A Survey-based Analysis of Irish Savings Behaviour by Age

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Introduction

The savings behaviour of Irish households in recent years has often been described as precautionary. Domestic and international crises have lead to heightened uncertainty, persistent unemployment and low economic growth. At the same time, personal disposable income and personal consumption expenditure have been reduced. The difference between them (personal savings) has been large, despite a very low interest rate environment. The personal savings ratio has increased from an average of 4 per cent of disposable income for 2001-2007 to 8 per cent on average for 2008-2012.

This Note uses survey data to investigate Irish savings behaviour by age during and since the recent crisis. The survey data are collected monthly for the Nationwide UK (Ireland)/ESRI *Savings Index*. The data are collected by telephone based on a nationally representative survey of over 800 respondents, with a new sample selected each month. In terms of response rates, approximately 50 per cent of private households complete the survey in full. The data are calibrated to population totals based on gender, age group, marital status, household size, education and economic status. This provides findings that are nationally representative.[1] Survey data for the period January 2010 to February 2014 are analysed by three age categories: those aged 21-35, 36-50 and 51 and over.

Irish Savings Behaviour by Three Age Groups

As mentioned in the introduction, uncertainty and weak economic performance are often cited as explanations for the emergence of precautionary saving in

[1] Duffy (2010) details the survey methodology: http://www.esri.ie/irish_economy/savings_index/SavingsIndexMethodology.pdf

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Ireland in recent years. However, deleveraging has also been prevalent, with loan drawdowns outpaced by loan repayments for several years, and bank deposits remaining broadly flat. The combination of credit stagnation and negative equity of homeowners has reduced the capacity of many households to smooth consumption, and the response has been one of balance-sheet consolidation. McCarthy and McQuinn (2014) combine survey and regulatory data, finding that there are negative implications for household consumption when deleveraging applies, and that older, affluent households are more likely to be deleveraging. Durkan and O'Hanlon (2012) and Gerlach-Kristen (2013) have previously used *Household Budget Survey* (HBS) data to estimate the impact of the crisis on household consumption and savings behaviour in 2009/10 compared to 2004/5. The broad conclusion arising from the HBS data is that negative income and wealth effects have considerably held back the profile of consumption in recent years, with an uncertain outlook encouraging precautionary savings to insure against potential loss of future income. This effect is likely to have been strongest among first-time buyers from the peak of the property market in the mid-2000s, thus especially applicable to the cohort currently aged mid-30s to mid-40s.[2]

Meanwhile, large-scale net emigration since 2010 has been concentrated heavily amongst the younger age groups of the population. Conditions in the labour market for those aged 20-34 remain challenging, both relative to older age groups and in absolute terms. The *Quarterly National Household Survey* shows the unemployment rate for this age group at 15 per cent for the fourth quarter of 2013, while annual employment growth has been negative since the second quarter of 2008. However, of those remaining in the country, members of the younger age groups are not heavily indebted as is generally the case for their older counterparts. As credit flows remain subdued, it is likely that many of those reaching the ages formerly associated with first-time buyers are planning to purchase later on. With fewer down payments being made on property purchases, and correspondingly lower debt-servicing costs, there may be a growing latent demand among younger age groups which are instead accumulating significant savings.

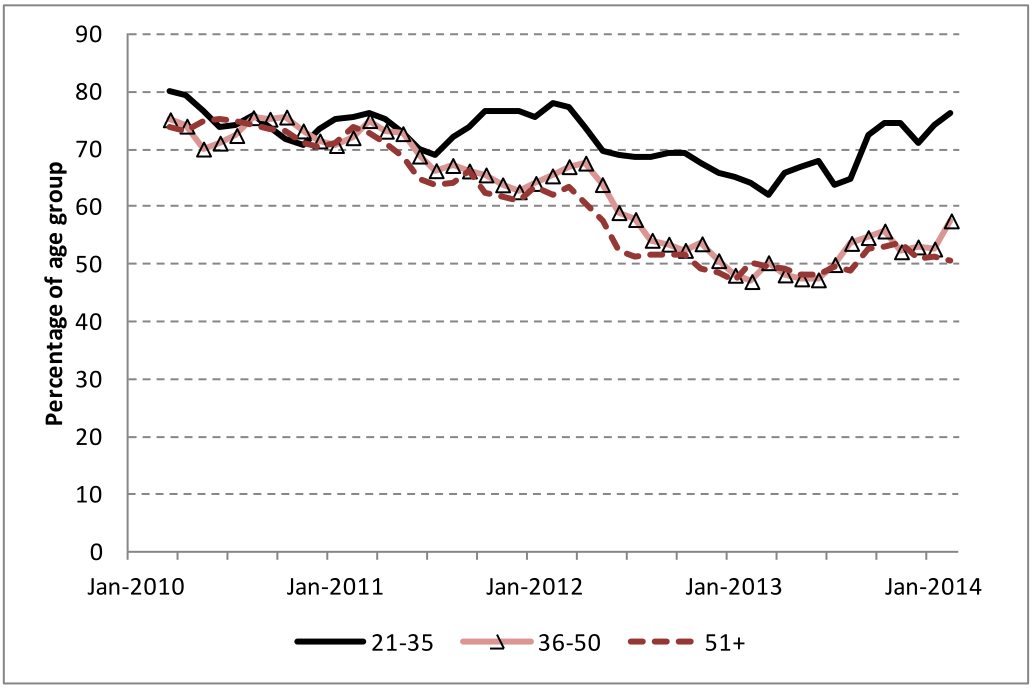
In summary, some groups of the population have been particularly affected by recent net emigration, and many others that remain in Ireland carry negative equity from property market collapse, along with large debt-servicing costs. The prevalence of uncertainty in the economy may also be evident in an increased tendency to save as a precaution in case of lost future income. Preliminary indications from the survey data suggest respondents were most likely to save

[2] Using survey data, Duffy and Quail (2005) found 69 per cent of first-time buyers in late 2004/early 2005 were aged 25-34.

with a precautionary motive earlier in the sample period, in particular during 2011. There has also been an ongoing decline in the share of those with a negative view of general economic prospects for the coming year, who are also saving with a precautionary motive

The extent to which the monthly data can be stratified by age is limited by the need to ensure that cell sizes remain greater than 30 cases. Survey data are collected for those aged 16 and over, but for the present analysis, the savings behaviour of ages 16-20 is not examined due to a small cell size. Furthermore, the majority of respondents in this age group are in education or training, implying a more limited ability and motivation to save. As a result, the savings behaviour of those aged 21 and over is analysed in this Note, with variables calculated as percentages of each age group's full sample. To smooth monthly volatility, the analysis presents the series as three-month moving averages.

FIGURE 1 Respondents Saving Occasionally or Regularly, by Three Age Groups

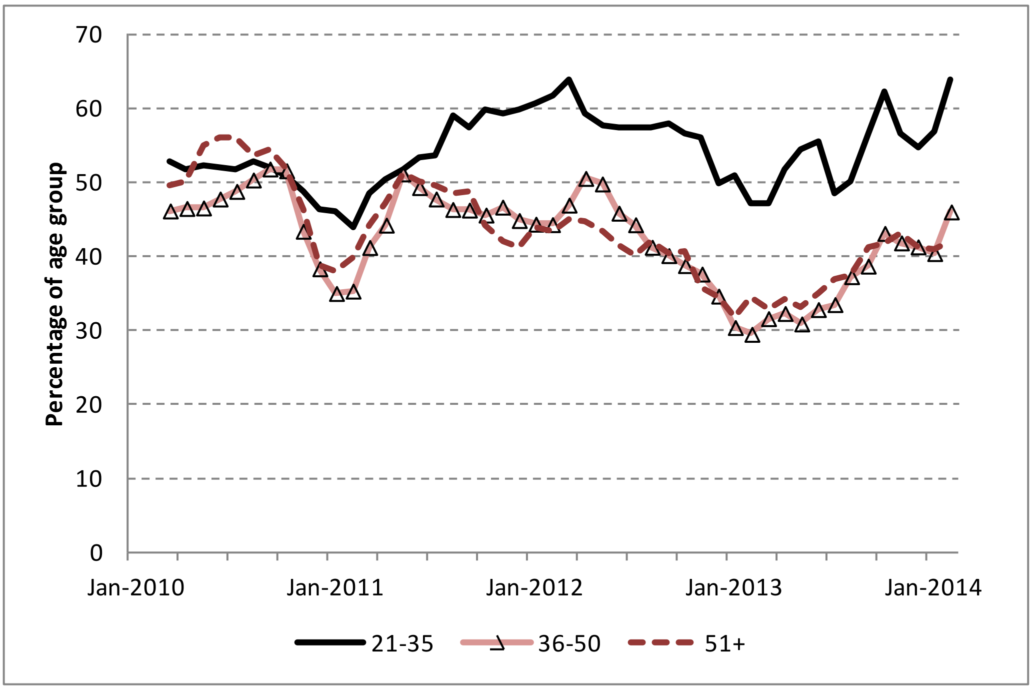


Source: Nationwide UK (Ireland)/ESRI *Savings Index* data.

As shown in Figure 1, a similar pattern has emerged since 2010 for the savings status of those aged 36-50 and 51 and above. Only about half of respondents aged 36 and over have been saving occasionally or regularly since mid-2012. The decreased share of the population that is saving money suggests there has been some decline in precautionary savings for these age groups. Meanwhile, the share of those aged 21-35 saving either regularly or occasionally has been broadly increasing over the past year.

A possible explanation for this relates to the low volume of transactions in the property market – compared to a historical average of about 3 per cent, the current volume of transactions is just above 1 per cent of the country's housing stock.[3] The effect of this is to marginalise first-time buyers, who are likely to be accumulating savings rather than making down payments on property and meeting debt-servicing costs. According to recent mortgage lending data from the Irish Banking Federation, just 7,535 new first-time buyer mortgages were drawn down in 2013, compared to an average of 14,416 between 2008 and 2010. Further to this, the percentage of this age cohort saving occasionally or regularly is possibly higher due to the past four years of net emigration, as many emigrants were previously unemployed and thus were less likely to be saving at all. Of those remaining in the country, faced with credit constraints and limited housing supply, the share that is saving is likely to be higher as a result.

FIGURE 2 Respondents Saving Occasionally or Regularly, Expecting the Same or Increasing Savings Over the Coming Six Months, by Three Age Groups



Source: Nationwide UK (Ireland)/ESRI *Savings Index* data.

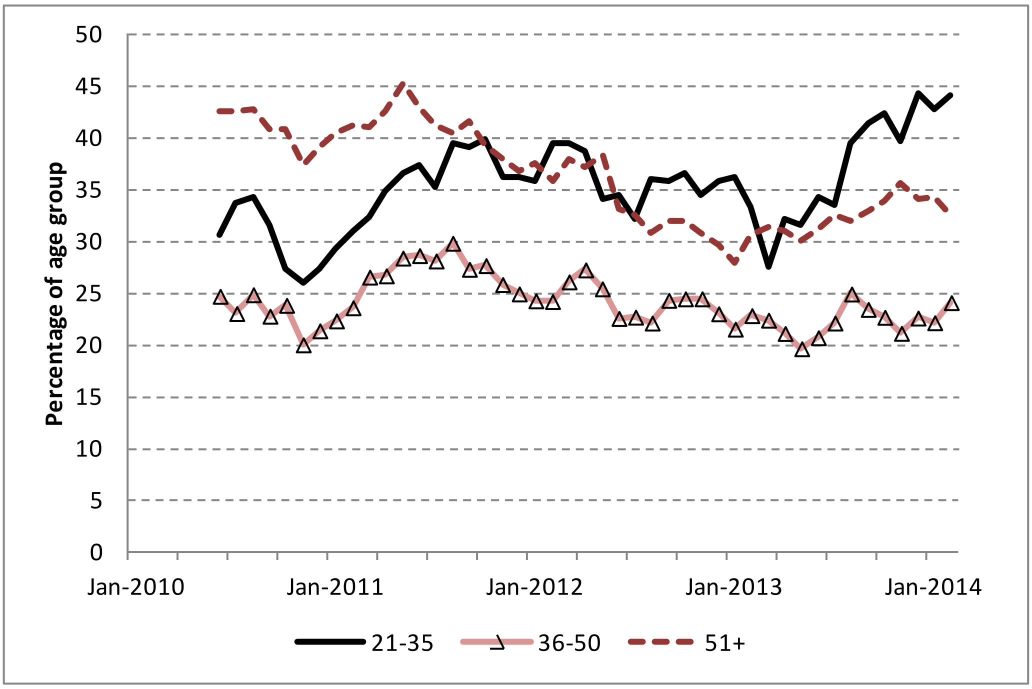
Above, Figure 2 describes the extent to which those saving occasionally or regularly expect their level of savings to either remain the same or increase over the next six months. Consistent with the pattern in Figure 1, over time the youngest cohort shown (21-35 year-olds) emerges as the age group that is most

[3] According to the Residential Property Price Register, there has been an increase of 8 per cent in transactions volume for the first quarter of 2014 compared to the first quarter of 2013. However, this is likely flattered by the low transactions seen a year ago following the expiry of Mortgage Interest Relief at end-December 2012.

positively disposed towards future saving. More recently, there has been a growing share of those in older age groups who expect to save at least as much six months from now as they currently do. This proportion remains substantially lower than for those aged 21-35, however.

Figure 3 illustrates the share of respondents saving occasionally or regularly whose first preference for spare money over and above everyday needs is to save or invest it. The series are pooled from the following four choices: invest in shares, save in a deposit account, place into a pension scheme, save in some other way. Respondents may choose between these and two other alternatives; whether they would use the money to pay down debt or for spending. Of the savings/investment-related responses, the pattern emerging is broadly similar to that in Figures 1 and 2, but the series is relatively higher for those aged 51 and over despite a reduced preference over time. The series is particularly low for the 36-50 age group, owing to a stronger preference for debt repayment. This finding is consistent with more limited ability to smooth consumption for this age group, as a result of the negative income and wealth effects described earlier. Notably, the series has lately been trending upwards for those aged 21-35, further supporting the intuition from Figures 1 and 2 above.

FIGURE 3 Respondents Saving Occasionally or Regularly, Whose First Preference for Spare Money is to Save or Invest, by Three Age Groups



Source: Nationwide UK (Ireland)/ESRI *Savings Index* data.

Conclusion

The past 50 months of Irish survey data on savings are analysed in this Note by three age groups. This exercise portrays how different circumstances facing various parts of the population have manifested into a range of savings patterns. The main findings suggest that precautionary savings, once a significant feature across much of the population, is likely to have become less prevalent over time. Older age groups have shown a reduced tendency to save money, and this is linked to the negative income and wealth effects resulting from the crisis period. In earlier years of the crisis, there is evidence of high saving amongst older age groups, but this effect diminishes over time. Rather, the continued high level of savings observed in National Accounts data today is likely to relate to widespread balance-sheet repair, and a growing unmet demand in the youngest cohort examined, those aged 21-35 years old. Respondents from this age group have been particularly disposed towards savings since 2010, and this finding is linked to trends in the property market and the high net emigration that has taken place in recent years. While the volume of housing-market transactions remains historically low, the average age of first-time buyers will tend to increase, and the accumulation of savings by the 21-35 age group is likely to persist. One implication of this is that consumption and investment for younger age groups may remain subdued relative to potential over the medium term.

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