THE PANDEMIC RESET AND ITS IMPLICATIONS FOR HOUSEHOLD FINANCES

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My thread

- The pandemic has left
  - *people with higher average savings and differential employment prospects*
  - *countries with differential prospects for fiscal support and need for sectoral shifts*
- The **"pandemic reset"** will require shifts and open-up investment and employment opportunities
- This generates a potential for further social polarization
  - *due to the documented tendency of the wealthy and of the more educated to access high asset returns and low borrowing costs*

Immediate effects of covid on financial behavior

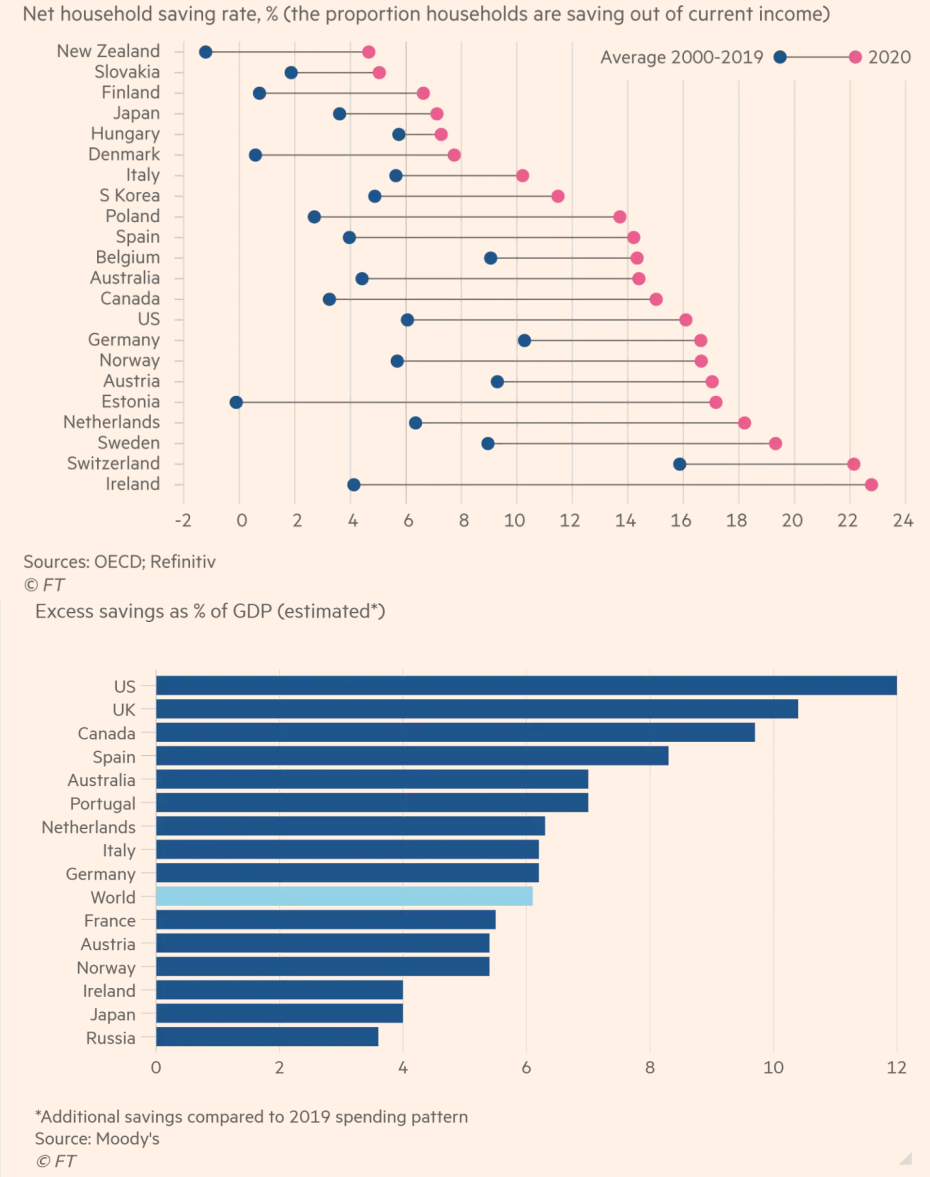
Source: Coibion, Gorodnichenko, Weber (2020)

- Household spending in US in April 2020:
  - *Reduction by $1000 per month*
  - *31% reduction between January and April 2020*
  - *Reductions in:*
    - transportation, travel, entertainment, clothing, consumer durables
- Reduced demand for household loans (increase for firm loans)
- Risky assets: savings diverted to deposits, away from stocks
- Loan repayments: reduction by April in the US

Now: Households have accumulated extra savings

Source: Valentina Romei, FT 18.04.21

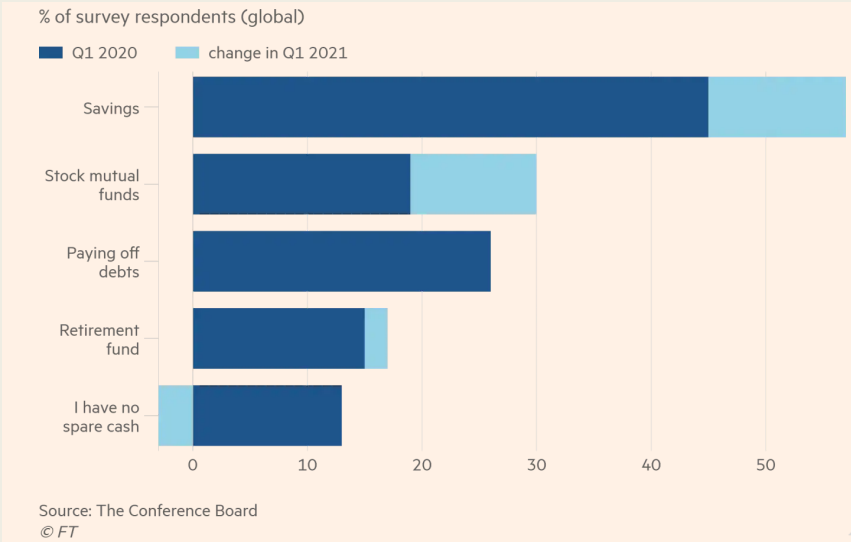
- Net saving rates have been higher
- The stock of household savings as a share of GDP has risen internationally.
- Relevant questions:
  - *What have people done with the extra savings?*
  - *How do they feel about the future?*

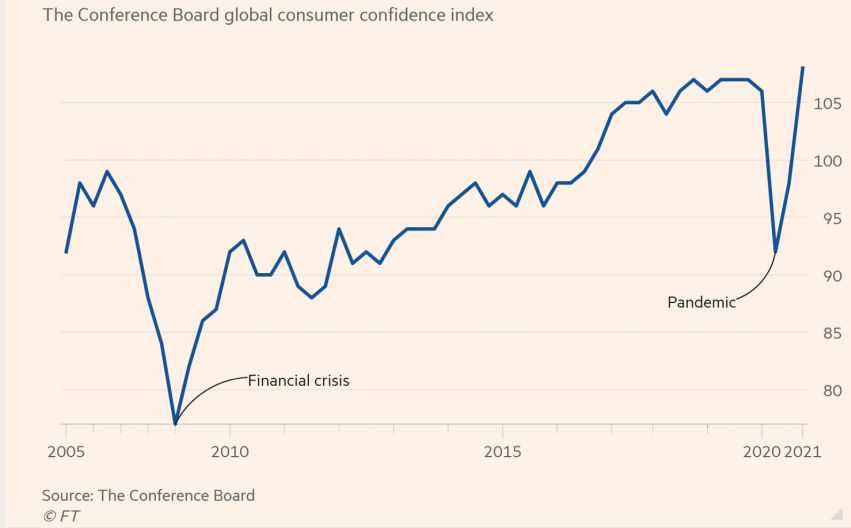


Now:
Households have accumulated extra savings

Source: Valentina Romei, FT 18.04.21

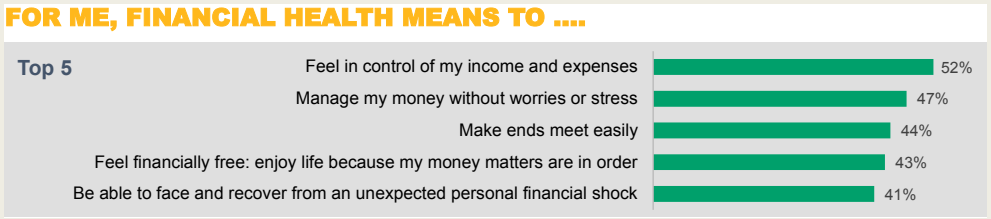
- There has been a global increase in savers and a decrease in those who have no spare cash
- There has also been an increase in those participating in stock mutual funds and in retirement saving
- There is evidence that consumer confidence indices are now high

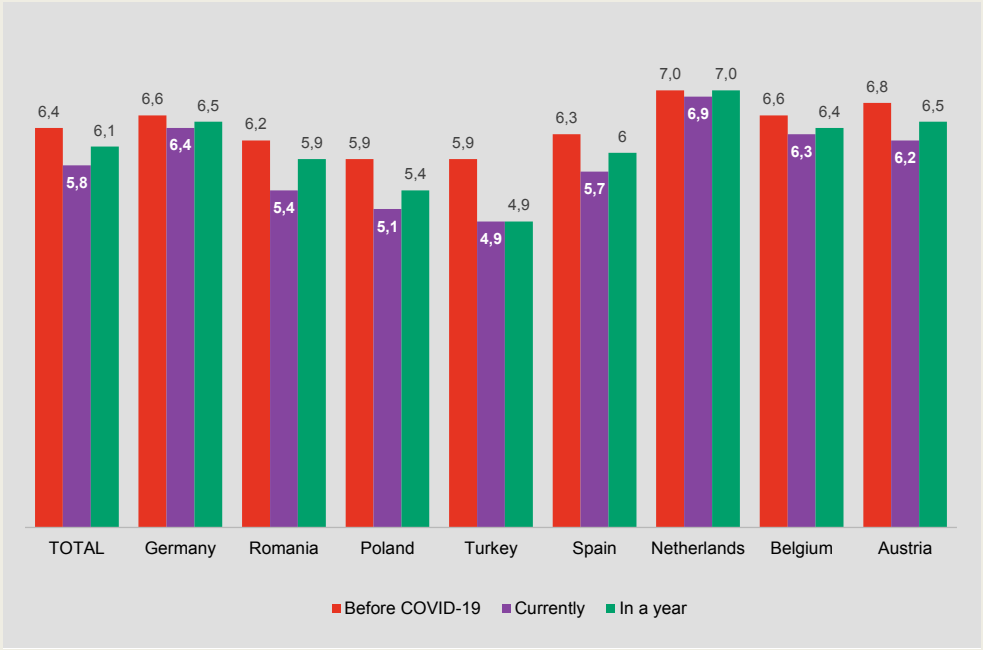




Own financial health
Before covid, now, next year

Source: *Think Forward Initiative Quarterly Consumer Research* (in collaboration with IPSOS)





- The survey was conducted between February 19 – March 5, 2021.
- Austria, Belgium, Germany, Poland, Romania, Spain, The Netherlands, Turkey.
- 8043 adults with an even distribution across countries.

What measures do Europeans take to improve their financial health?

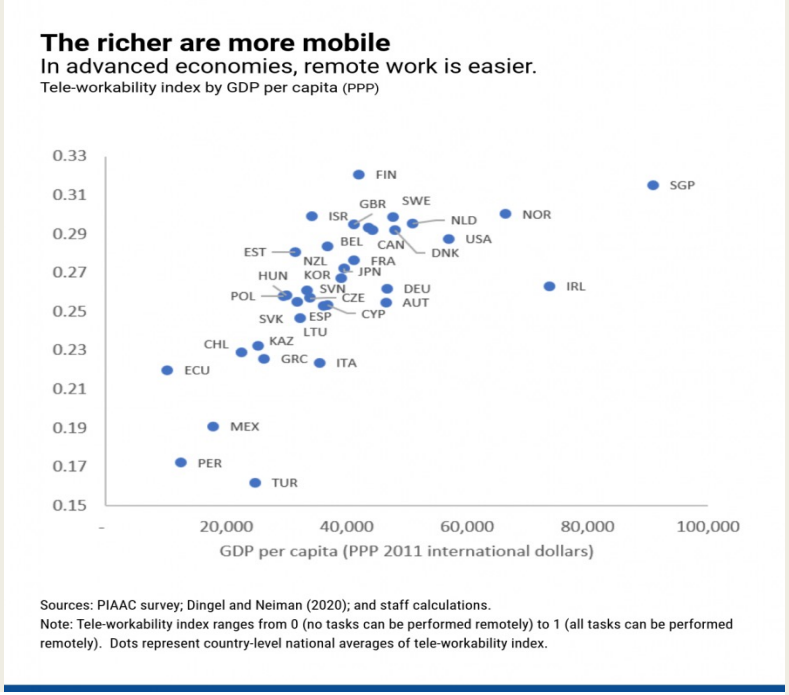
Source: Think Forward Initiative Quarterly Consumer Research (in collaboration with IPSOS)

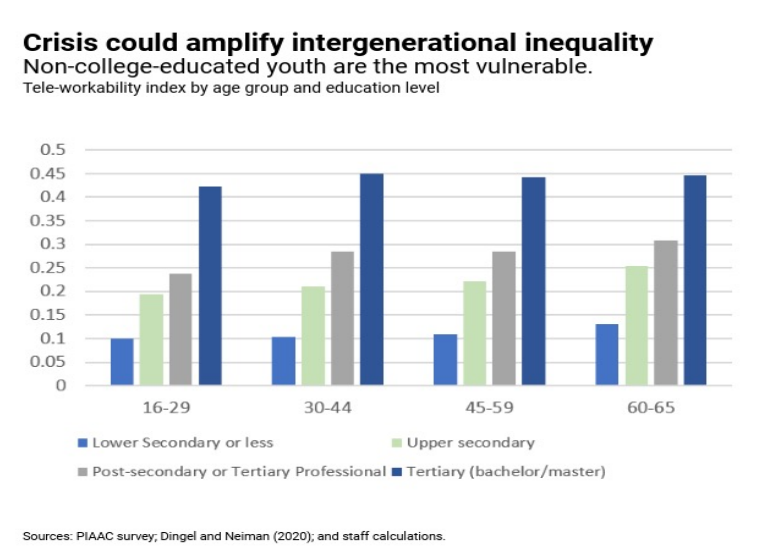
- The survey was conducted between February 19 – March 5, 2021.
- Austria, Belgium, Germany, Poland, Romania, Spain, The Netherlands, Turkey.
- 8043 adults with an even distribution across countries.

Distributional implications of the pandemic

- Differential vulnerability to lockdowns
  - *Across countries*
  - *Across demographic groups*
- Different levels and prospects for fiscal support
- Different approaches to unemployment:
  - *Kurzarbeit and furlough versus unemployment benefits*
  - *Even similar current successes in unemployment have different future implications*
- Different need for intersectoral shifts

Teleworking possibilities





INTERNATIONAL MONETARY FUND

Sources: Brussevich, Dabla-Norris, Khalid *IMF Blog, 7 July 2020; The Economist, April 10, 2021.*

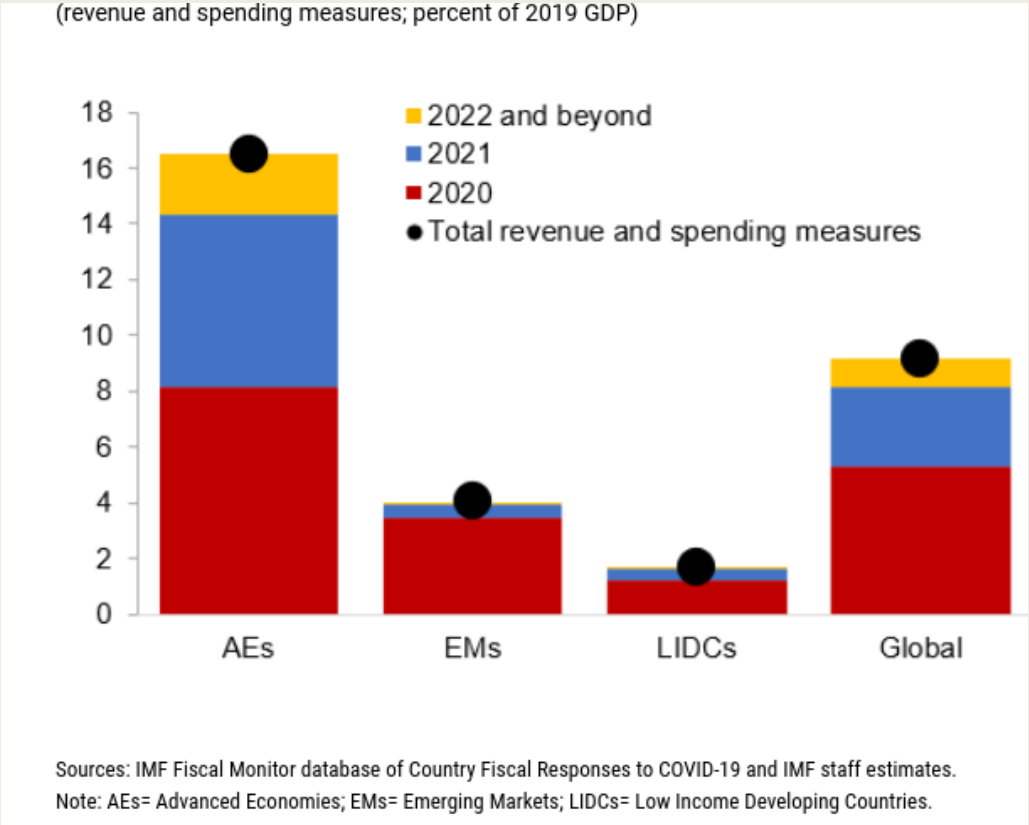
- Immediately became apparent:
  - *They are greater in richer countries*
  - *More prevalent among the more educated*
  - *Controlling for education, less of a relationship to age*
- The long-term future of work has changed for the better:
  - *more digitised.*
  - *Remote working is easing the bottleneck of expensive housing.*
  - *Home-workers report higher levels of happiness and productivity.*

Vulnerability to lockdowns: International comparisons

Fiscal support in response to Covid-19

Source: IMF, April 2021

- Unequal
- …and progressively smaller



- USA
  - Breaks: job-worker matches

Europe
- maintain match: "Kurzarbeit"

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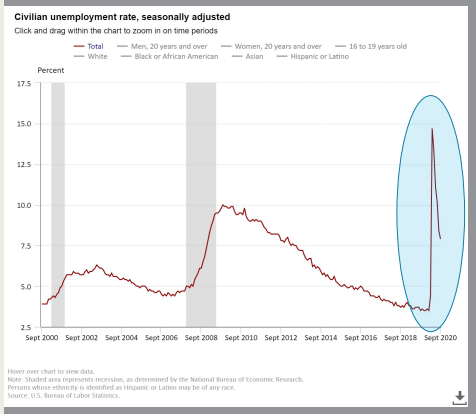
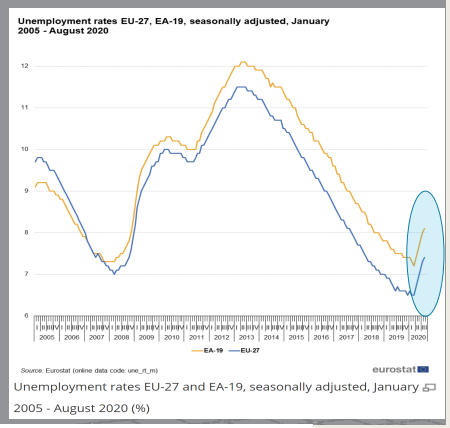
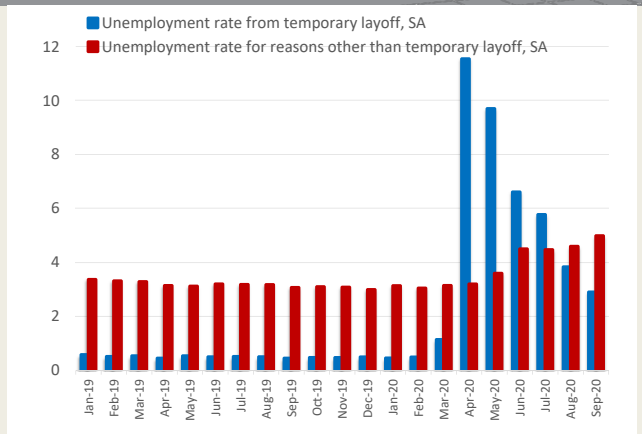
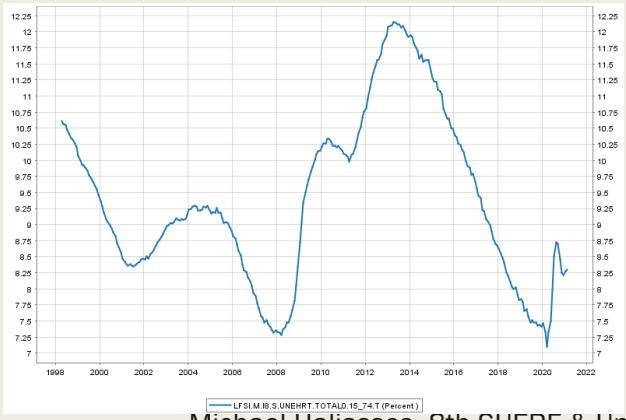




Unemployment rates EU-27 and EA-19, seasonally adjusted, January 2005 - August 2020 (%)





Unemployment: US versus Europe

- US Unemployment:
  - *Spring of 2020: nearly 15%*
  - *Spring 2021: 6% after a year containing five of the ten best months for hiring in history*
- *Public perceptions of how easy it is to find a job already recovered to levels that it took nearly a decade to reach after the global financial crisis.*
- Europe: the labor market is beating forecasts, but country differences.

Sources: Markus Brunnermeier and Robert Hall, Princeton Markus Academy Seminar, 30.10.20; The ECB Data Warehouse.

Recent unemployment rates,

by country, percent
Source: OECD

Subject		Unemployment rate (monthly), Total, All		
Measure		Level, rate or quantity series, s.a.		
Unit		Percentage		
Frequency		Annual		
Time		2018	2019	2020
Country	i			
France	i	9,0	8,4	8,0
Germany	i	3,4	3,2	(E) 4,2
Greece	i	19,3	17,3	16,4
Ireland	i	5,8	5,0	5,7
Italy	i	(P) 10,7	(P) 10,0	(P) 9,3
Portugal	i	(P) 7,2	(P) 6,7	(P) 7,1
Spain	i	15,3	14,1	15,5
United Kingdom	i	4,1	3,8	4,5
United States	i	3,9	3,7	8,1
Euro area (19 countries)		8,2	7,6	7,9
European Union – 27 countries (from 01/02/2020)	i	7,3	6,7	7,2
OECD - Total		(E) 5,5	(E) 5,4	(E) 7,1

Data extracted on 11 Apr 2021 10:50 UTC (GMT) from OECD.Stat

Legend:

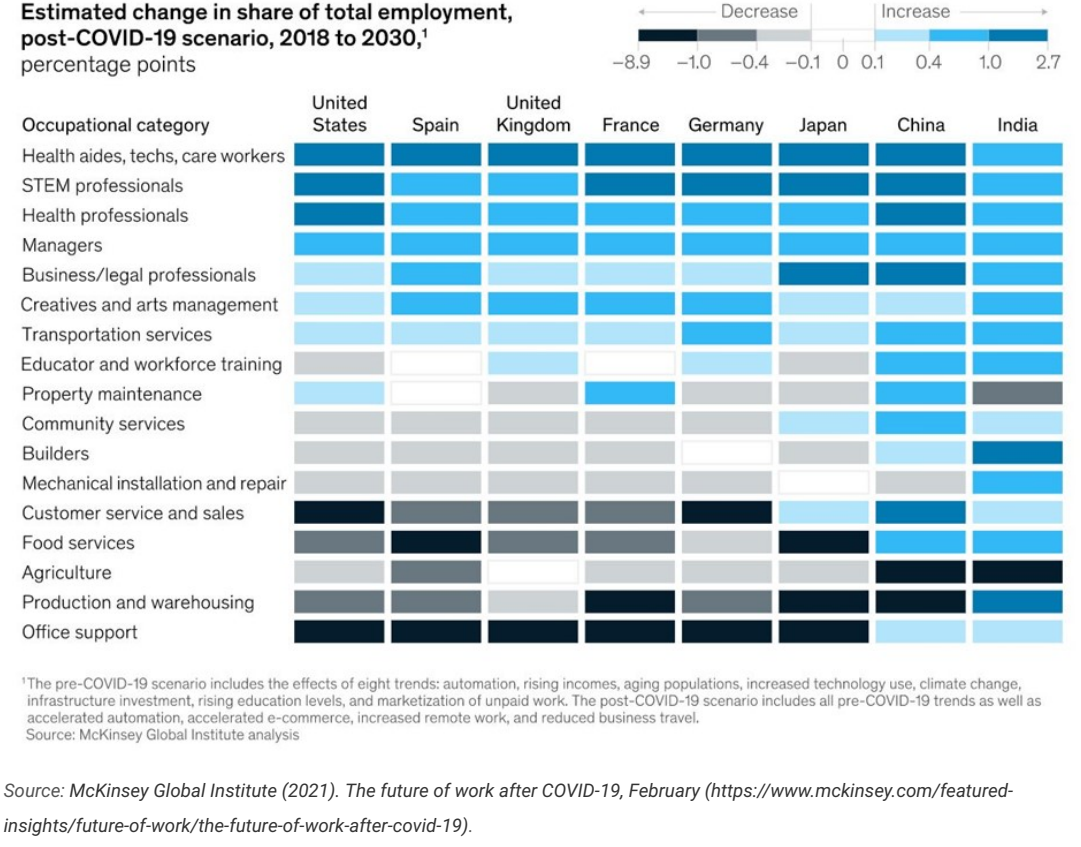
E: Estimated value

P: Provisional value

The changing importance of sectors

Source: McKinsey Global Institute (Feb. 2021):

- In eight countries (China, France, Germany, India, Japan, Spain, the United Kingdom, US), more than 100 million workers will have to find new, more qualified jobs by 2030.
- 25% more than previously projected!



Source: McKinsey Global Institute (2021). The future of work after COVID-19, February (https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19).

A potential for further social polarization following the "pandemic reset"

- Typically, discussions on labor market behavior and income inequality:
  - *Who becomes unemployed and for how long?*
  - *Who can move to a new job/retrain more easily?*
- Yet, a further layer: **household financial behavior and wealth inequality**
  - *Who is more likely to invest in the new or growing sectors?*
    - Private business holdings
    - Stock holdings
    - Access to low-cost borrowing opportunities
  - *Who will manage to handle the financial requirements of employment transitions better?*
  - *Who will manage the retirement wealth consequences better?*
  - *Who is likely to manage the accumulated savings more efficiently and profitably?*
- **In essence:** who will access higher returns and lower debt costs?

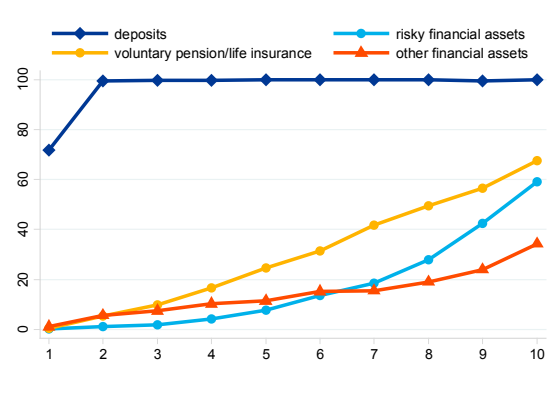
Participation and asset composition in the EZ Data:

Financial and Real Assets, across the respective distribution

- HFCS 2nd Wave, 2014/5
- All EZ countries pooled
- Financial asset behavior, by financial asset decile
- Real asset behavior, by real asset decile
- Notice the declining role of primary residence

Participation in financial asset components by decile of financial assets

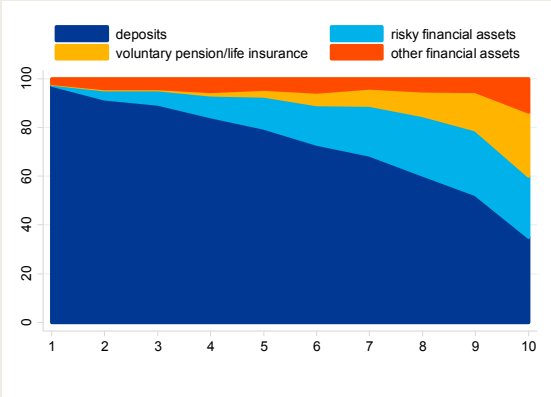
(percentage of households holding asset category)



Source: HFCS. Euro area. Hungary and Poland are not included.

Share of financial assets components in total financial assets, by decile of financial assets

(percentage share as a fraction of total financial assets)



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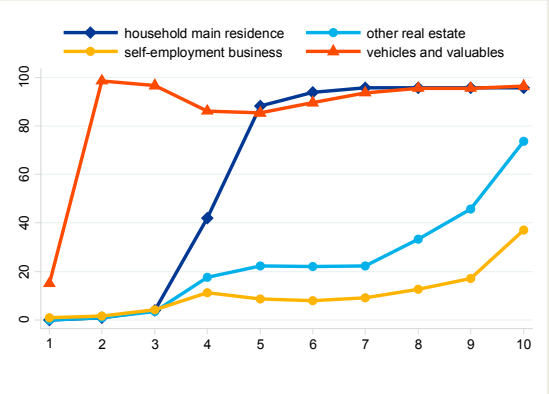
Participation in real asset components by decile of real assets

(percentage of households holding asset category)



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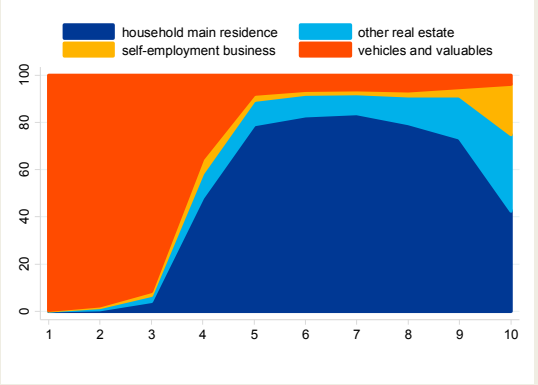


Source: HFCS. Euro area. Hungary and Poland are not included.

Different Measures and Evolution of Wealth Inequality in EZ

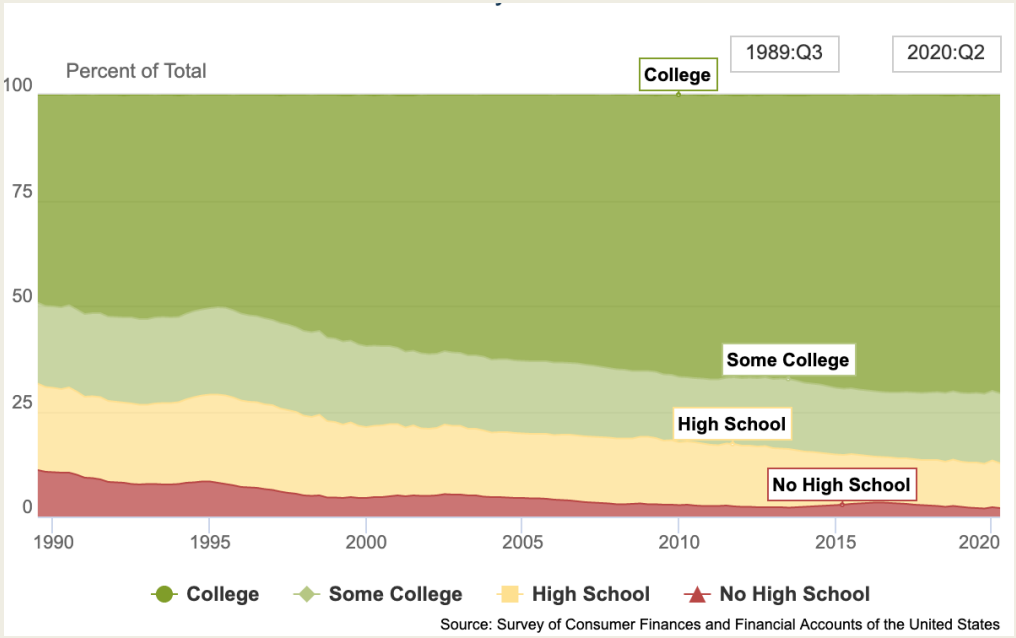
HFCS, Waves 1, 2, 3: 2010/11 versus 2014/5 versus 2017

Selected measures of net wealth inequality in the euro area

Indicator	Wave 1	Wave 2		2017
Gini coefficient	68.0	68.5		69.5
S.E.	(0.6)	(0.5)		
P90/P10	427.6	503.5		525
S.E.	(50.2)	(32.7)		
P80/P20	40.1	41.0		42.4
S.E.	(2.0)	(2.0)		
P90/P50	4.7	4.8		5.3
S.E.	(0.09)	(0.08)		
P50/P10	91.6	105.7		99.4
S.E.	(10.6)	(8.94)		
Share of top 5%	37.2	37.8		38.1
S.E.	(1.2)	(1.9)		
Share of top 10%	50.5	51.2		51.9
S.E.	(1.0)	(0.9)		

Source: HFCS. The indicators for wave 1 are calculated for nominal variables (i.e. are not HICP-adjusted). Standard errors in Table 4.1 reflect uncertainty about the statistics, and are calculated with the Rao-Wu rescaled bootstrap method using replicate weights provided by the countries (1,000 replicates; see Chapter 7 of the HFCS Methodological Report for details). For normally distributed variables, the 95% confidence intervals can be calculated by adding ±1.96 times the standard error to the estimate.

Evolution of Wealth Shares
by Education in the US: 1989-2020

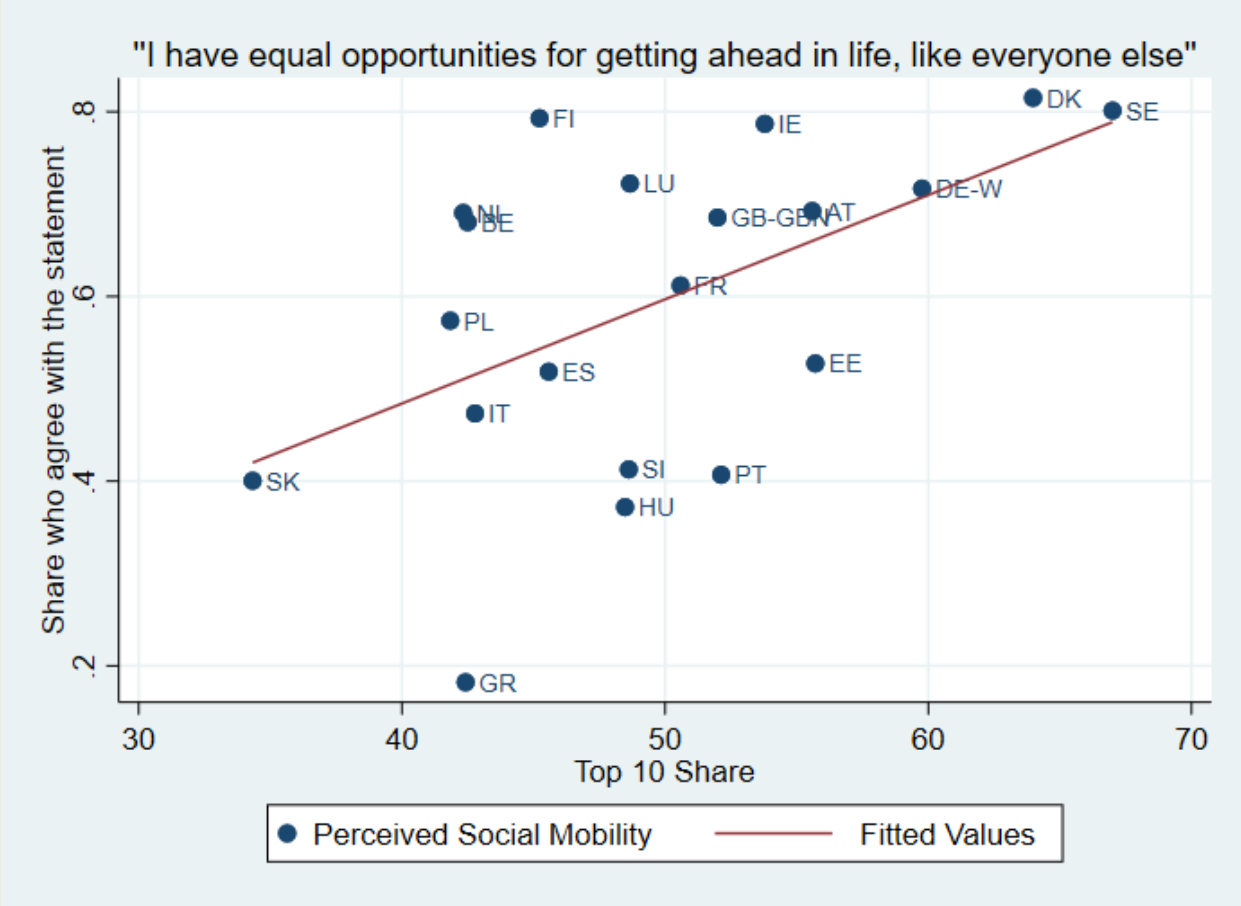


- In the US, where wealth data over a longer horizon are available, the educated have been increasing their share of the pie.

Wealth inequality and beliefs in opportunity

Source: Haliassos, Jansson, Karabulut (2021)

Based on: OECD Wealth Distribution Database. The information for Sweden comes from Lundberg and Waldenström (2018). The data on beliefs are derived from the Eurobarometer Survey fielded in December 2017 (Eurobarometer, 2018).



Wealth inequality and perceived fairness

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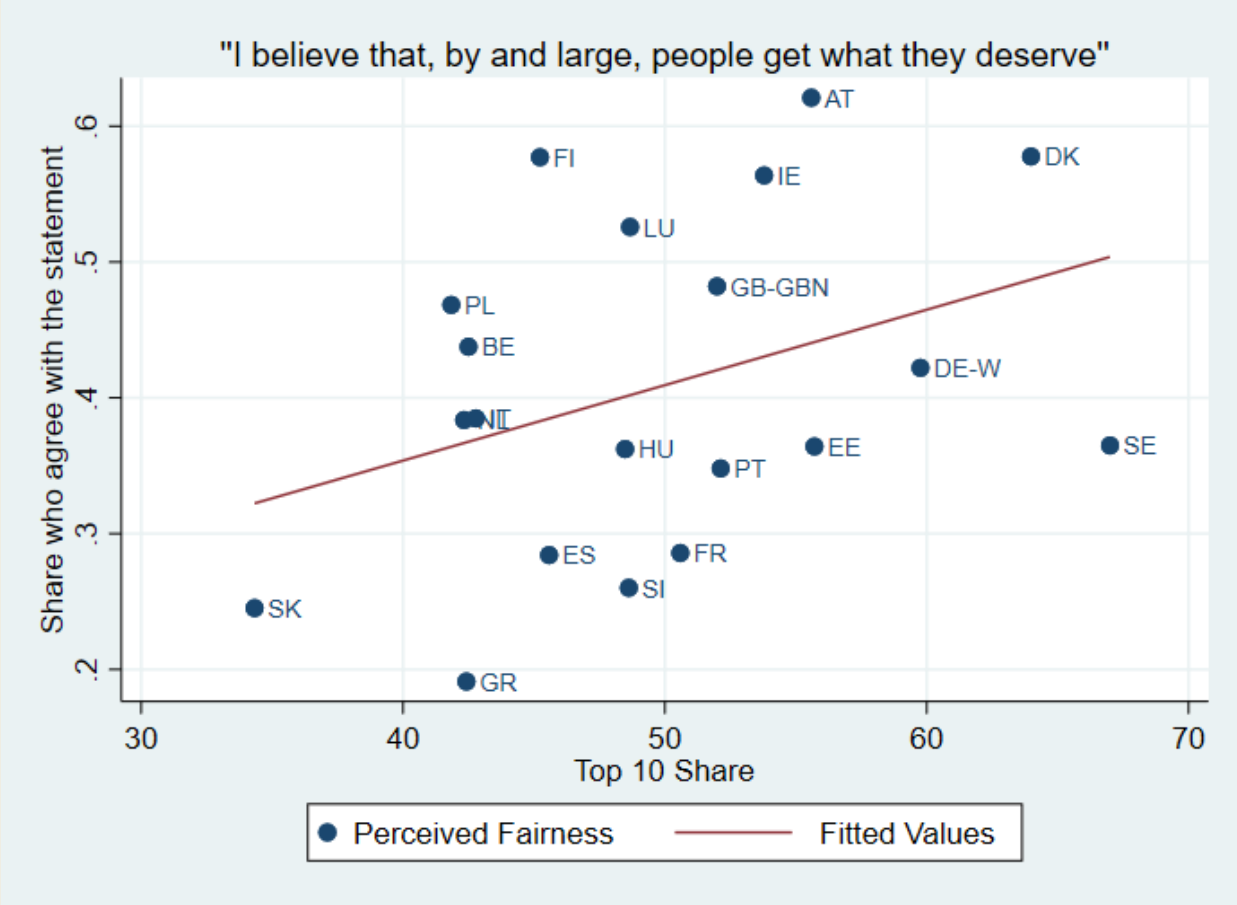

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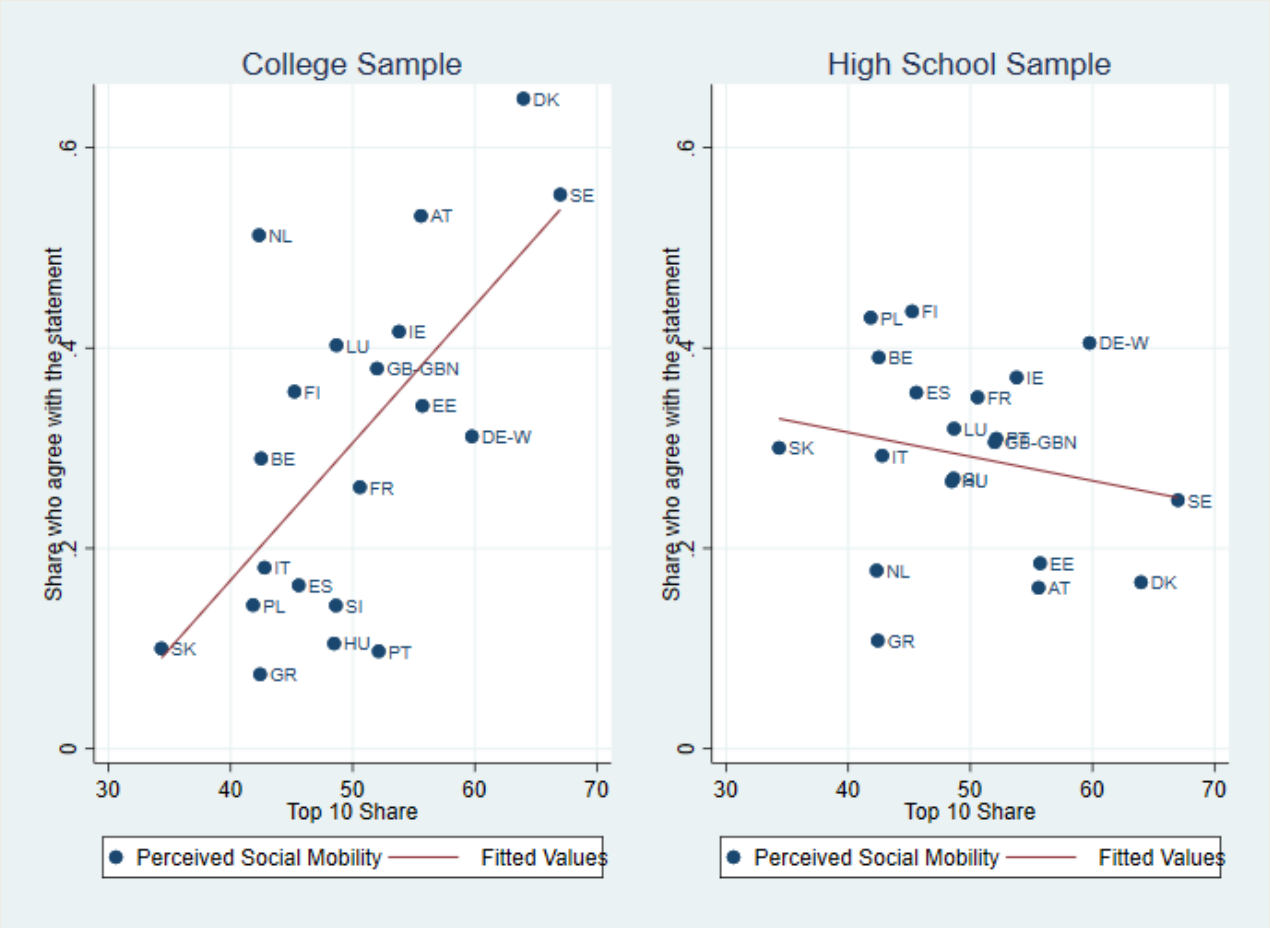

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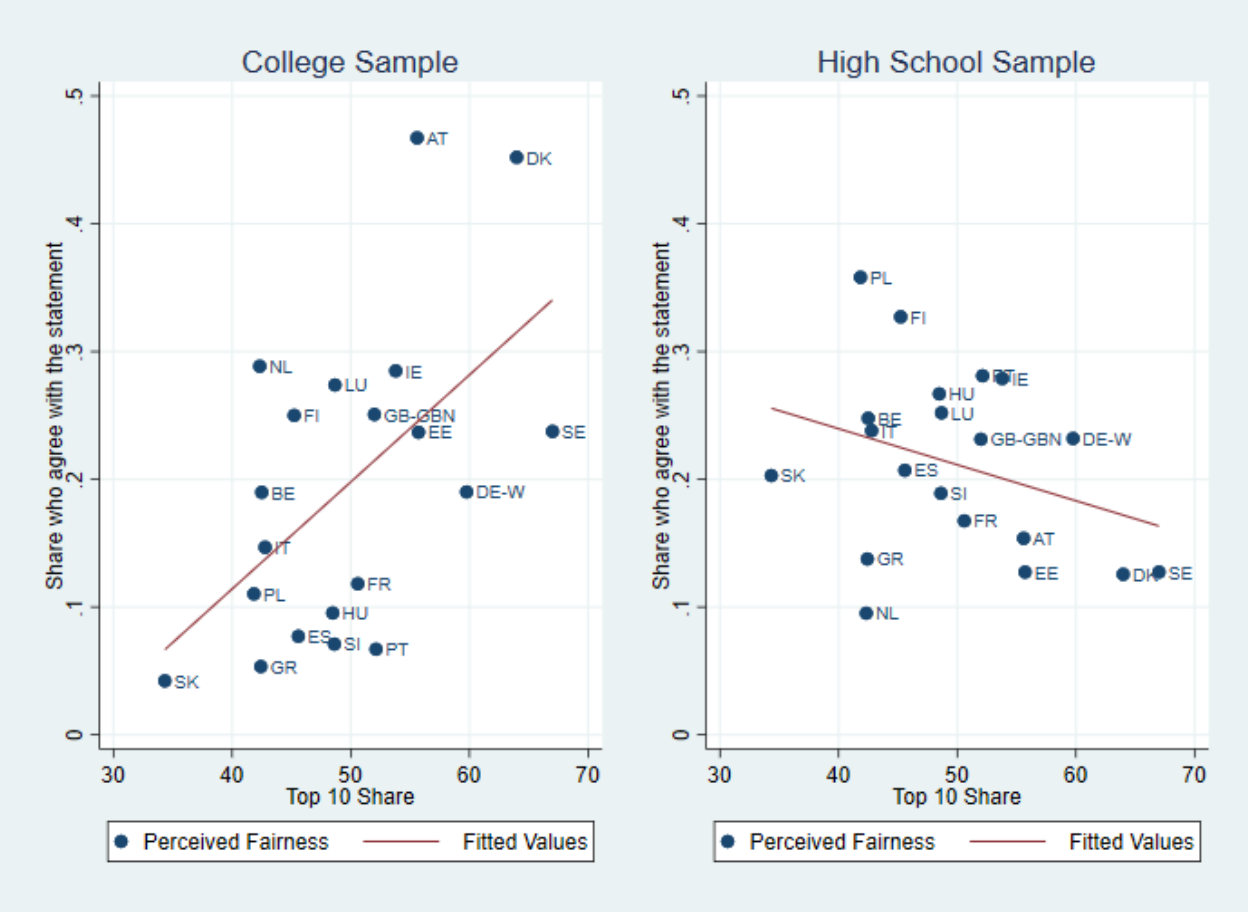

Income inequality and beliefs in opportunity

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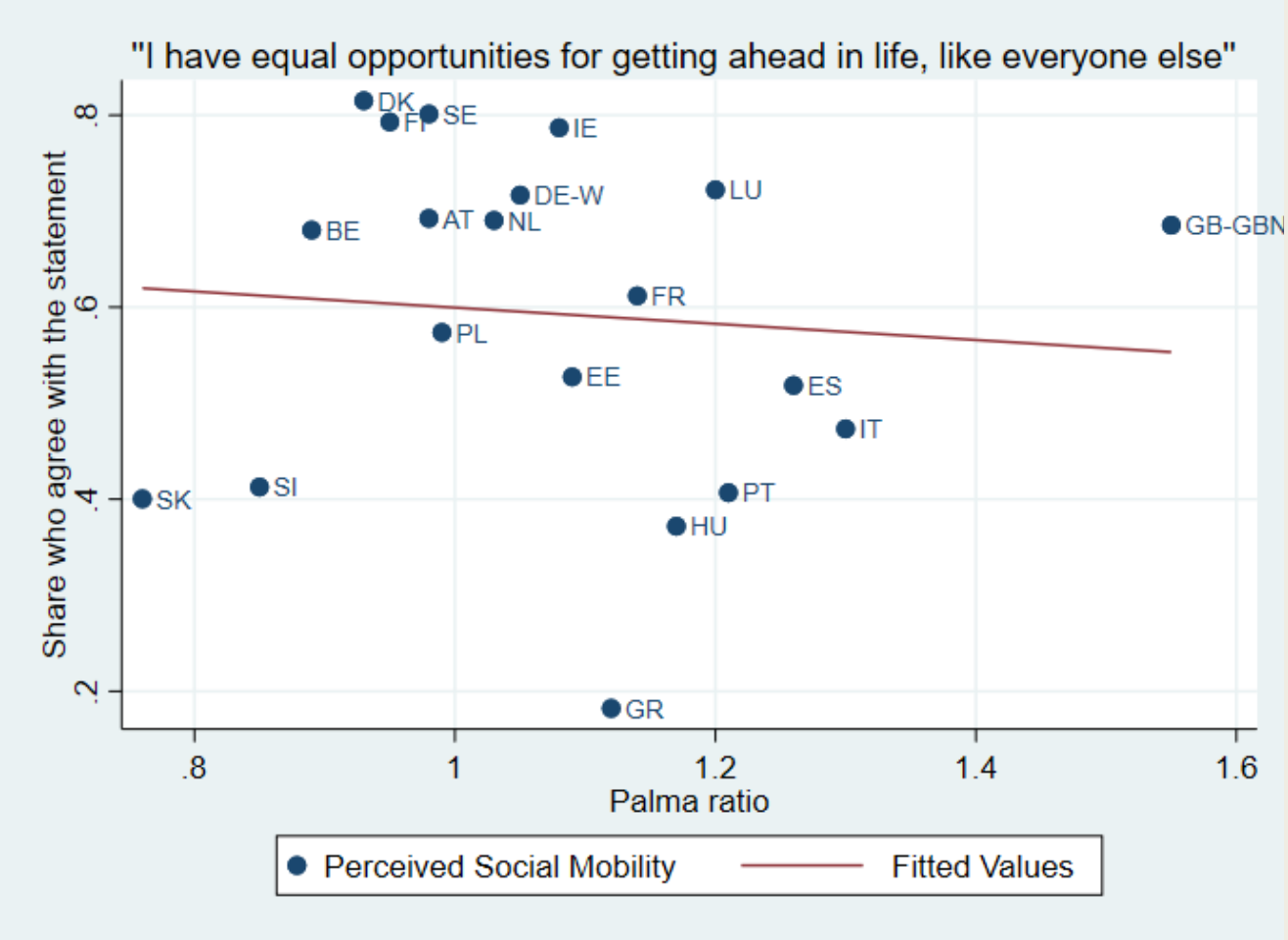

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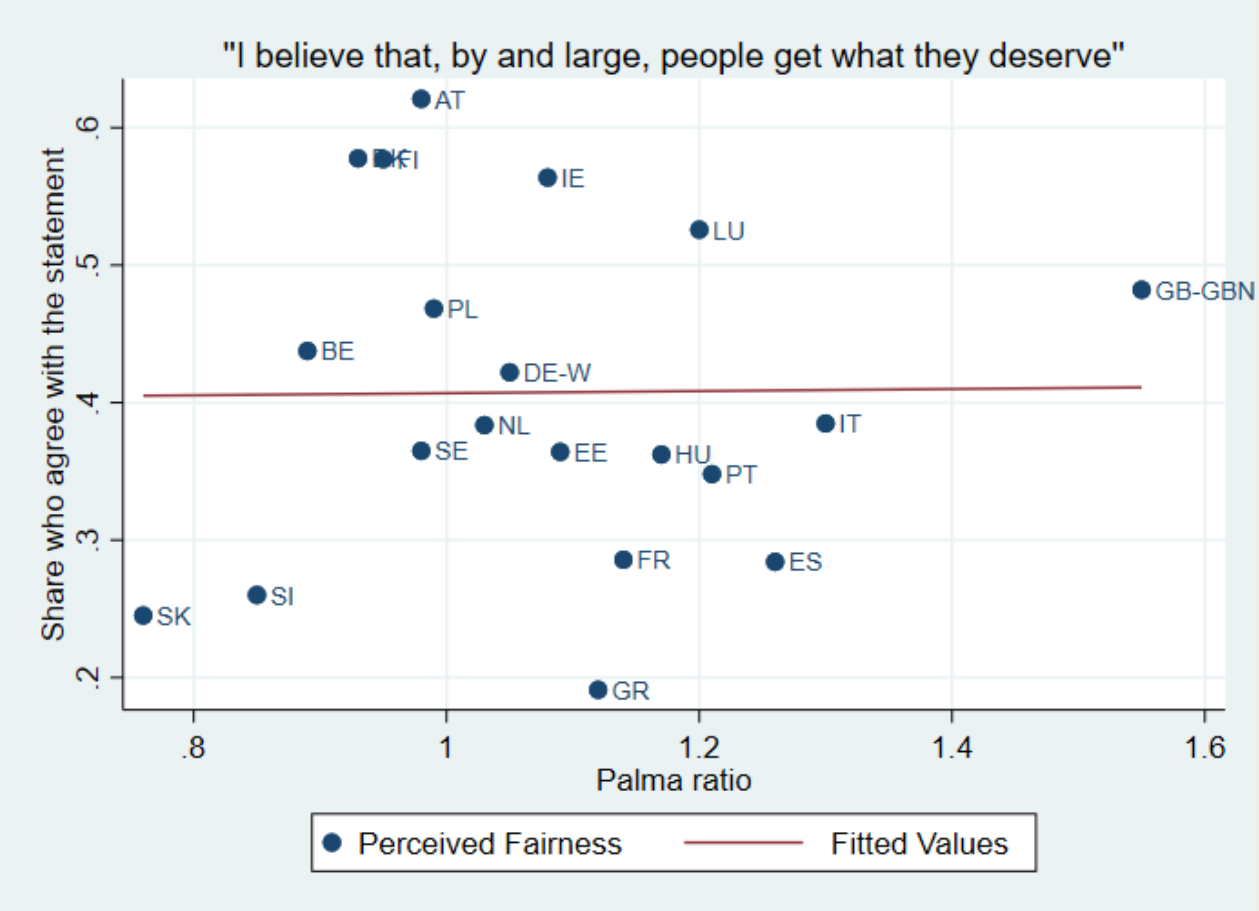

Wealth inequality

- Fascinating new work on heterogeneous returns:
  - *Household historical wealth returns explain most of the level and volatility of changes in top wealth shares*
    - 2000-2007, Swedish data. Bach, Calvet, Sodini (2020)
- Wealthier people tend to have
  - *Persistently higher expected returns* ***(Bach, Calvet, Sodini, AER 2020)***
  - *Persistently higher actual returns* ***(Fagereng, Guiso, Malacrino, Pistaferri, Ecta 2020)***
    - even across generations

Wealth inequality

Bach, Calvet, Sodini, AER 2020

- Expected return on household net wealth is
  - *strongly persistent*
  - *increasing in net worth*
- This is primarily due to higher systematic risk
- They do not find that the wealthy have superior investment skill
  - *Their historical returns are predicted well by exposures to real estate and equity*
  - *They do not earn higher risk-adjusted returns than other households on stocks or abnormal returns on private equity holdings*

Wealth inequality: a different take

- **Fagereng, Guiso, Malacrino, Pistaferri (Ecta 2020)**
  - *12 years of Norwegian data, ALL individuals (including the very top)*
    - observing parents and children allows intergenerational study.
  - ***Returns on***
    - net worth
    - Financial wealth
    - Real wealth (housing and private business)
    - Debt
  - *All: very heterogeneous, correlated with the relevant wealth concept (+ for assets, - for debt)*

Wealth inequality

Fagereng, Guiso, Malacrino, Pistaferri (Ecta 2020)

- Model: Heterogeneity in returns on wealth arises from:
  - *Time-varying observables:*
    - scale: lagged wealth
    - portfolio composition
    - risk exposure: β
    - time, demographics
  - ***Individual fixed effect:***
    - A persistent component attributable to:
      - ***observables**, such as education*
      - ***unobservables**: financial sophistication, ability to access, process, and use financial information, ability to overcome inertia, talent to manage business*
  - *Idiosyncratic transitory variations (good or bad luck)*
- Central finding:
  - *Observable characteristics explain roughly 1/3 of return variability on net worth*
  - *With individual FEs, it goes to ½.*

Propagation of wealth inequality

- Literature on return heterogeneity:
  - *The wealthier earn higher returns (on larger amounts), becoming even wealthier*
- **New work: Haliassos, Jansson, Karabulut (2021) finds a further propagation mechanism:**
  - *Exposure to greater wealth (but not income) inequality at the launch of one's economic life makes it more likely that:*
    - educated people will attain higher wealth levels 10-20 years later in life
    - educated people will get into self-employment, stockholding, and homeownership
    - This holds only in localities with above median mobility
    - There is no similar response by the less educated

Implications and conclusions

- The pandemic has left
  - *people with higher average savings and differential employment prospects*
  - *countries with differential prospects for fiscal support and need for sectoral shifts*
- The **"pandemic reset"** will open up investment and employment opportunities
- This generates a potential for further social polarization
  - *due to the documented tendency of the wealthy and of the more educated to access high asset returns and low borrowing costs*
- Now may be a good time for us to design policies to promote access to financial opportunities more broadly!