Economy and finance

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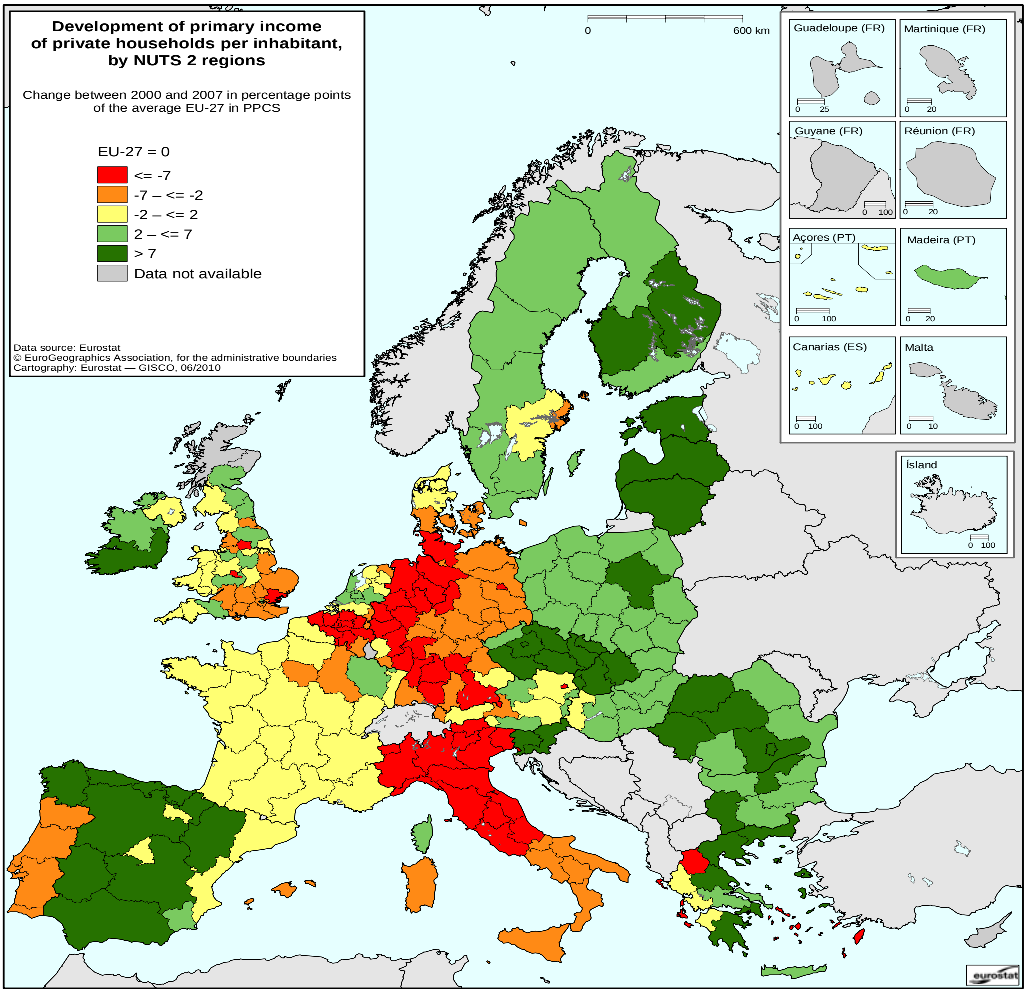
Statistics in focus
41/2010

Regional discrepancies in private household income narrowing

Income of private households per inhabitant (in purchasing power consumption standards — PPCS) in 2007 differed widely across the regions of the EU, but the discrepancies are narrowing. Many of the less prosperous regions on the EU periphery have been catching up rapidly since the year 2000, but it is not clear whether this trend will continue. However, early data from some Member States suggest that rural areas will be less affected by the downturn than high-income regions and areas with a high dependence on exports.

Figure 1: Development of primary income of private households per inhabitant, by NUTS 2 regions



Source: Eurostat (reg_ehh2inc)

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Dynamic developments on the edges of the Union

Figure 1 shows a seven-year comparison to illustrate how primary income per inhabitant (in PPCS) in the NUTS 2 regions changed between 2000 and 2007 in relation to the average for the EU-27. The map shows, first of all, strong dynamic processes on the edges of the Union, particularly in Spain and Ireland, the Czech Republic, Slovakia, Hungary, the Baltic States and Finland. On the other hand, below-average trends in income are apparent in some of the EU-15 Member States, notably Belgium, Germany and Italy. Several areas in these Member States fell behind compared to the average income of the EU, even though they already had relatively low levels of income per inhabitant.

There is clear evidence of considerable catching-up in the new Member States. The figures for Romania, the Czech Republic and Slovakia are quite encouraging. With an increase of 33.2 percentage points, the region București-Ilfov (RO) achieved the highest relative improvement of all regions. On the other hand, income levels in some regions in Poland and Hungary increased by only a few percentage points compared to the EU average. In addition, the structural problem remains that in most of the new Member States the wealth gap between the capital regions and the less prosperous parts of the country widened further.

On the whole, the period from 2000 to 2007 saw a flattening at the upper end of the regional income distribution band, caused in particular by substantial relative falls in regions with high levels of income. At the same time, each of the 20 regions with the lowest per inhabitant income, and with 8 % of the population, caught up further with the EU average.

Major regional differences persist

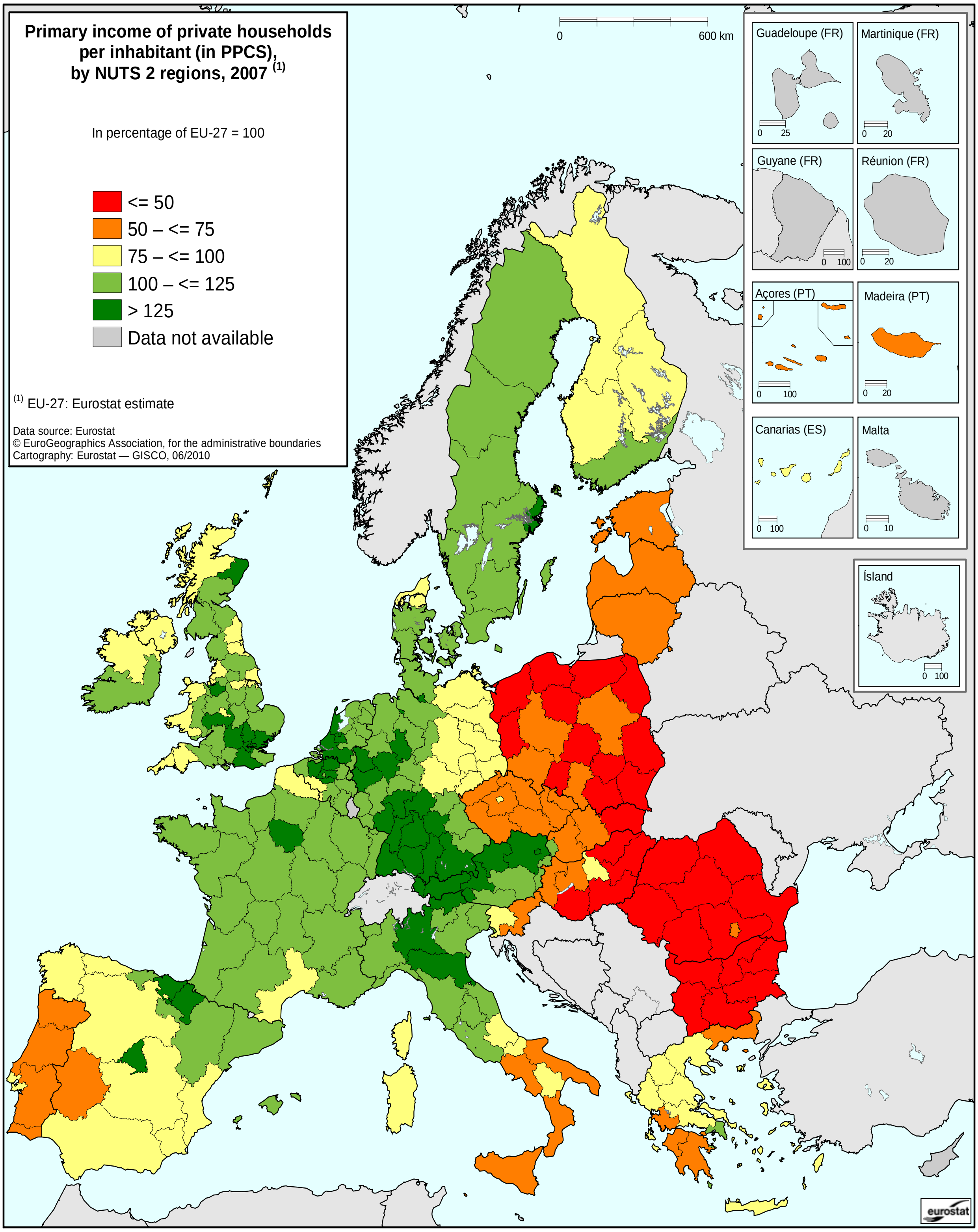
Figure 2 provides an overview of primary income in the 264 NUTS-2 regions for which data are available for the most recent reference year 2007. Centres of wealth are evident in the south of the United Kingdom, Paris, northern Italy, Austria, Madrid and north-east Spain, Flanders, the western Netherlands, Stockholm, Nordrhein-Westfalen, Hessen, Baden-Württemberg and Bayern. Also, there is a north–south divide in Italy and a west–east divide in Germany, whereas in France income distribution is relatively uniform across regions.

In the new Member States, it is mainly the capital regions that have relatively high income levels, particularly Bratislava (SK) and Praha (CZ), where income per inhabitant is close to the EU-27 average. Zahodna Slovenija (SI) and Közép-Magyarország (Budapest, HU) are also above the threshold of 75 % of the EU average. Four regions, among which the capital regions of Poland and Romania, have values between 70 % and 75 %. In all other regions of the new Member States, primary income of private households remains below two thirds of the EU average.

The regional values range from 3406 PPCS per inhabitant in Severozapaden (BG) to 34842 PPCS in Inner London (UK), i.e. there is a factor of 10.2 between the top and bottom of the ranking. This is a smaller range than for regional GDP, where the corresponding factor is 12.8. If the income ranking is analysed in more detail, it can be seen that the top 20 regions are spread over eight Member States: This group contains six regions in both Germany and the UK, along with two each in Belgium and the Netherlands, and one each in France, Italy, Austria and Sweden. The 20 regions at the tail end of the ranking are all located in the new Member States. In addition, there is a considerable geographical concentration: the list contains seven of the eight Romanian and all six Bulgarian regions, along with five of the 16 Polish and two of the seven Hungarian regions.

The regional spread of income within the individual Member States is obviously much lower than for the EU as a whole, and varies considerably from one country to another. The smallest differences are in Austria, Slovenia and Denmark (factor of 1.2). The highest spread is in Romania (factor of 3.4), followed by the United Kingdom and Slovakia (both 2.4). In four of the seven new Member States with at least two NUTS 2 regions, primary income of the wealthiest region is more than double that of the least prosperous. On the other hand, this is the case in only two out of the 14 EU-15 countries for which regional data at NUTS-2 are available. Capital regions have the highest income per inhabitant in 16 of the 21 Member States concerned; in the new Member States their prominent position is even more pronounced than in the EU-15 countries.

Figure 2: Primary income of private households per inhabitant (in PPCS), by NUTS 2 regions, 2007



Source: Eurostat (reg_ehh2inc)

State intervention causes significant levelling of disposable income

The intervention of the state, in particular through taxes, social benefits and contributions, leads to a relative increase in household income in less affluent regions and to a relative decrease in prosperous areas. On average, the balance of taxes and contributions versus benefits is negative, so average disposable income per inhabitant in the EU is 13.6 % lower than primary income. As a result of the levelling effects, the range between the top and bottom of the ranking for the EU regions falls from a factor of 10.2:1 for primary income to 6.9:1 for disposable income.

Increasing relative income levels as a result of state intervention can be found particularly in some regions of Italy and Portugal, in the west of the United Kingdom and in parts of eastern Germany and Greece. Similar effects can be observed in the new Member States, particularly in Bulgaria, Romania and Poland. However, they are generally less pronounced in the new Member States than in the EU-15.

In order to assess the economic situation in individual regions, it is important to know not just the levels of primary and disposable income but also their relationship to each other. Figure 3 shows this ratio, which gives an idea of the effect of state intervention and other transfer payments. On average, disposable income in the EU-27 amounts to 86.4 % of primary income. The figure was 86.4 % in 2000 as well, so over the seven-year period the net effect of state intervention and other transfers remained unchanged.

The lowest values are to be found in the capital regions of the more affluent Member States, in particular Hovedstaden (Denmark) at 65.7 % and Stockholm (Sweden) at 68.3 %; the highest are found in rural regions away from economic centres, such as Nord Est (Romania) at 113.6 %, but also Lubelskie (Poland) at 105.9 %, and Alentejo (Portugal) at 105.8 %.

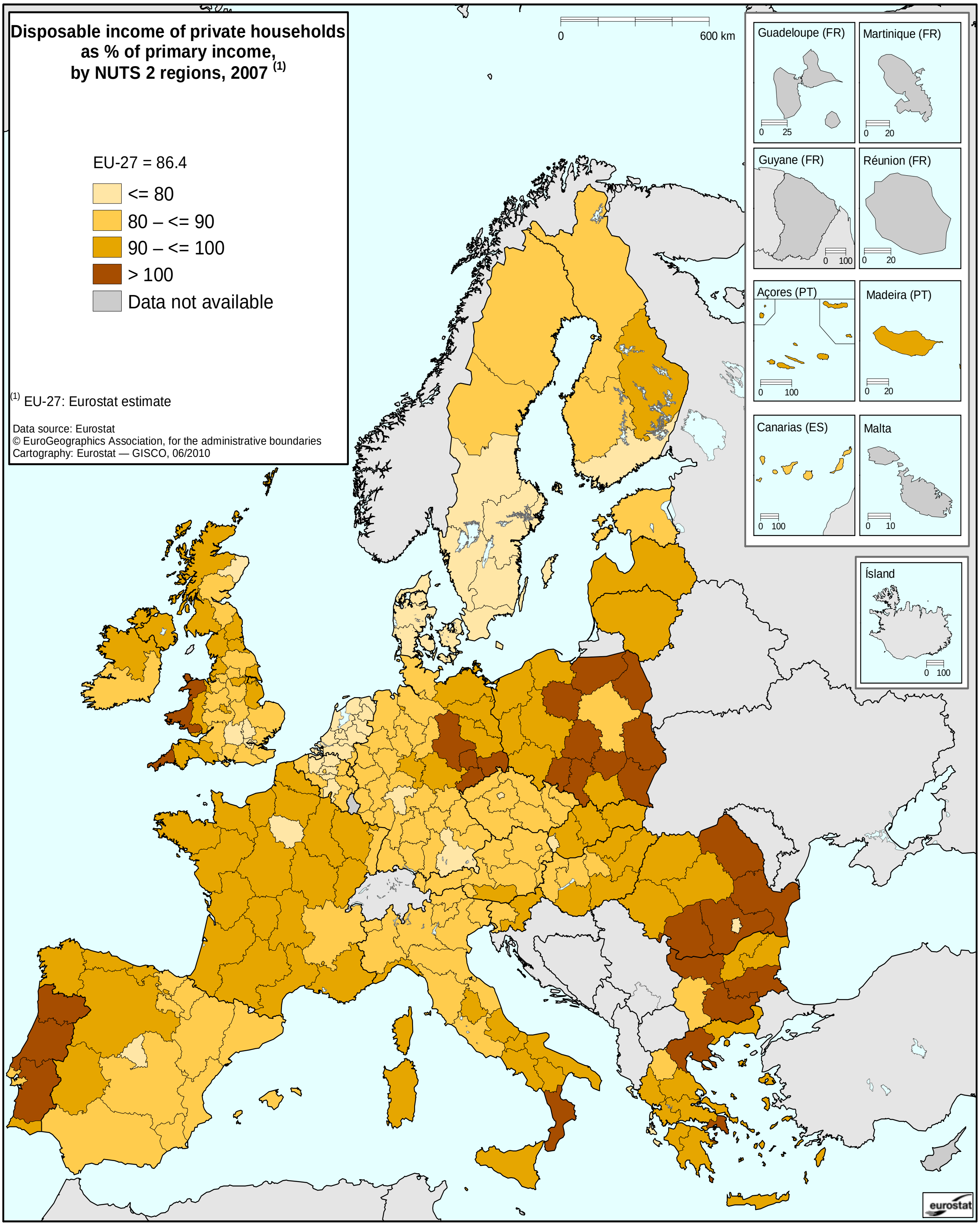
In general, the EU-15 Member States have somewhat lower values than the new Member States. On closer inspection, typical differences can be seen between the regions of the Member States: disposable income in the capital cities and other prosperous areas of the EU-15 is generally less than 80 % of primary income. Correspondingly higher percentages can be observed in less affluent areas, in particular on the southern and south-western peripheries of the EU, in the west of the United Kingdom and in eastern Germany. The reason for this is that, in regions with relatively high income levels, a larger share of primary income is transferred to the state in the form of taxes. At the same time, state social benefits are less than in regions with relatively low income levels.

The regional redistribution of wealth through state intervention is generally less significant in the new Member States than in the EU-15. For the capital regions, the values are mostly between 75 % and 85 % and are almost without exception the lowest within each country. The difference between the capital region and the rest of the country is particularly large in Slovakia at around 15 percentage points.

In the 24 EU Member States examined here, disposable income exceeds primary income in a total of 28 regions. These are nine regions in Poland, four each in Germany and Romania, three regions each in Bulgaria and Portugal, two each in Greece and the UK, and one in Italy. Figure 3 clearly shows that these are particularly weak regions of the Member States in question. No clear differences in support for the incomes of private households are found between the new Member States and the EU-15 countries.

When interpreting these results, however, it should be borne in mind that monetary social benefits from the state are not the only factors that may cause disposable income to exceed primary income. Other transfer payments (e.g. transfers from people working in other regions) can also play a role in some cases.

Figure 3 : Disposable income of private households as % of primary income, by NUTS 2 regions, 2007



Source: Eurostat (reg_ehh2inc)

The 7-year perspective: Convergence makes progress

In 2007, the highest and lowest primary incomes per inhabitant in the EU regions differed by a factor of 10.2. Seven years earlier, in 2000, this factor had been 14.7. The gap between the opposite ends of the distribution thus decreased considerably over the period 2000-2007, mainly due to the dynamic catch-up process in Bulgaria and Romania. This development mirrors the trend in regional GDP where, over the same period, the corresponding gap narrowed from a factor of 17.7 to 13.1. However, as this approach looks only at the extreme values, the majority of shifts between regions are not taken into account.

If we classify the regions according to their primary income per inhabitant (in PPCS) in relation to the EU-27 average and take into account their population, we obtain a much more accurate picture of developments across the entire distribution. Table 1 sets out the respective figures for primary income and also provides a comparison with regional GDP. The data in both parts of the table exclude Cyprus, Luxembourg and Malta in order to make the geographical coverage comparable.

Table 1: Shares of resident population in economically stronger and weaker regions: Primary Household Income vs. GDP

Percentage of population of EU-27* resident in regions with a **primary income** per inhabitant of	2000	2007
> 125% of EU-27=100	32.6	24.1
> 100% to 125% of EU-27=100	24.5	32.9
> 75% to 100% of EU-27=100	15.3	17.7
< 75% of EU-27=100	27.6	25.3
of which: < 50% of EU-27=100	*17.6*	*11.3*
Percentage of population of EU-27* resident in regions with a per inhabitant **GDP** of	2000	2007
> 125% of EU-27=100	24.6	20.6
> 100% to 125% of EU-27=100	28.4	29.1
> 75% to 100% of EU-27=100	19.2	25.8
< 75% of EU-27=100	27.8	24.5
of which: < 50% of EU-27=100	*14.1*	*9.9*

* Excluding Cyprus, Luxembourg and Malta

Source: Eurostat (reg_ehh2inc, reg_e2gdp)

In 2000, it can be seen that the regional concentration of private household income was stronger than for GDP. This applies in particular to the upper end of the distribution, with almost one third of the EU population living in high-income areas with income values per inhabitant of more than 125 % of the EU average, compared to a quarter of the population in terms of GDP.

Looking at the development between 2000 and 2007, the table shows substantial convergence at both ends of the distribution, for both primary household income and GDP. If we focus on the population in regions with a primary income of less than 75 % of the EU average, the share of these regions in the total population decreased from 27.6 % to 25.3 %, which corresponds to about 8 million people. For GDP the share decreased from 27.8 to 24.5 %, i.e. more strongly than for household income. It would therefore appear that expanding production in economically less prosperous regions did not immediately translate into a corresponding increase in the income of households resident there.

This development close to the 75 % threshold suggests that economically weaker regions benefited only marginally from increased convergence in the EU up to 2007. However, a more detailed analysis shows that many regions with an income less than 75 % of the EU-27 average made considerable progress, even though they were not able to exceed the 75 % threshold. The population living in regions with a primary household income of less than 50 % of the average thus fell between 2000 and 2007 from 17.6 % to 11.3 %, i.e. by more than a third or almost 29 million people. In terms of regional GDP, the corresponding share decreased from 14.1 to 9.9 %, i.e. the catch-up process in the economically weakest areas of the EU has been stronger in household income than in GDP.

As a result of many high-income areas falling behind and low-income areas catching up, the central part of the distribution, i.e. regions with a household income per inhabitant between 75 % and 125 % of the EU average, grew strongly from 39.8 % to 50.6 %, i.e. by 59 million people. On the other hand, as regards GDP, the central range already included 47.6 % of the population in 2000, so the increase was correspondingly smaller than for income, i.e. to 54.9 %, or 42 million people.

METHODOLOGICAL NOTES

In market economies with state redistribution mechanisms, a distinction is made between two stages of private-household income distribution. The primary distribution of income shows the income generated directly from market transactions, i.e. the purchase and sale of factors of production and goods. The largest aggregate is compensation of employees, i.e. income from the sale of labour as a factor of production. Private households may also have property income, particularly from interest, dividends and rents. Then there is also income from operating surplus and self-employment. Interest and rents payable are recorded as negative items for households at the stage of primary distribution. The balance of all these transactions is known as the primary income of private households.

Primary income is used as a basis for calculating the secondary distribution of income, which shows the state redistribution mechanism. All social benefits and transfers other than in kind are now added to primary income, and from this total households pay income and wealth taxes and social contributions and make transfers. The balance remaining after these transactions is the disposable income of private households. These data are recorded in the regional accounts at NUTS level 2.

In order to analyse household income, a decision must be made about the unit in which data are to be expressed in order to arrive at meaningful comparisons between regions. For inter-regional comparisons, regional GDP is generally expressed in purchasing power standards (PPS), the aim being to allow a volume-based comparison. Data on the income of private households should be treated accordingly. Therefore, data on income of private households are recalculated using PPS consumption components for the aggregate E011 (household final consumption expenditure). These are known as PPCS (purchasing power consumption standards).

Member States transmit regional household accounts data in accordance with Regulation No 1392/2007 of the European Parliament and of the Council to Eurostat within 24 months after the end of the reference year. For the reference year 2007 this deadline was not respected by all Member States. Eurostat does not yet have a complete set of data at NUTS 2 level. For the reference year 2007, 24 Member States provided data on a total of 264 regions at NUTS 2 level. Data are still not available for the French overseas departments, Cyprus, Luxembourg and Malta. Data for Ceuta and Melilla in Spain, Hungary and Slovenia are available as from 2000 and for Romania as from 1998. Because of the limited availability of data, the EU-27 values for primary and disposable income of private households were estimated. For this purpose, the share of the missing Member States in household income (in PPCS) for EU-27 was assumed to be the same as for GDP (in PPS). For the reference year 2007 this share was 0.5 %.

The regions of the Member States are available on Eurostat’s website. The aggregate ‘new Member States’ includes the following 12 countries: Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovenia and Slovakia. EU-27 = European Union of 27 Member States from 1 January 2007: Belgium (BE), Bulgaria (BG), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Romania (RO), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK).

Data that reached Eurostat after 7 April 2010 are not included in this publication. All data are available online on Eurostat’s website (see page 8 for the link).

In the European System of Accounts, the 'distribution of income' accounts are defined as follows:

Primary distribution of the income of private households account	
Uses	**Resources**
D.4 Property income	B.2/B.3 Operating surplus/mixed income
	D.1 Compensation of employees
B.5 Balance of primary incomes	D.4 Property income

Secondary distribution of the income of private households account	
Uses	**Resources**
D.5 Current taxes on income, wealth, etc.	B.5 Primary income
D.61 Social contributions	D.62 Social benefits other than social transfers in kind
D.7 Other current transfers	D.7 Other current transfers
B.6 Balance of disposable income	

Further information

Eurostat Website: http://ec.europa.eu/eurostat

Data on "Regional Statistics "
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/database
Select "Regional economic accounts - ESA95" and then "Household accounts" ESA95

More information about "Regional statistics"
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/introduction

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Manuscript completed on: 04.08.2010
Data extracted on: 21.06.2010
ISSN 1977-0316
Catalogue number: KS-SF-10-041-EN-N