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During Corona, households are saving more – not for fear of unemployment but for lack of spending opportunities

During the Corona crisis, European households increased their savings dramatically. According to an analysis carried out by the Halle Institute for Economic Research (IWH), the increase in savings is largely due to the inability of households to consume in the face of government lockdown measures, rather than other factors such as economic uncertainty. IWH President Reint Gropp therefore sees potential for a significant catch-up effect in consumption as soon as the lockdown is lifted.

Since the outbreak of the Corona pandemic, the savings of European households have risen to a record level. In a recent study, the Halle Institute for Economic Research (IWH) looked at three possible causes for this rise in savings and found that the main driver of the increase is households' inability to spend due to the lockdown. Lockdown measures such as travel restrictions, the closure of restaurants, cinemas and theatres and the absence of retail shopping opportunities are boosting the savings rates of households. In contrast, the impact on savings from increased uncertainties such as the fear of becoming unemployed or the fear of contracting SARS-CoV-2 is low. IWH President Reint Gropp and co-author William McShane found no evidence that households are saving more in anticipation of future tax hikes to finance increases in government debt.

Identifying the drivers of households' increase in savings provides an indication as to how and when aggregate demand will return to pre-Corona levels. In turn, this has important implications for government policy. The study suggests that as soon as private households can start spending money again after the mobility restrictions are eased in the spring/summer of 2021, pent-up consumer demand will support the recovery in consumption. This will benefit, above all, the hardest-hit sectors such as the retail business, gastronomy, event management and the tourism industry. It is possible that demand will even temporarily soar to a level that exceeds pre-crisis figures. The outlook would be different if households had reduced their consumption due to economic uncertainties and built financial reserves as a precaution. In this case, consumption would be slower to recover in 2021, as economic uncertainty would only ease as the economy recovers, not before. The fear of tax increases due to debt-financed rescue packages, too, would only revive consumption and diminish private savings if governments visibly cut their levels of debt. In both cases, the way out of the recession would take considerably longer.

[no press embargo](#)

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"Our findings allow an optimistic forecast for post-Corona economic recovery, at least if the lockdown ends soon and is not tightened," says Gropp. Rapid vaccination of a large share of the population could, he continued, lead to a rapid relaxation of the measures and thus stimulate consumption again. "Households will emerge from the crisis with more wealth on average than they had at the onset of the crisis. We take this as a good sign for the recovery," the authors of the study explain.

Fears that increased spending could lead to a sharp rise in inflation are not shared by the IWH researchers. In their opinion, at present a more immediate threat is that of deflation, which could further discourage private households from spending. Given the current restrictions, they observe that there is little scope in fiscal and monetary policy for generating increased demand.

For their study, the IWH researchers combined several data sets. The sample includes all eurozone countries with more than one million inhabitants; the observed period is from January 2019 to August 2020. Information on the monthly household deposits of private households and government debt levels was sourced from the Statistical Data Warehouse of the European Central Bank (ECB). The Oxford COVID-19 Government Response Tracker was used to measure the lockdown stringency of countries across time and the unemployment expectations of households were retrieved from the European Commission's Consumer Survey Questionnaire. Data coverage for the second lockdown in place since November 2020 was not available at the time of writing.

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Reint E. Gropp, William McShane: Why Are Households Saving so much During the Corona Recession? [IWH Policy Notes 1/2021](#). Halle (Saale) 2021.

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“From Transition to European Integration”, the institute’s research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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