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## Consumer behavior in the economy

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## CONSUMER BEHAVIOR IN THE ECONOMY

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**Abstract:** *This paper aims to carry out an analysis of the disparities between urban and rural economic environment in Romania, which have negative effects over time for the entire country. The key imbalances between the two areas will be identified and a chronological analysis of figures obtained from the two areas over the years will be presented. A comparative analysis of urban / rural consumption behavior of households in the period 2005-2012 is showcased. The rural population is still heavily dependent on agriculture, while consumption characteristics are specific to relatively poor populations. Reducing disparities between urban and rural incomes and improvement of the quality of household consumption are priorities in regional development policy.*

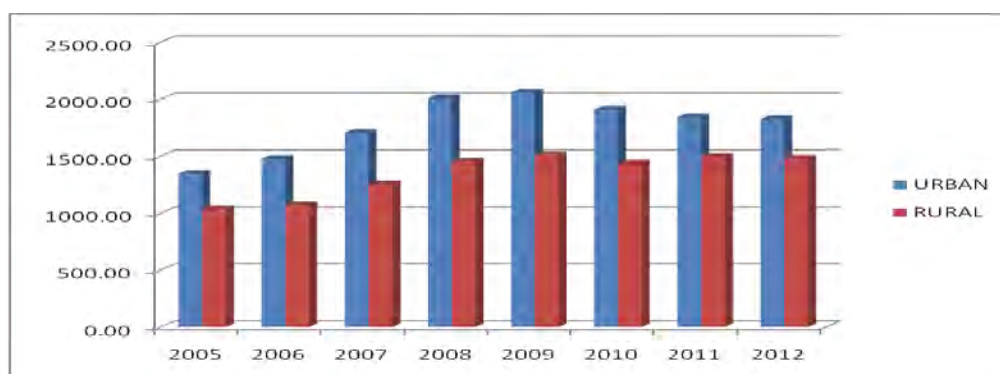
**Keywords:** *sustainable consumption, economic growth, consumerism interdependence, economic disparities.*

### INTRODUCTION

Sustained economic growth in Romania, since 2000, had a positive impact on improving the living standard of the population. Unfortunately the gap between urban and rural areas is still significant, depending on different income levels and lifestyles.

Strengthening linkages with the EU through trade, movement of people and information and increasing incomes in Romania led to higher household consumption as well as structural changes. The Romanian consumer model tends to approach the European one, by assimilating foreign habits, access to information on a healthy lifestyle and the implementation of policies of economic development and cohesion. In order to have a successful cohesion policy, accurate assessment of the existing situation should be considered.<sup>4</sup>

Sustained economic growth in Romania in early 2000 was the main source of household income growth both in urban and in rural areas, and an increase in their consumption (see Fig. Nr. 1). Hence we can deduce an overall increase in living standards in Romania, total income per household being in 2007 by about 68% higher than in 2001 in real terms.



Source: [www.insse.ro](http://www.insse.ro)

Figure 1. Total average income per household

Impact of economic growth in Romania was relatively uniform by type of household, age and occupational categories and the economic gap between urban and rural areas was maintained. While in 2005 total income in real terms (taking as base year 2005) in urban areas were RON

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1347.74 and those in rural areas were 1036.47, the year 2006 brought a uniform increase in revenue maintaining the gap between the two environments, respectively 1477.83 and 1069.30 in the urban areas (see Table 1). We can see how once with the entry into the economic crisis in 2009, revenues steadily declined until 2012.

**Table 1.**  
**Total revenue by the environment of residence**  
(real terms, base year 2005)

	<b>Total revenue by the environment of residence</b>	
<b>Year</b>	<b>URBAN</b>	<b>RURAL</b>
<b>2005</b>	1347.74	1036.47
<b>2006</b>	1477.83	1069.30
<b>2007</b>	1707.16	1255.09
<b>2008</b>	2011.73	1453.74
<b>2009</b>	2059.41	1510.12
<b>2010</b>	1909.58	1437.46
<b>2011</b>	1844.12	1494.55
<b>2012</b>	1826.39	1478.95

Source: [www.insse.ro](http://www.insse.ro)

Statistics show that Romania's population has felt the impact of the crisis in 2009, when total revenue was a decrease in both urban and rural areas (in real terms figures are as follows: in urban areas from 2009 to 2059.41 to 1826.39 in 2012 while in rural areas from 1510.12 in 2009 to 1478.95 in 2012).

As we can see the disparities between urban and rural areas maintained each year, if in 2005 the difference between urban and rural household income was RON 520.23 (higher for urban areas), the year 2012 brings a difference of about RON 347.44 between the two environments, so there is a quite significant improvement. Therefore we can draw a conclusion that the imbalances found over the years began to fall.

Referring to the share of revenue in nature in total income, urban areas experienced a steady increase in the percentage of cash income and a similar steady decrease in kind revenues; the same thing happened in rural areas. Comparing urban and rural areas, in 2005 the share of cash income in the total revenues was 88.41% in urban areas and only 64.77% in rural areas. This discrepancy persists in the forthcoming years, in urban areas the percentage of income in 2012 was 91.72% and 67.20% in rural areas.

In rural areas, revenues in nature are a greater source of income than in urban areas. In 2005 the share of revenues in kind in total income in urban areas was 11.59% versus 35.23% in rural areas. In 2012 the share was 8.28% in urban and 32.80% in rural environment rural.<sup>5</sup>

## **INTERDEPENDENCE BETWEEN RURAL AND URBAN CONSUMPTION**

In developing countries, there is a major discrepancy between the wages of urban and rural inhabitants. Income from agriculture is the entire money from companies and agricultural

<sup>5</sup> Mărcuță, L., Mărcuță, A., Tindeche, C., *Analysis of Romanian GDP during crisis*, 20th International Economic Conference - IECS 2013, „Post Crisis Economy: Challenges and opportunities”, Sibiu, România, mai, 2013

associations, sales of agricultural products, animals and poultry as well as provision of agricultural labor. Often farm income cannot be determined easily, especially in subsistence agriculture or where income is paid in kind, i.e. agricultural products.

The rural population in Romania generally have lower incomes than urban, self-employment in agriculture predominating in the occupational structure and income in low-performing agriculture are low-performing as well. Many self-employed in agriculture are members of subsistence farms, and many households have a retired as the head of the household. Low income households are also a result of the phenomenon of underemployment, combined with low productivity in agriculture. However, revenue growth in agriculture will support the growth of rural incomes. A contribution to this development will be the implementation of the Common Agricultural Policy (CAP) and the use of EU funds for rural development and that will stimulate both agricultural competitiveness and diversification of activities, given the potential of multifunctional agriculture.

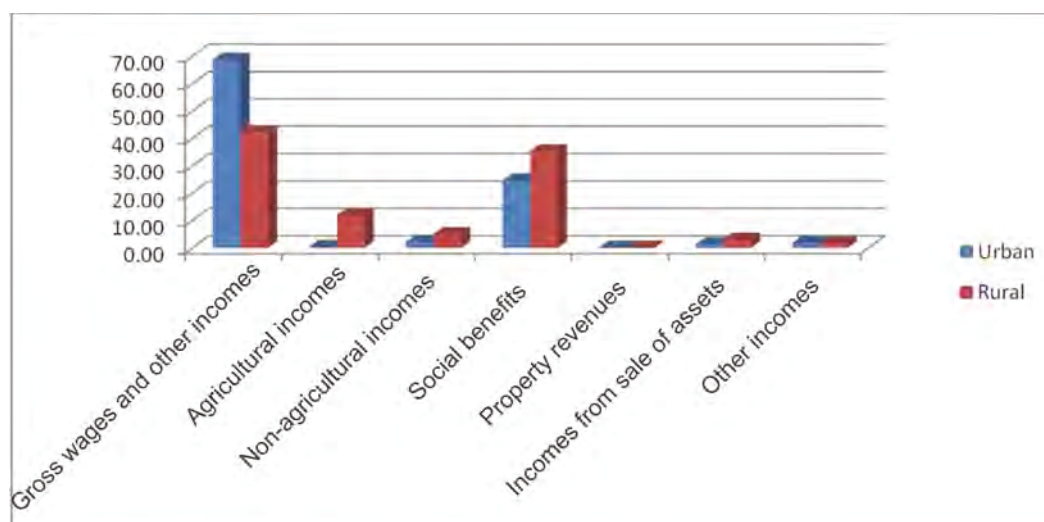
Having a job paid by salary is very important to increase rural household welfare. If at least one family member is employed, income levels change significantly. Share of income from agriculture (12.09%) and the share of income from social benefits (35.44%) in 2012 in rural areas were higher than the share of gross wages (42.40%), which shows that subsistence agriculture is a major option for rural residents and state aid is also an important source of income. If we compare the weights of monetary structures of urban and rural areas will see very obvious major differences in structure and persistence of disparities between these two environments. Thus for urban residents wages are a very important source of income, with a share of 68.97% of the total money income in 2012.

Due to the global crisis of recent years both urban and rural households experienced a decrease in wages. Rise in food prices led to further decline in consumption and lower farm income in rural areas. The only income that increased over the period were those from the government (social benefits), rural environment depending more of social benefits than salary or other income. A major cause of this is the sharp drop in consumption and employment, especially in rural areas.

Disparity between urban and rural areas is also maintained in 2012 at a high enough rate. In 2005, wages in urban areas had a share in cash income of about 69.08%, while in rural areas the wage share was about 37.13%. From here we can see a difference of about 30% of the revenue shares, between the wages in urban and rural areas, this difference of 30% in rural areas is covered by higher shares in other structures, such as agricultural incomes and social benefits.

These disparities have been maintained over the years; if urban wage share increased from 2005 until 2008 and declined slightly in 2012, not the same thing happened in rural areas, where there was a slight increase in 2008 followed by a decrease until 2011. Year 2012 brings an increase from 2009-2011; in order to reduce the gap of the two averages, rural areas should have a larger increase in the share of wages, but this increase was approximately similar to that in urban areas, maintaining the gap.

Disparities of income from social benefits were maintained between the two environments, highlighting the development level of each environment. In rural areas, social benefits have a share in the money income of about 35% compared to 25% in urban areas, this shows that the country people more dependent than urban inhabitants of state aid. Regarding this issue over the years we can see that although the social benefits share increased in both areas, the imbalance has remained almost the same, i.e. in 2005 revenues from social benefits were approximately 21.84% in urban areas and in rural areas 34.50% in 2012 brought social benefits from 24.72% in urban areas and 35.44% in rural areas (see Figure 2).



Source: [www.insse.ro](http://www.insse.ro)

Figure 2. The structure of average income (%) in 2012

## CONSUMER SPENDING REFLECTS A LOW LEVEL OF WELFARE

The main destination of income is consumption, supported by money spending and the consumption of agricultural products from own resources. Dynamics of consumer spending follows the trend of the incomes, but increasing or decreasing income level does not mean an immediate change in the same measure of living standards.<sup>6</sup> The size and structure of consumption are determined by economic factors, namely household income and consumer prices, but also demographic, social, geographical, conjunctural, etc. These interdependent influences generate inter-regional disparities even in rural areas.

Total household expenditures have fluctuated in the period 2005 -2012, the most significant increase was in 2009, both in urban and in rural areas: in urban areas from 1559.52 in 2007 to 1819.46 in 2009 and in rural areas from 1212.83 in 2007 to 1492.74 in 2009 (see table no. 2.).

Table 2.

### Total expenditures by residence environment

real terms, base year 2005

Total expenditures	Urban	Rural
2005	1259.71	1006.25
2006	1375.11	1060.85
2007	1559.52	1212.83
2008	1801.81	1428.91
2009	1819.46	1492.74
2010	1674.31	1333.96
2011	1626.89	1401.52
2012	1624.38	1383.84

Source: [www.insse.ro](http://www.insse.ro)

Income is the most important factor determining consumption behavior of the household and a person. The relationship between consumption and income of the people has been studied by

<sup>6</sup> Burghelea, C., *Securitatea și protecția consumatorului*, Revista Amfiteatru Economic, ASE București, Facultatea de Comerț, Anul XII, Iunie 2010, Nr. 28, ISSN 1582-9146, pp. 476-489

economists over time and is known as "Engel curve". This law has been verified over time and can be used for international comparisons as well as in-country between populations with different levels of income. Manifestation of this law shows effects in long term, being one of the causes of the decline of agriculture in the national economy.

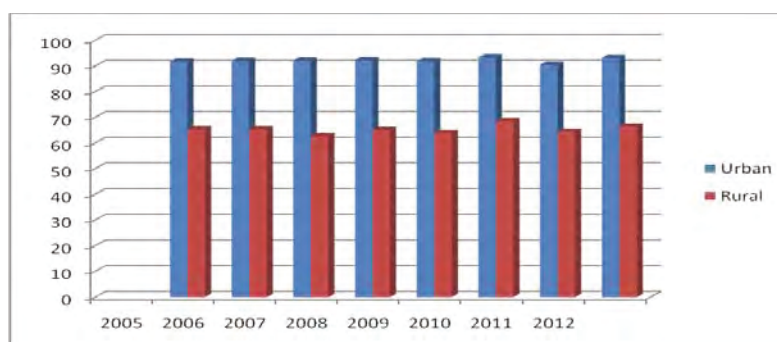
Specifically, due to Engel's law, as the income of the nation is higher, the share of food expenditure in consumer's spending is lower. If we compare the share of food consumption expenditure in two countries with very different income levels we see that, for example, in Romania it was about 45% in 2006, while France was under 15%.

Analyzing consumer expenditure weights in total cash costs, we see the trend of the share of urban decline, from 76.55% in 2005 to approximately 73.40% in 2012. In rural areas, a different phenomenon happens; consumer spending during this period fluctuates from year to year, indicating a decrease followed by an increase. Year 2012 brings a higher percentage of rural areas (77.67%) than the urban (73.40%).

There is a significant difference between urban and rural money's spending practices. Average cash costs per household in urban areas were higher than rural cash spending by approximately RON 497.8 in 2005. This difference was maintained throughout the years that followed, namely in 2006 the difference was RON 571.61, RON 677.60 in 2007, in 2008 about RON 733.82 and in 2012 this difference has diminished considerably reaching RON 595.12 (Table 2). Cash expenditures in urban areas have experienced a steady decline, while in the rural areas these expenditures floated at around RON 910. Considering percentages in the two environments, cash expenditures accounts for urban approximately 91.77% of total expenditures in 2005, while rural has a share of only 65.42%. We can easily see the disparities between the two areas, disparities that persist over the next few years. In 2012 the share of spending cash difference between urban and rural areas is maintained; urban records a percentage of 93.20% and rural environment 66.39%.

In 2005, rural areas the consumption of agricultural products from own resources holds approximately 34.58% of total expenditures, versus only 8.23% in urban areas. This reveals that the rural consumer is somewhat addicted to food and non-food household from own resources (agricultural production, stocks of previous periods, products received in gift etc.); this trend has been maintained over the years, reaching in 2012 a share of 33.66% of total expenses.

The consumption of agricultural products in urban areas is not significant (8.23% in 2005) as most of urban household consumption expenditure goes on money expenditure, i.e. consumer spending, spending for food and beverage, investment expenditure and not least tax expenditures, contributions, and fees. In the period 2005-2012 urban areas experienced a 93.20% increase in financial expenses in 2012 and a decrease in the value of consumption of agricultural products from own resources of about 6.80% in 2012 (see figure 3).



Source: [www.insse.ro](http://www.insse.ro)

Figure 3. Cash expenditures share of total expenditures

Between the two areas there is a pretty significant gap on household's spending. Rural environment attach greater importance to agricultural production costs, inventory of prior periods than in urban areas. Urban inhabitants focus largely on monetary consumption of time.

## CONCLUSIONS

Sustained economic growth in Romania since 2000 had a positive impact on improving the living standard of the population. Unfortunately the gaps between urban and rural areas are still significant, differences being dependent on income and lifestyle.

National Rural Development Programme 2007-2013 has changed in the second half of the decade, young people began to leave the rural areas while older people migrate in rural areas. The countryside has become increasingly attractive to the population over 35 years and especially for those of 45-54 years, who are usually more vulnerable in the labor market in urban area and head to rural areas where they start their subsistence activity. However, for some people, living in rural areas is preferred to urban crowd. Young active population migrates to urban areas in search of jobs and a better, more attractive way of life.

Although positive, the percentage of internal migration from urban to rural can not compensate for this decline. In the early 1990s there was a massive migration from rural to urban areas. The trend has reversed over the years, as economic restructuring and restitution of land have increased the attractiveness of rural areas, so that by the end of 2000, the net rural-urban migration became positive, although fluctuating in absolute terms. However, urban-rural migration remains insufficient to offset the decline in rural population. For this reason, consumption also registered fluctuations. Generally young people prefer to live in rural areas but work in urban areas to work for a lifting of living standards, as well as competitive growth and liberalization of individual ideas.

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