Box 3

OUTLOOK FOR HOUSEHOLD SAVING IN THE EURO AREA AND IN THE UNITED STATES

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One particular feature of the health crisis prompted by COVID-19 has been the unprecedented increase in the household saving rate globally. In the euro area and the United States, saving climbed from 13% and 7.5% of household gross disposable income at end-2019, respectively, to 20% and 16% at end-2020 (see Chart 1). This increase cannot be explained solely by developments in the usual determinants of consumption, which include income, wealth, interest rates and the level of uncertainty. On this occasion, a significant share of the increase in saving appears to have been "forced", i.e. driven by households being unable to materialise a portion of their usual spending on certain goods and services owing to the pandemic lockdown measures.

Indeed, according to an econometric model proxying household consumption,[1] forced saving in the euro area in 2020 amounted to an estimated 4.4 percentage points (pp) of GDP (accounting for virtually all of the increase in saving that year), while in the United States forced saving was 3.3 pp of GDP (around 50% of the rise in saving during 2020 in the country; see Chart 2). The fact that this saving component is larger in the euro area is consistent with the more stringent restrictions on mobility in the region compared with the United States.[2]

This analysis also highlights the notable contribution to household saving growth in the United States by the increase in households' disposable income, up 7% in 2020, supported by the significant direct transfers to them.[3] By contrast, in the euro area, household income held roughly stable over the year as a whole despite being buoyed by the public support measures. Lastly, there has also been an increase in precautionary saving in both areas owing to uncertainty over the course of the health and economic situation. This uncertainty was more evident in the United States, perhaps in part due to the lower social protection afforded to US citizens. In particular, according to the model, this saving component would account for 1.1 pp of GDP of the increase in US saving, compared with 0.2 pp of GDP in the euro area.

Looking ahead, progress in the vaccination campaign and the gradual remission of the pandemic will likely give rise to the progressive lifting of restrictions on movement, leading to the normalisation of household consumption and saving patterns to levels more in keeping with those observed pre-crisis. The containment observed during the crisis in the consumption of services entailing greater social interaction could lead to a significant upturn in demand during this new phase, particularly in relation to travel, hospitality and other leisure activities. Meanwhile, insofar as the normalisation of activity and the economic recovery help dissipate agents' uncertainty, there should also be a gradual release of precautionary saving. The demand for consumer durables, which usually contracts when uncertainty increases, might also be expected to rebound in the short term as uncertainty abates. Indeed, as Chart 3 shows, the demand for such goods has picked up in the United States in recent months while in the euro area it is below pre-pandemic levels, which is consistent with an earlier and sharper recovery of the US economy.

Against this background, surveys on household expenditure intentions point to a favourable performance of consumption in the coming quarters in both areas (see Charts 4 and 5). Thus, in the United States, household expenditure intentions for the next 12 months have been quickening since mid-April 2020, for all income levels, and stand, on average, 1 pp above the pre-pandemic level. In the euro area, meantime, large-value purchase plans are also trending positively, although they are only above pre-crisis levels in the case of high-income households.

In any event, the intensity of the release of built-up saving that might occur in the short term is subject to high uncertainty and will be conditional upon several factors. First, the households that have saved most during this crisis have been those with higher income levels, which

1 Error correction model for household consumption, based on 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. The explanatory variables in the long-term equation are income, wealth and interest rates. Uncertainty is a short-term contemporaneous factor, which is proxied in the euro area by consumer confidence and in the United States by changes in the unemployment rate. See also J. A. Cuenca, C. Martínez Carrascal and A. del Río (2021). "Household saving during the pandemic and its possible effects on the future recovery in consumption", Box 4 of the "Quarterly report on the Spanish economy", *Economic Bulletin,* 1/2021, Banco de España.

2 See M. Diakonova and A. del Río (2021). "Some determinants of the growth differential between the euro area and the United States since the onset of the pandemic", Box 2 of the "Quarterly report on the Spanish economy", *Economic Bulletin,* 2/2021, Banco de España.

3 See L. Cuadro Sáez, F. López Vicente, S. Párraga Rodríguez and F. Viani (2020). *Fiscal policy measures in response to the health crisis in the main euro area economies, the United States and the United Kingdom,* Occasional Paper No 2019, Banco de España.

OUTLOOK FOR HOUSEHOLD SAVING IN THE EURO AREA AND IN THE UNITED STATES (cont'd)

Chart 1
HOUSEHOLD SAVING RATE IN THE EURO AREA AND IN THE UNITED STATES

Chart 2
BREAKDOWN OF THE INCREASE IN HOUSEHOLD SAVING IN 2020

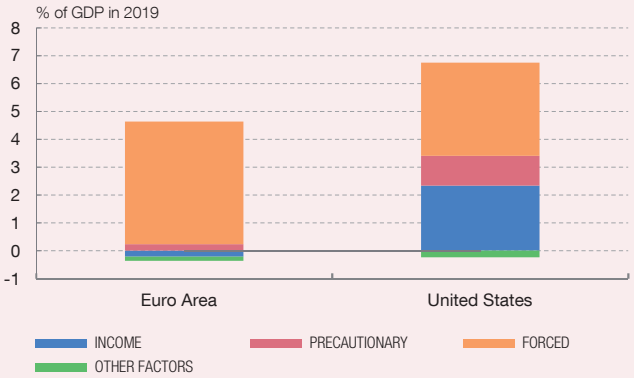


Chart 3
HOUSEHOLD CONSUMPTION

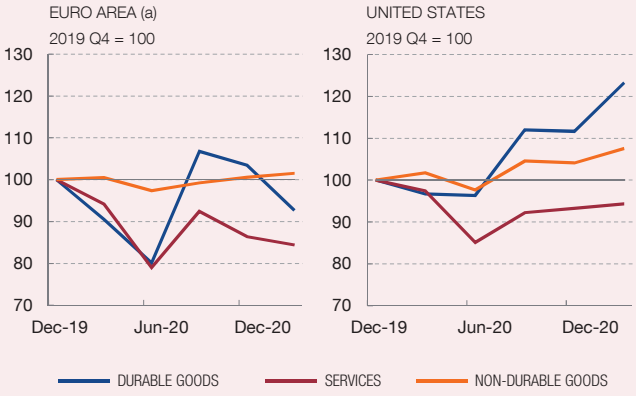


Chart 4
SPENDING PLANS IN THE NEXT TWELVE MONTHS IN THE EURO AREA: EUROPEAN COMMISSION CONSUMER SURVEY

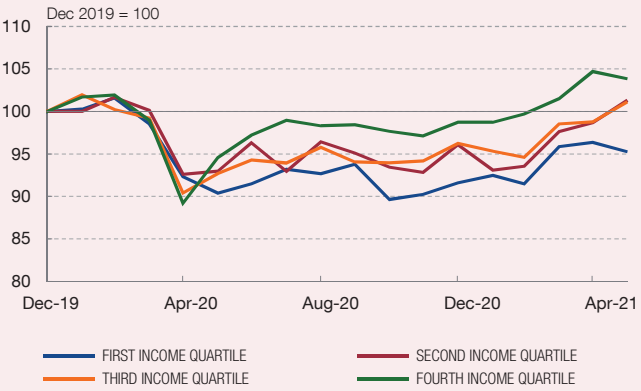


Chart 5
SPENDING PLANS IN THE NEXT TWELVE MONTHS IN THE UNITED STATES: NEW YORK FED SURVEY OF CONSUMER EXPECTATIONS

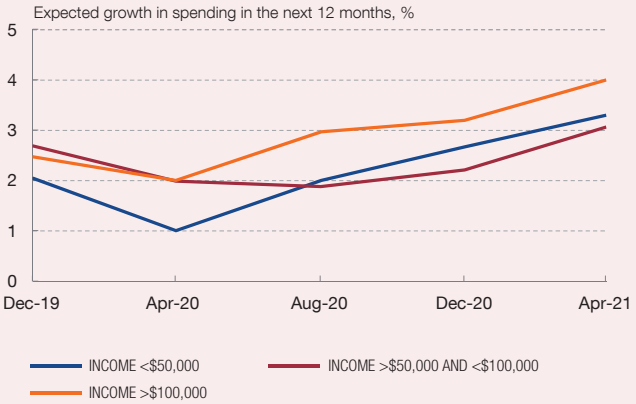
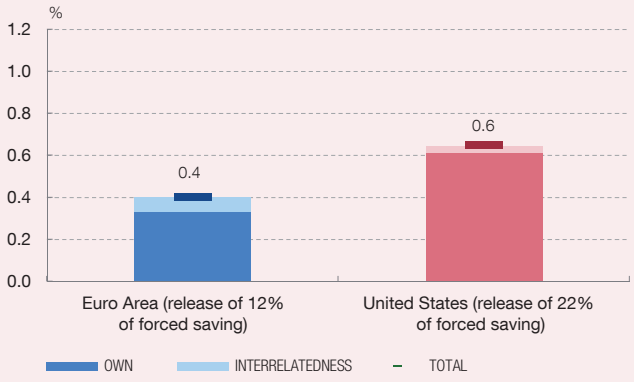


Chart 6
SIMULATED IMPACT ON GDP OF A 1% INCREASE IN PRIVATE CONSUMPTION (b)



SOURCES: Bureau of Economic Analysis, European Commission, Eurostat, OECD, New York Fed and own data.

a Data for Germany, France, Italy and the Netherlands.
b Simulations using the NiGEM model. The shock to consumption lasts for a year and the results correspond to the contemporaneous effects on GDP. As regards the technical assumptions, monetary policy is assumed to be exogenous, nominal exchange rates hold constant and agents' expectations are considered to be adaptive. The euro area aggregate comprises France, Germany, Italy and Spain.

have a lower propensity to consume.[4] Second, a sizeable portion of the saving built up since the outbreak of the pandemic has stemmed from not consuming specific services of a non-deferrable nature (such as those related, for instance, to restaurants). That poses doubts over the scale of any future rebound in the consumption of these types of services. Finally, households might decide to maintain a high level of saving over a longer period, e.g. if they perceive a worsening income outlook owing to the relatively persistent scarring that the current crisis might cause to economic activity, or if they expect future tax rises owing to the current high public debt.

For an idea of the potential impact on economic activity of the future saving rate normalisation, we set out below different hypothetical scenarios simulated using a macroeconometric model.[5] Specifically, the model simulates the impact of a reduction in the reservoir of forced saving built up in 2020 in the United States and the euro area, calibrated such that this entails, in one year, a 1% increase in private consumption in each of these economies.[6] The results of the models suggest that this release of saving would, that same year, raise GDP in the euro area and in the United States by 0.4% and 0.6%, respectively (see Chart 6). The effect is more marked in the United States since, in this economy, consumption has a greater share in GDP, agents show a greater propensity to consume and the household consumption basket has a smaller imported content. One should highlight that a portion of these estimated impacts on activity arises from the interrelatedness of both regions. Specifically, one-sixth of the estimated impulse to activity for the euro area – accounting for 0.07% of GDP – is due to the demand for European products generated by the increase in US consumption.

By way of further illustration, it is estimated that, if all of the accumulated saving identified as "forced" were to translate into consumption over the course of one year, both in the euro area and in the United States, their GDP would increase by 2.9% and 3.1%, respectively, in that period compared with an alternative scenario under which none of this saving were released. The impact would be similar in both cases, given that the higher US consumption multiplier – linked to the above-mentioned structural factors – would be offset by the higher estimated forced saving for the euro area. However, in the US case it should be considered that any future reduction in the bigger reservoir of precautionary saving built up might add an extra differential impulse to the increase in output.

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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 Specifically, the NiGEM model of the National Institute of Economic and Social Research. The documentation for the model can be found at https://nimodel.niesr.ac.uk/. In the simulations presented in this box, monetary policy is assumed to be exogenous, nominal exchange rates hold constant and agents show adaptive expectations.

6 This reduction in the saving accumulated would involve drawing down, in one year, approximately 12% and 22% of the forced saving reservoir estimated in 2020 for the euro area and the United States, respectively.