

The Saving and Employment Effects of Higher Job Loss Risk

Ragnar E. Juelsrud and Ella Getz Wold ¹

8th SUERF UniCredit Foundation Research Prize and Workshop

April 2021

¹Norges Bank. *This presentation does not necessarily reflect the official views of Norges Bank and should not be reported as such.*

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)

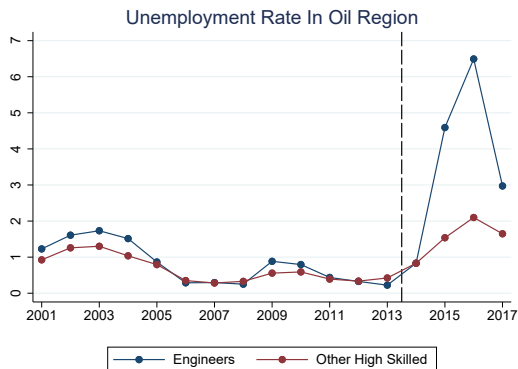
- Data: Norwegian administrative data
- Want an **exogenous increase in job loss risk** for parts of the population
- Use oil price collapse of 2014
 - → increase in unemployment rates for some occupations (engineers)
 - → local recession in South-West of Norway (oil region)
- Difference in difference 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

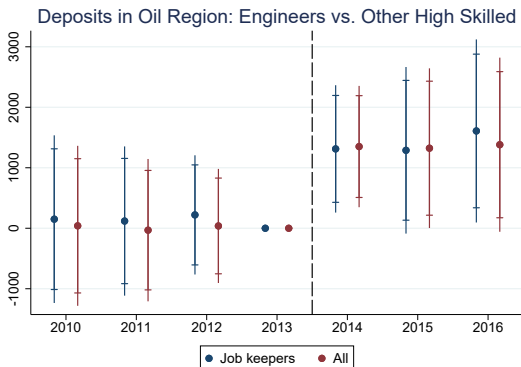
Shock to job loss risk

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



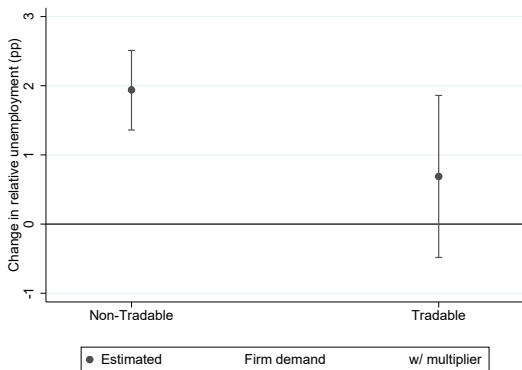
Increase in liquid savings

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



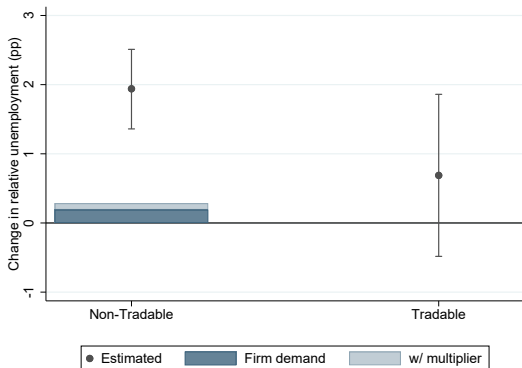
Decrease in local employment

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



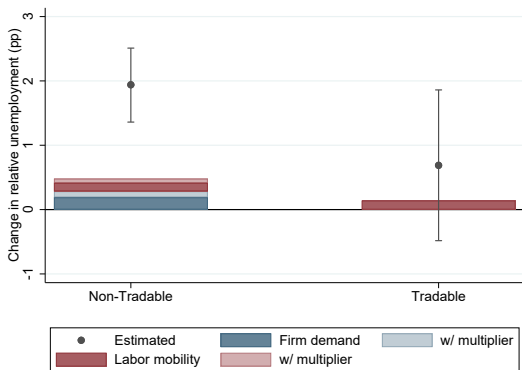
Decrease in local employment

- 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

