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?

Net household saving rate, % (the proportion households are saving out of current income)



Sources: OECD; Refinitiv © *FT*

Excess savings as % of GDP (estimated*)



^{*}Additional savings compared to 2019 spending pattern Source: Moody's © FT

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



Source: The Conference Board

© FT

The Conference Board global consumer confidence index



Own financial health Before covid, now, next year

Source: Think Forward Initiative Quarterly Consumer Resparch (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.

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THINK

What measures do Europeans take to improve their financial health?

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

Spend and shop consciously, paying attention to options available	10% 2	5%		65%
Keep track of my income and expenses on a regular basis	17%	22%		61%
Control and/or reduce my spending	9% 31%		60%	
Control and/or reduce my levels of debt	20% 25%		55%	
Save regularly	20% 32%		49%	
Set goals and/or plan my finances for the long term	22%	36%		43%
Try to increase or diversify my income or make it more steady	41	%	32%	27%
Learn and look for smart investment options	42%		32%	26%
Learn about finance or look for financial information on the internet	41%		34%	25%
Talk to my family, relatives or friends about my finances	42%		34%	23%
Learn about finance or look for financial information in my bank website/app	45% 33%		6 22%	
Talk to financial experts, consultants, or advisors about my finances		64%		24% 12%

Never/Rarely = Sometimes = Often/Always

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RESEARCH

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

The richer are more mobile

In advanced economies, remote work is easier. Tele-workability index by GDP per capita (PPP)



Sources: PIAAC survey; Dingel and Neiman (2020); and staff calculations. Note: Tele-workability index ranges from 0 (no tasks can be performed remotely) to 1 (all tasks can be performed remotely). Dots represent country-level national averages of tele-workability index.

Crisis could amplify intergenerational inequality

Non-college-educated youth are the most vulnerable. Tele-workability index by age group and education level



Sources: PIAAC survey; Dingel and Neiman (2020); and staff calculations.

Teleworking possibilities

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.

INTERNATIONAL MONETARY FUND

Vulnerability to lockdowns: International comparisons

Sick and sicker

OECD countries, vulnerability to lockdowns, April 2020

Vulnerability score* Rank out of 33, 1=most vulnerable	Jobs that cannot be done from home, %	Retail, transport and hospitality, % of GDP	Fiscal stimulus[†] % of GDP
(1) Greece	68	23	1.0‡
(3) Spain	68	24	1.2
(5) Italy	65	21	1.2
(15) France	62	18	0.7
(23) Japan	67 [‡]	22	10
(28) Sweden	56	18	2.2
(29) Germany	63	16	4.4
(31) Britain	56	17	3.1
(33) United States	58	16	6.9

*Average score of five indicators: employment in small firms; ability to work from home; size of retail and leisure sector; fiscal stimulus; focus on job protection [†]Spending/revenue measures [‡]*The Economist* estimate Sources: "How many jobs can be done at home?" by J. Dingel and B. Neiman; OECD; IMF; World Bank; UBS; Goldman Sachs; *The Economist*

Fiscal support in response to Covid-19 Source: IMF, April 2021

- Unequal
- ...and progressively smaller



(revenue and spending measures; percent of 2019 GDP)

Sources: IMF Fiscal Monitor database of Country Fiscal Responses to COVID-19 and IMF staff estimates. Note: AEs= Advanced Economies; EMs= Emerging Markets; LIDCs= Low Income Developing Countries.







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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.

Dataset: Short-Term Labour Market Statistics

Subje	ct	Unemployment rate (monthly), Total, All							
Measu	re	Level, rate or qu		uantity series, s.a.					
Ur	nit	Perce	entage						
Frequen	су				Annual				
Tir	ne	2018		2019		2020			
Country	i								
<u>France</u>	i		9,0		8,4		8,0		
<u>Germany</u>	i		3,4		3,2	(E)	4,2		
<u>Greece</u>	i		19,3		17,3		16,4		
<u>Ireland</u>	i.		5,8		5,0		5,7		
<u>Italy</u>	i	(P)	10,7	(P)	10,0	(P)	9,3		
<u>Portugal</u>	i	(P)	7,2	(P)	6,7	(P)	7,1		
<u>Spain</u>	i		15,3		14,1		15,5		
<u>United Kingdom</u>	i		4,1		3,8		4,5		
<u>United States</u>	i		3,9		3,7		8,1		
Euro area (19 countries)			8,2		7,6		7,9		
European Union – 27 countries			7.0		0.7		7.0		
	1		7,3	(5)	6,7		7,2		
<u>UECD - TOTAI</u>		(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

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Recent unemployment

by country, percent

Source: OECD

rates,

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!



¹The pre-COVID-19 scenario includes the effects of eight trends: automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work. The post-COVID-19 scenario includes all pre-COVID-19 trends as well as accelerated automation, accelerated e-commerce, increased remote work, and reduced business travel. Source: McKinsey Global Institute analysis

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

(percentage of households holding asset category)

Participation in financial asset components by

decile of financial assets

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

- 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



Source: HFCS. Euro area. Hungary and Poland are not included. Participation in real asset components by decile of real assets

(percentage of households holding asset category)



(percentage share as a fraction of total financial assets)



Source: HFCS. Euro area. Hungary and Poland are not included. Share of real assets components in total real assets, by decile of real assets

(percentage share as a fraction of total financial assets)



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

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Different Measures and Evolution of Wealth Inequality in EZ

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

2017 Wave 1 Indicator Wave 2 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)42.4 P80/P20 40.1 41.0 S.E. (2.0)(2.0)5.3 P90/P50 4.7 4.8 S.E. (0.09) (0.08) 99.4 P50/P10 91.6 105.7 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)

Selected measures of net wealth inequality in the euro area

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)



Wealth inequality and perceived fairness

Source: Haliassos, Jansson, Karabulut (2021)



Wealth inequality and beliefs in opportunity

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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 $\frac{1}{2}$.

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!