

ANALYSIS ON THE EVOLUTION OF PRICES, INCOME AND HOUSEHOLD EXPENDITURE

SIMONA CRISTINA COSTEA
TIBISCUS UNIVERSITY TIMIȘOARA, FACULTY OF ECONOMICS,
LASCĂR CATARGIU STR. NO. 4-6
simona.costea@gmail.com

Abstract:

One of the main factors that could exert an impact on consumption is the household income. Thus, the household income, though its volume, its structure and its fluctuation determine consumption. The population's buying power is influenced not only by the fluctuation of disposable income but by the price dynamics of consumer goods.

At the same time, these two factors determine the level and the fluctuation of wealth. In our country, there has been a decline in spending power within the analyzed timeframe. Inflation and continuous rising prices have led to an increase on the population's consumer spending and reduction of consumption.

Keywords: *consumption, household income, buying power*

JEL classification: *A10 General Economics: General*

Introduction

The main objective of the producers of goods and services is to get a higher profit. This objective can be achieved only if the goods and services produced are less costly than their selling price.

Therefore, it is very important for the manufacturers to find solutions to produce with maximum efficiency.

People's attitude when buying and consuming goods and services is reflected in the consumer's behavior (Stanciu, 1999)

The purchasing power of the population is affected both by the evolution of consumer price and income, with the demand and income having a direct dependency relationship. Changes that occur in prices influence the demand for a particular product or group of products. Income determines the change in demand by means of the changes in consumption patterns on what concerns the amount and the importance of different products meant to fulfill certain needs (Babucea&Bălăcescu, 2011).

Material and Methods

Since prices influence the purchasing power of the population, the increase or decrease in consumer price is reflected directly on the welfare of the population. Therefore, the purchasing power of the population is influenced both by the evolution of consumer price and the income. These are two important factors that determine the level and the evolution of welfare.

A decrease in the volume of consumption takes place when the rate of price growth is higher than the growth rate of household income.

In general, the consumption volume and the welfare of the population are growing when the price increase rate is lower than the income growth rate.

The connections between income, household expenditure and price evolution are specific to periods of economic stability. In terms of economic instability, the household consumption is affected by many factors that have the result of limiting it. There are also situations where a decrease in consumption can be registered, even when prices are falling, in times of economic crisis (Gorelova&Rojco, 2010).

Results and discussion

In 2014, Romania registered an economic growth of 2.9%, compared to 2013, in most important fields such as the industry, communications and net taxes on products, according to the National Institute of Statistics.

In the first quarter of 2014, the total monthly average household income was of 2477 lei, and the average money income represented 82.1%.

Table 1
Total income and expenditure per household

Current number	Indicators	m.u.	2009	2012
1.	Total monthly average income per household in lei	lei	2315.99	2475.04
2.	Total monthly average expenditure per household in lei	lei	2047.33	2244.47

Source: Romanian Statistical Yearbook 2013

In 2012, compared to 2009, there was an increase in the total monthly average income per household by 159.05 lei. At the same time, the total monthly average expenditure per household increased, in the same period, by 197.14 lei.

Table 2
The structure of the total household income, on formation sources

Current number	Indicators	m.u.	2009	2012
1.	Salary income	%	50.9	50.1
2.	Income from agriculture	%	2.5	3.4
3.	Income from independent activities	%	2.8	2.6
4.	Income from social provisions	%	24.2	23.1
5.	Income from property and sale of assets from household patrimony	%	0.2	0.2
6.	In-kind income	%	16.1	17.6
7.	Other income	%	3.3	3

Source: Romanian Statistical Yearbook 2013

In terms of the income structure, the largest share is held by salaries, which are followed by the social provisions income and the in-kind income. A small percentage of the total household income comes from the independent activities income, the agriculture income, the property and household asset sale income and other income.

In 2014, the money income was, on average, of 2034 lei monthly per household (762 lei per person) and the in-kind income of 443 lei monthly per household (166 lei per person), according to NIS.

Also, the social provisions income, in 2014, represented 24.1%, the in-kind income (17.9%), the agriculture income (2.4%), the non-agricultural independent activities income (2.5%) and the property and household asset sale (1.4%) (Comunicat de presă, 2014).

In terms of the household income, there are significant differences of level and structure between the urban and the rural areas. Household incomes are lower in rural areas than in urban areas. In urban areas, household income originated mostly from salaries, social provisions, the in-kind income having lower rates. In rural areas, the main source of household income comes from the agricultural production. However, an important contribution to the formation of the rural household income came from salaries and social provisions.

In terms of the structure of the total household expenditure, the situation is as follows:

Table 3
The structure of the total household expenditure

Current number	Indicators	m.u.	2009	2012
1.	Total money expenditure	%	84.5	82.7
2.	Expenditure for food products and beverages	%	22.3	22.4
3.	Expenditure for purchase of non-food goods	%	22.2	21.4
4.	Expenditure for payment of services	%	17.8	18
5.	Expenditure for investment	%	1.3	0.5
6.	Production expenditure	%	1.2	1.0
7.	Taxes, contributions, dues and fees	%	16.2	16.3
8.	Equivalent value of consumption of agro-food products from own resources	%	15.5	17.3

Source: Romanian Statistical Yearbook 2013

From the above data, we can see that the main uses of the expenditure done by the households are the consumption of food and non-food goods, of services and transfers to private and public administration and to the social insurance budgets, as taxes and contributions.

In the structure of expenditures, investment expenditures are also included. These are intended for purchasing or raising dwellings, purchasing land and equipment required by the household production, etc.

The main component of the total household expenditure is represented by the money expenditure.

In 2012, there was a reduction in the share of the money expenditure in the total household expenditure, compared to 2009. This reduction occurred due to the decrease of the share in purchasing non-food products, investment expenditure and production expenditure.

An increase by 1.8% registered the equivalent value of consumption of agricultural products from own resources, in 2012, compared to 2009.

The analysis of the total household expenditure reveals that the share of money expenditure decreased in 2012, compared to 2009, by 1.8%, in return increasing the consumption from own resources.

In the first quarter of 2014, the total expenditure of the population was, on average, of 2226 lei per month per household (834 lei per person) and represented 89.9% of the total income.

Some features as to the size and the structure of the total consumption expenditure are determined by the residence of the consumer. Consequently, the monthly average consumption expenditure per household is higher in urban areas than in rural areas.

In rural areas, the food consumption expenditure represents the equivalent value for food consumption from own resources, while in urban areas, food consumption from own resources covers a small part of the food consumption expenditure.

From the total household expenditure, in 2014, the consumption expenditure accounted for 72.6%, the capital expenditure (0.2%), the production expenditure accounted for 8% and taxes, contributions, dues and fees were at a rate of 16.7%.

Food and non-alcoholic beverages held, in the first quarter of 2014, on average, 40.5% of the household consumption.

The expenditure with the dwelling accounted for 22.9%, in the first quarter of 2014, from the total consumption expenditure. A small percentage in the total consumption expenditure is represented by the household expenditure on hotels, cafes and restaurants (1.6%) and on education (0.7%) (Comunicat de presă, 2014).

Another important factor on household consumption is the consumer price index.

Table 4
Consumer price indices by main goods and services

Current number	Indicators	2009	2012
1.	Total consumer price index	105.59	103.33
2.	Food products price index	103.25	101.89
3.	Non-food goods price index	106.22	103.77
4.	Service price index	108.97	105.07

Source: Romanian Statistical Yearbook 2013

Data analysis shows that, in 2012, compared to 2009, there was a reduction in the consumer price index by 2.26. The food products price index fell by 1.36, while non-food goods price index declined by 2.45. The service price index registered a 3.9 decrease, in 2012, compared to 2009.

According to the statistical data, Romanians spend almost 90% of their income on food products and bills. Romanians spend monthly 40% of their income on food, a constant situation from 2010 up to the present.

Of a particular importance are the prices at which food is purchased. Food product prices vary considerably depending on the location of households. For much of the food products, the prices are higher in cities than in rural areas. This is explained by the fact that incomes are higher in cities than in rural areas and, as a result, the products are more expensive, but have the highest quality as well. However, the products that can be purchased in urban areas are of a greater variety than those in rural areas.

Conclusions

The changes that have occurred in the economy in recent years have resulted in important variations in the volume and the structure of incomes and household consumption expenditure and in a decreased purchasing power of the population as well.

In the preliminary stages of the economic crisis, the household income grew faster than the prices of consumer goods and services, leading, thus, to an increased consumption volume, in nominal and actual values.

In recent years, during the economic crisis, there has been a decrease in the growth rate of the household income and a cutback in consumption expenditure.

Subsequent to this analysis, one can state that the level of consumption prices and available money income exerts a decisive influence on the quantity of products purchased by the population. There is a direct connection between price indices for different goods and the change in volume and structure of household consumption.

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