Private Consumption in Sweden and Finland Before, During and After the Global Financial Crisis

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Abstract. This study describes private consumption in Sweden and Finland before, during and after the Global Financial crisis. During eleven years, from 2004 to 2013, we investigate how the total household consumption expenditures have developed and how households have allocated their consumption budgets on various consumption categories in the two Nordic countries. The research design is of descriptive character and the data is derived from Statistics Finland and Statistics Sweden. The key findings of the study are: (1) The private consumption continued to grow in both countries, with the exception in Finland in 2009. (2) Both the actual decrease in consumption and the reallocation of commodities indicate that Finnish households have suffered more from the Global Financial Crisis compared to Swedish ones.

Keywords. Private consumption, household expenditures, financial crisis, Finland, Sweden.

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1. Introduction

The Global Financial Crisis (also known as “2008 financial crisis” and “The financial crisis of 2007-2008”) is considered by many economists the worst financial crisis since the Great Depression of 1930s (Reuter, 2009). The financial crisis began in the United States in December 2007 in the real estate sector which caused stagnation and fall in exports. As an economic super power, the crisis in US rapidly influenced the entire world economy. The crisis characterized by failure of key businesses, declines in consumers purchasing power and a downturn in the economic activity leading to the 2008-2012 global recession and the European sovereign-debt crisis (Baily & Elliott, 2009). Even if the crisis is named the Global Financial Crisis, it particularly affected the economies of the US and Europe (Edey, 2009).

The aim of the present study is to describe the private consumption in Finland and Sweden before, during and after the crisis. The time period for our investigation has been delimited to the decade 2004–2013. The study consists of two comparative analyses between Finland and Sweden. First, we investigate how the total household consumption expenditures have developed in Finland and Sweden. Secondly, we examine how Finnish and Swedish households have allocated their consumption budgets on various consumption categories.

The households’ private consumption has a relevant impact on the development of the wealth of nations, because private consumption accounts for about half of

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the GDP in the Nordic countries: in 2013 in Finland the share is 56 per cent and in Sweden 49 percent (The World Bank, 2014). In monetary terms, the multiplication of private consumption tells the astonishing growth of the standard of living. At the micro level, the use and purchase of commodities are assumed to produces well-being to people.

2. Theory on consumer economics in financial crisis

2.1. Purchasing power

A recession can affect households’ lives and consumptions in at least five ways. Firstly, because of rising unemployment, households’ disposable income diminishes and therefore their spending reduces. Secondly, because worse conditions for employers the disposable income also decline for the workforce. Thirdly, decrease in purchase ability due to inflation. Fourthly, pessimistic forecast prognoses. Consumers are concerned about their future, their confidence falls, and they do not dare to spend money. Fifthly, higher financial risks and thereby less ability and willingness to credit living. All those factors explain why people in a recession tend to save more or pay down their debts rather than spending money on goods and services (Stiglitz & Walsh, 2006).

Allocation of commodities

2.2. Income elasticity and commodity allocation

Traditional neoclassical economics assumes that economic conditions reflect the allocation of consumption expenditures (Deaton & Muellbauer, 1980). This is supported by empirical studies as well (Hall, 1993; Parker & Vissing-Jorgensen 2009; Jappelli & Pistaferri, 2010). A classic theory describing the connection between income and consumption expenditures is Engel’s law, according to which the proportions of household expenditures devoted to necessities (i.e. essential commodities) increase as household’s income fall, while the proportions of expenditures devoted to luxuries (i.e. nonessential goods) decrease when the income fall (Suomiemi & Sullström, 1995; Baxter & Moosa, 1996). Example of essential commodities are food, tobacco, health, telephone services, housing (electricity, water etc.) and public transportation, while nonessential commodities are recreation, culture, restaurants and hotels (Du & Kamakura, 2008; Heffetz, 2011).

2.3. Household behavior

Simon (2009) has stated that a financial crisis has severe effects on household behavior: people perceive risks in their near future, do not dare to spend their household budget and emphasize essential commodities instead of nonessential ones. In the cases of economic shocks, households adjust their spending in different ways in various categories. Spending on necessities such as food consumed at home is difficult to reduce whereas the optional categories, like dining out, is easier to cut down. Furthermore, it is difficult to quickly adjust some spending categories, like housing expenditures, which imply that such expenditures will remain the same also during a recession, at least in the short-run (Hurd & Rohwedder, 2011). Finally, many of the purchases are habitual. Households strive to maintain well-established purchase habits, whatever the price of the commodity rise or the household’s income fall (Frank, 2014).

3. A comparative analyses of the Finnish and Swedish economies

3.1. Similarities
As neighboring countries in the Northern Europe, Finland and Sweden are assumed to be similar. They also have a lot in common, for instance in terms of basic institutions of society and in terms of similar economic structures and policies. Both Finland and Sweden have been members of the European Union since 1995. The economies in both Finland and Sweden developed favorable before the crisis, from 2003 to 2008. In 2008, both economies were hit by the financial crisis, with a risen unemployment rate and a loss in GDP. Characteristic for both economies during this period was expensive monetary policies. In both Finland and Sweden, households’ indetdedness have increased remarkably since 2008 and while most EU Member States’ households reached a peak in indebtedness in the beginning of the crisis (e.g. Denmark, UK and the Netherlands), the households’ debts in Sweden and Finland are still growing (European Commission, 2015).

3.2. Differences

However, the countries have some differences that might influence private consumption before, during and after the crisis. First of all, the consumer culture differs somewhat between the countries. On average, Swedish citizens spend more money on goods and services than Finnish citizens do.

The monetary policy also differ: Finland was one of the first countries to participate in the monetary union at the beginning of 1999, while Sweden still is not a member of the EMU.

The inflation in Finland has also been somewhat higher than in Sweden after 2010.

Further, the financial crisis landed earlier in Sweden than in Finland. The loss in GDP was particularly prominent in 2009. The fall in GDP was more serious in Finland than in Sweden. The Swedish economy recovered very rapidly and reached the pre-recession level already in 2011. The recovery in the Finnish economy was temporary: GDP fell again in 2012 (Korkman & Suvanto, 2011).

Although the unemployment rate was similar in Sweden and Finland during the crisis, the employment rate in Sweden was remarkably higher. The higher employment rate means that the higher share of 15-64-years-old population is employed. This has certainly remarkable effects on their purchasing power.

4. Data Set and Method

The research design is of descriptive character. All analyses are based on longitudinal data from 2004 to 2013. The data sets are the annual national accounts of private consumption from Statistics Finland and Statistics Sweden, respectively (Raijas & Varjonen, 2013; Roos, 2013). In each country, time-serial analyses are based on (1) total consumption expenditures and (2) allocation of various expenditure categories, before, during and after the crisis. The comparative analyses between Finland and Sweden focus on similarities and differences in private household consumption across the countries, before, during and after the crisis.

The data sets of private consumption expenditures have been classified to 10 categories which are: (1) food and non-alcoholic beverages, (2) alcohol and tobacco, (3) clothing, (4) housing, (5) furnishings and household equipment, (6) health, (7) transportation and vehicles, (8) communication, (9) recreation and culture, and (10) restaurants and hotels (Raijas & Varjonen, 2013; Roos, 2013).

5. Findings

5.1. The development of total consumption expenditures
We begin this section with the general presentation of the development of consumption expenditures in 2004–2013. The total consumption from 2004 to 2013 increased 16 percent in Finland and 23 percent in Sweden.

Before 2008, the development of private consumption was very favourable in both countries. As the financial crisis landed in 2008, the Finnish household increased their consumption expenditures remarkable while the Swedish households increased their expenditures marginally. The consumption development during and after the crisis have been different in the two countries. In Finland the total consumption decreased with almost 4 percent in 2009, increased during 2010–2011, remained almost at the same level in 2012 and decreased again in 2013 (Graph-1). In Sweden on the other hand, the consumption expenditures never decreased: The expenditures increased marginally in 2008 and in 2009 and more noteworthy from 2010 to 2013 (Graph-1).

Graph 1. Change in private consumption in Finland and Sweden, 2004-2013
(Statistics Finland, 2014; Statistics Sweden, 2014).

5.2. Allocation of the household budget
During the period before the crisis, i.e. the years 2004–2007, the private consumption expenditures increased on average over 3 percent per year in both countries. The expenditures increased in all categories. In Finland, the consumption expenditures increased relatively most in “Furnishing”, “Recreation” and “Communication”; in Sweden in “Recreation”, “Clothing” and “Furnishing”. In 2004–2007, the consumption expenditures of “Recreation”, “Health”, “Clothing”, “Housing”, and “Alcohol and tobacco” increased faster in Finland than in Sweden.

The consumption categories that increased faster in Sweden than in Finland before the crisis were “Communication”, “Furnishing” and “Restaurants and hotels”.

Although the total consumption expenditures increased marginally in Sweden in 2008, the expenditures decreased in some categories – “Transport”, “Alcohol and tobacco” and “Food and non-alcoholic beverages”. As already mentioned, the total Finnish private consumption expenditures increased remarkable in 2008, foremost the categories “Communication” and “Recreation”. Regarding the Finnish consumption expenditures, Finland did not suffer from the financial crisis until 2009. In 2009, the Finnish consumption decreased in all categories, except in the most essential categories “Food” and “Housing” (Graph-2).
The Finnish consumption decreased most regarding durable goods (e.g. cars and furniture) and nonessential services (e.g. culture activities and restaurant visits). It is worth noticing that Swedish household’s expenditures increased remarkably between 2008–2009 in several categories, like “Communication”, “Alcohol and tobacco” and “Health”. In Sweden, the consumption decrease was primarily notable through the decreased demand of cars (Wickelgren, 2011).

As illustrated in Graph-1, the total private consumption in both Sweden and Finland recovered rapidly after 2009. The years 2010 and 2011 were favorable in both countries, but in 2013 the consumption in Finland decreased again. In this period, Swedish households increased their consumption most in health and non-essential categories, such as “Restaurants and hotels”, “Recreation and culture” and “Furnishings and household equipment”. In 2013, Finnish households decreased their consumption most in “Transport” and the same non-essential categories that increased among Swedish households: “Restaurants and hotels”, “Recreation and culture”, “Furnishings and household equipment”.

6. Discussion
According to Stiglitz & Walsh (2006), the most common indicator of financial crisis in everyday life is the households drop in real spending on consumption. In Sweden, the households’ never experienced a drop in their consumption expenditures, neither during nor after the Global financial crisis. In Finland, the private household consumption decreased in 2009, but recovered fast in 2010. Therefore, we find it reasonable to ask if the Global financial crisis and the aftermath of the 2008–2012 global recession really hit Sweden and Finland in a serious way.
In both Finland and Sweden, essential goods (i.e. housing and food) increased their proportions of the household budget during 2008-2009, which correspond to our theoretical discussion regarding household spending in crisis. From this point of view, it seems as we have had a financial crisis that have influenced the private consumption in both countries, especially in Finland. Further, it is likely that the total consumption level in both countries would have been higher without the financial crisis, simply because the temporary decrease in Finland would never have happened and the increase in both countries would have been larger.

However, regarding expenditures on private consumption, it seems unmotivated to talk about the worst financial crisis since the Great Depression of 1930s. We know, for instance, that the Swedish private consumption fall with almost 6 percent during the first two years of the 1990s (European Commission, 2015). In 2009 it was common to hear about the “New Normal” in Swedish media: a lifestyle followed by the Global financial crisis characterized by a willingness to change to a lower and more sustainable standard of living (Roos, 2011). Our conclusion is that this kind of lifestyle neither has been established in Sweden nor in Finland. The reason, from our point of view, is that consumers have had purchasing power in both countries, primarily due to developed financial institutes, but also because a relative high employment rate (especially in Sweden) and beneficial social security.

Since 2008 the households’ indebtedness have increased more in Sweden and Finland than in the other EU Member states (European Commission, 2015). Developed financial institutes have allowed for consumers in both countries to pull future income forward through borrowing to consume today, confident that they have the ability to handle that debt out of higher future incomes. In that way, both Sweden and Finland avoided the crisis through generous financial policies (Roos, 2014). According to Wickelgren (2011), the Swedish stagnation in private consumption in 2009 was also related to difficulties to receive bank loans for buying cars (Wickelgren, 2011).

The ability to consume in combination with the willingness to consume, has kept the Swedish and Finnish consumption at a high level. As Kamakura & Du (2012) suggest, households’ consumption decisions are made within a broader social context. Real events and psychological factors direct consumer behavior which in turn affect economic development. From that point of view, it seems as consumer’s ability to spend money is the key factor that determine the size of consumption expenses in Finland and Sweden (Solér, 2010; Etzioni, 2011), rather than sustainable thinking and aspirations beyond consumerism, credit living and material goods.

If the future purchase power among Finnish and Swedish households will be affected, for instance through increased interest rates, their private consumption will likely fall. In Sweden, both the Financial Supervisory Authority and the Riksbank (i.e. Sweden’s central bank) state that most households would be able to handle their loans but many would have to reduce their consumption. This is in line with calculations that show that the effect of an interest rate increase by 5 percentage points could lead to a reduction in private consumption by 4,5 percent (European Commission, 2015). If consumption will fall, the GDP and the employment rate will also fall. Therefore, it is likely that the typical consequences of crisis on households’ lives and consumptions, previously described by Stigliz & Walsh (2006), eventually will happen in Sweden and Finland. The effects might only be delayed, due to the indebtedness of private households, which is still growing. It will be interesting to follow Swedish and Finnish consumers the coming years, to investigate if they will save more and pay down their debts rather
than spending money on goods and services (Stiglitz & Walsh, 2006). So far, such tendencies are not there.

7. Conclusion
In both Finland and Sweden the Global Financial Crisis 2007-2008 and the aftermath of 2008-2012 global recession had limited influence on the private consumption.

There are at least two indicators for that the crisis had a larger impact on the Finnish consumption than the Swedish consumption. Firstly, the total consumption decreased more in Finland than in Sweden, especially in 2009. Secondly, Finnish consumers cut their expenses on non-essential goods more than Swedish consumers did.

The purchasing power was better for Swedish households than for Finnish households, due to both higher credit ability and higher employment rate. However, a consequence of the Global financial crisis is high households’ indebtedness in both countries, especially in Sweden. The development of indebtedness might have long term effects on private consumption in both Sweden and Finland.

More studies on private consumption are important, because households’ expenditures are about half of the GDP. The economies of Sweden and Finland seem to be particularly interesting case studies for gaining insights about long term effects on household indebtedness. The present study might be a good starting point to analyze how periods of recession may affect private consumption and thereby contribute to theoretic and managerial value.

References


Reuters (2009). Three top economists agree 2009 worst financial crisis since great depression; Risks increase if right steps are not taken.


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