

2022, December 8-9

UNECE Expert Group meeting on Measuring Poverty and Inequality

IMPACT OF 2022 HIGH INFLATION ON THE POOREST ITALIAN HOUSEHOLDS

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Outline

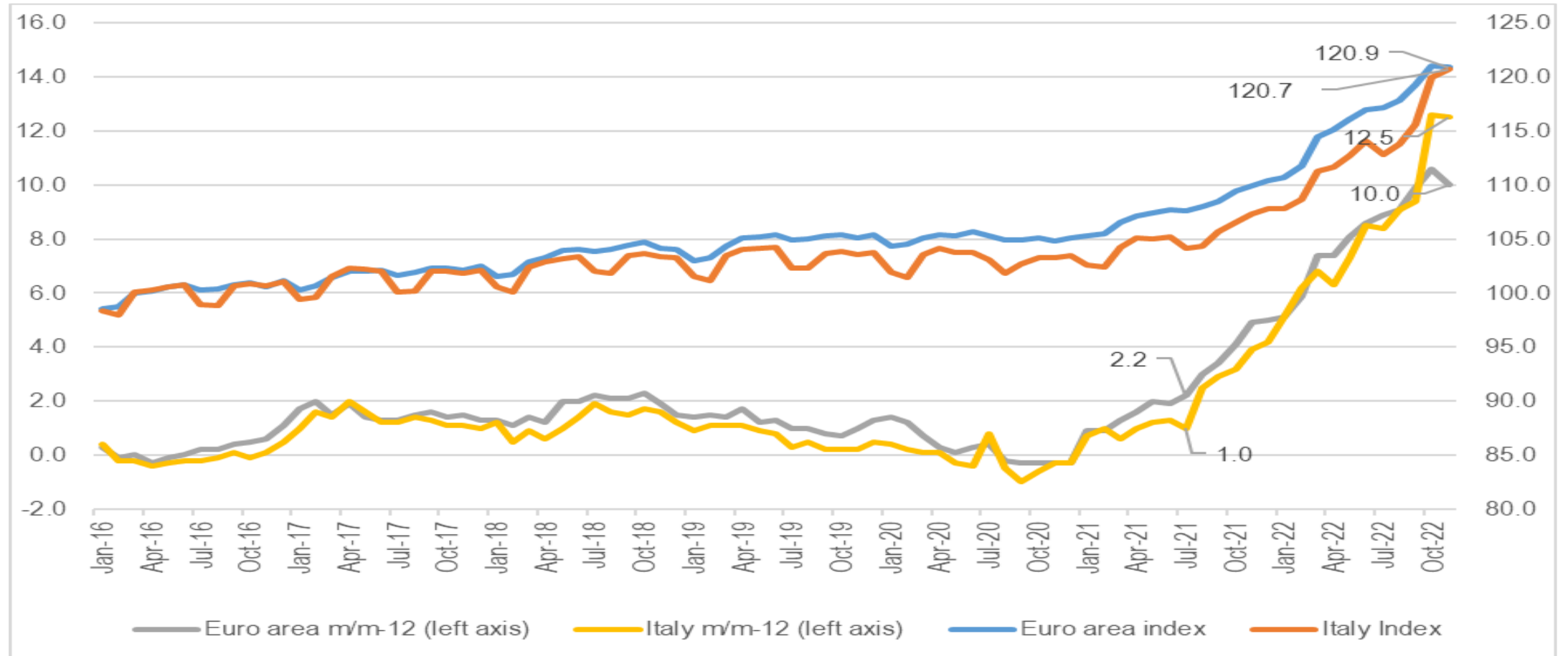
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Inflation in Italy and in the Euro area in 2022: an overview

- The current year, as well the final part of 2021, has been characterized, in Italy, in the European Union and in the world, by a sharp increase of the rates of change of consumer price indices.
- Italian inflation measured by HICP has raised from +1.0% in July 2021 (+2.2% in the Euro area) to +12.5% in November 2022 (+10.0% in the Euro area; preliminary estimates).
- Prices of Food including alcohol and tobacco increased in November 2022 on November 2021 respectively by 12.0% in Italy and by 13.6% in the Euro area and those of Energy by 34.9% and by 67.8%. HICPs referred to Non-energy industrial products and to Services, although high, registered a lower annual rates of change.

Inflation in Italy and in the Euro area in 2022: an overview

Figure 1. HICP Indices and annual rates of change. Italy and Euro area. 2016 – 2022. Percentage values



Istat methodology to compile HICP by five groups of households

- Since 2005, Istat has been compiling and disseminating a measure of the impact of the inflation on five different groups of household of equal dimension but distinguished on the basis of their spending power (from the lowest of the first group to the highest of the fifth) used as a proxy of their income conditions.
- Indices of consumer prices are compiled considering the different structure of consumption expenditure of each group of households (summarized in the system of weights).
- HICPs by population subgroups are “satellite” indices of HICP: they share the set of basic information (basket of products and price elementary data) and the methodology of Italian HICP, but they are different each other for the system of weights used for their calculation.

Istat methodology to compile HICP by five groups of households

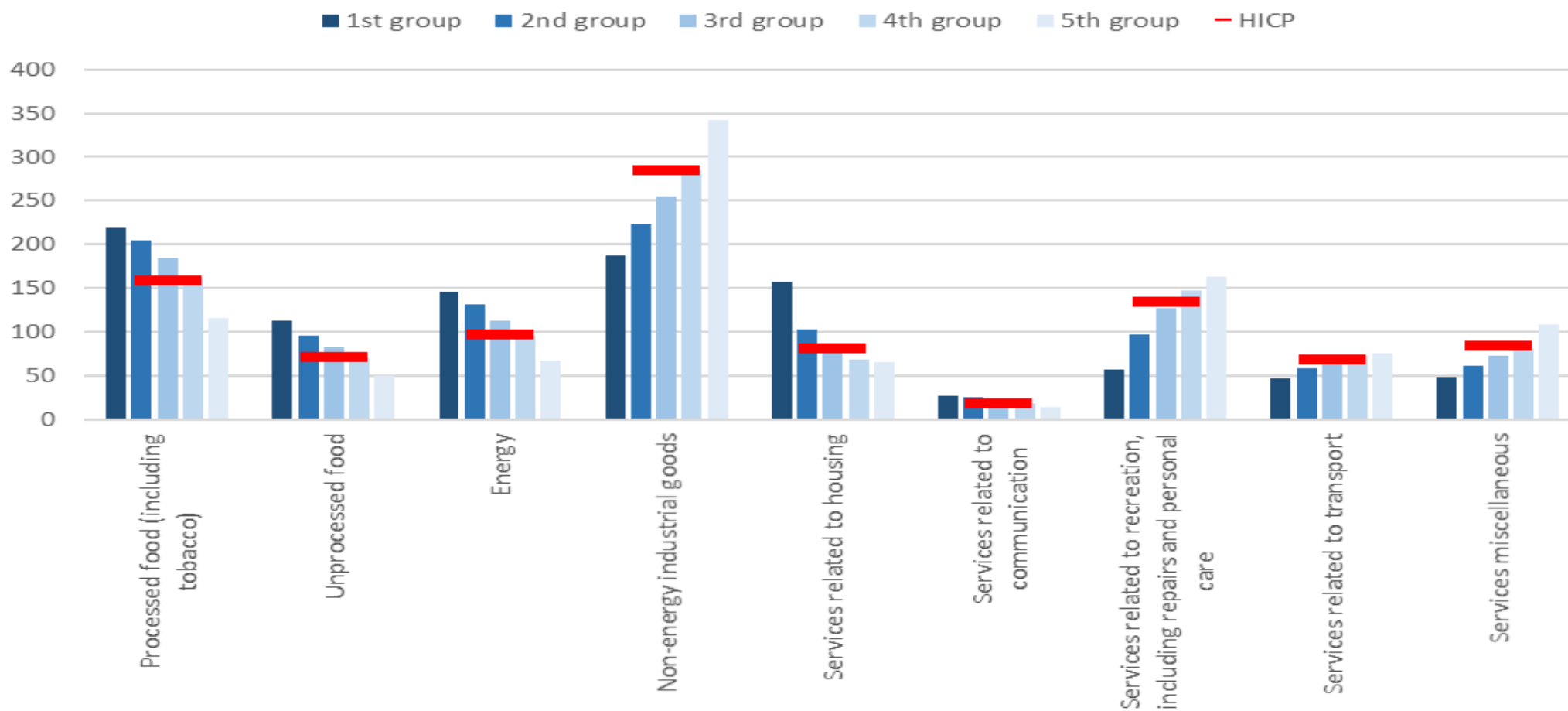
- Estimates of the system of weights for the five subgroups of households are based on HBS data.
- A comparison of household consumption expenditure in terms of distribution is made using the equivalent household consumption expenditure.
- HHs expenditures are made equivalent by coefficients based on the Carbonaro equivalence scale, that takes into account the effect of economies of scale and makes them comparable to that of a two-member household, enabling comparisons among the expenditure levels of different-size households.

Istat methodology to compile HICP by five groups of households

- Households ordered on the basis of the equivalent consumption expenditure, are organized by specific cut-point values and divided into five groups of equal size (equivalent-expenditure quintile groups or fifths):
 - ✓ the first fifth covers 20% of the households with the lowest equivalent consumption expenditure (less wealthy households)
 - ✓ the last fifth covers the 20% of households with the highest equivalent consumption expenditure (wealthiest households)
- In a situation of perfect equality, a share of 20% of the total expenditure sustained by all the households would be placed in each fifth: actually in 2021 the first spent 7.9% and the last fifth 40% of the total expenditure.
- In terms of equivalent expenditure, in 2021 that of the last fifth was 5 times that of the first fifth (inequality measure on expenditure side).

Istat methodology to compile HICP by five groups of households

Figure 2. Weights by 5 groups and main special aggregates in 2022



The impact of inflation on the poorest group of households in Italy

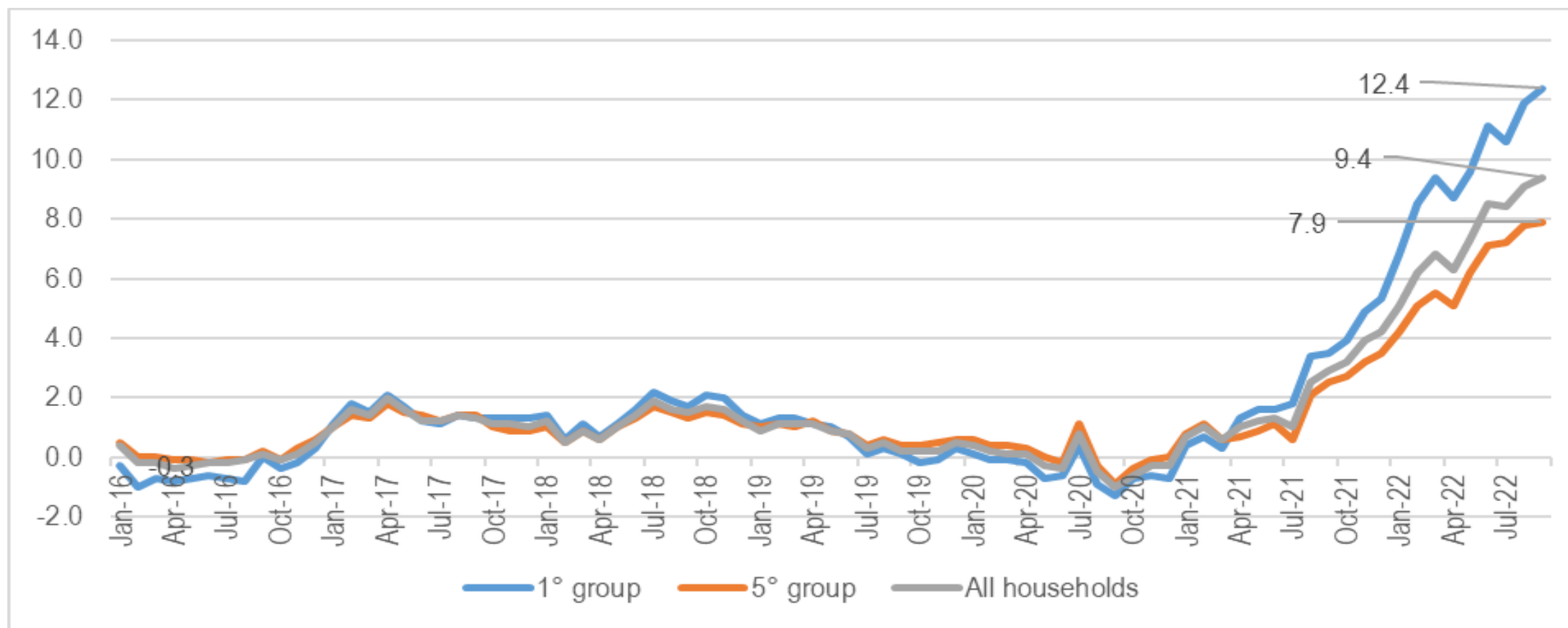
- The measure of the impact of the inflation on five different groups of household shows that in periods of lower inflation (for instance from January 2016 to June 2021) the gap between the all-item HICP of the first group and that of the last group, has swung between -0.7 and 1.0 percentage points.
- Moreover, in the two years when consumer prices in Italy decreased (2016 and 2020, the latter for the side effects of the pandemic), the first group experimented inflation rates lower (or consumer price decreases wider) than those that affected the fifth group.
- Also in those cases this negative gap (as such in favor of the families with lower spending power) was mainly due the evolution of the prices of energy products, despite in 2020 prices of Food including alcohol and tobacco increased by 1.6% and those of Processed food by 2.8%.

The impact of inflation on the poorest group of households in Italy

- Since July 2021 the gap (positive, that is not in favor of the first group, from April 2021) started enlarging, up to 1.2 percentage point in July 2021, to 2.6 in January 2022 and arriving at 4.5 in September (the highest level since when these indices are compiled that is 2005).
- 4.5 are also the percentage points of gap if we consider the rate of change between September 2022 and the average 2015.
- The gap is about 8 if we take into account the increase of consumer prices from 2005 to September 2022. It means that the ascending cycles of inflation, given that they are mainly driven by energy products, are cumulating their effects on the people with lower spending power not only in the short but also in the long term.

The impact of inflation on the poorest group of households in Italy

Figure 3. Italian HICP annual rates of change. 1st group, 5th group of households and all the households. 2016- 2022. Percentage values



The impact of inflation on the poorest group of households in Italy and in the Euro-area

- Also in the Euro-area the gap between the increase of consumer prices affecting the households with lower income with respect to that on households with higher income has arrived at its peak in September 2022 (1.9 percentage points).
- In this case the analysis is conducted by making reference to HICP compiled for households' groups identified by income distribution in HBS data (ECB, E. Charalampakis et al, 2022).
- It has to be noticed that low-income households tend to consume a larger share of their income and save less and face liquidity constraints more often than high-income, having more difficulties to face inflationary shocks.

The socio-economic consequences of the rise of inflation

- The characteristics of the group of households with lower spending power (2021 HBS data) reveal their vulnerability by different points of view:
 - ✓ They lived mostly in geographical areas where, traditionally, living conditions are worse and income lower (in 2021, 54.7% of households of the first fifth of equivalent household consumption expenditure, lived in the South and the Islands of Italy)
 - ✓ For 27.4% of them the reference person (RP) was in the position of employee as worker and for another 20.6% the RP was inactive but not retired from work
 - ✓ Average monthly consumption expenditure was 1,205 euros at current values, about half of consumption expenditure estimated for all households
 - ✓ 36.4% lived in rented dwellings (twice as many as the percentage observed in the total population)

The socio-economic consequences of the rise of inflation

- 2022 probably will end with an average inflation around +8.7% (consolidated rate of change in 2022 for the all-item HICP in November), that should be +9.9% for the first group of households and +6.4% for the fifth group.
- More 3.5 percentage points on average in 2022 the inflation gap between the first and the fifth group of households.
- This means a scenario where a monetary measure of poverty will take into account this worsening of the purchasing power of the poorest households.
- High probability of an increase in the poverty rate in Italy arrived at its peak in the pandemic period (7.5% of households, 9.4% of individuals in 2021) given that the stability in 2021 of poverty rate was mainly due to rising in inflation (+1.9% in 2021) without which the share of households in absolute poverty would have fallen to 7.0% and that of individuals to 8.8%.

Concluding remarks

- High inflation has come back not only as an awful issue in macroeconomic and monetary terms but as a further element that could enlarge poverty and inequalities of the household revealing the strong socio-economic consequences of this phenomenon.
- The measures adopted by Italian government (reduction of the VAT on gas since October 2021, of the excises on fuels from November 2021 and a wide enlargement, since April 2022, of the amount of the reduction of the gas and electricity bills for the households under a certain thresholds of income) to reduce the impact of the recent sharp increase of Energy related consumer prices have produced limited effects, even if not negligible.
- It appears necessary enhancing the attention of the policy makers on these exogenous shocks (after the pandemic, high inflation), that have affected the living conditions of the more vulnerable families.

Concluding remarks

- Two main research objectives can be identified for the future
- The first, in the short term, is the evaluation of the impact of the policies adopted and specifically addressed to the low income sector of the population in terms of reduction of the impact of inflation and reduction of the consequent gap with respect to the high income sector.
- The second, in the long term, is the compilation of Italian HICP/CPI by groups of households identified on the basis of income distribution (not on the basis of expenditure level as a proxy of the income).
- The 2023 meeting of the Group of Experts on Measuring Poverty and Inequality could be the occasion to discuss these other topics.

Thank you

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