

Chapter 2

Private consumption patterns in Malta 2000 – 2019



2.1 Introduction

Household consumption consists of the goods or services acquired by resident institutional units for the direct satisfaction of human needs, whether individual or collective.⁴ Household consumption accounts for around 60% of domestic demand (both in nominal and real terms), and as a result, it is closely interlinked with other macroeconomic variables.

The expected future consumption volumes drive domestically oriented investment in Malta. In turn, the amount of imports embeds the import content associated with the different consumption components. Demand for labour, and hence employment, is a derived demand which is related to the level of consumption. Inflation is also linked to the pace at which consumption is evolving, whether buoyant or subdued. On the fiscal front, a significant share of revenue is generated from indirect taxes, which depend on household consumption. Even direct taxes are impacted through the link between consumption, employment and incomes.

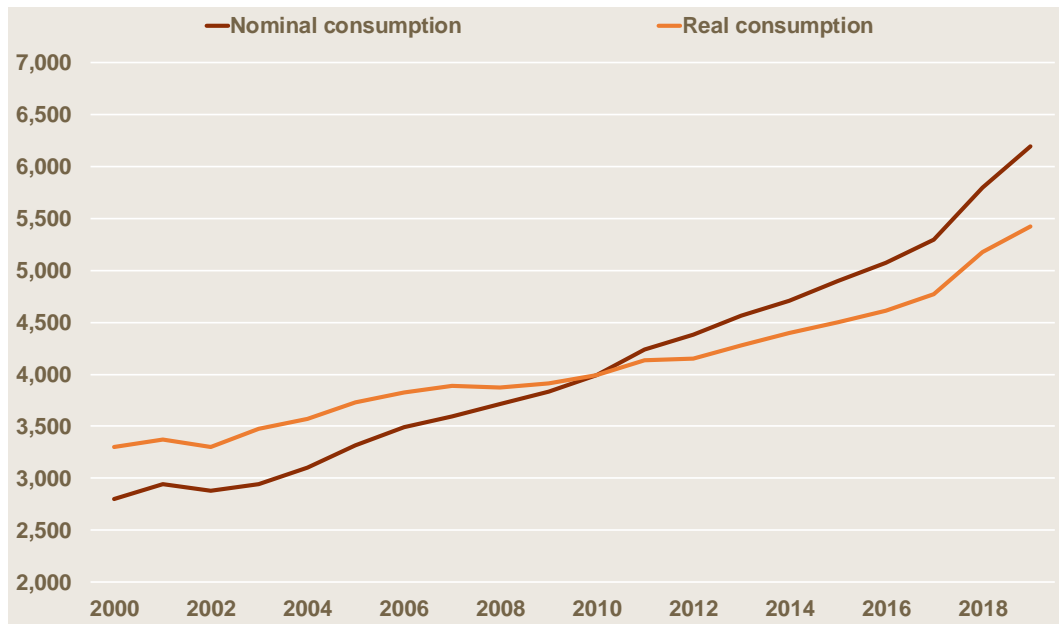
2.2 Nominal and real consumption

Private consumption followed an upward trend between 2000 and 2019 (see Chart 2.1). In nominal terms, private consumption more than doubled, rising from €2,797.8 million in 2000 to €6,191.5 million in 2019. In real terms, that is, adjusted for inflation, the rise in consumption was less pronounced. Real consumption advanced by 64.4% over twenty years, approximately half the 121.3% growth recorded in nominal consumption during the same years (see Chart 2.2).

The real growth in private consumption ranged between -2.2% and 8.4% between 2000 and 2019, whereas in nominal terms the range was between -2.0% and 9.3% (see Chart 2.3). During this period, the average consumption growth was 2.7% in real terms and 4.3% in nominal terms.

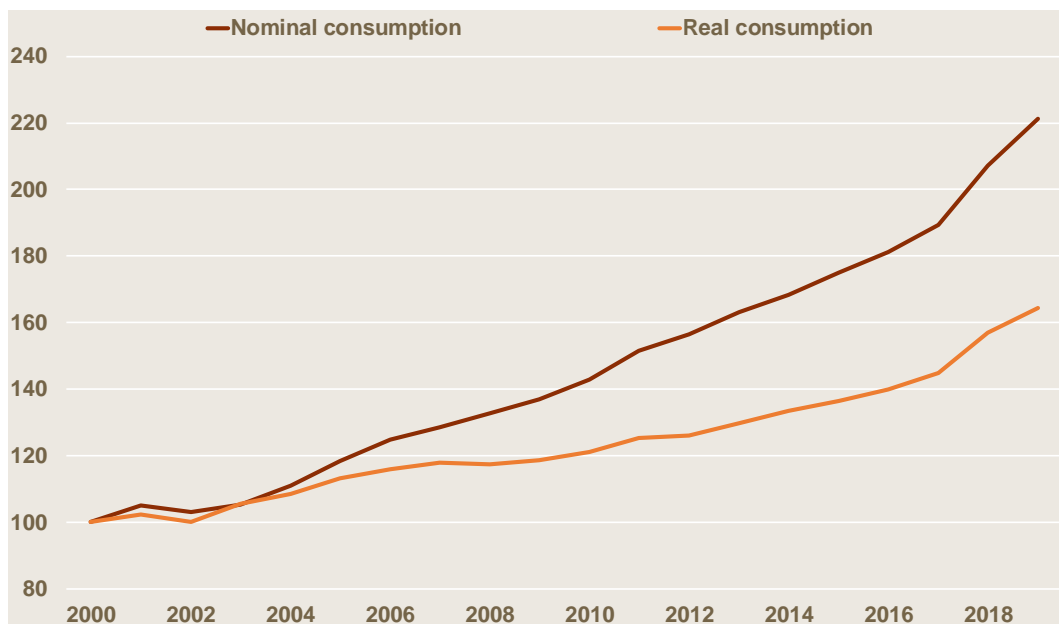
⁴ Unless otherwise indicated, household consumption is that relating to the national concept used in the computation of GDP, and in respect of which, official forecasts are contained in the Draft Budgetary Plan and the Update of Stability Programme. This consumption aggregate adds the spending by Non-Profit Institutions Serving Households (NPISH) to household spending but excludes the spending by non-residents which are considered as exports.

Chart 2.1: Nominal and real consumption (EUR million)



Source: Eurostat

Chart 2.2: Consumption index (2000 = 100)

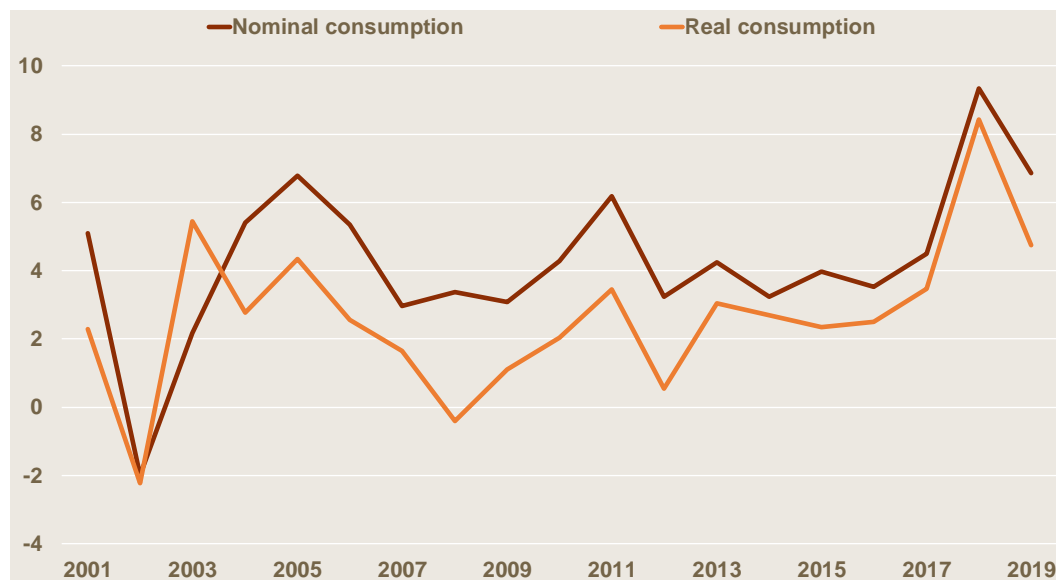


Source: Eurostat

There were two instances when consumption registered negative growth in real terms. This event happened in 2002 and 2008, respectively associated with the aftermath of the 9/11 terrorist attacks and the global financial crisis. However, it was only in 2002 that nominal consumption growth was also negative. Another observation is that

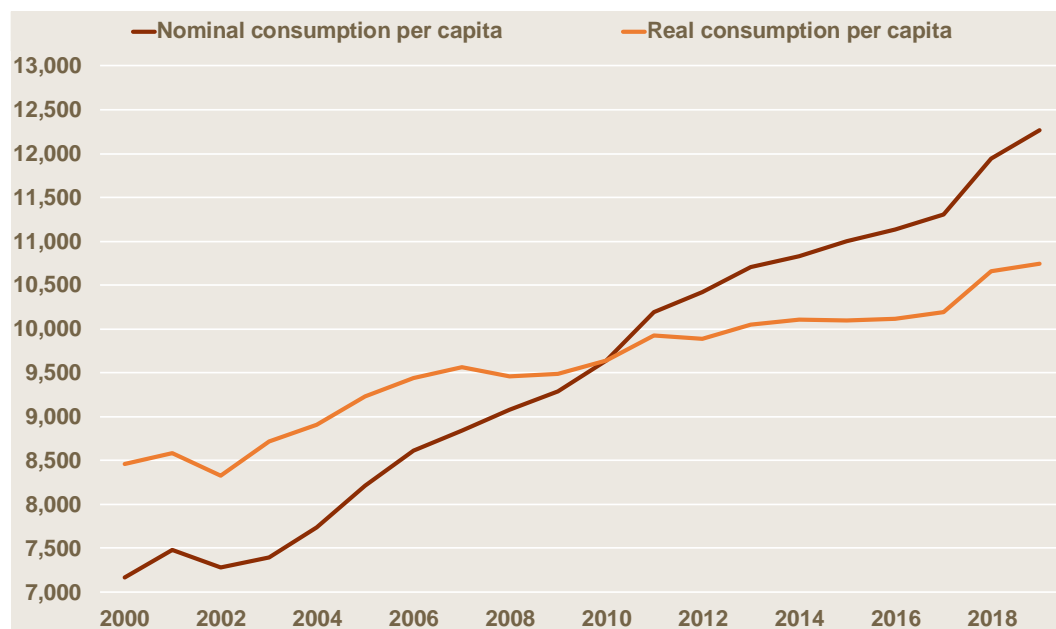
between 2015 and 2019, both real and nominal average consumption growth were higher than the previous five-year timeframes.

Chart 2.3: Consumption growth (%)



Source: Eurostat

Chart 2.4: Consumption per capita (EUR)



Source: Eurostat

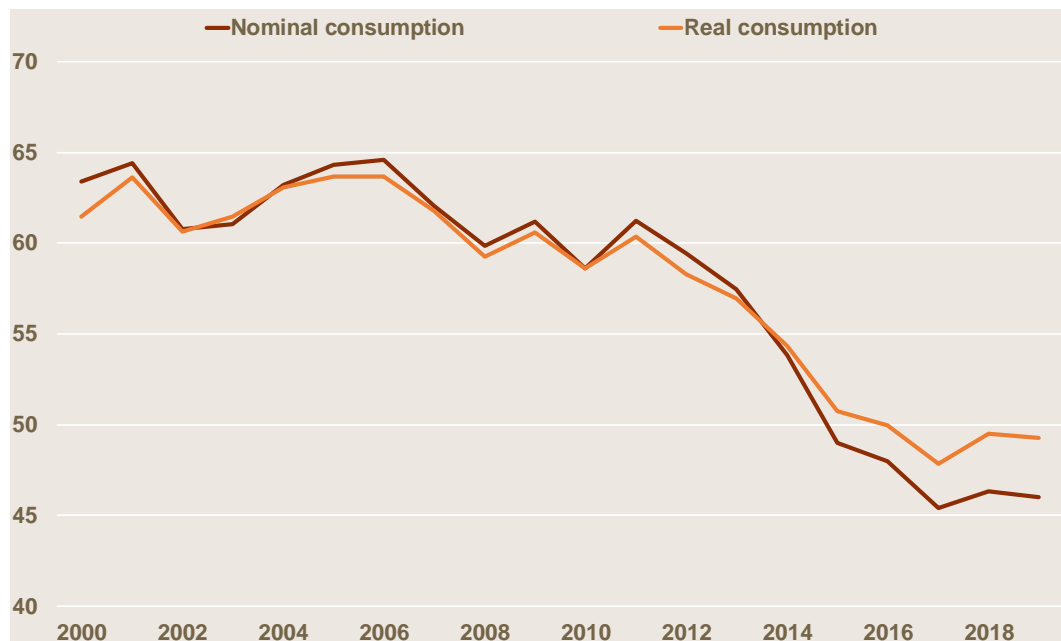
In 2019, nominal consumption stood at €12,270 on a per capita basis, €5,100 more than in 2000 (see Chart 2.4). In real terms, the change over the same period amounted

to around half, or €2,280. As a result, real per capita consumption was estimated at €10,740 in 2019.

2.3 Consumption in relation to the other GDP components

The rise in consumption over the twenty-year period under review was outpaced by that in GDP, both when the comparison is undertaken in nominal terms and real terms. As a result, the share of consumption to GDP declined (see Chart 2.5). Whereas over the decade 2000 to 2009 consumption accounted for above, or close to, 60% of GDP, this share fell below 50% towards the end of the following decade.

Chart 2.5: Share of consumption in GDP (%)

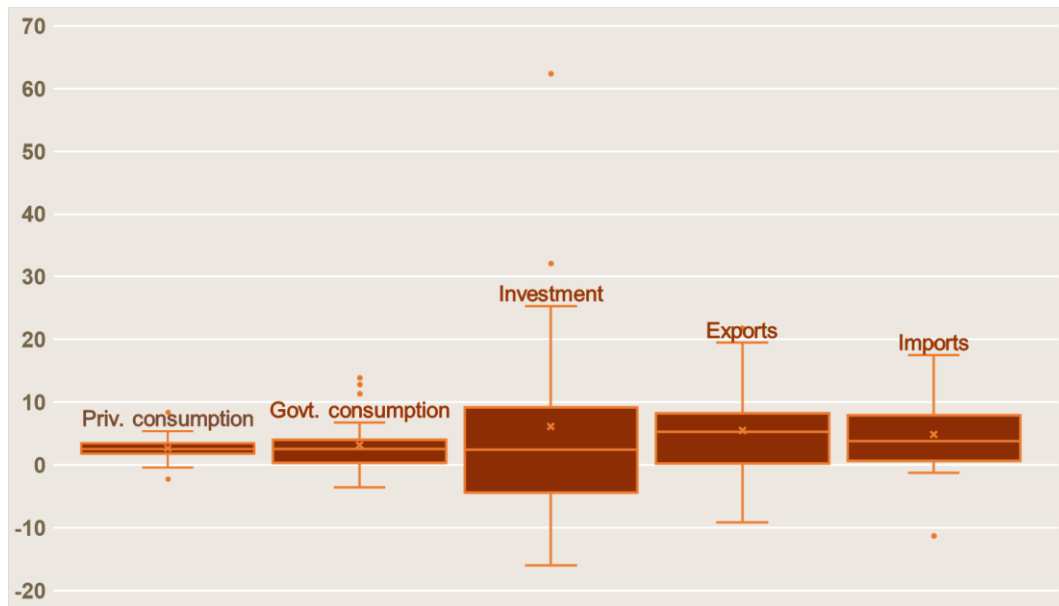


Source: Eurostat

The yearly real growth rate in private consumption exhibited the least variability over time compared to the other GDP components. The boxplot for consumption growth shows a smaller interquartile range, and a smaller gap between the upper and lower whisker, compared to the boxplots for the growth rates in the other GDP expenditure components (see Chart 2.6).⁵

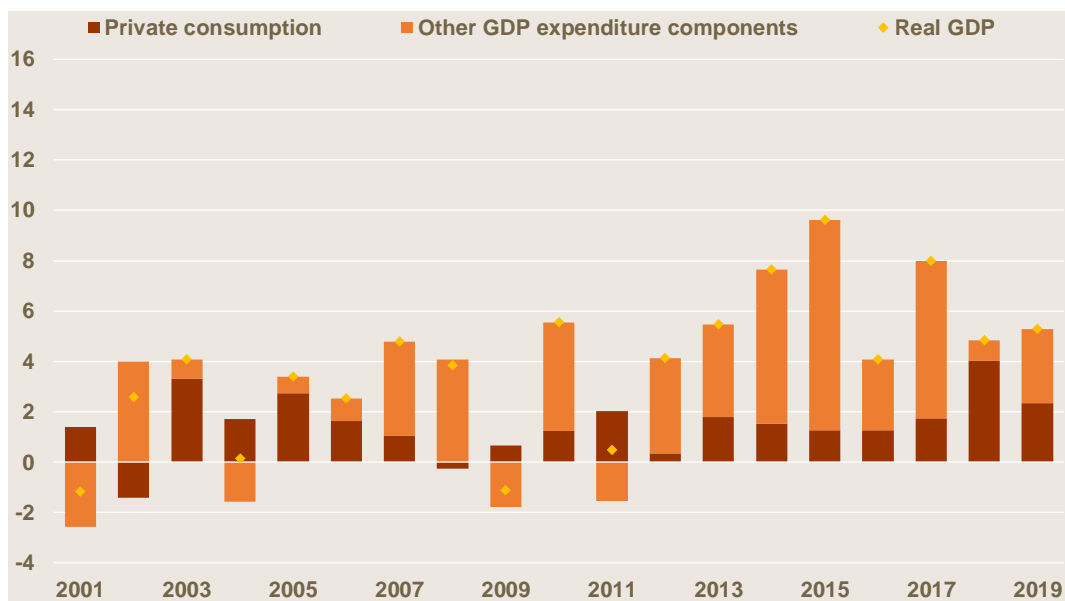
⁵ A box plot is a graphical method to show the distribution of the data. The interquartile range (IQR) is a measure of statistical dispersion being equal to the difference between the 75th and the 25th percentiles, respectively identified in the chart as the upper bound of the top brown rectangle and the lower bound of the bottom brown rectangle. The lower whisker indicates the

Chart 2.6: Boxplots for real growth rates in GDP expenditure components (%)



Source: Eurostat

Chart 2.7: Contribution to real GDP growth (pp)



Source: Eurostat

The relative contribution to real GDP growth stemming from consumption varied over time (see Chart 2.7). There were years when consumption was the main driver of real

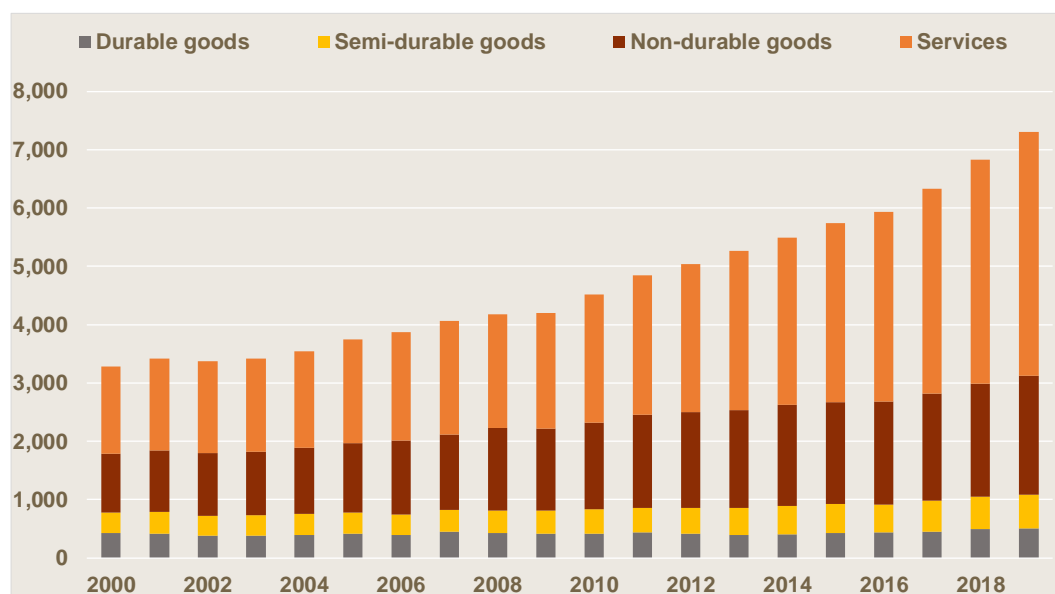
lowest value up to a limit (set as 25th percentile – 1.5 x IQR), whereas the upper whisker indicates the highest value up to a limit (set as 75th percentile + 1.5 x IQR). Values which do not fit within these limits are categorised as outliers, shown as orange dots. The median is depicted as the orange line separating the two brown rectangles, whereas 'x' shows the mean.

GDP growth, but its contribution was relatively less significant in other years. In some years, the contribution to growth stemming from net exports was relatively more important, reflecting the faster expansion in export-oriented sectors, such as remote gaming, financial services and tourism.

2.4 Consumption aggregates by durability

Consumption can be classified as durable, semi-durable, non-durable and services.⁶ The services component has contributed to a more considerable extent than the other three different types of goods to the rise in total consumption over time (see Chart 2.8).

Chart 2.8: Consumption aggregates by durability (EUR million)



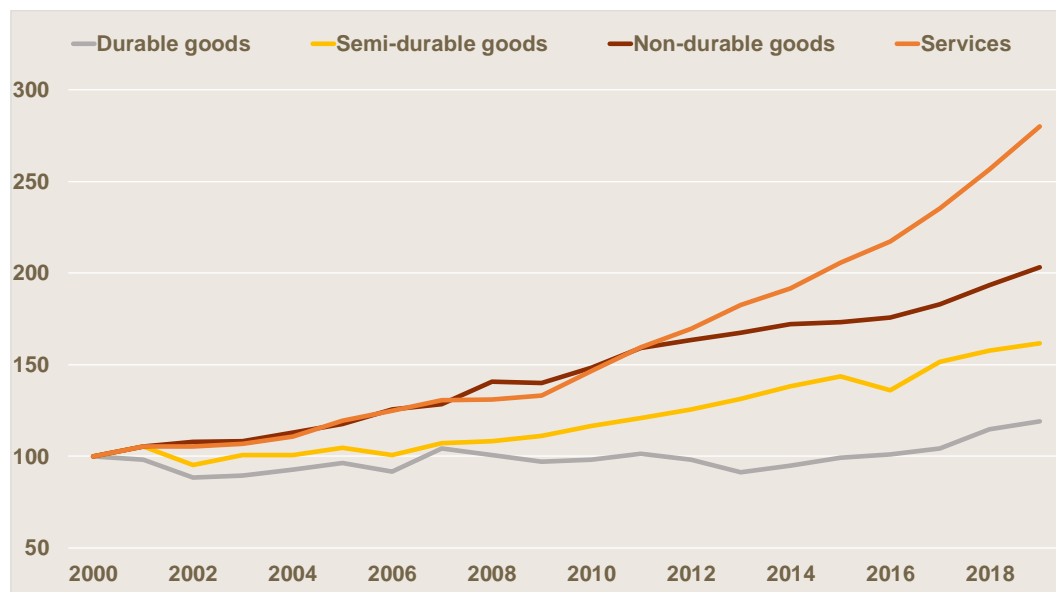
Source: Eurostat

In nominal terms, in 2019, spending on services was almost three times as much as in 2000, whereas spending on different goods exhibited relatively smaller percentage changes (see Chart 2.9). Spending on durable goods was virtually stable throughout

⁶ Durable consumer goods typically include commodities with an expected lifetime of more than three years and with a relatively high value (e.g. cars, furniture, home appliances or electrical and electronic devices). Semi-durable and non-durable consumer goods respectively have an expected lifetime of between one-three years and less than one year and have comparatively lower value. This categorisation is available for total expenditure on goods and services and hence it includes spending by nationals and net consumption expenditure by non-residents and is not directly comparable to other consumption aggregates discussed in the chapter.

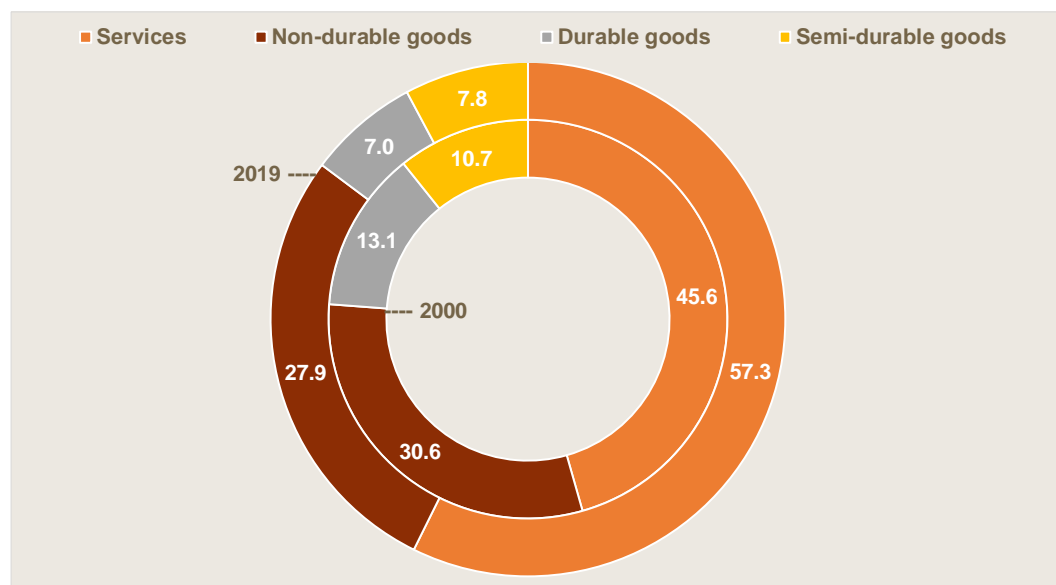
most of the period, with increases recorded mainly during the last two years. The increase in spending on non-durable goods was approximately twofold throughout the twenty years, while that on semi-durable goods was around 1.5 times. As a result, the share of the expenditure on services increased from 45.6% in 2000 to 57.3% in 2019, whereas the share of spending on goods (durable, semi-durable and non-durable) declined (see Chart 2.10).

Chart 2.9: Consumption index by durability (2000 = 100)



Source: Eurostat

Chart 2.10: Share of consumption by durability (%)

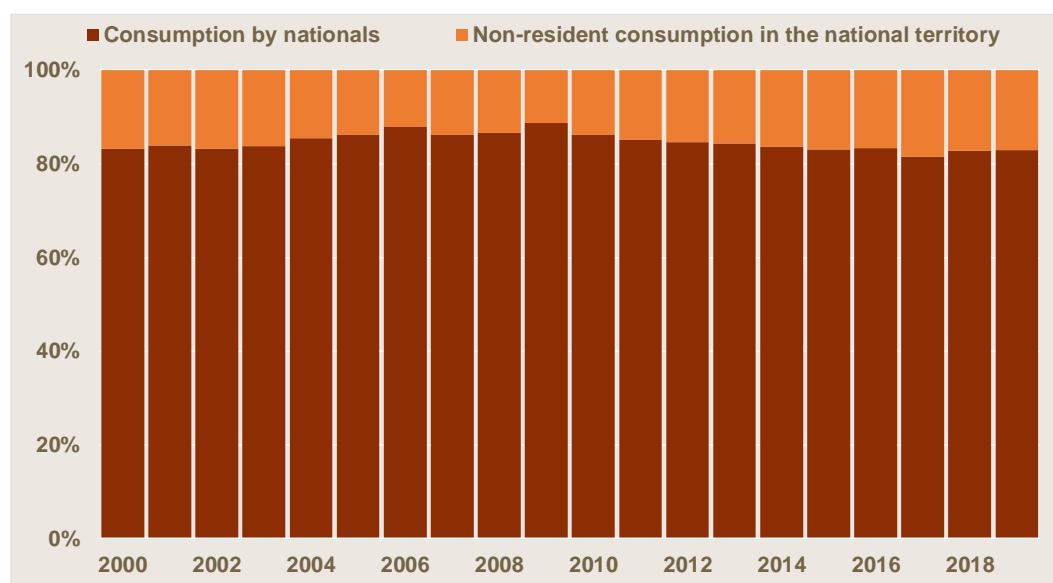


Source: Eurostat

2.5 National and total consumption expenditure

Final household consumption expenditure on a national basis (which is the aggregate considered as household consumption in GDP) consistently made up around four-fifths of total expenditure on goods and services, in nominal terms (see Chart 2.11). The other one-fifth mostly represented the non-resident consumption in the national territory, practically the spending on goods and services by tourists in Malta.

Chart 2.11: Resident and non-resident consumption in Malta (%)



Source: Eurostat

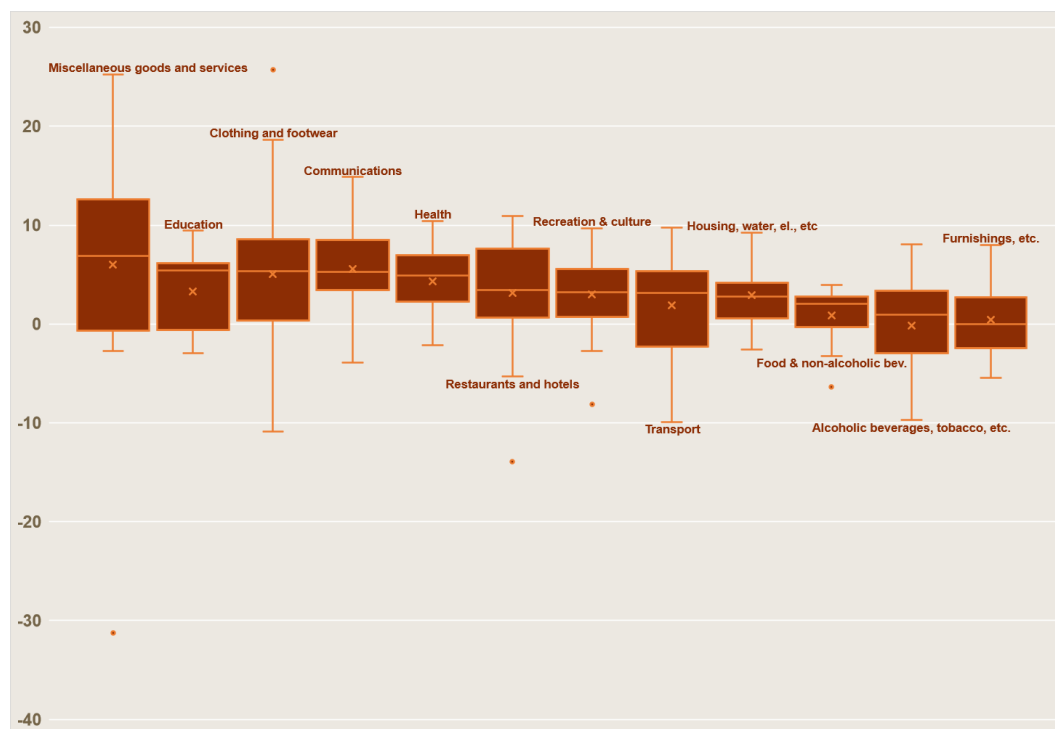
2.6 Breakdown of consumption

In the compilation of national statistics, household consumption is split across twelve categories as follows: (1) Food and Non-Alcoholic Beverages; (2) Alcoholic Beverages, Tobacco; (3) Clothing and Footwear; (4) Housing, Water, Electricity, Gas and other fuels; (5) Furnishings, Household Equipment and Routine Household Maintenance; (6) Health; (7) Transport; (8) Communication; (9) Recreation and Culture; (10) Education; (11) Restaurants and Hotels; and (12) Miscellaneous Goods and Services.

The yearly real growth rates recorded by each category varied (see Chart 2.12). Spending on miscellaneous goods and services recorded the highest median growth rate and the second-highest dispersion (when considering the difference between the

lower and upper whisker in the boxplot), and the largest outlier value.⁷ On the other hand, the median growth in furnishings' spending was practically zero, as the number of positive and negative growth rates was similar. Changes over time in terms of demography, incomes and lifestyle have impacted how spending on the various consumption components has evolved over these years.

Chart 2.12: Boxplots for real expenditure growth by consumption purpose (%)



Note: The ordering is based on the respective median growth rate (the horizontal orange line).

Source: Eurostat

In 2019, real expenditure on restaurants and hotels accounted for 19.9% of total spending maintaining the highest share as in 2000 (see Chart 2.13).⁸ This was followed by spending on 'housing, water, electricity gas and other fuels', 'transport' and 'food and non-alcoholic beverages'. Together, these four categories represented more than half of the total consumption expenditure in 2019.

⁷ Whiskers are the vertical lines starting from the shaded rectangles. The lower whisker shows the range for the lower set of observations (excluding any outliers), while the upper whisker shows the range for the upper set of observations (excluding any outliers).

⁸ The high proportion is partly due to the inclusion of spending by tourists in Malta. Expenditure by tourists in restaurants accounted for around one-fifth of expenditure on restaurants and hotels.

Chart 2.13: Share of total real consumption by category (%)



Source: Eurostat

Other notable developments over the twenty years included the rise in the share spent on miscellaneous goods and services and the drop in the share allocated to food and non-alcoholic beverages. The rising share for miscellaneous goods and services partly reflects higher spending on personal care. Still, it is also indicative of higher spending on products not captured by the other categories (this category can also be considered a residual type of classification). On the other hand, the falling share of food consumption is in line with the general observation that spending on this component rises typically slower than for other products because of lower-income elasticity.

2.7 Actual Individual Consumption

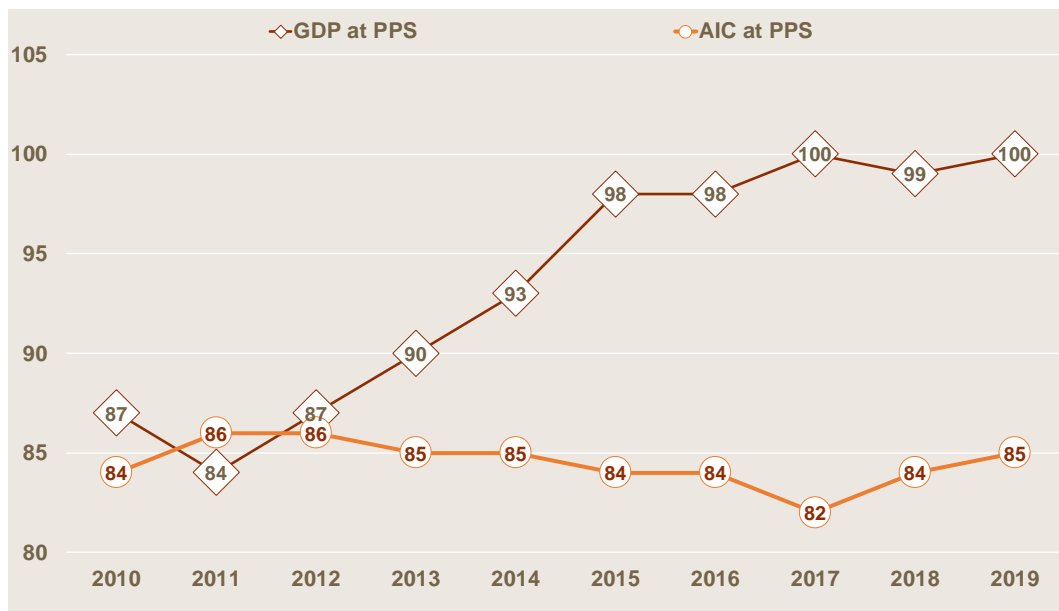
Actual Individual Consumption (AIC) consists of goods and services consumed by individuals, irrespective of whether these goods and services are purchased and paid by households, by the government, or by non-profit institutions.⁹ It thus provides a better measure of the material welfare of households. This statistic is useful to indicate the extent of variability in living standards across the Member States. It complements

⁹ This is another different consumption measure compared to the previous aggregates discussed in this chapter.

the other similar measure, namely, GDP per capita expressed in Purchasing Power Standards (PPS).¹⁰

Malta's GDP at PPS rose over the last decade, to reach 100, as at 2019, thereby indicating full convergence, that is, the attainment of the EU-27 average (see Chart 2.14). However, the AIC per capita in Malta, expressed in PPS, has not yet fully converged, as it hovered mostly around 85% of the EU-27 average between 2010 and 2019. This can be linked to the fact that the share of GDP consumption declined over this period since in general GDP grew more strongly than consumption over these years (see Chart 2.5).

Chart 2.14: GDP at PPS and AIC per capita (EU-27 average = 100)

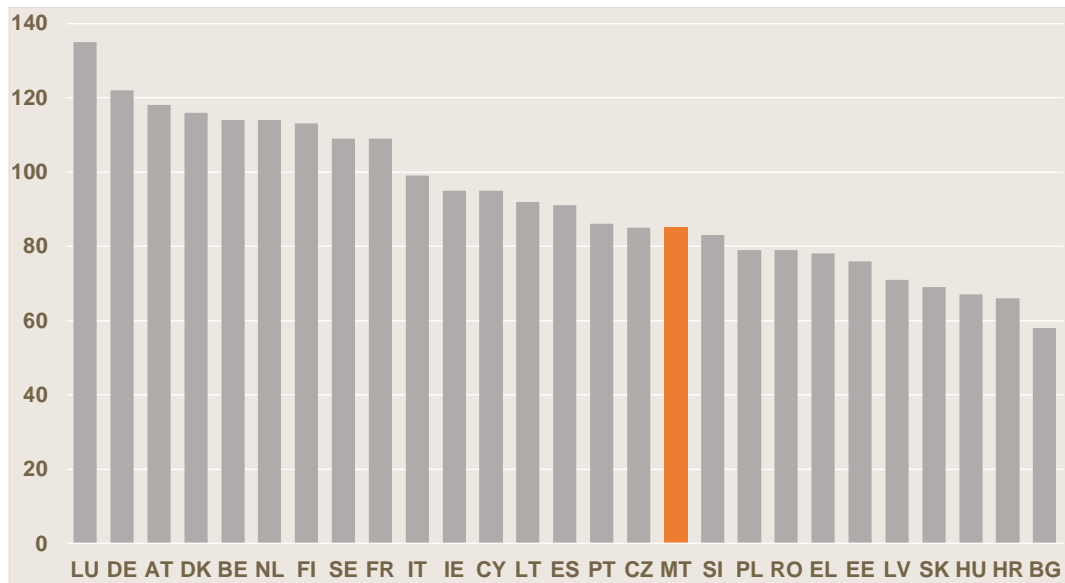


Source: Eurostat

In 2019, Malta's AIC per capita was comparable to Portugal, Czech Republic and Slovenia (see Chart 2.15). Malta's AIC per capita was around 63% lower than in Luxembourg (which had the highest value), and 47% above that in Bulgaria (which had the lowest value).

¹⁰ Purchasing Power Standard is an artificial currency unit designed to enhance cross-country data comparability by adjusting for product price differences across countries.

Chart 2.15: 2019 AIC per capita index (EU-27 average = 100)



Source: Eurostat

2.8 Conclusion

This chapter explored the salient consumption patterns recorded in Malta between 2000 and 2019. The centrality of consumption makes it a critical variable to monitor as part of the MFAC's assessment of the official macroeconomic and fiscal forecasts. The patterns described in this chapter provide useful benchmarks to evaluate the plausibility of the official consumption forecasts. They are also helping to guide the MFAC's risk assessment.

At the same time, the MFAC acknowledges that due to the very small size of the Maltese economy, specific developments can impact the overall outturn. Hence micro information remains crucial both in the preparation of the consumption forecasts and in their assessment.

The consumption patterns presented in this chapter can also serve as a benchmark in future studies to assess the extent to which new developments could impact consumption patterns over the next decade.