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HOUSEHOLD CONSUMPTION IN ITALY: BASKET COMPOSITION AND RESPONSIVENESS TO MACROECONOMIC SHOCKS

by Francesco Corsello*, Andrea Foschi*, Marco Fruzzetti* and Marianna Riggi*

Abstract

We study how the composition of household consumption shapes the transmission of macroeconomic shocks in Italy. Over the last two decades, household expenditure has shifted from goods towards services. We show that the transmission of shocks is better understood by combining the goods-services distinction with the distinction between essential and discretionary spending. The response of household consumption is almost entirely concentrated in discretionary items, but the timing of adjustments differs markedly across components. Following a monetary policy shock, discretionary goods respond relatively quickly, whereas discretionary services adjust with a substantially longer lag and greater persistence. By contrast, energy shocks lead to a much faster adjustment in discretionary consumption, in line with their more immediate impact on consumer prices and households' purchasing power. These findings suggest that monitoring discretionary goods and services separately is crucial for assessing the intensity and timing of shock transmission in the economy.

JEL Classification: E21, E32, E52, Q43.

Keywords: consumption, monetary policy shocks, energy supply shocks.

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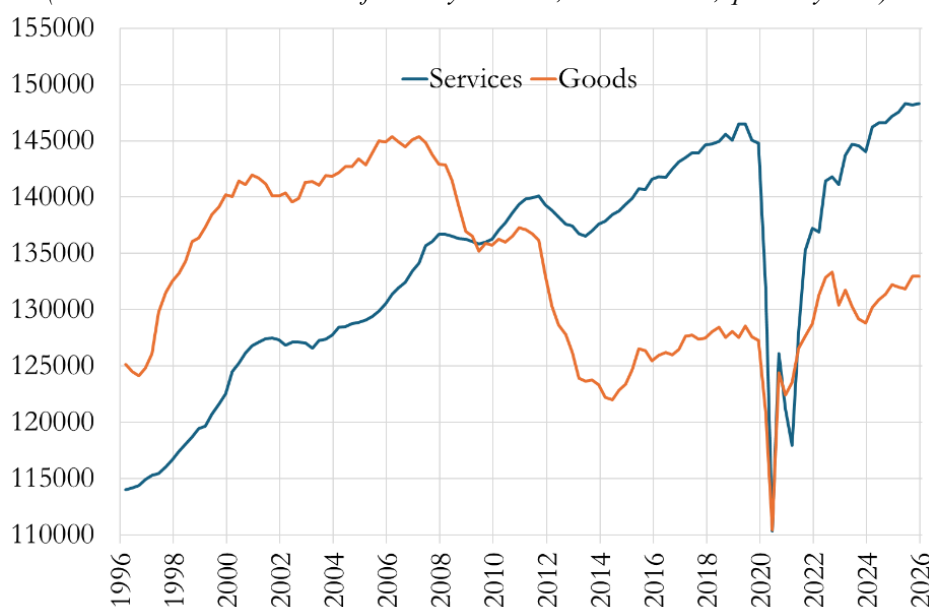
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1. Evolution of the consumption basket in Italy

Over the last two decades, Italy has been hit particularly hard by the sequence of economic shocks that affected the main European economies: the Great Recession, the sovereign debt crisis, the pandemic and the energy shock. Over this period, the structure of Italian households' consumption has changed markedly, owing both to the long-term effects of macroeconomic crises (Malmendier and Shen, 2024) and to demographic factors, such as population ageing and the reduction in the number of household members.¹

The recent debate on consumption has developed along two main lines. The first concerns the different growth potential of goods and services in advanced economies. The long-term growth of goods is structurally limited (Smil, 2013), and advanced economies are moving from a consumption model based on goods towards a greater role for services. In Italy, while consumption expenditure on goods has contracted over the last two decades, expenditure on services has progressively expanded (see Figure 1).

Fig. 1 Aggregate household expenditure in Italy on goods and services
(chain-linked volumes with reference year 2020, EUR millions, quarterly data)



Source: Istat.

¹ For analyses of population ageing and the intergenerational transmission of wealth, see Mariani, Porreca and Rondinelli (2026) and Giordano, Infante, Neri, Prete and Spuri (2026).

A second aspect concerns the distinction between necessary and discretionary spending in terms of responsiveness to shocks. This issue has important implications for monetary policy, as it bears on the transmission of changes in the monetary stance to aggregate demand, with implications for the basket items on which to calibrate the monetary policy response to shocks (see Andreolli et al., 2025).²

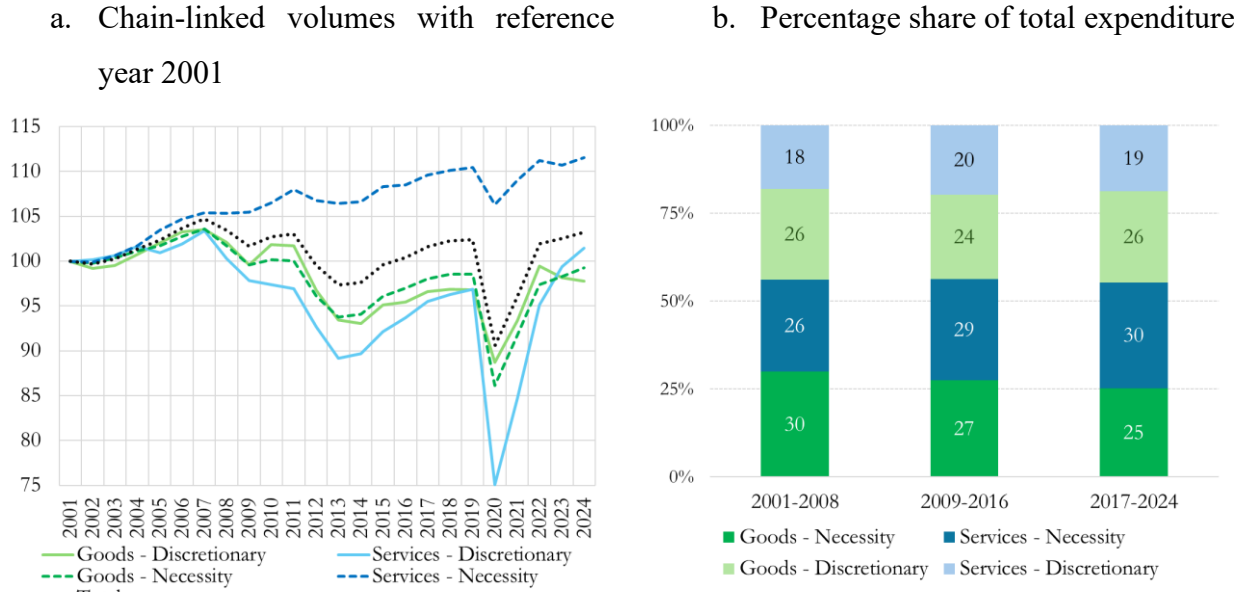
Our analysis sheds light on both aspects by interacting the distinction between goods and services with the discretionary or non-discretionary nature of individual consumption items.

Figure 2 shows the evolution of Italian households' consumption, distinguishing between goods and services, and between necessary and discretionary items. To this end, we consider the consumption basket at a level of disaggregation covering 52 consumption items (three-digit COICOP). The goods-services breakdown is provided by Istat, while the discretionary-necessary classification draws on the empirical criterion in Ceci et al. (2026), which classifies an item as necessary if its price elasticity of demand falls below a given threshold. Necessary consumption categories include energy and food goods, as well as essential services related to housing and personal needs (see the table in the Appendix).

The consumption of necessary services, besides being little affected by large cyclical fluctuations, has gradually increased over time. Expenditure on discretionary services, which had declined before the pandemic and collapsed during Covid, recovered in 2024 to the levels recorded in the early 2000s. Expenditure on goods, both necessary and discretionary, has also recovered to pre-pandemic levels, but has shown subdued dynamics since 2022 (see Figure 2, panel A). As regards the evolution of expenditure shares in the total basket, among necessary components the weight of goods has declined by around 5 percentage points in favour of services; the weight of discretionary items has remained broadly unchanged (see Figure 2, panel B).

² Andreolli et al. (2025) propose a distinction between necessary and discretionary spending to analyse the heterogeneous effects of monetary policy. Their results show that consumer spending is more cyclical and more sensitive to monetary policy interventions in discretionary sectors. Moreover, on the supply side, discretionary sectors display a higher concentration of workers with limited liquid assets. From this evidence the authors draw a monetary policy implication: the European Central Bank should react to inflation in discretionary sectors, as this strategy would help mitigate the recessionary effects on more vulnerable workers and stabilise both aggregate demand and overall inflation more effectively.

Fig. 2 Household expenditure in Italy by type of consumption



Source: authors' calculations based on annual national accounts data, Istat.

2. The heterogeneous response of consumption to shocks

2.1 Data and methodology

The analysis uses monthly data on household consumption expenditure drawn from Istat's Household Budget Survey (HBS). The survey provides a detailed picture of the consumption behaviour of households resident in Italy and is used as an input for estimating consumption in the quarterly national accounts. To capture the real evolution of expenditure, nominal values are deflated using, for each COICOP item, the corresponding Harmonised Index of Consumer Prices (HICP).³

The empirical approach is based on estimating impulse response functions using local projections (Jordà, 2005). More precisely, using monthly data for the 2014-2019 sample, we estimate the following regressions, one for each horizon $h = 0, 1, \dots, 25$:

$$\ln C_{t+h}^i - \ln C_{t-1}^i = \alpha_h^i + \beta_h^i \varepsilon_t + \Gamma_h^i X_t + u_{t+h}^i \quad (1)$$

We denote by i the different consumption categories (necessary goods, discretionary goods, necessary services, discretionary services). By ε_t we denote the independent variable of interest - the monetary policy shocks of Jarociński and Karadi (2020), or the energy component of the Harmonised Index of Consumer Prices (HICP), instrumented with the gas supply shocks of Alessandri and

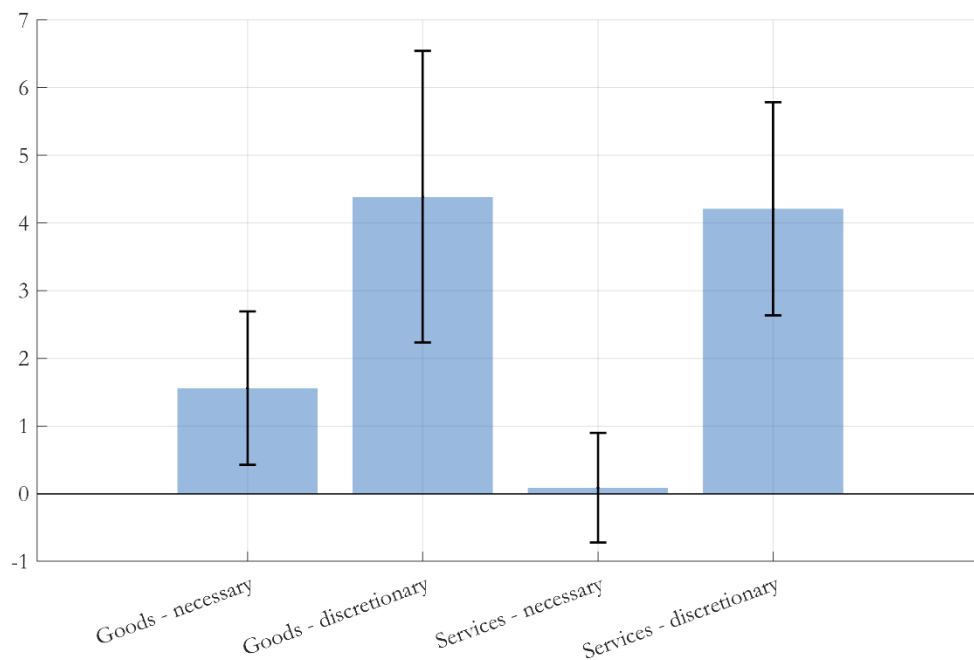
³ In line with international standards, the survey adopts the harmonised Classification of Individual Consumption by Purpose (COICOP 2018), thereby ensuring the comparability of results over time and across countries.

Gazzani (2025). The controls X_t for monetary policy shocks include two lags of the independent variable, of the industrial production (in logarithms), of the unemployment rate, of the interest rate, and of consumer prices (in logarithms). For gas supply shocks, the controls include all the preceding variables, plus the energy component of the HICP, for the euro area and for Italy.

2.2 Results

First, we use the monthly data described in the previous section to study the cyclicalities of the different components of Italian households' expenditure, measured as the elasticity to changes in a high-frequency indicator of economic activity (industrial production). Consistently with the results of Andreolli et al. (2025), the cyclicalities of consumption is driven by discretionary components. Consumption of necessary goods displays more limited but positive cyclicalities, while expenditure on necessary services appears acyclical (see Figure 3).

Fig. 3 Cyclicalities of household expenditure in Italy by type of consumption



Source: authors' calculations based on Istat data.

Note: For each category, we estimate an autoregressive model of trend consumption growth that includes industrial production growth, as a monthly proxy for the business cycle, and its lags. The bars report the cumulative effect of industrial production with 95 per cent confidence intervals.

Figures 4 and 5 show the responses of consumption to monetary policy and gas supply shocks. Figure 6 provides a summary, highlighting the peak responses to the two shocks. Both shocks lead to a

decline in consumption, but with relevant differences between goods and services and between discretionary and necessary consumption.

- i) In line with the evidence in Andreolli et al. (2025) and Gareis and Minasian (2025), the response to shocks is entirely attributable to discretionary components.
- ii) Some relevant differences emerge in the timing of the transmission of shocks to the consumption of goods and services. Following a monetary policy shock, services consumption responds with a longer delay and more persistently than goods consumption: spending on discretionary goods reaches its negative peak after about five months, while spending on discretionary services reaches its trough only after about fifteen months.⁴

This evidence can plausibly be traced to the fact that consumption of goods is more frequently financed through credit and is therefore more sensitive, in the short run, to changes in monetary conditions. By contrast, services consumption tends to adjust more gradually, mainly reflecting the slower transmission of monetary policy effects to disposable income. Moreover, the consumption of many services, although discretionary, is intrinsically repetitive and deeply embedded in households' daily habits (for instance, sports activities and recreational services more generally, regular dining out, digital subscriptions and transport), and is therefore difficult to compress without a high cost in terms of welfare. In addition, the empirical literature on the relationship between consumption and subjective well-being suggests that services contribute more significantly to households' perceived quality of life: reducing their consumption may be experienced as a more marked deterioration than reducing purchases of goods, and this would further reinforce the gradual adjustment of spending.⁵ Another factor that may explain the greater persistence in the response of services is their lower divisibility: many goods can easily be purchased in smaller quantities, whereas services consumption is often less compressible "at the margin". Finally, changing provider or reducing the use of a service requires time, information or implicit costs, and this friction ("lock-in") makes

⁴ This evidence is analogous to the evidence on the different adjustment speeds of consumer prices for goods and services (see Corsello and Neri, 2025). Inflation adjusts more slowly in the services sector, also because many services are provided directly by the public sector or are subject to administrative and contractual constraints. The estimates reported in Panetta (2024) show that, following an energy shock, non-energy industrial goods inflation peaks after about one year and returns to equilibrium within two years; by contrast, services inflation peaks about six months later and normalises after almost three years.

⁵ Several studies on the relationship between consumption and subjective well-being show that the consumption of experiences and relational goods - typically associated with services - is more closely correlated with life satisfaction than the consumption of material goods (see, among others, Dunn et al., 2011).

consumption choices not only less price-elastic, but also less responsive to shocks in the short run and more persistent over time.

- iii) An energy shock entails a faster adjustment in consumption, both of goods and of services, than a monetary policy shock, with a trough reached in both cases after just over two months. It is plausible that the transmission to household spending is faster than that induced by a monetary policy shock because the impact of an energy shock on consumption occurs through the decline in purchasing power, which is an almost immediate consequence of the shock.

3. Concluding remarks

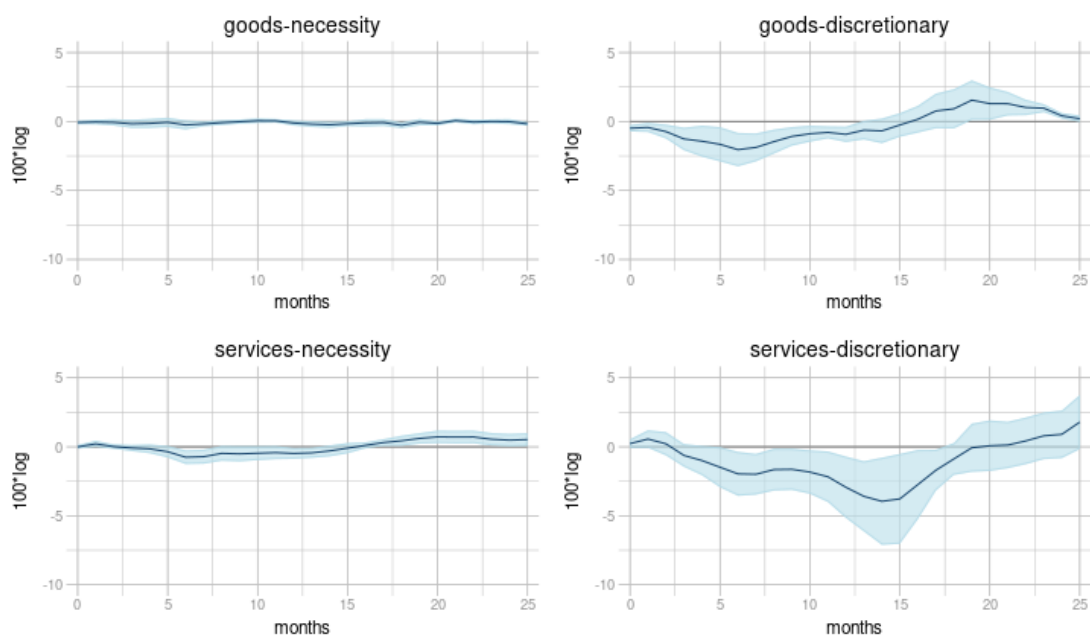
The results suggest a number of considerations. First, micro-founded models designed for policy evaluation should incorporate the slower and more persistent response of services consumption to changes in the monetary policy stance, compared with the response of goods consumption. The channels discussed in the previous section as possible explanations for this result can be represented in theoretical models, for instance, through stronger habit formation in services, that is, a level of past consumption that carries greater weight in current utility, or through higher switching costs (see Israel, 2005), which generate long-term relationships between consumers and providers (or types) of services.

It is also necessary to adopt a sufficiently long horizon when assessing the consequences of shocks, since the overall effects of policy decisions unfold with significant delays through the services component, on which they nevertheless have a very persistent impact. Real-time monitoring based solely on aggregate consumption indicators may underestimate the overall intensity of shock transmission.

More generally, the importance of disaggregated analysis emerges clearly. While recent work has emphasized the role of discretionary spending in the transmission of monetary policy, we show that the goods–services distinction matters substantially within discretionary consumption itself: discretionary goods respond relatively quickly, whereas discretionary services adjust with longer lags and greater persistence.

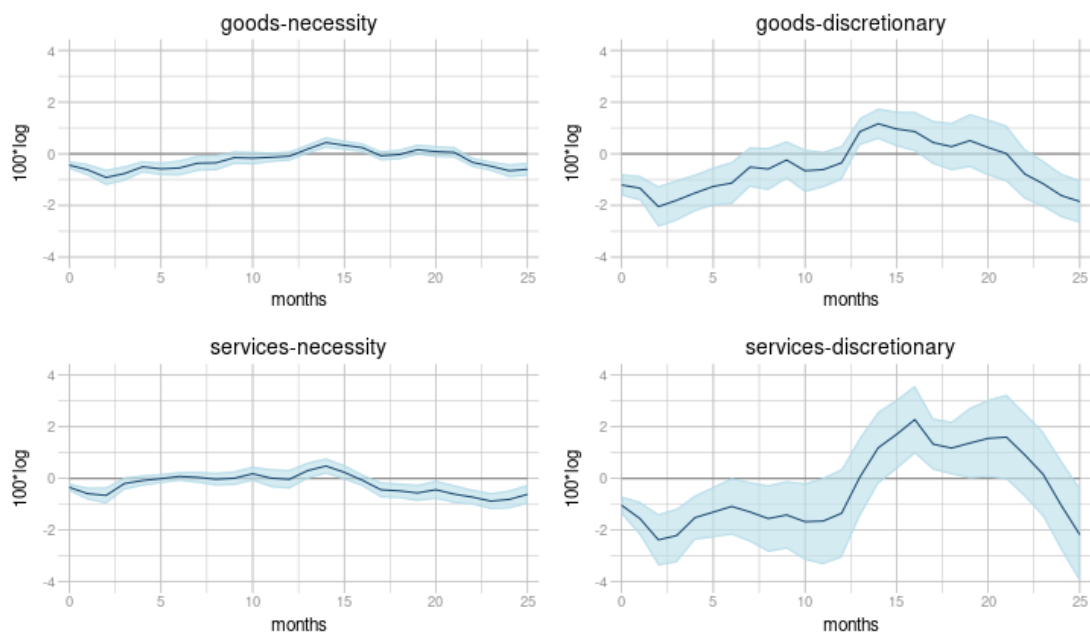
Monitoring discretionary consumption, and distinguishing between goods and services, is not merely informative but crucial for correctly assessing the cyclical phase and the effective intensity of shock transmission in the economy.

Fig. 4 Response of Italian consumption to a monetary policy shock



Source: authors' estimates based on Istat data.

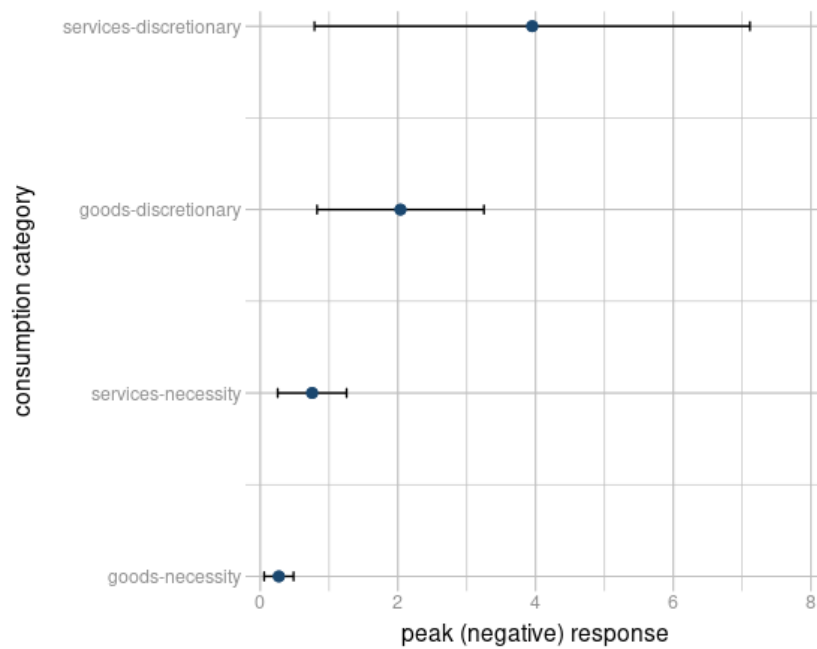
Fig. 5 Response of Italian consumption to an energy shock



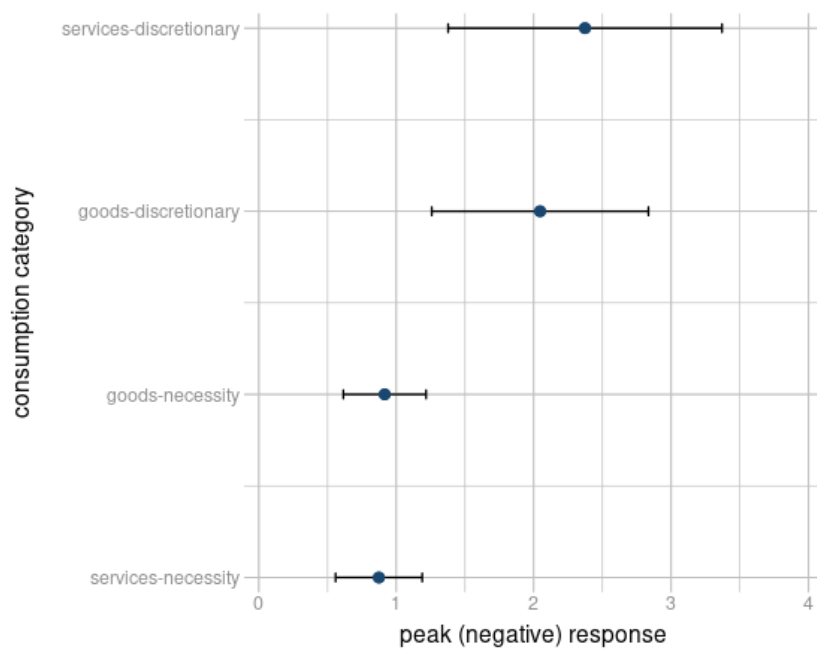
Source: authors' estimates based on Istat data.

Fig. 6 Summary of peak responses

a. Monetary policy shock



b. Energy shock



Source: authors' estimates based on Istat data.

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Appendix

Table A: Necessary and discretionary expenditure

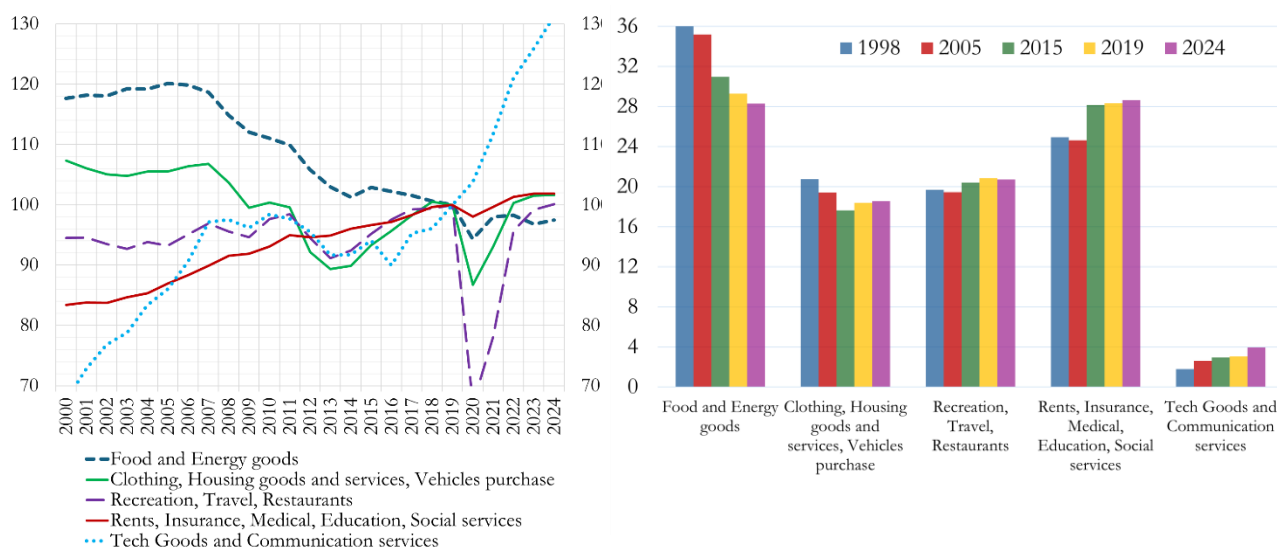
Classification	Categories
necessary expenditure	<i>Predominantly goods: food (1.1); electricity, gas and other fuels (4.5); medicines and other health products (6.1); operation of personal transport equipment (7.2).</i> <i>Predominantly services: processing services for primary goods for food and non-alcoholic beverages (1.3); actual rentals for housing (4.1); imputed rentals for housing (4.2); maintenance, repair and security of the dwelling (4.3); water supply and other housing-related services (4.4); outpatient healthcare services (6.2); hospital healthcare services (6.3); other health services (6.4); information and communication services (8.3); pre-primary and primary education (10.1); secondary education (10.2); post-secondary non-tertiary education (10.3); tertiary education (10.4); education not defined by level (10.5); insurance (12.1); financial services (12.2); social protection (13.3).</i>
discretionary expenditure	<i>Predominantly goods: non-alcoholic beverages (1.2); alcoholic beverages (2.1); tobacco (2.3); narcotics (2.4); clothing (3.1); footwear (3.2); furniture, furnishings and loose carpets (5.1); household textiles (5.2); household appliances (5.3); glassware, tableware and household utensils (5.4); tools and equipment for house and garden (5.5); purchase of vehicles (7.1); information and communication equipment (8.1); durable recreational goods (9.1); other recreational goods (9.2); garden products and pets (9.3); cultural goods (9.5); newspapers, books and stationery (9.7); personal care (13.1); other personal effects (13.2).</i> <i>Predominantly services: services for the production of alcoholic beverages (2.2); goods and services for routine household maintenance (5.6); passenger transport services (7.3); freight transport services (7.4); software excluding games (8.2); recreational services (9.4); cultural services (9.6); package holidays (9.8); catering and food and beverage serving services (11.1); accommodation services (11.2); other services (13.4).</i>

Note: The table reports the classification of three-digit COICOP consumption categories into necessary goods and services and discretionary consumption goods and services.

Fig. A1 Household expenditure in Italy by type of consumption

a. Chain-linked volumes with reference year 2019

b. Percentage share of total expenditure (in real terms)



Source: authors' calculations based on annual national accounts data, Istat.

Figure A1 shows that the expenditure share of energy and food goods declined by around 10 percentage points between the late 1990s and 2024. This decline was absorbed mainly by expenditure on non-discretionary services (rents, insurance, health care and education), and by technology goods and communication services, whose weight doubled over the analysis period as a whole, although they continued to account for a minority share (around 4 per cent in 2024).