Saving during the corona crisis

Cash is king

June 17, 2020

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German households saved surprisingly little money during Q1; their bank deposits were only up by EUR 5.8 bn. In the lockdown month of March, deposits even declined by EUR 11.1 bn, as households withdrew a lot of cash due to the uncertain situation. During the current quarter, however, households will probably build up deposits substantially in order to prepare for potential income losses. By contrast, retail loans continued to increase strongly in Q1 and may cool down only in the medium term.

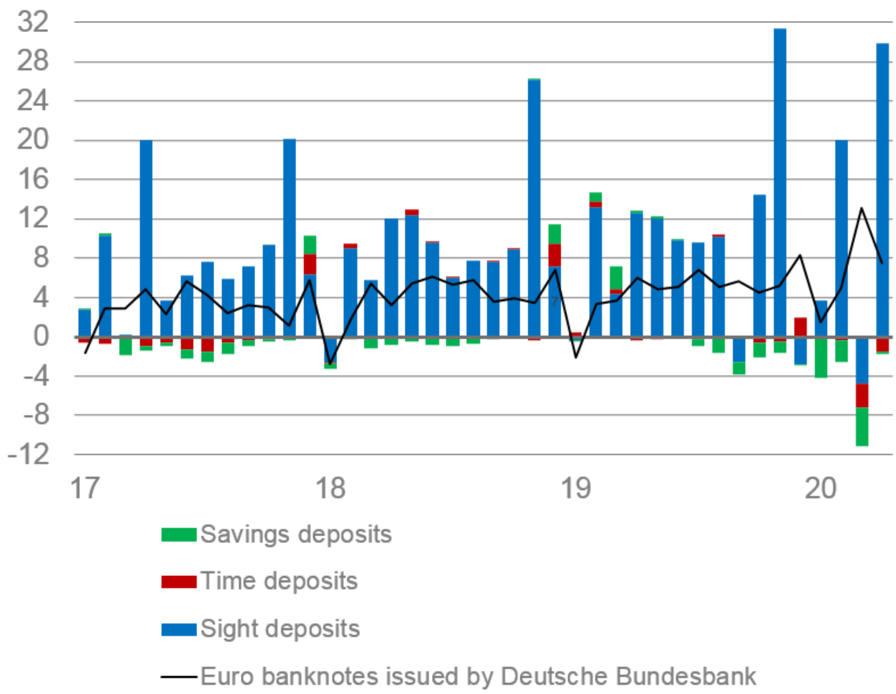
German households saved surprisingly little money during Q1; their bank deposits were up only EUR 5.8 bn. The figure was unusually low even for the seasonally weak first quarter and considerably below the buoyant quarterly average of EUR 25 bn of the past three years. While the annual growth rate fell, it remained healthy, at 4.3%, due to the strong preceding quarters. Above all, households withdrew money from savings deposits (EUR -10.2 bn) and time deposits (EUR -2.9 bn). In contrast, sight deposits increased by EUR 18.9 bn., the normal seasonal amount. While these maturity preferences have been visible since the financial crisis, the withdrawals from savings deposits and time deposits were considerably higher than in the preceding quarters.

The main reason was the coronavirus pandemic, as the monthly changes show. While deposits continued to grow in line with the seasonal patterns in January and February (sight deposits even rose by a larger amount than in preceding years), households withdrew EUR 11.1 bn from their accounts in March, and not just from savings deposits (EUR -3.9 bn) and time deposits (EUR -2.4 bn), but also from sight deposits (EUR -4.8 bn).[1]

At first sight, this appears surprising. After all, household incomes remained stable overall during Q1 and consumption had already declined palpably, not least due to shop closures and lockdown measures imposed from the middle of March. Overall, households significantly increased their savings for precautionary reasons or lack of opportunity. In the first quarter, the household savings rate jumped to 12.4% of disposable income, up 1.3 percentage points and by far the largest increase in a quarter since 1991.[2] However, higher savings obviously did not translate into deposit growth. Instead, some of the money was used in cash withdrawals from banks. In fact, the issuance of euro banknotes by the Bundesbank jumped to EUR 13 bn in March. This total comprises cash withdrawals by households as well as cash demand by corporates and merchants and demand from abroad. (Cash held by banks is not included.)

Lockdown month March: Households withdraw unusually high amounts

EUR bn, deposit growth mom, banknote issuance per month (excl. cash held by banks)



Sources: Deutsche Bundesbank, Deutsche Bank Research

This is a well-known pattern. Back in September 2008, i.e. at the peak of the financial crisis triggered by the Lehman Brothers bankruptcy, German savers reduced their deposits (EUR -4 bn) and the issuance of banknotes by the Bundesbank ballooned, reaching EUR 18 bn. Later, demand for cash normalised and bank deposits rose strongly and above normal levels. It appears that today, too, many savers are unsettled by the pandemic and are increasing their cash holdings to be prepared for any emergency. In addition, households might have invested money in other assets during Q1, such as securities. In principle, the same is true for insurance policies and real estate; still, such investment decisions are usually taken for a longer time and are contractually fixed. Households did not put money in investment funds but withdrew a large amount in March. Over the entire quarter, there was also an outflow of funds.

Once acute concerns subsided – people found that food remained available and financial and other infrastructures worked smoothly – panic buying and also cash hoarding receded. Instead, households saved more to prepare for potential income losses during the downturn. In April, deposits were up EUR 28.2 bn.

Trends in lending were unchanged during Q1. Indeed, mortgage growth accelerated further, to EUR 12.3 bn. This was the largest volume registered in a first quarter since 2000. The annual growth rate rose to 5.7%. It remains to be seen whether income losses from rising unemployment and short-term work will dampen households' propensity to buy. Interest rates for real estate loans are unlikely to rise, given the difficult economic situation and further monetary easing. Overall, the uptrend in residential house prices might slow. According to the Bank Lending Survey, two-thirds of all banks in Germany expect demand for real estate loans to decline during the current quarter. Even back in 2008, they were less pessimistic.

Households also increased their instalment loans by an above-average EUR 1.8 bn during Q1. However, this is quite a volatile series. Debit balances and other loans declined slightly. Overall, retail loans rose EUR 12.6 bn.

During the current quarter, households will probably increase their bank deposits considerably, to hold more liquidity in uncertain times. For now, major effects on real estate financing are unlikely; real estate transactions that are close to closing could be difficult to cancel. In the medium term, however, mortgage growth might slow, depending on the development of the labour market and of household income.

See also: “Paying in times of crisis: Coronavirus, cards and cash”

[1] Deutsche Bundesbank, Banking Statistics.
[2] Deutsche Bundesbank, National Accounts, seasonally adjusted household savings rate.