

How do households perceive changes in their standards of living in the economic outlook surveys?

The year 2018 saw some fairly substantial quarterly fluctuations in household purchasing power, measured at the aggregate level. These quarterly variations were heavily dependent on the implementation calendar for direct and indirect fiscal measures. Purchasing power fell early on in the year, before bouncing back toward the end. Household consumption was less volatile, with households partly smoothing the impact of fluctuations in purchasing power by varying their consumption and savings.

The monthly household economic outlook surveys conducted by INSEE offer an insight into the perception of such fluctuations in standards of living and future consumption behaviours. Only the aggregated results are published, and these show that perceptions of the situation deteriorated throughout 2018. However, these figures cannot be used to ascertain the responses given by different categories of households, and the fiscal measures introduced do not affect all categories equally. This downturn in the aggregated balances of opinion could therefore conceal differences between different categories of households, ultimately concealing differences in consumption behaviour by the same token.

Examining the results of the surveys category by category suggests that, on the one hand, those households that have benefited most from the measures have a less negative view of the situation than other households, although the downturn in their outlook is still present. On the other hand, a lower level of pessimism can also be detected among those households whose marginal propensity to consume is likely to be smaller (wealthy households). This suggests that the dynamism of purchasing power towards the end of the year is not reflected in the perceptions of all households affected, and that their consumption could fall as a result.

Standards of living of French households have barely increased over the past decade

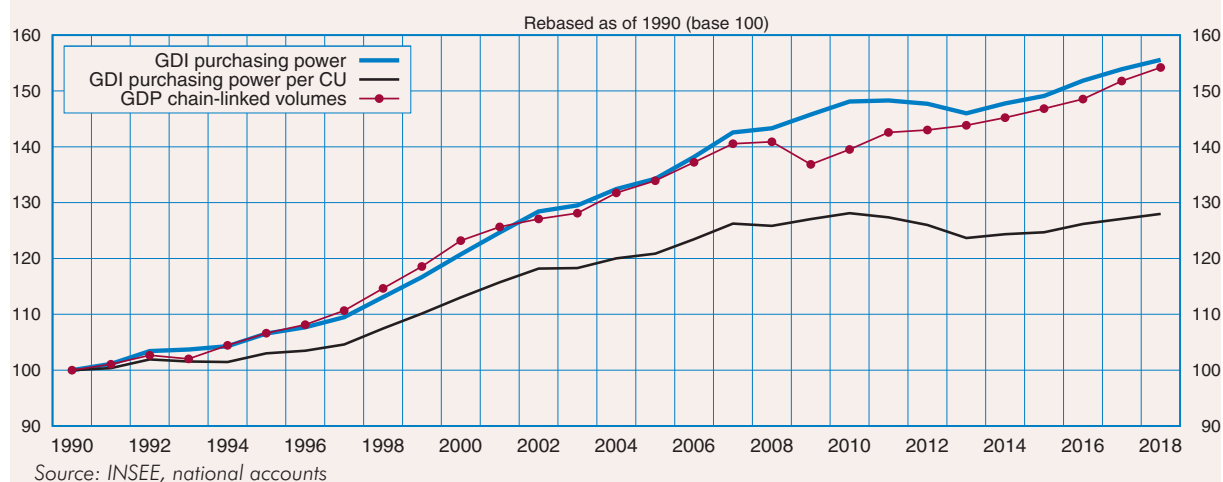
The variation in household purchasing power reflects the variation in the overall income of households, plotted to the increase in consumer prices. Conjoncture in France also tracks the variation in purchasing power per consumption unit, a more pertinent way of measuring changes in the average purchasing power of French people since it accounts for both the increase in the number of households and the changes in their composition. Overall purchasing power has increased over the past decade, despite drops in 2012 and, more substantially, in 2013. However, when set against the rise in the number of consumption units (CU), purchasing power has virtually stagnated, after growing strongly throughout the preceding decade (*Graph 1*).

It seems likely that the relative stagnation experienced over the past ten years can at least partly account for the downturn in the balances of opinion seen in the household surveys over the same period. Although there was occasional optimism in 2017, connected with a return to relatively solid growth and the effects of the presidential election, it gradually subsided throughout 2018. This can probably be partly attributed to the calendar of fiscal measures, in spite of the increase in purchasing power predicted for the fourth quarter.

Household economic outlook surveys provide an insight into how households expect their standard of living and consumption to change.

The monthly household economic outlook survey (CAMME) has been published each month since January 1987. It focuses on households' perception of

Graph 1 - When demographic changes are taken into account, household purchasing power has remained virtually unchanged over the past ten years

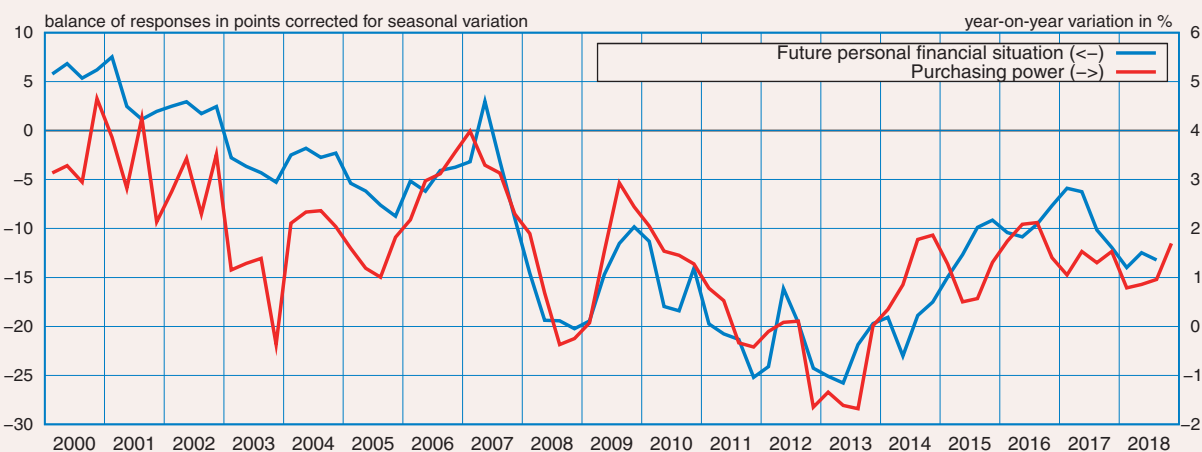


their past and future personal situations (saving capacity, financial situation etc.) and the French economic situation in general (unemployment, opportunities to make major purchases, opportunities to save etc.) (See Appendix). Surveys are conducted over the first three weeks of each month, on a representative sample of around 2000 households. The balance of opinion for each qualitative question is calculated in classical fashion, as the difference between the proportion of positive and negative responses. Generally speaking, the balances of responses to these surveys are broadly similar to certain aggregates tracked in Conjoncture in France. For example, the balance of opinion on respondents' personal financial situations follows a curve relatively close to that of the purchasing power of household income (Graph 2). Similarly, the balance relating to opportunities to make major purchases provides an indication of consumption trends (Graph 3).

Breaking down the balances of opinion from these surveys in terms of household living standards does not reveal significant disparities between the perceptions reported by poorer and wealthier households.

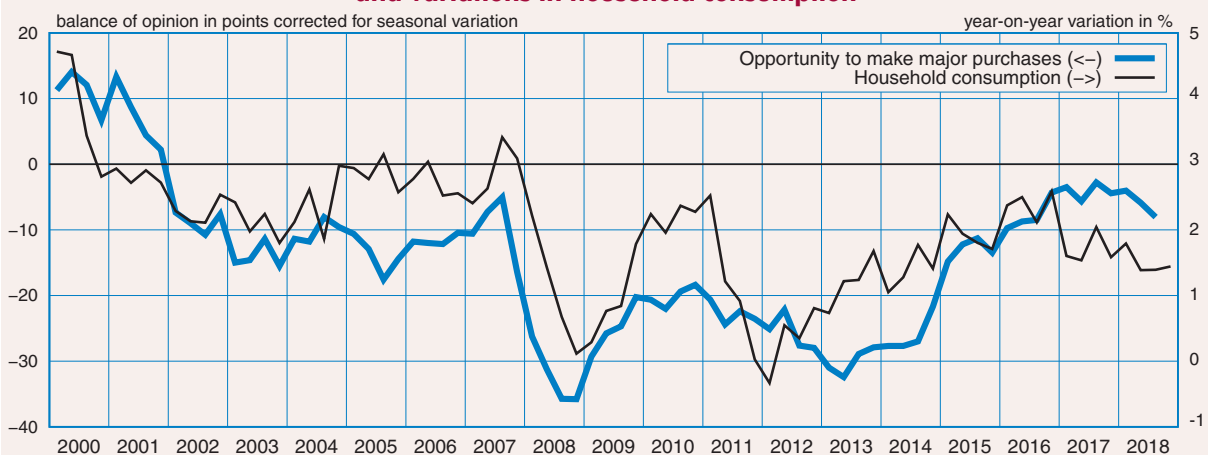
The survey also contains various questions regarding respondents' employment status, marital status, the number of people in their household, household income, etc. These data are used to calculate balances for different categories of household, for example different levels of standard of living. Our analysis focuses on balances relating to the personal financial situation of the household (past and future), standards of living in France (past and future) and perceived opportunities for major purchases, breaking these figures down based on the standard of living of the household and the employment status of the respondent. To do this, households' responses are aggregated using the standard processing method of the CAMME survey in order to create balances of

Graph 2 - Balance of opinion on future personal financial situations and the purchasing power of gross disposable household income



N.B.: The balance given is the mean for the quarter in which the month falls.
Source: INSEE, survey CAMME for each quarter

Graph 3 - Balance of opinion on the opportunity for major purchases, and variations in household consumption



N.B.: The balance given is the mean for the quarter in which the month falls.
Source: INSEE, survey CAMME for each quarter

French developments

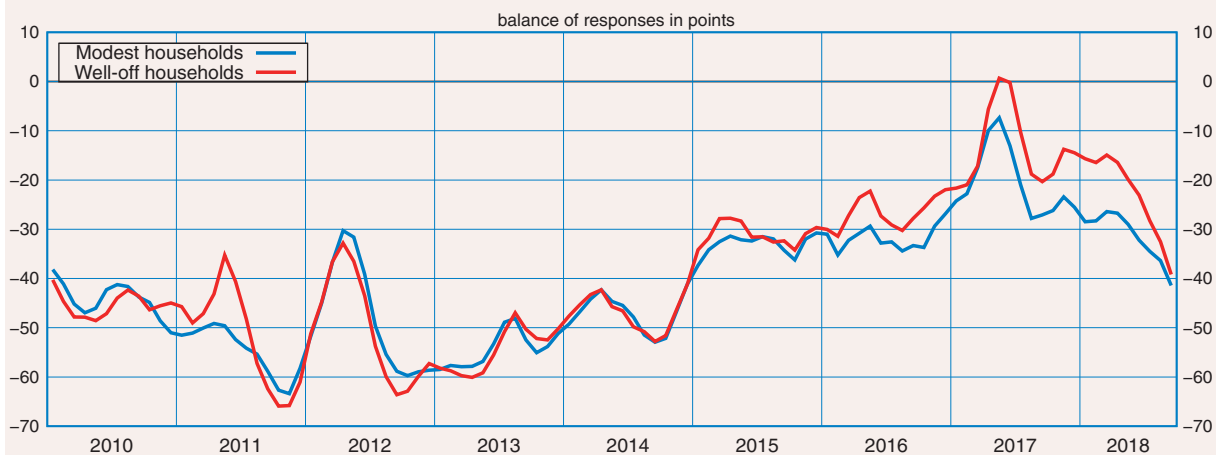
opinion for the different categories. However, since the survey sample size is relatively small, the results derived from these calculations are not as robust as those published each month for the population as a whole. Furthermore, these non-aggregated balances of opinion for different categories of household are not corrected for seasonal variation, as the balances usually published are relatively impervious to seasonal fluctuation. For clarity's sake the balances of opinion published are derived from a moving average covering the past three months.

Despite the measures taken by households to smooth their consumption, fluctuations in income have an effect on their consumption, an effect which can vary depending on the household's situation. Marginal propensity to consume¹ varies depending on the disposable resources of households, and is generally weaker for the wealthiest households. But the latter are probably the greatest beneficiaries of certain measures taken to reduce tax on income from assets, and particularly capital gains (transformation of the

solidarity wealth tax - ISF - into the tax on property wealth -IFI - and the introduction of a new flat tax). Breaking down the balance for "future standard of living in France" on the basis of income per consumption unit² also seems to indicate a slight difference of perception between the most modest and the most well-off households, with the latter more optimistic during 2018, although their opinions converge toward the end of the year (Graph 4).

Nonetheless, the question here is about the standard of living in France in general, not future personal financial situations³ where the balance of opinion shows no difference between poorer and wealthier households. These results must therefore be treated with caution. Furthermore, these differences in perception are not reflected in higher purchasing intentions: the balance of opinion regarding the opportunity to make major purchases has followed the same curve among more modest households as it has among those whose standard of living is above the median in terms of income per consumption unit (Graph 5).

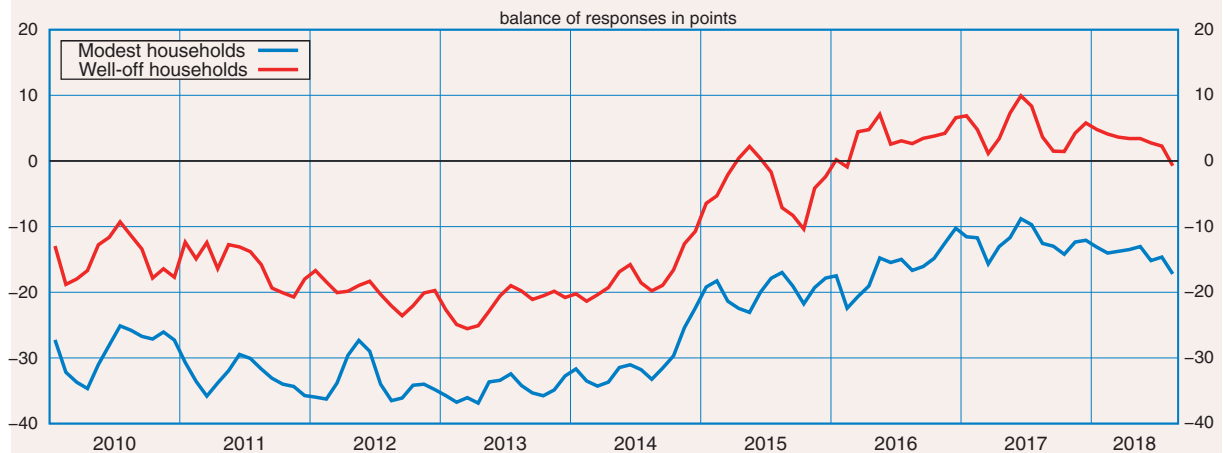
Graph 4 - Balance of opinion on future standards of living in France, by category of standard of living



N.B. Lower-income (resp. wealthier) households are defined as those for whom income per consumption unit (CU) is below (resp. above) the median value derived from this survey.

Source: INSEE, CAMME survey

Graph 5 - Opportunity for making major purchases, by income bracket



N.B. Lower-income (resp. wealthier) households are defined as those for whom income per consumption unit (CU) is below (resp. above) the median value derived from this survey.

Source: INSEE, CAMME survey

All in all, although the wealthiest households appear to be less pessimistic about future prospects for standards of living in France, suggesting that they have indeed felt the effects of measures intended to boost purchasing power, this does not seem to have boosted household consumption as a whole.

Since mid-2017, retirees are more pessimistic regarding their future financial situation

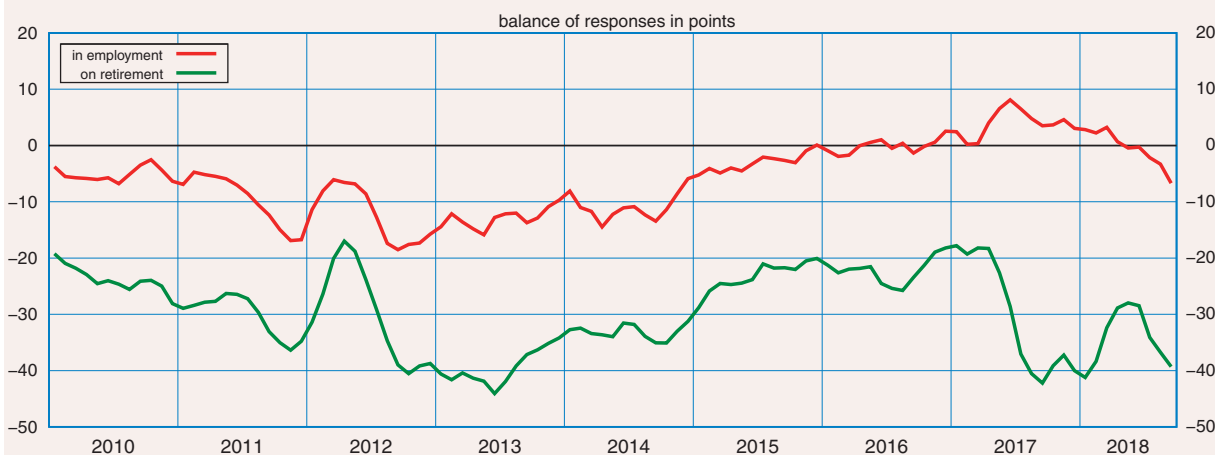
In Q1 2018 the rate of the generalised social contribution (CSG) was increased by 1.7 points. For salaried and self-employed workers in the private sector, the CSG increase was more than offset by the reduction in social contributions (in Q1 and again in Q4). Public-sector employees, meanwhile, received a one-off bonus called the “compensatory remuneration payment” in order to offset the increase in the CSG.

However, the increase in the CSG was not offset for taxable retirees⁴, although some have felt the benefit of other fiscal measures (reductions in housing tax, switch from ISF to IFI etc.). This is why the responses to the household economic outlook surveys are examined here through a distinction on the basis of the respondents’ employment status (“in employment” or “retired”).

Retirees’ perception of their future financial situation appears to be more pessimistic than that of those in work: since mid-2017, a clear gap has opened up between the balance of opinion among retired respondents and that among households where the respondent is in employment (Graph 6). The same is true of the balances of opinion regarding past personal financial situations (Graph 7), with a marked decline in

1. The concept of marginal propensity to consume refers to the proportion of any additional income which households will use to increase their consumption. It is generally held to decrease as income increases, i.e. those on higher incomes have a lower marginal propensity to consume. Accordingly, as income increases so too does the marginal propensity to save, i.e. the extra income households redirect to their savings.
2. In order to break this sample down on the basis of standards of living, we calculated income per consumption unit using the responses to the survey. The survey provides information about the total number of persons in each household, including children under the age of 14 and the presence or absence of a spouse.
3. See the precise wording of the questions in the CAMME survey, given in the appendix.
4. Exemptions to the CSG increase for those on modest pensions were announced in September 2018, coming into effect in 2019.

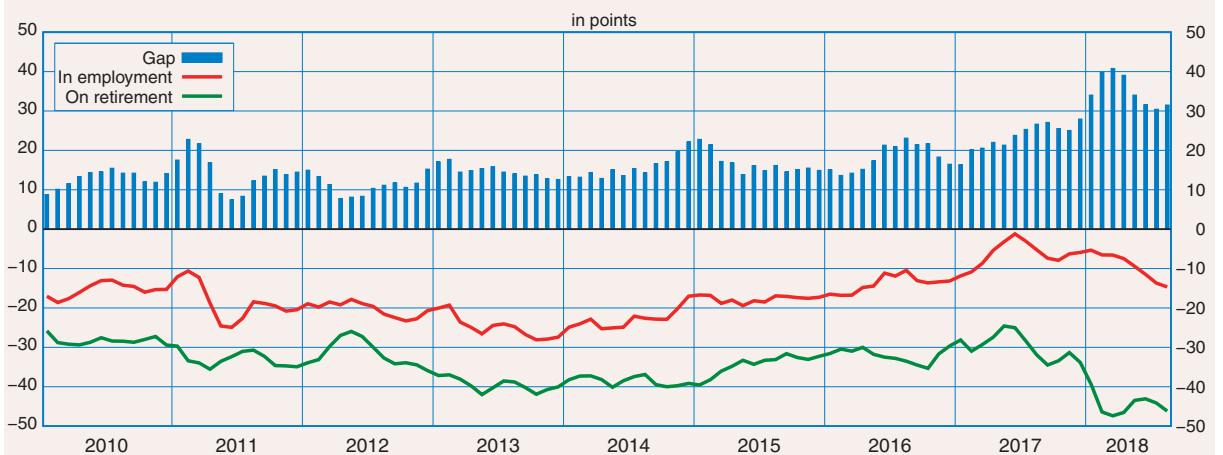
Graph 6 - Future personal financial situation, by employment status



N.B.: Balances are based on moving averages over 3 months.

Source: INSEE, CAMME survey

Graph 7 - Past personal financial situation, by employment status



N.B.: Balances are based on moving averages over 3 months.

Source: INSEE, CAMME survey

French developments

early 2018 when the CSG increase came into force. The declared personal financial situation of households in employment has also deteriorated since the start of the year, but less so.

Analysis of the balance of opinion regarding purchasing opportunities also reveals divergent trends among households in employment and retirement: while households where the respondent is in employment have declared themselves to be less and less optimistic regarding their personal financial situation, that has not been reflected in a downturn in the balance of opinion on purchasing opportunities. In households in retirement, on the other hand, this balance has fallen sharply throughout 2018.

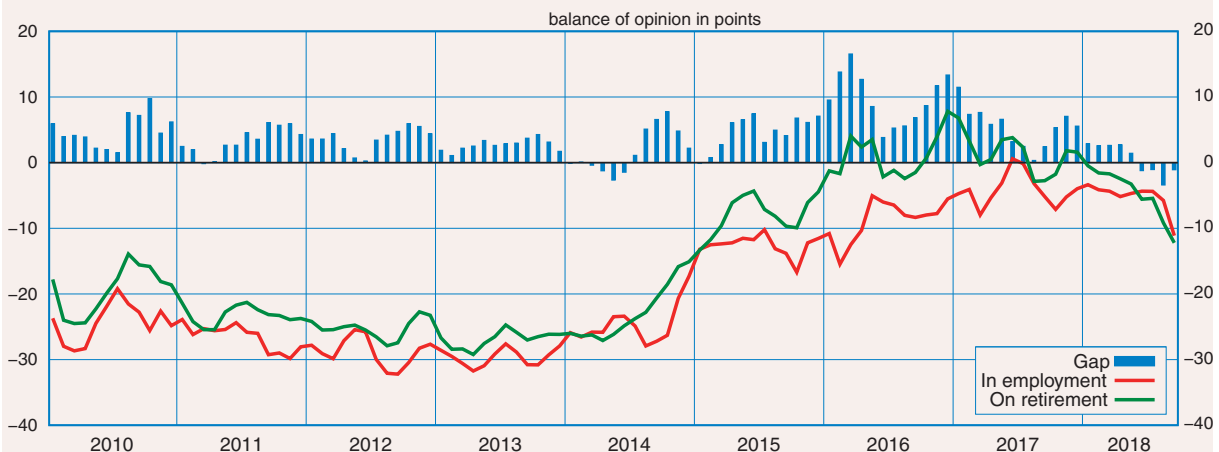
Among those households where the respondent is in employment, pessimism is greatest among the least well-off.

Cross-comparing these balances of opinion, by employment status and by standard of living, reveals that the wealthiest retired households do not appear any more optimistic than the more modest retired households about their future financial situation, or

their opportunities for making major purchases. The balance of opinion among retired households regarding their purchasing opportunities thus appear to be in decline, irrespective of their standard of living (Graph 8). However, the situation is more varied among households in employment, where lower-income households appear to be much more pessimistic about their future personal financial situation (Graph 9).

Furthermore, although the balance of opinion among households in employment regarding their purchasing opportunities has only begun to deteriorate recently (Graph 8), analysis of the responses given by these households reveals that the general decline conceals internal disparities. The balance of opinion on purchasing opportunities saw a sharp decline in 2018 for lower-income households in employment, while the wealthiest households in employment reported a slight increase (Graph 10). Based on the classical assumption that the least well-off households have a higher marginal propensity to consume, a more substantially negative balance of opinion in this category could be seen as a bad sign for household consumption as a whole.

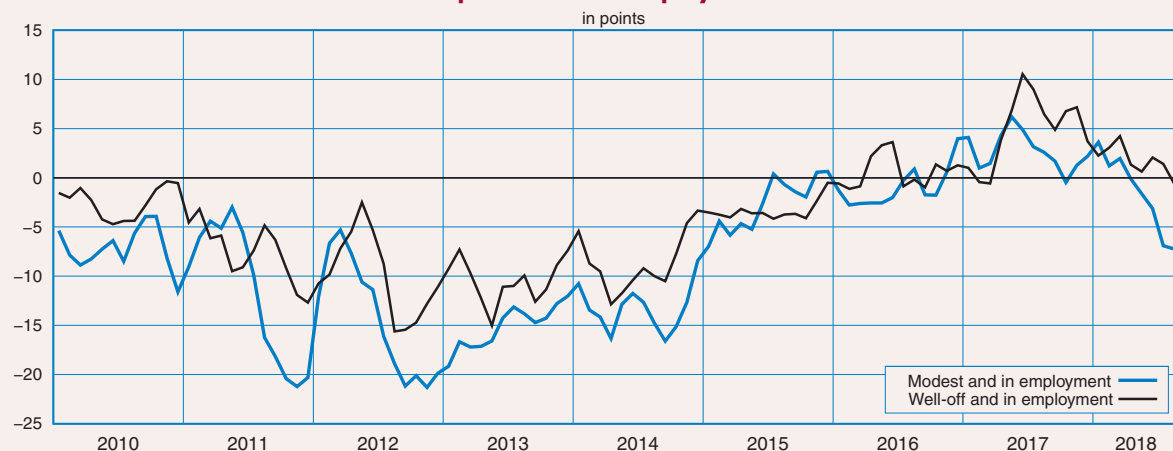
Graph 8 - Opportunity for making major purchases, by employment status



N.B.: Balances are based on moving averages over 3 months

Source : Survey CAMME

Graph 9 - Future personal financial situation, by standard of living, for households where the respondent is in employment



N.B.: Balances are based on moving averages over 3 months.

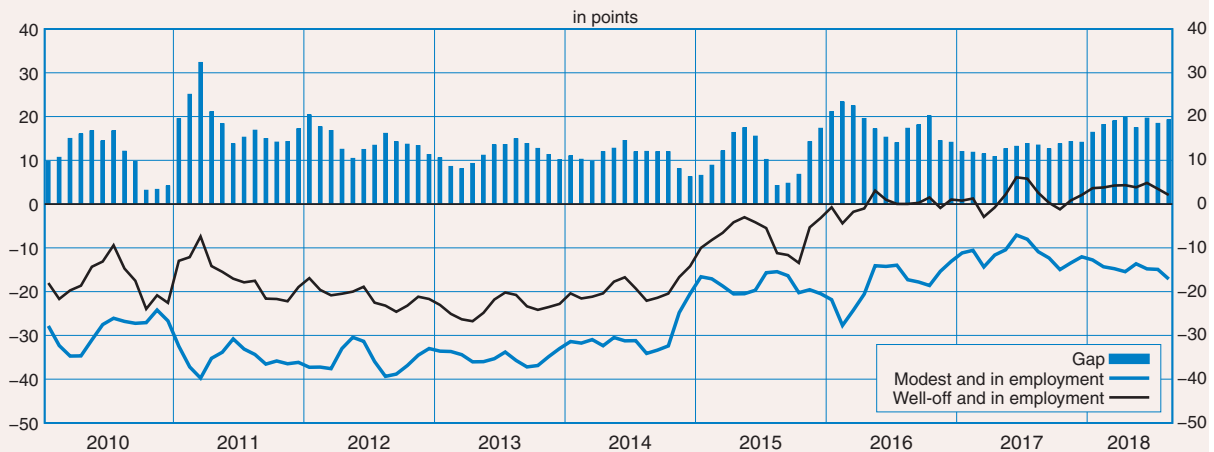
N.B.: Low-income (resp. well-off) households dispose of an income per consumption unit (CU) which is lower (resp. greater) than the median income per CU in the survey.

Source: Survey CAMME

All in all, the balances of opinion derived from the household economic outlook surveys appear to be slightly more optimistic for the wealthiest households, whose marginal propensity to consume is smaller. Conversely, retired households and lower-income households where the respondent is in employment

are less and less optimistic when asked about their future personal financial situations and their opportunities to make major purchases. Household responses appear to be more motivated by their perception of their medium-term prospects than the immediate short term. ■

Graph 10 - Opportunity for making major purchases, by standard of living, for households where the respondent is in employment



N.B.: Balances are based on moving averages over 3 months.

Source: INSEE, CAMME survey

Appendix

Phrasing of questions and processing.

Purchasing opportunities:

Given the current economic situation, do you think it is in people's best interests to make major purchases? (furniture, household appliances, electronic and computer products etc.)

- yes, this is a fairly good time
- it's neither a good time nor a bad time
- no, this is not a good time

Future personal financial situation:

Do you think that, over the next twelve months, the financial situation of your household...

- will improve significantly?
- improve slightly?
- remain stable?
- deteriorate slightly?
- deteriorate significantly?

Past personal financial situation:

Over the past twelve months, has the financial situation of your household...

- improved significantly?
- improved slightly?
- remained stable?
- deteriorated slightly?
- deteriorated significantly?

Future standard of living in France: In your opinion, over the next twelve months will the standard of living in France as a whole improve significantly? improve slightly remain stable? deteriorate slightly deteriorate significantly? For each of these questions, a monthly balance of opinion is obtained by calculating the difference between the number of positive and negative responses, applying the same method used to process survey data for the monthly economic outlook reports. ■

Bibliography

INSEE (2017) "Electoral periods have a positive albeit short-lived effect on household confidence", *Focus Conjoncture in France*, March