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# Household spending and fiscal support during the pandemic – the role of public perceptions

## by Dimitris Georgarakos and Geoff Kenny [1]

The coronavirus (COVID-19) pandemic shock posed an enormous challenge to fiscal policy in supporting household consumption. This article discusses to what extent the pandemic-related fiscal interventions influenced consumers' spending behaviour. It reports results from a recent study (Georgarakos and Kenny, 2022), which finds that improving perceptions about the adequacy of fiscal interventions incentivises spending. Importantly, this perceptions channel operates equally strongly for consumers who receive government support and for those who do not. Consumers who view the adequacy of fiscal packages more favourably also expect higher future incomes and easier access to credit, while they do not anticipate an increase in taxes.

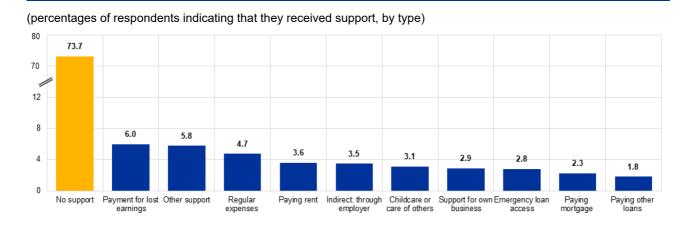
# Government support for euro area households

The COVID-19 pandemic shock affected different individuals and households differently. This posed a dramatic challenge to fiscal authorities, which needed to design and channel fiscal measures that were targeted, effective and efficiently allocated. For example, support measures ranged from traditional social security provisions, delivered through existing social welfare programmes, to more time-specific and pandemic-specific direct financial support and subsidies, including in-kind support (e.g. childcare) as well as loan and other payment guarantees or moratoria (e.g. on rents). [2] In addition, governments supported households indirectly by providing assistance to firms and employers (e.g. through direct employment subsidies).

Understanding households' perceptions about these support measures is important for the optimal design, communication and subsequent evaluation of such policies. The ECB Consumer Expectations Survey (CES), a new online, high-frequency, panel survey of euro area consumers' expectations and behaviour, offers a unique resource that can be used to shed light on these perceptions and how they are associated with household spending. As shown in Chart 1, data from the CES underscore that interventions were highly targeted. For example, just under 30% of respondents in the CES indicated that they themselves had received some form of government support, while the remaining respondents indicated that they had received no support. Furthermore, a closer look at the data reveals that the support reached households that were most in need with, for example, a higher fraction of households in the two lowest income quintiles receiving support. Some of the main forms of support included compensation for lost earnings (e.g. resulting from lockdown restrictions), and help with regular expenses (e.g. food and energy bills) and the payment of rents or loan commitments, as well as indirect support through government assistance for firms and employers.

### Chart 1

## Types of pandemic-related government support in 2020



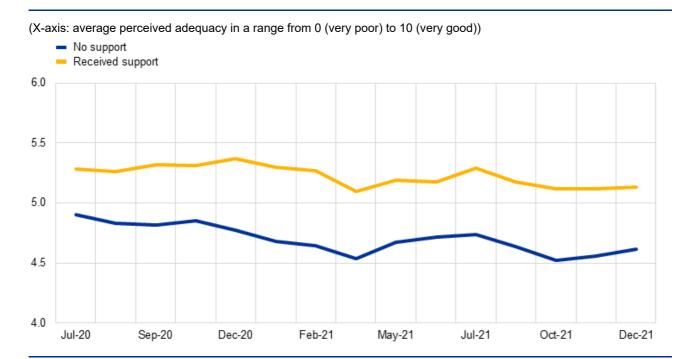
Source: CES data collected in December 2020.

Notes: The figures are weighted aggregates. Respondents were asked to reply to the question "In response to the coronavirus (COVID-19) outbreak, governments are introducing policies to support households, workers and businesses. Please indicate whether your household has received such support in any of the following forms since January 2020". They were able to select multiple answers from a list of direct and indirect support measures, as shown on the horizontal axis in the chart.

# Perceptions about the adequacy of government support

Not surprisingly, the highly varied nature of the financial and non-financial needs generated in the course of the pandemic, coupled with the multi-faceted nature of the government measures (as depicted in Chart 1), led to disparate public perceptions about the overall adequacy of fiscal support policies. To gauge these perceptions, we asked CES respondents to directly assess the adequacy of fiscal support measures for the financial well-being of their household. This equips us with a common metric across households who have different needs and characteristics and who may or may not have received fiscal support in its various possible forms. One finding we obtain is that respondents who received support generally perceive fiscal interventions to be more adequate (Chart 2). In addition, the survey results highlight some significant differences and time-variation across countries, with fiscal interventions generally perceived to be less adequate in countries that were more heavily affected by the initial COVID-19 outbreak.

Chart 2
Perceived adequacy of government support in the euro area



Source: CES.

Notes: The figures are weighted aggregates. Respondents were asked to reply to the question "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?" They were asked to provide an answer ranging from 0 (very poor) to 10 (very good) in various survey waves between July 2020 and December 2021. The classification into recipients and non-recipients of government support is based on replies to the following question that was included in the December 2020 survey round: "In response to the coronavirus (COVID-19) outbreak, governments are introducing policies to support households, workers and businesses. Please indicate whether your household has received such support in any of the following forms since January 2020".

Using the CES data, it is also possible to analyse the extent to which providing information about fiscal support packages may influence the public's perceptions about the adequacy of government support and, in turn, households' expectations and behaviour. To this end, we set up an experiment in which random samples of CES respondents were provided with information about the size and aims (namely, to foster economic recovery) of the fiscal response at both a national and an EU level. We then compared the expectations and subsequent spending behaviour of respondents who received this information with those of a control group who did not receive any information. One key finding is that providing such information generates a clear improvement in the perceived adequacy of the fiscal support, particularly among households who previously perceived the fiscal interventions to be least adequate. These information effects imply that consumer perceptions are not fully informed, even on a subject that received considerable media attention in the context of the COVID-19 pandemic. They also highlight the benefits of communicating with the public in a simple and direct way. For example, communication can be very effective if it refers to the historically high level of support, makes this support personally relevant to households (e.g. by expressing it on a per capita basis) and explains the intended use (namely, to foster economic recovery).

# Impact of perceptions on spending behaviour and expectations

A key question is whether changes in perceptions about the adequacy of government support policies could have a causal impact on actual spending decisions of consumers. Our data suggest a positive correlation between such perceptions and purchases of big-ticket items of a discretionary nature, like cars and holiday purchases (Chart 3). The results of the experiment show clearly that an improvement in consumer beliefs about the adequacy of fiscal support measures has a strong and persistent positive causal effect on spending on such goods. We also find some increase in the share of expenditure on non-durable purchases that are more discretionary in nature, like clothing and recreational services, when consumers perceive government support to be more adequate.

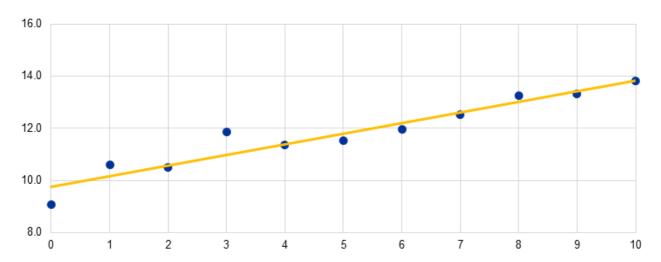
Which expectations channels might underpin these changes in consumer behaviour? Our analysis shows that respondents who perceive fiscal interventions to be more adequate also hold more optimistic expectations about their own income prospects, financial situation and future access to credit. By contrast, our experiment shows that providing information does not influence consumer expectations about future taxes. This is important, as a rise in expected taxes associated with government support measures could attenuate the stimulatory effects of fiscal policy. Finally, the results also demonstrate that this perceptions channel operates beyond any direct effects associated with the actual receipt of government transfers and support. In particular, spending is just as strong for those households who did not receive any support as for those who did. This points to the powerful role of perceptions, as they operate over and above any immediate effects that government transfers can have on spending. Thus, our evidence suggests that fiscal interventions and the related communication can have broader consequences, as they influence the behaviour of households even if they themselves do not actually receive any government support.

### Chart 3

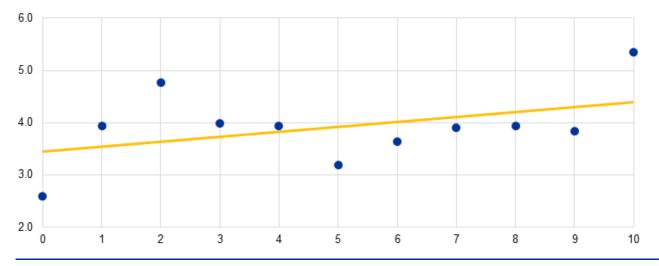
## Consumption and the perceived adequacy of pandemic-related government support

(x-axis: average perceived adequacy in a range from 0 (very poor) to 10 (very good); y-axis: percentages of respondents who have purchased a holiday (panel a) or a car (panel b) in the past month)

## a) Holiday purchases and perceived adequacy



## b) Car purchases and perceived adequacy



Source: CES.

Notes: Respondents were asked to reply to the question "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?" They were asked to provide an answer ranging from 0 (very poor) to 10 (very good). Respondents are also asked every month about purchases of big-ticket items (for example, holidays): "Which of the following have you purchased in the past 30 days? Please select all that apply". The latest observation is for December 2021.

## **Conclusions**

Using survey data from the new ECB CES, we were able to measure and closely track perceptions and expectations of euro area households over a period that was marked by the pandemic shock and large-scale fiscal interventions. By communicating clearly and factually about the magnitude, nature and ultimate goals of fiscal interventions, it is possible to improve the public's perceptions about the adequacy of such policies. This, in turn, can help stimulate consumer spending and enhance the benefits of fiscal policy in terms of stabilising the economy. Importantly, such perceptions influence the behaviour of households in general and not just those who actually receive support. This points to the broad and important consequences of the public's perceptions in driving economic outcomes.

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- 1. The article was written by Dimitris Georgarakos (Principal Economist, Monetary Policy Research Division, Directorate General Research) and Geoff Kenny (Head of the Monetary Economics Section, Directorate General Research). The authors would like to thank Alexandra Buist, Michael Ehrmann and Alex Popov for their comments. The views expressed here are those of the authors and do not necessarily represent the views of the European Central Bank and the Eurosystem.
- 2. Coibion et al. (2020a) study how spending in the United States responds to direct fiscal transfers to households.
- 3. A growing body of empirical literature (for example, Stantcheva, 2020; Sapienza and Zingales, 2013; and Blinder and Krueger, 2004) has started to study households' knowledge, perceptions and belief formation, in particular in relation to economic policies, and how such beliefs may influence subsequent economic behaviour.
- 4. See also ECB (2021) and Georgarakos and Kenny (2022) for further details of the CES and its main features.
- 5. See also Lane, P., "Expectations surveys: a tool for research and monetary policy", Introductory remarks at the Second joint European Central Bank-Federal Reserve Bank of New York conference, 11 November 2021.
- 6. Christelis et al. (2020) discuss the large variation across consumers in terms of their financial concerns arising from the COVID-19 pandemic.
- 7. Perceptions about the adequacy of government support were measured using the following survey question: "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?" Respondents could provide an answer that ranged between 0 (very poor) and 10 (very good).

- 8. Coibion et al. (2020b) study more generally the effectiveness of policy communication during the COVID-19 pandemic.
- 9. In a recent paper, Haaland et al. (2022) provide a review of this experimental approach to analysing economic behaviour.

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