

FRENCH HOUSEHOLDS: PURCHASING POWER IS UNDER PRESSURE

Stéphane Colliac

Purchasing power is a major concern for French households, a hot topic that is currently acute. For the first time since 1989, inflation is expected to rise above the 3% threshold for most of the year 2022.

Aggregate household revenue is growing at a dynamic pace, offsetting the observed inflation impact. Purchasing power has increased by 2.3% in 2021 and a slight gain at 0.2% is even possible in 2022.

Strong job creations have bolstered the total disposable income of French households. Looking at the average compensation, purchasing power has increased by 1.1% in 2021, but is expected to contract by 0.6% in 2022.

Differences in household situations are strong, especially as non-discretionary expenditures (rent, energy) have increased, resulting in cutbacks in households' discretionary income, i.e. the income left over that they have to live on. The purchasing power of discretionary income has increased by 1.8% in 2021 but may decline by 0.8% in 2022 according to our forecasts.

The question of purchasing power gains over the long term can be looked at by comparing the structural dynamics of inflation and wages. Inflation has eroded the purchasing power of low-income households because wage growth declined.

ECONOMIC RESEARCH

HOUSEHOLD PURCHASING POWER CHANGE: ALTERNATIVE ESTIMATES

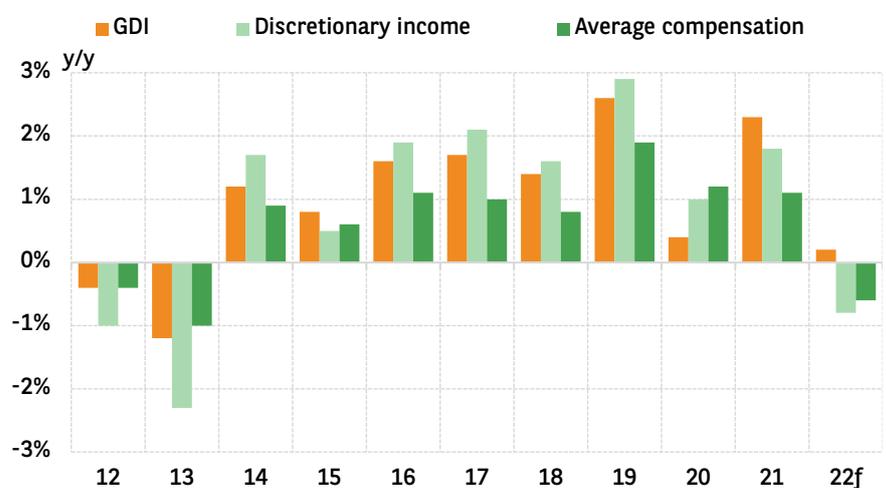


CHART 1

SOURCE: INSEE, BNP PARIBAS CALCULATIONS

Household purchasing power has resurfaced as a major issue in France again. According to pre-electoral surveys, it is even the number one concern of French households. This is not the first time that it has been an issue in recent years: it was also a hot topic in 2018, and more generally in 2012-2016, a period of slow economic and wage growth. After a steady increase at 2.3% in 2021, the gross disposable income estimate of purchasing power suggests a slight gain of 0.2% in 2022 (chart 1), the smallest gain since 2013. Yet this method is largely contested given the diversity of household situations that are not reflected in this aggregate figure. Other measurements, which we will come back to later in greater detail, are summarized below. According to these alternative measurements (discretionary income, average compensation), household purchasing power may contract in 2022.

THE HIGHEST INFLATION RATE IN 33 YEARS SHOULD CUT HOUSEHOLDS DISCRETIONARY INCOME

What makes the current situation more acute is higher inflation, and the fact that revenue growth is having a hard time keeping up the pace. Energy prices have risen significantly since last summer: the energy component of the consumer price index rose 21% y/y in February 2022.



At the same time, inflation seems to have broadened, primarily because other commodity prices have also increased, notably food prices.

All in all, inflation reached 3.6% y/y in February 2022. Major price increases are still expected in the first half of the year, with food prices rising as much as 3.2% between December 2021 and June 2022. Consequently, inflation is expected to average 3.5% for the year (the highest inflation rate since 1989, chart 2), with an upside risk due to energy prices.

Moreover, it is worth noting that inflation is not limited solely to consumer spending. Households also invest, and the cost of this investment has tended to rise, whether inflation is measured via overall house prices (+7.1% y/y in Q3 2021) or the GDP household investment deflator (5.1% y/y in Q4 2021).

Moreover, some difficulties in terms of purchasing power can also be attributed to the fact that fixed expenditures are subtracted from disposable income, and as they rise, they cut into discretionary income, the amount that is left over to live off. Comprised basically of pre-committed household expenses such as rent and energy, these fixed expenditures have been accelerating since Q2 2021 (chart 3).

Since then, the year-on-year growth of discretionary income (gross disposable income minus pre-committed expenditures) has fallen short of that of gross disposable income (it was not the case from 2014 and 2020). The purchasing power of discretionary income has increased by 1.8% in 2021 and may contract by 0.8% in 2022.

Moreover, the share of pre-committed expenditures is higher for low-income households (41% according to France Stratégie, vs 28% for the wealthiest households in 2017, the last available data). More importantly, it has increased by nearly 10 points for low-income households compared to 2001, mainly due to the housing component.

AVERAGE REVENUE GROWTH IS FAVOURABLE, BUT EVERYONE IS NOT BENEFITING

It is hard not to experience a loss of purchasing power, at least temporarily, when inflation accelerates so quickly. Yet household revenues are also trending upwards, both for capital income and compensations.

The pandemic had a unique impact on compensations, which were partially replaced by social welfare benefits (wages were covered in sectors offering short-time work schemes). Looking at the aggregate of compensations plus social welfare benefits, the increase is much more stable than compensation growth taken separately. In other words, higher welfare benefits offset the decline in wages in 2020. Currently, compensation growth continues to benefit from the job market's return to normal (chart 4).

Capital income has also surged, bolstered by higher corporate earnings. Even so, undermined by persistently low interest rates, it has yet to return to pre-Covid levels. A notable difference between the current period and 2018 is the role capital income plays in the growth of purchasing power gains. If we exclude capital income, purchasing power gains would be reduced by 0.6 percentage points in 2018, whereas currently the difference would be marginal.

There are sometimes very significant differences in total compensation growth and the increase in hourly wages or the minimum wage (chart 5).

FRANCE: INFLATION RATE

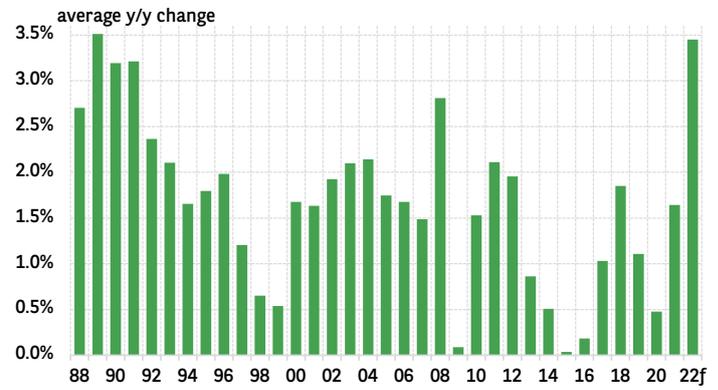


CHART 2

SOURCE: INSEE

FRANCE: NON-DISCRETIONARY HOUSEHOLD SPENDING CHANGE



CHART 3

SOURCE: INSEE

FRANCE: HOUSEHOLD INCOME CHANGE

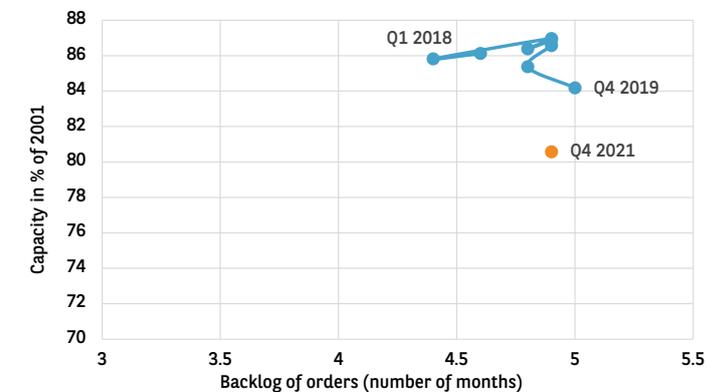


CHART 4

SOURCE: INSEE, BNP PARIBAS CALCULATIONS



One explanation is job market trends. France benefits from a large number of job creations, which has pushed the employment rate to a record high (67.8% in Q4 2021) and aggregate compensation is growing faster than average compensation. As a result, the purchasing power of average compensation has increased by 1.1% in 2021 and may contract by 0.6% in 2022.

The use of variable compensation schemes by companies (which are included in compensation estimates) is not generalized yet. There is no recent figure, but they probably increased with the introduction of the Pacte law (implemented since early 2020), which requires all companies with at least 50 employees to systematically offer such schemes. Beneficiaries of extra compensation would see their compensation increase over their fixed wage, notably during a period of high corporate profits.

Yet, since a big share of these performance incentives or profit-sharing schemes result in financial savings (notably pension financing), they do not boost household consumption in the same way as immediately available revenues, despite a possible substitution effect.

Moreover, small business employees and the self-employed are excluded from this type of compensation. All in all, households whose revenues are comprised essentially of fixed wages have seen their purchasing power growth cut during the last decade compared to the previous one. Over the past ten years, hourly wages have increased 16.8% compared to cumulative inflation of 11.8%, a 5-point spread that is much smaller than the 11.6% increase in purchasing power observed for all types of compensation. Moreover, this problem has tended to increase recently (chart 6).

IS REDISTRIBUTION THE (ONLY) REMEDY?

One role of public finances is to provide social welfare benefits, which can take various forms. Some directly benefit the working-age population, either through unemployment benefits or job support measures. Between 2012 and 2018, redistribution generally had a very neutral impact on purchasing power. During a period of low inflation, public finances were guided more by a policy of boosting employment and by gradual fiscal consolidation (chart 7). On chart 7, the calculation excluding redistribution is considering household gross compensation along with other revenues and does not take into account the income tax or social benefits.

The situation changed in 2018 with the emergence of inflationary pressures. With the expansion of the activity bonus programme and other fiscal measures as of 2019, redistribution began to play a more important role in boosting purchasing power. It helped make 2019 one of the most favourable years in terms of household purchasing power gains. Purchasing power rose 2.6%, but if we only take into account earned income, it would have increased only 1.9%. This 0.7-point boost from redistribution was the highest since 2002 (excluding crisis years).

Recently, redistribution helped smooth the impact of the decline in wages during the Covid pandemic by substituting for wages (chart 4). As a result, France avoided a 4% loss of purchasing power in 2020.

Yet there was some divergence between public finance support for the labour income and the increase in benefits for the others. The idea of providing job incentives through a bigger increase in work-related revenues made other revenues more sensitive to rising inflation. Over the past 12 years, pensions have been revalued by nearly 10% (for basic pension plans paying less than 2,000 euros, above which they were not revalued as much), whereas cumulative inflation reached 18.4%.

FRANCE: MINIMUM WAGE AND HOURLY AVERAGE WAGE VS. COMPENSATION, ANNUAL CHANGE

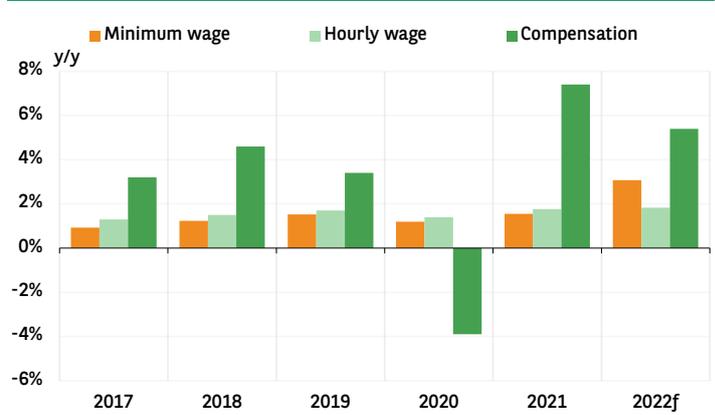


CHART 5 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

FRANCE: PURCHASING POWER OF HOURLY WAGES VS. GDI

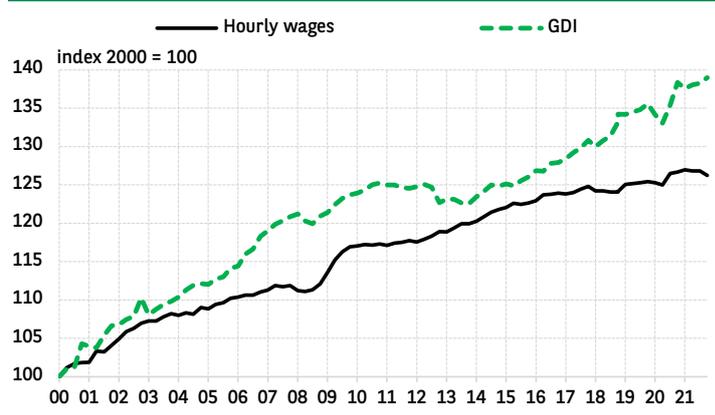


CHART 6 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

FRANCE: PURCHASING POWER ANNUAL CHANGE EXCLUDING AND INCLUDING REDISTRIBUTION

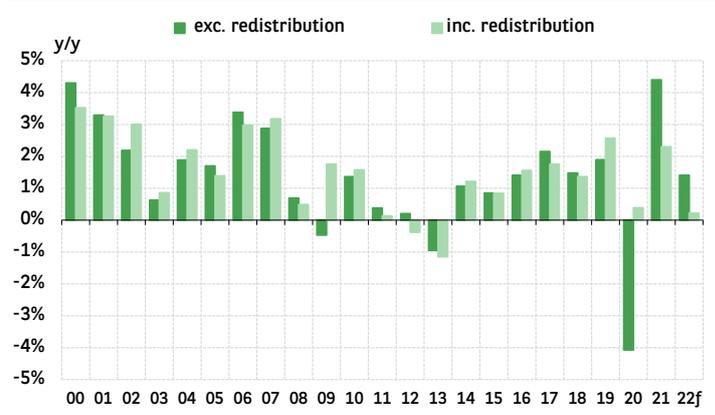


CHART 7 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

Public intervention also had an impact on purchasing power by temporarily preventing increases in regulated prices. For example, the increase in regulated electricity rates was limited to 4% in February 2022, as opposed to increases that could have been as high as 35% to 45% according to estimates. This is certainly an effective method for limiting headline inflation. Yet this support comes at a high price (nearly EUR 16 billion), half of which is supported by public finances and the other half by EDF.

Acting on certain prices that are critical for the economy as a whole can have a positive impact in the short term by reducing the size of knock-on effects and thus headline inflation. Yet it is not a viable solution for more than a few months, because it would eventually erode the investment capacity of energy-producing companies.

On the whole, the increase in the share of housing expenditures in the budgets of low-income households shows that the question of purchasing power is not limited to the volatile nature of inflation. The recent rise in construction costs as well as transaction prices for existing homes does not augur well for a change of tendencies.

Redistribution can have a role to smooth short-term issues. However, in the long-run higher employment and wages growth should be a more viable support for households' purchasing power.

Stéphane Colliac

stephane.colliac@bnpparibas.com





CONJONCTURE

Structural or thematic topics.



EMERGING

Analyses and forecasts for a selection of emerging economies.



PERSPECTIVES

Analyses and forecasts with a focus on developed countries.



ECOFASH

Data releases, major economic events.



ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.



ECOTV

A monthly video with interviews of our economists.



ECOTV WEEK

A weekly video discussing the main event of the week.



MACROWAVES

Our economic podcast.

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
[see the Economic Research website](#)

&

FOLLOW US ON LINKEDIN
[see the Economic Research linkedin page](#)

OR TWITTER
[see the Economic Research Twitter page](#)

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
 Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: William De Vijlder



BNP PARIBAS

The bank
for a changing
world