BofA SECURITIES

Asia Economic Weekly

Excess weight on global excess savings

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GEM Fixed Income Strategy & Economics
Asia

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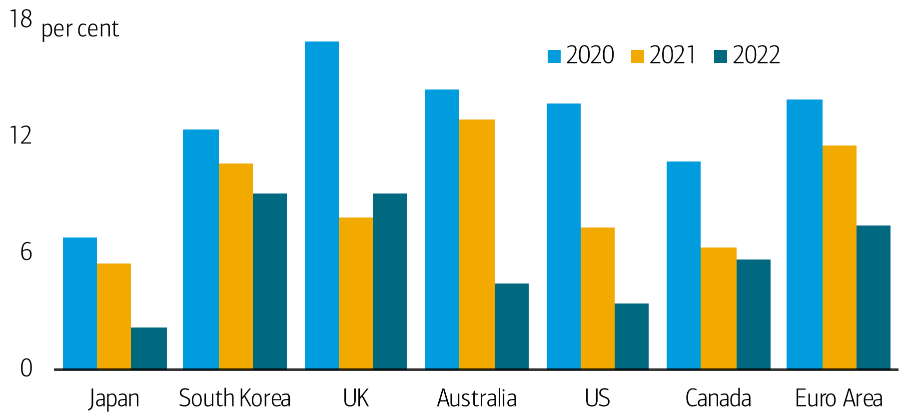
Excess savings are falling at uneven paces

Interest rates have increased sharply in major economies since last year. Yet, the toll on consumption and housing prices has been smaller than expected in 2023 in Asia, US, Europe, and Australia. The accumulation of a large stock of household savings during the pandemic was one of the reasons why consumption was more resilient than anticipated, but this is now changing as savings continue to fall.

Despite distinct economic outlooks for 2024 across regions (See: Asia Economic Weekly: Year Ahead 2024: A year of divergence and uncertainty 24 November 2023, we think the rundown of excess savings is unlikely to produce a sharp decline in consumer spending. Excess savings (defined by the amount of savings accumulated since the pandemic) are not evenly distributed across income levels while the sharp increase in cost of living has impacted all households and it's weighing on spending behavior.

Exhibit 1: Change in household savings since 2020
The pace of drawdowns has been uneven



Source: Macrobond, ABS, OECD

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Some uncertainty ahead

The outlook for household spending relies on the labour market and wages growth rather than savings, in our view. A preference to save given global uncertainty, slower economic growth and softer labour markets could keep savings elevated and consumption weaker. Further traction from higher rates could also add pressure to household spending in 2024. See: Global Economics: Year Ahead 2024: Growing apart, cutting together 19 November 2023

- *M. Fuchila*

Global excess savings in focus

Micaela Fuchila
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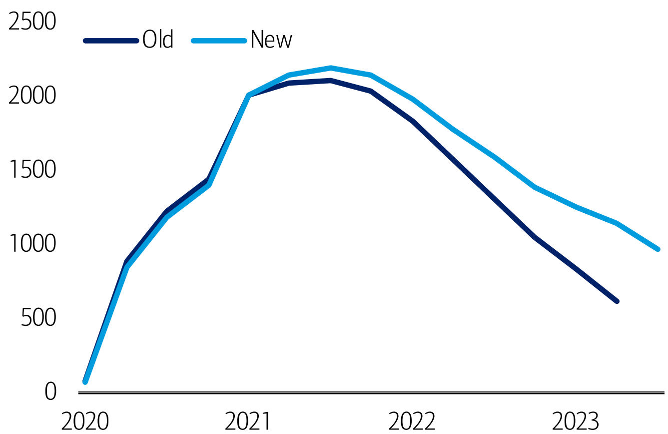
Measures of excess savings are constructed by comparing the accumulation of savings during the pandemic versus its trend. Given unusually large fiscal and monetary policy stimulus that followed the pandemic shock and the nature of "forced savings" we think these measures are not reflective of current conditions in the household sector. Instead, the outlook for household spending relies more on the health of the labor market and wages growth rather than savings, in our view.

Our **United States** team believes that while in decline, the rundown of excess savings is unlikely to produce a cliff edge in consumer spending in the US. In their view, the impact of the rundown of liquid assets on household balance sheets will look much more like a gentle slope than a cliff edge. This is due to firstly, measures of excess savings ignoring important issues such as the impact of inflation and how the savings are invested. Secondly, excess savings increased by around US$500bn when the path of savings was (mostly) revised down in the September GDP revisions (Exhibit 2). The latter is clearly problematic.

BofA's conclusion is that households don't have a specific number in mind when they think about their "excess savings". Rather, they get increasingly uncomfortable - and slowly pull back spending - as their liquid assets runs down. See: Morning Market Tidbits: The excess savings "cliff" is really a slope 14 November 2023

Exhibit 2: US excess savings
A gentle slope



Source: BEA

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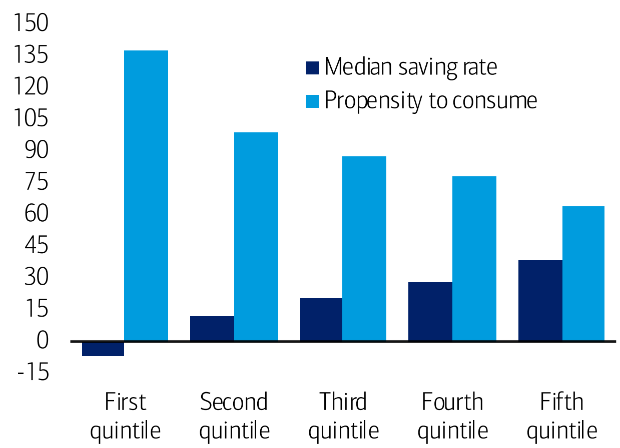
Exhibit 3: Euro area savings rates and propensity to consume (2015, % of disposable income), by income quintile
Low-income groups have higher propensity to consume and save less



Source: Eurostat, BofA Global Research

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Economic literature[1] suggests the poorest households tend to spend down their excess savings the fastest, increasing other households' incomes and their excess savings. This leads to a long-lasting increase in aggregate demand until, ultimately, excess savings have "trickled up" to the richest savers with the lowest propensity to consume, raising wealth inequality.

Data for the **Euro Area** is largely consistent with this. While household savings being stubbornly high, lower income households who have higher propensity to consume have experienced a larger decline in savings (Exhibit 3). Therefore, higher savings rates don't have to mean bigger buffers against a renewed real income squeeze, either, given the

[1] Harvard, The Tricking Up of Excess Savings, Jan 2023

very unequal distribution across income groups. See: Europe Economic Weekly: Excess savings are so 2020 10 November 2023

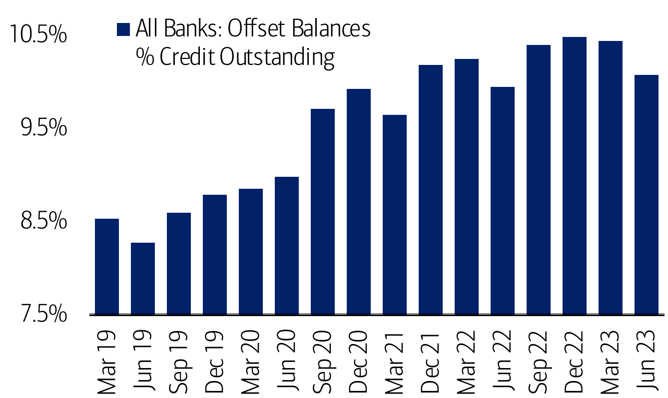
Notably, Euro area real consumption is still stuck below pre-Covid levels. While real disposable income now stands ca 2% above pre-pandemic levels, one could argue that income recovery has been "absorbed" by a higher savings preference. Also, the temporary correction in savings rates last year might have been driven by the need to limit further consumption losses on the back of the energy shock, more than a voluntary savings "normalisation".

What is happening in Asia?

For those economies with high levels of household income debt such as **Australia, Korea** and **Singapore**, higher savings avoided a much larger decline in consumer spending in 2023. See: BofA Australia Household Consumption Tracker: Household spending: Decline, but no cliff 12 October 2023

In **Australia**, The Reserve Bank believes buffers built during the pandemic supported growth and spending, but the stronger-than-expected aggregate demand was also supported by strong immigration. Notably, the savings rate remains positive despite the sharp rise in interest rates See: Australia Economic Viewpoint: Year Ahead 2024: No landing down under 22 November 2023. The household sector is now close to depleting the stock of excess savings they accumulated during the pandemic. Using average savings levels in 2019 as a baseline, the stock of households' excess savings is just AUD 11bn above pre-pandemic levels – and fell AUD 15bn last quarter. However, data from mortgage offset accounts continues to reflect solid savings versus net savings measures (Exhibit 4 & Exhibit 5).

Exhibit 4: AU mortgage offset balances have remained elevated
% of credit



Source: APRA

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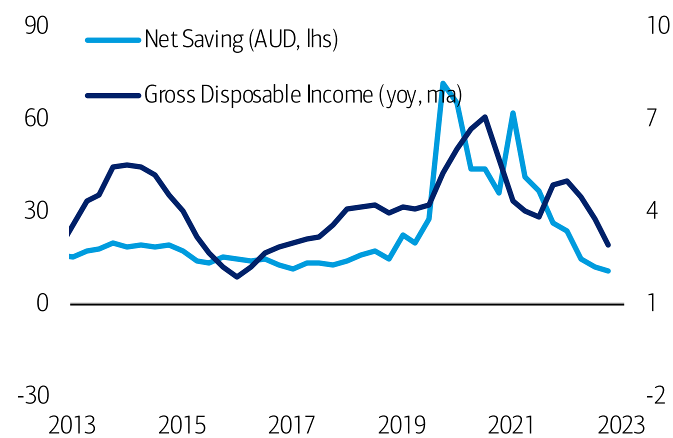
Exhibit 5: While AU net savings have fallen
As did disposable income



Source: ABS

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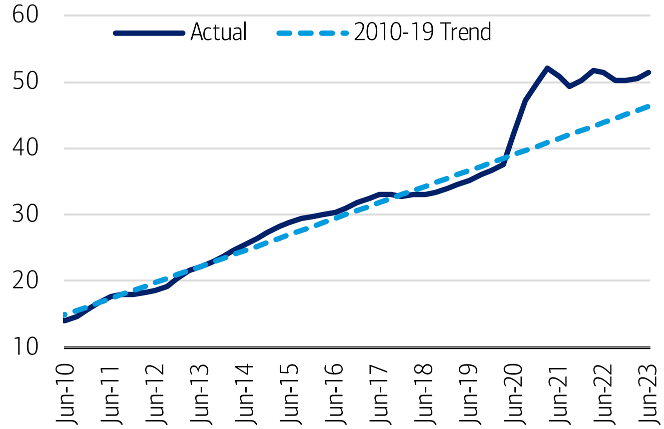
In **Korea**, the allocation of household savings suggests not much of them were used on consumption as overall household income conditions had been modest until last year and they were held mostly in liquid assets like deposits and stocks rather than going to pay down debt. Research from the Bank of Korea suggests going forward, savings could act as a buffer to consumption shocks and have the potential to flow into the asset market with expectation changes.

In **Singapore**, personal savings rate has remained considerably higher compared to pre-COVID trends. On a 4QMA basis, personal savings rate stood at 34% as of 2Q23, down from the peak of 41% in 3Q21, but still above the average of 28% in 2015-19 (Exhibit 6).

Exhibit 6: Singapore savings remain above the pre-pandemic average

We estimate excess savings of around S$5bn as of 2Q 2023



Source: Singstats Note:(1)Our starting point for accumulated personal saving is 1Q8. (2) Savings are reported in nominal terms

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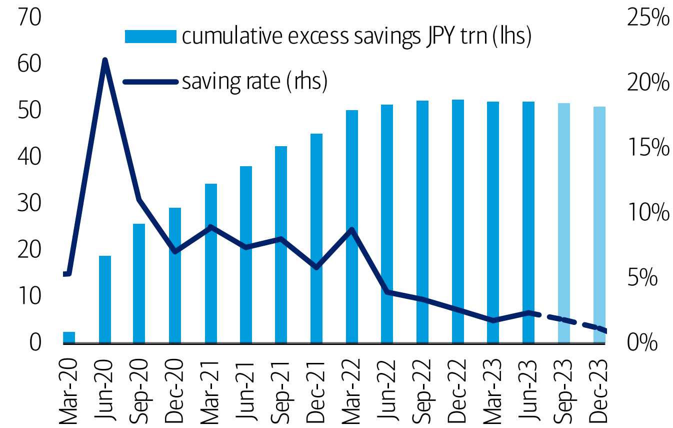
Exhibit 7: Japan's macro-based savings rate is declining

But the stock of savings is still accumulating since CY20 (JPYtn)



Source: Cabinet Office

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Possible reasons, in our view, include (a) outbound travel spending still below pre-COVID levels (72% as of 2Q23, based on BOP data, (b) increased precautionary savings in the face of macro uncertainties, and/or (c) structural upward shift in personal savings rate post-pandemic (e.g. reduced spending from increased work-from-home). Into 2024, further draw down of "excess savings"(even if some of it goes to outbound travel) should provide some support for real private consumption growth, with the latter facing some headwinds from subdued (or even negative) real median income growth See: Singapore Watch: Year Ahead 2024: Better in time 20 November 2023

In Japan, while the savings rate has declined, it is yet to return to pre-pandemic levels and it is still high on a per-household basis (Exhibit 7). Consistent with the Euro Area, excess savings have continued to accumulate until now and we uncertainty around the motivation of continued savings.

The latter is consistent across all regions. The concept of forced savings due to reduced spending opportunities has faded once the pandemic-related lockdowns ended, but the share of savings related to "non-traditional" or "unexplained" factors is on the rise again this year, particularly for the Euro Area.

Some uncertainty ahead

A period of high inflation and higher inflation expectations along with increased geopolitical uncertainty and higher living costs may be impacting consumer spending versus savings behavior so risks are evenly balanced. Lower inflation in the year ahead could boost real purchasing power and sentiment. Then, consumption could recover more strongly than expected. Conversely, a preference to save given global uncertainty and slower economic growth and softer labor markets could keep savings elevated and consumption weaker than expected. Further traction from higher rates could also add pressure to household spending in 2024.

Data Preview

Exhibit 8: Week of 3 to 9 December

Data calendar for next week with BofA estimates and Bloomberg consensus

	Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Monday, December 4, 2023							
**	11:00	Australia	Melbourne Institute Inflation (Nov, mom)		--	-0.1%	--
**	11:30	Australia	Inventories SA (3Q, qoq)	0.2%	--	-1.9%	Following a sharp decline in inventories in 2Q we expect a modest positive contribution to growth in 3Q
**	11:30	Australia	Company Operating Profit (3Q, qoq)	1.3%	--	-13.1%	We expect some unwinding of the large decline in profits in 3Q consistent with higher commodity prices and stronger
Tuesday, December 5, 2023							
***	8:00	South Korea	GDP F (3Q, yoy)		--	1.4%	--
**	8:00	South Korea	CPI (Nov, yoy)	3.4%	--	3.8%	We expect headline CPI to decelerate to 3.4% in Nov from 3.8% in Oct, given the sequential drop in food prices and moderation in oil prices.
***	8:30	Japan	Tokyo CPI Ex-Fresh Food (Nov, yoy)		--	2.7%	In the November Tokyo CPI, we expect Japan-style core CPI (ex fresh food) to sharply drop to +2.2% YoY from +2.7% YoY in October. Energy CPI will likely drop further due to another MoM moderation reflecting slightly lower commodity prices and higher comparison base for the YoY growth. More importantly, we expect ex-energy BOJ-core CPI (ex fresh food and energy) to slow to +3.6% YoY from +3.8% YoY in October. While services inflation will remain solid, the large negative base effects of non-perishable food prices will likely drag the YoY growth of BoJ-core CPI. As a result, the CPI print will confirm that Japan's inflation has peaked out in the YoY term, though we expect the pace of decline to remain slow.
***	9:00	Philippines	CPI Nov, yoy)		4.3%	4.9%	--
**	11:30	Australia	Net Exports of GDP (3Q)	0.0	--	0.8	We expect a flat contribution from net exports in GDP driven by rises in both exports and import volume
**	11:30	Australia	BoP Current Account Balance (3Q)		--	A$7.7b	--
**	13:00	Singapore	Retail Sales (Oct, yoy)		--	0.6%	--
**	13:00	Singapore	Retail Sales Ex Auto (Oct, yoy)		--	0.5%	--
***	14:30	Australia	RBA Cash Rate Target	4.35%	4.35%	4.35%	Following softer CPI and retail sales we expect the RBA to remain on hold at this meeting and reinforce hawkish guidance
Wednesday, December 6, 2023							
***	11:30	Australia	GDP SA (3Q, qoq)		0.2%	0.4%	--
***	11:30	Australia	GDP (3Q,yoy)		1.6%	2.1%	--
**	16:00	Taiwan	CPI (Nov, yoy)	2.7%	--	3.1%	CPI inflation likely edged down to 2.70% yoy in Nov from 3.05% in Oct, helped by a sequential decline in vegetable prices. Core CPI inflation could remain steady due to sticky services prices.
Thursday, December 7, 2023							
**	10:30	Thailand	CPI (Nov, yoy)		-0.4%	-0.3%	--
**	11:30	Australia	Trade Balance (Oct, yoy)		--	A$6786m	Slight improvement in the surplus to reflect stronger commodity prices
**		China	Exports (Nov, yoy)		--	-6.4%	--
Friday, December 8, 2023							
***	8:50	Japan	GDP Annualized SA F (3Q, qoq)	A$7000	--	-2.1%	
***	8:50	Japan	GDP SA F (3Q, qoq)		--	-0.5%	--
***	10:00	India	RBI Cash Reserve Ratio	4.50%	4.50%	4.50%	RBI to continue to tighten liquidity through non rate measures, such as OMO sales
***	10:00	India	RBI Repurchase Rate	6.75%	6.50%	6.50%	RBI to hike policy repo rate one last time and turn to neutral stance alongside.
**	16:00	Taiwan	Exports (Nov, yoy)	5.5%	--	-4.5%	We expect export growth to rebound to 5.5% yoy in Nov from -4.5% in Oct, as the year-ago base becomes lower. Despite likely continued support from AI-related demand, the pace of sequential improvement should be limited, as the new export orders sub-index underlying mfg. PMI still remains below 50.
Saturday, December 9, 2023							
**	9:30	China	CPI (Nov, yoy)		--	-0.2%	--

Notes: †Bloomberg consensus; * = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year, Central banks * denotes previous month

Source: BofA Global Research, Bloomberg

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Exhibit 9: Government bond auction calendar

Auction calendar for the week of 3 to 9 December

	Country	Event	Comments
Monday, 04 Dec			
	China	China to sell 3y CGB	
Wednesday, 06 Dec			
	China	China to sell 30y CGB	
Friday, 08 Dec			
	Korea	Korea to sell KRW 50y KTB worth 0.1 tn	
	India	India to sell INR 390bn worth of 7y,10y, 14y and 40y govt bonds	

Source: BofA Global Research, Bloomberg, RBI, Korea MoEF, MoF China

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Macro Forecast

Exhibit 10: Key Macroeconomic Indicators

BofA estimates for important indictors

30 November, 2023

BofA Global Research Forecasts

GDP Growth (yoy)	2023 F'cst	2024 F'cst	2025 F'cst
Asia	**4.6**	**4.3**	**4.3**
China	5.3	4.8	4.6
Hong Kong	3.4	2.1	2.4
India	6.3	5.8	6.0
Indonesia	5.0	5.1	5.2
Korea	1.4	2.3	2.5
Malaysia	4.0	4.6	4.8
Philippines	5.4	5.4	5.5
Singapore	0.7	2.3	2.6
Taiwan	1.1	3.2	2.3
Thailand	2.8	3.7	2.7
Vietnam	5.0	6.2	6.8
Australia	1.8	1.4	2.0
Japan	1.7	0.8	1.0

Note: FY22/23, FY23/24, FY24/25 for India

BofA Global Research Forecasts

Exchange rate (vs USD, eop)	Current	Dec-24 F'cst	Dec-25 F'cst
Asia	-	-	
China	7.13	6.90	6.70
Hong Kong	7.81	7.78	7.75
India	83.33	82.00	81.00
Indonesia	15488	15200	15000
Korea	1290	1230	1150
Malaysia	4.66	4.50	4.10
Philippines	55.45	55.00	53.00
Singapore	1.33	1.26	1.22
Taiwan	31.27	31.15	30.15
Thailand	34.91	34.00	32.00
Vietnam	24260	24800	24500
Australia	0.66	0.71	0.71
Japan	147.12	142.00	136.00

CPI inflation (yoy, avg)	2023 F'cst	2024 F'cst	2025 F'cst
Asia	**3.6**	**2.7**	**2.4**
China	0.4	1.4	1.6
Hong Kong	1.8	1.0	1.7
India	5.4	4.6	4.5
Indonesia	3.6	3.0	3.0
Korea	3.6	2.3	2.0
Malaysia	2.6	2.3	2.5
Philippines	6.0	3.3	3.1
Singapore	4.8	2.6	2.3
Taiwan	2.5	2.0	1.5
Thailand	1.6	1.7	1.0
Vietnam	3.4	3.8	4.1
Australia	5.7	3.4	2.9
Japan	3.2	3.2	1.6

Note: FY22/23, FY23/24, FY24/25 for India

Fiscal balance (% of GDP)	2023 F'cst	2024 F'cst	2025 F'cst
Asia	-	-	-
China	-3.8	-3.5	-3.3
Hong Kong	-3.5	-1.5	1.2
India	-5.9	-5.3	-4.5
Indonesia	-1.8	-2.3	-2.6
Korea	-0.6	-1.9	-0.9
Malaysia	-5.0	-4.3	-3.5
Philippines	-6.1	-5.3	-4.8
Singapore	0.4	-1.0	-0.4
Taiwan	-2.1	-2.0	-2.1
Thailand	-3.7	-5.7	-4.3
Vietnam	-4.0	-3.6	-3.5
Australia	-	-	-
Japan	-	-	-

Note: FY22/23, FY23/24, FY24/25 for India

Policy rate (%, eop)	2023 F'cst	2024 F'cst	2025 F'cst
Asia	-	-	-
China	3.45	3.45	3.35
Hong Kong	5.40	4.60	3.85
India	6.50	6.25	5.50
Indonesia	6.00	5.25	4.25
Korea	3.50	2.75	2.50
Malaysia	3.00	3.00	3.00
Philippines	6.50	5.50	4.50
Singapore	-	-	-
Taiwan	2.00	2.00	2.00
Thailand	2.50	2.50	2.00
Vietnam	4.50	4.50	5.00
Australia	4.35	4.35	3.50
Japan	-0.10	0.25	0.50

Note: FY22/23, FY23/24, FY24/25 for India. 3M interbank rate forecast for Singapore

CA balance (% of GDP)	2023 F'cst	2024 F'cst	2025 F'cst
Asia	-	-	-
China	1.5	1.2	1.4
Hong Kong	5.2	4.0	4.4
India	-	-	-
Indonesia	-0.3	-0.7	-0.5
Korea	1.7	2.1	1.9
Malaysia	1.7	2.1	2.4
Philippines	-3.4	-3.4	-3.6
Singapore	18.0	17.4	16.9
Taiwan	12.6	13.5	13.4
Thailand	1.5	2.1	3.8
Vietnam	3.6	3.8	3.9
Australia	2.1	1.5	1.1
Japan	0.2	0.2	-

Note: FY22/23, FY23/24, FY24/25 for India

Source: BofA Global Research, Bloomberg

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