Banc Ceannais na hÉireann
Central Bank of Ireland
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Box C: QB 4 – October 2022

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

By Statistics Division

This Box presents recent spending and financing activity for Irish households and firms. Household spending, borrowing and deposit growth continued over summer 2022, although future financing developments are uncertain as the economic and financial environment proceeds through a period of higher inflation and increased economic and geopolitical uncertainty. For firms, while non-financial corporate credit rose, new SME lending remained subdued. Unlike in some euro area countries Irish borrowing costs have not yet responded to tighter monetary policy and higher market-based financing costs. The combination of sustained inflationary pressures, weaker sentiment and potentially higher borrowing costs could however, affect financing conditions in the coming months.

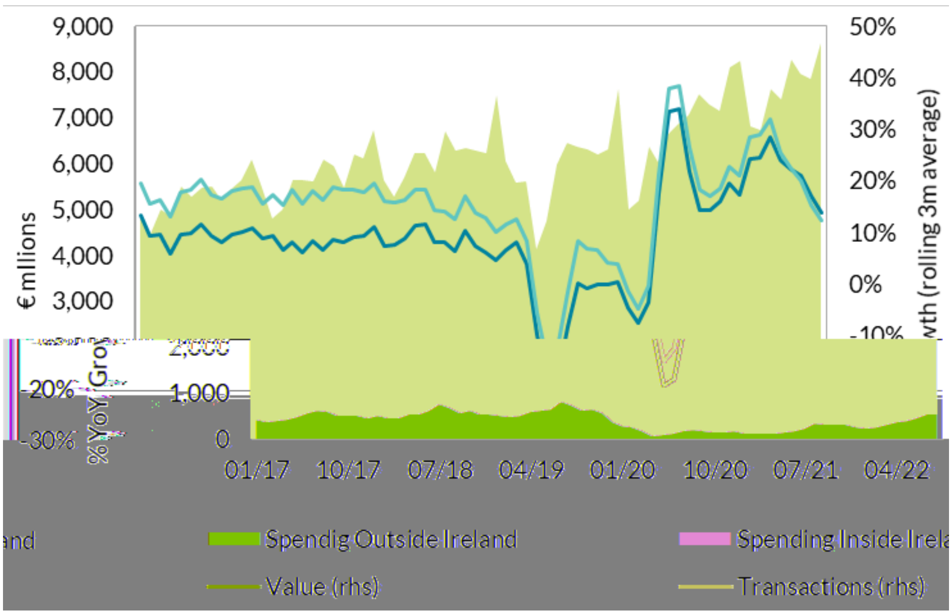
Household Spending and Deposits

Credit and Debit Card data show the value of total personal card spending (including ATM withdrawals) rose to a series high of €8.6 billion for the month of August 2022, potentially reflecting both the realisation of pent-up summer spending plans and higher prices (Figure 1). Consequently, on a 3-month average basis, card spending was 13.9 per cent higher compared with the equivalent period in the previous year.

While not recovering fully to 2019 levels, the proportion of total personal spending outside Ireland grew significantly at 55 per cent over the year. Social spending (including restaurants and entertainment) was up 22 per cent (Figure 2).

Continued high personal card spending over summer 2022

Figure 1: Monthly personal card spending and cash withdrawals

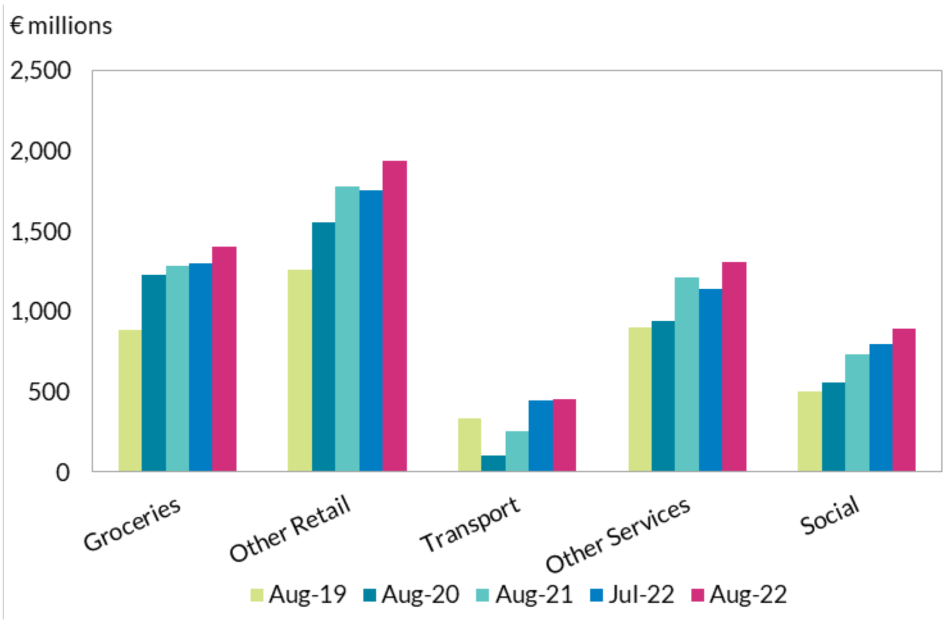


Source: Central Bank of Ireland

Focusing on specific spending categories, transport had the most significant annual growth in August 2022 growing by 77 per cent (Figure 2). This may be indicative of an increasing workplace presence, summer travel and higher fuel costs. Other spending categories have also risen as a result of increased spending and price inflation, with spending on groceries, for example, growing by 9 per cent, year-on-year. A rebalancing between spending categories following the loosening pandemic related restrictions alongside changing consumption patterns and behaviours given higher inflation likely underpin the diverse experience across spending categories. Within other retail, for example, spending on electrical goods has fallen 10.5 per cent.

Strong growth in transport and social spending

Figure 2: Card spending and cash withdrawals



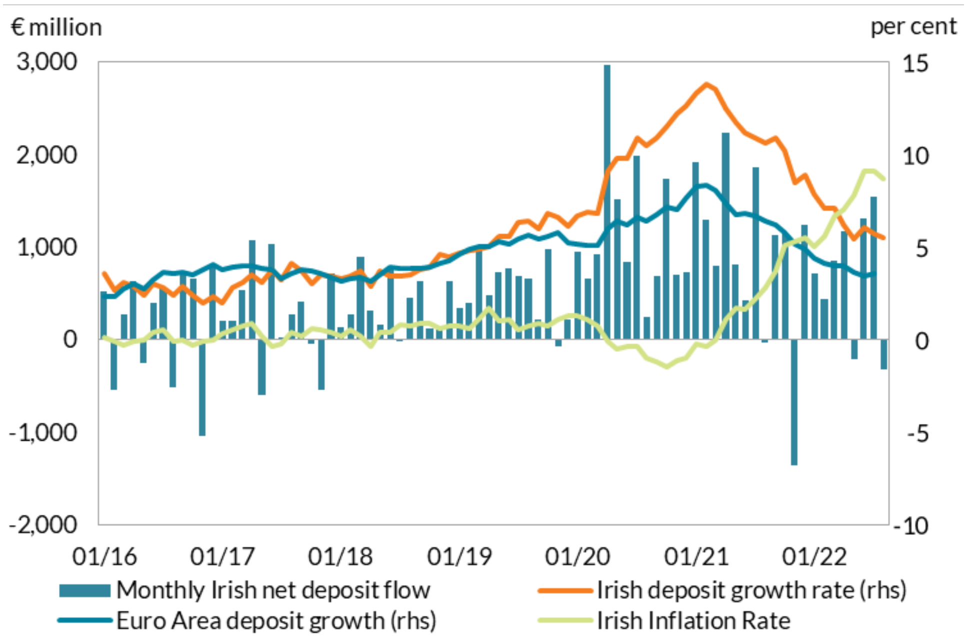
Source: Central Bank of Ireland

While at a relatively slower pace, household deposits continued to grow over the summer with annual figures averaging almost 6 per cent per annum over June, July and August 2022 (Figure 3). Such growth rates were above Euro Area averages to July. The total year-to-date inflow of household deposits was €5.5 billion in August 2022, which, while less than the equivalent 2020 and 2021 figures, is comparable to the same period in 2019.

The Irish personal savings rate remained elevated at 19 per cent in 2022Q2 according to the CSO, exceeding pre-pandemic rates. Savings continue to flow into bank deposits and new housing investment, with smaller contributions from paying down debt and other financial assets. The balance between real income resilience and sentiment will be important for future household deposit demand (Saupe and Woods (2022)). While real incomes declined in aggregate over the year to 2022Q2, certain households likely had the capacity to continue to save for precautionary reasons, given the uncertain economic environment and despite lower real rates of return. Aggregate income growth figures are also likely to mask the different experiences in income and consumption patterns across the distribution of households.

Annual deposit growth continues to outpace euro area despite volatility in monthly flows, continued spending and inflation

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



Source: Central Bank of Ireland, Central Statistics Office and European Central Bank.
Note: Last observation August 2022 except for euro area figures which are at July 2022

Household Lending and Rates

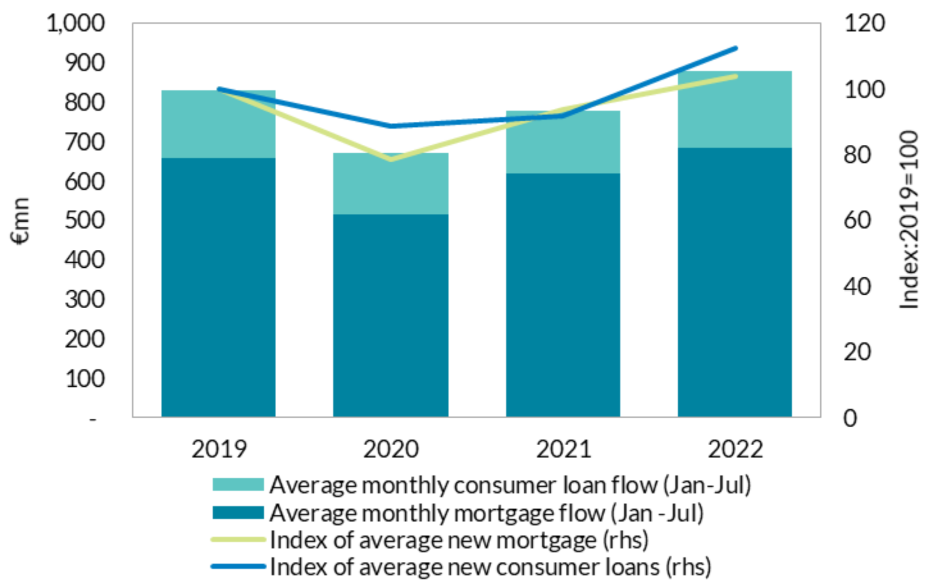
Household lending continued to recover from pandemic lows over the summer, although higher annual repayments relative to new lending resulted in net household lending falling marginally in the 12 months to August 2022. Outstanding mortgages declined 1.3 per cent relative to August 2021 while consumer credit rose by 2.4 per cent per annum. For the year to July 2022, average new lending across both mortgages and consumer categories were just above the equivalent figures for 2019 (Figure 4). In July, new mortgages agreements (excluding renegotiations) at €840 million, were only marginally down (-1.3 per cent) on July 2019.

The Banking and Payment Federation Ireland highlighted the recent increased role of non-purchase activity such as switching in the Irish housing market. Excluding re-mortgage and top-up activity, mortgage approvals over the year to August 2022 were higher than the same period in the previous

four years. Latest house price figures also reflected such buoyant market conditions with CSO figures showing a year-on-year increase of 13 per cent for July 2022, which while down from the February peak of 15 per cent per annum, was higher than the 8.5 per cent recorded a year earlier.

Recovery in new household lending in the year to July 2022 from pandemic lows

Figure 4: New household lending (monthly average January to July)



Source: Central Bank of Ireland

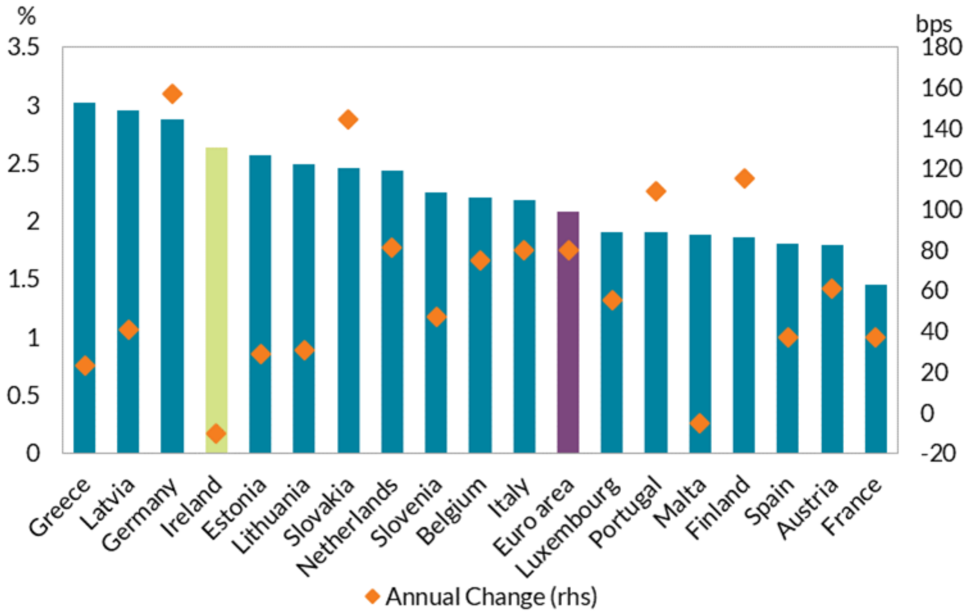
Many credit figures, particularly for housing may reflect pre-summer borrowing decisions. An early indicator of new lending, namely the number of credit enquiries by lenders for mortgages and non-mortgage household loans over July and August surpassed equivalent figures in 2021 and remained close to the weekly average since February 2022. However, not all of these enquires may translate into new loans and will depend on both credit demand and lending standards. The combined impact of a smaller retail banking sector, strategies by active non-bank entities and borrowing costs will also influence future household borrowing.

The ECB has raised key policy rates twice since July 2022. Euro area household mortgage rates did rise in July in certain countries in line with tighter financing conditions for banks and reported tighter credit standards by lenders in the July 2022 Euro Area Bank Lending Survey. By contrast, average mortgage rates on new mortgage lending in Ireland decreased by 10bps over the year to July 2022

(Figure 5). Irish banks' relatively lower reliance on market-based finance, given higher deposit buffers may partly explain this difference, along with relatively favourable domestic economic conditions to mid-2022.

Irish mortgage rates remain high in July but fall relative to previous year, unlike many euro area countries

Figure 5: Weighted average interest rates on new lending for house purchase (excluding renegotiations) across the euro area, July 2022



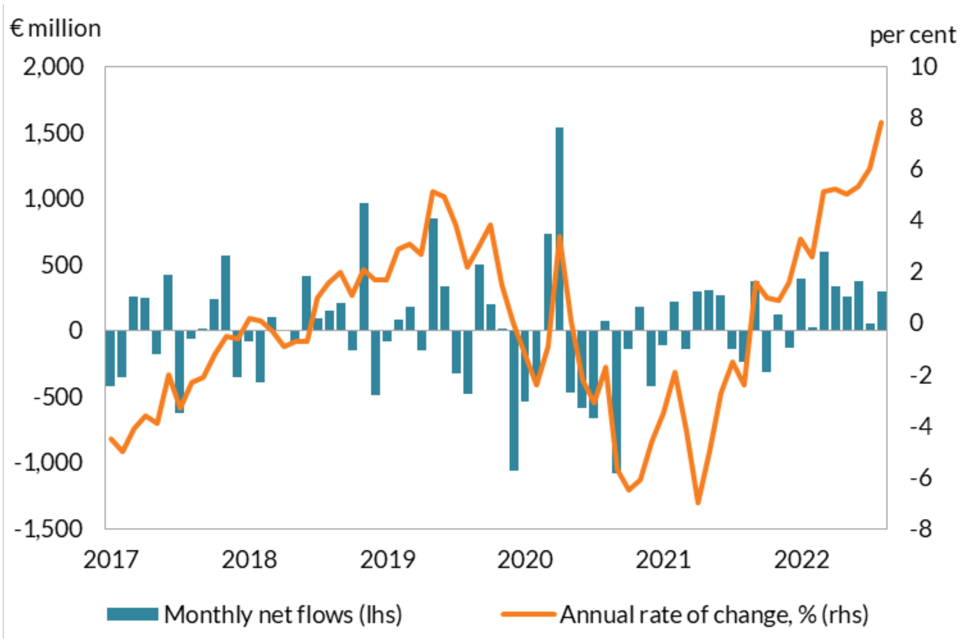
Source: Central Bank of Ireland and European Central Bank

Business Credit

Net lending to Irish non-financial corporates (NFC) increased further in August 2022, leading to an annual increase of 7.8 per cent (Figure 6). Since September 2021, annual growth rates for NFC loans have been positive and have averaged almost 6 per cent per annum since April 2022.

NFC banks loans growing again following pandemic period contraction

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



Source: Central Bank of Ireland
Note: Last observation August 2022.

Focusing on SMEs, lending for non-financial, non-property firms fell marginally by 0.5 per cent in the second quarter relative to 2021. This category of SME credit has remained muted for a number of years, averaging -4.6 percent per annum since 2011Q1. Business supports, creditor forbearance and internal reserves likely alleviated liquidity pressures over 2020 and 2021 reducing potential credit demand to meet financial commitments while economic uncertainty may have stalled investment plans (See Durante and McGeever, 2022). Economic uncertainty activity may also have affected expansion or investment plans. The latest SME Credit Demand Survey (conducted between April and June 2022) shows a decrease in bank credit applications in March 2022 compared with the March 2021 wave. Micro and small enterprises led the decline with demand unchanged for medium sized entities. Sufficient internal funds was the most cited reason. The Survey also covered the changing financing landscape, with 5 per cent of respondents reporting non-bank finance applications compared with 16 per cent for bank credit to March 2022. Heffernan et al., 2021, show how non-bank lending to Irish SMEs can be specialised in certain sectors and loan products (i.e., real estate and leasing/asset finance).

Similar to household lending, aggregate SME borrowing costs have not yet increased although the latest available data reference Q2. Interest rates on new loans drawn down by non-financial, non-property SMEs remained almost unchanged over the quarter at 3.74 per cent in June 2022, although the sectoral distribution ranges from 3.3 to 4.2 per cent per annum.

Future SME credit will depend on both credit demand and lending standards. The scale of production cost increases, particularly for energy-intensive sectors, combined with future economic activity will be relevant factors. Lending strategies by non-banks will also be important for certain sectors.

In summary, the impact of a more subdued economic outlook is not yet fully evident in the latest-available financing data for Irish household and firms as pent-up spending plans and the benefits of strong labour market performance appear to dominate.