After dipping at the end of 2018, the household confidence indicators picked up in 2019 for households in all categories, albeit with certain nuances

In 2019, new measures included in the budget led to a strong increase in household purchasing power, but the overall effect on consumption was not as impressive. What can be learned from the consumer confidence surveys about the way households see these changes? While the balances of opinion regarding personal financial prospects and the chances of making major purchases revealed a surge of pessimism at the end of 2018, the situation turned around fairly rapidly in 2019.

Perceptions may vary between different categories of households. As early as H2 2017, well before the beginning of the "yellow vest" crisis, confidence among retired people was lower than it had been previously, probably on account of proposed reforms to the general social contribution (CSG). At the end of 2018, the indicators dropped for all categories of households. The rebound in 2019 was a little more pronounced for the wealthiest households.

In 2019, the upturn in purchasing power is expected to be the biggest increase seen in 12 years

The variation in household purchasing power reflects the variation in their overall income in relation to the evolution of consumer prices. In 2019, the purchasing power of the gross disposable income of households is expected to increase noticeably (+2.1% for the year, after +1.2% in 2018) as a result of various measures included in the budget, particularly in response to the "yellow vest" protests which erupted toward the end of 2018. Taking demographic evolution into account, purchasing power is expected to rise by 1.6% per consumption unit (CU) in 2019. This is the strongest increase seen since 2007. It comes after a decade in which purchasing power per CU has been virtually stagnant (*Graph 1*).

At the general level, the increase in purchasing power does not appear to have been immediately passed on in the form of increased consumption: household consumption expenditure is expected to grow less rapidly in 2019, at +1.2%, i.e. more than a whole percentage point below the increase in purchasing power. Generally speaking, after a positive shock to purchasing power, household consumption only adapts to the increase after a certain delay, which

may take several quarters depending on the type of expenditure (Beatriz et *al.*, 2019).

The emergency measures introduced in 2019 were above all designed to boost the purchasing power of households in employment and lower-income households

Furthermore, not all households benefited equally from the stimulus measures included in the budget, and the increase in purchasing power has not been uniform across the board. The removal of tax and social security contribution on overtime pay, the increase in the activity bonus and the incentive for employers to pay a one-off bonus have all primarily benefited households in employment. The decision to cancel the CSG increase scheduled for the start of 2019 was a boost to more modest retired households[1].1 Since late 2018, the gradual abolition of the local residents' tax now applies to the lowest-earning 80% of households. Moreover, households do not all have the same marginal propensity to consume: this marginal propensity is greater among lower-income households.

In order to study the factors which determine consumption at the household level, the data from the INSEE's "Family Budget" survey are included here. Nevertheless, this survey is conducted once every five

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1. I.e. households with a monthly income of between 1200 and 2000 euros.

1 - Variation in purchasing power and purchasing power per consumption unit
Index base 100 in 1990

- The purchasing power of the IFEN system
- Purchasing power of the IFEN system by CU
- GDP in volume chained
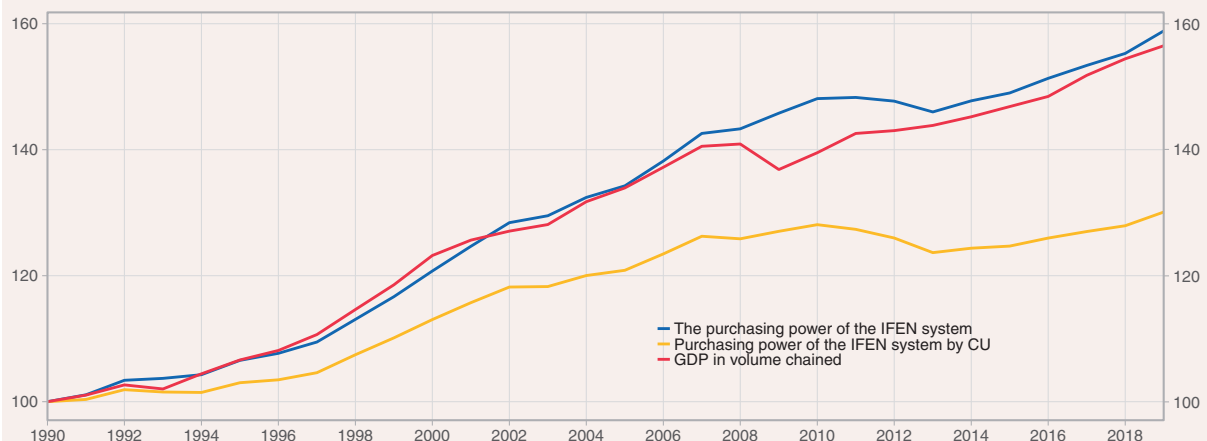
Source : comptes nationaux, Insee

years and is therefore not conducive to analysing the short-term outlook. The consumer confidence survey, on the other hand, is conducted monthly and provides, at the individual level, qualitative information on the components of household confidence. The tendency surveys include socio-demographic questions concerning the age, gender, standard of living and employment status of respondents, as well as the area in which they live. The responses to these questions can be used to class households into different categories[2]. In analysing the different categories of households, the data from the tendency surveys are not seasonally-adjusted, contrary to standard INSEE practice for publications concerning balances of opinion at the aggregated level.

After reaching a low point at the end of 2018, household morale has rebounded fairly robustly, returning to the levels last seen in mid-2017

The INSEE's monthly tendency surveys ask households about, among other things, their personal financial prospects, their opinion regarding the general trajectory of living standards in France, the chances of them making major purchases in the near future and the evolution of prices (*Annex 1*).

The balance of opinion regarding personal financial prospects may theoretically be connected to the variation of household purchasing power, while the balance of opinion regarding major purchases may
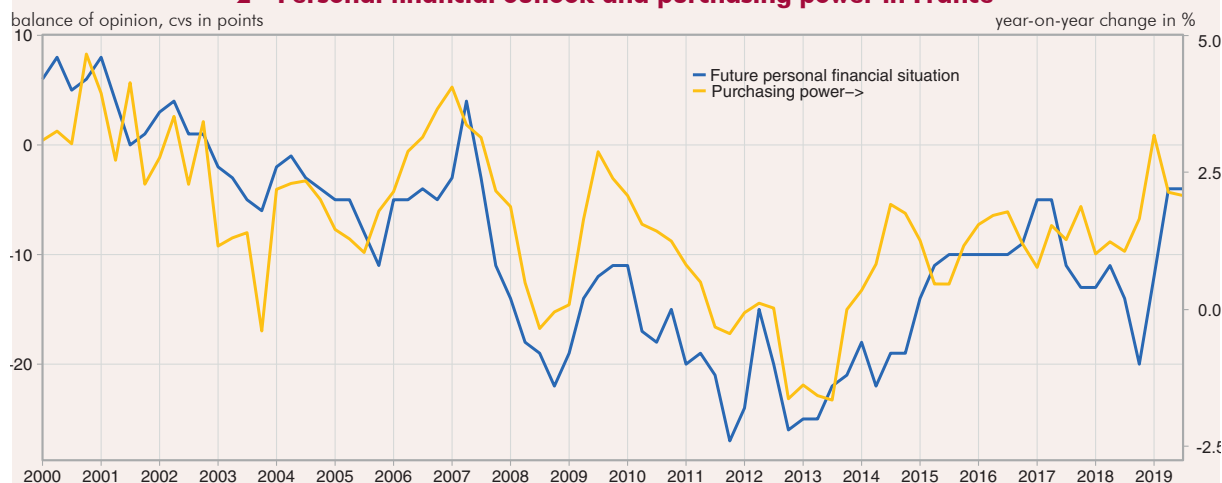
2. Nevertheless, since the sample sizes are smaller the results are less robust than those obtained for the aggregated balances (*Annex 1*). Moreover, since the published aggregated balances are not particularly sensitive to seasonal fluctuations, those which have been broken down by category of household have not been corrected for seasonal variation. A moving average over a three-month period has been applied instead, to make the series easier to read.

2 - Personal financial outlook and purchasing power in France

Note : the balance is the mean value of the monthly balances for each quarter
Source : enquête Camme et comptes nationaux trimestriels (Insee).

3 - Chances of making major purchases and consumption in France
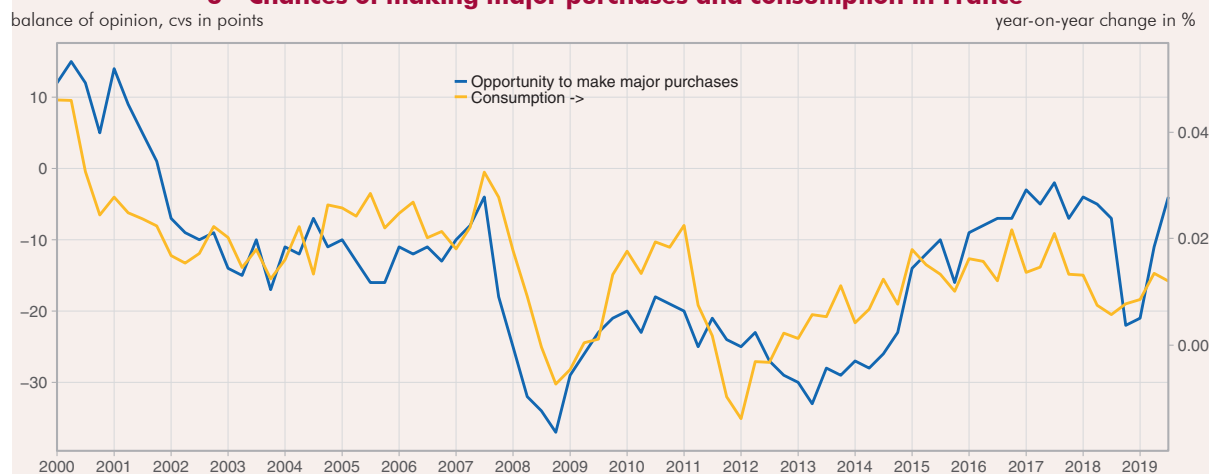
Note : the balance is the mean value of the monthly balances for each quarter.
Source : enquête Camme et comptes nationaux trimestriels (Insee).

be linked to household consumption. These two balances have followed similar trajectories since the year 2000. After a period of pessimism following the great recession of 2008-2009 and the Eurozone debt crisis, household confidence levels began to rise again and reached a peak in 2017, a year of solid growth with also saw a presidential election. The downturn observed in 2018 may have been partly induced by the rise in oil prices combined with the timetable for implementing new fiscal measures (see Focus article in the Conjoncture in France for December 2018), in spite of the increase in purchasing power recorded in Q4 2018 (thanks to decreases in local residents' tax and employees' social security contributions). The drop-off observed in November and December 2018 was a direct result of the social crisis provoked by the "yellow vest" movement. The announcement and implementation of measures to bolster purchasing may then have contributed to the rapid turnaround of both indicators in early 2019. By the end of 2019 they should be back to their 2017 peak levels (*Graphs 2 and 3*)

While there is a certain correlation between the "hard" data of the national accounts and the balances of opinion from the household surveys, the latter are rarely directly used for forecasting purposes. Household perceptions diverge, sometimes considerably, from the actual variation in purchasing power and consumption at the aggregate level, particularly at times of economic crisis or immediately following the implementation of reforms.

The balance of opinion regarding respondents' personal financial outlook mirrors the general trajectory of purchasing power, albeit with a slight delay. However, significant disparities were observed in the crisis years of 2009-2011, with a prevailing sense of pessimism, again in 2014, when tax increases were introduced, and again in 2018. The balance of opinion regarding households' capacity

to make major purchases broadly follows the year-on-year fluctuation of consumption, although these two indicators also diverged considerably during the period following the 2008 financial crisis and again in 2013-2014, with households revealing themselves to be more pessimistic than the aggregates would suggest. Between 2016 and 2018, on the other hand, they were more optimistic, and the same is true in 2019, following the negative spell at the end of 2018.

Nevertheless, aggregate consumption figures include forms of expenditure which households may not necessarily consider as "major purchases"[3], such as food, clothing and energy bills, but also spending on housing[4]. The category which best corresponds to this definition is capital goods[5]. The indicators for consumption of capital goods and the balance of opinion regarding major purchases thus follow relatively similar trajectories (*Graph 4*).

Balances of opinion among retirees have fluctuated considerably since mid-2017

Although the balances of opinion have picked back up for all of the categories of households considered here (*Graphs 5 to 10*), retired households have seen more variation than those in employment. Probably as a result of reforms affecting the general social contribution (CSG), their balance of opinion regarding their personal financial outlook declined considerably from mid-2017 onwards. In early 2019, however the rebound was rapid when the government abandoned its plans to raise the CSG on lower-income pensioners. *Graph 11* suggests that the biggest distinction in recent months has been between retired households and those in work, at least in terms of their respective balances of opinion. Other dimensions also play a role, but a logistic regression model reveals that, all other things being equal (and thus discounting disparities in age, gender, standard of living and geographical location), being retired has

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3. Business surveys give the following examples: "furniture, household appliances, electronic or computer equipment"
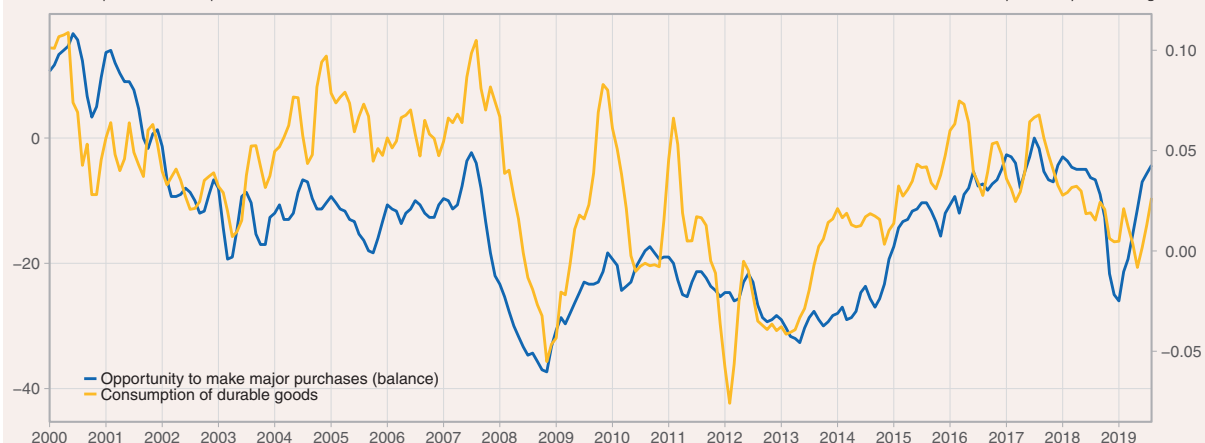4. Counterintuitively with regard to the surveys, according to the national accounts this item relates to investment and not consumption.
5. Defined by the INSEE as vehicles, furniture, household appliances and leisure activities.

4 - Chances of making major purchases and consumption of capital goods

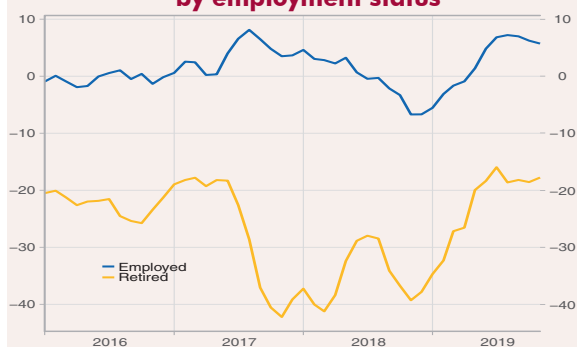balance of opinion, cvs in points   year-on-year change in %

— Opportunity to make major purchases (balance)
— Consumption of durable goods
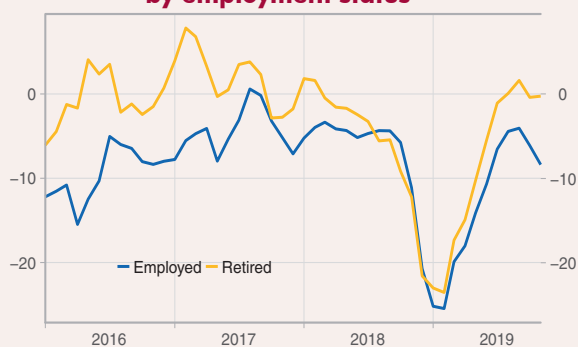
Note : the balance is the mean value of the monthly balances for each quarter
Source : enquête Camme et comptes nationaux trimestriels (Insee).
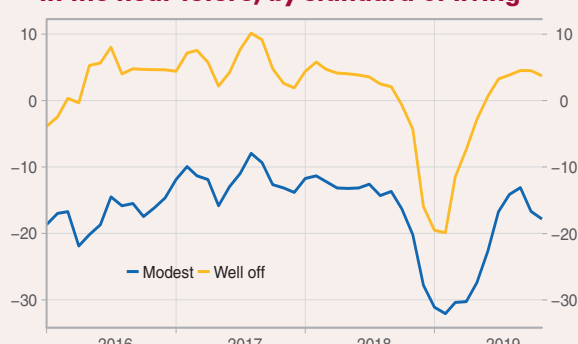
5 - Personal financial outlook, by employment status

Employed
Retired

6 - Chances of making major purchases, by employment status
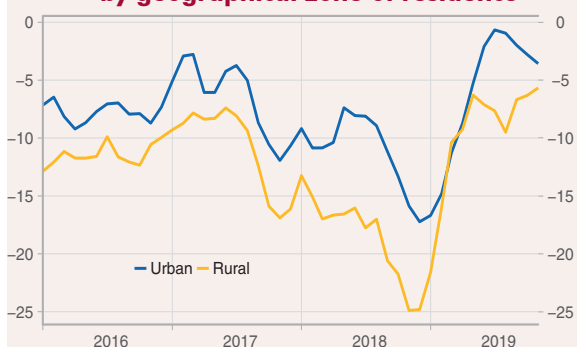

Employed — Retired

7 - Personal financial outlook, by standard of living
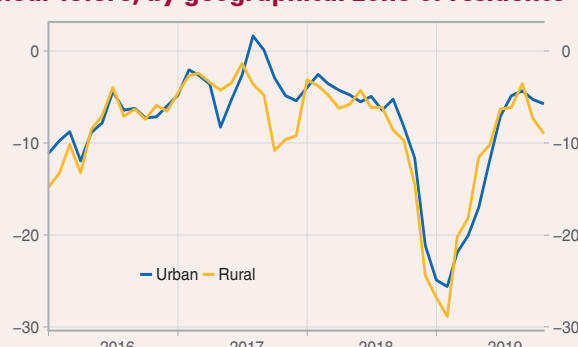

Modest — Well off

8 - Chances of making major purchases in the near future, by standard of living

Modest — Well off

9 - Personal financial outlook, by geographical zone of residence
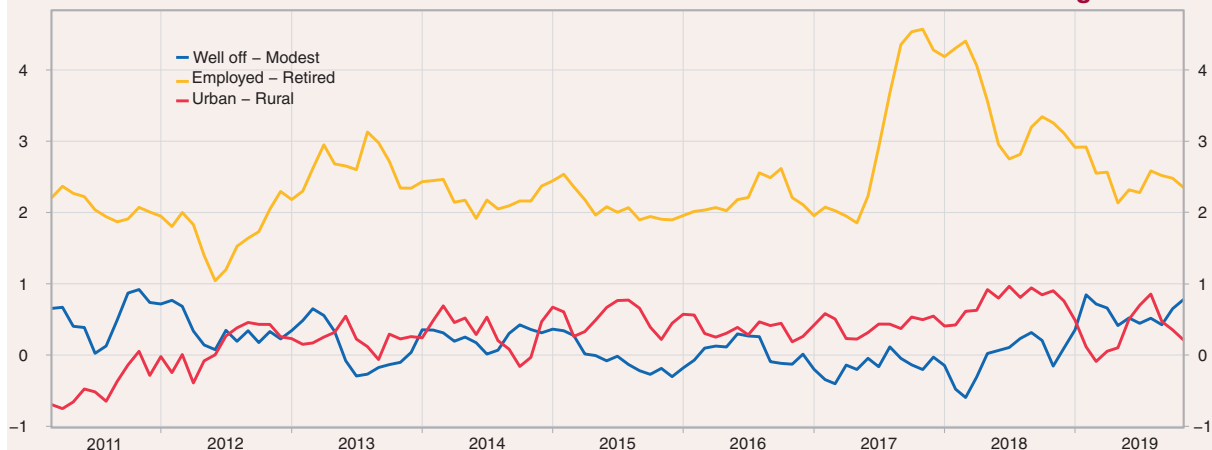

Urban — Rural

10 - Chances of making major purchases in the near future, by geographical zone of residence

Urban — Rural

Note : The balances presented are based on a three-month moving average
Source : enquête Camme (Insee).

11 - Personal financial outlook: differences between the balances for different categories

Well off – Modest
Employed – Retired
Urban – Rural

Key: For employment status, the disparity between the most optimistic households (those in employment) and the most pessimistic (those in retirement) is greater than the disparities between different standards of living and zones of residence. This perception gap peaked in 2017-2018.
Note : The balances shown here are the result of a moving average over three months.
Source : enquête Camme (Insee).

a negative impact on households' perception of their future financial prospects, with this pessimism among retired households appearing particularly strong between mid-2017 and the end of 2018 (*Annex 2*).

In 2018, rural households also succumbed more rapidly to pessimism regarding their future financial prospects than urban households (*Graph 9*). In 2019, the balance of opinion for wealthier households rebounded more significantly than that for lower-income households, a gap which continues to grow in this final quarter (*Graph 7*).

Variations in the balance of opinion regarding major purchases show less differentiation between household categories. The greatest disparities are between different levels of standard of living: wealthier households are generally more optimistic than lower-income households. The gap between retired households and those in employment was particularly small in 2018, but seems to have opened up again in 2019, with retirees once again becoming more optimistic about their consumption than those in work (*Graph 6*). The

variations in this balance of opinion among rural and urban households are very similar (*Graph 10*).

The opinion of the wealthiest households regarding general standards of living in France deteriorated in 2018, albeit later than that of lower-income households, but has bounced back more vigorously in 2019

The INSEE's monthly tendency surveys also quiz households about their perception of standards of living in France, over the past twelve months and the coming twelve months.

Broken down into different categories of household, these balances show little difference between retirees and those in work, nor between urban and rural households. However, the deterioration in the balance of opinion among wealthier households regarding past standards of living in France was slower to come in 2018 than it was among lower-income households; the bounce-back in 2019, meanwhile, came more rapidly (*Graph 12*). The fluctuations in the respective balances of opinion regarding future
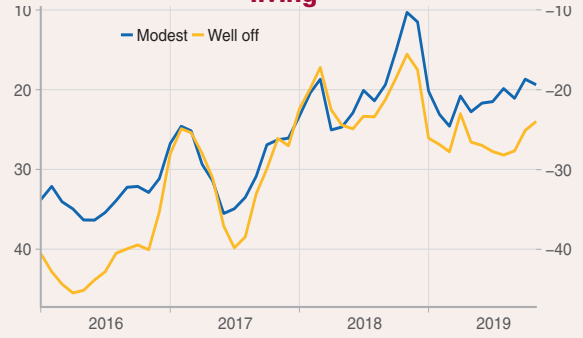
12- General standard of living in past 12 months, by standard of living

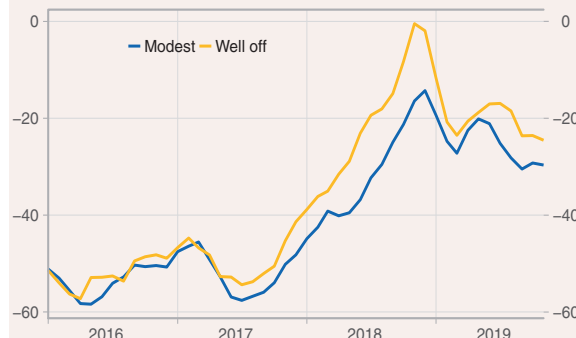**13 - General standard of living in next 12 months, by standard of living**
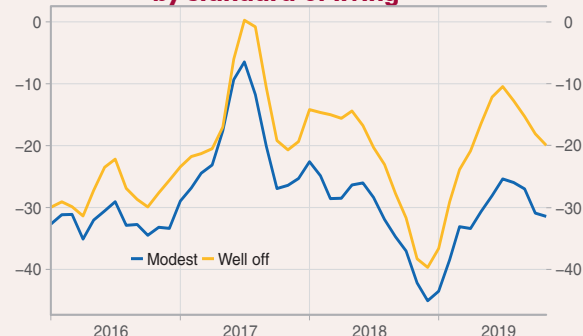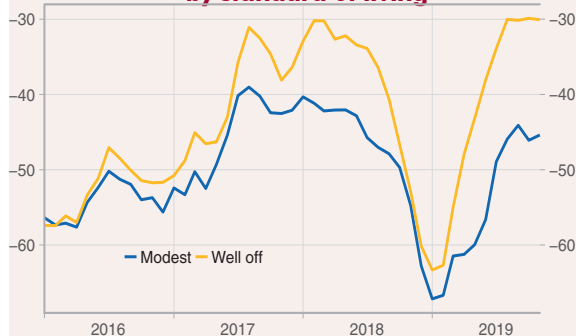
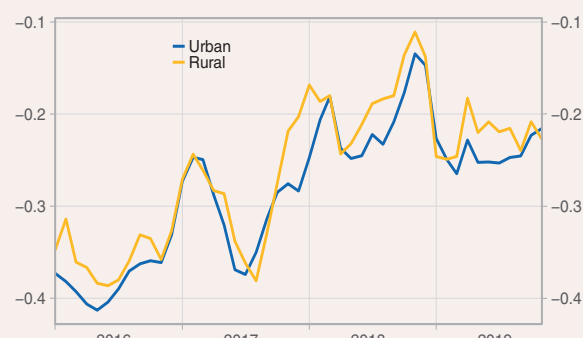**14 - Past variations in prices, by standard of living**
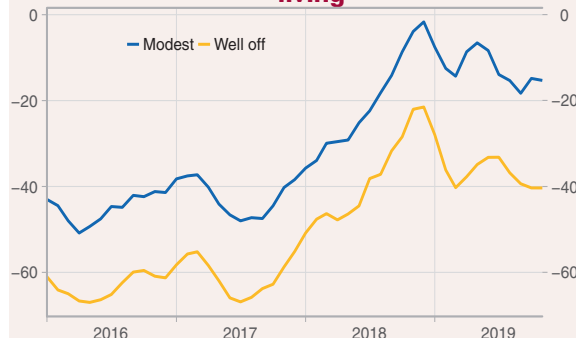
15 - Next variations in prices, by standard of living

16 - Past variations in prices, by geographical zone of residence

17 - Next variations in prices, by geographical zone of residence

standards of living followed a similar path, although the slide began in 2017: the gap between lower-income households and wealthier households has also grown recently (*Graph 13*).

Opinions on prices: some differences depending on standard of living and geographical location

Finally, households are asked about their perception of variations in prices, over the past twelve months and the coming twelve months.

Breaking the answers down by category of household reveals there to be very little difference between respondents of different employment status. Lower-income households have a more acute perception of past price increases than wealthier households; the same is also true, though to a lesser extent, for future price expectations. For both balances, the gap between rich and poor widened in 2019 (*Graphs 14 and 15*). The difference between the balances calculated for different geographical zones also increased in 2018, and, after falling briefly, increased again in 2019 (*Graph 16*). The difference between the balances of opinion for rural and urban households has not, however, returned to the remarkably high level seen in 2018, which can probably be attributed to the rise in oil prices at that time. ∎

Appendix 1

Consumer confidence surveys

Consumer confidence surveys (Camme) are conducted by telephone, with a sample of around 2000 households contacted over the first three weeks of each month. The balances of opinion are calculated as the difference between the respective shares of positive (+) and negative (–) responses.

These surveys provide socio-demographic information which can be used to calculate balances of opinion for different categories of households. Lower-income households are defined here as those whose income per consumption unit is below the median value identified in this survey. Wealthier households, on the other hand, are defined as those whose income per consumption unit is above the median value. Due to the small sample size no attempt is made to break the households down into quintiles, information which would be pertinent for analysing the impact of the gradual abolition of local residents' tax. The only reference value used is the median, i.e. the standard of living at which half of the surveyed households are above and half below.

Furthermore, the distinction between rural and urban settlements is based on the official geographical code issued on 1st January 2018. A unit is classed as urban when the municipality in which the household resides belongs to an urban unit with a population of more than 2000.

The questions selected for this study in this study are as follows:

Personal financial outlook:	**Chances of making major purchases:**
Do you think that, over the next twelve months, the financial situation of your household will...	*Given the current economic circumstances, do you think the time is right for people to make major purchases? (furniture, electrical goods, electronic or computer equipment)*
Improve considerably (+)	
Improve slightly (+)	Yes, circumstances are favourable (+)
Remain stable	Circumstances are neither favourable nor unfavourable
Deteriorate slightly (–)	No, circumstances are unfavourable (–)
Deteriorate considerably (–)	
Past variation in standards of living in France: *À votre*	**Future variation in standards of living in France:**
In your opinion, over the past twelve months, has the general standard of living in France…	*In your opinion, over the coming twelve months, will the general standard of living in France …*
Improved considerably (+)	Improve considerably (+)
Improved slightly (+)	Improve slightly(+)
Remained stable (–)	Remain stable(–)
Deteriorated slightly (–)	Deteriorate slightly (–)
Deteriorated considerably (–)	Deteriorate considerably (–)
Past prices:	**Future prices:**
Over the past twelve months, do you feel that prices have…	*Compared with the preceding twelve months, how do you think prices will change over the coming twelve months?*
Increased sharply (+)	
Increased moderately	Increase more rapidly (+)
Increased slightly (–)	Increase at the same rate
stagnated (–)	Increase more slowly (–)
fallen (–)	Prices will remain stable (–)
	Prices will decrease (–)

Econometric model (logistic regression)

We consider the determinants of positive answers (more positive than negative) for the balance of opinion on personal financial prospects. The model used includes the different socio-demographic variables, an indicator for the period July 2017 to September 2018, and a cross-linked effect between this variable and occupation status.

Six potential cross-linked effects were tested using different period indicators (July 2017-September 2018 and October 2018-March 2019) and household categories (employment status, standard of living and geographical context). Cross-linking standards of living and geographical zone of residence did not yield significant results for either period. The link between the second period and employment status was not significant either: the significance was barely below the 5% threshold, and proved to be worse still if we adjusted the number of months covered. We therefore opted to retain only the cross-comparison between the first period and employment status, which was highly significant, coming in under the 0.01% threshold. The same was also true of the socio-demographic variables. ∎

Table 1: Logistic regression of positive answers (more positive than negative) regarding personal financial prospects

Explanatory variables	Effect (probability) and significance
Gender	
Women Men	Réf. 1,50***
Age	
Under 30 30 - 44 ans 45 - 59 60 - 74 Over 75	4,09*** 2,36*** Réf. 0,50*** 0,36***
Income level	
Modest Wealthy	Réf. 1,27***
Residential context	
Rural Urban	Réf. 1,13***
Employment status	
In work Retired Retired x (July 2017 to September 2018) Other Other x (July 2017 to September 2018)	Réf. 0,64*** 0,61*** 1,14*** 0,95
Period	
Rest of this period July 2017 to September 2018	Réf. 1,48***
Constant	
Number of observations: 63468 Estimation period: January 2011 to November 2019 (monthly data series) Pseudo R2 : 14%	

How to read it: a respondent under the age of 30 is 4.1 times more likely to give a positive response regarding their personal financial outlook than a respondent from a household with the same characteristics but with an age in the 45-59 range. This estimated probability is significantly non-zero with a 0.01% threshold.
Source: Insee, Camme survey. INSEE calculations