

Household Final Consumption Expenditure

Workshop on national accounts

Trinidad June 2016

HFCE coverage

- HFCE is expenditure by resident households on the consumption of goods and services.
- Where dwellings are owned by their occupiers, a transaction is imputed between the owner-as-landlord and the owner-as renter.
- The dwellings are taken as capital assets of the real estate industry
- The imputed value of the housing services provided are therefore considered part of the output of the Real Estate industry, which are in turn consumed by householders as HFCE.

HFCE coverage

- Also covered
- Goods produced by households for own consumption
- Income in kind received as employees (use of company car)
- The imputed payment of banking services is captured in the allocation of FISIM to the sector as final consumption
- The service charge component of insurance premiums

Household Final Consumption Expenditure

- There are three main sources for estimating household spending
- 1. Household Budget Survey (also under other names)
- 2. Supply of goods and services aimed at the household market – agriculture department, utilities, international trade data, output measures from the production side, adjusted for margins and taxes
- 3. Survey of retailers, giving breakdown of goods and services supplied

The Household Budget Survey in national accounts

- The household budget survey is a survey of households, designed to capture their spending on consumer goods and services.
- The aim is to provide the relative weights on which to base a consumer price index.
- Such surveys typically only take place once every 5 years or so.

Household budget survey

- They provide useful information in the creation of supply and use balances, as there are very few other direct measures of patterns of household spending
- The classification of products is the national accounts one COICOP.
- The price paid and recorded is the appropriate market price one to give the basis for a direct estimate of value
- However, in order to reconcile supply and demand in the supply use framework, a product breakdown is required for many of the COICOP headings

Household Budget Survey

- To obtain a product breakdown of the COICOP headings, intensive research is required
- Often it is necessary to examine supply-side figures to give a best estimate of the make-up of a composite COICOP heading
- Experience has also shown that the Household Budget Survey can return unexpected results when households perceive difficult financial circumstances in the economy

Household Budget Survey

- There are items which are high in value, but relatively infrequent purchases by households
- Televisions, kitchen units, motor cars are all included through diary records, but the sample size for these items results in a large confidence range over the size of the monies spent.
- This is revealed when comparisons made over time reveal unlikely movements

Household Budget Survey

- There are also items surveyed which are regularly under-reported
- They tend to be items which are considered socially undesirable – smoking, drinking, gambling etc.
- Once again, supply-side flows must be brought into play to provide a firmer basis for these estimates

Commodity flow estimates

- Where supply-side estimates are sufficiently well identified in the supply side figures, and can be allocated with some confidence to household spending, these give a solid base for expenditure components of GDP
- Note that such estimates are not wholly independent of production estimates, but where there is a very high import content, and where the allocation can be made very confidently to household spending, such estimates are often more reliable than corresponding Household Budget estimates

Commodity flow estimates

- Using commodity flow estimates has the advantage that the same techniques used for the base year balancing of the supply use tables, can be used with modification in succeeding time periods.
- However, supply-side estimates are measured at producer prices
- So trade margins and expenditure taxes must be allocated and used to increase the supply value to the one consumed by the final consumers

HFCE

- In order to derive HFCE from supply side estimates, there must be a good basis on which to allow for the price difference
- Margins on goods retailed through shops and supermarkets can be established through wholesale and retail trade margin surveys
- Again, the margins and tax rates tend to be applied to COICOP style headings, and research and assumptions are required on the product mix of e.g “household cleaning goods” or “stationery”

HFCE

- In CARICOM, there are at least two methods either being applied, or potentially applied.
- The first is to establish a balanced supply-use framework for a base year, and then use the structure to allocate supply-side estimates to components of final demand
- The second is to use the detail of the supply-side products and allocate them to final demand headings based on the nature of the products
- In both methods, structural assumptions are key and in practice there may not be a large difference in the methods in terms of results.

HFCE

- In both methods, it is advisable not to allocate supply in total, but to allocate imports separately from locally produced goods and services
- This enable full advantage to be taken of the greater detail available through the international trade codings in allocating imported supply.
- The commodity flow approach is described in documentation held on the Jamaica STATIN web-site.

HFCE commodity flow methods

- For Jamaica, the data sources are
- Locally produced goods and services – production surveys
- Imported goods – International Merchandise statistics
- Imported services – based on detail underlying the balance of payments statistics produced by the Bank of Jamaica, which in turn is based on the Survey into international trade in services.

HFCE

- The use of comprehensive wholesale and retail trades surveys
- Comprehensive inquiries collect details of goods sold through retail outlets
- This gives a basis for current price values at purchasers' prices for a range of goods.
- Again, the headings available will be COICOP in nature, and again a correspondence between that and the industry product classification will be necessary

HFCE

- Holding a comprehensive wholesale and retail trades inquiry on an annual basis avoids the need to assume base year margins applying in later years