Household income

In Q1 2023, household gross disposable income (GDI) slowed (+1.6% in constant euros after +3.3%), due mainly to the smaller payouts under the value sharing bonus (PPV) scheme after some particularly dynamic amounts at the end of 2022. Given also the acceleration in consumer prices (+2.0% after +1.9%), the purchasing power of GDI fell back this quarter (-0.4%, or -0.6% per consumption unit). This decline follows on from two quarters when there was a significant increase in purchasing power, sustained by measures put in place in summer 2022 (introduction of the PPV, review of the index point of civil service personnel, anticipated review of pensions and benefits, etc.).

In Q2 2023, GDI is expected to slow further (+0.6% forecast) as a result of another deceleration in earned income (PPV payouts down again). Despite the automatic revisions to a certain number of statutory social minima, social benefits are also likely to slow down (+0.2% after +0.9%), with the end of the fuel allowance on 1st April. In the context of rising interbank rates, households' property income (including the gross income surplus of pure households[1]) is expected to remain dynamic (+1.4% after +3.7%); however the rise in interest rates is expected to also have an impact on the prices of financial intermediation services provided to households, thereby increasing the household consumption deflator (▶ **Box**). All in all, despite a slowdown, household consumer prices (+1.2% forecast after +2.0%) are expected to be more buoyant than GDI; the GDI purchasing power is therefore likely to decline once more (-0.6% forecast in Q2 2023, or -0.7% per consumption unit).

In H2 2023, purchasing power is expected to pick up gradually, with the momentum of earned income outpacing that of household consumer prices. This forecast is made under the conventional assumption of an increase in civil service personnel wages from 1st July 2023, equivalent to the 3.5% increase in the index point in July 2022.[2] The conventional assumption is also made that there will be a revision of supplementary pensions in Q4 2023, similar to that in 2022.

In particular, in Q3 2023, earned income, driven mainly by public sector wages, is expected to be especially buoyant (+1.7%) enabling household purchasing power to remain virtually stable after two consecutive quarters of decline. In Q4 2023, household GDI is likely to be sustained by market sector wages, mainly because of PPV payouts, and to a lesser extent by the momentum in benefits (especially the review of supplementary pensions). Given the expected slowdown in consumer prices, household purchasing power per consumption unit looks set to increase at the end of 2023 (+0.3% forecast in Q4 2023, or +0.2% per consumption unit).

On average over 2023, household GDI is expected to increase more quickly that the consumption deflator (+7.0% against +6.5%). Purchasing power would therefore appear to be up slightly (+0.5%). Purchasing power per consumption unit is likely to stabilise (+0.0%) after a downturn in 2022 (-0.4%). ●

1 The gross operating surplus (GOS) of "pure households" corresponds to the rents that individual homeowners receive from their tenants or would receive if they rented out their property (these are then called "imputed rents"), minus intermediate consumptions and property tax.
2 Although the measures announced on 12 June 2023 took on a different form from the standard assumption selected for this forecast, the amounts involved appear to be relatively commensurable.

▶ 1. Components of household gross disposable income

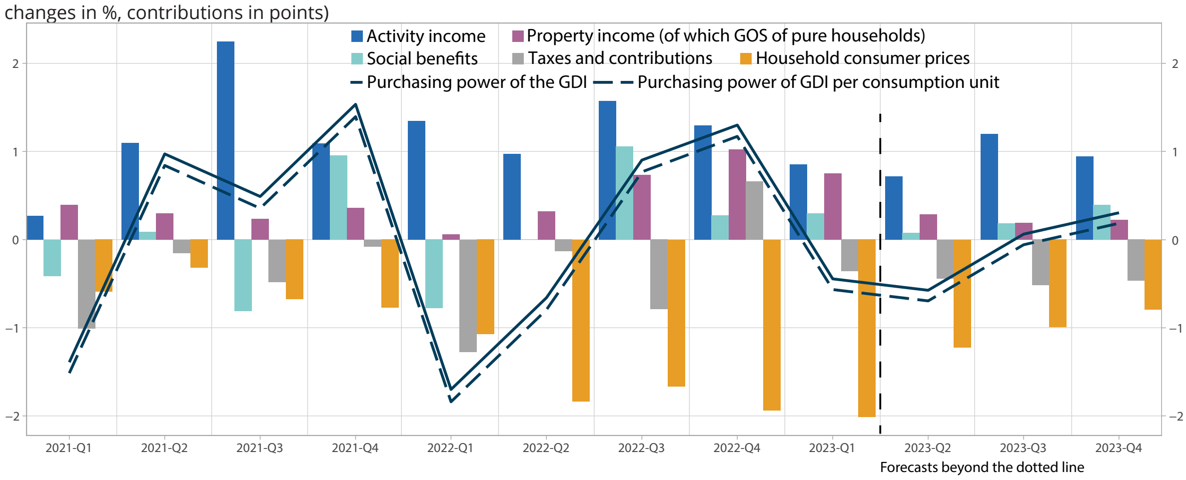
(variations in %)

	Quarterly changes												Annual changes			
	2021				2022				2023				2020	2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross disposable income (100%)	**-0.8**	**1.3**	**1.2**	**2.3**	**-0.6**	**1.2**	**2.6**	**3.3**	**1.6**	**0.6**	**1.1**	**1.1**	**1.2**	**4.2**	**5.1**	**7.0**
including:																
Earned income (72%)	0.4	1.6	3.2	1.5	1.9	1.3	2.2	1.8	1.2	1.0	1.7	1.3	-3.7	7.2	7.7	6.0
Gross wages and salaries (64%)	0.7	1.9	3.9	1.7	1.8	1.5	2.1	2.0	1.3	1.1	1.8	1.4	-4.0	7.7	8.3	6.4
GOS of sole proprietors* (8%)	-1.9	-1.1	-2.1	0.4	3.0	0.1	2.5	0.3	0.0	0.5	0.4	0.2	-1.0	3.1	3.3	2.1
Social benefits in cash (35%)	-1.1	0.2	-2.2	2.7	-2.2	0.0	3.1	0.8	0.9	0.2	0.5	1.2	9.7	-1.8	0.4	3.8
Property income, of which GOS of pure households (20%)	2.2	1.6	1.2	1.9	0.4	1.6	3.8	5.2	3.7	1.4	0.9	1.1	-1.1	7.4	7.5	12.1
Social contributions and taxes (–27%)	4.1	0.6	1.9	0.3	5.0	0.5	3.0	-2.5	1.4	1.8	2.0	1.8	-3.4	4.6	7.7	4.0
Household consumer prices	**0.6**	**0.3**	**0.7**	**0.8**	**1.1**	**1.8**	**1.7**	**1.9**	**2.0**	**1.2**	**1.0**	**0.8**	**0.9**	**1.5**	**4.9**	**6.5**
Purchasing power of gross disposable income	**-1.4**	**1.0**	**0.5**	**1.5**	**-1.7**	**-0.7**	**0.9**	**1.3**	**-0.4**	**-0.6**	**0.1**	**0.3**	**0.3**	**2.6**	**0.2**	**0.5**
Purchasing power per consumption unit	**-1.5**	**0.8**	**0.4**	**1.4**	**-1.8**	**-0.8**	**0.8**	**1.2**	**-0.6**	**-0.7**	**-0.1**	**0.2**	**-0.3**	**2.1**	**-0.4**	**0.0**

Forecast.
***** the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.
Note: figures in brackets give the structure for 2019.
How to read it: after an increase of 1.6% in Q1 2023, household gross disposable income would continue to rise, although to a more limited in Q2 2023 (+0.6%).
Source: INSEE.

►2. Quarterly variation in purchasing power of household gross disposable income (GDI) and its main contributions

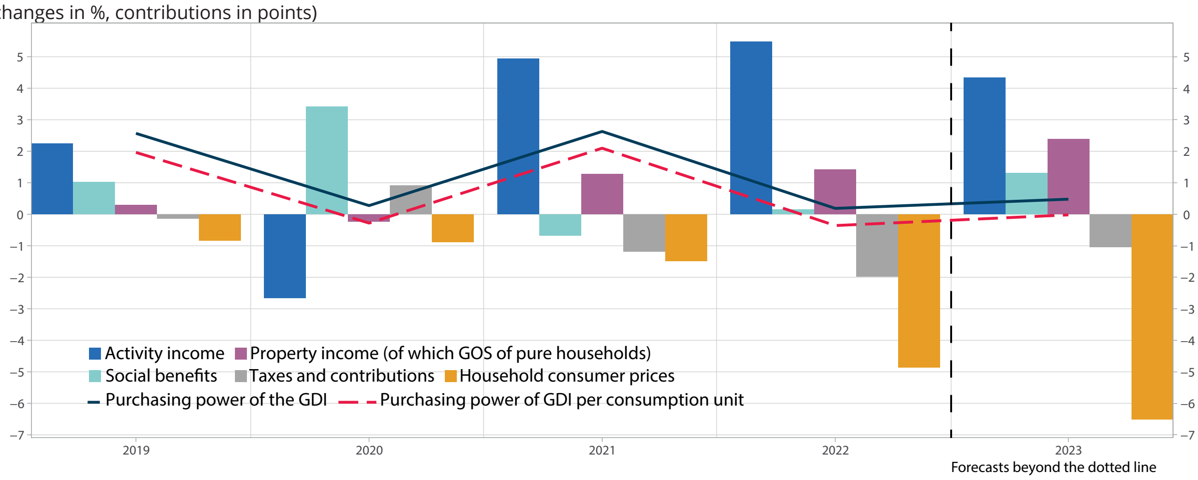
(quarterly changes in %, contributions in points)



Source: INSEE.

►3. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions

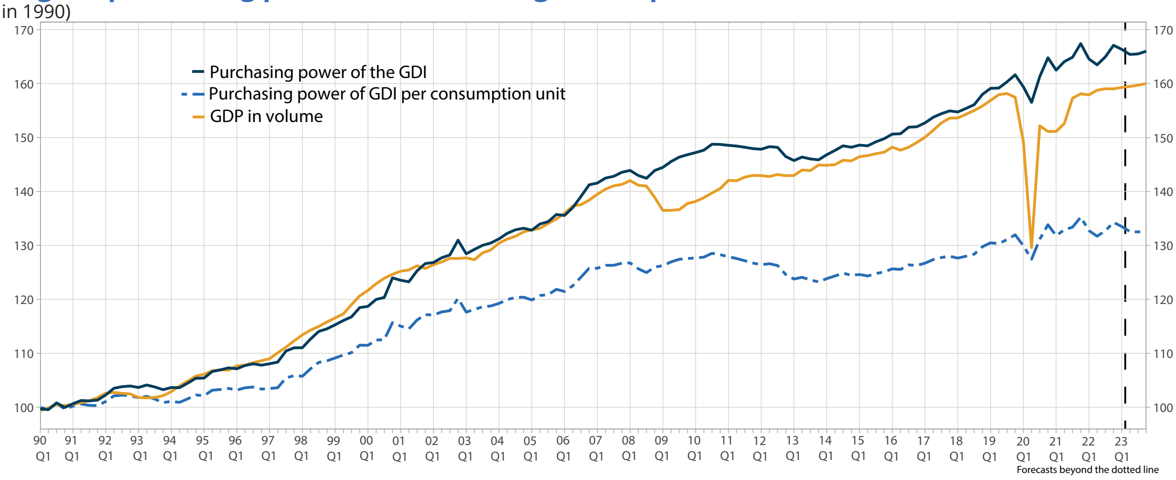
(annual changes in %, contributions in points)



Source: INSEE.

►4. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990

(base 100 in 1990)



Source: INSEE.

In 2023, the household consumption deflator (within the meaning of national accounting) is expected to be substantially more dynamic than the consumer price index

The “household consumption deflator” within the meaning of national accounting, as used in the definition of purchasing power, is not exactly the same as the consumer price index (CPI) used to measure inflation. In particular, the household consumption deflator is linked to the conceptual framework of national accounting, where household consumption covers a broader scope than the CPI: for example it includes imputed rents, which are not present in the CPI, and which represent rents that homeowning households would pay for their dwelling if they were tenants.

Changes in the household consumption deflator and the CPI (seasonally adjusted, SA) are generally similar from one quarter to the next, however, differences may appear when there are sizeable shifts in specific prices. In Q1 2022 for example, the rise in energy prices affected the momentum of the CPI (SA) more than that of the household consumption deflator, as energy has a higher weighting in the CPI than in the consumption deflator, where the scope is broader. Thus the CPI (SA) increased more quickly than the consumption deflator.

In H2 2022, and also in H1 2023, the momentum of the CPI (SA) and the household consumption deflator were reversed: consumer prices increased more quickly than the CPI (SA). This was mainly due to the buoyancy of Financial Intermediation Service Indirectly Measured (FISIM) prices, which fall within the scope of the household consumption deflator but are not in the CPI. FISIMs represent services provided by financial intermediaries but not invoiced as such, because they are paid via margin interest rates on their clients’ deposits or loans they are granted: as they are not invoiced, strictly speaking, these services are not included in the CPI but they are counted in household consumption within the terms of national accounting, where margin interest rates represent the price of the service provided. Because of the money tightening operated by the European Central Bank since summer 2022, the rise in the interbank refinancing rate has led to an increase in margin interest on households’ deposits. In fact, the rise in the interbank refinancing rate happened much faster than the rise in the rates of return on deposits, which are mainly regulated (especially the Livret A) or are very sluggish to respond to any increase in the interbank rate. This results in a rise in the price of FISIMs, which are counted in the household consumption deflator but not in the CPI. In addition, the abolition of the TV licence fee in Q4 2022 slowed the momentum of the CPI, but this was not reflected in the household consumption deflator (as in national accounting the TV licence fee is recorded as a contribution).

By late 2023, the price of FISIMs is expected to slow, or may even turn around by the end of the year, bringing the momentum of the household consumption deflator closer to that of the CPI. Assuming that monetary tightening starts to ease, the gradual increase in interest rates actually applied to household deposits or loans is then likely to result in the interest margins operated by financial intermediaries being less dynamic, or even being reduced. The household consumption deflator as an annual average looks set to increase by 6.5% in 2023, whereas the increase in the CPI is likely to be 5.0%. This difference is to a large extent the result of gains already observed in Q1 2023. ●

►5. Consumer price index (SA) and household consumption deflator (quarterly accounts)

(quarterly changes in %)

	2022				2023				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Consumer price index (SA)	1.5	1.8	1.3	1.2	1.5	1.1	0.9	0.7	1.6	5.2	5.0
Household consumption deflator (quarterly accounts)	1.1	1.8	1.7	1.9	2.0	1.2	1.0	0.8	1.5	4.9	6.5

Forecast.
Source: INSEE.