

INCOME, POVERTY AND PRICES: TRENDS OF 2016<sup>1</sup>

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In May 2016, households' real disposable cash income, real wages and the real size of granted pensions decreased as compared to the respective period of the previous year. In Q1 2015, the poverty rate amounted to 15.7%, having fallen somewhat as compared to the same period of the previous year which situation is related to a dramatic reduction of prices on a number of food products included in the consumer goods basket. In H1 2016, consumer prices rose by 7.8% as compared to the respective period of 2015, having virtually returned to moderate values after a 16% surge in H1 2015. With further reduction of the rate of inflation, the poverty rate may fall this year. At the same time, the number of overdue mortgage loans and the volume of overdue mortgage debt are growing. Credit burden is particularly high among households with children.

In May 2016, households' real disposable cash income, real wages and the real size of granted pensions fell as compared to the same period of 2015 and amounted to 94.3%, 99.0% and 95.7%<sup>2</sup>, respectively (Fig. 1).

In January–May 2016, as compared to the same period of 2015 households' real incomes, real wages and the real size of granted pensions amounted to 95.1%, 99.2% and 96.6%, respectively. In 2016, as compared to 2015 real cash incomes were falling at a higher rate, while a real wages decrease slowed down. Indexation of pensions carried out early this year (by 4% with the rate of inflation of 12.9% in 2015) failed to prevent their drop in real terms. Due to the above factor, further decrease in the real size of granted pensions can be expected.

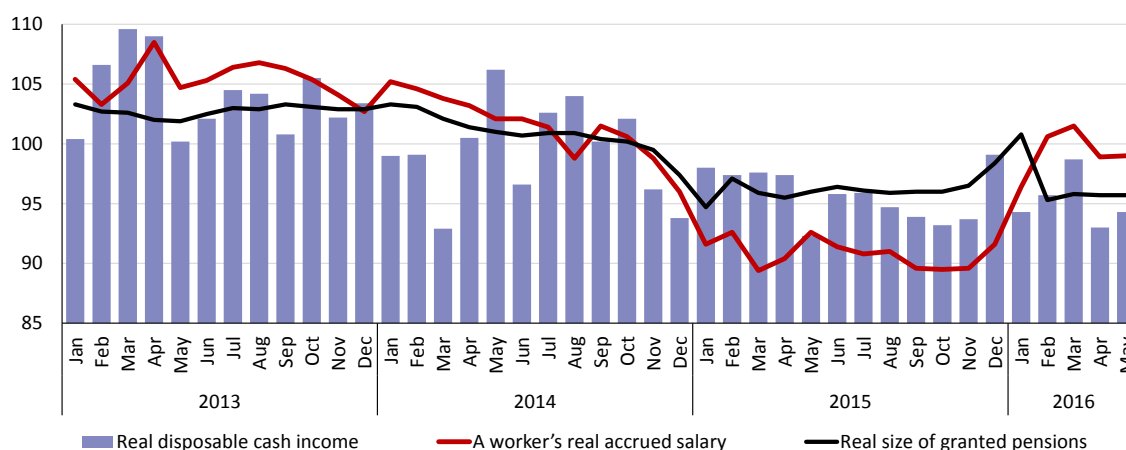


Fig. 1. Dynamics of households' real disposable cash income, real accrued wages and the real size of granted pensions in the 2013–2016 period, as % of the respective period of the previous year

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.13(31).

2 The Rosstat. Report: "The Social and Economic Situation in Russia", May 2016.

In Q1 2016, the rate of poverty amounted to 15.7%<sup>1</sup>, which is somewhat below (by 0.2 p.p.) the respective period of 2015 (Fig.2). Some decrease in the rate of poverty can be substantiated by relatively slight growth in the poverty threshold – the value of the minimum subsistence level – in Q1 2016 as compared to the same period of the previous year (by 1.2% with a 3.7% growth in cash incomes in nominal

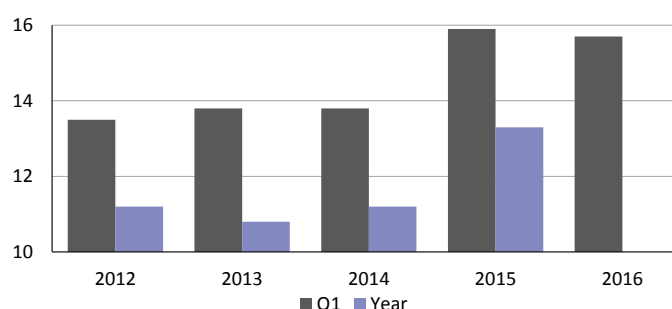


Fig. 2. The poverty rate, Q1 2012-2016, %

terms in the above period). In its turn, insignificant growth in the value of the minimum subsistence level in Q1 2016 as compared to the same period of the previous year (with a 8.4% growth in consumer prices in that period) took place due to a substantial drop in prices on potatoes (by 38% in Q1 2016 as compared to the same period of the previous year), white cabbage (36%), onion (30%), beet (21%) and carrot (20%)<sup>2</sup> included in the consumer goods basket on which basis the minimum subsistence level is calculated.

In H1 2016, consumer prices rose by 7.8% against the same period of the previous year which is evidence of improvement of the situation after a 16% surge in H1 2015. In the first six months of 2016, there was appreciation of prices on food product, non-food products and services by 6.3%, 9.1% and 8.4%, respectively.

In the monthly dynamics of consumer prices, in June 2016 (7.5%) as compared to June 2015 similar smoothing of the 2015 surge to the level of 2013–2014 was observed. It is to be noted that growth in consumer prices (by 15%) similar to that of 2015 took place in 2008. In both cases, the main driver of the rate of inflation was growth in food prices.

Changes in food prices play a key role as the index of the minimum subsistence level – the official marker of the poverty rate – is based on them. In a statistical survey of prices on food products, there are three sets of food products. For surveying long-term dynamics, the minimum (notional) set of food products suits the best. It is meant among other things for comparison of the cost of food products in different regions and due to the fact that the pattern of the set is strictly formalized in physical quantities (weight, quantity) it illustrates well changes in the cost of commodity groups. The set includes 33 items, for example, 110 liters of unskimmed pasteurized drinking milk (2.5–3.2% fat), 180 eggs or 150 kg of potatoes a year<sup>3</sup>. Weight of goods is notional and does not reflect real consumption.

The survey of the minimum food set shows that in the past five years prices on fruits and vegetables changed dramatically (Fig. 3). In May 2013–2015, they amounted to 24–26% of the cost of the minimum food set, while at present their share fell dramatically (by 5.6 p.p.) to 19% – similar values were

1 The Rosstat. On the Ratio of Households' Cash Income to the Value of the Minimum Subsistence Level and the Number of Low-Income People in General in the Russian Federation in Q1 2016; the Rosstat, The Social and Economic Situation in Russia, 2012–2016 .

2 The Rosstat, The Central Statistical Database

3 The Official Statistical Methods of Organization of Statistical Survey of Consumer Prices on Goods and Services and Calculation of Consumer Price Indices. Approved by Order No.734 of 30 December 2015 of the Rosstat.

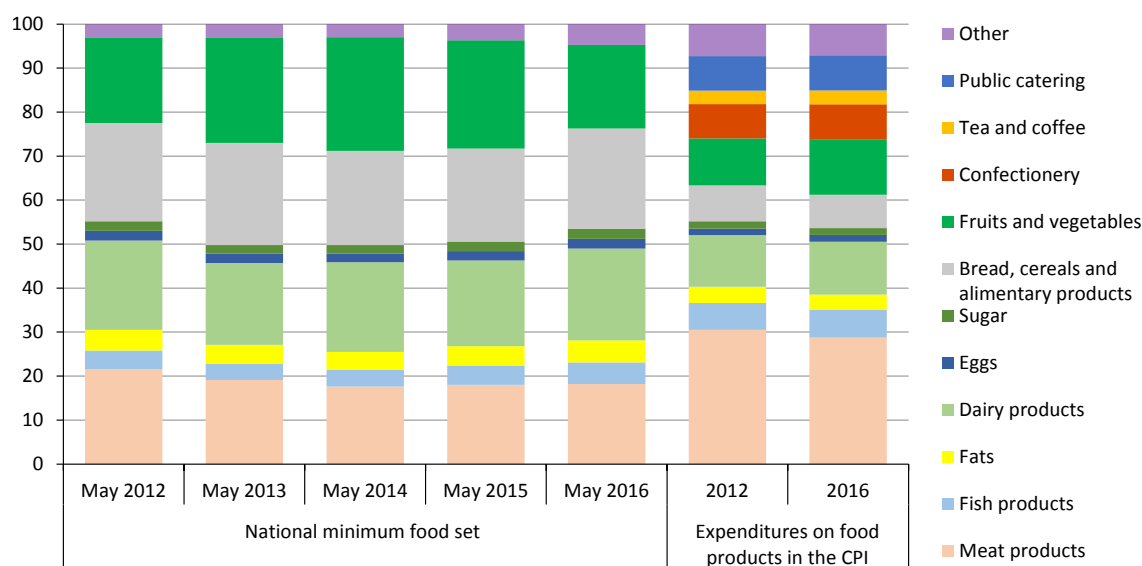


Fig. 3. The pattern of consumer expenditures on food of the notional minimum food set in May 2012–2016 and annual food set for calculation of the CPI, %

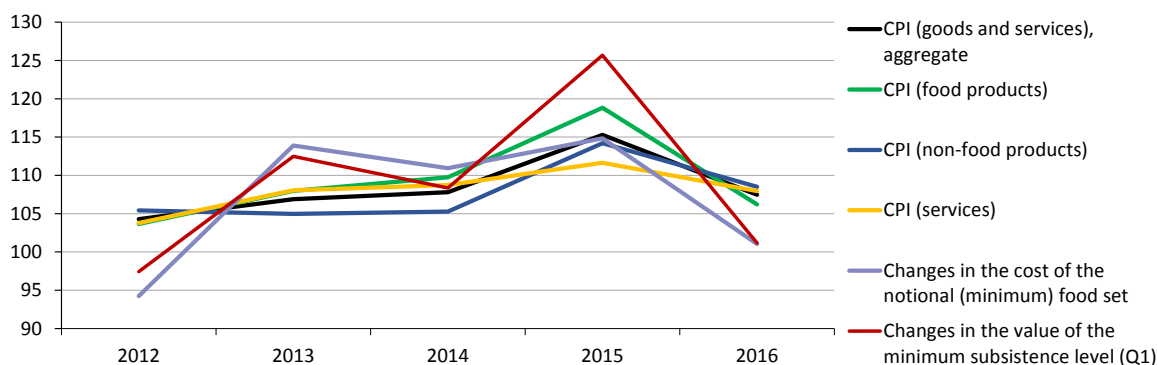
observed in May 2012. On the contrary, in the past few years meat products appreciated at a slower rate than other groups of food products and their share did not change much this year (18.2%). In May 2016 prices appreciated on dairy products (+1.4 p.p. against the previous year) and cereals, alimentary products and bread (+1.6 p.p.).

Contrary to the minimum food set whose pattern does not change, the consumer price index (CPI) – the main indicator of headline inflation – is linked closely to the pattern of households' consumption. The pattern of the set of goods and services for the purpose of calculation of the rate of inflation is set on the basis of a statistical survey of households' budgets over a two-year period, to be precise, during full eight quarters preceding the accounting quarter. On the one side, it smooths seasonal spikes, while on the other side provides a lagging reflection of changes in the consumption pattern. In reality, it means that in calculating the rate of inflation in 2016 the average pattern of households' expenditures in 2015 (when prices appreciated dramatically) and the quiet 2014 is taken into account.

The pattern of actual food consumption differs greatly from the minimum food set. In consumer expenditures, meat products amount to 29%. Though their share over the past four years decreased, it is anyway higher than in the minimum food set. Households' expenditures on fruits and vegetables rose from 10.7% to 12% of food expenditures. The CPI takes into account a wide range of goods as opposed to six components of the commodity group in the notional food set (potatoes, white cabbage, carrot, onion and apples).

The third food set is used for calculation of the minimum subsistence level. In surveying the long-term dynamics of the size of the minimum subsistence level, it is necessary to take into account the fact that recently, from 2013, while in some regions from 2014, methods of calculation were changed. The new approach<sup>1</sup> is based on the idea that the dynamics of the minimum

1 Resolution No.56 of January 29, 2013 of the Government of the Russian Federation on Approval of the Guidelines for Calculation of the Value of the Minimum Subsistence Level Per



**Note:** Made by the authors on the basis of the Indices of Consumer Prices on Goods and Services in the Russian Federation in the 1991–2016 Period. [http://www.gks.ru/free\\_doc/new\\_site/prices/potr/tab-potr1.htm](http://www.gks.ru/free_doc/new_site/prices/potr/tab-potr1.htm) Fig. 4. Consumer price indices, changes in the cost of the notional minimum food set, June on June of the previous month and changes in the value of the minimum subsistence level, Q1 on Q1 of the previous year, %.

subsistence level is determined by changes in the price of the food basket which is made up of a slightly larger set of food products than the notional minimum food set. For example, apart from apples it includes oranges, bananas and grape. Among cereals, in addition to rice and millet, the basket includes for the purpose of calculation buckwheat, oat, barley and semolina. Vegetables and root crops are supplemented by tomatoes and beet. And, finally, the minimum food set and the food basket of the minimum subsistence level differ in weight (kg).

What is the contribution of growth in prices on food to the headline inflation and poverty growth? In the past five years, 29.2%–30.6% of households' all consumer expenditures were spent on food products and alcoholic-free beverages<sup>1</sup> – the weight of that commodity group in the aggregate consumer price index. As regards low-income households, a higher share of food expenditures is typical and in the minimum subsistence level food products amount to 50%. In June 2014, all the three food price indicators rose almost equally against the previous year, however, in June 2015 their values differed greatly.

Food price inflation in CPI terms amounted to 18.8% against June 2015, while the minimum subsistence level rose then by 26% against 2015 (Q1 data) (Fig. 4). In June 2015, the notional minimum food set appreciated the least (by 15%) which situation can be explained by a high share of "social" segment products (potatoes, onion and bread) in the above set; growth in prices on those products was partially checked. In June 2016, the cost of the minimum food set did not virtually change (+1%) as compared to June 2015 and the size of the minimum subsistence level in Q1 2016 remained at the level of the similar period of the previous year (+1%).

However, in terms of changes during the past two years the consumer price index on food products showed growth of 26.6% as compared to June 2014, while the notional minimum food set and the minimum subsistence level demonstrated growth of 16% and 27.2%, respectively.

Capita and By the Main Social and Demographic Groups of the Population in General in the Russian Federation.

<sup>1</sup> The Official Statistical Methods of Organization of Statistical Survey of Consumer Prices on Goods and Services and Calculation of Consumer Price Indices. Approved by Order No.734 of 30 December 2015 of the Rosstat.

So, in a two-year retrospective the minimum subsistence level and the headline inflation correlated, a surge in the size of the minimum subsistence level above the inflation rate early in 2015 was smoothed over and provided that the above trend continues it may become the basis for further reduction of the rate of poverty in 2016.

At the same time, among average income

and low-income households there are loan recipients who have to make regular payments on those loans, so their consumption possibilities shrink considerably. According to the data of the United Credit Bureau (UCB), in May 2016 for the first time in 12 years the share of overdue loans exceeded 18%<sup>1</sup>. From the beginning of the year, high growth rates of overdue mortgage loans (a 22% growth) and the volume of overdue mortgage debt (a 17% growth) have been observed<sup>2</sup>.

The data of a households survey carried out by the Institute of Social Analysis and Forecasting in March 2016<sup>3</sup> shows that payments of mortgage loans, consumer loans, microloans and debts to relatives and friends are made by 9%, 36%, 2% and 14% of households. It is to be noted that mortgage and consumer loan payments prevail among households with children: 14% and 46%, respectively.

Also, 29% of households repaying a mortgage loan said that they had enough money only on food alone or even lacked it (Fig. 5). Among households repaying a consumer loan, the share of those who have enough money only on food alone amounts already to 39%, while that among households repaying microloans, to 80%. ●

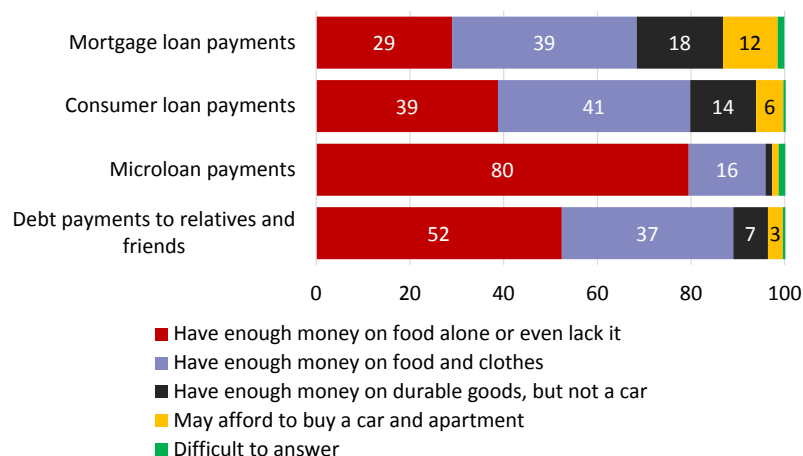


Fig. 5. Distribution of households carrying out different types of debt payments depending on their level of per capita income, %

1 The UCB: for the second year running indicators of the growth rates of the share of overdue debts remain at the same level, <https://www.eg-online.ru/news/317809/>

2 The UCB: On the basis of the results of May the share of overdue loans exceeded for the first time 18%, <http://www.bki-okb.ru/press/news/dolya-prosrochennyh-kreditov-po-itogam-maya-vpervye-prevysila-18>

3 Representational survey of households across the RF (3,039 respondents).