Household income

In Q3 2022, household gross disposable income (GDI) accelerated (+2.6% after +1.1% in Q2), driven by the buoyancy of earned income (increase in the minimum wage (SMIC) in August, review of the index point value for civil service personnel, introduction of PPV, the value sharing bonus) but also by the increase in social benefits (one-off back-to-school bonus, increase in several benefits). Thus, despite some particularly dynamic household consumer prices –boosted further by the rise in consumer prices in financial services (► **Box**)– purchasing power per consumption unit bounced back (+0.8% after -1.0%).

In Q4 2022, it is likely that household GDI will continue to be driven by earned income, but also as a result of the increase in supplementary retirement pensions and support measures, in particular the abolition of the television and radio licence fee, the continuing reduction in housing tax and the exceptional energy cheque. As a result, purchasing power is expected to improve at the end of the year, at a similar pace to Q3. Across the whole of 2022 and given its decline in H1, purchasing power overall is likely to be virtually stable (-0.1%) and is expected to drop by about 0.6% per consumption unit, penalised by the strong acceleration in prices.

In H1 2023, household GDI is likely to slow. Earned income is certainly expected to be less dynamic, due mainly to the slowdown in employment. Meanwhile, social benefits should continue to increase at the beginning of the year, sustained by a review of some of these benefits (especially basic pensions) and the payment of the fuel allowance, but they may then fall back in Q2 as a reaction to this payment. As a result of the momentum in consumer prices, especially in Q1, purchasing power per consumption unit is set to slip back (-1.2% in Q1 then -0.5% in Q2).

For 2023, the mid-year overhang for change in purchasing power (i.e. the annual change forecast if purchasing power in H2 remained frozen at the level forecast for Q2) is expected to be negative (-0.6%, i.e. -0.9% per consumption unit). However, this mid-year overhang does not anticipate variation in purchasing power over the whole of 2023 as, by definition, it does not include possible shifts in GDI and consumer prices in H2. ●

► 1. Components of household gross disposable income

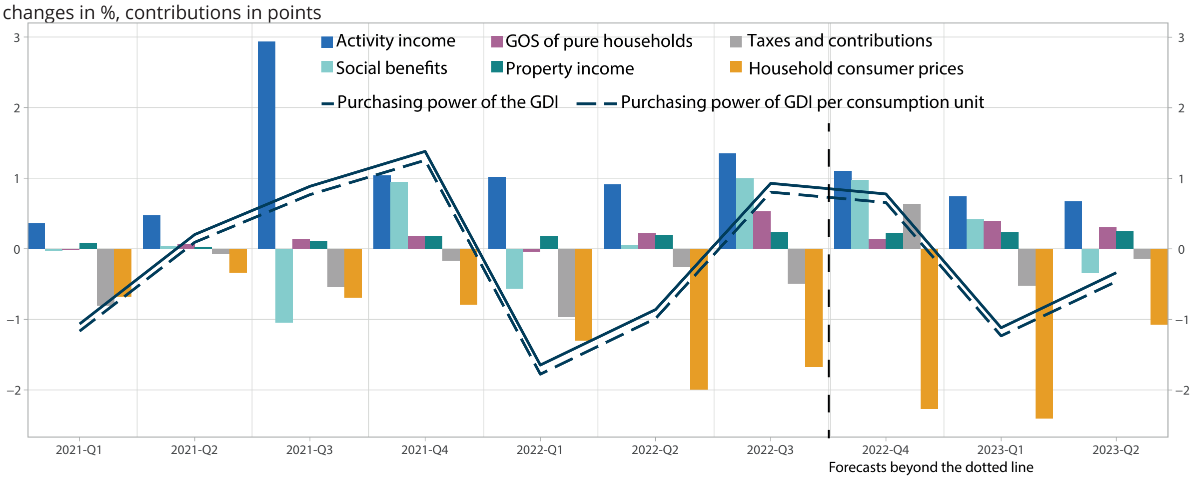
variations in %

	Quarterly changes										Annual changes			
	2021				2022				2023		2020	2021	2022	2023 (ovhg)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Gross disposable income (100%)	**-0.4**	**0.5**	**1.6**	**2.2**	**-0.4**	**1.1**	**2.6**	**3.1**	**1.3**	**0.7**	**1.1**	**4.0**	**5.2**	**5.8**
including:														
Earned income (72%)	0.5	0.7	4.2	1.4	1.4	1.3	1.9	1.5	1.0	0.9	-3.8	7.2	7.2	4.2
Gross wages and salaries (64%)	0.6	0.8	5.0	1.6	1.5	1.4	1.8	1.7	1.1	1.0	-3.9	7.4	7.9	4.4
GOS of sole proprietors* (8%)	-0.1	-0.1	-2.2	-0.1	1.1	0.4	2.1	0.3	0.4	0.5	-2.9	6.0	1.3	2.2
Social benefits in cash and other transfers (35%)	0.0	0.1	-2.8	2.7	-1.6	0.1	2.9	5.9	1.8	-1.0	9.2	-1.1	1.4	4.1
GOS of "pure" households (14%)	-0.2	0.5	1.0	1.4	-0.3	1.7	4.0	1.0	3.0	2.3	0.8	2.2	4.9	8.0
Property income (6%)	1.6	0.5	1.9	3.4	3.3	3.5	4.0	3.8	4.0	4.1	-7.8	6.9	13.1	13.3
Social contributions and taxes (–27%)	3.2	0.3	2.1	0.6	3.8	1.0	1.9	-2.4	2.1	0.6	-3.5	4.6	6.5	1.8
Household consumer prices	**0.7**	**0.3**	**0.7**	**0.8**	**1.3**	**2.0**	**1.7**	**2.3**	**2.4**	**1.1**	**0.9**	**1.6**	**5.3**	**6.4****
Purchasing power of gross disposable income	**-1.1**	**0.2**	**0.9**	**1.4**	**-1.6**	**-0.9**	**0.9**	**0.8**	**-1.1**	**-0.3**	**0.2**	**2.3**	**-0.1**	**-0.6**
Purchasing power per consumption unit	**-1.2**	**0.1**	**0.8**	**1.3**	**-1.8**	**-1.0**	**0.8**	**0.7**	**-1.2**	**-0.5**	**-0.3**	**1.9**	**-0.6**	**-0.9**

■ 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.
** the 2023 mid-year overhang for household consumer prices differs from the CPI overhang because of the accounting effect of the rise in interbank rates (► **Box**).
How to read it: after an increase of 2.6% in the third quarter of 2022, household gross disposable income would continue to rise in the fourth quarter (+3.1%).
Note: figures in brackets give the structure for 2019.
Source: INSEE

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

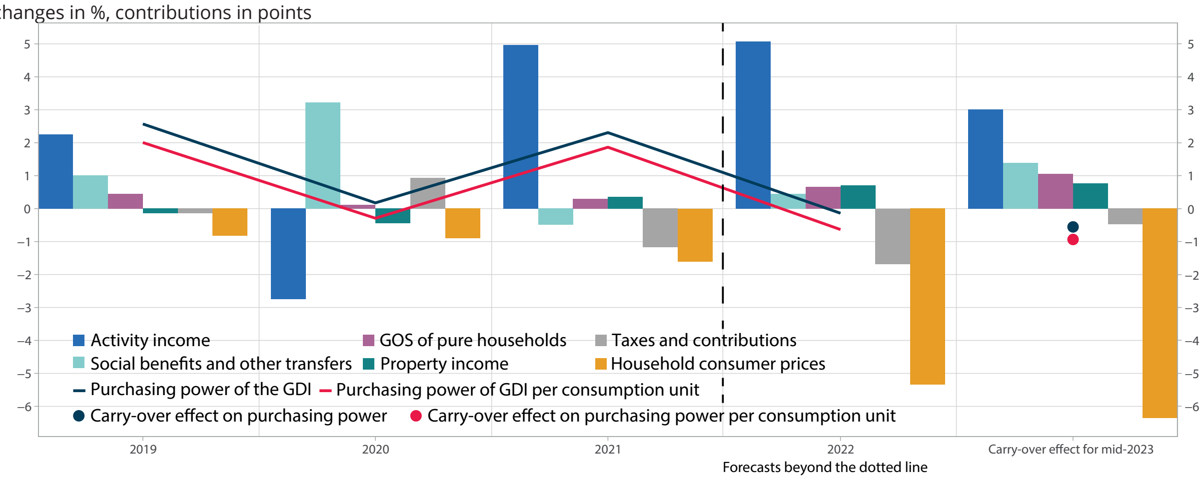
quarterly changes in %, contributions in points



How to read it: the purchasing power of household GDI per consumption unit would increase by 0.8% in Q4 2022. The main contribution to this development would be that of household consumption prices, which would amount to -2.3 points.
Source: INSEE

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

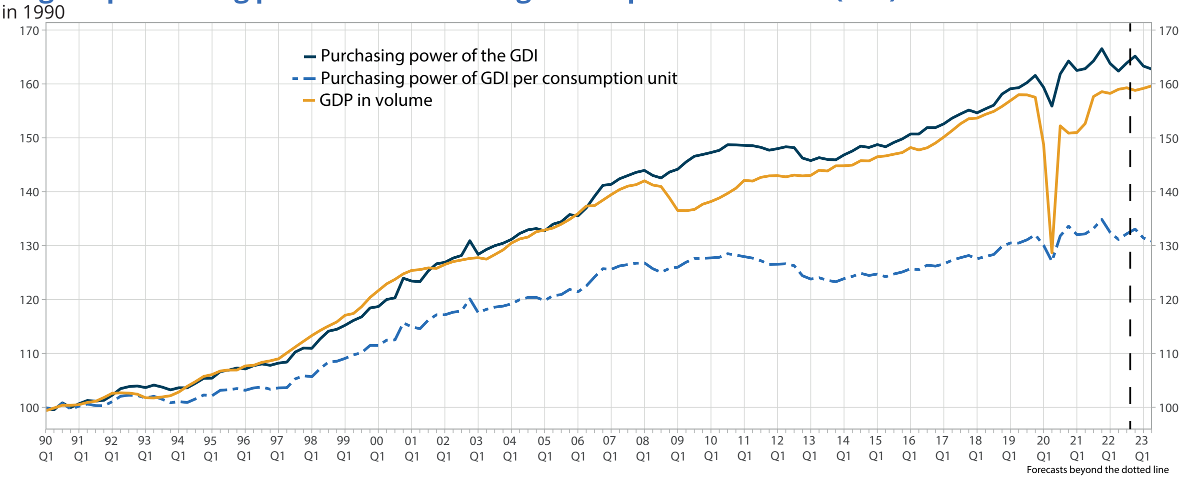
annual changes in %, contributions in points



How to read it: the purchasing power of household GDI per consumption unit would decrease by 0.6% in 2022. The main contribution to this development would be that of household consumption prices, which would amount to -5.3 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

Accounting effect of the rise in interbank rates on household income and consumer prices

In national accounting, interest received and paid by households is recorded as if deposits and loans were paid based on the interbank refinancing rate. In practice, however, this rate is different from the effective rates that households encounter –which are generally higher for loans and lower for deposits, although in recent years the refinancing rate for deposits has been less than the effective rates. In fact, the difference between the interbank refinancing rate and the effective rates observed by households represents the margins operated by financial institutions on the deposits or loans they grant, called Financial Intermediation Service Indirectly Measured (FISIM) in the national accounts. It can therefore be seen as the cost paid by households to access financial intermediation services. This cost is therefore added to household consumption for their deposits and their consumer credit, and to intermediate consumption for owner households for their mortgages.[1] These adjustments and those made to interest received and paid ultimately cancel each other out in household savings.

The ECB raised its base interest rates in July 2022 (+50 base points), then again in September (+75 points) and in October (+75 points), thereby significantly increasing interbank refinancing rates. In the context of a rapid and sharp rise in the interbank refinancing rate, the effective rates observed by households do not change as quickly: the apparent rate on loans depends mainly on previous loans, whereas the rates on deposits are partly regulated, with some being fixed (e.g. the longstanding PEL savings account) or calculated according to rules involving delayed changes in interbank rates (e.g. Livret A). These different movements have an impact on household disposable income and also on consumer prices.

Given the recording rules, the rise in the interbank refinancing rate is reflected in accounting terms in household disposable income, by a contemporaneous and significant rise in interest paid and received. However, the sluggishness of apparent rates strongly modifies bank intermediation margins, and hence the price of financial services:

- for consumer credit loans, the intermediation margin is reduced, with the interbank rate catching up with or even exceeding credit rates, which contributes to reducing household consumer prices in financial services;
- for household deposits, on the other hand, the intermediation margin increases, with the refinancing rate again becoming higher than the rates for rewarding savings, which contributes to increasing household consumer prices in financial services. As households' deposits are greater than their consumer credit loans, this effect dominates the previous one and overall, household consumer prices in financial services increase;
- for household mortgages, the margin is reduced, but this is not reflected in accounting terms in household consumer prices. The costs associated with home ownership fall, which supports owner households' gross operating surplus and offsets the increase in interest paid for this purpose calculated with the interbank rate.

Ultimately, given the scale of deposits held by households compared to their consumer loans, the rise in interbank rates translates into an increase in household disposable income and, on the other hand, by an increase in the price of financial services consumed by households. Opposite movements were able to take place during the financial crisis of 2008, when the ECB severely reduced its base interest rates.

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1 In fact these are intermediate consumptions of these households' production of housing services.

In addition, the rise in the price of financial services, following the increase in interbank rates, resulted in household consumer prices that were more dynamic, in terms of national accounting, than the consumer price index (CPI). The momentum of household consumer prices in terms of the national accounts is generally similar to that of the CPI (adjusted for seasonal variations). Differences may appear, however, when there are strong movements in specific prices: thus in H1 2022, the rise in energy and food prices resulted in a more pronounced buoyancy in the CPI than in household consumer prices, due to the lower weight given to energy and food in household consumption in terms of national accounting (which includes imputed rents, for example, which are not present in the CPI). Meanwhile, FISIM prices are included in household consumer prices within the meaning of national accounting, but not in the CPI basket of goods: an increase in these prices due to the rise in interbank rates therefore drives the dynamics of household consumer prices, but without being reflected in the CPI. Thus in Q3 2022, household consumer prices within the meaning of national accounting increased more quickly than the CPI (Figure). The same is expected in Q4 2022 and in H1 2023. ●

►Consumer price index (SA) and household consumer prices (quarterly accounts)

quarterly changes in %

	2021				2022				2023		2021	2022	2023 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3	Q4			
Consumer price index (SA)	0.7	0.5	0.7	0.8	1.7	2.1	1.2	1.5	1.9	1.2	1.6	5.3	5.1
Household consumption prices (quarterly accounts)	0.7	0.3	0.7	0.8	1.3	2.0	1.7	2.3	2.4	1.1	1.6	5.3	6.4

Source: INSEE