THESIS SYNOPSIS

of a Ph.D. dissertation by

Csongor Hajdu

titled

Worried While Prospering
A study of the contradictions between consumer confidence and spending in Hungary

Supervisor:
Béla Janky, Ph.D.

Budapest, 2022
Faculty of Sociology and Social Policy

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Table of contents

Table of contents ........................................................................................................3
Objective of the study ...............................................................................................4
Applied methods ....................................................................................................6
Main findings and results .....................................................................................9
Further utilization of the study findings ............................................................18
Previous publications on the subject .................................................................22
Objective of the study

The sentiment of people generally determines their economic actions: when they are satisfied with their financial situation, they obtain a more open-handed spending attitude. On the other hand, having concerns about the income and employment leads to a moderated spending attitude in order to accumulate a safe reserve for a future financial hardship.

Such actions contain very important information for applied social and economic sciences. Financial institutions, national banks, and even economic actors make decisions based on what market conditions are forecasted by the general consumer sentiment. There are solid and well-founded consumer confidence measurements – since 1946 – which are now conducted in over 60 countries, with such high level of reliability that they since became fundamental parts of economic, social and political decision-making all across the world.

Even though these measurements deliver consistent results, from time to time they also showcase irregularities that are very often
neglected. At the end of 2011, beginning of 2012 Hungary was reported to be the most financially pessimistic country in the world. When this consumer sentiment was compared to the financial-related actions, a surprising contradiction revealed itself: people were spending their money like if they had absolutely no financial concerns at all.

The main objective of this study was to examine and explain this contradiction between occasional decline of consumer confidence and growing spending levels. I wanted to clarify whether Hungarian people have been in fact so extremely pessimistic – a notion that is in the general discussions – or if this pessimism is explicable with latent determinants; ones that are usually ignored even if they are capable of ultimately overwriting the general relationship between how people feel about their financial situation and how they spend or save.

There have been several examples in the past decades – in Hungary as well as across the globe – where measurements that are expected to predict individual actions, failed: being Hungarian governmental elections, UK’s referendum on leaving the EU, or the U.S presidential election, just to name a few. Assuring that social research – especially those with immense
impact on politics, economics or finance – are reliable is a vital interest of everyone in all of these disciplines.

My main intention with this study has been to contribute to the proper comprehension of consumer sentiments, attitudes and subsequent actions, so that the conclusions that the professional and scientific experts draw would be valid and thorough. Ultimately, this should lead to better economic, financial and political decisions, benefiting not just the country’s economy in general, but improving the quality of life and the satisfaction of the individuals as well.

**Applied methods**

The phenomenon that the study examines is a quite complex one. The sentiments and the actions of individuals can be determined by a very wide range of factors, from economic through psychological to social conditions. As no single method would have resulted in a thorough explanation, I decided to use a combination of methods: a specific type of mixed method.
First, I applied an inductive, funnel approach. My intention was to validate the severity of this discrepancy between the low consumer confidence and the high spending levels in Hungary, and to investigate the potential explanations.

For this, I analysed secondary data of consumer confidence and the macro-level economic indicators in an international comparison. This revealed that the low confidence level in Hungary is a temporary bias, and that it cannot be contributed to the country’s economic performance. Furthermore, a review of the scientific theories, empirical findings and the relevant secondary data – on income, inflation, social values and reliability – confirmed that a low consumer confidence in Hungary should actually predict a declining spending level. In general, this relationship did exist, but there were time periods where these two measures indicated opposite trends in Hungary; a phenomenon worth investigating.

Even though several potential explanations were checked with the help of secondary data, none of them were able to thoroughly explain this discrepancy; they rather amplified the gravity of the situation. Fortunately, this investigative, inductive review of theories, empirical findings and secondary data
provided a clear guidance for the selection of the primary research method and a handful of hypotheses to be validated via that research.

As a second part in the study, I conducted a primary research. This time, the approach was on one hand a deductive one, with the intention to validate the hypotheses that I previously constructed, but on the other hand also to reveal latent determinants and explanations. Among the three relevant research methods of econometric modelling, quantitative survey and qualitative interviews, the latter one came out as the most reasonable selection, due to its overall superiority above the other two in the perspectives of added value, providing the most solid foundation for the other types of researches, and feasibility.

I conducted 20 personal, in-depth interviews, between November, 2019 and January, 2020. The questionnaire of the interview consisted of 28 questions, covering all the previously constructed hypotheses as well enabling other insights to be surfaced. The results were analysed in Nvivo, with thematic analysis method.
Main findings and results

The secondary research was highly efficient in clarifying the depth and severity of the phenomenon, validating hypotheses and answering the research questions. The research managed to provide a solid explanation for the examined discrepancy, and generated recommendations also for economic policies as well as for measurement institutions on how to further improve the consumer confidence measurement.

The base of the analysis was the discrepancy between declining consumer confidence and increasing spending. Between 2005 and 2019, the changes of the consumer confidence were generally in line with that of spending: when people were concerned about their financial situation, they spent less, while higher confidence was resulting in higher spending. There were two time periods that broke this trend: 2006-2007 and 2011-2012, the periods of discrepancies. During these times, people were getting more and more concerned about their financial situation while their spending level was increasing, contrary to
the common scientific expectations. The observed phenomenon was the result of a special constellation of several, seemingly distant and independent factors.

What the secondary data presented and the primary research confirmed is that income played a major role here, but not in a regular way. While the income was growing on a national level in the first years of both periods of the discrepancy, this did not result in a fairly distributed prosperity: the income gap was growing, so while some benefited from this improvement, others were left out and left behind. For the second year in both these periods, the consumer price inflation speeded up, leading to higher costs even for those who did not benefit from the income growth. As a result, even if the nation-level metrics presented a general increase of spending, this was not due to people feeling more content about their financial situation, but rather the contrary: a growing income gap made a significant part of the society discontent with their own financial situation, and the following price increase actually made an even wider part of the society be worse off not just relatively, but in an absolute value.

During the second period of discrepancy, in 2011-2012, this impact became even more severe. That time registered the
lowest consumer confidence ever registered in Hungary, which was then also the lowest one across the globe. For a proper explanation I had to dig deeper than the obvious financial measures, while still making a clear structure among the various, different determinants.

The first important insights came up already in regard to spending. Even if on a topline level the expectation would be that higher spending level is a manifestation of higher confidence, that is not always true. Price increase of essential goods and services, lack of transparency or reliability in prices or social pressure may lead to unintended increase of spending even in time of declining consumer confidence. Even though when the primary research was conducted it was impossible to reconstruct the same conditions as in 2011-2012, these spending-related potential explanations were consistent and plausible.

The other side of the equation, the confidence levels, provided even more detailed insights. A fundamental finding of the primary research was that considering consumer confidence as the like-for-like manifestation of individual’s financial situation is inaccurate. Consumer confidence should rather be
comprehended as the gap between one’s aspirations and the reality: the closer one is to the other, the more confident a person is, while a bigger distance between the aspirations and the reality – or at least as perceived by the individual – results in higher discontent, lower confidence.

Using this perspective, I was able to map the key milestones between lower and higher confidence levels. The level of subsistence is a basic need, and while some may adjust to this, it also contains a very high risk of turning into hardly irreversible dissatisfaction. Being able to accumulate savings means a major step forward. Being able to afford goods and services of leisure and convenience stood as a following turning point. Ultimately, obtaining goods and services that are determined by external, non-financial factors was the fourth major breaking point between low and high consumer confidence. Should the prices increase in a way to push people from above these key milestones to below could result in an exponential drop of consumer confidence levels. As the increase of prices was present during both periods of discrepancy, this aspect also carried a high explanatory power.
Declining consumer confidence may be also a result of the aspirations getting further. The primary research confirmed two ways through which comparison determines the confidence levels. On one hand, comparing one’s situation to others that are considered as benchmarks appeared to be more important than I initially expected. While there was no general conclusion of who are looked at as a benchmark, as everybody had a different set of benchmarks, it was confirmed by the research that this effect is strong, adding a significant amount of relativity to the consumer confidence. On the other hand, looking back at past time, previous situations were also often used as a reference for the evaluation of the present situation: growing income and spending levels may not lead to high consumer confidence if that situation is still inferior to a better situation in the past. As a result, comparison could contribute to the decline of consumer confidence through a growing income gap and a halt of previously experienced financial improvement; two conditions that were both present in the times of discrepancies.

Nevertheless, reaching a record-low consumer confidence required even more factors to significantly contribute to the
negative sentiment. These determinants are usually neglected but fortunately the primary research brought them to the surface. This was the point where the real value of the qualitative research was realized through a proper examination of non-financial factors like the comparison which was confirmed to be a major determinant of the confidence level. In times of general and evenly distributed income and wealth these following factors would play a negligible role, but should we face an uneven prosperity and further financial challenges through inflation, these determinants may fundamentally change the outcome.

What the primary research – consistently – suggested is that comparison is less important for those who benefit from financial prosperity and more important for those who are left behind. As a result, a widening income gap can make the less fortunate part of the society more discontent while not making the fortunate part more satisfied, leading to a general decline of overall consumer confidence.

In addition, the Hungarian society was confirmed by the primary research to carry a need towards social justice, especially in the material matters. What this means is that the society expects a
commonly available opportunity for everyone to succeed and prosper and strongly opposes breaches of this value, for example by fraud or corruption. The general sentiment has been that these latter phenomena are getting more general in the society and the economy, making ones embarrassingly wealthy while restricting the majority of the society from acting the same way. As the secondary data confirmed the increase of crime and corruption at the time when consumer confidence dropped to its record low level, the frustration due to income inequality, fraud and corruption appeared to have a strong explanatory potential.

Besides these breaches of the expectations of the society, the research surfaced determinants that may seem in general too distant from the consumer confidence, but appeared to be high on the list of potential factors that lead to frustration and discontent. The discontinuation of human development and the halt of movement towards a democratic setup could have contributed to the decline of consumer confidence, but these could not be retrospectively validated by the research. However, the study was able to surface that people felt pressured to stay silent about a negative financial sentiment, especially if the
frustration was triggered by corruption and crime that could be – perceived to be – linked to politics.

Furthermore, there were important social values to play a major role here and further amplify the level of frustration. The qualitative research confirmed that complain and envy have been fundamental components of the Hungarian value system and their importance increased in times of uneven prosperity in the society. On one hand, the intention to avoid the envy of the society, those who benefit most of the prosperity may obtain a more intense attitude of complain, in order to disguise their financial success. On the other hand, those who sense the enrichment of others but are not able to improve their own financial situation increase their level of complain due to the hardship. Overall, this results in both that part of the society which prospers as well that with financial challenges to complain more, which can then be reflected by the consumer confidence’s decline. The habit of envy and complain appeared so consistent in the research that it should be considered as an important and valid determinant of the record-low consumer confidence in Hungary.
The study not only revealed interesting contexts for the scientific disciplines but also generated recommendations for the measurement institutions as well as for policy-makers of economics and sociology. In regards to the consumer confidence measurement, the research highlighted potential areas of improvement for the institutions that conduct these surveys, including both the variety and the formulation of the survey questions. Applying a separate question to focus on the financial satisfaction in general, assuring that the questions allow the reflection of the relative perspectives (referencing and benchmarking) and the non-financial determinants, not restricting the future aspect of the survey questions to only 12 months, and adding a question that maps the satisfaction level with the quality of employment would be four important adjustments with a high potential of a more accurate measurement of consumer confidence.

On a more holistic level, the most important finding of the study – and the most intense recommendation towards economic experts and policy-makers – would be to be cautious about the expected positive impact of income and income growth on the consumer satisfaction. Prosperity for a part of the society does
not lead to a general confidence of the entire society, but on the contrary, can result in a significant discontent. Furthermore, the constellation of non-financial factors like social values, social justice, income equality, human development, corruption and fraud may occasionally undermine the consumer confidence and ultimately jeopardize economic growth; a phenomenon which experts may find surprising, unless comprehending and applying the findings of this study.

**Further utilization of the study findings**

The initial intention of the study was to clarify the reason behind the exceptional low consumer confidence in Hungary, which also contradicted the increasing spending levels. Fortunately, it not only delivered on this expectation, but even went beyond that in regard to generating insights and recommendations.

There are three achievement through which the study contributes to the applied and theoretical economics and sociology. First, by better understanding the society and the
actions and reactions of the individuals. The sentiment of people and their subsequent actions are often more complex than what the ordinary economic models would count with: people have expectations regarding themselves, for others and for the society in general, and if those are not met, they may not act immediately punitively, but they generate a negative attitude that may jeopardize social stability and economic growth.

Second, the study provides valuable insights for the research institutes to fine-tune their regular consumer confidence measurements. Even though I do acknowledge the strength and reliability of these measures, they often make it challenging to fully comprehend the mechanisms behind the changes of consumer confidence, and occasionally also fail to cover the full spectrum of perspectives. The relevant recommendations of this study should help improving in these areas.

Last, but not least, the study provides important insights for economic and social policymakers. The most important lesson learned from the research would be that the link between macro-level prosperity and nationwide financial satisfaction is extremely fragile. Even in times when the GDP and income grow, people may become discontent if there if they do not
sense their own situation improving, lack equality in prosperity or experience a set-back in human development.

Following the events since 2020, these findings should be taken very seriously. Lack of consumer confidence is generally expected to lead to a decline in spending, and as consumer spending is a major driver of the GDP, this may ultimately shake the foundations of the country’s economic growth as well. Variations, especially intense declines of consumer confidence may be the indication of an underlying discontent which might only need a small trigger to transform into a major economic setback.

Furthermore, should there happen a major economic turmoil, the economic and social decision-makers must then take into account fragile attitude of consumer confidence, so the actions and policies should put proper amount of emphasis on the needs and expectations of the society if they want to put the economy back to a growing track.

It is due to these previous reasons that the work should not stop here, with this study being completed and conclusions drawn. Even though the qualitative research was a reasonable choice of
method, further research would need to be conducted for a thorough understanding of the discrepancy between how people feel and how they act in regards to their financial situation. While this study revealed the potential drivers of the discrepancy, as well as the method how they work, there are two more essential steps that should be taken.

First, an econometric modelling could be run, in order to determine the importance of the different drivers of the consumer confidence. Second, a continuous tracking of the spending and the consumer confidence on the same sample should be conducted, almost like an advanced version of the household consumption panel. This would enable separating each individual’s spending and confidence levels, making it significantly more effective to examine and understand the changes on one side or the other.
Previous publications on the subject


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