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Measuring Households’ Exposure to Economic Shocks. An analysis at the Intersection of Income, Financial Wealth, and Debt

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Households’ financial resilience hinges on the amount of (existing or potential) resources that a household may collect to prevent a worsening in living standard when facing an income shock.

This paper aims at measuring the degree of Italian households’ financial resilience in the short term by taking into account existing assets that allow households to deal promptly with adverse economic events. The work uses data from the Bank of Italy’s Survey on Income and Wealth. The 2020 wave of the Survey has undergone significant methodological changes to improve the statistical coverage of indebted households and of high-income households. Such methodological revision allows us to assess the accuracy of previous estimates of the households’ financial resilience.

Both idiosyncratic and common shocks are considered, leading to a multidimensional definition of financial resilience. Indeed, in the case of an idiosyncratic shock most assets can be liquidated without incurring in significant losses. On the other hand, a common shock to the economy often implies sharp fluctuations in share prices and bond yields so that the market value of households’ financial holdings may depart substantially from their pre-shock balance-sheet values.

The analysis also provides an assessment of the financial resilience of indebted households. As a matter of fact, households may respond to an adverse income shock not only by reducing consumption to some minimum level (by cutting expenditure on non-essentials and durables) but also falling behind on debt repayments which, in period of crisis, may add to financial stability concerns.