Macro Comment 10/05

Anke Struijs

The start of a Dutch consumer recovery?

Rabobank

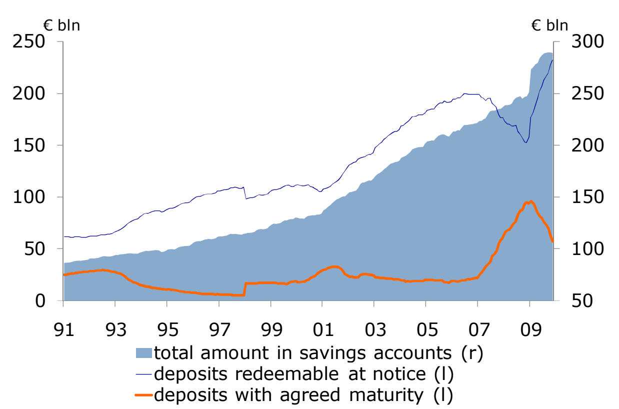
Dutch households withdrew €1.2 billion from savings accounts in October and November 2009. Does this mean that consumers are ready to increase spending? Or is this money merely meant to cover income losses? The latest figures on consumption and unemployment seem to suggest the latter. But there may be an upward surprise in consumer spending in the coming months.

The Dutch always liked to have a nice little nest egg, but in 2009 savings were particularly high. In the twelve months up to November 2009 savings were almost 16% higher than in the same period the year before, totalling €290 billion at the end of November (see figure 1). Job insecurity and wealth losses caused the savings boom in 2009. The fall in savings in October and November is all the more remarkable, because since late 2005 withdrawals from savings accounts never exceeded deposits for more than one month in a row. Still, savings in November were some 17% above those in November 2008. DNB mentions the low level of savings rates and higher return on other markets as possible reasons for the decline in savings.

Also, deteriorating labour market conditions may have caused households to eat into their savings. Indeed, unemployment has been rising for thirteen months in a row now and stood at 5.5% in December 2009. Whilst these numbers may seem fairly optimistic when compared to the EU average, the unemployment statistics do not tell the complete story. The number of self-employed persons has shown a remarkable increase in recent years. They have faced an enormous drop in demand during the past year. The self employed may have taken the first blows before employees and drawn down their savings deposits to cover the income losses. As unemployment will continue to rise to an expected average of 7¼% this year, more and more households might feel the need to break into their savings.

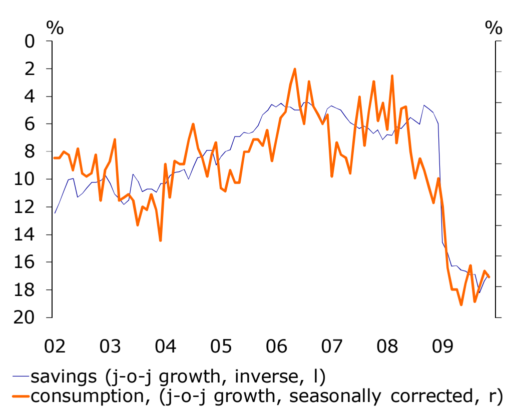
A more positive explanation of the lower savings in October and November connects it to a surge in spending. In part, this is a seasonal effect. Savings typically decline in the last few months of any year due to seasonal purchases. The seasonal effect implies that the impact on year-on-year growth figures for consumption is not necessarily positive, when holiday shopping turns out to have been more modest still than in 2008. The November figure for consumer spending seems to suggest as much. The volume of consumption was down by 2.7% in November 2009 on November 2008 (see figure 2). This decline is of the same order of magnitude as in previous months. Consumers are thus still keeping a lid on their spending.

Figure 1: Bank savings at record high



Source: Statistics Netherlands

Figure 2: Savings boom hampers consumer spending



Source: Statistics Netherlands

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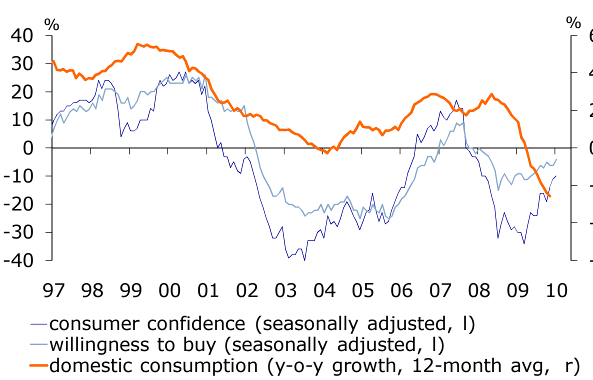
These data do little to suggest that there will be a return to spending. But we might be surprised. Even with unemployment still rising, consumer confidence grew stronger in recent months since the trough of -34 in March of last year. In January the index stood at -10 (see figure 3). A glass half full or half empty? Indeed, despite the marked improvement in consumer confidence in recent months the index is still in negative territory, indicating that pessimists still outnumber the optimists. But even if expectations about developments in the Dutch economy are for the most part still geared to the negative side, a more important message that the rebound in economic confidence conveys is perhaps one of decreasing uncertainty.

It is this uncertainty more than anything else that has incited consumers to increase savings. The uncertainty was fed by deteriorating labour market conditions and wealth losses. The latter have been substantial, but some of these losses were recovered in recent months. Financial capital (the difference between financial assets – including savings, pension schemes, shares and bonds – and debts – mainly mortgages) of households increased by 8.4% (€65 billion) in the third quarter of 2009 relative to the preceding quarter (see figure 4). This increase is the second in a row, following a rise of 9.4% in the second quarter after 6 consecutive quarters of decline. In 2008, financial capital was down almost a quarter on the year before. Wealth losses and recent recoveries were largely due to changes in the price of shares and bonds, affecting household wealth directly through securities holdings and indirectly through changes in life insurance and pension fund reserves. Some households may also have experienced a decline in housing wealth due to falling house prices in 2009.

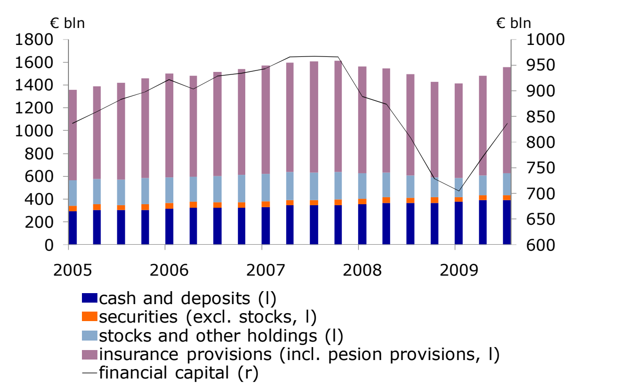
The explosive growth of savings in the past year was not nearly enough to cover wealth losses. But perhaps a more compelling argument for discarding substitution as a main explanation for the savings boom is that the extra savings consist entirely of deposits redeemable at notice (see figure 1 on the previous page). In fact, deposits with an agreed maturity decreased over the same period. Savings rates on deposits redeemable at notice have been falling at the beginning of 2009 and are at relatively low levels. Rates on deposits with an agreed maturity have also declined, but less so. The sharp increase in deposits withdrawable on demand in a low interest rate climate is typical for times of great uncertainty. The rebound in economic confidence coupled with bank savings that are still at a record high, may therefore give households an extra propensity to consume in coming months.

Figure 3: Consumer confidence improving



Source: Statistics Netherlands

Figure 4: Financial capital of Dutch households



Source: Statistics Netherlands

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