Banc Ceannais na hÉireann
Central Bank of Ireland
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Box A: QB 3 – July 2020

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Household and Business Financing Developments during Covid-19

By Statistics Division

The Covid-19 pandemic has affected the global economy and society in a manner not seen in recent times. The abrupt decline in economic activity in Ireland in mid-March has created financial repercussions for both households and companies. In fast moving and unique circumstances, the standard package of official statistics present limitations as they are produced with a lag and with relatively low frequency (e.g. monthly). The rapid onset of the pandemic and subsequent economic developments has required new high frequency and close to real time indicators. To that end, the Central Bank has produced a range of new indicators including daily payments data and daily credit application data. This box aims to describe the key trends observed in the reaction of households, companies and banks across both the high frequency and traditional data in recent months.

Households

The level of household spending began to decline rapidly once the first containment measures were introduced on 12 March. The sharp decline in overall spending also masked a large rebalancing in the type of spending occurring[1], with grocery sales surging and activities such as restaurants, travel and entertainment suffering large declines. The decline in spending bottomed-out in mid-April and has since started to recover at a consistent pace. Nonetheless, spending is still significantly below pre-Covid levels as of mid-June. Reflecting new spending habits, spending on cards is now at levels above June 2019, as spending using cash recovers at a slower rate (Figure 1).

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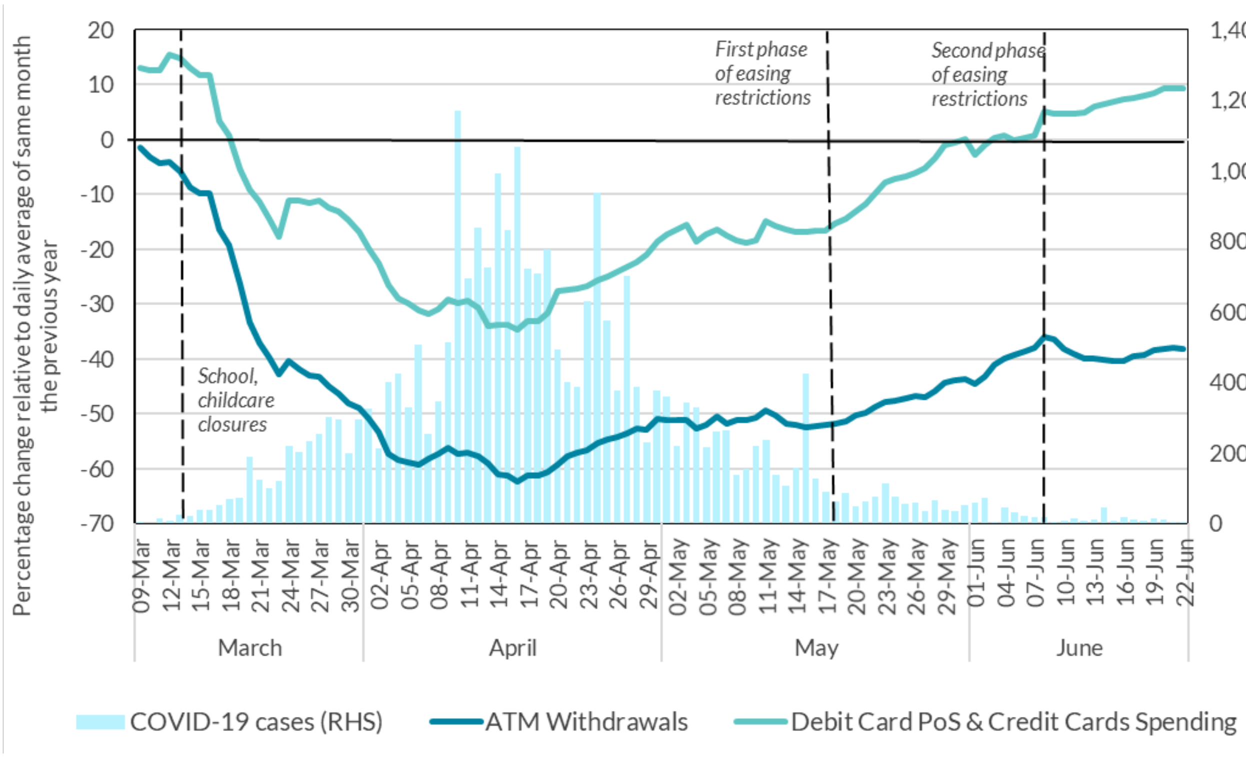
[1] See '*How has the COVID-19 Pandemic Affected Daily Spending Patterns?*'

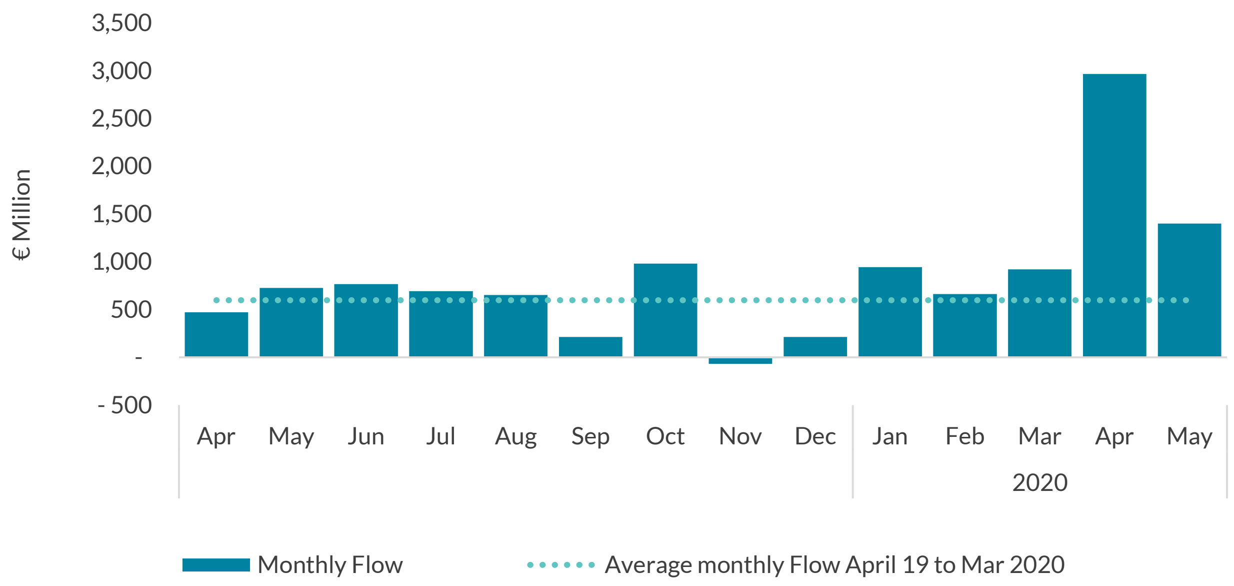
Figure 1: Daily Card Activity



Source: Central Bank of Ireland
Notes: Card data are calculated as 7-day moving averages

While the closure of large parts of the economy has had serious financial implications for numerous households, many in the labour market continue to work and be paid. As a result, household deposits have grown substantially, with a historical high €3 billion increase in April, followed by growth of €1.5 billion in May (Figure 2). This compares with average monthly growth in the preceding 12 months of €598 million. Household deposits now stand at an all-time high of €118 billion. This suggests that households possess a significant source of funds to support a future recovery in consumer spending. However, further evidence on the distributional impact of the pandemic on incomes, spending and saving will be needed to understand better the potential for this stock of deposits to be drawn down in the future.

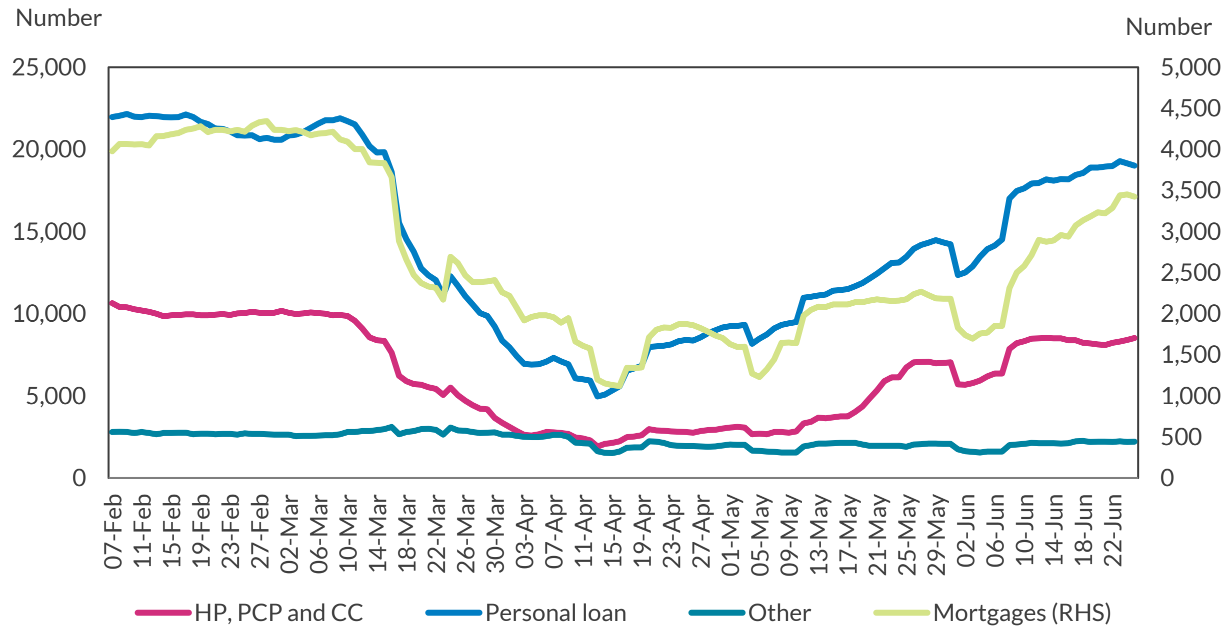
Figure 2: Household Deposit Net Inflows



In line with the reduction in spending, household demand for credit[2] declined in March following the introduction of the initial containment measures. Similar to spending patterns, the trough in demand was seen in mid-April (Figure 3). Demand initially picked up in personal loans, but hire purchase (HP), personal contract plan (PCP) and credit card demand have also picked up since mid-May. This implies that there are tentative signs of a recovery in consumer spending, in particular in durables frequently purchased under HP/PCP type contracts. Mortgage enquiries have remained more subdued and remained at levels far below normal for April and May, while picking up somewhat from mid-June. However, forward looking indicators show that Irish banks expect lending criteria to tighten over the second quarter of the year, and also expect loan demand from households to decrease.[3]

[2] Credit enquiries to the CCR is used as a proxy for credit demand. See also *'Has demand for new loans changed during the COVID-19 crisis'?*
[3] See '*COVID-19: Bank credit conditions and monetary policy*'

Figure 3: Credit Enquiries on New Loan Applications from Individuals

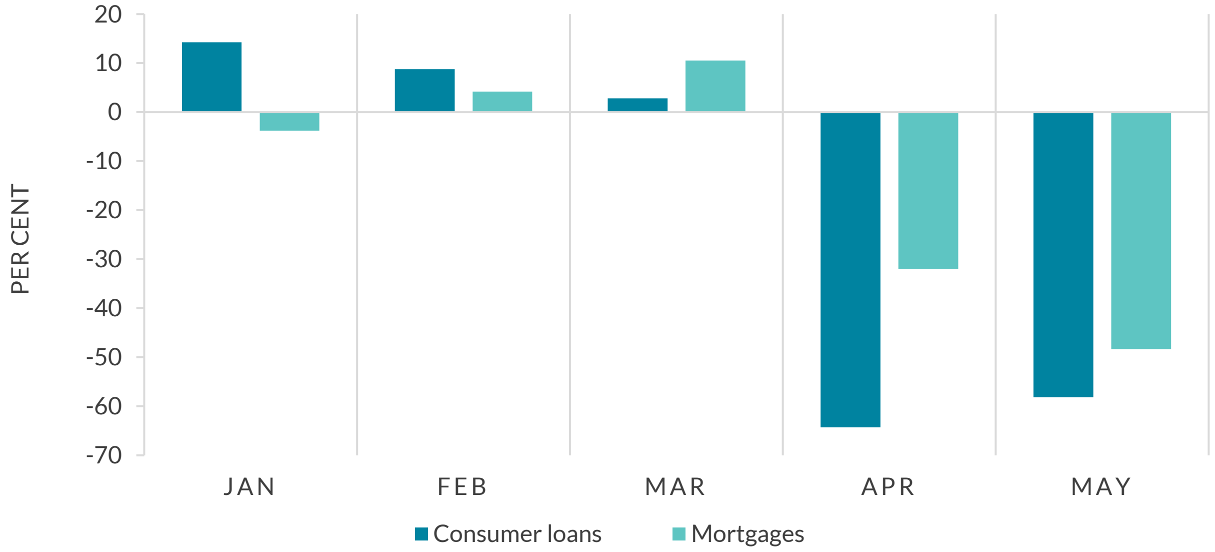


Source: Central Credit Register, and Central Bank of Ireland calculations.
Notes: Data are 7-day moving sum credit enquiries. The term "Individual" covers households and sole traders.

The containment measures also reduced households' ability to consume, with the actual drawdown of new bank household loans declining by 65 per cent in April and 58 per cent in May (Figure 4). Consumer lending is heavily influenced by car purchases, and new car sales declined by 86 per cent in April and May relative to 2019.[4] Nonetheless, car sales are heavily weighted towards January and July so the outturn for July will be important for the overall 2020 picture in relation to that industry.

[4] Source: https://stats.beepbeep.ie/

Figure 4: Household gross new lending agreements (Year-on-Year Changes)



New mortgage agreements (excluding renegotiations) were down 32 per cent in April compared to the previous year, and down by almost 50 per cent in May compared to May 2019. Enquiries on mortgage applications began to decline in late March. There is, however, generally a lag between application and drawdown stage and it may take some time for the full impact to feed through.

Banks have offered a wide range of loan payment breaks since late March. As of May 29th, 10.8 per cent of the Irish mortgage book was on a payment break in the main retail banks.[5] These breaks have limited the amount of deleveraging that has occurred in the household sector despite the sharp decline in new borrowing. As a result, the total decline in outstanding bank loans for house purchase in across April and May was €453 million, not dissimilar to the €316 million seen for the same period in 2019.

Business

New corporate credit enquiries increased by a fifth in March, mainly due to new overdraft requests (Figure 5). However, over the month of April, the number of business-related credit enquiries fell 36 per cent month-on-month, and May enquiries were down a further 11 per cent. May has seen a steady increase in enquiries relating to hire purchase applications, which have grown by 50 per cent on April. This perhaps reflects a slight increase in sales of light commercial vehicles[6] and equipment to support new ways of working. Although enquiries for June are up compared to May, demand is still significantly below normal levels.

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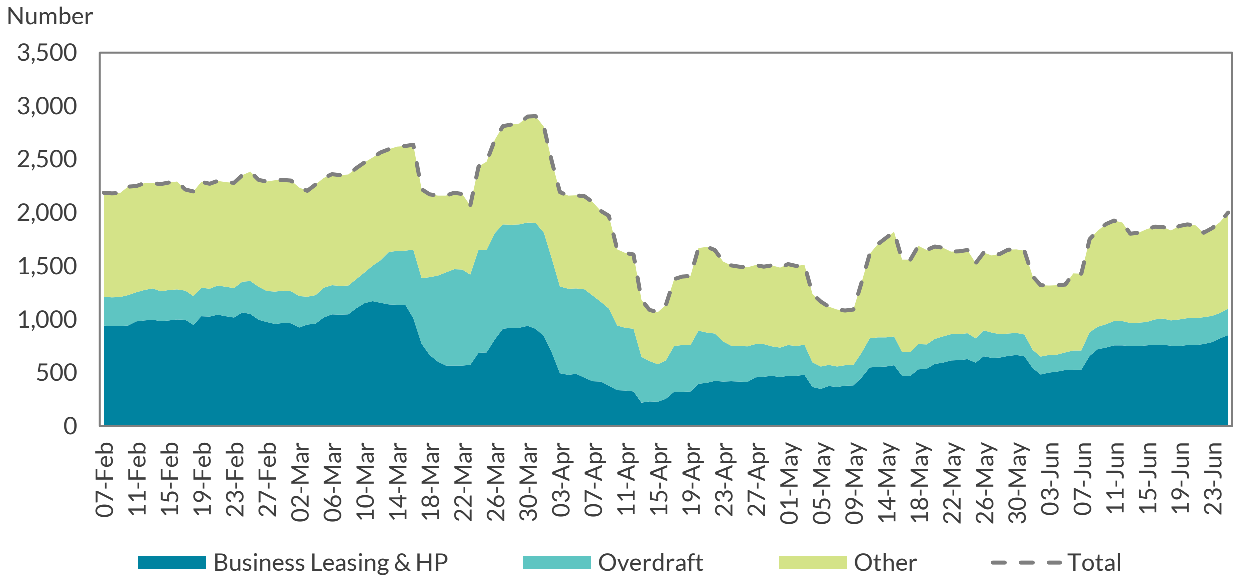
[5] See p.46 *Financial Stability Review, 2020:1*
[6] https://stats.beepbeep.ie/light-commercial-vehicles

Figure 5: Credit Enquiries on New Loan Applications from Companies

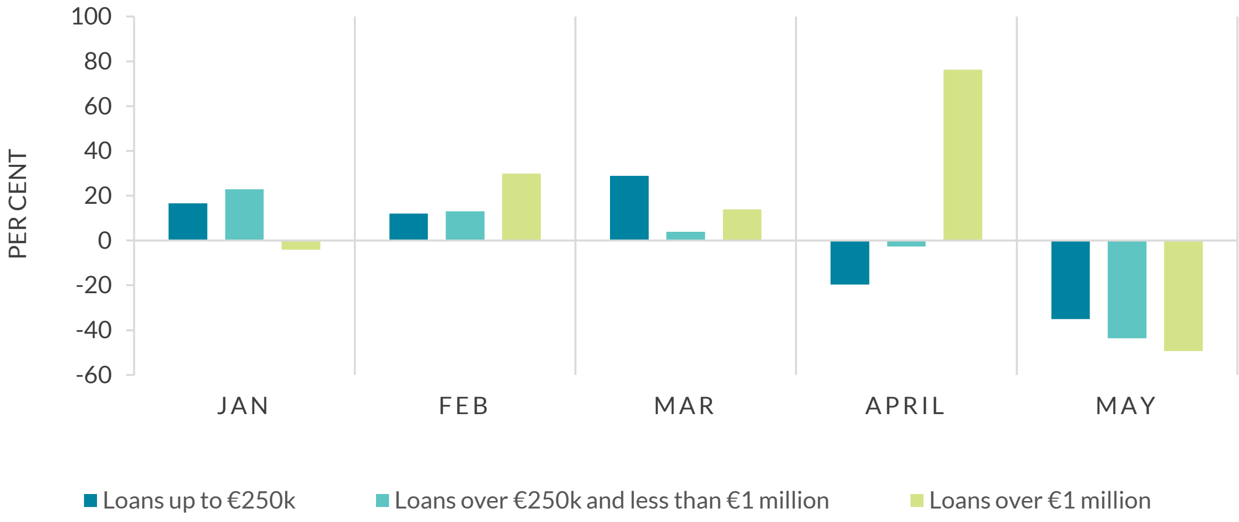


Source: Central Credit Register, and Central Bank of Ireland calculations.
Notes: Data are 7-day moving sum credit enquiries.

The increased applications for short-term finance from late-March is evident in the monthly statistics on bank lending to the non-financial corporate (NFC) sector. Net drawdowns of revolving loans and overdrafts totalled €660 million in April, which compares to net repayments of €131 million for these product types in March. These forms of credit accounted for 43 per cent of the increase in total NFC lending, indicating that existing and new short-term credit lines have been an important provider of liquidity to Irish firms. Overall, total NFC outstanding lending increased by €1.5 billion in April compared to an average monthly decrease of €26 million in the twelve-months before April 2020. Data for May however, shows a partial reversal of the April movement, with net loan repayments of €627 million by NFCs in the month.

Larger NFCs can dominate the aggregate data. The trends diverge significantly when looking at different loan sizes (Figure 6). Gross lending for larger loans increased substantially in February, and growth remained positive into March and April, before declining in May. Smaller loans of up to €250,000 increased significantly in March relative to 2019, but have since fallen considerably in April and May. The data indicate that larger firms may have acted more quickly to draw down facilities in advance of Covid-19, and have continued to access credit at levels above that observed in 2019.

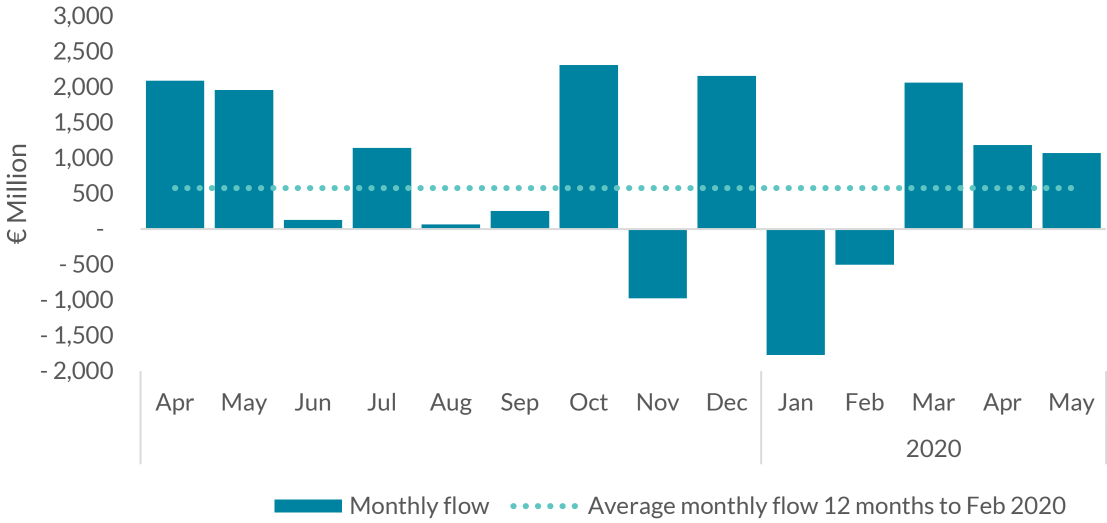
Figure 6: New NFC Lending by Loan Size (Change on same month in 2019)



Source: Central Bank of Ireland Retail Interest Rate Statistics.
Notes: Data for April (over €1 million) and May are based on unadjusted data.

On an aggregate level, Irish corporate deposits have remained robust with strong monthly inflows in recent months. It is likely that there is significant divergence across firm type, size and economic sector within these aggregates. The increase in deposits is also likely to be supported by the precautionary drawdown of credit lines by firms seen in February and March.

Figure 7: Deposits by Non-Financial Corporates (Monthly net flow)



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Summary

Recent analysis by the Central Bank shows that households, firms and banks have entered this particular crisis in a stronger position than that of 2008.[7] The economic shock from the Covid-19 pandemic is still a substantial challenge and firms and households have been affected significantly. Household spending has been curtailed in recent months, and this has resulted in a substantial build-up of deposits, and a reduction in demand for, and utilisation of credit. There are some signs of an initial rebound in consumer credit demand as spending slowly increases from the low point in April.

Aggregate data on firms show that credit flows and deposit growth in the sector remain relatively robust. However, demand for credit was initially observed for overdraft facilities and subsequent growth in credit has been driven by such short-term credit lines. Demand across other types of credit remains low with some tentative pick up in leasing and hire purchase in May. Trends in credit agreements do diverge by different types of firms, with smaller loan agreements declining significantly, and larger loans over €1 million occurring at levels above 2019.

[7] See *Financial Stability Review, 2020:1*