International Commentary — April 13, 2021

Which Consumers are Sitting on a Stash of Cash?

Summary

- Consumer spending was constrained last year by restrictions on activity to curb the spread of the virus. In general, household incomes far outpaced overall consumer spending globally, and as a result, households across major economic regions are sitting on unusually large piles of cash.
- Excess household savings accumulated over the past year amount to anywhere between 4% to 9% of GDP in the United States, Canada, Japan, United Kingdom and the Eurozone. Large amounts of savings suggest many major economies appear well-placed for a consumer-led recovery once they are fully reopened.
- The United States and Canada appear the most well positioned, and to a slightly lesser extent the United Kingdom. The consumer recovery may lag in the Eurozone and Japan, however, due either to less robust income trends or a slower reopening of the economy.
- Although consumers appear to be sitting on record levels of excess cash, the figures in this report likely represent upper bounds. To the extent the shock to household balance sheets from the pandemic causes households to save move even after the crisis passes, we would see some, but not *all*, of the excess savings accumulated during 2020 be drawn down.

Economist(s)

Nick Bennenbroek
International Economist | Wells Fargo Securities, LLC
nicholas.bennenbroek@wellsfargo.com | 212-214-5636

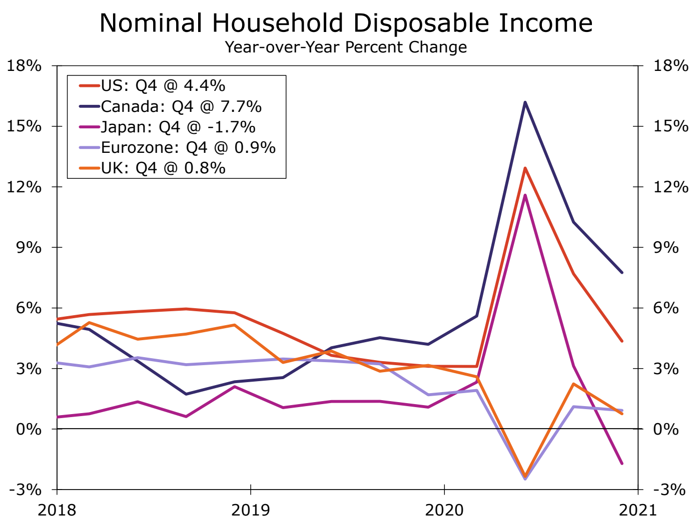
Shannon Seery
Economist | Wells Fargo Securities, LLC
shannon.seery@wellsfargo.com | 704-410-1681

Brendan McKenna
International Economist | Wells Fargo Securities, LLC
brendan.mckenna@wellsfargo.com | 212-214-5637

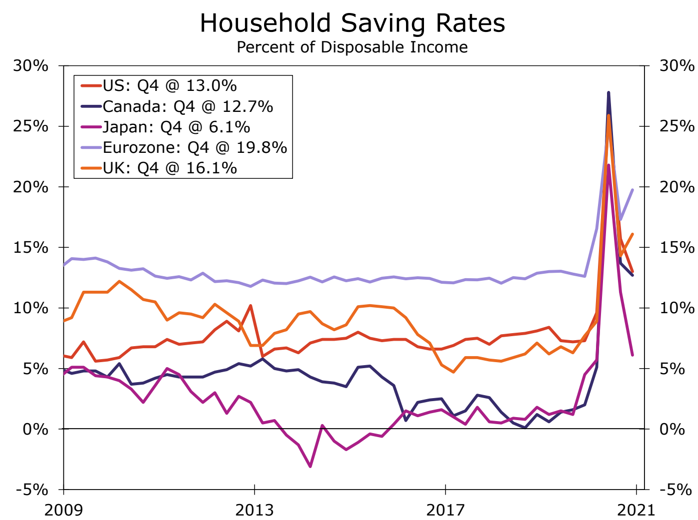
Global Consumers Increasingly Itchy to Increase Spending

In a recent report on the U.S. consumer, we discussed the concept of households' "excess savings," as consumers saw a significant, government-supported rise in household disposable incomes, but limited opportunities to spend that income as the spread of COVID and associated restrictions saw a significant curtailment of activities for consumers to spend that cash. As a result, the U.S. household saving rate has been, and remains, high by historical levels, and certainly well above the level of pre-pandemic savings levels.

However, this concept of historically elevated saving rates and "excess savings" is far from solely a U.S. phenomenon. While trends in disposable income have varied globally (for example, income trends have been stronger in the United States, Canada and Japan compared to the United Kingdom and the Eurozone), in general incomes have far outpaced overall subdued consumer spending trends during 2020. As a result, households across other major economic regions are sitting on unusually large piles of cash. The natural question is how do those savings stockpiles globally compare to those in the United States.



Source: Datastream and Wells Fargo Securities



Source: Datastream and Wells Fargo Securities

A Comparison of Household Finances

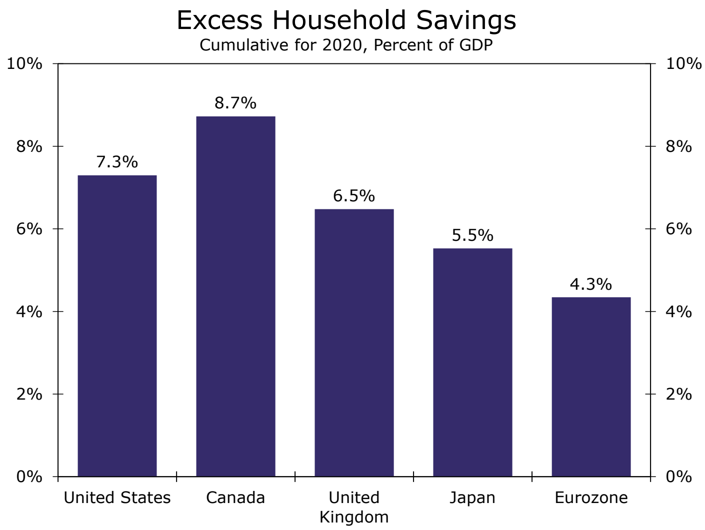
To answer this question, we essentially replicate the methodology used for the United States, albeit with some slight modifications. Given that household saving rates had been quite steady in recent years, we used the average household saving rate for the four quarters of 2019 as our estimate of the "pre-pandemic" household saving rate, and the average for the four quarters of 2020 as the "pandemic" household saving rate. As the table below shows, 2020 saw consistently elevated household saving rates across the major regions.

Global Household Saving Rates

	United States	Canada	Japan	United Kingdom	Eurozone
Pre-Pandemic Saving Rate	7.6%	1.4%	2.1%	6.8%	12.9%
Pandemic Saving Rate	16.1%	14.8%	11.2%	16.3%	19.7%
"Excess" Saving Rate	8.5%	13.4%	9.1%	9.6%	6.8%

Source: Datastream and Wells Fargo Securities

As with our prior U.S. analysis, we then calculate excess savings as the cumulative actual amount saved during 2020, less the amount that would have been saved by households had the saving rate remained at pre-pandemic levels. Applying these calculations, our estimates of excess savings for 2020 are approximately US$1.5 trillion for the United States, C$192.3 billion for Canada, ¥30 trillion for Japan, £136.9 billion for the United Kingdom and €491.2 billion for the Eurozone. How significant are each of those on a relative basis? One way to assess this is to look at these excess savings estimates compared to the size of the respective economy. This gives a sense of the boost to activity each of these economies might experience if consumers were to suddenly, for example, begin spending their cash buildup. The chart below provides just such a comparison.



Source: Datastream and Wells Fargo Securities

Some Concluding Consumer Thoughts

Overall, this brief assessment of the global consumer offers a few interesting takeaways. First, many major economies appear well-placed for a consumer-led recovery once they are fully reopened —in particular the United States and Canada, and to a slightly lesser extent the United Kingdom. Household income trends for Japan are not as robust as elsewhere, which may be a restraining factor in the country's consumer recovery. The pace of the Eurozone's consumer recovery is also likely to lag, given the reopening of the Eurozone economy is progressing more gradually than other regions.

Second, as is often the case, more timely data is available for the United States. With the passage of the latest U.S. fiscal support package in early 2021 and based on monthly data, estimates of excess U.S. household savings are now closer to US$2 trillion, or 9.5% of GDP, reinforcing that the United States is likely to be at the forefront of the global consumer recovery.

Finally, there are good reasons to suspect the excess savings estimates as a percent of GDP represent upper bounds of the amount of “idle cash” that could be deployed as these economies reopen. To the extent that household savings at least in part represent putting funds away for a rainy day in case of unexpected events, then the COVID pandemic represents a proverbial torrential downpour. As a result, it would not be all that surprising to see some permanently increased rates of household savings going forward. If so, much, but certainly not all, of the excess savings accumulated during 2020 are set to be applied to a consumer-led global recovery in the months and quarters ahead.

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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