

# THE PROFILE OF ROMANIAN CONSUMER AND HOW THE ECONOMIC CRISIS IMPACTS THE CONSUMER'S MENTALITY

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## **Abstract**

*The paper deals with the Romanian consumer's profile, analyzed in terms of household expenditure structure, by main destinations for food, non-food, services and taxes components, and household's consumption, in terms of size and structure of food consumption.*

*Synthetic images of quantitative parameters were made using national and international statistical data, between 1991 and 2009. We took into account the total expenditure of households, total consumption expenditure, the structure of monetary consumption expenditure, the average consumption of main food products, in structure and dynamics.*

*Diagnostic analyses were performed by multi-annual approach of these indicators, important warning signals in the evolution of the household consumption. The multi-country and multi-annual benchmarking contributes to the highlighting of the national consumer profile, compared to those of the other 30-40 countries. These issues underline the extent of the economic crisis seen by the national households like an influence in shaping the consumer's mentality.*

**Key-words:** *consumption, expenditures, indicators, dynamic, comparative analysis*

**JEL Classification:** D<sub>1</sub>

## **Introduction**

For the last two years, we have been facing the worst crisis that has almost neutralized the progress from the previous years, whether we speak about the economic growth or the poverty reduction. In this global context of the economic recession, the crisis has influenced, among others, the population consumption factor. The paper deals with the Romanian consumer's profile in the light of household's expenditure analyzed in structure terms, by main destinations for food, non-food, services and other expenses, and also the household's consumption, by size and structure of food consumption. The issues approached consist in highlighting the total household's expenditure, the total consumption expenditure, the monetary consumption expenditure structure, the average consumption for the main food products, and so on – essential elements in highlighting the consumer's profile, analysed in structure and dynamic, by the type of total expenditure and consumption expenditure.

Even though the diagnosis is based on statistical sources, these diagnostic analyses, at national and international levels, should be familiar with the status of these indicators; besides, the progress of these indicators will lead to establishing appropriate directions for further action. At the same time, another important point consists in the multi-country comparative analysis that contributes to highlighting the Romanian consumer's profile as compared to the consumer's profile of other 30-40 concerned countries. Upon this multi-annual and multi-country analysis, and in particular, by comparability, we will detail some alarm signals about the evolution of some quantitative or qualitative indicators of national consumption, underlining the Romanian consumer's profile, shaping the consumer attitude and the consumption mentality. These signals may contribute to the design of policy directions to support a healthy consumption, and also some food assistance policies prescribed by economy market, especially now, when the global food is at its low and shows fewer opportunities. In addition, the rapid present changes, in all their aspects, facilitate the worsening of the issue of consumer choice, by offering various choices; the consumer is sometimes in a difficult situation, trying to respond to these ongoing challenges. Today more than ever, the frontiers of knowledge, besides huge benefits, generate some potential risks for consumers.

It is particularly important, especially in such a context, to know the dimensions related to the consumption of population/households – as an important component of the poverty overall, alongside income, expenditure, inequality.

### **Review of specialist literature**

The economic crisis of the past two years has revealed some weaknesses of an economy already struggling with the effects of globalization, increasing pressure on resources and an aging population; the long-awaited strategy Europe 2020 comes after a severe recession in the history of the EU and identifies the huge challenges which we will have to face in the next decade. The impact of the economic crisis on poverty depends on how it affects both the average consumption and the distribution of the average consumption, as in a recent World Bank report.

In addition to the concerns of the World Bank about the consumer component, OECD also has a strategic response to the financial and economic crisis. Even if the crisis started in the financial sector, its impact reached consumers worldwide. OECD Committee on Consumer Policy provides some guidelines for creating policies for protecting and empowering consumers, by providing solutions such as e-trade, consumer education, safety of the consumer product, consumer policy, and so.

FAO has warned that more people will be affected by famine, malnutrition and poverty if the food crisis worsens. And at the same time, the Millennium Development Goals are in jeopardy until 2015 (UN Report). FAO report argues that only in 2007 (the prior year of economic crisis), food crisis threw an additional number of 75 million people into the category of malnourished.

The efforts of many nations in fighting hunger and poverty could be slowed down starting with this year; therefore, reaching the Millennium Development Goals will be highly questionable.

In other words, such warning signs have been pointed at long before the crisis; now, we are just looking at what extent this crisis is affecting the consumer attitude, at the international level. Over the past years, there have been lengthy debates on consumption crisis, consumption behavior, degree of damage; while the economic crisis has not deeply affected the consumers yet, the state of “mind” of consumers and their reaction to the crisis proved to be a rather ‘quiet’ one.

For this reason, we are bringing out the components of consumption and the Romanian consumer’s profile in the period before and after the crisis, even if we consider that this economic crisis has not ended, and their effects are still felt at the present time.

### Theoretical assumptions

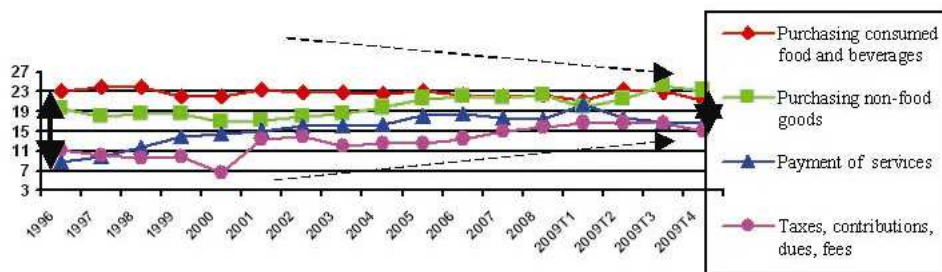
The method used in this paper is based on the analysis of national and international data sources, to make more visible the components of consumption. The used tool is a statistical one, where quantitative indicators describe the components of consumption.

### Consumer’s profile

The main destinations of consumption expenditure of households are food supplies, non-food products, followed by services and then taxes, contributions, dues and fees. If we consider these 4 components with majority share in total expenditure in the total household expenditure structure, the household’s consumption hierarchy top spot is held by the food component, which has always held the supremacy of the expenditure (about one quarter of the total money expenditures). The food component is followed, at a short distance, by the non-food component, then services and taxes, contribution, dues and fees (Graphic 1).

Graphic 1

The structure of money expenditures for food, non-food goods, services, taxes and fees



Sources: For years 1996-2008: Statistical Yearbook of Romania, NIS, 1998-2009. For year 2009: Press releases, Revenue and expenditure of households, quarterly press releases, NIS

An interesting part in the consumers' behavior (household) is the dynamic evolution of each component in the period considered, and the gap between these components, such as: for the first few years, the food consumption component was located on a downward had, then for a short period of time path a slight increase; since 2001, this component of consumption has witnessed a continuously decreasing trend. Amid reducing the food costs, other types of expenditures have seen significant increases from year to year.

Thus, we can notice an important change in the consumer's behavior in the past years, when the consumer/household preferred to lower the consumption, by reducing the purchase of food products, non-food goods and had to increase the expenditures for the services. Therefore, in the total consumption expenditure, non-food expenditures have been increasingly growing, especially in services and fees, contributions and taxes.

This change in behavior had many influences, some of which on the consumer side, but others, the majority, from the economic context; they influenced the consumer's behavior and we refer here mainly to higher prices for utilities, services, increased taxes, and so on. Thus, the consumer was required to pay with priority certain services/utilities being conditioned by available cash resources; this cash increases in nominal value from year to year, but lowers in real value; as a result, the consumer changed his priorities in consumption options, giving them a different importance, perhaps at the expense of food consumption.

Most important for the profile is the analysis of the evolution of total consumption expenditures, the detailed structure according to the major destinations, respectively agro-food products and nonalcoholic drinks; beverages, tobacco; clothing and footwear; housing (housing, water, electricity, gas and other fuels; furniture, dwelling endowment and maintenance); health; transport; communications; leisure and culture; education; hotels, coffees and restaurants; miscellaneous products and services.

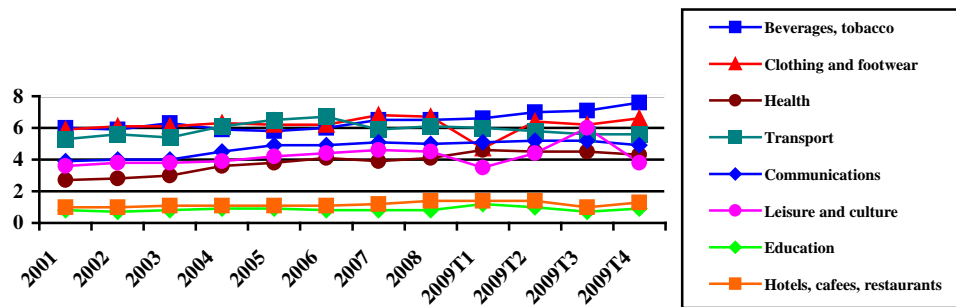
A component of consumption, with a relatively high share in the total consumption expenditure, holding the second position after the agricultural and food products sector, is linked to housing (water, electricity, natural gas, fuel, respectively 13-15%; furniture, dwelling endowment and maintenance of housing, respectively 3-5%). Most of the housing expenditure is absorbed by utilities (water, electricity, natural gas and other fuels).

In terms of the total consumption expenditure of households, in a detailed structure, we distinguished three levels, strongly differentiated: the majority share, although in continuing and substantial decrease, belongs to the component of food products and nonalcoholic drinks (42-52%). This component of total consumption expenditures is followed, from afar, by the household expenses for housing (housing, water, electricity, gas and other fuels, furniture, dwelling endowment and maintenance), in a continuously ascending trend (16-21%). The third place held by a compact group of expenses (beverages, tobacco; clothing and footwear; health; transport; communications; leisure and culture; education; hotels, coffees and restaurants; miscellaneous products and services), which covered a total expense ratio of 1-7% (Graphic 2). In this small range of 1-7% described, we delineate

3 types of expenses with the following destinations: clothing and footwear; beverages and tobacco; and transport expenditures that dispute their supremacy in this triad. This position is followed, from a short distance, by expenditures on communications, leisure and cultural activities and, lastly, the component related to health. The last two positions in the hierarchy of household's expenditure are taken by hotels, coffees and restaurants costs and the last place in the hierarchy is, unfortunately, for the education expenditure.

Graphic 2

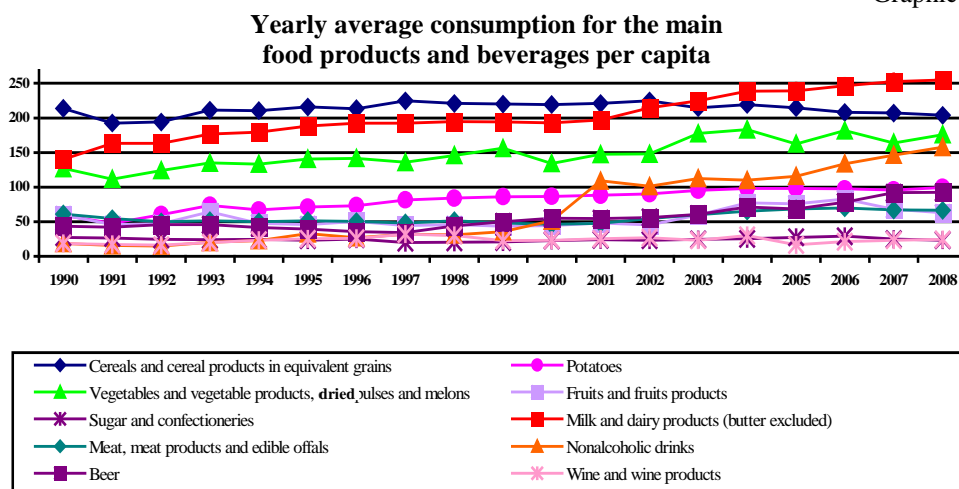
**The structure of total consumption, excluding food and nonalcoholic products and housing**



Sources: For years 1996-2008: Statistical Yearbook of Romania, NIS, 1998-2009. For year 2009: Press releases, Revenue and expenditure of households, quarterly press releases, NIS

An interesting aspect is the international experience on how it the consumer's behavior is perceived and the importance of different types of expenses. By comparison, Romania occupies the following positions in the ranking of 30 countries: for food products and nonalcoholic drinks, Romanian is on 4/30, which means that the households spend a lot for this destination; for beverages and tobacco component, Romania ranks 2/30, thus being almost a "leader" in the ranking of expenditures; for clothing and footwear expenditure, Romania is on the 18<sup>th</sup> position, a median position; on housing costs, position 26, national households pay very little money for this destination compared to other countries; for furnishing housing position 24, a small share of total expenditure; for health expenditure, place 19, which is very little, perhaps in many other countries, the system of health insurance is solid and the population spends a lower share; for communications expenses, place 10, quite enough, compared with other countries; for recreation and culture, position 23/30, even less for this activity; for education expenses, Romania is on the 16<sup>th</sup> place, a median position, if we consider that there are 30 countries, but the truth is that Romania has only paid a share of 0.7%!

Another qualitative and quantitative indicator that influences the profile of consumption is the yearly average consumption for the main food products and beverages per capita (Graphic 3).



Source: Statistical Yearbook of Romania, National Institute of Statistics, 2009

For the 1991-2008 period, the national statistics show that the most important average annual per capita consumption is that of cereals and cereal products in grains equivalent (1991-2002). Then the first position was taken by milk and milk products, the largest in the availability of consumption from 2002 until the present. The third position in the annual average consumption has always been assumed by vegetables and vegetable products, dried pulses and melons, which are located on a continuous increasing trend over time. Until 2001, the next position was the potato consumption; starting in 2001, the 4<sup>th</sup> place has been taken by the consumption of nonalcoholic drinks, on a continuing and accelerating ascending trend, outpacing the consumption of potatoes. On the 5<sup>th</sup> position, there is a fairly compact landing where the following consumption products share the role of leadership the hierarchy: beer; meat, meat products and edible offals; fruits and fruit products, and then, at some distance, we have the components like sugar and confectioneries; wine and wine products, in the last position in the availability of annual average consumption per capita (excluded amounts under 15 kg(l), like vegetable fats, animal fats, distilled alcohol and fish).

The international experience on average annual consumption, according to statistics from FAO/Food and Agriculture Organization of the United Nations presents consumption between 2003 and 2005 for 40 countries and, undoubtedly, the first position in the pattern of consumption is occupied by the consumption of milk, for all the 40 countries considered. In the second position in the top hierarchy of the FAO statistics, is the consumption of cereals and vegetables. Third rank is owned by fruits, then the following position (no. 4) is taken by alcoholic beverages, starchy roots on the 5<sup>th</sup> place, followed by meat consumption (6<sup>th</sup> place) and then the sugar and sugar products (no. 7) and only on the 8<sup>th</sup> position belongs to fish consumption component. After fish consumption, in lower marginal positions, we have vegetable oils, stimulants, animal fats, eggs, with a consumption between

40-80 g/person/day), then the even lower position is occupied by vegetables, tree nuts, oil crops, spices and offals, which are below 50 g/person/day. Also, at international consumption level, the average consumption of the fish component is fairly low compared to other food products, but its position in the ranking is one more favorable compared with the corresponding national average fish consumption. It is true that there are some countries where fish consumption is very high, compared with others (Iceland – 248 g/person/day, Japan – 176, Lithuania – 123, Malta – 108, Norway – 131, Portugal – 165, Spain – 121), while in our country fish consumption is very low, at the lower limit of the ranking, respectively 11 g/person/day; only Serbia and Montenegro (8) fall below this value.

The level and structure of food consumption is one economic variable reflecting the welfare of the individual, of the population of that country, and is subject to a number of factors: economic (income, agricultural and food prices), demographic (age, external migration, mobility, geographic location), cultural, ethnic or religious, dietary habits, technological, psychological factors related to individual tastes and preferences, some of them relating both to the individual and society, which means that consumer pressures are quite high.

In the specialist literature, there are several consumer models, where each of them has its own specific characteristics. Beyond the variety and challenges between tradition and modernity, the healthy food is more and more visible in consumption patterns. This style tends to be a main feature of the consumption patterns. The transition from model to model in agriculture satiety seems to be characteristic of the European Union. For Romania, the question of to which extent we will adopt either of these models is still open. We did adopt some elements imposed by EU – still, we are concerned about food safety, food identity and reconsidering of the traditional techniques of food production.

### **Instead of conclusions**

The article addresses several issues of food choices of the modern consumer at the present stage of society development, consumption trends and consumption behavior in the last two decades, by comparing the national and the international profile of the consumer, pointing and discussing some key matters of how the consumer behaves, in terms of consumption expenditure for food and nonfood products. The paper is not specifically a justification for a pattern of consumption, but only an outline in evolution for the last two decades, pointing out at certain some behavioral changes. In this context, we must remember Maslow's pyramid – this pyramid shows that our needs should target the top, where self-realization is, and represents the essence of ultimate goal. In other words, life means to learn to line and to find the balance for equilibrium.

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