

Cigarette Affordability

Based on An Analysis of Cigarette Affordability by Evan Bletcher and Corne van Walbeek.

Cigarette Affordability

Cigarette affordability is determined by both cigarette prices and income.

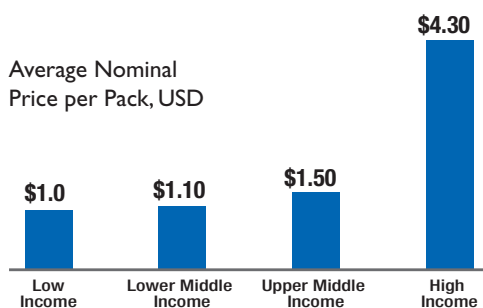
- Consumer demand for cigarettes is heavily influenced by its price. Higher cigarette prices discourage youth from starting to smoke and encourage current smokers to quit.
- Rapid economic growth increases people's disposable income. Demand for cigarettes generally increases with the average level of income, especially in developing countries.

Tobacco products in many countries have become more affordable over time as economies have grown and household incomes have increased, even when prices, adjusted for inflation, have remained stable or increased.

Cigarette Price Compared to Cigarette Affordability

- Cigarettes in high-income countries are more expensive in absolute terms than in low- or middle-income countries (Figure 1).

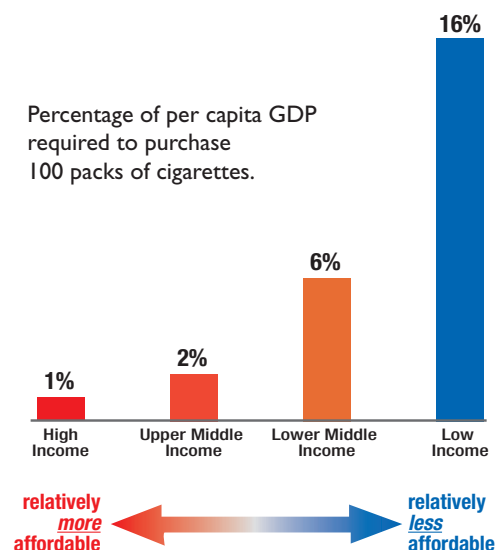
Figure 1: Price per Pack, 2006



Over the past decade a clear dichotomy has developed between high-income and low- to middle-income countries. Cigarettes are becoming less affordable in high-income countries and more affordable in low- to middle-income countries.

- However, income levels in high-income countries exceed income levels in low- and middle-income countries by a much greater margin.
- Considering price and income simultaneously, cigarettes are currently more affordable in high-income countries than in low- and middle-income countries (Figure 2).

Figure 2: Affordability of Cigarettes, RIP*, 2006



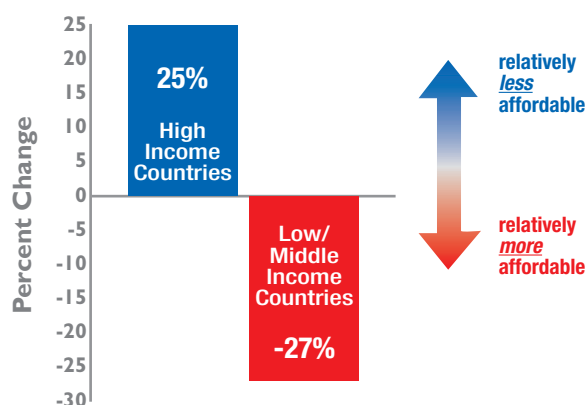
*Relative Income Price (RIP) calculates the percentage of per capita GDP required to purchase 100 packs of cigarettes. The lower the RIP, the more affordable cigarettes are, and vice versa.

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Cigarette Prices over Time

High-income countries, on average, have consistently reduced the affordability of cigarettes over time. In contrast, cigarettes have generally become more affordable in developing countries (Figure 3).

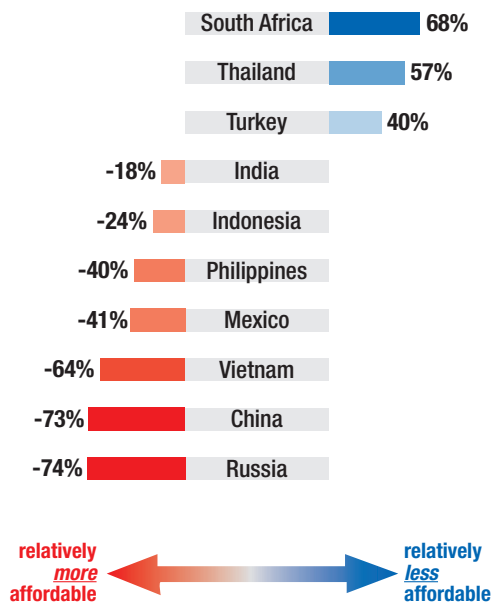
Figure 3: Cumulative Change in Affordability of Cigarettes, 1990-2006



Based on the percent change in the RIP across countries by income.

- In high income countries, even as income levels have risen, excise tax increases have helped keep cigarette prices rising faster than incomes.
- In most low- and middle-income countries, income levels have risen faster than cigarette prices, and cigarettes have become more affordable.
- Changes in affordability vary across the low- and middle income countries. In several countries, cigarettes have become much less affordable, while in others they have become much more affordable (Figure 4).
- Fast-growing countries with suboptimal tobacco tax policy face particularly great tobacco control challenges. China and Russia stand out as two countries where cigarettes have become significantly more affordable over the past decade (Figure 4).

Figure 4: Cumulative Change in Affordability of Cigarettes, 1996-2006



Based on the percent change in the RIP within a country.

Recommendations

- Making cigarettes less affordable is the most effective way to reduce tobacco consumption.
- The most effective way to make cigarettes less affordable is to increase the retail price of cigarettes by increasing excise taxes and automatically adjusting them to inflation.
- If cigarettes are to become less affordable, excise taxes should be adjusted such that retail prices of cigarettes increase by at least the sum of the inflation rate and the per capita economic growth.
- Countries should aim to consistently reduce the affordability of cigarettes.

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