Box 2: Household savings - patterns and revisions

The onset of the global pandemic in 2020 led to an immediate shift in consumer spending and savings patterns. While the pandemic brought parts of the domestic economy to an effective standstill, the combination of Government supports alongside the widespread adoption of working-from-home helped to safeguard household incomes from the downturn in economic activity. At the same time, the public health restrictions, particularly on contact-intensive services, led to a sudden fall-off in consumer spending. The net effect of stable incomes and reduced consumption was an accumulation of 'forced' savings throughout the pandemic (**figure 2A**) – though clearly the distribution of these 'excess' savings was not uniform across the population.

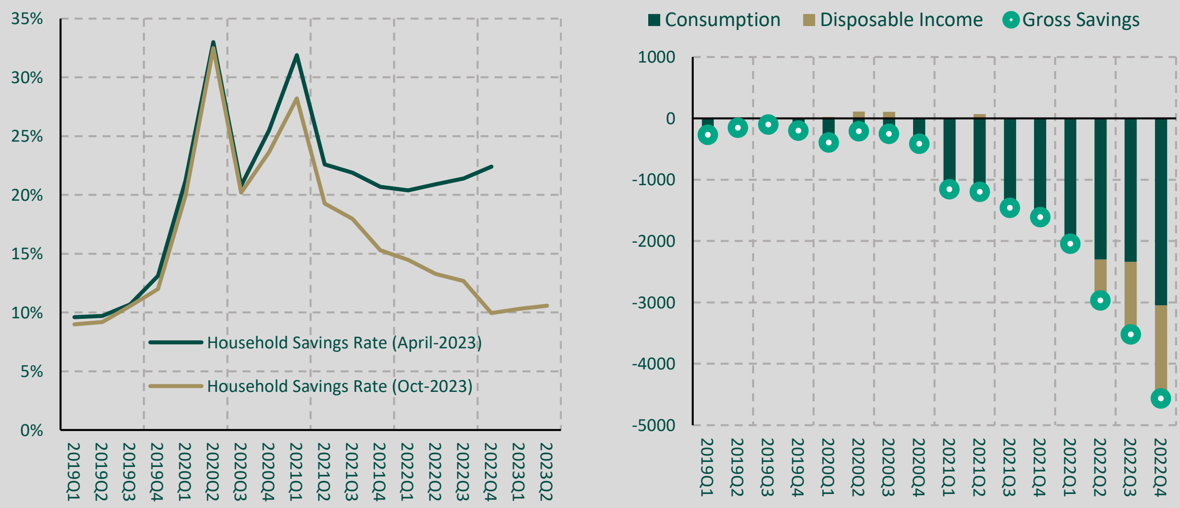
Despite exiting the pandemic in early-2022, initial estimates suggested that the accumulation of excess savings continued throughout last year, with households continuing to save over 20 per cent of their disposable income, double the pre-pandemic rate**^**. This was puzzling, with economists struggling to explain continued elevated savings, especially in a situation in which VAT receipts were particularly strong.

However, subsequent revisions (**figure 2B**), published in the annual national accounts, have solved this puzzle. The revised data show that consumer spending was considerably higher than suggested initially, with real consumer spending growing by 9.4 per cent in 2022**^^**. At the same time, household disposable income was lower than original estimates. Accordingly, the annual accounts incorporated a large downward revision in the household savings rate which has now returned to a more normal (and plausible) range.

Figure 2: Household savings rate

A: Household savings rate vintages, seasonally adjusted

B: Revisions to gross household savings



Source: CSO

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Despite this normalisation in consumer spending and savings patterns, households continue to hold substantial savings accumulated throughout the pandemic – to put it another way, while the ***flow*** of savings has normalised, household (at least in aggregate terms) have not yet dipped into their ***stock*** of forced savings. Indeed, Central Bank data suggests continued annual growth in household deposit over the last number of quarters, with no signs of substantial drawdowns as of yet

In some countries (such as the US for example), evidence shows that savings accumulated during the pandemic are being used to offset the negative effects from the cost of living pressures – in other words, in the face of a real income shock, households have smoothed their spending by running down their stock of savings**^^^**.

This is not an academic issue: the build-up of savings has improved the financial footing of households and may make them more resilient to economic shocks into the future. It also enables households to smooth income or expenditure shocks. These saving may also support strong consumption growth or investment in housing in the years ahead.

^ CSO, Non-financial Institutional sector accounts, quarter 4 2022.
^^ CSO Annual National Accounts 2022
^^^ According to the IMF, excess savings in the US from the pandemic are largely depleted. See: https://www.imf.org/en/Blogs/Articles/2023/07/25/global-economy-on-track-but-not-yet-out-of-the-woods