

Pandemic, Shutdown and Consumer Spending: Lessons from Scandinavian Policy Responses to COVID-19

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How do social distancing laws affect economic activity during a pandemic?

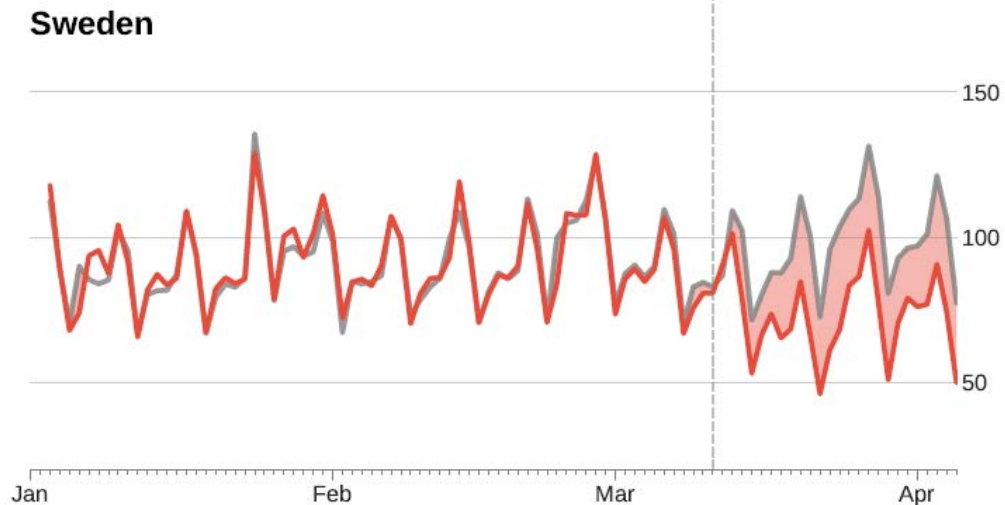
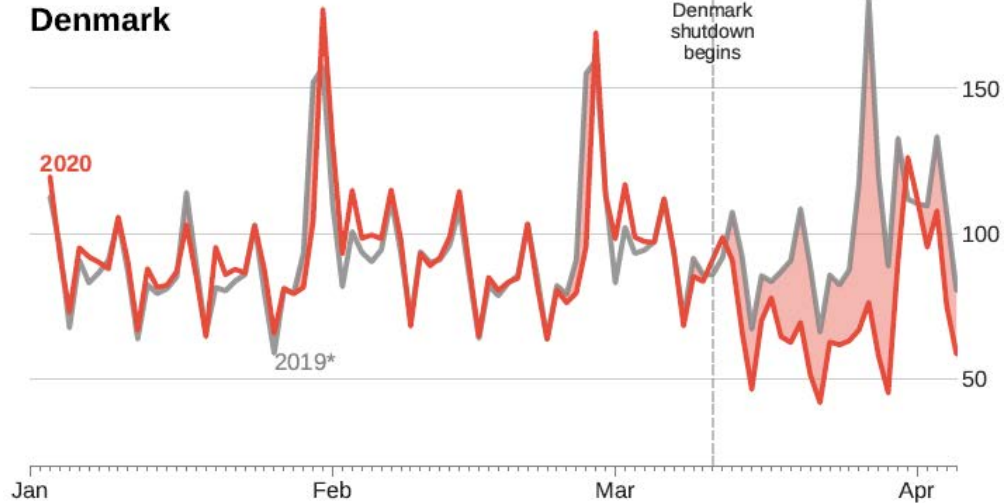
- Popular view: Shutdowns slow the spread of the virus but make households stop spending => Trade-off between **saving lives** or **saving the economy**
- Spending has in fact dropped massively in countries around the world
- But spending affected by two things during a pandemic:
 - The policy measures introduced to contain the virus
 - The virus itself
- Hard to separate empirically because social distancing laws and spread of virus correlate strongly by design
- Take-aways from this presentation:
 - Contraction in spending mainly due to the virus itself, not social distancing laws
 - Social distancing laws may increase economic activity of high-risk groups

Spending responses in Denmark vs. Sweden

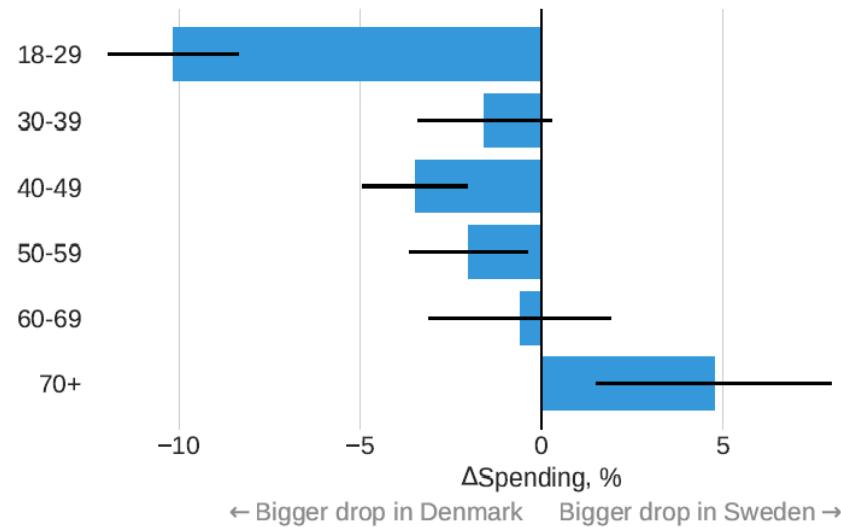
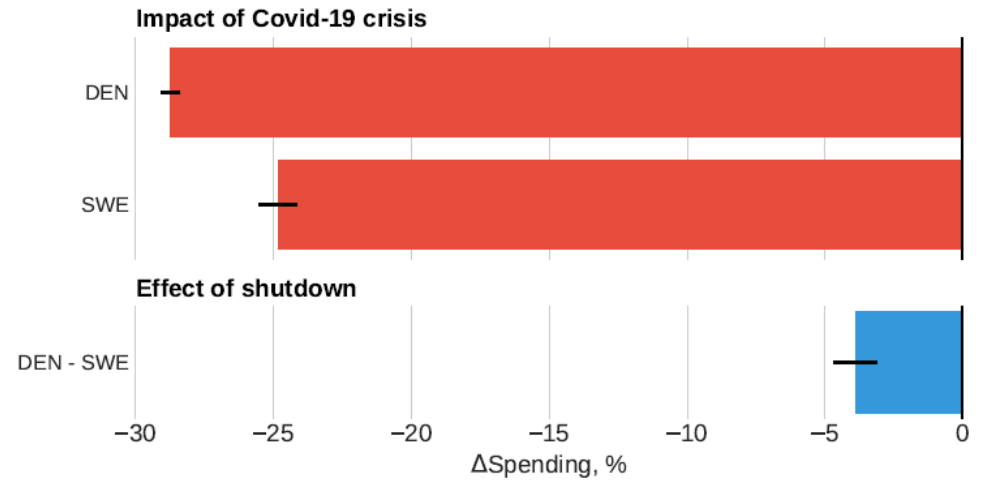
- Denmark and Sweden similarly exposed to Covid-19 in early March 2020
- But policy responses differed:
 - Denmark: Mandated shutdown of large part of the economy
 - Sweden: lighter-touch approach based on recommendations, most private businesses allowed to continue operations
- We use customer data from large Scandinavian bank (~860.000 customers) to compare early consumer responses in Denmark vs. Sweden
- Interpret *difference* btw. Denmark and Sweden as causal effect of shutdown, capturing both
 - *Direct effects* through reduced availability of goods and services
 - *Indirect effects* through reduced spreading of the virus

Results

Spending dropped at the same time in both countries, although only Denmark shut down



Size of drop was similar in DEN (29%) and SWE (25%)



Spending fell *more* in DEN than SWE among the young but *less* among the elderly

Interpretation

1. The Danish shutdown explains only a small fraction of the drop in spending during the COVID-19 crisis.

Most of the drop in Denmark is due to the virus itself and would have occurred even under a lighter-touch approach as in Sweden

2. Shutting down economic activity lowers spending of the young but raises spending of the elderly

By constraining the behavior of low-risk groups, shutdown slows spreading of the virus, enabling more economic activity by high-risk groups