The Saving and Employment Effects of Higher Job Loss Risk

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Motivation and research questions

- Saving rates tend to increase during recessions
- Popular claim: saving rates increase because job loss risk is high
- Challenge: other recession effects could also be affecting savings
- **RQ1**: Does higher job loss risk increase savings?

- Higher savings reduces household demand
- Negative impact on local production
- Challenge: several (GE) effects determine local production
- **RQ2**: Does the risk-induced increase in savings reduce local employment?
Methodology and identification (RQ1)

- Data: Norwegian administrative data
- Want an exogenous increase in job loss risk for parts of the population
- Use oil price collapse of 2014
  - increase in unemployment rates for some occupations (engineers)
  - local recession in South-West of Norway (oil region)
- Difference in difference analysis: compare savings of engineers to that of other high skilled workers in oil region
  - sudden increase in job loss risk for treatment group, for reasons not correlated with saving behavior
  - control group also subject to local recession effects
Methodology and identification (RQ2)

- Within oil region, some municipalities have more oil workers
  - and also larger saving responses

- Difference in difference analysis: compare local employment of municipalities with few and many oil workers

- Cross-sectional analysis → control for factors common to all

- Directly account for other potential drivers of lower employment
  - lower demand from oil firms hurts suppliers
  - displaced oil workers may crowd out workers in other sectors
Shock to job loss risk

- Sudden increase in job loss risk for engineers relative to other high skilled workers, within the oil region
Increase in liquid savings

- Relative increase in liquid savings of USD 1,300 or 3.6%
- Relative increase of 1.3 % per pp increase in job loss rate
Decrease in local employment

- Municipalities with more oil workers have larger saving responses and larger increases in non-tradable unemployment
Decrease in local employment

- Increase in non-tradable unemployment not explained by lower demand from oil firms
Decrease in local employment

- Increase in non-tradable unemployment not explained by displaced oil workers shifting into other sectors.
Decrease in local employment

- Attribute 75% of the increase in local unemployment to lower household demand
- Back of the envelope calculations suggests risk channel is the main driver