Although some households will be affected by reduced incomes as a result of Covid-19 containment measures, the extent of this impact is mitigated by the Government's income support schemes, as discussed in Chapters 1 and 3.

Many households will increase savings as a result of enforced lower consumption expenditure and higher precautionary savings. The Department forecasts that the household savings ratio will exceed 19 per cent in 2020 and 16 per cent in 2021. However, such a high annual savings ratio is unprecedented for Irish households, exceeding the 14 per cent peak during the global financial crisis. As discussed in Box C, this could imply upside risk to the *SPU 2020* consumption forecasts, in particular for households that have not had their incomes decline by Covid-19.

Box C: Prospects for consumer spending could be better than in official forecasts

This box analyses recently published high-frequency and other data relevant to household consumption, including the retail sales index, credit and debit card spending, and the institutional sector accounts. These signs so far point to a sharp decline in total expenditure by households, especially in April.

Retail sales data for March published by the CSO show a sharp overall decline. Five of the thirteen sectors covered were especially badly hit, falling by 28–55 per cent: bars; clothing; motors; books, newspapers and stationery; and department stores.

The aggregate series excluding motors and bars typically accounts for 45 per cent of retail sales in March. Excluding motors and bars, year-on-year growth in the volume of other sales was 2.8 per cent in March—helped especially by sectors such as food (+17.6 per cent) and household equipment (+12.7 per cent). This result is close to the 4–5 per cent year-on-year increases observed on average since 2016. The fact that it performed reasonably well likely reflects stockpiling by consumers prior to the imposition of stricter containment measures later in the month.

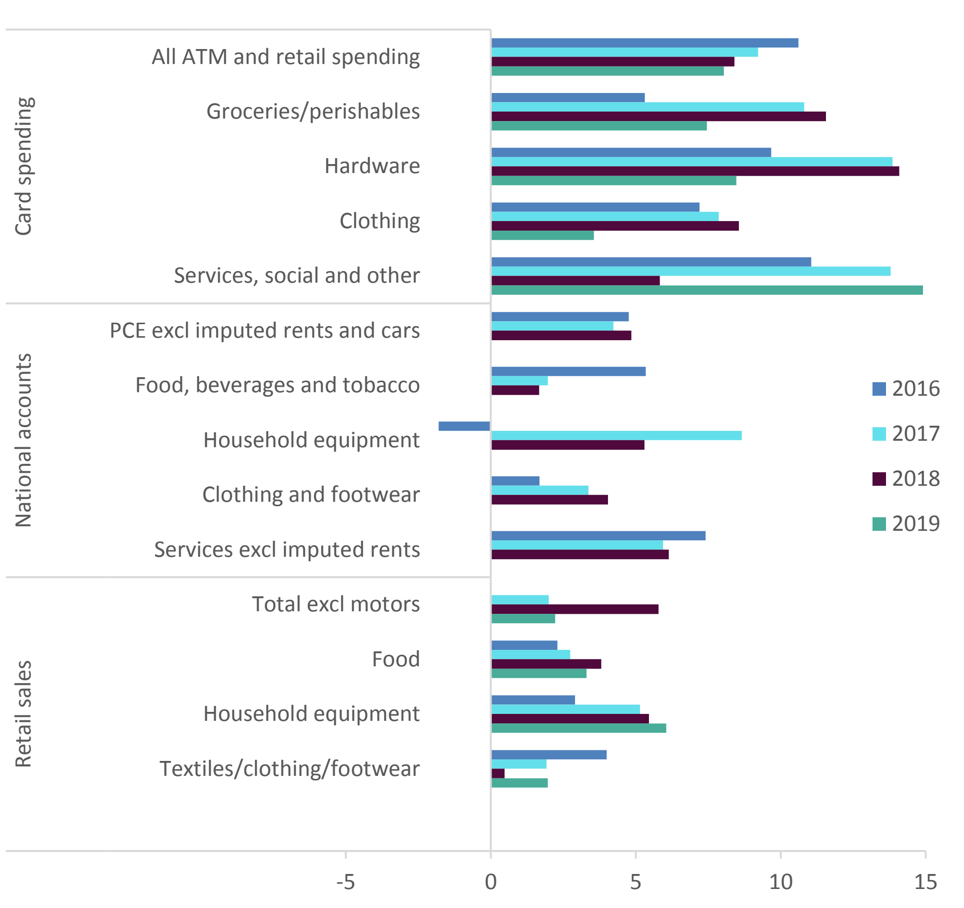
In April, the Central Bank of Ireland began publishing weekly updates to daily credit/debit card statistics. Monthly data showed a modest 2.4 per cent year-on-year reduction in total card spending in March, although the daily trend worsened as the month progressed and escalating Covid-19 containment measures were enacted (see Figure 1.4B). However, April data currently point to a much larger year-on-year fall of 35 per cent.

Some substitution from such spending to debit cards is likely due to Covid-19 restrictions encouraging the use of contactless payment, and many households having less need for credit card usage due to lower overall consumption and higher savings. The Q1 2020 data also show that a majority of the total increase in all non-ATM card spending is explained by e-commerce; this share could rise further as retailers with closed premises continue to trade online, and consumers adjust their purchasing habits.

Figure C.1 compares trends in values of certain categories with broadly similar descriptions in common for each of card spending data, personal consumption expenditure in the national accounts, and retail sales. The comparison shows that card spending annual growth rates have generally been higher than those of the national accounts and retail sales data. As shown below, this is due to a narrower coverage of spending in card statistics.

Figure C.1: Card spending growth rates are higher than those of PCE or retail sales

Year-on-year percentage change in value



Sources: CSO; Central Bank of Ireland; and Fiscal Council workings.

Table C.1 compares total spending represented by each category for card spending and personal consumption.

Table C.1: Card spending by category is less broad than personal consumption

€ billion annual average for 2015–2018, and percentage

	Card spending, € bn	PCE excl imputed rent and cars, € bn	Non-card spending in PCE, € bn	Coverage ratio, percentage
Food/groceries	8.8	17.4	8.5	51.0
HH equip	3.8	4.5	0.7	84.8
Clothing	2.7	3.5	0.9	75.6
Other retail	5.3	13.4	8.1	39.4
Services	23.0	43.2	20.1	53.4
ATM	19.1	*NA*	*NA*	*NA*
Total	62.8	81.9	19.1	76.6

Sources: CSO; Central Bank of Ireland; and Fiscal Council workings.

Note: Rounding may affect additivity. For PCE, other retail excludes cars, and services excludes imputed rents.

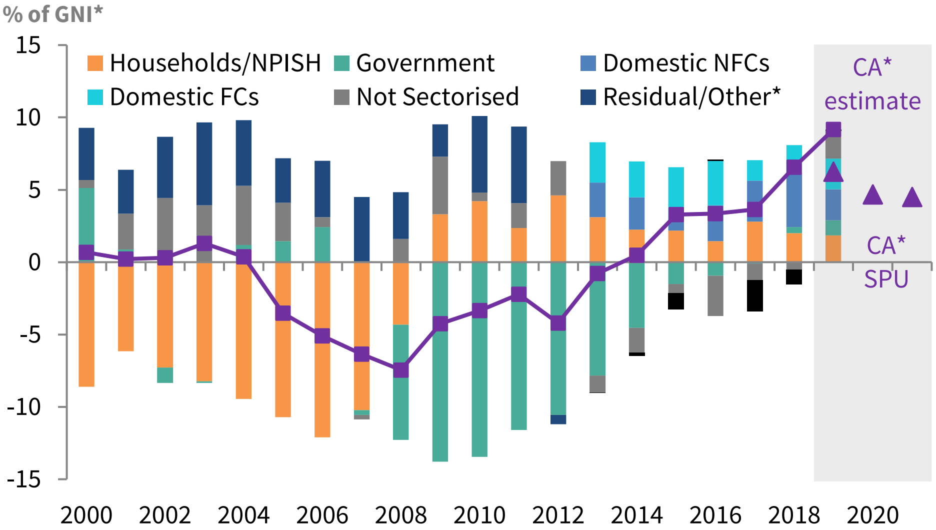
While the shares of non-ATM spending categories are similar to those of personal consumption expenditure excluding imputed rent and cars, the card spending data is less broad in coverage for each category. This partly reflects spending on these categories using ATM cash that is not captured in the card statistics breakdown by category.

The non-ATM category with the largest gap to the total is services, which amounts to over half of all spending and includes items such as accommodation/rent and utilities outlays. As many of these payments are more likely to be made by bank transfer/direct debit/standing order rather than using a card directly, this explains much of the lower services coverage.

As a result, the decline in overall consumer spending could be lower than that observed in the card spending. In the Council's scenario analysis, presented in Box D, personal consumption expenditure is projected to fall in year-on-year terms in the second quarter of 2020 by 21 per cent (Mild scenario), 29 per cent (Central), and 30 per cent (Severe). Should card spending continue to rise in May and June, this could indicate that the Mild scenario is closest to being realised, at least in the short term.

The institutional sector data on savings net of investment, combining as the modified current account (CA*), suggest there is capacity for Irish households to recover strongly in the absence of prolonged containment measures, or significant scarring for the labour force and businesses due to the Covid-19 pandemic. An important difference between the expected fall in economic activity in 2020 and the 2008 recession is the sustainability of prior economic growth. CSO data suggest savings less investment stayed positive in 2019 across domestic sectors for a second consecutive year. As shown in Figure 2.5, CA* may have exceeded 9 per cent of GNI* in 2019; the *SPU 2020* estimate of 6 per cent is also a substantial surplus.

Figure 2.5: Domestic net-savings balances remained positive in 2019



Sources: CSO; and Fiscal Council workings.
Note: The 2019 modified current account (CA*) figure is a Council estimate based on CSO guidance and known balances from the institutional sector accounts. Domestic savings are estimated by assuming that the change in NFC savings mainly relates to foreign-owned NFCs, and that domestic gross capital formation closely matches underlying investment in 2019.