

Comparative Research on Consumption Gap between Urban and Rural Residents of Hunan Province

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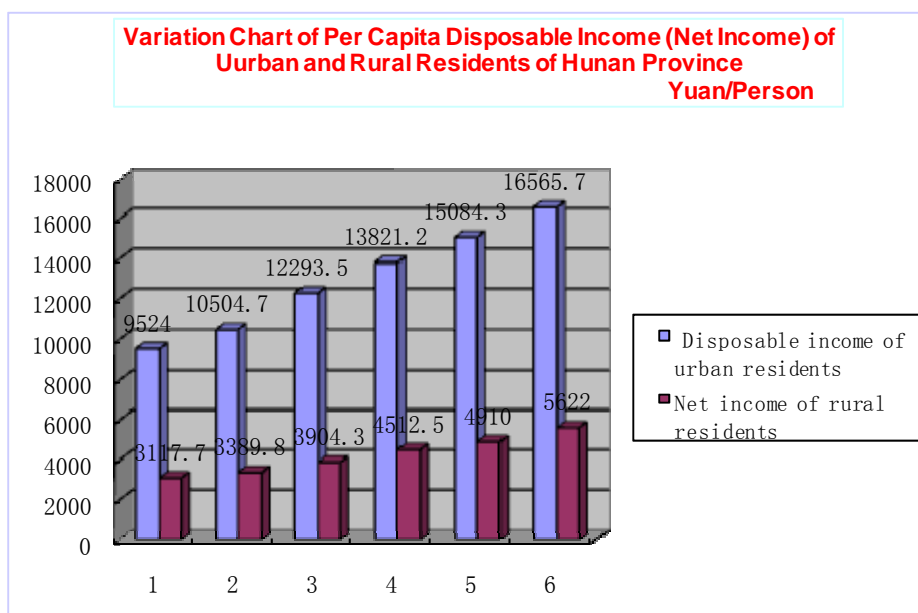
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During the period of “Eleventh Five-Year Plan”, with the continuous development of economic society, the Hunan provincial urban and rural resident’ incomes have kept rising momentum year by ear(Figure 1). Meanwhile, although such incomes increase by big margin, there is large gap of consumption between the urban and rural residents of Hunan Province, and even the gap is enlarged further.

Figure 1



I. Comparison of General Consumption of Urban and Rural Residents of Hunan Province

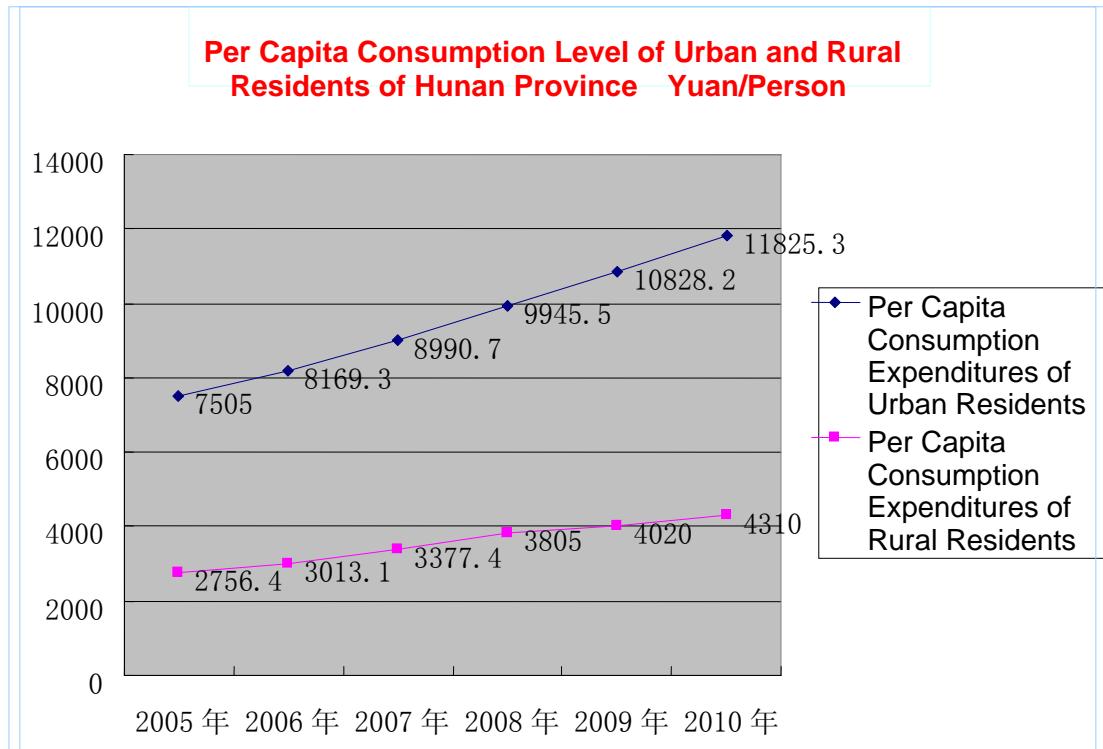
During the period of “Eleventh Five-Year Plan”, the consumption level of urban and rural residents of Hunan Province had risen by considerable margin, but there is still large gap between the urban and rural residents, and tends to grow year by year.

(I) Comparison of Consumption Level of Urban and Rural Residents

1. Comparison of General Consumption Level of Urban and Rural Residents

Draw the variation chart of per capita expenditure of urban and rural residents of Hunan Province based on the survey data of urban and rural households from 2005 to 2010 (Fig. 2).

Fig. 2:



As shown in the Fig. 2, during the period of “Eleventh Five-Year Plan”, the per capita expenditure of urban and rural residents of Hunan Province had maintained fast growth momentum, however, the average growth rate for urban residents is higher than that of rural ones, both the absolute margin and relative margin of per capita expenditure of urban and rural residents tends to increase year by year, which indicates that the consumption level gap between urban and rural residents of our province keeps further widening compared with that during the period of “Tenth Five-Year Plan”.

In 2010, the per capita expenditure of urban residents of Hunan Province was RMB 11825.3 yuan, the one of rural residents was RMB 4310.0, which topped first among the six central provinces and had increased by 57.6% and 56.4% respectively compared with 2005, with average annual growth rate of 9.5% and 9.4% respectively. The average annual growth rate of rural area was lower than that of urban area by 0.1 percentage point.

In 2010, the per capita expenditure of urban residents of Hunan Province was more than that of rural ones by RMB 7515.3 yuan, with the former 2.74 times as much as the latter; compared with 2005, the margin was increased by RMB 2766.7 yuan; in terms of the variation tendency of relative amount, compared with 2005, the relative amount of expenditure of urban and rural residents of Hunan Province in

2010 had increased by 0.02 percentage point.

2. Comparison of Marginal Propensity to Consume (MPC) of Urban and Rural Residents

Based on the Keynes Absolute Income Hypothesis, the consumption function model can be obtained as follows: $C = A + B Y + e$. By using the econometrics software Eviews6.10, based on the data in the Figures 1 and 2, make a fitting analysis on the consumption of urban and rural residents of Hunan Province with the Consumption Function Model. The per capita expenditure, “C”, is taken as the explained variable, and the income “Y” as the explanatory variable. The regression function of income for consumption of urban and rural residents of Hunan Province is deduced as below:

Urban areas: $C = 1718.8 + 0.60Y + e$
 (6.40) (29.67) $R^2 = 0.995$ $F = 880.123$

Rural areas: $C = 886.2 + 0.63Y + e$
 (5.00) (15.33) $R^2 = 0.983$ $F = 234.980$

in which, what in the brackets are “t statistic”, when the sample capacity $n=6$, the significance level is 95 %, “t” and “f” can pass test, it indicates that the fitting regression function is obvious.

The above regression results can explain the following three points:

Firstly, linear dependence relationship between expenditures and incomes of urban and rural residents is significant, and the income is the largest factor that influences residents’ expenditure for consumption.

Secondly, the residents’ consumption of current period depends on the income of current period. The MPC of rural residents was higher than that of urban residents; and regarding the peasants, who receive far less than that of urban residents.

Thirdly, under the condition of relatively unchanged income, the urban residents’ basic consumption for supporting basic daily needs is higher than rural residents.

(II) Consumption Structure Gap between Urban and Rural Residents

1. Overall Comparison of Consumption Structure Gap between Urban and Rural Residents

Consumption Structure Table for Urban and Rural Areas of Hunan Province in 2010
 Unit: %

	Urban Residents	Rural Residents	Gap
Food Expenditure	36.6	48.4	11.8
Residence Expenditure	10.0	16.7	6.7
Clothing Expenditure	10.8	4.9	-5.9
Daily use and Service Expenditure	39.9	27.8	-12.1

Note: The above gap has been calculated on the basis of urban areas.

Through the comparison on the above four groups of data, the proportion of rural expenditure for food and residence is generally larger than that of urban expenditure; in the aspects of clothing expenditure and daily use and service expenditure (note: in this paper, daily use includes household facilities, articles and service indicators; and service expenditure includes health care & medical services, transport &

Communication, education, cultural & recreation services), their proportions in urban expenditure are larger than those in rural one. It is shown that due to the factor of low income, there is a significant gap of consumption preference and consumption structure between urban and rural residents. The rural residents tend to give priority to satisfying basic living condition, such as food and residence, while the urban residents tend to preferring higher living consumption, such as clothing and spirit.

2. Comparison on Gap of Individual Item between Urban and Rural Residents

① Comparison of Food Expenditure (Engel's Coefficient) between Urban and Rural Residents

Compared with the year of 2005, in Hunan Province, the Engel's Coefficient of urban residents shows trend of drop—rise—drop again. However, generally, the period “Eleventh Five-Year Plan” was on slight rise. In 2010, the Engel's Coefficient of urban residents of Hunan Province was 36.6%, increased by 0.8 percentage points than 2005; in terms of rural areas, during the period of “Eleventh Five-Year Plan”, the Engel's Coefficient of rural areas kept higher than that of urban area, but the dropping speed of the former is faster than the latter. In Hunan Province, the Engel's Coefficient of rural residents had fallen off from 51.8% in 2005 to 48.4% in 2010, higher than that of urban residents by 11.8 percentage point. It is presented that the living opulence of urban residents of Hunan Province is remarkably higher than that of rural residents.

From the gap variation of Engel's Coefficient of urban and rural residents in Hunan Province, the percentage had fallen off from 16 in 2005 to 11.8 in 2010, and the gap had narrowed by 4.2 percentage point. It is indicated that, in Hunan Province, the proportion of rural peasants' expenditure for food has faster dropping speed than urban residents, with the increase of other kinds of consumption, their living standard had been improved considerably.

② Comparison of Residence Expenditure between Urban and Rural Residents

During the period of “Eleventh Five-Year Plan”, in Hunan province, the urban residents' expenditure for residence was on slightly downward trend, but for rural residents, both the proportion and rise range of expenditure was higher than that of urban residents.

In 2010, for the urban residents, the proportion of expenditure for residence was 10%, reduced by 0.3 percentage points compared with the year of 2005, the other years also maintained 10% or so, with no great change; for rural peasants, the proportion of expenditure for residence was increased from 11.1% in 2005 to 16.7%, with the rise margin of 5.6 percentage points, higher than that of urban residents by 6.7 percentage points. It is shown that, in Hunan Province, the residence consumption of rural residents is all along the main direction of rural consumption.

③ Comparison of Clothing Expenditure between Urban and Rural Residents

In 2010, in Hunan Province, for the urban residents, the proportion of expenditure for clothing was 10.8%, ranking fourth among the six central provinces of middle China; and 4.9% for rural residents, lower than that of urban residents by 5.9 percentage points, and the proportion ranked fifth. It is demonstrated that, in Hunan Province, large gap regarding clothing consumption exists between urban and rural

residents, urban residents pay more attention to clothing consumption than rural residents.

④ Comparison of Daily Use and Service Expenditures between Urban and Rural Residents

In 2010, in Hunan Province, for the urban residents, the proportion of expenditure for daily use and service was 39.9%, ranking second among the six central provinces of middle China, which indicates that such kind of consumption level of urban residents in Hunan Province is at higher level among the six provinces. For the rural residents, the proportion of expenditure for daily use and service was 27.8%, lower than that of urban residents by 12.1 percentage points, which indicates that such kind of consumption level of rural residents is far lower than that of urban residents. Compared with the other provinces of middle China, the proportion of expenditure for such kind of consumption ranked fifth, which indicates that, in Hunan Province, such kind of consumption is at lower level among the six provinces, and the gap of expenditure proportion of such consumptions is wider than that of other provinces. It is shown that the high-quality standard of material life and spiritual life for the rural residents in Hunan Province needs to be further improved.

(III) Comparison of Consumption Quality between Urban and Rural Residents

For the comparison of consumption quality gap between urban and rural residents, we take the per capita major food consumption and the number of durable consumer goods owned per 100 urban and rural households in Hunan Province in 2010 for example.

1. Comparison of Food Expenditure between Urban and Rural Residents

For the rural residents of Hunan Province, grain and fresh vegetables highlights the primarily consumed foods, while the consumption of pork, poultry, eggs, fresh milk, fishes and shrimps are less, primarily for eating. Although the urban residents' food consumption is based on grain, the urban residents have much less per capita consumption of grain than the rural residents (urban residents: 76.9kg; rural residents: 207.3kg). However, the urban residents' per capita consumption of pork, poultry, eggs, fresh milk, fishes and shrimps is far more than rural residents. It is shown that there is obvious gap of food consumption quality between the urban and rural residents of Hunan Province, the food consumption of peasants is based on dietary saturation while the urban residents emphasize more nutritive diet, so it is concluded that the food consumption quality of urban residents is higher than that of rural residents, and the latter needs to be improved further.

2. Comparison of Number of Durable Consumer Goods Owned by Urban and Rural Residents

For the rural residents in Hunan Province, the quantity of durable consumer goods owned primarily satisfies the basic household use, mostly including color television, refrigerator, washing machine, mobile telephone and motorcycle, in which, the numbers of owned refrigerators and washing machine are considerably lower than the one of urban area; mobile telephone and color television are generalized, which leads to almost same number; rural peasants have more quantity of motorcycle than urban residents due to the needs of travelling and production. However, the number of

owned durable goods needed for improving life quality and consumption level, satisfying higher material and spiritual pursuance have quite a wide gap, especially for family car, computer, video camera, air conditioner, water heater for shower, microwave oven and other high-grade durable goods. It is demonstrated that the rural residents' living & consumption quality needs to be enhanced further.

II. Conclusions and Suggestions

(I) Conclusions

Firstly, in Hunan Province, the consumption expenditure of urban and rural residents is primarily influenced by income level, therefore, it is radical to narrow the consumption gap between urban and rural residents, and greatly enhance rural residents' income level.

Secondly, in 2010, the consumption level of urban and rural residents of Hunan Province ranked first among the central region of China, but still below the national average level; compared with 2005, there was tendency of rise by big margin. However, the average annual growth rate of per capita expenditure of rural residents is lower than that of urban residents, and the absolute and relative amounts gap for per capital expenditure of urban residents tends to be wider gradually. It is demonstrated that the consumption gap between urban and rural residents is still large and gradually expanded. Therefore, the consumption level of rural residents of Hunan Province needs to be enhanced further.

Thirdly, similar to the other central provinces, in Hunan Province, the consumption structure of urban and rural residents shows an distinct state of duality, with certain gaps in the four aspects like food, residence, clothing and service. With efficient improvement and adjustment on the urban and rural dualistic structure, it is expected that several years later, the consumption structure gap between urban and rural residents of Hunan Province will be possibly narrowed.

(II) Measure and Proposal

- 1. Speed up agricultural industrialization and greatly increase peasants' income.**
- 2. Expedite the process of industrialization and urbanization; make efforts to narrow the urban and rural gap.**
- 3. Strengthen the counter-nourishing to agriculture, and continuously improve the rural consumption environment.**
- 4. Establish healthy social insurance system in rural area to resolve peasants' actual difficulties**

References

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Abstract

This Paper, based on the Keynes Absolute Income Hypothesis and in accordance with the actual income and consumption expenditure of urban and rural residents of Hunan Province from 2005 to 2010, establishes consumption function model for the comparative analysis on gap between Hunan urban and rural residents' consumption level and marginal propensity to consume. Furthermore, through the comparison of Engel's coefficient, residence consumption, clothing consumption, service consumption of urban and rural residents of Hunan Province, this paper analyzes the gaps in the aspects of urban and rural residents' consumption structure and consumption quality, and reveals the reasons of such gaps and gives some suggestions.