

## **CONSUMER CONFIDENCE: THE CASE OF THE BALTIC STATES DURING COVID-19**

**Ugnė Kisielytė-Reches**

Mykolas Romeris University, Lithuania, e-mail: u.kisielyte@gmail.com

Received April 2021; Accepted June 2021

### **Abstract**

**Purpose** – to discuss the phenomenon of consumer confidence as well as importance and ambiguity of consumption with respect to quality of life in the Baltic States during COVID-19 pandemics.

**Design/methodology/approach** – The analysis and synthesis of existing theories and researchers is provided. The statistical data is evaluated.

**Finding** – private consumption accounts for about half of GDP in the Baltic countries. During pandemics consumers have remained more optimistic in Lithuania compared to Estonia, Latvia and average of the EU. Lithuania experience a lowest decrease in the GDP growth among countries of the EU.

**Research limitations/implications** – Research is limited by the inaccessibility of statistical data. Very few indicators are up to date.

**Practical implications** – Consumers and their power are often neglected. The results may be used to analyze the decisions needed to be taken to reduce the impact of pandemics on economics. The consumer confidence allow not only to analyze the current situation but to look into future too. This indicator is updated faster than key determinants of consumption. It is valuable for policy makers.

**Originality/Value** – The prevalence of consumerism and importance of consumers in economies and society have had a growing role. Then worldwide COVID-19 pandemics hit. All the consumers and economies have been affected. They keep fighting the pandemics and its consequences. It is the ongoing crisis not only on the health aspect but economic and social too. Despite the evident impact there is a lack of empirical research and up to date statistics. It is important to analyze the situation in order to make sound decisions on political economy and get out of the crisis more fluently. Consumers are at the heart of modern economies and their confidence may not only reveal the effects of crisis but also how to reduce the negative consequences.

Consumer influence is growing in modern economies. Nevertheless, there is a lack of research on consumer confidence not only in the Baltic countries but also in the European Union.

**Keywords:** consumer surveys, consumer confidence, quality of life, COVID-19, Lithuania, Latvia, Estonia, European Union.

**Research type:** general review.

**JEL classification:** I3.

### **Introduction**

Consumers have the growing role in world economies. Consumerism is an ambiguous matter raising opposing questions. The setting of modern consumers and problematics of sustainable economic development are hit by repeating crisis. Dealing with any crisis in this context is challenging. Yet, what happens when the overwhelming global issue hits everyone.

The beginning of 2020 was marked by the start of COVID-19 pandemics. It touched every country and their citizens. The health, economic, social sectors continue to fight the enemy in 2021. The overwhelming crisis revealed weaknesses but also created opportunities. Consumer behavior changed. However, we still do not know if permanently. Video conferences instead of hand shaking have become the new normal. All the consumers and economies were affected and keep fighting the pandemics and its consequences. Work from home has prevailed. Online shopping increased tremendously. Travelling seized. Schools closed. Social distancing prevailed. Masks covered our noses and mouths. Consumers were closed at home. No one predicted that. Only horror movies could have painted the situation but just on the fiction level.

The European Union (the EU) was not the exception. The Baltic countries were touched by the infection a bit later due to being smaller, further and more isolated countries. It is the ongoing crisis not only on the health aspect but economic and social too. Despite the evident impact of COVID-19 on the economies, consumers and their lifestyle, there is a lack of empirical research and up to date statistics. It is important to analyze the situation in order to make sound decisions on political economy and get out of the crisis more fluently. Consumers are at the heart of modern economies and their intentions may not only reveal the effects of crisis but also how to reduce the negative consequences. Consumer influence is growing in modern economies. Yet there is a lack of research on consumer sentiment not only in the Baltic countries but also in the EU.

Taking into account the importance of consumers and their consumption to the modern economies and a little amount of up to date statistics, this research aims to analyze the relevant existing data, research the concept of consumer confidence, investigate statistical data, provide implications about the nearest future. The aspect of quality of life is a taken into account while examining the available data.

## **1. Theoretical Aspects of Consumption**

When examining the consumption theories, the conflict of two main views arises. One side argues that higher consumption is faulty and encourages saving even during crisis (F. A. Hayek, A. Schwartz, L. Mises). While such authors as J. M. Keynes, R. Reich, A. Sen, J. Stiglitz discuss that household consumption is the main engine of economy. Strict cuts of public spending weaken the demand, lower private income and leads to deeper crises (Sen, 2015). Household consumption has to be encouraged to promote economic growth (Reich, 2012). Meanwhile the EU is continuing fueling economy to outweigh the negative effects of COVID-19 pandemics.

**Consumer behavior.** The consumers and their spending is critical to modern economies. Yet consumers tend to be spontaneous and unstable in decision-making (Bauman, 2007). The conflict of consumer importance and negative impact of consumerism arises. At these times of consumerism

the COVID-19 pandemic and the lockdown as well as social distancing requirements have interrupted consumption patterns of buying and shopping dramatically (Sheth, 2020). As people with more stress tend to be more pessimistic about the economy, it is interesting to see the tendencies in consumer confidence after crisis (Giesen & Pieters, 2019).

The COVID-19 pandemic and the lockdown and social distancing mandates have disrupted the consumer habits of buying as well as shopping. After analysis of consumer behavior and how COVID-19 pandemics may change it, some ideas for different future were proposed. Three changing forces are prevalent: changing consumer preferences, fast digitalization and economic downturn (Kohli, Bjorn, Fabius, & Veranen Moulvad, 2020). Satisfaction of the new experiences will become a background for behaviour changes (which are non-linear) and how it will last (Kohli, Bjorn, Fabius, & Veranen Moulvad, 2020).

**Quality of life.** COVID-19 pandemics became a global challenge with an effect not only on health but also on economies, social life and mental life. It is a complex issue to analyze. In this case the quality of life concept may provide a framework for thorough analysis by not concentrating on numbers of hospital beds and GDP levels. The quality of life indicators are taken into account and important. Report by the Stiglitz Commission on the Measurement of Economic Performance and Social Progress addresses consumption, with a special attention to household consumption, as a critical aspect when analyzing living standards and quality of life (Stiglitz, Sen, & Fitoussi, 2008). Quality of life concept is based on the following pillars: health, material conditions, education and culture (Rakauskienė & Servetkienė, 2011). Material conditions are composed of employment; salary and income; consumption; housing; saving and investment (Rakauskienė & Servetkienė, 2011).

When COVID-19 pandemics started, consumers faced not only financial uncertainty but also other challenges. I would like to take Lithuania as an example of these challenges from closer perspective. Having to change purchases in conventional shops to online shopping. Purchasing food or medicines was not restricted (except for limiting the number of customers) but many people were simply afraid of entering shops and contacting other people. Getting home and washing hands few times, disinfecting all the packages bought. What about trying to make an online order from a supermarket with delivery taking a whole week even more (before it took less than a day)? The beginning of first quarantine sounds extraordinary after a year of daily news and talks about corona virus, remote work and studies, keeping contacts to a total minimum and waiting for vaccination. For now, Baltic countries seem to have managed to control economic consequences but pandemics aftermath may still reveal more negative outcomes (not necessarily economic ones). However, there may be some good novelties as a quicker digitalization (even though it also may raise new problematics), more opportunities for remote work and families spending more quality time

together outside of shopping centers. Stopping and looking around is worth trying even though it is preferable to do that without pandemics in our lives.

## **2. Concept of Consumer Confidence**

There are two views on consumer confidence indicator. One claims it to be a reflection of information that is already provided by standard determinants of consumption (European Central Bank, 2015). Second presents consumer confidence variation in beliefs and opinions have a causal effect on economic activity (it is often called “animal spirits” view) (European Central Bank, 2015). Recent empirical research by the European Central Bank supports the first view of “news” in the case of Euro area (2015).

Various researches intent to investigate consumer behavior and their effect on economies. Consumer confidence is not broadly used in researches yet but there are some insights made already in some research papers. One of them studies short term relationship between stock market and consumer confidence. It concludes that stock market is affected by consumer expectations about whole economy rather than their personal financial future (Jansen & Nahuis, 2003). Also, authors use Ganger-cause analysis to conclude that stock prices are influenced by consumer confidence at very short periods of time from 2 weeks to 1 month (Jansen & Nahuis, 2003). It is argued that news coverage has effect on consumer sentiments (De Boef & M, 2004). There is a lack of papers investigating consumer confidence in the EU but there are some interesting ones in other parts of the world like Brazil. Research shows that consumer confidence index has both direct and indirect explanatory power about household consumption in Brazil (Lopes & Jesus, 2016). Econometric analysis shows that consumer confidence index could explain a variation I household consumption (Lopes & Cleiton, 2016). Another research from Netherlands indicates that not all the attributes of consumer confidence are affected by media (Boukes, Damstra, & Vliegenthart, 2021).

Consumer confidence and consumer sentiment concepts are closely related, just used by different institutions. Consumer confidence indicator allows us assess the socio-economic situation in the country and follow or even forecast changes in household’s financial situation (Central Statistical Bureau of Latvia, 2021). Consumer confidence indicator is important and exceptional as it provides information promptly and often faster than data on key indicators of consumption is presented (European Central Bank, 2015). It is also a reason for policy makers to take this indicator into account (European Central Bank, 2015). Economic confidence indicator consists of industry (40 proc.), services (30 proc.), consumers (20 proc.), retail (5 proc.) and construction (5 proc.) (Eurostat, 2021). Consumers play an important role in economy while consumption expenditure is a very important component of GDP.

The final consumption expenditure of households and non-profit institutions serving households as a percentage of GDP is presented in the table below (see table 1).

**Table 1. Final consumption expenditure of households and non-profit institutions serving households as a percentage of GDP, 2018, 2019, 2020**

Year	Lithuania	Latvia	Estonia	EU27
2018	61.5	59.0	50.2	53.5
2019	60.5	59.5	49.0	53.2
2020	60.2	56.0	49.2	51.9

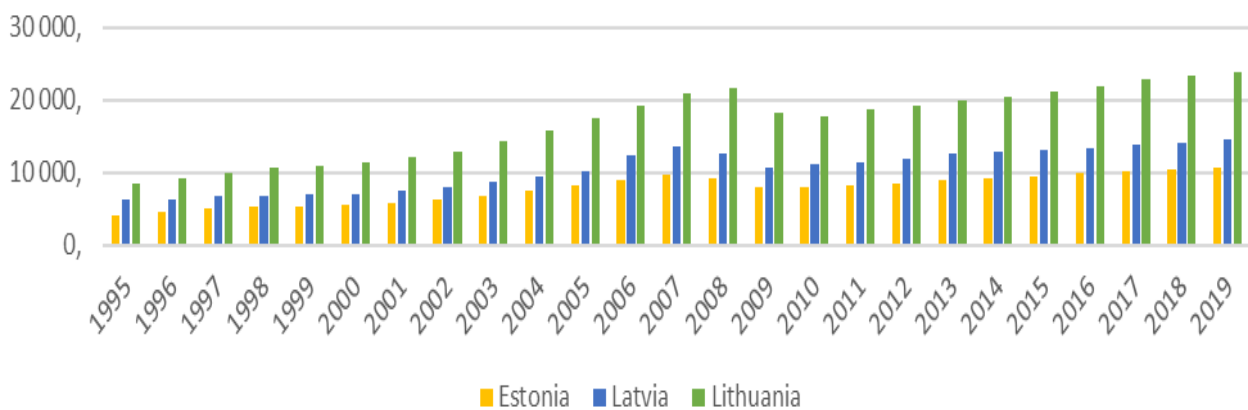
Source: compiled by the author according to Eurostat, 2021.

The variation of this indicator in Lithuania, Latvia, and Estonia is small from year to year. The significance of household consumption for Baltic economies and the EU is evident. It accounts for roughly half of GDP. The highest share of final consumption expenditure of households and non-profit institutions serving households as a percentage of GDP is in Lithuania. It varies around 60 %. While this indicator is diminishing in Estonia (49.2 % in 2020). Final consumption expenditure of households and non-profit institutions serving households accounted for 56 % of Latvian GDP in 2020.

### 3. Methods and Research

This research is a general review. It focuses on analysis and synthesis of literature, investigation of newest statistical data.

The Final consumption expenditure of households had been growing since 1995 until 2008 when the global financial crisis hit the Baltic countries (see figure 1). Then a gradual but continuous increase was evident until 2019. It will be interesting to check if there is a similar tendency with COVID-19 period. Talking about final consumption expenditure of households there is no 2020 or 2021 data yet, so let us analyze indicators that are more up to date for such analyses.



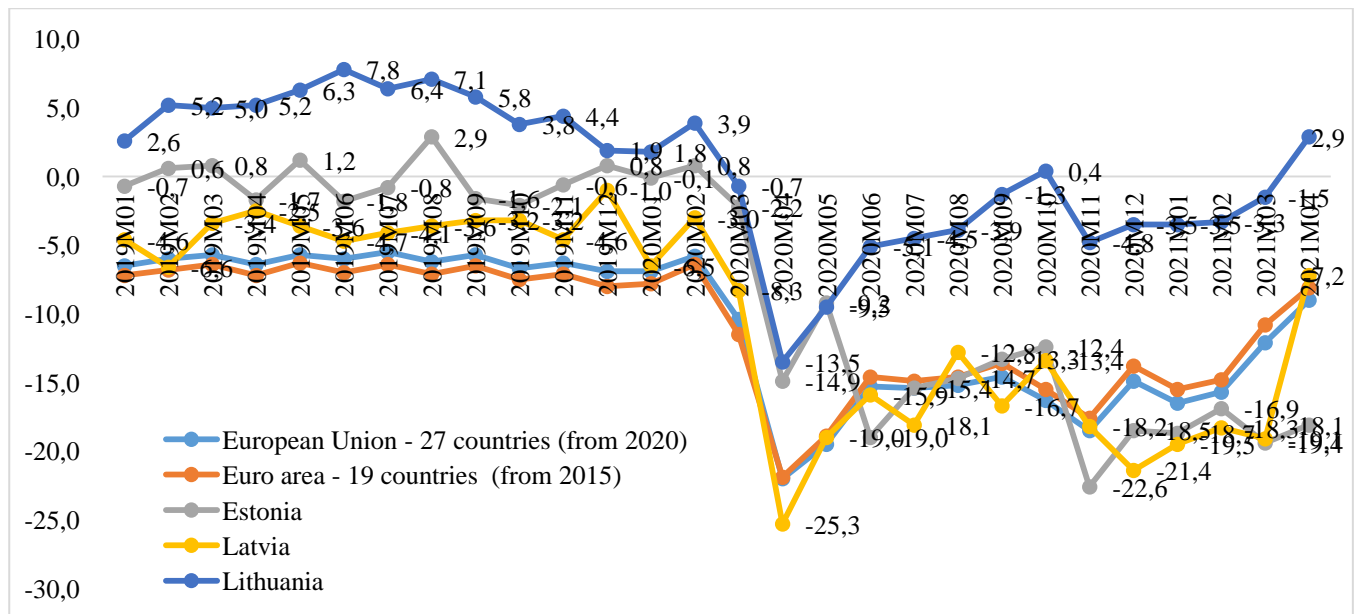
Source: compiled by the author according to Eurostat, 2021.

**Figure 1. Final consumption expenditure of households by consumption purpose, million euros**

The newest data about household spending is household consumption per capita compared to income for the EU. From the 2nd quarter of 2020 the increase in household consumption per capita in comparison to income is evident. The difference is especially large in the 2nd and 3rd quarters of 2020 (Eurostat, 2021). There was a significant increase of household saving rate and a drop in investment rate in the 2<sup>nd</sup> quarter of 2020 (Eurostat, 2021).

The graphs of contributions of components to growth of household gross disposable income in euro area and the EU reveal that Compensation of employees and social benefits increased drastically in the 2nd quarter of 2020. Interestingly, household saving rates also increased in 2020. Savings could have increased due to lower spending on vacation. However, we need to stress the increase in compensation of employees and social benefits. Probably many people depend on outages and governments financing them to keep work places. But there are doubts about the sustainability of such situation (Eurostat, <https://ec.europa.eu/>, 2021).

Consumer confidence indicator evolution (see figure 2) provides valuable insights for the Baltic countries. Since 2019 consumers in Lithuania have been more optimistic about future than consumers in Estonia, Latvia and average European. The lowest consumer confidence among Baltic countries was in Latvia until the COVID-19 crisis hit. Since July of 2020 consumer confidence in Latvia and Estonia fluctuated interchangeably below the point of -12. According to the latest available data provided by Eurostat (April, 2021), Latvian consumers showed a significant increase in their confidence from -19.1 to -7.2 %. The deepest drop in consumer confidence may be explained quite easily as it happened in April of 2020 at the time of the beginning of first quarantines in Europe and Baltic states. Nevertheless, what reasons could be behind the increase of confidence in Lithuania, Latvia and The EU, Euro area in April, 2021. First, let me provide some assumptions, which come rather not from economic point of view. One assumption is that this improving indicator is due to increasing scale of vaccination from COVID-19 in the EU. Interestingly, 11.7% of Lithuanian population was fully vaccinated, 10% of Estonian population was fully vaccinated, and 2.8% of Latvian population was fully vaccinated on 5th of May, 2021 (Our world in data, 2021). Another assumption is rather from behavioral side, maybe there is just a point until people can stay cautious, closed and scared about same concern. Also, this increase in consumer confidence may be due to psychological reasons: related to weather conditions, spring sunshine, or anticipation that situation will get better and quarantine will be canceled as in summer of 2020.

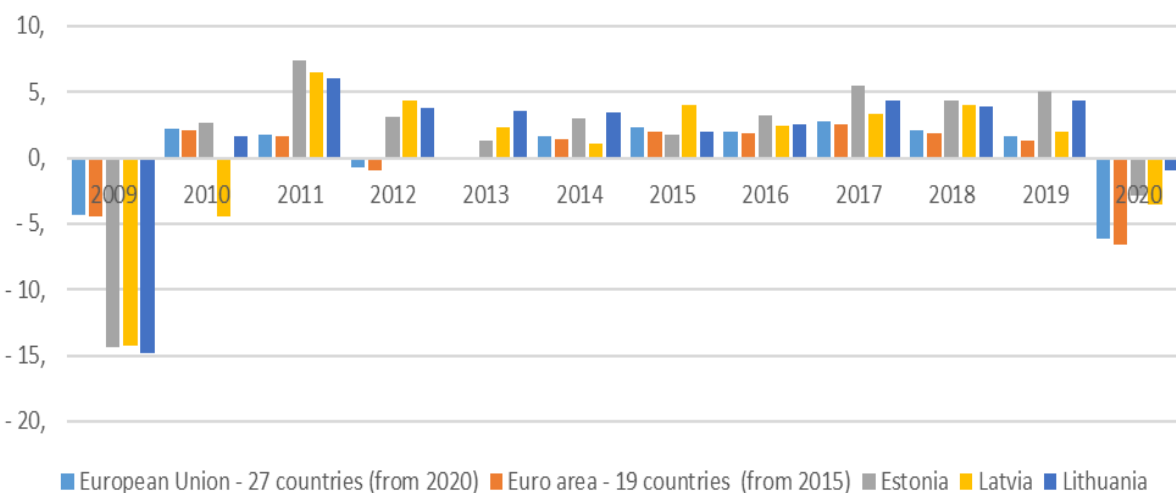


Source: compiled by the author according to Eurostat, 2021.

**Figure 2. Consumer confidence indicator (2019-2021)**

Currently consumer confidences in Lithuania face the challenge of prolonged quarantine and growing psychological distress (Izgorodinas, 2021). The longer the quarantine, the bigger chance that consumers will start evaluating their financial situation, economic and labor market perspectives worse. This would lead to higher saving rates and impose slower recovery of consumption volumes (Izgorodinas, 2021). In such a case, we could see a real effect of consumer sentiments on economic situation.

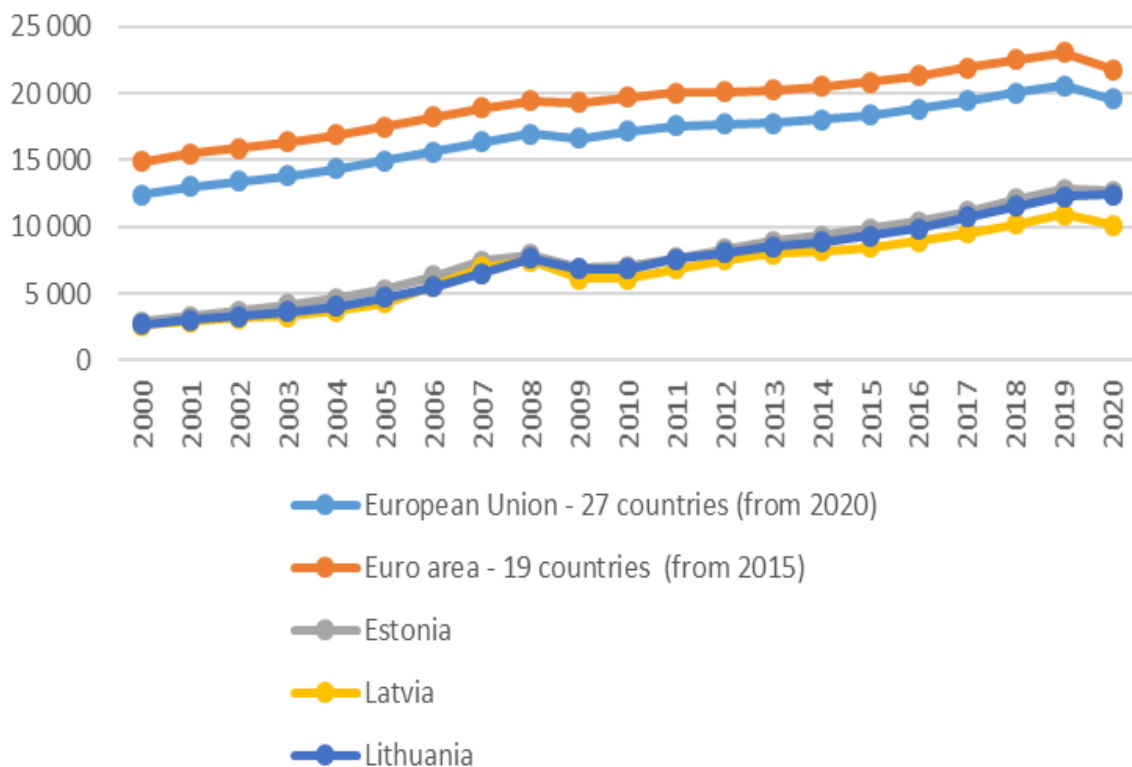
**GDP growth.** When analyzing GDP growth (see figure 3), the least damaged by COVID-19 pandemics economy in the EU in 2020 was Lithuania (a decrease of 0.9%). Latvia’s GDP growth was also negative of -3.6 percent. Estonia experienced a contraction of economy by -2.9%. Baltic economies contracted less than the average of the EU (-6.1%) and Euro area (-6.6%).



Source: compiled by the author according to Eurostat, 2021.

**Figure 3. Real GDP growth rate – volume**

**Quality of life.** Quality of life framework proposes actual individual consumption as a prime indicator to analyze consumption. Actual individual consumption per capita (see figure 4) trend shows constantly increasing level of quality of life in the EU and Euro area since 2000 with a minor drop in 2009, which probably was related to the global financial crisis. Next drop happened in 2020. Thus, it could be stated that COVID-19 pandemics did affect actual individual consumption in the EU and Euro area. Latvia and Estonia also experienced the decrease of actual individual consumption in 2020. Interestingly, the drop in Latvia was more significant. Actual individual consumption per capita in current prices dropped by 810 euros in Latvia and 150 euros in Estonia. Therefore, a decrease in Latvia was big and may have led to a worse quality of life. Another interesting aspect to analyze is a case of Lithuania where actual individual consumption continued increasing at a lower rate than subsiding years but still – it increased by 110 euros. Where from comes this unique case of Lithuanian economy during COVID-19 pandemics. To see a full picture, there were only two countries in the EU with an increase in actual individual consumption: Lithuania and Slovakia (by 120 euros).



Source: compiled by the author according to Eurostat, 2021.

**Figure 4. Actual individual consumption, current prices, euro per capita**

Interestingly, consumer confidence indicator was much lower in Slovakia than Lithuania not only during 2020 but also in the beginning of 2021. According to Eurostat data of April 2021, consumer confidence indicator in Slovakia was -17.1% while in Lithuania it was 2.9%.



#### 4. Conclusions

Lithuania is an example of positive growth of actual individual consumption even during the COVID-19 pandemics. Together with quick recovery of consumer confidence. Consumer confidence shows an optimistic future for Lithuanian economy. Especially as household consumption in Lithuania takes an important part. Consumers in Latvia and Estonia are also becoming more optimistic about future.

The proposals of recovery from pandemics plans is an ongoing matter of 2021. The member states of the EU have an opportunity to distribute REACT-EU Rapid Crisis Response fund, which is dedicated to dealing with the effects of the corona crisis. Latvia aims to recover with climate and other environmental policies, systems and actions (The Platform for Redesign 2020, 2021). Estonia will support tourism sector as the one hit by pandemics tremendously and pay attention to green and digital solutions (ERR News, 2021). Lithuania will employ the European funds for expansion of e-business platforms and investing into development of anti-COVID-19 inventions to create a more accessible and efficient healthcare. Also, the more active policy measures on labor market should be taken (European Commission, 2021).

Consumers are considered important on European institutions level. The New Consumer Agenda was proposed to present an idea for EU consumer policy from 2020 to 2025 (European Commission, 2020). The New Consumer Agenda also addresses the issues raised by the COVID-19. Some of the issues faced by consumers has been availability of products and services as well mobility in the EU and abroad, increased role of digital technologies and revealed gaps in consumer rights protection (European Commission, 2020). More sustainable future is seen with changing consumer behavior and patterns of consumption while promoting shared economy, second-hand market and social economy organizations actions (European Commission, 2020).

The future research may include regression analyses and correlation to see what indicators are affected or correlated with consumer confidence. It is interesting to see the relationships between confidence indicators of different sectors. Models for future forecast could be made.

Research is limited due to the lack of up to date statistical data especially for the analysis related to COVID-19 pandemics.

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