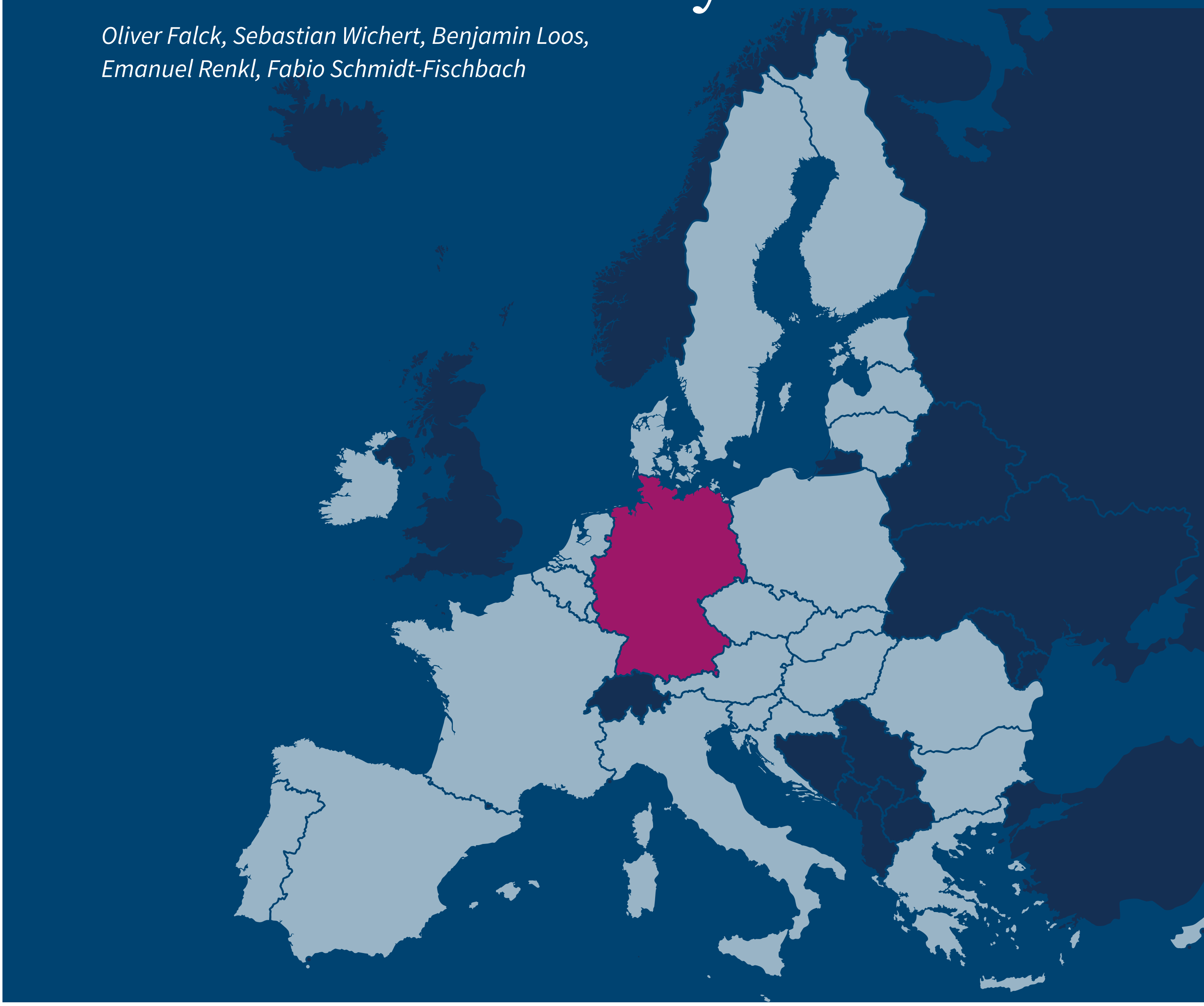
Tracking the Economic Recovery across Europe: A Glance at Germany

Oliver Falck, Sebastian Wichert, Benjamin Loos,
Emanuel Renkl, Fabio Schmidt-Fischbach



ifo INSTITUTE
Leibniz Institute for Economic Research
at the University of Munich

Tracking the Economic Recovery across Europe:

A Glance at Germany

Authors:

Oliver Falck, Sebastian Wichert (ifo Institute),

Benjamin Loos, Emanuel Renkl (Technical University of Munich),

Fabio Schmidt-Fischbach (N26)

13.04.2021

Acknowledgments

We would like to thank numerous employees at N26 and the ifo Institute for their support in establishing this public-private partnership. At N26 we would especially like to thank Alexander Blum, Robin Frick, Crystal Goh and Georg Hauer. At the ifo Institute we would especially like to thank Jean-Victor Alipour, Moritz Dillmann, Thomas Fackler, Moritz Goldbeck, Anna Kerkhof, Valentin Lindlacher and Valentin Reich for their helpful comments, as well as Johannes Brannath for his outstanding research assistance. We thank the DFG-funded Collaborative Research Center "Rationality and Competition" (CRC TRR 190) for the financial support.

Disclaimer

The present results inform governments, businesses and the public about recent economic developments and are intended to make an active contribution to mastering the economic challenges Europe faces due to the Covid-19 pandemic. This is only possible due to the cooperation between N26, the ifo Institute and the Technical University of Munich. All parties are committed to provide independent, non-partisan research and policy analysis.

Contents

Executive Summary

Leveraging the pan-European presence of N26 and combining ifo's and TUM's expertise in economic research this partnership provides unique insights into the role of the Covid-19 pandemic for private consumers to inform and support a sustainable and balanced economic recovery across Europe.

In this report we analyze anonymized income and spending patterns of urban consumers in Germany to investigate private income, consumption and savings trends more than a year into the pandemic. For Germany the results of the analyses are summarized in four key findings.

Findings:

1. Overall consumers experienced a temporary income decline in 2020. Income increased to even above pre-pandemic levels at the end of 2020 and at the beginning of 2021.

2. The first lockdown in spring 2020 led to a large decline in spending and only a partial and slow recovery during the following summer. There was only a minor and delayed spending decline during the second lockdown in 2020 and 2021 compared to the spending levels in summer.

3. Consumers are changing the composition of their consumption baskets. Spending on services and cash withdrawals decreased during lockdowns and did not fully recover in between, underlining the relevance of health risks and lockdowns for the spending plunge. Purchases of durable goods, which are usually non-vital and deferable in times of crisis, even increased during lockdowns suggesting that economic uncertainty among consumers is rather low.

4. Consumers accumulated excess savings in 2020 and at the beginning of 2021, especially during lockdowns. Consequently, consumers have accrued purchasing power.

Outlook: Looking ahead we expect that the pandemic-related influences on consumption patterns of urban consumers in Germany will gradually disappear, due to increased income levels, low economic uncertainty and excess savings. As a consequence, a significant increase in private consumption, especially in services, can be expected, once the health risks associated with the pandemic are subdued and the lockdowns are lifted. With regard to Europe the recovery in Germany is likely to be more pronounced than in France, Italy and Spain due to a less persistent income decline, lower economic uncertainty and higher excess savings among consumers in Germany.

Policy Implication: Consequently, widespread measures to support purchasing power in Germany are not effective. To use private consumption as an engine for a rapid economic recovery, other approaches are promising: rigorous infection tracking, regional openings, an accelerated, large-scale and well-received vaccination campaign. In the meantime, relief programs for consumers and businesses in financial distress must be well-targeted to be effective as some sectors are currently undergoing an important digital structural transformation.

To further support the reopening of economies in 2021, N26, ifo and TUM will continuously monitor private income, consumption and savings in Germany and across Europe via the **ifo-N26-Economic Monitor**. This novel instrument aims to inform policy-makers, businesses, consumers and the public almost in real-time.[1]

[1] Please find the ifo-N26 Economic Monitor here: https://www.ifo.de/en/ifo-n26-economic-monitor.

1 Introduction

A Partnership to provide Economic Insights on a European Scale

To master the economic challenges associated with the Covid-19 pandemic, governments, businesses, consumers and the public need reliable, up-to-date and continuous information on the economy. This is a prerequisite to react quickly to new developments by designing adequate policies, adjusting business models and adapting consumption-saving decisions. However, traditional approaches, such as surveys or official national statistics, have limitations in providing this information. They often take months to compute, come at low frequency, have a low level of detail and are based on small samples or are not internationally comparable.[2]

In response to these challenges N26, the ifo Institute (ifo) and the Technical University of Munich (TUM) joined forces to provide timely and detailed insights for several European economies to support the economic recovery from the Covid-19 pandemic.[3]

Tracking the Economic Recovery in Germany

In this report we analyze anonymized income and spending patterns of urban consumers and thus provide unique insights into the household sector in Germany more than a year into the pandemic. More specifically we investigate private income, consumption and savings trends throughout 2020 and the first quarter of 2021.[4,5] This is particularly important as private consumption - the biggest component of the Gross Domestic Product - was a main driver of the economic downturn in 2020 and will significantly influence the path of the economic recovery in 2021.

To draw meaningful conclusions about past, present and future developments of private consumption in Germany we investigate the role of health risks, lockdowns and economic uncertainty among consumers for consumer spending.[6] Furthermore, we compare private income, consumption and savings trends in Germany to four other European countries: Austria, France, Italy and Spain.

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[2] For example, most national statistical offices and the European statistical office only publish numbers on aggregate private consumption as part of their economic national account systems quarterly with up to 60 days delay.

[3] N26 is a digital-only retail bank and currently operates in 24 European countries as well as the United States and has more than 7 million customers as of 01/2021.

[4] N26, the ifo Institute and the Technical University of Munich are committed to the rigorous protection of consumer and business privacy. To this end all data used in this study has been anonymized prior to analysis. As a consequence, a reference to personal data was and is at no time possible. Please refer to the Data Privacy section for further information.

[5] Separate reports have been published to provide more detailed insights into private consumption in Austria, France, Italy and Spain. Please find the respective reports here. So far the partnership focuses on these countries due to their economic importance and N26's high market presence. Further countries will be added in the course of the partnership.

[6] Health risk describes the effect of consumers voluntarily refraining from consumption because of the risk of infection from Covid-19, even if such consumption were not prohibited.

2 Analysis

The report builds upon aggregate income and spending patterns of active N26 customers in Germany, Austria, France, Italy and Spain. [7] In this context it analyzes private income, consumption and savings trends in 2020 as well as the first quarter of 2021 to investigate the effects of the Covid-19 pandemic on private consumers. N26 customers are rather young, often male, internationally-oriented and mobile, live in urban areas and are tech-savvy. Hence, the analysis of private income, consumption and savings as well as the corresponding conclusions are not necessarily representative for the entire German population or the populations of Austria, France, Italy and Spain. However, the set of demographic characteristics bears valuable insights: the subjects of investigation are potentially more vulnerable to the economic effects of the pandemic due to less stable, early career employment situations, high mobility and high infection rates in urban areas. Additionally, N26 customers conduct a high share of their payments digitally which in turn allows us to categorize the type of goods and services consumed more precisely and thus enables us to evaluate changes in the consumption basket confidently. Finally, N26 customers are very similar across Germany, Austria, France, Italy and Spain. Consequently, income and spending patterns can be compared across these countries.

Overall consumers experienced a temporary income decline in 2020. Income increased to even above pre-pandemic levels at the end of 2020 and at the beginning of 2021.

[7] We consider active customers as customers that have at least one transaction per week throughout 2019 as transaction numbers and volume in 2020 are already influenced by the pandemic. By considering only weekly active customers we want to ensure that N26 is used as a main account and that we observe a great share of all financial transactions to fully reflect income and spending patterns. Furthermore, we discard outliers of the income distribution by excluding the bottom and top five percent as measured by annual income in 2019 to ensure a distribution that is close to representative for Germany. Additionally, we also exclude business customers. As previously stated, all data used in this study has been anonymized prior to analysis and therefore at no point revealed information about specific individuals. Please refer to the Data Privacy section for further information.

Figure 1 shows seasonally adjusted aggregate income for urban consumers in Germany in 2020 and the first quarter of 2021 relative to mean income in January 2020.[8] For ease of legibility it also displays a trend line of the seasonally adjusted aggregate income series. [9] The lockdown phases are shaded in gray.[10] During the first lockdown in mid-April 2020, aggregate income decreased by about 10% compared to January 2020. Aggregate income remained around 90% over the following summer and returned to pre-pandemic levels in mid-October. Interestingly the second lockdown in November 2020 did not lead to a decline in aggregate income compared to pre-pandemic levels. In contrast, income even increased to above pre-pandemic levels at the end of 2020 and during the first quarter of 2021. [11] In general, the stable, but reduced income level over the summer in 2020 is in accordance with statistics that many employers made use of extended short-time work arrangements.

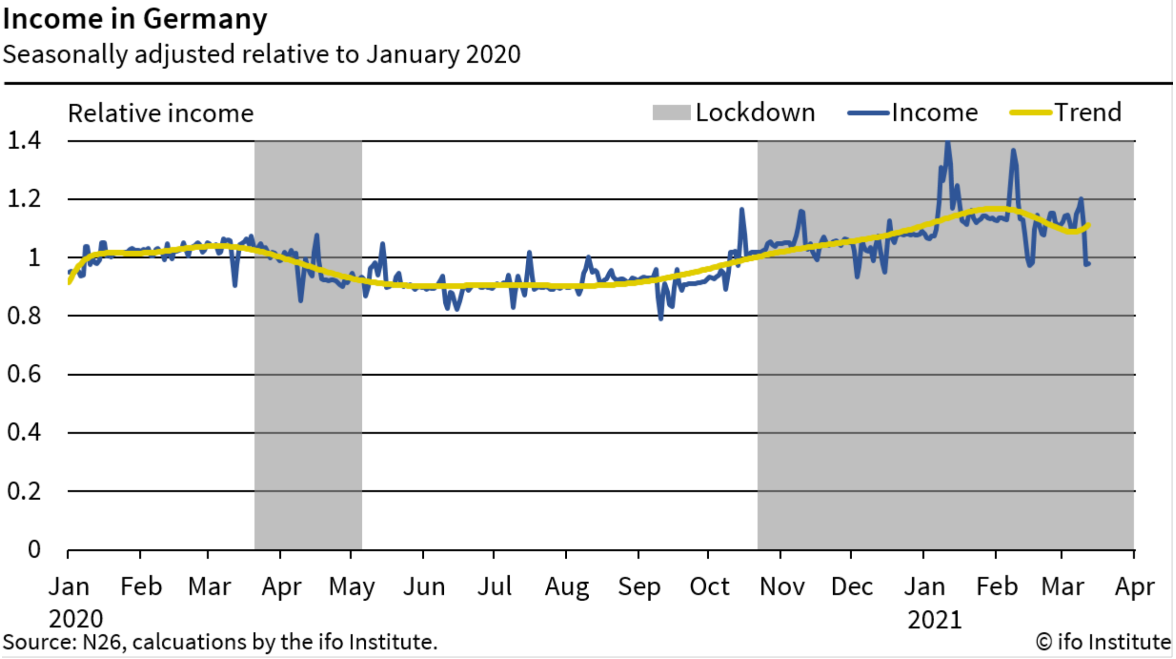
[8] Every positive incoming transaction is counted as income. As income patterns exhibit very large monthly and seasonal fluctuations, we use a 35-day moving average and seasonally adjust each income series. This procedure ensures that we capture monthly salary payments as well as seasonal salary increases for employees. We calculate the moving average as the mean income of the current day, the 17 previous days as well as the 17 subsequent days for each day in 2019, 2020 and 2021. We then norm the 2019 series to the average income level in the first 31 days of 2019 (January 1-31). The 2020 and 2021 series are both normed to the average income level of the first 31 days of 2020 (January 1-31). We then seasonally adjust the 2020 series by dividing each day in 2020 by its corresponding 2019 value. We seasonally adjust the 2021 series by dividing each day in 2021 by its synthetic 2020 values. The synthetic 2020 values are derived from continuing the original 2019 series with a series that is identical to the original 2019 series, but starts on different levels, namely where the original 2019 series ends. It is necessary to construct this synthetic 2020 series as we cannot seasonally adjust the 2021 series with values from 2020 as this series is already impacted by the pandemic. As 2020 is a leap year, we norm February 29, 2020 (a Saturday) relative to the average of February 23 and March 2, 2019 (both Saturdays). Using a moving average implies that the series depicts a (smoothed) trend rather than actual daily, sometimes extreme values. Additionally, the resulting series can still entail fluctuations that are statistical artifacts due to different paydays between 2019, 2020 and 2021. Therefore, percentage numbers, occasional spikes in the graphics as well as the exact timing of trend changes have to be interpreted with caution.

[9] The trend line is a polynomial of degree 12. It further smooths the seasonally adjusted aggregate income series such that the spikes and tails resulting from the seasonal adjustment (different paydays between 2019, 2020 and 2021) vanish.

[10] The lockdown phases are derived from the Coronavirus Government Response Tracker provided by the Blavatnik School of Government at the University of Oxford (https://covidtracker.bsg.ox.ac.uk). Thereby we use the recording of official "shelter-in-place" orders and define a lockdown phase as a phase were consumers are required to not leave the house with exceptions for daily exercise, grocery shopping, and 'essential' trips (>=2 on the respective index). Government restrictions are often very heterogenous with respect to regions, sector and circumstances. Hence the lockdown dates might not be accurate for every region and sector within a country, but rather serve as a general reference point for the stringency of government measures.

[11] While private income increased on the aggregate it must not be forgotten that some consumers working in specific sectors, especially in gastronomy, tourism and retail stores in city centers, face a higher and more persistent income decline. Additional reports focusing on consumers that are highly affected by the pandemic are much warranted and already in progress.

Figure 1: Aggregate income for Germany relative to mean income in January 2020

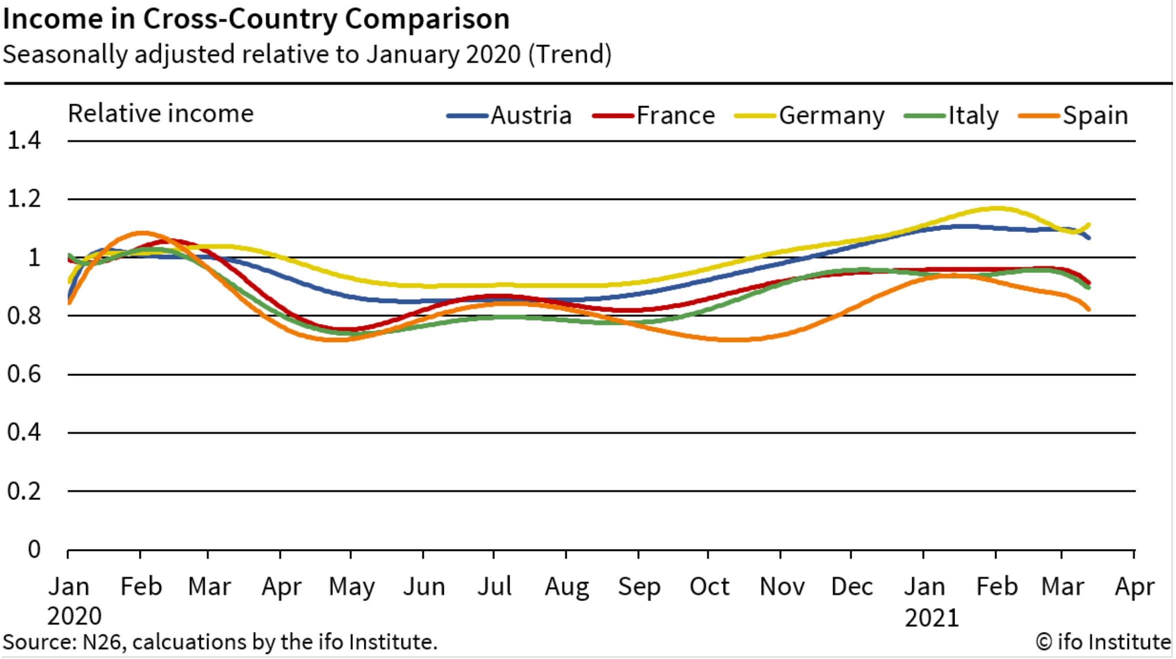


Source: N26, calcuations by the ifo Institute. © ifo Institute

Figure 2 displays aggregate income in Germany in comparison to Austria, France, Italy and Spain in 2020 and the first quarter of 2021. Aggregate income is again seasonally adjusted, relative to mean income in January 2020 and has been smoothed for ease of legibility.[12] Figure 2 shows that aggregate income decreased sharply in March 2020 in France, Italy and Spain to around 75% in May 2020. In contrast, aggregate income decreased more slowly in Austria and Germany to around 85% and 90% in June 2020. Over the summer aggregate income recovered to around 85% in France and Spain and 80% in Italy. In October 2020 aggregate income started to increase across countries, reaching 95% in France, Italy and Spain and even above pre-pandemic levels in Austria and Germany at the end of 2020. In Austria, France, Germany and Italy income remained on these levels in 2021 ignoring minor fluctuations. In contrast income in Spain decreased to almost 80% again from February to March 2021. These results show that aggregate income patterns for Austria and Germany decreased slower, recovered faster and remained at higher levels compared to France, Italy and Spain. This is in accordance with the more intense health crisis and the higher unemployment levels in the respective countries.

[12] Figure 2 shows again a polynomial trend line of degree 12.

Figure 2: Aggregate income across countries relative to mean income in January 2020



Source: N26, calcuations by the ifo Institute. © ifo Institute

The first lockdown in spring 2020 led to a large decline in spending and only a partial and slow recovery during the following summer. There was only a minor and delayed spending decline during the second lockdown in 2020 and 2021 compared to the spending levels in summer.

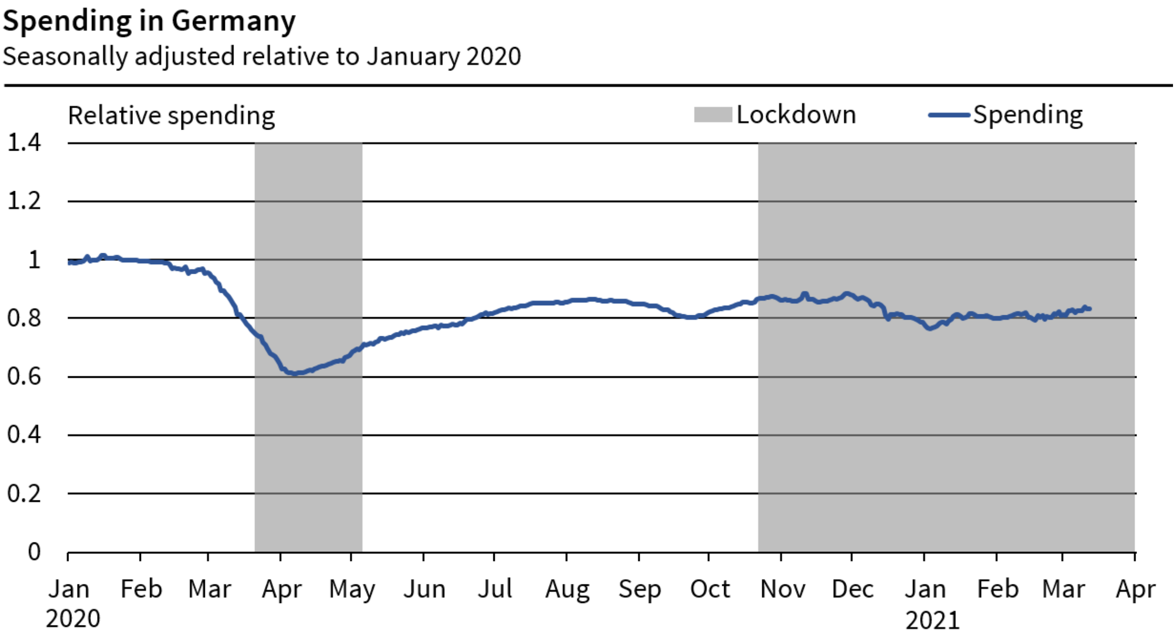
Figure 3 shows seasonally adjusted aggregate spending for urban consumers in Germany in 2020 and the first quarter of 2021 relative to mean spending in January 2020.[13,14] In March 2020 aggregate spending started to decrease sharply plunging to 60% in mid-April. Aggregate spending started to recover slowly, but persistently, settling around 85% in mid-August and remaining around 80-85% for the rest of 2020 and the first quarter of 2021. Possible explanations for the sluggish recovery during summer 2020 despite most business closures having been lifted are avoidance of perceived health risks and inconvenient protection obligations by consumers as well as lower purchasing power among consumers due to the present income decline.

[13] For consistency reasons, we use a 35-day moving average and seasonally adjust the spending series analogous to the income series. Please remember that percentage numbers, occasional spikes in the graphics as well as the exact timing of trend changes must be interpreted with caution.

[14] We use debit card transactions to approximate total consumer spending. Any charges on N26's debit card, which is issued by Mastercard are transferred directly from the cardholder's bank account. Thus, debit cards only serve as a means of payment and do not provide any credit to its cardholder. Contrary to most traditional banks, N26 does not issue Giro or Maestro cards by default. Debit cards include all spending (incl. cash withdrawals) except for direct transfers and direct debits (e.g. recurring payments such as rent or mortgage payments). Hence, debit card transactions are more volatile than total consumer spending. However, they provide valuable insights into the variable part of consumer spending, which is mainly affected by the pandemic.

Interestingly the second lockdown in November 2020 only led to a minor and delayed decline in consumer spending compared to the spending levels during summer. Hence current spending levels are still 20 percentage points higher compared to the low point during the first lockdown in spring 2020, but also 20 percentage points below pre-pandemic levels.

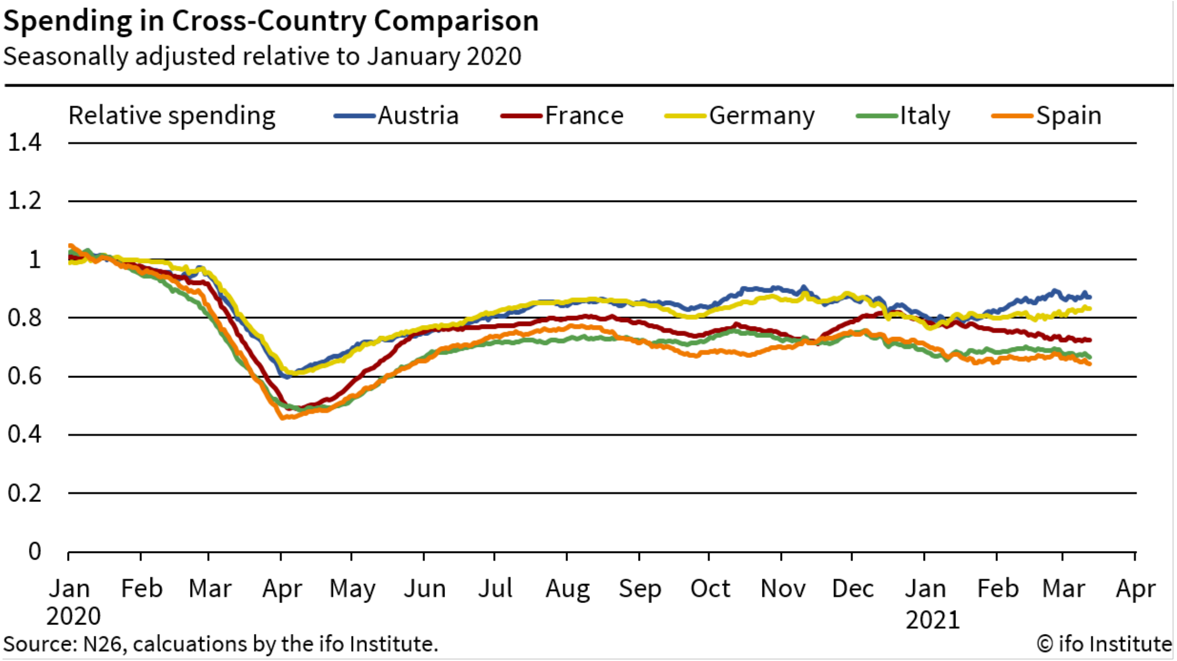
Figure 3: Aggregate spending for Germany relative to mean spending in January 2020



Source: N26, calcuations by the ifo Institute. © ifo Institute

Figure 4 shows aggregate spending in Germany in comparison to Austria, France, Italy and Spain in 2020 and the first quarter of 2021. For the respective countries, aggregate spending is seasonally adjusted and relative to mean spending in January 2020. In March 2020 spending levels fell sharply until the beginning of April across all countries: aggregate spending decreased to 60% in Austria and Germany and to around 50% in France, Italy and Spain. Aggregate spending recovered at a similar pace in all across countries, but at different levels: in August 2020 aggregate spending settled around 85% in Austria and Germany, around 80% in France, around 75% in Spain and around 70% in Italy. Aggregate spending remained around these levels for the rest of 2020 and the first quarter of 2021, ignoring minor fluctuations. Hence, current spending levels are higher compared to the first lockdown across all countries, but still 15-35 percentage points below pre-pandemic levels. In summary, aggregate spending seems to be influenced by the severity of the pandemic and the economic resilience of the respective country with Germany and Austria suffering less than France, Spain and Italy.

Figure 4: Aggregate spending across countries relative to mean income in January 2020



Consumers are changing the composition of their consumption baskets. Spending on services and cash withdrawals decreased during lockdowns and did not fully recover in between, underlining the relevance of health risks and lockdowns for the drop in spending. Purchases of durable goods, which are usually non-vital and deferable in times of crisis, even increased during lockdowns suggesting that economic uncertainty among consumers is rather low.

Figure 5 shows seasonally adjusted disaggregated spending in 2020 and the first quarter of 2021 for urban consumers in Germany relative to mean spending in January 2020. Aggregate spending is decomposed into durable as well as non-durable goods, services and cash withdrawals.[15] Figure 5 shows that consumers are changing the composition of their consumption baskets

[15] Durable goods last for at least three years and contain goods such as books, laptops or other electronic devices. Non-durable goods last up to three years and contain goods such as groceries and clothes. Services consist of goods that are consumed immediately or are non-physical such as restaurant visits or streaming services. Cash withdrawals are displayed as they cannot be associated to one of the previous categories. Every debit card transaction is associated with a merchant category code (MCC) that categorizes the type of spending. We use these categories to group spending by the following sectors: durable and non-durable goods as well as services. Thereby, durable goods consist of the following MCC groups: bookstores, computer electronic stores, household store, record stores. Non-durable goods include clothing department stores, digital goods, discount stores, drug/ pharma stores, grocery markets, retail stores. Services include advertising services, business org. services, car toll parking, computer data services, dating services, education, fines/taxes/gov, gambling/ gaming, money/cash/financial, professional services, subscriptions, utilities, airline, bakeries, bars/ clubs, beauty stores, car rental, entertainment, fast food, food and drink stores, gas service stations, health services, hotel lodging, local transport railways, taxicabs, transport services, restaurants, travel tour agencies.

significantly throughout the years. Thereby spending on services and cash withdrawals were especially hit during the lockdowns plunging to around 40% in April 2020 and 60% in November 2020 through March 2021.[16] Moreover, we see no immediate, but only a slow and incomplete recovery of service consumption and cash withdrawals after the lockdown in spring 2020, reaching only around 75% in August 2020. Consumers are obviously adjusting their behavior and remain concerned way beyond the point where shelter-in-place measures are lifted to reduce their risk of infection. In stark contrast to services, spending on durable goods even increased in times of lockdowns suggesting that there are other reasons than economic uncertainty for consumers to cut back on spending. In previous economic crises consumers usually reduced their spending on durable goods as they postponed higher expenditures to hedge against economic uncertainty such as job loss or income decline. Apart from the strong Christmas business in 2020, spending on non-durable goods remained fairly stable over the course of 2020. Furthermore, the large increase in consumption of non-durable and durable goods during the Christmas period and the first quarter of 2021 offset the decline in services and cash withdrawals such that on aggregate there was only a minor and delayed spending decline during the second lockdown on the aggregate. Current spending levels are around 60% for services and cash withdrawals and 120% for durable and non-durable goods compared to January 2020. Taken together the results suggest that health risk and lockdowns are the main drivers of the decline in spending on services and cash withdrawals. Measured in terms of consumption of durable goods, economic uncertainty among consumers is low. [17]

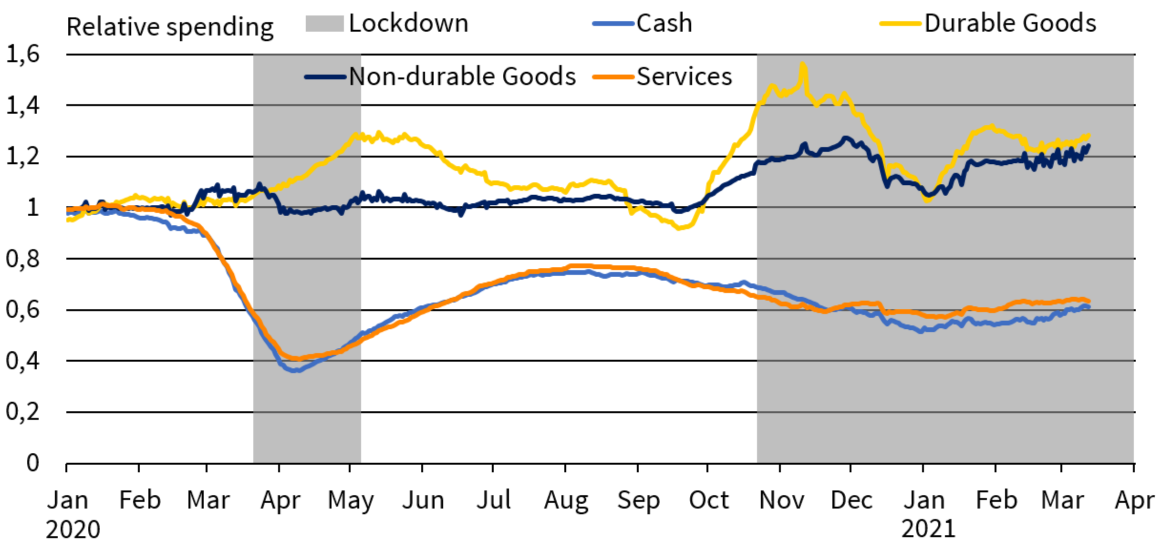
[16] Please note that the higher service consumption in the second lockdown in autumn/winter 2020 and the first quarter of 2021 compared to the first lockdown in spring 2020 does not imply that restrictions are not as strict as in the first lockdown. The higher levels are simply driven by higher online service consumption. The shift to online spending will be analyzed in more detail in a separate report.

[17] A potential concern with our estimates for services, non-durable and durable goods consumption is bias from substitution out of cash withdrawals. For instance, trends in services, non-durable and durable goods consumption might be overestimated as corresponding changes might come from a shift from cash withdrawals to more debit card payments. However, the co-movement of services and cash-withdrawals suggests that a large share of cash withdrawals is used for services and thus does not impact the non-durable and durable goods series. Exemplarily, cash withdrawals were relatively stable when the large increase in expenditures for durable goods began in October 2020. Additionally, the young, urban and tech-savvy N26 customers already covered a large share of their expenditures with their debit card before the pandemic. Hence, spending trends and especially the increase in durable good consumption cannot be explained by a mere substitution effect from cash withdrawals to debit card payments.

Figure 5: Disaggregated spending for Germany relative to mean spending in January 2020

Spending in Germany

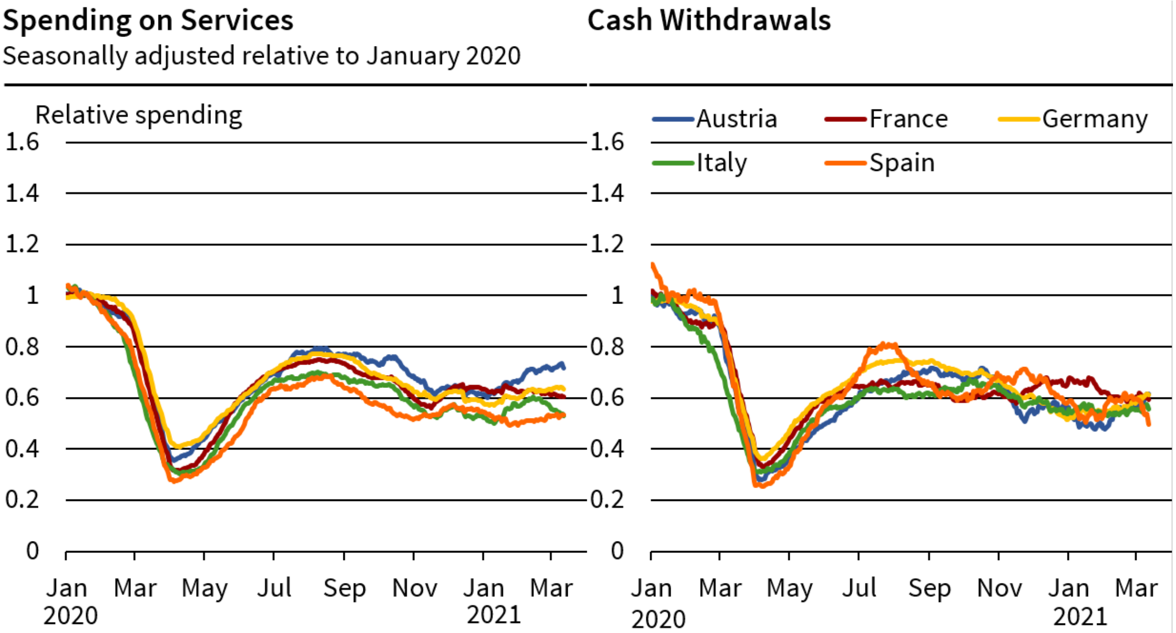
Seasonally adjusted relative to January 2020 by sector



Source: N26, calcuations by the ifo Institute.

Figure 6 and 7 show disaggregated spending in Germany compared to Austria, France, Italy and Spain in 2020 and the first quarter of 2021. Figure 6 displays spending for services and cash withdrawals and Figure 7 reveals spending on durable and non-durable goods respectively. All series are seasonally adjusted and relative to mean spending in January 2020. In Figure 6 (left panel) spending for services dramatically decreased across countries in March 2020 plunging to around 30-40% in mid-April 2020. Spending levels partially recovered during summer 2020 reaching around 70-80%, before starting to fall again and settling around 50-60% in mid-November for the rest of 2020 and the first quarter of 2021, minor fluctuations aside. In general, the spending trends and levels are quite similar across countries with Austria, France and Germany performing slightly better than Italy and Spain over the year. Cash withdrawals in Figure 6 (right panel) also show similar trends and levels across countries. Interestingly, cash withdrawals in Italy and Spain are not below Austria, France and Germany on average.

Figure 6: Disaggregated spending across countries normed to spending in January 2020 – Services and cash withdrawals



Source: N26, calcuations by the ifo Institute.

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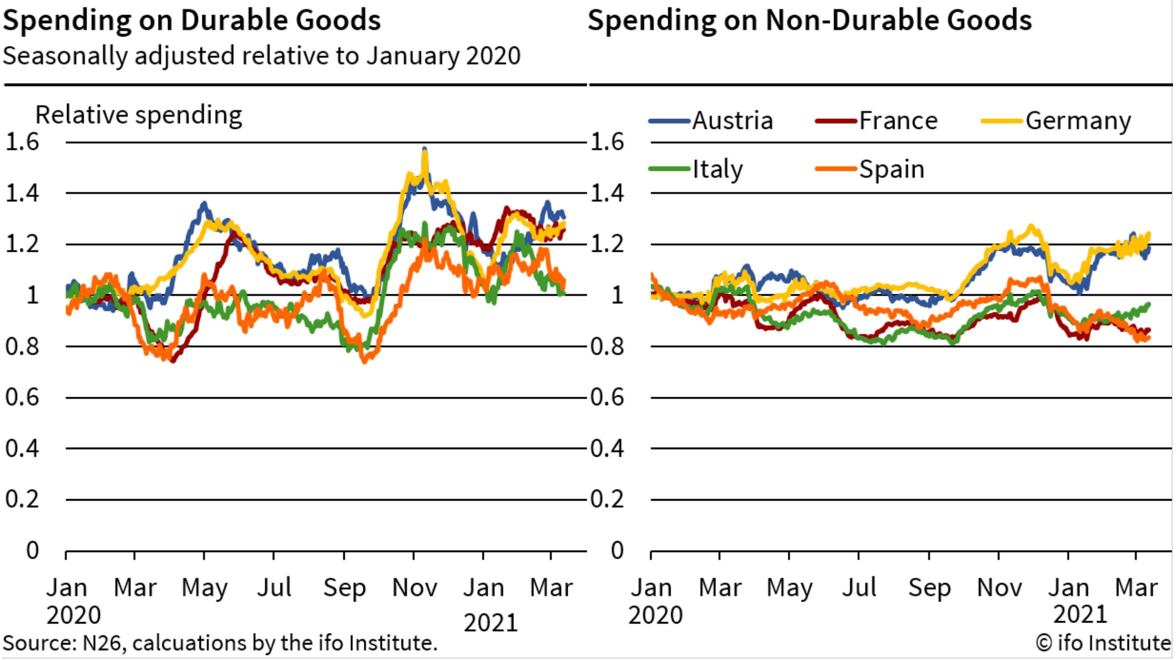
Figure 7 (left panel) shows that spending on durable goods is well above pre-pandemic levels in Austria and Germany for most of 2020 and the first quarter of 2021. In France durable goods spending decreased during the lockdown in spring 2020, but recovered afterwards to above pre-pandemic levels too. In contrast, durable goods spending is significantly below pre-pandemic levels in Spain and Italy for most of 2020 suggesting that economic uncertainty plays a more important role in these countries. Nevertheless, economic uncertainty among consumers in Italy and Spain seems to decline towards the end of 2020 and the first quarter of 2021 as spending on durable goods increased in both countries. As shown in Figure 8 (right panel) spending on non-durable goods in Austria and Germany remained rather stable in 2020, until it increased by around 20% in the Christmas period, declining towards the end of 2020 and increasing again in the first quarter of 2021. In contrast, non-durable goods spending in France, Italy and Spain decreased up to 20% in 2020, before increasing to pre-pandemic levels in the Christmas period and declining again in the first quarter of 2021. All in all, the results suggest that disaggregated spending across countries seems to be influenced by the severity of the pandemic and economic uncertainty of the respective country with Austria and Germany exhibiting higher spending levels than France, Spain and Italy.

Figure 7: Disaggregated spending across countries normed to spending in January 2020 – Durable and non-durable goods



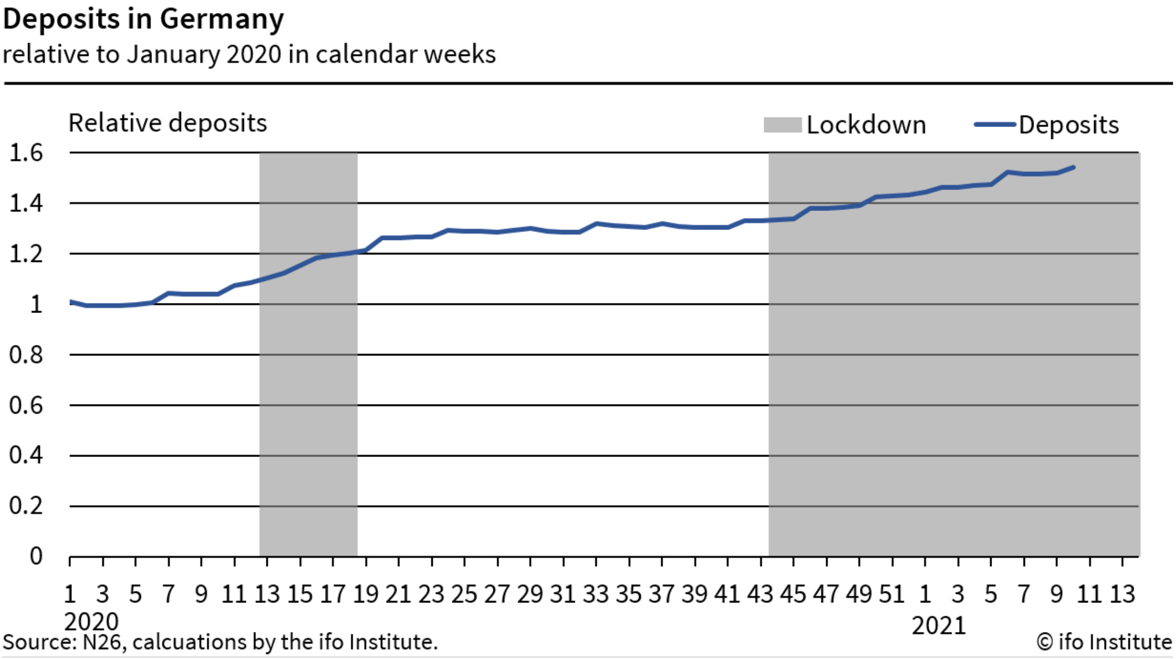
Source: N26, calcuations by the ifo Institute. © ifo Institute

Consumers accumulated excess savings in 2020 and at the beginning of 2021, especially during lockdowns. Consequently, consumers have accrued purchasing power.

Figure 8 shows aggregate deposits in 2020 and the first quarter of 2021 for urban consumers in Germany relative to mean deposits in January 2020. [18] On aggregate consumers are accumulating savings over the years, especially during the lockdowns. At the end of 2020 consumers have around 40% more deposits in their accounts compared to the beginning of the year. Subtracting aggregate savings in 2019 from aggregate savings in 2020, we calculate excess savings of 1.7% in 2020 in relation to aggregate annual income in 2019. As these savings remain in daily accessible accounts consumers have restrained purchasing power. The excess savings trend continues in the first quarter of 2021. Importantly, our measurement of deposits is only a proxy for consumer savings as we do not observe interest bearing savings nor security accounts at other banks. Consequently, our measure of deposits likely underestimates consumer savings and restrained purchasing power.

[18] Deposits encompasses balances on main accounts and *Spaces*. Within the N26 bank account a *Space* is a personalized sub account optimized for budgeting and saving that sits in parallel to the main account. As deposits exhibit very large monthly fluctuations, we use a 5-week moving average for each weekly deposit series. This procedure ensures that we capture monthly deposits. We calculate the moving average as mean deposits of the current week, the 2 previous weeks as well as the 2 subsequent weeks for each week in 2020 and 2021. We then norm the series to the average deposit level in the first 5 calendar weeks of 2020. For simplicity we excluded calendar week 53 which is in both 2020 and 2021.

Figure 8: Aggregate deposits for Germany normed to mean deposits in January 2020

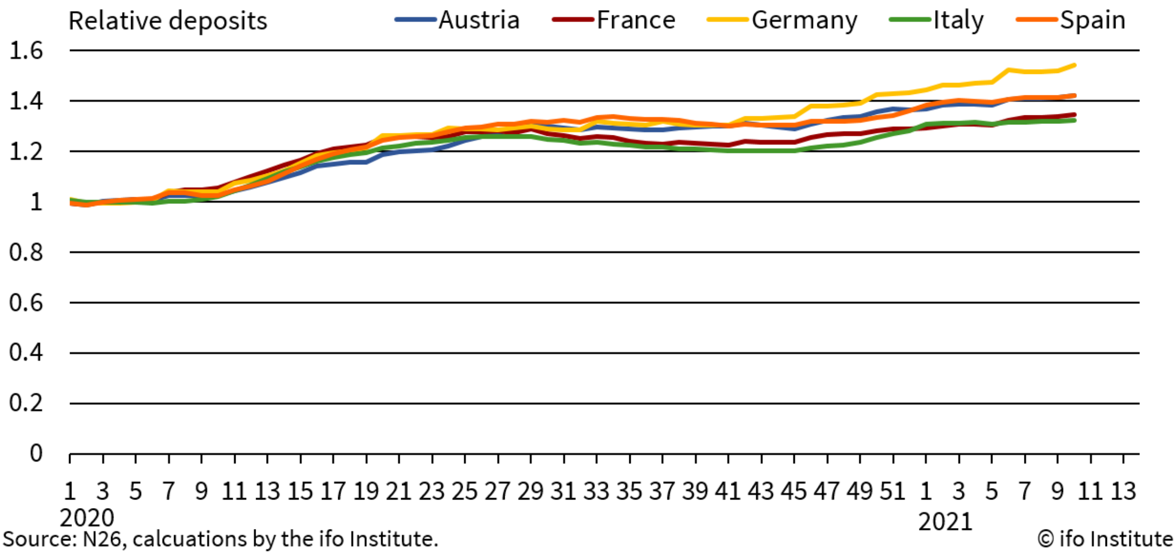


Source: N26, calcuations by the ifo Institute. © ifo Institute

Figure 9 shows aggregate deposits for urban consumers in Germany compared to Austria, France Italy and Spain in 2020 and the first quarter of 2021. Aggregate deposits are relative to mean deposits in January 2020. Figure 9 shows that consumers are accumulating savings over the years and across countries. Especially during spring 2020 (i.e. weeks 11-25) as well as at the end of 2020 and the beginning of 2021 (i.e. since week 47), deposits of private consumers increased. Trends and levels are similar across countries with Austria, Germany and Spain exhibiting slightly higher increases in deposits compared to France and Italy.

Figure 9: Aggregate deposits across countries normed to mean balance in January 2020

Deposits in Cross-Country Comparison
relative to January 2020 in calendar weeks



Source: N26, calcuations by the ifo Institute. © ifo Institute

3 Conclusion

Restrained Purchasing Power and the Recovery of Private Consumption

Over a year in the pandemic, urban consumers in Germany have accumulated excess savings on the aggregate and as such restrained purchasing power. Moreover, aggregate and disaggregate spending patterns indicate that (avoidance of) health risks by consumers and lockdowns seem to be the main drivers of the spending drop in Germany. Furthermore, the above pre-pandemic level of durable good consumption suggests that perceived economic uncertainty on aggregate is rather low, as expenditures on these (non-vital and deferable) categories of consumption has been drastically reduced in previous crises.[19]

In the future a significant increase of private consumption, especially in services, can be expected in Germany due to increased income levels, restrained purchasing power and rather low economic uncertainty once the health risks and social distancing measures associated with the pandemic are subdued and lifted. Private consumption will likely recover across Europe, but the take up will likely be more pronounced in Germany as compared to France, Italy and Spain due

[19] While our conclusion for Germany is rather positive on the aggregate, it must not be forgotten that some consumers working in specific sectors, especially in gastronomy, tourism and retail stores in city centers, face a higher and more persistent income decline as well as higher economic uncertainty. Additional reports focusing on consumers that are highly affected by the pandemic are much warranted and already in progress.

to a more persistent income decline, higher economic uncertainty and less excess savings among consumers in these countries.

As a consequence, widespread measures to support purchasing power in Germany are not warranted. In contrast, to harness private consumption as an automatic driver for a swift recovery across Europe, rigorous infection tracking, regional openings and an accelerated, large-scale and well-received vaccination campaign are key. Hence, economic and health objectives go hand in hand and are not in conflict. In the meantime, relief programs for consumers and businesses in financial distress must be well-targeted to be effective and to avoid windfall profits, as some economic sectors thrive even during the pandemic and some are currently undergoing an important digital structural transformation.

Real-Time Economics – a New Policy Instrument?

To further support the reopening of economies in 2021, N26, ifo and TUM will continuously monitor private income, consumption and savings in Germany and across Europe via the **ifo-N26-Economic Monitor**, providing a novel instrument to inform policy-makers, businesses, consumers and the public almost in real-time.[20] Changes in spending patterns triggered by the pandemic could persist and influence the expected recovery path. Therefore, it is necessary to gain deeper insights about the related questions: Will spending of private consumers rebound to pre-pandemic patterns? Will consumers slash their excess savings and revenge consume? Will consumers return to shops or permanently switch to e-commerce? Further analyses will also investigate potential differences among consumer groups, such as: Does economic support reach subgroups that are in need? Are there subgroups that the recovery leaves behind? By answering these and many more questions we aim to contribute to a sustainable and balanced economic recovery in Germany and across Europe.

[20] Please find the ifo-N26 Economic Monitor here: https://www.ifo.de/en/ifo-n26-economic-monitor

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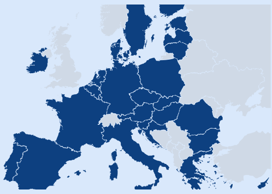

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