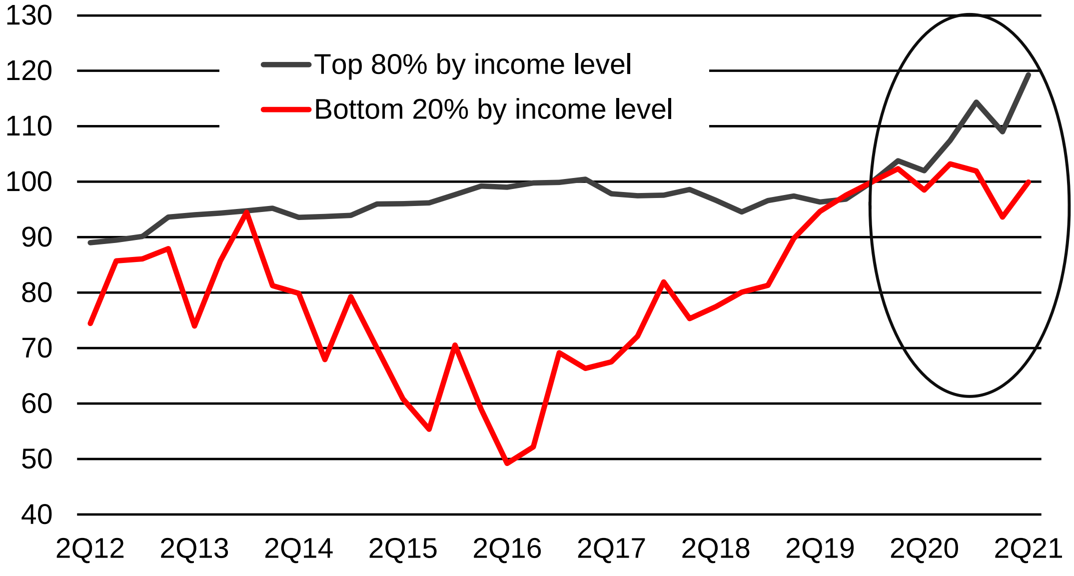
US: The uneven distribution of "excess savings"

Household liquid assets (sum of currency; checkable, time and saving deposits; and money market funds), normalised by nationwide personal disposable income, index 4Q19=100



Source: Fed, UniCredit Research

- A key determinant of the economic outlook is to what extent households will be willing to rundown their “excess savings” accumulated during the pandemic, to maintain personal spending growth despite the squeeze in real disposable income from high (albeit likely temporary) inflation. Our *Chart of the Week* shows that, in the US, the rise in household liquid assets[1] (mostly bank deposits) since the onset of the pandemic has been concentrated among the top 80% by income, while the bottom 20% of the income distribution has seen no rise in liquid assets. At the aggregate level, household liquid assets are more than USD 3tn above their pre-pandemic trend, which is broadly similar to our USD 2.6tn (12% of GDP) top-down estimate of accumulated “excess savings” during the pandemic – in other words, most of the excess savings have been parked in bank accounts.

- The uneven distribution of “excess savings” in part reflects the fact that the impact of the pandemic has fallen hardest on those people who can least afford it, and in part that the fiscal stimulus was not particularly well targeted. It matters for the economic outlook because the marginal propensity to consume out of wealth is roughly 10 times higher for low-wealth households than it is for wealthy households.[2] So while on aggregate the marginal propensity to consume out of financial wealth is typically estimated to be in the range of 5-10% in normal (non-recession) times, after adjusting for the uneven distribution of “excess” liquid assets, the marginal propensity to consume out of these “excess” liquid assets would be significantly lower.

- But these are still not normal times. The willingness of households to rundown excess savings will depend on how much pent-up demand remains as a result of past restrictions and precautionary behavior. We judge there to be little or no pent-up demand remaining for goods in the US, but there is likely significant pent-up demand for services, although this is unlikely to be exhausted quickly, given the still high level of new COVID-19 cases and that consuming services takes time. The willingness to spend savings will also depend on consumer confidence regarding the outlook for jobs and incomes. In the US, consumer confidence has fallen, with the University of Michigan sentiment index falling in November to its lowest level since 2011. But retail sales values rose a strong 1.7% mom in October – indeed, even after adjusting for higher prices, sales volumes likely grew robustly. This may mean that what people say (in surveys of consumer confidence) and do (in their spending decisions) are two different things, or consumer sentiment surveys maybe disproportionately reflecting the responses of lower-income households. And the finding that wealthier households have held their "excess savings" accumulated during the pandemic largely in the form of liquid assets may imply that they intend to spend it sooner or later. To conclude, there is large uncertainty over how households will react over the coming months.

[1]Liquid assets are the sum of currency; checkable, time and saving deposits; and money market funds.

[2]See, for example, Fisher, Jonathan, David Johnson, Timothy Smeeding, and Jeffrey P. Thompson (2019), "Estimating the Marginal Propensity to Consume Using the Distributions of Income, Consumption, and Wealth." Federal Reserve Bank of Boston, Research Department Working Papers, No. 19-4.

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