

Consumer income vs demand, new report from BMR

A research report, compiled by Profs Carel van Aardt and André Ligthelm of the Bureau of Market Research (BMR) of UNISA, has made calculations on the impact of changes in consumer income on the demand for various consumer products. These calculations, termed the income elasticity of demand, measured the relationship between a change in the quantity demanded of a particular product or service and a change in real income.

Businesses have found that the amount of goods and services demanded are influenced by a number of factors, including the tastes of consumers, their needs, values as well as their income. The need to predict changes in demand, especially in recessionary conditions, has become paramount in ensuring business profitability and even sustainability.

The calculations were made for a wide variety of consumer products and allow the classification of products and services into the following categories:

- Inferior products showing a decline in demand when consumer income rises (eg taxi travel and cigarettes);
- Necessity products reflecting demand increases at a lower rate than the percentage increase in income (eg vegetables and milk); and
- Luxury or superior products reflecting demand increases at a higher rate than the percentage increase in consumer income (eg fine wines and international air travel).

The income elasticity of demand calculations of goods and services in South Africa provide a sound basis for predicting and forecasting future demand patterns. These calculations were made for approximately 500 consumer expenditure items.

Study example

The results for grain and vegetable products are summarised below as examples of the results contained in the study:

- grain products that are necessities with a low positive income elasticity of demand include oats, Taystee Wheat, Mabella, corn flakes, spaghetti, macaroni and other pasta;
- no grain products were identified as luxuries reflecting a high positive income elasticity of demand;
- grain products showing a negative income elasticity of demand include mealie meal/maize flour, cake flour, bread flour and sorghum meal/powder

- vegetables that are necessities, namely those with a low income elasticity of demand, including potatoes, mealies, onions, tomatoes, dried peas, beans and lentils;
- vegetables that are luxuries, namely vegetables with a high income elasticity, including frozen cauliflower, frozen pumpkin, frozen potatoes and prepared salads;

- vegetables showing negative income elasticity of demand for higher income groups, including cabbage, morogo and spinach

Generally, the income elasticity of demand for food products shows that the proportion of income spent on food diminishes as incomes increase. However, it should be noted that the proportional decline among all foods is not equal. In other words, the said decline is more rapid among staple foods (such as mealie meal) and less pronounced among refined foods.

Household income groups

Generally, it should also be noted that income elasticities for a particular product often show an erratic pattern by household income category. The researchers also calculated income elasticities by household income group and distinguished the following broad demand profiles of different income earners:

- Low income households show a strong consumption focus on basic necessities such as food, beverages and socialising. Products regularly bought by low-income households that show high income elasticities include white bread, processed meat, baby food, new bicycles, bus transport and dining room and kitchen furniture
- Middle income households start to show strong preferences for processed and ready-made foods, sports and entertainment and investment in education and medical aid
- Affluent households attach a high value to quality merchandise and spend more on books, photography, gardening and private schools. They also spend large amounts on SUV vehicles, housing and luxury goods.

This report of 73 pages is obtainable from the Bureau of Market Research, P O Box 392, Unisa, 0003.

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