Panel on:
COVID and savings behaviour:
What lessons? Any lasting impact?

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Savings behaviour in crisis and post-crisis times
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What has happened?

- Consumption has collapsed by more than disposable income (which has been supported by government support programs), leading a surge in saving.
- The core of the euro zone experienced smaller falls in income and consumption than the periphery, that experienced smaller falls than the UK.
- The saving rate rose the most in the UK, followed by the eurozone periphery, followed by the eurozone core.

Source: Eurostat, data as of 16 April, 2021.
Will there be a surge in spending?

- The terms *excess* or *forced saving*, are often used, implying a disequilibrium.
  - If so, spending could surge as the economy recovers and the disequilibrium is corrected.
  - Forced saving during WW2 was followed by sharp increases in consumption.
  - Rapid growth of money as households’ bank deposits have expanded sharply.

- Several factors point to a gradual unwinding.
  - A part constitutes precautionary saving, arising from a risk of unemployment, that is likely to decline only slowly.
  - Much of the extra saving was accumulated with high-income households, who are not liquidity constrained. (Wealth affect at the aggregate level is small.)
  - Inability to purchase services, for which is difficult to substitute over time. (In contrast to the inability to purchases durables because of rationing in WW2.)
  - While spending and bank deposits may linked in normal times, no reason to think of this relationship as structural.
A positive wealth shock

- Better to think of the episode as involving an unexpected positive wealth shock.

- Suggests that households will increase all spending:
  1. Partially increase current spending.
  2. Partially increase future spending, which entails running down the savings over time.
  3. Partially reduce borrowing.

- Precisely what was observed in the case of the US stimulus payments:

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<thead>
<tr>
<th></th>
<th>June 2020</th>
<th>Jan 2021</th>
<th>Planned, March 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spent</td>
<td>29%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Saved</td>
<td>36%</td>
<td>37%</td>
<td>42%</td>
</tr>
<tr>
<td>Debt reduction</td>
<td>35%</td>
<td>37%</td>
<td>34%</td>
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</tbody>
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