Will Spain's savings rate continue to fall?

The Spanish economy has amassed four consecutive years growing above the euro area average. At the same time, the savings rate has fallen to an all-time low (see first chart).[1] Although at first glance this could suggest that households would have limited margin to accommodate their consumption decisions if the economy were to deteriorate, in this article we will see that it is still too early to draw this conclusion. Not only is the savings rate likely to begin to recover slightly over the coming quarters but, what is more, the financial situation of households has improved substantially compared to the years prior to the financial crisis.

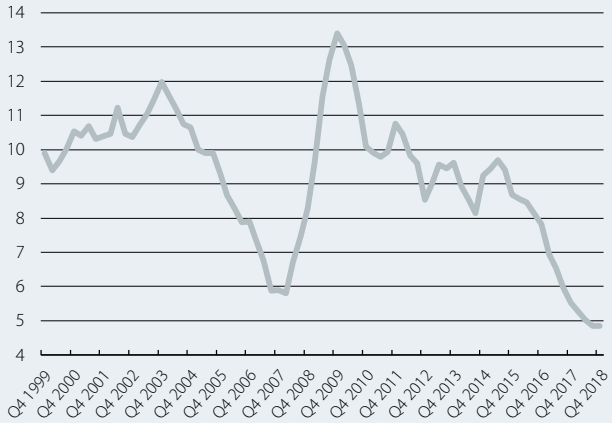
In order to analyse how the savings rate will evolve, we must evaluate the outlook for its two determining factors: consumption and gross disposable income (GDI). Given the close relationship between the two variables (consumption is largely funded by GDI), the main question is what growth differential there will be between them. Consumption has risen sharply since 2015, growing faster than GDI and resulting in a deterioration of the savings rate. Nevertheless, our prediction is that this pattern will reverse in the next few years and consumption will grow below GDI. The reason for this is the fading of the «pent-up demand» effect: the strong momentum of consumption in recent years can be largely put down to the materialisation of consumption plans that consumers had postponed during the financial crisis. Now that they have caught up, households can be expected to moderate their consumption patterns.

To put numbers to this narrative, in the second chart we present the forecast consumption growth predicted by a model that takes into account factors such as the growth in employment, wages, interest rates and housing prices.[2] As the chart shows, the model points towards a moderation in consumption in 2019, followed by a renewed acceleration in 2020. The moderation of growth projected for 2019 reflects a normalisation following its sharp rise between 2015 and 2018, due to the aforementioned «pent-up demand» effect, i. e. the model predicts a temporary adjustment of growth in consumption as it falls back in line with its determining factors. The rebound projected to start in 2020, meanwhile, reflects the end of this adjustment process

1. We define the savings rate as the difference between gross disposable income and consumption (as a fraction of gross disposable income).
2. The model captures differences in the sensitivity of consumption when faced with changes in the factors mentioned above. As such, according to the model, consumption shows greater sensitivity to changes in employment growth than to changes in wage growth, housing prices or interest rates. For more details, see «How much are we going to spend next year?» in the MR11/2018.

Spain: savings rate

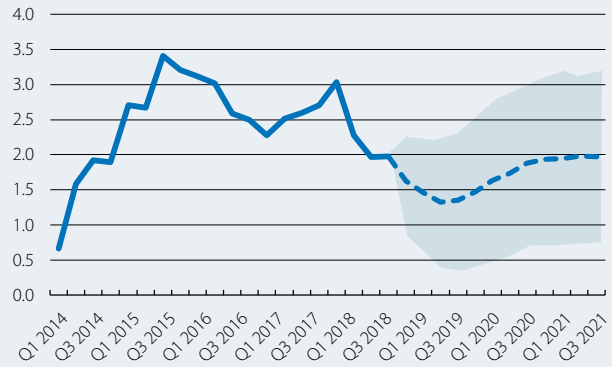
Percentage of gross disposable income (%)



Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: forecast and confidence intervals of private consumption *

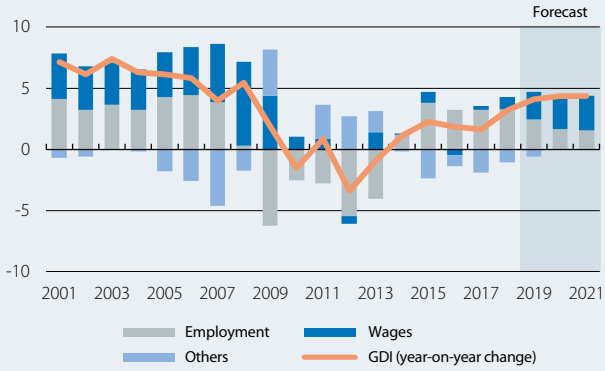
Year-on-year change (%)



Note: ** 90% confidence interval.*
Source: *CaixaBank Research, based on data from the National Statistics Institute and the Bank of Spain.*

Spain: breakdown of gross disposable income

Contribution to the growth of gross disposable income (pps)



Notes: *The category «Others» reflects factors such as the income of self-employed workers and changes in taxes and transfers (higher tax payments explain the negative contribution of this category).*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

Spain: savings rate forecasts

Annual change (%)

	2018	2019			2020			2021		
		Pessimistic	Central	Optimistic	Pessimistic	Central	Optimistic	Pessimistic	Central	Optimistic
Employment	2.5	1.9	2.2	2.4	1.3	1.6	1.9	1.2	1.5	1.8
Wages	1.4	1.3	2.0	2.5	1.5	2.7	3.0	1.8	2.8	3.0
Savings rate forecast	4.9	4.4	5.1	5.6	4.5	5.8	6.4	4.9	6.4	7.1

Notes: *The forecasts of the savings rate are developed based on the trends in GDI and consumption that are projected in each scenario. The GDI projections are based on assumptions of employment and wage growth (we exclude non-wage incomes). On the consumption side, we take the growth differential predicted using the model in the «Pessimistic» and «Optimistic"» scenarios relative to the model's central scenario, and we apply these growth differentials to the central scenario envisaged by CaixaBank Research.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

and the greater expected growth in GDI. In any case, the model predicts that consumption will grow at a solid rate throughout the period in question.

As for GDI, our forecast is that over the next few years households will see their income continue to recover, growing by around 4% per year between 2019 and 2021 (see third chart). This recovery, which has already begun to show in the data available for 2018, will be driven by job creation and the recovery in wage growth, although wages will play a greater role in the rise in GDI to the extent that job creation moderates.[3]

Savings rate scenarios

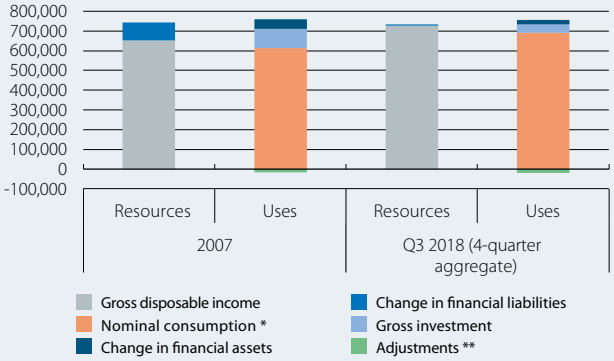
Armed with the growth outlook of the two factors that determine the savings rate and a model that predicts the impact of household income on consumption, we can analyse the evolution of the savings rate in three scenarios: the scenario described above (central), another in which employment and wages perform better than in the previous one (optimistic) and a third, more moderate scenario (pessimistic). As we can see in the table, the savings rate is expected to recover gradually, although if incomes were to grow much slower than expected, as reflected in the pessimistic scenario, savings could even fall slightly before starting to recover.

What are the risks of a low savings rate?

To answer this question, we must assess the financial situation of households: their sources of income and what they use that income for. As we show in the last chart, households are in a healthier financial position than they were prior to the economic crisis. Whereas in 2007 12% of total household resources came from taking on new debt, in the aggregate of the four quarters up to Q3 2018 this figure stood at just 1%. In fact, households have been reducing their level of debt almost continuously since 2011. This trend has allowed

Spain: household resources and their uses

(EUR thousands)



Notes: ** Nominal consumption is calculated as the difference between gross disposable income and gross savings. ** Adjustments between financial and non-financial accounts, among others. Figures are in nominal terms.*
Source: *CaixaBank Research, based on data from the National Statistics Institute.*

household debt as a percentage of GDI to reach 98.1% in Q3 2018, in aggregate terms over four quarter - well below the peak of 131.4% reached in 2010. As for what this income is used for, we can see that households allocate most of their resources to consumer spending, although they also devote a portion to accumulating financial assets and funding investment plans (mostly real estate investment). It is worth noting, however, that the relative weight of investment has also fallen sharply, from 15% of GDI in 2007 to around 6% in Q3 2018 (four-quarter aggregate figure). In short, whereas in 2007 households saved little in order to maintain a high level of consumption and they took out debt to fund real estate investment, today this pattern has been broken and we can see how the low savings rate is not translating into a higher level of indebtedness.

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3. The latest data from the quarterly labour cost survey published by the National Statistics Institute show that the labour cost per effective hour grew by 1.4% in 2018, compared to 0.0% in 2017. The gradual recovery in wages is therefore confirmed, and we expect it to continue for the next few years to come.