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Box C: QB 1 – March 2023

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Spending, credit, and deposits: An update on Irish household and business activity

By Statistics Division

This Box provides a review of the latest developments in Irish household and non-financial corporations' credit, spending and deposit activity. Consumer activity picked up strongly in the lead up to Christmas with a marked decline in household deposits and increase in card spending. Developments in credit aggregates remained broadly robust through 2022, albeit the most recent movements suggesting a slight moderation in lending growth, reflecting the normalisation of monetary policy seen last year. These monetary policy changes have slowly began to be transmitted via the domestic banking system and will continue to further influence domestic credit conditions over the coming period (see Box B).

Household Spending

Total card spending, including ATM withdrawals, rose to a series high of €9.3 billion in December 2022, recording an annual increase of 10 per cent, following single digit growth in October and November. A combination of higher levels of consumer confidence in the pre-Christmas period, against a backdrop of higher prices, likely influenced spending trends in recent months. Since mid-2022, the growth in the level of card spending began to outpace the growth in the number of card transactions, which, in a period of heightened inflation, implies higher spend per transaction than in previous years (Figure 1).[1]

[1] Cronin and McInerney (2022) also find that the rise in the average amount of cash withdrawn from ATMs during 2022 is in part a response to higher consumer price inflation.

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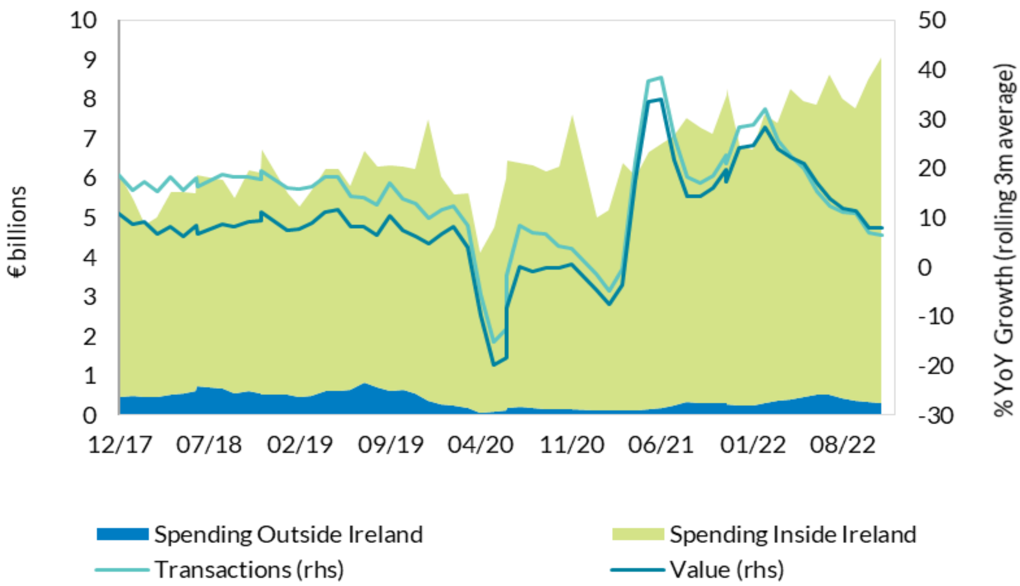
Card spending levels peaking reflecting sustained high levels of spending and inflationary pressures

Figure 1: Monthly personal card spending and cash withdrawals

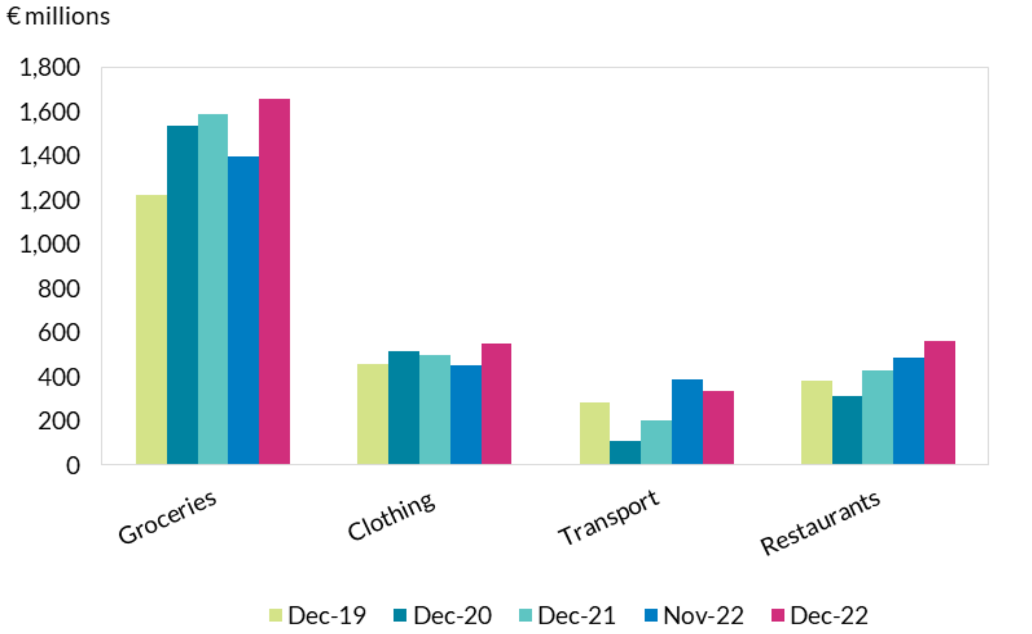


Source: Central Bank of Ireland

In 2022Q4, spending on clothing and electrical goods registered the largest increase in quarter-on-quarter terms (respectively 38% and 24%), likely reflecting seasonal factors, whereas the most sizable year-on-year increases were recorded in clothing and groceries (respectively 7% and 4%) likely in part reflecting inflationary pressures. Spending on transport, accommodation and restaurants also exhibited significant increases in year-on-year terms (respectively 45%, 19% and 22%) in 2022Q4, however they declined on a quarter-on-quarter basis (-15%, -24% and -4%). While yet to return to pre-pandemic spending levels, card spending outside of Ireland increased by 17 per cent in the three-months to end-December when compared to the same period of 2021.

Boost in spending across sectors

Figure 2: Card spending



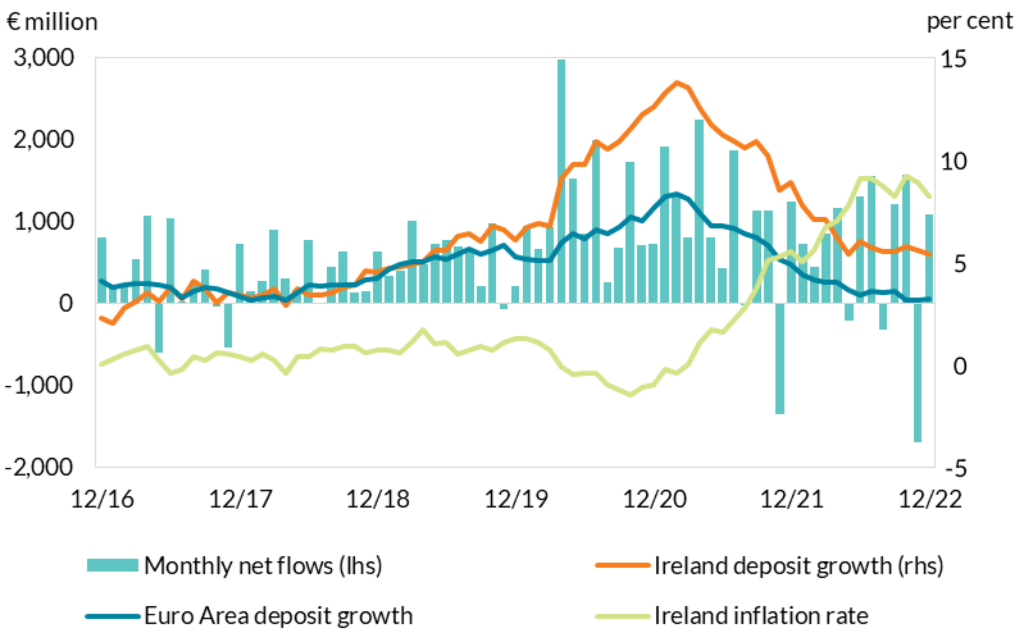
Source: Central Bank of Ireland

Household Deposits

Against a backdrop of record high spending levels, household savings have continued to normalise. Over 2022, the net flow of Irish household deposits into Irish banks was €3.8 billion lower than was recorded in 2021. The outstanding stock of household deposits stood at €148.6 billion at end-December 2022. While continuing to outpace euro area developments, the annual growth of Irish household deposits moderated to 2019 Q2 levels, reaching 5.4 per cent in December 2022 (Figure 3). Slower growth in deposits from the peak of 2020 is to be expected, with a portion of the extra precautionary savings accrued during the pandemic being released owing to pent-up demand and as a means of smoothing consumption in real terms in light of higher consumer prices and the related reduction in households' real spending power. The gradual transmission of monetary policy passing through to higher deposit rates may also influence savings and consumption decisions of some households in the future.

Irish Household deposit growth declines from pandemic peak, while still outpacing euro area average

Figure 3: Deposits from Households; net flows, and annual rate of change



Source: Central Bank of Ireland, Central Statistics Office and European Central Bank.

Household Lending

Household lending continues to recover from the pandemic and experienced a positive net flow of €387 million over the last quarter of 2022. The outstanding stock of household credit was €100.6 billion at end-2022, with the majority relating to mortgage credit (€83.4 billion).

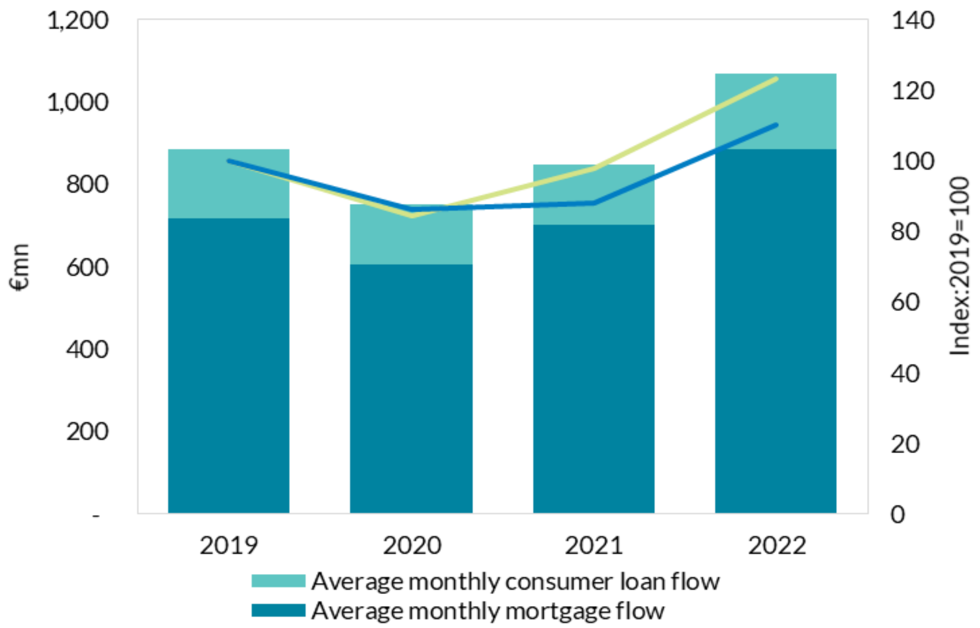
Both mortgage and consumer loans recorded higher new agreements over 2022 compared with the previous year (Figure 4). New mortgage lending increased by 26 per cent over 2022, totalling €10.6 billion, while non-mortgage household lending amounted to €3.5 billion, representing a 27 per cent increase on 2021.

Recent years have seen a shift away from variable interest rates towards fixed rate mortgages in Ireland, with the proportion of fixed-rate mortgages accounting for 93 per cent of the total stock of new mortgages in December 2022 (84 per cent in December 2021). The Banking & Payments Federation of Ireland recently highlighted that mortgage approvals, which typically occur earlier than mortgage agreements, declined 1 per cent in year-on-year value terms in December 2022. First time buyer approvals declined 12 per cent, however, re-mortgage activity showed a 57 per cent increase.

New consumer lending totalled €143 million in December, equating to an increase of 38 per cent in annual terms, albeit a slight deceleration on a monthly basis.

New Household Bank Lending recovering from pandemic lows and remaining strong through 2022

Figure 4: New Household Lending by purpose

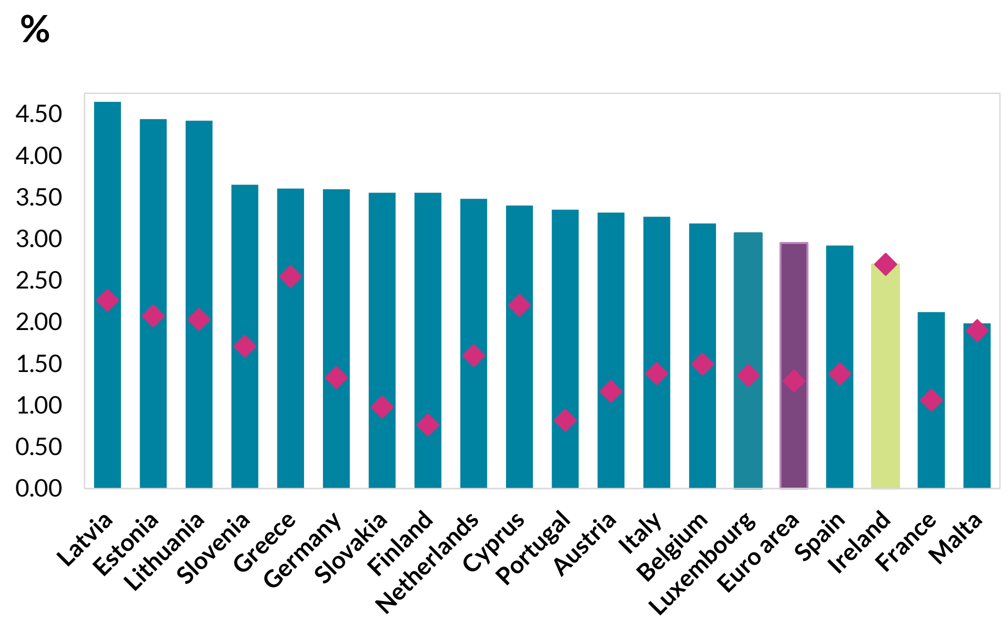


Source: Central Bank of Ireland

Bank interest rates for new mortgage loans (excluding renegotiations) rose to 2.69 per cent in December 2022; up 12 basis points from November and unchanged from end-2021. Corresponding euro area mortgage rates were 166 basis points higher than end-2021. Interest rate movements across the euro area, which followed the ECB's sequence of rates hikes since July, have led to a significant change in the position of Irish rates relative to other euro area countries, as the interest rate on new mortgages (excluding renegotiations) in Ireland fell below the euro area average in October 2022 for the first time since the series began in August 2017 (Figure 5).

The different pass through dynamics among the wider euro area versus the Irish experience may be partly explained by the structure of the Irish banking sector, and may be seen in 'the decade long context of mortgage rates falling by less than in the euro area countries over the period of very accommodative monetary policy' (Madouros, 2023).

Figure 5: Mortgage Rates Cross-Country comparison



Source: Central Bank of Ireland
Latest observations: December 2022.
Note: pink diamonds represent the corresponding rate (%) on December 2021 for the respective country

Business Credit

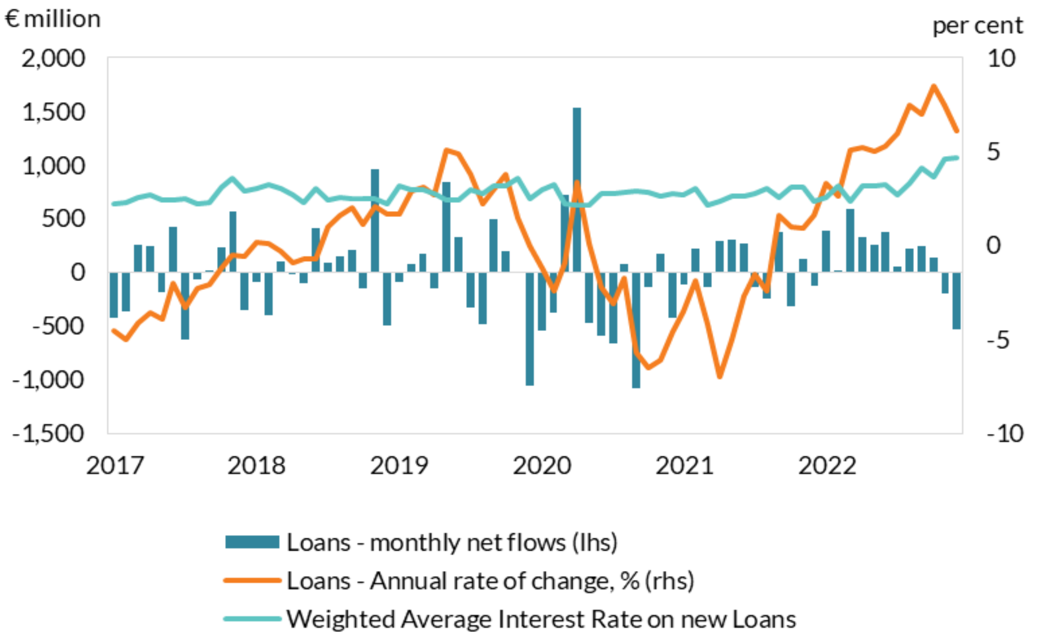
Bank lending to non-financial corporates (NFCs) continued to grow in year-on-year terms December (6.1 per cent), albeit that the pace of growth slowed relative to the preceding months. Despite repayments exceeding drawdowns in both November and December 2022, for the year as a whole drawdowns exceeded repayments by €1.9 billion, marking the largest positive net flow since 2008 (Figure 6).

New NFC loan agreements were €1.5 billion in December 2022, 37 per cent lower than December 2021 and 13 per cent higher than November. Breaking this figure down by loan size shows that overall new lending to NFCs is driven by loans in the over €1 million category (€1.4 billion), typically considered as lending to larger enterprises.

Following recent monetary policy announcements and tracking a similar path to the rest of the euro area, the interest rate on bank's new lending to firms increased broadly across all loan size categories. Since the end of 2021, the weighted average interest rate on loans of under €1 million increased by a cumulative 123 basis points, and by 244 basis points for loans of over €1 million.

Reversal of recent Bank NFC net lending during the last quarter of 2022

Figure 6: Net flows of loans to Non-financial Corporations



Source: Central Bank of Ireland

Looking at Small and Medium sized enterprises (SMEs), the amount of gross new lending advanced by Irish banks grew to €4.4 billion over the year to end-September 2022. In annual terms, drawdowns exceeded repayments by €355 million, representing the first positive annual net lending to SMEs since the series began in 2010. Despite this, gross new lending flows to SMEs have not yet recovered fully to pre-pandemic levels.

The weighted average interest rate on outstanding SME loans rose to 3.76 per cent at end September 2022, while the interest rate on new SME loan drawdowns increased by 42 basis points to stand at 4.11 per cent. The increase in the interest rates on new lending was seen on lending to all SME sectors over the quarter, and the majority of sectors over the year.

The results from the latest SME Credit Demand Survey (conducted between October and December 2022 and covering from April to September 2022) suggest that credit demand by SMEs remained stable in the six months to September 2022 in terms of size and composition and is expected to increase further.

According to the results of the Bank Lending Survey for Ireland, credit demand was slightly down for SMEs averaged across the corresponding period (2022Q2 and 2022Q3) relative to the average of the previous six-months and was expected to continue contracting.