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Box B: QB 4 – October 2021

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

By Statistics Division

This Box provides an update on Irish households' and firms' financing activities, focusing on recent data developments. Consumer card spending shows a strong increase in activity in sectors where public health restrictions have eased. Deposits remain near record highs, with the annual rate of growth moderating from the rapid accumulation during the earlier phases of the pandemic. Meanwhile, lending activity has shown tentative signs of recovery for both the household and business sectors.

Household Spending

High frequency data show that card spending began to rise more sharply from mid-April 2021, as consumer sentiment improved along with the acceleration of the national vaccination programme and the phased easing of public health restrictions (Figure 1). Overall, card spending during the summer months of June, July and August was higher than the corresponding months in 2019 and 2020, supported by increased spending in the services and social sectors. The latest data shows that spending continued to increase in late August and early September, although the pace of growth has moderated.

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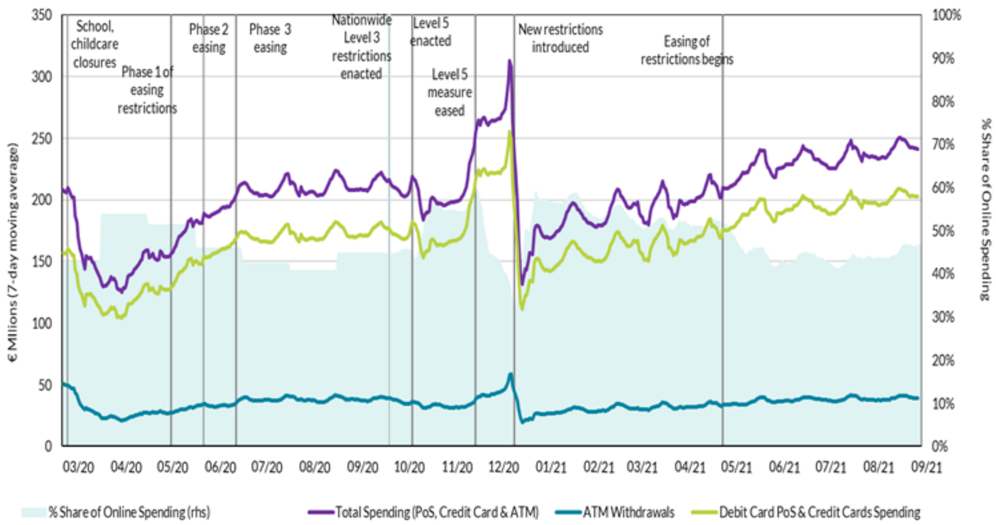
Rate of growth of card spending has moderated

Figure 1: Daily card spending and cash withdrawals

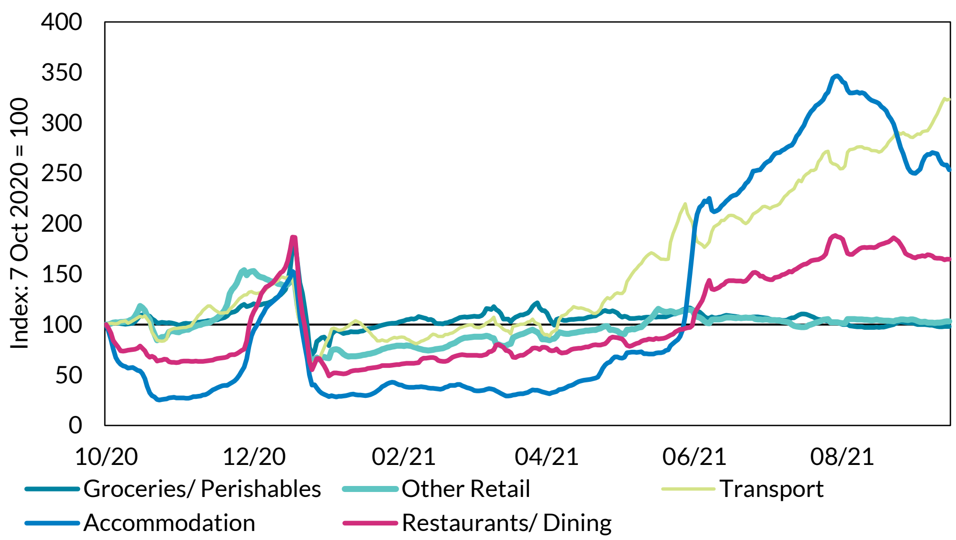


Source: CSO and Central Bank of Ireland

Following a prolonged period where online payment was the primary method of spending, in-store spending gradually increased from April. This reflects a greater level of consumer mobility and a shift in the spending behaviours as the opportunity returned for in-person consumption when non-essential retail and other sectors reopened. By late July, in-person payments accounted for almost 60 per cent of spending, up from 49 per cent in April, although this has edged back more recently.

Spending on transport and hospitality increased as restrictions were eased

Figure 2: Daily sectoral card spending by spending type



Source: Central Bank of Ireland

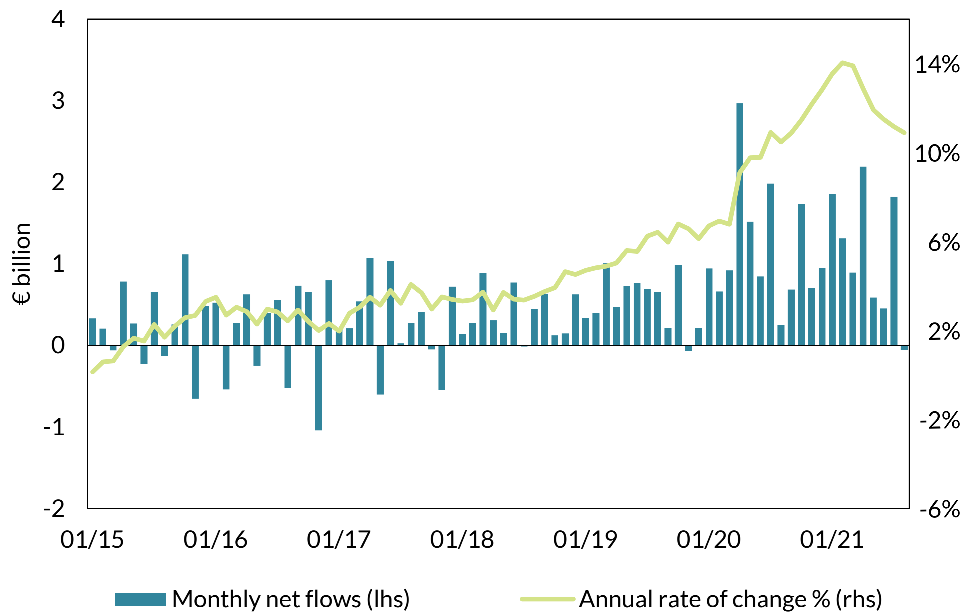
Restrictions on the hospitality sectors eased in early-June, and high- frequency data illustrate the immediate and sustained rise in accommodation and restaurants spending (Figure 2), with accommodation spending recording a new monthly series high in July. The increased prevalence of holidaying at home is likely to have contributed to higher spending in the summer months. Spending in the accommodation sector peaked in early-August before moderating towards the end of the summer and the start of the new academic year. Meanwhile, transport spending has continued to increase over the recent months and into September, while spending on groceries has edged back slightly from very high levels as public health measures have been eased. Nonetheless, grocery spending remains significantly higher than pre-pandemic levels.

Household deposits and lending

Aggregated household savings have risen sharply since the beginning of the COVID-19 pandemic and the introduction of the associated public health measures. The latest Credit and Banking Statistics indicate that aggregated household deposits stood at €134 billion at end-August, slightly lower than the July's record high, as withdrawals exceeded lodgements for the first time since late 2019. As such, the annual rate of growth has moderated further, slowing from its recent highs to 10.9 per cent at end-August (Figure 3). Since the beginning of the pandemic in March 2020, net household deposits increased by €21.6 billion.

Annual rate of deposit growth has moderated, but remains high

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



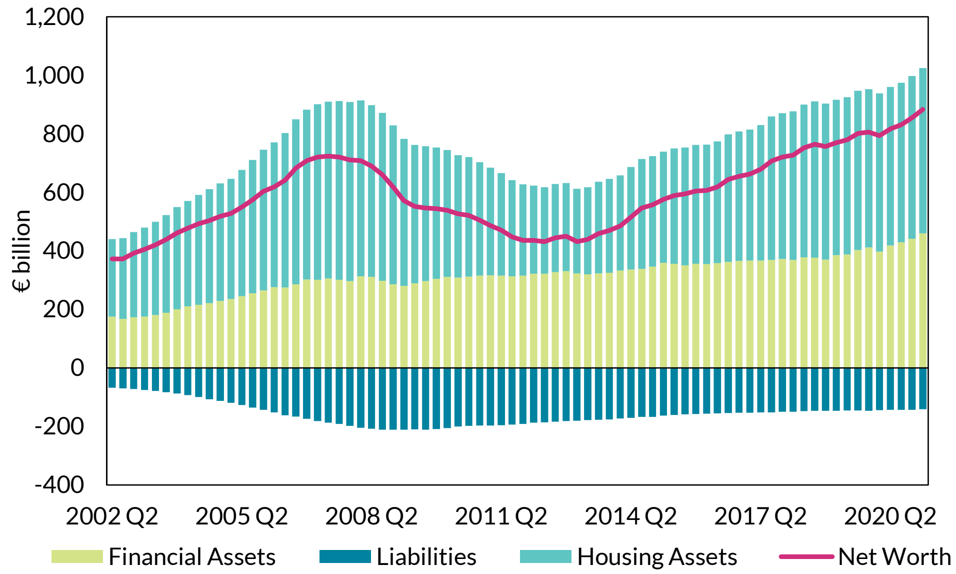
Source: CSO and Central Bank of Ireland

This marked rise in household deposits has translated into higher household financial assets, which was the primary driver, along with rising housing assets and a slight reduction in household liabilities, of an increase in overall household net worth. The latest data from the Quarterly Financial Accounts for Q1 2021 show household net worth at a new series high of €883 billion (Figure 4), or 10 per cent higher than prior to the beginning of the pandemic (end-2019).

Following a contraction of circa 8 per cent in total household lending in the first quarter of 2021 compared with the corresponding quarter of last year (Figure 5), lending increased sharply in the second quarter, up 42 per cent in year-on-year terms. The latest data show lending strengthening further in July, increasing by 24 per cent compared to the previous month, to €1.25 billion. Mortgage lending was the primary driver of the headline monthly increase, along with a smaller contribution from consumer lending.

Household net worth has risen to a new high

Figure 4: Household Net Worth



Source: Central Bank of Ireland

Analysis of credit enquiries using Central Credit Register (CCR) data shows that the pipeline of new mortgage applications has remained strong in recent months. New mortgage lending data show that the pick-up observed at the beginning of the second quarter has continued with the latest data to July.[1] Mortgage lending increased by 29 per cent compared to July last year. Despite this increase, the decline in the number of properties available for purchase, and hence new sale completions, is likely constraining the volume of new mortgage lending. According to the latest Bank Lending Survey published in July, it is expected that demand for house purchase loans will remain unchanged during

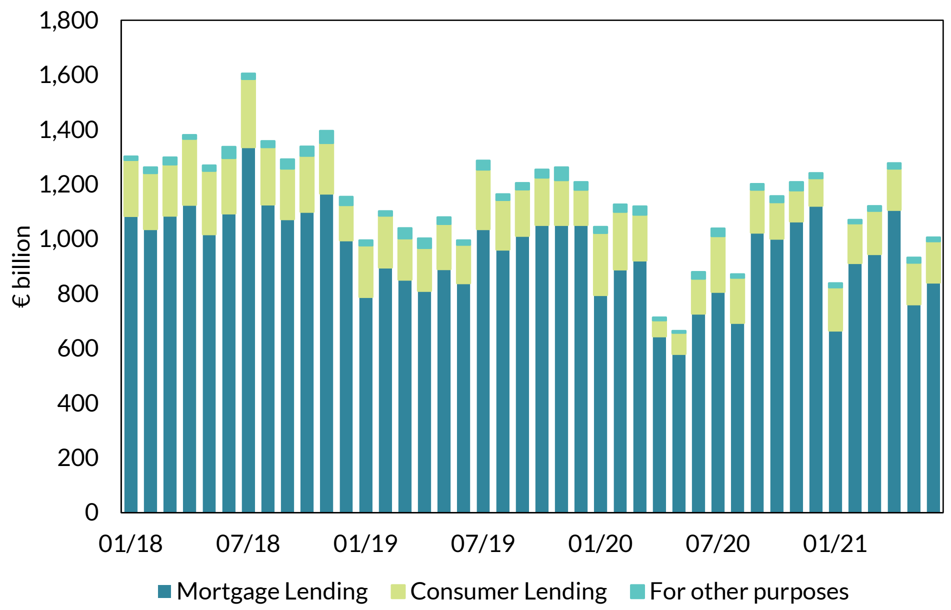
[1] This refers to new business excluding renegotiations, which gives a better indication of gross new loans arising in the credit market. Further information is available in the Retail Interest Rate explanatory notes, available here.

the third quarter, which is in line with the latest new lending data, but a small fall in demand for loans for consumer credit and other lending is expected.

New consumer lending remained relatively subdued through the opening half of 2021. However, similarly to July last year when consumer lending picked up sharply, the latest data for July 2021 shows consumer lending rose by 29 per cent compared to June, likely driven by car purchases, holidays and increased credit card usage. Like last year, these increases shows that the flow of consumer credit can pick up quickly and sharply to support consumption when health restrictions ease and consumer confidence increases.

New lending is recovering from early-pandemic lows

Figure 5: New Lending to Households by Purpose



Source: CSO and Central Bank of Ireland

Business Credit and Deposits

Net lending to businesses so far this year has been positive, if somewhat subdued (Figure 6). This contrasts with 2020, when repayments significantly outpaced drawdowns of credit. In the first eight months of 2021, drawdowns exceeded repayments by €126 million, compared to net repayments of €299 million in the same period of 2020.

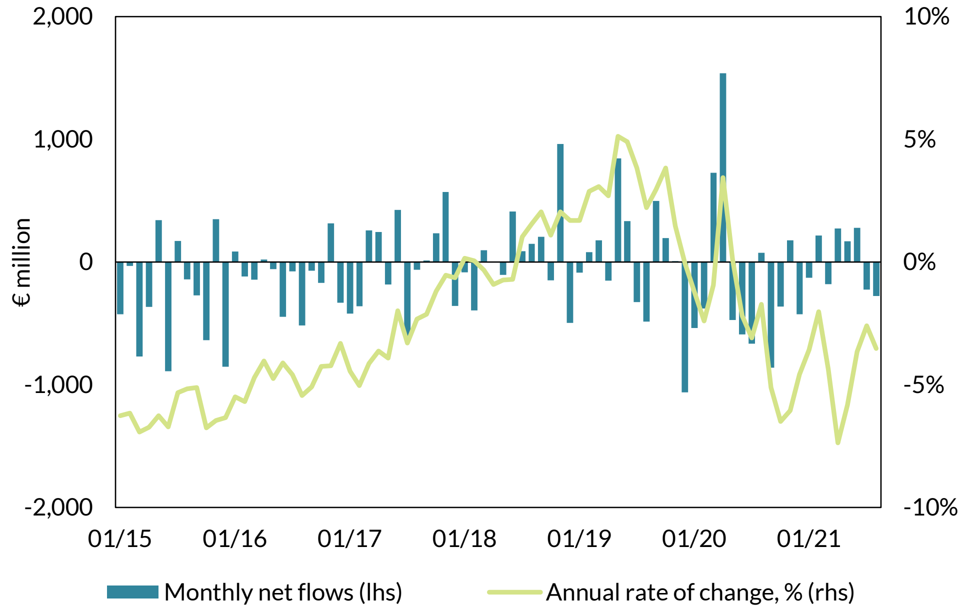
Turning to gross new lending to small and medium sized enterprises (SMEs), the latest data for the second quarter shows signs of recovery. Overall, gross new lending to SMEs equated to €1.06 billion during the second quarter. However, despite increasing by 49 per cent compared to the corresponding quarter in 2020, the overall level of new lending to SMEs remains somewhat muted compared to pre-pandemic quarters.

The recent recovery in lending has been uneven across sectors of the economy, and often aligned with the extent to which restrictions were eased. For example, the data show that construction and real estate lending has increased 128 per cent per annum, while lending to wholesale, retail, hotels and restaurant SMEs rose by a more modest 18 per cent.

The upturn in bank lending to businesses coincides with an increase in the demand for credit, particularly from SMEs, as reported in the Bank Lending Survey. In addition to the rising demand for loans, lenders also reported a significant increase in the share of lending applications that were rejected. At the same time, credit standards remained unchanged following their general loosening last year. Combined, this suggests an increased incidence of reduced creditworthiness amongst loan applicants.

The net flow of credit to businesses has been subdued

Figure 6: Monthly net flows of NFC loans



Source: Central Bank of Ireland

Following a similar trend as seen with households, the rate of deposit accumulation by businesses has slowed in recent months relative to the rapid pace of saving observed at the height of the pandemic. The annual rate of increase fell to 12.1 per cent in July, the lowest rate of increase since September 2019, before picking up slightly to 13.1 per cent in August. Cumulative net inflows of deposits in the period since January amounted to €3.3 billion, compared to €5.9 billion for the same period in 2020.