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

Stefan Gerlach
Chief Economist

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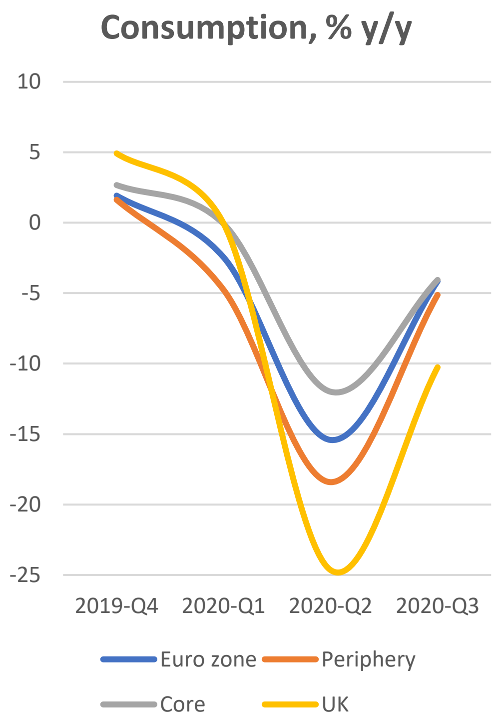
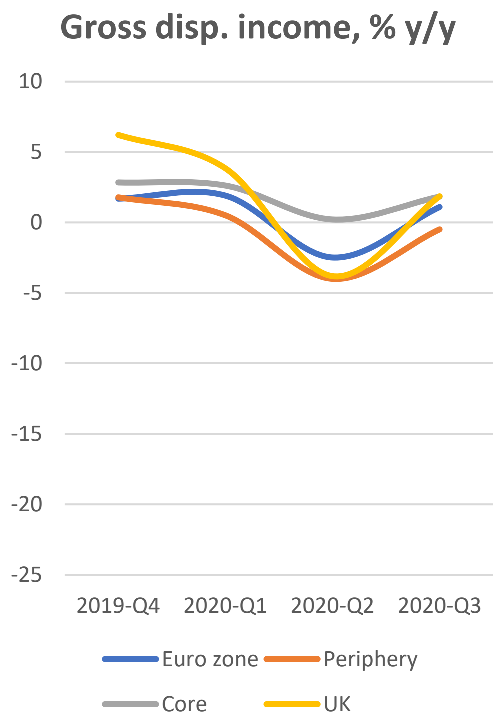
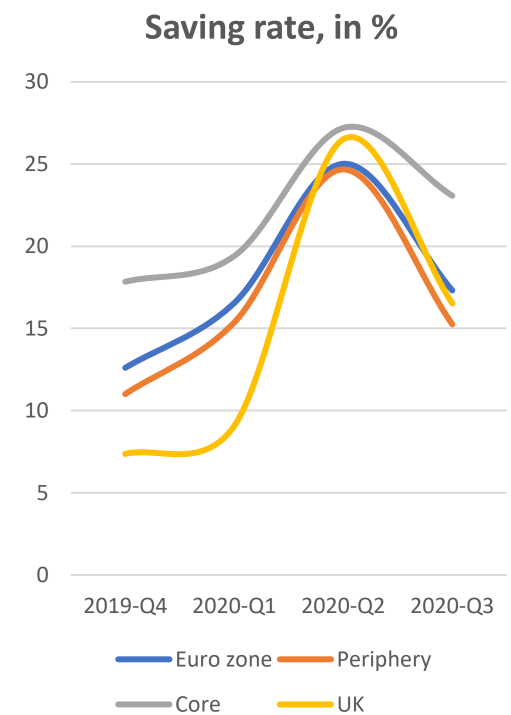
What has happened?

- 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:

	June 2020	Jan 2021	Planned, March 2021
Spent	29%	26%	25%
Saved	36%	37%	42%
Debt reduction	35%	37%	34%

Source: Armantier et al. (2021), *An Update on How Households Are Using Stimulus Checks*, Liberty Street Economics, New York Fed.