



The effects of the great recession on European household savings behavior and long-term beliefs

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Figure 1.1 GDP growth rate 2009 within EU (source: OECD)

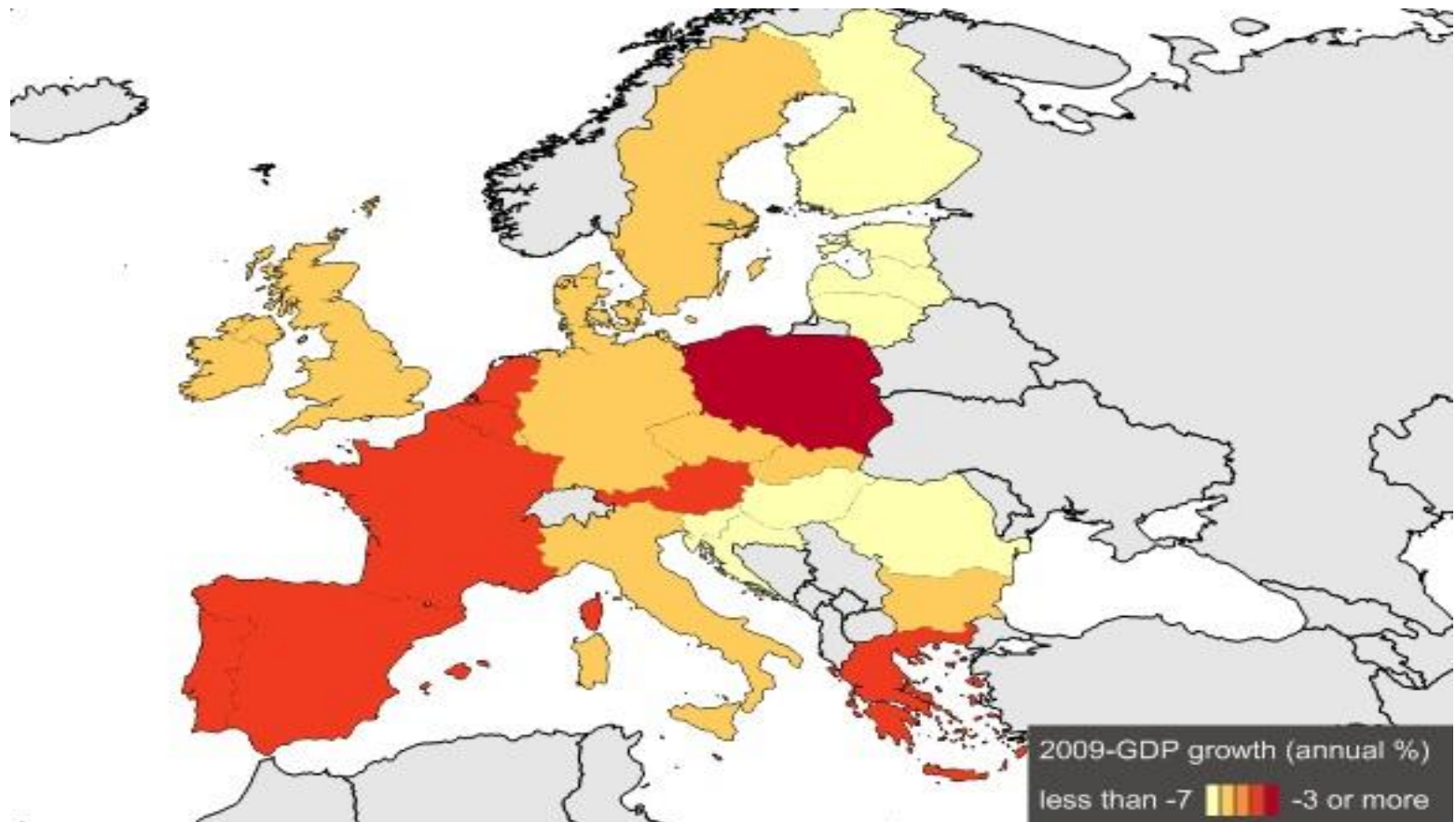


Figure 1.2 GDP growth rate 2012 within EU (source: OECD)

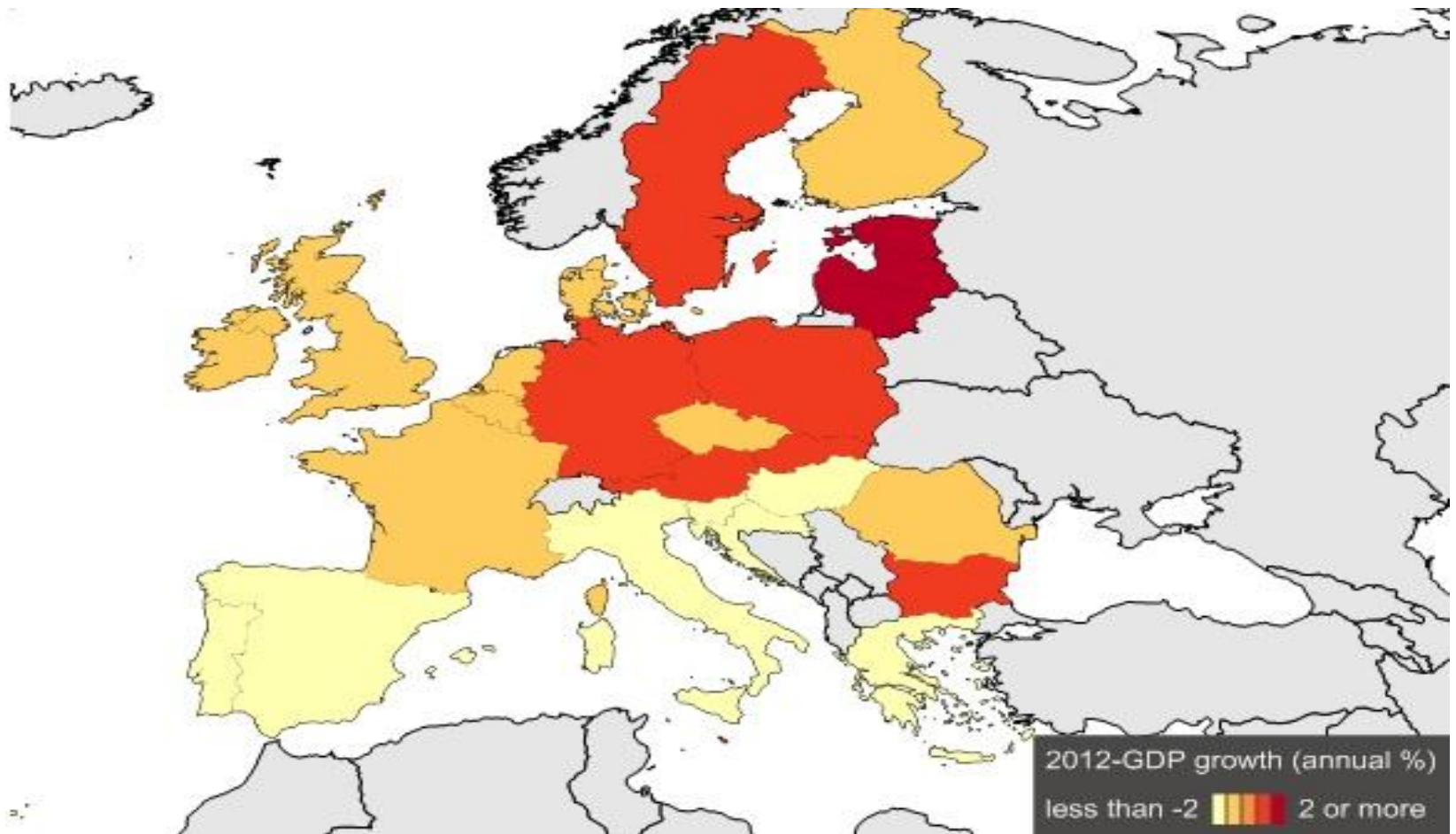




Figure 1.4 Unemployment rate in Europe and US

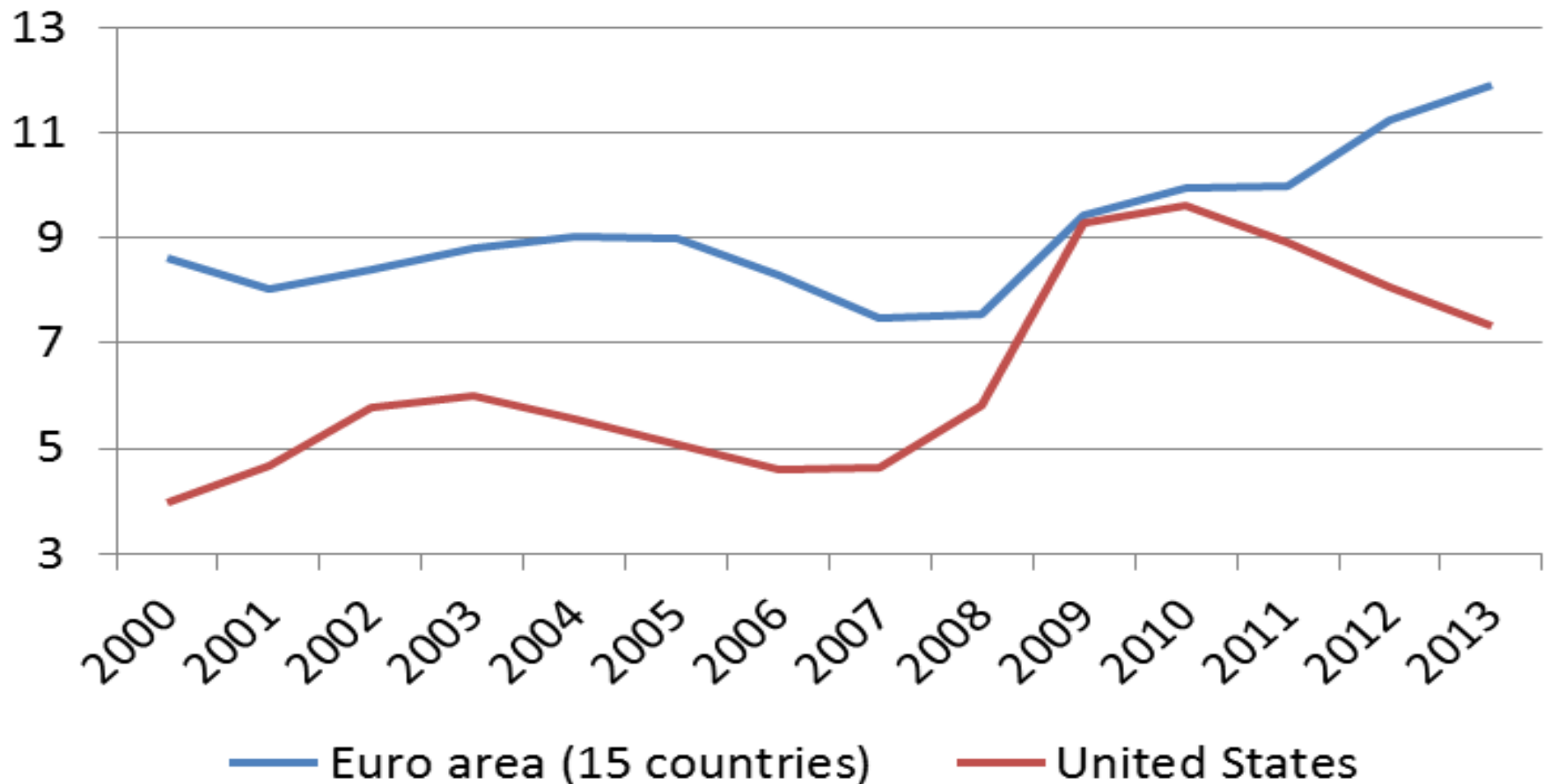




Figure 1.5 Unemployment rates within Europe

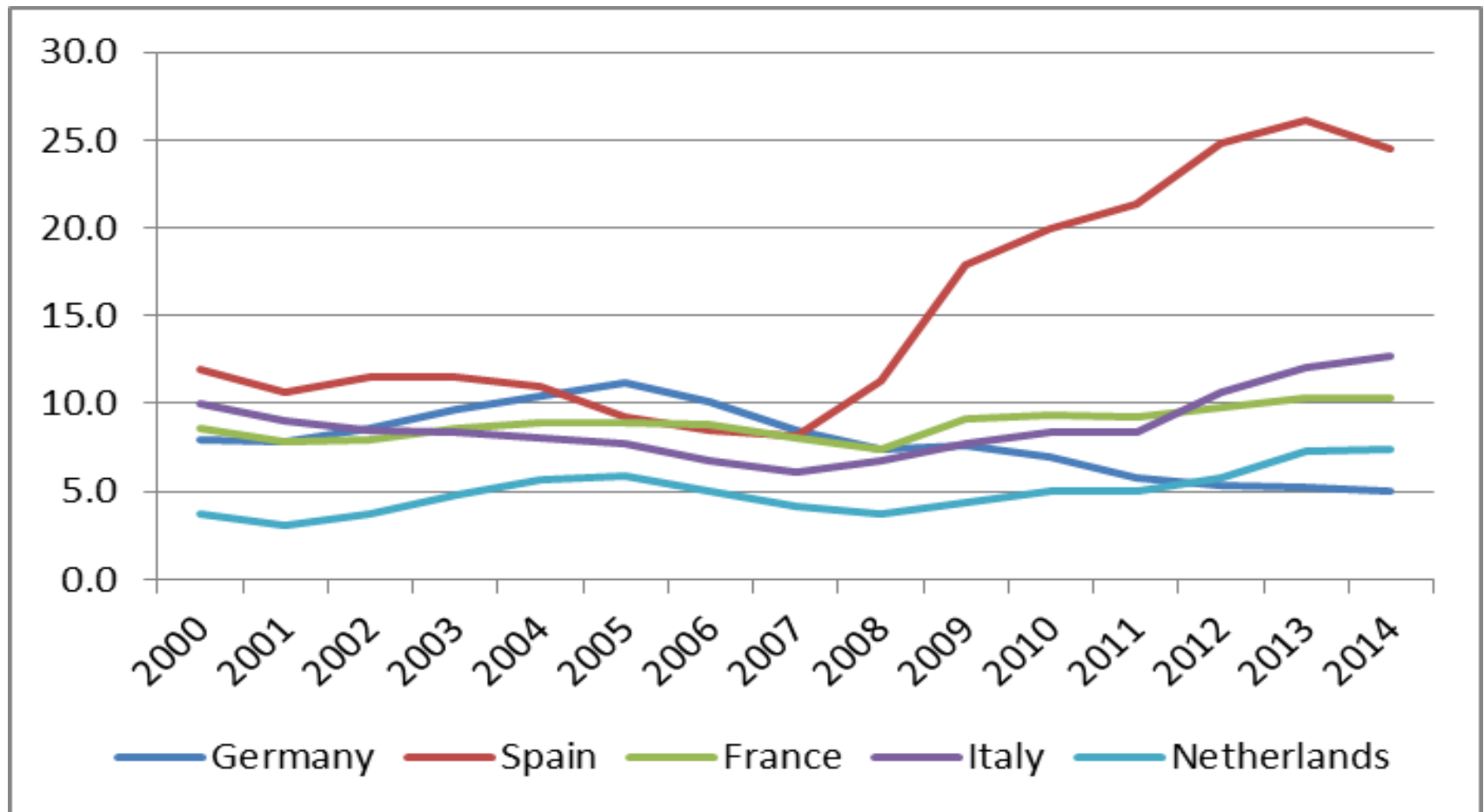
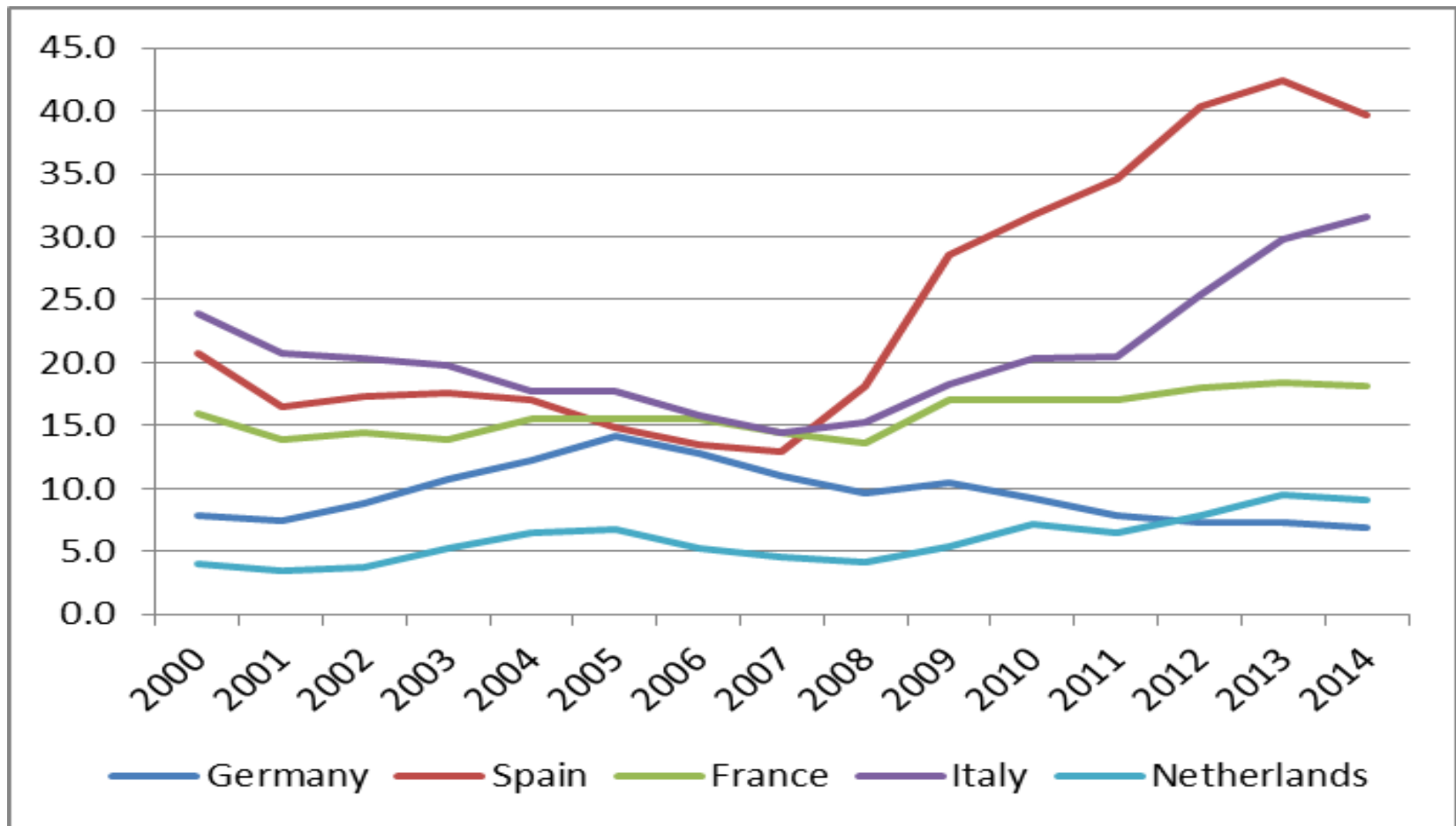




Figure 1.6 Youth unemployment rate (age 15-29)





Motivation

- > Both financial and real wealth have been severely hit by falls in house, stocks and bond prices.
- > Macro data: income ↓, spending ↓, household savings ↑
- > This may suggest that households perceive the crisis to have permanent effects, but precautionary savings can also have increased in response to the increased uncertainty
- > So the aggregate data are muted on the permanent or temporary nature of the macro shock affecting Europe.
- > Beliefs and perceptions have probably been altered by the crisis (Giuliano and Spilimbergo, 2014).



Goal of the report

- > Use household survey data from European countries
 - 1) to investigate which socio-demographic groups have been worst hit by the Great Recession.
 - 2) to shed light on whether consumers perceive the macro shock to have a permanent or temporary nature
- > The availability of micro data allows us
 - 1) to compare income, (real and financial) wealth and (some) consumption indicators across and within countries in the years 2004-2011
 - 2) study which groups of the population have been most affected by the crisis.



Report

- > Report consists of 3 parts
 - 1) Analysis household data from Eurostat (EU-SILC)
 - 2) Analysis of the SHARE data (representative for 50+ population)
 - 3) Longitudinal household data from Italy (SHIW) and the Netherlands (DHS)

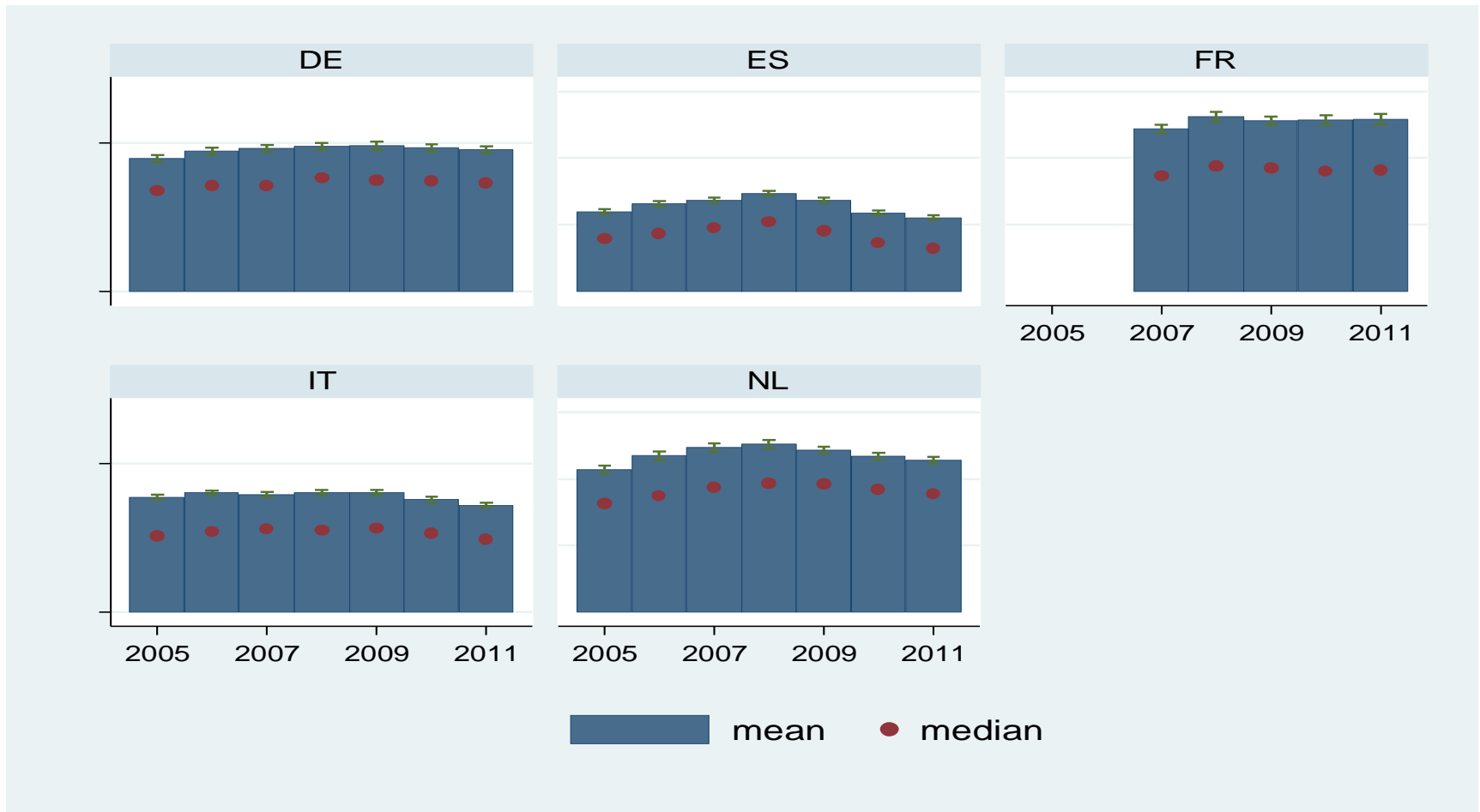


EU-SILC

- > Period: 2006-2012, sample size: between 10K and 20K hh
- > 5 countries: Germany, Spain, France, Italy and the Netherlands
- > Reference population: all private households
- > We consider the following measures of well-being
 - a) Equivalized disposable household income (PPP adjusted);
 - b) Ability to face an unexpected expense;
 - c) Over-indebtedness (arrears in payments of mortgage, rent, utility bills, hire purchase instalments or other loan)
 - d) Eurostat measure of material deprivation



Figure 2.2.1 Equivalent Household Real Annual Income





Log of Real HH Equivalent Income

	Spain		Italy		Netherlands	
	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
2005	9.480	0.707	9.589	0.665	9.808	0.514
2006	9.532	0.648	9.607	0.652	9.844	0.513
2007	9.543	0.685	9.611	0.642	9.879	0.515
2008	9.560	0.732	9.609	0.665	9.887	0.528
2009	9.518	0.742	9.612	0.662	9.883	0.516
2010	9.457	0.749	9.574	0.696	9.864	0.496
2011	9.431	0.759	9.557	0.681	9.845	0.507

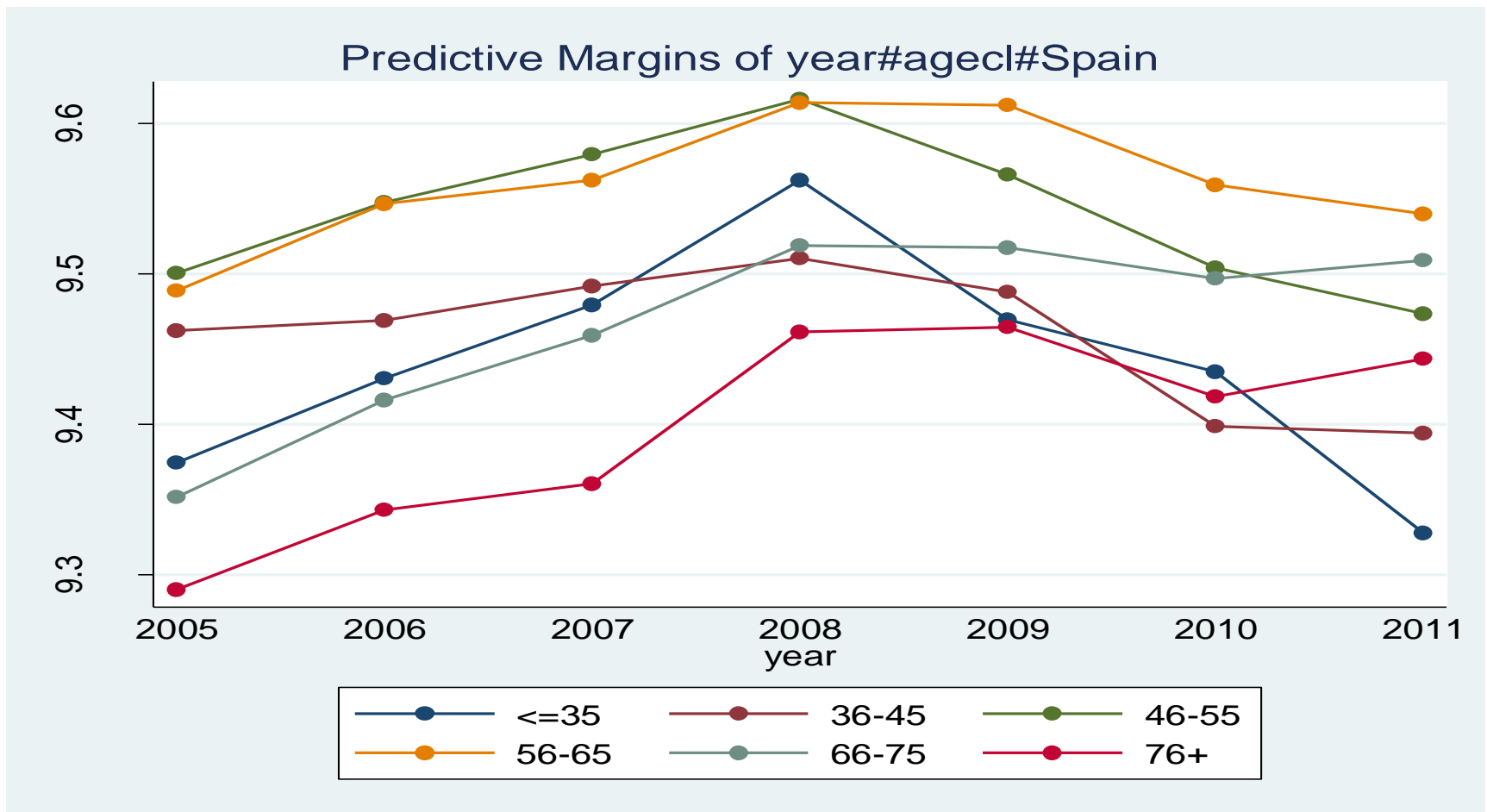


Control variables in regression analysis

- > Age class
- > Gender
- > Marital status (married, single, divorced and widowed)
- > Education level
- > Employment status (employee, self-employed, retired, unemployed, other)
- > Home-owner
- > Year dummies
- > We study if some groups of the population are more affected by the crisis than others.
- > To this aim we add to the regression, one by one, interactions between the year dummies and the control vars.

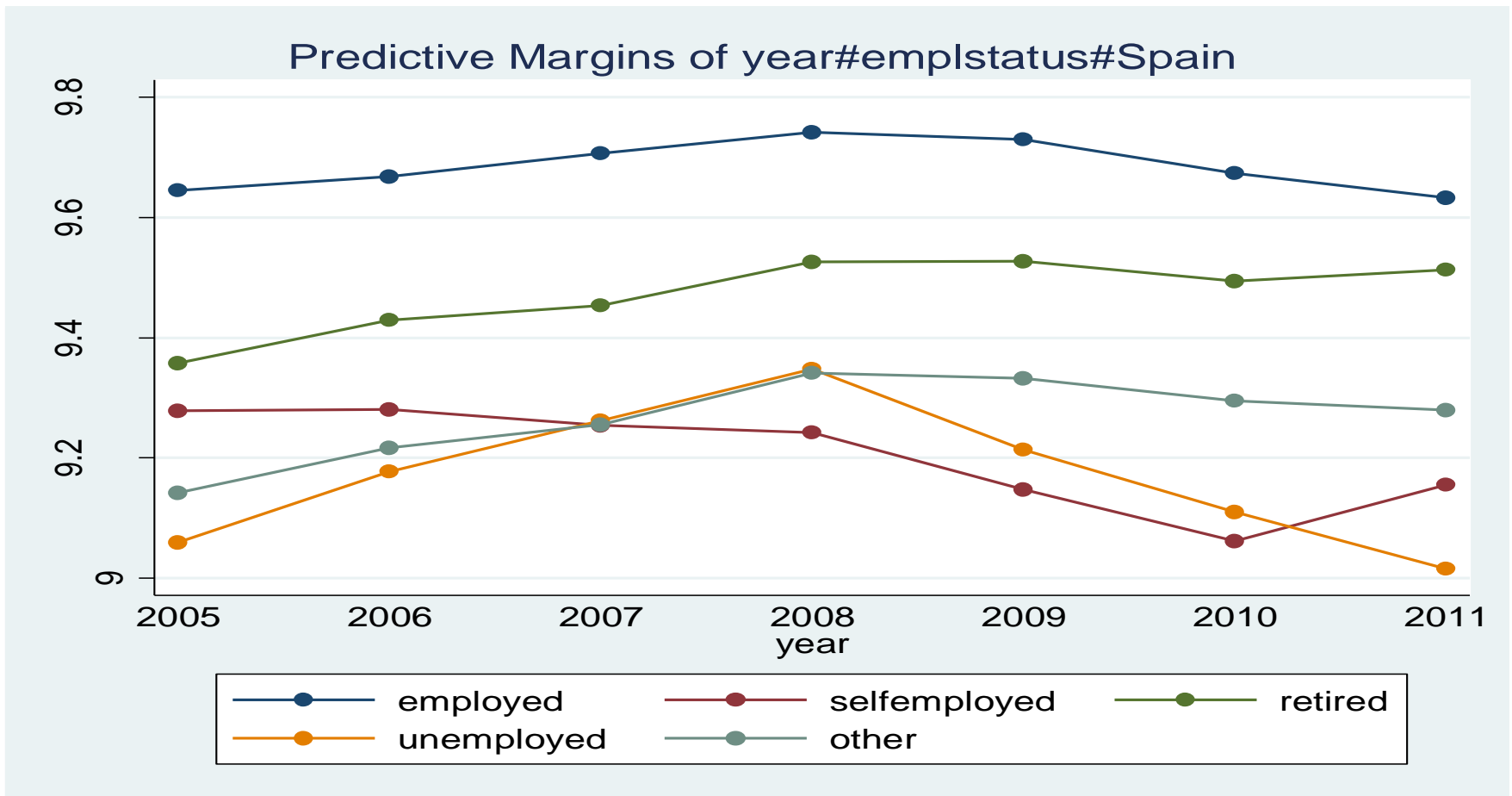


Logarithm of equivalent household income and age – Spain



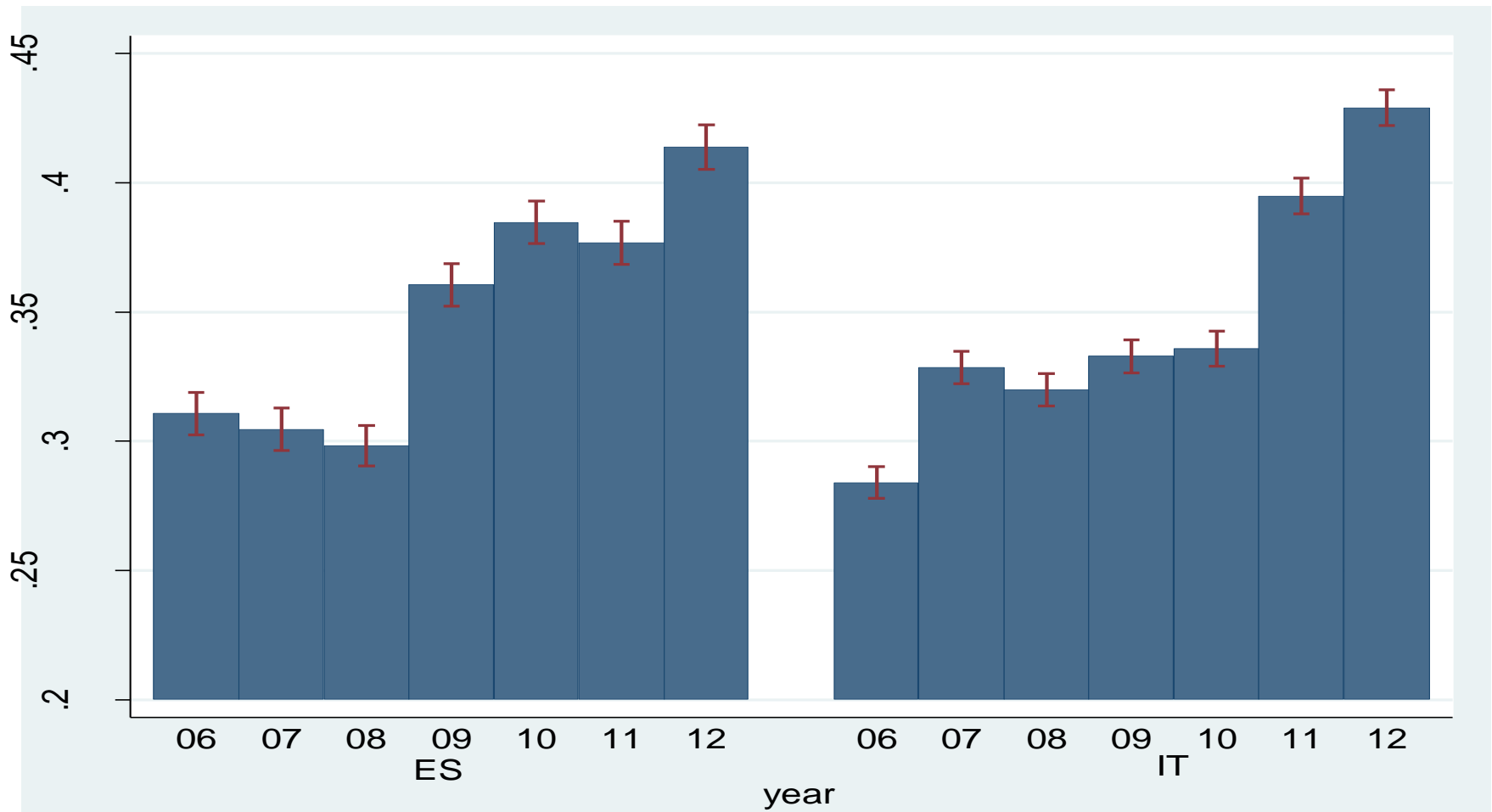


Log of equivalent household income and employment status–Spain



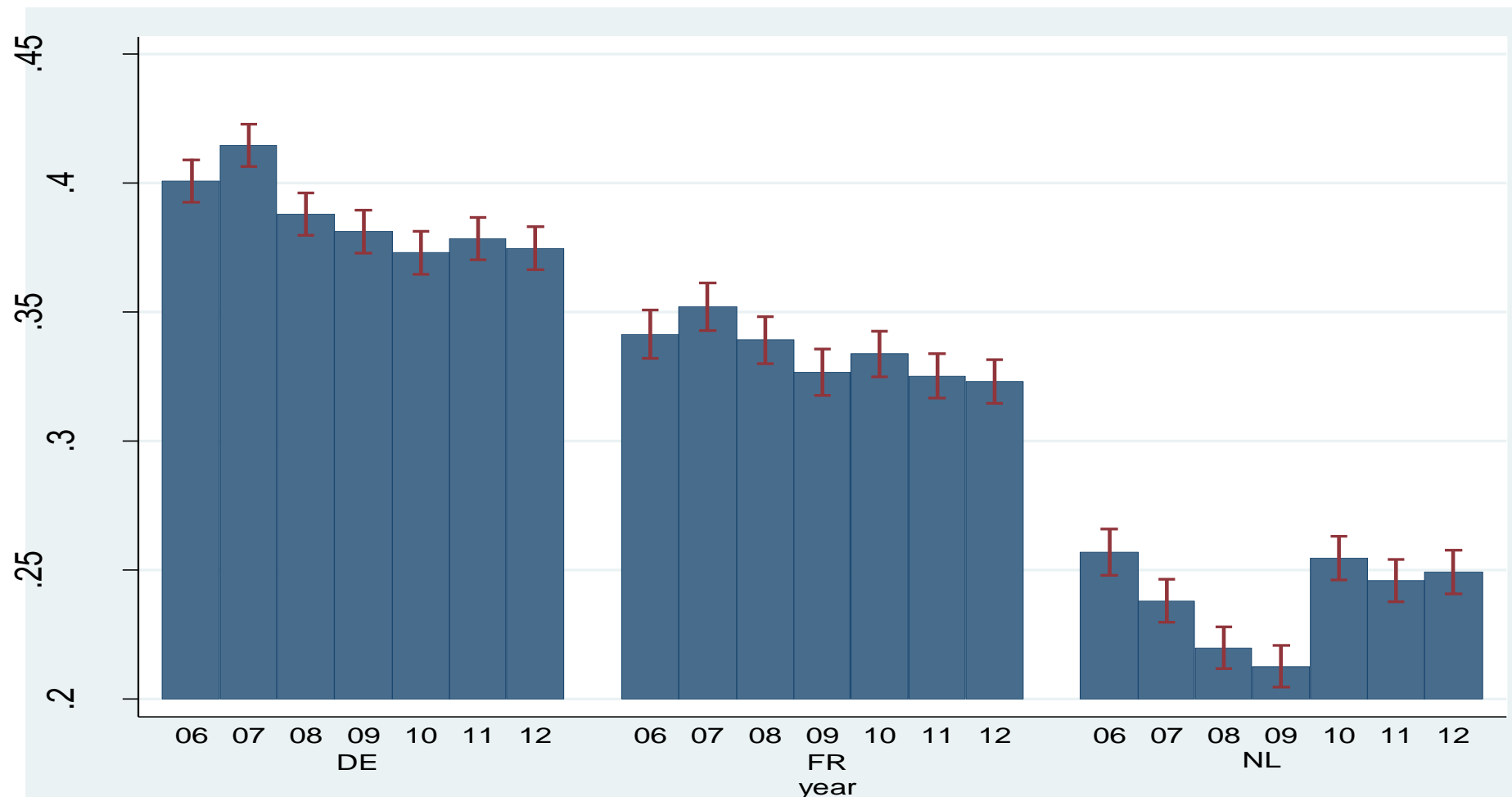


Proportion of household who declare that they cannot afford an unexpected expense – Spain and Italy





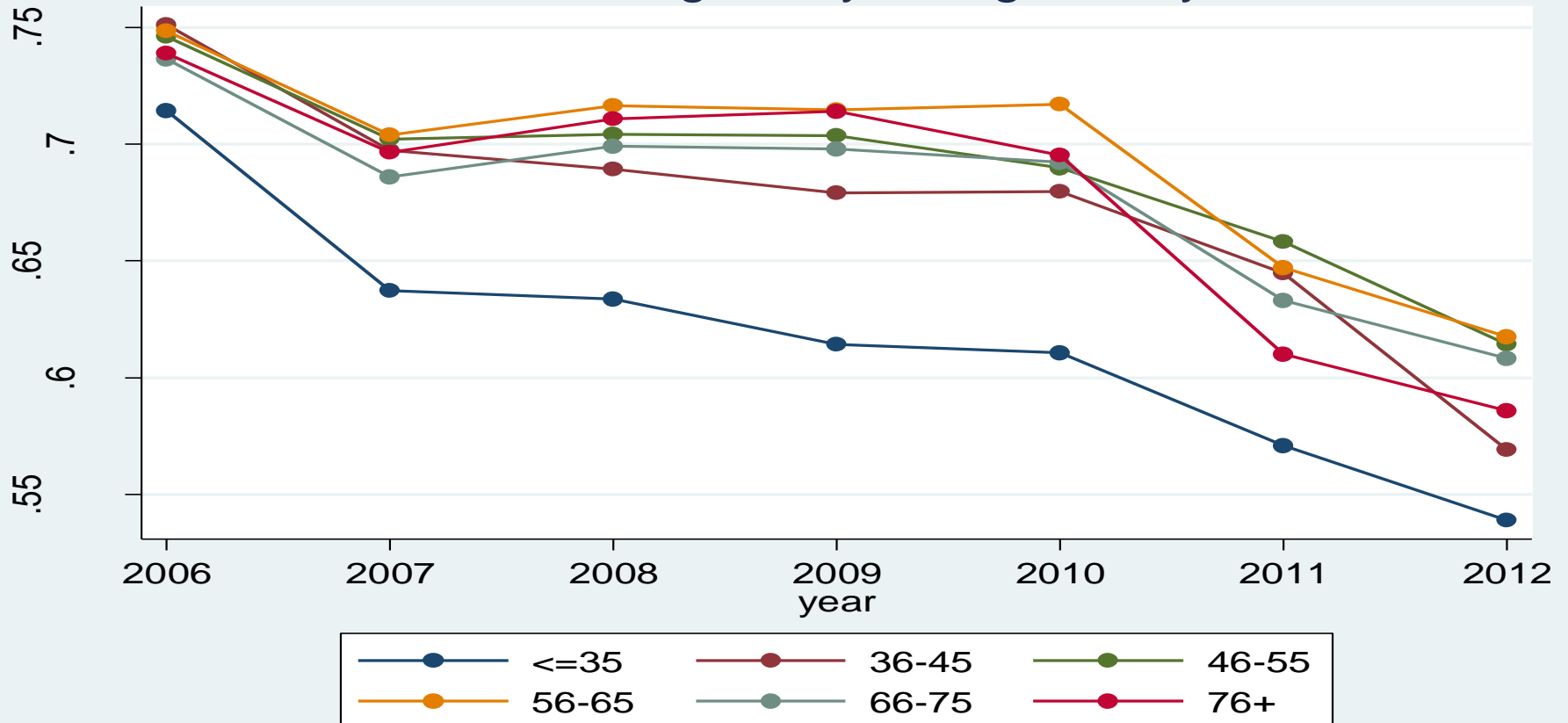
Proportion of household who declare that they cannot afford an unexpected expense – Germany, France and the Netherlands





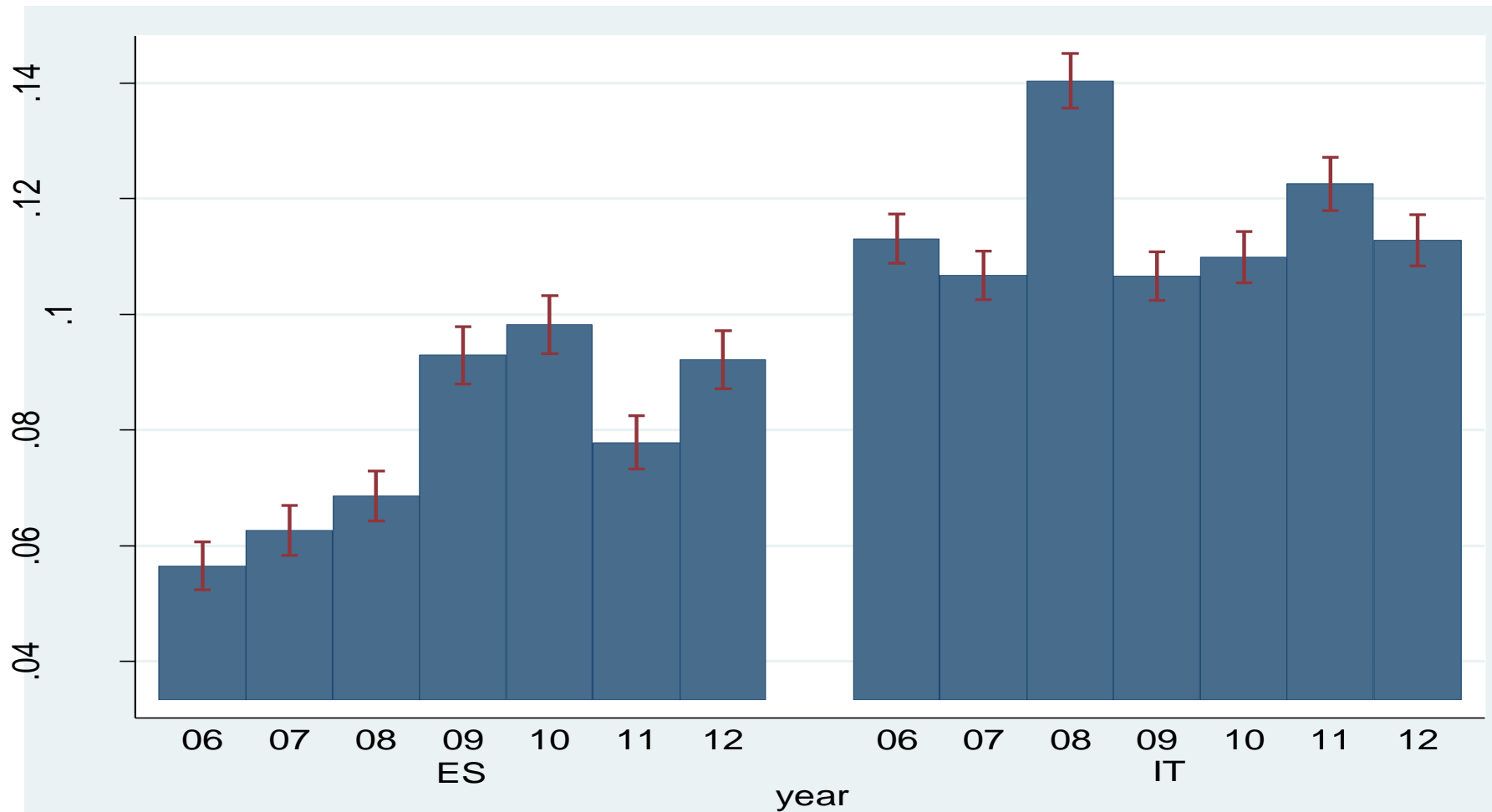
Capacity to face unexpected financial expenses and age – Italy

Predictive Margins of year#agecl#Italy



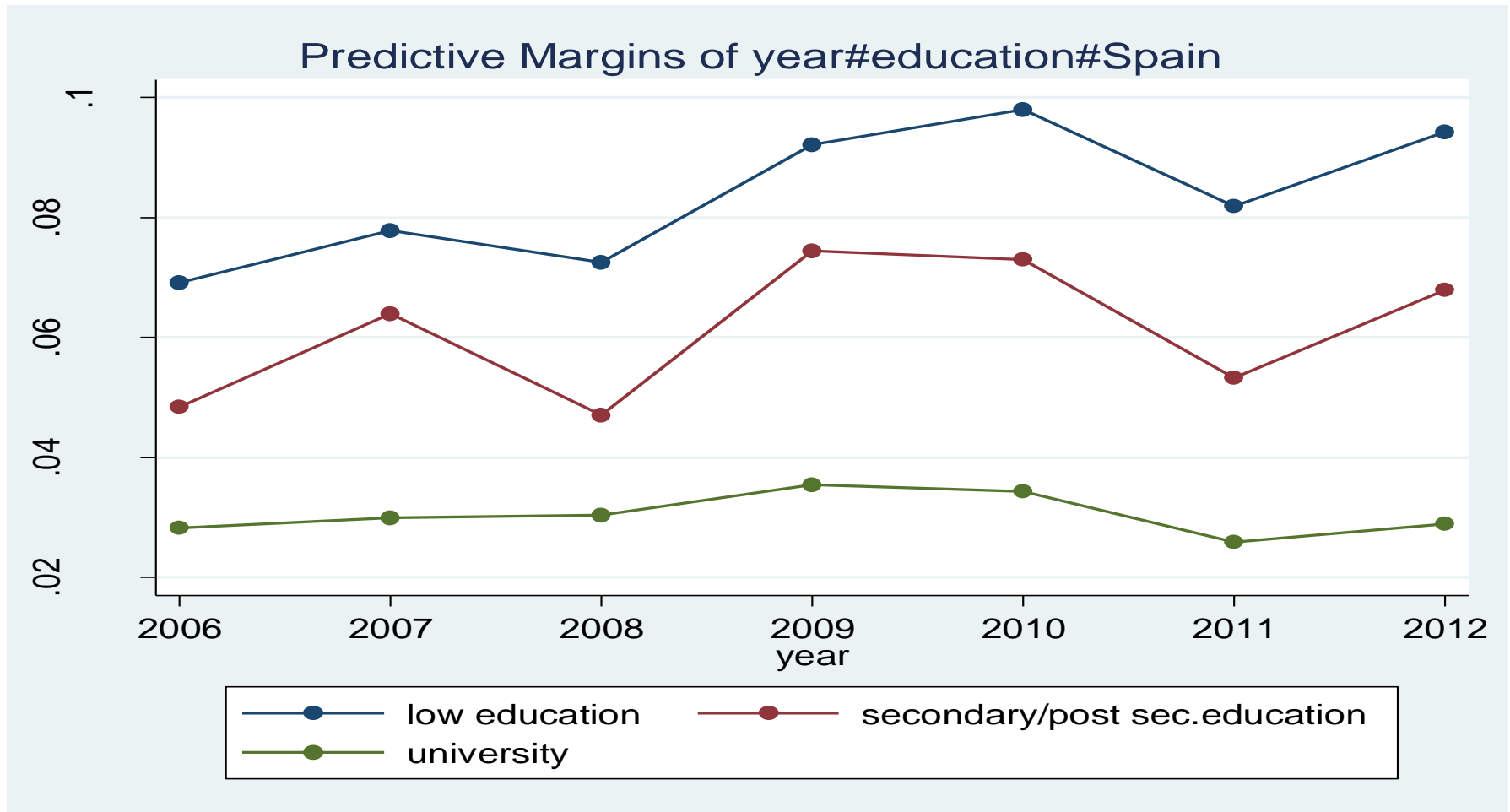


Proportion of over-indebted households – Spain and Italy



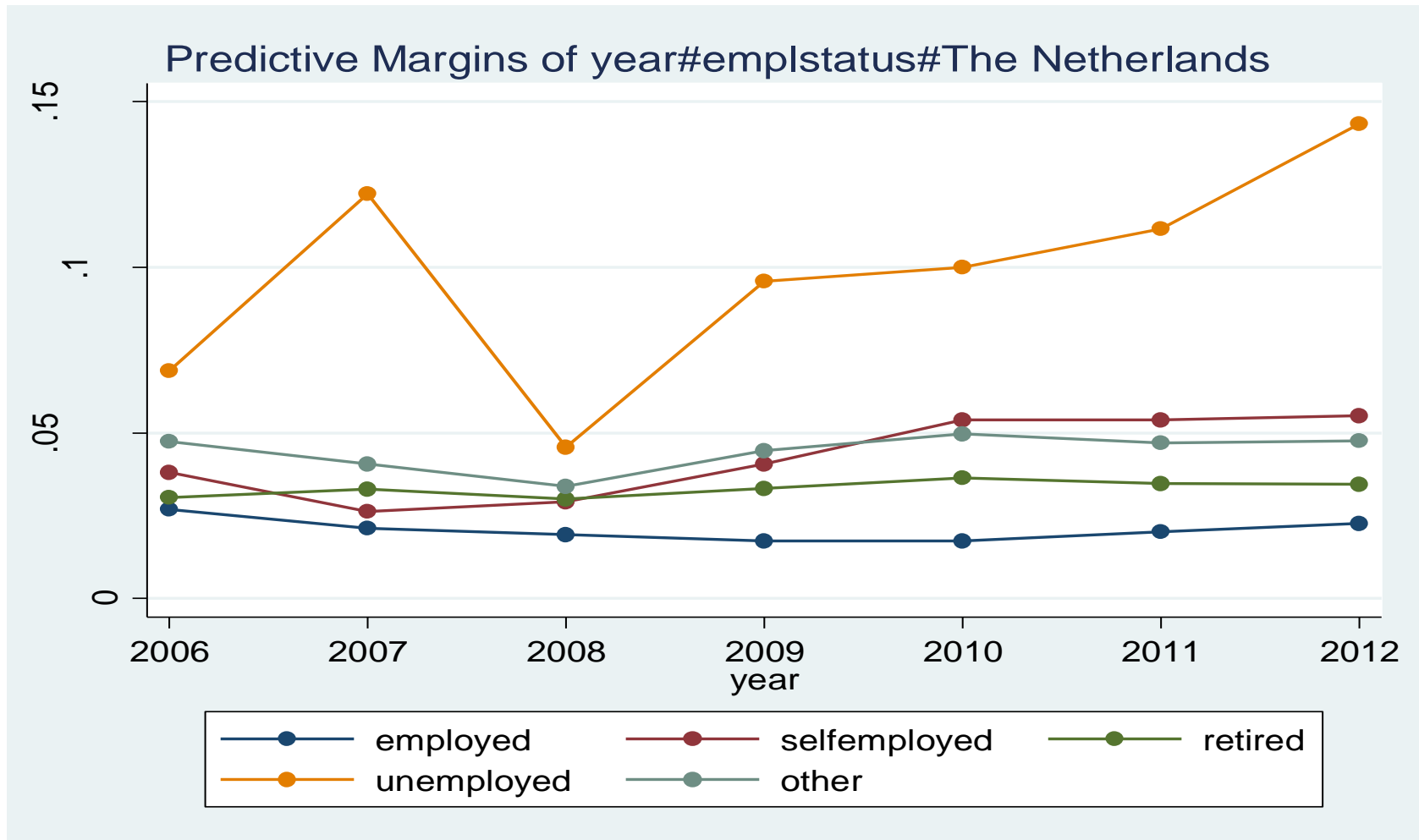


Over-indebtedness and education – Spain



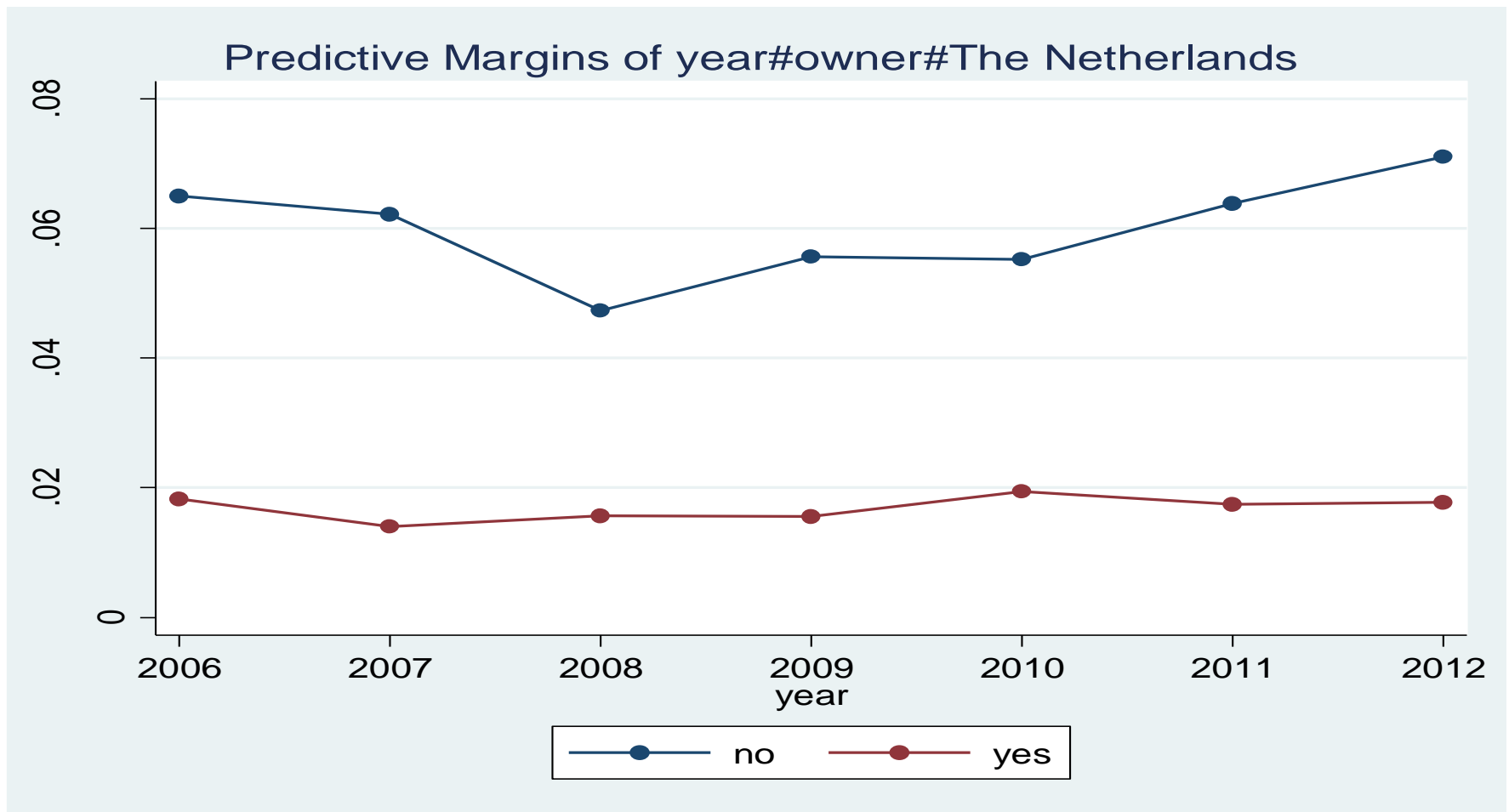


Over-indebtedness and employment status - NL



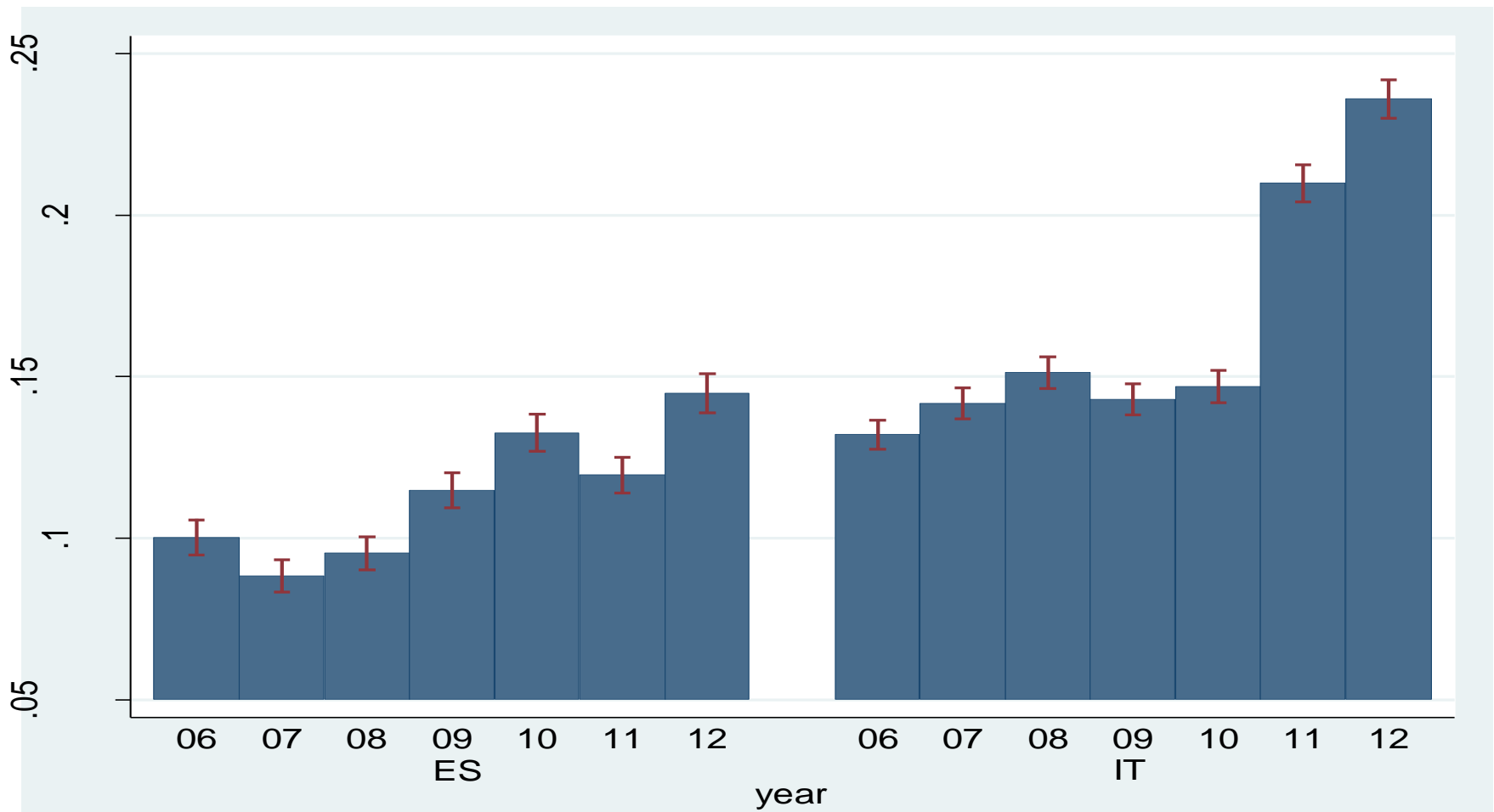


Over-indebtedness and home-ownership – The Netherlands





Proportion of deprived households – Spain and Italy



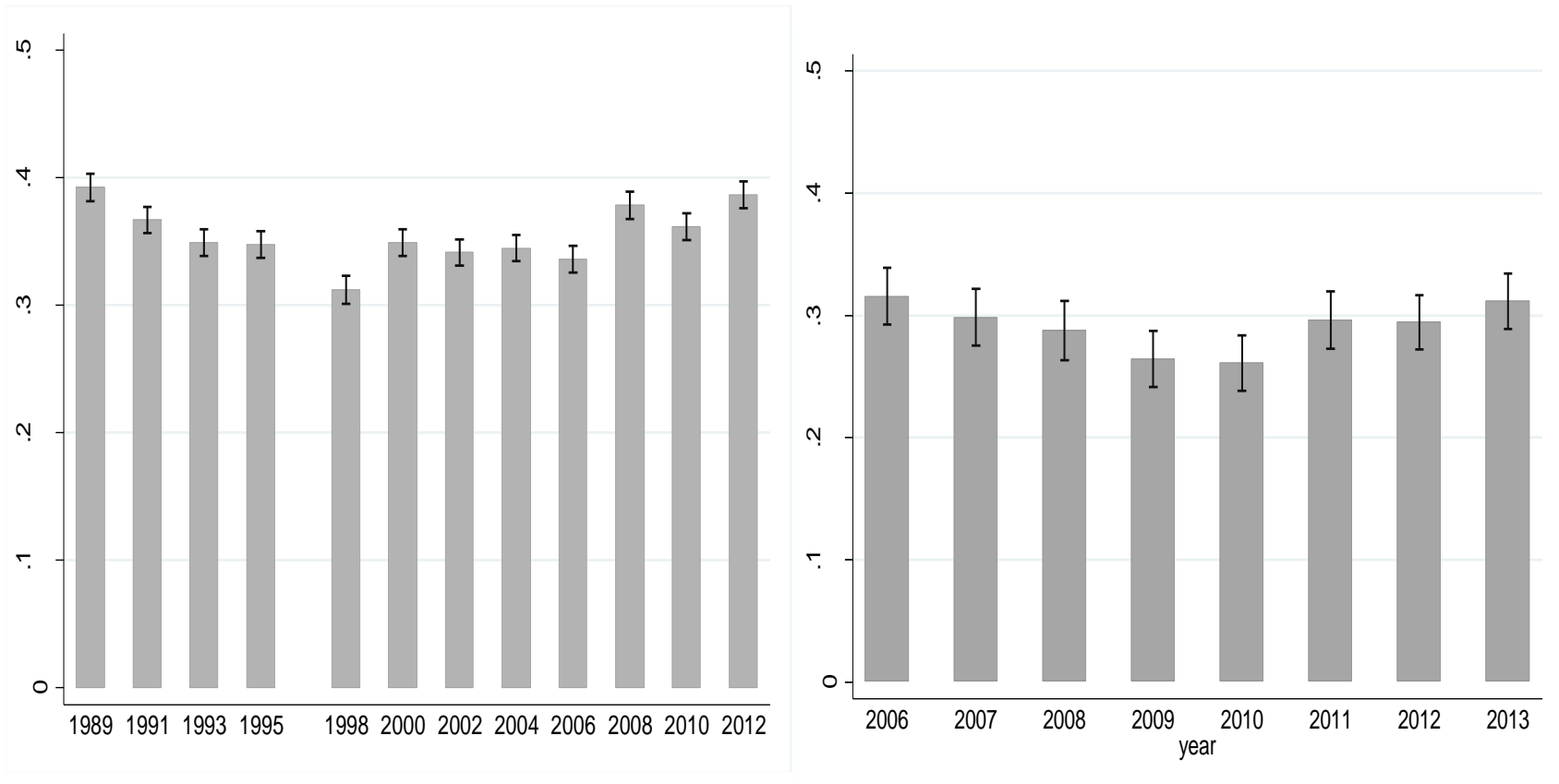


Analysis on NL (DHS) and IT (SHIW) surveys

- > These are representative longitudinal wealth surveys
- > SHIW: biannual since 1987, about 8000 hh per wave (rotating)
- > DHS: Internet panel launched in 1993, about 2000 hh
- > We consider the following measures of well-being:
 - 1) Equivalized disposable household income;
 - 2) Difficulties to make ends meet
 - 3) Home equity
 - 4) Financial distress indicator, equal to 1 if
 - a) hh financial wealth, net of non-mortgage debt lower than three months of income
 - b) Income not in top third of the distribution

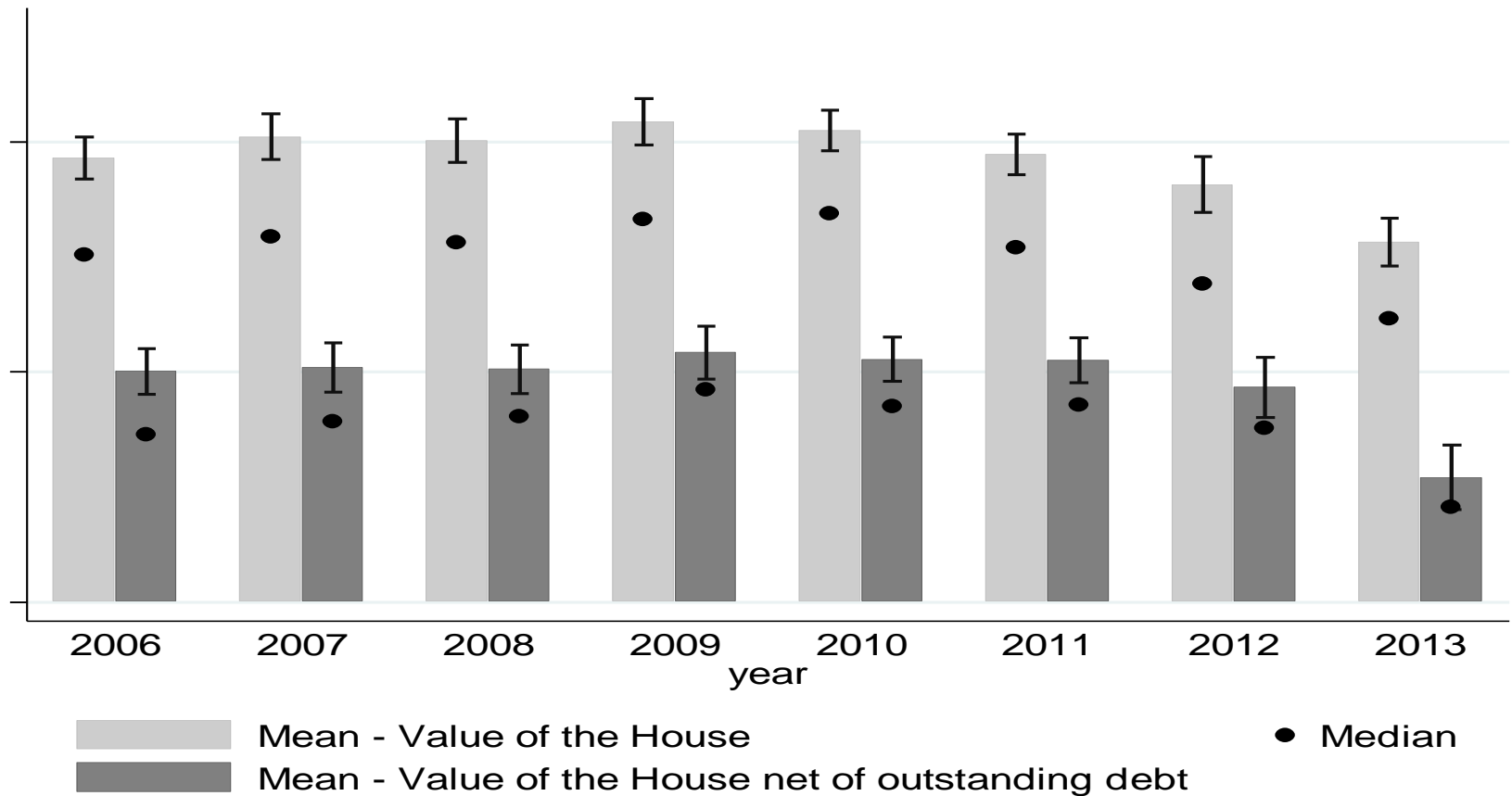


% of household in financial distress - Italy (left), NL (right)





Value of the House (in 2010€) – The Netherlands (DHS)





CONSUMPTION AND NET WEALTH IN ITALY DURING THE GREAT RECESSION (I)

- > To what extent have households used their wealth to mitigate the effects of the Great Recession on their consumption levels?
- > Celidoni, De Nadai and Weber (2015) use SHIW to analyse age profiles of household consumption and net wealth.
- > To identify the effect of the recession they distinguish between a *control period* of relative stability (from 1995 to 2006) and a *treatment period* (from 2008 to 2012) that corresponds to the crisis.
- > By specifying a life-cycle consistent consumption function, the method used allows to investigate the changes in the estimated age profiles that took place during the treatment period.



CONSUMPTION AND NET WEALTH IN ITALY DURING THE GREAT RECESSION (II)

- > To capture cohort-specific structural movements in consumption profiles during the crisis, the authors include year cohort-dummies for the treatment period.
- > The corresponding coefficients can be interpreted as the deviations of the cohort-specific consumption profile during that particular treatment year from the pre-crisis predictions.



Figure: Non-durable consumption (logarithm)

Note: Cohorts displayed: 1975-79 1955-59 1935-39

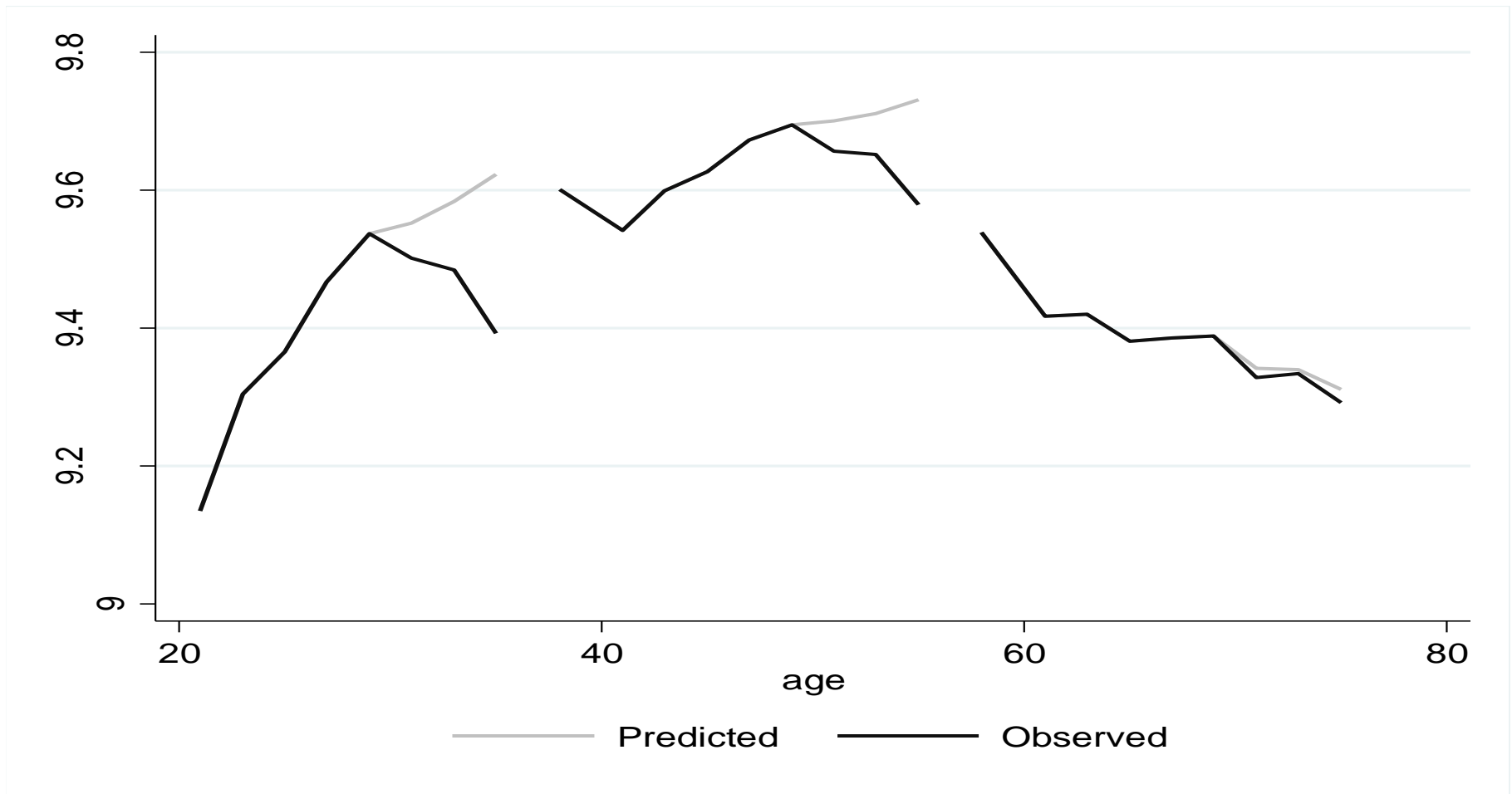
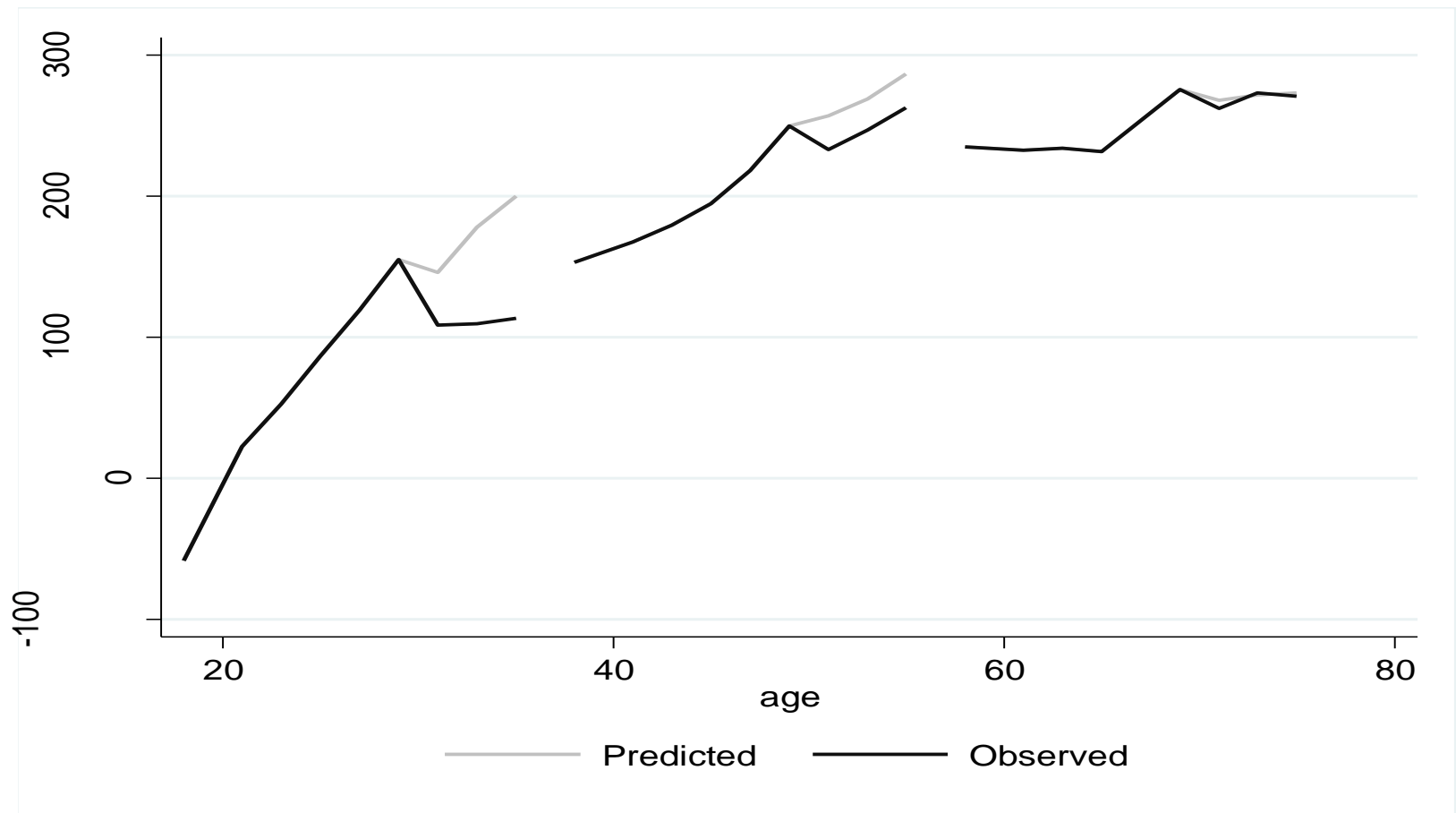




Figure 2. Net wealth

Note: Cohorts displayed: 1975-79 1955-59 1935-39





Conclusions

- > Overall our report highlights the spread and persistence of the Great Recession – in such different countries as Italy and the Netherlands many households still find major difficulties keeping up their living standards, fall into arrears and complain about limited access to credit.
- > The only group that has been little affected by the recession in most countries considered in this study are the retirees
- > The evidence we gathered is consistent with the notion that increased uncertainty has led households to increase precautionary savings, particularly in the second part of the recession (the so-called sovereign debt crisis)



Conclusions (II)

- › In the light of the evidence we present, policies aimed at reducing uncertainty, improving labour market functioning and promoting access to credit are clearly much needed in Europe.