Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Box C: QB 3 – July 2022

This Box content is extracted from the Quarterly Bulletin – Q3 2022

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

By the Statistics Division

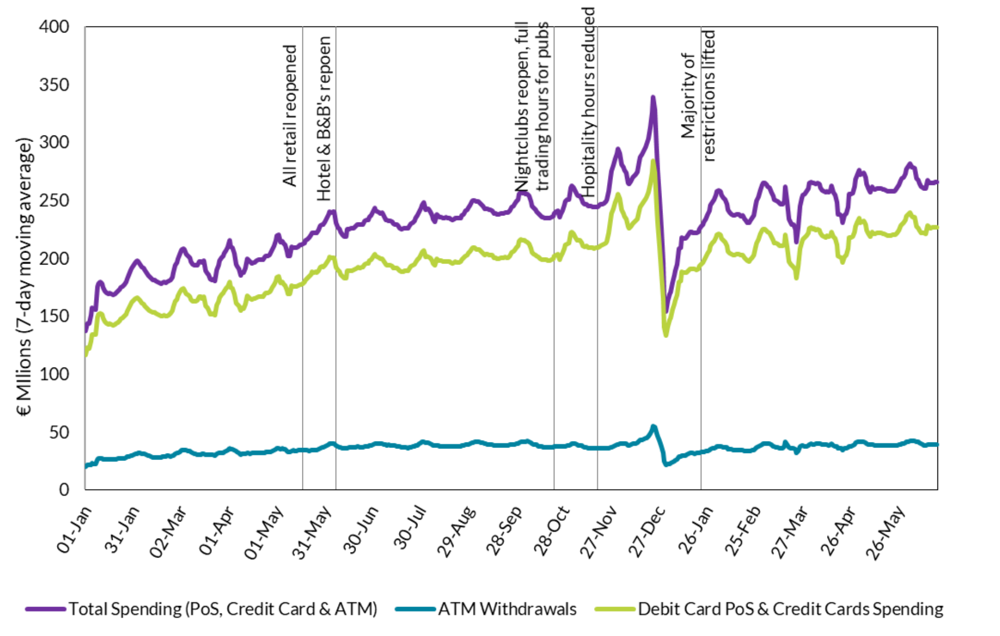
The value of household spending and deposit saving has remained relatively steady in recent months, as the economic and geopolitical uncertainty resulting from the Russian invasion of Ukraine and the heightened inflationary environment unfolds. Household spending by value has recovered substantially from 2021 as public health restriction were removed, but also as a result of higher prices.

Household spending

Total card spending (including ATM withdrawals) gradually rose through the first half of 2022. The economic uncertainty resulting from the Russian invasion of Ukraine and the higher inflation environment is not reflected in a lower aggregate value of card spending by households or any material rebalancing of card spending by value. Higher price levels may mask some changes in spending behaviours however, especially in areas with particularly high inflation such as energy and fuels (Figure 1).

Changes in daily card spending and cash withdrawals

Figure 1: Change in daily card spending and cash withdrawals (7-day moving average)



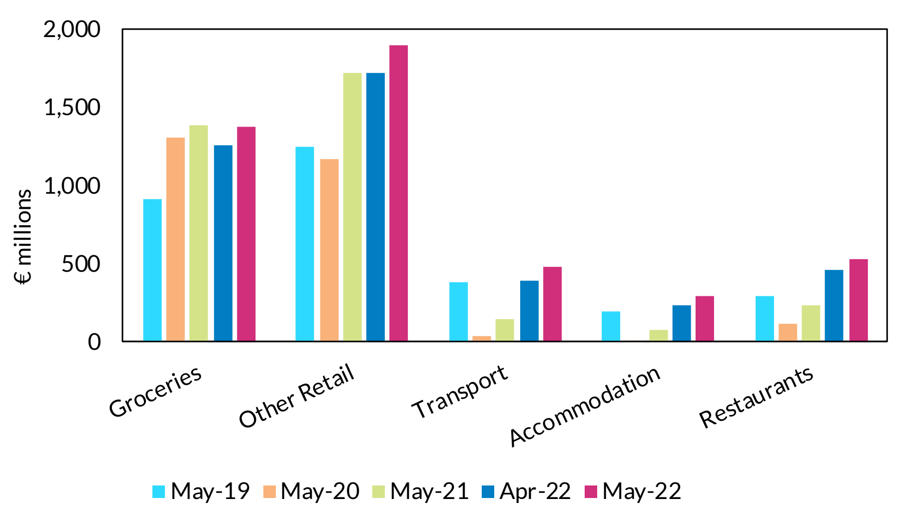
Source: Central Bank of Ireland
Note: 1 January 2021 – 19 June 2022.

The more granular monthly card data for May shows that spending increased by 26 per cent in the first 5 months of the year relative to the same period 2021, and by 25 per cent relative to the pre-pandemic 2019. The strong growth in the value of spending over the year to end-May, is due to a loosening of public health restrictions, but also reflects higher prices with prices on average, as measured by the HICP, 8.3 per cent higher than May 2021. Growth was broad-based across sectors, but was particularly strong in the services and social sectors, which saw the value of card spending rise by 63 per cent and 83 per cent since May 2021, respectively. Interpreting short-term trends on a monthly basis can be challenging. Total card spending declined by 3 per cent in April 2022 in comparison to March, but then rose by 11 per cent during May. The increase in May was broadly-based across retail, services and social spending categories.

The less detailed high frequency data indicate that the momentum in card spending is continuing into early-June. Spending patterns have shifted slightly as the year has progressed in line with seasonal patterns. There has been reduced spending in the groceries and other retail sectors, however, these were offset by strong growth in the accommodation and restaurants sectors. Spending was considerably higher in year-on-year terms, and in comparison with similar pre-pandemic periods (Figure 2). There are a number of underlying factors potentially increasing card spending in the data over time and will warrant careful interpretation in the coming months. Firstly, a higher use of card payments rather than cash since the onset of the pandemic. The average number of point-of-sale debit card transactions each month increasing from 18 in January 2019 to 27 in April 2022. While ATM withdrawals are also captured in the data, the sectoral spend of cash is not observed in card data. Secondly, the higher price levels, in particularly in 2022, may present as higher spending but do not necessarily reflect higher number of transactions.

Spending in hospitality sectors continues to grow in recent months

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



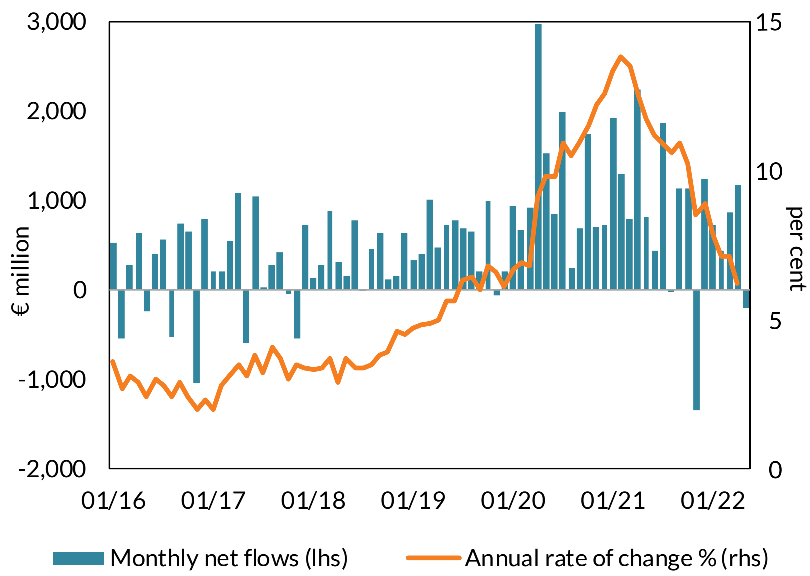
Source: Central Bank of Ireland

Household deposits and lending

Aggregate household deposits have risen sharply since the beginning of the pandemic as the introduction of public health measures limited the opportunity for consumption in general, while increased precautionary savings may also have contributed to the headline rise, especially in the early months of the pandemic. The latest Credit and Banking Statistics show a continued accumulation of household deposits in the year-to-date albeit at levels more in line with pre-pandemic period. The total household deposit inflow in the first 5 months of 2022 was €3 billion, similar to the €2.9 billion inflow in the same period 2019. In contrast to 2019, there is a higher level of volatility in the monthly flows during 2022, in particular in April and May which saw a large inflow followed by a slight decline in deposits in May 2022 (Figure 3). This volatility likely reflects the many different factors impacting consumer confidence such as inflationary and geopolitical environments and the continued normalisation of household activity following the public health measures. Such strong aggregate numbers are likely to see differing experiences in saving and spending patterns across the distribution of households.

Annual rate of deposit growth has moderated

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

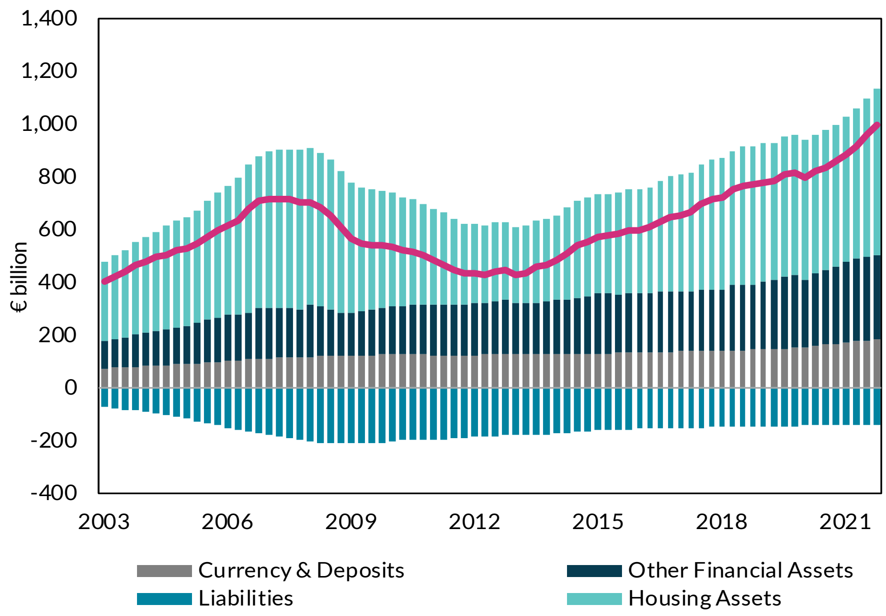


Source: Central Bank of Ireland

The latest Quarterly Financial Accounts data for end-2021 shows household net worth at a new series high of €995 billion (Figure 4), an increase of €139 billion, or 16 per cent over the year. The marked rise in household deposits and savings has translated into higher household financial assets, which along with rising housing assets, increasing 17 per cent in 2021, were the primary drivers of higher household net worth. Household debt remained relatively stable throughout 2021 ending the trend of continued debt reduction over the past decade.

Household net worth has risen to a new high

Figure 4: Household Net Worth

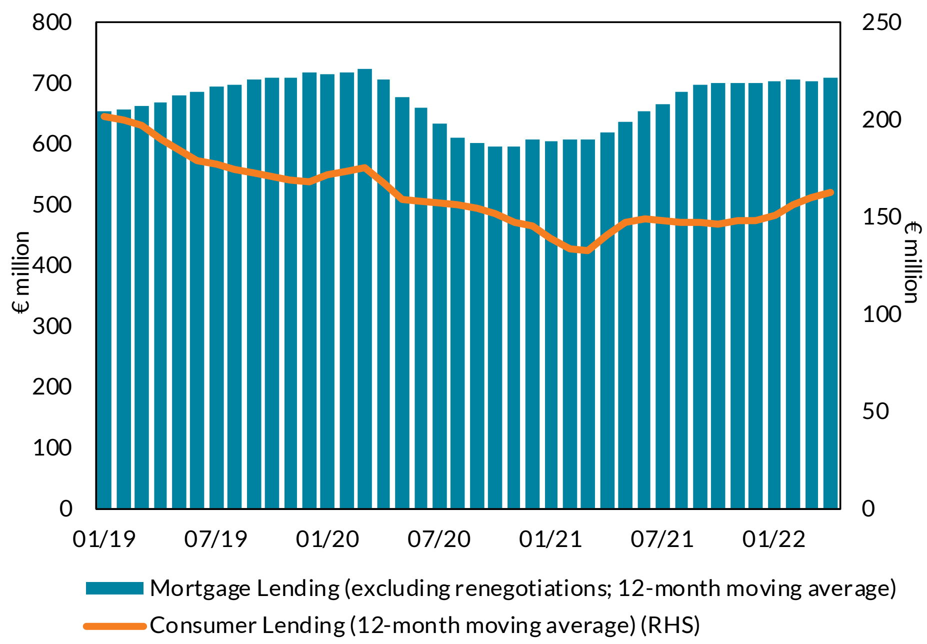


Source: Central Bank of Ireland

The value of new mortgage agreements (excluding renegotiations) in recent months is in-line with seasonal pre-pandemic levels (Figure 5). The value of new mortgage agreements was up 3.5 per cent in the first 4-months of 2021 compared to the same period 2020. The weighted average interest rates on new agreements was 2.77 per cent in April, broadly unchanged on the same period in 2021. Consumer lending had been slow to recover from pandemic lows, but this has now gained momentum with new agreements 15 per cent higher in the year to end-April. The pipeline for consumer credit also remains strong based on the evidence from new enquiries to the Central Credit Register. Nonetheless, while this activity is higher than 2021, it remained somewhat lower than the corresponding periods prior to the pandemic, potentially impacted by greater availability of household savings and supply constraints that continues to limit new car sales.

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

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



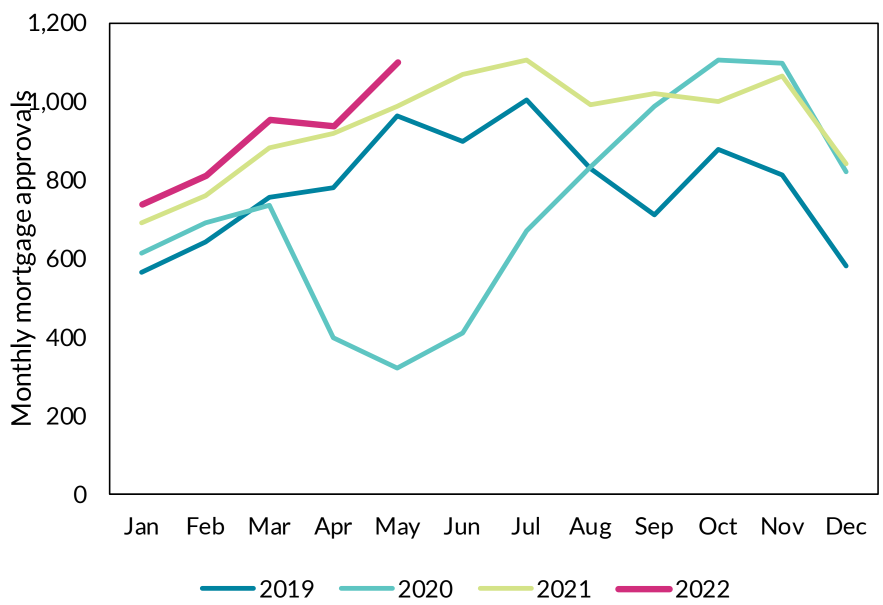
Source: Central Bank of Ireland

According to the latest data from the BPFI, new mortgage approvals for home buyers remains strong and have continued to track 2021 levels which were already above the pre-pandemic levels (Figure 6). The strongest growth in mortgage approvals is coming in the first time buyer segment. Investment mortgages continue to play a small role in the mortgage market. Mortgage top-ups, often used to fund consumption or home improvements, remains weak.

The latest Bank Lending Survey published in April, noted that credit standards on loans to households were unchanged in the first quarter of 2022. In the case of consumer credit and other lending, it noted that increased consumer confidence had a positive impact on loan demand while this demand was somewhat offset by the availability of savings to reduce demand for consumer credit.

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

The growth rate in outstanding loans to businesses has increased sharply in recent months to stand at an annual rate of 5 per cent in May 2022. This recovery comes after a sharp contraction during the earlier periods of the pandemic as businesses reduced investment activity and strengthened balance sheets. In the 12-months after April 2019, Irish non-financial firms loans from credit institutions contracted by over 7 per cent with repayments exceeding new drawdowns by €2.8 billion. By comparison, in year to end-May 2022 Irish firms, have borrowed €1.5 billion more than repayments potentially reflecting higher confidence in the sector (Figure 7).

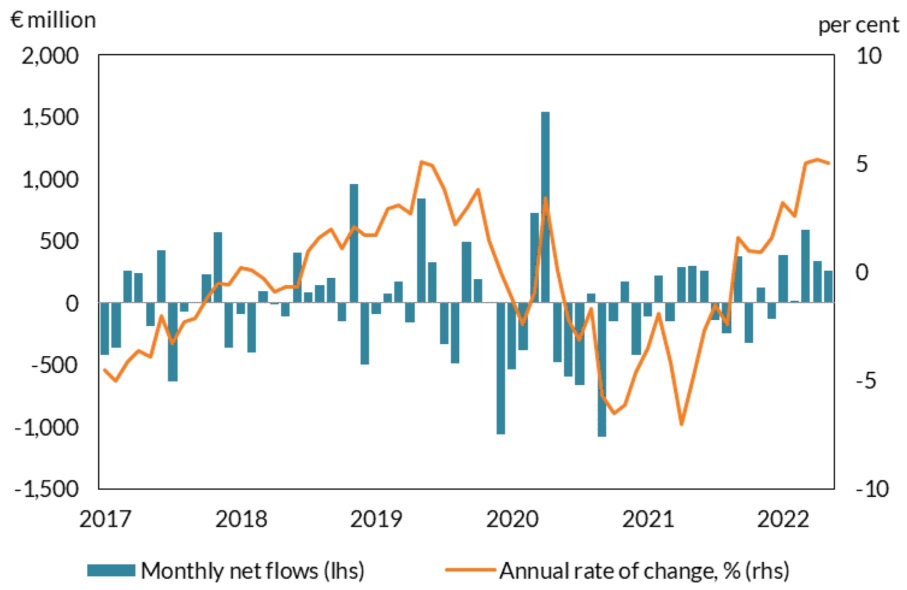
The most recent growth in headline NFC lending masks different trends across types of business. The growth in new loan agreements is entirely driven by larger loans sizes of over €1 million. In contrast, the value of new loan agreements under €250,000 (most likely to smaller firms) declined in the first 4-months of 2022 by almost a quarter.

The relatively muted credit picture for some smaller firms and certain sectors is also visible in the quarterly lending to small and medium sized enterprises (SMEs) statistics. The latest data for the first quarter of 2022 show new loans to SMEs were down 6 per cent compared to the same period in 2021. New lending trends differ substantially across SME economic sectors. Lending to hotels was

particularly strong in Q1 with the highest new lending volumes since the onset of the COVID-19 pandemic. In contrast lending to SMEs in the agriculture and manufacturing sectors was 47 per cent and 27 per cent lower in Q1 2022 relative to the previous year. Looking over a longer horizon, lending to SMEs over the 12-months to end-March is still below the same period 2019. The decline is particularly acute in contact-intensive services sectors such as retail.

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 and is now growing at similar rates to 2019. This growth in business deposits remain strong at over 9.8 per cent per year reflecting the financial position of Irish businesses at an aggregate level. Cumulative net inflows of NFC deposits since the start of the pandemic is €21 billion, an increase of 40 per cent.