

International Commentary — July 13, 2021

Global Consumer Rebound: As Safe As ... Household Incomes

Summary

- Through Q1-2021, consumer finances remain in good shape, which should support the economic recovery across the major developed economies going forward. Despite the employment declines over the course of the pandemic, disposable incomes climbed in the first quarter of this year, with notable year-over-year rises in the United States, Canada, United Kingdom and Eurozone. In addition, household savings rates are also at historically high levels, which bodes well for future consumer spending as well as economic prospects within the G10.
- Improved vaccination campaigns in Canada and Europe have led to increased mobility. Despite a slow start, vaccination rates in Canada and Europe are now on par with the U.S. and U.K., and playing a key role in rising mobility. However, Japan is an outlier and is lagging developed market peers not only in consumer finances, but vaccinations and mobility levels as well.
- In our view, strong consumer finances and improving international vaccination campaigns still support our view for a robust global economic recovery. Japan's recovery is likely to lag the overall G10 recovery as restrictions remain in place and consumer finance dynamics are relatively weak.

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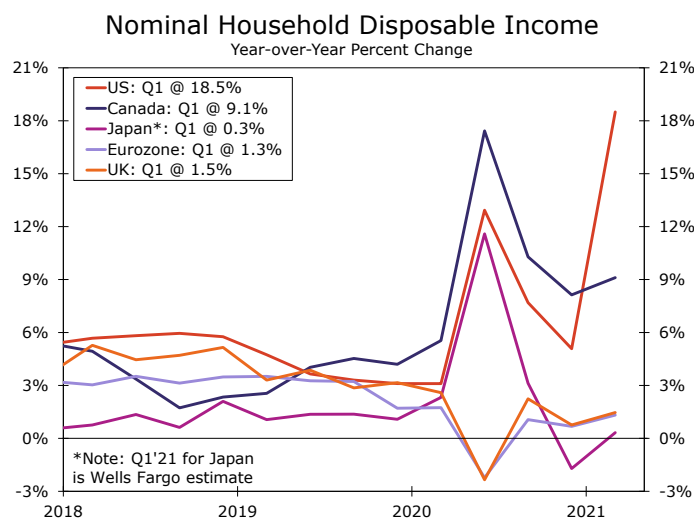
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Consumer Finances Still in Sound Shape

Over the past several months we have regularly reported on household incomes and spending across some of the major developed economies. We have returned to this theme for a number of reasons. First, for the major developed economies, consumer demand is uniformly the most sizable component of overall GDP, and typically by a wide margin. Thus, the fortunes of the consumer are also often the key driver of the overall economy. Second, throughout the pandemic many governments have been particularly active on the fiscal policy front, especially in providing income support measures. In that sense, trends in employment as well as wage and salary compensation, have not always been precise guides to trends in overall household incomes. Finally, given the size of the shock from the COVID pandemic, income trends have also been more volatile than usual on a quarter-to-quarter basis.

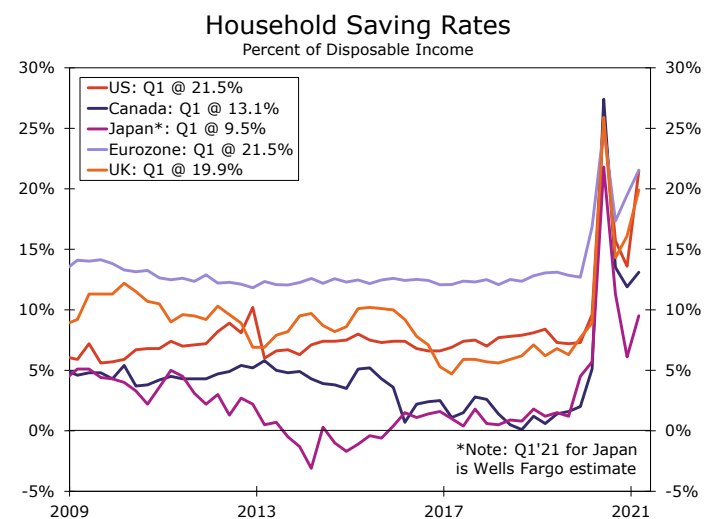
With the release in recent weeks of household income details from the Eurozone and United Kingdom, as well as partial information from Japan, we now have insight into consumer finances through Q1 of this year for all the major developed economies. The key takeaway is that despite employment declines suffered during the pandemic, trends in household disposable income remain favorable for all the major developed economies. That is particularly the case for the United States and Canada where, compared to Q1-2020, household disposable incomes are up around 19% and 9%, respectively (Figure 1). In the Eurozone and the United Kingdom growth in disposable income has been more modest, but positive nonetheless. Overall, trends in disposable income for the major developed economies have been remarkably resilient—disposable incomes have already risen back above pre-pandemic levels by Q1-2021 for the key major developed economies including, we estimate, for Japan.

Figure 1



Source: Datastream and Wells Fargo Securities

Figure 2



Source: Datastream and Wells Fargo Securities

That said, growth in household incomes alone does not give a full picture of the prospects for the consumer sector. In the Eurozone and the United Kingdom, there was a very marked retrenchment in consumer spending during the pandemic. Thus even with only moderate income trends, household saving rates for the Eurozone and the United Kingdom are very elevated by recent historical standards. In fact in Q1-2021 the household saving rates (as a percent of household disposable income) for the Eurozone at 21.5%, and for the United Kingdom at 19.9%, was matched or bettered only by the United States at 21.5% (Figure 2). On the savings front, Japan once again stands out as an underperformer. Given that Japan's Q1-2021 data on employee compensation and consumer spending have already been released, we can calculate reasonable estimates of Japan's household disposable income and household savings. Based on those calculations we estimate that Japan's household saving rate was 9.5% in Q1—higher than pre-pandemic levels, but perceptibly below household savings rates for the other major developed economies. However, overall in assessing household income and saving trends for the major developed economies, there does not appear to be anything in consumers' finances that would stand in the way of a strong consumer-led rebound in economic growth. In large part therefore, the fortunes of the consumer sectors and the economies more broadly could hinge on progress in

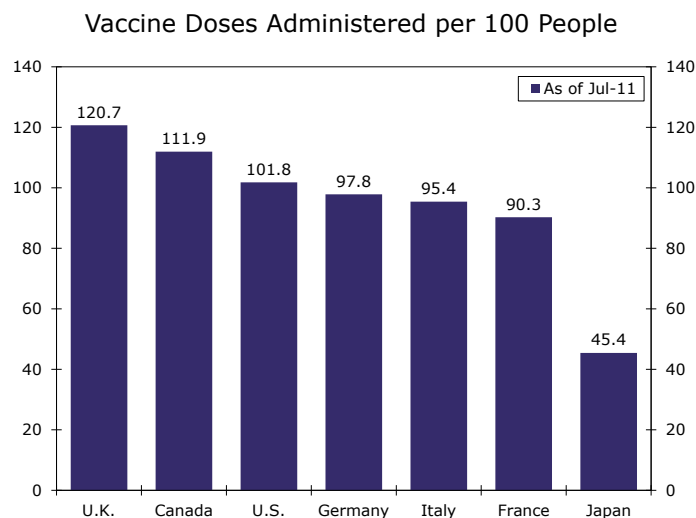
re-opening following the COVID pandemic, and thus the ability of consumers to spend to satisfy any pent-up demand.

Open the Economy and Open Consumers' Wallets

With respect to re-opening, the news is also generally favorable across the major developed economies. Although the United Kingdom and United States initially made the most progress in vaccinating their populations against COVID, the pace of vaccinations in Canada and several Eurozone economies has now picked up, meaning that the proportion of the population that has been vaccinated across countries has now become more comparable (Figure 3). Another more timely, and perhaps also more direct, metric of re-opening is high frequency mobility data for the major economies. Mobility data from Apple offers similar insights as that gleaned from vaccination progress. Most major economies had made some progress towards re-opening by the summer of 2020, but had to at least partially lockdown again during the winter and into the spring of 2021 given a resurgence of COVID cases. However using September 2020 as a reference point, mobility trends are once again improving in the summer of 2021, especially for the United States and the United Kingdom, and to a lesser extent for Germany and Canada. Mobility has been the slowest to recover in Japan, where a state of emergency, and associated restrictions, has remained in effect the longest (Figure 4).

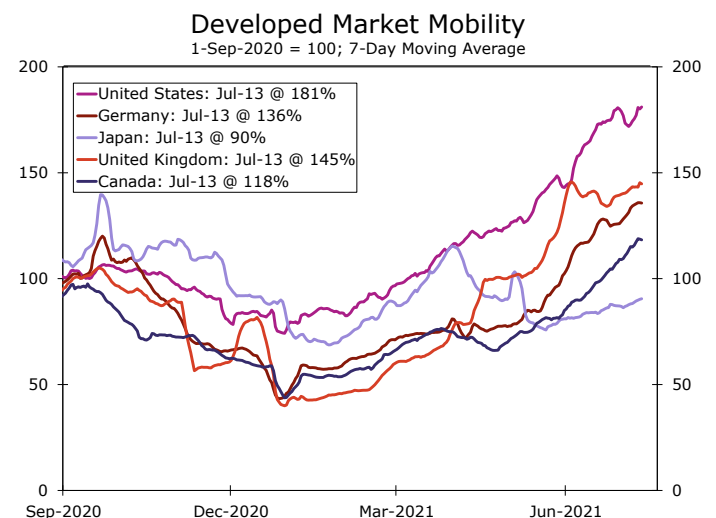
For most developed economies, it would appear the consumer is *willing* and *able* to spend, which underpins our sturdy economic growth outlook for 2021. The main exception is Japan, where we believe economic growth may be something of a laggard. Trends in Japan's household income and savings are less favorable, while vaccination rates are also lower. While further fiscal stimulus is likely in Japan, we still believe Japanese economic growth in 2021 will be slower than the other countries discussed in this analysis.

Figure 3



Source: Bloomberg LP and Wells Fargo Securities

Figure 4



Source: Apple and Wells Fargo Securities

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