

Projections of Medium- to Long-term Consumption Structure

- Centering around Changes in Demographic and Income Distribution Structures -

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Analysis of the consumption structure of households in Korea based on 'Population Projections' and 'Household Income and Expenditure Survey' compiled by Statistics Korea shows that, amid rapid population aging, the income distribution structure is worsening in the Korean economy. For households whose head is aged over 60 with income growth remaining a low level and the income disparity deteriorating, in particular, the average propensity to consume becomes lower, which is analyzed as possibly acting as a factor impeding consumption dynamism of the Korean economy.

In addition, analysis based on an Almost Ideal Demand System (AIDS) reveals that education, transport, miscellaneous goods and services are generally looked on as luxury goods, while housing, water, electricity and other fuels, restaurants and hotels, food and non-alcoholic beverages and communication are seen as necessary goods, although there are slight differences depending upon factors such as income quintile and the age of the household head. By item, education shows high elasticity to income regardless of income quintile, but by age of household head, its elasticity is higher particularly in households whose head is aged 40 to 50. The higher the income level, the greater transport's elasticity to income becomes. And, by age of household head, its elasticity is greater in those households whose head is aged under 40 or over 60. Miscellaneous goods and services' elasticity to income is high mostly in households with a head aged under 40, and that of health is high in low-income households whose head is aged over 60.

Furthermore, projections of consumption structure with the objective of examining the influence of future demographic and income distribution changes on consumption show that in 2020 the overall share of consumption expenditure on necessary goods is anticipated to be lower but that of expenditure on luxury goods including education, to be higher. This can be interpreted as indicating that, although changes in demographic structure act as a factor causing an increase in expenditure on necessary goods and bringing about a fall in the consumption of luxury goods, higher income

brings about an overall increase in the share of expenditure on luxury goods. However, in the case of health, changes in demographic structure and income growth both act to increase the share of consumption expenditure. Meanwhile, it is anticipated that, if income disparity deepens in the future, the gap in well-being levels and the gap in educational opportunities between the low-income group and the high-income group will widen.

Certain policy implications can be drawn from the analysis results. First, efforts should be made to ensure a virtuous circle between income and consumption growth by raising the potential growth rate through the active development of those sectors that can create high added value and strengthening inter industry linkages. In addition, since population aging will further heighten the importance of consumption expenditure on health, efforts should be made to draw up plans to ensure old age income security and expand health, medical and welfare facilities. Furthermore, intensified income disparities can create a vicious circle in which a widening of the gap in educational opportunities leads to a further worsening of income disparity. Therefore, a multi-faceted drive should be undertaken including the expansion of educational opportunities and the drawing up of income redistribution plans based upon social consensus.

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