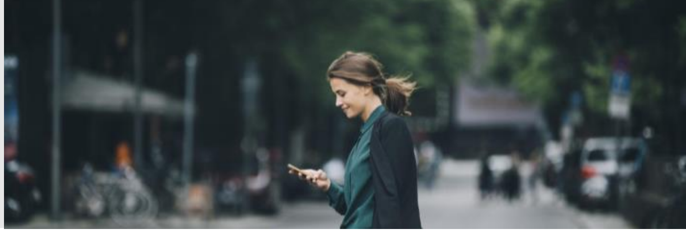
WEEKLY UPDATE

How long will Europeans continue to stuff their savings buffer?



The savings pile has been one of the unusual factors in the post-Covid economic cycle. One year on, it has fallen in the United States but continues to increase in Europe. These surplus savings could potentially buoy household spending, provided savers are confident their finances are lastingly back to normal.

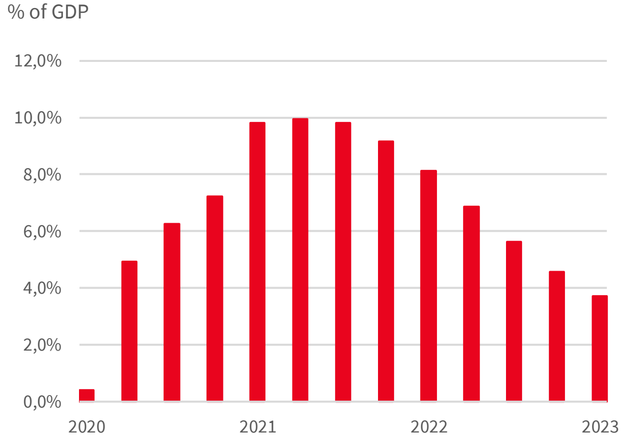
Substantial post-Covid savings pile. Covid and its associated crisis led to households in developed economies piling up massive savings. Significant government transfers meant they could sustain all or some of their incomes, which they could not then spend because of pandemic restrictions. Surplus savings reached pretty substantial levels, nearly 10% of GDP in the United States – where public support was especially generous – and over 7% in Europe. And it is these buffers that form one of the peculiarities of the post-Covid recovery, allowing households to mitigate the shocks of rising inflation and interest rates. However, Europeans do not so far seem to have dipped into their savings.

US households are drawing on their savings to consume, unlike frugal Europeans. For just over a year now, households in the United States have reversed the trend and started dipping into their surplus savings to prop up their inflation-eroded buying power, funding a buoyant consumer spending trend. US savings rates – i.e. the share of income saved each month – has also declined significantly. From around 11% before Covid it shot up to over 22% in 2021 but has now dropped back below 8%. In sharp contrast Europe's households have continued to save more of their income as their savings rates actually remain higher than pre-Covid. Two explanations suggest themselves for this divergent behaviour. The first is that Europe's closeness to the Ukraine war has hit household confidence harder. The second is that Europeans have felt in a sharper way the inflation increase as salary rises have been largely repressed whereas wages in the United States have broadly kept pace with inflation.

A potential source of support for demand, provided confidence can be restored. European households today are sitting on comfortable savings buffers. Several factors should help restore their confidence in the economy and stop them over-saving, perhaps even encourage them to start spending some of their saved cash. For one thing, labour markets are looking stronger which should keep wages rising. For another, inflation is now on the way down, paving the way for a more favourable trend. Overall, we could see a serious revival in household consumption, provided confidence revives.

US: Households surplus savings

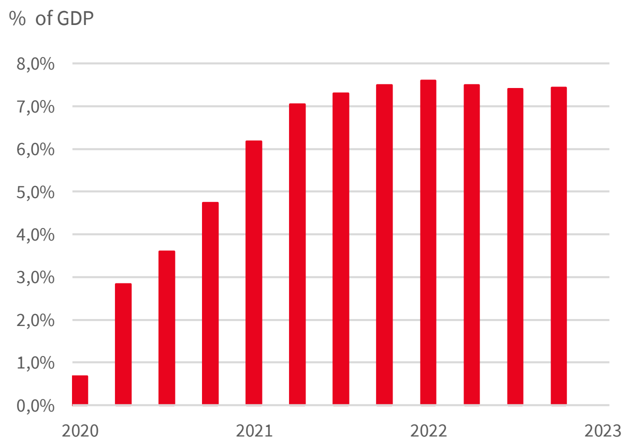
Savings accumulated above the pre-covid trend



Source : SGPB, Macrobond, BEA

Euro area: Households surplus savings

Savings accumulated above the pre-covid trend



Source : SGPB, Macrobond, Eurostat

SOCIETE GENERALE
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OUR MACRO COMMENTS

Events of the week

OPEC+. Oil prices have been falling all year, reflecting the slowing of the world's leading economies, China's disappointing post-lockdown performance and a rise in global crude production. Given this backdrop, the world's top exporter Saudi Arabia has unilaterally decided to cut output by a further million barrels a day, starting in July, and left open the option of keeping the pumps off as long as necessary to bolster prices. This reduction is in addition to the cuts previously introduced by OPEC members, of the order of 1.6 million barrels per day.

U.S. Activity in the services sector slowed in May. The ISM services index, which was expected to remain in the expansionary territory, came in at 50.3 compared to 51.9 in April, hampered by new orders and the jobs situation. The Fed will factor this slowdown into its decision at its monetary policy meeting next week.

Figures of the week

	Actual	Forecast	Previous
ISM Services PMI (May)	50.3 ↓	52.2	51.9
Retail Sales (YoY, April)	-2.6% ↓	-3%	-3.3%
Caixin Services PMI (May)	57.1 ↑	55	56.4
Exports (YoY, May)	-7.5% ↓	-0.4%	8.5%
Imports (YoY, May)	-4.5% ↓	-8%	-7.9%

Sources: Macrobond, 9 June 2023

The week ahead

Monday

Tuesday

- Unemployment Rate (April)
- Inflation Rate (May)
- ZEW Economic Sentiment (June)

Wednesday

- GDP (April)
- Fed Interest Rate Decision

Thursday

- Retail Sales (May)
- ECB Interest Rate Decision

Friday

- BoJ Interest Rate Decision

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,14	3,14	2,40	1,91	-0,58
USD SOFR O/N	5,05	5,08	4,55	4,30	0,76
JPY TONAR O/N	-0,05	-0,07	-0,01	-0,02	-0,04
GBP SONIA O/N	4,43	4,43	3,93	3,43	0,94
CHF O/N	1,70	0,80	0,80	0,80	-0,57

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,98	2,84	3,12	2,98	1,86
10Y Bund	2,42	2,27	2,63	2,44	1,34
10Y BTP	4,14	4,08	4,40	4,55	3,36
10Y JGB	0,42	0,43	0,50	0,41	0,24
10Y Bonos	3,44	3,33	3,64	3,51	2,47
10Y Swiss	0,89	0,85	1,51	1,57	1,04
10Y Gilt	4,23	4,17	3,74	3,66	2,23
10Y USTnote	3,79	3,64	3,98	3,88	3,03

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,43	3,29	3,58	3,12	2,04
EUR Corporate Baa	4,61	4,48	4,70	4,65	2,90
GBP Corporate Baa	5,32	5,25	4,68	4,59	3,04
USD Corporate Aaa	4,58	4,45	4,78	4,62	3,73
USD Corporate Baa	5,80	5,69	5,88	5,70	4,72
USD EM aggregate	7,51	7,53	7,63	7,52	6,49

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	76,72	6,4%	-6,8%	-10,7%	-38,0%
Or, USD/oz	1 940	-1,2%	7,0%	6,2%	4,7%
Copper, USD/metric ton	8 352	3,8%	-5,3%	-0,5%	-13,8%
Platinium, USD/oz	1 042	2,5%	10,6%	-2,2%	3,2%
Palladium, USD/oz	1 417	1,4%	1,6%	-20,7%	-28,1%
Silver, USD/oz	23,59	1,4%	17,3%	-1,5%	7,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	0,3%	1,6%	0,3%	-0,2%
EUR/CHF	0,97	-0,3%	-2,1%	-1,5%	-7,1%
USD/GBP	0,80	-0,5%	-5,0%	-3,3%	0,7%
USD/JPY	139,72	0,0%	2,1%	6,8%	4,4%
USD/BRL	4,92	-3,9%	-3,9%	-7,8%	1,0%
USD/CNY	7,12	0,3%	2,5%	3,3%	6,6%
USD/RUB	81,76	0,8%	7,1%	12,0%	35,6%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	3,3%	3,3%	-0,1%	0,4%
Euro area	1,8%	1,8%	0,1%	11,3%
Germany	1,9%	1,9%	2,1%	13,4%
France	1,5%	1,5%	-1,7%	9,2%
United Kingdom	2,4%	2,4%	-3,9%	2,3%
Switzerland	1,2%	1,2%	2,9%	5,8%
United States	2,1%	2,1%	6,9%	11,1%
Japan	3,6%	3,6%	7,6%	16,6%
Brazil	6,6%	6,6%	8,4%	8,6%
Hong Kong	5,6%	5,6%	-4,0%	-2,7%
India	0,8%	0,8%	4,6%	3,2%
China	-0,2%	-0,2%	-6,1%	-2,1%

Source: Bloomberg, on 8 June 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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