



EUROPEAN CENTRAL BANK

EUROSYSTEM

Household Spending and Fiscal Support During the COVID-19 Pandemic: Insights from a New Consumer Survey

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ECB NY FED conference on
Expectations Surveys

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Disclaimer

The views expressed in this presentation are those of the authors and do not necessarily reflect the views of the European Central Bank or of the Euro system.

Motivation

- COVID-19 pandemic: **complex** and multi-faceted shock with **heterogeneous impact** on economic agents
- **Need for financial support varies** across countries, sectors of employment, the nature of employment, type of employment contract, demographics (incl. family status)

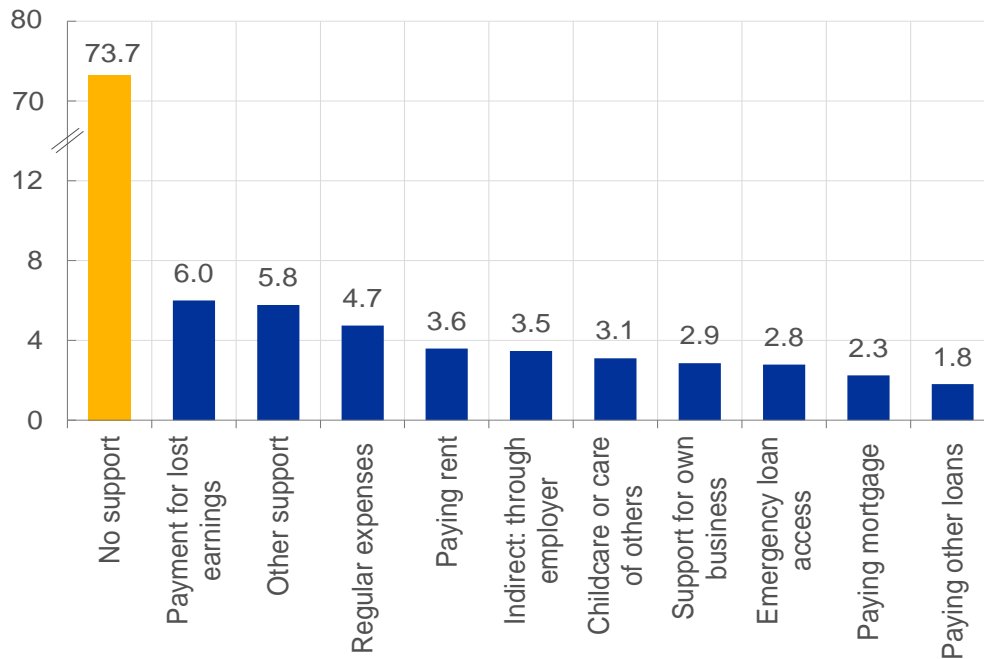
Challenges:

- the **logistics of channelling** fiscal support in a manner that was **targeted, effective** and **efficiently** allocated through different channels
- **assess effectiveness of fiscal support**

Government support during the pandemic; >70% did not receive any support

Types of COVID-19-related government support

(% of respondents indicating they received support, by type)



This paper

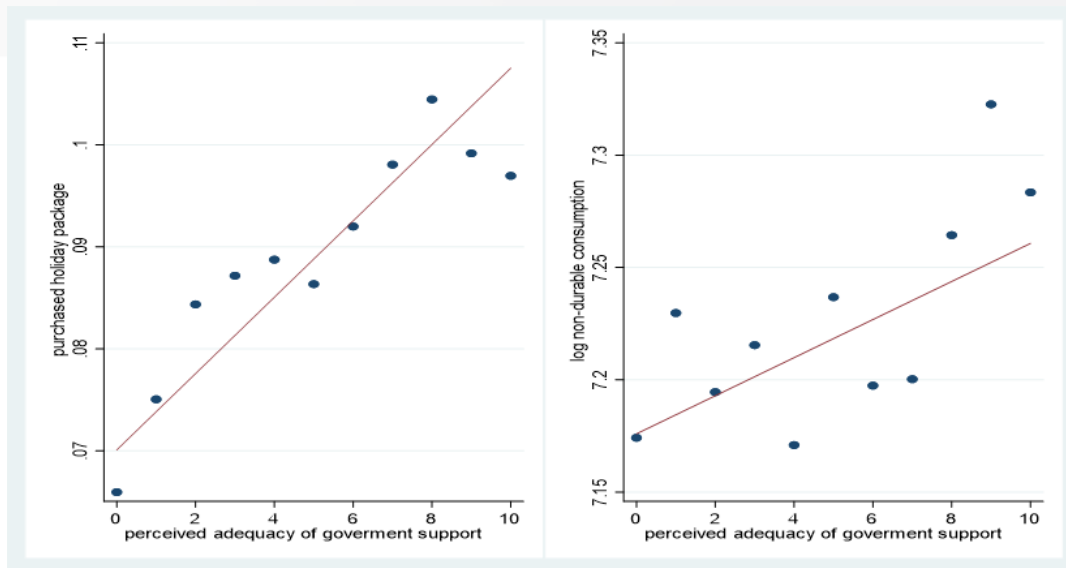
- Measure directly every household's **perceptions about the adequacy** of fiscal interventions in ensuring own financial well-being
- Do public perceptions about adequacy of fiscal support **affect household spending**?
 - **Empirical challenge**
 - What are the **channels**?
 - Do perceptions of **non-recipients** (majority in population) matter, too?

HH perceived adequacy of Fiscal Support

Governments are taking financial support measures in response to the coronavirus (COVID-19) outbreak. How do you rate the adequacy of these measures for your household's financial situation?

0 (very poor) 10 (very good)

Empirical challenge



- Raw data: strong positive association between public perceptions about fiscal interventions and household spending
- Identifying a **causal effect of such perceptions is challenging** and likely cannot be addressed by panel data techniques (e.g., panel FE's) : **reverse causality; correlations with time-varying unobservables**

Possible channels

Households that view government interventions as adequate...

- expect **own income prospects** to be little affected in response to the pandemic or even improved
- anticipate that future economic conditions will facilitate **access to credit** (i.e., unlikely to be liquidity constrained)
- form a more positive outlook about **future own financial situation** (and country's prospects)
- perceive that there is sufficient **public insurance** and a **safety net** against the COVID-19 shock
- expect increases in **future taxation**

What We Do

- **RCT: induce exogenous variation** to household perceptions about fiscal support
- **Estimate the effect of public perceptions** about fiscal support on:
 - **Spending** on big ticket items
 - **Non-durable spending** and **budget shares**
- Shed light on **channels** by estimating the effect on various expectations (e.g. future household income, access to credit, financial situation, future tax burden)
- Estimate heterogeneous treatment effects of FS for **recipients** and **non-recipients**

What We Find (Preview)

- Wide **heterogeneity** in perceived adequacy across **countries, households** and **over time**
- Simple and factual **information** about pandemic-related actual fiscal support and their aims affects household perceived adequacy (esp. for those with a negative prior)
- **Public perceptions matter**: causal effect on **household spending** on big ticket items and some discretionary goods
- More positive assessment about fiscal interventions: **improves** household expectations about **own income, future credit access, financial sentiment**; **no effects on** future tax burden; inflation expectations; growth expectations
- Perceptions important for the **broader population**; can incentivize spending among **non-recipients**

Literature

- Widely held view that expansionary fiscal interventions can **boost consumer** and business **confidence**, which in turn **can trigger private spending** and investment (Carroll et al. 1994 and Ludvigson 2004)
- Wide **dispersion of public perceptions** and **support about policies** (e.g., tax, trade, health-care, social mobility), see, e.g., Stantcheva (2020); economists and the broader public hold **starkly different views** on most economic issues (Sapienza and Zingales, 2014); important role for ideology and communication channels (Blinder and Krueger, 2004)
- Role of effective communication in influencing economic outcomes (e.g., Coibion et al. 2019 on **CB communication**; Coibion et al. 2020: info on fiscal outlook and inflation expectations)
- **Impact of tax rebates**: Coibion et al. (2021): <20% used to increase spending; Sahm, Shapiro and Slemrod (2010); and Shapiro and Slemrod (2003)
- Christelis et al. (2020): **euro area households with high pandemic-induced financial concerns more reluctant to spend out of a (hypothetical) income transfer**
- **Final verdict** on the overall effectiveness of the pandemic-related government support: **more time, more data, more research!**

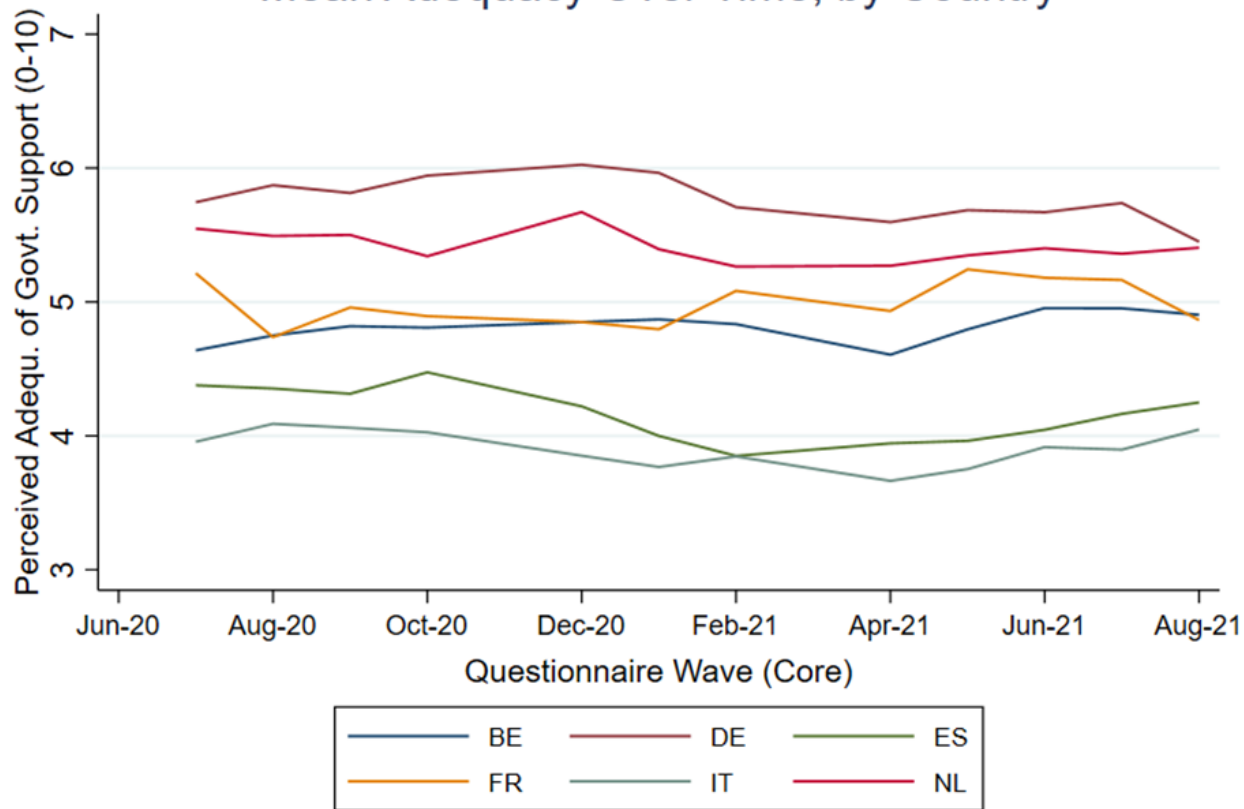
Consumer Expectations Survey (CES)

- **Internet panel**; DE, FR, ES, IT, BE, NL; ~ 10,000 households; pilot started January 2020 (January 2021: +5 EA countries; 19,000 households)
- Sample: **PS** (via RD) & **NPS** (via existing online panels); sample weights: nationally representative for <70 years old
- Household **perceptions**, **expectations** and **behavior** (incl. consumption, saving/investing, borrowing)
- **Mixed-frequency modular approach** (background; monthly, quarterly, annual topical modules; special-purpose ad hoc surveys)

Consumer Expectations Survey (CES)

- **November 2020:** 10 min special-purpose survey following the regular survey wave (also utilize December 2020 – February 2021 waves)
- Consumption of larger items (extensive margin): *house, cars, durables, holidays, luxury items* (incl. *gadgets*)
- Non-durable consumption; January 2021; 10 items; follow-up checking screen and monthly running sum
- For a description see: *this paper (2021)* and *ECB Evaluation Report (2021)*

Mean Adequacy Over Time, by Country



Higher perceived adequacy of fiscal support correlates with...

(+) male

(+) income

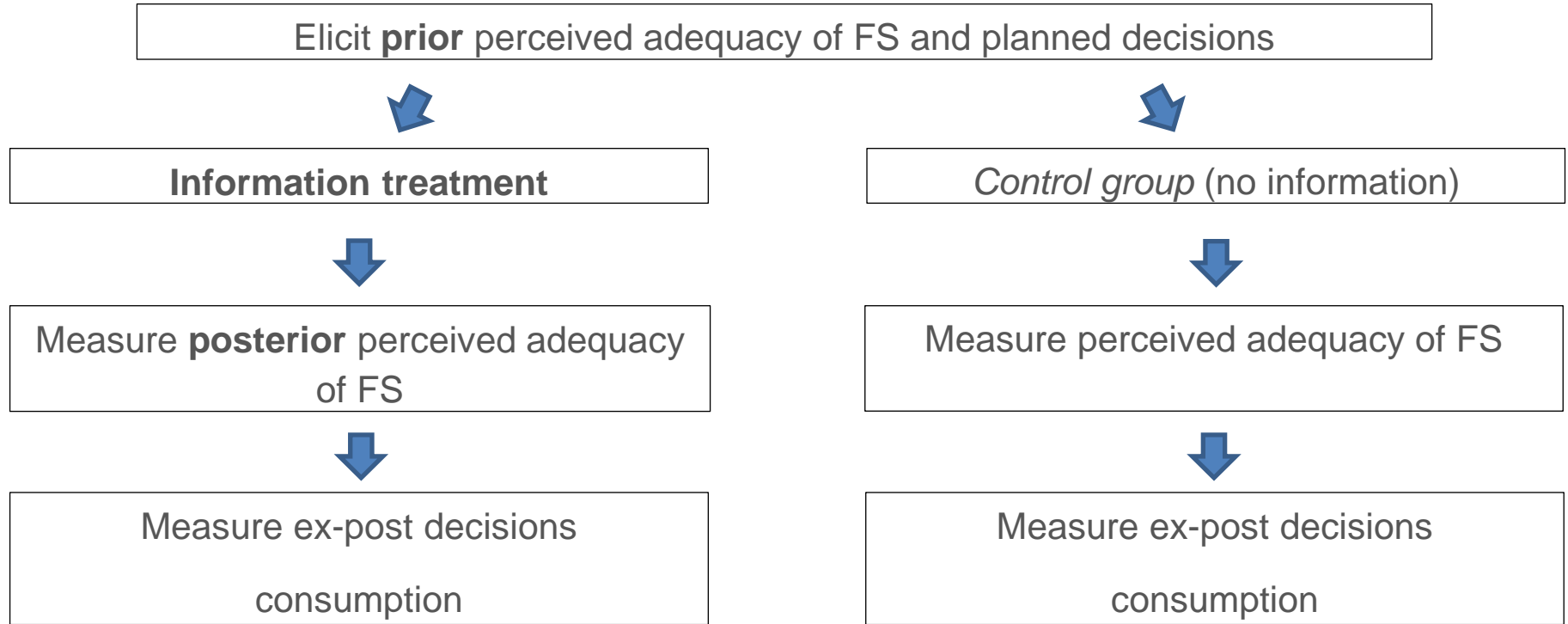
(+) expected financial situation

(-) age

(-) self-employed

(-) liquidity constrained

An RCT Approach to the Question



Treatments

T1: *“In order to help <country name> to recover from the coronavirus (COVID-19) outbreak, the Government has recently agreed on a comprehensive package of measures worth <€XX>. This is a very substantial package that, in terms of size, corresponds roughly to <€ZZ> per person in <your country>. A large part will support investment, employment and economic recovery.”*

BE: 68 billion (6,000); FR: 522 billion (8,000); DE: 1,400 billion (17,000); IT: 670 billion (11,000); NL: 107 billion (6,000); ES: 216 billion (4,500)

T2: *“In order to help the EU to recover from the coronavirus (COVID-19) outbreak, EU leaders have recently agreed on a comprehensive package of measures worth €1,8 trillion. This is a very substantial package that, in terms of size, corresponds roughly to € 4,000 per person in the EU. A large part will support investment, employment and economic recovery.”*

T3: T1 & T2

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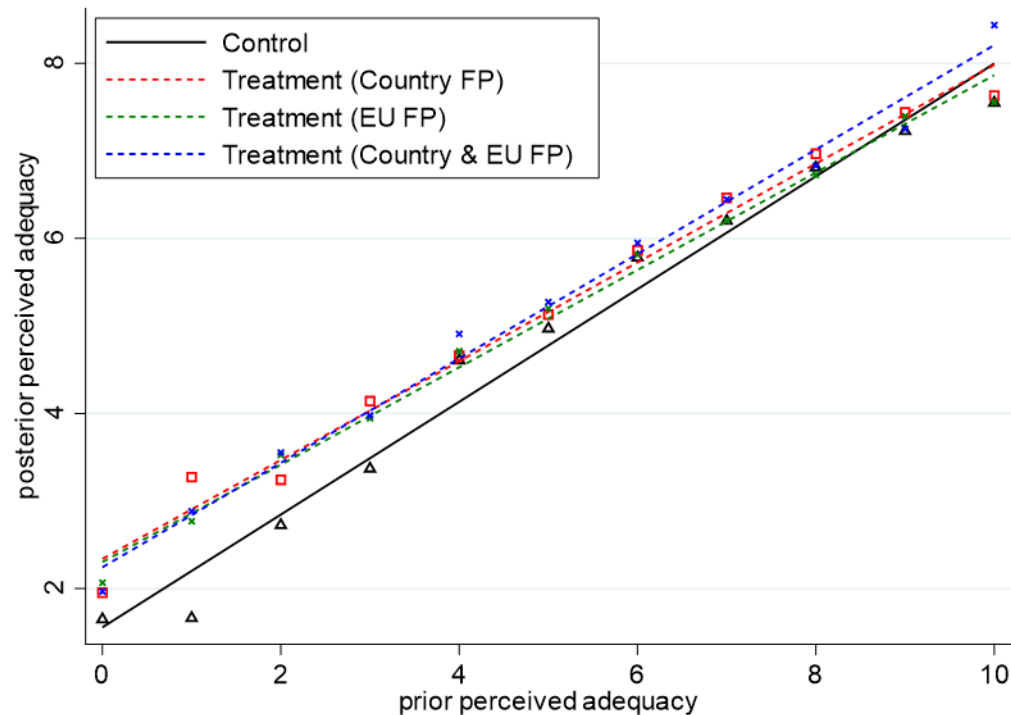
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Treatment Effects on Perceived Adequacy of Fiscal Support



Post-Treatment Behavior: spending

$$PurchDur_i^k = \alpha_1^{(k)} Post_i^{adequacy} + \alpha_0^{(k)} Prior_i^{adequacy} + \gamma(PlanDur_i^k) + Controls + error_i^{(k)},$$

$$Post_i^{adequacy} : I\{Treat\ j\} + I\{Treat\ j\} \times Prior_i$$

- **‘Big ticket’ items** (extensive margin): house, car, durables, holidays, luxury goods [**December 2020, January 2021, February 2021** waves]
- **Non-durables** 1) food, beverages, groceries, tobacco, restaurants, cafes, canteens; 2) housing (incl. rent), utilities, furnishing, housing equipment, small appliances and routine maintenance of the house; 3) clothing, footwear; 4) health care and personal care products; 5) transport; 6) travel, recreation, entertainment and culture; 7) education and other. [**January 2021 wave**]

Effects of perceived adequacy of government support on actual purchases of durable goods and services (1m PT)

	Home	Durable	Car	Holiday	Luxury
	(1)	(2)	(3)	(4)	(5)
Posterior: perceived adequacy	0.030*** (0.008)	0.060 (0.040)	0.047*** (0.014)	0.047*** (0.013)	0.037** (0.015)
Plan to buy a given durable	0.110*** (0.022)	0.226*** (0.014)	0.068*** (0.012)	0.040*** (0.007)	0.230*** (0.026)
Observations	8,542	8,558	8,542	8,542	8,542
1 st -stage F stat	16.14	14.45	16.69	15.95	15.17
Over-id (p-value)	0.746	0.575	0.558	0.698	0.886

- Similar effects 2m & 3m PT

Effects of perceived adequacy of government support on budget shares for nondurable consumption

	Food	Housing, utilities, furniture, home equipment	Clothing	Healthcare	Transport	Recreation	Education and other
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Posterior: perceived adequacy	0.025 (0.017)	-0.015 (0.018)	0.013** (0.005)	0.014* (0.007)	0.003 (0.005)	0.008*** (0.003)	0.015* (0.008)
Observations	8,154	8,159	8,154	8,155	8,157	8,152	8,156
1 st -stage F stat	11.53	14.36	13.88	12.86	14.86	15.01	13.76
Over-id (p-value)	0.803	0.321	0.361	0.040	0.426	0.418	0.926

Effects of perceived adequacy of government support on expected: **household income; access to credit; financial situation; and tax burden**

	Expected household income growth	Expected access to credit	Expected financial situation to improve	Expected tax burden
	(1)	(2)	(3)	(4)
Posterior: perceived adequacy	0.654* (0.378)	0.145** (0.074)	0.068** (0.030)	0.061 (0.118)
Observations	7,552	7,912	8,554	8,401
1 st -stage F stat	17.07	13.03	13.78	12.72
Over-id (p-value)	0.434	0.287	0.091	0.409

- No effects on: inflation expectations; expected GDP growth

Effects of perceived adequacy of government support on actual purchases of durable goods and services for households that **have not** received government support

	Home	Durable	Car	Holiday	Luxury
	(1)	(2)	(3)	(4)	(5)
Posterior: perceived adequacy	0.028*** (0.010)	0.107* (0.058)	0.046*** (0.017)	0.052*** (0.017)	0.027 (0.017)
Plan to buy a given durable	0.093*** (0.027)	0.244*** (0.018)	0.059*** (0.013)	0.041*** (0.008)	0.218*** (0.031)
Observations	6,317	6,320	6,313	6,312	6,313
1 st -stage F stat	8.667	7.526	8.270	8.685	8.333
Over-id (p-value)	0.181	0.992	0.675	0.567	0.896

Effects of perceived adequacy of government support on actual purchases of durable goods and services for households that **have** received government support

	Home	Durable	Car	Holiday	Luxury
	(1)	(2)	(3)	(4)	(5)
Posterior: perceived adequacy	0.039** (0.015)	0.001 (0.055)	0.049** (0.024)	0.039** (0.020)	0.060** (0.030)
Plan to buy a given durable	0.116*** (0.035)	0.170*** (0.024)	0.094*** (0.027)	0.035** (0.016)	0.269*** (0.047)
Observations	2,220	2,233	2,224	2,225	2,224
1 st -stage F stat	9.119	8.823	10.93	8.761	7.944
Over-id (p-value)	0.165	0.225	0.177	0.270	0.785

Conclusions

- Simple and factual **information about government support policies** and **their aims** can help improve **consumer perception** about the adequacy of fiscal interventions
- Strong and persistent **positive causal effect on household spending** (esp. on big ticket items like holidays and cars)
- Households with a more positive assessment about fiscal interventions are also more optimistic about *own income prospects, future access to credit* and *own financial situation*
- No effect on expectations about future taxes (i.e., **no evidence of a Ricardian channel** that would attenuate the stimulatory effects of fiscal policy), inflation or GDP growth

Conclusions

- **Effectiveness** of fiscal support: key role of **public perceptions**
- Value of **effective communication** about fiscal policies
- Fiscal interventions and the related communication can have **broader consequences** as they influence the behaviour of household groups **beyond the immediately targeted ones**

Thank you!