Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

The Household Finance and Consumption Survey
The Financial Position of Irish Households

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Disclaimer

Any views expressed here are my own.

The opinions expressed in this paper are those of the authors and do not necessarily represent the views of the Central Bank of Ireland or the ESCB.

Presentation outline

1. Background to HFCS
2. Households' balance sheets in 2013
   - The impact of the crisis
   - The role of housing and debt
   - Debt burden
3. Comparisons with other Euro area countries
4. Net wealth over time

1. Background to the HFCS

- QFAs show aggregate impact of crisis on income and wealth
- Limited information at the household level
- HFCS 2013 fills this information gap
  - Household-level data on assets, debt and net wealth
  - The impact of policy on debt repayment burdens
  - Access to credit and credit constraints
  - Consumption smoothing and portfolio selection
  - Wealth distribution and the impact of macro-economic shocks
- CBI Quarterly Bulletin Article to accompany the release

Survey Overview

HFCS fieldwork
March - Sep 2013

5,419 households

Real assets, Financial assets, Liabilities, Credit constraints, Inheritance & gifts, Non-labour income, Consumption & saving

14,546 individuals

Demographics, Employment, Future pension entitlements, Labour related income

NB: Use of administrative sources to verify data

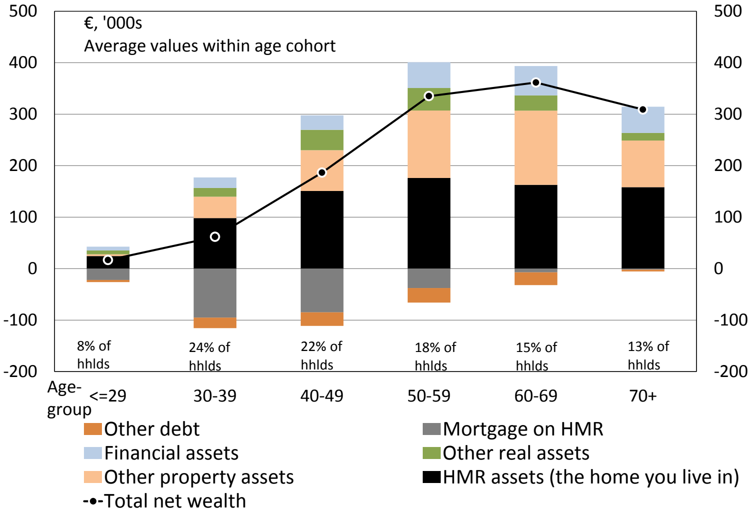
Comparisons between HFCS and other data (preliminary)

	HFCS	Agg. data Other source	*Source*
Total debt (€bn)	€119.8	€117.2	CBI, M&B
Housing assets (€bn)	€317.9	€331.0	CBI QFA
Deposits + savings (€bn)	€33.3	€86.3	CBI
Food spend (€/month/hhld)	€682.2	€655.3	CSO, NIE
Non-dur's & services[a] (€/month/hhld)	€2,527.3	€2,597.2	CSO, NIE
Income (gross equivalised)	€538.06	€537.66	CSO, SILC
Gini coefficient (net income)	33.2	33.7	CSO, SILC
Gini coefficient (gross income)	39.7	40.9	CSO, SILC

(a) Imputed, following Browning et al. 2003

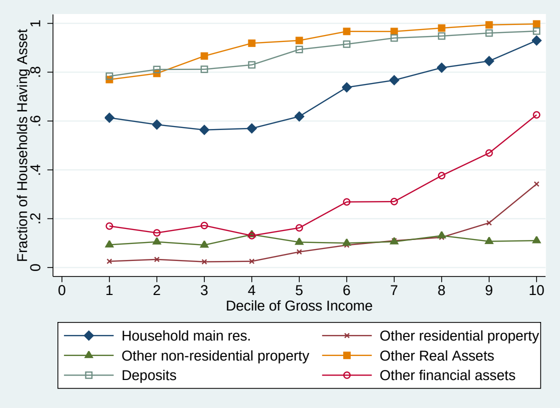
2. Households' balance sheets in 2013

Big picture – composition of net wealth by age



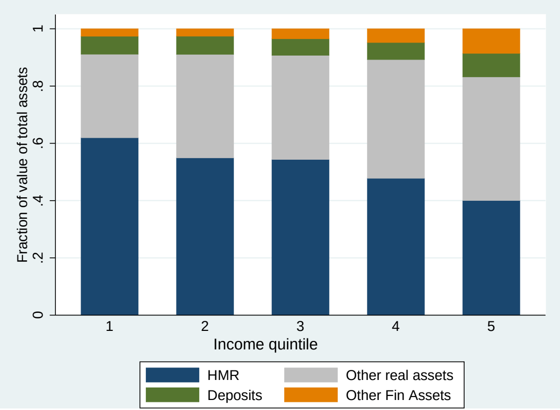
Participation in real & financial assets, by income decile

	Any real assets	HMR	Other res prop	Other non-res prop	Other Real Assets	Any Financial Assets	Deposits	Other Financial Assets
% households	95.3	70.5	10.2	10.8	91.9	89.8	88.6	27.9
% Euro area	91.1	60.1				96.8	96.4	

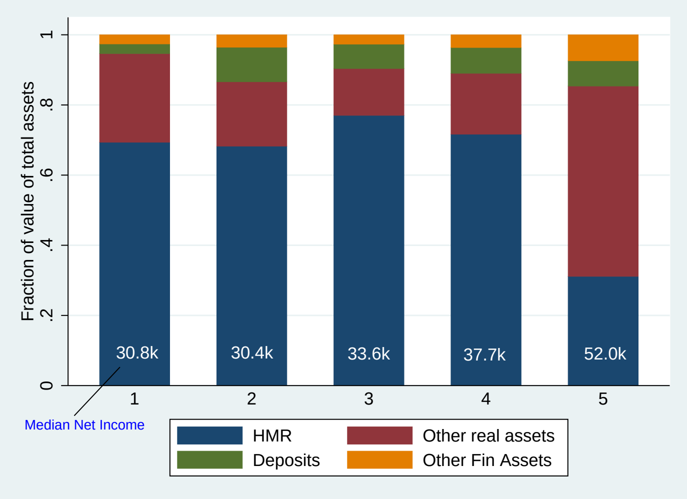


Median values & composition of assets, by income quintile

Conditional on participation	Any assets	HMR	Other res prop	Other non-res prop	Deposits	Other Financial Assets
Median value (€ '000s), Ireland	162.0	150.0	140.0	300.0	4.5	57.9
Median value (€ '000s), Euro area	144.8	180.3	{ 103.4 }		6.1	53.0

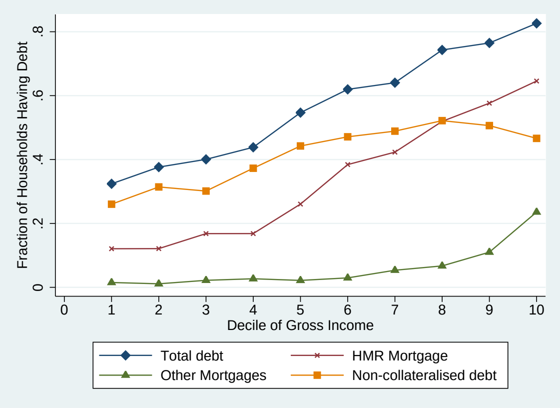


Composition of assets, by wealth quintile

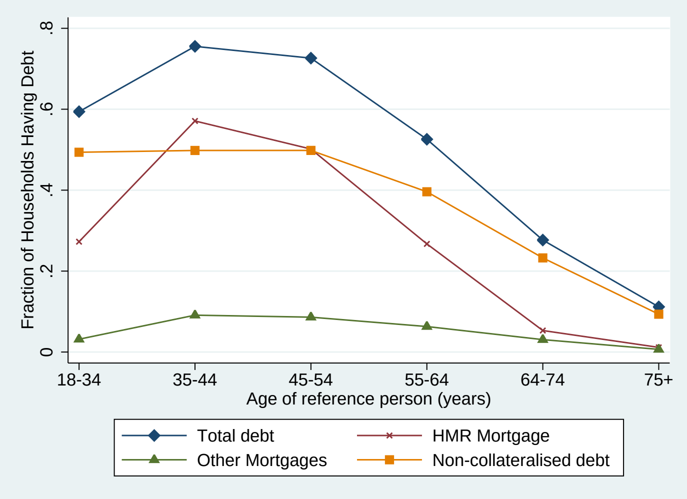


Participation in debt, by income decile

Participation in debt	Any debt	HMR Mort	Non-HMR Residential Mort	Other prop mort	Non-mort debt
% Irish households	56.8	33.9	4.3	2.0	41.4
% Euro area households	43.7	19.0	{ 5.6	}	29.3

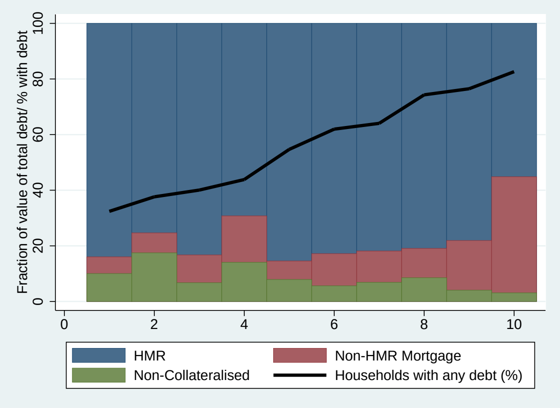


Participation in debt, by age cohort



Median values & composition of debt, by income decile

	Any debt	HMR Mort	Non-HMR Residential Mort	Other prop mort	Non-mort debt
Median value (€, '000s), Ireland	63.0	129.0	157.0	99.0	3.9
Median value (€, '000s), Euro area	21.5	65.2	{ 56.8	}	5.0

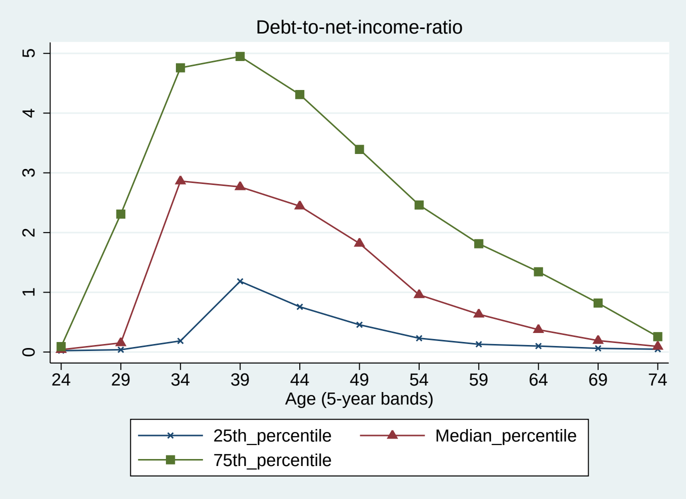


Debt burden

High levels of debt participation and outstanding amounts of Irish households relative to the Euro Area.

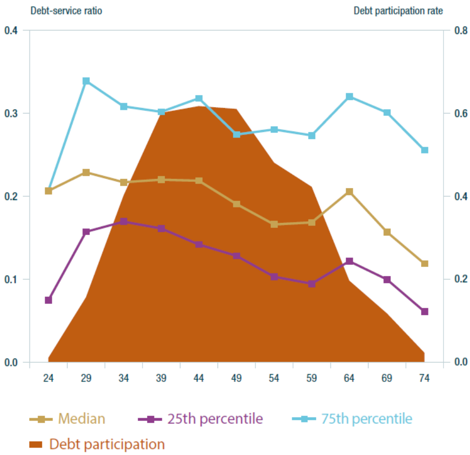
- Examine debt service across the age distribution.
- Does debt taken out by different groups varies by their income and asset positions?
- Allows us to gauge the debt burden.
- Unless otherwise stated, charts relating to debt or debt-service are conditional on having some form of debt.
- Some metrics use *net* income – this is not a HFCS variable:
    - our estimate compares favourably with Revenue distributions.

Debt to net income (any debt), by age cohort

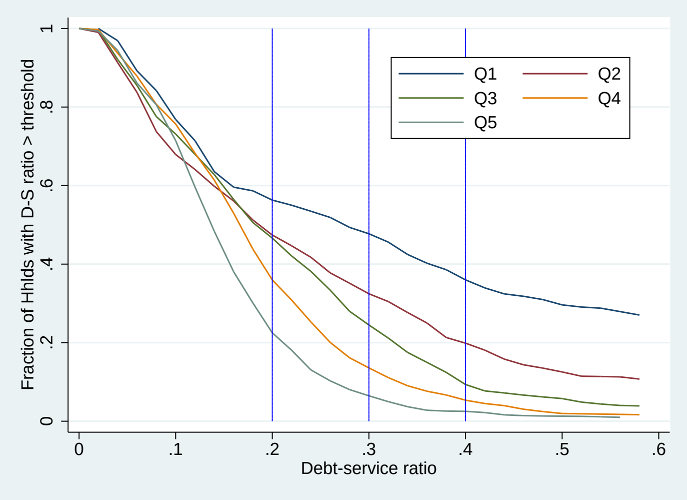


Property debt-service to net income ratio (conditional on debt)

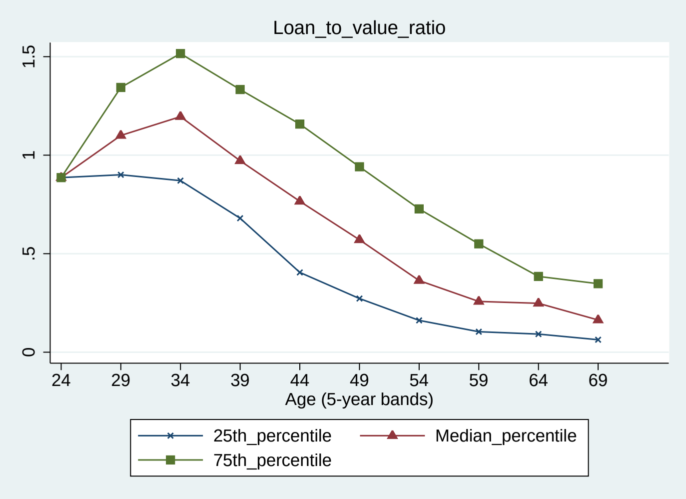
Figure 5.4: Property debt-service to net-income ratio (conditional on any property debt)



Distribution of debt-service-to-income ratio, by gross income quintile



Ratio of outstanding HMR debt to value (conditional on having an HMR mortgage)



3. Comparisons with other Euro Area (EA countries

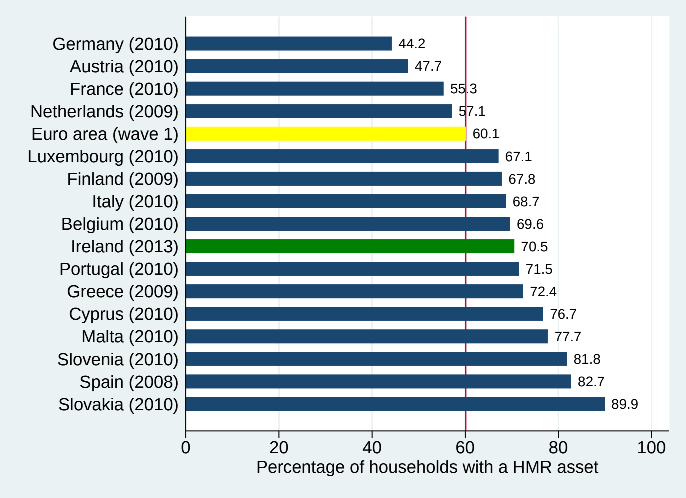
Irish households . . .

- . . . more likely to own their home
- . . . have fewer financial assets
- . . . are more indebted
- . . . income and wealth distributions very similar to EA

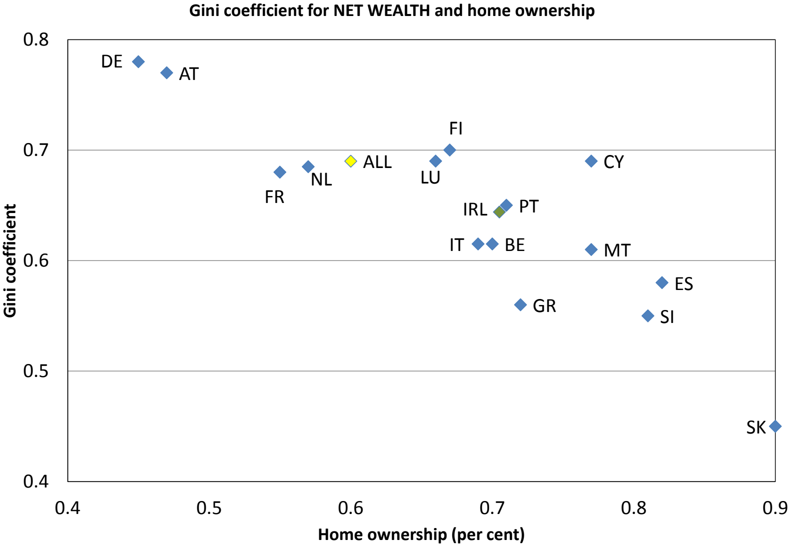
But! Keep in mind that they also tend to be . . .

- . . . younger: 18% retired versus 32%
- . . . in workless households: 28% versus 11%

70.5% of Irish households have a HMR asset, versus 60.1% in Euro area

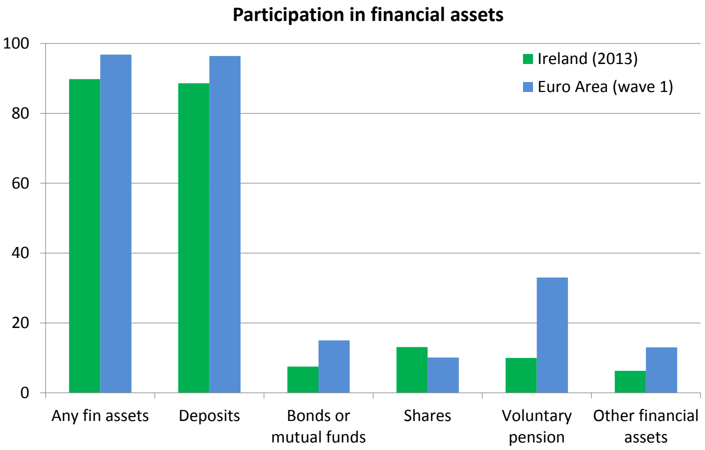


Wealth inequality is negatively correlated with home-ownership

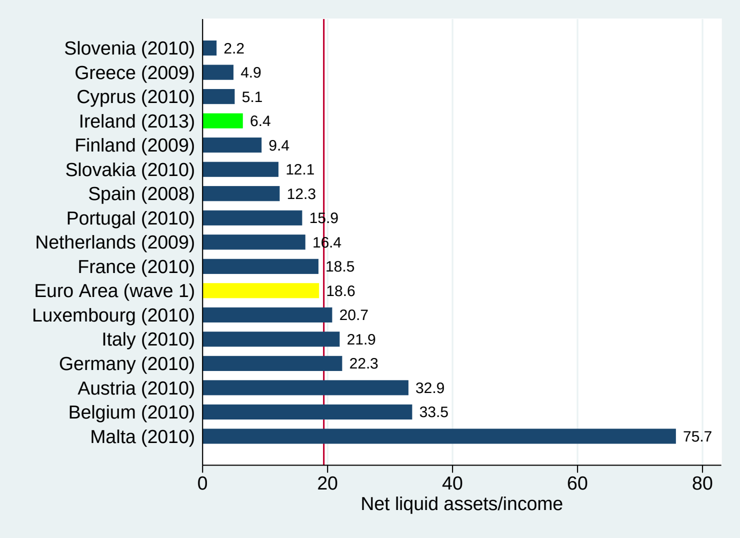


Lower participation rates in financial assets in Ireland

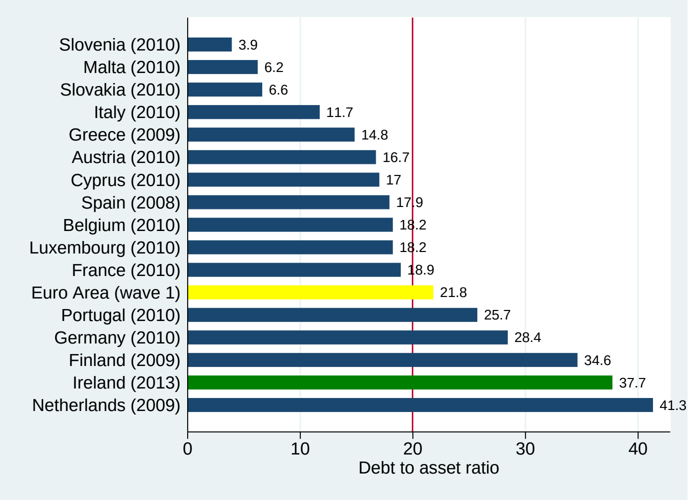
Financial assets account for just 13% of gross assets



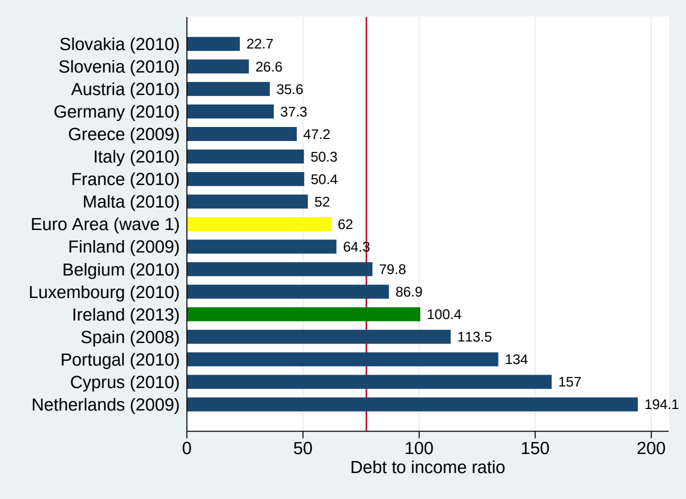
Net liquid assets to gross income ratio: Euro area comparison



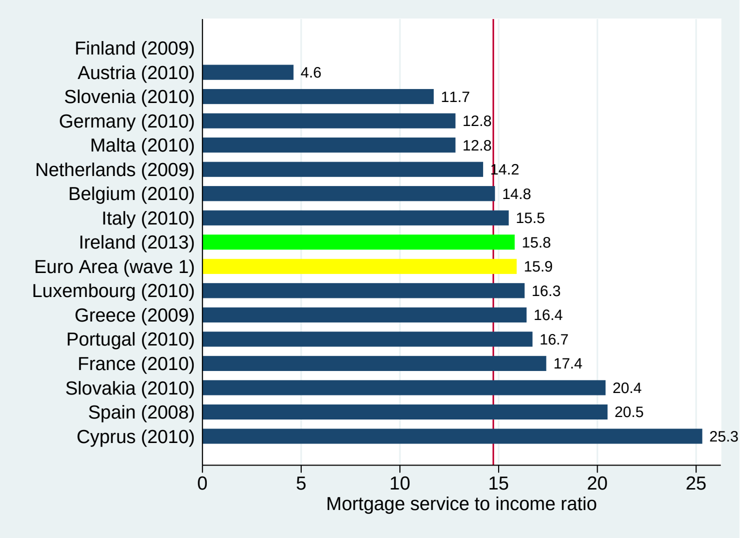
Debt-to-assets: Ireland -v- EA



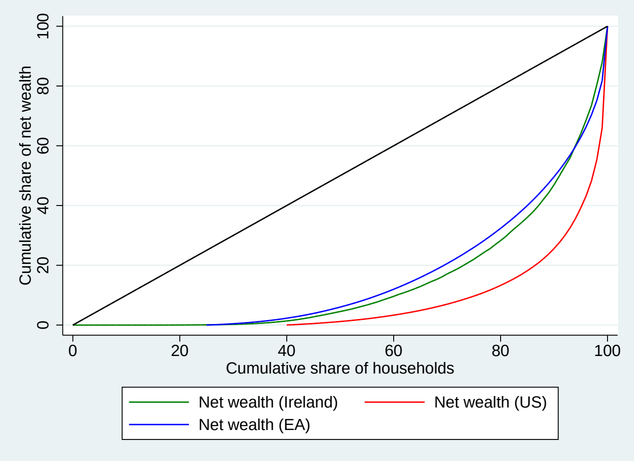
Debt-to-gross income: Ireland -v- EA



Mortgage-service to gross income ratio: Euro area comparison

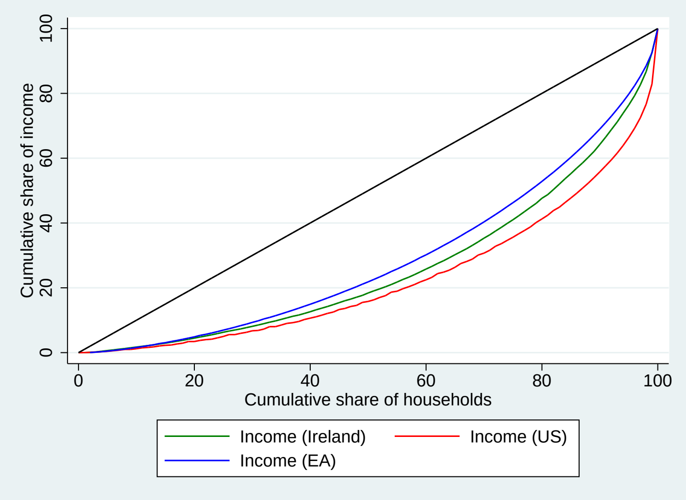


Net wealth distribution (gini coefficient 0.64)

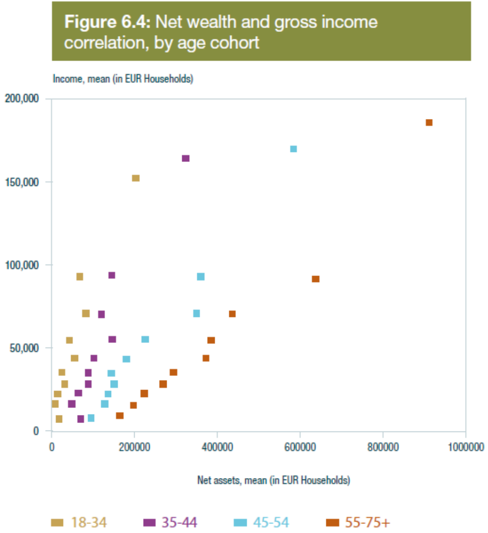


Median net wealth values: Ireland €105k, Euro area €109k

Income distribution

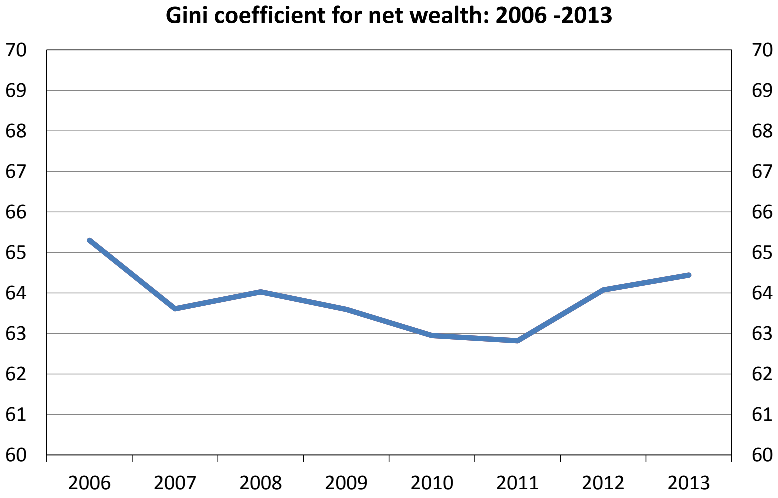


Net wealth and gross income correlation, by age



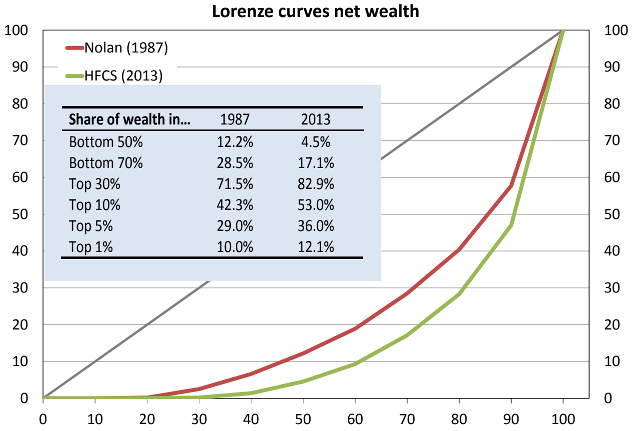
3. Net wealth over time

Net wealth gini 2006-2013



Net wealth 1987 v . 2013 (2)

1987 distribution from Nolan (CBA, 1991) – similar meth. to HFCS



Share of wealth in...	1987	2013
Bottom 50%	12.2%	4.5%
Bottom 70%	28.5%	17.1%
Top 30%	71.5%	82.9%
Top 10%	42.3%	53.0%
Top 5%	29.0%	36.0%
Top 1%	10.0%	12.1%

Gini: 1987 = 52, 2013 = 64

What drove this shift in the distribution of wealth?

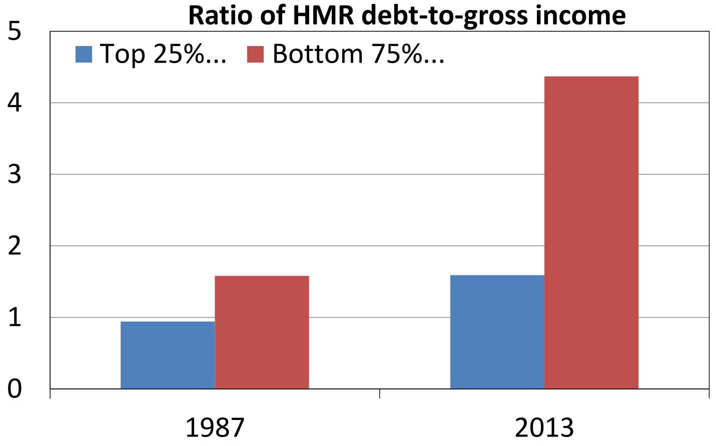
Need to look at the composition of assets

HFCS 2013	Bottom 70%	Next 20%	Top 10%	Top 1%	All
HMR	74%	64%	25%	14%	46%
Other resi property	5%	6%	9%	9%	7%
Other non-resi property	4%	15%	48%	49%	29%
Financial assets	17%	15%	19%	28%	17%
	100%	*100%*	*100%*	*100%*	*100%*
Nolan 1987					
HMR	88%	67%	31%	20%	59%
Other resi property	2%	4%	7%	9%	4%
Other non-resi property	4%	20%	52%	60%	28%
Financial assets	7%	9%	10%	11%	9%
	100%	*100%*	*100%*	*100%*	*100%*

So, property prices are large part – but not all – of the story.

Increasing indebtedness also a factor . . .

Because we are looking at *net* wealth, must also take account of increasing indebtedness



Conclusions – what's next?

New data set, still a lot to understand – e.g. financial assets?

Several ongoing research projects involving the use of micro-simulation to better understand macro outcomes such as household spending, amongst other things.

Much work to be done in order to build a robust (& credible) simulated dataset.

Comments & suggestions are very welcome at this stage

Thank you