



**CEPS IN-DEPTH ANALYSIS**

# **A MATTER OF CHOICE OR A MATTER OF FACT**

**Household savings and consumption during the  
COVID-19 pandemic in selected EU countries**

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# SUMMARY

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This paper investigates consumption and saving behaviours during the COVID-19 pandemic in the five largest EU economies. Using a macro-based approach, the empirical analysis identifies the short-term effects of the pandemic in the form of forced and precautionary savings accumulated in the wake of the restrictions and the high uncertainty. Moreover, it finds some indications of long-term effects in the form of persistent lower consumption of services, hinting at a possible shift in household consumption patterns, particularly in northern European countries. Our results are in line with the outcomes of the Hodbod et al. (2021) survey. Overall, the evidence suggests that a sustained consumption-driven post-pandemic recovery is rather unlikely.



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## 1. Introduction

Throughout the COVID-19 pandemic, like many aspects of their lives, households' consumption and savings underwent major changes. Besides the unprecedented restrictions in the wake of the pandemic that limited households' access to certain products and services, the high level of uncertainty surrounding many economic activities deteriorated their economic outlook. While the former probably led to an increase in forced or involuntary savings (see for example Dossche et al., 2021; Hodbod et al., 2021; ECB, 2021), the latter most likely translated into larger precautionary savings.

The COVID-19 pandemic materialised as a combination of supply and demand shock elements (see Baqaee and Farhi, 2020; Fornaro and Wolf, 2020; Guerrieri et al., 2020; Gopinath, 2020). On the supply side, the pandemic hit the economy by triggering supply chain disruptions and the temporary closure of many activities. The demand shock arose as households' ability or motivation to consume several goods and services decreased substantially due to the lockdown measures and fear of contagion, as well as a result of job and income losses. Reduced demand for certain services (like hospitality) translated into strong sectoral demand shocks.

Demand is a fundamental factor of economic growth that can shape recovery after a crisis. Traditional consumer theory suggests that 'pent-up demand' mechanisms should be stronger when driven by durable goods (see for instance Mankiw, 1982; Caballero, 1993). Most often a decision against the purchase of a durable good in the midst of a recession simply implies that the purchase is delayed. By contrast, this is less likely to be the case for non-durable goods (like a fancy pair of shoes) and most likely to be forgone consumption for many services (like a haircut, holiday or dinner at a restaurant). Beraja and Wolf (2022) ask whether this logic implies that differences in household expenditure composition across recessions affect subsequent recovery dynamics. Based on an extensive modelling exercise, they argue that because of the pent-up demand mechanism, demand-driven recessions associated with a fall in consumption concentrated in services or non-durables (instead of durable) tend to be followed by a weaker recovery. This result appears to be supported by their empirical analysis. They find that during both the Great Recession and the COVID-19 pandemic, US states in which durables accounted for a smaller share of output changes during the recession experienced a relatively weaker subsequent recovery.

Assessing the demand recovery that will follow the COVID-19 pandemic is certainly a very complex endeavour, not least because of the interaction between different waves of the pandemic and the large variety of policy measures in place, both of containment and support to the economy. As will be shown in more detail below, in EU countries consumption of services and in durable goods fell sharply during the first wave of COVID-19, but in most countries services did not return to their pre-pandemic levels, even if

disposable income did. This may point to persistent changes in consumer behaviour that make the application of the pent-up demand mechanism less straightforward. In addition, we argue that recovery in consumption cannot be assessed independently from saving behaviour and its driving forces.

Against this background, the paper attempts to address the question of whether changes induced by the pandemic on household consumption and saving behaviour were temporary or long-lasting, and what it means for the prospects of the post-pandemic economic recovery.

The paper contributes to the growing body of knowledge on the economic impact of the pandemic by analysing the consumption and saving behaviour of households in the European Union. We identify potential effects of economic factors and uncertainty that could have affected the allocation of income between savings and consumption. This approach allows us to assess the impact of pent-up demand, along with any possible shift in household consumption and saving behaviour that can be considered as enduring rather than transitory.

The rest of the paper is organised as follows. Section 2 outlines the theoretical and empirical background of saving motives mainly in the view of a crisis. A brief review of prior studies on household saving patterns in the context of COVID-19 is also presented here. Section 3 provides an overview of developments in households' disposable incomes, savings and consumption with a focus on the five largest EU Member States, providing a good sample of countries with different economic and social profiles. We also look at household spending on durable and non-durable goods, as well as on services, and changes during the pandemic. In Section 4 we estimate a simple model of savings and their determining factors. The outcome helps us to isolate and characterise the precautionary and involuntary components of savings, which in turn helps us to better understand potentially short- and long-term dynamics of consumption/savings associated with the pandemic. In this perspective, we extend the analysis by reviewing savings allocation to different financial assets. We summarise our findings in the last section.

## 2. Related literature

In addition to income level, which directly affects households' consumption and saving decisions, other considerations influence the allocation of disposable income between consumption and investment, and hence savings. As confirmed by several theoretical and empirical studies, in addition to uncertainty, macroeconomic factors can create motives for 'extra' saving, often termed as 'precautionary' saving (Leland, 1968). The theoretical basis for precautionary saving implies that greater uncertainty about income prospects

increases the marginal utility of expected future consumption, making saving more attractive.

Changes in risk attitudes or risk-taking propensity are a possible channel through which large shocks trigger persistent adjustments in consumption and saving patterns (Andersen et al., 2019). Accordingly, as a consequence of financial losses during periods of economic crisis, a greater number of risk-averse households are more likely to lower their lifetime consumption and increase their savings (Dahlbäck, 1991; Malmendier and Nagel, 2009). In a similar vein, Malmendier and Shen (2021) argue that a long-lasting lower level of consumption that could follow a recession can be explained by households assigning a higher probability to the recurrence of adverse economic shocks. As documented by Ercolani et al. (2021) in their analysis of the saving patterns of Italian households, the perceived uncertainty about economic events and, more precisely, the expectations about the emergence of a new pandemic, may induce households to keep a savings buffer for longer.

Among the macroeconomic factors, inflation and unemployment rates are broadly viewed as a source of income risk affecting households' saving behaviour. The 'disequilibrium savings' hypothesis presented by Deaton (1977) features the relationship between inflation and saving rate. Based on this theory, Koskela and Virén (1983) estimate the household savings function for a sample of 16 OECD countries over the period 1960 to 1977, where besides inflation, household savings were linked to real interest rate, changes in the unemployment rate, as a proxy for real income uncertainty, social security benefits, old age dependency ratio and the participation rate of older people. Lugilde et al. (2019) provide an extensive review of the theoretical and empirical literature on precautionary savings.

In an attempt to analyse the effects of the pandemic on household saving behaviour, Hodbod et al. (2021) rely on a large-scale survey conducted in July 2020 in five EU countries. They identify a large confidence shock in Spain and Italy that prompted precautionary saving. They also recognise a likely shift in consumer preferences in France, Germany and the Netherlands stimulated during the lockdown period, when households were forced to cut their consumption in the services and hospitality sectors. According to this survey, respondents in these countries stated 'the realisation of not missing it' as the main reason for reducing their consumption.

Further research along similar lines involve analyses based on national and supranational household surveys (Alvargonzález et al., 2022; Guglielminetti and Rondinelli, 2021, Ercolani et al., 2021). Alvargonzález et al. (2022) rely on the Spanish Labour Force Survey (EPA) and Spanish Survey on Household Finances (EFF) to analyse the determinants of consumption during the pandemic in Spain. They capture a strong negative link between income levels and consumption, with a stronger impact in 2020 than in 2021. The authors attribute this to COVID-19-related restrictions and involuntary savings that affected most

items with higher weights in the consumption basket of higher income households. In addition, they find a negative relationship between consumption and decline in hours worked and unemployment, which is linked to precautionary savings. According to their results, high uncertainty about labour market development could weigh on household consumption expectations after 2021. In the same vein, Guglielminetti and Rondinelli (2021) argue that the income situation, as well as current and expected job status, have influenced the composition of savings in Italy. Accordingly, precautionary savings have been more important for lower income households and those at risk of losing their job.

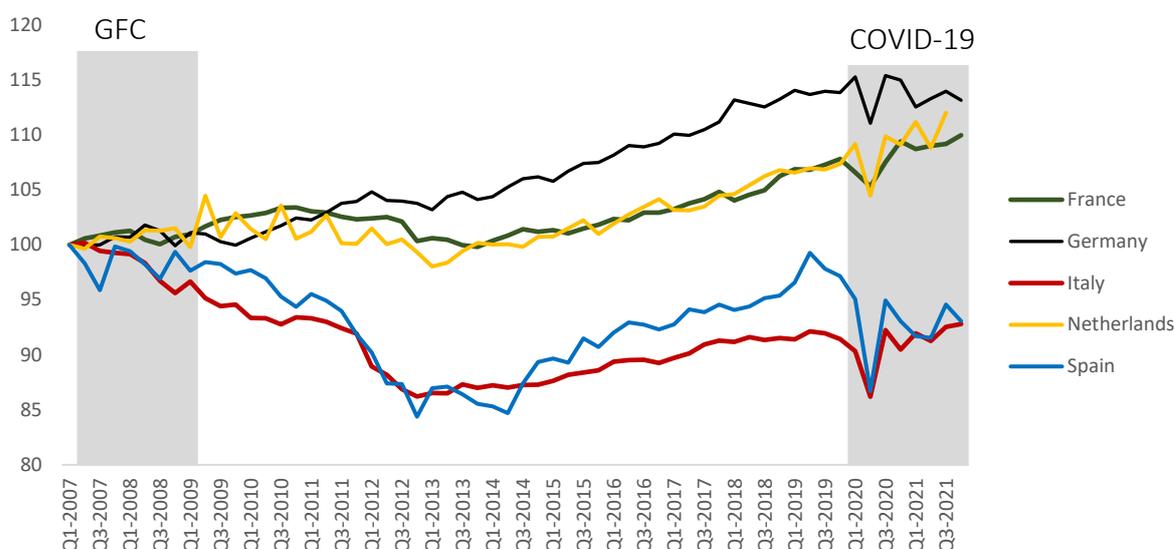
Following a more quantitative approach, del R o and Cuenca (2020) estimate the saving rates in the euro area using an error correction model for household consumption. They attribute the strong increase in households saving rates in 2020 that is not explained by its historical determinants to forced saving. The authors however discuss that the distribution of these extra savings vary by income level, which is obscured when using the aggregate data. Their analysis shows that forced saving is mostly concentrated in higher income households. This is mainly because these households are mostly employed in the economic sectors, which were less exposed to the pandemic crisis. Additionally, the non-essential expenditure most cut during the crisis has a relatively higher weight in the consumption basket of these households. Cuenca et al. (2021) also document that the lockdowns and the fear of contagion contributed to the build-up of sizeable savings in Spain.

### 3. Income, savings and consumption during the pandemic

The COVID-19 pandemic was different from all previous crises. It abruptly affected the economy and society by causing an unprecedented increase in uncertainty and a fall in gross domestic product (GDP). Yet, because of the many measures undertaken by government, income did not fall as much. Furthermore, the combination of health risks and containment and supportive measures led to a complex set of reactions in individuals, often difficult to forecast and disentangle. This makes income, consumption and saving behaviour particularly interesting, not least for understanding what post-COVID recovery one can expect.

*Figure 1* gives an overview of the development of disposable income per capita since 2007 in the five selected EU economies. At the end of 2019 and before the pandemic hit, real household disposable incomes were highest in Germany and lowest in Italy.

Figure 1. Real household gross disposable income (GDI) per capita (2007Q1=100)



Source: Authors' compilation based on OECD data.

Note: Data is seasonally and calendar adjusted.

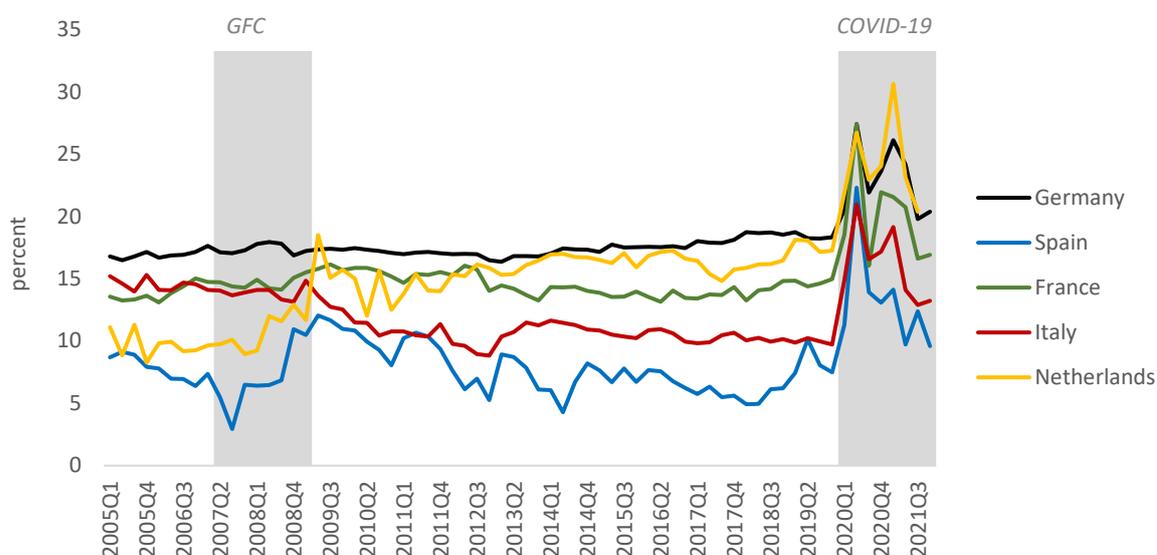
The second quarter of 2020 marked a sharp fall in household disposable income along with the deep economic recession induced by the pandemic. Among the major EU economies, Spain experienced the most severe decline, followed by Italy. In the third quarter of 2020, however, a strong rebound in GDP regained part of the loss in household income in most countries. This was the case in Italy, the Netherlands and Germany. In early 2021, a second wave of COVID-19 with a new mutation of the virus prompted renewed measures and travel restrictions, which in turn slowed down the recovery. The largest effect during this time is noted in Spain, which is strongly dependent on international tourism (around 12 % of GDP). Over 2021, while household disposable income, in per capita terms, recovered most in the Netherlands, household incomes in Italy and France improved significantly to above pre-pandemic levels. Despite the relatively rapid upturn in the second half of 2020, household incomes in Germany at the end of 2021 were below their 2019 level. Overall, it is in Spain that household incomes remained considerably below their pre-pandemic level.

This is quite different to the global financial crisis (GFC). In the aftermath of the GFC, households in Italy and Spain faced a persistent decline in their disposable income, which was exacerbated during 2012 and 2013 as a result of major financial market tensions. In comparison, in Germany, France and the Netherlands, household incomes held up, and in Germany, in particular, improved steadily. From 2014, disposable incomes picked up in Spain and Italy and, similar to their northern European counterparts, trended upwards until the onset of the COVID-19 pandemic.

It should be noted that the income data presented here contains the governments' support to households and businesses. In response to the dramatic recession caused by COVID-19, extensive income support measures were put in place. As the primary purpose of the measures was to avoid a sudden and large adjustment in consumption, households' saving behaviour and the composition of their consumption spending is relevant to understanding the impact of the crisis and possible shape of the recovery.

Prior to the COVID-19 recession, the gross saving rate was stable in France and Germany, and at all times higher in Germany. In the Netherlands, the saving rate picked up during the GFC and afterwards moderated and remained almost steady until the end of 2019. In Italy, the household saving rate remained rather stable during the GFC, but then dropped continuously over the years 2010 to 2012 until it stabilised and remained constant until the start of the pandemic. Before the GFC, Spanish households had reduced their saving rate quite drastically, but then increased it during the GFC, reversing the initial drop. In comparison, while Spain experienced higher volatility than other economies, the propensity of households to save remained the lowest during the entire period. The only short-lived exception is the second quarter of 2020.

Figure 2. Household gross saving rates (% of GDI)



Source: Authors' compilation based on Eurostat.

Note: Data is seasonally and calendar adjusted.

By contrast, households in Germany and the Netherlands had the highest propensity to save, with comparable rates. In addition, households in the Netherlands invested the largest part of their disposable income (12%) while this rate was the smallest for Spanish households (5%). Despite the variations in the rates, these overall patterns do not seem to have been shifted by the pandemic.

In most of these economies, the sharpest income contraction on record in the second quarter of 2020 was accompanied by a substantial rise in saving rates, particularly in Spain and France.

These observations point to an extraordinary level of propensity of households to save since the outbreak of the pandemic. An important question in order to understand the implications of this change is the likelihood of an immediate absorption of accumulated excess savings for consumption purposes. This, in turn, requires an understanding of the drivers of the increase in savings.

### 3.1 DURABLE VERSUS NON-DURABLE CONSUMPTION SPENDING

As mentioned above, according to Beraja and Wolf (2022) the pent-up demand pressures resulting from restrictions related to COVID-19 can be limited if the main reductions in consumption have taken place among services or non-durable goods, as their expenditure cannot be completely postponed.

The European Commission (2022) describes the deferred demand effects in the context of COVID-19 that EU countries experienced as a consequence of higher contraction in services expenditure<sup>1</sup>. If this is correct, all else equal, there has been a partial substitution of expenditure on services, which became unavailable or inaccessible, with durable (or semi-durable) goods, which became potentially more useful. This would make the pent-up mechanism less straightforward than in the literature.

Overall, consumption dynamics may have been affected by both substitution effects of services in favour of durable goods and changes in consumption patterns<sup>2</sup>. Here, to the extent that data availability allows, we review household spending on durable and non-durable goods and services across the five EU economies considered above.

As illustrated in Figure 3, in the second quarter of 2020, consumption of both services and durable (and semi-durable) goods largely dropped compared to the pre-pandemic period in all of the sample countries. The strongest decline in durable goods appeared in Spain and Italy, followed by France. Although a relatively substantial recovery in the consumption of durable goods was reached over subsequent periods in all countries, spending on services remained quite fragile until the end of 2021 and remained below pre-pandemic levels everywhere, except in France.

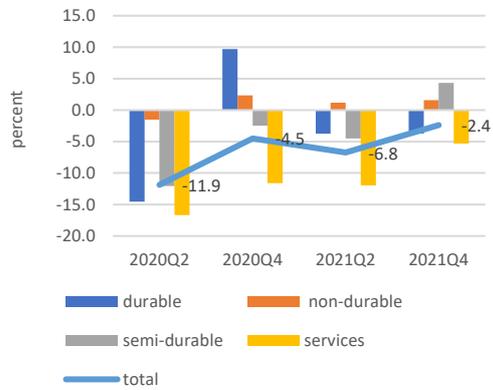
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<sup>1</sup> [https://ec.europa.eu/info/sites/default/files/economy-finance/ip169\\_en.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/ip169_en.pdf)

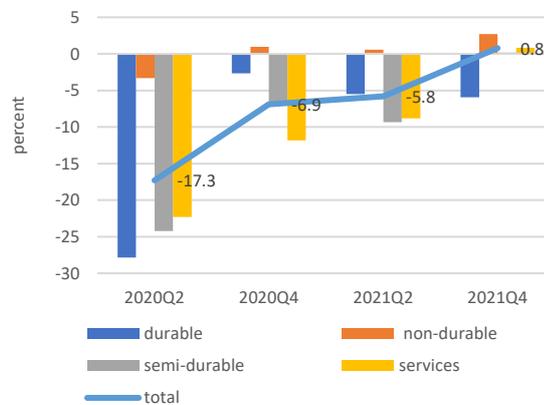
<sup>2</sup> Another factor for consideration is the existence of 'memorable' goods and services. As argued by Dossche et al. (2021), memorable services related to tourism and travel could lead to the materialisation of strong pent-up demand.

Figure 3. Final consumption of durable and non-durable goods (% change vis-à-vis 2019Q4)

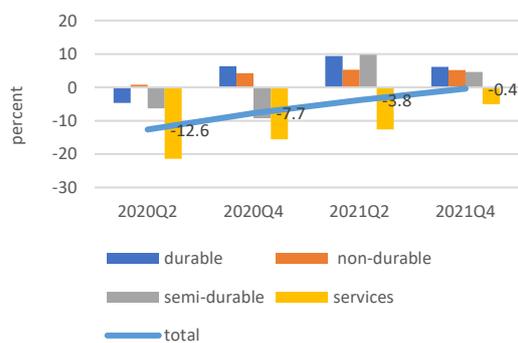
Germany



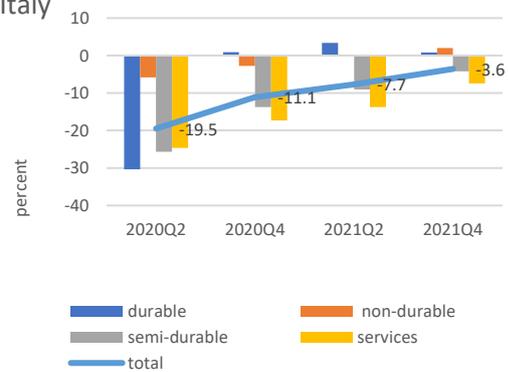
France



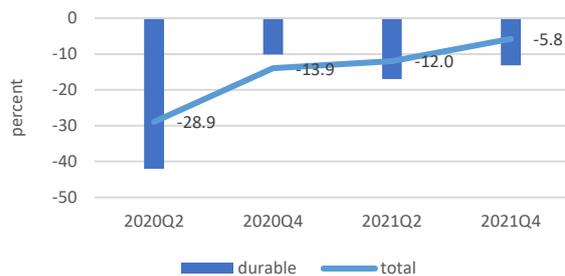
Netherlands



Italy



Spain



Source: Authors' compilation based on Eurostat.

Note: Data is seasonally and calendar adjusted. The data on non-durable, semi-durable, and services consumption is not available for Spain.

## 4. Temporary or long-term savings?

Based on the evidence shown until now, both the GDI and consumption of households declined throughout the pandemic. Because the changes are unlikely to be proportional, and because of distributional dynamics<sup>3</sup>, savings are also likely to be affected. The question is to what extent they are temporary, due to limitations on spending, and to what extent they will persist and affect future recovery.

To address this, as a first step, we estimate a simple empirical model to examine the contribution of various determinants of household savings, and then attempt to isolate forced savings. Accordingly, real household GDI per capita  $gdi_t$ , household indebtedness  $dbt_t$ , financial net worth (as a percentage of GDI)  $nwth_t$ , old-age dependency ratio  $old_t$  and interest rates on short-term deposit (up to one year)  $r_t$  are considered as income-related determinant control variables. To address precautionary savings, inflation rate  $p_t$ , income volatility<sup>4</sup>  $gdivol_t$ , consumer confidence index  $cc_t$  and unemployment rate  $u_t$  as drivers of uncertainty are included as additional explanatory variables. Income variability and unemployment rates are usually considered as standard measures of income uncertainty (for a recent study see Bande et al., 2021).

A key factor that is likely to account for the high level of savings is the uncertainty about future household income. In order to assess a potential role played by uncertainty, we consider data from consumer surveys provided by Eurostat that evaluates consumer sentiments and expectations about future economic prospects. The corresponding indicator encompasses several components measuring household perceptions of current and potential evolution of financial and economic satiation, as well as expectations about unemployment and inflation. The different components of the indicator suggest that concerns around the general economic situation, as well as unemployment expectations, weighed the most on consumer sentiments in 2020. This was especially the case in France, Italy and Spain.

The dependent variable of interest is the household gross saving rate  $s_t$ . The saving rate function to be estimated is specified as the following form:

$$s_t = \alpha + \beta_1 gdi_t + \beta_2 gdivol_t + \beta_3 cc_t + \beta_4 ydebt_t + \beta_5 nwth_t + \beta_6 u_t + \beta_7 old_t + \beta_8 r_t + \beta_9 p_t + u_t$$

(eq. 1)

Apart from precautionary savings, the lockdown measures restricting the consumption of certain good and services for households led to the accumulation of involuntary or forced savings, which are independent from household income and/or uncertain circumstances. We identify these possible forced savings as the residual of the regression

<sup>3</sup> Fall in disposable income tends to be different across households, with a different impact on consumption and savings. See Alcidi and Astarita (2022) on the impact of COVID-19 on income distribution.

<sup>4</sup> We specify income volatility as the standard deviation of real household GDI over the last four quarters.

models, which represent the part of savings that are neither explained by the level of income and other control variables nor by uncertainty (precautionary component). This is captured by the error term  $u_t$  in the equation above. The saving rate function is estimated using the ordinary least squares (OLS) method for each individual country in the sample. The analysis is conducted using quarterly data for the period 2007 to 2021. We rely on the OECD Household Dashboard and Eurostat sector accounts for households as the main sources of data. The interest rate is taken from the ECB Statistical Data Warehouse and inflation from Eurostat.

As shown in Table 1, the estimated coefficients, signs and statistical significance of most of the variables differ across countries. Consumer confidence appears to have quite a large effect on saving rates in all countries with an expected negative sign, albeit to different extents. An improved economic sentiment in households is associated with a decline in saving rates. This effect is found to be relatively large in the Netherlands.

*Table 1. Estimation of saving rates (2007Q1-2021Q4)*

Dep. var. saving rate	Germany	Spain	France	Italy	Netherlands
Income	-0.05 (0.17)	0.29 (0.34)	-0.43 (0.56)	-0.04 (0.32)	0.60 (0.42)
Income volatility	1.98*** (0.57)	1.03* (0.57)	0.59 (0.68)	1.06*** (0.37)	0.76 (0.70)
Consumer confidence	-0.36** (0.17)	-0.49*** (0.16)	-0.93*** (0.28)	-0.26 (0.27)	-1.37*** (0.33)
Indebtedness ratio	-0.08 (0.22)	0.29*** (0.07)	0.21 (0.16)	0.15 (0.16)	-0.01 (0.06)
Financial net worth ratio	0.08*** (0.02)	-0.04 (0.04)	0.06* (0.04)	0.05*** (0.02)	-0.02** (0.01)
Unemployment rate	0.47 (0.94)	-0.15 (0.32)	-2.92** (1.13)	-1.12** (0.46)	0.68 (0.45)
Old-age dependency ratio	0.19 (0.31)	2.02*** (0.38)	-0.78** (0.31)	0.06 (0.21)	0.98** (0.44)
Interest rate	0.23 (0.28)	-2.33* (1.18)	-1.79** (0.82)	1.04** (0.45)	-0.11 (0.81)
Inflation	0.05 (0.22)	-0.18 (0.16)	-0.77** (0.32)	-1.05*** (0.23)	-1.15*** (0.42)
Constant	40.27 (30.98)	-53.51 (47.86)	170.21** (72.72)	22.85 (47.60)	71.13 (63.80)
Observations	60	60	60	60	60
R-squared	0.84	0.71	0.68	0.70	0.85

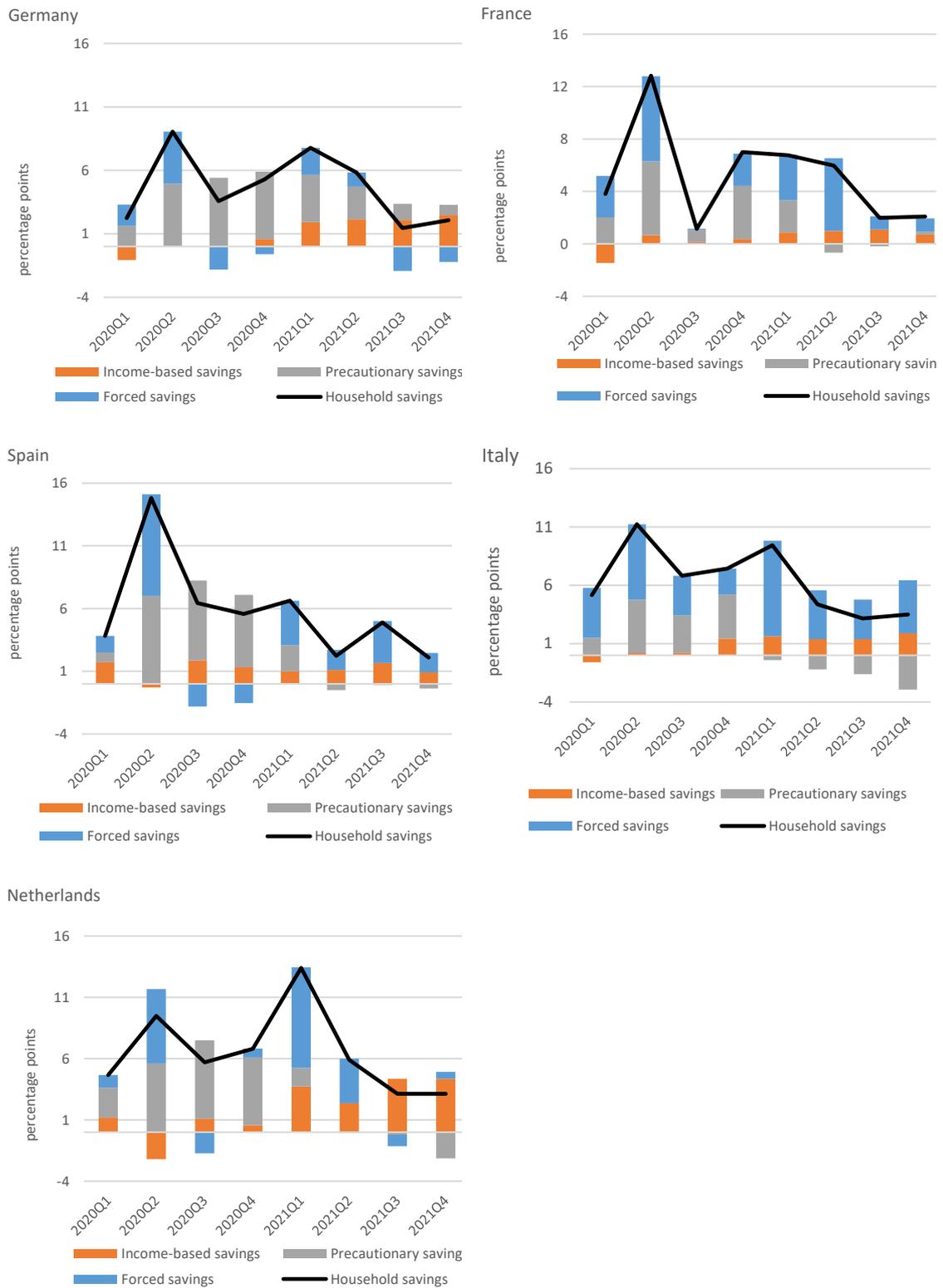
*Note:* Robust standard errors in parentheses. Significant at the 1%\*\*\*, 5%\*\* and 10%\* level.

Income volatility is found to matter more than income level, as higher income volatility triggers a higher rate of saving in all countries, although the effect is only statistically significant for Germany and Italy. Also, inflation is shown to affect saving in all of the countries except for Germany, and to be rather strong for Italy and the Netherlands. However, the estimated coefficients appear with a negative sign, indicating that inflation, translated into lower purchasing power, is associated with lower saving rates. A similar result is found for the unemployment rate in France and Italy, with a relatively large effect in France. The estimated negative sign indicates that a period of high unemployment is associated with a lower rate of saving in these countries.

Based on estimated coefficients, we calculate three categories of savings including precautionary savings, forced savings and a share of savings determined by the factors that affect households' saving behaviour by influencing their income, here labelled as income-based savings. The breakdown of household savings into different motives provides an insight into their future consumption pattern. Forced savings are assumed to be temporary and readily available for imminent consumption. If, however, financial concerns persist, a household may decide to hold back consumption, making savings a persistent feature.

The results of our analysis are shown in Figure 4 and presented as changes compared to the last quarter of 2019. The second quarter of 2020 was associated with a strong increase in both precautionary and forced savings in all of the selected countries. Forced savings exceeded precautionary savings particularly in Italy and Spain. By contrast, precautionary savings in Germany were marginally above forced savings. It is also observed that a large part of the forced savings that accumulated in the second quarter of 2020 were drained over the second half of the year, especially in Spain, while precautionary savings remained robust, and were even bolstered in Germany and the Netherlands. Households in these two countries moved part of their extra savings accumulated in the second quarter to the amount they kept for precautionary purposes. The second phase of lockdowns in early 2021 again imposed additional savings for households, albeit to a lesser degree than the first phase in 2020. The rise in forced savings in the first quarter of 2021 was relatively strong in Italy and the Netherlands, while the level of precautionary savings decreased significantly in these countries.

Figure 4. Breakdown of household savings (% change vis-à-vis 2019Q4)



Source: Authors' calculations based on Eurostat, OECD and ECB data.

Dossche et al. (2021) identify a similar pattern for the euro area, on average. They attribute most of the increase in household savings in the second quarter of 2020 and the first quarter of 2021 (the end of their sample period) to involuntary or forced savings, and find a relatively smaller part of precautionary savings than shown above.

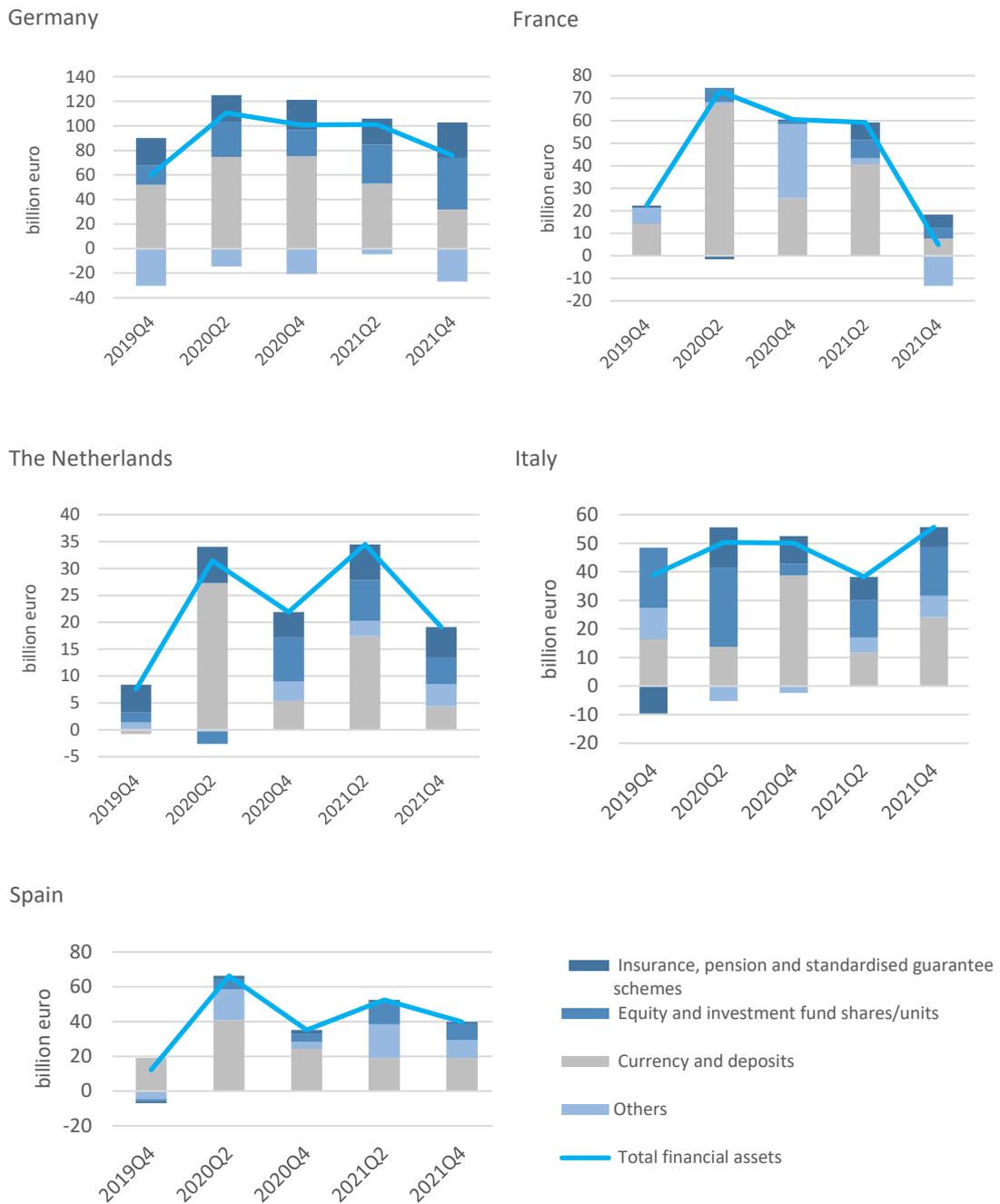
Overall, it appears that during 2021, income-related factors (control variables in the regression) account for a relatively substantial portion of increased savings in Germany and the Netherlands, where the effects strengthened towards the end of the last two quarters of the year. In contrast, during the same period, forced savings dominated household savings in Spain and Italy. In comparison, precautionary saving seemed to fully recede in these two countries, as well as in France. The fact that forced saving continued into 2021 in these countries may mean that fears about the continuing spread of the virus had not entirely disappeared, or that supply factors (possibly induced by persistent containment measures) might have hindered consumption. In both cases, the full relaxation of measures and fall in positive cases of COVID-19 may result in a quick, but possibly temporary, resumption of consumption, including of services, especially during the summer months.

By contrast, the fact that higher income has contributed to higher savings rather than consumption in both Germany and especially the Netherlands could indicate that households in these countries have possibly shifted their preferences towards the consumption of specific goods and services. These outcomes are consistent with our observations in the previous section.

#### 4.1 ALLOCATION OF EXCESS SAVINGS

To complement our analysis of household saving behaviour, we look at a breakdown of the flows of financial assets acquired by households during the pandemic and the degree of liquidity. The flow patterns in financial assets across the five countries under consideration indicate substantial heterogeneity in terms of changes associated with COVID-19 and of composition. However, a clear common path emerges: excess household savings (relative to 2019) corresponding to the different waves of the pandemic and of lockdown measures in 2020Q2 and 2020Q4-2021Q1 were mostly allocated in the form of very liquid assets, namely bank deposits and cash (see Figure 5).

Figure 5. Flows of household financial assets (composition)



Source: Authors' compilation based on ECB data.

Overall, by the end of 2021, savings and hence financial asset flows had fallen back to levels very close to those at the end of 2019 in France, Germany and Spain. In Italy and the Netherlands they remained at a higher level.

Based on the evidence in the previous sections, the increase in liquid assets can be the counterpart of lower consumption (forced, temporary savings) and/or fiscal measures to support income, ready to be used for future consumption. At the end of 2021, cash and deposits still constituted a relatively large share of the asset basket of Italian and Spanish households, where traces of forced savings are still observed. By contrast, in some countries, the growing share of precautionary savings may have resulted in a reallocation of savings towards less liquid assets. After mid-2021, countries in which households kept a higher level of savings (Italy and the Netherlands) adjusted their allocation towards less liquid assets, such as pensions, insurance and investment funds. A similar pivot towards equity and investment funds can also be seen in Germany, despite savings returning to pre-COVID levels.

## 5. Conclusion

The public policy measures introduced to contain the spread of COVID-19 severely restricted the ability of households to spend, resulting in a general fall in consumption, more specifically of durable goods and services. The support measures adopted throughout the EU kept income from falling in most countries. The combination of relatively stable income and lower consumption led to an extraordinary surge in household savings.

Our study provides empirical evidence on accumulated ‘forced’ savings, as well as precautionary savings associated with the COVID-19 pandemic. On the one hand, the impact of the pandemic appears to have been rather short-lived, as most of the forced and precautionary savings were absorbed quite quickly in the course of 2021. On the other hand, the consumption of services remained below pre-pandemic levels in 2021, especially in northern European countries and even where income recovered fully. Coupled with the elevated propensity to save, one could deduce a possible shift in household consumption habits in these countries, whose effects could be longer lasting. This is reinforced by the fact that such savings tend to be allocated to less liquid assets that are unlikely to be used for immediate consumption purposes. In comparison, in southern European countries, consumption is still seen to be partly hampered by involuntary factors, either on the demand or on the supply side. Combined with their relative large shares of forced savings and preference for liquid assets, these countries could experience a rather quick recovery in consumption (including services), though temporary, if the pandemic evolves positively.

To conclude, as highlighted in the literature, a recession characterised by a fall in consumption concentrated in services is expected to be followed by a weaker recovery. This is even more likely to be the case if the fall in services is persistent, as it adds to the typical forgone consumption effect. In addition, the likelihood of immediate absorption of additional savings appears limited, as savings appear to be driven by persistent

uncertainty and/or a possible shift in consumption preferences. Overall, the outcome of this study suggests that conditions do not seem favourable to a sustained consumption-driven post-pandemic recovery. Going beyond the period covered in the analysis, the current inflationary environment implies declines in the purchasing power of households, which will reduce their expenditure on several products and services. Such mechanism would reinforce the conclusion of the paper and make a consumption-driven recovery even less likely.

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