

Box 4

FACTORS BEHIND RECENT HOUSEHOLD SAVING PATTERNS IN THE EURO AREA

The saving-to-income ratio is an important indicator of households' behaviour that has an impact on the dynamics of real private consumption and, more generally, the pace of economic growth. In principle, households' consumption/saving decisions are influenced by a variety of factors. For example, in periods of high uncertainty, households typically increase the share of their disposable income that they save on precautionary grounds. The effects on consumption of adverse but temporary shocks to disposable income, by contrast, are usually mitigated by a decrease in the saving ratio (a mechanism referred to as inter-temporal consumption smoothing).

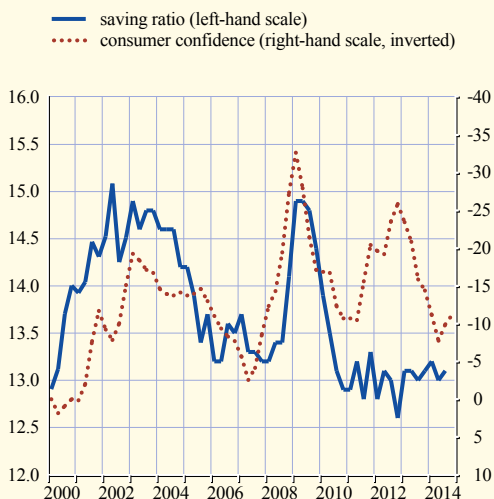
The euro area household saving ratio has stabilised at relatively low levels in recent years, in comparison with the historical average. This stabilisation was due to a number of factors, which have broadly offset one another.

Analysing households' saving behaviour in the euro area from a historical perspective, a number of specific periods can be distinguished, each characterised by a different degree of influence of key driving factors. Before the economic and financial crisis, the saving ratio fluctuated between 13% and 15%. It remained broadly stable in the two years prior to the crisis (see Chart A).

In the first phase of the recession and its aftermath, i.e. in the period from 2008 to 2010, the household saving ratio surged temporarily, driven primarily by faltering consumer confidence, before declining again. The rather high uncertainty prevailing at the time caused the saving ratio to rise to 14.9% in the first quarter of 2009, mainly on account of precautionary

Chart A Euro area household saving ratio and consumer confidence

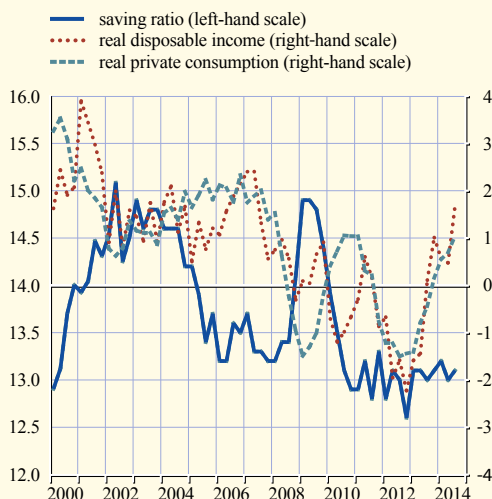
(percentages of disposable income, percentage balances)



Sources: Eurostat and EU Commission, DG-ECFIN.

Chart B Euro area household saving ratio, real disposable income and private consumption

(percentages of disposable income; year-on-year growth rate)



Sources: Eurostat and ECB calculations.

motives. This surge may also have been triggered by the expansionary fiscal policies prevailing at the time, which allowed households to use the increase in real disposable income to raise their propensity to save (a mechanism referred to as a Ricardian effect). However, alongside improving consumer confidence during the recovery phase in 2010, the saving ratio declined again.

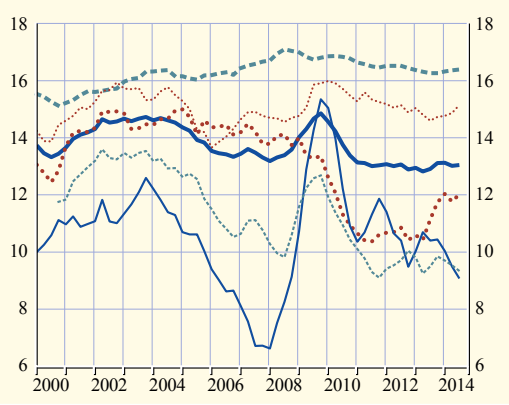
Since 2011 the saving ratio has remained broadly stable at relatively low levels, reflecting compensatory effects of various factors that influence households' decisions. On the one hand, downward pressure on the saving ratio has emanated from weak developments in real disposable income (via consumption smoothing behaviour – see Chart B), from the relatively low interest rates (which discourage savings) and from high unemployment (which led to forced dissaving in some countries). On the other hand, upward pressure on the saving ratio has been generated mainly by increased uncertainty (via a strengthening of precautionary motives to save) and by elevated household deleveraging pressures in several countries. All in all, given the opposing effects of these factors, the household saving ratio remained relatively stable, at around 13%, a low level by historical standards.

Viewed across countries, saving patterns have been very heterogeneous in recent years. The hump-shaped pattern of the euro area saving ratio in the first phase of the recession, i.e. in the period from 2008 to 2010, was largely driven by developments in Spain and, to some extent, also by those in France and the smaller euro area economies (see Chart C).¹ The sharp increase of household savings in Spain mirrored an acceleration of household real disposable income growth in 2009 (see Chart D), which was driven, at least partly, by supportive fiscal measures

Chart C Household saving ratios in the large euro area countries

(gross savings as a percentage of the four-quarter moving sum of gross disposable income)

- euro area
- Italy
- - - Germany
- Spain
- France
- - - rest of the euro area

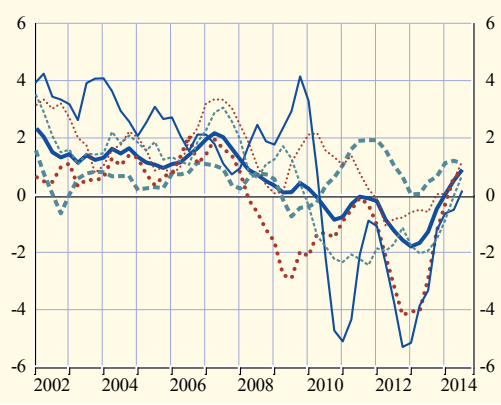


Sources: Eurostat and ECB calculations.
 Note: The figures for the rest of the euro area refer to the differences (in levels) between the euro area aggregate and the sums total for the four largest countries, as quarterly sectoral accounts data are not available for all euro area countries.

Chart D Household real disposable income growth in the large euro area countries

(average annual percentage changes)

- euro area
- Italy
- - - Germany
- Spain
- France
- - - rest of the euro area



Sources: Eurostat and ECB calculations.
 Note: The figures for the rest of the euro area refer to the differences (in levels) between the euro area aggregate and the sums total for the four largest countries, as quarterly sectoral accounts data are not available for all euro area countries.

¹ In this box, “smaller euro area economies” refers to all euro area economies excluding Germany, Spain, France and Italy.

in that period. While households' real disposable income continued to increase in France in the first phase of the recession and, on average, also in the smaller euro area economies in 2009, it declined in Italy throughout the period from 2008 until 2013. The overall stable household saving pattern at the euro area level since 2011 reflects broadly stable saving ratios in Germany, France and, on average, in the smaller euro area economies. In Spain, by contrast, the saving ratio continued to decline, while that in Italy has – after stabilisation – increased since the middle of 2013, reflecting a recovery of households' real disposable income.

Looking ahead, the relatively sharp drop in oil prices observed since the summer of 2014 should support a temporary rebound of the saving ratio. This can be expected as historical regularities suggest that an increase in real disposable income driven by permanently lower energy prices is initially largely saved. After a few quarters, however, the saving ratio is likely to return to its initial level. At the same time, this will be mirrored by a further increase in consumption, as households start to spend more of the increase in their real disposable income.

The expected hump-shaped response of the saving ratio may be linked to the uncertainty surrounding energy-related increases in real disposable income. Even if sustained, increases in real income owing to decreases in energy prices are generally surrounded by more uncertainty than increases in real income from other sources. A precautionary savings motive could, for instance, explain the hump-shaped response of the saving ratio since households tend to first save part of the windfall gains and wait to see whether the increase in real income is sustained. Overall, irrespective of the underlying mechanism, available evidence suggests that sustainably lower oil prices should temporarily support the household saving ratio, while the income gains translate progressively into higher consumption.