National Accounts
Final Demand

Paul McCarthy
Household final consumption expenditure

- Purchase of goods and services
- Own account production of goods
- Imputed rent of owner-occupied dwellings
- Services produced by paid domestics
- Wages and salaries in kind
- Expenditures on financial intermediation services
- Certain licences and fees
  - treated as payments for a service
  - e.g. fee for a passport
Consumers versus producers

- All households are consumers
- Some households are also producers
  - households with an unincorporated enterprise
  - households that live in their own home (owner-occupied dwellings)
- The accounts of unincorporated enterprises are generally mixed inextricably with those of the household
Net expenditures abroad

- Household final consumption expenditure (HFCE) in the SNA refers to the expenditure incurred by resident households, whether that expenditure is incurred within the economic territory or abroad.

- Can calculate HFCE as the total expenditure by all households, whether resident or not, in the economic territory and adjust this figure by adding expenditures by residents abroad and subtracting expenditures by non-residents in the economic territory.
Net expenditures abroad (continued)

- The total expenditures by all households within the economic territory may be used to calculate HFCE in this way, but it is not an aggregate defined in SNA93
  - whether net expenditures abroad needs to be calculated as part of HFCE depends on the data sources
  - number of different data sources but the most broadly based are retail surveys and household expenditure surveys
## Net expenditures abroad (continued)

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<thead>
<tr>
<th></th>
<th>Resident households</th>
<th>Non-resident households</th>
<th>Retail survey</th>
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<td>Purchases in local economic territory</td>
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<td>Purchases by residents abroad</td>
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<td>Purchases in local economic territory</td>
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<td>Total purchases by residents</td>
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Government final consumption expenditure

- Non-market output
  - collective services
    - general administration
    - defence
    - public safety
  - individual services
    - health
    - education

- Market output
  - small scale, such as a shop in a museum
Measuring government output

- No observable value for most government output
- Output is valued as the sum of the inputs
  - compensation of employees
  - intermediate consumption
    - includes goods and services purchased to be provided without charge to households
  - consumption of fixed capital
  - other taxes on production
- Receipts from sales have to be deducted from the output to provide the value of government final consumption expenditure
Output of NPISHs

- Measured as the sum of costs
  - similar way to estimating the value of government output
- NPISHs can produce collective consumption
  - e.g. medical research whose outcomes are made freely available
- SNA93 suggests all NPISH output should be considered to be individual unless there is a large, identifiable amount of collective output
Actual final consumption

- SNA uses the distinction between *who consumes* (individuals or the community) and *who pays* (households, NPISHs or government) to derive a new aggregate termed actual final consumption

- **Actual individual consumption** of households
  - obtained by adding individual consumption expenditures by NPISHs and by government to individual consumption expenditure by households

- **Actual collective consumption** is entirely attributable to government
### Actual final consumption (continued)

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<th>Final consumption expenditure</th>
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<td><strong>Households</strong></td>
<td><strong>Actual individual consumption</strong></td>
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<td>Individual consumption expenditure by households</td>
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Gross capital formation

- Gross capital formation equals
  - gross fixed capital formation plus
  - change in inventories plus
  - net acquisition of valuables

- Usually consists of goods but can be services
- Not used up in the process of production
- Expected useful life is more than one year
Gross fixed capital formation

- Machinery and equipment
- Construction
- Livestock
- Timber and fruit trees
- Artistic products used in production
- Mineral exploration
- Computer software
- Major improvements to tangible non-produced assets
- Ownership transfer costs
Changes in inventories

- Materials and fuel to be used in production
- Work in progress
  - buildings or ships under construction
  - crops
- Finished goods
- Goods for resale
Change in inventories - valuation

- Reflects only the (value of) physical change
- In theory, goods should be valued at the prices at which they enter or leave inventories
- In practice, the physical quantities of inventories at the beginning and end of the year are valued using the average prices over the year or, failing that, mid-year prices (as an approximation)
Net acquisitions of valuables and net exports

- Final two components that make up expenditure-based GDP
Relationship between prices

Basic price

plus taxes (excluding invoiced VAT)

less subsidies on products

equals Producers’ price

plus trade margins and separately invoiced transport margins

plus VAT not deductible by the purchaser

equals Purchasers’ price
Wheat – Inputs data

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<td>Import taxes on wheat</td>
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Estimate the value of wheat imported, at producers’ prices and at purchasers’ prices

(imports c.i.f. = basic prices)
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Producers’ prices = Imports c.i.f. + taxes

Purchasers’ prices = Producers’ prices + transport and trade margins
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Producers’ prices = Imports c.i.f. + taxes
= 40 + 2 = 42

Purchasers’ prices = Producers’ prices + transport and trade margins
= 42 + (5+3) = 50