

## HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION

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One key aspect associated with the economic crisis prompted by COVID-19 has been the extraordinary increase in saving rates (see Chart 1). Indeed, from January to September 2020 (the latest available figure), household saving was around 3.5 pp of GDP higher than observed, on average, in the first three quarters of the last five years both in Spain and the euro area (see Chart 2). A significant portion of this excess saving has built up in the form of bank deposits (see Chart 3).

The course of saving has reflected a much more marked decline in household consumption than in household income. The latter has been sustained, to some extent, by the public support measures deployed to mitigate the adverse economic effects of the pandemic (see Chart 4). In turn, several factors – beyond the decline in household income – have contributed to the record fall-off in private consumption. A portion of the fall in consumption would be the result of households’ wish to increase their

Chart 1  
HOUSEHOLD SAVING RATE (a)

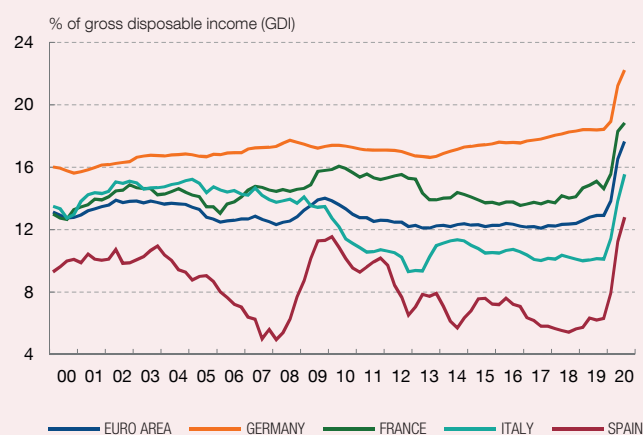


Chart 2  
EXCESS SAVING IN THE FIRST THREE QUARTERS OF 2020  
Difference from average saving observed in the same period over the last five years  
% of 2019 GDP

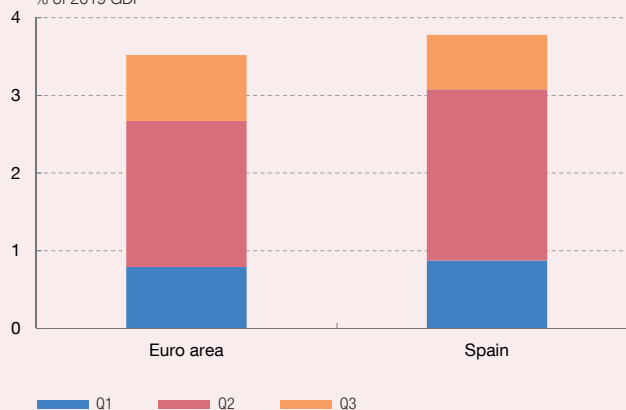


Chart 3  
HOUSEHOLD BANK DEPOSITS  
Cumulative 12-month flows  
% of GDI

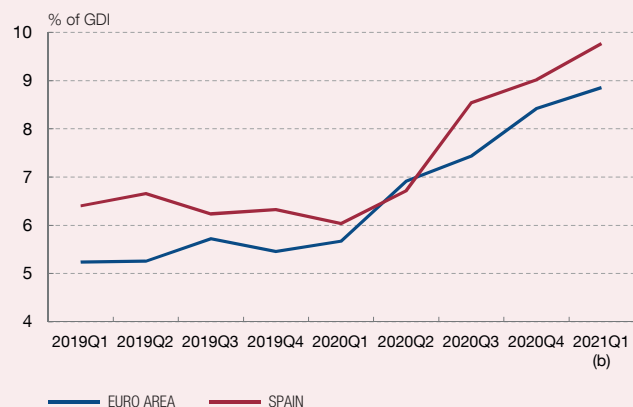
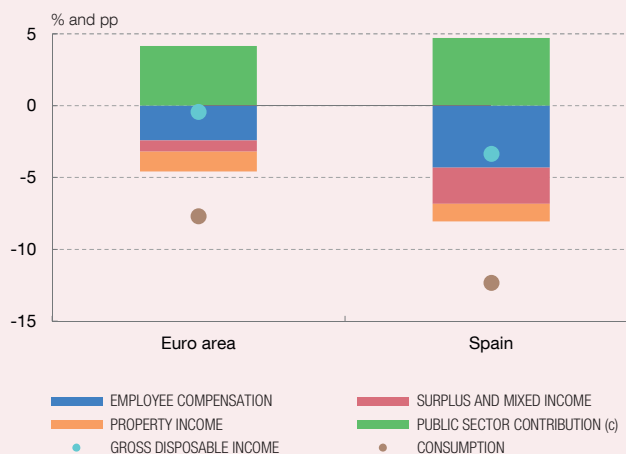


Chart 4  
HOUSEHOLD INCOME AND CONSUMPTION  
In the first three quarters in 2020. Year-on-year increase and contributions. Deflated by the HICP



SOURCES: Eurostat, INE, ECB, Banco de España and own calculations.

- a Four-quarter moving average. GDI is adjusted for the change in pension fund entitlements.
- b The figures for 2021 Q1 refer to January.
- c Includes the contribution of social benefits other than transfers in kind, social contributions and personal taxes.

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precautionary saving, ahead of a very uncertain health and economic situation.<sup>1</sup> Their perception concerning their future financial position and the trend of unemployment has worsened notably (see Chart 5).

The behaviour of private consumption in recent quarters has also been considerably influenced by the restrictions progressively imposed by the authorities on people's mobility and on specific activities in order to contain the pandemic. These restrictions undoubtedly set this crisis apart from any recent, previous recessionary episode. And, largely, they have, along with the fear of contagion, prevented households from attaining their wished-for level of consumption since the onset of the crisis. This has given rise to a sizeable volume of saving that might be classified as forced.<sup>2</sup> In this connection, the consumption models used by the Banco de España suggest that the forced saving reservoir accumulated to 2020 Q3 could be close to 2.5% of both euro area and Spanish GDP (see Chart 6).<sup>3</sup> The fact that the most pronounced decline in consumption has been observed precisely in transport-related spending items and those entailing a greater degree of social interaction – and which, therefore, have been most affected by the restrictions – would also point to the predominantly forced nature of the increase in household saving (see Chart 7).

Foreseeably, in the coming months, progress in the vaccination process will allow a gradual easing of the pandemic containment measures still in force, contributing to a progressive lessening of the uncertainty over the health and economic situation. That, in turn, will provide help for the release of a portion of the private saving reservoir accumulated, potentially lending greater

momentum to the recovery in consumption. In any event, the scale of this effect is subject to high uncertainty, and some arguments suggest that its impact could be relatively limited.

First, a major portion of unsatisfied consumption in recent quarters attributable to the restrictions is spending on services, which generally cannot be deferred. In this respect, once consumption habits are restored, it is not to be expected that habitual spending on specific services, such as restaurants and leisure, will be added to by spending that did not materialise during the health crisis.

Second, the extraordinary saving reservoir built up since the onset of the pandemic is concentrated mainly in higher incomes, whose marginal propensity to consume is lower.<sup>4</sup> Lower-income households do not only have a lower saving capacity; in fact, the increase in saving over recent quarters might have been more limited or even, in some cases, non-existent despite the fact that the public support measures may have contributed to sustaining these households' incomes.<sup>5</sup> Here, it is worth mentioning that, on one hand, low-income workers account for a relatively higher proportion of employment in those sectors most affected by the pandemic (see Chart 8).<sup>6</sup> On the other hand, spending that has not been possible owing to the effect of the containment measures (and which has been saved) – essentially that linked to those items entailing greater mobility and social interaction – has less weight in the spending of low-income households.

Lastly, the economic literature also emphasises the possibility that households may decide to maintain a relatively high level of saving because they foresee future

1 See, for example, Christelis D., D. Georgarakos, T. Jappelli and G. Kenny (2020), *The Covid-19 crisis and consumption: survey evidence from six EU countries*, Working Paper No. 2507, European Central Bank.

2 See the Deutsche Bundesbank survey (2020), "Households' saving behaviour during the pandemic", *Monthly Report*, December, and the analysis for the euro area in *COVID-19 and the increase in household savings: precautionary or forced?*, European Central Bank, *Economic Bulletin* 6/2020.

3 This quantification is obtained from the consumption equation for the euro area set out in A. del Río and J.A. Cuenca (2020) *Euro area household income and saving during the first wave of the pandemic*, *Economic Bulletin* 1/2021, Banco de España; and, for Spain, using the consumption equation included in the Banco de España Quarterly Macroeconometric Model. Forced saving is calculated on the basis of the forecasting error of these equations, taking the data observed to 2020 Q1. Forced saving would rise by 1 pp if the calculation were made taking the latest observed figures as those to 2020 Q4. The European Commission, in its Winter 2021 Economic Forecast, estimates excess saving of the order of 3% of euro area GDP.

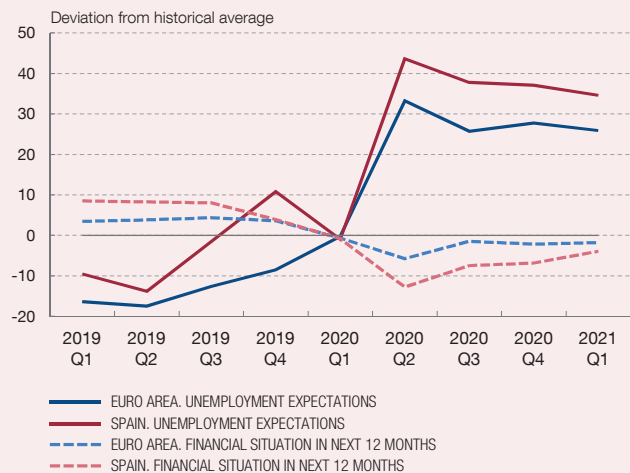
4 See, for example, M. Ampudia, R. Cooper, J. Le Blanc and G. Zhu (2020), *MPC Heterogeneity in Europe: Sources and Policy Implications*, NBER Working Paper Series, No. 25082.

5 See, for the UK, the evidence in Davenport, A., R. Joyce, I. Rasul and T. Waters (2020), *Spending and saving during the COVID-19 crisis: evidence from bank account data*, The Institute for Fiscal Studies.

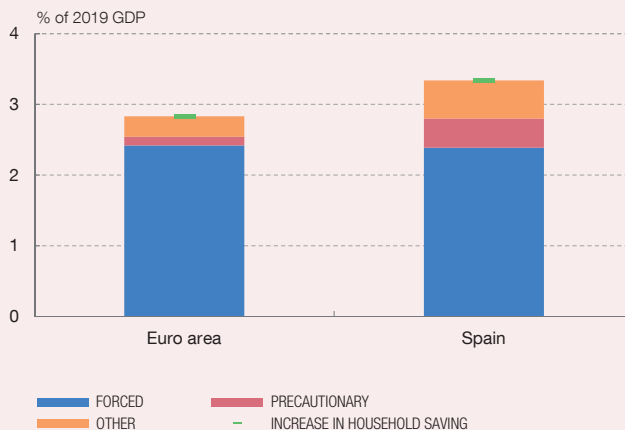
6 For an analysis of the financial position of the workers most affected by the pandemic, see P. Alvargonzález, M. Pidkuyko and E. Villanueva (2020), "The financial position of the workers most affected by the pandemic: an analysis drawing on the Spanish Survey of Household Finances", *Analytical Articles*, *Economic Bulletin* 3/2020, Banco de España.

## HOUSEHOLD SAVING DURING THE PANDEMIC AND ITS POSSIBLE EFFECTS ON THE FUTURE RECOVERY IN CONSUMPTION (cont'd)

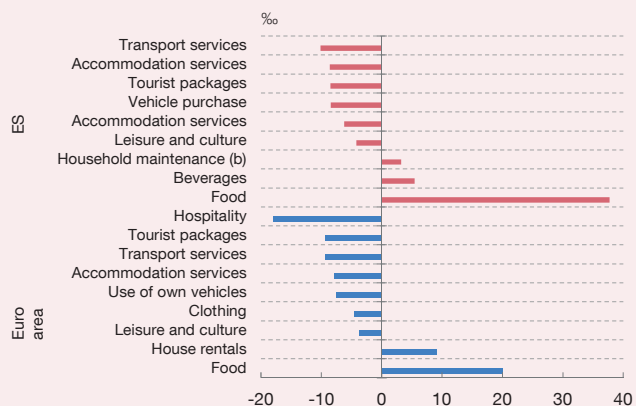
**Chart 5**  
HOUSEHOLD EXPECTATIONS AS TO UNEMPLOYMENT DEVELOPMENTS AND THEIR FINANCIAL POSITION  
European Commission consumer confidence survey. Monthly average



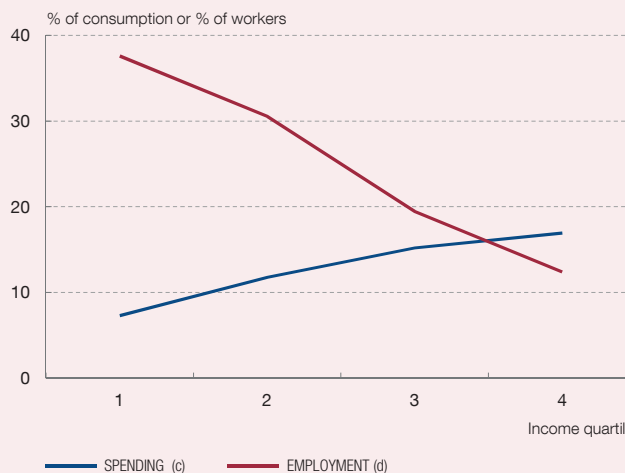
**Chart 6**  
DETERMINANTS OF THE INCREASE IN HOUSEHOLD SAVING  
Cumulative increase between 2020 Q1 and 2020 Q3 compared with the same period in 2019 (a)



**Chart 7**  
SPENDING ITEMS THAT HAVE MOST CHANGED IN THE WEIGHTING OF THE HICP (EURO AREA) AND THE CPI (SPAIN)  
Change in weight between 2020 and 2021



**Chart 8**  
PERCENTAGE OF EMPLOYMENT AND OF SPENDING IN SECTORS OF ACTIVITY AND IN SPENDING ITEMS MOST AFFECTED BY THE PANDEMIC  
Breakdown by income quartile



**SOURCES:** Eurostat, ECB, INE, Banco de España and own calculations.

- a** The breakdown is obtained following the approach set out in del Río and Cuenca (2020), using a consumption equation for the euro area and, for Spain, the equation of the Banco de España Quarterly Macroeconometric Model for this aggregate. Forced saving is calculated on the basis of the forecasting error of these equations, taking the data to 2020 Q1. Forced saving would rise by 1 pp if the calculation were made taking 2020 Q4 as the latest observed figure.
- b** Spending on goods and services intended for household maintenance.
- c** Proportion of spending on transport services, recreational and cultural services, tourist packages, and hotels, cafeterias and restaurants relative to total spending. The proportions have been calculated with the 2019 Household Budget Survey, using total spending as an indicator of the level of household income.
- d** Proportion of workers in the sectors most affected by the pandemic (hospitality, transport, personal services, other services and domestic staff) who reside in a household with income in a specific income quartile relative to the total households in that income quartile. The percentages have been calculated on information from the 2014 Spanish Survey of Household Finances.

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tax rises in response to the notable increase in public debt in this crisis (the Ricardian channel). Further, some papers also identify possible adverse fallout effects of this crisis on future spending. In particular, the extreme circumstances of recent months might structurally alter individuals' behavioural patterns, making them more inclined to save insofar as they assign a greater probability to this type of extreme event.<sup>7</sup>

In short, since the onset of the COVID-19 crisis, the pandemic containment restrictions have prevented some

habitual household spending. This has given rise to a most sizeable reservoir of forced saving, both in Spain and in the euro area. Foreseeably, a portion of these funds, built up essentially in the form of bank deposits, may add greater momentum to the pick-up in consumption once the epidemiological situation allows and uncertainty abates. However, the distribution of saving by income level and certain factors, such as a possible persistent increase in the precautionary and Ricardian components of household saving, suggest that the magnitude of this channel might be partly curtailed.

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7 See, for example, U. Malmendier and L. Sheng Shen (2019), *Scarred Consumption*, International Finance Discussion Papers, No. 1259, Board of Governors of the Federal Reserve System.