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Consumption patterns in Italy during COVID-19


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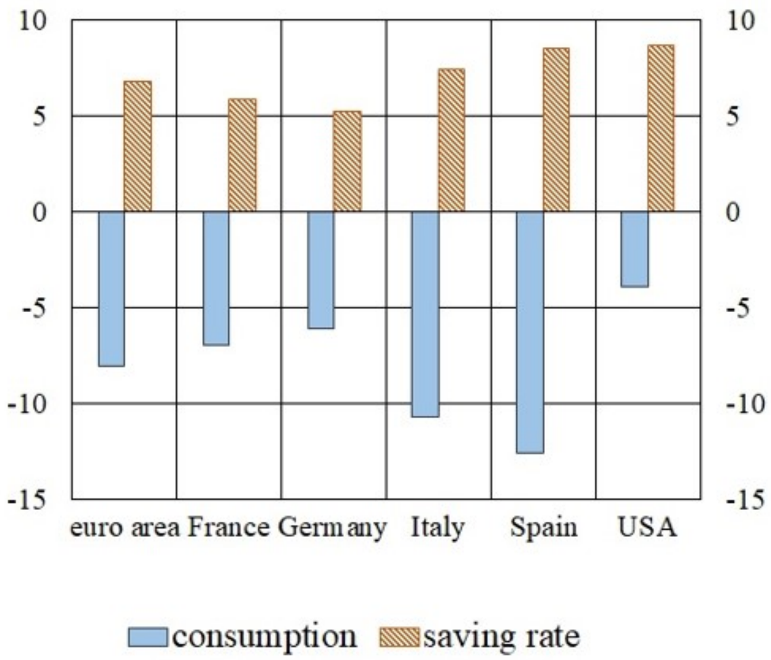
Following the outbreak of the COVID-19 pandemic, household consumption fell dramatically and propensity to save rose to unprecedented levels. Understanding the drivers of these patterns is paramount for forecasting future economic developments and implement effective policy actions. Using both aggregate and microdata on Italian households, a recent work estimates that, apart from deteriorated economic conditions, spending is held back by pandemic-related factors, mostly fear of infection and uncertainty about the future. The importance of these factors is higher for consumption items requiring social contacts, such as restaurants, hotels and recreational activities, and for self-employed individuals, whereas the unemployed are more concerned about their economic situation.

Following the outbreak of COVID-19, private consumption fell dramatically and the saving rate spiked, both in the US and in the euro area. Among the euro-area countries, Italy and Spain recorded the sharpest drop in consumption and the strongest increase in the saving rate (Figure 1). Several factors can be held responsible for these consumption and saving patterns. First, the fall in disposable income and the job losses may have induced households to cut spending. Second, households may have wanted to increase their saving buffer for precautionary reasons, being more uncertain about the evolution of their economic situation or because they perceive a higher health risk. Third, lockdown policies prevented some expenditures, generating forced savings. Fourth, the risk of infection may have prevented households from consuming certain types of goods and services that require social contacts. All these factors have likely played a role at the height of the pandemic crisis, albeit with different intensities for each spending category and for different types of households, and may continue to characterize the near future.

Disentangling the drivers of household behaviour has important policy implications. Should the driving forces of the high levels of savings piled-up in 2020 be transitory, as is plausibly the case for lockdown measures and fears of infection, these savings may sustain domestic demand in the coming months. Should instead precautionary reasons prevail, households may prefer to preserve a saving buffer even after the epidemic comes under control, as long as they face economic uncertainty and hold possible new pandemic events (Ercolani, Guglielminetti and Rondinelli, 2021). Focusing on Italy, a recent work sheds light on this issue using both aggregate and microdata (Guglielminetti and Rondinelli, 2021).

Figure 1: Changes in household consumption and the saving rate between 2019 and 2020



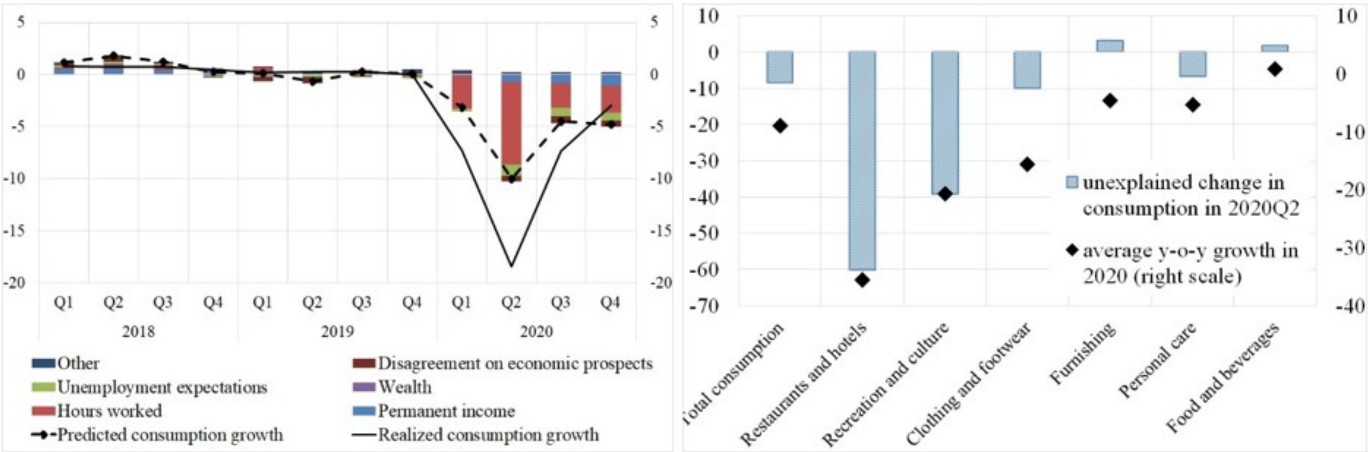
Notes: FRED and Eurostat. Consumption is the percentage difference between the final consumption expenditure of households from the Annual National Accounts in 2019 and 2020. Saving is the gross household saving rate from Quarterly Sectoral Accounts.

What does (not) explain the fall in aggregate consumption

To broadly quantify to what extent standard drivers can explain aggregate consumption dynamics in 2020, we can estimate an equation where household spending in different categories depends on its traditional determinants, such as income, wealth, interest rates and expectations. The results show that these standard drivers, mostly related to the dramatic fall in hours worked in the early phase of the pandemic, can explain only half of the actual spending drop in the first half of 2020 (Figure 2, panel a). The unexplained part can be traced back to pandemic-related factors: this residual share is larger for items directly affected by government restrictions and entailing a higher perceived risk of infection, such as restaurants, hotels and recreational activities (Figure 2, panel b). In contrast, the model underestimates the expenditure in furnishings, as changes in households' habits, above all the surge in teleworking, may have shifted household preferences towards these goods. Food consumption, the only spending category that registered a positive variation in 2020, was possibly affected by substitution effects between restaurants and home production and, at the outbreak of the pandemic, by consumers' panic about potential disruptions in the food supply chain (Chenarides et al., 2021).

Using aggregate data, however, it is not possible to distinguish the role of the fear of infection from the direct impact of lockdown policies and study how the contribution of different drivers varies with households' characteristics. To answer these questions the macro analysis is complemented by a micro approach.

Figure 2: The drivers of household consumption



a) contributions to growth *b) unexplained fall in consumption in 2020Q2*

Notes: our computations on Istat, Bank of Italy, ECB and Confcommercio data. In panel a) the dashed line represents y-o-y consumption growth predicted by a regression on the traditional determinants of consumption. The category 'Other' includes the volatility of income and the interest rate. In panel b) the bars represent the difference between realized and predicted y-o-y consumption growth (residual) for each spending category.

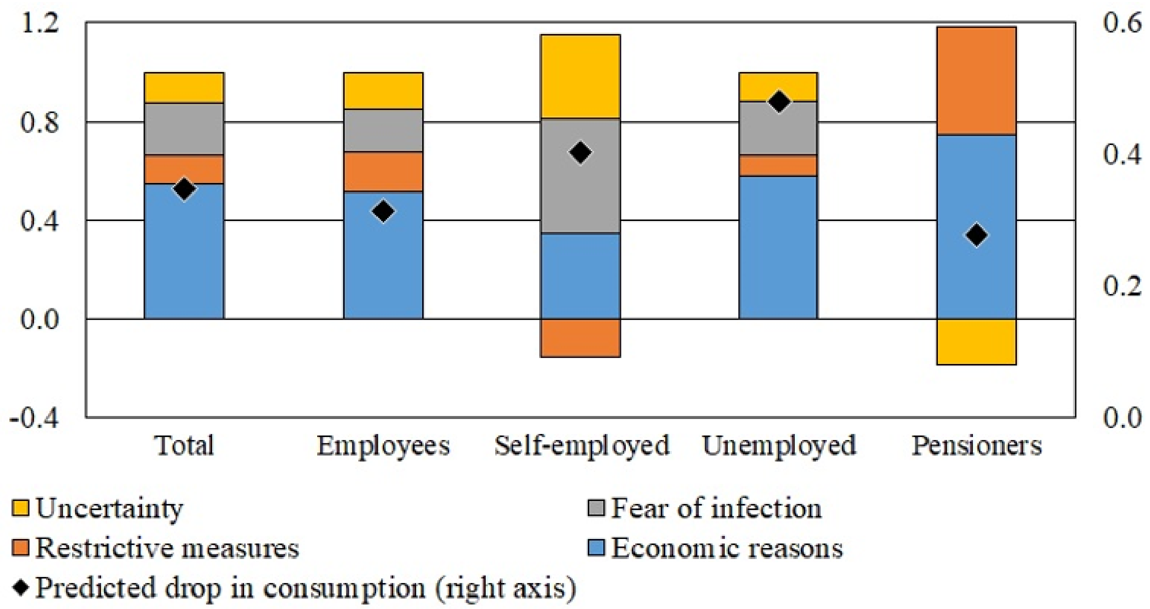
Why did households cut consumption?

Since the outbreak of the COVID-19 pandemic, the Bank of Italy has been conducting a Special Survey of Italian Households to collect information on the impact of the epidemic on the financial situation and expectations of Italian households.[1] The survey responses allow constructing indicators of the different determinants of expenditure at the individual level: economic factors linked to income and employment, uncertainty about the future, fear of infection, and the restrictive measures.

More in detail, economic factors are captured by the self-reported difficulties in making ends meets. Beyond contingent financial difficulties, households may want to put money aside for unexpected events to smooth the uncertainty they will face in the future. This uncertainty might be primarily affected by labour market events. Households that decided to cut drastically spending in all types of non-essential goods and services requiring social interactions, like hotels, bars and restaurants and purchases in physical stores selling clothing and footwear or furniture and appliances, might be signalling a strong fear of contracting the virus. Finally, restrictive measures were more stringent in the regions most severely hit by the epidemic at the time of interview, the so called "red" and "orange" zones.

For households as a whole, economic factors explain just over half of the estimated probability of a drop in expected consumption; fear of infection and uncertainty about the future also play a significant role (Figure 3). To investigate the heterogeneous impact of the pandemic across households, it is interesting to look at the job status: overall, one third of households assert that they have suffered a decline in income in 2020 but this percentage rises to over half when the household is headed by a self-employed worker or by an unemployed individual. Econometric estimates indicate that the economic reasons predominate for households whose head is unemployed or retired, while the fear of infection and uncertainty are more important for the self-employed.

Figure 3: Contribution of the reasons for cutting expenditure by occupation



Notes: our computations on wave 3 of the Special Survey of Italian Households (November 2020). Contributions are computed at the sample means of each occupational category.

[1] The survey is conducted every three months and covers the period heavily affected by the first lockdown measures (April 2020, 1st wave), the Summer (2nd wave), characterized by less stringent containment measures, and the Autumn (3rd wave) when the restrictive measures for the containment of the second pandemic wave were becoming more and more stringent, though less restrictive compared to April.

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