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Title	Assessing Household's Living Standards and Income Resilience at the outset of the Cost-of-Living Crisis
Authors(s)	Collins, Micheál
Publication date	2023-03-01
Publication information	Collins, Micheál. "Assessing Household's Living Standards and Income Resilience at the Outset of the Cost-of-Living Crisis." Statistical and Social Inquiry Society of Ireland, March 1, 2023. https://doi.org/2262/103743.
Publisher	Statistical and Social Inquiry Society of Ireland
Item record/more information	http://hdl.handle.net/10197/24918
Publisher's version (DOI)	2262/103743

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Journal of the Statistical and Social Inquiry Society of Ireland
Vol. LII

Cost of Living Symposium

Assessing Household's Living Standards and Income Resilience at the outset of the Cost-of-Living Crisis

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(read before the Society, 8th December 2022)

Abstract: This paper explores the living standards of Ireland's 1.9 million households at the outset of the 2021/23 cost-of-living crisis and considers the heterogeneous experience of that crisis by households across income distribution. The widespread nature of price increases, and their particular impact on areas of large recurring household expenditure (e.g. food, fuel and energy), has resulted in a cost-of-living crisis impacting all households, although some faced into the crisis with a better ability to absorb, or manage, these higher living costs. Using data from the Survey on Income and Living Conditions (SILC) the paper considers the living standards of households at the outset of the crisis, and based on this assesses their capacity to absorb increases in nominal living costs. Using data on the subjective assessment of household's ability to make ends meet, it classifies households into those who were already struggling, those who were unlikely to be able to absorb a marked increase in nominal living costs, and those with sufficient means to manage these cost increases despite their scale. The paper poses three research questions: What were living standards like prior to the crisis? What ability had households to absorb large nominal increases in living costs? Which households were most impacted by the crisis? Households are examined across the income distribution and within other socio-economic classifications such as household composition and tenure. The analysis therefore aims to provide a more comprehensive picture of the resilience, or otherwise, of Irish households as they faced into the cost-of-living crisis.

Keywords: inflation, Ireland, households, living standards
JELs: E31, D14, I30

1. INTRODUCTION AND CONTEXT

This paper explores the living standards of Ireland's 1.9 million households at the outset of the 2021/23 cost-of-living crisis. The crisis, which emerged slowly from mid-2021 driven by pandemic related supply-side issues, accelerated from early 2022 as energy supplies tightened in advance of, and immediately after, Russia's February 2022 invasion of Ukraine. The widespread nature of subsequent price increases, and in particular their impact on areas of large recurring household expenditure, resulted in a cost-of-living crisis that has impacted all households.

By July 2021 Ireland's annual inflation rate had exceeded 2 per cent for the first time since August 2012 and from there steadily climbed to reach 5.1 per cent in October 2021, 6.7 per cent in March 2022, 9.1 per cent in June 2022 and peaked at 9.2 per cent in October 2022. That peak represented the highest rate of monthly consumer price growth since June 1984 (9.7 per cent). Subsequently, inflation started to slow, dropping to 7.2 per cent by April 2023.[2] Figure 1 illustrates this Consumer Price Index (CPI) trend from January 2021 to April 2023 and also illustrates the rapid rate of change in three key areas of household expenditure, food and non-alcoholic beverages, transport, and housing/fuel; areas which account for 12.7 per cent, 14.2 per cent and 21.1 per cent respectively of average annual household expenditure.[3]

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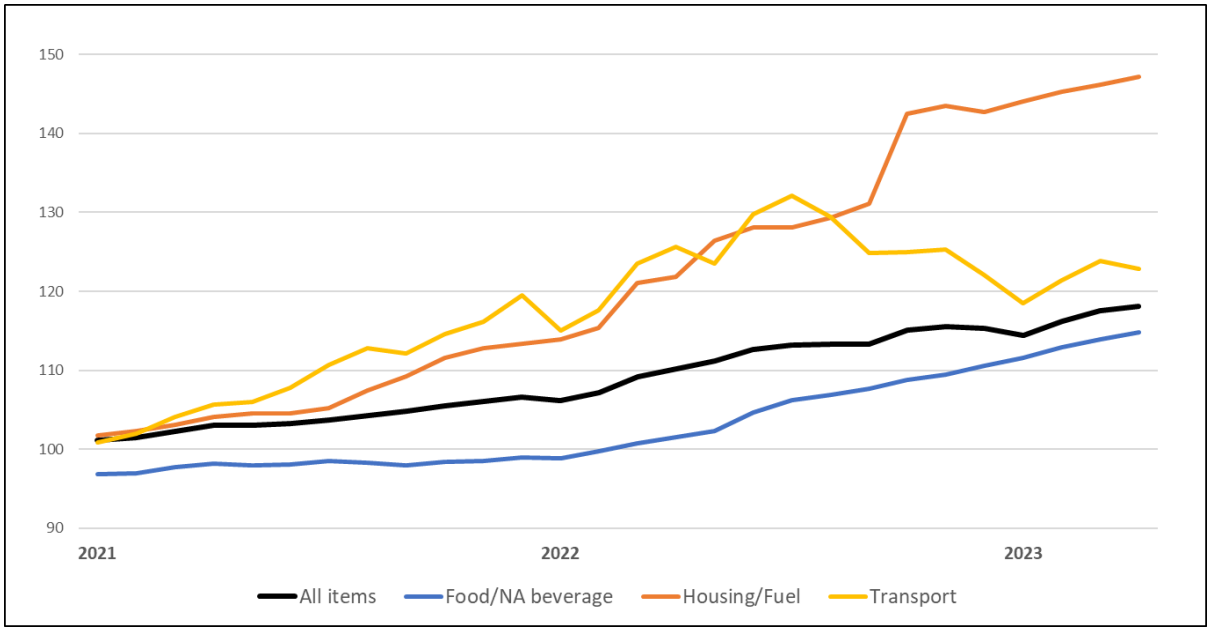
[2] CPI inflation data for April 2023 was the last available when this paper was drafted. Other data from CSO PX database indicator CPM01.
[3] Data from CSO (2022a) based on 2015/16 Household Budget Survey. Expenditure on rent, mortgage payments and electricity, gas and other fuels (housing/fuel) is estimated at 21.1 per cent.

Faced with these price changes, all Irish households experienced a rapid and pronounced increase in living costs throughout 2021/2023. However, understanding the ability of households to absorb, or manage, these price increases serves as the core focus for this paper. Using data from the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC) the paper considers the living standards of households at the outset of the crisis, and based on this assesses the ability of households to absorb increases in nominal living costs. In particular, using data on the subjective assessment of household's ability to make ends meet, it classifies households into those who were already struggling, those who are unlikely to be able to absorb a marked increase in nominal living costs, and those with sufficient means to manage these cost increases despite their scale. As a means of determining this, the paper poses three research questions: What were living standards like prior to the crisis? What ability had households to absorb large nominal increases in living costs? And which households were most impacted by the crisis?

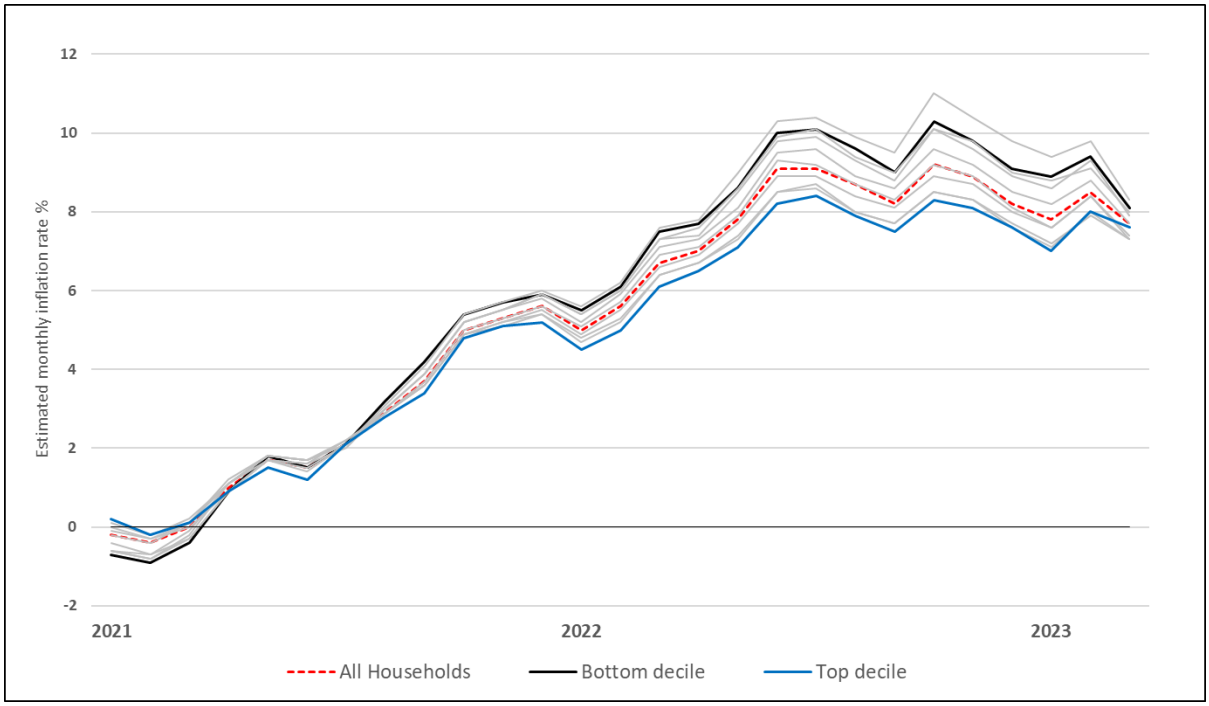
Figure 1: Increase in Consumer Prices, January 2021-April 2023



Source: CSO, Consumer Price Index (indicators CPM01, CPM02)
Notes: Indices rebased to January 2019=100; NA = non-alcoholic beverages; Housing/Fuel includes housing, water, electricity, gas and other fuels.

This focus on living standards at the outset of the crisis, in effect the starting point for households, represents a different approach to considerations of the socio-economic impact of the cost-of-living crisis. Heretofore most assessments have examined changes in the cost of the existing set of goods and services that households consume and determined the additional spending required to maintain that same level and composition of expenditure (Lydon, 2022; CSO, 2022a and 2023a; Social Justice Ireland, 2023; TASC, 2022). Implicitly, this assumes that households have the capacity to meet these additional expenditure requirements and that the distributive impact of the crisis can be gauged by the proportional increase in expenditure that households face. That perspective has offered some very useful insights into the exposure of various household types to rising prices. For example, Figure 2 presents the CSO's estimates of the decile distribution of these additional prices increases from January 2021 to March 2023 highlighting how lower income households faced the greatest price increases. However, missing from these considerations is an understanding of the capacity of households to meet these higher prices.

Figure 2: Increase in Consumer Prices by decile, January 2021-March 2023



Source: CSO (2023a) Estimated Inflation by Household Characteristics (indicator EIHC01)
Notes: In March 2023 the highest inflation was associated with the set of goods and services consumed by the 2nd decile. In that month the range was from 7.3 per cent (deciles 6, 8 and 9) to 8.3 per cent (decile 2) with the overall average recorded as 7.7 per cent.

This paper attempts to provide an understanding of that important context, arguing that the ability of households to meet higher costs, given their underlying financial situation, is a central perspective in understanding the socio-economic and distributive impact of the cost-of-living crisis. Households are examined across the income distribution and within other socio-economic classifications such as household composition and tenure. The analysis therefore aims to provide a more comprehensive picture of the resilience, or otherwise, of Irish households as they faced into the cost-of-living crisis.

The paper considers its three research questions in the context of the SILC analysis and its results, and then discusses these findings in the context of the range of policy supports Government undertook throughout the crisis. Box 1 provides a summary of these measures which first emerged in December 2021 and rapidly escalated as the crisis deepened throughout 2022. Prior to the invasion of Ukraine (February 24th 2022) Government announcements characterised the crisis as transitory, driven by higher energy prices, and anticipated that it would "moderate from the second quarter" of 2022 (Government of Ireland 2021 and 2022). Prior to Budget 2023 most of the announced policy interventions were characterised by universal transfers and credits, made available to almost all households, with limited targeting. The most notable exception being additional payments to welfare dependent households in receipt of the fuel allowance. Although a desire to provide assistance to all households framed the approach taken in Budget 2023, a 'cost-of-living Budget', over time policy initiatives started to incorporate a greater degree of targeting with, in particular, the measures announced in February 2023 focused on welfare dependent households and those with children.

The remainder of the paper is structured as follows. The next section outlines the data used to undertake the analysis and is followed by two sections exploring its results. These first examine the overall trend in household living standards at the outset of the crisis before assessing the income resilience of households based on a comparison of their income and basic expenditure needs. Finally, the paper concludes with a discussion of the results and their implications for recent and future policy responses.

BOX 1: SUMMARY OF THE KEY COST-OF-LIVING POLICY INTERVENTIONS, DECEMBER 2021-FEBRUARY 2023

14th December 2021

- Domestic Energy Credit of €100 announced for all households, payable in Spring 2022.

10th February 2022

- Domestic Energy Credit increased to €200 for all households, payable in April 2022.
- 20% reduction in all public transport fares until the end of 2022.
- €125 lump-sum payment to all Fuel Allowance recipients in March 2022.
- Smaller changes to Drugs Payment Scheme, the timing of the Working Family Payment increase, and school transport costs.

9th March 2022

- Immediate reduction in excise duties on petrol, diesel and marked gas, until end-August 2022.

13th April 2022

- VAT reduced on gas and electricity until the end of October 2022.
- Excise duty reductions announced in March extended to Budget Day.
- Additional excise reduction for green (agricultural) diesel.
- €100 lump-sum payment to all Fuel Allowance recipients in May 2022.

4th July 2022

- Budget 2023 renamed as a 'Cost of Living Budget' and moved from mid-October to late-September. Available resources increased by €2.2bn to €6.7bn.

27th September 2022

- Budget 2023 announced; a 'Cost of Living Budget' involving a total of €11bn in resources - €6.9bn for 2023 measures and €4.1bn for once-off cost-of-living measures occurring in late 2022 and 2023.
- Reduction in income taxation via increased standard band and increased tax credits.
- Increase in core welfare payments of €12 per week.
- Once off measures:
    - Three new Domestic Energy Credits for all households, worth €200 each and payable in November 2022, January 2023 and March 2023.
    - Double Child Benefit payment in November 2022.
    - A double payment of all weekly welfare payments in mid-October 2022.
    - €400 lump-sum payment to all Fuel Allowance recipients in November 2022.
    - €200 lump-sum payment to all Living Alone Allowance recipients in November 2022.
    - €500 lump-sum payment to recipients of Working Family Payment, Carer's Support Grant, and Disability Support Grant in November 2022.
    - Double third-level grant payment and increased postgraduate payment.
- 20% reduction in all public transport fares extended until the end of 2023; 50% reduction for under 18s.
- VAT reduction on gas and electricity extended until the end of February 2023.
- Other measures: reforms to Fuel Allowance qualification criteria so it is easier to access; offsetting of Carbon Tax fuel price increase by reduction in National Oil Reserves Agency (NORA) levy.
- Temporary Business Energy Supports Scheme (TBESS) introduced covering period from September 2022 to at least February 2023.

21st February 2023

- €200 lump-sum payment to all welfare recipients in April 2023.
- €100 lump-sum Child Benefit payment in June 2023.
- €100 one-off increase in the Back to School Clothing and Footwear Allowance in July 2023
- VAT reduction on gas and electricity extended until the end of October 2023.
- Phased restoration of the excise duty reductions on petrol, diesel and marked gas in June, September and end-October 2023.
- Extension of Temporary Business Energy Supports Scheme (TBESS) to end of May 2023.
- Other measures: once-off waiving of state examination fees; reduced charges for school transport; VAT reduction on Tourism and Hospitality extended to end-August 2023.

Source: Compiled from Government announcements across 2021-2023, Summer Economic Statement 2022 and Budget 2023 (Department of Finance, 2022a and 2022b).

Notes: Dates correspond to the date policy measures were announced. Initiatives announced after end-May 2023 are not included.

2. DATA

This paper uses data from the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC) and examines its microdata made available by the Irish Social Science Data Archive (ISSDA) at University College Dublin (UCD). The principal analysis is conducted on the 2019 data, as that year represents the last 'normal year' of data before the cost-of-living crisis emerged. Subsequent data for 2020 and 2021 include effects from the Covid-19 pandemic and in particular the large-scale transfers adopted by Government to support the living standards of households during the pandemic. Although that data provide interesting insights into the scale and adequacy of pandemic-era supports, and valuable lessons regarding the potential effectiveness of enhanced welfare supports to reduce both poverty and income inequality, it in effect represents an artificial picture of individual and household living standards that persisted across a short-lived period of extensive state intervention and income support. Consequently, the paper assumes that 2019 is a more representative year for assessing household income and its adequacy in meeting the living costs of households before the cost-of-living crisis emerged. Indeed, much of the pandemic period policy was intended to support households, workers and business so that they could return to their pre-pandemic situation once the various public health restrictions were lifted, and 2019 best represents that hypothetical policy destination. Therefore, we take 2019's SILC data on income and living standards as being equivalent to that which households experienced at the outset of the cost-of-living crisis. The 2019 survey was released in late-2020 and comprises responses from 4,183 households and 10,698 individuals. To ensure the SILC results are representative of the national population, the analysis in this paper use a probability weight variable to correct for under-representation and non-response in the sample. The analysis draws on variables measuring disposable income (after welfare transfers and income taxation) and subjective assessments of living costs and living standards. The income reference period is the twelve months prior to interview and the CSO benchmark the collected income data with administrative tax and welfare records in an attempt to ensure its accuracy.

There are however some drawbacks associated with using the 2019 data, particularly as multiple aspects of the Ireland's socio-economic context changed across the pandemic period. Between then and late-2021/early 2022 both the labour market and population grew, with 170,000 more workers joining the labour force between quarter-one 2020 and quarter-one 2022 (+6.9 per cent) while employment and participation rates increased by 3.2 and 2.6 percentage points respectively (CSO, 2022b). CSO estimates (CSO, 2022c) also assume that the Irish population increased by just over 2.4 per cent (120,000 individuals) between April 2020 (4,977,400) and April 2022 (5,100,200). The income position of households also changed with average weekly earnings rising by €85.06 per week (10.6 per cent) between Q1 2020 and Q1 2022, although average hours worked per week remained constant at 32.3 hours. Core welfare rates rose by €5 per week over the same period for single jobseekers (over 25 years) and pensioners (under 80 years); an increase of 2.5 per cent and 2 per cent respectively (CSO, 2023b; PBO, 2021) while the statutory minimum wage also increased by 4 per cent, from €10.10 to €10.50 per hour, between February 2020 and January 2022 (Low Pay Commission, 2021: 16). Collectively, these changes suggest that the income of some households, particularly those working and earning above minimum wages, will have improved between 2019 and the full onset of the cost-of-living crisis in early 2022; in particular, this suggests that some of the income surpluses calculated later in the paper may be understated.

The nature of the SILC income and living standards data is also worthy of note. Later the paper compares reported income, which is in general referenced to that received in the previous calendar year, to current subjective assessments of living costs and the capacity of households to meet them. Between 2018 and 2019 median household disposable income increased by €13 per week, 1.6 per cent. This difference in the timing of income and living costs assessments implies that some households may possess slightly more nominal resources than assumed in the paper's calculations.

3. BENCHMARKING LIVING STANDARDS AT THE OUTSET OF THE CRISIS

This section of the paper draws on a number of indicators in the SILC data to explore the starting point for household living standards at the outset of the cost-of-living crisis. Establishing this picture provides a more nuanced insight into the potential for households to absorb the aforementioned living cost increases, irrespective of whether or not they were more exposed to these price changes. Table 1 summarises the results.

Since the introduction of the SILC survey in 2003 a recurring question has asked the principal household member responding to the survey to rate the ability of the household to make ends meet; a concept defined in the questionnaire as possessing the ability 'to pay for its usual necessary expenses' (European Commission, 2021). Households are asked to rate their level of difficulty on a scale with the options being: 'with great difficulty', 'with difficulty', 'with some difficulty', 'fairly easily', 'easily', and 'very easily'. In reaching their self-perceived determination, the respondent is reminded to consider the household's total income from all members and sources.

The results for 2019 indicate that almost one in six households, 17 per cent, reported difficulty making ends meet. That figure was the lowest recorded since the SILC commenced and the first occasion it dropped to less than 20 per cent of households. Conversely, the 2019 data was the first time more than half of households (51.4 per cent) were classified as easily making ends meet (fairly easily, easily, very easily). Although these difficulty figures are low by historical standards, and suggest that the financial well-being of households was in the best shape it has been for some time as the cost-of-living crisis unfolded, Table 1's results still highlight that over 920,000 individuals in 320,000 households face difficulty with meeting their usual necessary expenses before the crisis commenced.[4]

Three further SILC indicators capture the ability of households to meet recurring bills associated with utilities, heating and other 'ordinary expenses'. They show that between 7.7 per cent and 9.5 per cent of households faced these living costs challenges before the crisis emerged including 160,000 households, about 1 in every 12, who had to go without heating their home at some stage in the last year due to lack of money. 9.5 per cent of households had gone into debt over the last year to meet 'ordinary living expenses' defined in the SILC questionnaire as including mortgage repayments, rent, food, and back-to-school expenses.

The ability of households to absorb large lump-sum expenses is captured by two further measures in Table 1. They report that between 30-36 per cent of households are unable to do so. Paying for a one-week holiday away from home was deemed to be unaffordable by three in ten households, comprising about 1.5 million people, while almost 700,000 households indicated that they would be unable to afford an unexpected expense of just over €1,000 should that arise.[5]

Overall, the data in Table 1 suggest that at the outset of the cost-of-living crisis approximately 7-10 per cent of households were unable to consistently afford their basic living expenses, while a further 7-10 per cent faced difficulty in doing so. Beyond these, the lump-sum expenses measures, highlight a further 13-20 per cent of households who at the outset of the cost-of-living crisis would have been able to meet recurring household costs, but had limited capacity to carry increased expenditure should it arise in a planned or unplanned way.

Table 1: Pre-Crisis Indicators of Living Standards in Ireland, 2019

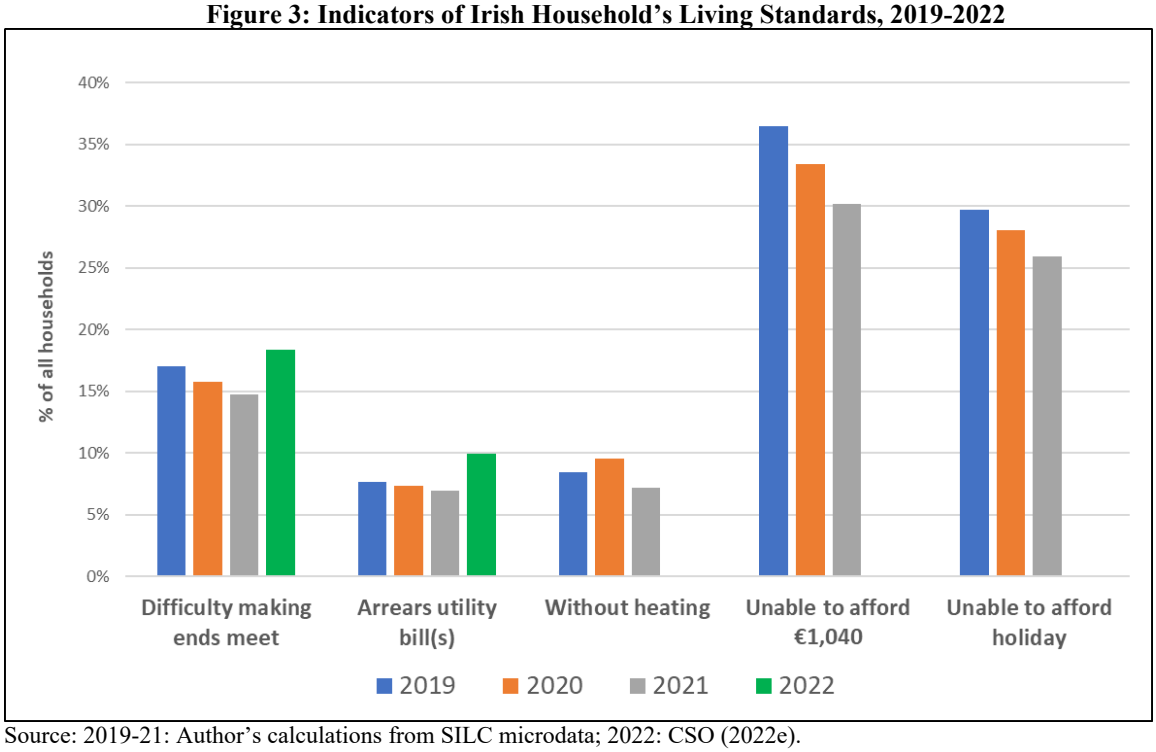
	Households		*Individuals*	
	% of all	*count*	*% of all*	*count*
Difficulty making ends meet	17.0	322,000	18.7	923,000
Arrears utility bill(s) (last 12 months)	7.7	145,000	8.7	426,000
Without heating (last 12 months)	8.5	160,000	8.6	423,000
In debt for ordinary living expenses (last year)	9.5	179,000	11.4	561,000
Unable to afford 1 weeks holiday	29.7	563,000	30.4	1,497,000
Unable to afford €1,040 unexpected expenses	36.5	690,000	38.0	1,870,000

Source: Author's calculations from SILC microdata.
Notes: Difficulty making ends meet captures those reporting 'with difficulty' or 'with great difficulty'; Without heating during the last 12 months due to lack of money; holiday is 1 week away from home; the unexpected expenses amount is equal to 1/12 of the poverty threshold at t-2; household count estimates are rounded to the nearest 1,000.

Finally, Figure 3 reports the results for these indicators from the SILC data for 2019-2022. Unsurprisingly, the aforementioned pandemic context led to a small reduction in the proportion of households signalling financial difficulties or challenges in 2020 and 2021, with an exception being a small increase in households going without heating at some point in the last year which increased from 8.5 per cent in 2019 to 9.6 per cent in 2020, before returning to 7.2 per cent in 2021. Those results available for 2022 show an increase in the proportion of households in arrears and having difficulty making ends meet as the cost-of-living crisis was underway.

[4] Research by the Society of St Vincent De Paul and Red C also found that prior to the pandemic the majority of the population were living comfortably (SVP, 2021). Data on earlier years is available in Collins (2020 and 2022).
[5] The unexpected expenses figure represented one-twelfth of the value of the at risk of poverty threshold at t-2.

Figure 3: Indicators of Irish Household's Living Standards, 2019-2022



Source: 2019-21: Author's calculations from SILC microdata; 2022: CSO (2022e).
Notes: See notes to Table 1; 2022 results are only available for ends meet and arrears utility measures; in debt for ordinary living expenses was only measured in 2019.

4. ASSESSING INCOME RESILIENCE AT THE OUTSET OF THE CRISIS

Building on the analysis in the previous section, the paper now considers the income resilience of all Irish households at the outset of the cost-of-living crisis. The analysis is intended to identify those households with the least ability to face into the crisis, either because they were already struggling to meet their basic living costs or because they possessed limited capacity to absorb the pronounced price increases that emerged from early 2022.

The 2019 SILC data provide two measures that are used to facilitate this analysis. First, the survey asks households '*in your opinion, what is the very lowest net monthly income that your household would have to have in order to make ends meet, that is to pay it usual necessary expenses*' and respondents provide a nominal amount in reply to this question. Second, the SILC provides a measure of *net monthly disposable household income*, that is income after all earnings and transfers and following the payment of income taxation. By comparing both these measures, it is possible to estimate whether a household has less monthly disposable income than that estimated to meet their usual expenses (*a deficit*) or whether a household has more monthly disposable income than that estimated to meet their usual expenses (*a surplus*). Furthermore, we can determine the nominal differences in these amounts.

While the SILC data provide a value for net monthly disposable income for all households in the sample, there are some missing responses to the question asking households to estimate their minimum monthly needs.[6] Of the 4,183 responding households 668 cases provide no reply, these represent 15.8 per cent of the final weighted household data. The missing responses spread across the income distribution and are slightly skewed towards the bottom of that distribution; with 56 per cent of missing responses in the bottom half of the income distribution and 27 per cent in the bottom quintile. Judged against the distribution of responses to the question asking households to rate their level of difficulty in making ends meet (see previous section) the missing cases are distributed in a similar pattern to that for all households across its categories of response.[7] Although the effect of these missing cases is hard to precisely quantify, these distributions suggest that the deficit/surplus analysis later in this section may understate the number of households immediately above and below zero (where disposable income equals basic expenditure needs) but represents better those with the highest income and the largest monthly surplus' of income over basic expenditure.

[6] The data was also cleaned to identify outliers – dropping 12 cases.
[7] 17 per cent of households reported making ends meet with difficulty or great difficulty (see Table 1) and this groups represents 19 per cent of missing values; 51.4 per cent reported easily making ends meet and this compares to 45.7 per cent of missing values. 31.6 per cent reported making ends meet with some difficulty and this compares to 35.3 per cent of missing values.

Table 2 presents the results of this comparison between minimum monthly income needs and monthly disposable income. Households are classified into those recording a deficit (higher needs than available income) and a surplus (higher available income than needs) and within these categorised into groups based on the calculated difference.

Overall, 9.9 per cent of households faced into the cost-of-living crisis with the cost of their usual necessary expenses each month being more than their monthly disposable income. Within these, most households reported a monthly deficit of more than €100. Looking at the households recording a surplus of income over the cost to make ends meet, 6.7 per of households recorded a surplus of between €1 and €299, just over 125,000 households. A further 89,000 households (4.7 per cent) recorded a surplus of between €300 and €499 per month while ten per cent recorded a surplus of between €500 and €999.

The largest group of households within the population were those recording a surplus of income over basic expenditure needs in excess of €1,000 per month at the outset of the cost-of-living crisis; this represents just over one million households in the state (53.1 per cent). This recurring and comfortable household income surplus suggest that these households are among those often referred to in assessments of household savings rates, which tend to take a more macro, national accounting and consumption/activity view, than the household level approach in this paper (CSO, 2022d and 2023c; Central Bank of Ireland, 2023; Timoney, 2022). Byrne et al (2020: 14-16) note how higher income households increased their savings during the pandemic period, as they spend comparatively higher proportions of their disposable income on holidays in normal times, and further consider that these high, and higher, saving households may be slow to run down their savings. The data in Table 2 would suggest that these households were already strong savers, and probably entered the cost-of-living crisis with a comfortable recurring monthly surplus and additional savings triggered by the pandemic restrictions.

Table 2: Comparing Lowest Monthly Income Needs to Reported Monthly Disposable Income, 2019

		% of households	Household count
Deficit:	more than - €100*	8.7	164,000
	-€1 to -€99*	1.2	22,000
Surplus:	€0 to €99*	2.1	40,000
	€100 to €199*	1.8	34,000
	€200 to €299*	2.8	53,000
	€300 to €499	4.7	89,000
	€500 to €999	9.9	188,000
	€1,000 +	53.1	1,005,000
	No data reported	15.8	299,000
	Total	100.0	1,892,000

Source: Author's calculations from SILC microdata.
Notes: Household count rounded to nearest 1,000. * later in the paper these groups are collectively identified as those who are least able to carry the increased living costs associated with the crisis.

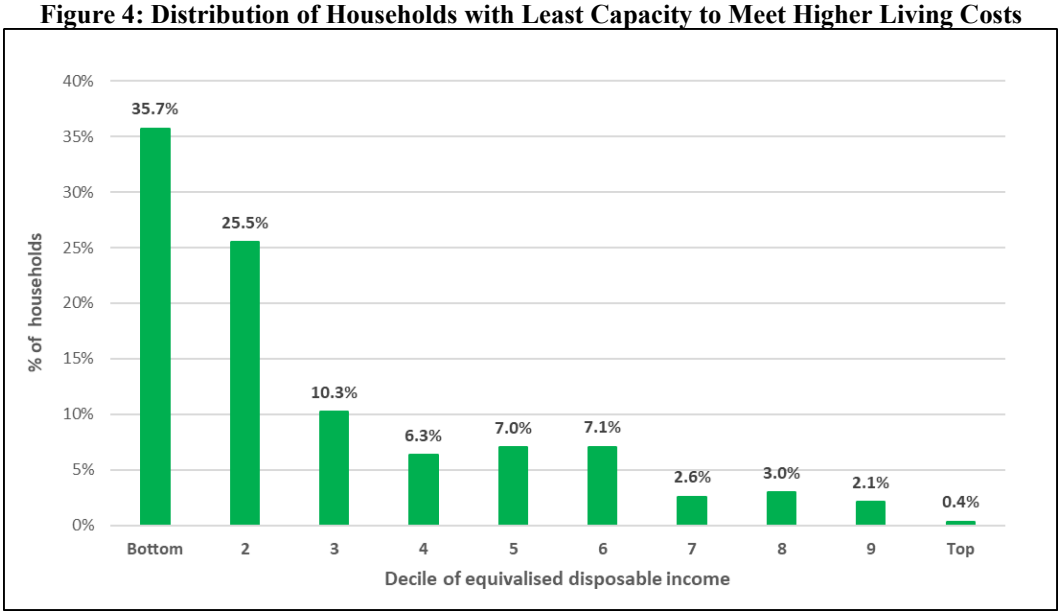
While the cost-of-living crisis impacted on the expenditure costs faced by all households, the analysis in Table 2 offers a means of identifying those households who had least room, if any, to absorb the nominal increases in living costs that emerged from early 2022. The paper identifies this group as those at the outset of the crisis who were unable to meet 'usual necessary expenses' and those who could absorb less than €300 per month (€3,600 per annum) of an increase in basic living costs. This group represents 16.5 per cent of households (313,000 households) and 815,000 individuals. Households with a 'surplus' of more than €300 per month were also clearly impacted by the crisis, and the adoption of any threshold separating those least able to cope from those better able to do so is inevitably imperfect. However, given the aforementioned scale of price increases, it seems safe to assume that those households who entered the crisis with an ability to absorb less than €300 per month of additional expenditure were those least capable of coping with the living standards challenges that the crisis triggered.

Figure 4 and Table 3 present a profile of this group of households with the least capacity to meet higher living costs at the outset of the crisis. 71.5 per cent of these households live in the bottom three deciles of the equivalised income distribution, with most, 61 per cent, in the bottom quintile. An examination of the composition of the bottom two deciles of Ireland's income distribution shows the following groups as being over-represented: people aged over 65, those who live alone, single parents, and those who are dependent on welfare supports as a result of retirement, unemployment, or long-term health problems. The data in Table 3 broadly reflect that compositional profile and find that among the households with least capacity to meet the higher living costs imposed by the cost-of-living crisis, the largest groups were single-person households, both retired and of working age, accounting for almost six in ten of the total. Other household types, while present, do not represent a major grouping of those most exposed to higher living costs including common household types such as those with two adults and those with multiple adults and children. Table 3's decomposition by tenure also reveals an association between being a tenant at a reduced price,

normally meaning tenants in social housing or state subsidised housing, and being among the group of households least capable of meeting higher living costs. It also shows that almost half of those most exposed live in a dwelling which they own outright, highlighting a discontinuity between the net wealth of these individuals and their current income.

Overall, the analysis suggests that the households with the least capability to meet higher living costs at the outset of the crisis were dominated by single adult households, retired households, home owners and tenants in government supported housing. Clearly, many of these household classifications intersect.

Figure 4: Distribution of Households with Least Capacity to Meet Higher Living Costs



Source: Author's calculations from SILC 2019 microdata.
Note: Least capacity = those unable to meet monthly living expenses plus those who unable to absorb more than €300 per month in additional living costs.

Table 3: Profile of Households with Least Capacity to Meet Higher Living Costs

	% of least capacity households	Household count
Household Composition		
1 adult 65+	26.2%	82,000
1 adult < 65	32.0%	100,000
2 adults (at least one 65+)	7.8%	24,000
2 adults (both less than 65)	9.8%	31,000
3 or more adults	2.0%	6,000
1 adult with children	9.4%	29,000
2 adults with 1-3 children	11.5%	36,000
Other households with children	1.3%	4,000
Household Size		
1	58.3%	182,000
2	22.9%	72,000
3	9.0%	28,000
4	8.0%	25,000
5 or more	1.8%	6,000
Household Tenure		
Outright owner	47.7%	149,000
Owner with mortgage	18.5%	58,000
Tenant mkt price	8.1%	25,000
Tenant reduced price	24.7%	77,000
Free accommodation	1.1%	3,000
Total households with least capacity	100%	312,000

Source: Author's calculations from SILC 2019 microdata.
Note: Household count rounded to the nearest 1,000.

5. SOME POLICY LESSONS AND IMPLICATIONS

One important, and frequently overlooked, aspect of the 2021/23 cost-of-living crisis has been the different abilities of households to absorb, or partially absorb, the impact of the sudden increase in living costs that emerged from early 2022. Although much of the socio-economic and statistical focused policy discussion has centred on changes to the cost of existing levels of household consumption, less attention has fallen on the underlying financial standing of households and their pre-crisis capacity to successfully or unsuccessfully make ends meet. This paper argues that a more comprehensive knowledge of that starting position offers an important insight into understanding the heterogeneous experience of the crisis for Irish households. Put simply, a lot depends on where you start from.

The papers findings, and in particular those associated with the comparison between monthly disposable income and monthly necessary expenses, raise questions regarding the appropriateness and effectiveness of the universal household support packages that were adopted as the dominant policy response (see Box 1; Doolan et al., 2022). Did all households need additional transfers, subsidies and taxation reductions? Did some need support while others needed less or none at all?

The analysis reveals that at the outset of the crisis just over half of Irish households had a disposable income that was more than €1,000 per month greater than that which they needed to meet their usual necessary expenses. Clearly these households, like all households, were exposed to the widespread and persistent increase in prices, and associated living costs, across the period and welcomed the various transfers and subsidies that Government provided. However, the evidence suggests that they did not need help in the same way as other households whose pre-crisis (starting) position was much more financially precarious. The analysis identifies 185,000 households (approximately 10 per cent of all households) who faced into the crisis unable to meet their usual necessary expenses each month; for this group an already challenging position will have significantly deteriorated. It also highlights the situation of a further 125,000 households (6.7 per cent of all households) who possessed limited 'surplus' disposable income and will have become newly unable, or near unable, to meet their usual living expenses as the crisis unfolded. Taken together, these households, representing one in every six households and 815,000 individuals, were those least able to cope with the increases in living costs that the crisis provided. Inevitably, these are the households that will have been required to reduce their consumption below, or further below, the purchase of their usual necessary goods and services associated with a basic standard of living. Post-crisis, the implications of these choices are likely to be visible in the SILC survey's deprivation measures, much like that which followed the Great Recession, with a lag, from 2009 onwards (Whelan et al, 2019). A March 2022 report from the Society of St Vincent De Paul offers some initial insights into these implications, finding that one-third of households had cut back on heating and electricity in early 2022 and noting that the cost-of-living crisis is "deepening poverty and eroding the living standards of low-income households at a faster pace than groups that are living comfortably" (SVP, 2022: 28).

Taking a public finance perspective, it has been fortuitous that the cost-of-living crisis arose at a time when Ireland's exchequer was recording substantial, and unanticipated, surpluses associated with a strong economy and in particular the activities of a small group of multi-national companies including their taxation and intellectual property management strategies (Department of Finance, 2022b; IFAC 2022a: 108-110 and 2022b: 46-47). Therefore, the fiscal pressures to target expensive policy interventions had been reduced; although their cost and sustainability was highlighted in various announcements by Ministers of Finance. Given the underlying financial position of households at the outset of the crisis, it seems likely that there has been a large amount of deadweight associated with the universal income-support initiatives adopted throughout most of the cost-of-living crisis period. While households who needed assistance received some, as did all households, the evidence suggests that many households possessed the capacity to absorb more of the impact of the crisis. The shift towards the adoption of some targeted measures, most particularly in aspects of Budget 2023 and the February 2023 cost-of-living measures, marked a notable change (see Box 1; Social Justice Ireland, 2022).[8]

Looking to the future, this paper also highlights the wealth of insights available from household datasets such as the Survey on Income and Living Conditions (SILC). Its timeliness and comprehensiveness underscores the potential for it to be used more extensively to better understand the context of policy responses such as those adopted over the cost-of-living crisis period. It also offers the potential to facilitate the better targeting of public resources on those households and individuals who need it most when a crisis hits.

[8] The initiatives announced in February 2023 included measures payable to targeted households up to July 2023.

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DISCUSSION

Seán Lyons: Thanks to all the speakers for three very timely papers. I have comments for Edel and Rea. For Edel, I think there is another limitation worth mentioning when using distributional analysis of inflation to inform real-time policy decisions, at least in the current environment. The method of calculating the price index probably doesn't take into account seasonal variations in expenditure shares. That normally wouldn't matter much, but energy goods show strong seasonality in consumption and are responsible for a lot of current inflation. Using annual average expenditure shares throughout the year means the lived experience of inflation was likely less severe than the estimated rate during summer 2022 when energy consumption was low, and actual inflation will be higher than the calculated rate in the winter of 2022/23 when energy expenditure shares are much higher than the annual average.

My comment for Rea relates to his point about the unusually weak transmission of monetary policy through to mortgage rates in Ireland. Firms with market power don't have to fully pass through changes in costs, and it may not always be profit-maximising for them to do so.

Barra Roantree: I would ask whether we should be increasingly worried about the treatment of rents in the CPI given that - as far as I understand - the current measure is based on new rents. With the rise in the coverage of Rental Pressure Zones and the decline in the availability of new rental properties, the price of new rents would therefore seem to be of limited - and decreasing - relevance for the cost of living faced by the stock of renters, with movers making up a small share of these.