

GLOBAL ECONOMY: HOUSEHOLD SAVING PLAYS ITS CUSHIONING PART ACROSS THE ATLANTIC, NOT (YET?) IN THE EURO AREA

US household consumption was 10% above its pre-Covid-19 level in the third quarter of 2023 when French one was only slightly above (1%). This dynamism across the Atlantic is based on a somewhat more favourable trend in purchasing power but, above all, on a fall in the personal savings rate. American households have apparently showed a greater sensitivity to improving labour market conditions. As the latter are becoming less favourable and US households now have fewer extra savings to cushion the impact of monetary tightening, US growth could lose significant support.

So far, US growth has weathered well the inflationary shock and monetary tightening, while eurozone growth has stalled. First estimates of Q3 2023 growth illustrate this point: US GDP grew by 1.2% q/q while eurozone GDP fell by 0.1% q/q. The very good US figure is largely supported by household consumption, up 1% q/q, contributing 0.7 percentage points to GDP growth. Though the Eurozone growth breakdown is not yet available, the French one is (+0.1% t/t), and is often representative of the eurozone. While private consumption in France rebounded strongly (+0.7% q/q) in Q3, the previous quarters were much more mixed.

Comparing current levels of private consumption with those of Q4 2019, the benchmark date before the Covid-19 pandemic, illustrates well the performance gap (see charts 1 and 2). Progress has been continuous in the United States since the Covid trough in Q2 2020, while the evolution has been bumpier in France due to the different lockdown phases. The stagnation of French household consumption since Q3 2021 is especially striking, as in Q3 2023, it is almost at the same level as in Q4 2019 (just 1% above, thanks to the rebound in Q3), while in the United States, it is 10% above. It should be noted, however, that the main items of consumption by French households have not faltered identically: their spending has been driven down by goods consumption, while services consumption is 6% above its pre-Covid-19 level on both sides of the Atlantic, despite a larger fall in France during the Covid-19 pandemic.

Given the comparable magnitude of the inflation and rising interest rates shocks on both sides of the Atlantic, the question is what has so far driven up US household consumption whilst French household consumption stagnated (a more expected development incidentally). The evolution of household purchasing power appears to be more positive in the United States, but with a smaller gap than for consumption: in Q2 2023¹, it was 7% above Q4 2019 level in the United States compared to 3% in France (see Chart 3). Some drivers of disposable income growth may have played a more positive role for US consumers. Pandemic emergency measures have provided a more direct and substantial support (checks) to US household income – an unexpected financial gain – which has supported consumption when health conditions allowed. In Europe and France in particular, incomes were broadly preserved, but did not benefit from such a temporary positive shock, such extra-cash and there was then no similar boost to consumption.

Moreover, part of the recent French household disposable income gains is due to the strong rise in financial and property income. This strong increase is partly fictitious, as being the result of accounting rules on how to calculate and allocate an income to homeowners. And, concerning the increase in interest and dividends received, this type of income is saved rather than consumed.

The divergence in consumption dynamics is therefore largely accounted for by the difference in household saving behavior. The evolution of personal savings rates is, in this respect, enlightening: in the United States, it is slightly lower than before the Covid-19 pandemic, while in France, it is still well above (see chart 4). The extra savings built during the pandemic appear to be much lower in the United States than in France or in Europe². US households also used consumer credit extensively to sustain their spending as their purchasing power decelerated.

What remains difficult to explain, however, is why household saving has acted as a shock absorber in the United States and not in France, why US households have drawn on their savings to maintain their consumer spending unlike French households. Part of the answer may lie in the labour market situation. The momentum has been favourable on both sides of the Atlantic, but this came more as surprise in France (see chart 5). Therefore, the fall in the unemployment rate may have been less fully felt in France than in the United States and has not had the same driving force on consumption. Is the saving behaviour a matter of confidence too? It is unclear. The INSEE's household confidence indicator for France is at a depressed level according to French standards, but this is also the case for US consumer confidence as measured by the University of Michigan survey while their morale is higher according to the Conference Board indicator (see chart 6). The three series have been trending upwards since mid-2022, suggesting that French household consumption is, at present, more influenced by the low level of their confidence than by its variation (improving).

The growth outlook over the next few quarters largely depends on household consumption developments. Lower inflation combined with rising wages (whose rate of increase remains high even if it moderates) is an important support factor on both sides of the Atlantic. But we see household consumption prospects as more negative in the US than in Europe, as US households will less be able to rely on their reduced savings to continue cushioning the impact of monetary tightening while labour market conditions become less favourable.

Hélène Baudchon

¹ Q3 2023 data are not yet available for France.

² For estimates of this surplus, see for example: for the United States: [Data Revisions and Pandemic-Era Excess Savings | San Francisco Fed \(frbsf.org\)](https://www.frb.org/research/2023/11/08/data-revisions-and-pandemic-era-excess-savings/), 8 November 2023; for an international comparison: [Spending Down Pandemic Savings Is an "Only-in-the-U.S." Phenomenon - Liberty Street Economics \(newyorkfed.org\)](https://www.libertystreeteconomics.com/2023/10/11/spending-down-pandemic-savings-is-an-only-in-the-u-s-phenomenon/), 11 October 2023; for the Eurozone: [Excess savings: To spend or not to spend \(europa.eu\)](https://www.europa.eu/press-communications/infographic/2023/11/02/excess-savings-to-spend-or-not-to-spend/), 2 November 2023.



US HOUSEHOLD CONSUMPTION

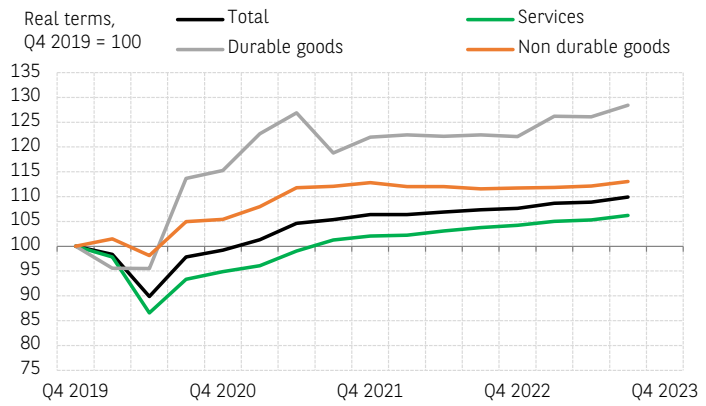


CHART 1 SOURCE : BEA, BNP PARIBAS

FRANCE: HOUSEHOLD CONSUMPTION

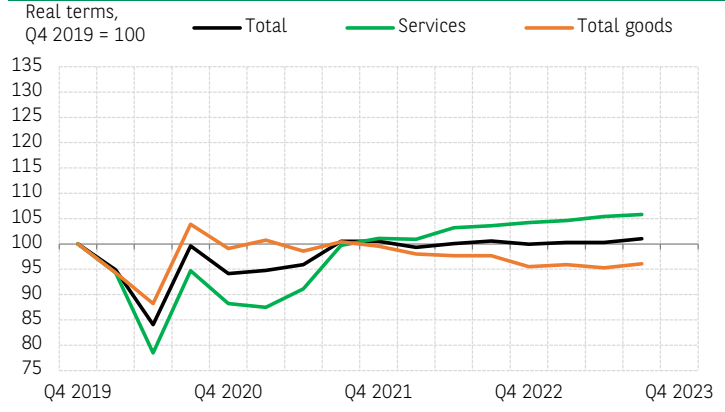


CHART 2 SOURCE : INSEE, BNP PARIBAS

HOUSEHOLD PURCHASING POWER

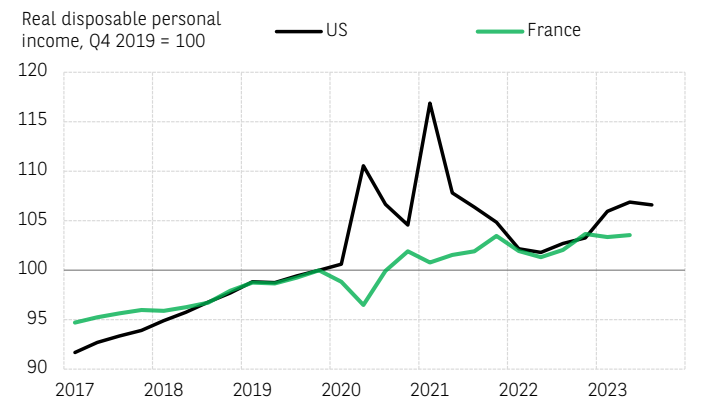


CHART 3 SOURCE : BEA, INSEE, BNP PARIBAS

PERSONAL SAVING RATE

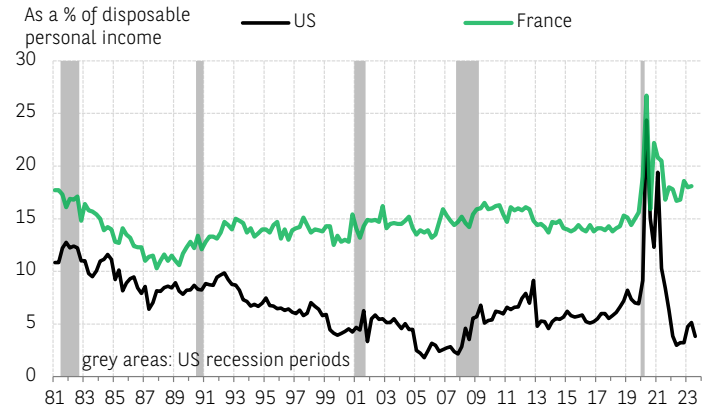


CHART 4 SOURCE : BEA, INSEE, BNP PARIBAS

UNEMPLOYMENT RATE

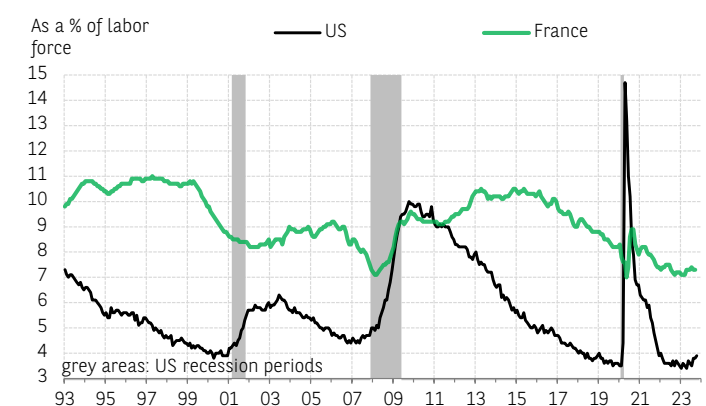


CHART 5 SOURCE : BLS, EUROSTAT, BNP PARIBAS

CONSUMER CONFIDENCE

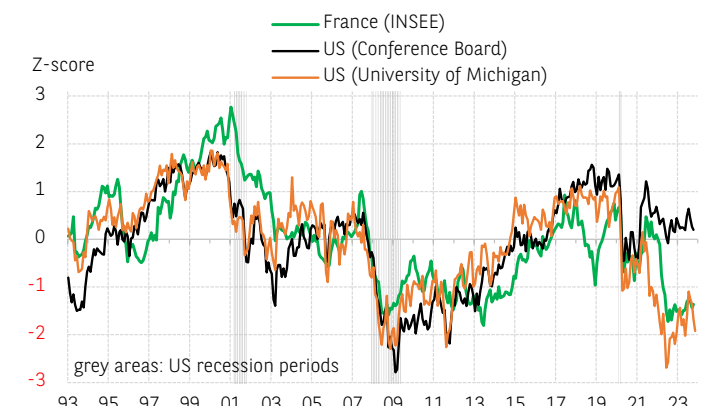


CHART 6 SOURCE : INSEE, CONFERENCE BOARD, UNIVERSITY OF MICHIGAN, BNP PARIBAS