Economic Research Unit

Economics Weekly

Bank of Ireland

Mixed consumer picture

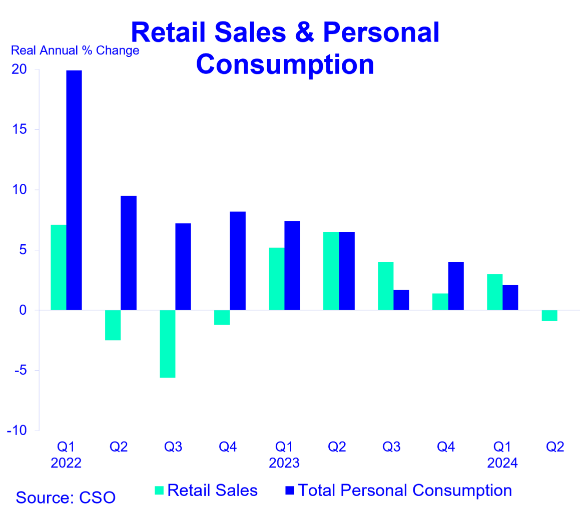
Despite many positive headwinds for consumers over the past twelve months, they still appear somewhat wary as we head down the back half of the year. While inflation has continued to ease and real incomes are growing – helped by rising wages and tax cuts - retail sales were soft in Q2, though we do have evidence that consumers have been favouring spending on services over goods recently. Car sales have also been fairly modest and are barely up in annual terms post the key July registration period, with falling sales of electrical vehicles not helping. Consumer confidence picked up in July, but is yet to reach its pre-Covid levels with the impact of the double blows of the pandemic and the pickup in inflation that followed still lingering. All that being said, we still think that consumer spending will improve as households are helped by lower inflation, interest rate cuts on the horizon and potentially further supportive fiscal measures in Budget 2025 due in October.

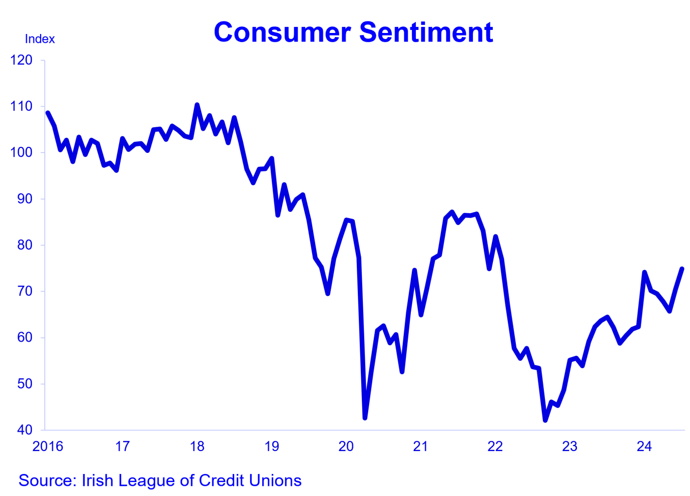
Consumer spending has been modest: Personal consumption rose by just 0.3% quarter-on-quarter in Q1 of this year, and was up 2.1% in year-on-year terms. The signs for Q2 spending are mixed with retail sales falling 0.6% quarter-on-quarter (-0.9% year-on-year) but spending on services is likely holding up better. Households should be helped by the continuing easing in inflation with the annual CPI rate at 2.2% in July, having averaged 3.0% in H1 of this year, down from a 5.4% average in the second half of 2023. Incomes are also growing, with average hourly earnings rising 4.5% year-on-year in Q1 and also helped by the continuing impact of tax cuts from Budget 2024, while job gains are continuing and unemployment remains low at 4.7% in July.

Car sales ebbing: The wariness of consumers can be seen in car sales. According to the CSO, new private car sales totaled 94,231 in the January to July 2024 period, up 3.2% on the same period of last year. This means it's likely that new car sales this year will come in around 120,000, only just ahead of last year's sales. In particular, electric car sales are well down so far this year. Fully electric (EV) car sales fell by almost 24% year-on-year in the January to July period, and accounted for 13.5% of total new car sales. Consumers are still not convinced by electric vehicles – although hybrid sales are increasing – as the reduction in the EV grant, price changes by auto makers and continued concerns about existing infrastructure to support EV's appear to have undermined confidence as the technology seeks to move out beyond early adopters to a more mainstream audience. This spells bad news for the Government's climate plan as it's becoming harder to see how the target of around a million EV's on the road by 2030 will be met.

Consumer confidence yet to top pre-Covid levels: According to the Credit Union Index, consumer sentiment rose to 74.9 in July and, while it's well up on its late 2022 lows, it has still not risen back to the mid 80's readings of 2021 and the over 100 levels seen in 2018. There is, however, further support on the way for consumers. Inflation is forecast to remain at close to 2% for the next two years at least while wages are likely to rise further. There is also likely to be further fiscal measures in Budget 2025 in the form of tax cuts and increased social welfare transfers for households, while interest rates are set to fall with the market expecting a further 150bps of cuts by the ECB over the next 12 months. All of this means that, despite the mixed data at the moment, we are confident that consumer spending will rise by around 3.0% this year and next.

Senior Economist: Patrick Mullane





Contact Us at economics@boi.com