



EUROPEAN COMMISSION  
DIRECTORATE GENERAL  
ECONOMIC AND FINANCIAL AFFAIRS  
Economic studies and research  
Economic studies and business cycle surveys

---

**Fourth Joint European Commission-OECD Workshop on  
International Development of Business and Consumer  
Tendency Surveys, Brussels, 12 - 13 October 2009**

---

**Monday, 12 October 2009  
Brussels**

**Households financial situation and the crisis: first evidence from the  
EU harmonised consumers survey**

**Marco Malgarini, Patrizia Margani**

**VERY PRELIMINARY – DO NOT QUOTE**

**ISAE - Institute for Studies and Economic Analyses**

## **Abstract**

The EC consumers survey provides information on the current financial situation of households: more specifically, the questionnaire asks whether they manage to save (a little or more) or are able to meet their budget, or else if they are bound to withdraw on reserves or make debts in order to meet current expenditures. Starting from the beginning of 2008, when the first symptoms of the current crisis were already affecting the Consumers Confidence Climate (CCI), the balance of the question reached historical lows, eventually showing sign of recovery in 2009. In this sense, the question offer very useful insights on the effects of the crisis on households, possibly also providing important information in order to anticipate its further developments in the upcoming months.

In the paper, using the aforementioned question we propose a simple indicator of financial distress, calculated as the relative frequency of those having reported they have to withdraw from savings or even make debts in order to meet their expenditures. We will then try to assess whether the deterioration of households' budget is specific to Italy, or if it is a common feature for the main European economies. Secondly, we will try to understand if the probability of being in "financial distress" has changed during the current cycle and if it has been influenced by socio-demographic factors such as income, age, type of occupation and level of education of the respondent.

## 1. Introduction

In a nutshell, the current recession started when a financial turmoil in the US markets (specifically located in the housing market) determined a severe contraction of expenditures for highly-indebted US households. A severe contraction in US private consumption paved the way for a general recession of industrial activity worldwide, finally resulting in the deepest crash of the world economy since the Great Depression. Hence, households financial situation has been one of the key factor in the current crisis; at the same time, now that the worst seems to be over<sup>1</sup>, it is crucial to carefully monitor the evolution of household's finances, both in the US and in Europe. In fact, unemployment is still rising in most of the industrialised world (as it is customary, labour market indicators are lagging with respect to other macroeconomic data) and this may determine a further deterioration of households' budget, possibly arresting the ongoing recovery and resulting in a new trough in economic activity (the so-called "w-type" cycle, or "double dip"). In this sense, having at hand reliable and timely information about the households financial situation may be crucial, both to fully understand the effects of the recession and to try to establish if the worst is really over or instead if there is still some risk of a further postponement of the recovery and perhaps of a new contraction, this time mainly attributable to a deterioration of labour market conditions.

In a letter last Spring, the Head of Unit for Business and Consumers Surveys in the DG-ECFIN and the Administrator for Cyclical Indicators in the OECD Statistics Directorate jointly asked to all the Institutes participating the EU-harmonised programme for the availability of "... any particular analysis of the existing surveys to evaluate the impact of the crisis on households' financial conditions". Indeed, data stemming from the EU harmonised programme of consumers survey may be very useful: the survey asks – among other things - whether households manage to save (a little or more) or are able to meet their budget, or else if they are bound to withdraw on reserves or make debts in order to meet current expenditures. In this paper, we will first analyse the results for this specific question at the European level, comparing the current recession with other cyclical episodes of the past. Secondly, we will try to understand if "financial distress" is spread homogenously across the population or if it is correlated with socio-demographic factors such as the age, type of occupation and level of education of the respondent.

## 2. An indicator of financial distress

Among other things, the harmonised questionnaire for the Consumers survey in Europe asks whether households in any given month are able to save (a little or more), or just manage to meet their budget or either do need to withdraw from savings or even make debts in order to face ordinary expenditures; results for this as for the other questions are usually disseminated in the form of weighted balances among positive and negative answers; in the European definition, the question is not considered among those comprised in the Consumers Confidence Climate<sup>2</sup>. However, interesting information may also be derived simply summing the relative frequencies of those declaring to be forced to withdraw from savings or to make new debts: the cumulated frequency may indeed be interpreted as a measure of the share of consumers being in a situation of financial distress, i.e. being incapable of sustaining their current standard of living.

---

<sup>1</sup> See for instance the most recent ECB Economic bulletin, August 2009.

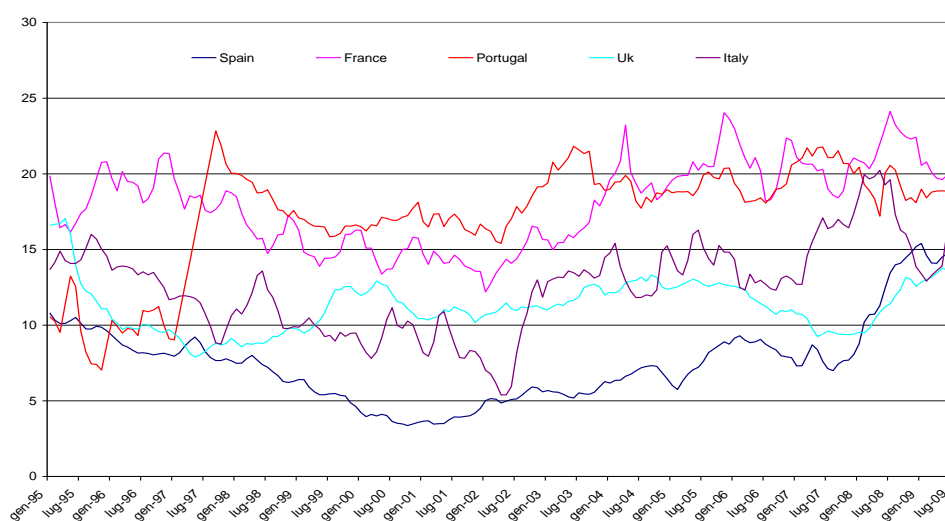
<sup>2</sup> The balance of this question is instead part of the definition of the consumers' confidence indicator elaborated in Italy by ISAE.

In the following, we will analyse the results for five countries (Italy, France, Spain, Portugal and the UK) for the period 1995-2009<sup>3</sup>. We will first look at the aggregate indicator of financial distress, comparing its behaviour in the current period with that of other recessions of the past. We will then try to assess whether the financial stress has hit European consumers regardless of their socio-demographic characteristic or else if it has specifically affected some part of the population.

## 2.1 Financial distress in the current recession

According to the Eurocoin indicator<sup>4</sup>, based on a growth cycle approach, in the period considered the Euro Area has experienced three significant recessions, in 1997-98, 1999-01 and since the end of 2007 trough the first eight months of 2009<sup>5</sup>. Some indicator seems now to point for a possible turning point at the end of the first or beginning of the second quarter of this year, but an official trough has not been announced yet, nor for the US or the European economy. Graph 1 shows the aforementioned indicator of financial distress for the 5 countries for which we have available information (detailed data for each country may be found in the appendix). Three main considerations immediately emerge<sup>6</sup>: first of all, for all the countries considered the financial stress is at its highest in the current recession, even if compared with the other period of contraction of economic activity. Second, for all of the countries the indicator reaches a peak (i.e., the share of consumers deeming they are in a situation of financial distress is at its highest) during, or immediately before, the current recession; finally, the share of consumers being in a situation of distress differs remarkably among countries.

Figure 1: Financial distress indicator (trend components)



<sup>3</sup> We would like to thank Roberta Friz of the European Commission and the Institutes producing the data for having made available these information.

<sup>4</sup> See <http://www.cepr.org/data/eurocoin/recession/>.

<sup>5</sup> Actually, the current recession has not been properly dated yet by the Eurocoin indicator; however, according to the NBER, the recession started with a peak in December 2007 in the US; in Italy, according to ISAE, the peak occurred 4 months earlier, in August 2007. According to the OECD Composite Leading Indicator, the peak has occurred instead in the second quarter, 2008. In this paper we have considered as a peak that estimated by NBER in December 2007. Clearly, the exact starting of the current recession will be located more precisely as soon as new data will become available.

<sup>6</sup> The graphs report the trend component of raw data on financial distress, the component being extracted according to the Basic Structural Model (BSM) as in Harvey A. C. (1989), "Forecasting, structural time series model and the Kalman Filter", Cambridge University Press.

Data confirm that in the current recession households' balances have been more severely hit by the contraction in economic activity than in the past (see table 1)<sup>7</sup>: the share of consumers being in a situation of financial distress results to be particularly high in France (21.3%) and Portugal (18.9%); it is also large in Italy (16.6%), being on a lower level in Spain (13.2%) and the UK (12%). Looking at the data in the past economic recessions, it emerges that there is a particularly significant impact on the situation in Spain and Italy, followed by France, whilst the impact in Portugal and especially the UK has not been particularly relevant (see also table 2 below). At this stage, it is not possible to state whether the financial distress is only a consequence of the recession, or even among its main causes; however, in some countries (as in Italy and Portugal, see again Figure 1) the financial distress indicator seems to reach a peak before the reference cycle, hinting for a possible causal relationship – to be more thoroughly investigated in the future - going from financial problems at the households level to a “macro” recession at the global level. Existing differences at the country level seem to be particularly relevant, and should at this stage be considered as country specific, i.e. linked to the specific socio-demographic and economic structure of the country.

Table 1- Share of people in a situation of financial distress - Average of the periods

Countries	<i>November 1997 - October 1998</i>	<i>November 1999 - November 2001</i>	<i>December 2007 -</i>
	Ist recession	IInd recession	IIIrd recession
ITALY	11.5	9.2	16.6
FRANCE	16.6	14.6	21.3
SPAIN	7.4	3.8	13.2
PORTUGAL	19.1	16.8	18.9
UK	8.9	11.4	12.0

## 2.2 Financial distress across the socio-demographic structure of the population.

In this sense, relevant information may be gathered looking at the financial distress indicator elaborated for specific sub-groups of the population. More specifically, on the basis of the available evidence, it is possible to calculate the indicator according to the income, age, level of education and type of occupation of the respondent<sup>8</sup>. First interesting results do emerge with respect to all the four sub-groups, both looking at the share of households being in a situation of distress during the current recession and at the growth of this share with respect to the average of the period considered (1995-2009, see table 2).

<sup>7</sup> An analysis on the increased vulnerability of Italian families in the recent years is also contained in the contribution by Gabriele, Pollastri, Raitano “Assessing the increase of Italian families perceived vulnerability”, presented in the workshop.

<sup>8</sup> Respectively, we have considered the quartile of the income distribution; four age groups (16-29 years; 30-49 years; 50-64 years; 65+); three levels of education (up to primary schools; up to secondary schools; University degree or more). As for as the occupation of the respondent is considered, we have first of all distinguished among Total Workers, People with other Occupation and Unemployed and then we have disaggregated further Total Workers into Self Employed (excluding farmers), clerical and office employees, skilled manual workers and other manual workers.

Table 2- Share of people in a situation of financial distress  
Average 2007:12 - 2009:8 (increase with respect to whole period averages)

	Spain	France	Portugal	Uk	Italy
Total	13.2	21.3	18.9	12.0	16.6
- increase	5.6	3.2	1.6	0.8	4.1
Age					
16-29	11.1	19.6	14.2	7.3	14.0
- increase	5.1	3.3	6.0	-1.7	4.8
30-49	13.6	22.3	18.3	10.8	18.6
- increase	5.7	3.6	1.6	0.6	5.2
50-64	13.9	22.2	22.2	13.3	17.9
- increase	5.3	2.6	-0.5	1.8	4.3
64+	13.8	19.4	18.5	16.8	14.4
- increase	-2.4	5.4	3.2	1.4	2.6
Education					
Primary	17.1	20.9	23.8	16.3	17.5
- increase	7.1	3.4	-1.6	1.8	3.5
Secondary	12.9	23.9	14.5	12.7	16.1
- increase	6.5	5.0	3.9	1.9	1.2
Further	8.3	20.0	11.2	10.3	13.3
- increase	2.5	2.3	14.8	0.0	3.3
Occupation					
Workers	14.1	22.2	18.2	9.3	18.6
- increase	7.1	3.9	1.1	1.3	5.1
Self employed	13.5	24.2	25.3	8.7	19.0
- increase	6.4	3.6	-0.2	0.6	5.3
Clerical and office employee	8.8	18.1	14.4	7.7	18.4
- increase	3.6	2.3	7.2	0.3	7.0
Skilled Manual Worker	10.7	13.9	15.4	5.6	20.2
- increase	6.7	3.6	2.2	1.4	4.8
Other manual workers	14.5	28.3	25.0	10.3	20.8
- increase	6.8	7.6	0.0	1.6	4.1
Other occupation	12.7	21.1	22.0	15.4	14.9
- increase	7.1	3.9	1.1	1.3	5.1
Unemployed	23.4	41.6	39.7	26.8	29.0
- increase	9.3	6.8	-9.7	4.3	3.4
Income					
Ist Quartile	25.5	26.6	26.2	22.5	21.1
- increase	11.2	4.0	-5.3	1.2	2.9
II Quartile	22.1	24.1	23.5	12.8	19.5
- increase	5.1	-2.9	0.1	2.9	5.7
III Quartile	20.5	18.9	20.7	8.3	16.7
- increase	12.0	2.5	-0.5	0.2	5.5
IV Quartile	10.7	13.9	15.4	5.6	12.2
- increase	6.4	3.6	-0.2	0.6	3.9

### *Income*

As expected, financial distress is higher for the poorest groups in all countries considered; the distance between the first and fourth quartile is particularly large in the UK and Spain, being on the other hand smaller in Italy, where those pertaining to the first quartile show a degree of financial distress lower than that of the other countries. In Spain, the large difference among the first and the fourth quartile is mainly due to an easing of the financial situation passing from the third to the fourth quartile: in other words, the financial situation is similar in the first three

groups, and it gets better in the fourth. On the other hand, in the UK there is a large difference between the first and the second group, and more similarities among the other groups: in other words, the financial situation gets better already moving to the second quartile. In France, the first two groups are quite similar, whilst the situation gets better and better moving to the third and fourth quartile. In Italy, there is little difference among the first three groups and a significantly lower financial distress in the fourth group. As for the relative increase of distress in this recession with respect to the period averages, it emerges that the recession has a particularly severe effect on the first quartile in France and Spain, whilst in Italy and the UK the impact is relatively higher in the second quartile and in Spain and Italy on the third quartile as well.

#### *Age*

Financial distress is higher the oldest is the respondent in the UK; it is also higher in the first three age group in Portugal, eventually declining for the oldest part of the population. In France, it increases from the first to the second age group, stabilise in the third and falls again in the fourth. In Italy, it increases from the first to the second age group, and then declines in the third and further in the fourth. As for the impact of the recession with respect to the period averages, financial distress grows especially for the oldest part of the population in France and –albeit less severely – in the UK; on the other hand the effect is larger for the youngest in Portugal (especially for those less than 30 years old) and in Italy (for those less than 50 years old).

#### *Education*

Relevant differences do emerge also looking at the level of education. More specifically, in almost all the countries considered, financial distress is higher the lower the level of education. In France, minor differences do emerge, with those with a secondary degree being those with the highest level of financial distress. During the current recession, in Spain and in the UK distress especially increases for those not having an University degree, whilst the recession affects more severely those with a secondary degree in France and those with both a primary education or a University degree in Italy (i.e., relatively sparing those with a secondary level of education).

#### *Type of occupation*

Looking then at the distinction among workers, people with other occupation and unemployed it emerges that, as expected, financial distress is always particularly high among the unemployed; the share of people unemployed declaring a situation of financial distress is particularly high in France and Portugal, and it is lower in Spain (the high unemployment rate of that country notwithstanding). In the UK and Portugal workers are those with the lower level of financial distress; on the other hand, in Italy, France and Spain those with “other occupations” seem to be those less severely affected. Indeed, also looking at the differentials with respect to the whole sample, those most severely hit by the recession are the unemployed.

Finally, distinguishing workers among self employed, clerks, skilled manual workers and other manual workers we have that, as expected, financial distress is always particularly high among unskilled manual workers. However, in some countries (most notably Spain, Portugal and Italy) the share of self employed in financial distress is similar to that of less skilled workers. In Spain, Portugal and Italy distress is lower among clerical and office employees; in France and the UK the situation is rosier for skilled manual workers. As for the increase of distress with respect to the period averages, in Portugal, distress has especially increased among clerical and office employees, that is on the other hand the category less severely affected in Spain (the situation being roughly similar for all categories in France and the UK).

### 3. Concluding remarks

In a recession, closely monitoring the households' financial situation is particularly important, in order to better evaluate the social impact of the crisis and to make some first appraisal on the timing and intensity of the possible recovery. This is particularly true for the current crisis, that has had among its origins a situation of financial stress among US households'. In this sense, some of the data stemming from the EU-harmonised consumers survey may be particularly useful, in that they directly measure the degree of financial distress of European households, defined as the share of those that have to borrow or draw on their reserves in order to meet their current needs.

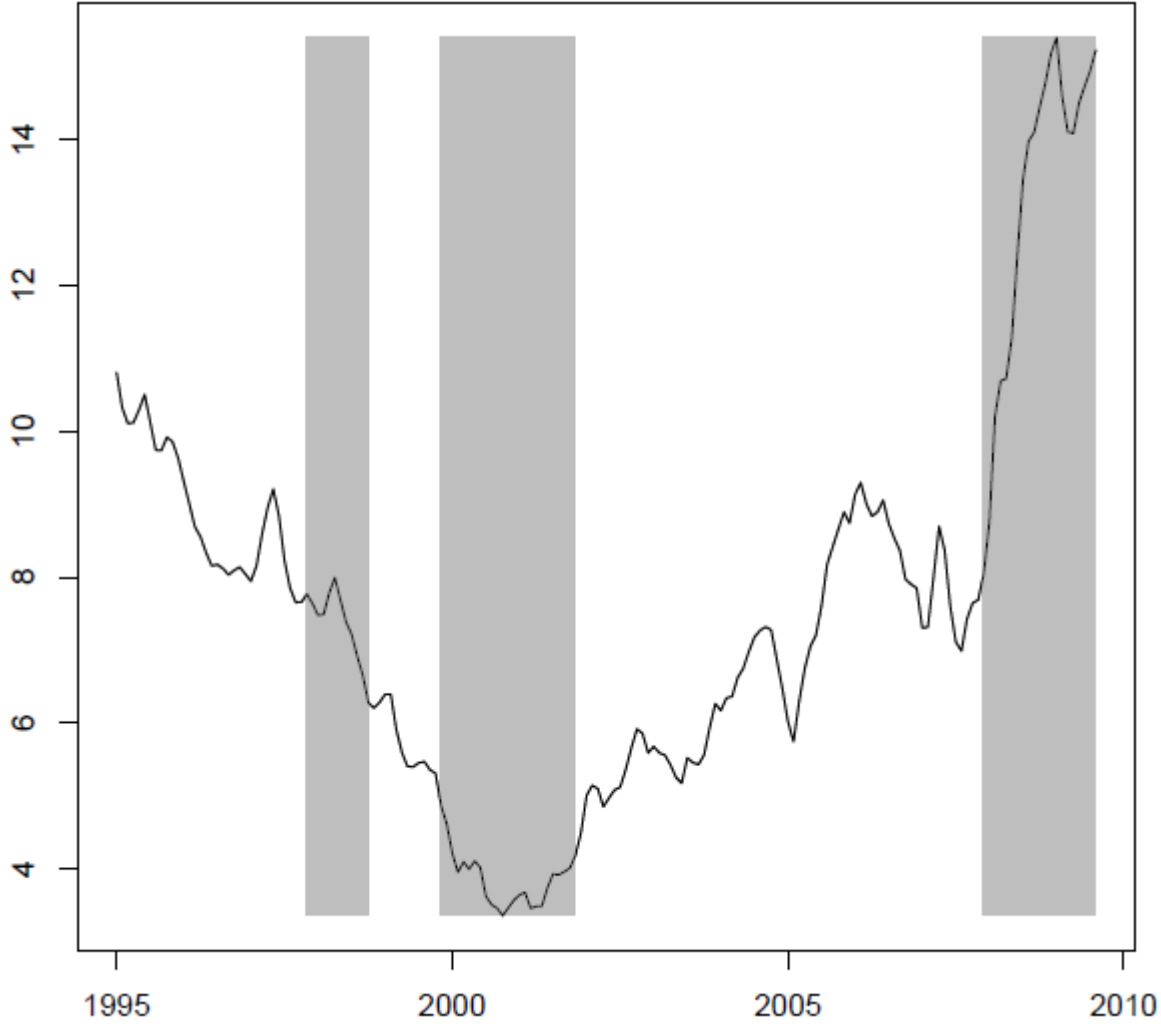
A preliminary analysis of data for some European countries has brought forward some interesting results: first of all, it is confirmed that the level of financial distress among European households' has reached a peak during the current recession. However, level of distress is heterogeneous both among countries and within countries. More specifically, financial distress is now particularly high in France and Portugal, and, to a lesser extent, Italy, being instead lower in Spain and the UK. Differences may be mainly attributed to disparities in the socio-economic structure of the countries; interesting preliminary evidence in this sense comes looking at the data distinguishing various socio-demographic groups in each country, according to income, age, education and type of occupation of the respondent.

To sum up, in Spain during the current recession distress has especially increased among the youngest part of the population, for those with low education levels, being unemployed and with a relatively low income (even if some negative effect is found also for those pertaining to the third quartile of income distribution); in France, on the other hand, it is the oldest part of the population to be particularly affected, together with those with a secondary education level, the unemployed, the unskilled workers and those in the first quartile of the income distribution; in Portugal the effect is relatively higher for youngsters and – quite unexpectedly – for those with a University degree and the clerical workers. In the UK the effect is generally low, however particularly involving the oldest part of the population, those with a low education, the unemployed and those in the second quartile. Finally, in Italy distress increases particularly for the youngest part of the population, for those with a primary education attainment (but, surprisingly also for those with a University degree) and for the “middle class”, i.e. for those in the second and third quartile of the income distribution.

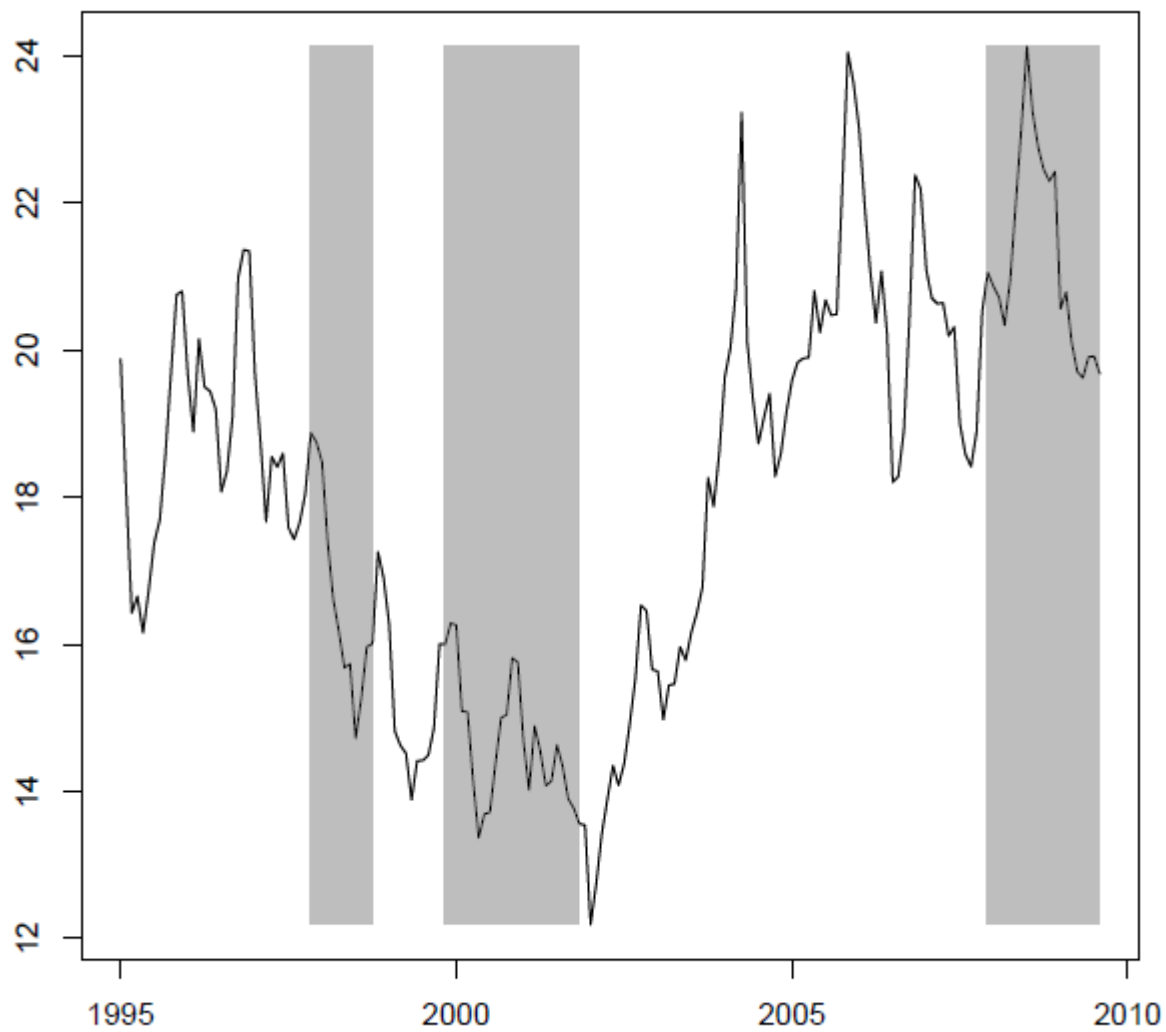
All the results presented here are merely descriptive and should not be interpreted as possible evidence of causal links among a socio-demographic characteristic and a certain level of distress. However, the first exploration of the data seems promising, and calls for further research, possibly enlarging the dataset to consider a broader set of countries, and using more sophisticated instruments in order to evaluate the statistical significance of the intra-group differences that have emerged at this stage.

Appendix

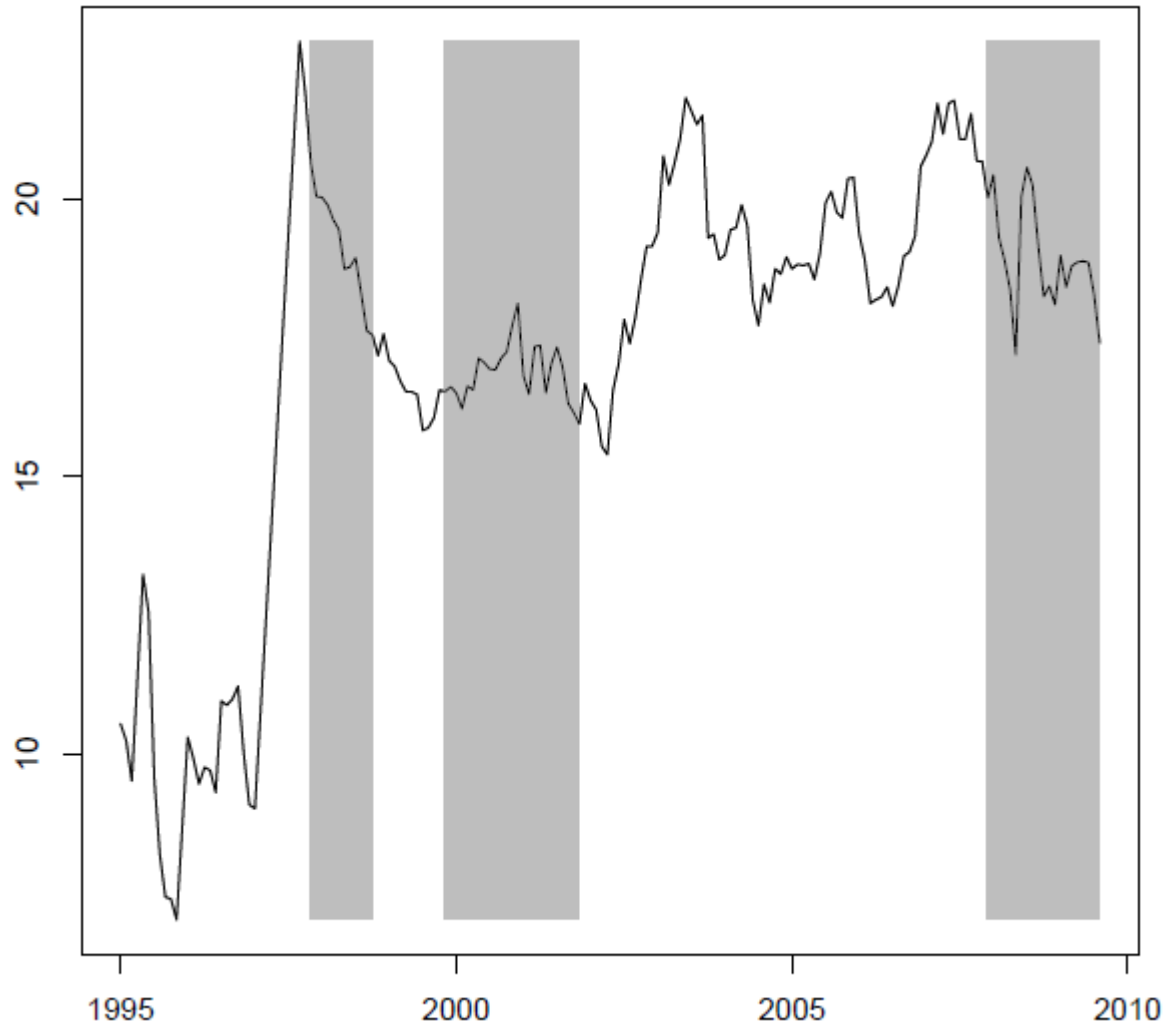
**SPAIN**



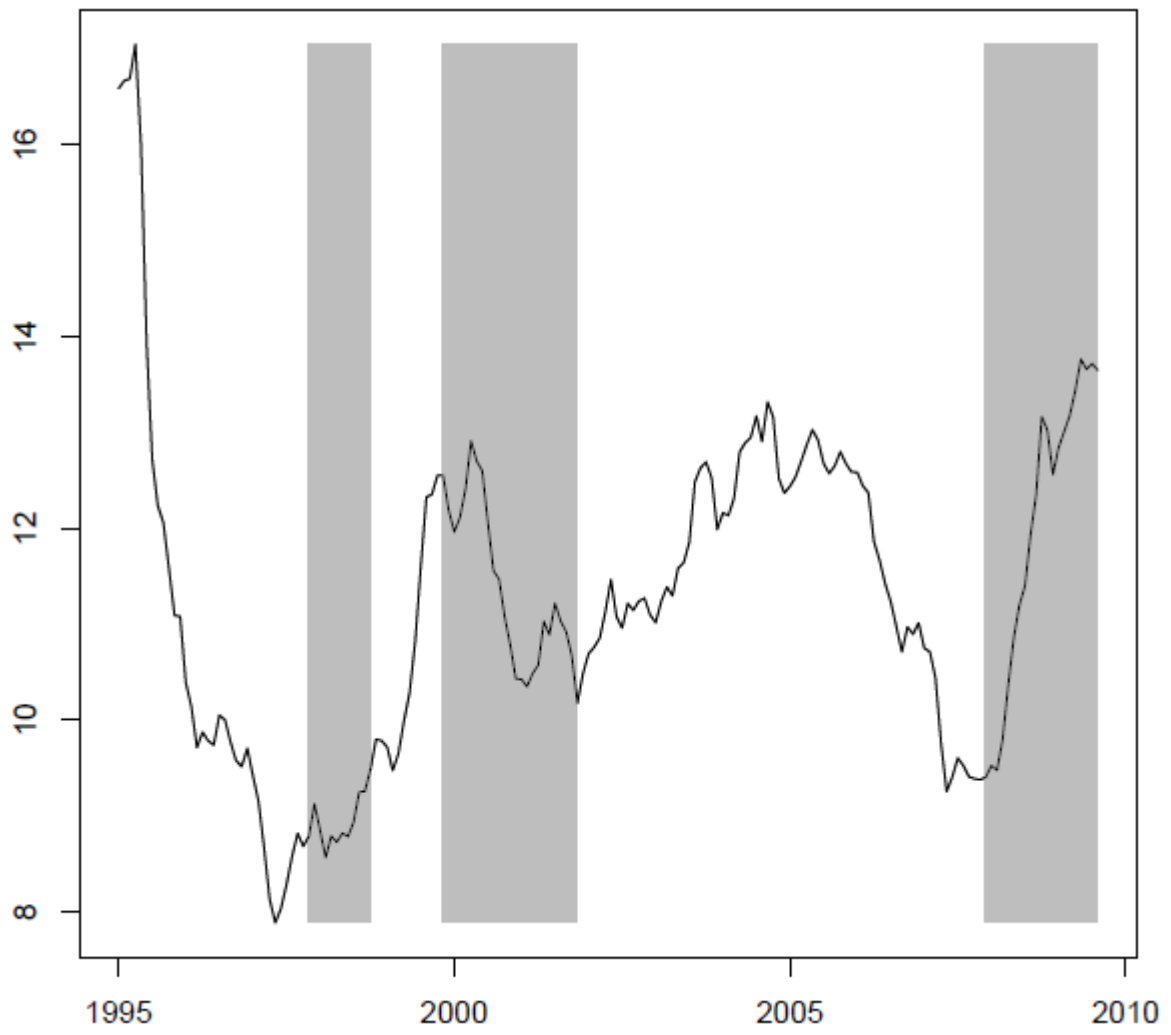
FRANCE



# PORTUGAL



# Uk



# ITALY

