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The Impact of Covid-19 on Consumer Spending

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Banco Central Chile
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Overview

- Private consumption accounts for just over half of Irish National Income.
- Decline occurred in absence of traditional data (Q2 National Accounts (t+60 days) / retail sales/ services index)
- Policymakers require real-time assessment of impact of pandemic, including sectoral heterogeneity.
- New data and methods required to rapidly produce nowcast/forecasts
 - Central Bank of Ireland collect daily card payment data
 - Captures expenditure of euro-denominated credit and debit cards issued to Irish residents
 - CSO Covid Impact Surveys
- This paper illustrates the methods used in the Bank to
 - Estimate the scale of the downturn in real time
 - Disentangle the relative role of public health restrictions vs demand
 - Understand the role of reallocation in consumers' spending baskets
 - Assess the extent to which savings accumulated during the initial phase

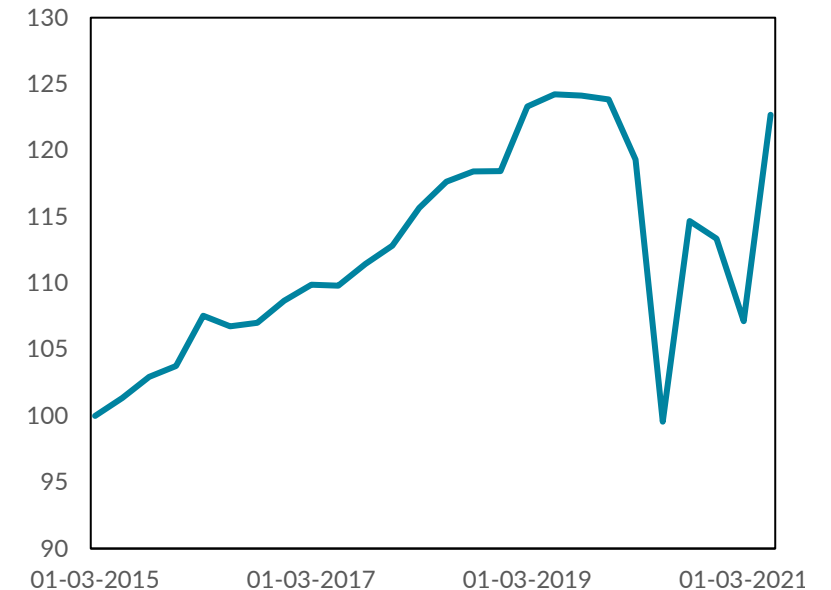
were “forced” or precautionary

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Consumer spending declined sharply with the onset of the pandemic
(seasonally adjusted current prices, Jan 2015=100)

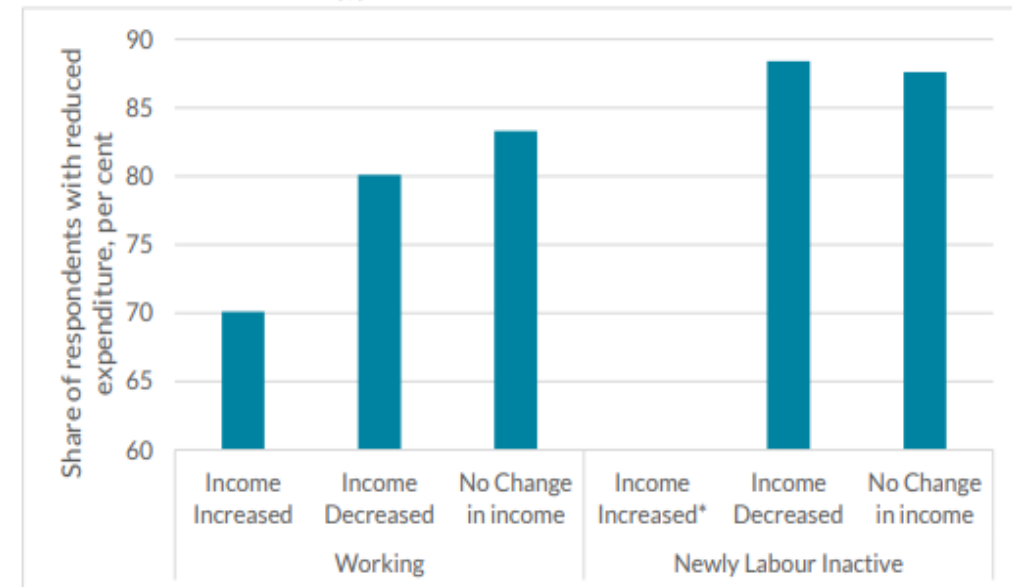


Source: Central Statistics Office

Spending during Covid-19

- **Opportunity to Spend:** Restrictions on activity have limited opportunities to spend over an extended period (Hopkins and Sherman, 2020)
- **Willingness to spend** Even without formal restrictions consumers avoid activities perceived to be high-risk in terms of contracting the virus (Krueger et al, 2020).
- **Precautionary Saving** When uncertainty increases, consumers tend increase their precautionary savings.

Figure 1: Share of respondents who reduced expenditure during the Covid-19 restrictions by change in income and labour market activity, per cent



Source: CSO, Social Impact of COVID-19 Survey June 2020: A Snapshot of Experiences and Expectations in a Pandemic, 2020.

Note: Change in net income since COVID-19 restrictions is recorded as a categorical variable in the survey: Increased, Decreased, or No change.

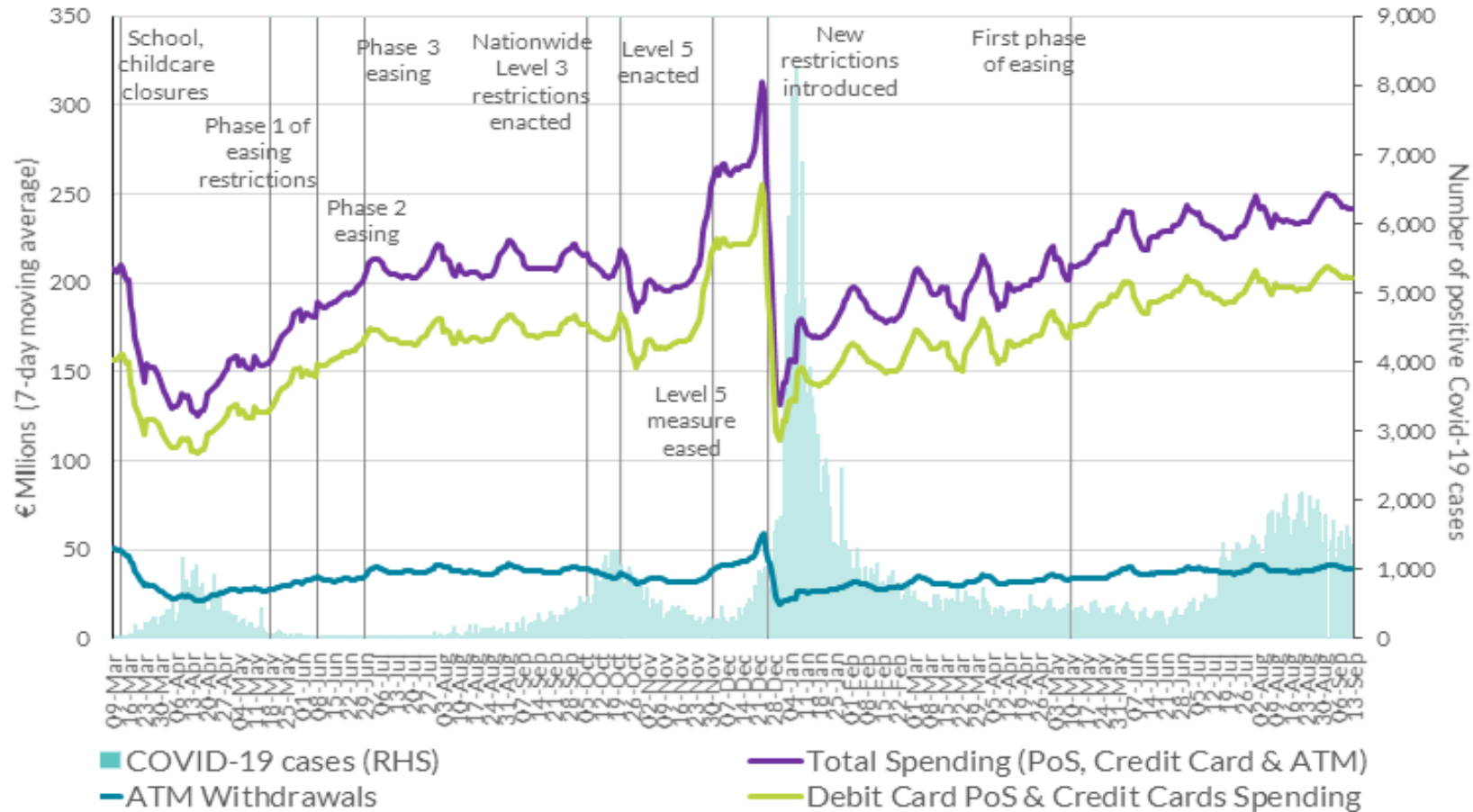
* Too few observations.



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Central Bank of Ireland data allows for real time analysis

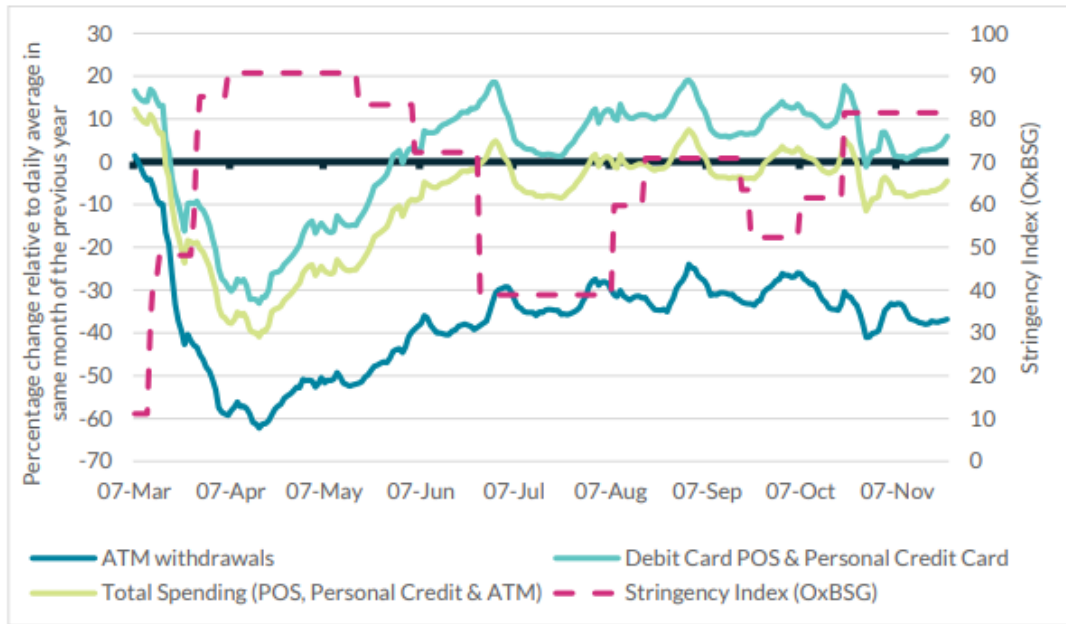


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Real time view of developments

Spending down ~40 per cent in April 2020



Final Observation is 23rd November 2020

Source: Central Bank of Ireland, Credit and Debit Card Statistics A.13 and A.13.2; Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Note: Spending series are presented as 7-day moving averages; Stringency index is measured on a 0-100 scale where 100 signifies severe containment measures.

Sectoral data illustrates reallocation in spending baskets, as well as firm adaptation between lockdowns



Final observation is October 2020.

Source: Central Bank of Ireland, Credit and Debit Card Statistics, Table A.13 and authors' calculations.



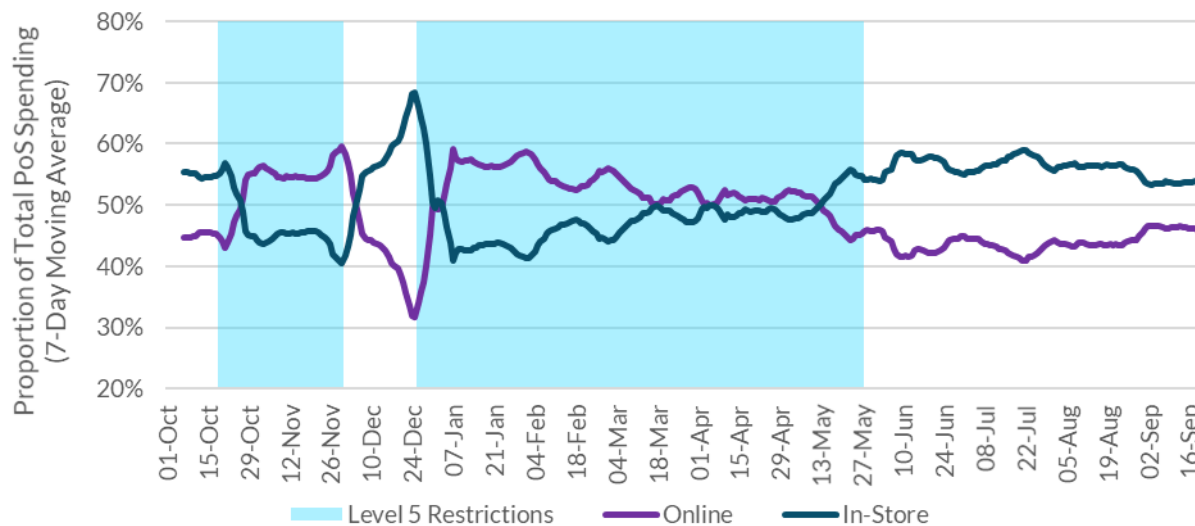
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What this means for National accounts Measures of Consumption

- Reallocation a crucial feature of the pandemic
- Between sectors: restaurants -> food and groceries
- Within Sectors: evidence of firm adaptation, increase in online sales; surge in .ie domain name registrations
- Reallocation persists through first recovery phase
- Recall constant price consumption utilises previous year nominal spending weights

Granular data shows extent of reallocation towards online spending – with implications for import content of consumption



	Share in total card data		Change in value (per cent)
	2019	2020	
Retail	47.0	55.7	19.9
<i>of which, Groceries/Perishables</i>	19.8	26.4	33.8
<i>of which, Clothing</i>	5.4	4.9	-7.6
Services	25.8	18.4	-25.8
<i>of which, Transport</i>	7.9	2.5	-67.1
<i>of which, Accommodation</i>	4.8	2.0	-53.8
<i>of which, Education & Health</i>	3.9	3.7	-0.5
<i>of which, Professional Services</i>	5.1	5.2	4.9
Social	10.6	7.8	-23.2
<i>of which, Restaurants</i>	6.7	4.6	-26.9
Other	16.5	18.0	10.9
Total	100	100	2.0

Accounting for this reallocation important

- Using card payment data
 - adjust the sectoral consumption weights in the national accounts
 - Take account of the reallocation in spending between sectors
- E.g. Increase in food spending (averaging 33.3 per cent year on year during April to September), would add 4 percentage points, on average, to consumption during each week affected.
- In this way, using the National Accounts weights *alongside* the card data is a useful tool when examining aggregate spending changes during periods of large, sector- and time-varying movements

Sectors	National Accounts Weight (2019)	National Accounts Weights (2019) adjusted for reallocation in 2020 Q2 & Q3
Retail	4.3	6.0
of which, Groceries/Perishables	2.6	4.0
of which, Clothing	-0.3	-0.3
Services	-12.8	-10.8
of which, Transport	-8.4	-3.1
of which, Accommodation	-13.7	-6.8
of which, Education & Health	0.0	0.0
of which, Professional Services	0.2	0.3
Social	-5.0	-4.4
of which, Restaurants	-3.5	-2.8
Other	0.7	1.0
Total	-12.8	-8.2

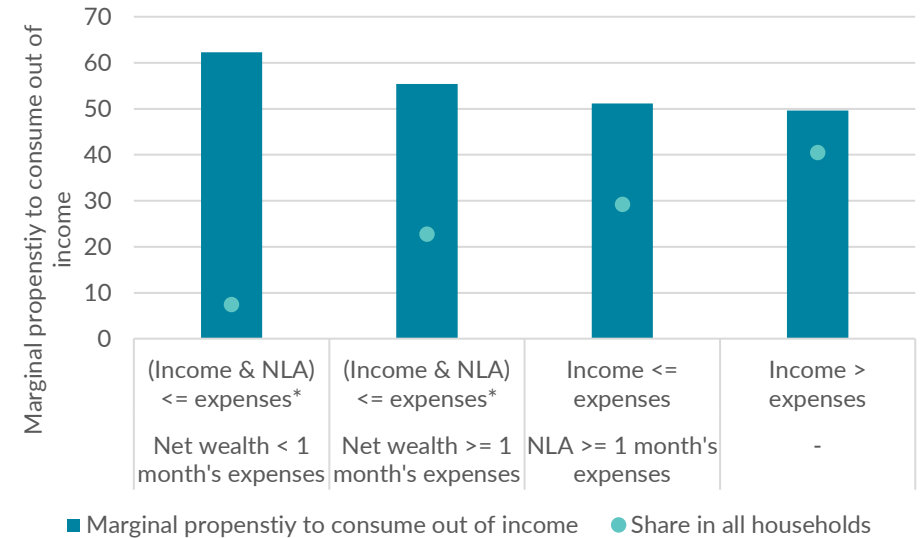
Implications for savings

- Heffernan, Saupe and Woods (2020) find a sharp increase in deposits during Covid-restrictions. Household savings ratio increased to 35 per cent.
- Motive will determine the speed at which savings will be released
 - Precautionary: may be released slowly
 - Forced savings: reduced opportunity to spend
- We replicate the model of Dossche and Zlatanov (2020).
- Significant proportion of savings not explained by model of traditional drivers of precautionary savings (employment, income expectations, outlook for unemployment). Results in Ireland sensitive to measure of Q2 unemployment.
- These savings have largely accrued in higher income households
- Following Banco de Portugal (2020), these households have a lower marginal propensity to consume
- Boost to consumption in 2022 is likely to be lower than if the shock had been equally distributed.



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Source: CSO Household Finance and Consumption Survey 2018 and authors' calculations.

Note: * Regular household expenses i.e. recurrent non-durable goods and services consumption. NLA (net liquid assets) are defined as liquid financial assets less non-collateralised debt.

Spending intentions from savings

