

The effect of the Covid-19 pandemic on consumption and indirect tax in Ireland

**Budget Perspectives webinar
series**

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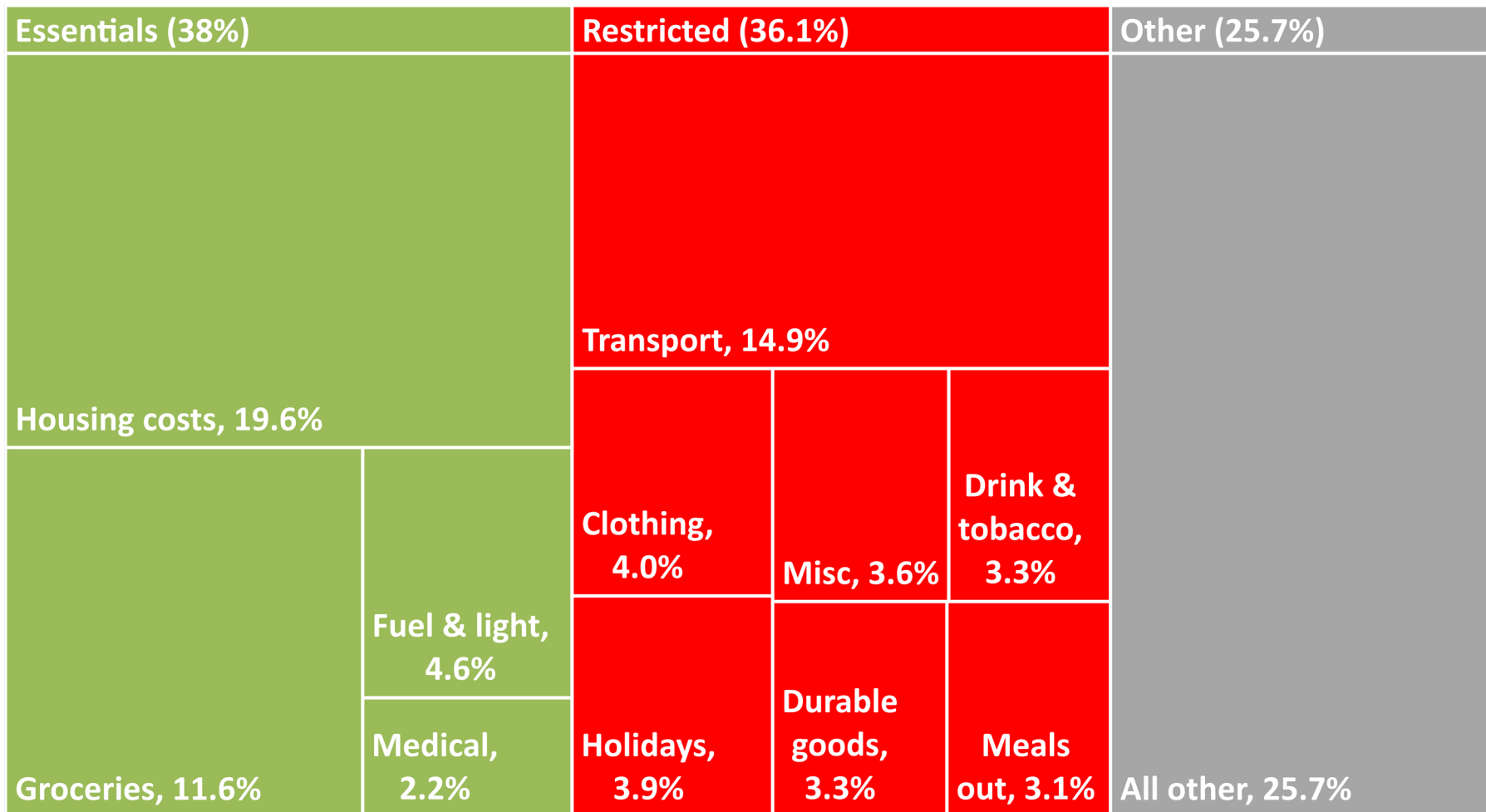


Overview of the paper

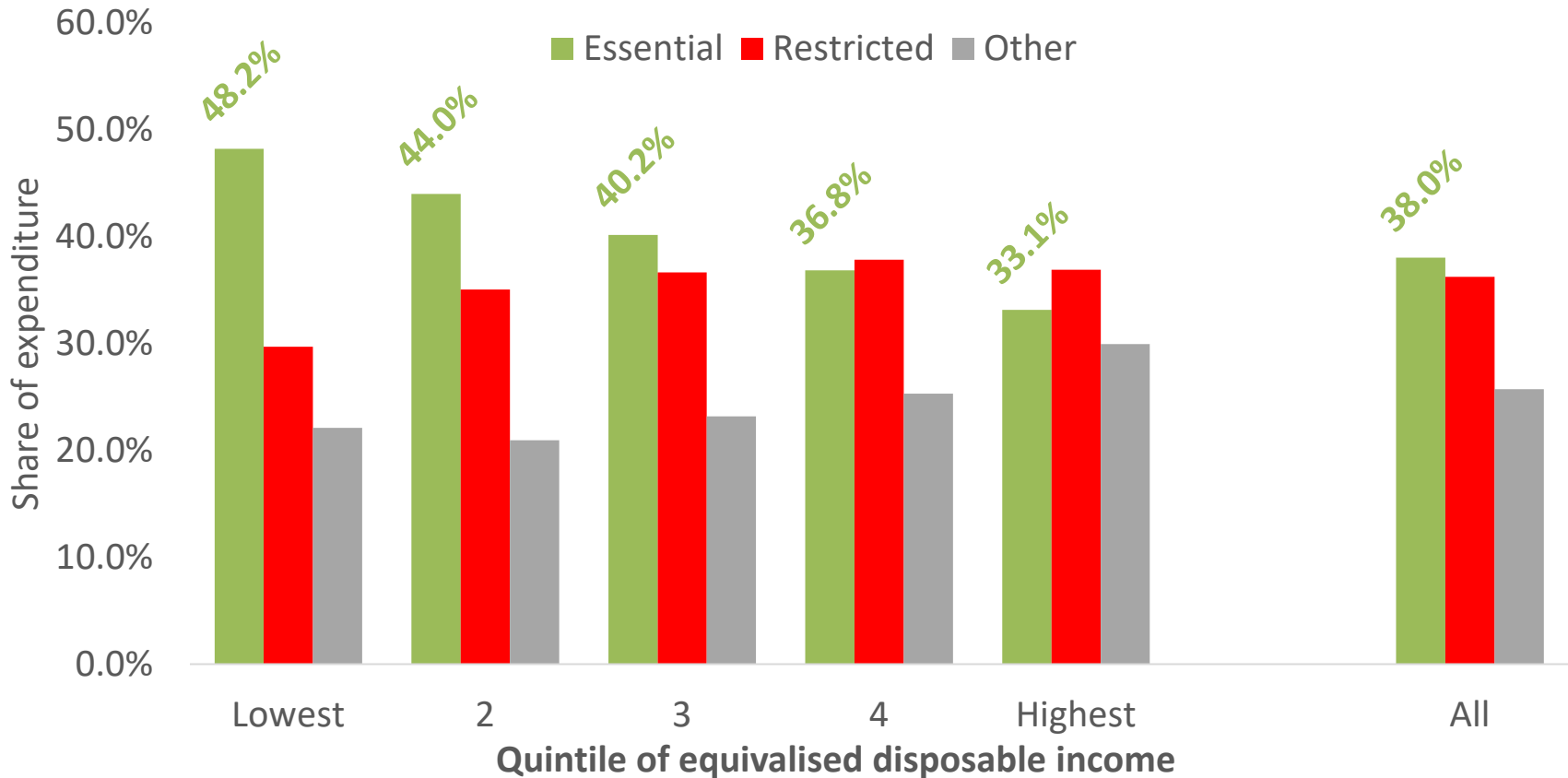
- Assess potential effects of COVID-19 pandemic on household spending & indirect tax revenues
 - Use Household Budget Survey (HBS) which contains info on household characteristics, incomes & spending
- Model Three Scenarios
 1. Baseline: ‘New-Normal’
 2. Severe: ‘Second Wave’
 3. Benign: ‘Vaccine’

Essentials almost 40% of total spending

■ Essentials (38%) ■ Restricted (36.1%) ■ Other (25.7%)



... & even more for low income families



- Spending on essentials make up a larger share of the expenditure of **lower income, single and renting households** than others.

Methodology



Overview

- Uprate HBS Data to 2019
- Split 2020 into different periods
- Generate a set of parameters for each period
 - Scalars used to adjust spending on an item from “normal” level to a new level
- Generate a new level of consumption expenditure for each of our three scenarios
- Estimate indirect tax paid in each scenario using ITSim
 - Tool developed by researchers at the ESRI in partnership with officials at the Department of Finance

The Scenarios

- Phases - according to the Roadmap for Reopening.
- Despite containing some lockdown days, March is parameterised using data pertaining to the entire month of March.

	“New Normal”	“Second Wave”	“Vaccine”
Jan, Feb & March *	Normal / March		
April - May 17th	Lockdown		
18 May to 7th June	Phase1		
8th June 28 June	Phase2		
29 June to 19th July	Phase3		
20 July to 9th Aug	Phase4		
10th Aug - End Q3	Phase5		
Q4	Ongoing physical and social distancing to end 2020	Second wave, strict lockdown for 12 weeks	Normal Economic Activity

Methodology - Parameters



For each item in the HBS, we map out a 2020 consumption path by generating a parameter under each type of period.



Normal Consumption: Assumed to be equal to 2019 level



March: Parameterised by mapping the changes witnessed in the CSO retail sales indices & CBI card spending data to spending categories. Other data sources used include Ryanair, the SIMI & the RAI.



Lockdown & Phase 1 - 5: We restrict spending on items where providers were closed during the lockdown. We then activate/gradually increase spending on items based on the Roadmap to Reopening.



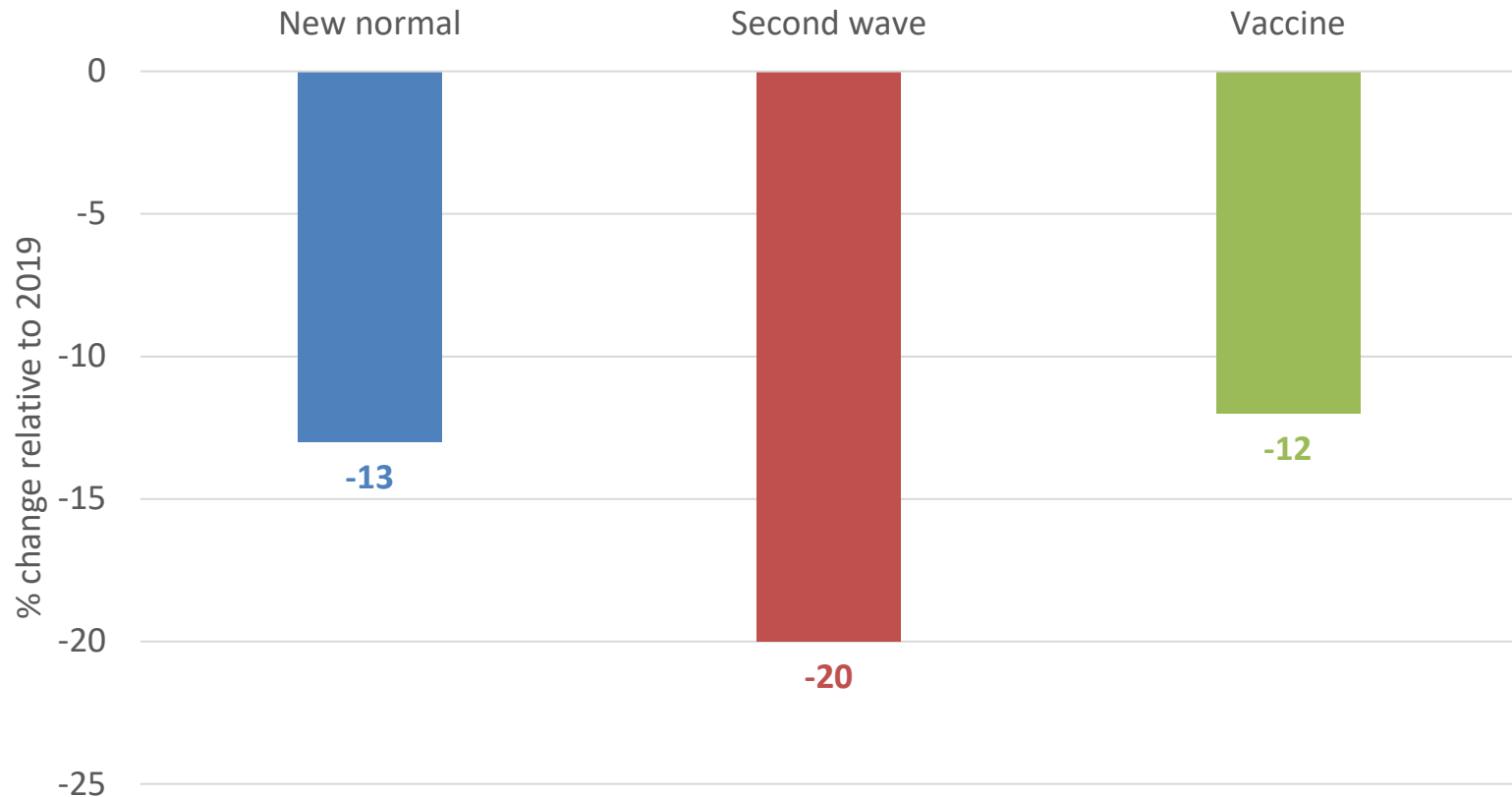
New-Normal: We reduce/increase spending in categories likely to be impacted by the continuation of social distancing.

For example, spending on disinfectants/detergents remains elevated while spending on international air travel remains reduced.

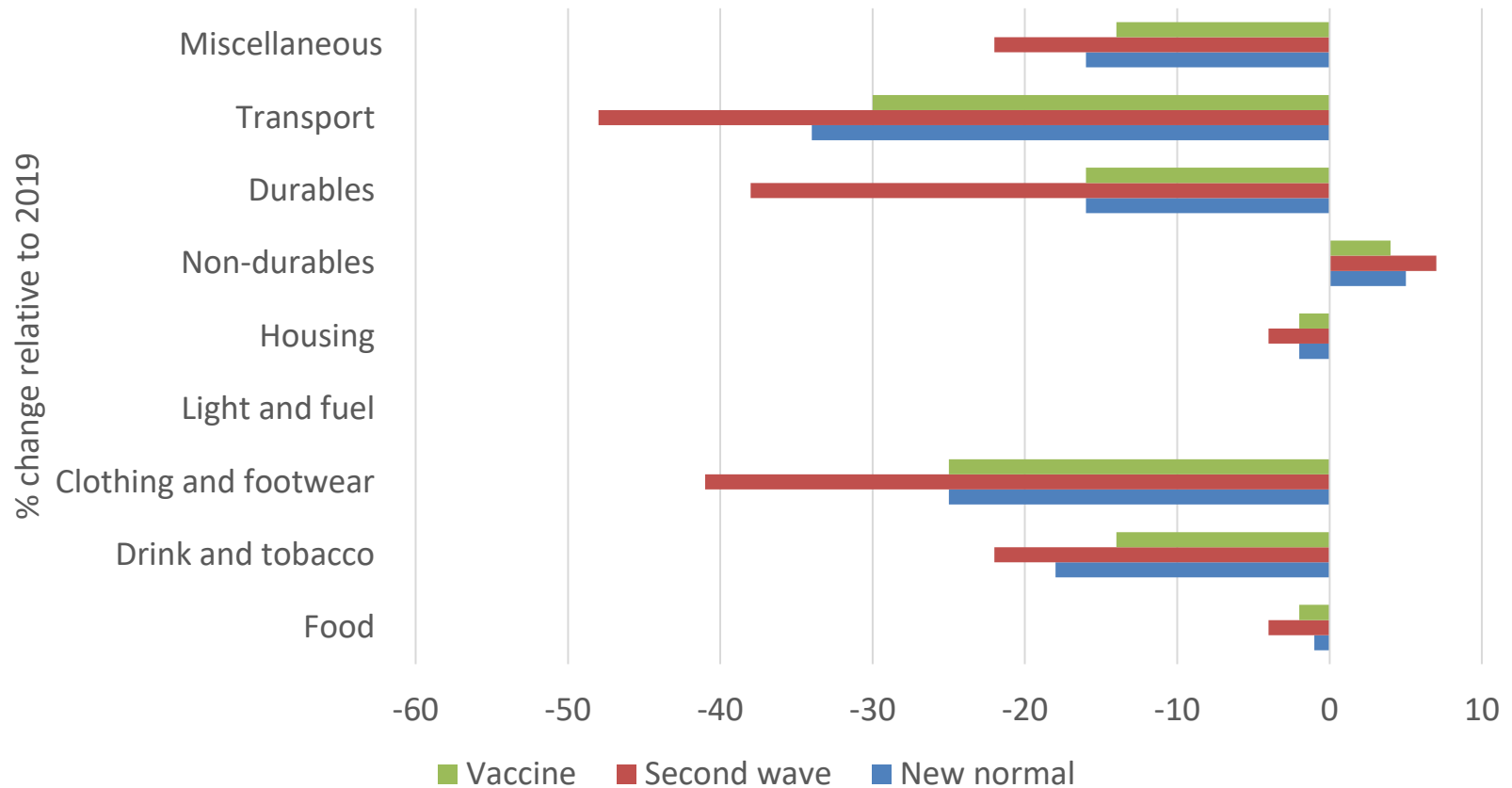
Results: Consumption



Simulate spending will fall by 12-20% in 2020 relative to 2019



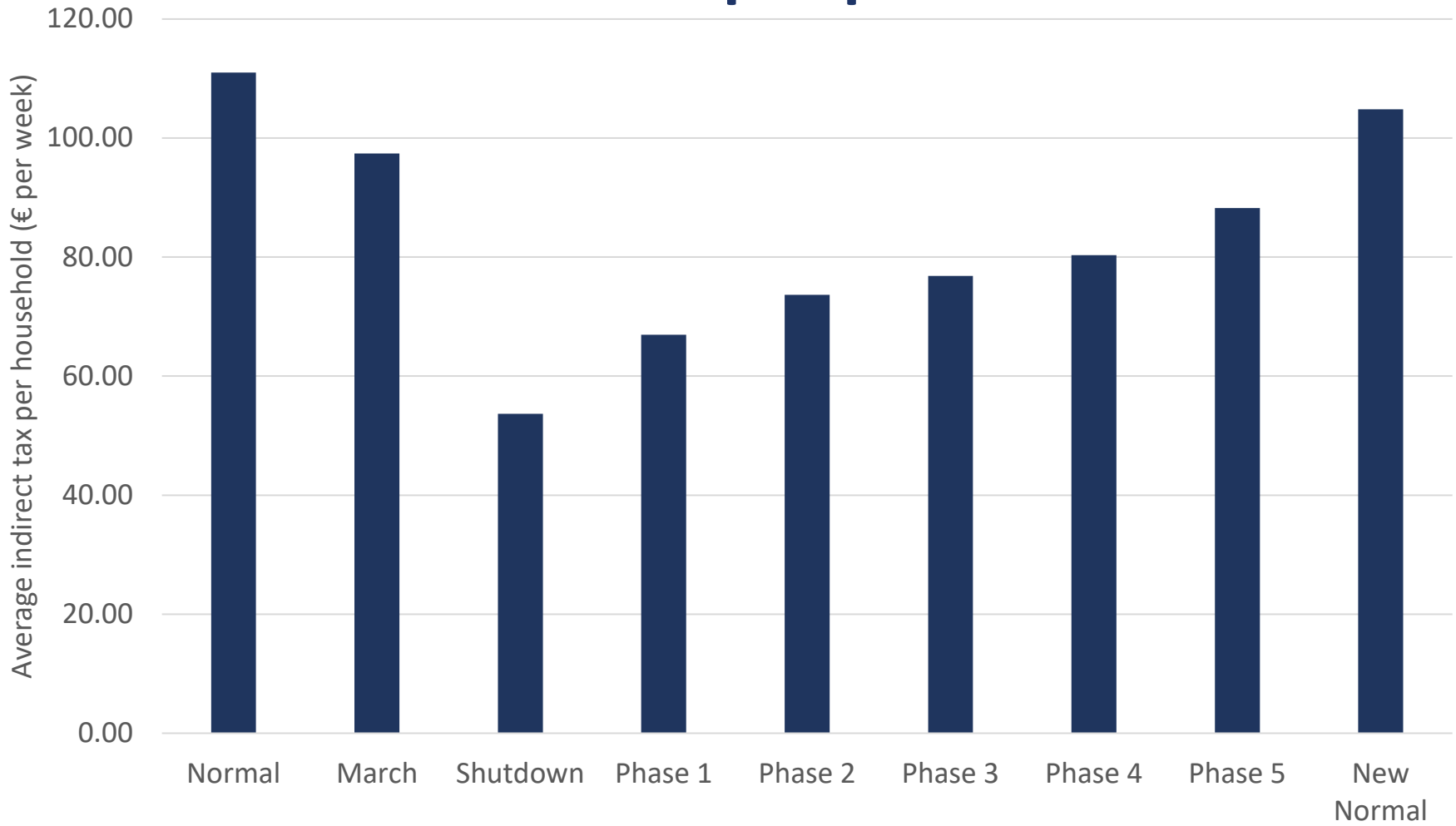
... with largest % declines in transport, durables and clothing + footwear



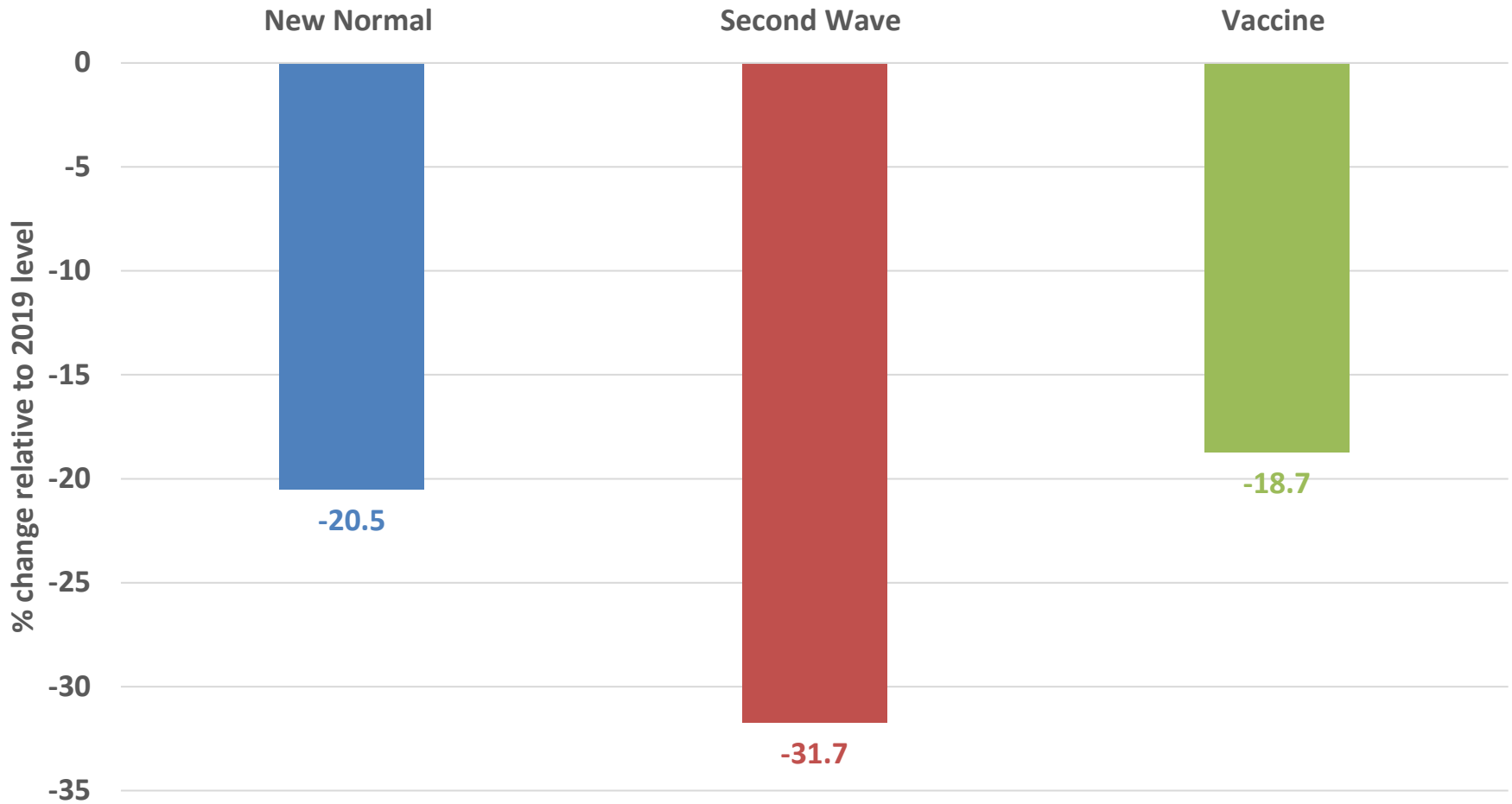
Results: Indirect Taxes



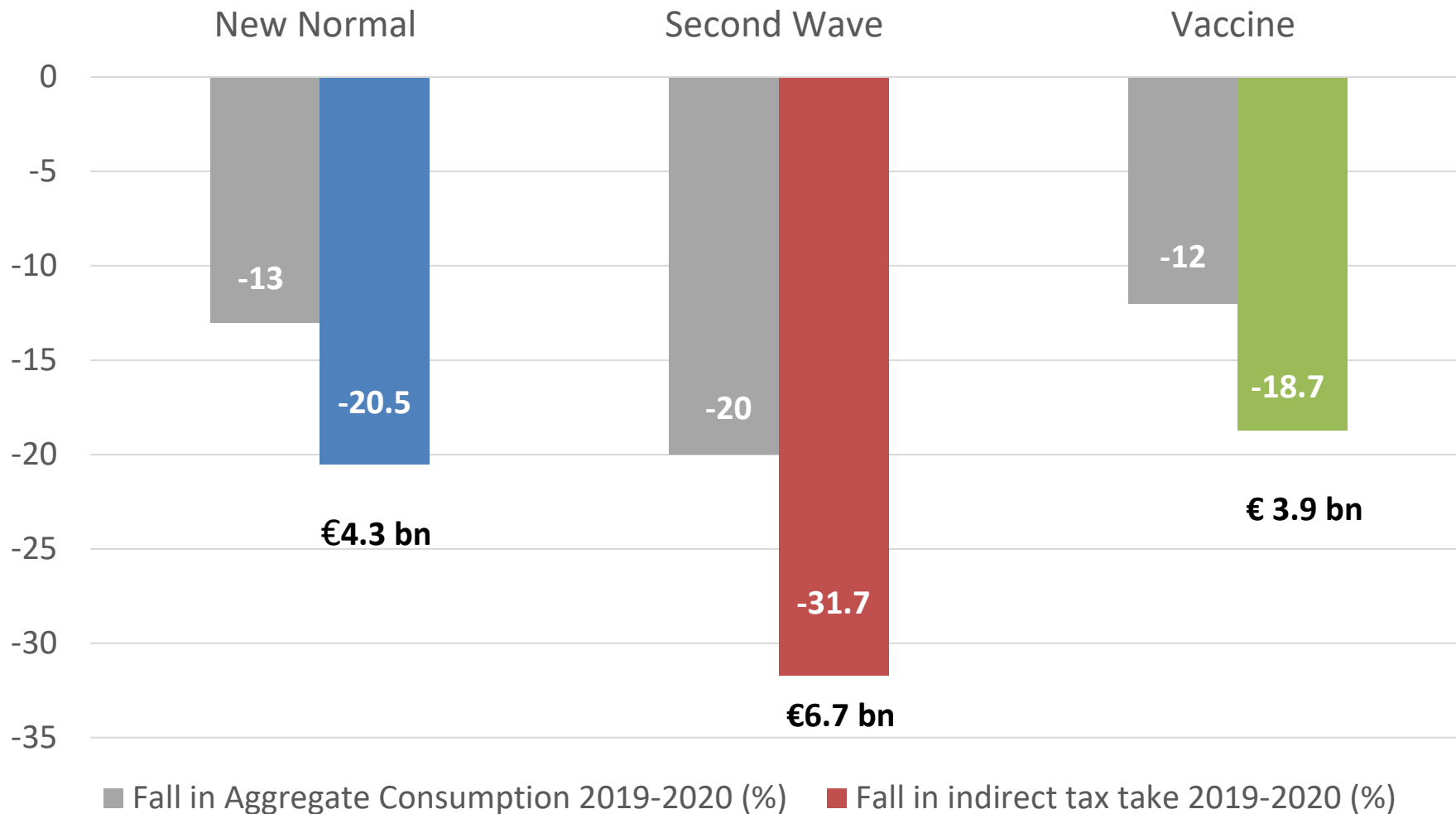
Indirect taxes to gradually recover but remain below pre-pandemic level



... and will be significantly down for the year altogether in any scenario



Results Snapshot



Conclusion



Conclusions (1/2)

- Spending on essentials makes up a larger share of total for **lower income, single & renting households**
 - May find it more difficult to weather income shock
 - New government supports (PUP & TWSS) especially important for these groups (Beirne et al., 2020)
 - Particular attention should therefore be given to these groups in design of any revised schemes

Conclusions (2/2)

- The main Results:
 - **New Normal:** spending -13% & ind taxes -20.5%
 - **Second Wave:** spending -20% & ind taxes -31.7%
 - **Vaccine:** spending -12% & ind taxes -18.7%
- May be optimistic to assume Roadmap for reopening is followed to the end of Q3 if viral transmission increases before that.....

Q & A