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Box C: QB 2 – April 2022

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Spending, Credit, and Deposits: An Update on Irish Household and Business Activity

By Statistics Division

This Box provides an update, based on the latest data, on some of the key trends relating to the spending, savings and borrowing activities of Irish households and businesses.

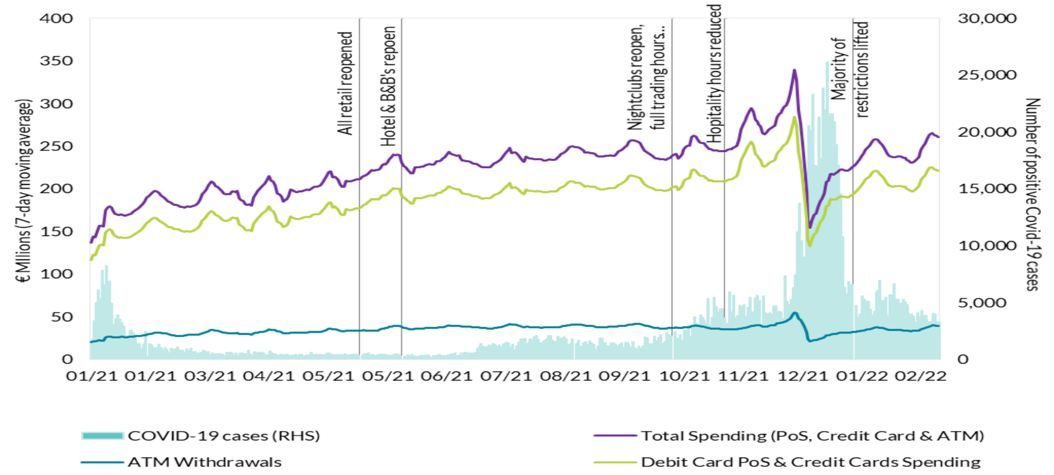
The economic and financial market effects of the Russian invasion of Ukraine are not yet evident in the statistical data referenced in this Box. However, there is a potential for the increased geopolitical and economic volatility to impact financing conditions and decisions over the coming months, which may in turn influence future developments in these data.

Household Spending

Card spending data show that total card spending (including ATM withdrawals) remained strong in the early part of 2022. This followed robust spending during the final quarter of 2021, and despite January typically being associated with lower consumer activity, Supported by increased consumer confidence in January, spending exceeded levels in the corresponding period last year and, more relevantly, immediately prior to the pandemic (Figure 1).

Changes in daily card spending and cash withdrawals

Figure 1: Change in daily card spending and cash withdrawals (7-day moving average) from January 2021 to present



Source: Central Bank of Ireland

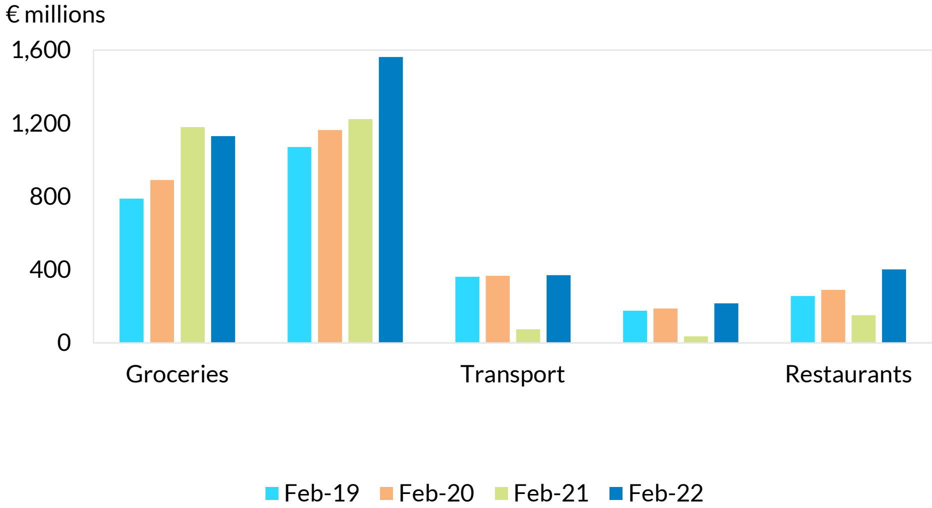
The more granular, but less timely, monthly card data for January shows that spending increased by 36 per cent compared to the same month the previous year, when public health restrictions limited in-person expenditure. Growth was broad-based across sectors, but was particularly strong in the services and social sectors which rose by 76 per cent and 100 per cent, respectively.

Following the cessation of the majority of public health restrictions in late January, the daily data shows that spending in the transport and hospitality sectors (i.e. accommodation and restaurants) saw an immediate uplift in spending before plateauing in February. According to the daily data, total spending contracted marginally in February compared with the previous month. This was driven in part by seasonal trends and reduced spending in the groceries and other retail sectors, however, these declines were in part offset by strong growth in the accommodation and restaurants sectors.

Despite the marginal month-on-month contraction in February, spending was considerably higher in year-on-year terms, and in comparison with pre-pandemic corresponding periods (Figure 2). The magnitude of growth experienced in the transportation and accommodation sectors over the year reveals the impact public health restrictions had on trading activity in these sectors last year. While in contrast, the comparatively moderate increase in the other (non-groceries) retail sector, which was also impacted by restrictions, indicates that some of the worst effects were limited by modifying business models and by shifting the availability of goods online.

Spending in hospitality sectors increased as restrictions were eased

Figure 2: Monthly sectoral totals (monthly and daily data)



Source: Central Bank of Ireland

Household deposits and lending

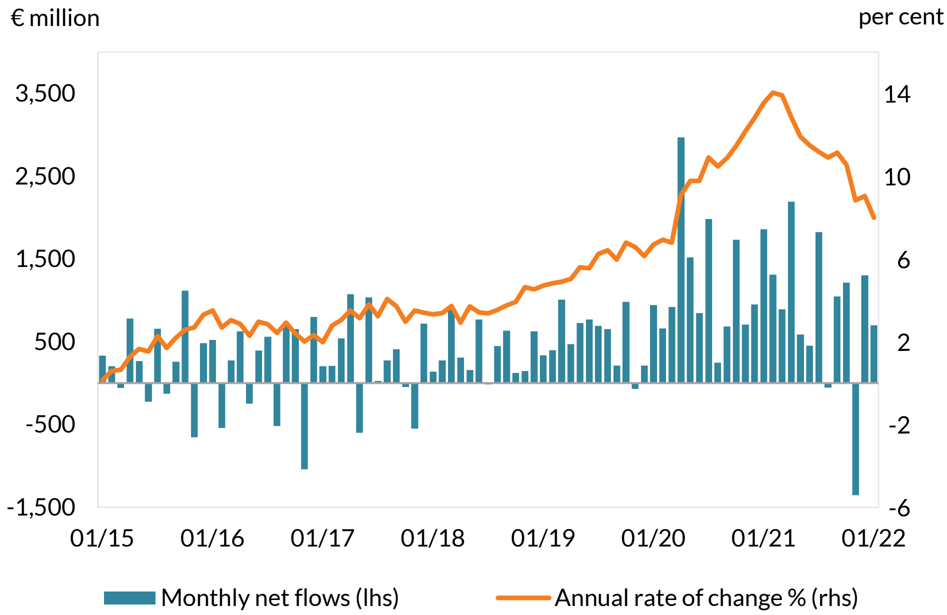
Aggregate household deposits have risen sharply since the beginning of the pandemic as the introduction of the associated public health measures limited the opportunity for consumption in general, while increased precautionary savings also contributed to the headline rise, especially in the early months of the pandemic. The latest Credit and Banking Statistics show a continued moderation in the accumulation of household deposits in recent months. Despite the sharp decline in deposits in November last year, the first month since the start of the pandemic where withdrawals significantly exceeded lodgements by households, aggregate household deposits rose in both December and January. The annual rate of growth stood at 8 per cent in January, down from a peak of 14 per cent in February last year (Figure 3).

The outstanding stock of household deposits stood at €143 billion in January 2022, significantly higher than prior to the pandemic. It must be noted that the latest figure for January is boosted compared to the previous month due to a methodological change required for the purposes of statistical reporting.[1] In the nearly two years since the beginning of the pandemic, accumulated net savings for the period amounted to just over €24.5 billion.

[1] See January's Money & Banking release for more information.

Annual rate of deposit growth has moderated, but remains high

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

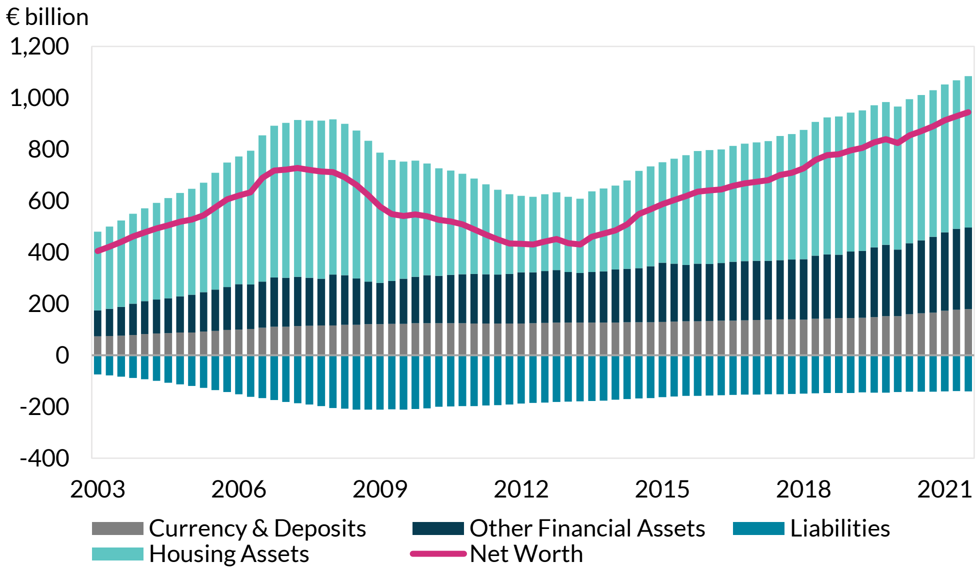


Source: Central Bank of Ireland

The latest Quarterly Financial Accounts data for Q3 2021 shows household net worth at a new series high of €944 billion (Figure 4), an increase of €105 billion, or 13 per cent, compared to end-2019. The marked rise in household deposits has translated into higher household financial assets, which along with rising housing assets, were the primary drivers, of an increase in overall household net worth.

Household net worth has risen to a new high

Figure 4: Household Net Worth



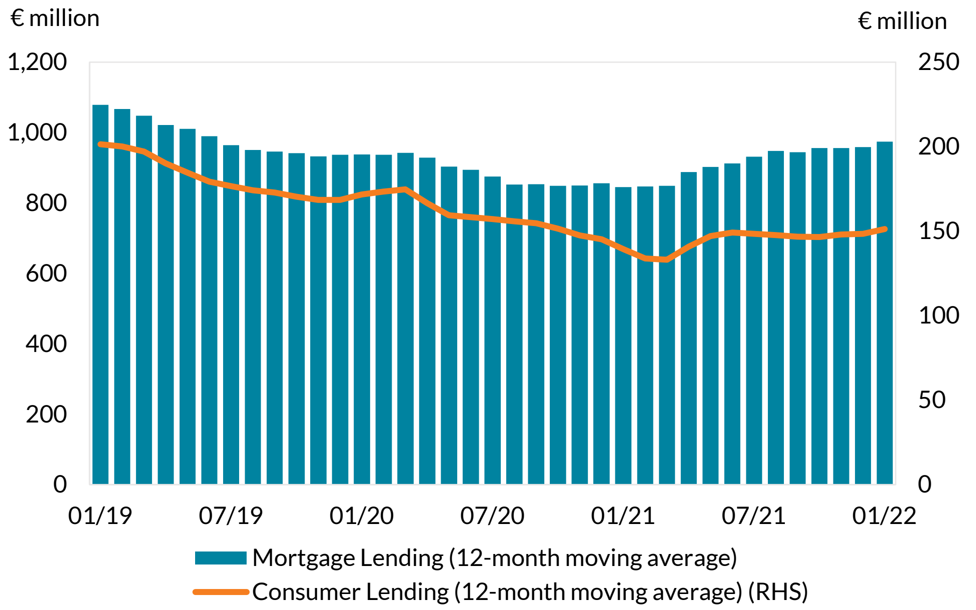
Source: Central Bank of Ireland

The value of new mortgage agreements in recent months is in-line with seasonal pre-pandemic levels (Figure 5). For 2021 as a whole, the value of new mortgage agreements stood at €11.5 billion, while this equates to an increase of 12 per cent compared with the previous year, it remains short of the recent high of €13.2 billion recorded in 2018.

Consumer lending remained somewhat muted in 2021 and was largely unchanged compared with 2020. The latest available data show that consumer lending of €191 million occurred in January, up from €104 million in December, a seasonal increase boosted by financing for new car sales at the beginning of a calendar year. While this equated to an increase of 22 per cent compared with January 2021, it remained somewhat lower than the corresponding periods prior to the pandemic, potentially impacted by supply constraints that continue to limit new car sales and/or financing of purchases through accumulated savings.

Mortgage lending is recovering to pre-pandemic norms but consumer lending lags

Figure 5: New Lending to Households by Purpose (12-month moving average)



Source: Central Bank of Ireland

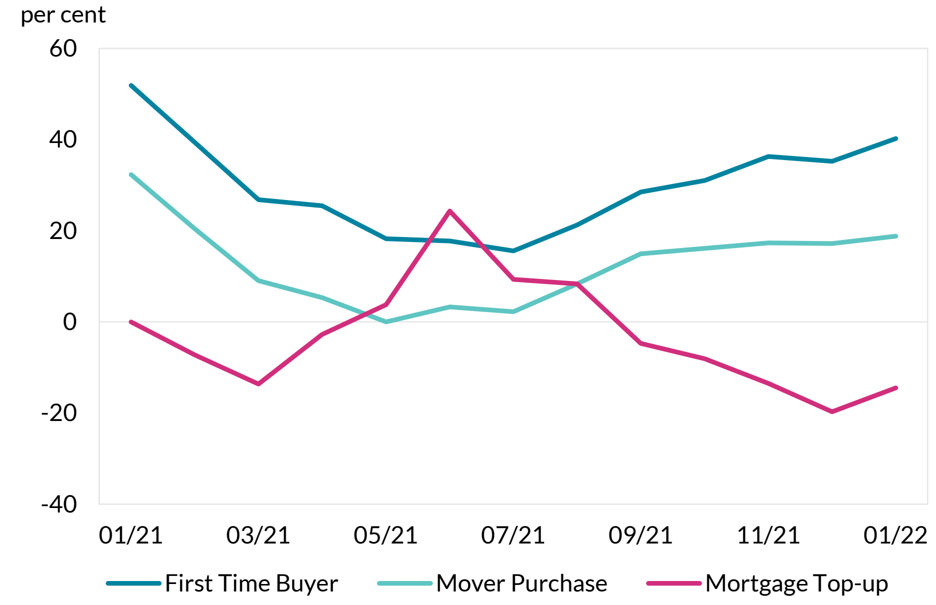
According to the latest data from the BPFI, mortgage approvals for first-time buyers' remains strong and have continued to increase through December and January in comparison with the corresponding period immediately prior to the pandemic. Mover purchasers also increased in January following a number of months of strong growth (Figure 6). Mortgage top-ups, often used to fund consumption or home improvements, remains weak by comparison.

New mortgage lending (excluding renegotiations) data show a strong second half of the year in 2021, up 14 per cent compared with the same period in 2020 and in-line with the corresponding period in 2019. The latest data for January show that despite the significant decline compared with the previous month, which is in-line with seasonal trends, the value of new mortgage agreements remains robust.

The latest Bank Lending Survey published in January, noted that credit standards on loans to households for house purchase were unchanged in the final quarter of 2021. In the case of consumer credit and other lending, it noted that increased consumer confidence had a positive impact on loan demand while internal financing, out of savings, had a negative impact on consumer loan demand.

Mortgage approvals very strong relative to pre-pandemic period

Figure 6: Mortgage approvals change on same period immediately prior to the pandemic



Source: BPFI

Business Credit and Deposits

Net new lending to businesses was volatile throughout 2021 and finished marginally negative for the year as a whole, at negative €36 million. By comparison, in 2020 business repayments exceeded loan drawdowns by €1.8 billion. As a result, the latest data shows that the annual rate of change recovered into positive territory in January 2022, at 0.6 per cent (Figure 7). This was first positive reading since the early months of the pandemic, when companies sought to strengthen their balance sheets.

The relatively muted credit picture can also be seen in new lending to small and medium sized enterprises (SMEs). The latest data for the final quarter of 2021 show new loans to SMEs were down 17 per cent compared to the same period in 2020. For 2021 as a whole, new lending to SMEs equated to €4.1 billion, largely unchanged from 2020, but was significantly lower, by 25 per cent, compared to 2019. Government supports and forbearance measures likely suppressed demand for SME borrowing in 2020 and 2021. New lending remains very volatile across economic sectors. The manufacturing and construction sectors recorded some of the largest year-on-year increases for 2021 as whole, rising by 19 per cent and 28 per cent respectively. Meanwhile the hospitality sectors such as hotels and bars continue to be among the most affected and continued to see very low new loans reflecting the uncertain operating environment and outlook at the time.

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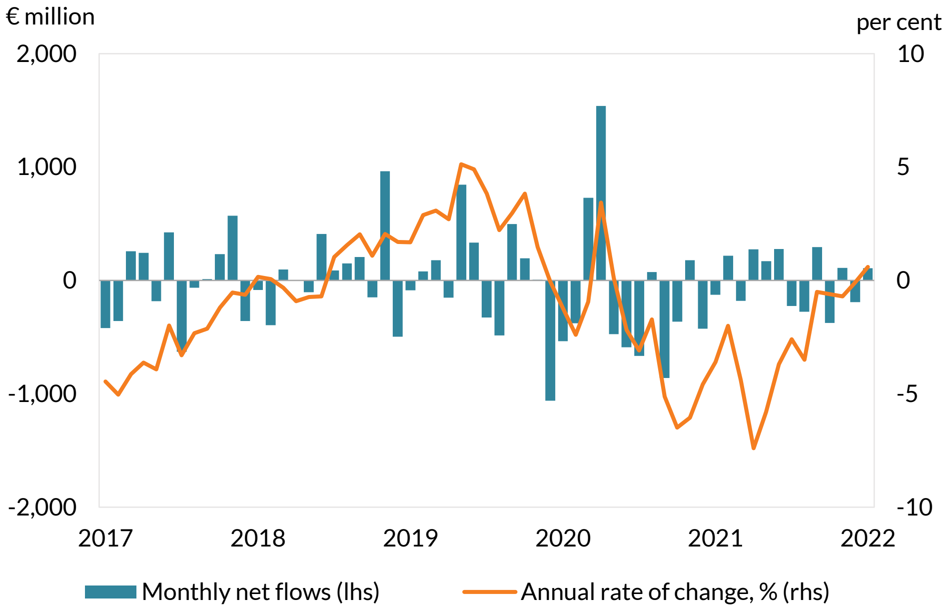
Annual rate of change for NFC loan drawdowns exceed repayments in January

Figure 7: Net flows of loans to Non-Financial Corporations



Source: Central Bank of Ireland

Similar to households, the accumulation of deposits from businesses had slowed through most of 2021. However, business deposits have deviated from this trend in recent months. The annual accumulation of deposits increasing to 13.2 per cent in December before slowing marginally to 12.8 per cent in January. Cumulative net inflows of deposits for 2021 as a whole amounted to €9.6 billion, a slight reduction from €11.4 billion in 2020.