

Although relatively resilient coming out of the health crisis, household purchasing power is now facing a rise in inflation in the main Eurozone economies

The purchasing power¹ of household gross disposable income (GDI) in the main Eurozone economies has experienced major quarterly variations over the last two years (► **Figure 1**). It fell back in spring 2020, with the decline in income linked to the first lockdown, before rebounding from summer 2020. However, recent quarters have been impacted by high inflation, which, despite government aid put in place in the different countries, hampers purchasing power. In this context, household economic surveys suggest a form of wait-and-see with balances of opinion in decline in terms of consumption but high in terms of savings.

Since autumn 2021, the increase in consumer prices has hampered the purchasing power of household gross disposable income

In 2021, the purchasing power of household gross disposable income evolved in contrasting ways inside the Eurozone: decline in Germany (–0.8% as an annual variation), stable in Spain and substantial increase in Italy (+2.0%) and France (+2.4%). During the first three quarters of the year, change in purchasing power mainly reflected that in household gross disposable income (► **Figure 2**). In France especially, household income accelerated, driven by the momentum of payroll employment (► **Figure 3**). In Spain, payroll employment was considerably more affected by the health crisis, and it was only in summer 2021 that the rebound in employment was able to sustain household purchasing power, although it was still not back to its pre-crisis level.

In Germany, the good performance of the labour market contributed to the dynamism of household income in Q2 and Q3 2021, but the ending of the reduced VAT rate in January 2021 affected purchasing power in Q1 2021.

In Q4 2021, household income drove purchasing power in France and Italy, as in the previous quarters. In France especially, it was reinforced by the aid paid out²² to households (mainly inflation compensation). In Germany and Spain, consumer prices severely hindered any increase in purchasing power at the end of the year.

In Q1 2022, the further acceleration of consumer prices weighed heavily on the growth of purchasing power³ in the four main Eurozone economies (with an impact of up to –3 percentage points in Spain and –2.6 points in Germany). In France, income was also affected in accounting terms by the automatic reaction to the payment at the end of 2021 of the “inflation allowance”.

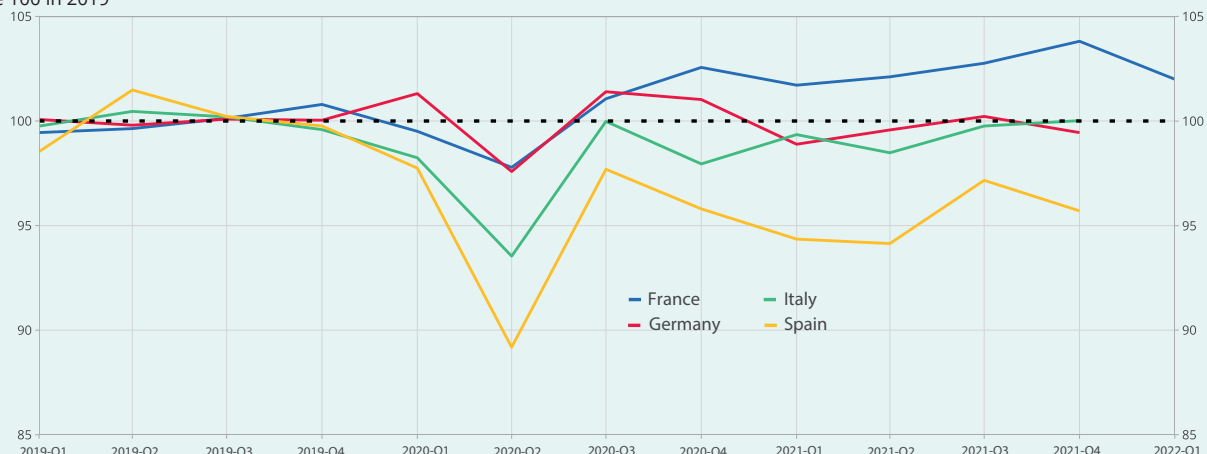
¹ Within the meaning of the national accounts, this is the gross disposable income of households and non-profit institutions serving households (NPISH), compared to household consumer prices.

² The inflation allowance was paid out to some households at the start of 2022, however, according to the accrual method, national accounting includes the full amount in the income of Q4 2021.

³ For Germany, Italy and Spain, the figure for purchasing power in Q1 2022 has not yet been published by the statistical institutes. Nevertheless, the consumption figures in value and in chained volume for Q1 2022 published by the statistical institutes suggest that the contribution of the deflator will be negative in these three countries.

► 1. At the end of 2021, purchasing power returned to or exceeded its 2019 level in the main Eurozone economies, except Spain

in base 100 in 2019



How to read it: in France, in Q1 2022, the purchasing power of households and NPISH was 2.0 points above its 2019 average.

Note: purchasing power is the gross disposable income (GDI) of households and non-profit institutions serving households (NPISH), compared to the deflator of household consumption. For France, it may differ from the figure published on the INSEE website, where the scope is only households. For Germany, Italy and Spain, the figure for purchasing power in Q1 2022 has not yet been published by the statistical institutes.

Source: INSEE, Eurostat, INSEE calculations

French economic outlook

This decline in purchasing power occurred in a context where household savings ratios were still high in the four main Eurozone countries. These savings ratios had increased significantly in spring 2020 when consumption was restricted due to lockdown; they have declined, but still remain above their pre-crisis levels (► **Figure 4**). Thus, on average, households have not drawn on their excess savings and have even continued to save more than before the health crisis. However, this average situation can mask significant differences between households, depending in particular on income level.

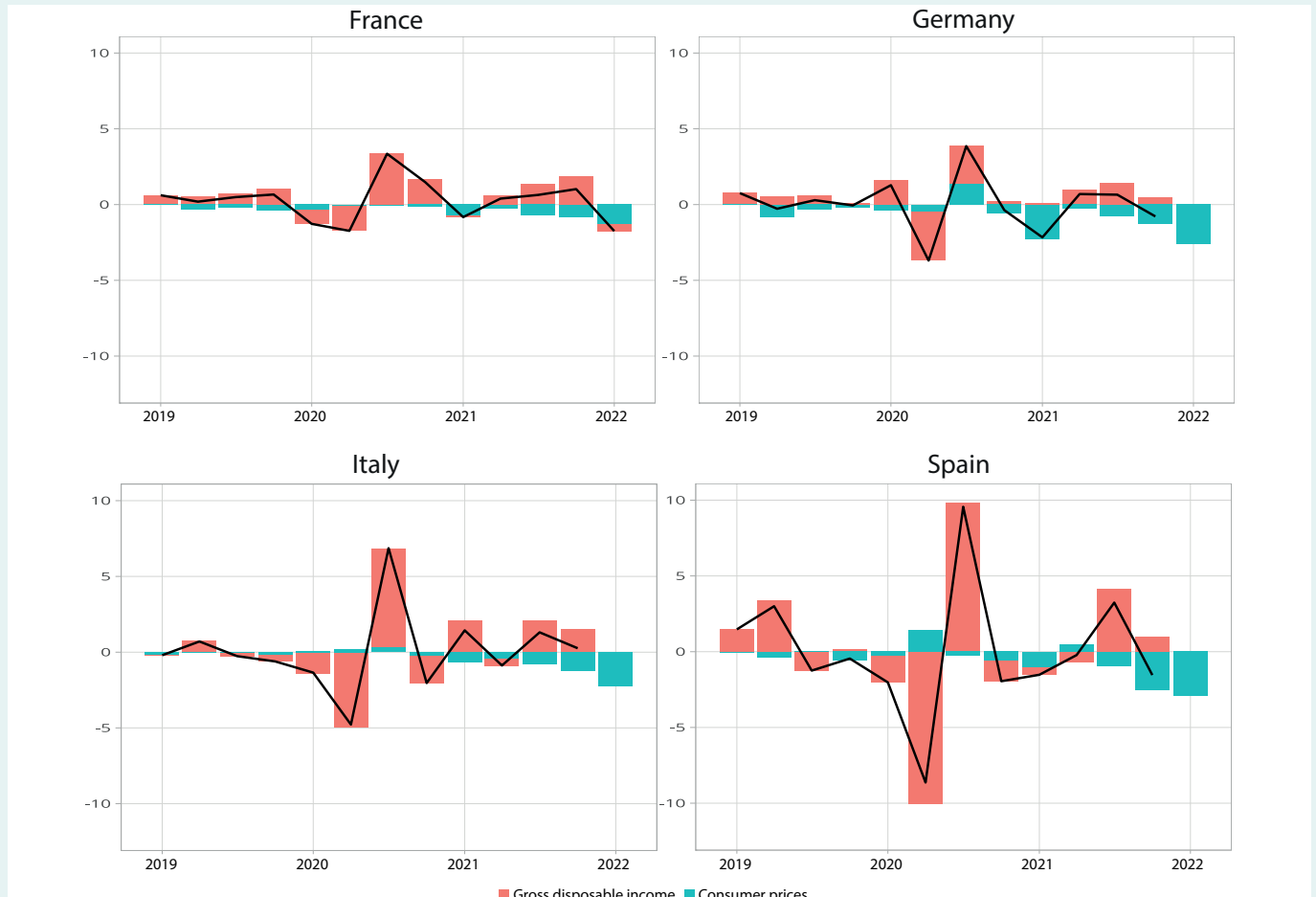
The public authorities in the different countries are trying to cushion the effects of the shock of inflation on household purchasing power

In a context of sharply rising inflation, the main Eurozone countries have adopted measures to support household purchasing power,⁴ especially from March 2022 onwards. These are often in addition to the measures already in place since autumn 2021 (► **Box in Focus** "Inflation in the Eurozone", *Economic Outlook* of 18 March 2022).

⁴ The following site: <https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices> proposes to take stock of the various measures announced. However, these can be quite evolving.

► 2. Since autumn 2021, inflation has hampered the purchasing power of household gross disposable income in the main Eurozone economies

quarterly change in purchasing power and contributions in points



How to read it: in France, in Q1 2022, consumer prices contributed -1.3 points to the quarterly variation in the purchasing power of households and NPISH. Note: for Germany, Italy and Spain, the figure for gross disposable income in Q1 2022 has not yet been published by the national statistical institutes. Source: INSEE, Eurostat, INSEE calculations

Several of these measures have a direct effect on consumer prices, by attempting to contain any increase: reduction in fuel prices (France, Germany, Italy, Spain) or public transport prices (Germany), reduction in energy taxes (Germany, Italy and Spain), limiting gas and/or electricity bills through reductions and/or a price framework (especially in France with the tariff shield put in place in autumn 2021 and in Spain with the capping of increases in the regulated gas tariff from April). In addition, from June, the Iberian Peninsula will be able to derogate from European market rules for electricity prices, which should bring down prices in Spain. Other measures aim to support household income: financial aid for employees (Germany), for low-income households (Italy, Spain, France with the “inflation allowance”) and

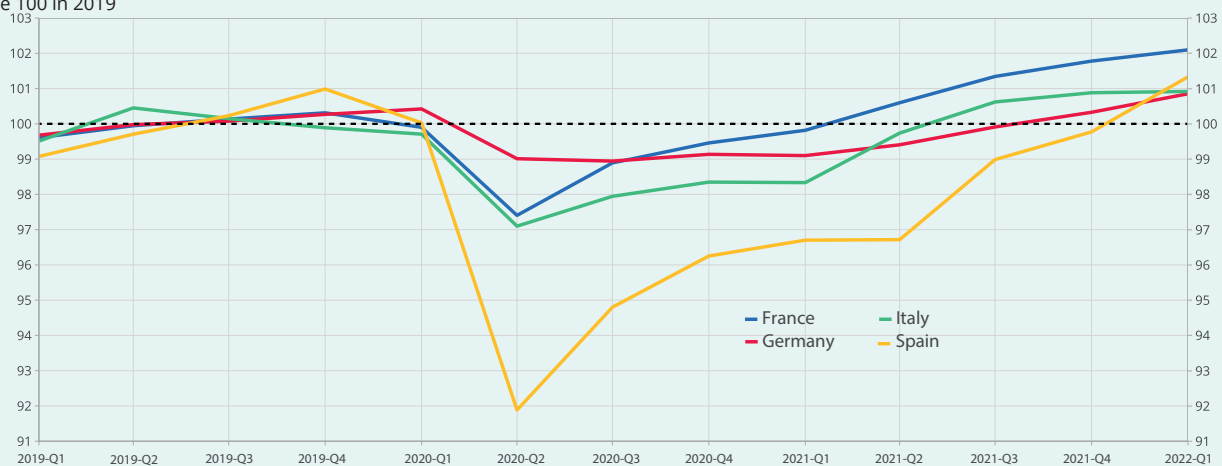
for households with children (Germany), extension of the aid scheme for paying energy bills (France, Italy, Spain) or increasing social minima (Spain). Measures relating to France and taken into account in the forecast are described in the **Consumer prices** and **Household income** sheets in this *Economic Outlook*.

European household economic surveys suggest that consumption will be sluggish in Q2 2022

In the four countries studied here, the sharp rise in inflation has caused household confidence in the economic situation to decline, according to economic surveys harmonised at European level. In particular, the balance of opinion on the advisability of making

► 3. Payroll employment exceeded its 2019 level in the main Eurozone economies

in base 100 in 2019



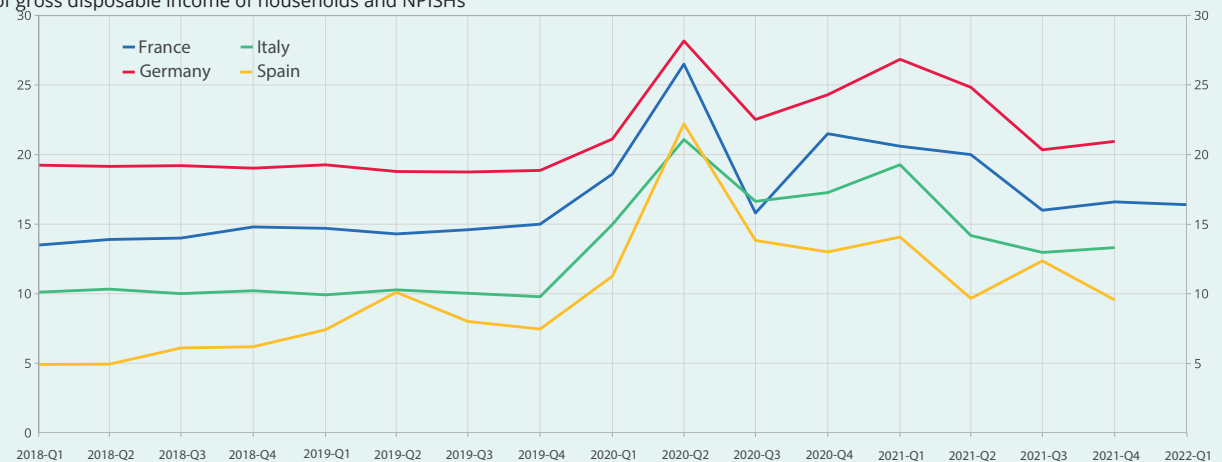
How to read it: in France, in Q1 2022, payroll employment was 2.1 points above its 2019 level.

Note: this graph represents payroll employment in natural persons as a quarterly average (employment in the sense of the national accounts), it may therefore differ from payroll employment as published by INSEE, DARES and ACOSS at the end of the quarter.

Source: Eurostat, INSEE calculations

► 4. In the main Eurozone economies, the savings ratio remains above its pre-crisis level

as % of gross disposable income of households and NPISHs



How to read it: in Germany, in Q4 2021, the savings ratio of households and NPISH was 21%.

Note: for Germany, Italy and Spain, the figure for the savings ratio in Q1 2022 has not yet been published by the national statistical institutes.

Source: Eurostat, INSEE calculations

French economic outlook

major purchases has declined strongly since the end of 2021 (► **Figure 5**). However, in May 2022, it recovered very slightly.

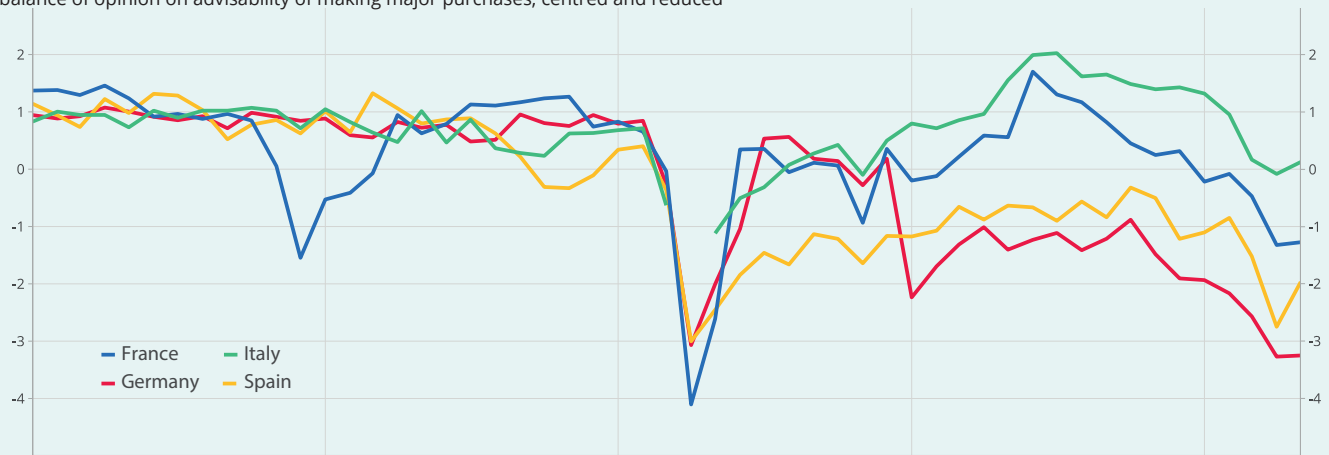
At the same time, balances of opinion on the advisability of saving remained high in France, Germany and Italy. This balance increased considerably in France, especially during lockdowns, when consumption was

curbed and a large proportion of income was preserved. Subsequently, it has decreased only slightly, probably indicating a certain wait-and-see attitude, given the economic situation. Spain stands out with a recent drop in this balance of opinion (► **Figure 6**), no doubt because their situation has deteriorated more than in the other countries regarding purchasing power. ●

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► 5. Since the beginning of 2022, fewer and fewer households say that this is the right time to make major purchases

balance of opinion on advisability of making major purchases, centred and reduced



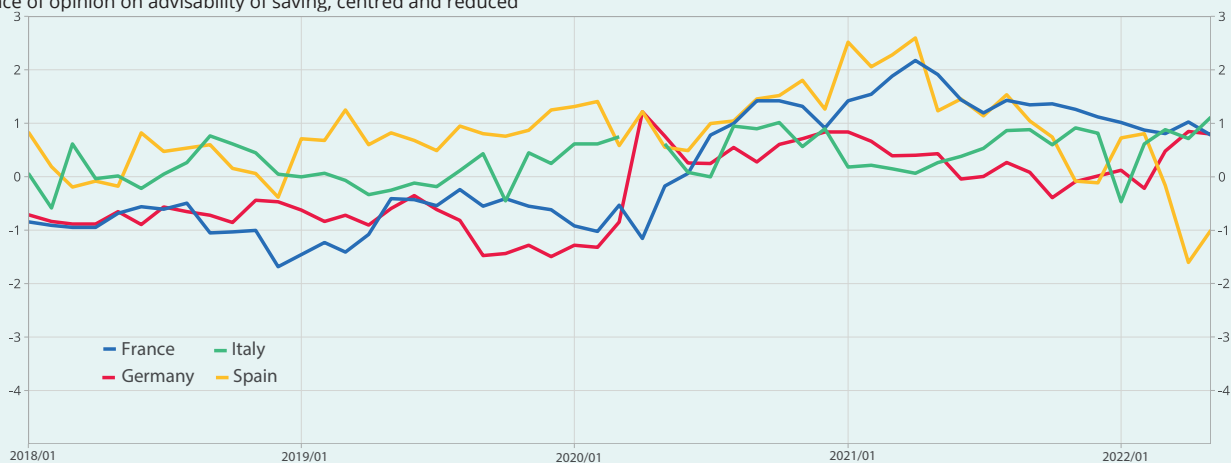
How to read it: in May 2022, in Spain, the centred and reduced balance of opinion on the advisability of making major purchases at the present time was 2.0 standard deviations below its long-term average (average of balance between January 2010 and May 2022).

Note: data are taken from household economic surveys. The balance of opinion is monthly. These statistics are from European surveys harmonised by the DG ECFIN, especially regarding seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; nevertheless, the trends are similar. Italian data were not collected during the first 2020 lockdown.

Source: DG ECFIN, INSEE calculations

► 6. In spring 2022, balances of opinion on the advisability of saving remained high, except in Spain

balance of opinion on advisability of saving, centred and reduced



How to read it: in May 2022, in Spain, the centred-reduced balance associated with the advisability of saving at the present time was 1.0 standard deviation below its long-term level.

Note: data are taken from household economic surveys. The balance of opinion is monthly. These statistics are from European surveys harmonised by the DG ECFIN, especially regarding seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; nevertheless, the trends are similar. Italian data were not collected during the first 2020 lockdown.

Source: DG ECFIN, INSEE calculations.