

4. Economic well-being¹

Italian households have traditionally been characterised by a high propensity to save combined with widespread home ownership and limited recourse to debt. However, the economic crisis that characterized a long phase of the last decade has shown the limits of this model, accentuating inequalities and territorial differences. In the years 2018 and 2019, positive signs in the growth of employment rate, reduction of absolute poverty and severe deprivation, increase in income and purchasing power of households, also thanks to the strengthening of income support interventions, confirmed an improvement in the economic conditions of the country. In this context, the outbreak of the COVID-19 pandemic has affected the Italian economic system in alarming and unpredictable forms and intensity, with a collapse in levels of economic activity that has had negative effects on income and purchasing power and a wider fall in consumer spending. The increase in poverty has been concentrated on certain segments of the population and certain territories. Despite improving economic conditions in the summer months of 2020, the COVID-19 pandemic continues to negatively affect household economic well-being in the latter months of 2020.

Income, purchasing power, consumption expenditure and savings: households' response to the pandemic

National accounts data can be used to get a timely and accurate picture of the dynamics of household income, expenditure and purchasing power in the pandemic months of 2020. The first negative signs emerged in Q1 of 2020, due to the start of the lockdown imposed in early March. In Q2 of 2020, household consumption expenditure fell by 11.7%, which was more pronounced than the fall in disposable income (-5.5%), leading to an abnormal increase in the propensity to save, which reached 19% (it had been 13.3% in the first quarter). (Figure 1). The reduction in households' purchasing power (-5.2%) was slightly less than the decrease in income due to negative price dynamics. In the third quarter, thanks to the easing of anti-COVID measures and the increase in the country's level of economic activity and, to a lesser extent, in households' disposable income, consumer spending increased significantly (+12.1%), with a drop in the propensity to save (-4.4 percentage points). The propensity to save remained, in the first nine months of the year as a whole, at much higher levels than the average levels of previous years (it was 8.1% in 2019)².

This evidence is also reflected in the dynamics of the retail sales index, which in March and April showed a slump compared to the previous month, driven by a strong decline in non-food trade, while food sales remained stable. From May, the index showed strong signs of recovery, and then a strong increase in August, mainly driven by non-food sales. As a result, the sales index reached slightly higher levels in August than the average of 2019, although the cumulative trend change for January-August was still lower than in the same period last year (-8.3%). Only since November of 2020, there has also been a decrease in

¹ This chapter was edited by Barbara Baldazzi, with contributions from Claudia Cicconi, Stefania Cuicchio, Valeria de Martino, Gabriella Donatiello, Francesca Laricca, Daniela Lo Castro, Federico Polidoro, Carmela Squarcio.

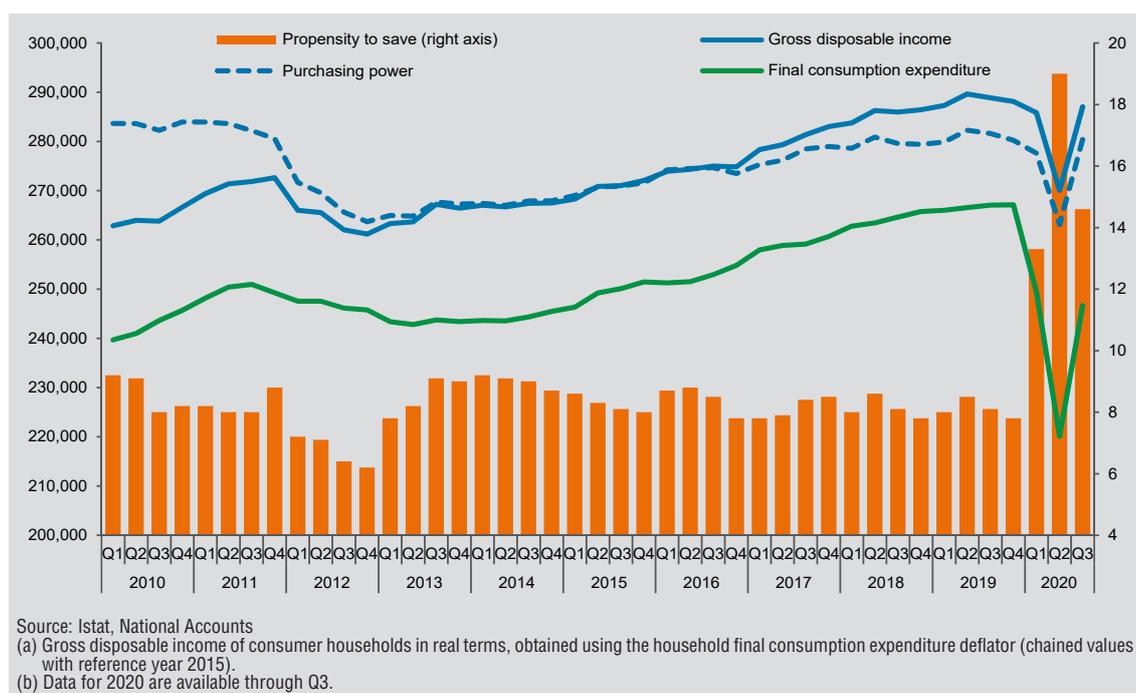
² See Statistica Flash "Quartely Non-Financial Account of General Government, Income and Savings of Households and Profits of Non-Financial Corporations" https://www.istat.it/it/files//2021/01/QSA_2020Q3_EN.pdf.

retail sales compared to the previous month, while the propensity of e-commerce usage continued to accelerate throughout 2020 compared to the previous year³.

Considering the first three quarters of 2020 compared to the same period of the previous year, an 8.5%⁴ fall in nominal GDP was matched by a 2.6% drop in household disposable income (-2.7% in terms of purchasing power), sustained by the massive public transfers put in place by the government authorities to counteract the negative effects of the health crisis and the restrictions placed on productive activities. Constraints on production activities, consumption patterns and the mobility of individuals, combined with growing uncertainty about prospects, led to a fall in consumer spending (-10.4%).

The resumption of infections in the last part of 2020 and in the first months of 2021, with the new health containment measures, could have a negative impact on future economic prospects, dominated by uncertainty linked to the difficult-to-predict evolution of the pandemic.

Figure 1. Propensity to save (right-hand scale), gross disposable income, purchasing power (a), final consumption expenditure of consumer households. Years 2010-2020 (b). Seasonally adjusted data in millions of euros and percentage values



Confidence in the country's economic situation still unstable, a few more prospects for the future

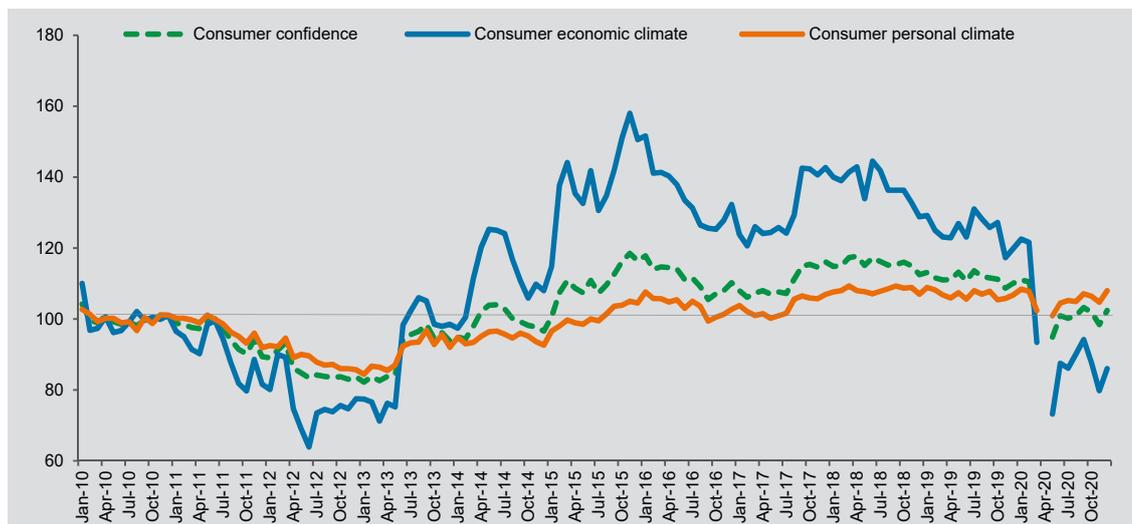
The subjective assessment of one's material conditions and the climate of confidence within a country are complementary indicators to objective assessments based on income, expenditure or material conditions. At this particular time, subjective indicators become of fundamental importance in shaping the sentiment of the population, and from this the possible

3 See "Monthly Report on the Italian Economy" https://www.istat.it/it/files//2020/11/MonRep_october_fin.pdf, https://www.istat.it/it/files//2021/02/MonRep_gen.pdf.

4 On 1 March 2021 Istat published the GDP estimate for the entire year 2020: GDP at market prices was EUR 1,651,595 million at current prices, a fall of 7.8% compared to the previous year. In volume terms, GDP fell by 8.9%.

future dynamics in terms of expenditure, employment and income. Consumer confidence⁵ collapsed in March and May, when it reached its lowest level since December 2013, but improved again in the following months, although it is still well below the level before the health crisis. The consumer economic climate (Figure 2), which is based on opinions and expectations of the situation in Italy, has a greater impact, remaining at very low levels throughout 2020 (consumer economic climate was strongly influenced by the course of the epidemic: the greatest contractions are felt in the months in which the contagions and the consequent containment measures start up again). The contraction in the consumer current climate is less pronounced (Figure 3), even though the economic situation experienced by households month after month remains constantly difficult (values of the consumer current climate from March to December 2020 are on average about 10 points away from the values of the respective months of 2019).

Figure 2. Indices of Consumer Confidence, Consumer Economic Climate (a), Consumer Personal Climate (b). Years 2010-2020 (c). Monthly seasonally adjusted indices base 2010=100



Source: Istat, Survey on consumer and business confidence

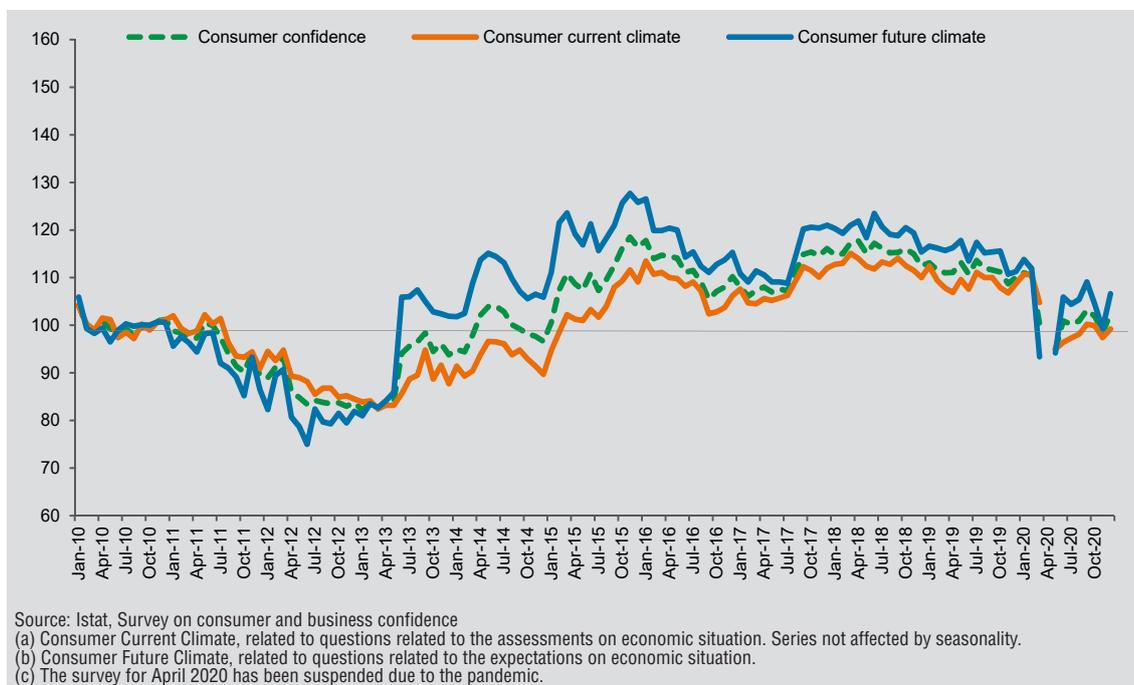
(a) Consumer Economic Climate, related to both the assessments and expectations on the Italian general economic situation and the expectations on unemployment.

(b) Consumer Personal Climate, related to assessments and expectations on the households' financial situation, assessments on savings current environment and expectations on savings intentions, assessments on the durable good major purchases, assessments on the family budget. Series not affected by seasonality.

(c) The survey for April 2020 has been suspended due to the pandemic.

5 Consumer Confidence Climate: it is elaborated on the base of nine questions deemed most appropriate to assess the optimism/pessimism of consumers (namely: assessments and expectations on the Italian general economic situation, expectations on unemployment, assessments and expectations on households' financial situation, current opportunity and future possibility of savings, current opportunities of durable goods purchases, assessments on family budget). The results of the nine questions, expressed as weighted balances on raw data, are aggregated through a simple arithmetic average; the result is then reported in the index (based on 2010) and seasonally adjusted with the direct method. A breakdown of the Consumer Confidence Climate is also proposed. The derived values are expressed as indexes (based on 2010) and are seasonally adjusted (where necessary) with the direct method. In particular: a) Economic Climate, simple arithmetic average of weighted balances related to both the assessments and expectations on the Italian general economic situation and the expectations on unemployment; b) Personal Climate, simple arithmetic average of the weighted balances of the remaining six questions of the Confidence Indicator (assessments and expectations on the households' financial situation, assessments on savings current environment and expectations on savings intentions, assessments on the durable good major purchases, assessments on the family budget); c) Current Climate, simple arithmetic average of the questions related to the assessments; d) Future Climate: simple arithmetic average of the questions related to the expectations. <https://www.istat.it/en/archivio/consumer-and-business-confidence>.

Figure 3. Indices of Consumer Confidence, Consumer Current Climate (a), Consumer Future Climate (b). Years 2010-2020 (c)



In 2020, households face a worsening economic situation

2020 was a very complex year for households, 28.8% of which declared a worsening of the household economic situation compared to the previous year, up from 25.8% in 2019. This worsening affected 30.5% of households in the Centre, 28.8% in the North and 27.7% in the South; households with three or more members, single people under 65 and households with at least one minor child were the most likely to perceive a worsening economic condition. On the other hand, households with a higher level of education were more protected, as were households composed of elderly people, whether living alone or as a couple (Figure 4).

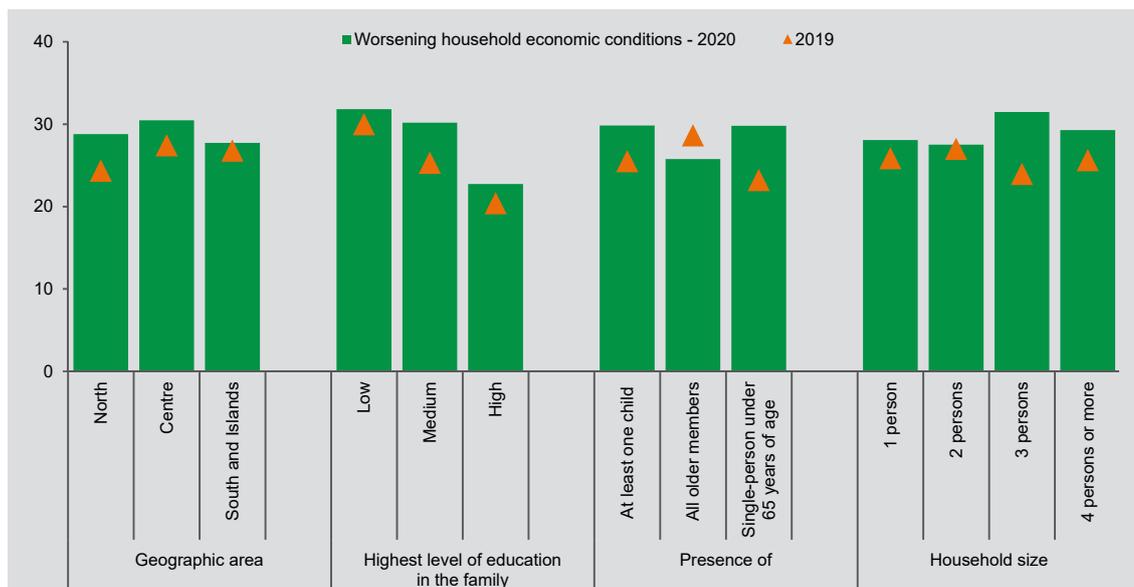
The preliminary estimate of absolute poverty for 2020 identifies more than two million households in absolute poverty (with an incidence on households of 7.7%), for a total of over 5.6 million individuals (with an incidence on individuals of 9.4%), a significant increase compared to 2019. Poverty is growing especially in the North (9.4%), an area strongly affected by the pandemic and its economic and social consequences, significantly exceeding even the 2018 values. The growth of the incidence is more contained in the Centre (6.7%) and in the South (11.1%), where the incidence returns to the 2018 levels (Figure 5).

With the exception of one-person households, which present a stable poverty incidence, a wider spread of absolute poverty affects all households. In particular, single-parent families and couples with one or two children are experiencing a worsening of their condition. Even in the year of the pandemic, presence of elderly people in the family (mostly with at least a pension income that guarantees regular income) reduces the risk of falling into poverty: in fact, the percentage of households in absolute poverty with at least one elderly person is stable compared to the previous year (5.6%). Looking at the composition by citizenship, in

4. Economic well-being

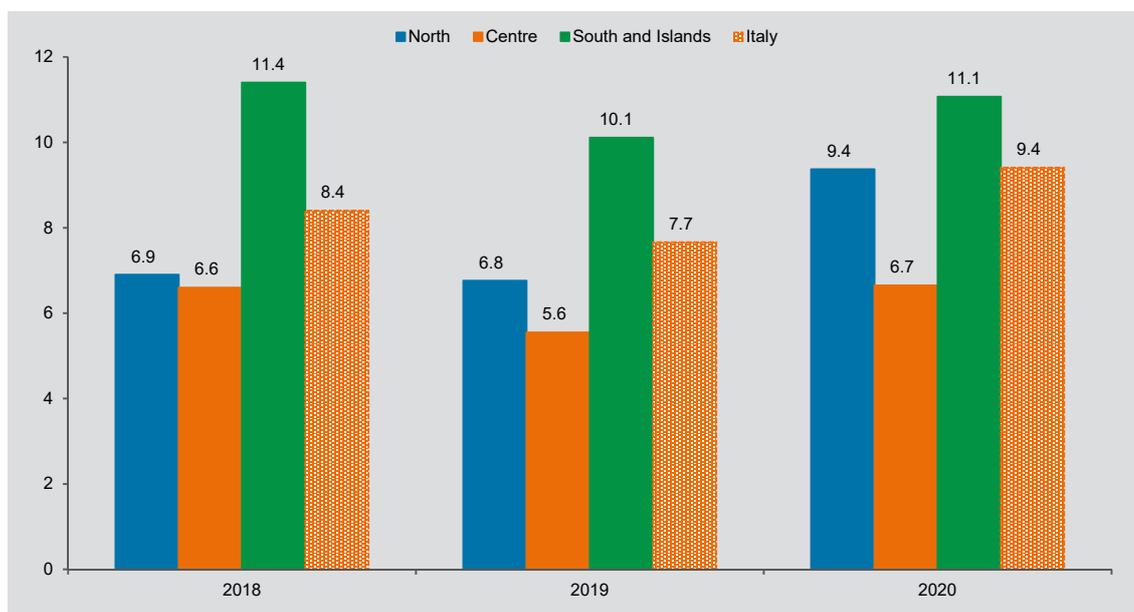
2020 the incidence of absolute poverty increases both for households with only Italians, from 4.9% to 6%, and for those with at least one foreigner, from 22% to 25.7%, even if the share of households with foreigners on the total number of poor households decreases, going from over 30% to 28.7%.

Figure 4. Households reporting that the household economic situation has worsened or worsened a lot compared to the previous year by geographic area, highest educational qualification in the household (a), presence of at least one child, all elderly members, only persons under 65, household size. Years 2019 and 2020 (b). Percentage values



Source: Istat, Survey on Aspects of daily life
 (a) Low educational level: Lower secondary, elementary or no degree (Isced 0-2), Medium educational level: Upper secondary (Isced 3-4), High educational level: Bachelor's degree or other tertiary degree (Isced 5-8).
 (b) 2020 data are provisional.

Figure 5. Individuals in absolute poverty by geographic area. Years 2018-2020 (a). Percentage values

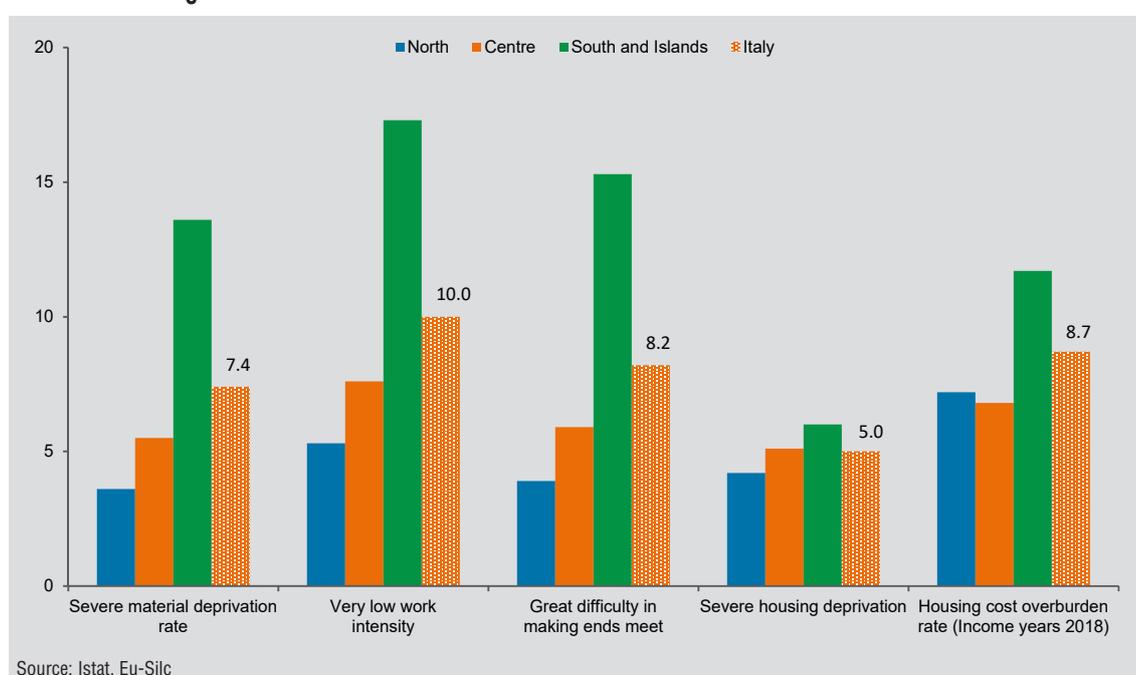


Source: Istat, Household Budget Survey
 (a) Preliminary estimates for the year 2020.

In the pre-pandemic year, poverty and income indicators had improved but inequalities in distribution persisted

The worsening of the economic condition in 2020 has impacted on a pre-pandemic situation of households showing deep inequalities by territory and by categories of subjects. The analysis of the characteristics of the collective in 2019 is therefore useful to outline the starting economic situation of households and individuals. In 2019, indicators linked to income capacity and economic resources, which enable households to achieve a certain standard of living, showed substantial signs of improvement.

Figure 6. Severe material deprivation rate, very low work intensity, great difficulty in making ends meet, severe housing deprivation and housing cost overburden rate by geographic area. 2019 Survey year - 2018 Incomes. Percentage values



In 2019, the percentage of those living in households where individuals worked for less than 20 per cent of their potential⁶ was 10%, down from 11.3% in 2018. The cost of maintaining a dwelling had a significant impact on household income⁷ and for 8.7 per cent of citizens it was particularly high, exceeding 40 per cent of net household income (Figure 6). In addition, 8.2% of people (down from 9.7% in 2018) said they had great difficulty making ends meet.

Despite the improvement in deprivation and poverty indicators, the differences in the impact of the phenomena in the territories remain high. The situation in the South and Islands of Italy is particularly critical, where the share of those living in very low work intensity households has fallen (from 19% to 17.3%). The great difficulty in reaching the end of the month is felt most strongly in the South and Islands (15.3% of individuals compared with

⁶ Very low work intensity indicator is calculated on the total number of months worked by household members during the year preceding the survey year.

⁷ Housing cost overburden rate is calculated on incomes in the year preceding the survey year.

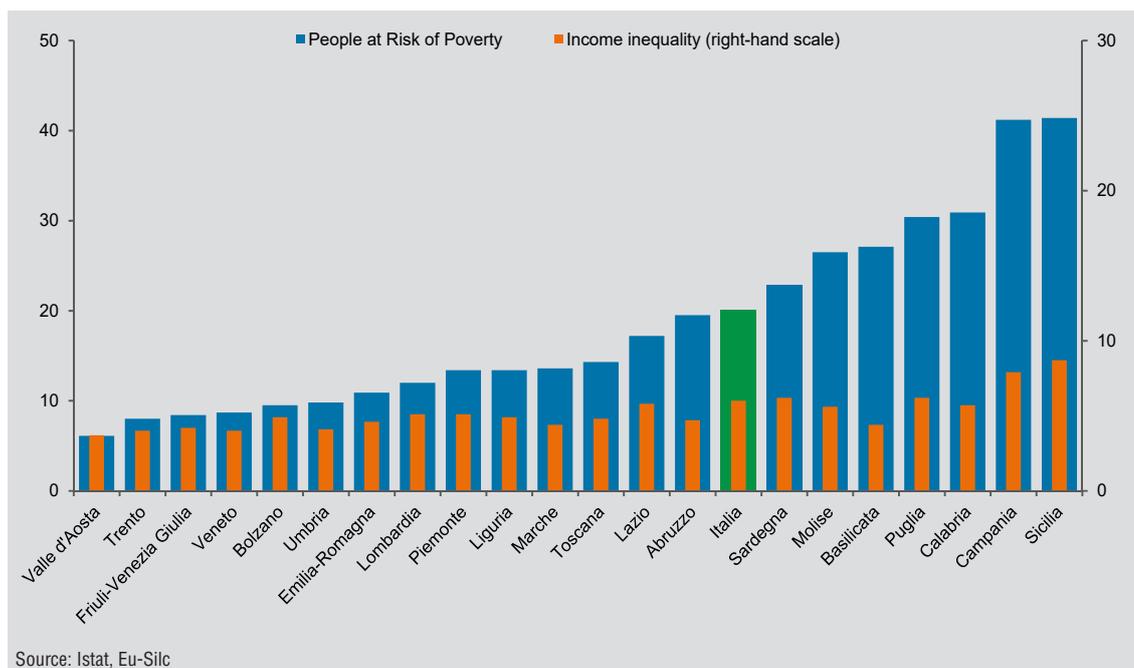
4. Economic well-being

5.9% in the Centre and 3.9% in the North), although this is down on 2018. The housing cost overburden rate is still high compared to the other territories and up compared to the previous year.

The at-risk-of-poverty indicator, calculated on 2018 incomes, measures how 20.1% of people residing in Italy received a net equivalent income lower than or equal to 60% of the median equivalent income⁸; in Sicilia and Campania, the phenomenon concerns 41% of the population (Figure 7).

Income inequality level, measured by the ratio of the income held by the richest 20 per cent of the population to the poorest 20 per cent, remains stable at 6 points for incomes in 2018⁹, remaining among the highest in Europe and thus signalling a profoundly unequal distribution of income. In the regions of South and Islands Italy, the highest risk of poverty is associated with high inequality indices; the latter exceed the average value for Italy in Sardegna and Puglia (6.2), Campania (7.9) and Sicilia (8.7).

Figure 7. Income inequality (right-hand scale) and people at risk of poverty by region. 2019 Survey year - 2018 Incomes. Ratio of S80/S20 incomes and percentage values



Conditions of material deprivation

An important aspect of economic well-being relates to material deprivation conditions, such as the availability of certain consumer durables, the state of the house and the possibility of buying certain goods and services. These indicators make it possible to capture aspects that cannot be explained by the level of income or consumption. Moreover, they make it possible to monitor one of the main objectives for a European pillar of social rights¹⁰, which is to

⁸ Median equivalised income is estimated at €10,299 (€858 per month).

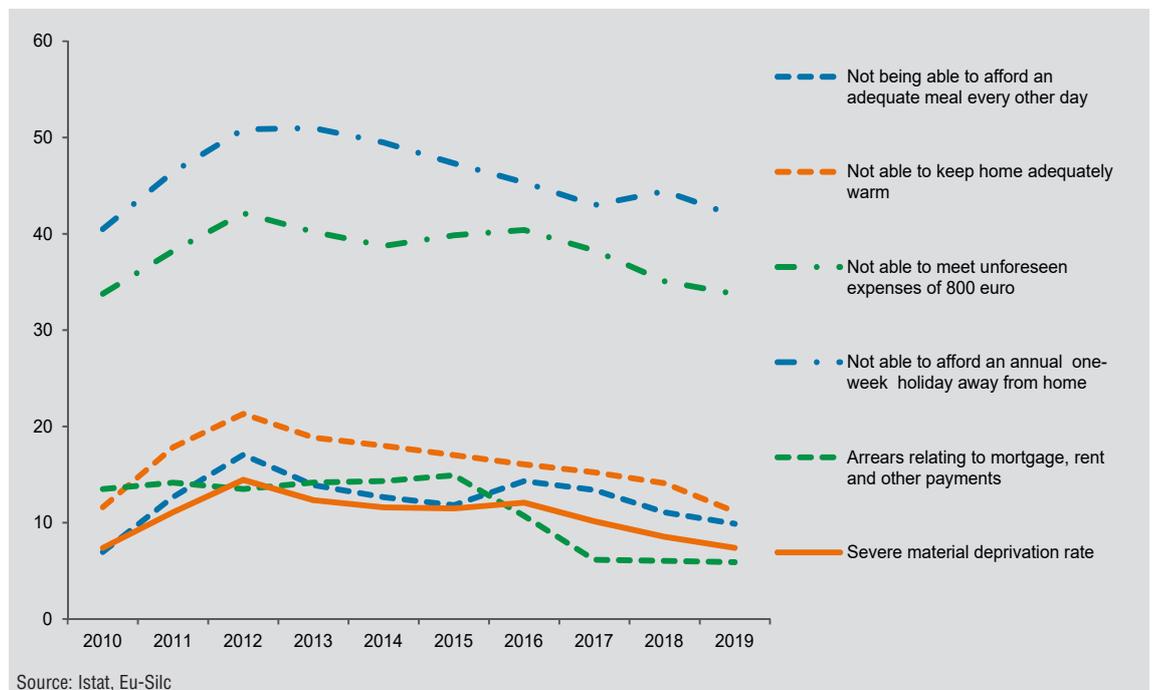
⁹ The income on which the inequality indicator is calculated refers to the year preceding the survey year.

¹⁰ See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A Strong Social Europe for Just Transitions" https://eur-lex.europa.eu/resource.html?uri=cellar:e8c76c67-37a0-11ea-ba6e-01aa75ed71a1.0003.02/DOC_1&format=PDF.

fight poverty without leaving anyone behind, by providing the support needed to find work, access quality healthcare, decent education and training opportunities, affordable housing, access to essential goods and services, and combating housing and material deprivation. In 2019, 7.4% of individuals reported being severely materially deprived, i.e. showing at least four of the nine signs of deprivation.

In particular, the share of individuals in households that say they cannot afford unexpected expenses has returned to 2010 levels (from a peak of 42.1% in 2012 to 33.8% in 2019), while the share of people who say they cannot afford a week's holiday away from home per year has remained above 40% (from 50.8% in 2012 to 41.9%). The indicators of not being able to afford a proper meal every second day, not being able to heat the house adequately, as well as having mortgage/rent arrears, had a lower incidence on the population (Figure 8).

Figure 8. People with severe material deprivation and specific deprivation conditions. Years 2010-2019. Percentage values

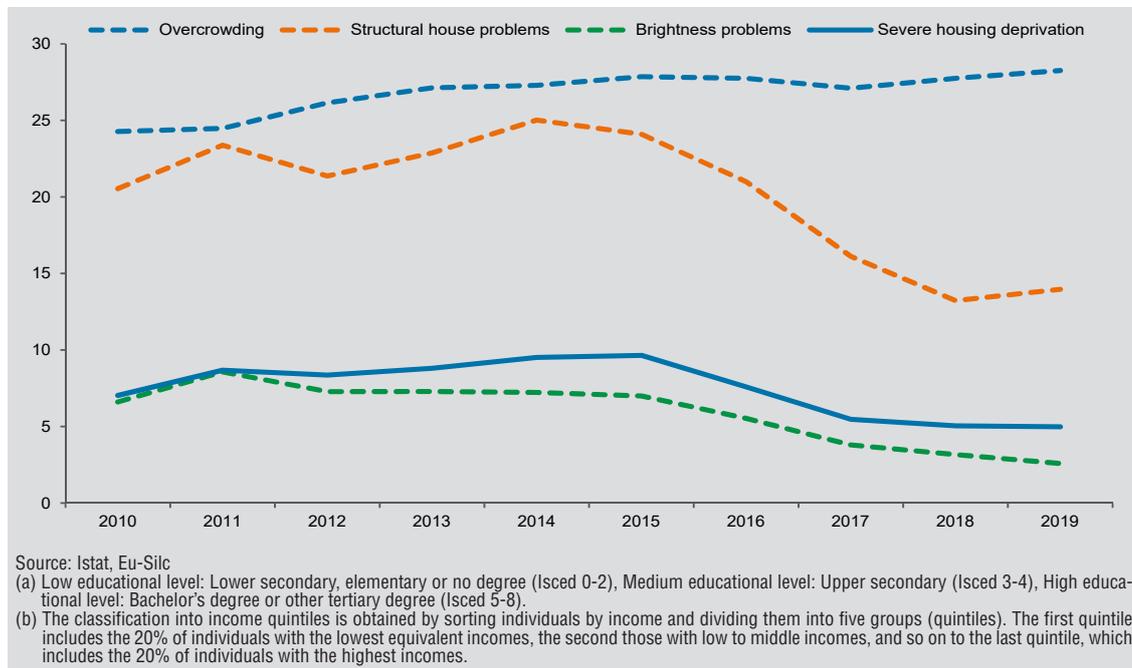


The share of people living in severe housing deprivation, i.e. in situations of housing overcrowding or in dwellings lacking certain services and with structural problems (ceilings, fixtures, etc.), is 5%, stable compared to 2018 (Figure 9). The virtuous downward trend that had affected the component linked to the absence of services and structural housing problems is interrupted; on the other hand, the component linked to the housing overcrowding indicator remains high¹¹.

¹¹ According to the methodology currently used by Eurostat a person is considered as living in an overcrowded household if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age.

4. Economic well-being

Figure 9. People with severe housing deprivation and specific deprivation conditions. Years 2010-2019. Percentage values

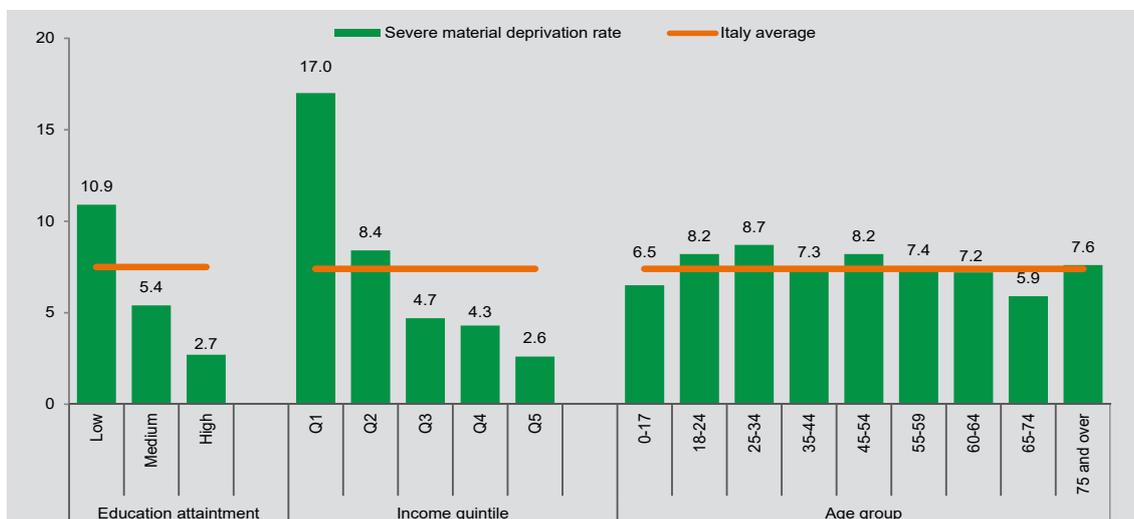


Inequalities in household material and housing deprivation persist in pre-pandemic year

In 2019, the incidence of severe material deprivation appears highest for households with 3 or more children (8.7%), people under 65 living alone (10.8%) and single parents (12.5%). As expected, the incidence decreases as income rises: 17% of individuals in the top fifth of the income distribution are also severely materially deprived (Figure 10). A higher level of education, on the other hand, provides some protection against deprivation. Among those with a lower-secondary school qualification, 10.9% experience severe material deprivation compared with 2.7% of those with a university or tertiary degree.

Severe material deprivation affects all household members, parents and children, and often those who start out at a disadvantage in life are children and young people living in households where indicators of poverty, social exclusion and material and housing deprivation are highest. Children and young people risk perpetuating the same starting conditions into adulthood, due to a lack of opportunities and prospects. The percentage of children and young people living in conditions of severe material deprivation is strongly associated with the level of education of their parents: it concerns 12.3% of children and young people whose parents have at least a lower secondary school qualification, it drops by half (6.4%) for those whose parents have an upper secondary school qualification and 2.1% for those whose parents have a tertiary education.

Figure 10. People in severe material deprivation by educational level (a), income distribution (b) and age group. Year 2019. Percentage values



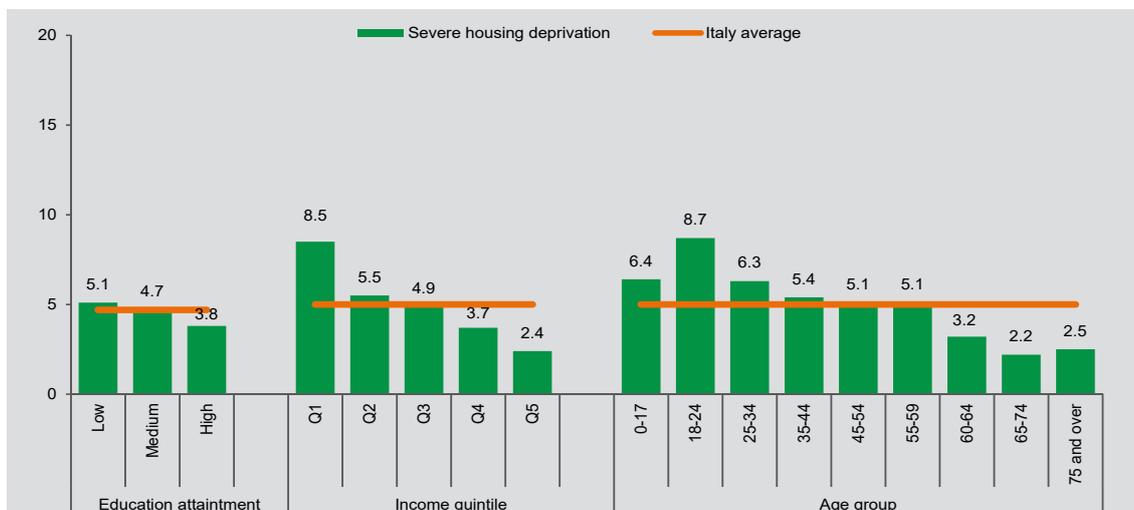
Source: Istat, Eu-Silc

(a) Low educational level: Lower secondary, elementary or no degree (Isced 0-2), Medium educational level: Upper secondary (Isced 3-4), High educational level: Bachelor's degree or other tertiary degree (Isced 5-8).

(b) The classification into income quintiles is obtained by sorting individuals by income and dividing them into five groups (quintiles). The first quintile includes the 20% of individuals with the lowest equivalent incomes, the second those with low to middle incomes, and so on to the last quintile, which includes the 20% of individuals with the highest incomes.

Moreover, children and young people suffer more from inadequate housing conditions than the elderly population (8.7% among 18-24 year olds against 2.2% among 65-74 year olds). Also the incidence of severe housing deprivation decreases, as expected, as income increases (Figure 11): individuals who are included in the first fifth of the income distribution live in inadequate housing in 8.5% of the cases and, moreover, in 34.7% of the cases, they spend a large part of their income on housing.

Figure 11. Persons in severe housing deprivation by educational level (a), income distribution (b) and age group. Year 2019. Percentage values



Source: Istat, Eu-Silc

(a) Low educational level: Lower secondary, elementary or no degree (Isced 0-2), Medium educational level: Upper secondary (Isced 3-4), High educational level: Bachelor's degree or other tertiary degree (Isced 5-8).

(b) The classification into income quintiles is obtained by sorting individuals by income and dividing them into five groups (quintiles). The first quintile includes the 20% of individuals with the lowest equivalent incomes, the second those with low to middle incomes, and so on to the last quintile, which includes the 20% of individuals with the highest incomes.

Indicators

- 1. Gross disposable income per capita:** Ratio between gross disposable income of consumer households and the total number of residents (current prices).
Source: Istat, National Accounts
- 2. Disposable income inequality:** Ratio of total equivalised income received by the 20% of the population with the highest income to that received by the 20% of the population with the lowest income.
Source: Istat, Eu-Silc
- 3. People at risk of poverty:** Share of population at risk of poverty, with an equivalised income less than or equal to 60% of the median equivalised income.
Source: Istat, Eu-Silc
- 4. Per capita net wealth:** Ratio of total net wealth of households to the total number of residents.
Source: Bank of Italy, Financial accounts and household wealth (SHIW)
- 5. Absolute poverty (incidence):** Ratio of people belonging to households with total consumption expenditure equal to or below the absolute poverty threshold value and total resident people.
Source: Istat, Household Budget Survey
- 6. Severe material deprivation rate:** Share of population living in households lacking at least 4 items out of the following 9 items: i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses (of 800 euros in 2014), iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, or could not afford) vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.
Source: Istat, Eu-Silc
- 7. Severe housing deprivation:** Share of population living in a dwelling which is considered as overcrowded, while also exhibiting at least one of the housing deprivation measures. Housing deprivation is calculated by reference to households with a leaking roof, neither a bath, nor a shower, nor an indoor flushing toilet, or a dwelling considered too dark.
Source: Istat, Eu-Silc
- 8. Great difficulty in making ends meet:** Share of individuals in households that, considering all the available income, declare to get to the end of the month with great difficulty.
Source: Istat, Eu-Silc
- 9. Very low work intensity:** Proportion of people 0-59 living in households in which, in the previous year, household members of working age (person aged 18-59 years, excluding students aged 18-24) worked less than 20% of the number of months that could theoretically have been worked by the same household members (excluding households with only minors, students aged less than 25 and persons aged 60 and over).
Source: Istat, Eu-Silc
- 10. Housing cost overburden rate:** Share of population living in households where the total housing costs represent more than 40% of disposable income.
Source: Istat, Eu-Silc

Indicators by region and geographic area

REGIONS AND GEOGRAPHIC AREAS	Gross disposable income per capita (a)	Disposable income inequality	People at risk of poverty (b)	Per capita net wealth (a)
	2019	2018 (*)	2019 (**)	2016
Piemonte	21,371	5.1	13.4	....
Valle d'Aosta/Vallée d'Aoste	21,593	3.7	6.1	....
Liguria	21,900	4.9	13.4	....
Lombardia	23,282	5.1	12.0	....
Trentino-Alto Adige/Südtirol	24,423	4.5	8.7	....
<i>Bolzano/Bozen</i>	<i>26,852</i>	<i>4.9</i>	<i>9.5</i>	....
<i>Trento</i>	<i>22,042</i>	<i>4.0</i>	<i>8.0</i>	....
Veneto	20,746	4.0	8.7	....
Friuli-Venezia Giulia	21,240	4.2	8.4	....
Emilia-Romagna	23,041	4.6	10.9	....
Toscana	20,782		14.3	....
Umbria	18,908	4.1	9.8	....
Marche	19,206	4.4	13.6	....
Lazio	19,999	5.8	17.2	....
Abruzzo	16,525	4.7	19.5	....
Molise	14,678	5.6	26.5	....
Campania	13,682	7.9	41.2	....
Puglia	14,484	6.2	30.4	....
Basilicata	14,422	4.4	27.1	....
Calabria	13,160	5.7	30.9	....
Sicilia	13,827	8.7	41.4	....
Sardegna	15,597	6.2	22.9	....
North	22,366	4.8	11.2	104,892
Centre	20,061	5.2	15.3	102,924
South and Islands	14,193	7.2	34.7	55,603
Italy	19,124	6.0	20.1	87,451

(a) In Euro;

(b) Per 100 persons;

(c) Data for the Autonomous Province of Trento, Umbria and Basilicata, are statistically not significant, because it correspond to a sample size between 20 and 49 units;

(d) Data for Valle d'Aosta, Autonomous Provinces of Trento and Bolzano, Friuli-Venezia Giulia, Molise, Basilicata and Calabria are statistically not significant, because it correspond to a sample size between 20 and 49 units;

(e) Data for Umbria are statistically not significant, because it correspond to a sample size between 20 and 49 units;

(f) Data for Valle d'Aosta, Autonomous Provinces of Trento and Bolzano, Umbria and Abruzzo are statistically not significant, because it correspond to a sample size between 20 and 49 units;

(*) The indicator refers to the year of achievement of income (2018) and not to the survey year (2019);

(**) The indicator refers to the survey year (2019) while income is referred to the previous year (2018).

4. Economic well-being

Absolute poverty (incidence) (b)	Severe material deprivation rate (b) (c)	Severe housing deprivation (b) (d)	Great difficulty in making ends meet (b) (e)	Very low work intensity (b) (f)	Housing cost overburden rate (b)
2019	2019	2019	2019	2019	2019
....	3.1	3.6	4.2	7.0	8.7
....	..	3.5	..	3.5	5.0
....	3.0	4.8	4.0	8.0	9.6
....	4.7	4.9	4.7	5.3	8.1
....	3.0	4.0	3.7	4.4	6.1
....	..	4.4	..	3.2	8.4
....	5.0	3.6	7.1	5.5	3.8
....	1.7	3.1	2.3	3.6	3.7
....	4.1	1.8	2.9	5.7	5.3
....	4.0	4.8	3.7	4.9	7.6
....	3.4	3.9	4.3	6.9	5.3
....	1.8	6.9	2.4	4.0	4.2
....	4.0	5.6	3.4	6.2	4.3
....	7.8	5.5	8.1	8.8	8.9
....	6.2	11.9	12.8	6.9	4.9
....	12.0	7.9	13.3	13.2	9.5
....	16.6	6.9	25.9	18.6	14.6
....	11.9	6.1	10.3	13.2	8.3
....	8.8	4.9	9.2	11.5	5.8
....	8.6	3.8	8.3	12.3	6.7
....	17.8	5.1	12.4	25.0	16.7
....	8.0	3.4	11.2	15.6	9.1
6.8	3.6	4.2	3.9	5.3	7.2
5.6	5.5	5.1	5.9	7.6	6.8
10.1	13.6	6.0	15.3	17.3	11.7
7.7	7.4	5.0	8.2	10.0	8.7