

# **Estimation and Analysis of Consumption Inequality in Korea**

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Consumption inequality is an indicator showing the gap in the consumption level among income groups. It is mainly used to measure inequality felt by households or assess a comprehensive inequality encompassing income and asset inequalities. Accordingly, academia and major institutions have been steadily measuring consumption inequality, but recent discussions on the subject appear to be relatively focused on income and asset inequalities. Considering this background, this article estimates consumption inequality in Korea and corrects measurement errors, such as underreporting by the high-income group, to ensure a more accurate estimation, following the related research trend.

According to the results of estimation on the level of consumption inequality (based on the consumption quintile share ratio) in Korea during the period between 1990 and 2016 after correcting measurement errors, consumption inequality is seen to have increased, due mainly to the widening of income inequality. By time period, consumption inequality increased more during the period between 2002 and 2009 than during other periods. By goods, the gap in consumption between the first and fifth quintiles is analyzed to have been widened particularly in consumer discretionary goods such as education, entertainment & culture, domestic services, and transportation.

Meanwhile, the recent COVID-19 shock appears to have affected the widening of consumption inequality through changes in income and consumption conditions. First, a look at changes in income conditions shows that disposable income increased in all income groups in 2020 thanks to the increase in

transfer payments by the government, while earned income decreased, particularly in vulnerable groups, due to COVID-19. A look at changes in consumption conditions reveals that the ratio of consumer staples rose sharply, as consumption of consumer staples (indoor consumption) increased more rapidly than that of consumer discretionary goods (outdoor consumption), due to movement restrictions. The level of consumption inequality (the quintile share ratio) also rose further in 2020 due to these changes in income and consumption conditions during the pandemic. By income group, the gap in consumption between the low-income group (first quintile) and the high-income group (fourth and fifth quintiles) widened. However, the consumption gap between the low-income group (first quintile) and the middle-income group (third quintile) actually narrowed, as the low-income group benefited relatively greatly from transfer payments. By category of consumer goods, unlike in the past when consumption inequality had widened in consumer discretionary goods in particular, consumption inequality deepened especially in consumer staples (indoor consumption) due to movement restrictions.

These analysis results imply that the level of inequality felt in Korean society is relatively higher when measured using consumption inequality compared to other indicators, and the trend of consumption inequality since the COVID-19 outbreak has been showing a pattern different from the past.

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