

**Eurozone economy****Confidence rises among Europe's cash-rich consumers**

Soaring savings mainly due to spending constraints, not economic fears, ECB finds



Shoppers at an open-air market in Paris. Eurozone consumers have become more optimistic about the economic outlook © Nathan Laine/Bloomberg

**Martin Arnold** in Frankfurt SEPTEMBER 22 2020

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Eurozone consumers became more confident in the economic outlook in September as new research indicated that much of the cash hoarded by households earlier in the pandemic had only been saved because it could not be spent during lockdown.

The European Commission's monthly survey of consumers found that confidence rose to a six-month-high in September — better than most economists had expected, despite the rapid recent increase in fresh virus infections in some countries.

In a further positive sign for consumer spending, the European Central Bank [said](#) that more than two-thirds of the extra cash households put aside in the first six months of this year constituted “forced savings” — money set aside because people could not spend it. Only a much smaller proportion was saved by those worrying about job losses.

The savings rate in the eurozone rose from 12.5 per cent of disposable income at the end of last year to 16.8 per cent in the first three months of this year — the highest since records began in 1999.

The ECB said that, based on consumer surveys, it expected another “sharp increase” in the savings rate in the second quarter of this year — estimating it would rise close to 30 per cent. Household deposits at eurozone banks rose by a record €190bn in the three months to June, more than double the increase in the same period last year.

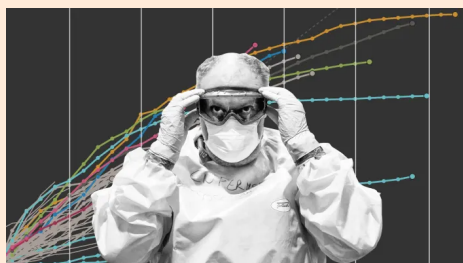
Policymakers hope this cash will soon be spent and Tuesday’s figures fuelled economists’ hopes that Europe’s pandemic-stricken economy would rebound in the second half of this year. The region suffered a record postwar recession in the first six months of 2020.

Using EU surveys on households’ future unemployment expectations as a guide to how much of the extra cash being hoarded by households was the result of more cautious behaviour, the ECB said it contributed less than 10 per cent of the new savings.

The closure of shops and leisure destinations and introduction of travel restrictions during pandemic-related lockdowns this spring made it harder for consumers to buy many of their usual goods and services.

“Most of this unexplained residual seems to be attributable to constraints on the consumption of many goods and services during periods of lockdown and therefore constitutes an estimate of forced savings,” the ECB said.

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However, it warned that “over the next year precautionary motives may still keep households’ propensity to save at levels that are higher than before the Covid-19 crisis”.

The resurgence of cases of the virus in countries such as Spain and France has led economists to fear that [fresh restrictions](#) could weigh down the recovery.

Melanie Debono, economist at Capital Economics, said: “Further restrictions are being imposed and look set to cause consumer confidence, and perhaps household spending, to drop back in the fourth quarter.”

Fabio Panetta, an ECB executive board member, [said on Tuesday](#) that slowing momentum in the services sector was a “source of concern” and warned that any setbacks in the recovery would require more monetary easing.

“Expenditure on several consumer services remains exceptionally low, and might be affected further by the deterioration of the public health situation in a number of euro area countries,” Mr Panetta said in a speech.

[Private consumption](#) in the second quarter was 16.3 per cent below pre-pandemic levels. While the commission’s consumer confidence indicator for the eurozone rose by 0.8 points in September to minus 13.9, it was still well below the long-term average of minus 11.1.

“Looking ahead, job and wage uncertainty is likely to remain elevated and give rise to continued precautionary behaviour among households,” said Mr Panetta. “If we encounter shocks that compress demand and pose additional threats to price stability, our reaction function is clearly spelt out: a policy response is necessary and forthcoming.”

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