Global savers' $5.4tn stockpile offers hope for post-Covid spending

Date published: 18 April 2021

Valentina Romei in London

Source: FT.com

Word count: 789

Link To FT.com: https://www.ft.com/content/8cbfe40d-1ce1-4dc6-bcb2-1314b77b9443

Consumers around the world have stockpiled an extra $5.4tn of savings since the coronavirus pandemic began and are becoming increasingly confident about the economic outlook, paving the way for a strong rebound in spending as businesses reopen.

Households around the globe accumulated the excess — defined as the additional savings compared with the 2019 spending pattern and equating to more than 6 per cent of global gross domestic product — by the end of the first quarter of this year, according to estimates by credit rating agency Moody's.

And booming global consumer confidence suggests shoppers will be willing to spend again as soon as shops, bars and restaurants reopen when restrictions to control the spread of the virus are eased. In the first quarter of this year the Conference Board global consumer confidence index hit its highest level since records began in 2005, with significant uplifts in all regions of the world.

Mark Zandi, chief economist at Moody's Analytics, said: "The combination of an unleashing of significant pent-up demand and overflowing excess saving will drive a surge in consumer spending across the globe as countries approach herd immunity and open up."

If consumers spend about a third of their excess savings they would boost global output by just over 2 percentage points both this year and next, Moody's estimated.

Despite the global economy last year suffering its largest fall in output in modern history, household incomes have largely been protected by unprecedented government stimulus schemes in most advanced economies. Consumers also reduced spending in the face of high uncertainty about jobs and incomes, and because many service businesses were shut or restricted.

As a result, in 2020 household saving rates in many advanced economies reached their highest levels this century, according to OECD data, and bank deposits increased rapidly in many countries.

Zandi said excess saving was highest in developed economies, in particular North America and Europe where lockdowns have been widely implemented and government spending has been high.

In the US alone, households have piled up more than $2tn in extra savings, Moody's estimated. That is before the giant transfers from President Joe Biden's $1.9tn stimulus programme kick in. Together they are enough to potentially fuel an "extended consumption splurge", said Krishna Guha, economist at the investment banking adviser Evercore ISI.

Silvia Ardagna, economist at Barclays, expects "a fairly rapid acceleration in household spending this year" in the US and "to lesser extent" in the UK, though she warned that "a slower vaccination rollout may mean any pent-up demand is not realised in the euro area" in the next two quarters.

A number of Middle Eastern countries where government support has been generous also have significant excess savings, while in Asia, accumulated excess savings were lower than in other regions as the pandemic has been contained and the impact on household behaviour was less pronounced.

In South America and eastern Europe savings were lower as a result of the heavy hit from the pandemic and less government support.

However, the impact of the pandemic has been highly unequal and savings have been largely accumulated by richer households in all regions.

The Morning Consult consumer confidence index showed overall steady improvements between January and April across 15 large economies but a larger share of lower income households reported their financial conditions had worsened compared with a year ago.

More than one-third of richer households in many countries, including China, Australia, Italy, Russia and the US, said now was a good time to make big purchases, but that was not the case for poorer households, data from Morning Consult showed.

Jan Hatzius, economist at Goldman Sachs, estimated that nearly two-thirds of US excess savings were held by the richest 40 per cent of the population and suggested this could hold back the scale of the economic boost because "high-income households will hold [rather than spend] the bulk of excess savings".

Adam Slater, lead economist at Oxford Economics, said: "If excess savings are mostly held by wealthier households and these are treated as a wealth increase rather than an income addition, we would expect a much lower level of [additional] spending."

Nearly three-quarters of the UK households that reported increased savings plan to continue to hold them in their bank accounts, according to the Bank of England. Others plan to use their savings to pay off debts, invest or top up their pensions.

This is in line with the Conference Board findings that showed double-digit percentage point increases in the proportion of consumers who increased savings and investments in shares in the first quarter of 2021 compared with the same period last year.