

Consumption and pent-up demand: what is the profile of the star consumer in the recovery?

With the worst of the pandemic behind us, how is consumption recovering? Are there significant differences between the various groups of the population?

Savings in 2020: the driving force behind pent-up demand

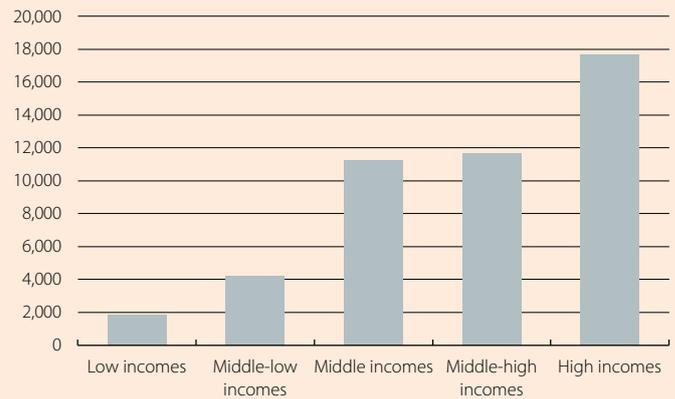
The restrictions imposed to curb the spread of the coronavirus and the caution resulting from the high levels of uncertainty led to a significant increase in Spanish household savings in 2020. Specifically, we estimate that the savings accumulated due to the pandemic amounted to 46.6 billion euros, or 3.7% of 2019 GDP.¹ This sharp increase in savings has been undone as we have been able to regain our habits, which is spurring a rapid recovery in consumption. This is a trend that will most likely continue over the coming quarters.²

How was the increase in savings distributed among different population groups? To answer this question, we analysed CaixaBank's internal data, which was duly anonymised. Specifically, using information from more than 10 million customers, we reconstructed how households' gross disposable income and consumption changed, in real time, split by income level and age group.³

As expected, the increase in savings was particularly pronounced among those with higher incomes: high and middle-high incomes accounted for practically two-thirds of the additional

Distribution of pent-up savings accumulated during the pandemic by income tranche

(EUR millions)

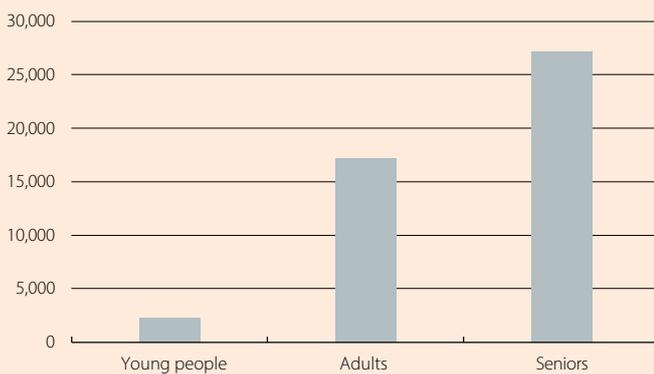


Notes: Estimates based on internal CaixaBank data, redistributing the aggregate excess savings in the Spanish economy by relative weight. The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.

Source: CaixaBank Research.

Distribution of pent-up savings accumulated during the pandemic by age group

(EUR millions)



Notes: Estimates based on internal CaixaBank data, redistributing the aggregate excess savings in the Spanish economy by relative weight. The young people category refers to people between 16 and 29 years of age, adults to people aged between 30 and 59, and seniors to those over 60 years of age.

Source: CaixaBank Research.

stock of savings generated in 2020 as a result of the pandemic, as the first chart shows. The results are intuitive: the restrictions were uniform for all categories of the population and resulted in an involuntary reduction in consumption, especially in the case of services and durable goods,⁴ such that people with higher incomes saved a larger fraction of their income.

When we assess how the excess savings were distributed by age, we see that seniors (people over 60 years old) accounted for just over half of the stock of savings that was generated at the aggregate level; adults (30-59 years), one third, and young people (16-29 years), a small portion (see second chart).⁵ Again, the result seems plausible: older people were subject to the same restrictions as other demographic groups, but the impact on their purchasing power was lower. Adults, meanwhile, saw the fall in their gross disposable income cushioned by the support from economic policy. On the other hand, at the aggregate level young people do not seem to

1. We define «excess savings» or «pent-up savings» as the differential between the actual savings that occurred in 2020 and those which would have occurred if, with the levels of gross disposable income observed in 2020, households had maintained their savings rate of 2019. We then subtract from this amount the portion allocated to debt repayments.

2. In particular, according to data from the Bank of Spain, in 2020 the bulk of the savings were allocated to purchasing financial assets (65%, predominantly deposits), while the proportions allocated to investment (30%), mostly housing, and debt reduction (5%) were relatively smaller.

3. For GDI, we have taken into account the main sources of income: payroll, unemployment benefits, public pensions, public aid and private pension payments. We have then subtracted debt payments from this amount. As for consumption, we have examined card purchases and cash withdrawals carried out at ATMs, as well as including direct debit payments and transfers related to consumption.

4. See Bank of Spain. «Quarterly Report on the Spanish Economy». Economic Bulletin 3/2021.

5. The distribution is similar if we look at savings per person for each age group.

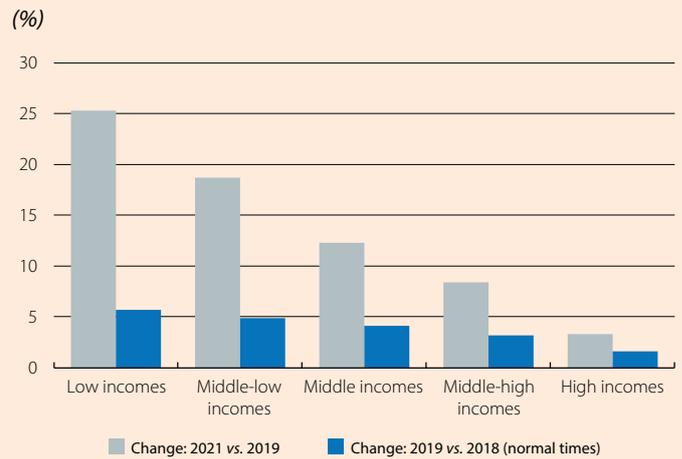
have benefited from the moratoria to the same degree, as they tend not to have as much debt, or from the furlough schemes either, as they have a higher incidence of temporary employment.

How are the savings accumulated during the pandemic being undone? Who is driving the recovery in consumption?

The pent-up demand accumulated at the height of the pandemic is leading all population groups, from those with lower incomes to those with higher incomes, to register strong growth in their consumption levels. In fact, this will end up allowing consumption to exceed pre-pandemic levels as early as this year, both at the aggregate level and across all income levels.⁶ This pull from demand, which is widespread among the major developed countries, helps us to understand the logistical difficulties at the global level in meeting the rapid recovery in demand.

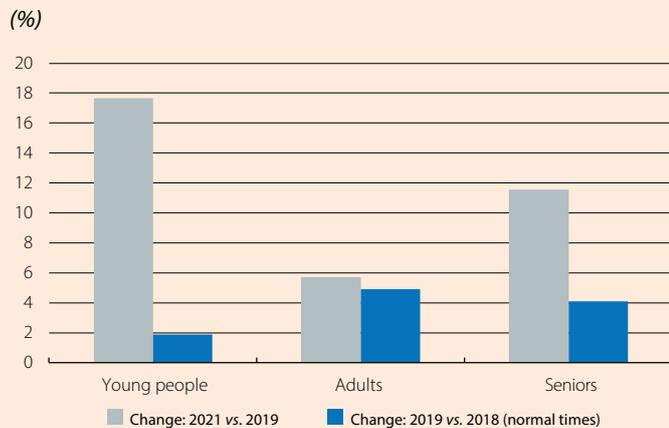
However, there are some notable differences between the various groups. Among people with lower incomes, the rebound in consumption is stronger compared to the pre-pandemic period. In the case of those with higher incomes, in contrast, the rate of consumption growth is lower.⁷ That said, it should be noted that since those with the highest incomes are the ones with the highest consumption volumes, even if the growth rate is lower their contribution to aggregate consumption growth is nevertheless very important. Specifically, for 2021 we anticipate that the 20% of households with the lowest incomes will account for around 10% of the aggregate consumption in Spain, while the 20% of the population with the highest incomes will make up more than 30% of the total.

Expected consumption growth for 2021 by income tranche



Notes: Projections based on internal CaixaBank data. The low incomes tranche refers to the 20% of the population with the lowest incomes, middle-low incomes to the next 20% of people, middle incomes to the next 20% with even more income... and so on.
Source: CaixaBank Research.

Expected consumption growth for 2021 by age group



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Source: CaixaBank Research.

As for the demographic profile, we are seeing particularly strong growth in consumption among young people. For seniors we project a vigorous rise in spending in 2021 compared to 2019, driven largely by the aggregate increase in savings in this group. In contrast, for adults, consumption is picking up more moderately compared to the other groups. The fact that the economic uncertainty associated with the COVID-19 crisis has not completely dissipated, and that other sources of risk such as the supply shortages or rising energy prices have emerged, could explain the lower rebound in consumption in this demographic group. After all, people in this group generally have higher debts and may be moderating their consumption as a precaution.

In short, the recovery in consumption in 2021 is a palpable reality that is reaching a large and varied range of households. In particular, the growth in consumption is proving especially pronounced among young people and lower-income groups.

Looking ahead to 2022, the large volume of savings accumulated at the aggregate level during the pandemic invites us to think that the recovery in consumption still has a long way to go, especially among higher-income groups, provided that the logistical problems in global value chains are solved and inflation levels return to normal.

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6. It is worth noting the significant difference between the consumption carried out through card payments, cash withdrawals, e-commerce payments and direct debit charges, which is observed using CaixaBank’s internal data, and the national accounting data published by the National Statistics Institute, which reflect estimates of a more modest recovery in household consumption.

7. People with higher incomes often have a lower marginal propensity for consumption. See, for example, J.L. Laborda, C. Marín-González and J. Onrubia-Fernández (2018). «¿Qué ha sucedido con el consumo y el ahorro en España durante la Gran Recesión?: Un análisis por tipos de hogar». Estadística Española, 60(197), 273-311 (content available in Spanish).