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European Business Cycle Indicators

The impact of inflation on consumers'
financial situation – insights from
the Commission's consumer survey

2nd Quarter 2022

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2nd Quarter 2022

The impact of inflation on consumers' financial situation – insights from the Commission's consumer survey

This document is written by the staff of the Directorate-General for Economic and Financial Affairs, Directorate A for Policy, Strategy and Communication, Unit A3 - Economic Situation, Forecasts, Business and Consumer Surveys (http://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys_en).

Contact: Christian.Gayer@ec.europa.eu.

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OVERVIEW

Recent developments in survey indicators

- The EU and euro-area **Economic Sentiment Indicators (ESI)** lost some further momentum over the 2nd quarter of 2022, losing 4.0 (EU) and 2.5 (EA) points compared to March. At 102.5 and 104.0 points in June, the indicators remain above long-term average.
- Also the **Employment Expectations Indicator (EEI)** decreased further, finishing the second quarter 2.2 (EU) / 2.6 points (EA) lower than in March 2022. At 110.6 (EU) and 110.9 (EA) the EEI remained well above its long-term average.
- **Confidence** decreased in industry, retail trade, construction and among consumers. Services stood out with confidence remaining broadly stable (EU) or improving (EA), likely reflecting the relaxation of sanitary measures and the effect of the upcoming holiday season.
- Sentiment deteriorated in five of the **six largest EU economies**, mainly in the Netherlands (-4.9) but also in Spain (-2.3), Poland (-2.1), Germany (-1.8) and France (-1.4). Sentiment improved slightly in Italy (+1.0). Except for Poland and the Netherlands, the level of sentiment stayed above its long-term average.
- The EU **Economic Uncertainty Indicator (EUI)** eased slightly from its high March reading. Uncertainty rose in the construction sector and among consumers.
- In April, **capacity utilisation** in manufacturing remained broadly stable compared to January. At around 82½%, utilisation remained above long-term average in both regions. Capacity utilisation in services picked up by around 1½ percentage points to above-average readings in both regions (EU: 89.9%, EA: 89.7%).
- The share of industry managers pointing to a **shortage of material and/or equipment** remained stable at a record level of 51.2% in the EU in April. The percentage of managers pointing to labour shortages as a limiting factor rose further to 27.9%.
- Consumers' quantitative **price perceptions** reached levels unseen since the beginning of the series in 2004. Consumers' price expectations reached a new all-time high.

Special topic: The impact of inflation on consumers' financial situation – insights from the commission's consumer survey

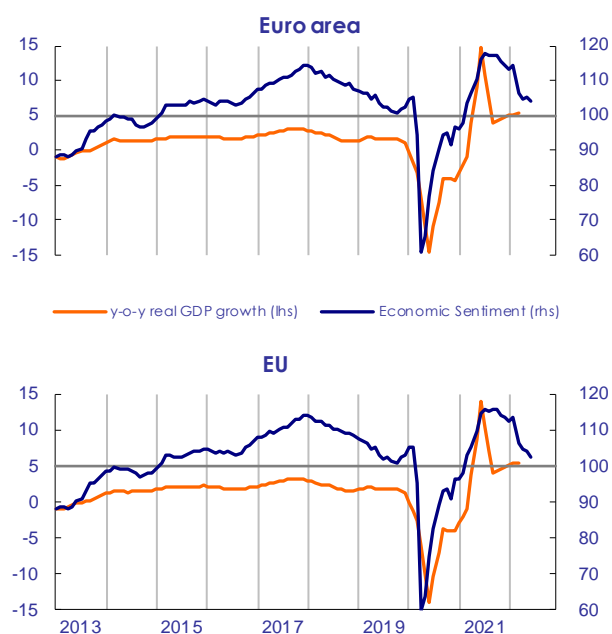
The analysis in this Special Topic takes a close look at the results from the consumer surveys until June 2022 to explore the impact of high and rising inflation on consumers' assessment of the financial situation of their household and their consumption/saving intentions. Information on the socio-economic characteristics of the respondents in the survey allows to get insights into the distributional impact of rising inflation on consumption. Overall, consumers' assessment of the past and expected financial situation of their household has been deteriorating for all income quartiles since July 2021. However, the worsening is more pronounced for the lower-income households. This confirms that it is the lower income households who are most hit by the increasing energy bills and food prices, as a larger share of their spending is on these basic items. Moreover, more and more consumers have lowered both their intentions to save and to spend on major purchases over the next year, indicating that inflation has an important impact on real disposable income and aggregate spending. Finally, while consumers' assessment of their financial situation has deteriorated across all EU Member States, the depth of the decrease has varied markedly across countries.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

Following the sharp decrease registered in March 2022 in response to the Russian invasion of Ukraine¹, the EU and euro-area **Economic Sentiment Indicators (ESI)** lost some further momentum over the 2nd quarter of 2022 (see Graph 1.1.1).

Graph 1.1.1: Economic Sentiment Indicator

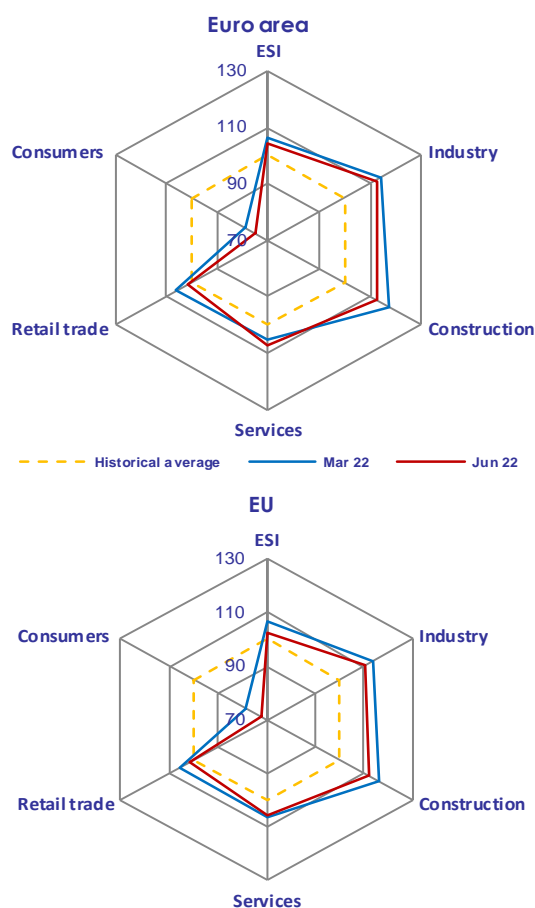


Note: The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

The ESI finished the second quarter of 2022 4.0 (EU) and 2.5 (EA) points below its level of March 2022. Despite the further losses, the indicator's current reading (102.5 in the EU, 104.0 in the EA) is still above its long-term average of 100.

From a sectoral perspective (see Graph 1.1.2), EU/EA confidence decreased in industry, retail trade, construction and among consumers. Services stood out with confidence remaining broadly stable in the EU and improving in the EA, likely reflecting the relaxation of sanitary measures, which had hit customer-facing services particularly hard, and the effect of the upcoming holiday season, favourable to tourism.

Graph 1.1.2: Radar Charts



Note: A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages are generally calculated from 2000q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.

¹ The February readings of the indicators were based on surveys conducted until 18 February and, hence, did not reflect the impact of the invasion.

The level of confidence stayed high compared to historical standards in all business sectors

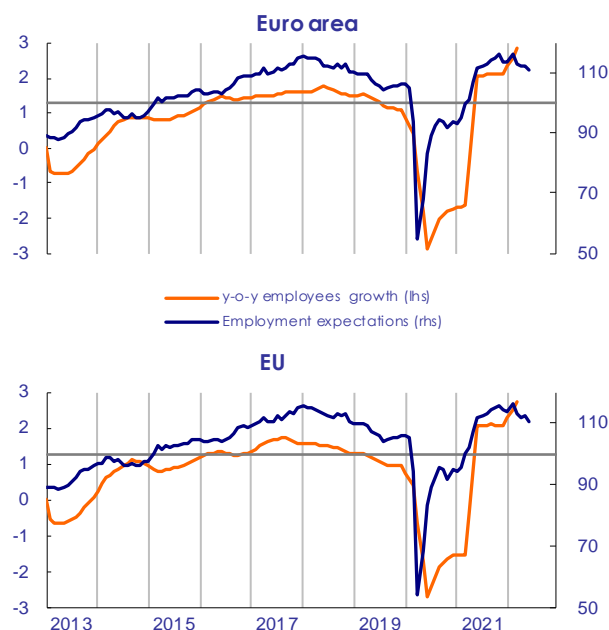
except for retail trade, where confidence fell close to its long-term average. Consumer confidence fell to a very low level, close to its low-point reached during the first COVID-19 wave of Spring 2020.

Confidence deteriorated on the quarter in five out of the six largest EU economies, mainly in the Netherlands (-4.9) but also in Spain (-2.3), Poland (-2.1), Germany (-1.8) and France (-1.4). In Italy sentiment improved slightly (+1.0). Except for Poland and the Netherlands, the level of sentiment stayed above its long-term average.

The downbeat signal emanating from the ESI is in line with the evolution of Standard & Poor's Eurozone Composite PMI, which decreased by 2.9 points over the second quarter. By contrast, the Ifo Business Climate Index (for Germany) improved by 1.5 points over the quarter, on account of a partial rebound after March's sharp decline.

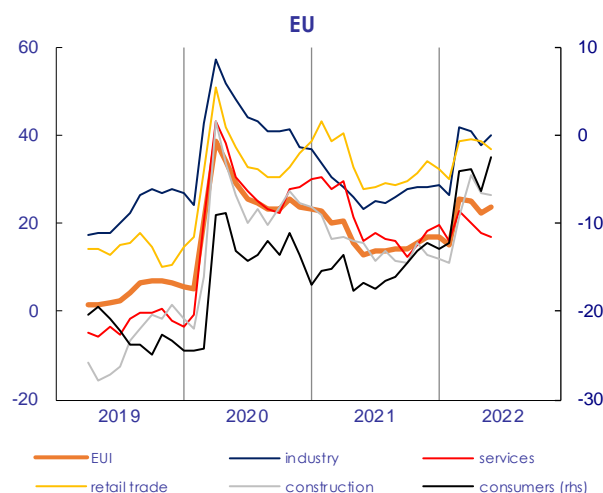
In line with the ESI, also the **Employment Expectations Indicator (EEI)** decreased further. The indicator finished the second quarter of the year 2.2 (EU) / 2.6 points (EA) lower than in March 2022. At the level of the EEI's sectoral components, compared to March 2022, employment expectations decreased markedly in construction and - to a lesser extent - in industry and retail trade, while decreasing only marginally in services.

Graph 1.1.3: Employment expectations indicator



After the abrupt rise in March that followed the Russian invasion of Ukraine, the **EU Economic Uncertainty Indicator (EUI)**² remained broadly stable in April, decreased in May, and picked up again in June. Overall, the indicator is now 1.9 points lower than in March, still at a relatively high level (see Graph 1.1.4).

Graph 1.1.4: Uncertainty



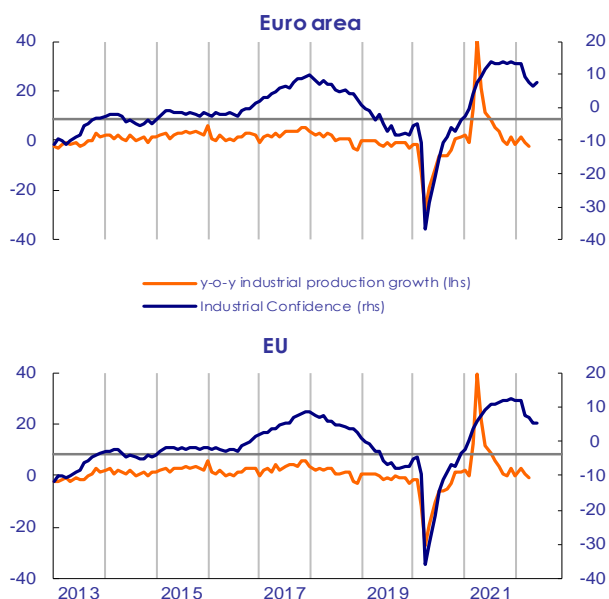
Uncertainty rose markedly in the construction sector and - though to a lesser degree - among consumers. By contrast, the indicator decreased noticeably in services, and to a lesser extent in industry and retail trade. Developments in the EA were qualitatively in line with those observed in the EU.

Sector developments

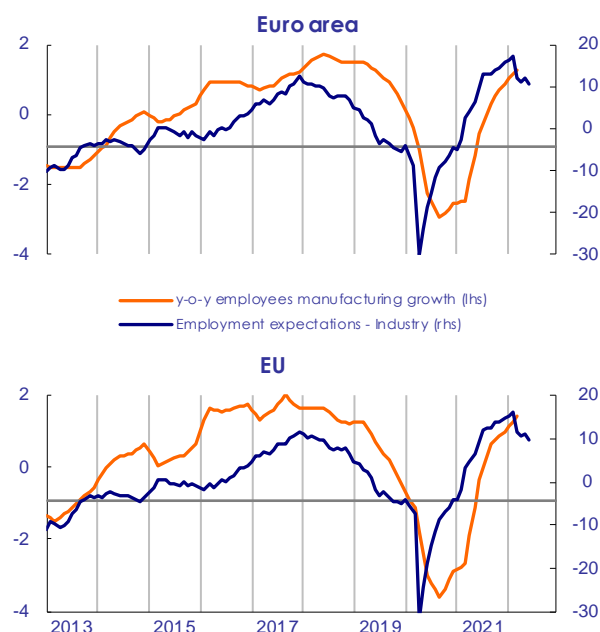
After the sharp decrease registered in March, **industry confidence** continued to worsen in April and May. In June, it remained stable in the EU and picked up slightly in the EA. On balance, the indicator fell by 2.5 (EU) and 1.7 (EA) points over the second quarter but remained well above its long-term average (see Graph 1.1.5).

² See the special topic of the [2021-Q3 EBCI](#) for background, and section 3.6 of the [BCS User Guide](#) for methodological details.

Graph 1.1.5: Industry Confidence indicator



Graph 1.1.6: Employment expectations in Industry



Zooming into the components of industrial confidence, the decline in the EU resulted from a worsening of **production expectations, order books** and **stocks**. The latter were assessed as less scarce than at the end of March 2022. In the EA, managers' production expectations improved over the quarter.

Of the components not included in the confidence indicator, both managers' appraisals of **past production** and their assessment of **export order books** deteriorated on the quarter. The decrease in past production was particularly marked in the EU.

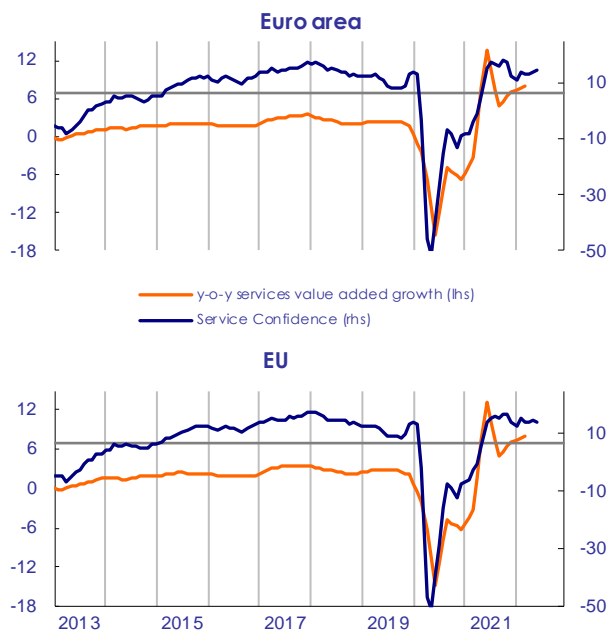
Industry managers continued to revise downwards their **employment expectations**. The indicator is now 1.8 points lower than its level of March (see Graph 1.1.6). Managers' **selling price expectations** rose further in April to unprecedented levels, and then declined in May and June, interrupting the upward trend visible since spring 2020. All in all, in June the indicator was 5.6 (EU) and 5.8 (EA) points lower than in March, though remaining at historically high levels.

Industry confidence weakened in all the six largest economies, in particular in Spain (-2.3), and, to a lesser extent, in Italy, the Netherlands, Poland (all -1.5), France (-1.1), and Germany (-0.9). Despite the losses, the level of confidence stayed above its long-term average, except for Poland.

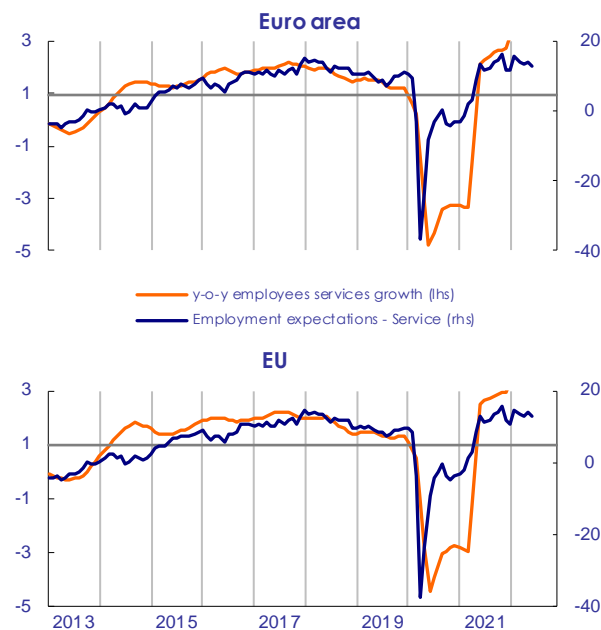
According to the quarterly manufacturing survey (carried out in April), **capacity utilisation** in manufacturing remained broadly stable compared to January (-0.2 points in the EU, +0.2 points in the EA). At 82.3% (EU) / 82.6% (EA), the indicator remained above its long-term average of 80.6% (EU) / 80.7% (EA).

The share of industry managers pointing to a shortage of material and/or equipment as a **factor limiting production** remained stable at the record level reached in January in the EU (at 51.2%) and decreased by 1.4 percentage points in the EA (to 53.3%). At the same time, shortages of labour force were indicated as a factor limiting production by 27.9% (EU) and 27.3% (EA) of managers in April, representing a further increase by 0.8 and 0.6 percentage points compared to January.

Graph 1.1.7: Services Confidence indicator



Graph 1.1.8: Employment expectations in services



Services confidence remained broadly stable in the EU (-0.3) and improved in the euro area (+1.8) over the second quarter of 2022. At 13.9 (EU) / 14.8 (EA) points, services confidence in June was well above its long-term average (see Graph 1.1.7). From a sectoral perspective, confidence benefitted from the reopening momentum in contact intensive services ahead of the holiday season.

Looking into the components of services confidence, in the EU, managers' assessment of the **past business situation** remained broadly unchanged, views on **past demand** improved, while **demand expectations** worsened strongly compared to March 2022. In the EA, developments were quite similar except for managers' assessment of their **past business situation** which improved strongly.

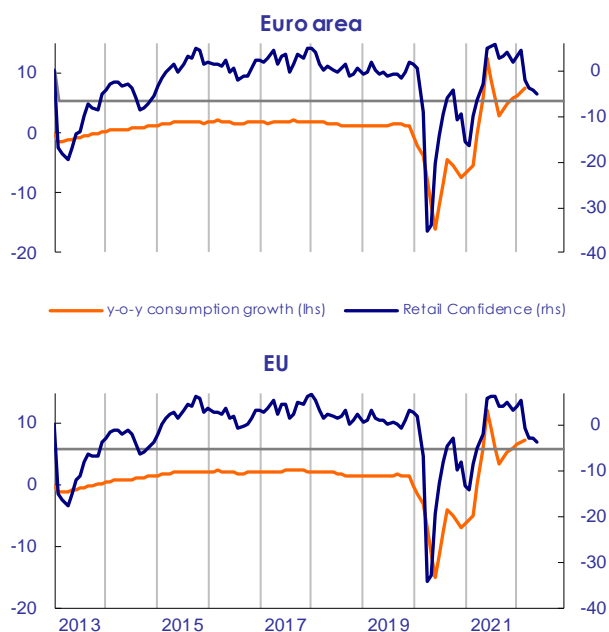
In both the EA and the EU, **employment expectations in services** went up and down during the quarter, ending 0.4 and 1.1 points lower in June than in March (see Graph 1.1.8). Managers' **selling price expectations** increased further over the quarter. However, the peak was reached in April after which the indicator decreased over the rest of the quarter, interrupting the upward trend visible since March 2021.

Amongst the six largest EU economies, services confidence rallied in Italy (+6.7) and booked significant increases in Germany (+3.5). To a lesser extent, confidence improved also in Spain (+1.9), Poland (+1.4) and France (+1.2). By contrast, it deteriorated in the Netherlands (-2.3).

Capacity utilisation in services, as measured by the quarterly survey conducted in April, picked up by 1.4 percentage points in the EU (to 89.9%) and by 1.6 percentage points in the EA (to 89.7%) compared to January. In both regions, the latest increases brought the indicator slightly above its long-term average (88.9% in the EU, 88.7% in the EA).

Retail trade confidence decreased further in the second quarter of the year (-2.9 points in the EU and -3.0 points the EA). Despite the losses, confidence in both regions is still above historical average (see Graph 1.1.9).

Graph 1.1.9: Retail Trade Confidence indicator



After having collapsed in March, managers' expectations regarding their **future business activity** decreased further during the second quarter and are now well below their March level. Albeit to a lesser degree, the appraisals of the **past business activity** and **stocks** (which enter the confidence indicator with inverted sign), also worsened over the second quarter.

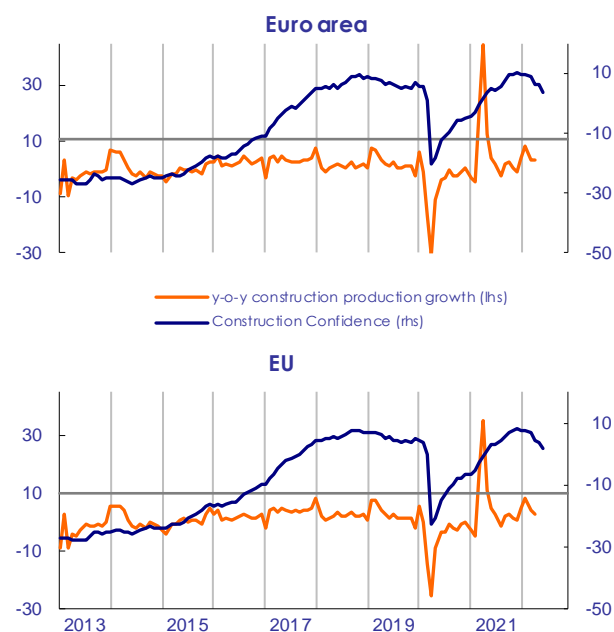
At the level of the six largest EU economies, confidence clouded over in Germany (-4.4), France (-2.2) and the Netherlands (-1.8). By contrast, confidence increased strongly in Italy (+6.2) and more slightly in Poland (+1.6), while it remained broadly unchanged in Spain (+0.2).

After having reached a historical peak at the end of 2021 and remaining broadly stable during the first quarter of 2022, **construction confidence** decreased markedly during the second quarter (-4.9 points in the EU and -5.2 points the EA in June compared to March). The level of confidence remained nevertheless exceptionally high (see Graph 1.1.10).

Both managers' appraisals of **order books** and their **employment expectations** worsened significantly compared to March.

The share of construction managers pointing to a **shortage of labour as a factor limiting production** decreased slightly compared to March in both the EU (to 28.5%) and the EA (to 26.4%). The corresponding shares for **shortages of material and/or equipment** reached an all-time high in April but decreased substantially in both areas in May and June (to 24.3% in the EU, 23.9% in the EA).

Graph 1.1.10: Construction Confidence indicator

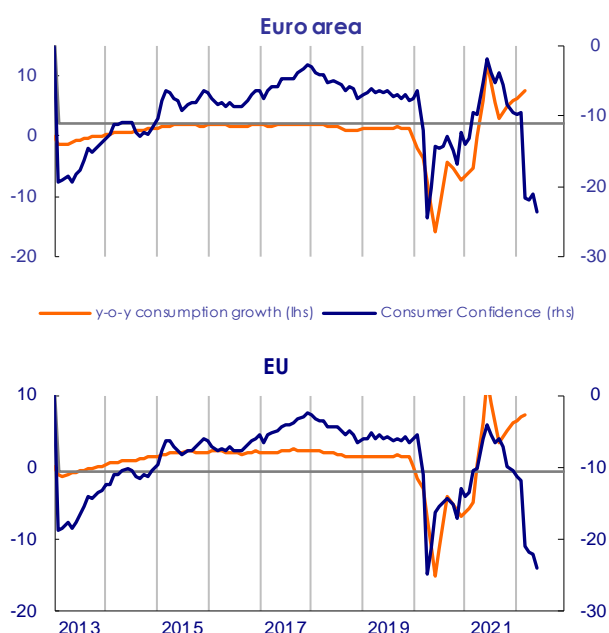


Except for Italy (+0.2), construction confidence worsened in all the largest EU economies. The decrease was particularly important in the Netherlands (-9.2) and Spain (-7.4) and, less so, in Germany (-4.0), Poland (-3.2) and France (-1.0).

After plummeting in March, **consumer confidence** decreased further during the second quarter of 2022. Compared to March, the indicator lost another 3.2 (EU) / 2.0 (EA) points (see Graph 1.1.11) and is now in both areas almost as low as during the first COVID-19 wave.

The worsening in confidence was mainly caused by a strong decrease in respondents' assessment of their household's **past financial situation**. In both the EU and the EA, consumers were also more pessimistic about their **household's future financial situation** and their **intentions to make major purchases**. Consumers' expectations about the **general economic situation in their country** worsened overall in the EU, while improving in the EA.

Graph 1.1.11: Consumer Confidence indicator



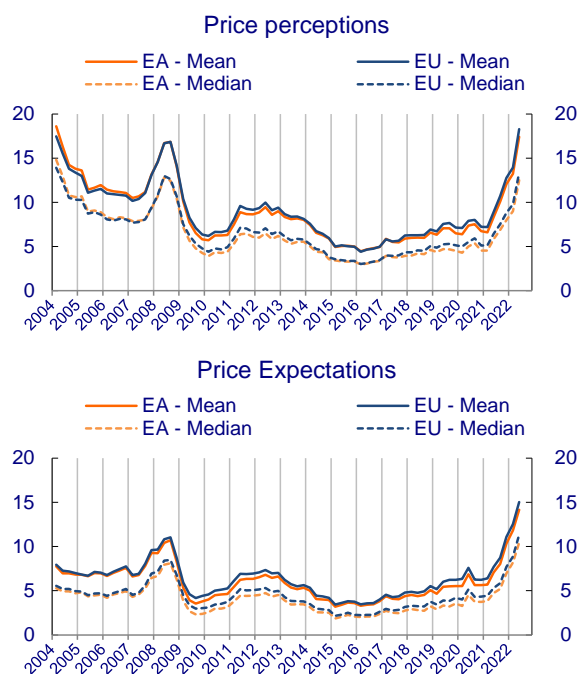
Consumers’ savings expectations decreased for the fourth consecutive quarter, falling below their pre-COVID-19 crisis level.

Consumer confidence fell strongly in the Netherlands (-5.1) and Germany (-4.6) and, less so, in Poland (1.0), while it remained broadly stable in Spain (-0.2), France (-0.1) and Italy (+0.1). In the Netherlands, Germany and Italy confidence is now below the trough marked in the first COVID-19 wave.

In the EU and the EA, both the mean and the median of **consumers’ quantitative price perceptions** and **expectations** continued their steep ascent in 2022-Q2. Price perceptions (change over past 12 months, in %) reached levels unseen since the beginning of the series, in 2004, when the euro-cash changeover had had a big impact on price perceptions. Consumers’ price expectations (change over the next 12 months, in %) reached a new all-time high (see Graph 1.1.12).³ The persistent upward trend was observed across all income, education and age groups, as well as among both men and women.

The detailed results among the different socio-economic breakdowns can be downloaded from the [European Commission’s website](#).

Graph 1.1.12: Euro area and EU quantitative consumer price perceptions and expectations

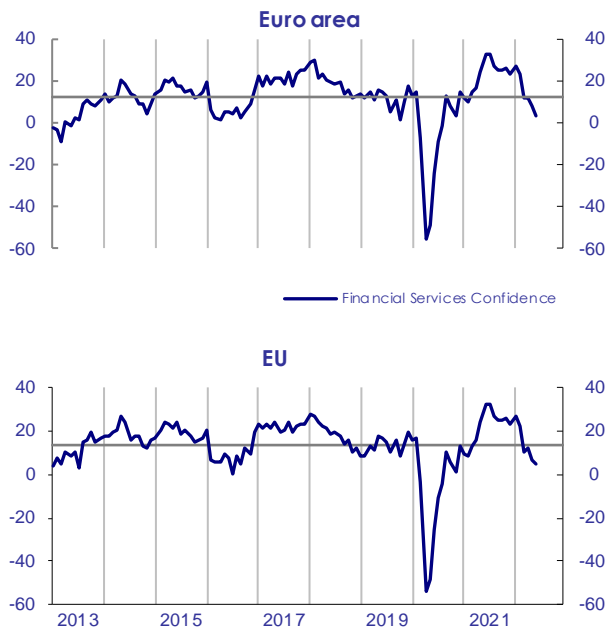


The **financial services** confidence indicator (not included in the ESI) saw a further sharp decrease on the quarter (-5.8 in the EU, -8.6 in the EA, see Graph 1.1.3). The slide sent confidence below its long-term average.

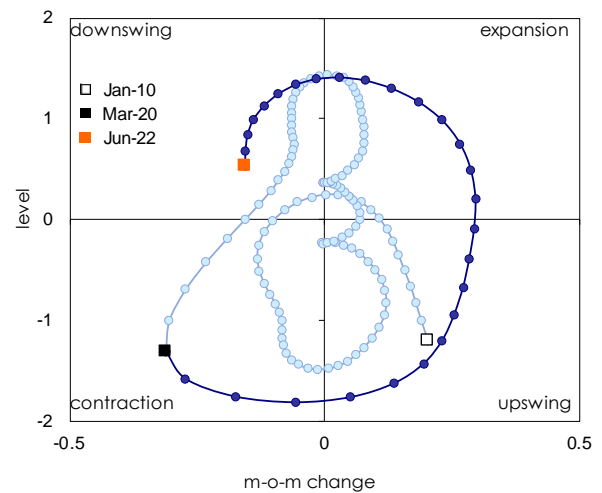
The decrease in confidence was mainly driven by managers’ much more negative appraisals of **past demand** and of their **past business situation, while their demand expectations improved slightly in the EU and worsened somewhat in the EA.**

³ For more information on the quantitative inflation perceptions and expectations, see the special topic in the [EBCI 2019Q1](#).

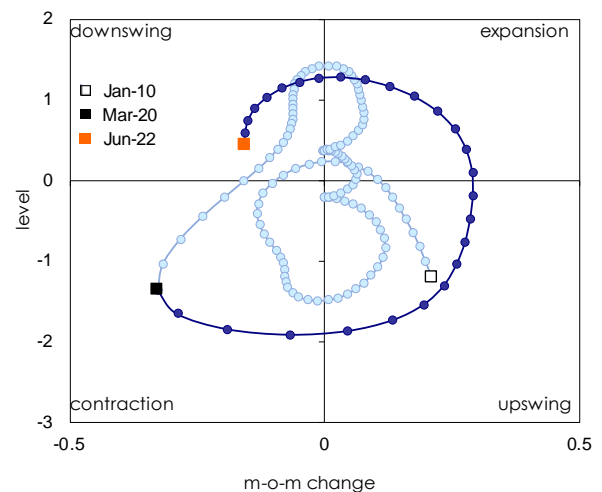
Graph 1.1.13: Financial Services Confidence indicator



Graph 1.1.14: Euro area Climate Tracer



Graph 1.1.15: EU Climate Tracer

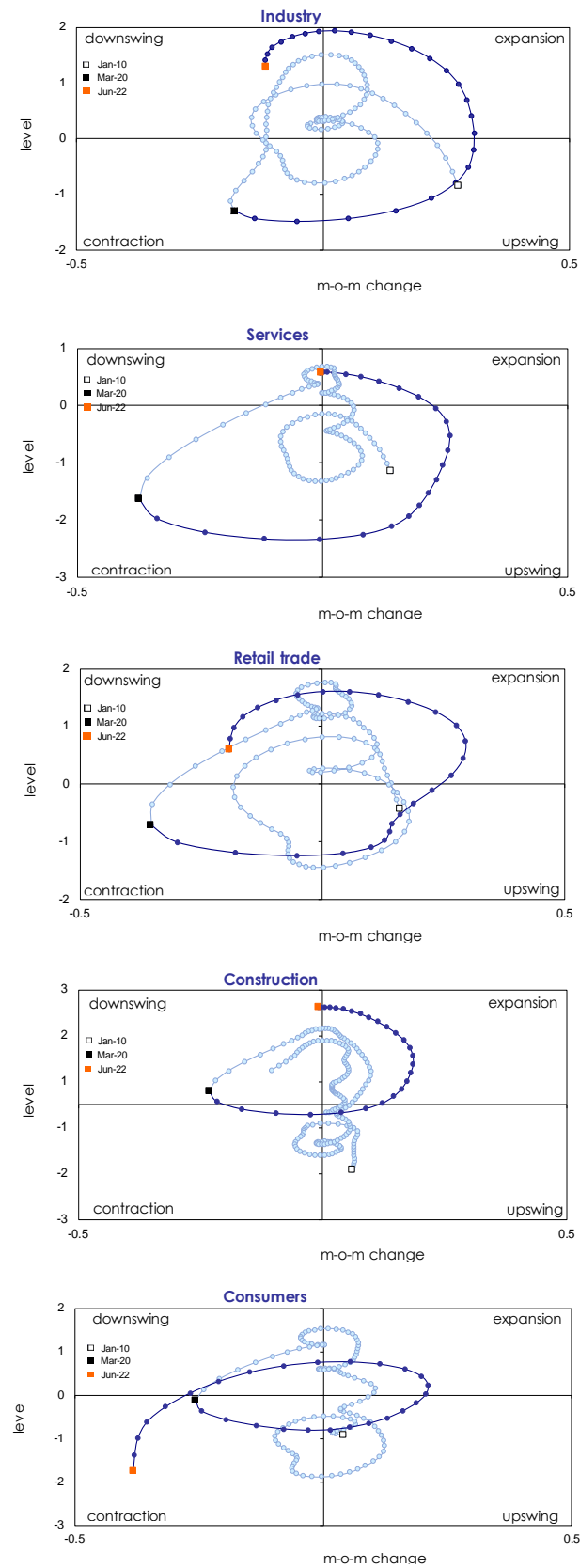


The deterioration of sentiment in 2022-Q2, as captured by the ESI, also showed in the EU/EA climate tracers (see Annex for details). Both moved further down in the downswing area, pointing to the contraction quadrant (see Graphs 1.1.14 and 1.1.15).

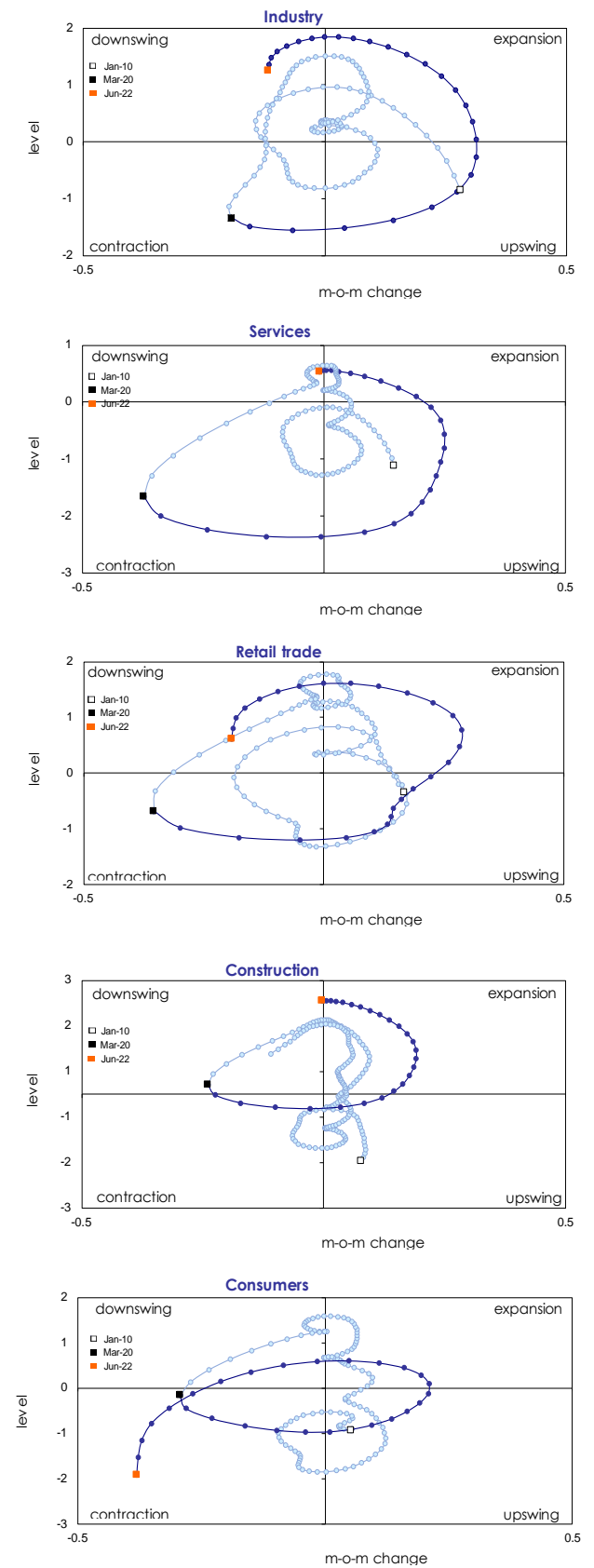
The most significant movements in the EU/EA sectoral climate tracers (see Graph 1.1.16) were regime changes in construction and services (from expansion to the border with the downswing quadrant). The industry and retail trade tracers moved deeper into the downswing quadrant, while the consumer tracer finds itself plainly in the contraction area, reflecting the low level and steady deterioration of consumer confidence since the summer 2021.

Graph 1.1.16: Economic climate tracers across sectors

Euro area



EU

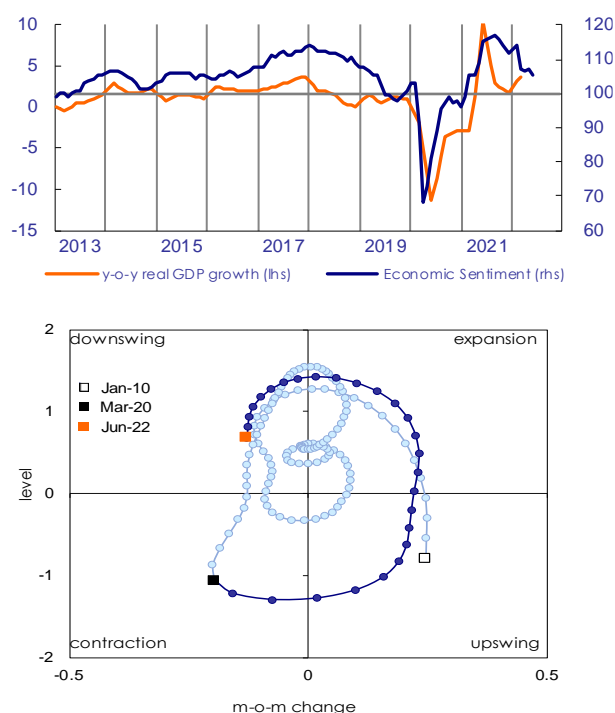


1.2. Selected Member States

After holding steady since March at around 107 points, the **German** ESI dropped again in June, finishing the second quarter of the year 1.8 points below its reading at the end of 2022-Q1. At 105.2 points in June, the indicator still exceeds its long-term average and pre-pandemic level. The German climate tracer is moving deeper into the downswing quadrant.

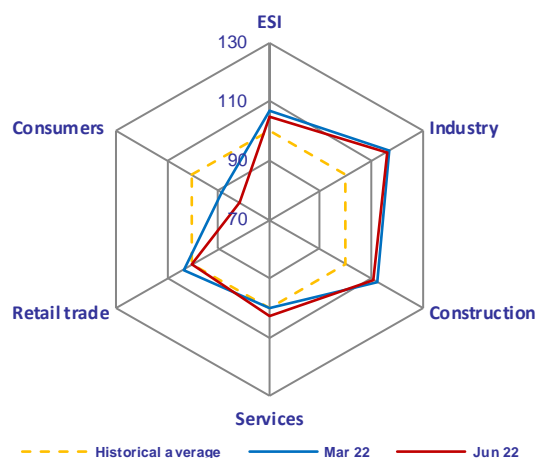
In contrast to the ESI, the Employment Expectations Indicator (EEI) held up well, gaining 1.4 points over the quarter, thanks to more upbeat employment expectations in services, which were only partly offset by a drop in expectations among retail trade, industry and construction managers.

Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



From a sectoral perspective, the German radar chart (see Graph 1.2.2) shows that confidence booked significant losses among consumers, in retail trade and construction, while services managers ended the second quarter of 2022 more upbeat than the previous quarter. Confidence among industry managers remained broadly unchanged. While the level of confidence stayed above long-term average in all business sectors, it continued to fall to exceptionally low levels among consumers.

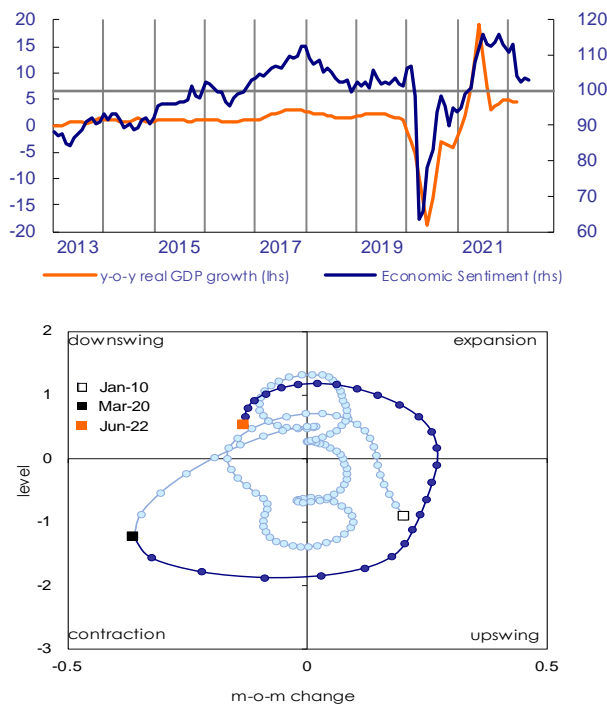
Graph 1.2.2: Radar Chart for Germany



After posting one of the strongest quarterly deteriorations on record in the previous quarter, the **French** ESI declined further by 1.4 points over the second quarter of the year. At 102.8 points in June, the indicator stayed only slightly above its long-term average. The French climate tracer moved deeper into the downswing quadrant (see Graph 1.2.3).

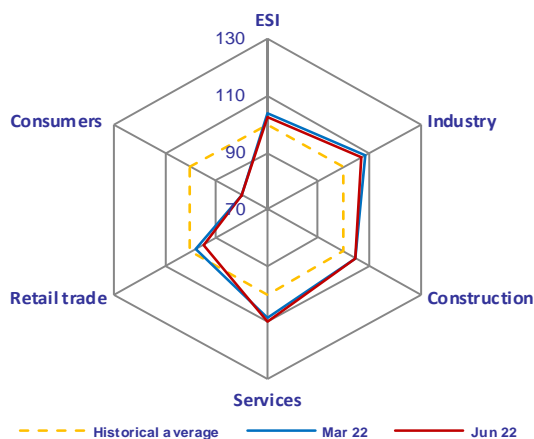
Meanwhile, the Employment Expectations Indicator (EEI) recorded a marked 5.4-point decrease on the quarter, reflecting less optimistic employment plans in all surveyed business sectors, especially in services.

Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France



From a sectoral perspective, the French radar chart (see Graph 1.2.4) shows mild decreases in retail trade, industry and construction confidence. Confidence among consumers stayed virtually unchanged at the very low level of March, while services managers were slightly more upbeat than at the end of the first quarter. The level of confidence stayed above long-term average in industry, construction and services, while retail trade and especially consumer confidence is well below its historical mean.

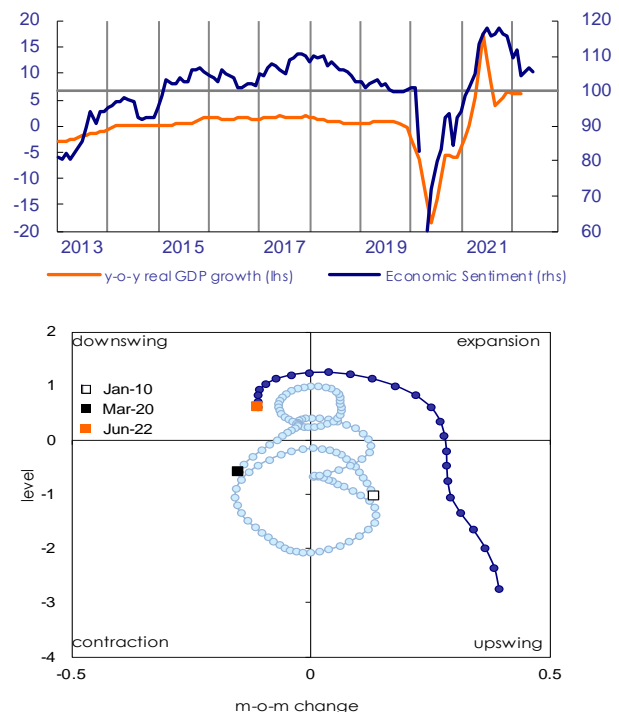
Graph 1.2.4: Radar Chart for France



The **Italian** ESI picked up over the second quarter of the year (+1.0 point compared to March), thanks to improvements in April and May. At 105.4 points, the indicator further outstrips its long-term average of 100. On account of the ESI's longer-term downward trend, the Italian climate tracer inched somewhat further into the downswing area (see Graph 1.2.5).

The Italian EEI improved by 3.8 points compared to March, fuelled by upbeat expectations in services, and to a lesser extent, in industry and retail trade. Employment plans in construction dropped over the quarter.

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy⁴

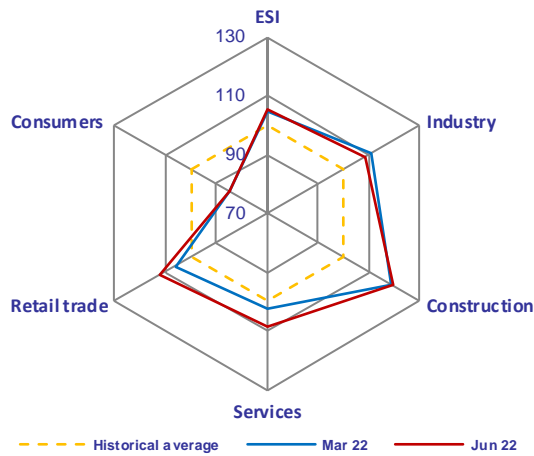


From a sectoral perspective, after registering sharp declines in the previous quarter, confidence improved markedly in services and retail trade and remained broadly unchanged in construction and among consumers. Confidence decreased slightly only in industry. The level of confidence stayed markedly above long-term average in all business sectors, while remaining

⁴ Due to a missing value for April 2020, the climate tracer for Italy is interrupted between March and May 2020.

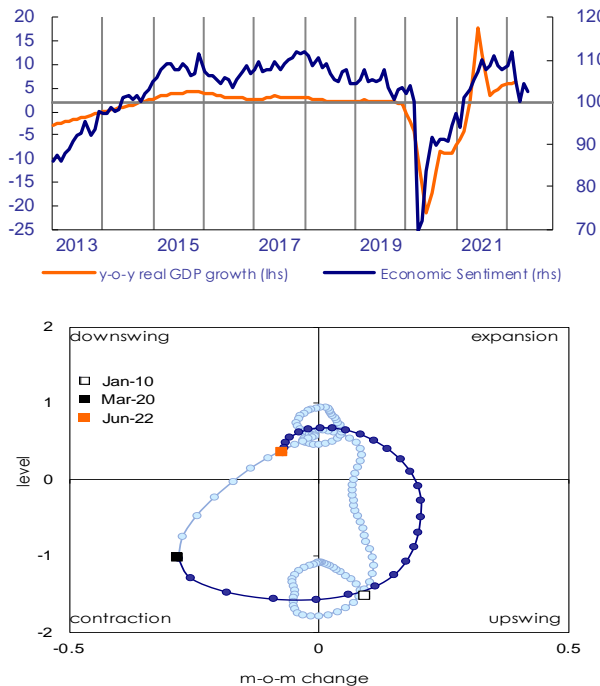
very subdued among consumers (see Graph 1.2.6).

Graph 1.2.6: Radar Chart for Italy



The **Spanish** ESI finished the second quarter of the year 2.3 points below its level at the end of March 2022. At 102.4 points, the indicator remains only slightly above its long-term average (see Graph 1.2.7). The Spanish climate tracer also inched further into the downswing quadrant (see Graph 1.2.7).

Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain

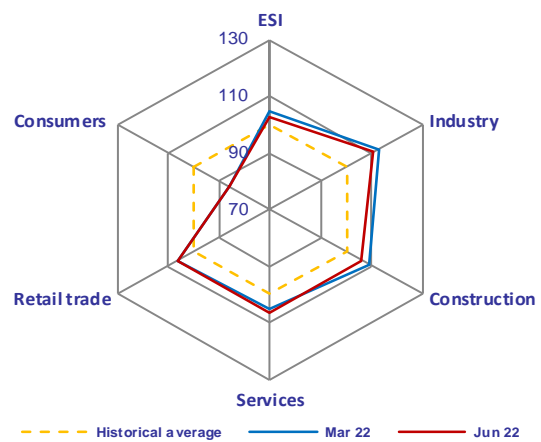


The Spanish EEI was virtually unchanged (-0.5 points in June compared to March), as

employment plans took a hit in construction and, to a lesser extent, services, while they brightened in retail trade and remained virtually unchanged in industry.

As shown in the radar chart (see Graph 1.2.8), confidence fell in construction and industry, while it improved in services. Confidence in retail trade and among consumers barely changed from March. The level of confidence stayed above long-term average in all business sectors, while remaining very subdued among consumers

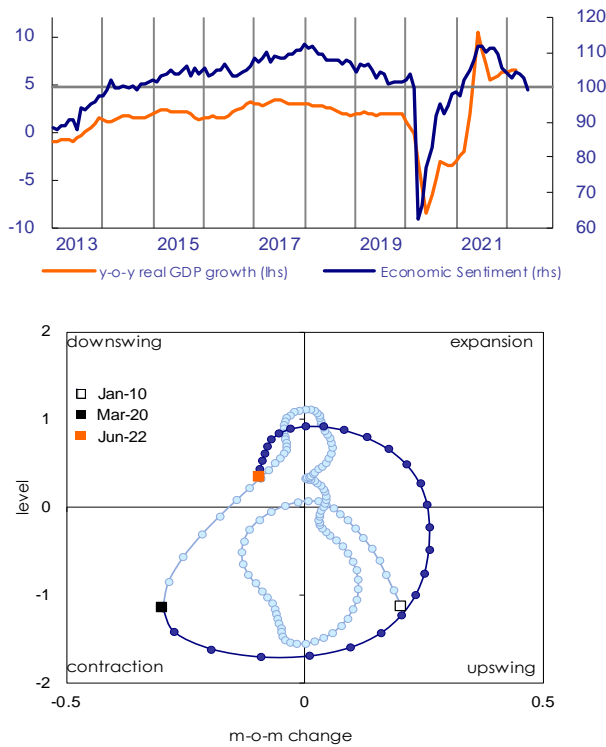
Graph 1.2.8: Radar Chart for Spain



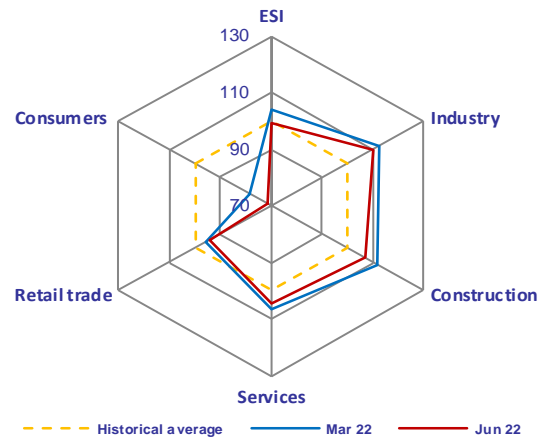
The ESI for the **Netherlands** incurred losses for the fourth quarter in a row and saw the sharpest deterioration over the quarter among the six largest EU economies (-4.9 points compared to March). While showing no strong reaction in March to the outbreak of war in Ukraine, the level of confidence declined strongly in June, bringing Dutch sentiment, for the first time since February 2021, below its long-term average.

The climate tracer for the Dutch economy moved further into the downswing quadrant and is approaching the contraction quadrant (see Graph 1.2.9).

Graph 1.2.9: Economic Sentiment Indicator and Climate Tracer for the Netherlands

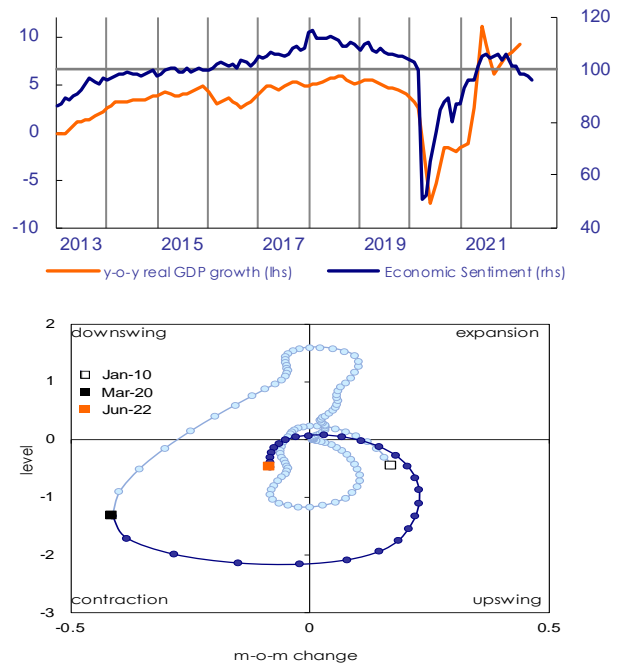


Graph 1.2.10: Radar Chart for the Netherlands



Sentiment in **Poland** recorded another slight deterioration (-2.1 points compared to March), pushing the indicator further below its long-term average (96.0 points in June). Accordingly, the Polish climate tracer sank deeper into the contraction quadrant (see Graph 1.2.11).

Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland



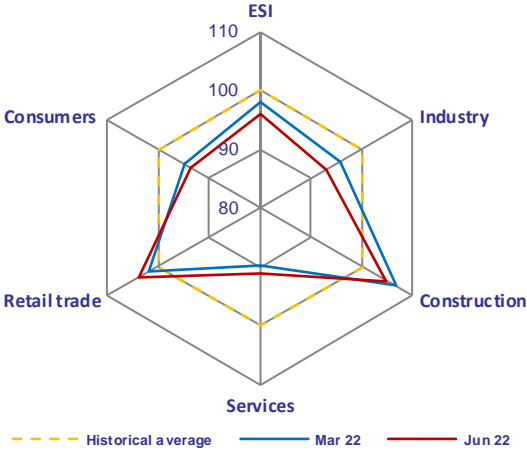
The EEI for the Netherlands deteriorated slightly on the quarter (-1.7 points compared to March 2022), as employment plans clouded over in construction, services and industry, while they brightened in retail trade.

As shown in the radar chart (see Graph 1.2.10), consumer confidence took another strong hit, along with construction confidence. Morale among services, retail trade and services executives also deteriorated. While remaining above historical average in industry, construction and services, confidence in retail trade and, especially, among consumers is very low.

By contrast, the Polish EEI picked up by 2.4 points over the second quarter of the year, reflecting significantly more optimistic employment plans in services, only partly offset by the slightly more pessimistic employment plans in construction and industry. Employment plans in retail trade remained virtually unchanged.

As shown in the radar chart (see Graph 1.2.12), confidence declined in construction, industry and among consumers, while improving in services and retail trade. The level of confidence remains markedly below historic average in industry, services and among consumers, while exceeding it in retail trade and construction.

Graph 1.2.12: Radar Chart for Poland



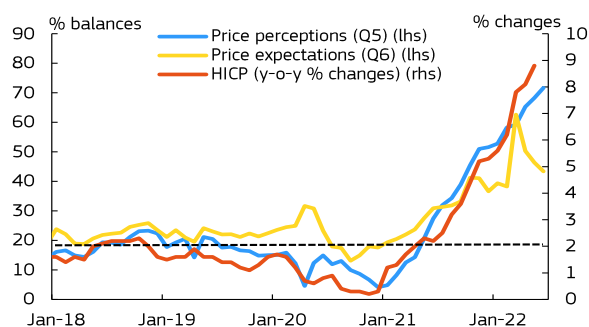
2. SPECIAL TOPIC: THE IMPACT OF INFLATION ON CONSUMERS' FINANCIAL SITUATION – INSIGHTS FROM THE COMMISSION'S CONSUMER SURVEY

Rising inflation between January 2021 and June 2022 has increased the cost of households' per capita consumption in the European Union by around €160 per month,⁵ on average. This special topic takes a close look at the results from the Commission's harmonised EU-wide consumer surveys until June 2022 to explore the impact of high and rising inflation on consumers' assessment of the financial situation of their household and their consumption/saving intentions. Information on the socio-economic characteristics of the respondents in the survey allows to get insights into the distributional impact of rising inflation on consumption.

Consumers' price perceptions⁶ have risen steadily since the beginning of 2021 and are now at record levels (Graph 2.1). Consumers' price expectations⁷ for the next 12 months started to rise in October 2020 already, reaching a level unseen since the early 1990s one year later. Price expectations remained broadly stable between November 2021 and February 2022, suggesting that consumers expected price developments to level off. However, following the outbreak of the war in Ukraine, price expectations jumped to a new and unprecedented high in March 2022. While falling back in subsequent months,

consumers' price expectations have remained at levels unseen since February 1991.⁸

Graph 2.1. Consumers' perceptions of price developments over the past (Q5) and next (Q6) 12 months,^{1,2} and HICP inflation - EU



As shown by Graph 2.1, HICP inflation first exceeded the ECB's inflation target of 2% in April 2021 and has been rising steeply since. While most of the increase is due to the significant rise in energy prices, food prices have also risen sharply over the past six months.⁹

Spending on food, electricity and gas accounts for 22.1%¹⁰ of the total expenditure of the poorest quintile of the average EU household, compared to 15.4% for the highest-income quintile. Devoting a larger percentage of their income to paying energy bills and buying food, the poorest households can thus be expected to be the hardest hit. Rising prices of essential goods

⁵ Based on consumption per-capita from National Accounts.

⁶ Question 5 reads "How do you think consumer prices have developed over the last 12 months? They have risen a lot/risen moderately/risen slightly/stayed about the same/fallen/don't know."

⁷ Question 6 reads "By comparison with the past 12 months, how do you expect consumer prices will develop in the next 12 months? They will increase more rapidly/increase at the same rate/increase at a slower rate/stay about the same/fall/don't know."

⁸ Consumers are also asked by how much (in % changes) they expect prices to change over the next 12 months. These "quantitative" inflation expectations – which are only published at a quarterly frequency – continued to increase in the second quarter of 2022, reaching a new all-time high (see section 1.1).

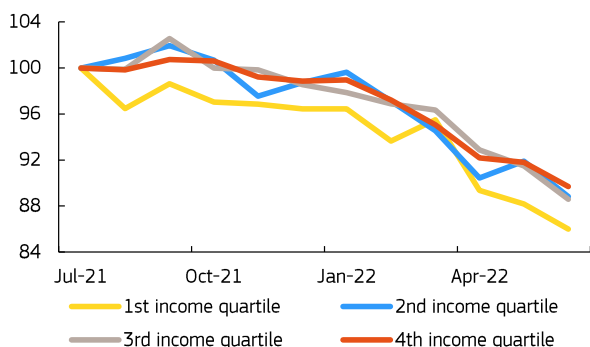
⁹ In May 2022, the HICP for energy and food increased by, respectively, 37.7% and 10.3% compared to May 2021 in the EU.

¹⁰ Based on Eurostat data on living conditions and welfare for 2015.

therefore have the potential to worsen social inequality and increase poverty.

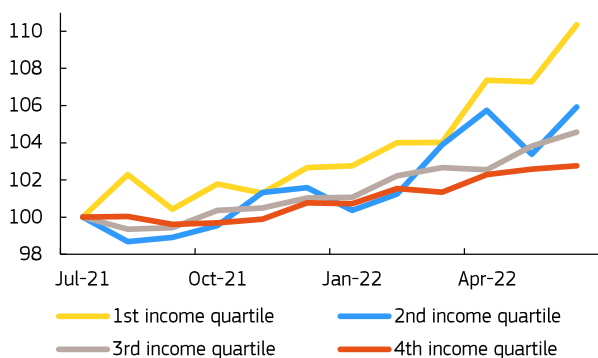
It is interesting to note that there is no visible difference in perceptions about price developments across income groups. Also, consumers' assessment of the financial situation of their household over the last 12 months¹¹ has been deteriorating for all income quartiles since July 2021, following several months of price increases. However, the deterioration has been more substantial for the lower-income group (1st quartile, see Graph 2.2).

Graph 2.2 – Consumers' assessment of the past financial situation of their household – EU – Jul 2021 = 100



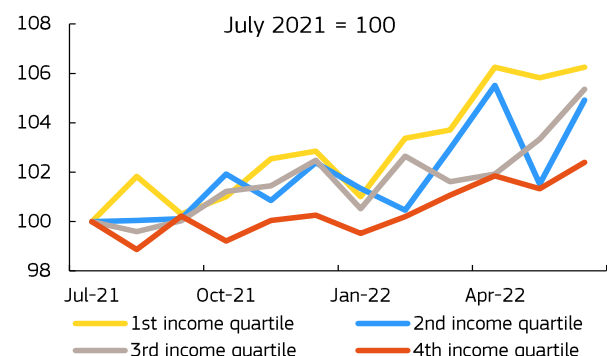
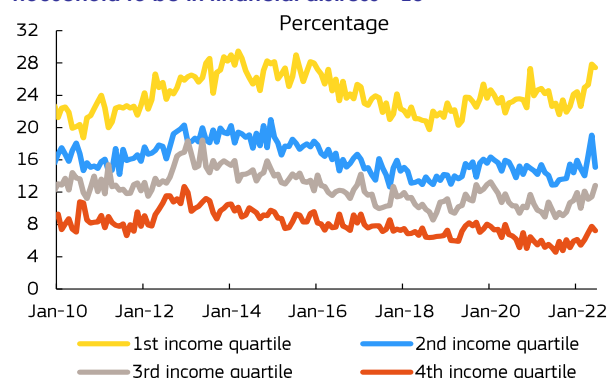
Focussing on the percentage of consumers replying that their financial situation got *a lot worse* over the last 12 months (see Graph 2.3), the gap between high- and low-income households becomes more significant.

Graph 2.3 – Share of consumers reporting that the financial situation of their household got a lot worse over the last 12 months - EU - Jul 2021 = 100



When asked about their household's financial situation, the share of respondents reporting to be in financial distress – that is, having to draw on their savings or running into debt¹² – is, as expected, higher among low-income groups. In July 2021, 21.6% of households from the 1st income quartile reported being in financial distress, against around 6% of respondents from the 4th quartile. Importantly, the gap between low-income and high-income groups has widened. Since July 2021, reported financial distress has risen sharply for the first quartile while the increase has remained contained for the fourth income quartile (see Graph 2.4).

Graph 2.4 – Share of respondents reporting their household to be in financial distress - EU



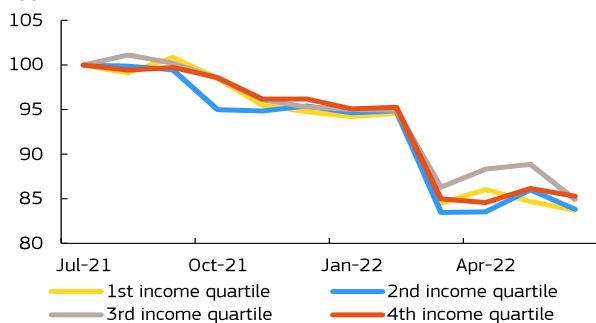
¹¹ Question 1 reads "How has the financial situation of your household changed over the last 12 months? It has got a lot better/got a little better/stayed the same/got a little worse/got a lot worse/don't know."

¹² Question 12 reads "Which of these statements best describes the current financial situation of your household? We are saving a lot/saving a little/just managing to make ends meet on our income/having to draw on our savings/running into debt/don't know."

Consumers are pessimistic about the future

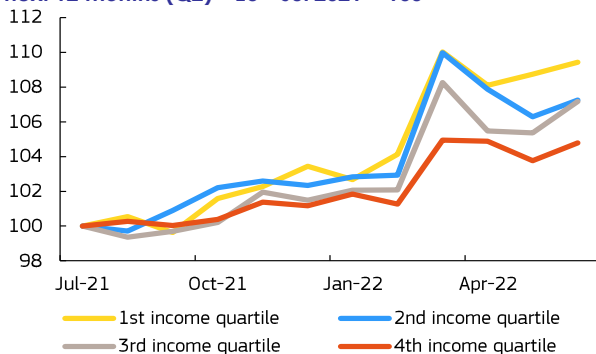
Consumers' expectations about their household's financial situation¹³ has also deteriorated strongly over the past year, impacting all income groups (see Graph 2.5).

Graph 2.5 – Consumers' expectations of the future financial situation of their household (Q2) – EU - Jul 2021 = 100



However, zooming into the different response options, the share of respondents reporting that they expect their households' situation to get *a lot worse* has increased more sharply amongst the poorest households (see Graph 2.6).

Graph 2.6 – Share of consumers expecting the financial situation of their household to get a lot worse over the next 12 months (Q2) – EU - Jul 2021 = 100

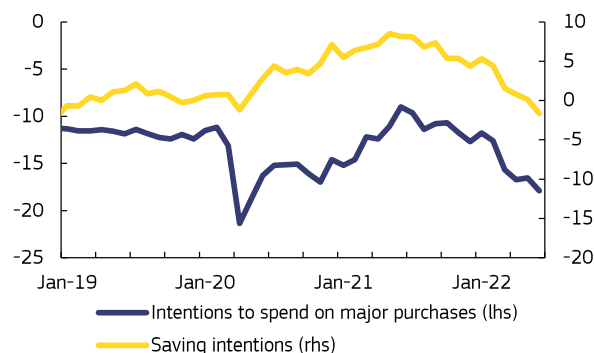


Consumers' savings and consumption intentions

As shown in Graph 2.7, between January and July 2021, consumers' saving intentions continued to rise but at a slower pace than during

the COVID crisis, as they intended to spend part of their income on major purchases.¹⁴ Since July 2021, however, consumers have been scaling down their expectations to both spend on major purchases and save money. This may indicate awareness that their real disposable income is being eroded by high inflation.

Graph 2.7 – Consumers' intentions to save (Q11) and to spend money on major purchases (Q9) over the next 12 months – EU - % balances



Saving intentions have been decreasing in all income categories. In July 2021, the percentage balance¹⁵ was positive, at 35, for households from the highest income quartile, and negative, at -20 for respondents from the lowest quartile. Since then, the gap between the lowest and highest income groups has remained broadly stable (see Graph 2.8), with the positive balance for the highest income group shrinking and the one for the lowest one becoming more negative. Households from the third income quartile appear to have lowered their intentions to save most, with the balance losing 13 points from July 2021 to June 2022. The general decline in expected savings goes along with a decrease in the balance on intentions to make major purchases - this is particularly the case among richer households

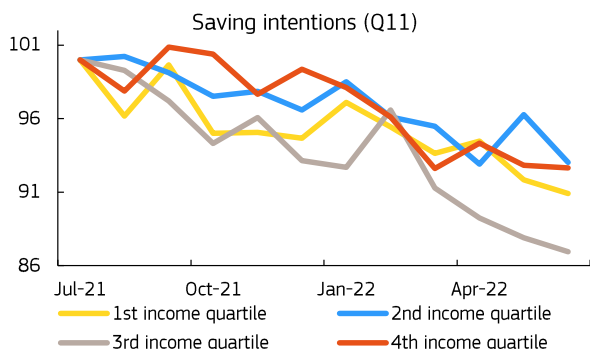
¹³ Question 2 reads "How do you expect the financial position of your household to change over the next 12 months? It will get a lot better/get a little better/stay the same/get a little worse/get a lot worse/don't know."

¹⁴ Based on questions Q11 and Q9 of the Commission's harmonised consumer survey. Question Q11 reads "Over the next 12 months, how likely is it that you save any money? very likely/fairly likely/not likely/not at all likely/don't know". Question Q9 reads "Compared to the past 12 months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next 12 months? I will spend much more/ a little more/about the same/a little less/much less/don't know."

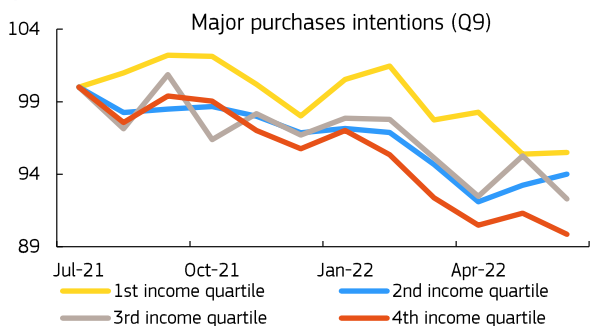
¹⁵ The percentage balance is the difference between the percentage of respondents saying it is likely that they will save money over the next 12 months and those saying it will be unlikely.

(see Graph 2.9), whose price elasticity is in principle higher.

Graph 2.8 – Consumers’ intentions to save (Q11) over the next 12 months by income quartile – EU – Jul 2021=100



Graph 2.9 – Consumers’ intentions to spend money on major purchases (Q9) over the next 12 months by income quartile – EU – Jul 2021=100

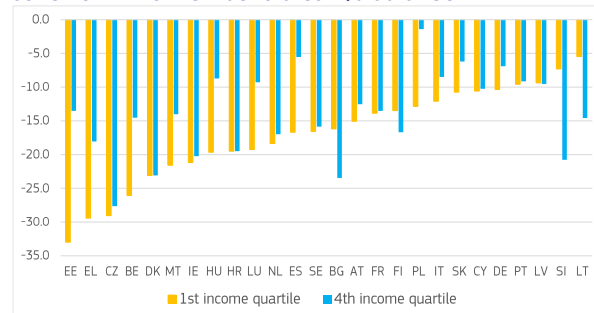


Developments across EU Member States

In the 12 months leading to May 2022, average home energy costs jumped by 40.2% in the EU, and the price of fuels for private transport by 33.4%. While consumers across countries have revised downwards their assessment of the past financial situation of their household (Question 1) since July 2021, the severity of the drop varied strongly between countries. These differences are partly explicable by the fact that energy price increases have varied greatly across EU Member States. Also the budgets typically dedicated to energy vary widely between EU countries, and national governments put different policy measures in place to protect households from the energy price shock. The cost increase of the average national consumption basket varied between 5.8% to 20.1% across EU countries in the year to May 2022, and available data for June suggest that stronger price growth has continued.

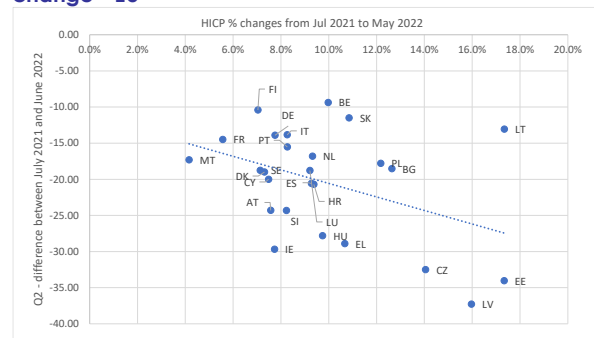
As shown by Graph 2.10, in the large majority of EU Member States, poorer households were hardest hit.¹⁶

Graph 2.10 – Consumers’ assessment of their past financial situation (Q1) – change between July 2021 and June 2022 – EU Member States - % balance



When looking at consumers’ expectations of their household’s financial situation (Question 2), the experience of realised inflation increases since July 2021 can partly explain the severity of consumers’ downward revisions of expectations across countries (see Graph 2.11).

Graph 2.11 – Consumers’ revisions of expectations of their household’s financial situation (Q2) and overall HICP % change - EU



Conclusion

Overall, according to the Commission’s consumer survey, consumers’ assessment of the past and expected financial situation of their household has been deteriorating for all income quartiles since July 2021, following several months of price increases. However, the worsening is more pronounced for the lower-income households. This confirms that it is the lower income households who are most hit by the increasing energy bills and food prices, as a

¹⁶ See also the OECD analysis [“Surging energy prices are hitting everyone, but which households are more exposed?”](#)

larger share of their spending is on these basic items. Moreover, more and more consumers have lowered both their intentions to save and to spend on major purchases over the next year, indicating that inflation has an important impact on real disposable income and aggregate spending.

Finally, while consumers' assessment of their financial situation has deteriorated across all EU Member States, the depth of the decrease has varied markedly across countries. These

differences are partly attributable to differences in energy intensity, energy price increases and national policy measures to protect households from the energy price shock. Moreover, consumers in Member States with higher realised inflation increases over the past year appear to have corrected downwards their expectations for their household's financial situation more severely.

ANNEX

Reference series

Confidence indicators	Reference series from Eurostat, via Ecwin (volume/year-on-year growth rates)
Total economy (ESI)	GDP, seasonally- and calendar-adjusted
Industry	Industrial production, working day-adjusted
Services	Gross value added for the private services sector, seasonally- and calendar-adjusted
Consumption	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Retail	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Building	Production index for building and civil engineering, trend-cycle component

Economic Sentiment Indicator

The economic sentiment indicator (ESI) is a weighted average of the balances of replies to selected questions addressed to firms and consumers in five sectors covered by the EU Business and Consumer Surveys Programme. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %).

Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. EU and euro-area aggregates are calculated on the basis of the national results and seasonally adjusted. The ESI is scaled to a long-term mean of 100 and a standard deviation of 10. Thus, values above 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found [here](#).

Long time series (ESI and confidence indices) are available [here](#).

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators, based on principal component analyses of balance series (s.a.) from five surveys. The input series are as follows: industry: five of the monthly survey questions (employment and selling-price expectations are excluded); services: all five monthly questions except prices; consumers: nine questions (price-related questions and the question about the current financial situation are excluded); retail: all five monthly questions; building: all four monthly questions. The economic climate indicator (ECI) is a weighted average of the five sector climate indicators. The sector weights are equal to those underlying the Economic Sentiment Indicator (ESI, see above).

In the second stage, all climate indicators are smoothed using the HP filter in order to eliminate short-term fluctuations of a period of less than 18 months. The smoothed series are then normalised (zero mean and unit standard deviation). The resulting series are plotted against their first differences. The four quadrants of the graph, corresponding to the four business cycle phases, are crossed in an anti-clockwise movement and can be described as: above average and increasing (top right, 'expansion'), above average but decreasing (top left, 'downswing'), below average and decreasing (bottom left, 'contraction') and below average but increasing (bottom right, 'upswing'). Cyclical peaks are positioned in the top centre of the graph and troughs in the bottom centre.

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