

BOX 5

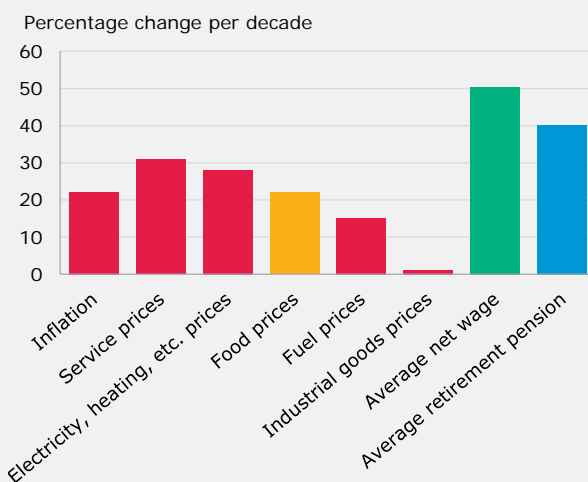
ARE FOOD PRICES RISING FASTER THAN INCOME?

Although more than a third of Lithuanians are concerned about rising food prices, official statistics indicate that household income is growing at a faster rate. The Survey of Households conducted by the Bank of Lithuania in autumn 2018 reveals that rising food prices will pose the greatest concern to almost every third respondent in the upcoming six months. Surveys show that such worries have been lingering since 2013¹², while household income growth has in fact significantly outpaced rising food prices. For instance, over the last decade, food prices have increased by about a fifth, whereas the average pension went up by roughly 40%, and the average net wage – by about 50% (see Chart A).

Low-income earners are more sensitive to price fluctuations. The impact of inflation depends not only on prices but on household income as well. According to the latest EC surveys, the absolute majority (94%) of residents believe that prices in Lithuania are on the rise, yet the impact of such increases seems to vary.¹³ Low-income earners are more likely to indicate that prices are rising at a robust pace than those receiving higher income. The reason behind this is that lower-income earners spend a larger part of their income on basic necessities compared to residents earning the average wage or more. According to Eurostat data, a fifth of those earning the least have allocated nearly two-thirds of their expenditure on basic necessities (food and housing), compared to slightly more than a half of the total expenditure allocated by middle-income earners.

In 2008-2018, rising prices were significantly outpaced by income growth.

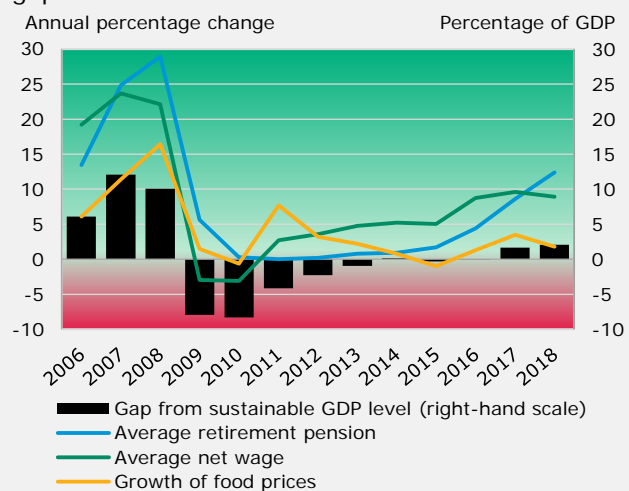
Chart A. Price and income dynamics in 2008-2018



Sources: Statistics Lithuania, Eurostat, atvira.sodra.lt and Bank of Lithuania calculations.

With the economy growing above its potential, household income has been increasing at a faster rate.

Chart B. Dynamics of income, food prices and the gap from sustainable GDP level



Sources: Statistics Lithuania, Eurostat and Bank of Lithuania calculations.

Income growth, after having been subdued for some time due to the economic cycle, may be the reason behind pessimistic sentiment still embedded in public memory. In 2006-2008, the average pension rose by more than one and a half times, as did wages. However, with the onset of the financial crisis, their growth rates dropped, while income growth remained restrained for more than five years. For example, in 2009-2015, the rise in the average pension moderated, while the average net wage was growing apace with average food prices. However, with the improved economic environment, household income started rising faster than prices. Over the past few years, both the average pension and the average net wage have been rising at a fourfold rate compared to food prices. Yet it should be noted that these calculations do not include catering services as well as goods and services related to beverages and tobacco.

¹² Survey results are available from 2013.

¹³ According to the EC survey data.