Where are the risks in saving?

Expansión (Spain)

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Following the marked increase seen in 2009 (to around 9% of GDP), household savings have fallen almost to all-time lows (3.7% at the end of 2017). This has led to concerns due to the possible vulnerability of households and continued growth in consumption over the next few years. I will now put forward some arguments for thinking that in the short term this vulnerability is not on an aggregate level but that the crucial thing is the distribution of financial wealth. In any case, the outlook for public savings is more worrying.

What are the factors behind the fall in household savings? If we can identify them, they will give us some idea of how worrying the current situation really is. In the first place, perhaps the major determinant of this decline is the reduced economic uncertainty perceived by households. The likelihood of falling into a situation of long-term unemployment has declined considerably, allowing the surplus accumulated for these kinds of emergencies to be reduced. In the second place, part of the increase in savings during the crisis was due to the need to improve households' financial position. On the one hand there was a perception of over-indebtedness, and on the other, much of the borrowed money had been put into an asset the price of which fell considerably: property. Household financial wealth (net of liabilities) went from representing around 150% of gross disposable household income (GDHI) on average during the five years preceding the crisis, to around 105%. The increase in savings, deleveraging and the recovery in prices of assets held by Spaniards have all helped this net financial wealth reach its current level of around 190% of disposable income. As regards property wealth, admittedly it remains 25% below the peak of 2007 as a percentage of gross GDHI. However, taking 2005 prices as a reference, since they are somewhat closer to a long-term trend, we would be close to regaining pre-bubble levels.

It is also worth pointing out that despite the fall in household savings, private sector savings, which include businesses, have increased and remain high (9 pp of GDP above their 2007 level). What is more, there is evidence that a significant portion of the increase in the financing surplus currently shown by companies has been concentrated in SMEs. Given that households are directly or indirectly the owners of these assets, the problem of private sector savings may be smaller than is intuited by looking only at the position of households.

Finally, there are other factors that may also be important, such as the improvement in financing conditions (reducing the need for savings) and the composition of employment (those who find work spend a greater percentage of their income on consumption). One factor that may have been crucial is the role played by the process of fiscal consolidation, reducing the uncertainty about future adjustments.

In summary, part of the fall in households' savings is thanks to the previous efforts that have improved their financial position and made them less vulnerable as a whole. In any case, this does not mean that there are no points for concern. It is likely that the reconstitution of households' wealth has been at the expense of a less egalitarian intergenerational distribution. Also, doubts persist as to the sufficiency of the savings attained to meet the expectations that many people have about the pensions they will receive at the end of their working lives. Lastly, the process of fiscal consolidation is once again generating uncertainty. In the short term, the lack of state budgets upholds expectations of a deficit reduction but reduces the efficiency of the adjustment (for example by prolonging the low rate of public investment). Similarly, the proximity of the next political cycle will increase pressure to boost spending (or cut taxes). Finally, it remains necessary to go further and deeper in reforms to reduce the uncertainty about the sufficiency of pensions and the financing model for the autonomous regions.

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