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European Business Cycle Indicators

1st Quarter 2021

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Directorate-General for Economic and Financial Affairs

European Business Cycle Indicators

1st Quarter 2021

Special topic

- Will consumers save the EU recovery? Insights from the commission's consumer survey.

This document is written by the staff of the Directorate-General for Economic and Financial Affairs, Directorate A for Policy, Strategy and Communication, Unit A3 - Economic Situation, Forecasts, Business and Consumer Surveys (http://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys_en).

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OVERVIEW

Recent developments in survey indicators

- Thanks to a sharp increase in March, which followed broadly flat readings in January/February, the Economic Sentiment Indicators (ESI) for the EU and the euro area (EA) gained a remarkable 8.3 (EU) / 8.5 (EA) points compared to December 2020. For the first time since the outbreak of COVID-19 on the continent, the ESI is virtually back to its long-term average in the EU and even slightly above in the EA.
- The Employment Expectations Indicator (EEI) gained 6.9 (EU) / 7.7 (EA) points on the quarter and, at a level of 97.9 (EU) and 97.7 (EA) respectively, is just some two points shy of its long-term average of 100.
- From a sectoral perspective, 2021-Q1 saw the most significant improvements in confidence in industry and, remarkably, services, which had posted a series of declining readings in 2020-Q4 and early 2021. The gains in construction and among consumers were less pronounced by comparison, while confidence in retail trade came in virtually unchanged compared to December last year.
- The ESI recovered in all of the six largest EU economies, namely in Italy (+9.7), Germany (+8.6), Poland (+6.8), Spain (+5.4), France (+3.9) and the Netherlands (+3.7). Germany is the only of the six countries which saw sentiment in the first quarter leapfrog its long-term average and its pre-crisis level.
- In January, capacity utilisation in manufacturing increased in both the EU (+1.2 percentage points) and the EA (+1.3 percentage points). At 77.7% (EU) and 77.6% (EA), both indicators remained well below their respective long-term averages of 80.5% (EU) / 80.6% (EA). Capacity utilisation in services decreased by 0.8 percentage points in the EU (to 85.7%) and by 1.1 percentage points in the EA (to 85.1%) compared to October 2020. In both regions, the January level is the lowest registered in the current crisis so far and significantly below the long-term average of the indicator (88.9% in the EU, 88.7% in the EA).

Special topic: Will consumers save the EU recovery? - Insights from the Commission's consumer survey

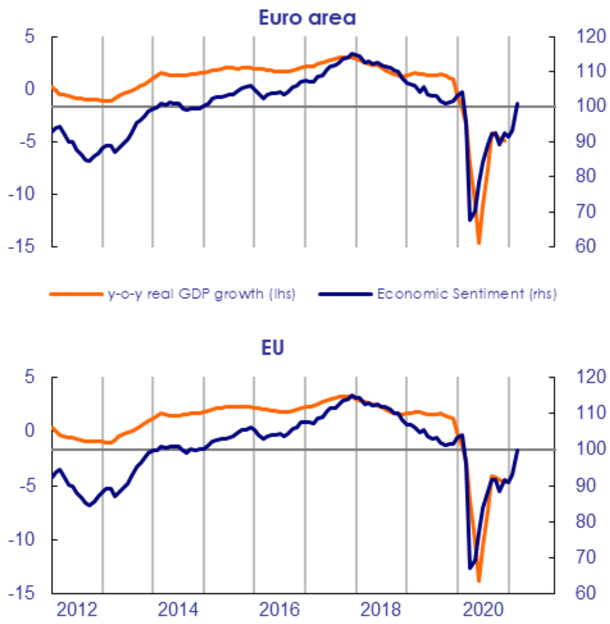
The outbreak of COVID-19 and the ensuing containment measures have dealt a major blow to private consumption. At the same time, income losses have been cushioned considerably through governments' support schemes, leading to unprecedented levels of accumulated savings. This special topic explores to what extent excess savings can be expected to be spent and how forcefully private consumption may recover, once the containment measures are lifted and uncertainty decreases. The detailed survey results broken down by respondents' income and age groups allow to gather insights into the distributional impact of the crisis and, following the rebound of consumer spending on durables in 2020-Q3, the scope for further pent-up demand to materialise. The analysis shows that young and low-income earners have suffered most, while the eldest (65+) and high-income earners have been able to set aside considerable savings, suggesting that their income has been largely sheltered while consumption has fallen. All in all, the analysis does not point to significant additional impulses from consumer spending going forward. The analysis of country-specific developments largely corroborates the horizontal findings for the EU.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

1.1. EU and euro area

The economic sentiment indicators (ESI) for the EU and the euro area (EA) started the year maintaining the stable readings that had already been observed in the last quarter of 2020. In March, the ESI posted the sharpest increase since its forceful rebound in the immediate aftermath of the first COVID-19 wave, back in summer last year (see Graph 1.1.1).

Graph 1.1.1: Economic Sentiment Indicator



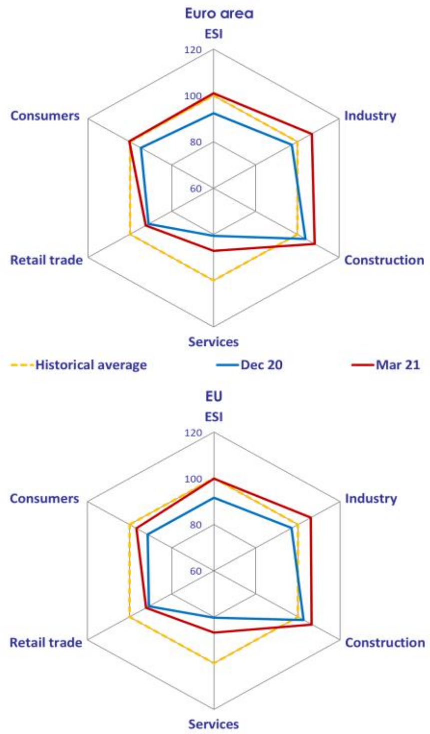
Note: The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

As a result, the ESI in March is a remarkable 8.3 (EU) / 8.5 (EA) points above its level at the end of the fourth quarter of 2020. More importantly, for the first time since the outbreak of COVID-19 on the continent, the ESI is virtually back to its long-term average of 100 in the EU (99.9) and even slightly above that level in the EA (100.9). The March readings also mean that the ESI in both regions has so far recovered some 90% of its hefty pandemic-induced losses of March/April 2020.

The positive developments of the survey data in March may need to be taken with a pinch of salt though, as a part of the underlying surveys were conducted in early March when restrictions due to the pandemic were expected to be paused or partially lifted, before they got tightened again in many Member States later during the survey period.

Looking at the ESI's sectoral components (see Graph 1.1.2), the first quarter of 2021 saw the most significant improvements in confidence in industry and, remarkably, services, which had posted a series of declining readings in 2020-Q4 and early 2021. The gains in construction and among consumers were less pronounced by comparison, while confidence in retail trade came in virtually unchanged compared to December last year.

Graph 1.1.2: Radar Charts



Note: A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages are generally calculated from 2000q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.

Considering the long-term averages of the indicators, the current level of confidence is high in industry and construction, while more or less in line among consumers and low in services and retail trade. When comparing the trajectories of the sectoral confidence indicators since their record losses in spring last year, their performance is quite similar, with about 60% of the losses recovered so far. Industry confidence stands out, as the gains of the first quarter of 2021 brought the indicator to a level well in excess of the pre-pandemic reading of February 2020.

At country level, the ESI recovered in all of the six largest EU economies. The gains registered between December last year and March 2021 were strongest in Italy (+9.7), followed by Germany (+8.6), Poland (+6.8), Spain (+5.4), France (+3.9) and the Netherlands (+3.7). Germany is the only of the six countries that saw sentiment in the first quarter leapfrog both its long-term average and its pre-crisis level.

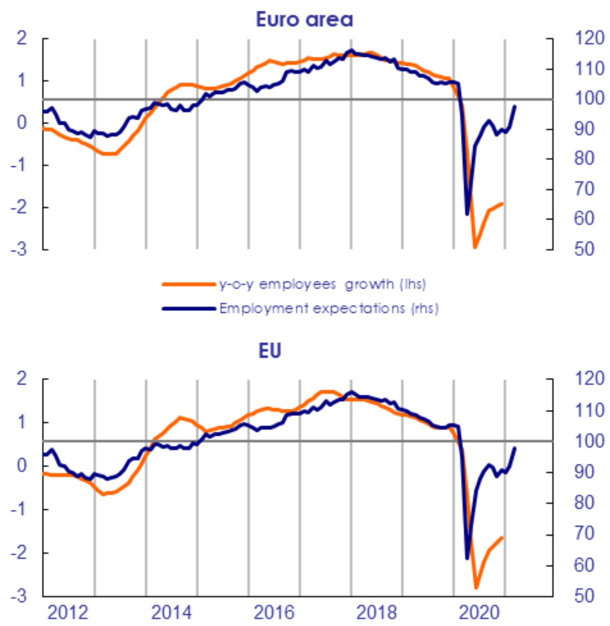
During the first quarter of the year, the evolution of the ESI was broadly in line with developments in other survey-based bellwethers for the EA/EU. Following a decline in January and a commensurate increase in February, Markit Economics' PMI Composite Output Index for the EA posted a sharp increase in March, which brought the indicator to a level (53.2 points) not seen since July 2020.

Also the Ifo Business Climate Index (for Germany), after four months of zigzagging, improved markedly in March and is now back to pre-pandemic levels.

The Employment Expectations Indicator (EEI)[1] moved broadly in line with the ESI. After flat readings in January and February, the EEI in both the EU and the EA staged a sharp increase in March. Compared to December last year, the EEI in March is 6.9 (EU) / 7.7 (EA) points up and just some two points shy of its long-term average of 100 in both areas (see Graph 1.1.3).

Zooming into the EEI's sectoral components, employment plans in March were much more optimistic than in December 2020 in industry and services. The improvements were less pronounced in retail trade and construction.

Graph 1.1.3: Employment expectations indicator

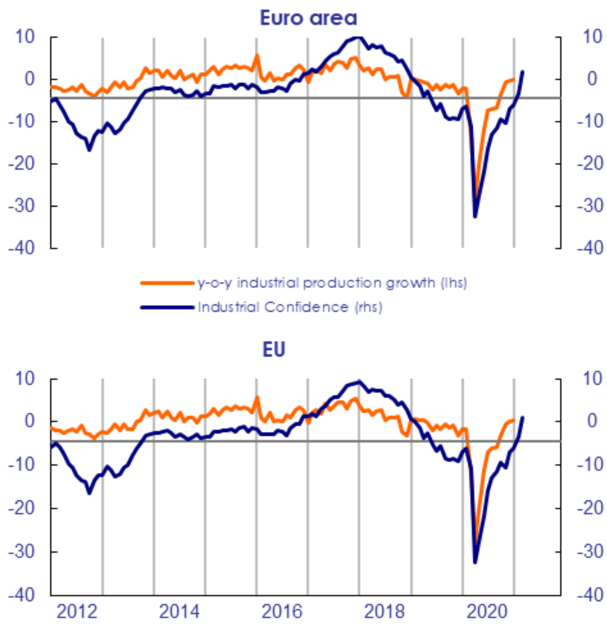


[1] The new indicator was presented in the 2019-Q4 special topic of the European Business Cycle Indicators publication (see also the Methodological User Guide to the Joint Harmonised EU Programme of Business and Consumer Surveys, p. 22, for a description of the EEI).

Sector developments

Industry confidence in 2021-q1 recovered for the third quarter in a row. Thanks to significant improvements in January/February and the strong increase in March, the indicator gained 8.1 (EU) / 8.8 (EA) points compared to December last year. The boost lifted the indicator in both regions firmly above its long-term average and pre-pandemic readings (see Graph 1.1.4), to a level of 1.0 in the EU and 2.0 in the euro area.

Graph 1.1.4: Industry Confidence indicator



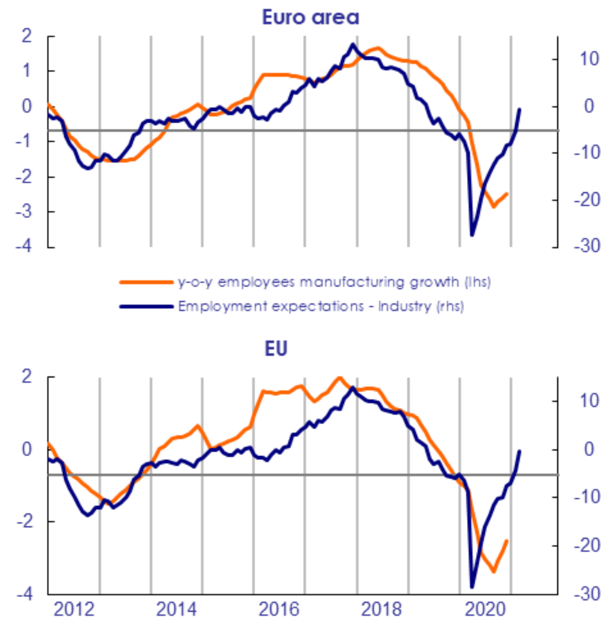
Zooming into the individual components of industrial confidence, all of them improved sharply, i.e. managers' **production expectations**, as well as their assessments of the level of **order books** and **stocks**. Worth highlighting, the appraisals of stocks are approaching historical scarcity levels.

Of the components not included in the confidence indicator, managers' appraisals of both **export order books** and **past production** saw a significant improvement on the quarter, too.

Managers' **employment expectations** (see Graph 1.1.5) recovered for the third quarter in a row, eventually outstripping the indicator's pre-pandemic level and long-term average in both the EU and the EA. The same observations hold true for their **selling price expectations**, which saw the sharpest month-on-month increase on record in March.

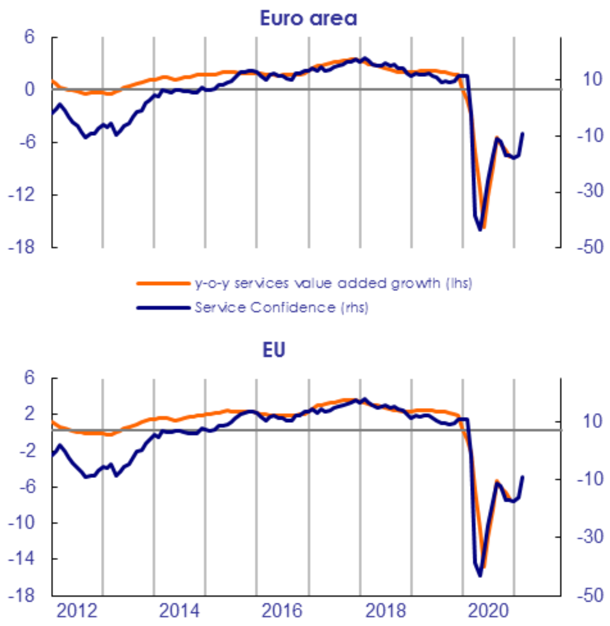
Amongst the largest EU economies, Germany stood out with its strongest quarterly increase in industry confidence on record (+15.4), which brought the indicator close to all-time highs. The situation contrasts with the remaining big countries, in which confidence at the end of the first quarter was "just" close to pre-pandemic levels again. Nevertheless, the quarterly increases in those countries were very significant, too: Italy (+7.4), Spain (+4.9), the Netherlands (+4.1), Poland (+2.8) and France (+2.5).

Graph 1.1.5: Employment expectations in Industry



According to the quarterly manufacturing survey (carried out in January), **capacity utilisation in manufacturing** increased in both the EU (+1.2 percentage points) and the EA (+1.3 percentage points) compared to the last survey of October 2020. At 77.7% (EU) and 77.6% (EA) in January, both indicators remained well below their respective long-term averages of 80.5% (EU) / 80.6% (EA). Both indicators are also still more than 3 percentage points shy of their pre-pandemic levels recorded in January 2020.

Graph 1.1.6: Services Confidence indicator



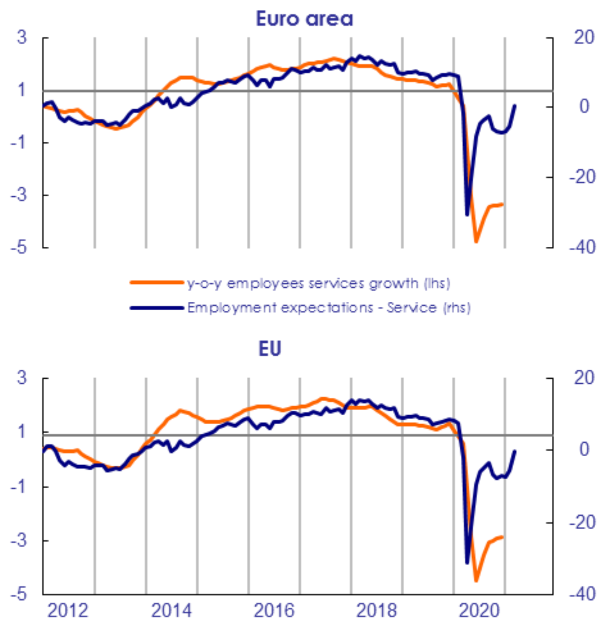
Services confidence went broadly sideways in January and February, before a sharp improvement in March neutralised the losses the indicator had incurred in the fourth quarter of last year. Compared to December 2020, the indicator gained 7.7 (EU) / 7.8 (EA) points on the quarter. Scoring at -9.1 (EU) / -9.3 (EA), services confidence in March is still well below its long-term average and pre-pandemic level in both regions (see Graph 1.1.6).

At the level of sub-sectors, the surge in services confidence was rather broad-based, ranging from real estate, over information services, to advertising, market research, legal/accounting and other business support activities, but also including accommodation and gastronomy. The latter, somewhat surprising result may be explicable by the fact that part of the survey results were collected in early March, when restrictions due to the pandemic were expected to be paused or partially lifted, before they got tightened again in many Member States later during the survey period. This may caution against the longevity of the recovery in confidence in services, particularly in customer-facing activities.

Looking into the components of services confidence (i.e. managers' appraisals of **past demand**, the **past business situation** and their **demand expectations**), all of them scored higher in March than at the end of the preceding quarter. In all cases, the gains are almost entirely attributable to developments in March. Managers' demand expectations improved the most.

In both the EA and the EU, **employment expectations in services** improved sharply in the first quarter (see Graph 1.1.7). Managers' **selling price expectations** saw a milder increase on the quarter, which resulted from a significant rise in March.

Graph 1.1.7: Employment expectations in services



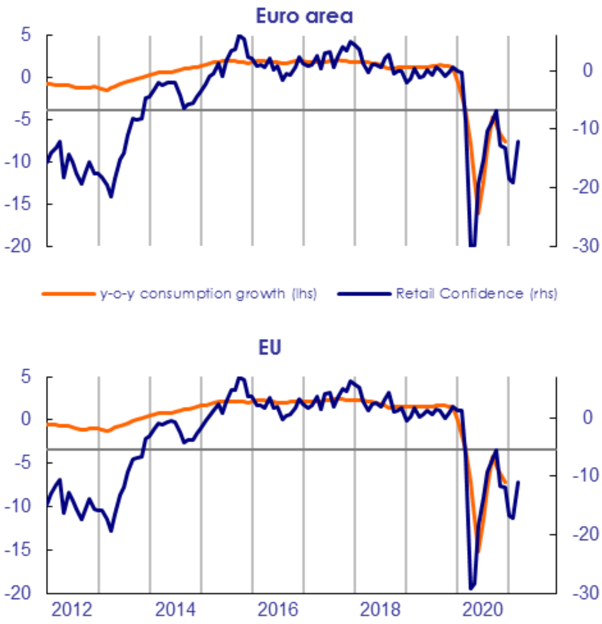
Focussing on the six largest EU economies, the period from December to March brought significant increases in services confidence across the board, most so in Italy (+11.7), followed by Germany (+7.3), France (+5.5), Spain (+4.8), Poland (+4.2) and the Netherlands (+3.9).

Capacity utilisation in services, as measured by the quarterly survey conducted in January, decreased by 0.8 percentage points in the EU (to 85.7%) and by 1.1 percentage points in the EA (to 85.1%) compared to October 2020. In both regions, the January level is the lowest registered in the current crisis so far and significantly below the long-term average of the indicator (88.9% in the EU, 88.7% in the EA).

In the first two months of the year, **retail trade** confidence continued the slide which had started in November last year. However, thanks to a sharp improvement in March, the indicator ended the first quarter slightly higher (+0.9

points in the EU, +1.0 points in the EA) than its reading of December last year. In both regions, confidence remained well below the long-term average and pre-pandemic levels (see Graph 1.1.8).

Graph 1.1.8: Retail Trade Confidence indicator



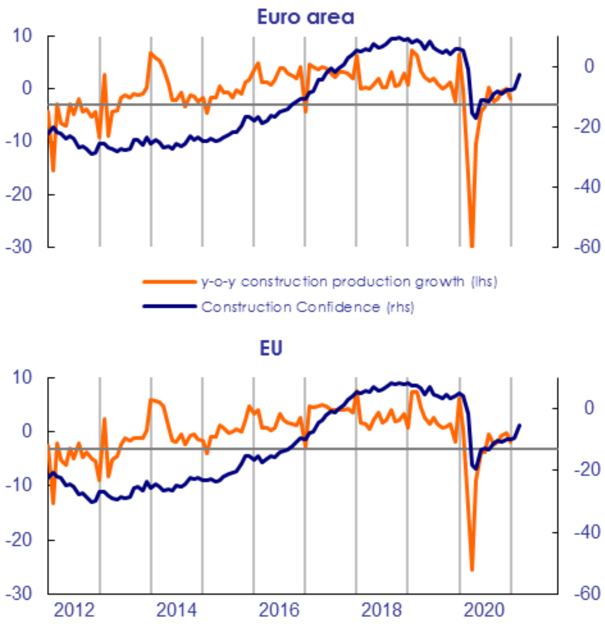
Looking into the components of retail trade confidence, managers' assessments of the **past business situation** deteriorated between December last year and March, while their appraisals of the adequacy of the **level of stocks** and, more so, their expectations regarding the **future business situation** improved.

Among the six largest EU economies, retail trade confidence posted sharp increases in Poland (+8.4) and Italy (+6.3), as well as more moderate ones in France (+1.5) and Spain (+1.3). By contrast, sentiment deteriorated in Germany (-6.6) and the Netherlands (-5.2). In the latter country, confidence is just a whisker above the trough registered in the first COVID-19 wave in spring 2020.

Thanks to a sharp increase in March, **construction confidence** ended the first quarter of the year 4.5 (EU) / 5.2 (EA) points above the level of December 2020. In both regions, the indicator is comfortably above its long-term average, but only halfway in his recovery from the pandemic-induced record losses of spring last year (see Graph 1.1.9).

At the components level, EU/EA managers' **employment expectations** and, to a larger extent, their appraisals of **order books** brightened.

Graph 1.1.9: Construction Confidence indicator

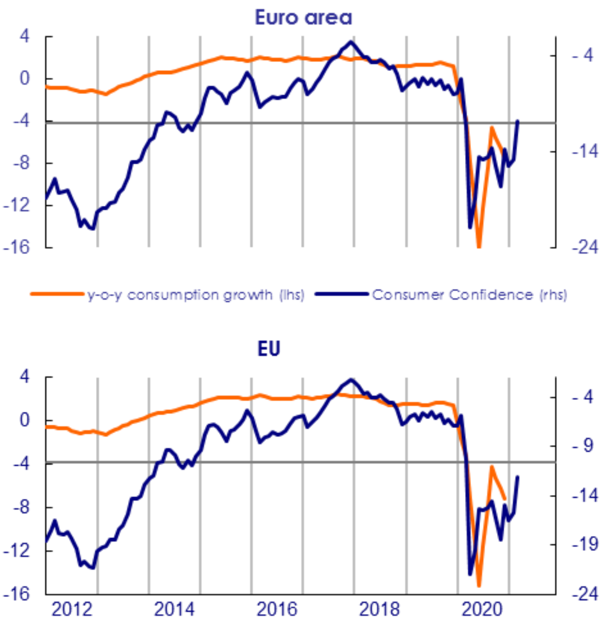


Construction confidence firmed sharply in France (+11.8), Spain (+7.7), the Netherlands (+5.6) and Italy (+5.2), while it eased slightly in Poland (-1.0) and Germany (-1.6). Worth highlighting, confidence in Italy, Spain and the Netherlands is back to pre-pandemic levels.

Consumer confidence in March came in 2.8 (EU) / 2.9 (EA) points above its reading in December last year. The net gain over the first quarter is almost entirely attributable to a confidence boost in March, which followed a broadly flat reading in February and outstripped a loss incurred in January. In spite of the net gain, the indicator remained below the long-term average. The March results mean that consumer confidence has so far recovered 61% (EU) / 72% (EA) of the landslide losses registered in March/April last year (see Graph 1.1.10).

Looking at the individual components of the confidence indicator, consumers in both areas were much more optimistic in respect of the **general economic situation in the country** and, to a lesser extent, their **future personal financial situation** and their intentions **to make major purchases**. Consumers' assessments of their households' **past personal financial situation** stood out in so far as they worsened on the quarter and, in February, reached the worst level registered in the COVID-19 pandemic so far.

Graph 1.1.10: Consumer Confidence indicator



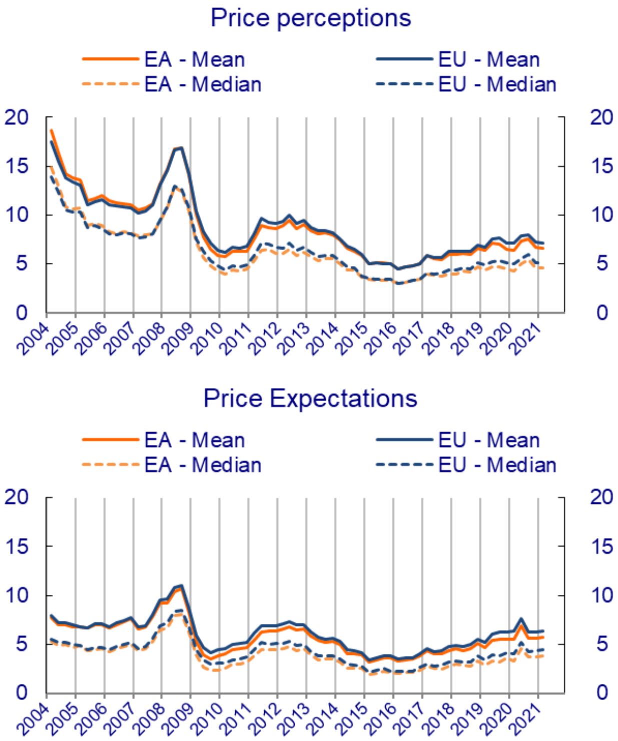
While not included in the consumer confidence indicator, **consumers' savings expectations** in March remained unchanged compared to December 2020, at a historical high.

Consumer sentiment brightened in all of the six largest EU economies, namely in Spain (+5.7), Italy (+4.4), the Netherlands (+3.8), Poland (3.4), Germany (+2.3) and, least pronounced, in France (+0.6). In Italy and the Netherlands, confidence levels at the end of the first quarter are back to pre-pandemic levels.

In the EU and the EA, the median of **consumers' price perceptions** stayed unchanged in 2021-Q1 compared to 2020-Q4. The same held true for the EU mean, while the EA mean decreased slightly. As regards EU/EA consumers' **price expectations**, both the mean and median saw a slight increase in 2021-Q1 compared to 2020-Q4 (see Graph 1.1.11).[2]

More detailed results, broken down by different socio-economic groups, can be downloaded at the [European Commission's website](#).

Graph 1.1.11: Euro area and EU quantitative consumer price perceptions and expectations

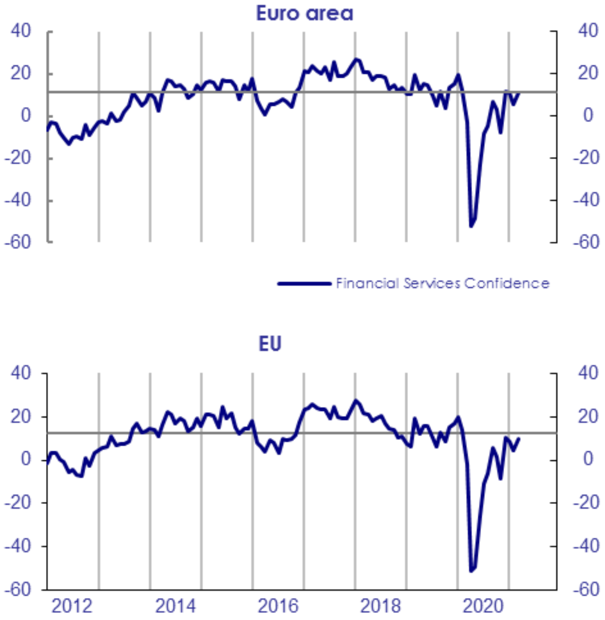


The **financial services confidence** indicator (not included in the ESI) strengthened by 2.1 (EU) / 2.7 (EA) points from December to March, as a significant increase in March offset two consecutive drops at the beginning of the quarter. The indicator has so far recovered 85% (EU) / 93% (EA) of the record losses registered in March/April 2020 and is back (EA) / almost back (EU) to its long-term average (see Graph 1.1.12).

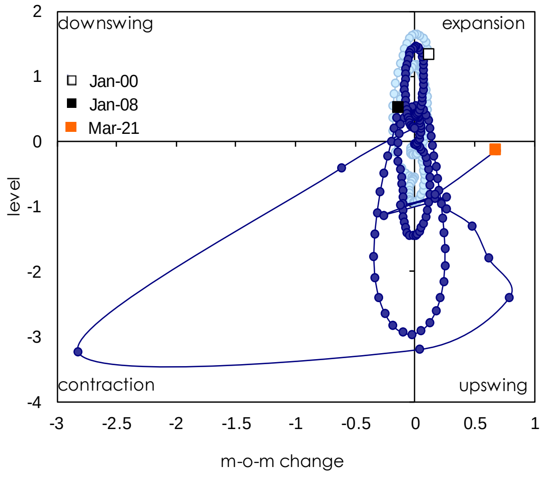
Taking a look at the individual components underlying the indicator, the increase in confidence was driven by managers' more buoyant **demand expectations** and, to a lesser extent, improved assessments of the **past business situation**. Views on **past demand**, by contrast, deteriorated.

[2] For more information on the quantitative inflation perceptions and expectations, see the special topic in the previous [EBCI 2019Q1](#).

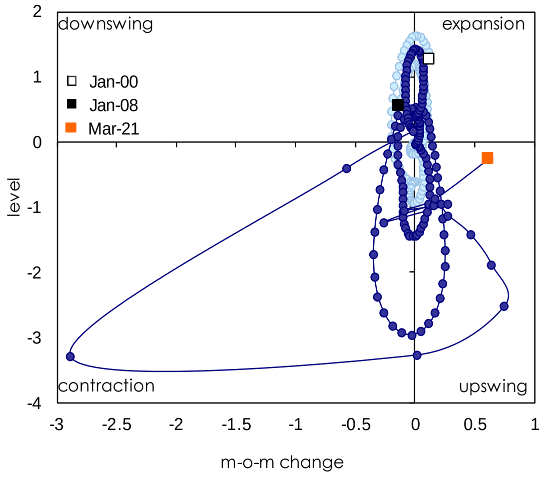
Graph 1.1.12: Financial Services Confidence indicator



Graph 1.1.13: Euro area Climate Tracer



Graph 1.1.14: EU Climate Tracer

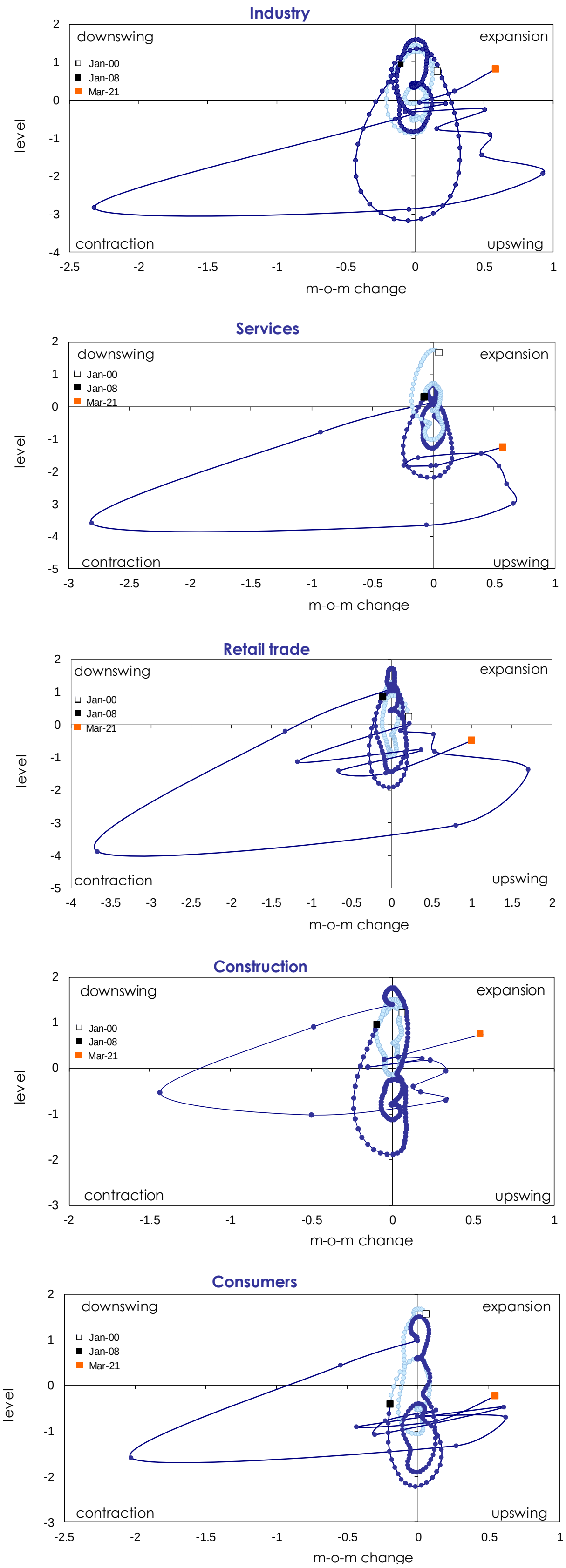


The dynamics of the ESI in the first quarter of the year, namely broad stability in January and February, followed by a sharp increase in March, also showed in the EU/EA **climate tracers** (see Annex for details). After staying close to the intersection of the upswing and contraction quadrant in the first two months of the year, March saw the climate tracers jump to the frontier between the upswing and expansion area (see Graphs 1.1.13 and 1.1.14).

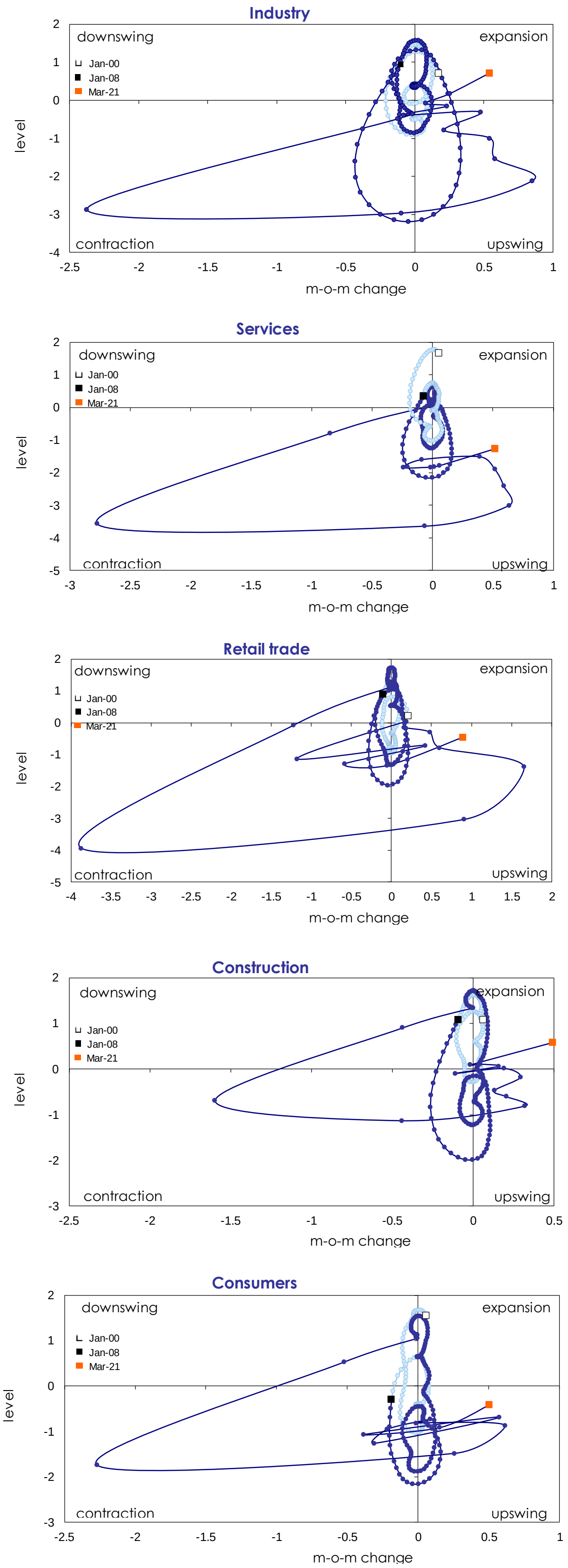
Taking a look at the sectoral climate tracers (see Graph 1.1.15), the EU/EA tracers for industry and construction moved from the border area between upswing and expansion firmly into expansion territory. Similarly, the services tracers left the intersection between contraction and upswing and settled deep in the upswing quadrant. The retail trade and consumer tracers stayed in the upswing quadrant but, compared to December, ended somewhat closer to the intersection with the expansion area.

Graph 1.1.15: Economic climate tracers across sectors

Euro area



EU



1.2. Selected Member States

At country level, the ESI recovered in all of the six largest EU economies. The gains registered between December last year and March 2021 were strongest in Italy (+9.7), followed by Germany (+8.6), Poland (+6.8), Spain (+5.4), France (+3.9) and the Netherlands (+3.7).

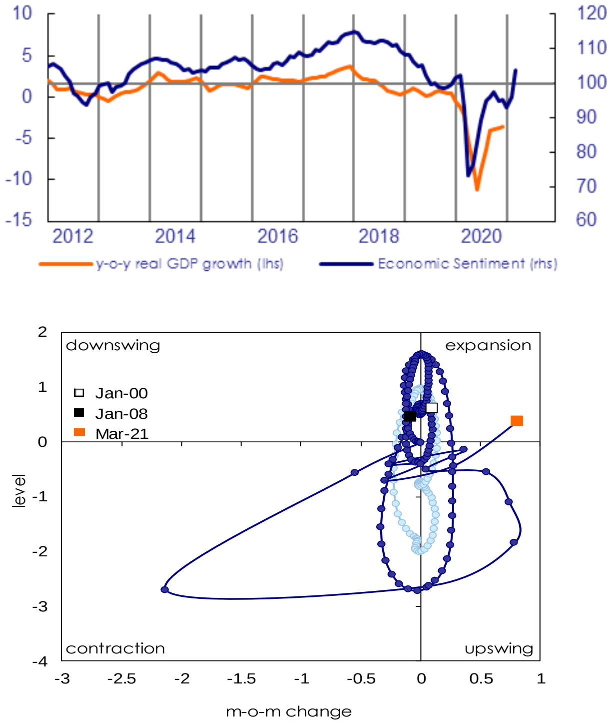
In March, the ESI for **Germany** posted the largest monthly increase on record. Compared to December of last year, the ESI is 8.6 points up (at 103.7 points) and, in contrast to all other 'big-6' countries, has surpassed its long-term average, as well as the level prevailing on the eve of the outbreak of COVID-19 on the continent.

The sentiment boost pushed the German climate tracer from a position on the intersection between contraction and upswing firmly into the expansion quadrant (see Graph 1.2.1).

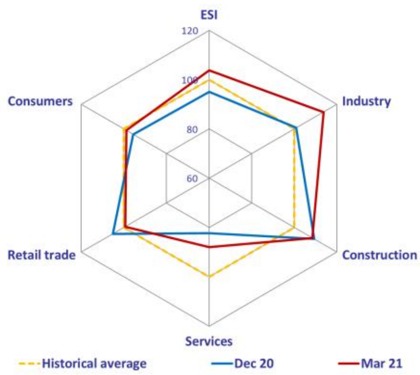
The Employment Expectations Indicator (EEI) followed the evolution of the ESI, gaining 6.2 points on the quarter, thanks to a record-increase in March. While employment expectations increased sharply in industry and services, managers were more pessimistic in retail trade and construction.

From a sectoral perspective, confidence in industry stood out with its strongest quarterly increase on record, which brought the indicator close to all-time highs. Significant increases were also booked in services and consumer confidence. By contrast, confidence eased slightly in construction and, markedly so, in retail trade. The level of confidence is above its long-term average in industry and construction, while slightly below in retail trade and among consumers. The current level of services confidence is exceptionally low.

Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany



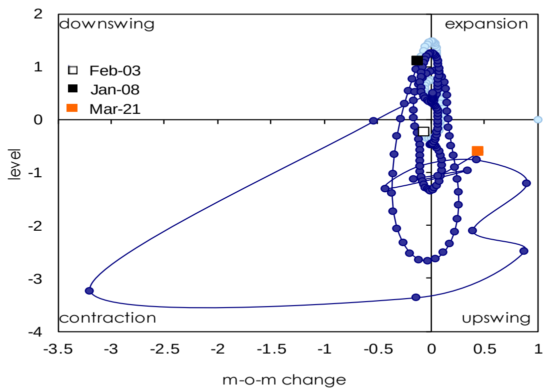
Graph 1.2.2: Radar Chart for Germany



Following a deterioration in January and a slight uptick in February, the ESI for **France** posted a marked increase in March. Compared to December last year, the indicator finished the first quarter 3.9 points higher, at a level of 96.7, which means it has so far recovered 74% of the record losses registered in March/April 2020, but remains below its long-term average of 100.

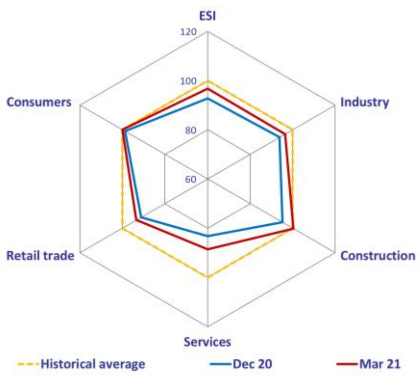
Based on the sentiment data for the first quarter, the French climate tracer stayed in the upswing quadrant, but moved further up, in the direction of its intersection with the expansion area (see Graph 1.2.3).

Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France



Thanks to significant increases in January and March, the French EEI improved significantly on the quarter (+8.4 points compared to December). The result reflects sharp improvements in managers' employment expectations across all surveyed sectors (i.e. industry, services, retail trade and construction).

Graph 1.2.4: Radar Chart for France



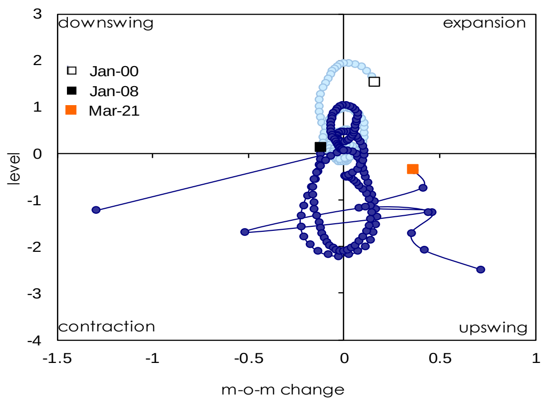
The French radar chart (see Graph 1.2.4) displays the most significant improvements in services and construction confidence. Industry and retail trade posted more moderate increases, while consumer confidence remained virtually unchanged. Confidence is back to its long-term average among consumers and even slightly above it among construction managers. All other sectors continue underperforming compared to historical standards.

Of the six largest EU economies, **Italy** posted the strongest quarterly improvement in sentiment. Fuelled by marked increases in February and March, the ESI finished the first quarter 9.7 points above its December reading, at a level of 99.5, which is just a whisker below its long-term average of 100. Thanks to the positive developments in the first quarter, the ESI is almost back to pre-pandemic levels.

The confidence boost also showed in the Italian climate tracer which stayed in the expansion quadrant, but moved further up towards its intersection with the expansion area (see Graph 1.2.5).

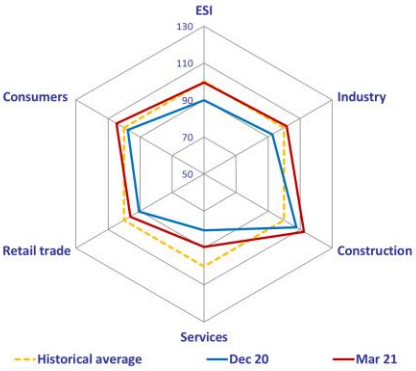
Over the first quarter, the Italian EEI gained 9.1 points compared to December, spurred by markedly improved employment expectations in services and industry, as well as moderately better ones in construction. Employment plans in retail trade remained virtually flat on the quarter.

Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy



A look at the Italian radar chart (see Graph 1.2.6) shows that the first quarter brought confidence boosts in all surveyed sectors, most so in industry and services, while least in construction. The confidence level is above its long-term average among consumers, in industry and, particularly, construction. The opposite holds true for retail trade and services.

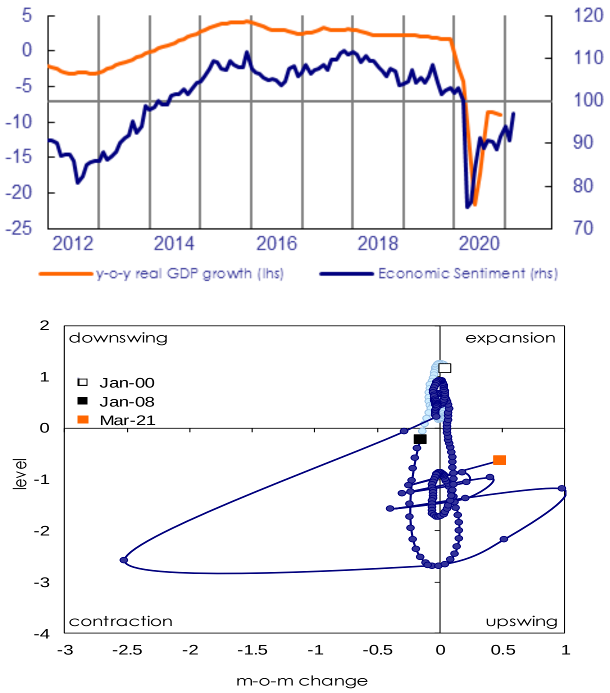
Graph 1.2.6: Radar Chart for Italy



After seesawing in January (up) / February (down), the ESI for **Spain** posted a marked increase in March, which let the indicator gain 5.4 points compared to December last year. At 96.9 points, the ESI has recovered 78% of the record losses incurred in spring 2020, and still remains shy of its long-term average of 100.

The Spanish climate tracer stayed in the upswing quadrant, but inched further up towards its intersection with the area signalling expansion (see Graph 1.2.7).

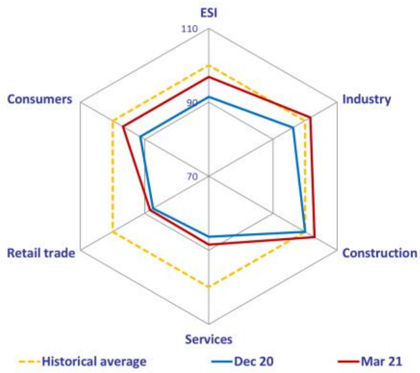
Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain



Compared to the ESI, the Spanish EEI firmed only moderately (+3.0 points in March compared to December last year). Managers' employment plans improved sharply in construction, while to a much lesser extent in the remaining sectors (industry, services, retail trade).

As shown in the radar chart (see Graph 1.2.8), confidence firmed in all surveyed sectors. The improvements were largest in industry and among consumers, while smallest in retail trade. Compared to the respective long-term averages, confidence is at high levels in industry and construction, while low among consumers and, particularly, in retail trade and services.

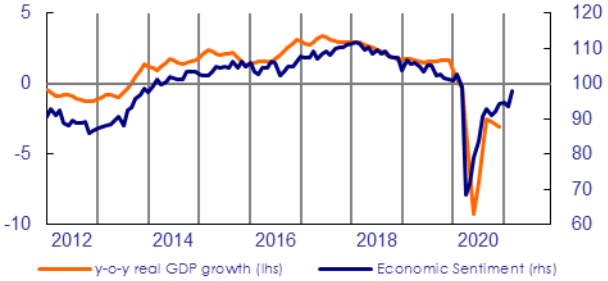
Graph 1.2.8: Radar Chart for Spain

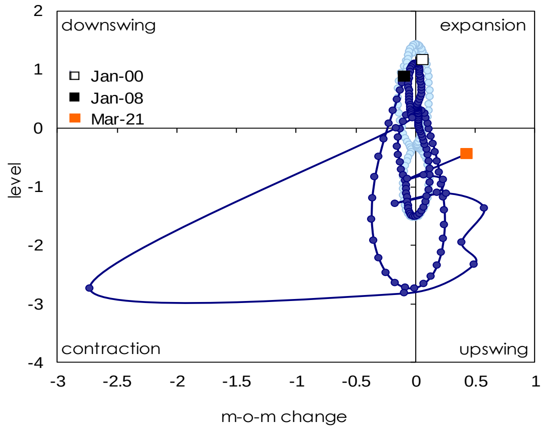


Thanks to a marked uptick in March, which followed a broad sideways movement in January/February, the ESI for the **Netherlands** booked a net gain of 3.7 points compared to December last year. At 97.9 points, the indicator has so far recovered 86% of last spring's hefty losses, and still remains slightly below its long-term average of 100.

The upbeat sentiment also showed in the Dutch climate tracer which stayed in the upswing area, but moved closer to its intersection with the expansion quadrant (see Graph 1.2.9).

Graph 1.2.9: Economic Sentiment Indicator and Climate Tracer for the Netherlands

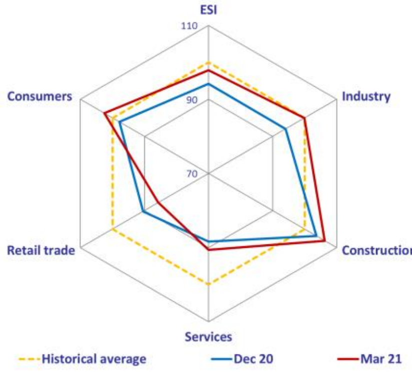




The Dutch EEI gained 6.1 points on the quarter, as managers' employment expectations improved markedly in services, industry and construction, as well as, more moderately, in retail trade.

As shown in the radar chart (see Graph 1.2.10), sentiment brightened markedly in industry and among consumers, as well as, to a lesser extent, in construction and services. Retail trade confidence bucked the trend, posting a significant decrease on the quarter. The current level of confidence corresponds to its long-term average in industry, while exceeding it in construction and among consumers. By contrast, confidence remains at exceptionally depressed levels in services and retail trade.

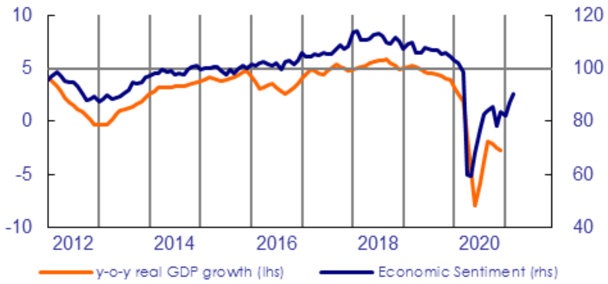
Graph 1.2.10: Radar Chart for the Netherlands

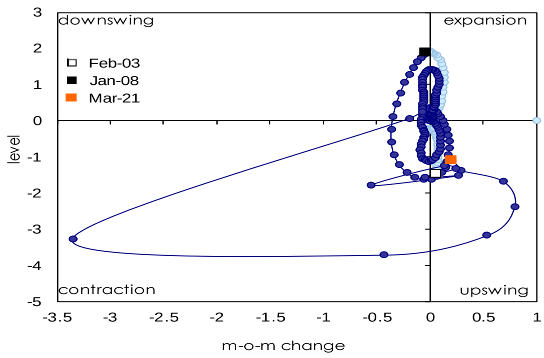


Two marked improvements in February and March lifted the ESI in **Poland** to a level 6.8 points above the indicator's reading of December last year. At 90.3 points, the ESI has so far compensated for 73% of the record losses suffered in March/April last year, but still remains significantly below its long-term average of 100.

The Polish climate tracer continued signalling an upswing, but inched slightly closer towards the expansion quadrant (see Graph 1.2.11).

Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland

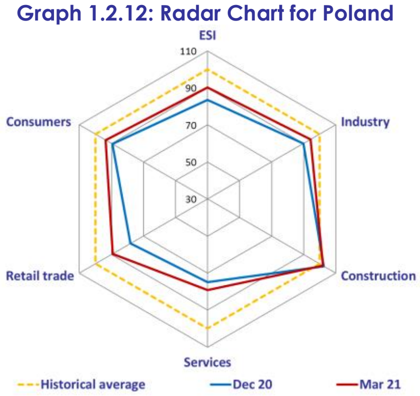




Deviating from the ESI's path, the Polish EEI remained virtually unchanged throughout the first quarter, booking a slight net gain of 0.4 points compared to its reading at the end of the previous quarter. Only retail trade managers revised their employment expectations upwards, while their colleagues in the services and constructions sectors got more cautious. Employment plans in industry stayed virtually unchanged.

As shown in the radar chart (see Graph 1.2.12), positive signals in the first quarter came from the retail trade sector, as well as, to a lesser extent, the industry/services sectors and consumers. Construction confidence remained virtually unchanged. Confidence levels are generally below long-term averages, with the exception of construction, where confidence slightly exceeds its historical mean.

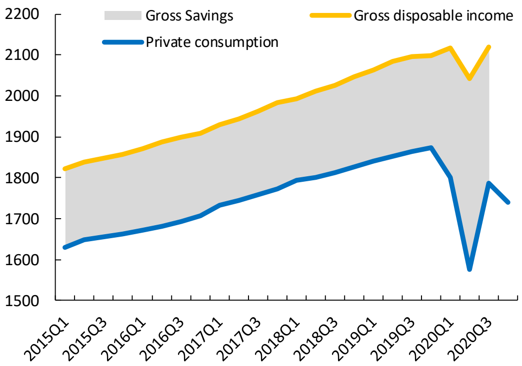
Graph 1.2.12: Radar Chart for Poland



2. SPECIAL TOPIC: WILL CONSUMERS SAVE THE EU RECOVERY? - INSIGHTS FROM THE COMMISSION'S CONSUMER SURVEY

The COVID-19 pandemic and the associated virus containment measures, including self-imposed restrictions to mobility for fear of infection, have severely constrained private consumption. At the same time, income losses have been considerably cushioned through governments' support schemes, as well as the shift to remote working for a large share of workers. This, in combination with heightened uncertainty, has led to unprecedented levels of accumulated savings, both forced and precautionary.

Graph 2.1: Household savings, gross disposable income and private consumption
EU, billion euro



Source: National Accounts, Eurostat.

In 2020, private consumption in the EU decreased by 7.0% compared to 2019, contributing significantly to the fall in GDP over the same period. By contrast, over the first three quarters of the year, households' gross disposable income increased (+0.6% year-on-year) with their saving rate rising by as much as 6.5 percentage points, to 18.4% of gross disposable income.

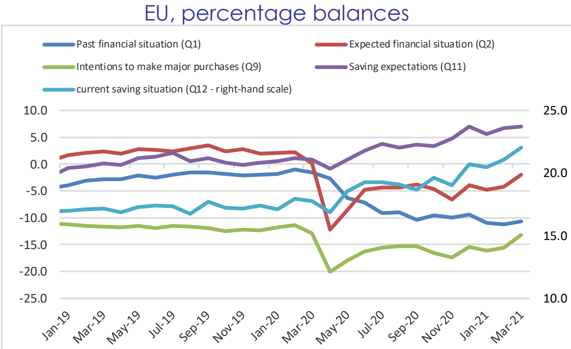
Looking ahead, the strength of the recovery in consumption and output will crucially depend on the speed of unwinding of the accumulated savings. This in turn will depend on consumers' (perceived) current and expected financial situation, the distribution of the savings across socio-economic groups of the population, such as income and age, and the level of prevailing uncertainty regarding the economic outlook.

This special topic explores these questions by taking a close look at the detailed results from the Commission's monthly consumer surveys. The presence in the surveys of both retrospective questions, inquiring about developments over the past 12 months, and forward-looking questions about the 12 months ahead, allows to depict consumers' assessments of their financial situation and consumption/savings intentions during the entire COVID-crisis period, including the period when the recovery is expected to take hold. The availability in the survey of information on the socio-economic characteristics of the respondents will allow to gather insights into the distributional impact of the crisis and the scope for pent-up demand to materialise.

One year into the pandemic: accumulated savings and curbed spending

Graph 2.2 provides an overview of the evolution of survey results directly related to respondents' personal financial situation.

Graph 2.2: Selected consumer survey results
EU, percentage balances

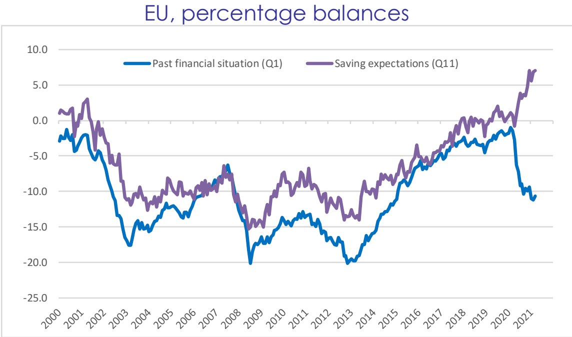


Consumers' assessment of their households' financial situation over the past 12 months (Question 1 of the survey, Q1 henceforth) has been on a steady downward trend since the beginning of the COVID crisis. Expectations regarding the financial situation (question Q2) and spending intentions (for 'major purchases') for the next 12 months (Q9) fell sharply during the first lockdown, before partially recovering when containment measures were eased at the beginning of the summer 2020 (see Graph 2.2). The balances have remained broadly stable since then and, despite a recovery recorded in March 2021, they are still lower than before the start of the crisis. Finally, consumers' savings expectations for the next 12 months (Q11) and assessments of their households' current saving or dissaving situation (Q12) decreased slightly at the beginning of the crisis, but have been trending upwards since April 2020. Both assessments relating to savings are currently at record high levels.

Precaution or inability to consume?

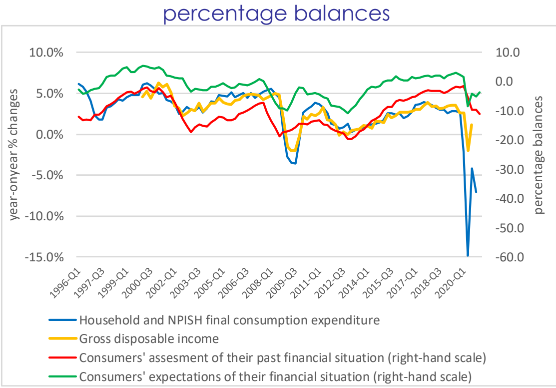
From a longer-term perspective, the COVID crisis marks a break in the historically close relationship between consumers' assessment of their household's past financial situation and their saving intentions, as shown in Graph 2.3. In the past, the co-movement of the two series confirmed that the assessment of the financial situation was a key driver for saving, i.e. the better the financial situation was perceived, the more households would want to set aside, and vice versa. Consequently, before the COVID-19 crisis, the saving rate was broadly stable over time, varying between 11 and 14% in the EU. Yet, since the beginning of the crisis, the two series have been following opposed paths, pointing to an increasing disconnect between consumers' propensity to save and their perceived financial situation. This may be rationalised by either precaution taking over as the dominant saving motive, or by the sheer impossibility to consume, leading to forced savings (or a mixture of both).

Graph 2.3: Assessment of the household's past financial situation and saving expectations
EU, percentage balances



Graph 2.4 confirms the break in the historically strong positive correlation between consumers' assessment of their household's past and expected financial situation (Q1 and Q2) and developments in private consumption.

Graph 2.4: Private consumption and consumers' assessment of their household's past and expected financial situation
EU, quarterly data, year-on-year changes and percentage balances



Sources: National Accounts, Eurostat and DG ECFIN harmonised consumer survey.

The mild and drawn-out decline in the balance for question Q1 is not commensurate to the dramatic fall in private consumption registered in the first (-2.1% year-on-year) and second quarter (-14.9%) of 2020. The fall is not fully explained either by the drop in gross disposable income. In the same vein, the strong, though incomplete rebound in private consumption in 2020-Q3 was not in line with the steady worsening of consumers' perceived financial situation. The sharp fall and partial recovery of consumers' expectations of their future financial situation (Q2) more correctly tracked the dynamics in consumers' actual spending in the first three quarters of 2020, but again the order of magnitude of the swings is not comparable.

Overall, the large gap between the dramatic drop in consumption and increased propensity to save, on the one hand, and the only mild decline in consumers' perceived financial situation, on the other hand, suggests that the former is likely due to the lack of spending opportunities triggered by the restrictions to daily life. Further evidence that households cut their consumption primarily because they had fewer opportunities to spend money and for fear of infection is provided by the special surveys of households conducted by the Bank of Italy and the German Federal Bank.[3] At the same time, the deterioration of consumers' expectations on their financial situation during the first phase of the COVID crisis (see Graph 2.2) would also suggest that savings accumulated during that period, and thus foregone consumption, were partly motivated by precautionary reasons.[4]

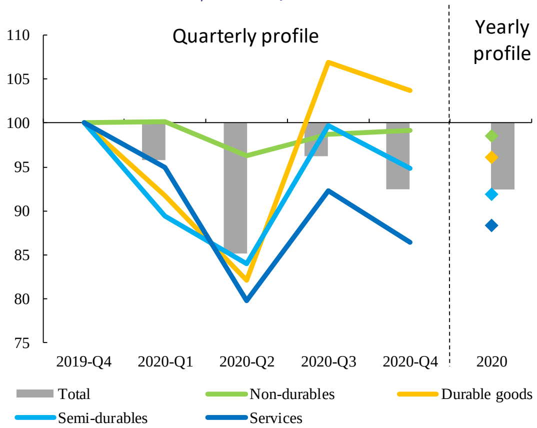
These findings would suggest that once the containment measures are eased or lifted and uncertainty about future income decreases, excess savings could be spent, fuelling a forceful recovery of private consumption. However, other considerations warrant caution.

First, the steady decline in consumers' assessment of their past financial situation over the past 12 months, with some signs of stabilisation coming only very recently, could imply that even once the virus containment measures are lifted, many consumers may be unable to return to pre-crisis levels of consumption.

Second, a closer look at the breakdown of consumption expenditure by item (see Graph 2.5) shows that the initial decline in consumption spending reflected strong decreases in services, durable and semi-durable goods. The collapse in the consumption of durable goods was to a large extent recouped over the summer of last year, when restrictions were eased but also enabled by consumers' increased recourse to on-line shopping. While services also benefitted from the easing of restrictions, their consumption remains well below the levels recorded before the crisis. Given that foregone consumption of services can hardly be recouped, the prospects for pent-up demand for services to strongly boost future consumption may thus be limited. Yet, some pent-up demand may also come from semi durables, such as clothing.

Graph 2.5: Final consumption expenditure of households

EU, 2019-Q4=100



Source: own calculations based on Eurostat data.

Will the accumulated savings translate into strong pent-up demand?

An aspect to take into account when assessing the strength of potential pent-up demand is the socio-economic distribution of accumulated savings. If, as is to be expected, those savings have been accumulated primarily by higher income households, whose propensity to save is comparatively high and propensity to consume correspondingly low, they will be less likely to be unleashed quickly for consumption use immediately after social distancing measures are relaxed.[5]

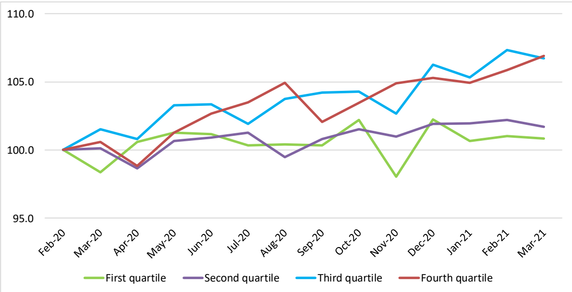
[3] See Bank of Italy, Economic Bulletin nr 1, 2021, and Deutsche Bank, Monthly Report, December 2020.

[4] See also ECB analysis using DG ECFIN Consumers Surveys: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202006_05~d36f12a192.en.html.

[5] Empirical studies in the context of investigations into the consumption wealth channel usually find a decreasing propensity to consume out of unanticipated increases in

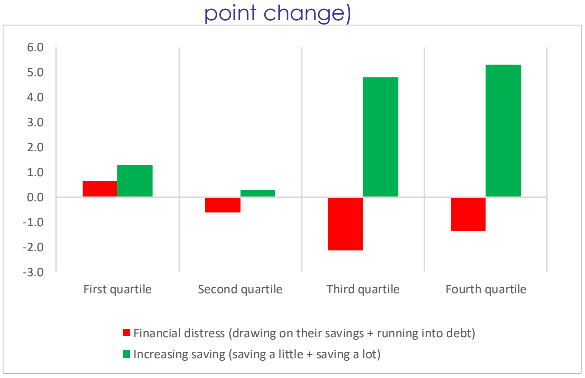
The Commission’s consumer survey provides for a breakdown of the results into four (household) income quartiles. Changes in consumers’ assessments of their current financial situation in terms of saving or dissaving (question Q12)[6] since February 2020 vary widely across income categories. On balance, consumers in the upper quartiles report to have experienced large increases in savings (see Graph 2.6), suggesting that their income levels have been largely sheltered while consumption has fallen due to fewer opportunities to spend while in lockdown. By contrast, those in the lower income quartiles have only experienced a very limited increase in savings.

Graph 2.6: Households’ current financial situation (saving vs. dissaving, balance of positive minus negative replies)
EU, Feb. 2020 = 100



Since the beginning of the crisis, however, a larger share of consumers at the lower end of the income distribution reported having to draw on their savings or run into debt for their living (while less respondents declared being able to make ends meet) (Graph 2.7). The other income groups recorded a decline in the incidence of financial distress, while significantly more households from the upper two quartiles reported to have increased their savings.

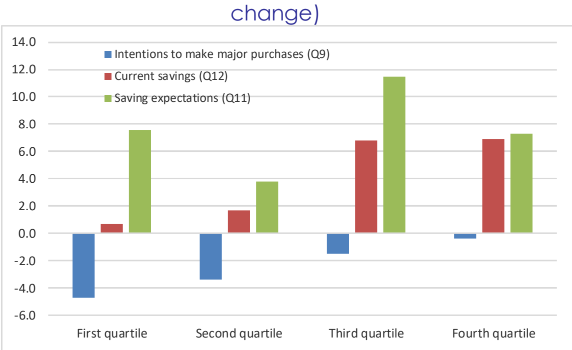
Graph 2.7: Share of respondents who are in financial distress or are saving
EU, Mar. 2021 compared to Feb. 2020 (percentage point change)



Consumers’ savings expectations (Q11) have increased since February 2020 in all income groups. Similarly, consumers’ intentions to spend on major purchases (Q9) fell across all income quartiles, lowering prospects for pent-up demand to materialise in general. However, consumers’ intention to make major purchases in the next 12 months (Q9) and the current saving situation (Q12) are highly correlated with their income group (see Graph 2.8).

The marked increase in savings intentions of low-income groups is mirrored by the steep decline in their intention to make major purposes.

Graph 2.8: Intention to make major purchases, households’ financial situation in terms of saving or dissaving, and saving expectations
EU, Mar. 2021 compared to Feb. 2020 (pp change)



The divergence between consumer groups is even more significant when looking at the breakdown by age (see Graph 2.9). Since February 2020, consumers’ assessment of their financial situation over the last 12 months (Q1) has dramatically fallen for

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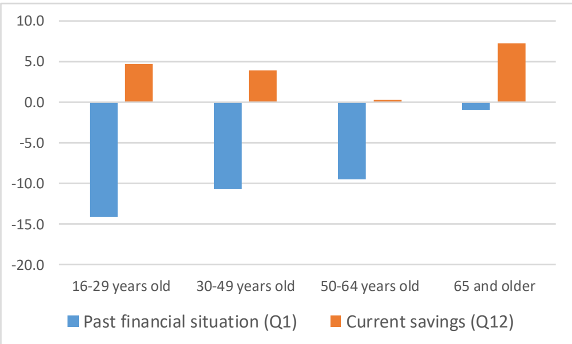
wealth across the wealth distribution. A study for France found a marginal propensity of 11.5% in the bottom of the wealth distribution versus a non-significant effect in the top of the distribution; see e.g. Arrondel, L., Lamarche, P. and F. Savignac (2015). ‘Wealth effects on consumption across the wealth distribution: empirical evidence’. ECB Working Paper Series 1817, June.

6 Q12: Which of these statements best describes the current financial situation of your household: ++ we are saving a lot, + we are saving a little, = we are just managing to make ends meet on our income, - we are having to draw on our savings, -- we are running into debt

younger respondents, while it has remained virtually unchanged for the oldest (65+ years). This can be explained by the fact that pensions, the main income source for the latter age group, have continued to be paid out during the pandemic crisis. Accordingly, older people are also reporting the greatest improvement in their savings position (Q12) and they are the only group for which the financial distress indicator clearly decreased over the crisis period (see Graph 2.10)

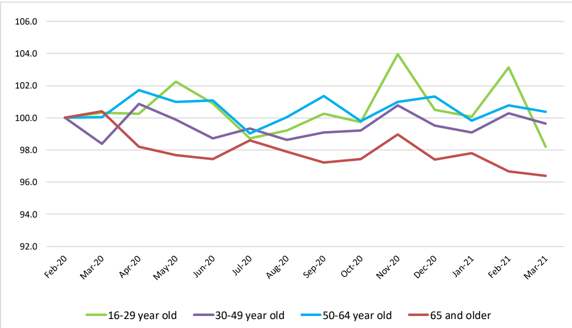
Graph 2.9: Consumers' assessment of their past financial situation

EU, Mar. 2021 compared to Feb. 2020 (pp change)



Graph 2.10: Share of respondents who are drawing on their savings or running into debt by age group

EU, Feb. 2020 =100



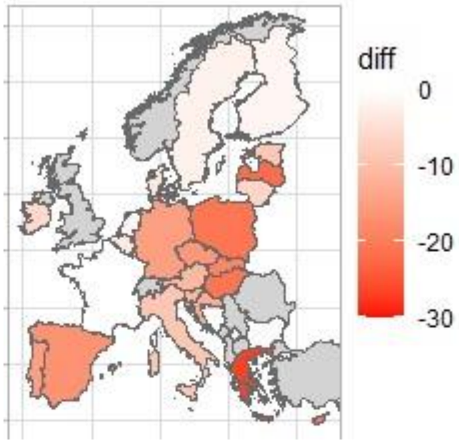
All in all, the analysis of the consumer survey results by income and age groups does not point to a significant impulse from pent-up consumer spending going forward. In particular, low income earners report low or no accumulated savings, but high savings intentions and low intention to spend money on major purchases. At the same time, the high savings accumulated by the higher income group go hand in hand with increased expectations to save, relative to the pre-pandemic readings, and no increase in the intention to make major purchases. Similarly, the relatively large increase in the saving position of older people is not likely to be quickly reversed, given the low propensity to consume for this group.

Cross-country analysis

Compared to February 2020, consumers' assessment of their past financial situation has deteriorated in all EU countries, except for France where the indicator remained broadly stable (Graph 2.11).

Graph 2.11: Consumers' assessment of their past financial situation

Mar. 2021 compared to Feb. 2020

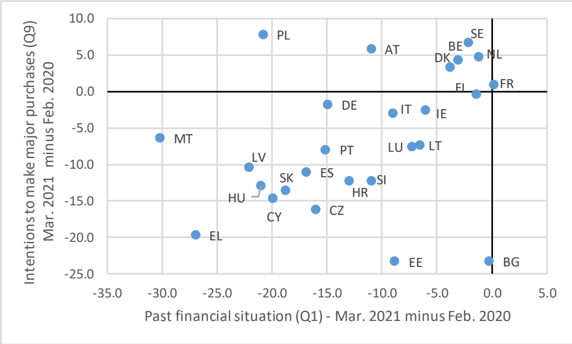


While the financial situation assessment is well below its pre-crisis level in most cases, the severity of the drop varies across EU countries. In Sweden, Finland, the Netherlands and Bulgaria consumers' assessment of their past financial situation is only slightly below its pre-crisis level, while in Greece, Poland, Malta, Hungary and Latvia, the indicator dropped by more than 20 points below its February 2020 level.

Across countries, consumers' perceptions of changes to their financial situation are generally highly correlated with the changes in their intentions to make major purchases in the next 12 months (Q9) (see Graph 2.12).

Graph 2.12: Consumers' assessment of their past financial situation and their intentions to make major purchases

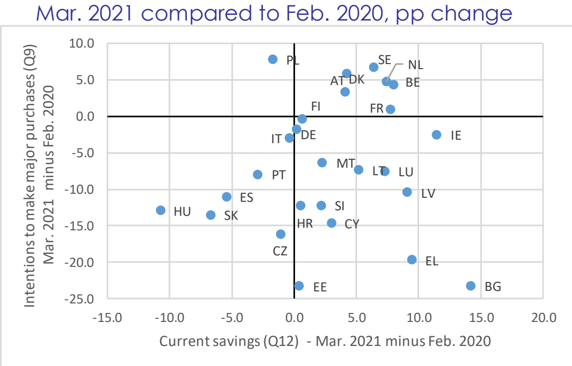
Mar. 2021 compared to Feb. 2020, pp change



In most countries, consumers have lowered their intentions to make major purchases (Q9), even if their savings have increased over the last 12 months (Q12) (Graph 2.13), thus again pointing to limited potential for a fast rebound of consumption once the pandemic is in check.

Graph 2.13: Consumers' assessment of their current savings and intentions to spend on major purchases

Mar. 2021 compared to Feb. 2020, pp change

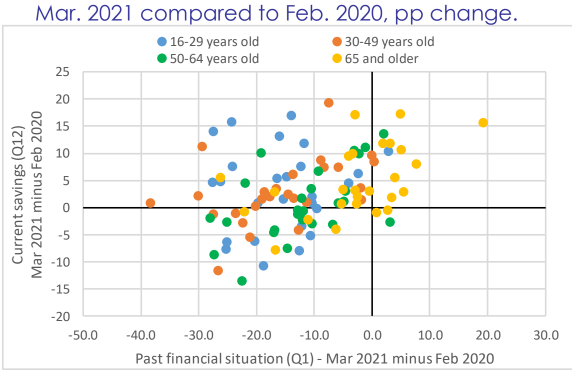


In a group of countries, namely Hungary, Slovakia, Spain, Portugal, Poland, Czechia and Italy, not only has the assessment of consumers' past financial situation deteriorated, but also have their savings been eroded.

As reported for the EU aggregate, in most countries, the consumers hardest hit by the pandemic crisis are young (from 16 to 29 years old) and in the lower income quartile, whereas the oldest (65+) and highest income quartile consumers seem to be the least affected. The only consumer groups reporting that their past financial situation has improved and to have managed to increase their savings (laying in the upper-right quadrant of Graph 2.14) are those 65 years or older in the large majority of countries.

Graph 2.14: Consumers' expectations of their past financial situation and assessment of their current savings by age group

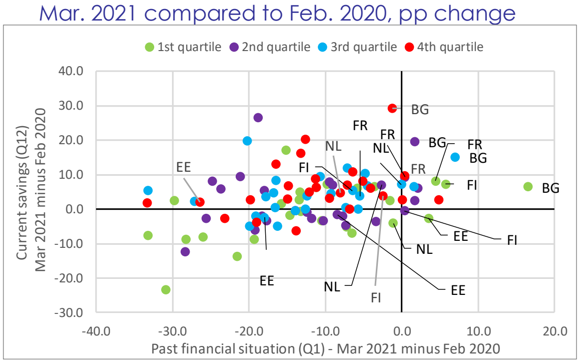
Mar. 2021 compared to Feb. 2020, pp change.



When looking at the breakdown by income quartiles, the differences are less clear (see Graph 2.15). However, the higher income households generally revised their assessment of their past financial situation (Q1) downwards less and managed to save more (Q12) over the past year. Notable exceptions are Bulgaria, France, Finland, Estonia and the Netherlands, where the lowest quartile reports to have improved its past financial situation, while the highest income quartile reports a worsening. In Finland, the lower-income quartile is also the one where savings have been revised up most.

Graph 2.15: Consumers' assessment of their past financial situation and current savings, by income quartile

Mar. 2021 compared to Feb. 2020, pp change



Conclusions

This Special Topic looks at the consumer survey data up to March 2021 to assess the impact of the COVID-19 pandemic and its accompanying containment measures on consumers' financial situation and their saving and spending intentions going forward.

The first finding is that the historically close co-movement between respondents' assessment of their past financial situation and consumer spending growth has broken down at the onset of the crisis. The mild and steady decline in the consumers' assessment of their financial situation over the past 12 months does not follow the evolution of private consumption, which fell dramatically in the first half of last year and rebounded strongly, though incompletely, in the third quarter. Also the deterioration in consumers' financial expectations cannot fully account for the extent of the fall in consumption spending. This indicates that the restrictions of spending on certain types of goods and services have curbed consumer spending significantly, over and above any precautionary motive, suggesting that once the containment measures are lifted and uncertainty decreases, excess savings could be spent and private consumption recover more forcefully.

The consumption of durable goods, however, has already recovered significantly, particularly in 2020-Q3, thereby lessening hopes for a forceful pent-up demand ahead.

Moreover, the steady decline in consumers' assessment of their past financial situation over the past 12 months, with some signs of stabilisation coming only very recently, could imply that even once the virus containment measures are lifted, many consumers may not be able to swiftly return to pre-crisis levels of consumption.

The breakdown of the consumer survey results by categories of consumers provides interesting additional insights. The comparison of the impact of the crisis on different income groups clearly shows that low-income earners (first quartile of the income distribution) have suffered the most. They have reported a very limited increase in savings and an increasing share of them even had to draw on their savings. By contrast, consumers in the upper quartiles have reported sizeable increases in savings, suggesting that their income has been largely sheltered while consumption has fallen.

Looking at the impact on different age groups shows that the eldest (65+) have suffered the least. Younger households have been drawing more on savings as their financial situation has worsened, whereas older households have been setting aside more.

All in all, the analysis of the consumer survey results by income and age groups does not point to significant additional impulses from consumer spending going forward. Also, interesting in its own right, these findings point to growing wealth inequality and an increasing generation gap.

Finally, the analysis of cross-country developments corroborated the findings presented for the EU. In most countries, there has been an increasing gap between income groups and age groups with respect to their assessment and expectations on saving and spending.

ANNEX

Reference series

Confidence indicators	Reference series from Eurostat, via Ecowin (volume/year-on-year growth rates)
Total economy (ESI)	GDP, seasonally- and calendar-adjusted
Industry	Industrial production, working day-adjusted
Services	Gross value added for the private services sector, seasonally- and calendar-adjusted
Consumption	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Retail	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Building	Production index for building and civil engineering, trend-cycle component

Economic Sentiment Indicator

The economic sentiment indicator (ESI) is a weighted average of the balances of replies to selected questions addressed to firms and consumers in five sectors covered by the EU Business and Consumer Surveys Programme. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %).
Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. EU and euro-area aggregates are calculated on the basis of the national results and seasonally adjusted. The ESI is scaled to a long-term mean of 100 and a standard deviation of 10. Thus, values above 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found here.
Long time series (ESI and confidence indices) are available here.

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators, based on principal component analyses of balance series (s.a.) from five surveys. The input series are as follows: industry: five of the monthly survey questions (employment and selling-price expectations are excluded); services: all five monthly questions except prices; consumers: nine questions (price-related questions and the question about the current financial situation are excluded); retail: all five monthly questions; building: all four monthly questions. The economic climate indicator (ECI) is a weighted average of the five sector climate indicators. The sector weights are equal to those underlying the Economic Sentiment Indicator (ESI, see above).
In the second stage, all climate indicators are smoothed using the HP filter in order to eliminate short-term fluctuations of a period of less than 18 months. The smoothed series are then normalised (zero mean and unit standard deviation). The resulting series are plotted against their first differences. The four quadrants of the graph, corresponding to the four business cycle phases, are crossed in an anti-clockwise movement and can be described as: above average and increasing (top right, ‘expansion’), above average but decreasing (top left, ‘downswing’), below average and decreasing (bottom left, ‘contraction’) and below average but increasing (bottom right, ‘upswing’). Cyclical peaks are positioned in the top centre of the graph and troughs in the bottom centre. In order to make the graphs more readable, two colours have been used for the tracer. The darker line shows developments in the current cycle, which in the EU and euro area roughly started in January 2008.

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