

HOUSEHOLD CONSUMPTION IN THE EUROPEAN UNION IN THE 1980's

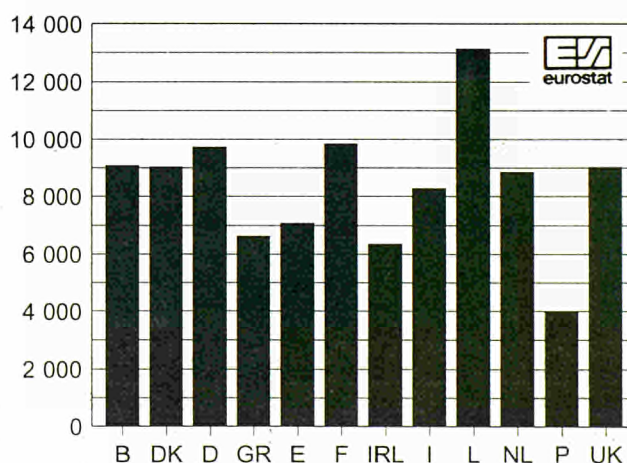
This issue of Rapid Reports gives a short analysis of the consumption pattern of households in the Member States of the European Union. Do households in the various countries behave similarly with regard to consumption? To what degree do income, socio-economic category or household size affect consumption levels and the allocation of spending? This study aims to answer these questions by drawing a comparison between Member States.

GENERAL LEVEL AND PATTERN OF CONSUMPTION

The consumption level was not uniform in the Union

In 1988 the consumption level per adult equivalent varied considerably within the EU (Figure 1). The Spanish, Irish and Greeks consumed on average between 6 000 and 7 000 PPS per adult equivalent, i.e. two thirds of the average consumption of the Dutch, Belgians, Danish or British (between 9 000 and 10 000 PPS). Consumption in Portugal was even lower (4 000 PPS), while the Italians came in between with a consumption level of 8 000 PPS. Germany, France and most of all Luxembourg had the highest standard of living, with a consumption level above 9 700 PPS per adult equivalent. There was a noticeable north-south divergence, grouping Ireland with the Southern Member States, which had a notably lower consumption level than the other Member States.

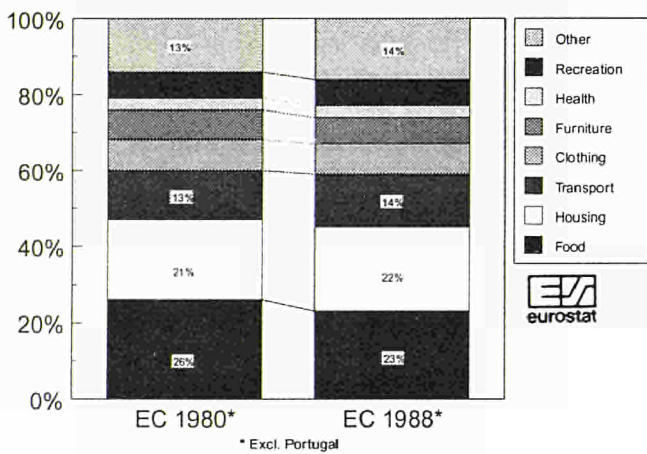
Figure 1:
Consumption in PPS per adult equivalent in 1988



Food, housing and transport comprised more than half of the budget of Community households

The consumption pattern for the Union as a whole reveals that food and housing were the two main consumption categories, comprising 23% and 22% respectively of EU family budgets in 1988. In other words, half of the European family budget was still allocated to meeting these two basic needs (Figure 2). Next in line were transport and communication services. In fact, Union households spent twice as much on transport and communication (14% of the household budget) as they did on clothing, furniture or recreation. Health care expenses were relatively low (3%) while all of the goods and services within the category "other" (such as restaurants, personal care and tourist travel) represented 14% of total consumption.

Figure 2:
Average consumption pattern per household (in %)



Nevertheless, there were national differences in consumption patterns:

- The standard of living seemed to have a considerable effect on the relative weight of three categories in family budgets: the higher a Member State's consumption level the smaller the share of the household budget devoted to food and clothing and the greater the expenditure on housing (Table 1). Food was the main item of expenditure in the Southern Member States and Ireland (more than 25% of the budget) whilst housing in the other Member States. This was particularly noticeable in Denmark, though less so in the UK. Clothing was also a high priority in the Southern Member States and Ireland, as well as in the UK. It is interesting to note that although consumption in Italy was nearer to the average, the consumption pattern was nevertheless characteristic of Member States with a lower standard of living.

- As far as other types of consumption were concerned, such as health, recreation or other expenses, national differences seemed to correspond more to socio-cultural factors specific to each Member State.

However, there was a certain tendency towards homogeneity

With the rise in the consumption level during the 1980s came a general fall in the relative share of food (which tended to constitute about 20% of the budget), clothing and furniture in favour of housing (which tended to exceed 20%) and other expenses, which included transport, recreation, restaurants, travel and others. Nevertheless, the exact profile of the new preferences varied slightly according to the Member State. In Belgium, Denmark and Greece there was a noticeable rise in expenditure on transport, whereas in the UK the same was true for restaurants, cafés and travel. In the Netherlands and Italy, there was an increase in expenditure on leisure activities (sport, entertainment). However, in Spain and France the increased share of household budgets attributed to housing was alone sufficient to offset the fall in the other categories.

Table 1:
Consumption pattern of households (% of budget)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Total	100	100	100	100	100	100	100	100	100	100	100	100
Food	20	19	20	26	29	19	25	29	17	18	33	23
Clothing	6	5	7	10	10	5	7	9	9	8	9	9
Housing	26	29	19	23	21	27	16	19	26	22	13	20
Furniture	7	5	8	7	7	8	5	8	7	7	8	7
Health	4	2	5	4	2	6	3	2	4	2	3	1
Transport	13	16	15	14	13	16	13	16	14	12	17	11
Recreation	6	8	10	5	6	6	8	6	7	10	4	8
Other goods and services	14	12	4	9	9	8	14	8	12	11	10	14
Other expenses	5	5	12	1	3	5	10	3	3	10	3	6

CONSUMPTION BY INCOME GROUP

Table 2:
Consumption level by income group in 1988

	D	GR	E	F	I	L	NL	UK
Total	100	100	100	100	100	100	100	100
1st quartile	45	51	42	55	36	49	52	46
2nd quartile	77	78	75	78	69	76	83	72
3rd quartile	110	110	107	102	103	106	111	109
4th quartile	168	154	175	159	192	169	153	173

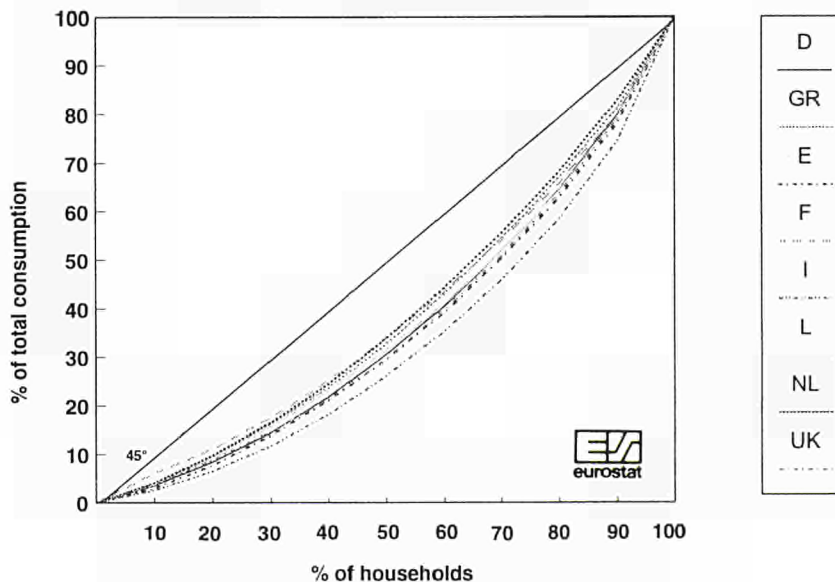
Considerable differences between consumption levels

Income was the variable which best explained the differences between consumption levels within Member States. A classification of households into four groups, ranging from lowest to highest income levels, revealed that, in general, consumption in the group of the poorest households was about half the national average (Table 2). However, this situation did not apply in every Member State. In Italy, the consumption level for this group was only 36% of the national average while in France it was as high as 55%. Nevertheless, a substantial difference existed in every Member State. The 25% of highest-income households consumed between 1.5 and 2 times as much as the national average, with a greater difference in Italy (192% of the average), followed by Spain and the UK. The Netherlands and Greece were the Member States in which the group of the wealthiest households was nearest to the average, with a ratio of 1.5 to 1. It is noticeable in all cases that the third quartile is only slightly higher than the average level of consumption. This indicates that the standard of living of the highest income households exert a strong influence in determining the average level of consumption. Equally, it is the same influence which results in a relative decrease in the standard of living of the lower income households.

Consumption was concentrated in the higher income groups

A more accurate measure of the level of inequality is obtained by the degree of homogeneity in consumption distribution. The Lorenz curve shown in Figure 3 reveals that in 1988 there was a certain consumption concentration in the higher income groups. In general, the half of the households with higher incomes accounted for 70% of total consumption, whereas the half of the households with lower incomes only accounted for the remaining 30%. The greatest inequality was in Italy, while in France and the Netherlands it was the least. However, in all Member States, the 40% poorest households only accounted for about 20% of total consumption. The more the income level increased, the greater was the difference with the consumption level of the households lower down the scale. In fact, up until the fourth decile, each 10% of households accounted for 5% of total consumption. After this, each additional 10% accounted for a tenth of consumption (10%), but in the last 20%, each additional 10% added between 15% and 20% of total consumption.

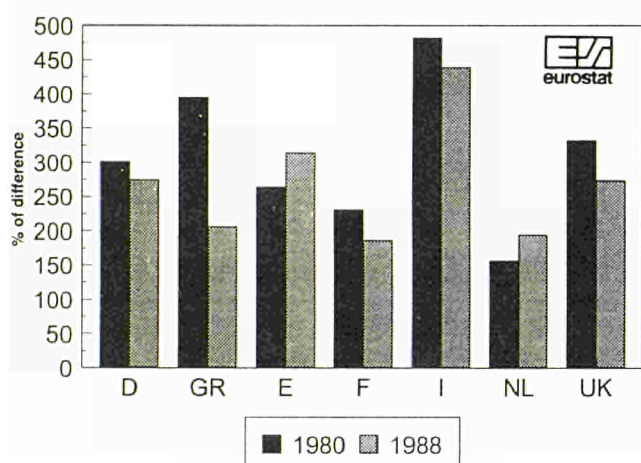
Figure 3:
Concentration of consumption in 1988



In general, differences were reduced in the 1980s

In general the gap between the consumption levels of the poorest 25% of households and the 25% richest households narrowed between 1980 and 1988. However the situation varied for each individual Member State (Figure 4). The gap did indeed diminish in Germany, Greece, France, Italy and the UK. In the case of Greece this reduction was significant, but it should be said that the difference was considerable to start with, whereas it was smaller for Germany. Italy still had the greatest differences in standard of living in absolute terms, with a gap equivalent to more than four times the consumption of the poorest 25% of households. In Spain and the Netherlands the gap widened, but the Netherlands still had the smaller differences after France. The reduction in differences between standards of living can be attributed to the higher increase of consumption of the lower income households in relation to that of the higher income households.

Figure 4:
Difference between the consumption of the 1st and 4th quartiles (as a percentage of the consumption of the 1st quartile)



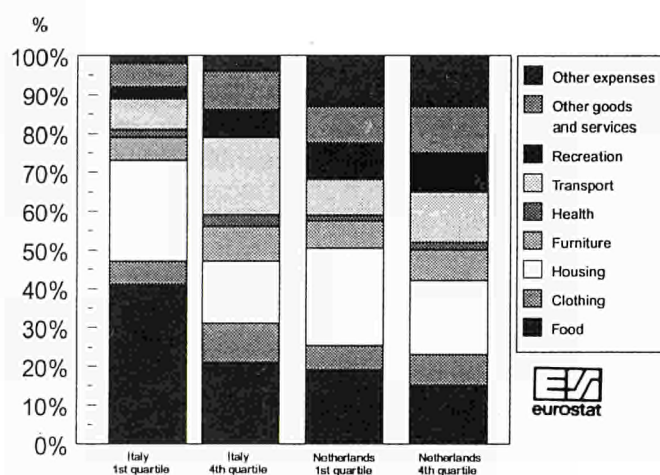
Consumption patterns varied according to income:

- Food and housing were much greater expenses for lower income groups, accounting for between 40% and 67% of the budgets of the poorest households compared to 30% and 45% of the budgets of higher income households. These two categories restricted the standard of living of lower income households the most by limiting the resources available for other types of consumption.

- In contrast, the share of other consumption categories grew in family budgets as the household income increased. This is particularly noticeable for transport, which doubled in size in the budgets of the wealthier households. To a lesser extent the same is true for clothing, recreation and other types of consumption.

A rise in household income therefore contributed to the fall in the relative share of food and housing in favour of other categories of consumption. This phenomenon was noticeable within Member States as well as between Member States with different standards of living, even if in the latter variations were sometimes produced by national characteristics (Figure 5).

Figure 5:
Consumption pattern by income group, in Italy and the Netherlands in 1988 (in %)



CONSUMPTION BY SOCIO-ECONOMIC CATEGORY

Amongst the working population, farmers and manual workers had the lowest consumption level...

- In all Member States except Portugal, the consumption level for manual workers was below the national average (between 70% and 96%) (Table 3). Farmers had a consumption level which fluctuated between 64% and 100% of the average. In all Member States except Ireland, they had a consumption level below that of manual workers in industry. Therefore, in 1988 manual work was still associated with a low standard of living, particularly in the agricultural sector.

...and non-manual workers and the self-employed had the highest level:

- Non-manual workers and the self-employed had a consumption level of between 5% and 30% above the average of households, the difference being greater in Ireland and less pronounced in the Netherlands and Germany. The consumption level of the self-employed was above that of non-manual workers in all Member States, except in Greece, the UK and Ireland.

Table 3:
Level of consumption of the various socio-economic categories in 1988

	EUR12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
Manual workers	91	88	93	70	91	86	96	95	89	107	80	103	89
Non-manual workers	120	109	72	104	125	111	114	131	117	162	104	161	131
Self-employed	123	117	128	106	115	112	118	129	117	192	106	132	100
Farmers	77	69	85	64	75	71	79	100	83	49	79	79	87
Pensioners	89	99	81	96	83	94	86	82	91	120	91	65	80

Exceptional growth in the consumption level of pensioners

Between 1980 and 1988, the real consumption level of pensioners and other members of the economically inactive population increased significantly in all Member States, the highest growth rates being 91% in the UK, 86% in Italy and 83% in France (Table 4). In all cases, the increase in consumption for this category was above the average and even occurred in Member States where the average real consumption had fallen. This development can be explained by the increase in retirement benefits, by an improvement in the health of pensioners and also by a cultural trend which increasingly views the elderly as potential consumers. However, in all Member States except Luxembourg, pensioners still fell short of the average consumption level, even if they moved considerably nearer this level during the 1980s.

Table 4:
Growth in the real consumption of pensioners between 1980 and 1988 in %

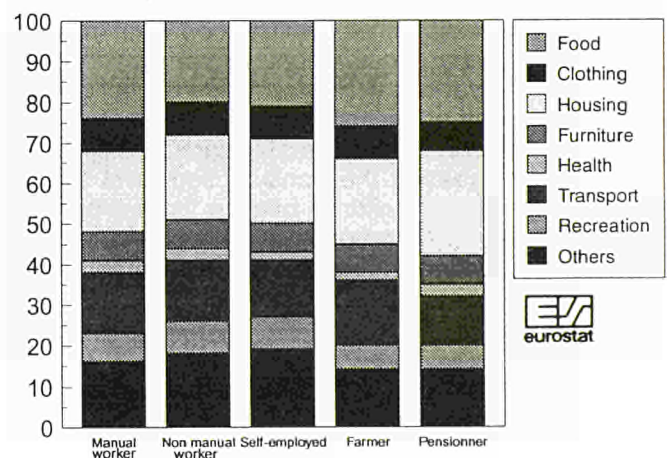
	EUR 12*	B	DK	D	E	F	IRL	I	NL	UK
Total	13	10	-3	1	-9	37	-5	44	5	32
Pension., other memb. of econ. inact. popul.	53	61	25	42	34	83	29	86	24	91

* P, GR, L excluded

More or less homogeneous consumption pattern

There was a very similar consumption pattern for the various socio-economic categories (Figure 6). The only major differences concerned food, the share of which was higher for manual workers, farmers and pensioners, and housing, which accounted for a greater share for pensioners. Most of the differences corresponded to variations in income. Others reflected the varying needs of the socio-economic categories. For example, the share of transport for pensioners and economically inactive persons was low. However, their medical expenses were no higher than for other categories which is probably due to the social security system.

Figure 6:
Consumption pattern by socio-economic category

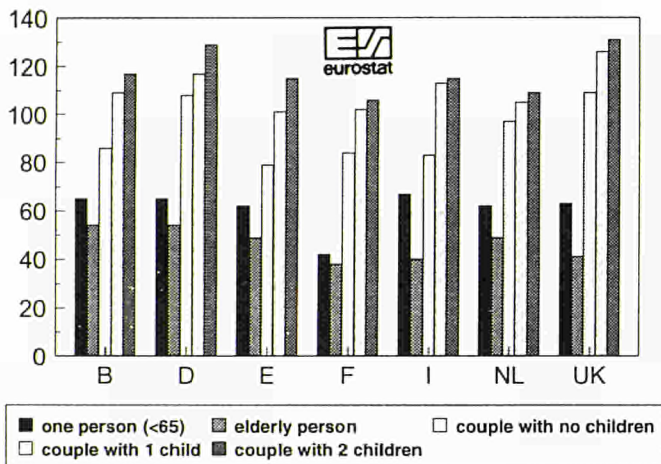


CONSUMPTION BY TYPE OF HOUSEHOLD

Old age and the first child: factors which had the biggest impact on household consumption

Households comprising one person consumed the least and this applied in particular to persons over 65 years of age, whose consumption level was equal to or less than half of the national average (Figure 7). In all cases the persons under 65 of age living alone consumed more than the persons over 65, between 10% more in France and 69% more in Italy. However, they still remained below the national average.

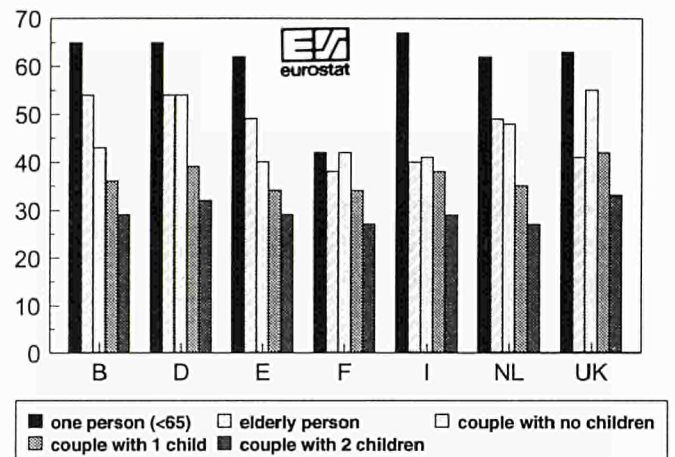
Figure 7a:
Consumption level per household



Households comprising couples with two children consumed the most, with a consumption level in absolute terms double that of households comprising one person. Children increase total household consumption but the marginal effect of the first child was greater than that of subsequent ones except in Germany. Elsewhere, the first child increased the consumption level the most, while subsequent children had an increasingly minor effect on the consumption level. This phenomenon was particularly evident in France, Italy, the Netherlands and the UK.

Between 1980 and 1988 consumption generally increased the most in households comprising one person, elderly or otherwise and couples with no children. The consumption of the persons over 65 of age living alone showed the most significant increase, except in Greece and Italy, while that of couples with children was more stable. Consequently, gaps between types of households narrowed.

Figure 7b:
Consumption level per capita



The differing impact of economies of scale on households

As the size of household increased, the consumption level per capita decreased (Figure 7b). This can be explained by the significant economies of scale which arise for several consumption categories, such as housing or food. The persons under 65 of age living alone consumed more than those living as a couple, although there was hardly any difference in France and it reached 56% in Spain. As the number of children increased, the per capita consumption of a household continued to fall. However, the first child had a varying effect. There was a sharp fall in per capita consumption in Germany and the Netherlands, whereas it was only very slight in Italy and Spain. There was a more regular effect with the second child: a person living in a household of a couple with two children consumed half that of one person under 65 living alone.

Slightly varying consumption patterns

The consumption pattern was affected by the varying lifestyles of different types of households (Table 5). Food occupied a much smaller share of the budgets of households comprising one person under 65, due to the fact that such persons were more inclined to use restaurants. Restaurant, café and travel expenses were certainly more significant in their budgets. In contrast, expenditure on housing was above the average for people living alone particularly for the elderly, accounting in several cases for more than 30%. Elderly people living alone also had higher medical expenses. In contrast, they consumed considerably less than the average in transport, recreation, restaurants, cafés and travel, which can be explained by both their lower level of mobility and their low income. Transport expenditure increased considerably with household size rising sharply with the arrival of the first child. The decrease in the share of housing in line with the growth in household size may be due to a link between income level and the decision to have children.

Table 5:
Consumption pattern by type of household in the Union (1988)

	Single person under 65	Elderly single person	Couple with no children	Couple with one child	Couple with two children
Total	100	100	100	100	100
Food	17	23	23	21	24
Clothing	8	6	7	8	9
Housing	26	31	23	20	19
Furniture	7	7	8	8	8
Health	4	7	4	3	3
Transport	13	7	13	16	15
Recreation	8	5	6	7	7
Other goods and services	13	8	11	12	11
Other expenditure	5	6	6	5	3

**DK, D, IRL, L, P excluded*

CONCLUSIONS

The consumption level diverged a great deal between the various Member States of the European Union. In the Southern Member States and Ireland it was notably lower than in the other Member States. The consumption patterns were also different. In particular, the share of food was highest in the Member States with a lower standard of living. As the consumption level increased in all Member States, a particular consumption pattern emerged in which food, clothing and furniture decreased in favour of housing and other types of consumption. However, while growth in the budget share of housing was a general phenomenon, increased consumption in transport, recreation, restaurants or travel reflected national characteristics.

Within each Member State, there were still marked inequalities between consumption levels. Low income households, manual workers and farm workers, as well as pensioners and economically inactive persons, generally had a consumption level well below the national average. The degree of inequality varied from Member State to Member State but was considerable everywhere. However, the 1980s saw a general trend towards the narrowing of gaps wherever they were apparent.

Divergences in the consumption pattern of households within a Member State were mostly due to a difference in income. With a low income, the share of food and housing increased to the detriment of other types of consumption. Occasionally, the differences in patterns were explained by varying lifestyles (this applied to single and inactive persons). In these cases, the differences were more or less the same in all Member States.

Methodological note

This issue of Rapid Reports is based on data provided by family budget surveys carried out by Member States of the European Union. The family budget surveys in the Member States are sample surveys measuring private consumption of households in each Member State. The figures used are taken from the Eurostat family budget database and cover the years 1980 and 1988.

Despite having made some adjustments of the data for reasons of comparability at the European Union level, the data are as yet not fully harmonised. Thus, due to differences in the scope and processing of these surveys, certain data are not available for all Member States. Furthermore, certain percentages are not fully comparable because of differences in survey structure and content between Member States. Particularly the data on consumption by income group should be used with caution since the information on income in the family budget surveys is less reliable and the size of some of the available samples was small for this type of analysis.

For further information, see the Eurostat publications:

"Family Budgets - Comparative Tables for 1988 - All Households", volume I and II, Eurostat, Luxembourg 1993 and 1994 (forthcoming).

"Family Budget Surveys in the EC: Methodology and Recommendations for Harmonisation", Eurostat, Luxembourg 1993.

"Standard of living" is in this Rapid Report interpreted in terms of levels of consumption of households.

The category "other goods and services" mainly comprises consumption in restaurants, cafés, hotels, travel and personal care.

*The **deciles** and **quartiles** used in the analysis by income sub-divide the weighted sample into tenths and quarters in ascending order of household incomes.*

***Purchasing Power Standard (PPS):** Common unit which allows to eliminate differences in price levels among countries. The purchasing power parities between PPS and each national currency expresses the number of units in national currency necessary at a time in order to buy in each Member State of the Union the same volume of goods and services that one would obtain with one PPS.*

***Lorenz Curve:** The Lorenz curve links the quartiles of households with the cumulative percentage of consumption which they represent. The curve produced by a situation of equality would be a straight line at an angle of 45° with a certain percentage of households consuming the same percentage of the total consumption. The more the Lorenz curve diverges from this line, the greater the inequality of the distribution.*

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