

The Comparison of Consumption Patterns between COVID-19 Impact and Past Economic Crises in Korea

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I .

Motivation



Motivation

- The past economic crises experienced in Korea for the past 30 years includes the Asian Financial Crisis in 1998, the Credit Card Debt Crisis in 2003, and the Global Financial Crisis in 2008.
- Currently the significant impact of COVID-19 has affected the economy and many people concern that it will be an another major economic crisis since 1990 in Korea.
- Here, we analyze the impact on consumption of the major crises we have experienced over the past 30 years, and based on this, we look at the impact of the ongoing COVID-19 on the economy, especially the household consumption sector.



II.

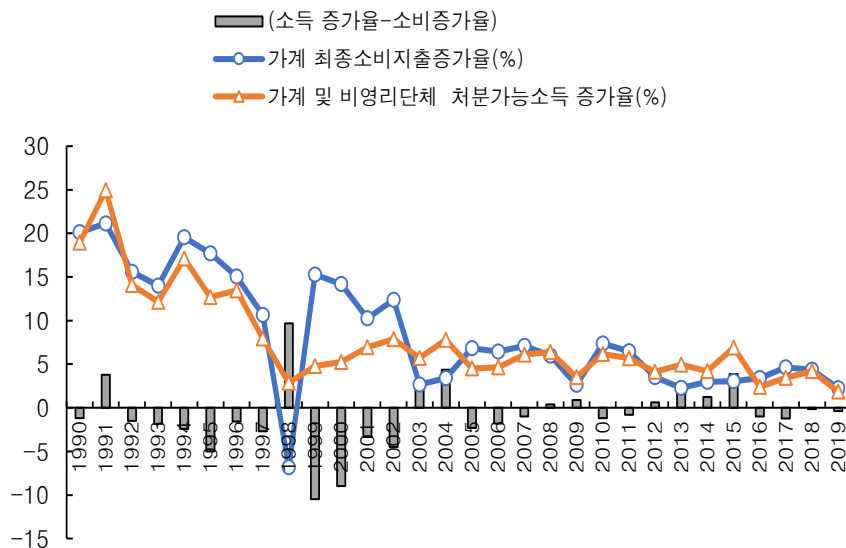
Major Characteristics of Past Crises in Korea



1) Changes in income and consumption expenditure

- In the past crises consumption had decreased significantly compared to income and thus household saving rate had increased during the crises.
 - Overall as shown in [Figure 1], it seems that changes in consumption expenditure during the crises were more sensitive.
 - As shown in [Figure 2], the household's net saving rate recorded the highest during the Asian Financial Crisis in 1998. This pattern were also seen in the Credit Card Debt Crisis in 2003 as well as Global Financial Crisis in 2008.
 - Other countries also show similar patterns during the crises including COVID-19 shock [Figure 3]

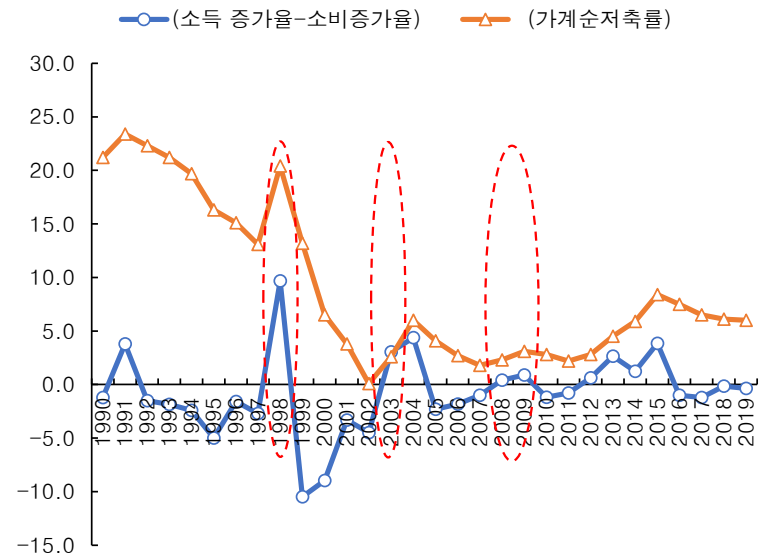
[Figure 1] Trends of Household income and consumption changes



Note: Bar is (income Δ % - consumption Δ %), blue line is consumption Δ %, and orange line is disposable income growth Δ %

Source: Bank of Korea, National Accounts

[Figure 2] Trends of Household Net Saving Rate



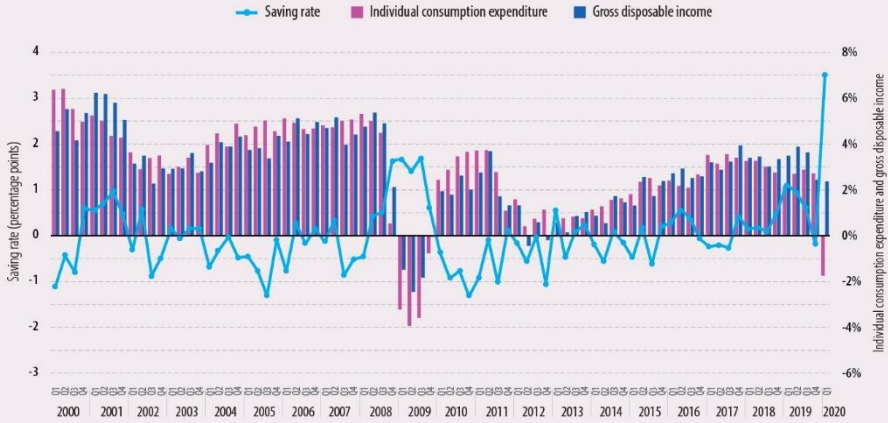
Note: blue line is (income Δ % - consumption Δ %) and orange line is household net saving rate(%)

Source: Bank of Korea, National Accounts



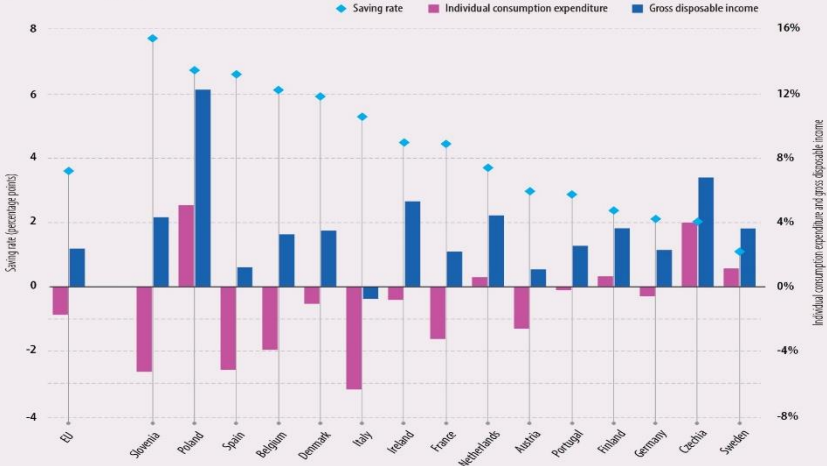
[Figure 3] Household Saving Rates in the EU and US

Evolution of household saving rate, consumption and income in the EU
(change over the same quarter of the previous year, non-seasonally adjusted data)

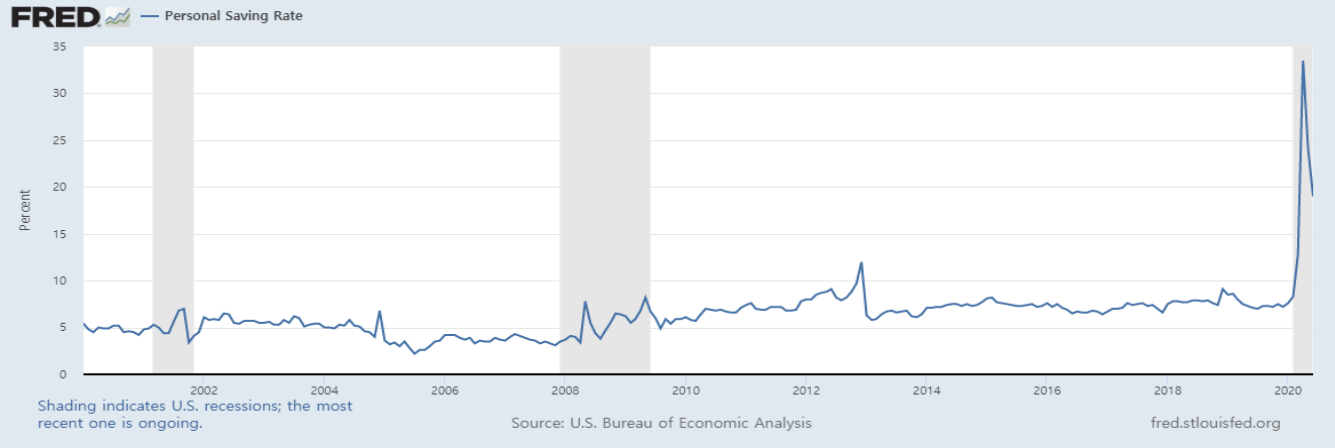


Source: eurostat

Year-over-year change of household saving rate, consumption and income in Q1 2020
(non-seasonally adjusted data)



Source: eurostat



Source: U.S. Bureau of Economic Analysis

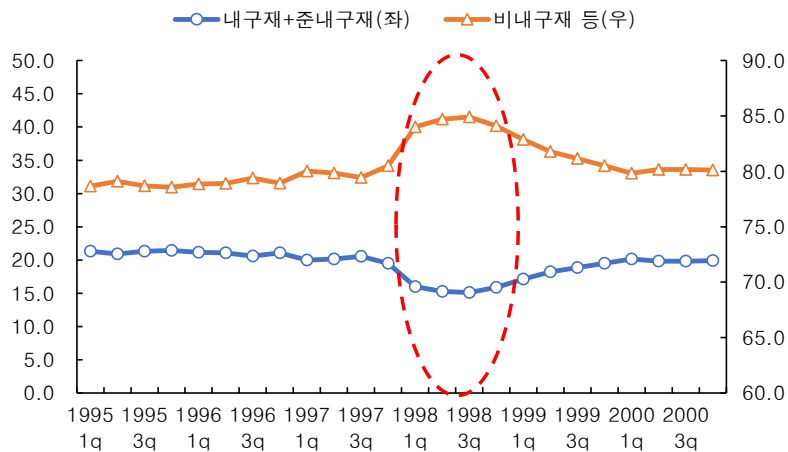


2) Changes in the share of consumption expenditure items

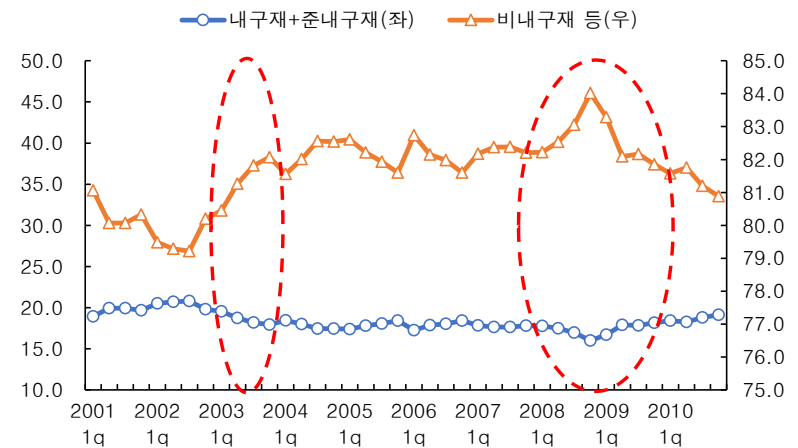
- As shown in [Figure 4], the share of consumption expenditure items was adjusted according to the income shock, with a decrease in the share of durable goods, semi-durable goods, and an increase in the share of non-durable goods, services during the past crises.

[Figure 4] Share of Consumption Items before and after the Crises

1) 1998 Crisis



2) 2003/2008 Crisis



Note: 1) The ratio of goods(%) 2) Blue line is (durable+semi durable goods) and orange line is non-durable+services

Source: Bank of Korea, National Accounts

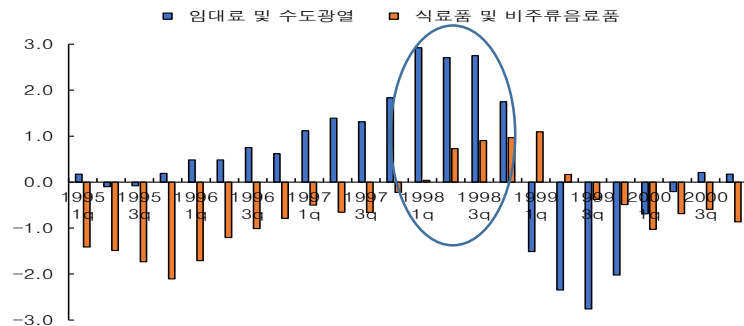


2) Changes in the share of consumption expenditure items

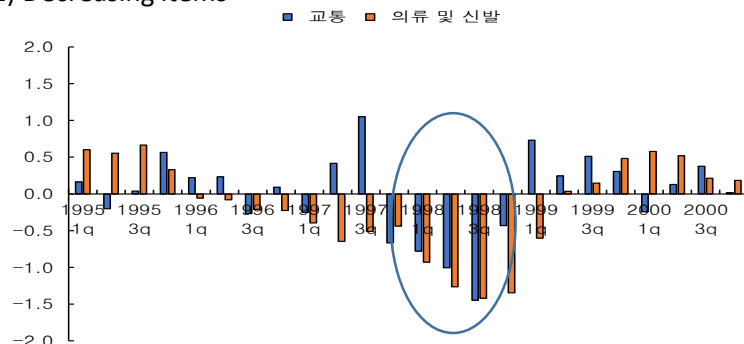
- Among the twelve consumption expenditure items, apparel/shoes, household goods & services, and food/lodging items showed a remarkable decrease in comp. of consumption expenditure during the crises as shown in Figure 5 & 6.

[Figure 5] Increasing and Decreasing Consumption Items before and after the 1998 Crisis

1) Increasing Items



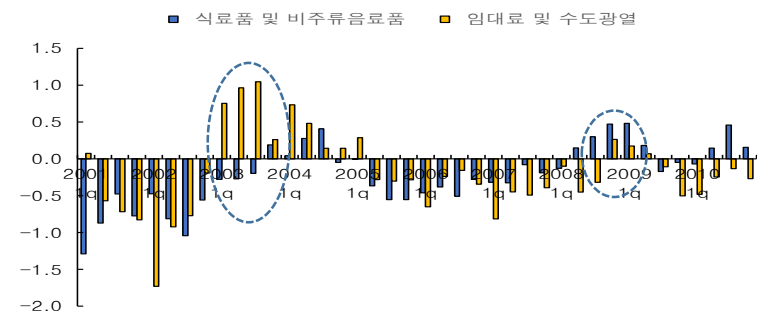
2) Decreasing Items



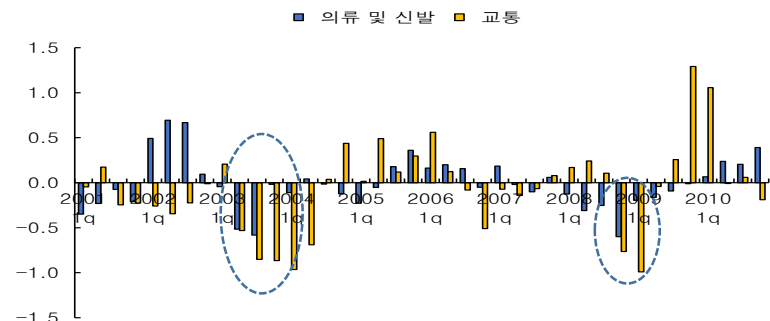
Note: 1) Change in composition ratio compared to the same period last year (%)
 2) The increasing items are rent and water heating, and food and non-alcoholic beverages
 3) The decreasing items are clothing, shoes, transportation
 Source: Bank of Korea, National Accounts

[Figure 6] Increasing and Decreasing Consumption Items before and after 2003/2008 Crises

1) Increasing Items



2) Decreasing Items



Note: 1) Change in composition ratio compared to the same period last year (%)
 2) The increasing items are rent and water heating, and food and non-alcoholic beverages
 3) The decreasing items are clothing, shoes, transportation
 Source: Bank of Korea, National Accounts



III.

Income and Consumption Changes by Household Characteristics during the Crises



Income and Consumption Changes by Household Characteristics

- In the event of a crisis, the vulnerable groups such as low-income and temporary daily workers etc. were found to be more affected.
 - As shown in <Table 1>, the economic shock during crisis, especially the primary income shock, appeared differently among income classes, and the income shock of the low-income class in the first quintile was greater than that of other classes.
 - Looking at the adjustment of consumption by income classes in <Table 2>, it seems that the first income quintile, which experienced the greatest income shock during the Asian Financial Crisis, did not make a large adjustment in consumption expenditure compared to other classes.

<Table 1> Changes in Disposable Income by Household Characteristics(%)

	1998	2003	2008	2020.1/4
Total	-14	1	3.5	3.7
1 quintile	-31.5	-8.2	-0.1	-4.3
5 quintile	-7.2	-1	4.9	6.5
Regular job	-8	2	4.1	3.7
Temporary job	-20.7	-1.9	1.2	-3.5
Self employed	-11.1	-5.3	12.2	-2.4
Aged(65+)	-17.4	-7.6	-1.7	12.1

Source: KOSTAT, Household Income and Expenditure Survey

<Table 2> Changes in Consumption by Household Characteristics(%)

	1998	2003	2008	2020.1/4
Total	-12.5	1.8	2.7	-6.5
1 quintile	-11.4	-0.4	1.5	-7.4
5 quintile	-10.8	-0.3	1.4	-2.2
Regular job	-11.4	5.5	5	-7.7
Temporary job	-18.4	3.2	0.4	-6.2
Self employed	-16.6	-14.7	6.5	-0.8
Aged(65+)	-15.1	-8.8	-2.2	-4.3

Source: KOSTAT, Household Income and Expenditure Survey



Income and Consumption Changes by **Household Characteristics**

- The implication of these results is that the low-income vulnerable groups have relatively little room for adjustment of consumption when an income shock occurs.
 - On the other hand, the stable income classes, such as the 5th quintile and regular workers, seem to have prepared for the crisis in the progress by excessively reducing consumption expenditure and increasing saving.
 - Similar patterns appear in COVID-19 shock as you can see in [Table 1]&[Table 2]



IV.

**Is Covid-19 shock
becoming the major economic crisis in Korea?**



Is Covid-19 shock becoming the major economic crisis in Korea?

- When comparing the past crises in Korea, the crisis in which income decline and adjustment of consumption expenditures were the most is the Asian Financial Crisis in 1998, and the ongoing COVID-19 shock shows some similar patterns to the Asian Financial Crisis in terms of adjustment of consumption expenditure.
- Looking at past crises and recent data, the COVID-19 shock appears not only largely centered on the vulnerable, but also appears to have a great impact on the self-employed class due to the spread of a non-face-to-face(untack) economy although the impact of second wave of the COVID-19 may be severer.



Is Covid-19 shock becoming the major economic crisis in Korea?

- Finally, data shows that there is a high possibility that overall consumption contraction will continue and an excessive increase in saving of the middle and high-income classes due to the uncertainty of COVID-19 in Korea.
 - In this case, unlike the past crises, the COVID-19 economic crisis may result from a consumption shock rather than an income shock, and an economic crisis may occur due to the excessive consumption adjustment for uncertainty of COVID-19 and economic downturn will intensify.
 - However, if the uncertainty of the spread of infectious diseases is resolved (such as the development of a vaccine for COVID-19 in the near future), the accumulated savings may act as a major factor of rapid consumption recovery from the past experience of the crises.



Thank you

