

Quarterly Economic Commentary

David Duffy

Joseph Durkan

Eddie Casey

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Research Notes

Eddie Casey

Joseph Durkan and Niall O'Hanlon (CSO)

Pete Lunn

Special Articles

David Duffy and John FitzGerald

Research Bulletin

12/2

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Research Notes

The Savings Rate during the Recession

Joe Durkan (ESRI) and Niall O'Hanlon (CSO)¹

A major feature of the economy since the crisis began has been an increase in the personal savings rate from very low levels estimated during the 2000s. Figure 2.1 shows the estimated savings rate from *National Accounts* data and from *Institutional Sector Accounts*, where the data overlap. The traditional measure comes from the *National Accounts* and this source has a much longer run of data.

FIGURE 2.1 The Savings Rate 1995 – 2011



Source: CSO National Accounts (NA) and Institutional Sector Accounts (ISA)

Looking at the *National Accounts* data first, the level of the savings rate during the period 1998-2007 was low relative to those estimated for earlier periods and were associated with significant increases in the level of real household consumption, averaging 6.3 per cent from 1997-2007. The negative savings rate in 2000 was associated with a volume increase in consumption of 10.5 per cent between 1999 and 2000. In 2008 and 2009 the savings rate increased to 6.9 per cent and 10.5 per cent respectively from a level of 1.5 per cent in 2007 and these increases were associated with a decline in real household spending. For 2010 our estimates put the rate at about 12.4 per cent. In the current situation one hypothesis is that the increase has been due to increased uncertainty re incomes, employment, and taxation arising from the crisis directly and the associated

¹ We wish to acknowledge the assistance of Gerard Reilly, CSO, in the preparation of the data and tables.

public finance crisis. This has been the basis for encouraging government to articulate its spending and taxation plans in detail, rather than presenting broad macro-aggregates. This also lies behind the belief that once households have realised a desirable net debt situation there will be a reduction in the savings rate, an increase in consumption and household investment, and a return to growth in domestic demand. Unfortunately, this hypothesis cannot be tested. However, there are different measures of the savings rate and some data from other sources which provide some insights into what has happened since the crisis emerged.

The *Institutional Sector Accounts* (CSO, 2012) and the *Household Budget Survey 2009-2010, First Results* (CSO, 2012) are both useful sources of new data. The former is available quarterly and is more up to date than the annual National Accounts measure. The latter provides information on the pattern of expenditure and changes in the pattern over time.

The institutional sector accounts also provide a different measure of household savings and of household disposable income. One advantage of the new definitions is that the savings, investment and net borrowing/lending of the household sector can be identified. The main adjustment to the National Accounts definition of savings is in relation to household depreciation, while on the disposable income side an adjustment is made for changes in equity of households in pensions. Figure 1 also shows the pattern of the savings rate using the data from the *Institutional Sector Accounts* for 2002-2010.

The broad pattern from 2002 is similar to that from the *National Accounts* though the data is available up to 2011. The data show that the savings rate peaked in 2009 and has fallen back since then.

The *Household Budget Survey 2009-2010* is designed to provide information on the pattern of expenditure by households. One objective of such surveys is to provide weights for indices of consumer prices, while another is to examine changes in expenditure patterns, picking up changes that are taking place in society, e.g. the emergence of mobile phone usage. The 2009-2010 survey provides comparable data from the 2004-2005 *Household Budget Survey* by average household at an aggregate level which allows us see the direct impact on households of the first years of the recession. Table 2.1 summarises the data for 2004-2005 and 2009-2010. The *HBS* is concerned primarily with determining patterns of expenditure by households rather than income or income distribution. Nevertheless, given the representative nature of the sample the main income and expenditure numbers are relatively close to those of macro

aggregates when grossed up. The savings rate estimated from *HBS* data is conceptually different to that estimated from the *National Accounts* as the latter includes the capital element of mortgage repayments and the *HBS* savings rate is a cash based measurement.

TABLE 2.1 Average Weekly Household Income, Expenditure and Savings 2004-2005 and 2009-2010 (€)

Income	2004-2005	2009-2010	% change
	€	€	
Direct Income	862.55	809.56	-6.1
State Transfers	125.41	217.20	73.2
Direct Taxation	144.98	141.05	-2.7
Disposable Income	842.98	885.72	5.1
Expenditure			
Food	142.74	131.28	-8.0
Alcoholic drink and tobacco	47.18	39.48	-16.3
Clothing and footwear	42.67	40.11	-6.0
Fuel and light	30.65	35.35	15.3
Housing	94.51	147.73	56.3
Household non-durable goods	17.42	16.49	-5.3
Household durable goods	35.55	30.06	-15.5
Transport	122.74	116.31	-5.2
Miscellaneous	253.61	253.81	0.1
Total	787.07	810.61	3.0
Total excluding housing	692.56	662.88	-4.3
Savings	55.91	75.11	-
Savings Rate	6.6	8.5	-

The most striking aspect of the data is not the information we already know - the fall in income from employment, the increase in transfer income and the increase in the savings rate - but the very large increase in housing related expenditure. This, dominated by mortgage repayments, rose over the period by over 50 per cent, while most other categories of expenditure fell. Excluding housing, total other expenditure fell by 4.3 per cent. It is possible to see from these data what was going on as the economy moved from boom to recession. Households experienced a fall in income from employment, with social transfers helping to maintain aggregate income. However, mortgage repayments had increased sharply and absorbed an increasing amount of expenditure - increasing from 12.0 per cent to 18.2 per cent of expenditure. Other expenditure fell. The picture it gives is of households increasing savings slightly, increasing mortgage payments but reducing other expenditure. The driving force behind the reduction in other expenditure was the need to maintain mortgage repayments. Consequently, other expenditure declined.

These are aggregate figures for households as a whole. More detailed analysis of the *2009-2010 HBS* where the data are broken down by age and housing tenure is instructive (Tables 2.2 and 2.3).

TABLE 2.2 Household Income and Selected Expenditure by Age of Reference Person € Per Week

Age	% of H/Hs	No. in H/H	Disposable Income	Total Expenditure	Housing & Childcare	Disposable Income- Housing & Childcare	Disposable Income- Expenditure	Savings Rate %
<25	3.9	0.73	551.49	674.25	180.71	370.78	-124.76	-22.6
<35	23.5	1.24	898.45	799.70	219.78	678.67	98.75	11.0
<45	24.0	1.19	1001.54	944.99	236.00	765.54	56.55	5.6
<55	18.4	1.35	1078.47	1004.07	164.78	913.69	74.40	6.9
<65	14.3	1.0	899.02	808.66	110.61	788.41	90.36	10.1
>64	15.9	.23	561.44	450.79	53.12	508.32	110.65	19.7

TABLE 2.3 Household Income and Selected Expenditure by Tenure € Per Week

Tenure	% of H/H	Disposable Income	Total Expenditure	Housing & Childcare	Disposable Income- Housing & Childcare	Disposable Income- Expenditure	Savings Rate %
Owned outright	30.6	793.69	683.02	58.98	734.71	110.67	13.9
Owned with mortgage- paid last mortgage	35.5	1209.81	1153.72	301.75	908.86	56.09	4.6
LA rented	9.8	504.77	448.84	69.86	434.91	55.93	11.1
Private Rent	20.8	723.3	673.08	183.06	540.24	50.22	6.9
Rent Free	1.3	619.38	544.54	32.06	587.32	74.84	12.1
Owned with mortgage and did not pay last mortgage	2.0	900.59	734.79	79.03 (398.02)	821.56 (423.54)	165.80 (-153.19)	18.4 (-17.0)

Note: Figures in brackets are estimated on basis that the main mortgage payment was made.

Table 2.2 shows that for many households housing costs and childcare costs take up a very significant portion of disposable income. Where the reference person is less than 25 years of age the average number at work is less than 1, while the average household size is almost 2.7. These households spend about one-third of disposable income on housing and childcare, and their weekly expenditure exceeds income significantly. These households account for 3.9 per cent of households in 2009-2010. Housing and childcare costs amount to 20-25 per cent of income for those aged 25 to less than 45. For older age groups these costs taper away sharply, as does income and the average number employed. Nevertheless, the excess of disposable income over expenditure is relatively modest except where the reference person is over 64 when the rate is almost 20 per cent.

Table 2.3 looks at the tenure status of households. The most interesting feature is in relation to those with mortgages. It is worth remembering that not all

households have mortgages, from the sample only 37.5 per cent have mortgages, though some have more than one. A distinction is made in the table between those who have paid their most recent mortgage (35.5 per cent of all households) and those who have not (2 per cent of all households). Households in arrears in 2009-10 amounted to over 5 per cent of all mortgage holders. This is roughly in line with estimates at the time though clearly the situation has worsened since then. Comparing the two type of households the former have average household income that is significantly greater, have higher average income per person employed, have on average slightly less people in employment, though household size is roughly the same. We have estimated what the repayments would be for households who had not made their last payment, based on payments for mortgage protection policies. If the latter households did pay their mortgage their expenditure would exceed income by about 17 per cent. Clearly for these households something had to give.

Conclusion

This research note has provides some new insights into savings behaviour in the early stages of the recession based on a comparison between the Household Budget Survey of 2004-2005 and that of 2009-2010. What the comparison shows is that there was a very large increase in housing related expenditure, mostly mortgage payments, while most other categories of expenditure experienced declines.

It is clear that two types of households were experiencing difficulties in 2009-2010 viz. younger households and households where making the mortgage payment was beyond the financial capacity. However the bulk of households were staying within budgets even if there were limited new savings. These data are potentially very rich and will warrant further more detailed study.

This of course relates to the situation that prevailed up to 2009-10. Since then interest rates have dropped dramatically and this has eased the situation, though for those in arrears it must still be challenging. This has created the potential for increased savings, both to meet future uncertainty, and to provide for future increases in interest rates.