

Whither excess household savings? A key known unknown

Category: Uncategorized

written by oecdecoscope | February 29, 2024



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In most advanced economies, the estimated level of excess household savings accumulated during the pandemic and as yet unspent is high (Figure 1, Panel A). The unusual circumstances in which they were accumulated, with temporarily constrained spending opportunities combined, in some countries, with large-scale government income support, means that past experience offers limited guidance on whether and when these additional savings will be run down. This remains a key source of uncertainty in economic projections. An analysis of the composition and distribution of the estimated excess savings across a range of OECD economies suggests that the likelihood that they will be drawn down soon is limited given the large share held by high-income households and the small proportion held in liquid assets. However, the margins of uncertainty around projections of spending from accumulated savings are wide.

The excess savings estimates are based on the difference between the household saving rate in each quarter since the first quarter of 2020 and its average pre-pandemic level (2015-19). A positive value is considered to be “excess” saving in that quarter, and the sum of the quarterly values

from the first quarter of 2020 onward corresponds to the cumulative stock of excess savings.¹ There are large cross-country differences in excess savings levels, with these estimated to amount to more than 20% of disposable income in Canada in the third quarter of 2023 but less than 10% in Italy and the United States.

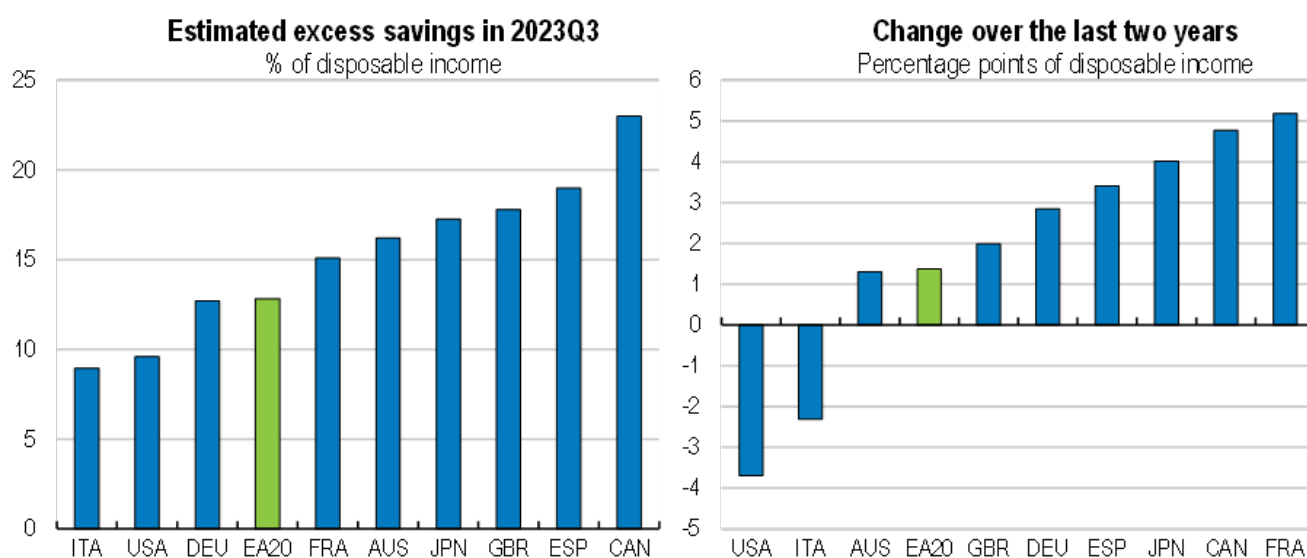
While excess savings were built up in all the large advanced economies in the first year of the pandemic, the experience since then has varied widely. In particular, as shown in the latest OECD Interim Economic Outlook, households have run down excess savings to a greater extent in the United States than in other advanced economies (Figure 1, Panel B). This has helped private consumption to grow much more strongly in the United States than in these other economies, supporting faster GDP growth. Over the two years to 2023Q3, private consumption has grown by more than 4% in the United States, compared to just 1% in Japan and less than 2% in the euro area and the United Kingdom.

There are several factors that help to account for these differences. The build-up of excess savings in the United States was largely driven by a succession of fiscal packages that included stimulus cheques, expanded unemployment insurance benefits and coverage and child tax credits (Abdulrahman and Oliveira, 2023). These boosted average household incomes substantially relative to their pre-pandemic levels. By contrast, in the euro area government assistance was mostly provided by job retention measures, maintaining workers' pre-pandemic earnings. Excess savings were largely accumulated as a result of the reduction in spending opportunities, especially for in-person services (Battistini and Gareis, 2023). Thus, excess savings were to a greater extent initially accumulated by lower-income households in the United States than in Europe, with such households having a higher marginal propensity to consume than higher-income ones. In addition, the form and scale of the fiscal support in the

United States may have meant that it was more likely to have perceived as a windfall gain. There is evidence that windfall gains are more likely to be spent than other savings (Arkes et al. 1994).

Looking ahead, the saving rates in 2024-25 projected in the November 2023 OECD Economic Outlook (OECD, 2023) pointed to three main groups of economies: those in which households are projected to continue to run down excess savings (e.g. the United States); those where excess savings have yet to decline but are projected to do so (e.g. Australia); and those where excess savings are projected to continue to rise (e.g. Japan, the United Kingdom and much of the euro area).

Figure 1. Estimated current stocks of household excess savings and projected changes in stocks



Note: Based on gross household savings. Excess savings are the cumulated sum of quarterly saving flows since 2020Q1 relative to the levels that would have occurred if the saving rate had been equal to the average 2015-19 saving rate. Saving rates for Japan are estimated from 2021Q1 onwards.

Source: OECD, Quarterly National Accounts database; and OECD calculations.

One factor affecting the extent to which excess savings are spent is their distribution across the population. The

estimated share of excess savings held by the top 10% of the income distribution rose from under 50% at the end of the first quarter of 2020 in the United States and the euro area to more than 75% and 67% respectively by the end of 2022 (Battistini et al., 2023). The propensity to spend out of wealth is generally higher at the bottom of the income distribution (Arrondel et al., 2015), so the shift in the distribution of excess savings towards better-off households implies that the economy-wide propensity to spend excess household savings will have declined over time. This makes a rapid rundown of excess savings less likely than otherwise.

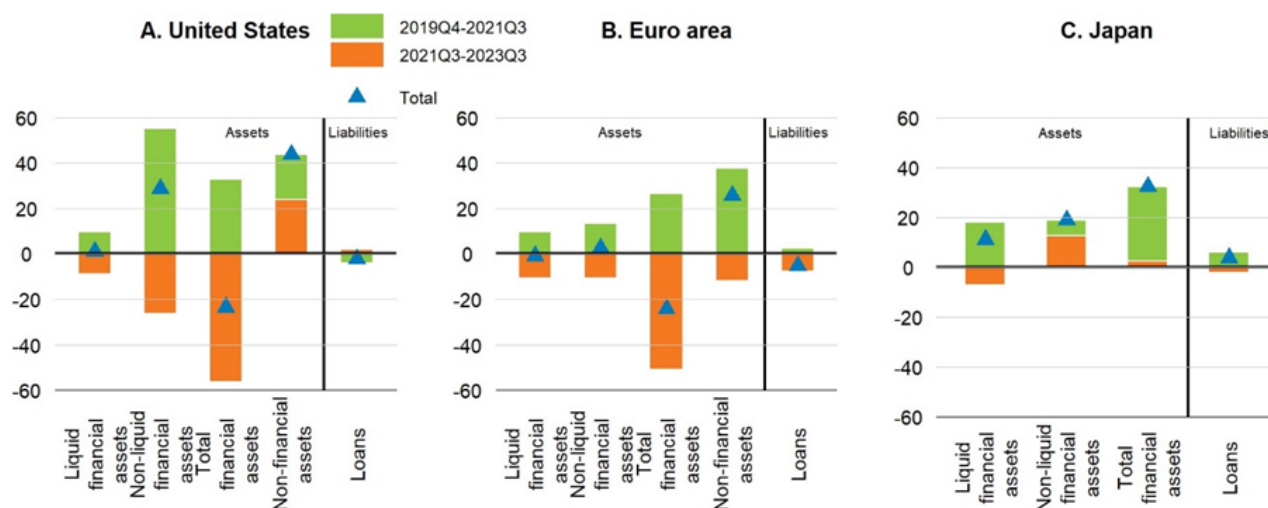
The proportion of savings held in liquid assets (currency and deposits) also tends to be higher for lower-income households (Bobasu et al., 2023). Thus, a shift in the distribution of excess savings towards higher-income households tends, other things equal, to lower the aggregate share of excess savings held in liquid form. Higher interest rates since early 2022, raising the opportunity cost of holding savings in deposits or cash, and the increase in the share of excess savings held by higher-income households help to explain the growing tendency for financial assets to be held in less liquid forms (Figure 2). This again reduces the likelihood that such savings will be spent.

The simple estimation of excess savings using cumulative saving flows omits an additional factor that could affect spending behaviour: valuation changes on the financial and non-financial assets acquired by households via saving. Asset prices have experienced wide swings since the beginning of the pandemic, with the result that household net worth has sometimes moved quite differently to what would be expected on the basis of net saving flows. For example, the Federal Reserve's estimates of changes in household net worth declined by \$9.3 trillion between March and September 2022, whereas flows of saving during that period would have implied an increase of \$0.3 trillion in the absence of valuation changes.

Such asset price changes can also affect households' ability and willingness to spend out of accumulated saving.

Figure 2. Evolution of household wealth

Percent of disposable income



Note: liquid financial assets correspond to currency and deposit holdings.

Source: Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; Eurostat; and OECD calculations.

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