

Savings in the major Western economies in 2020: from evidence of the crisis to hopes of recovery

In Europe and the United States, the health crisis has had a profound effect on household consumption, while household incomes have generally been better protected. As a result, savings rates have reached unprecedented levels. Most of this trend has been towards financial savings, while household investment has declined or remained almost stable, depending on the country. This massive savings surplus is mainly the result of health-crisis-containment measures that have curbed consumption, but also stems from fears and uncertainties about future prospects during the pandemic, as measured by consumer confidence surveys. In the Eurozone, these surveys reflect an improvement in households' opinion of their ability to make major purchases in the spring of 2021. By income bracket, the situation is more contrasting: in Italy, unlike in France, the increase in the balance has been particularly strong among the poorest households. Although the lifting of restrictive measures should cause the savings rate to return to its pre-crisis level, European households are likely to remain cautious: their opinion of the opportunity to save continued to rise at the start of 2021 in France and Italy, for example.

In 2020, the savings rate set a new record in Western economies

In Western economies, the health crisis triggered a sharp rise in the savings rate in 2020 (► **figure 1**), corresponding to the unconsumed share of gross disposable income of households and NPISHs¹. The savings rate rose particularly sharply in H1 2020 (from 14.7% in Q4 2019 to 27.3% in Q2 2020 in France, from 6.2% to 25.6% in Spain, and from 7.3% to 26.0% in the US). In Q3, the savings rate then declined, although it remained higher than the pre-crisis levels (23.1% in Germany, for example, compared to 19.2% in Q4 2019). In Q4 2020, it rose again in the countries most severely affected by the tightening of health restrictions (France, Germany, United Kingdom), while it continued to decline in Spain and the United States.

From a historical perspective, this is an unprecedented increase in the savings rate, which had changed relatively

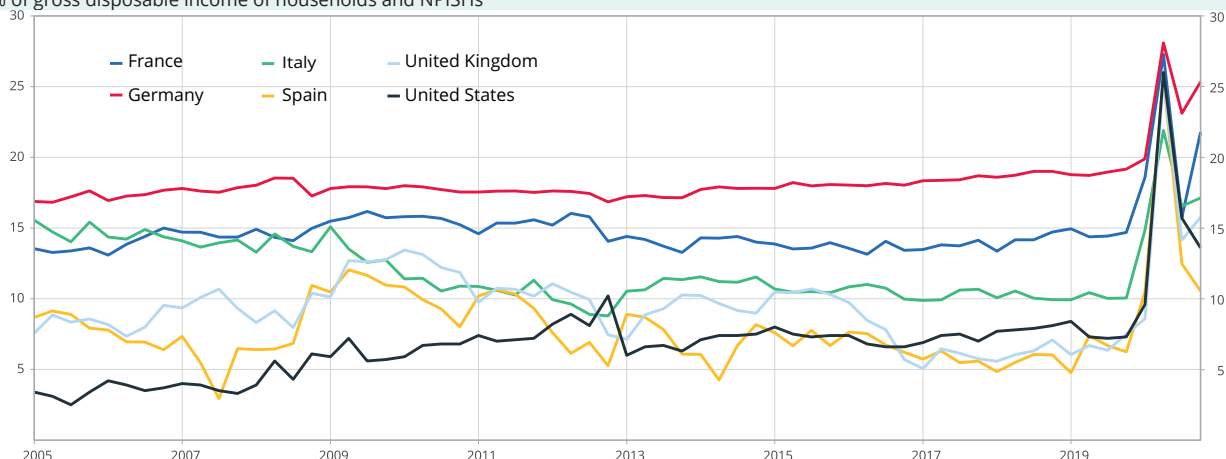
little since 2005, hovering around a globally stable level that varies from country to country (between 13% and 16% in France, for example). No increase of this magnitude had previously been observed, even after the 2008 economic crisis, when the French savings rate had risen by only +2.1 percentage points year on year in Q3 2009. In Spain, it had certainly increased more significantly (+9.1 points between Q3 2007 and Q2 2009), but this rise was less sharp and sudden than in 2020. Another notable fact is that the level reached by the savings rate in Q2 2020 was broadly similar in the countries in question (between 22% and 28%), whereas their pre-crisis levels were very different: since the mid-2010s, the savings rates in Spain, the United Kingdom and the United States were between 5% and 8% of households' gross disposable income, while the Italian rate stood at around 10%, the French rate at slightly below 15%, and the German rate at almost 20%².

¹ In this study, non-profit institutions serving households (NPISHs) are associated with households. The study thus concerns the institutional sectors S14 and S15 in the national accounts of the countries in question. Moreover, the weighting of NPISHs represents a very small share of «household» savings: less than 1% in France in 2019.

² This ranking of savings rates would be unchanged if they were adjusted for institutional differences across countries (see the article in «L'Économie Française» (2017) and the OECD Statistic Brief (2004) in the bibliography).

► 1. In all Western economies, the savings rate surged in 2020

as a % of gross disposable income of households and NPISHs



Source: Eurostat, ONS, BEA

International economic outlook

The sharp decline in household consumption was the main reason for the rise in the savings rate in 2020

In accounting terms, the savings rate corresponds to the share of gross disposable income that is not used by households for final monetary consumption expenditure; it therefore depends on both consumption and household income³.

In 2020, private consumption varied greatly in line with the tightening and easing of health restrictions, while household income was broadly maintained by the support measures put in place in the various countries (► **box**).

In Europe, the increase in the savings rate in 2020 was mainly due to the decline in household consumption (► **figure 2**): on average over 2020, its contribution to the rise in the savings rate ranged from +4.5 points in Germany to +11.6 points in Spain. In the United States, on the other hand, the significant increase in gross disposable income in 2020 (+6.2%) made the greatest contribution to the rise in the savings rate (+8.9 points).

In comparison, after the 2008 crisis, changes in the savings rate in different countries were more

contrasting, with the savings rate increasing in France, Spain, the USA and the UK, but stagnating in Germany, and even declining in Italy. Moreover, the predominance of consumption as an explanatory factor for the variation in the savings rate appears to be a specificity of the 2020 crisis: with the exception of Germany and Spain, gross disposable income had made a greater contribution to the variation in the savings rate between 2008 and 2010 than household consumption.

Additional household savings are not a form of investment

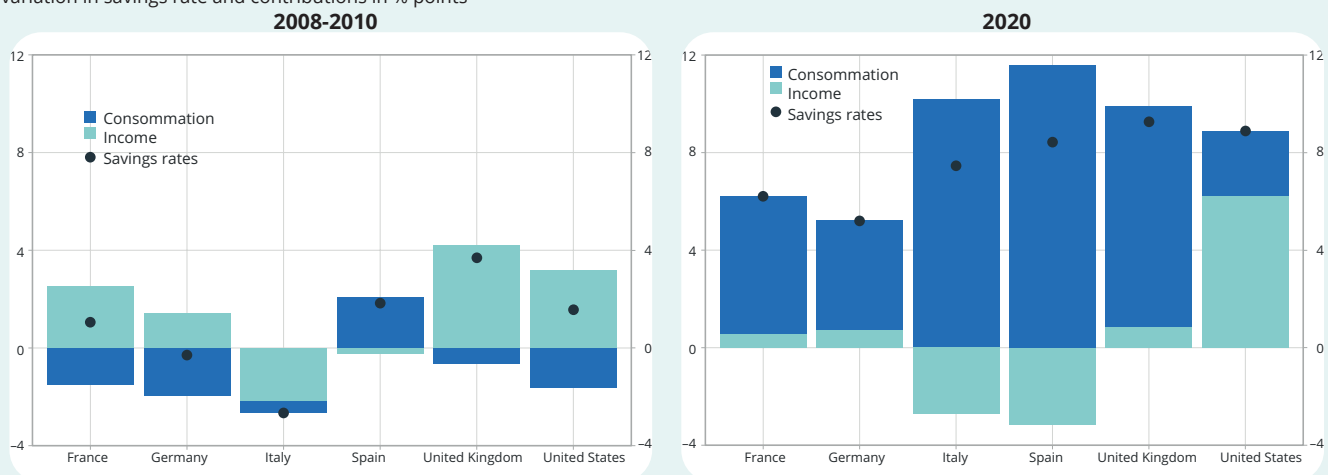
Savings flows can be invested by households, through the purchase of a home or the performance of major maintenance work, or they can be added to households' financial assets (financial savings⁴). In 2019, for example, a significant proportion of savings flows were channelled into housing investment (between 55% and 90% in the Eurozone countries in question, and 70% in the US). In 2020, however, household housing investment fell, especially in Italy, France and the United Kingdom, or remained stable in the other major European countries, in a general context of uncertainty related to the pandemic. At the macroeconomic level, the extra savings

³ For accounting purposes, the change in the savings rate in each quarter will be calculated in the following manner: $e(t) = [R(t) - C(t)] / R(t)$, the savings rate in quarter t, where C(t) is private consumption and R(t) is gross disposable income. The change in the savings rate in quarter t is expressed as: $e(t) - e(t-1) = - [1/R(t)] * [C(t) - C(t-1)] + [C(t-1)/R(t-1)] * [R(t) - R(t-1)] / R(t)$, where the first term of the sum is the contribution of the change in private consumption, and the second term is the contribution of the change in income.

⁴ «Financial savings» refers to gross savings (excluding capital transfers) that are not allocated to gross fixed capital formation.

► 2. In 2020, the decline in private consumption contributed particularly strongly to the rise in the savings rates of the major Western economies, in contrast to the 2008 crisis

variation in savings rate and contributions in % points



Note: in left-hand graph, the variation in the savings rate and contributions are calculated for the 2008 - 2010 period. In the right-hand graph, the variation in the savings rate and the contributions are calculated for the 2019 - 2020 period.

How to read it: in France, gross disposable income contributed +2.3 points to the increase in the savings rate between 2008 and 2010. In contrast, in 2020, French household consumption contributed mainly to the increase in the savings rate (+5.6 points).

Source: Eurostat, ONS, Federal Reserve Board

In Europe, household incomes were broadly maintained with support from general government

In 2020, the overall revenue¹ of the major European economies dropped sharply as a result of the pandemic. On average over the year, it fell by 4.7% in Germany, more sharply in France and the United Kingdom (-6.4% and -6.9% respectively) and even more dramatically in Italy and Spain (-7.8% and -9.8% respectively), ► **figure 3**.

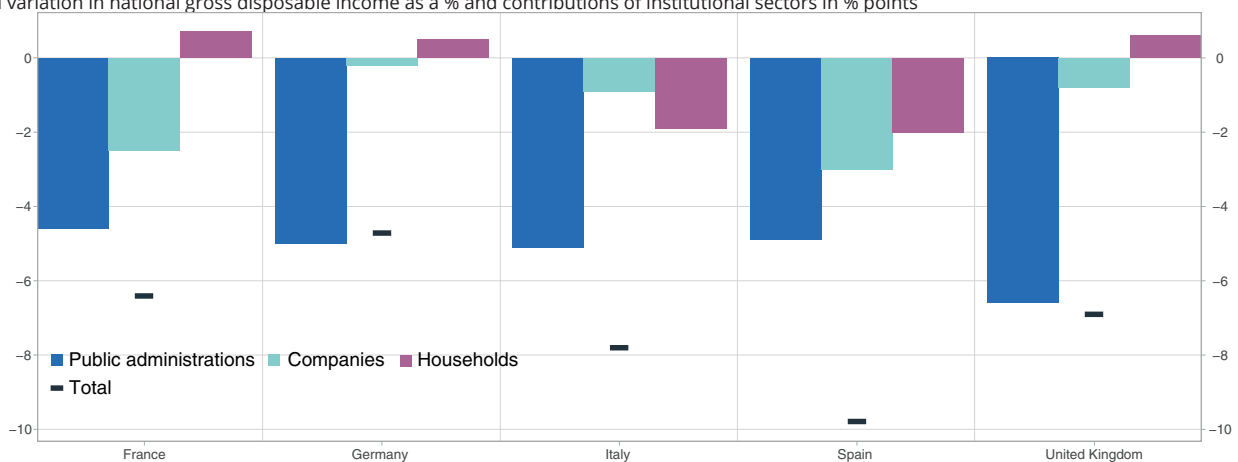
European governments bore the brunt of this decline in incomes in 2020. The deterioration in their revenue stemmed in particular from the increase in social benefits paid to households (in the context of short-time working and specific aid schemes), but also to the subsidies paid to enterprises and the reduction in taxes levied. In the United Kingdom, the contribution of general government to the decline in overall revenue was particularly strong (-6.6 percentage points), while in the Eurozone, it stood at around 5 percentage points in the main countries studied.

On the other hand, European household incomes have been much less severely affected overall. The numerous support measures and aid schemes put in place have limited the decline (annual variation of -2.8% in Italy and -3.3% in Spain), and even ensured a positive variation in gross disposable income in France (+1.0%), Germany (+0.7%) and the United Kingdom (+0.9%).

The changes in corporate income are more contrasting from one country to another: supported by general government, enterprises have nonetheless recorded a sharper decline in income than households. The largest drops in corporate income were recorded in France and Spain (annual variations of -19.0%, -14.9% and -12.9% respectively), and smaller declines were recorded in Germany (-5.6%), Italy (-6.7%) and the UK (-7.6%). ●

► 3. In 2020, the decline in incomes was borne mainly by general government

annual variation in national gross disposable income as a % and contributions of institutional sectors in % points



Note: households include NPISHs.

How to read it: on average over 2020, the overall income of French economic agents (households, enterprises and general government) fell by 6.4%. General government and enterprises contributed to the decline in overall income (-4.6 and -2.5 percentage points, respectively), while households contributed +0.7 percentage points to the rise in overall income.

Source: INSEE, Destatis, Istat, INE, ONS

International economic outlook

accumulated in 2020 were therefore mainly financial savings (► **figure 4**). With the exception of Germany and the United States, financial savings grew more strongly than total household savings, with the increase being offset by a negative contribution by investment (between -0.6 points for Italy and -1.1 points for France).

Consumer confidence surveys reflect changes in health restrictions

In most European countries, the household business surveys coordinated by the European Commission provide qualitative information about changes in consumption and savings behaviour. Available on a monthly basis, they provide relatively advanced information about current and future developments. From the questions asked in the surveys, balances of opinion are produced, including the opportunity to make major purchases and the opportunity to save⁵.

In 2020, the balance of opinion on the opportunity to make major purchases reflected the severity of the restrictions on consumption (► **figure 5**): it fell sharply in all countries in April: by 22 points in Spain, 25 points in Germany, 38 points in France and 38 points in the United Kingdom (in Italy, the surveys were not conducted

in April 2020). Households' opinions on major purchases deteriorated again in Germany at the time of the lockdown in late 2020-early 2021, but had nevertheless been on an upward trend since January, as in France, Spain and to a lesser extent Italy.

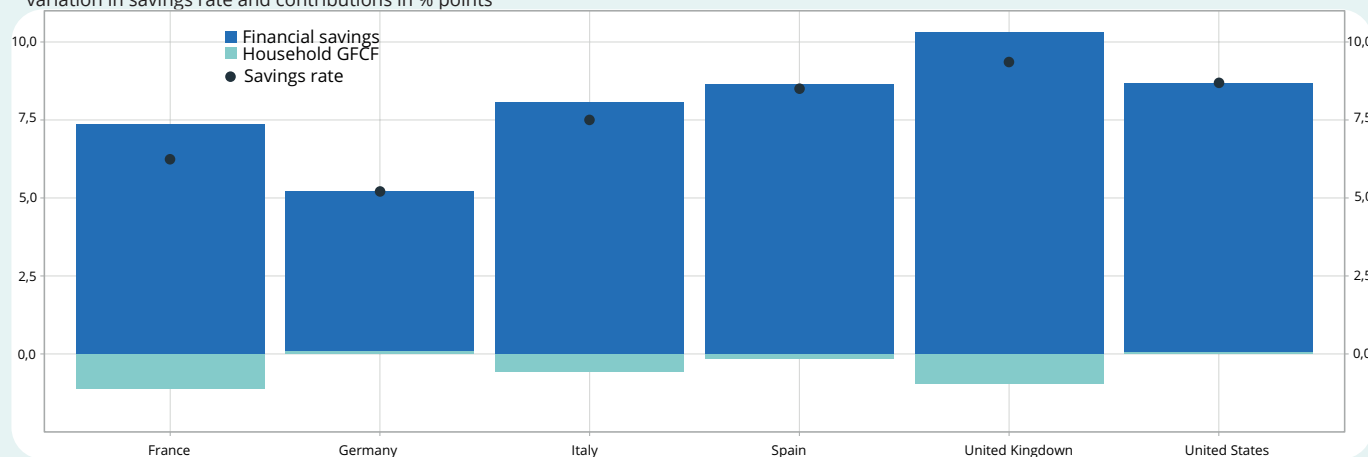
For its part, the trend concerning changes in the balance relating to the opportunity to save point towards a certain heterogeneity of opinions within European countries since the beginning of the health crisis. Germany is the only country to show a sudden improvement in household opinions, with a rise of 19 points in April 2020. In France, the increase in this balance was more gradual (+20 points over 2020 as a whole). In Spain, Italy and the UK, it remained stable in 2020. These figures should be analysed with caution, as balances of opinion from surveys are qualitative in nature. They may convey contradictory messages and are not necessarily confirmed by other consolidated indicators.

The trend concerning these balances of opinion in 2021 seems to suggest an upturn in consumption. Between January and May, the balances of opinion on major purchases improved in the Eurozone (gaining between 10 points in Germany and 15 points in Italy), but remained

⁵ The following questions relating to these balances of opinion are posed: «Is the economic outlook conducive to making major purchases?», «Is the economic climate conducive to saving?».

► 4. The extra savings accumulated in 2020 were added to household financial savings

variation in savings rate and contributions in % points



How to read it: in France, financial savings contributed +7.3 points to the increase in the savings rate. On the other hand, GFCF adversely affected the savings rate (-1.1 points).

Source: Eurostat, ONS, Federal Reserve Board

below their pre-crisis levels in most countries, and even deteriorated slightly in France and Germany in May. The details of these surveys allow us to observe these changes in opinion between households in the same country per income bracket. In France, the increase in the balance of opinion concerning major purchases was

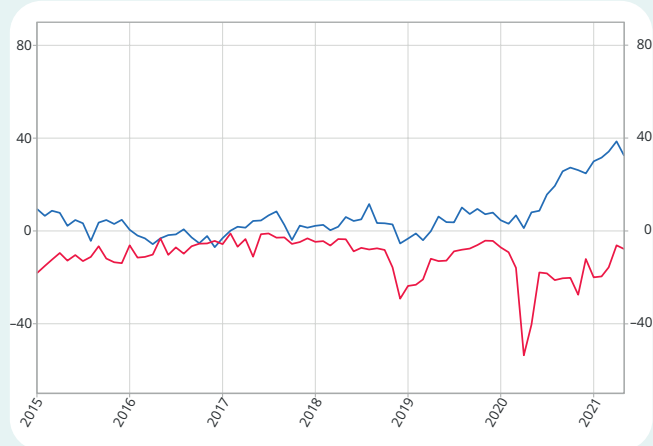
smaller for the lowest-income households (► [figure 6](#)), while in Italy, the increase in the balance of opinion was greatest for households in the top quartile. In Germany and Spain, the increase was relatively even across income brackets.

► **5. After plummeting in 2020, the balances of opinion on the opportunity to make major purchases in Europe rose in the spring of 2021**
balance in % points

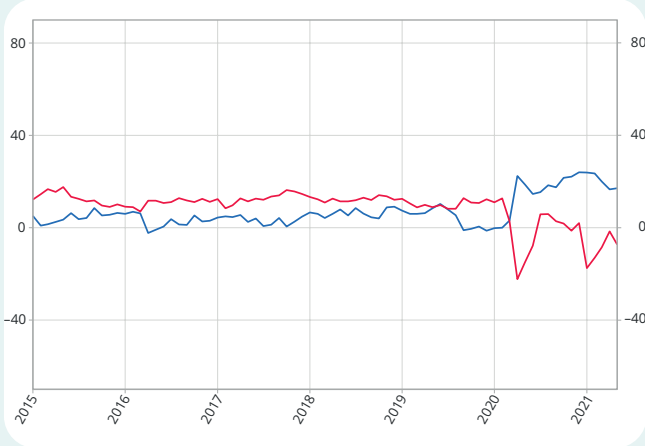
Common legend:

- The economic outlook is right for savings
- The economic outlook is right for major purchases

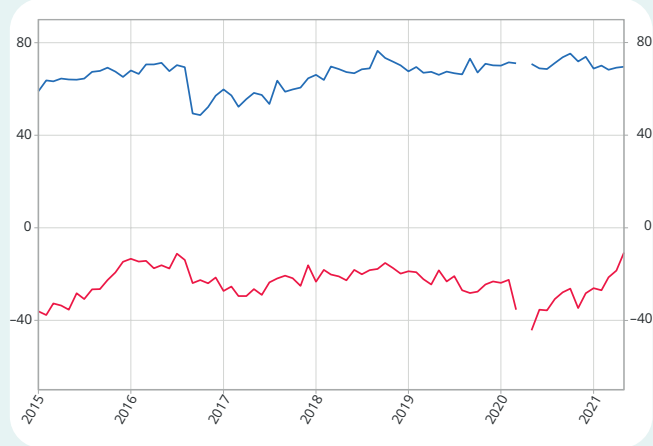
France



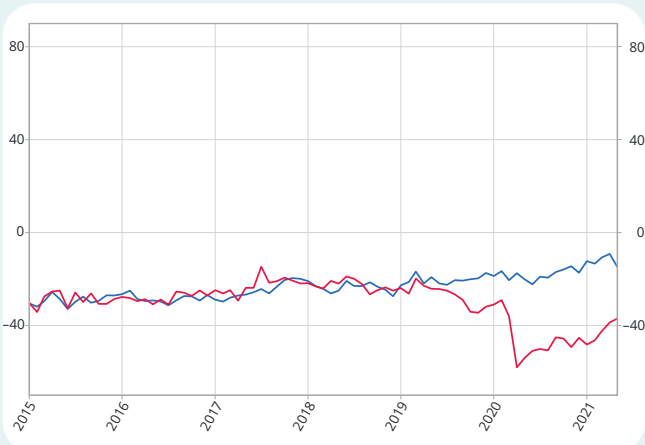
Germany



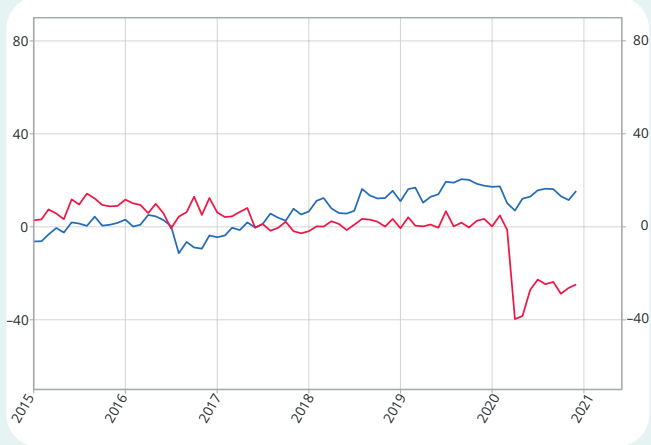
Italy



Spain



United Kingdom



Note: surveys were not conducted in Italy in April 2020. In addition, they have not been conducted in the United Kingdom since January 2021. For the Eurozone countries, the last update was in May 2021.

Source: DGE/CFIN

International economic outlook

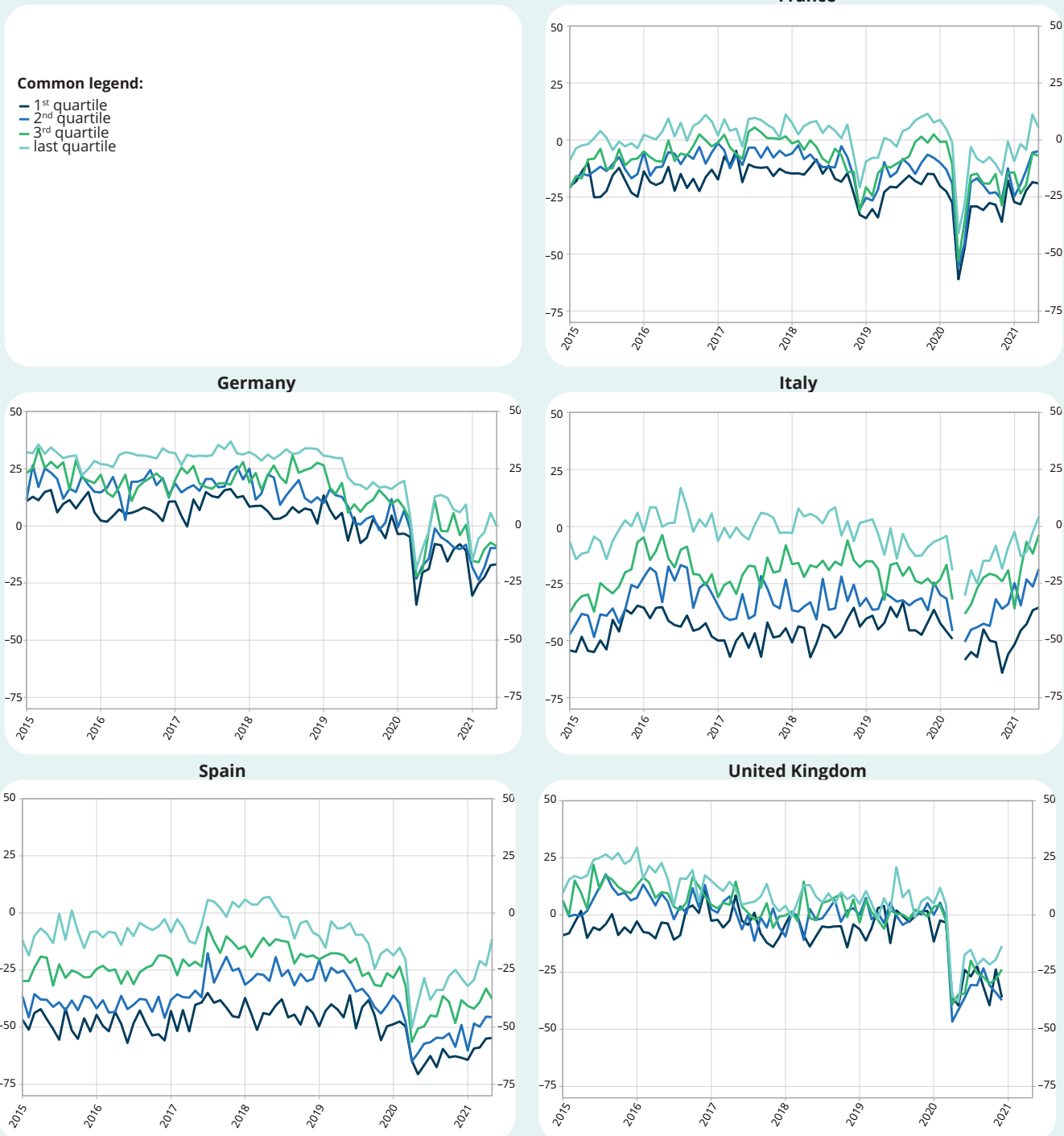
Regarding households' opinion of their opportunity to save in 2021, the balance of opinion declined in Germany and Spain (-7 points and -2 points respectively between January and May 2021), while continuing to increase in France and rise more slowly in Italy. In

greater detail, the decline in the opportunity to save in Germany and Spain was mainly driven by households in the top two income quartiles (► figure 7). Finally, in France, all households, regardless of their income bracket, reported greater opportunities to save. ●

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► 6. In Italy, contrary to other European countries, the opinion of the poorest households concerning major purchases has picked up particularly strongly

balance in % points



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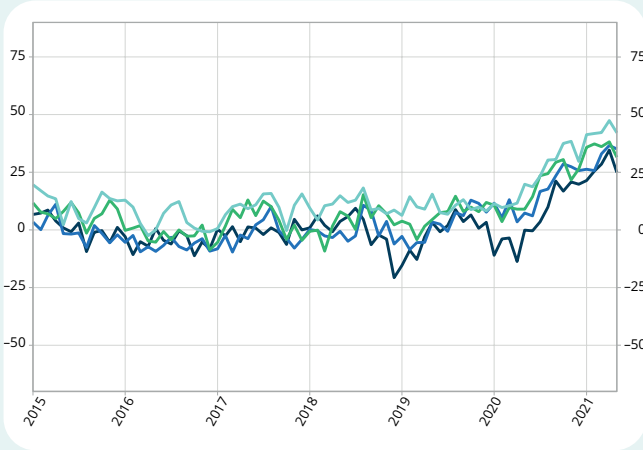
Source: DGE/CFIN

► **7. In France, the opinion of the poorest households on the opportunity to save rose more sharply than in other countries**
balance in % points

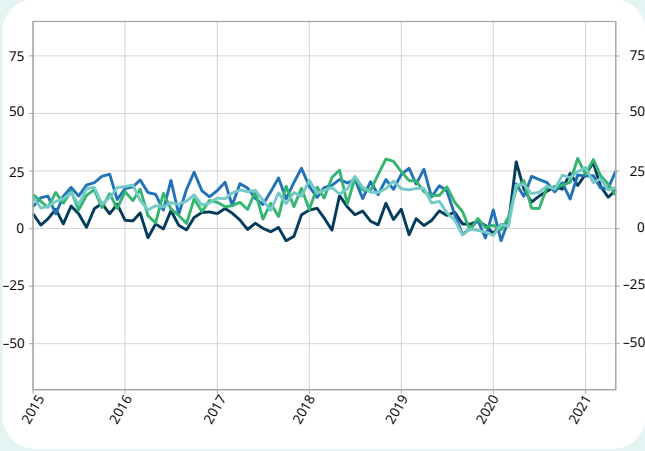
Common legend:

- 1st quartile
- 2nd quartile
- 3rd quartile
- last quartile

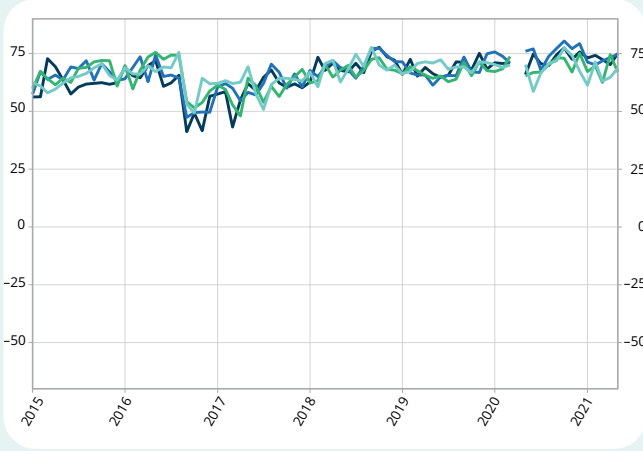
France



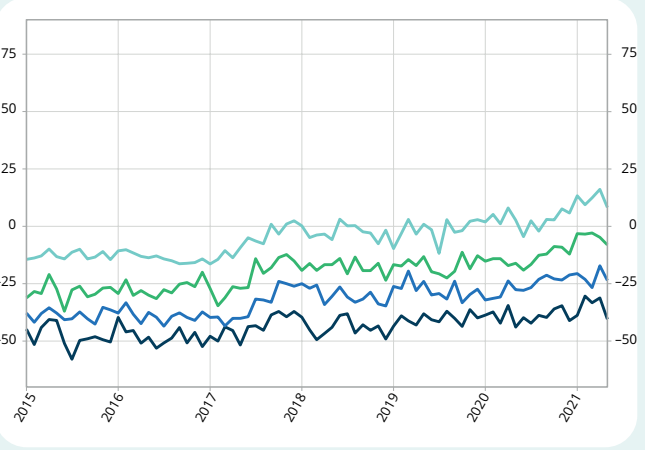
Germany



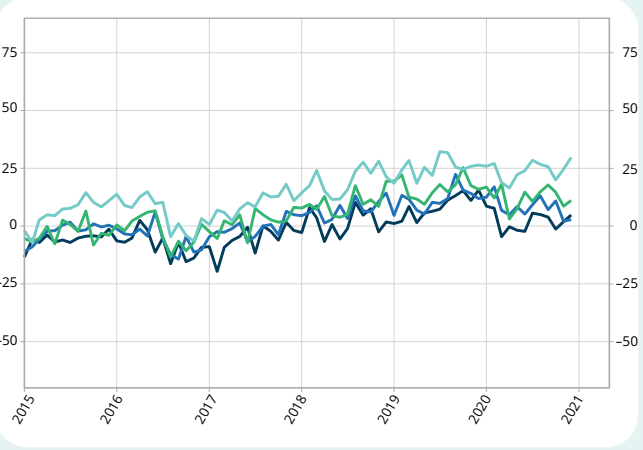
Italy



Spain



United Kingdom



Note: surveys were not conducted in Italy in April 2020. In addition, they have not been conducted in the United Kingdom since January 2021. For the Eurozone countries, the last update was in May 2021.
Source: DGE/CFIN

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