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## Chapter 24: The households sector

### A. Introduction

- 24.1 Households are a special type of institutional unit; it is on their behalf that the economy operates to provide goods and services to satisfy human wants and needs. Households differ from corporations in that they may engage in any of the three forms of economic activity in the SNA, production, consumption and accumulation. While government can also engage in all three activities, in this case consumption is undertaken on behalf of households or the community at large and not for government itself.
- Like corporations, households earn income from engaging in production though, unlike corporations, it is because they supply labour whereas corporations supply fixed capital and entrepreneurial skills.
  - Some households, like corporations, engage in production in which they supply fixed capital and entrepreneurial skills though this is recorded in the household sector only when it is not possible to separate out the production activity from the rest of the household accounts.
  - Like government, households engage in consumption but for a household, consumption decisions are highly personal whereas for government, consumption decisions are driven by consideration of the population as a whole.
- 24.2 One motivation for studying the household sector and creating sub-sectors is to be able to explore the impact on household well-being, however measured, of government policy. However because the accounts are compiled ex post, while what households consume is clear, the ex ante consideration of how much and what types of goods and services they would like to consume, and how these desires adjust to the availability of products and their prices does not appear. For this reason much of the analysis of household behaviour linking changes in expenditure patterns to changes in policy lies in the realm of modelling rather than pure national accounts.

### 1. Residence

- 24.3 All households are resident in the economy but of increasing interest is the phenomenon of a person abroad, often but not necessarily a family member, who remits significant amounts to the family in the domestic economy. (The same phenomenon also exists within a country, between urban and rural areas, for example.) The aspect of people moving abroad in response to better employment prospects may be seen as another facet of globalisation and one that deserves to be monitored.

### 2. Households and the informal sector

- 24.4 In all countries, there are some production activities undertaken by households. Many of these may be described as informal and, as described in chapter 25, measuring the extent of the informal sector and how this changes as the economy develops gives particular insight into the extension of the market economy beyond formal enterprises.

### 3. The structure of the chapter

- 24.5 The household sector may be viewed in a number of different ways depending on whether the interest is primarily on what sort of production households undertake, what sort of income they earn or what patterns of consumption are portrayed. Given these different perspectives, it is not easy to come up with a single definitive set of sub-sectors for households. A first look at possible sub-sectors is given in section B. The next three sections (C, D and E) in turn look at households as producers, households

as consumers and household income. Section F looks at household wealth and associated income flows. The last section, section G, looks briefly at the use of household income and expenditure surveys in a national accounts context.

## **B. Sub-sectoring households**

### **1. The production perspective**

- 24.6 Sub-sectoring households according to their involvement in production is relatively straightforward. The first division is to separate institutional households (such as residential schools) and those households that do encompass an unincorporated enterprise from those that do not. Thereafter it is straightforward to identify those households whose only productive activity is connected with the owner occupation of houses or the employment of domestic staff. The households that are left may be further divided between those that employ staff to work in their unincorporated enterprises and those that do not. As described in the chapter on the informal sector, when proceeding along these lines it is sometimes desirable to identify the type of activity of an unincorporated enterprise, in particular identifying agricultural activity separately from other types of activity. A set of sub-sectors following this pattern is shown in chapter 25.
- 24.7 Within the SNA, all household enterprises that can be treated as quasi-corporations because they have complete sets of accounts showing their ownership of assets (separately from those of the household to which they belong) and the withdrawal of income to their owners are classified in one of the corporations sectors. The number of household enterprises that can be treated as quasi-corporations, and thus removed from the household sector, varies considerably from country to country depending on the availability of accounting information and the resources available to identify such enterprises and treat them as quasi-corporations.
- 24.8 Although it is possible to identify households that only have owner-occupied housing as their unincorporated enterprise, in many cases other unincorporated enterprises will also undertake owner occupation of their houses as well. While from a production point of view it is possible to separate the different types of production activities, for the institutional unit as a whole it is not possible to make this separation.
- 24.9 In most countries, many households do not have unincorporated enterprises and despite differences in their characteristics they are grouped together in a single sub-sector where the only common factor, different from other households, is that they do not have an unincorporated enterprise. Thus while sub-sectoring households according to production is useful in some circumstances it has its limitations in terms of identifying the role of different types of households in the economy.

### **2. The consumption perspective**

- 24.10 It is widely observed that as household income rises so the pattern of consumption changes. The amount of expenditure devoted to food and other necessities declines as more income is available and is devoted to more luxury goods. One possibility, therefore, is to partition households according to their relative level of income. Studies showing consumption patterns according to income deciles are quite common and give interesting information about how patterns of consumption change as the overall level of income increases.
- 24.11 The problem arises with how household consumption patterns may relate to incomes of individuals. There is no obvious way to identify how recipients of income fall into one or other income decile when these deciles are calculated on a household basis. Households with a high income may result from one very well-paid worker or from a number of middle income earners. Further, although the production account shows total compensation of employees and it may be possible to compare this to

the total number of employees, this gives no information about the distribution of income across the labour force in the enterprise.

- 24.12 Not all income comes from compensation of employees but for other sources of income also, the effect on total household income is equally uncertain.
- 24.13 One possible disaggregation of households where consumption patterns might be significantly different would be according to whether the household includes children and, where it does not, whether the household is relatively young (and may be setting up home for the first time) or relatively old (where expenditure on consumer durables may be lower than for other groups). However, here again there is no easy way to identify the source of the income with the type of the household in which the income recipient resides.

### **3. The income perspective**

- 24.14 A more promising approach to sub-sectoring appears to come from considering not the level of income but the type of income. Following on from the discussion under the production perspective, it is possible to consider the main source of income falling into one of the following categories.
- a. Income as the owner of an unincorporated enterprise with employees (that is as an employer);
  - b. Income as the owner of an unincorporated enterprise without employees (that is self-employed);
  - c. Income from employment;
  - d. Income from transfers.

This last category can usefully be further subdivided to show where income from transfers is due to:

- a. Pensions;
  - b. Transfers from family members abroad;
  - c. Transfers from other sources, including from government;
  - d. Property income.
- 24.15 The difficulty with this categorisation is that income accrues to individuals and not to households. Thus it is possible to consider whether an individual receives most of his or her income from one of these categories but it is less easy to use the categories for households. Two alternatives present themselves.
- 24.16 One of them is to denote a head of household and take his or her income as representative of the household as a whole. But this still may lead to anomalies. For example suppose the highest income earner in the household receives income from employment but two other members receive pensions and together the amount of the pensions exceeds that of the income from employment. Categorising the household according to the main income earner will give a different allocation from categorising household income as a whole.
- 24.17 The second alternative is to classify the household according to the predominant source of income from all members of the household taken together. As before, however, this limits allocating the income recipient directly to a household sub-sector.

#### **4. The consequences of demographic change**

- 24.18 A growing policy interest in some countries is the effect of demographic change on household well-being and the response required by government. For example, in an ageing population, there may be less demand for educational services and more for health services.
- 24.19 Another concern is whether pension provision is sufficient to ensure that individuals have an adequate level of income in retirement without looking to government for income support. A focus on such issues might suggest sub-sectoring households according to whether the main income earner is of working age and in work, of working age but not in work or in retirement.

#### **5. Other considerations**

- 24.20 It is possible to consider sub-sectoring households on quite different grounds. Examples include the number of persons in the household, the region where the household is located, the qualifications or education level of the head of the household, the industry where the head of the household works, whether the household owns property or other assets and so on.
- 24.21 If the household sector is to be divided, the choice of sub-sectors will depend in part on the purpose for which the sub-division is required and on the resources available to make the division. Some choices of sub-sectors require extra data collection efforts and indeed different sampling and questionnaire design. Even when considered desirable, adequate resources may not be available to adopt the sub-sectors of choice. A consequence is that the household sector is seldom disaggregated except as a special exercise and intermittently.

### **C. Households as producers**

- 24.22 The difficulty of separating the productive activity of a household from the rest of the institutional unit has been discussed in a number of places in earlier chapters, particularly in chapter 4, and is referred to above in discussion about the sub-sectors for households. This section, therefore discusses only some aspects of those productive activities that inevitably remain within the household sector.

#### **1. Agriculture**

- 24.23 In some countries subsistence agriculture, or indeed the results of any agricultural production which are used entirely by those responsible for the production, is a very significant part of household consumption and by extension of GDP. In countries where much of the staple food is grown for own consumption, and it is seasonal, it is necessary to consider whether some part of the increase in the value of the crop due to storage is part of production. There are details of how this may be done in the annex to chapter 6.
- 24.24 It should be recalled that the purchaser's price for agricultural products used for own consumption does not mean the price at the nearest local market which would include transportation costs. The market price is the price that somebody would pay for the crops where they are grown. This is frequently called the farm gate price.
- 24.25 In principle, even fruit and vegetables grown for their own use by households in developed countries with small allotments or large gardens should be included within the production boundary but in practice it is unlikely to be worth the effort of making estimates unless the amounts involved are significantly large.

## 2. Housing

- 24.26 In all economies, a large number of households live in buildings that they own. The size of the rental market may be very small and may be confined to some areas, for example urban areas, which makes the use of market rentals as a means of estimating the services provided by owner-occupied dwellings difficult. In chapter 20, it is explained that in principle the rent on a capital asset can be calculated by applying a discount factor to the stock of capital at the beginning of a period, so if the value of the house is known, a figure for the services provided can be estimated. However, this approach also is problematic in those circumstances where there are no data on the stock of capital or where there is uncertainty on the rate of return to be estimated. For simple rural buildings, it may be necessary to calculate the cost of construction and estimate how long the building is usable without major renovation.
- 24.27 The production account for an owner-occupied dwelling treats as intermediate consumption only the goods and services necessary to undertake the sort of repairs that are typically the responsibility of the landlord in the case of rented buildings. These may include payment to specialists in the building trade, for example plumbers or painters, and the cost of these specialists will include their compensation of employees. However when work is undertaken by the owner himself only the cost of the materials is included in immediate consumption with no estimate made for the value of the owner's time spent on repairs. In consequence, there is no compensation of employees appearing in the production account for owner-occupied dwellings. (This may be seen to be a pragmatic convention. If labour costs were to be imputed to the owner undertaking repairs, this would be recorded as income accruing to the household but the income from the rental on the house would be reduced by an exactly off-setting amount.)
- 24.28 The whole of the imputed rental less actual costs incurred is treated as operating surplus of the owner. The accounts for the owner of the building show the whole of the value of the imputed rental as output, any costs incurred as intermediate consumption and the difference as gross operating surplus which is paid to the household in its capacity as the owner of the unincorporated enterprise. In the use of income account, the full value of the rental is shown as consumption of the imputed rental of owner-occupied dwellings.
- 24.29 When major repairs are undertaken, these are treated as gross fixed capital formation but the same conventions apply concerning the recording of compensation of employees.
- 24.30 Some houses are owned by households but leased out by them. In this case the rental paid by the tenant and received by the owning household is the value of the output of the rental service. The production account for the earning household shows intermediate consumption charged against this output to derive the operating surplus of the activity, which is treated as income to the owning household. In some cases the whole of the intermediate consumption may be a service charge paid to a rental agency. It is conceivable that occasionally the service paid to the rental agency may exceed the rental income so that the rental activity produces a loss. For example, if a house stands empty for a time, there may still be a fee payable to the rental agency. The earning household will often regard this as acceptable because one reason for owning a house for rent is because of the holding gain that will be made on owning the house over a long period.
- 24.31 Some houses will be owned as second homes either in the same economy or abroad. The same principles apply as in the case of imputed rental of owner-occupied dwellings and rental services activities that come from renting out a house. If the house is in another country, it is treated as being as belonging to a notional resident unit in that country. The legal owner then has a financial claim on the notional resident unit. The notional resident unit therefore appears to be a direct investment enterprise wholly owned by a non-resident. However, the only asset of the unit is the value of the property and the whole of the operating surplus from renting out the house is treated as being withdrawn from the notional unit and remitted to the owner so there are no remaining retained earnings to be treated as reinvested earnings.

- 24.32 To the extent that the house abroad is used by nationals of the economy where the legal owner is resident, the rentals should be treated as exports from the foreign country and imports to the domestic economy. However, the operating surplus of the notional unit is remitted to the owner and appears as a property income outflow from the foreign country and inflow to the domestic economy, offsetting the flows of rental services (at least in part).
- 24.33 When a house is financed by a mortgage, in principle FISIM charges relating to interest payments on the loan should be treated as part of the intermediate consumption of the production activity associated with renting the property (either for use by the owner or by a tenant). However, it may be difficult to identify FISIM related only to interest on the mortgage and in some cases a loan using the property as collateral may not be used to secure the property for the purpose of having a dwelling available. In practice, therefore, it may not be possible to identify the element of FISIM payable by a household in respect of the imputed rental of owner-occupied dwellings.

### **3. Domestic staff**

- 24.34 Services provided by paid domestic staff are valued at the cost of the compensation of employees paid to those staff but including any income in kind such as free accommodation or free meals as well as any social insurance contributions that may be paid on behalf of the staff. By convention the production account for paid domestic services consists only of this compensation of employees. All of the products used in the performance of domestic services, such as cleaning materials and tools used, are treated as final consumption expenditure of the household.
- 24.35 Individuals who provide paid domestic services must be members of another household. Payments to children for performing tasks in the house are not treated as the provision of paid domestic services but simply a transfer within the household. On the other hand payments to a child for babysitting a neighbour's children should in principle be treated as a domestic services but these may be too small and difficult to measure.
- 24.36 In chapter 29 there is discussion of the possibility of extending the production boundary within the context of a satellite account to include all domestic services, including those that are not performed against payment.

## **D. Households as consumers**

### **1. Consumption goods and services provided in kind**

- 24.37 Chapter 9 describes the different concepts of consumption expenditure, actual consumption and the use of consumption goods and services. Within the SNA, only the first two are measured and the difference between them is accounted for by social transfers in kind provided by government and NPISHs to households. In principle it might be interesting to be able to distinguish social transfers in kind provided to children (for example most education) to the elderly (particularly healthcare) or perhaps on a regional basis. However there are considerable difficulties in working at this level of detail and so it is probable that such extra detail could be provided only in the context of a satellite account.

In principle, transfers in kind between households should be recorded in the SNA. However if there are no sub-sectors of the household sector, such transfers will not appear in the accounts when they occur between resident households. On the other hand transfers in kind between resident and non-resident households may be quite significant and should be captured through information on remittances in the balance of payments data. (A new manual on the measurement of remittances is available at

<http://www.imf.org/external/np/sta/bop/remitt.htm> )



- 24.38 When there is a significant amount of consumption represented by own account production, income in kind, barter or transfers in kind it would be useful to itemise the distinction between consumption expenditure by households in kind from consumption purchased in the market place.

## **2. Expenditure by tourists**

- 24.39 Most data sources for household consumption from the supply-side are not able to distinguish whether purchases are made by resident households or by non-resident households. Equally the same sources will not reveal purchases made abroad by resident households. These two items are often of a sufficiently significant size that it is important that they be estimated both for the impact on the balance of payments and in order to ensure that the supply and use table can be adequately balanced. Further consideration of expenditure by tourists is discussed in chapter in 29 in the context of the tourism satellite account.

## **3. Consumption expenditure by type of product**

- 24.40 Most household surveys itemise consumption according to the purposes it is intended to serve: food, housing, etc. This type of breakdown is the one used in the Classification Of Individual Consumption by Purpose (COICOP). For inclusion in the supply and use table, and indeed for other analyses, it is useful to prepare a table showing the cross classification of consumption by purpose and by type of product. This is useful not only in terms of providing the information of the supply and use tables but also in examining the information used to compile consumer price indices which in turn are used to deflate consumption expenditure. If the data permits, it may also be useful to look at the composition of consumption expenditure by type of household with a view to calculating consumer price indices for different groups of households, for example for the elderly or for those with young children.

## **E. Household income**

- 24.41 It is a well-established phenomenon in all countries that income is distributed unevenly and in a very skewed manner. Very many people have income significantly below the average or median income and very few people have extremely large incomes. A poverty line is sometimes quoted as half the median income but an income of twice the median does not imply great wealth; the wealthiest individuals in an economy may have incomes an order of magnitude larger than the average or median income.
- 24.42 The reason that the sequence of accounts is important is that it gives a picture of how income is redistributed either compulsorily via taxes and benefits or voluntarily via transfers or because of ownership of financial or other assets (property income). In order to examine whether the process of distribution and redistribution of income significantly changes the overall distribution of income in the economy it is necessary to be able to show the flows between different groups of households. As noted in the introduction it is difficult to allocate income from one particular source to one household group rather than another. This is not straightforward and not a standard part of the SNA. However, it is straightforward to provide more information to analysts on the type of household income than the total contained in the standard sequence of accounts. As far as value added is concerned, it may be possible to distinguish compensation of employees paid by individual industries or perhaps according to level of education or by region. Mixed income can similarly be distinguished. Consumption of fixed capital should be separated between that due to owner-occupied dwellings and that relating to other assets of unincorporated enterprises.
- 24.43 The standard accounts contain information on transfers in the form of taxes paid and social insurance contributions and benefits split between pensions and other benefits. In some countries, it is especially relevant to show personal remittances from abroad to demonstrate the impact on the domestic

economy of those with strong ties to economies abroad. For countries with a large migrant population it may be similarly useful to identify the corresponding outflows and their destination.

- 24.44 Within property income it is useful to distinguish those flows that place resources at the disposal of the recipients from those where the receipts are already pre-committed as saving, for example, pension entitlements, property income on life insurance and interest that derives from the increase in the value of bonds. It should be noted that it is particularly useful to identify the withdrawal of income from quasi-corporations if there are many household enterprises treated as quasi-corporations.
- 24.45 It may be useful to identify and show separately income in kind of all types, such as wages and salaries in kind and transfers in kind, and then derive a total excluding both these and the pre-committed saving which might be called discretionary income.

## **F. Household wealth and associated income flows**

- 24.46 The main sources of household wealth are houses and pension funds. However, the loans involved in mortgages and other financial liabilities need to be offset against the equity in the house.
- 24.47 In general the distribution of wealth is even more strongly skewed than income. A family where the main earners are in mid career may have a comfortable level of income and occupy their own house but still have a considerable mortgage and may not yet have built up significant pension reserves.
- 24.48 There is a question about whether the rundown of wealth post retirement should be recorded as income or as dis-saving. To the extent that the value of the pension as a form of wealth is based on the net present value of future income flows, pension receipts can be partitioned into the rundown of savings and income accruing. In cases where there are no pension entitlements, a household with a significant level of financial assets is still likely to receive significant property income, though the mix of property income and holding gains and losses will depend on the investment strategy of the household concerned.
- 24.49 For a household where one or more of the members is building a pension, significant income will accrue each year but this is not accessible to the household to spend. It must be cumulated to fund future pension entitlements and therefore shows as an increase in wealth.

### **1. Consumer durables**

- 24.50 Within the SNA, consumer durables are not treated as a form of wealth but as a form of expenditure. However, there may be considerable interest in having a memorandum item in the balance sheets to show the worth of consumer durables. The acquisition of durables may well be cyclical and there is interest in a satellite account that would replace the purchase of consumer durables as current expenditure by figures for the flow of services provided from the same items treated as fixed capital. This is discussed further in chapter 29.

## **G. Data sources**

- 24.51 Any attempt to disaggregate the household sector is likely to be dependent on a household income and expenditure survey. The conventions adopted by survey statisticians and those of national accountants are not always the same. A household expenditure survey for example may not include estimates of imputed rent of owner-occupied dwellings or own account production. It may measure income after tax and measure expenditure on a cash and not on an accrual basis. Various publications have been

prepared to examine such differences and make recommendations on how to reconcile survey data with national account requirements. Particularly relevant is the *Final report and recommendations of the expert group on household income statistics (the Canberra group)* published in 2001 and the 2003 resolution of the ICLS.