

Economic analysis

Household saving during the Covid-19 pandemic in Mexico

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The Covid-19 pandemic changed the dynamics of consumption, savings and credit demand of Mexican families. Mobility restrictions, the closure of several sectors and the uncertainty of the economic outlook generated sudden changes in the spending patterns of families. For households that did not see their income sources affected an increase in the savings rate was observed. While other households used credit as the tool to maintain their consumption levels in the face of variations in their income. As the economic cycle shifted towards a stage of reopening, these variables modified their dynamics again.

The data shows that the saving rate (measured as gross saving divided by gross disposable income) remained stable in the five years prior to Covid-19, averaging 19.3% (of every \$100 pesos of disposable income per household, \$19.3 was saved). At the start of the pandemic, we can observe a sharp rise in the indicator, reaching all-time highs of 36.7% for 2Q20 and remaining above its pre-pandemic trend until the beginning of 2022 (coinciding with the reopening) to settle at 14.1% on 4T22.

In a simulation carried out by BBVA Research in the report "Mexico Regional Sectoral Outlook. First half 2023", excess savings are estimated as the difference between the saving trend observed during the pandemic and a scenario without Covid-19 created with the trend between 2015 and 2019. On average, the difference between observed savings and the trend between 2020 and 2021 is 5.4%; that is, for every 100 pesos of disposable income, Mexican households saved 5.4 pesos more than they saved before the pandemic.

We also verify that Mexico experienced the same patterns that determined the increase in savings according to international evidence. First, we identified an increase in liquidity preference (as precautionary saving measure) through liquid bank deposits, which had a positive annual variation of 7.19% in 2020 in real terms, while medium term deposits fell -5.4% in the same period. Secondly, we identified a pattern of involuntary savings (derived from mobility restrictions and business closures) through mobility indicators in retail spaces and consumption with cards in retail stores. Both indicators reported their sharpest falls in 1Q22 concurrent with the increase in savings.

On the flip side, we track consumer credit and household debt. Credit demand moved in the opposite direction of savings in the first years of the contingency (2020 -6.0% and 2021 -8.0% in real balance terms). At the dawn of economic reopening, the accumulated excess savings runned out returning to its pre-pandemic rate and the demand for consumer credit started to rise closing 2022 with an annual variation of 5.3% in real terms, led mainly by credit cards. Household debt (measured as the debt to

income ratio) rose considerably (+13.5%) between 2018 and 2020 according to data from the Mexican national income survey.

The following survey (to be published) with results for 2022 will allow us to observe in greater detail the effects of Covid-19 on the dynamics of saving in Mexican households in the post-pandemic period..

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