

# Spanish and euro area households' response to rising prices

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## Rationale

Faced with the recent inflationary episode, households have employed different strategies to adjust their consumption, saving and labour supply decisions in response to higher prices. This article discusses what those strategies have been and how they have varied based on household characteristics.

## Takeaways

- The strategies most widely used by households to cope with the price increases, both in Spain and in the euro area, were shopping around for better alternatives (e.g. offers) and reducing their saving and spending levels.
- Spanish households have resorted to credit and increased their labour supply (by taking a second job or working longer hours) to cushion the impact of higher prices on consumption more than their euro area counterparts. This is especially true among households with low liquidity buffers.
- Young people, women, people with a lower educational level and those living in rented housing have showed a greater propensity to work more hours to cope with inflation.

## Keywords

Consumption, inflation, liquidity, credit.

## JEL classification

D12, D14, E21, E31.

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Author:

Carmen Martínez Carrascal  
Economic Developments Department  
Banco de España

Faced with the recent inflationary episode, households have adopted different strategies to adjust their consumption decisions. These include trading down to cheaper alternatives for some products in the shopping basket, increasing their labour supply to lift their level of income and tapping other sources of funds (such as savings or borrowing). As a result, household consumption has recovered in recent quarters and returned to pre-pandemic levels at end-2023 (see Chart 1.a).

This article uses the **European Central Bank (ECB) Consumer Expectations Survey (CES)** to conduct a disaggregated analysis of the different adjustment measures employed by households to contend with price developments since August 2022, drawing on the information collected in the August and October 2023 rounds. In particular, respondents were asked what actions they had taken in the previous 12 months and what actions they expected to take in the future to cope with inflation. These adjustments include changes in their levels of spending, saving, income (in particular via their labour supply) and borrowing.

In both Spain and the euro area, the most widely used strategies were shopping around for better alternatives (e.g. offers), reducing saving and lowering spending (see Chart 2.a).<sup>1</sup> According to the survey responses, as compared with their euro area counterparts, Spanish households have relied more heavily on borrowing and on increasing their labour supply (taking a second job or working longer hours) to cushion the impact of higher prices on consumption. In particular, the share of individuals that resorted to loans to cope with rising prices is 2.3 percentage points (pp) higher in Spain than in the euro area, in line with the more buoyant consumer credit developments observed recently in Spain (see Chart 1.b). Likewise, the percentage that reported having increased their labour supply is also somewhat higher in Spain (1.2 pp) than in the euro area. In line with these results, Eurostat data show that the share of people in Spain with a second job rose by 6.8% between September 2022 and September 2023, compared with a 1% increase in the euro area.<sup>2</sup> Conversely, the percentage of households that reported having relied on wage increases to cope with inflation is similar in both economies.

Between August and October 2023, Spanish households expected to increase their labour supply over the next 12 months to a greater extent than they increased it over the previous 12 months, in order to absorb price developments (see Chart 2.b). Specifically, the percentage of individuals expecting such adjustments was 8 pp higher than that reporting having increased their working hours over the previous 12 months. In addition, the share of households that expected to postpone major purchases and reduce their level of spending to adapt to price developments rose (by 3.6 pp and 5.2 pp, respectively) compared with the percentage that did so over the previous 12 months. By contrast, the percentage of households that, 12 months ahead, expected to resort to loans to

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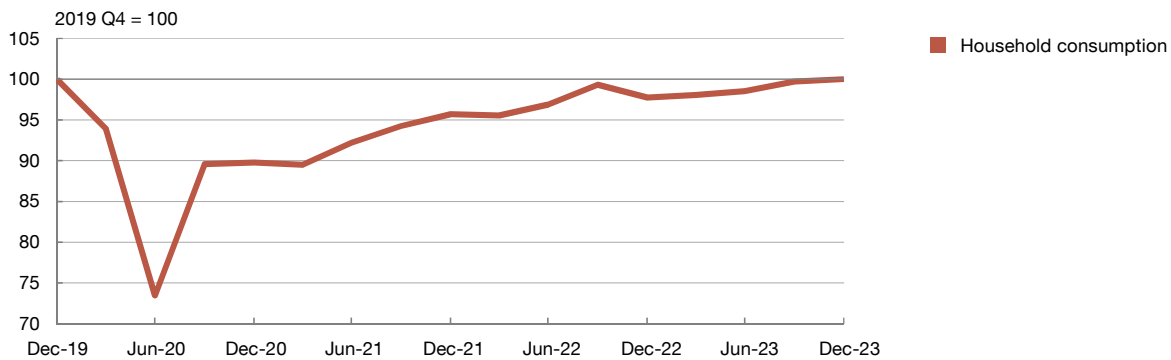
1 Based on information obtained in the August and October 2023 rounds.

2 [https://ec.europa.eu/eurostat/databrowser/product/page/lfsq\\_e2ged\\_\\_custom\\_9854352](https://ec.europa.eu/eurostat/databrowser/product/page/lfsq_e2ged__custom_9854352).

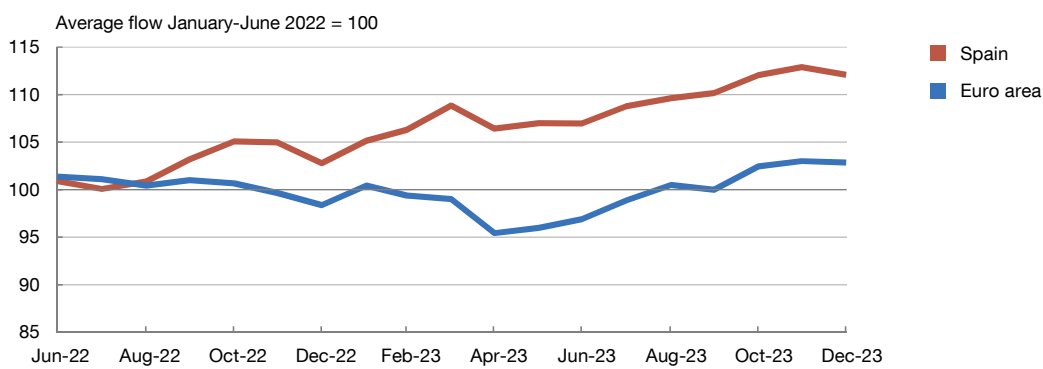
Chart 1

## Recent developments in household consumption and borrowing

## 1.a Consumption of Spanish households



## 1.b Consumer lending in Spain and the euro area (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted 3-month cumulative flows of new consumer loans, normalised by the average flow in the period January-June 2022.



cope with price developments was 1.8 pp lower than that reporting having applied for a loan for such purpose over the previous 12 months.

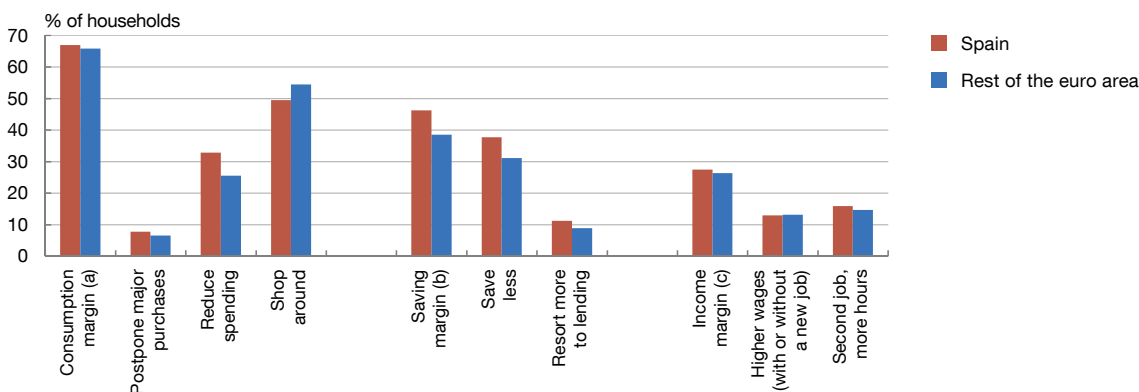
Actions to adapt to price developments have also varied across households with different characteristics. One of the main determinants of this heterogeneity is the availability of a certain liquidity buffer. The percentage of households reporting having increased their labour supply (working longer hours in their usual position or finding a second job), having resorted to loans or having reduced their spending as a result of inflation is higher among those with a low liquidity buffer or none at all<sup>3</sup> than among other households (see Chart 2.c). By contrast, the proportion of households that have benefited from a wage increase, either in the same job or by switching to another position, is higher in the group with a comfortable liquidity buffer. This is probably

<sup>3</sup> Households with a liquidity buffer are those that, according to the respondent, have sufficient financial resources to cover an unexpected payment equal to one month of household income (or some means of obtaining this amount, e.g. loans from relatives or a bank). Those without a buffer or with a low buffer either have zero resources or resources below such amount.

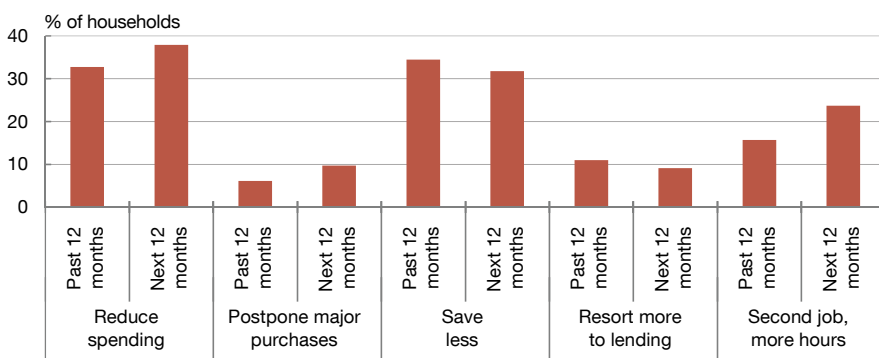
Chart 2

**Actions by households over the past 12 months and looking ahead to cope with price developments. Total households and broken down by population groups**

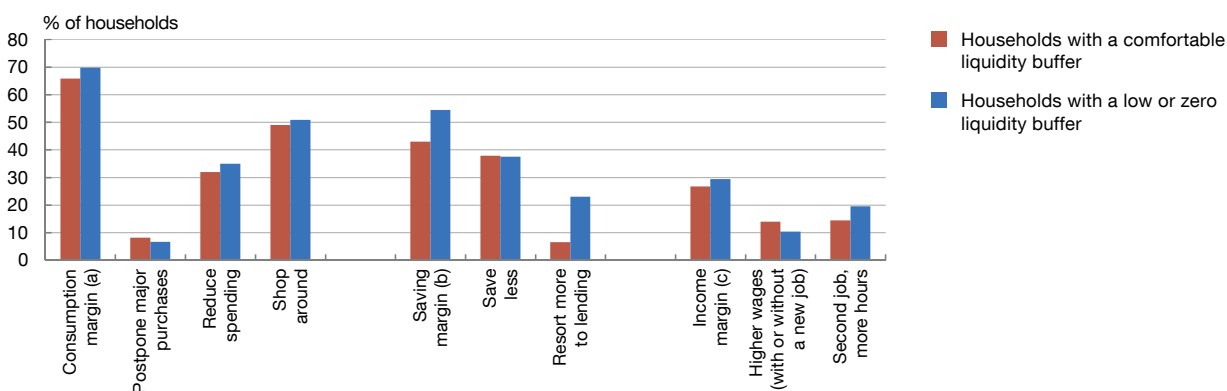
2.a Actions over the past 12 months to cope with price developments. August-October 2023



2.b Actions in the past 12 months and expected 12 months ahead to cope with price developments. Spain. August-October 2023



2.c Actions over the past 12 months to cope with price developments. Breakdown by household liquidity buffer (d). Spain. August-October 2023



SOURCES: CES and Banco de España calculations.

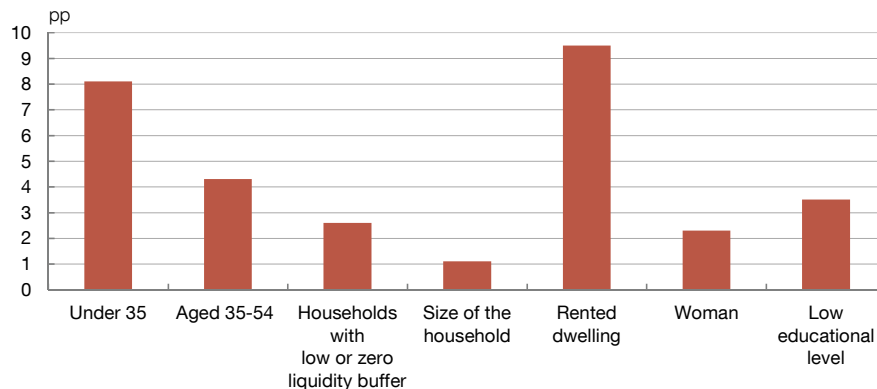
- a Reflects the proportion of households with some form of adjustment in their spending decisions (either postponing major purchases, lowering spending levels or seeking better alternatives).
- b Reflects the proportion of households that have reduced their saving or have increased their recourse to lending.
- c Reflects the share of households that have increased their labour income, either by increasing their wages or by increasing their hours worked.
- d Households with a liquidity buffer are those that, according to the respondent, have sufficient financial resources to cover an unexpected payment equal to one month of household income (or some means of obtaining this amount, e.g. loans from relatives or a bank). Those in the “no liquidity” group either have zero resources or resources below such amount.



Chart 3

### Impact of various household and individual characteristics on the probability of reporting an increase in labour supply as a means of adapting to inflation

3.a Impact of various household and individual characteristics on the probability of having increased the number of hours worked to cope with price developments. Spain



SOURCES: CES and Banco de España calculations.

a Results obtained from estimating a linear probability model linking the probability of reporting an increase in labour supply with perceived inflation, the age and the educational attainment level of the respondent, household income level (three groups: low, medium and high), the liquidity buffer available and the dwelling tenure status. Estimation performed with data for August and October 2023 on households with some type of adjustment to their consumption, saving or income to cope with price developments. Households with a liquidity buffer are those that, according to the respondent, have sufficient financial resources to cover an unexpected payment equal to one month of household income (or some means of obtaining this amount, e.g. loans from relatives or a bank). The chart depicts the coefficients statistically different from zero. For the age groups (educational level), the coefficients reflect the differential impact on the probability of reporting an increase in labour supply compared with respondents aged 55-70 (with a high educational level). For gender (scant liquidity), the differential impact of being a women (having scant liquidity) on the probability of increasing labour supply is reported.



indicative of the relatively stronger negotiating power of this population group, in which workers holding positions requiring more specific expertise are concentrated.

To analyse which characteristics are more closely related to the decision to seek additional income in response to the higher cost of living (either through a second job or by increasing labour supply), a linear probability model establishing the relationship between this decision and various determinants is estimated. In particular, several of the respondent's characteristics (gender, educational attainment level, age and perceived inflation) and their household's characteristics (income quintile, availability of a comfortable liquidity buffer, number of household members and their housing tenure status (rented or owned with or without a mortgage)) are considered. The results show that individuals belonging to households with a low liquidity buffer, those residing in rented housing, younger respondents, those with a low educational attainment level and women have opted, more often than the others, to increase their labour supply to counter the higher cost of living (see Chart 3.a).

## How to cite this document

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