

THE IMPACT OF INFLATION ON THE SIZE OF THE DOMESTIC DEMAND FOR CONSUMER GOODS AND SERVICES

ANIELA BĂLĂCESCU, MARIAN ZAHARIA *

ABSTRACT: *The impact of inflation on society has significant consequences. One of the major effects of inflation is the uncertainty generated when the inflation rate is volatile which can lower purchasing power of consumers, which means that it is thanks to the less if you do not increase and the revenue in the same rhythm. In this article we intend to analyze statistically the impact of inflation on the size of the domestic demand for consumer goods and services in the period 2000-2010.*

KEYWORDS: *rate of inflation; consumer price indices; demand; Romania.*

JEL CLASSIFICATION: *C44.*

1. INTRODUCTION

Inflation is manifested as a general and sustainable growth of prices and tariffs. The increase shall be differentiated by category of economic goods. So, inflation changes the correlations between prices (Dobrotă, 1997). The most important change which should lead inflation is raising prices of consumer goods in line with wages, thereby recording profits and encouraging the resumption of production at the points where there are real resources, on the path to re-establishing a functional relationship between prices and costs.

The main manifestation of the inflation lies in the imbalance between aggregate demand and aggregate supply, both regarded as feeds, imbalance involving a higher nominal solvent, supported artificially, in comparison with the actual offer of goods in a given period (Ciumara & Ciutacu, 2003).

* *Lecture, Ph.D., "Constantin Brâncuși" University of Targu-Jiu, Romania,*
anielabalacescu@yahoo.com

Prof., Ph.D., Petroleum-Gas University of Ploiesti, Romania, marianzaharia53@gmail.com

The intensity with which propagates malignant effects of inflation on the real economy differ from one economy to another, depending on the degree of economic development, the maturity of the mechanisms of markets, the quality of management of the Government and even the ability of the population to report to the inflationary process. Historical experience demonstrates that there is a relationship between the extent of inflation of independence and sense of her fate and its malignant effects.

Population size and structure of consumption are affected on the one hand the level and structure of the consumption needs of the population (the request), and on the other hand the availability of goods and services of consumption (the offer). Therefore, the expression represents the consumption demand satisfied by goods and services of consumption.

Expenditure intended for the consumer needs include:

- a) **money expenditure** to purchase food products-food consumed, the goods and for payment of services, including the consideration of the benefits (goods and services) free or discounted price;

Decreasing the purchasing power of money income and inflation has a direct impact on the welfare of the population. If the pace of price increases is higher than income growth, then inflation actually suppress revenue growth, and usually leads to decrease of consumption. If the pace of price increase is less than revenue growth, the volume of consumption of the general population and wealth increase.

Inflation affects the amount of benefits (goods and services) free or discounted price increasing public expenditure, and in conditions of limited budgetary resources, this implies both restricting supply public goods and services and the increasing demand on the market in these goods and services.

- b) **equivalent value of the consumption of food and non-food products from own resources.**

The impact of inflation and the fall in purchasing power of money incomes has been manifested in the double sense of the volume of consumption of food and manufactured goods of own resources, as follows:

- own final consumption growth determination, in particular food in rural areas where "own resources" have constituted a way of offsetting the loss of revenue caused by unemployment, inflation and retirement;
- determination of reduction in consumption of durable goods and housing due to very high purchase prices.

Measuring the evolution of prices and tariffs for services which fall in the consumption of the population is done using the consumer price index (CPI).

The calculation of the CPI using a nomenclature of goods and services structured in 54 food stations, 112 posts of non-food products and 50 posts, significant for consumption.

2. THE EVOLUTION OF CONSUMER PRICE

In the period 2000 to 2010 at the level of our country can ascertain a trend of stabilisation of growth of prices of goods and services of consumption - table 1 (National Institute of Statistics, 2011).

Inflation, measured by the average consumer price index, rose from the second half of 1999 and early 2000 (with a maximum of 57% in January 2000 to January 1999), as a result of external shocks generated by the increase in oil prices, depreciation of the euro against the dollar, the fiscal corrections and adjustments in regulated prices.

Starting with the second part of the year 2000, inflation was enrolled on a trend constantly descending, constituting a positive sign in the efforts to regain territorial confidence in national currency (rate of inflation in 2000 was 45.7% and 4.84 in 2007 year) . This process of disinflation was maintained until 2008 when he registered a slight increase in the CPI (7.85%).

Table 1. The annual indices of consumer prices

The previous year = 100

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	145,70	134,50	122,50	115,30	111,90	109,00	106,56	104,84	107,85	105,59	106,09
Food products	143,70	135,70	118,30	114,70	109,50	106,10	103,84	103,89	109,22	103,25	102,33
Non-food goods	144,00	133,10	125,50	116,10	113,20	111,30	108,47	104,99	106,36	106,22	109,78
Services	153,90	135,40	126,80	114,80	114,70	110,50	108,20	106,63	108,57	108,97	104,78

Source: National Institute of Statistics

The dynamics of price indices for different groups of goods and services was different. If the CPI of food, goods are observed a reduction in the rate in the years 2004-2006. However, there has been a growth of this index in 2007-2008, mainly due to the effects of adverse weather conditions (drought and floods), but also increase the prices of imported goods supply, due to the strong depreciation of the exchange rate of the currency versus main foreign currencies low and competitive environment within the internal market. In May of 2009 to September the growth of food prices has decreased each month more sharply than the CPI (with an average difference of 1.5 points), helping to reduce inflation.

Economic crisis and its effects on the incomes of the population have affected quite a bit of food demand in Romania in 2009. The quantities of purchased foods fell in 2009 compared to 2008, but only to certain categories of products. The highest growth rate of prices was registered for the services rendered to the population (8.97%).

Annual growth dynamics of the prices of foodstuffs and fuels, reflecting mainly higher consistent raw materials on the international market, as well as to enhance growth in annual terms of administered prices, resulting in significant adjustment, including the effect of the increase in the share of VAT thermal energy, tariffs caused further accelerating inflation and 2010, respectively in the first part of the year 2011 (Bălăcescu & Ciurlău, 2011).

As regards the structure of the destinations of consumer spending in the third quarter of 2010, according to data of the National Institute of statistics of food and drinks were held, on average, 41.0% of household consumption, followed by housing costs (water, electricity and heat, natural gas, fuel, furniture, equipping and

maintenance of the housing) with 15.7% of the consumption of households - figure 2 (National Institute of Statistics, 2011).

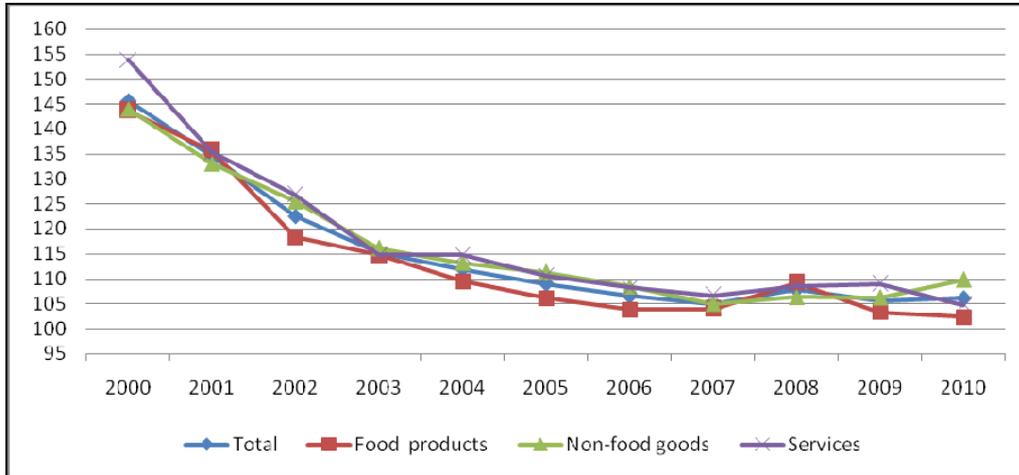


Figure 1. The evolution of the annual indices of consumer prices by main categories of goods in the period 2000-2010

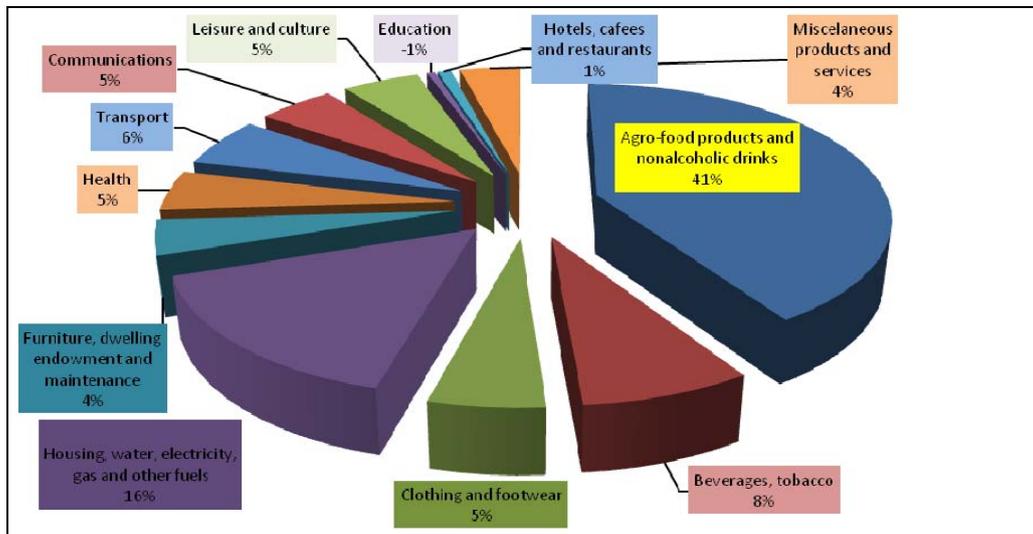
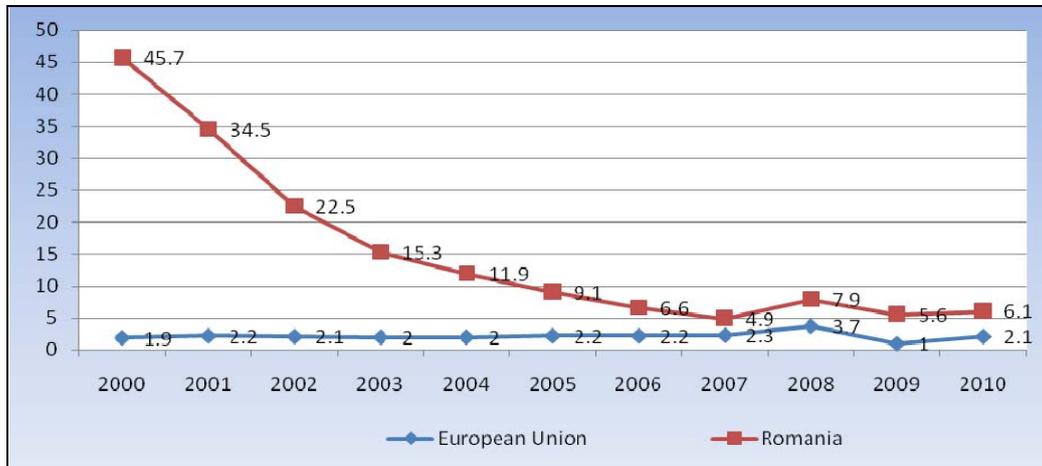


Figure 2. The total consumption expenditure structure on destinations, in the third quarter of 2010

Compared with other countries in the European Union, Romania has had in the period under review, one of the highest levels of inflation (in Romania average inflation rate for the period 2000-2010 is 15% while the EU average is 2,15%).



Source: EUROSTAT, European Commission, www.europa.int/eurostat

Figure 3. Annual average rate of the harmonised indices of consumer prices (IAPC)

In 2010 Romania registered over other EU countries the highest inflation rate. (Chart no. 3). Currently, Romania remains the country with the highest level of price inflation with an increase of 8.0% in March 2011 compared with same month of 2010, according to Eurostat. High rates of inflation recorded in Estonia (5.1%), Bulgaria and Hungary (4.6% each) and lowest inflation rates were registered in Ireland (1.2%), Sweden (1.4%) and Czech Republic (1.9).

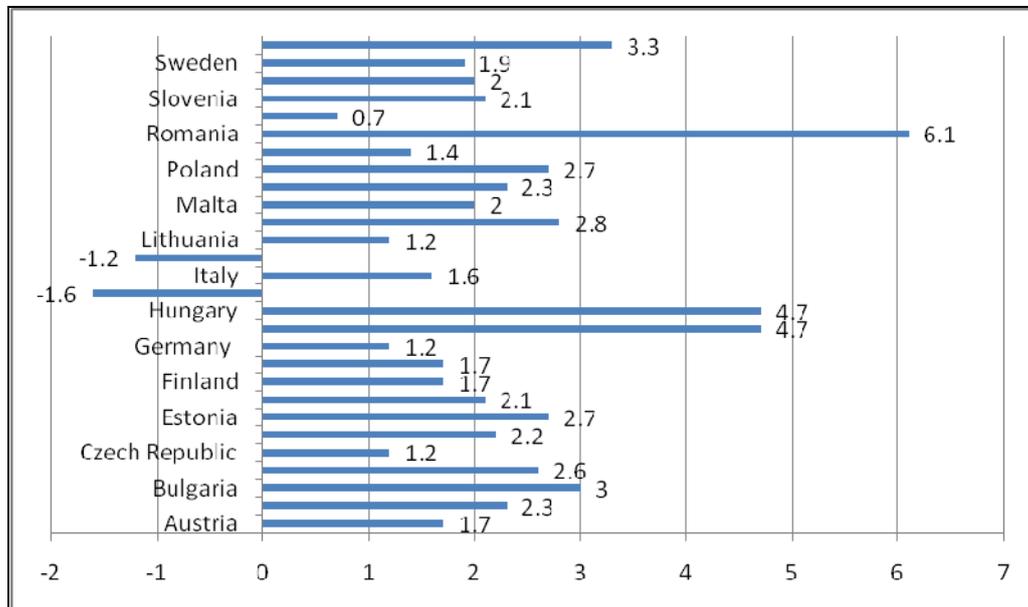


Figure 4. Annual average rate of the harmonised indices of consumer prices (HICP) in 2010

3. THE EVOLUTION OF DEMAND FOR CONSUMER GOODS AND SERVICES IN ROMANIA IN THE PERIOD 2000-2010

In the table no. 2 is also seen evolution of consumer spending money, by main categories of households in the period 2000-2010.

Table 2. The evolution of consumer spending money, by main categories of households

lei monthly per household

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total	175,49	287,90	370,99	449,42	615,80	720,27	815,46	946,00	1185,33	1275,03	1522
Households of employees	270,10	426,59	546,92	671,08	862,76	1010,30	1126,06	1318,78	1573,16	1670,16	-
Households of peasants	103,83	144,42	192,30	248,51	358,01	416,26	447,51	507,70	619,91	758,07	-
Households by unemployed	160,35	245,17	301,88	409,63	513,05	614,01	704,61	793,85	932,03	1085,74	-
Households of pensioners	136,60	221,71	283,77	335,25	474,83	555,04	633,25	725,15	958,52	1063,67	-

Source: National Institute of statistics – ABF

* trim IV provisional data

In the period 2000-2010 held a positive dynamics of consumption expenditure of households. Monetary consumption expenditure increased from 175.49 lei monthly on a household 2000 at 1522 lei monthly on a household by 2010, i.e. with 1346.51 lei monthly on a household.



Figure 5. Dynamics of consumption expenditure of households

Analysis of the structure of consumer expenditures of money, by main categories of households, highlights the fact that the share of consumer spending money is held by households of wage earners.

In the case of categories of peasants households consumption from own resources also occupies an important position in the case of consumer spending money. The share value of own final consumption within the total consumer expenditures of population in households of wage earners, peasants and retirees had an increasing trend in the period 2000-2010 (according to the family Budget Survey 2010).

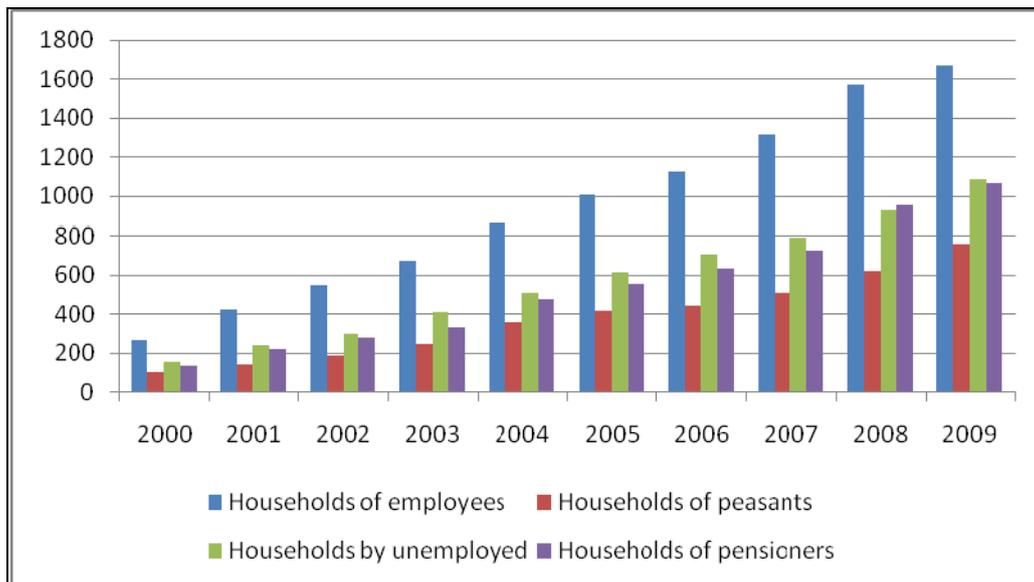


Figure 6. Evolution of self-consumption value in the total consumption expenditure of the population

Since 2009 you can see a more moderate growth of spending money for consumption compared to previous years (106.17% in 2009 compared to 2008, 119.29% in 2008 compared to 2007).

Consumer demand dynamics of the population is also unfavourable influence exerted by "self-consumption and acquisitions in the farm" and "individual consumption expenditure by government and private development of these components are negatively correlated with the pace of agricultural production, respectively, with staff reductions made in a number of public areas (education, health, culture, social welfare, etc.).

For the next period, the available statistics indicate a downward trend to maintain the household consumer demand - one nine disposable income recorded contraction in annual terms, which was reflected in further restricting the volume of trade turnover and service.

4. CONCLUSIONS

In the analysis period (2000-2010) the rate of inflation in Romania although it was classified on a downward trend, however recorded a high enough level. The dynamics of price indices for different groups of goods and services was different (for example in 2010 for non-food goods CPI was 109.78%, 102.3% for foods products and 104.78% for services).

Romania differs from the euro area and by the large share of food in the consumption basket which reflects the gap of development and standard of living.

In 2010 compared with euro area countries, Romania has achieved the highest level of inflation (6.1%), followed by Estonia (5.1%), Bulgaria and Hungary (4.6% each) and lowest inflation rates were registered in Ireland (1.2%), Sweden (1.4%) and Czech Republic (1.9) .

Increasing annual rate of inflation in 2010 was mainly the consequence of higher VAT by 5 percent. One of the immediate effects of this increase was reflected in the price of heat and the food.

In our opinion, in the implementation of measures to reduce inflation, the authorities should take into account the purchasing power of employees to avoid a social crisis and the existing VAT in other EU economies that Romania is in direct competition. A high level of VAT rises and adversely affect the cost competitiveness of exporters and companies will be in the situation could not develop.

Because inflation in Romania closer to euro area inflation is imperative that the three policies (fiscal, monetary and wage) to support each other.

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