ANALYSIS OF INDEX PRICES OF POPULATION CONSUMPTION REVEALS A MODERATION THROUGH FISCAL MEASURES

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Abstract

This paper reflects the authors' interest in the study of inflation. The analysis is based on specific indicators, such as the general evolution of consumer price indices, dynamics of indices for average net income, the increase of prices at the end of the interval considered (July 2016), price indexes per groups of goods and services, as outlined by national statistic classification. The indexes for food products and, respectively, non-food products, were analyzed in dedicated sections of the paper. At the end, the authors present the most valuable conclusions drawn from the study.
      Key words: **inflation, goods, food, non-food, index, price, services**
      JEL Classification: *E31, E64*

Introduction. Literature review

      Inflation or depreciation is calculated in our country based on the consumer price of the population and the rate of change of this indicator is determined by comparing over time the modification of these prices. This index of consumer prices must achieve a synthesis between two periods of the evolution of prices of all goods and services in the population consumption.
      Practically, it is impossible to observe and record the prices of all goods and services consumed by the population in a given period of time.
      Therefore, for tracking and recording these statistics is used a sample of goods and services which must be representative, by structure of the consumption and prices, so that results can be extended to the entire population, with a reduced margin of error. In analyzing this index is required to be considered a number of issues which influence its evolution from one time to another.
      Thus, the population cannot protect against powerful rising prices in generally or in certain categories of prices and services. Therefore, the simplest way remains to reduce, sometimes substituting other products or even remove them from consumption of these categories.
   Ascari and Ropele (2009) are preoccupied with the inflationary trend, in correlation with the Taylor principle. Anghel, Anghelache and Manole (2016) study the evolution of inflation in Romania, in the recent period, analyses on the same topic can be found in the works of Anghel (2015), Anghelache, Niță and Badiu (2016).

Anghelache and Sacală (2015) analyze the inflation phenomenon from the theoretical point of view, Anghelache et.al. (2014) focus on the evolution of the inflation and the price index, as measurement instrument of inflation phenomenon. The measurement of the inflation was approached by Anghelache, Voineagu and Gheorghe (2012). Bilbiie (2009) was preoccupied by some aspects of fiscal policies. Blanchard, Gali and Perotti (2002) have characterized the effects of public expenses and taxes on results. Bordo, Dueker and Wheelock (2008) have analyzed the correlation between inflation, monetary policy and the capital market, Coibion and Gorodnichenko (2011) and Hornstein and Wolman (2005) develop on a similar line. The work of Cicak and Soric (2015) emphasize the correlation between FDI and GDP. Gali, L´opez-Salido, Vall´es (2007) study the impact of expenses on consumption. Kim and Henderson (2005) approach the inflation targeting. Koulakiotis et.al. (2012) analyze the impact of inflation on the GDP. Schmitt-Grohe and Uribe (2007) describe a set of monetary-fiscal rules.

General considerations
The evolution of the consumer price indices for the period July 2015 - July 2016 is shown in the following chart:

The evolution of the consumer price indices for the period July 2015 - July 2016
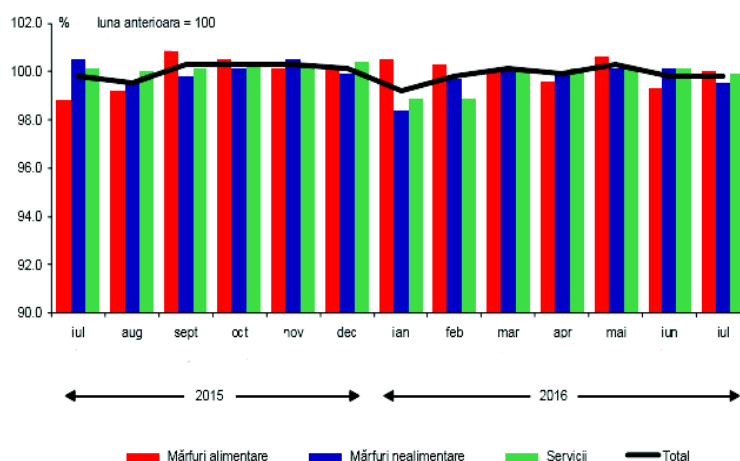
Source: National Institute of Statistics, Bulletin no.7/2016

Evolution of consumer price indices and indices of average net income in the period July 2015 - July 2016
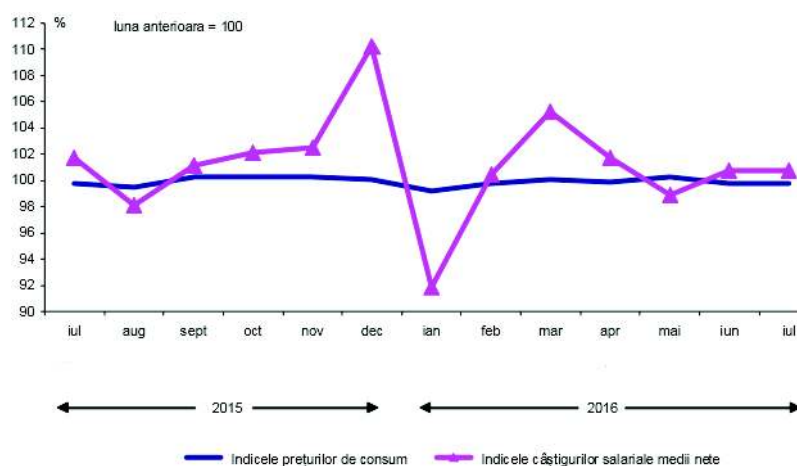
Source: National Institute of Statistics, Bulletin no.7/2016

Based on data published by the National Institute of Statistics in the Bulletin no. 7/2016 inflation rate, per total and structural elements is shown in the table below:
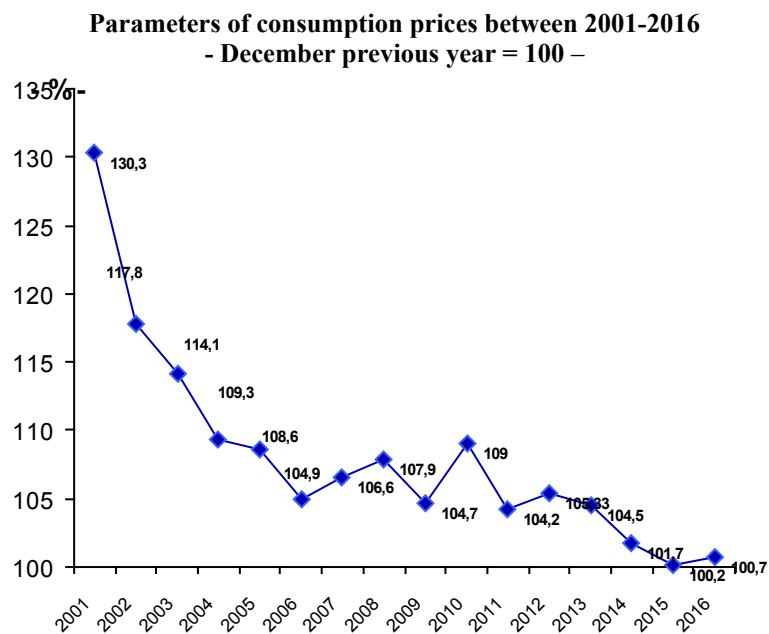
Price increase in July 2016

CREŞTEREA PREŢURILOR DE CONSUM ÎN LUNA IULIE 2016

- procente -

|	Creşterea preţurilor de consum în luna iulie 2016, faţă de:			Creşterea medie lunară a preţurilor de consum în perioada	
	iunie 2016	decembrie 2015	iulie 2015	1.I-31.VII.2015	1.I-31.VII.2016
TOTAL / TOTAL	-0,2	-1,2	-0,8	-0,2	-0,2
Mărfuri alimentare [1]	0,0	0,3	1,3	-1,0	0,0
Mărfuri nealimentare	-0,5	-2,0	-2,2	0,3	-0,1
Servicii	-0,1	-2,0	-0,9	0,2	0,0

[1] Inclusiv băuturi.

Source: National Institute of Statistics, Bulletin no.7/2016

Relevant is the presentation from following chart of the parameters of consumption prices. There is a "freezing" of this parameter in the period 2014-2016, not about disinflation but stopping the increase of this index through fiscal measures (reduction of VAT and other taxes).

Parameters of consumption prices between 2001-2016
- December previous year = 100 –

Evolution of consumer prices by groups of goods and services (%)
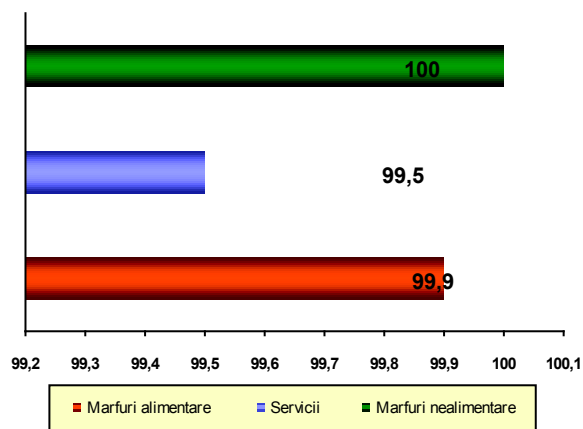
Marfuri alimentare   Servicii   Marfuri nealimentare

Index of consumption prices for food products

Compared to July 2015, in July 2016, at food supply are recorded constant prices.

At food suplies, significant decreases were registered in July 2016 compared to July the same year, at vegetables, canned vegetables, potatoes, fruit, canned fruit, sugar, dairy products etc.

In July 2016, were consumed mainly following categories of food commodities: milling and bakery products, bread, meat, meat products and canned meat, porcine, milk and dairy products, eggs, cocoa and coffee, drinks alcoholic and other food products. Decreases in July 2016 compared to July 2015 were registered at the consumption of: meat, fish, dairy, sugar etc. The other products have registered a stagnation of food consumption.

Index of consumption prices for non food products

At non food products, in July 2016 compared to July 2015 was registered a decrease of -0,5% of consumption prices. At the level of July 2016 was observed a stagnation in prices of non-food products, compared with July last year. There has been a stagnation in consumer prices for: cultural sporting goods, cars, accessories and spare parts, outfits and other non-food products in July 2016 compared to July 2015. Also, we are seeing a slight decrease or a maintaining fuel prices, electricity and gas, in July 2016.

Index of services consumption prices

Consumer price index of services recorded in July 2016 a decrease of -0.1% compared to July, 2015. In July 2016 there were price increases compared to July 2015 at postal services and telecommunications, transport, radio and TV and in other services. We observe at the same time, a decrease in prices for water, sewerage, sanitation, while the other categories of services prices stagnate or marks noticeable increase.

Nominal average salary earnings

In analyzing the effect of inflation on living standards have taken into account the average earnings of the population in the period under review. Thus, the gross nominal average earning economy in July 2016 was 2,875 lei. The gross wage in industry in July 2016 was 2.825 lei, with higher levels in mining and quarrying and electricity, heating, water, gas. In manufacturing wages were below average in total industry. The ratio between net nominal average earning index and consumer price index in July 2016 was 100.8% compared to the previous month, 109.4% compared to the corresponding month of the previous year and 142.1%, compared by October 1990.

**Average gross earnings in July 2016 on main economic activities**
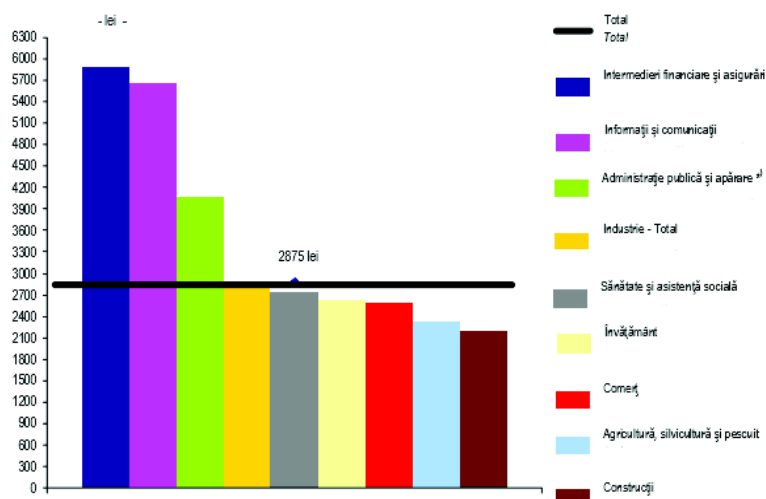
Inflation continues to play a different role in assessing the ratio between net nominal average earning index and consumer price index. It is difficult to draw any conclusion about inflation in the future. At first glance, the inflation rate in 2014 and the first seven months of 2016 leads to the conclusion that the socio-economic situation in Romania is in a moment more relaxed than during 2000-2010, being on a trend of stabilization. For 2016 it is estimated an annual inflation rate of approx. 101,00%, which we appreciate to be realistic compared to the low income population. And can make some comments about the actual level of this indicator registered in 2016 as a concrete methodology is calculated as the food, service and non food supplies participate in building a constant share of the consumer price index. From this point of view, we can appreciate that in an organized structure, criteria closer to the real situation, and in a conjuncture in which the resources of household incomes were higher, probably price index, especially food goods, would have been different, given that in 2012 some manufacturers and retailers have been forced to reduce the maximum margin of profitability in the idea of being able to loosen product and not keep them in stock being not a few cases where the goods were being sold below their real market value.

Average gross earnings in July 2016, on main economic activities
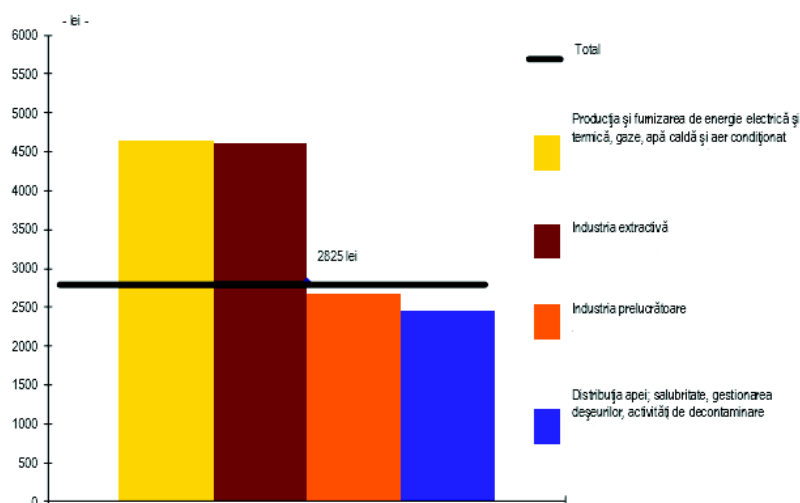
Source: National Institute of Statistics, Bulletin no.7/2016

It should also be pointed out that, unfortunately, in Romania remains an underground activity that "produce" or "offer" some products and services to the population at lower prices levels and, if not always have sufficient quality, are an the "temptation" for consumers who turn to their consumption for financial reasons (in the sense of saving). Thus, even if the consumer price index of the population payment services will be reflected only in an increased percentage in these prices in the form of taxes that people will pay for properties, houses, land, means of transportation etc. already leading to difficulty in registration of such an index for the year. On the other hand, it is desirable for people to foresee some social protection measures so as not to affect inflation index rise too deeply by impoverishment, population situation in our country. Reform must of course continue, needs to be accelerated, but a minimum safeguards is necessary to ensure the population.

Outstanding jumps on gross and net average wage per economy were conducted in 2008 and 2009, which, however, cannot be paid in 2010 and 2011, since half had no real foundation. This trend has been dictated by electoral interests uncovered in market demand and economic capacity.

Since November 2015 when he took the "technocracy" government, unitary pay law of the government Ponta remained lost through some drawer and election fight with former technocrats become politicians, just bringing the illusions that certainly will not validate fully the governance.

Conclusions

The prices of some goods and services consumed by the population do not evolve on the Romanian market by the ratio between request and demand, sales being conducted by choice, by the level of the income that the population has at a given time. However, such revenues are relatively increasingly smaller compared to the growth rate of prices and normal needs of the population. In these circumstances,

producers reduce their risk margin or freezes for some period of time prices of some products, which results in an low index of inflation, far from economical reality.

The new products that have no perfect degree of comparison with prior periods and thereby influencing in this way the inflation index.

Influence on the inflation index have certain products or services which in the current period are no longer produced (sold). Typically, such products which disappear from the market in normal conditions, are replaced with others, which leads at the decrease of their impact on the inflation index.

In general terms, the consumer price index of the population depends on: the nature of the goods and services for which prices are considered; categories of population for which are considered the purchases (consumption); the nature of the prices; satisfaction limit of consumption needs of the population by buying products and services and the influence of the income levels of the population on fulfilling consumption needs by purchasing products and services.

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