

CHANGES IN THE HOUSEHOLDS CONSUMPTION PATTERNS IN ROMANIA AND THE EU COUNTRIES - HOW MUCH IMPACT OF THE GLOBAL ECONOMIC CRISIS? [1]

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Abstract:

The financial crisis more intensely felt in Romania since the second half of 2008, has triggered economic phenomena and processes that affected the economic progress and the living standard of population. The daily lifestyle during the crisis was limited to households concern to satisfy at least the current needs – for food and non-food products - typical for subsistence consumption. The paper presents a brief analysis of the evolution of consumption expenditure of households (the main manifestation of consumption) in the European Union and Romania in 2003-2011, also attempting to reveal the adjustments induced by the crisis. The results show that the final total consumption expenditure of population grew slowly but continuously in 2003-2011 in the EU (with a decrease in 2009 and 2010, during the crisis), but Romania has registered a significant increase in total consumption expenditure in relation to the European average, similar to that recorded by other new Member States. However, the per capita levels and the shares of different categories of consumption expenditure place Romania on the lowest or second lowest position in the EU, indicating the presence of a rather "quasi-subsistence consumption" behavior, characteristic of countries with lower development level and very sensitive to the adverse effects of economic crises and recessions.

Keywords: households' consumption, consumption expenditure, categories of consumption expenditure, consumption patterns

JEL Classification: O52, P46, P52

Introduction

The financial crisis more intensely felt in Romania since the second half of 2008, has triggered economic phenomena and processes that affected the economic progress. Performance declines recorded by the Romanian economy in recent years have been strongly felt by the population. Continuous erosion of living standards led to the transformation of consumption from an economic variable, component of the complex market mechanism, into a manner of expression - typical for most population – of a noneconomic behavior. Daily lifestyle during the crisis is limited to households concern to satisfy at least the current needs – for food and non-food products - typical for subsistence consumption.

The increasingly precarious size and quality of consumption generated by limited purchasing power determined by the acquisition of current consumption goods and payment of utilities related to housing conditions, necessary to ensure the minimum health needs and to maintain the capacity to work - restrict access to insolvent social needs, to health, education, culture and recreation, etc. These also show, in our opinion, the transition from an economy of scarcity to an economy with low demand, the combined effect of the liberalization of prices and recession, with negative impact on the development prospects of a sustainable economy.

In the following, we present a brief analysis of the evolution of consumption expenditure of households (the main manifestation of consumption) in the European Union and Romania between 2003-2011 (2010 for Bulgaria and Romania), trying to reveal the adjustments induced by the crisis.

Evolution of consumption expenditure of households in the European Union

In the European Union (27 countries), the *final total consumption expenditure of population* grew slowly, but continuously, during the period 2003 to 2011 (with a decrease in 2009 and 2010), by 24.5% over the period. Romania has registered a significant increase in total consumption expenditure in relation to the EU average (with 125.6% in 2010 as compared to 2003) but similar to that recorded by other new member states (Slovakia - increase by 135.1% in 2011 as compared to 2003, Latvia - up by 104.1%). *The developed EU economies recorded overall growth rates pretty close to the average.* The categories of expenditure developments, however, were different.

Expenditure on *food and non-alcoholic drinks* revealed an increase by 22.7% over the period 2003-2011, lower than the total expenditure and a decrease throughout the period 2009 and 2010. Romania experienced an increase by 75.8%

in this category of spending, one of the highest in the EU (the highest being recorded by Slovakia, by 93.6%, and the lowest by the UK, by only 7.1%). Expenditure on *alcoholic beverages and tobacco* have also registered in the EU a growth slightly lower than total spending (by 20.8% over the analyzed period), but the differences between the Member States were very high, ranging from 269.4% in Bulgaria and only 3% in the United Kingdom. Generally, the new Member States recorded a global growth much higher than the rest of the EU, and Romania was no exception, registering a growth by 145.7%.

Expenditure on *clothing and footwear* rose slightly, by only 11.9% (and decreased from 2008 onwards), and some countries have registered substantial reductions (Greece by 27.3%, Malta by 6%, Hungary by 4% and Ireland by 1.4%). Romania recorded the highest overall growth over the whole period, by 135.6%, followed by Slovakia with 125.5% and Lithuania with 97.9%. Costs for *housing, water, electricity, gas and other fuels* experienced a continuous increase at EU level, without a period of decline during the crisis (by 38.8%). The level of spending has increased more also in the new Member States (in Slovakia by 149.1%, in Latvia by 135.7%, in Romania by 122.5%, in the Czech Republic by 107.2%), while in the more developed economies the increases were more attenuated (in Germany by only 20.6%). Expenditures on *furniture and household equipment and housekeeping* showed a reduced growth in the EU over the period (by only 11.6%), with a period of slowdown in 2009 and 2010. In this case, the differences between the Member States were very high, ranging from increases by 317.8% in Bulgaria, by 182.7% in Slovakia, by 139.9% in Romania and by 110.5% in Latvia to decreases by 21.7% in Ireland, by 15.1% in the UK, by 11.5% in Hungary and by 10% in Greece.

Health expenditures have also registered a sustained growth in the EU throughout the analyzed period, without a slowdown interval. Also, differences between Member States were very high, ranging from increases by 345.1% in Romania, by 265.1% in Slovakia, by 176.7% in the Czech Republic and by 99.3% in Bulgaria to decline by 37.2% in the Netherlands. *Transport costs* have been increasing at EU level close to the total consumption expenditure (by 22.9%), with a relative slowdown in 2009 and 2010. The largest increases were recorded by Latvia (by 188.9%), Romania (by 113.8%) and Slovakia (by 102.1%) and the lowest by the UK (basically stagnation at 2003 level) and Cyprus (by 9.6%). *Communication costs* have increased close to the EU average in the period (by 19.6%, with slowdown in 2009), but large differences between Member States

were noticed, ranging from increase by 361.2% in Romania's case, by 162.3% in Greece (with significant slowdown in the last two years) and by 130.6% in Slovakia to decrease by 6.7% in Malta, by 4.6% in Finland, by 2.9% in Austria and by 1.1% in Belgium.

Expenditures on *recreation and culture* in the EU experienced a relatively slow growth in the period 2003-2011 (by 16.4%), with slowdown in 2009-2010. In this case, the highest increases were also recorded in some new Member States (Bulgaria, by 218.6%, Romania, by 186.4% and Slovakia, by 162.8%), while in countries such as the United Kingdom and Greece reductions were recorded (by 3.6% and 0.9%, respectively). *Education expenditure* registered a sustained growth in the EU (by 31.3%), but the differences between Member States were also high, ranging up from increases by 249.4% in Lithuania, by 245.6% in Slovakia and by 118.5% in the Czech Republic to decrease by 15.3% in Estonia. Romania registered a large increase until 2008 (by 358.4% as compared to 2003) and a marked slowdown in 2009 and 2010 (at the end of period the increase being 128.8%).

Hotels and restaurants expenditures recorded in the entire European Union a growth similar to the growth in total consumption expenditure over the analyzed period (by 22.9%) and a period of slowdown in 2008-2010. The highest growth was recorded by Latvia (by 140.5%), while the UK saw a decrease by 1.3%. Romania registered a large increase until 2008 (by 243.3% as compared to 2003), followed by a slowdown in 2010 (by 91.2% as compared to the same year). Finally, *spending on various goods and services* registered growth at EU close to that of the total consumption expenditure (by 21.7%) and slowdown in 2008-2010. The largest increases were also recorded by some new Member States (Romania, by 275%, Slovakia by 198%, Bulgaria by 175.2%, Latvia, and Lithuania by 146.9% and 119.6%), while countries such as the United Kingdom or Ireland recorded reductions (by 5.6% and 6.9%, respectively).

In relation to the "average" of the EU's *total consumption expenditure per capita*, all the new Member States, except for Cyprus, registered low or very low levels. Romania ranks second lowest, with only 25.9% of the EU level in 2010 (down from the peak of 29.3% in 2008) followed only by Bulgaria (23% of the EU level 2010) and after Hungary (with 37.8% of the EU level in 2011).

By *categories of expenditure per capita*, only for the *expenditure on food and non-alcoholic beverages* Romania recorded a slightly higher level (55.6% of the EU level in 2010, but down from 66.7% in 2008) and close to that of other

countries (Hungary, the Czech Republic, Poland, Latvia, Slovakia). The highest levels in relation to the EU were recorded in Luxembourg (144.4%) and Denmark (133.3%) and the lowest in Bulgaria (33.3%). In the case of *expenditure on clothing and footwear*, Bulgaria and Romania, and even Hungary recorded the lowest level in relation to the EU (14.3% in 2010, down from 25% in 2008). Other new Member States also recorded relatively low levels as compared to the EU (Poland, the Czech Republic, and Slovakia), while Luxembourg and Italy recorded the highest levels (175% and 150%). With regard to *expenditure on housing, water, electricity, gas and other fuels*, Romania ranked penultimate in relation to the EU (24.2% in 2010, down from 30% in 2007), followed only by Bulgaria (15.2%), but also the rest of the new Member States recorded levels well below the European one. The highest levels were recorded by Luxembourg (214.7%) and Denmark (176.5%). For *expenditures on furniture and household equipment and housekeeping* Romania recorded a level close to or same as Hungary, Latvia, Estonia and Bulgaria (25% of the EU), but far from that recorded by Luxembourg (250%) or Austria (162.5%).

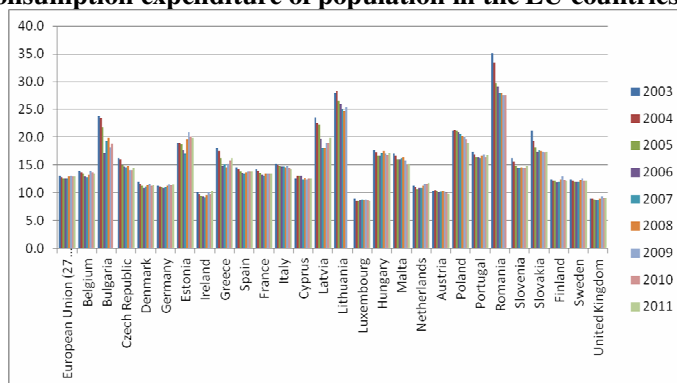
Also in the case of *health spending* Romania recorded similar levels to those of other new Member States (the Czech Republic, Latvia, Estonia, Hungary, and Poland), while the largest levels were recorded by Belgium, Finland and Greece. In the case of *transport costs*, Romania recorded the lowest level as compared to the EU level (only 22.2% in 2010, down from 31.6% in 2007-2008), below that of Bulgaria (27.8%). The highest level in relation to the EU were recorded by Luxembourg (305.3%), followed at great distance by Austria (136.8%). A level similar to that of most of the new Member States recorded Romania in the case of *communication costs* (50%), but the estimates of the per capita level of expenditure in this category has close values in most EU countries.

Last among the EU countries ranks Romania regarding the level of spending per capita for *recreation and culture* (only 16.7% of the EU level in 2010, but at half the level recorded by many of the New Member States). The highest levels in relation to the EU are recorded in Denmark (176.9%) and Finland, Sweden and Luxembourg (161.5%). The same is true in the case of Romania for the *expenditure on hotel and restaurants* (only 8.3% of the EU in 2010, down by ten percent from the previous year), but other new Member States also recorded fairly low levels (16.7% - Bulgaria, Latvia, Lithuania and Poland). The highest levels were recorded in Spain (208.3%), Austria (200%) and Cyprus (191.7%). Finally, Romania occupies the last position (on par with Bulgaria) regarding the

costs of various goods and services (13.3% in 2010), while the highest levels were recorded by Luxembourg (200%) and Denmark (162.5%).

The analysis of household consumption expenditure in EU countries must necessarily take into account the *shares of the various categories of expenditure in total expenditure*, because the "consumption patterns" highlighted are very different among the Member States. Thus, if at EU level the *share of expenditure on food and non-alcoholic beverages in total consumption expenditure of the population* has stabilized at a level of almost 13%, in Romania and Lithuania is still very high (27.5% and 24.5%, respectively), although the general trend was downward in 2003-2011 (Figure 1). Also, with the exception of Cyprus, the rest of the new Member States recorded percentages higher than the EU share, while countries like Luxembourg, Austria and the United Kingdom recorded shares below 10%.

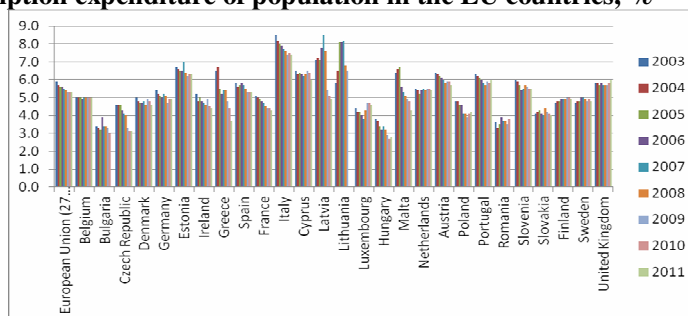
Figure 1 Share of expenditure on food and non-alcoholic beverages in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Romania has a relatively average level of *expenditure on alcoholic beverages and tobacco* in consumer spending, but with sharp increase in 2010 (5% as compared to the EU level of 3.6%). The highest percentages are found in the Czech Republic, Estonia, Luxembourg, Hungary and Latvia, and the lowest in Spain and Italy. The share of *expenditure on clothing and footwear* in total consumption expenditure in Romania lies below the EU average (3.8% versus 5.3%), but was higher than in other new Member States (Bulgaria, the Czech Republic and Hungary - Figure 2). The highest level was recorded in Italy (7.4%) and the lowest in Hungary (2.8%).

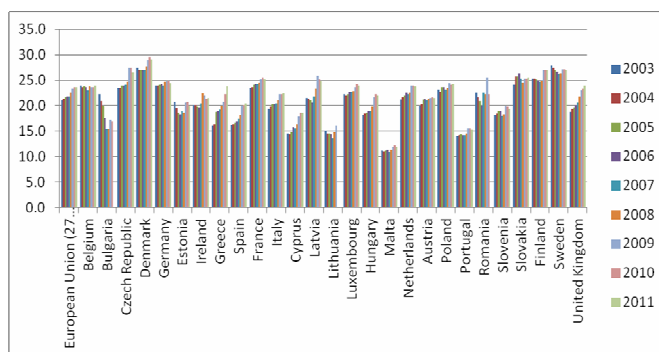
Figure 2 Share of expenditure on clothing and footwear in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

High, but close to the average level of EU registers Romania in the case of *share of expenditure on housing, water, electricity, gas and other fuels* (22.3% as compared to 23.6% - Figure 3). The lowest levels were recorded by Portugal (15.3%) and Bulgaria (16.9%) and highest by Denmark (29.1%) and Finland and Sweden (26.9%).

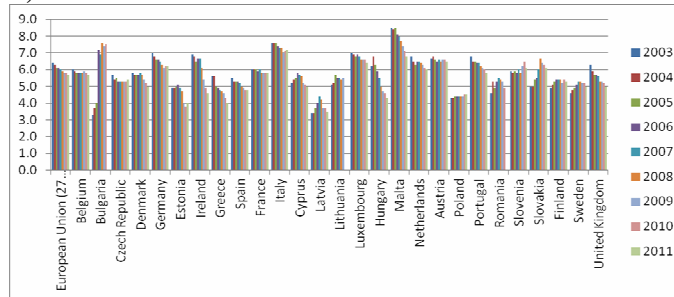
Figure 3 Share of expenditure on housing, water, electricity, gas and other fuels in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Share of *expenditures on furniture and household equipment and housekeeping* in the total consumption expenditure registered a decreasing trend in most European countries, including Romania, especially after the years 2007-2008 (4.9% in 2010, down from 5.5% in 2007 - Figure 4). The highest levels were recorded by Bulgaria (7.5%) and Italy (7.2%) and the lowest by Latvia (3.5%).

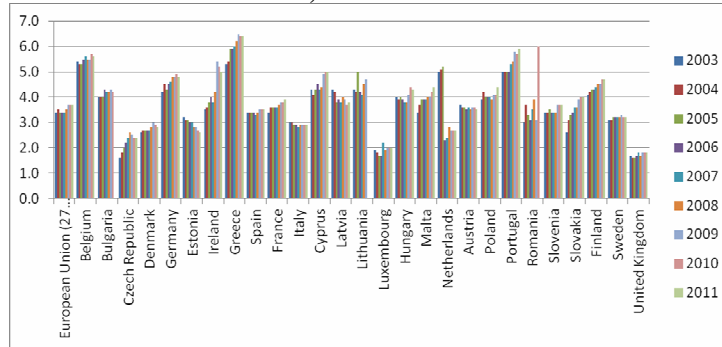
Figure 4 Share of expenditure on furniture and household equipment and housekeeping in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Regarding the share of *health spending*, it experienced a leap in 2010 in Romania, up to 6% of total consumption expenditure (above the EU level of 3.7% - Figure 5). High levels of the share of this group of spending were also recorded by Greece (6.4%), Portugal (5.9%) and Belgium (5.6%), while low levels were recorded by the UK (1.8 %) and Luxembourg (2.0%).

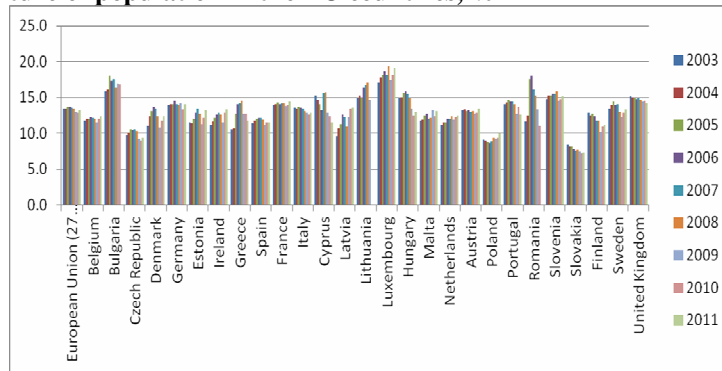
Figure 5 Share of health expenditure in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Romania recorded since 2007 a downward trend of the *share of expenditure on transportation* in consumer spending (11% in 2010, as compared to 18% in 2006 and 13.2% of the EU level in 2011), while in most European countries it tended to recover toward the end of the analyzed period (Figure 6). The highest levels were recorded by Luxembourg (19.1%) and lowest by Slovakia (7.3%) and the Czech Republic (9.4%).

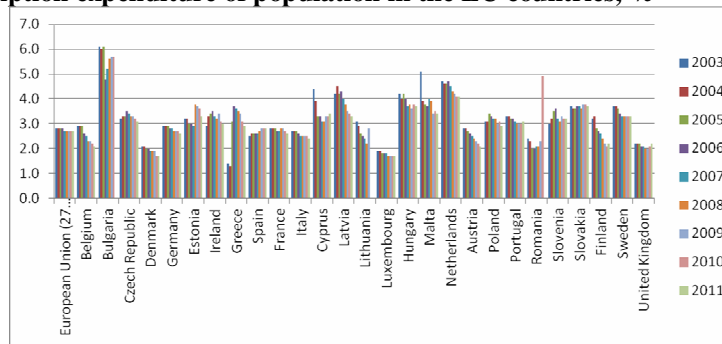
Figure 6 Share of expenditure on transportation in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

A huge jump in 2010 was recorded by Romania in terms of *share of expenditure on communications* (4.9%, much above the EU level of 2.7% - Figure 7). Only Bulgaria has a higher percentage (5.7%), while the advanced countries such as Denmark and Luxembourg recorded shares of only 1.7%.

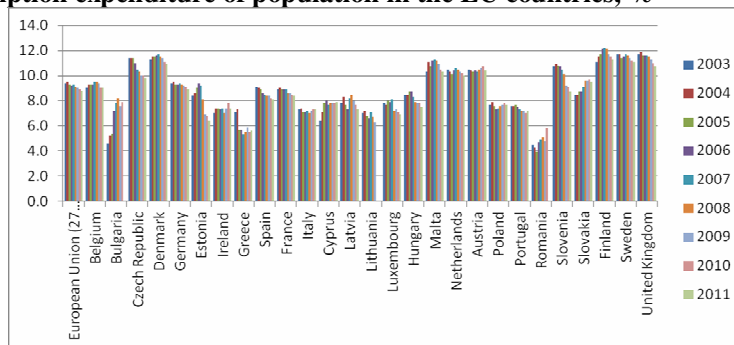
Figure 7 Share of expenditure on communications in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Regarding the *share of expenditure on recreation and culture* in total consumption expenditure, Romania has one of the lowest levels, even if growing (only 5.8% in 2010, as compared to the EU level of 8.9% - Figure 8). Reduced levels were also registered by Greece (5.6%) and Estonia (6.4%), while countries like Finland, Sweden, Denmark and the UK recorded levels close to 11%.

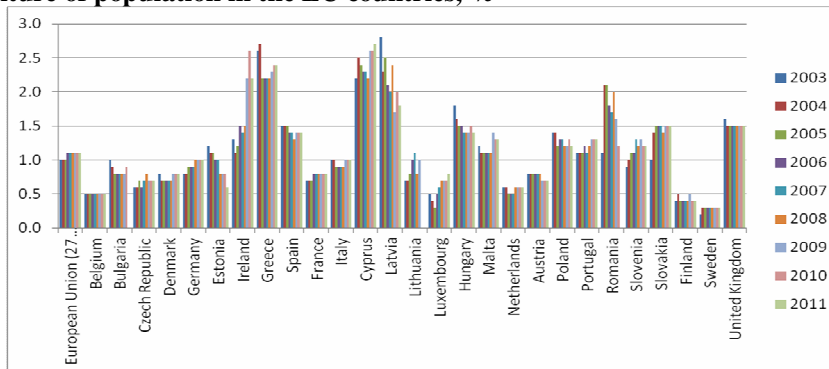
Figure 8 Share of expenditure on recreation and culture in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

The *share of education expenditure* in consumer spending declined in Romania after 2008, but is still close to the EU level (1.2% in 2010 - Figure 9). Higher levels of share (2.2% -2.7%) were found in Cyprus, Greece and Ireland, while low levels (below 0.5%) were found in Finland, Sweden and Belgium.

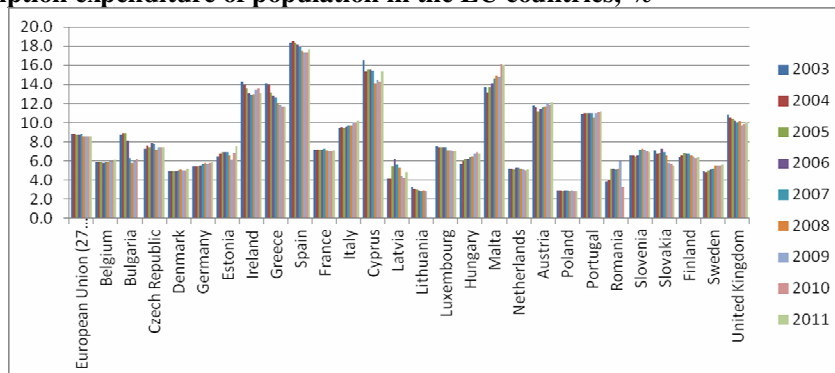
Figure 9 Share of education expenditure in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Share of expenditures on hotels and restaurants in total consumption expenditures dropped dramatically in 2010 in Romania (3% versus 6% in the previous year and the European level of 8.6% - Figure 10). The lowest levels were recorded also by two new Member States (Lithuania and Poland - 2.8%), while the highest by Spain (17.7%) and Malta (16%).

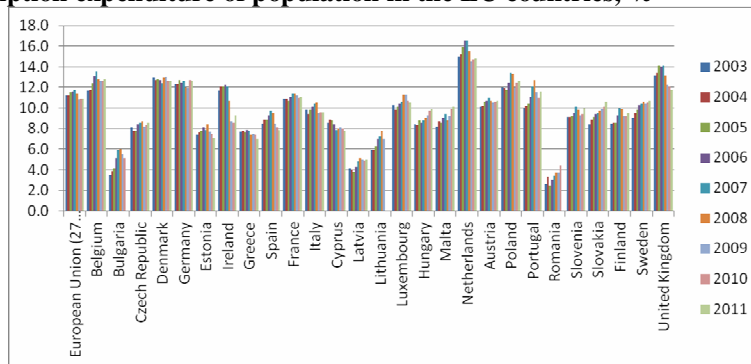
Figure 10 Share of expenditure on hotels and restaurants in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Finally, Romania recorded the lowest level of *share of expenditures on various goods and services* in total consumption expenditure (4.4% in 2010, as compared to an EU level of 10.9% - Figure 11). Low levels were also recorded by Bulgaria, Latvia (5%), whereas high levels were recorded by the Netherlands (14.8%), Belgium (12.8%) and Denmark, Germany and Poland (12.6%).

Figure 11 Share of expenditure on various goods and services in total consumption expenditure of population in the EU countries, %



Source: Dat from EUROSTAT.

Conclusions

In the European Union, the final total consumption expenditure of population grew slowly but continuously during 2003-2011 (with a decrease in 2009 and 2010, during the crisis), but Romania has registered a significant increase in total consumption expenditure in relation to the European average, similar to

that recorded by other new Member States. The developed EU economies recorded overall growth rates pretty close to average.

The categories of expenditure registered different developments, and Romania recorded large increases over the analyzed period for almost all categories of expenditure, a common situation also in other new Member States. Despite these increases, in terms of expenditure per capita Romania has low levels as compared to the developed EU countries and even to some new Member States, only in the case of per capita expenditure on food and non-alcoholic beverages Romania recording a slightly higher level.

The analysis of consumption expenditure of households in the European Union based on the percentages of the different categories of expenditure in total expenditure highlights different "consumption patterns" among the Member States. Thus, if the EU share of expenditure on food and non-alcoholic beverages in total consumption expenditure of the population has stabilized, in Romania is still very high, although the general trend was downward between 2003 and 2011. Large shares and close to the EU average recorded Romania for the expenditure on housing, utilities and fuels, as well as significant increases in recent years the share of health and communication expenditure. Meanwhile, the share of expenditure on transport was reduced in comparison with the rest of the European countries (and declining in the period) and expenditures on recreation and culture, hotels and restaurants and miscellaneous goods and services were either the lowest in the EU or sharply dropping during the economic crisis. *All this indicates for Romania a rather "quasi-subsistence consumption" behavior, characteristic of countries with lower development level and very sensitive to the adverse effects of economic crises and recessions.*

[1] The paper presents some results of the research theme "**Tendintele sociale si stilul de viata. Consumul si consumatorii in context european**", coordinator Dr. Marioara Iordan – Institute for Economic Forecasting, Bucharest, Romania, 2012.