HSBC Global Research

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Asia Chart of the Week

Money to spend…plenty, possibly

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Economics - Asia

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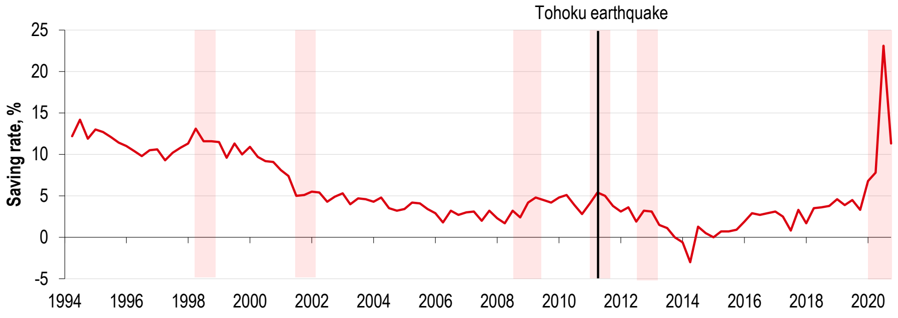
Ok, let's focus on some good news. Last year's economic slide – nay, 'tumble' – left deep scars. Many lost their jobs, incomes took a hit, and profits at numerous companies got slashed. This year, the hope is that with vaccines on their way, much of this will reverse. Here's the kicker though: unlike your run-off-the-mill recession, during the pandemic enormous savings have piled up in the private sector, primarily among households (though not evenly distributed, unfortunately), but also among many companies. In part, this was because the virus deterred spending in many areas, notably services like travel, leaving many consumers to accumulate a little stash. And in part, this was because a lot of governments were particularly generous with handouts, helping to support incomes. The latter also benefitted businesses, many of whom slashed their spending on investment and were therefore further able to maintain some profits, or at least prevent larger losses. How much cash, exactly, is sitting on the side lines is hard to gauge; as is how much of that stash will be spent. Still, the numbers are punchy: in Japan and Korea, for instance, HSBC economists James Lee and Ki-Hyuk Lee reckon that consumers are 'sitting on' between 8 and 10 per cent of GDP in pent-up purchasing power. That would be a powerful shot in the arm for domestic demand, indeed. How much might be unleashed elsewhere?

I started out with nothing and I've still got most of it left.
Groucho Marx

Before getting to more specific numbers. Let's put things into a little perspective. Consider Japan, which has some of the best data on this stuff in the region. Chart 1 shows the household saving rate since the early 1990s, when the country's bubble economy came off the boil. The household saving rate trended down until about the mid-2000s – at which stage Japanese households, despite a long-earned reputation for frugality, saved less than American ones. In recent years, it has started to recover, but households never saved more than five per cent of their disposable income. As in other economies, during recessions, saving rates tended to rise, or at least stop falling: consumers, worried about

Chart 1: Japan's household saving rate: Red columns denote recession



Source: Cabinet Office, HSBC

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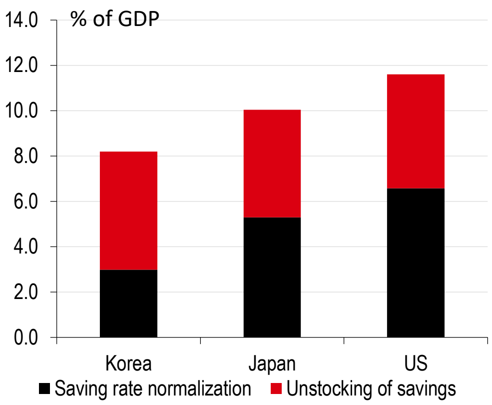
jobs and the future more generally, usually cut back on spending and put more money aside. Over the past year, however, the process got super-charged: just look at how Japan's household saving rate spiked, going well over 20% at some point. Two reasons explain why it went up much further than during a typical recession. First, households more actively restrained their spending as the virus deterred them from splurging particularly on services they would ordinarily consume. Second, the government offered huge income support, manifesting itself in a massive budget deficit.

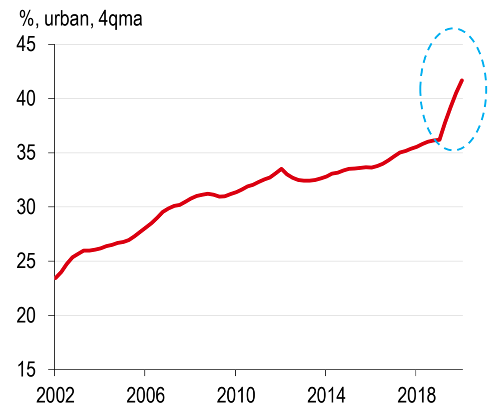
The thing, now, is that the 'extra' savings accumulated last year might be spent once confidence returns and economies open (let's call this the 'unstocking of savings'). Plus, the saving rate this year might decline again to more normal levels, further adding to purchasing power (let's call this the 'saving rate normalisation'). James and Ki-Hyuk estimate that the two effects combined mean that households in Korea might have 8% of GDP in pent-up spending power this year, and in Japan 10%. In the US, this is even higher, partly due to bigger fiscal transfers: nearly 12% of GDP (Chart 2).

Chart 2: Household 'pent-up' savings



Source: BoK ,Cabinet Office, CEIC, Refinitiv Datastream, HSBC estimates

Chart 3: China* household saving rate

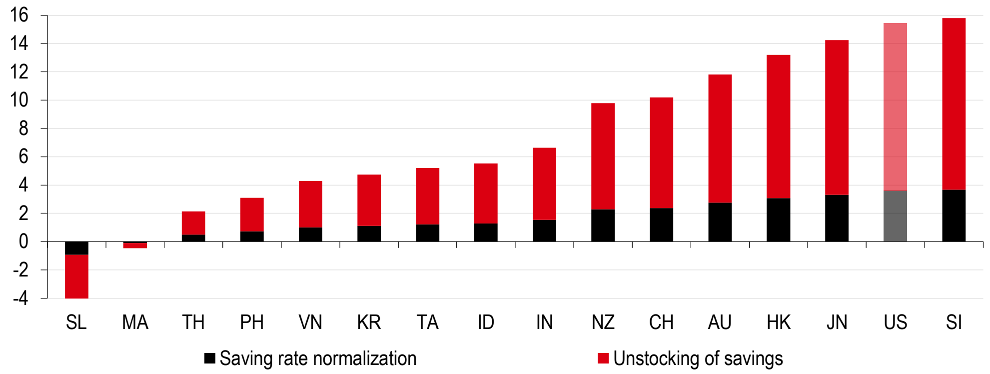


Source: CEIC, HSBC; NB: *refers to mainland China

The household saving rate also increased in mainland China over the past year (Chart 3). Using a slightly different approach, HSBC Chief China economist Qu Hongbin, and Erin Xin, estimate that the unstocking of urban household savings alone could boost 2021 GDP by 1.7%.

Unfortunately, in other parts of Asia, household saving data is not available at high frequency. For a consistent approach, we thus use estimates of the 2020 national saving rate, and adjust this for government fiscal balances to arrive at a private sector saving rate, including households and firms. This, then, allows us to make estimates of their joint pent-up 'spending power' for each market. Chart 4 shows the results: on average, the private sector savings normalisation could translate into over 6% of GDP. That'd be a nice kick. Question is: will they spend it?

Chart 4: Household & corporate 'pent-up' spending power (% of GDP)



Source: IMF, HSBC; NB: CH refers to mainland China

Disclosure appendix

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