there was neither a discrepancy between spending and consumer confidence, nor a decline of confidence. Still, there were cases reported in the interviews about drug distribution, illegal tobacco and spirit trafficking, some of them directly contributed to financial motives. One of such cases was mentioned by Olivia: “We live close to Ukraine, and I can hear stories about illegal trafficking of tobacco and spirits. They learn every trick in the book. Even now, they catch a lot of people for smuggling. This is how they want to upscale their income, and this is already a crime”.

Bella, who had several decades of experience in education, drew a picture of how the gap between aspirations and reality leads to crime: “Thanks to the TV, kids want to be stars, win a TV show. All they want is the easy life of stars, because this is what they see and they don’t think about how to be hard-working, or conscious regarding their financials. This is a really big mistake, and a risk, because when these kids grow up, they take what they want. That is why we have thefts, scams, frauds, crime, because this is what it generates”. From this personal experience, Bella mentioned even specific ratios they perceived in regard to this phenomenon: “In the local school, 300 out of 350 students are like this. This is a tremendous problem. It is not like 5 or 10 deviant kids, but 90percent”. Following this, Bella shared even more specific examples of kids at a really young age being taught by their parents to steal; an attitude which the school psychologist considered to be irreversible. In another example, a young kid became a leader of a kid’s thief group and was even stealing in class just because they wanted somebody else’s school equipment and was doing this without any remorse. All these examples confirmed to me that growing crime rates could indeed stand as a sign of people being discontent with their financial situation.

Such cases also revealed that people could be quite frustrated due to the level of crime they perceived, mainly through the media, and linked to theft and corruption. Some of these examples I noted already in the previous paragraphs and the general feeling about it would be well-summarized by the following quotation by Dóra, noting that such attitude was becoming an accepted method of generating wealth even though many would feel concerned about it. “Those who can now exploit the lack of regulations and evade taxation can make a lot of money and live comfortably, but not from legal work. Take my hairdresser, for example. Can you have such a life from a legal income? This really irritates me, because nobody ever asked me if I want to pay taxes, they just deducted it. And she just gets this quality of life, and they think that they are entitled to have it, and even talk like that”. In another case, Hugo, had a negative feeling even towards their workplace due to cooperating with an organization which was perceived to be close to the government: “I had a job opportunity once where I did not get employed as I did not have the stomach for that. I do not work at a company where I get sick of the corruption, even if that would pay well. I had a job where we worked for a sports organization (associated with the government), which was terrible. I am absolutely frustrated, terribly frustrated by the theft we have in this country”.

Political environment

The attitudes and actions of politicians were mentioned not just in regard to cases of suspected crime, but also as a source of general frustration. Examples were frequently noted with quite intense feelings: “The one who has the power does not answer (in the parliament, when a question was raised by the opposition party), the money bag is there and he simply does not answer the questions, avoiding it in a cynical way. Is this the leader of a country”? and then adding further, strong arguments. In another case: “I am worried about the political situation. The country is not going in the proper direction. I am worried for the future of my children. Where is this world going? I mean, also the climate change as well as the political turmoil, which will backfire”. And “I have no problem with the current or previous government. But they only think of themselves; regular people do not matter at all for them”.

The level of frustration was so high in some of the cases that even for quite irrelevant questions the respondent included a note about the dissatisfaction with the political situation. When asked about their own personal spending habits right at the beginning of the discussion, Ana replied the following way: “I write down all my spending in a notebook. This is also a reason why I am angry at the government because there is no progress even now. I improve myself and learn from my child” and furthermore “There is a general improvement in the EU, and politicians tell us the opposite. In the schools, the Hungarian government is trying to make people mindless and silly”. In some cases, a lack of stability even seemed to be impacted by political turmoil: “The next day there may be a new law to make us all financially shipwrecked – this is where we are at now. Tomorrow is not certain”.

As a result of this type of political “malfunction”, some senses that decent people suffer disadvantages. In one of the examples, Anna mentioned a situation in which a reliable, decent person, who was a great expert in their profession, was replaced in their job by someone with significantly less experience but with good connections: “There is no job opportunity, there is no option to progress. My neighbour is a forester who lost their job because the company they worked for employed somebody else who could not even measure the volume of timber”.

Such concerns were raised not only towards the governing bodies and the political situation, but also towards people, social strata or professions where corruption was suspected: “Those who earn minimum wage but only “on paper”, like popular artists, spent all their money and did not pay any taxes, did not care about their future and will have problems later on. More and more people are like this. They will not be able to live by on their small pensions”.

Social ties and respect

Social connections, relationships, and interactions – or the lack of them – were raised several times as a source of frustration and a strong factor to overwrite financial confidence. For example, not having a proper personal relationship or not spending enough time with the family can lead to frustration. Loss of social cohesion and interactions did also present a bad feeling: “The situation at the workplace also changed; there are no teams anymore, no convergence. They don’t celebrate name days, there are no parties at work, because everyone is oppressed by the material uncertainty, and the job uncertainty”. Weakening social links may potentially undermine financial success as well. “I know a person who is rich but has nobody to share their fortune with, or even if they would share it, they would not receive real feelings – only what you get for your money”. Cecil, who lived in a neighbourhood with similar people, being in a steady and modest situation, noted that: “Neighbours are not relating nicely to each other, they don’t talk, don’t visit each other. Everybody is in a hurry, chasing money. They don’t care about anything, kindness, friendship, being a good neighbour”. Although this topic of social connections was mentioned as a source of frustration, and in some responses it was even noted to be impacting the sense of financial situation, it was not feasible to dig deeper in these additional conditions of frustration within this research.

Financial success was not required and appreciated only for the material needs and opportunities, as it is also perceived as a manifestation of social respect. One of the interviewees, Olivia, a senior person who lived through the World War II and the harsh time after that, was disadvantaged in their employment positions – a situation that seemed to really negatively impact confidence levels –, explained that earning more would have made them feel more appreciated: “I would not say I am dissatisfied, I can make a living out of my income. It could actually be more; I worked a lifetime for it (the pension). I lived through a word war, a revolution – when I was a kid, we lived through hardship. This generation of mine is not appreciating what we went through. I think this is a bit unfair”. Hugo, who was unemployed at the time of the discussion, left their company due to not being able to get promoted or get a raise, and still senses a gap compared to others; a situation which meant also a lack of respect and appreciation: “When I joined my previous position, I was satisfied (with the income level). It was a good change, I finally felt that I am appreciated, and that if I earn more, it would mean that my work is more valuable”. In this latter case, besides income, the appreciation for the work and the value of the work appeared to be an important determinant of the confidence.

Summary of the findings in non-financial determinants of consumer confidence

In this chapter I enlisted and reviewed several different details. Besides the benchmarking and referencing that I examined in the previous subchapters, many additional factors were raised as directly or indirectly impacting how people perceive their financial situation. It was unequivocally confirmed that the financial situation can impact the perception of other areas of life. The opposite direction of this relationship – non-financial conditions impacting the perception of financial situation – was also supported by several examples. However, this relationship was mentioned with less confidence, as if were either less relevant or worked only without proper conscious perception. In order to better understand if this relationship really exists and how it could impact consumer confidence, I attempted to reveal the topics that people were concerned about, hoping that once we open up a discussion about the specific sources of frustration, the links could then get surfaced. Fortunately, this approach was efficient. Media, and the wide variety of crisis it broadcasted, appeared to be a deeply embedded source of frustration. Several topics that were part of the media's communication seemed to have an additional importance beyond just some inconvenient news: climate change, politics, corruption, and health(care) were topics that personally meant a lot for the respondents. Corruption in politics was an especially intense topic in the discussions: interviewees felt it was extremely unfair how much wealth some people generate and how they behave, in contrast to the life of the rest of the society. Beyond the direct financial impact of such, it also created a general attitude presenting a picture that, for a decent and successful life, a criminal action would be the best solution. This effect was confirmed also by the examples that presented situations where the gap between the aspirations and the reality created frustration and was attempted to be closed by acts of crime. Furthermore, erosion of social connections and the lack of social respect – especially in the employment and through the income – were also raised as sources of dissatisfaction.

6.4.7. Social values and norms

The culture of envy and complaining

During the discussions around financials as well as on other potential determinants, there were two motives that came up frequently and seemed to set the base for expectations: envy and complaining. There was a general consistency in the responses that Hungarians do tend to feel envy towards those who are doing better – especially if that is achieved undeservedly – and in parallel to showcase a complaining attitude. Both were noted to impact consumer confidence. Envy would make people feel much more frustrated about income gaps. Complaining, used as a tool to off-set envy as well as being a historical heritage, would make the expressed level of financial satisfaction lower than how people actually perceive it.

"There are a lot of greedy and envious people in this country... this is a typical Hungarian attitude. So, if I buy a car, others would ask how you could afford it". Similar examples came up in quite many of the interviews. "Envy is there in many people. They are checking how well others are doing; some of the peers go to Ibiza for holiday while others cannot even go to Lake Balaton. But this was always like this and will always be the case" noted by one of the respondents, adding that “People may feel envy towards those who have so much money that probably they did not earn it with honest work. How can they earn so much while the others cannot even make a living with work, when they can barely get by”?

Closely linked to envy, complaining was recognized as another fundamental attitude in the society. Its existence was contributed to three main motives: it is a reaction to envy, a manifestation of discontent due to historical misfortune, and a cultural heritage of the state socialist political setup. Complaining as a reaction to envy was explained the following way: “Complaining is a general attitude because it relieves people, and also helps parrying those with envy, by showcasing that they are not doing fine but have big issues”. An interviewee added a thought after the formal interview was over: “There is an intention to be perceived sorrowful, in order to avoid envy, because people in a pitiful situation are supported and helped out while those who show confidence and power are pulled back”.

Complaining was also contributed to the many historical events in which Hungary lost a war, a revolution, or failed other major turning points: “I think we are a really negative nation, obviously due to historical reasons, as we were always on the side that lost, in wars, occupations. So, this is reasonable. Many people say that they are not doing financially well, but to a certain benchmark it is not true. People tend to complain, it is easier than to be appreciative”. One of the interviewees shared their perspective on this only after the recording was over, also confirming that: “People are discontent because of the severe depression, as this is what the television broadcasts. There is a high level of predisposition to depression in the Hungarian society, originating from the historical misfortunates”.

The social and political pressure in the 2nd half of the 20th century had this attitude deeply embedded in the society: “We do have a general culture of complaining here, which I do not think would have gotten moderated in the past 10-15 years”. Regarding the source, the origins of this attitude an interviewee explained that: “Our grandparents and parents lived in a socialist state, and this determined the attitude. You also hear it many times in the media that the Hungarian GDP is on a certain level and the Finnish is on that level, and everyone is doing better than us”. More details were share in another example: “It was partially due to the socialist state that nobody was allowed to do well, and nobody did well actually. And even if some were doing okay or better, people did not want to be outliers, so they complained. This is how they communicated because they were afraid to say anything to anyone as they did not know who would be reporting it to the state”.

The way complaining can impact confidence is twofold. On one hand, this general attitude may be a strong bias in cross-country comparisons. On the other hand, and quite importantly, when someone gets into a good financial situation, they may not talk about or showcase it. Those with financial challenges would complain because of their situation, while the more successful would complain because they do not want to be envied. This can all add up to a major confidence decline especially when the income gap increases. Complaining and envy could be important when wealth is generated not in a socially fair and accepted way but through crime, corruption, injustice. Summing this up: when the growing income is not equally split and income gap grows, everyone may start complaining, and this could be intensified if even crime, corruption gets more prominent.

Materialism

Following the secondary research I recommended putting a focus on the importance of material values, assuming that the decline of confidence may be caused also by a sudden increase of the importance of material values. Should this be triggered by various factors, for example growing income inequality or inflation, it would result in a sudden drop of confidence even in times of growing income and spending. While an increasing income gap was observed during the time of the initial phenomenon of discrepancy, it was unrealistic to expect social values changing back and forth in 1-2 years’ time. Due to these contradictions, I was really curious to see whether the primary research can add any insight to this assumption.

What basically determined the potential occurrence of this situation (a sudden increase of the importance of financial success and subsequently of the material values) was that in the time of this research, there was no major discrepancy between the trend of consumer confidence and spending, which means that if the presumption was valid, I should not have found any evidence of the increase of material values. What I experienced during the interviews was in line with this: there was no solid evidence that material values were increasing. Nevertheless, the material values, in the form of financial success were confirmed to be a fundamental part of the Hungarian society.

Several respondents confirmed that earning well is extremely important for Hungarians. “I think this is the number one detail. I do not think that anything would be more important than this, not even health”. “I believe it is important for people how much they earn. They do not care much about the conditions of the work they do. They rather work more and barely have any time for themselves and they rarely say that, okay, this was enough for me, I would rather be at home by 4 PM”. Sometimes they were not even referring to distant acquaintances, but admitting that even in their family it is important: “In my family, it (doing financially well) is important, not in the magnitude of millions of HUF, but to maintain the quality of life and have savings”, and by another respondent also saying that “I do not know much about the life of others, but in my family it is indeed important”. This trend was contributed to the to the importance of financial security as a fundamental aspiration: “Maybe it is important because I know a lot of people who are indebted, and it is extremely hard to get out from that”, or as mentioned in another discussion: “Material security is important for everyone. You need to have some safety, a backup, because anything can happen. Safety is important for kids, adults, and elders alike”.

One of the assumptions why material well-being is such a high priority for Hungarians points at the gap between its importance and how unskilled people are in regard to financials. “I think that our financial culture is zero. People do not attempt to achieve financial safety to manage their money well. They are too lazy. I blame very much the education for this, for having generations growing up without financial culture. Otherwise, if they were to grow up in that culture, they would adjust their aspirations accordingly and would start saving and making a retirement fund from their 1st salary”. People want to live well but may not have the skills to achieve it, which may result not only in the low confidence level compared to other countries but could also be contributing to the complaining culture and could also lead to people looking for alternative solutions and tools for achieving financial success and prosperity.

Material conditions may not be a fundamental issue in everyone’s life, but its importance may change due to major events in life, both in the past as well as due to future expectations. One of the respondents, Bella, reported a change in the importance of financial success: “I was a teacher for 30 years and I did it because I loved it, not for the income. I only recently started to be concerned about the financials as I am about to retire".

Individual liberty or pressure to conform

The third research question I raised following the review of secondary data aimed at revealing the non-financial drivers of consumer confidence, including the potential impact of a a shift from individual liberty towards social conforming and oppression. Although I put a focus on the topic of values and even allocated separate space to it on the interview guide, the topic itself was too hard to grasp, too difficult to comprehend and get deeper into; just by scratching the surface, there seemed to be a really limited amount of information. However, raising the topic itself was not totally in vain. The picture that started to formulate from the responses was that there was a high level of pressure towards conformity in the Hungarian society, and in some special topics this even reached the level of people not being comfortable with expressing their opinions.

Let me start first with reviewing the level of pressure to conform. For the question whether Hungarian people accept and embrace different opinions or would rather support ideas and opinions similar to theirs, respondents rather confirmed the latter one, in a significant majority of relevant responses. "We are rather repulsive. We do not accept obverse opinions". "We are not accepting people. Hungarians are living in a bubble; we are not open for the new. We always want the same, usual thing". As noted in another response, even at work people are not tolerant and open for different opinions: "At my workplace (when not agreeing with colleagues) I do not mention it, I rather focus on my discourses. These are not my fights. There were times when I expressed my opinion, but recently, I decided not to waste my energy on this", and then shared another example of the same thing happening in the education it attends. "People are absolutely not open, they do not want to accept or even to hear the opinions of others. I attend a course and even there the experts do not want to listen to the opinions of others even if those are better than theirs".

Such pressure is often manifested even in people not willing to express their opinions and rather staying silent, which may lead to conformity but also create a general frustration. "I have had issues because of that, as I am concerned about justice, so at my workplace I shared my opinion and that did not make me popular" and that "you need to watch out where you say your opinions because those people there may have an impact on your career advancement. Unfortunately, nowadays so many people are intimidated that they do not express their opinions in every situation. Nowadays there are consequences of expressing an opinion".

This fear of negative impact even leads people to become indifferent or silent: "It is really frustrating. I do not get in touch anymore with people who do not listen to other opinions or do not want to understand an opinion that is opposite to theirs". Being concerned that expressing an opinion can backfire came up even in a quite intense opinion: "This country is split in two parts regarding this matter. One cannot know who to trust and who not to trust. We are back to the '50s when we either get reported or not. Will this have an impact or not. Especially at the workplace, you really need to think about it", adding that "It is more and more relevant that people do not dare expressing their opinion due to increasing intimidation". "You either nod your head or do not say anything, because it could lead to trouble. It is not frequent these times that somebody stands up for something, especially outside the capital, as people may get into trouble due to this".

So, what topics would be most relevant in regard to people being sensitive and not willing to hear others' opinions, or discussions ultimately leading to disagreements? The topic of migration seemed to be in the common discussion, standing as a breaking line. "Regarding migrants I see that it poisoned the mind of a few people, but the more sensible ones know that it is not like it is said. Still, they rather prefer being careful (and not confronting the opposite mindset) in this question. Here is the topic of migration, Hungarians are afraid that they would come and rape and blow things up, although I do not think it would be their goal to come to Hungary".

Gender and sexuality, with a special focus on homosexuality was also a major breaking point: "Let's take homosexuals for example. They need to be accepted, there's no need to refuse this, you have to be open, or perhaps you don't have to agree but at least accept it". "Among my friends, we have a gay friend, so we are open and accepting, but others only hate them because of Pride, which makes it hard to drive in the city".

Politics was a quite special topic in regard to sensitive ones that really separate opinions and people. In some cases during the interview, respondents hesitated even to mention this specifically and were only paraphrasing or sharing their opinion after the interview was over. In one specific case, I was even asked by the person who recommended me the interviewee not to raise this topic during the interview as the respondent had personal connections to politics and would not feel comfortable discussing it (a request that I handled accordingly). Nevertheless, numerous cases reported politics as the topic that creates disagreement, misunderstanding and in some cases a pressure to not even share an opinion. “Politics really leaves its mark on the current Hungarian society”. “Politics is a major frontline among my friends”. “People do not dare to express their political opinion even if there is free speech. And there is a high level of apathy”. Another example noted that: “There are topics in which I have an opinion and if it is the same as of the government politics, then it is good, but if someone has a different opinion, they are not accepting it. But I think it is okay this way”. In some cases, disagreements in political views led even solid friendships breaking up: “There is a really convergent group of friends, 25-30 people, and they got so confronted that they got across each other so badly that they do not meet or even talk ever since”.

Several interviewees confirmed that politics was so divisive that it made people either to conform or to stay silent. Some of these arguments were only shared once the recording was over as they were not confident about expressing their views: “The politics of the government are so deeply embedded in everything that nothing can happen without that. It is a strong motive also in politics that those involved do not dare to express their thoughts, they do not confront the core, the central of the politics”, and that “People encounter many times that they cannot have any impact on what happens ultimately. After a time, they intentionally distance themselves from the discussions. People are not reliable, and as others change their attitude towards certain topics, ones feel hard to stand out for their ideas. The majority of them can be easily bought off or persuaded”.

A very interesting case could represent the situation around pressure to conform very well, especially regarding income inequality and politics. One of the interviewees, Olivia, confidently expressed to be continuously able and willing to make remarks and comments in their life, “unlike other people who are concerned and hold back their opinion”. During the recorded phase of the interview, the Olivia noted that their only concern was climate change. When the recording was over, the respondent started sharing other topics of concern: the history of Hungary, which was, besides being unfortunate, major events even impacted the respondent and their family, and the frustration they felt due to people close to politics accumulating immense wealth. The respondent also explained that they did not feel comfortable sharing these details during the recording out of a fear of revenge against their family. This sentiment was well presented by one of the examples: the frustration due to actions in politics and income inequality drive the respondent to participate in demonstrations, but during these events would try to stay below the radar in fear of their family being punished.

Besides the actual topic, several respondents noted a general difference in opinions and attitude between different generations, specifically between millennials and baby boomers. “Fortunately, there are no sensitive topics within my group of friends. It is much more difficult to talk to my parents about a colleague of colour or a gay friend. It is more difficult than to talk to my black or gay friend about money or politics”. “I think that 30-year-old people should be grouped together with 50 and 60 years old ones to bring in a bit of life, a different thinking; and the older age group should accept the way the young ones think, and similarly, the young ones should accept the experience of the older ones”. On the other hand, a senior person rather considered their own point of view as the good one: “I think that the younger generation is really manipulated by the liberal views, but those above 40 years cannot be influenced”. In another case: “I think people of 40-50 years of age can maybe respect the opinion of others, but not those who are younger. They do not even listen to others, not just regarding politics but other areas of life”.

Summary of findings on values and norms

The topic of values was surfacing many important details. First of all, the general attitude of envy could potentially push people to complain, ultimately leading to a situation where even people whose situation actually improved would complain more (thus, generate a more negative consumer confidence) in order to avoid envy. The high prevalence of material values was confirmed by the interviews even if it could not properly validate the theory of the link between a quick and sudden change of material values and consumer confidence decline. Similarly, the pressure to conform was confirmed by the responses, suggesting – but not fully proving – a movement towards conformity and away from the human development (as per the value of Inglehart & Weltzel). What the respondents confirmed was a strong social pressure to conform in the topics of migration, sexual orientation, and politics. Politics was mentioned as the most intense breakpoint, with the potential to lead to major disputes or to people rather oppress their opinion to avoid a potential retribution.

7. SUMMARY AND CONCLUSIONS

This study examined a unique and interesting case of discrepancy between how people evaluate their financial situation and how they act regarding spending. The consumer confidence measure, which represents individuals' perception of their financial situation, is generally a reliable predictor of the final spending levels. However, in Hungary in 2011-2012, it generated an unprecedented irregularity: Hungary became the most financially pessimistic country in the world. This raised the question of what could have led to such a financial pessimism in a time when macro level measures indicated intense prosperity.

Scientific research have been testing the ability of consumer confidence measures to predict spending for over fifty years. Although there is a consensus that the measure represents the general attitude accurately, and the most impactful studies also confirm its ability to predict the spending, this relationship cannot be universally applied as in some unique cases it appeared to be weak or non-existent. In the time of this research, there has been no thorough understanding of when this correlation could be strong or what factors may lead to those cases where the general relationship between the two measures fail. It is this scientific gap that this study intended to fill via investigating the drivers behind a case of significant discrepancy.

The quest for the potential explanation started with a cross-country comparison, hoping that the general economic and financial situation of the country could provide an explanation for the record low consumer confidence in 2011-2012. However, neither the GPD, nor the household consumption levels were in line with it. The longitudinal review also failed to explain this: consumer confidence in Hungary was not continuously lower than in other countries; the record low level was rather a result of intense decline over the course of a few years. The trend of household consumption expenditure, as a potential explanation, also failed to provide an explanation, just like other major economic factors. Furthermore, the comparison of spending to consumer confidence amplified the uncertainty: what could have made people so financially discontent when they were actually increasing their spending?

The investigation for the explanation was not an easy one. As the subject of this study is a complex phenomenon, the potential explanations had to be created based on several approaches from different disciplines. The first theories explored were those that focus on income and spending. On one hand, these may explain the drivers of spending, and on the other hand, they also provide the theoretical foundations for the consumer confidence measures. The Keynesian theory on income (1936) suggested that spending would primarily rely on income, so I compared it to the trend of income to see if it explains the trend of spending. As a second step, I reviewed the relative income theory and its potential explanatory power, expecting the social comparison to have an impact on how people evaluate their financial situation. This led to the creation of the “Benchmarking” perspective, which argues that comparisons to benchmarks in the society could be important drivers of the consumer confidence but alternatively also of spending. The permanent income theory appeared to be a reasonable choice as a third factor to review: this builds on the Keynesian income theory and is strongly linked to the consumer confidence survey that enquires respondents about the expected change of income. Based on this, I created the perspective called “Referencing”, which suggests the trend of income to impact spending and consumer confidence.

Besides these three theories primarily relying on different approaches to income, I considered two further theories. Behavioural economics was considered to provide further perspectives on spending, especially in the matter of increased spending. Last, but not least, the role of social values was also considered to have an explanatory potential for the changes of consumer confidence through the importance of norms, stability, material values and envy, trend of human development and the pressure to conform. Available secondary data from all these areas were compared then to the trends of spending and consumer confidence, with the goal to highlight if any of these perspectives would possess a significant explanatory power.

These comparisons revealed three problematic periods between 2005 and 2019, with sudden and major drops of consumer confidence: 2006-2007, 2009 and 2011-2012. In search of a potential explanation, I reviewed numerous economic and social indicators. Although there was no single, exclusive factor to highlight, the constellation of several determinants presented a very realistic scenario. First, the changes of income appeared to explain the changes in spending: people were spending more – even when consumer confidence was low or declining – because they had more disposable income. With this, the decline of income and spending appeared to provide an explanation for the fall of consumer confidence in 2009. However, the periods of 2006-2007 and 2011-2012 became even more interesting: why were people feeling more concerned about their financial situation when income as well as spending was growing?

For these two periods of discrepancy, the comparison of the secondary data to the scientific theories indicated a slightly more complex explanation. In these years, while income was growing, it was not equally shared within the society, resulting in an growing income gap and relative poverty in the first years of these 2-year periods. For the second years, the inflation intensified, leading to a decline of savings. What this means in practice is that first a growing income gap made a significant part of the society discontent with their financial situation, then a price increase actually made them – and probably even a wider part of the society – be worse off in an absolute value. These two impacts appeared to have built on each other and accumulated into an unprecedented drop of consumer confidence.

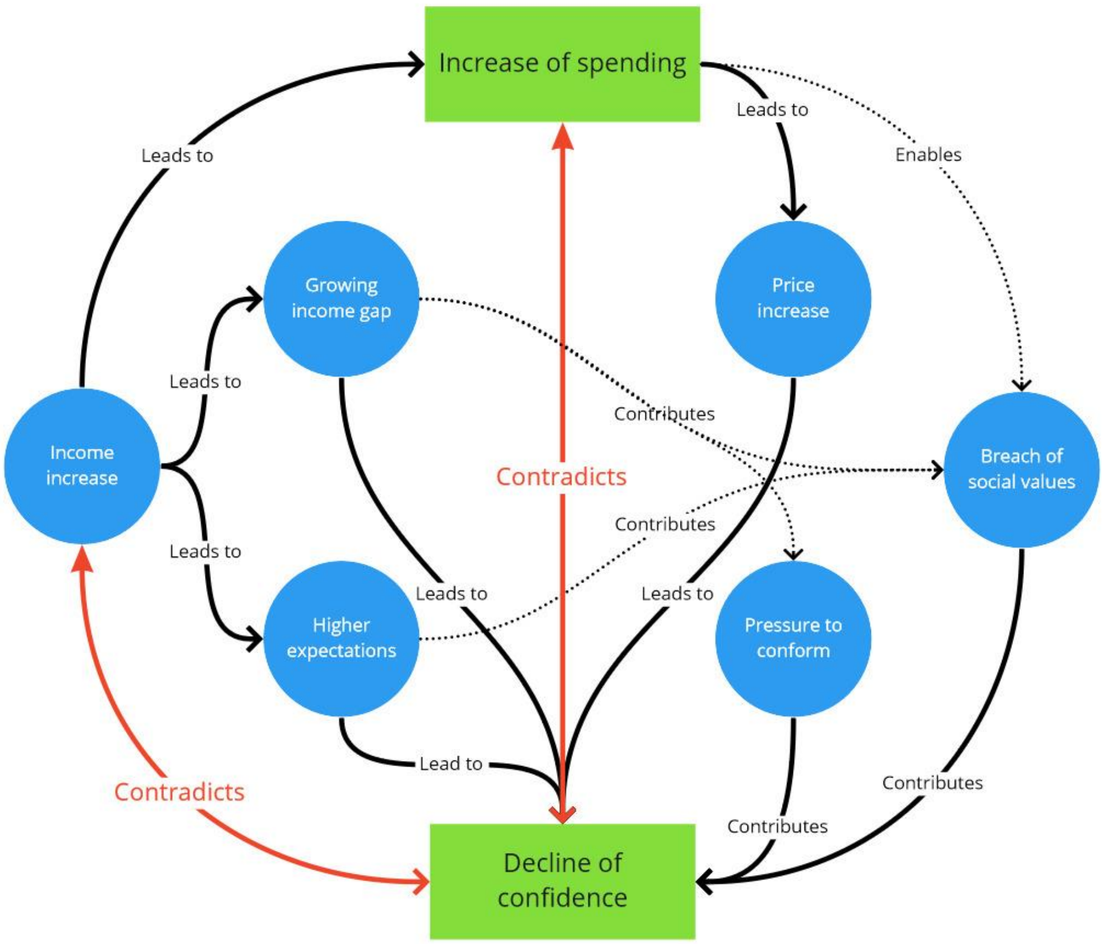

Figure 16 - Determinants leading to the discrepancy

The case of 2012 is especially important as that year registered the record low consumer confidence level in Hungary. Besides the determinants that led to a similar situation in 2006-2007, this period was further aggravated by unique factors. From the perspective of income, people were having high expectations: the preceding prosperity, the significant income increase in 2010 and even its moderate level in 2011 was most likely perceived as a sustainable one. When that trend of income growth disappeared by 2012, people had to downscale their aspirations, leading to a disappointment and low consumer confidence. Besides the pure financials, specific social and economic trends also contributed to this confidence decline: an increasing pressure to conform, with the risk of individual liberty and democratic values being slashed, most likely intensified in 2012, and along with breaches of the norms like corruption and crime these could have significantly contributed to the severity of consumer confidence decline.

The secondary research was able to construct several, highly plausible theories that could be tested and validated during the primary research, along with the research assuring an opportunity to reveal further potential explanations. These research questions were focusing on a) whether those who benefit most from the prosperity would have a positive sentiment, and equally, if those with a negative sentiment would contribute to the increasing expenditure levels, b) whether the actual financial situation is a dominant factor in the sentiment or relative perspectives also play a major role, and c) if non-financial determinants are important factors, and if so, what are these determinants?

The main challenges during the primary research were the complexity and diversity of potential explanations, and that the time when the research was conducted – at the end of 2019 – did not represent the same conditions as the periods of discrepancy between 2006-2007 and 2011-2012. The selection of the proper research method was made along the principles of having the highest added value, providing the most solid foundation for the other research methods and to be the most feasible. As a result, qualitative personal in-depth interviews appeared to be the most reasonable method of the primary research, while quantitative research and econometric modelling have been recommended to follow as subsequent, separate research.

During the primary research, I separated the two sides of the discrepancy by focusing first on those drivers that are capable of increasing the spending, followed by the ones that can drive the decline of consumer confidence. The part which focused on the drivers of spending provided an answer for the 2nd hypothesis, so whether people with low consumer confidence would be spending more. Findings confirmed that even people with lower consumer confidence can end up contributing to the higher expenditure levels. However, during a financial hardship this would not be driven by people willing to spend more but due to external factors, which would increase the overall expenditure level but would also lead to decreased consumer confidence.

Several factors could be capable of resulting in this outcome, should they coincide with each other due to a (or several) trigger(s) that potentially appear at the same time: deciding to adopt a more open-handed spending attitude due to social pressure, the desire to achieve an instant reward and sense of happiness through the purchase or because of not seeing it worth continuing saving up (both these options directly confirming the 2nd hypothesis), prices going up and individuals not being able to adjust their consumer basket downwards (confirming the 3rd hypothesis), being unable to properly estimate the costs and end up spending more than planned, or even due to commercial and marketing tools driving an increased spending.

The 1st hypothesis, so whether people that benefited most from a prosperity – in the time of income inequality – would express a positive sentiment, found an answer in the field of values and norms. As the Hungarian society was strongly relying on the notion of equality, while determined also by high level of envy, it seemed unrealistic that a prosperity in times of inequality would have led to (an expressed) increase of consumer confidence. Due to the culture of complain, it is very plausible that even those in better financial situation rather expressed financial concerns, or at least disguised the real positive sentiment, at least on a general scale. Furthermore, as the more successful people appeared to use less social benchmarks, they may not have even perceived their improvement to be as outstanding. As a result, while the increasing expenditure could be sourced from every part of the society, some willingly, others due necessity, the declining consumer confidence was probably driven by a part of the society not expressing its content while the other one being even more discontent and expressing it. As a result, this hypothesis was rejected.

These previoud findings provide a solid reason to argue that higher spending level should not be considered directly as a sign of the entire society becoming more content with their financial situation. There can be various drivers to motivate higher spending even for those with more pessimistic sentiment about their financial situation, which the aggregate spending measures would – correctly – pick up. In parallel to this, the consumer confidence measure could also be considered to represent the reality. In case these metrics contradict each other, one needs to dig deeper into the actions and the responses: those with higher income generate higher spending but not necessary higher confidence levels, while others spend more out of necessity but they do express their financial discontent in a higher number or with higher intensity. As a result, consumer confidence as well as macro level expenditures can still be considered reliable, but their comparison should take into account income distribution, inflation and look at the society in details.

Moving the focus from spending to consumer confidence, the first thing I realized was that consumer confidence should not be comprehended as an alternative indicator of the financial circumstances – as is currently considered – but as a distance between the financial situation of individuals and what they aspire for. Hence, I would suggest using the following concept for the comprehension of what this measure stands for:

$$CCI = A - (FA+NA),$$

where:

CCI = Consumer confidence (Index),

A = Aspirations,

FA = Financial aspects of confidence,

NA = Non-financial aspects of confidence.

Based on the findings of the primary research, I mapped four major types of the aspirations:

1. The level of subsistence is actually a basic need, and although people can adjust to this financial situation, it can also lead to an intense and hardly irreversible dissatisfaction,
2. Being able to accumulate savings was the first major turning point towards a higher

confidence level, which appeared to have a really high importance,

3. Being able to afford goods and services of leisure or convenience appeared to lead to another major determinant of confidence,

4. The fourth stage in the scale of aspirations was the level where obtaining goods and services was less dependent on the financial situation of the individual and more determined by external, non-financial factors.

It was along these major milestones that I found significant changes in the level of consumer confidence, but not in a mandatory, linear way: setting these aspirations and even achieving them was not exclusively a guarantee for a low or high confidence of the individuals. It was also a question of how individuals consider and appreciate this situation, and this is where the financial and non-financial determinants of consumer confidence come into the picture, as a second layer in the creation of personal satisfaction.

Along the line of the second research question, so whether the relative financial situation can suppress the absolute situation, I first mapped the importance of pure financial factors – like income and jobs – in the construction of confidence levels, and then compared them to non-financial factors, based on the permanent and relative income theories. This led to several important findings on how to comprehend consumer confidence results.

Comparison, as a factor to influence the confidence, appeared to have a much more significant impact than previously expected. People do not evaluate their situation exclusively based on their own present conditions and the real, absolute value of their wealth and income, but they look back at the past and look around in their surroundings and in the broader society. Looking back at previous life events seemed to be able to influence consumer confidence upwards as well as downwards. People with major changes compared to the past, as well as those with rather minor ones were also taking past events as reference points, according to which they could evaluate their present financial situation. The timeline was almost unlimited, so even their financial condition many decades earlier was having an impact on the present evaluation. This is really important for the proper understanding of consumer confidence: growing income and spending may not be enough for making a person satisfied with their financial situation if that still experiences a drop in their financial situation compared to preceding years. So, if the present situation is not superior to any other previous financial situations, or the improvement (also in the form of income growth) is slower, there is a considerable risk of people still representing a negative attitude. Such situation would lead to a declining consumer confidence even if macro measures showcase an increase of income and spending. These findings partially confirmed the 4^{th} hypothesis: having a continuous growth trend is important, but it is not always the preceding years that set the aspired level.

In general, growing income would still make people more financially confident. So, what could undermine this – theoretically improving – situation to the extent that the examined phenomenon presents a declining consumer confidence instead of a moderate improvement? Based on the interview responses, the other form of comparison, benchmarking may play a role here. People do compare themselves to others intensely and anyone can be considered a benchmark. The only common criteria towards the benchmark person was to be frequent or long-term acquaintance, but it can be from the family through friends, colleagues, clients, to an even wider range of options. Furthermore, other cities, counties, regions, or countries, as well as rather distant people – media personalities, public figures – are benchmarked to. How does this impact consumer confidence? In case of an even distribution of wealth and income, probably there would not be any special case; however, if prosperity in a society is not balanced and fairly distributed, it could result in a declining consumer confidence due to the following two, parallel effects.

On one hand, those in solid financial situation and prosperity might not appreciate a further income improvement to the extent to significantly elevate their confidence levels: interviews confirmed that among them the benchmarking effect is less relevant. As a result, if they do better, they would be satisfied “only” due to the actual improvement and they would not be especially content due to doing better off than others. If those with already less financial success are left out from this prosperity, this growing gap can result in a significant decline of consumer confidence as the comparison is a more general attitude for them. The highest risk here is represented by the high amount of potential benchmarks: even if only a few of a person’s acquaintances showcase a prospering that the given individual cannot reach, it could trigger a decline of consumer confidence for that person. This may be especially important and relevant when public figures and other personalities in the mass media achieve significant financial success. This finding is a crucial addition to the 2^{nd} hypothesis, as well provides further details on 5th and 6th hypotheses.

What can make this situation even more severe is if prosperity is (perceived to be) not based on merit but on misconduct like crime and corruption, confirming the 6th hypothesis. The need towards social justice and equal opportunities for a fair level of income was a consistent motive during the interviews, confirming the assumptions drawn based on the review of values and relevant empirical data. Breaches of this value through corruption and financial fraud was perceived to be a major source of frustration in the society at the time of the research: seeing people reaching unimaginable wealth through tools and methods that are not available for every citizen made people feel chained and undervalued. This was also emphasized by the fact that the material values (i.e., a good financial situation) was unequivocally confirmed to be important in Hungary, specifically for those who were not benefiting the most from the prosperity; a result that confirmed the 5th hypothesis.

The high relevance of benchmarking and referencing provided a partial answer for the second research question: the relative financial situation can have a fundamental importance on individuals' assessment of their financial situation, especially in times of inequality, in a society that relies on equality and carries a high level of envy. Corruption and crime are frequently considered as breaches of norms that also challenge the equality. Overall, it is reasonable to assume that in times of discontent these comparisons gain higher importance, however, the research could not evaluate whether this can be a more impactful factor than the absolute financial circumstances.

The discontent due to inequality and breaches of norms was probably further escalated by the fact that people felt oppressed not to talk about corruption, especially if that is suspected to be linked to the governing political forces; the social pressure towards taking a neutral or approval attitude was very high. This created a general level of fear of negative consequences upon expressing discontent towards politically linked corruption, and the topic of politics was also considered as the most sensitive one. In this perspective, the high corruption and crime rates in 2011-2012 suggest a similar attitude to be present, strongly contributing to the record low confidence levels.

The research revealed further social values to contribute to the decline of consumer confidence: the tradition of envy and complain. The way this could impact consumer confidence is quite similar to that of benchmarking. Complaining, as a potential reaction to envy, may appear in a similar situation: those who benefit from prosperity would not admit their success but rather stay modest and complain in order to hide this success; an attitude that was considered to be the legacy of the state socialist setup in Hungary in the second half of the 20th century. On the other hand, those who are left out from prosperity would complain out of envy; these two cases could then make the whole society represent a complaining, negative attitude, while actually the financial growth would still be present. All this would require is an uneven distribution of wealth and income, and could be further amplified by extreme cases of enrichment of public figures due to fraud and corruption, all covered by the mass media.

The third research question focused on bringing to the surface non-financial drivers that could impact consumer confidence. The presence of envy was confirmed as well as the culture of complain, as a general reaction to the envy. In addition to that, there was very likely a pressure to oppress any disapproval that people felt regarding the breaches of norms, as well as any standpoint in favour or against the political parties or any other area that was in the focus of the political communications; a situation that created a high level of frustration below the surface. These findings partially confirmed the 7th hypothesis: there was a negative sentiment due to the suppression of individual opinions, but the source of it was not directly the changes in a development towards individual liberty but the high level of unexpressed frustration. This could have further amplified the intensity of negative sentiment that the consumer confidence survey picked up by providing a platform where such discontent could be freely expressed.

So, what have we seen in these periods of discrepancy and what can we learn from it? The findings confirmed the 2nd, 3rd, 5th and 6th hypotheses, partially confirmed the 4th and 7th hypotheses and rejected the 1st hypothesis. The assumption we may draw based on these insights is that in both periods, the decline of consumer confidence was most likely ignited by an increase of income and its uneven distribution that made the less fortunate part of the society feel discontent as well as the rather fortunate part of the society turning towards complaining to disguise their success. Still, the higher disposable income appeared in the economy as an increase of spending along with a price increase of goods and services in the next year. At this point the less fortunate people were able to afford only less, while those with income growth also suffering a setback due to the halt of the growth of previous years. By the end of the 2nd years within these periods of discrepancy, people were highly discontent with their financial situation due to seeing, on one hand, others being better off, and on the other hand, sensing that their own financial situation even got worse either by their money losing purchasing power or their previous income growth disappearing.

And how did this result in a record-low consumer confidence in Hungary in 2011-2012? The explanation for this most likely lies not in the financial factors but in social ones. During these years, the consumer confidence probably contained much more of these elements than in other years, due to a discontent with other areas of life. The amplification of corruption and the subsequent increase of crimes peaked in 2012, along with the pressure to hold back any negative feeling towards such breaches of norms. Ultimately, the consumer confidence surveys could have provided a safe space for people to communicate this discontent, which was already at an aggravated level by the time it got expressed.

Recommendations for the utilization of the research results

The key learnings from the research go beyond these aforementioned explanations for the phenomenon of the discrepancy, as there are holistic as well as practical recommendations to consider.

Firs, that a state of prosperity from which only a part of the society benefits does not necessarily lead to a society-level increase of satisfaction, but may equally result in a general discontent. Such potential outcome should be considered when planning social policies or analysing the results of prior initiatives. Furthermore, the consumer confidence results should be comprehended as an indicator of how far people sense their situation to be from where they aspire to be, and not as a like-for-like representation of the actual financial circumstances.

Second, that non-financial factors may play a fundamental role in determining financial actions. A stable or improving financial confidence can only be achieved by social values that enable and support it: high level of social justice, income equality, individual liberty and low level of corruption, fraud, oppression. Economic policies that intend to boost a country's economic performance through increasing consumer confidence might need to look for tools beyond the regular financial ones like increasing income. Failing to properly understand whether a society requires improvements not only in the financial but also in the non-financial dimensions may lead to a situation where an overheated economy is not capable of generating the expected financial prosperity and individual satisfaction.

Beyond the recommendations for social and economic policymakers, the findings provide several important notes for the measurement and utilization of consumer confidence as well. For a more accurate measurement of consumer confidence, the research advises the following changes in the measurement methods: a) cover also the financial satisfaction in general and not just in its details, b) assure that the questions allow reflecting on relative perspectives (referencing and benchmarking) as well, c) do not restrict the future aspect to only 12 months, d) map the satisfaction with the quality of employment. Subsequently, when evaluating the results of consumer confidence measures or testing its ability to predict spending, a comprehensive understanding can only be achieved if these additional factors are also taken into account. Studies that are not entirely convinced about the predictive power of the consumer confidence or would require an explanation for an unexpected weak or non-existent correlation are advised to take into account the factors that are revealed in this study, knowing that there can be such constellations of these determinants that entirely suppress the relationship between consumer confidence and spending.

Focusing on the future perspective, the most important recommendation of this study would be to use this knowledge and cautiously observe upcoming trends. According to both the secondary data and the primary research, new risks have been presenting themselves more and more frequently: the years of 2018 and even more importantly 2019 showcased again a growing gap between how income and consumer confidence trends changed. In addition, there was a frustration in the society due to income inequalities, corruption, and oppression of opinions. These two sources very strongly suggest a cautious approach to the years following 2020, when unexpected consumer confidence drops may happen due to economic or social turmoil. Should the discontent meet further periods of instability, it could lead to long-lasting negative results, but this may be avoidable or at least manageable with a proper consideration of the findings of this study.

Subsequent research based on open questions

As a next step towards a thorough understanding of the consumer confidence measure, I recommend conducting two more research. In an econometric research the actual importance of the factors that this study enlisted and revealed could be measured in order to understand their explanatory power for the changes of consumer confidence and spending. Such econometric research could measure the direct impact of the determinants on the phenomenon of discrepancy because the primary research was conducted in a time when the examined discrepancy was not present, thus, some of the factors might have a different weight than assumed based on these findings. Following that, quantitative research should be conducted, as panel research. This would enable the individual-level comparison of the consumer confidence and spending, so that in the period of the next discrepancy, an accurate analysis could be provided.

With the help of this research and the recommended two additional ones, we would have a detailed picture of what factors play a role in how people evaluate their financial situation and what determines their expenditure levels, to what extent would each of those factors determine these outcomes in regular times as well as in times of discrepancy, and ultimately, we could also reveal and understand the personal, individual motives behind those cases.

APPENDIX

Appendix #1: Interview guide of the personal interviews, in English

1. When was the last time you purchased something and what was it?
    a. Could you share some details about your latest high value purchase?
2. Do you have any general approach or a philosophy towards spending and purchases?
    a. Do you make a shopping list?
    b. Do you review your budget?
3. Has it ever happened to you that your final spending exceeded you prior plans?
    a. If so, what could have been the reason for that?
4. How much do you consider yourself to be aware of the prices and promotions?
    a. When was the last time you experienced any change in these?
5. Does increasing prices have any impact on your spending habits?
6. How do you split your purchases between using cash and card for payment?
7. How satisfied or dissatisfied are you with your current financial situation?
8. What would be a satisfying financial situation for you?
    a. On what do you base this aspiration?
9. To what extent do you consider your current situation to be suitable for purchasing the goods you want and need?
    a. Can you accumulate savings?
10. Has it ever happened to you that you were saving up for a costly purchase but finally you had to let go of it?
    a. If so, has this changed your spending and saving habits?
11. How do you feel about your own personal finance in the next 12 months?
12. What do you predict about your job prospects in next 12 months?
13. How has your financial situation changed in the past years?
    a. When was the last time your income has changed and how often did it change?
14. How satisfied are you with your financial situation and its change in the past years?
15. Has it ever happened to you that you were satisfied with your financial situation and it positively impacted your perception of other areas of life?

16. Has the opposite ever happened to you that you were not satisfied with your financial situation and it negatively impacted your perception of other areas of life?
17. Are there any areas of your life that you are dissatisfied with or concerned about, excluding the financial perspective?
18. Does this have any impact on how you think about your financial situation?
19. Is financial prosperity important or not?
    a. Is the comparison of one’s financial situation to others an important detail for Hungarians, or not?
20. Can you name people who are doing well financially?
    a. Can you also name people who are not closely related to you?
21. Can you name a few people who are facing financial hardship?
22. Would you say that people around you have experienced an improvement of financial situation, or remained the same, or rather worsened?
23. Is financial success and prosperity a rare or a common thing in Hungary?
24. What are the options for those people for whom the situation has not improved or are not satisfied with that situation?
    a. Do you know anyone to be recently impacted by crime or corruption?
        i. If so, has this impacted your assessment of your financial situation?
25. How open are people to those opinions that may be contradictory to theirs?
    a. Have you experienced any change in recent years in people’s openness?
26. Can you recall any situation where you or somebody else you know did not express an important opinion in order to avoid confrontation?
27. How much you think the average income is in Hungary?
    a. How does your income compare to this?
28. Demographic information:
    a. What is your employment status and type (e.g. employed or not, in public or competitive sphere, etc.)?
    b. What is your highest education level / degree?
    c. How many people live in your household?

Appendix #2: Interview guide of the personal interviews, in Hungarian

1. Mikor vásárolt legutóbb valamit és mi volt az?
    a. Mesélne a legutóbbi olyan esetről, amikor valami nagyobb összegű dologra költött?
2. Van valamilyen általános irányelve, filozófiája a vásárlásokat/kiadásokat illetően?
    a. Szokott vásárlási tervet készíteni?
    b. Szokott utólagos kiadáselszámolást csinálni?
3. Előfordult Önnel, hogy többet költött a tervezettnél?
    a. Ha igen, annak mi lehetett az oka?
4. Mennyire szokta Ön figyelni az árakat, illetve a promóciókat? /Nyomon követi.
    a. Mikor tapasztalt legutóbb változást ezekben?
5. Van az bármilyen hatással a vásárlási döntésére, ha/amikor növekednek az árak?
6. Milyen arányban használ bankkártyát és készpénzt a fizetésekkor?
7. Mennyire elégedett vagy elégedetlen Ön a mostani anyagi helyzetével?
8. Milyen anyagi helyzettel lenne elégedett?
    a. Mi alapján határozta meg ezt az elvárást?
9. Mennyire tartja a mostani helyzetét megfelelőnek arra, hogy megvegye azokat a dolgokat amiket szeretne vagy amire szüksége van?
    a. Tud félrerakni, spórolni?
10. Előfordult Önnel olyan helyzet, hogy egy nagyobb volumenű befektetésre gyűjtött, de végül le kellett mondania róla?
    a. Ha igen, ez változtatott a költési és spórolási szokásain?
11. Hogy látja, hogyan fog változni az anyagi helyzete a következő 1 év során?
12. Mire számít, hogyan fog változni a munkahelyi kilátása a következő 1 év során?
13. Az elmúlt évek során hogyan alakult az anyagi helyzete?
    a. Mikor változott utoljára a jövedelme és milyen gyakorisággal szokott változni?
14. Mennyire elégedett Ön az elmúlt évek anyagi helyzetével és a változásokkal?
15. Előfordult Önnel olyan, hogy elégedett volt az anyagi helyzetével és ez pozitívan hatott az élet más területeivel kapcsolatos érzésére is?

16. Előfordult-e ennek az ellenkezője, hogy nem volt elégedett az anyagi helyzetével és ez negatívan hatott az élet más területeivel kapcsolatos érzésére is?
17. Van olyan területe az életnek, amivel elégedetlen, vagy ami aggódással tölti el, nem az anyagi tényezőkre gondolva?
18. Hogy érzi, van ez bármilyen hatással arra, hogy Ön milyennek gondolja az anyagi helyzetét?
19. Fontos vagy nem fontos manapság az, hogy valaki anyagilag jól álljon?
    a. Mit gondol, mennyire fontos vagy nem fontos az emberek számára, hogy milyen anyagi helyzetben vannak másokhoz képest?
20. Tudna mondani olyan emberekre példát, akik anyagilag jól állnak?
    a. Tudna mondani olyan példát, akik nem közeli ismerősei és anyagilag jól állnak?
21. Tudna mondani olyan emberekre példát, akik anyagi nehézségekkel küzdenek?
22. Az Ön környezetében/lakóhelyi vagy ismerősi körében az emberek többségének inkább javult az anyagi helyzete, vagy változatlan maradt, vagy romlott?
23. Az anyagi növekedés (gazdagodás) mennyire ritka, vagy mennyire gyakori dolog ma Magyarországon?
24. Mit tesznek vagy tehetnek azok az emberek, akiknek nem javul a helyzete, vagy nem elégedettek vele?
    a. Ismer olyan embert, akit érintett volna mostanában a bűnözés vagy korrupció?
        i. Ha igen, befolyásolta ez Önt abban, hogy hogyan látja az anyagi helyzetét?
25. Mennyire nyitottak ez emberek az övékkel ellentétes véleményekre?
    a. Tapasztalt esetleg az elmúlt években valami változást ezzel kapcsolatban?
26. Történt olyan Önnel, vagy valakivel, akit ismer, hogy a konfrontálódástól tartva nem merte kifejezni a véleményét?
27. Mit gondol, mennyi az átlagos havi jövedelem ma Magyarországon
    a. Hogyan arányul az Ön jövedelme ehhez képest?
28. Demográfiai adatok:
    a. Milyen az Ön foglalkozási helyzete és típusa (alkalmazásban áll vagy nem, saját-köz-verseny szféra)?
    b. Mi a legmagasabb iskolai végzettsége?

c. Hány személy él Önnel egy háztartásban?

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