permanent tsb

Reflecting **Ireland**

An insight into consumer behavioural change in Ireland

KANTAR

Representatives of our Colleague Network Groups

Executive Summary

In this edition of Reflecting Ireland, we take a deeper look at the cost of living and the impact it's having in our day-to-day lives. Our research, conducted in partnership with Kantar, identifies that concerns over the cost of living have exploded in the last three months.

This is having a deeply negative impact on our overall mood and our assessment of our personal finances – and of Ireland's direction of travel more generally. Not since the period 2009 – 2012 have we seen such high levels of pessimism about the future. Now, rising food and energy prices coupled with the devastating war in Ukraine are signalling that a short-term bump in the road due to Covid may be with us for longer than anticipated.

What are people doing to reduce the impact? In this report, we've also teamed up with Claire Cogan of BehaviourWise to better understand the behaviour we are seeing.

We find that only 3 in 10 people expect to receive a pay rise to partially or fully compensate for the increased burden. Instead, people are budgeting more and changing their behaviour and spending patterns to better navigate this inflationary period.

- Over four in five of us (81%) cite the cost of living as being the most pressing issue in Ireland today – far ahead of Housing (52%) and access to quality healthcare (45%). In January, just 62% felt this was the defining issue of our time.
- There has been a sharp increase in negativity over the past three months– a majority of us now feel we are less well-off compared to this time last year – equating to a near nine year high. Just one in six (17%) are more upbeat.
- Looking to the future, over two in five (43%) fear they will be less well-off over the next 12 months – this pessimism was last seen nine years ago in 2013.
- An exception to the pessimism is younger people, with 47% of 18-24 year olds and 43% of 25-34 year olds saying they expect to be better off financially next year.
- 18% feel that any pay increase they may receive will not match the rate of inflation, while a sizeable minority (47%) do not expect to receive any pay increase at all.
- A significant majority (61%) feel that they are just keeping their financial heads above water. Over half (53%) feel their finances control their lives. Less than one in four (22%) are comfortable that they are managing adequately.
- Three in five believe the country in on the wrong track; over twice the proportion of those who feel we are going in the right direction (just 28%).
- Over half (53%) worry about their ability to pay energy bills, and we are beginning to change our behaviour as a result. We are watching more closely how much energy we are using (83% agree), have cut back on our car journeys, and plan to cut back on food items bought (over three in five agree to both sentiments).
- Over half of utility consumers are restless for change, and close to half of insurance and broadband customers intend to switch. There has historically been a lower rate of switching among financial service providers but this may now be on the rise.

The Reflecting Ireland research series was conducted in April 2022 among a nationally representative sample of 1,002 adults aged 18+ in the Republic of Ireland.

Cost of living causing deep concern

Having endured a health crisis, people in Ireland are now facing one of a very different kind.

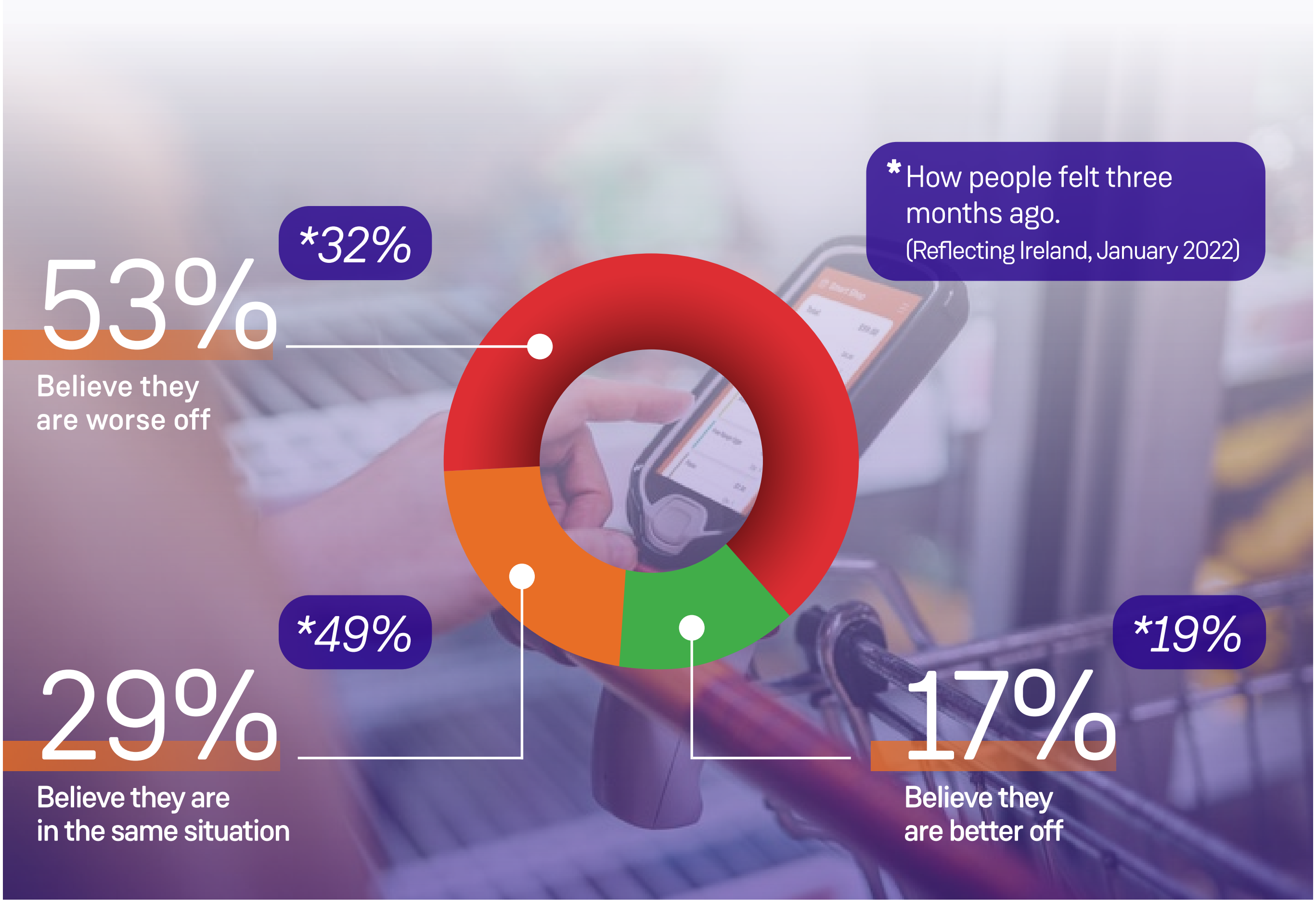
Before the cost of living emerged as a major issue, optimism had been growing that we would soon be over the worst of the pandemic and normality would follow. In the last three months, that view has been almost extinguished as we face a new hurdle: this time, a crisis of inflationary pressure.

In January the rising cost of living was a key concern for 6 out of 10 of us (62%). Three months later this has jumped to 8 out of 10 (81%). Many of us (85%) expect the situation to get much worse over the next 12 months.

Attitudes towards our personal financial situation have also nosedived. A majority of us (53%) now feel worse off compared to this time last year - a dramatic increase from January when this was 32% - while only 17% consider themselves better off. This is a nine-year high, comparative to when we were exiting the Great Recession.

Looking ahead, 43% believe they will be worse off in 12 months' time. This is nearly double what we saw in January when this figure was 22%. Just under a quarter (24%) take the opposing view.

How we compare our personal financial situation versus last year



It’s about wages, not jobs

Unlike previous economic crises, the pressure of making ends meet is not driven by unemployment which is currently low at 4.8% ***(1)***. It is driven by fear that stagnating income levels will not be adequate to cover rising costs.

When we last experienced inflation in the early 2000s, there was a buffer zone in that many received pay increases. That safety net is not as apparent now with only 1 in 3 expecting to receive a pay increase that will fully or partly meet the cost of living.

18% expect to receive a pay increase that will partly compensate for current cost living

12% expect to receive a pay increase that will compensate for current cost of living

23% unsure/not applicable

47% do not expect to receive a pay increase over the next 12 months

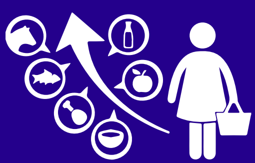
Rising energy and food prices feed uncertainty

While several factors are driving the cost of living upwards, price rises that directly impact our everyday lives such as the cost of heating and powering our homes, fuelling our cars and putting food on the table are the most salient to us ***(2,3)***. Data from the CSO suggests increases in utility bills and transport costs currently account for almost three quarters of annual inflation ***(4)***.

Food price increases, although not as high as energy and transport, have a strong impact on us because we are exposed to them more often, every time we shop.

The war in Ukraine has appeared as yet another destabilising factor and one that has no clear end in sight. It's direct connection to the global food supply and the effect of sanctions on our energy use has added to a fear of the unknown – how long, how much, how deep – none of these questions have an obvious answer.

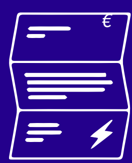
91%



91% of people have recently noticed that food items are more expensive

53% of people fear being unable to pay energy bills

53%



83%

83% of people are watching more closely their energy use at home

62% of people anticipate cutting back on food items over next 12 months

62%

How we are taking action

In the face of an inexorable rise in the cost of living, most of us have resolved to do something about it. While we cannot control rising prices, we can try to exert control over our finances. The strategies we are adopting fall into five types.

Postponing big ticket purchases

- **29%** less likely to buy electronics due to rising cost of living
- **29%** less likely to buy a car due to rising cost of living
- **22%** less likely to buy white goods (fridges, etc) due to rising cost of living

Cutting back on discretionary spending

- **62%** of us intend to cut back on holidays or short breaks
- **47%** of us plan to cut back on eating out
- **38%** of us plan to cut back on drinking out

Changing our shopping behaviour

- **69%** plan to switch more of our shopping to discounter supermarkets
- **66%** plan to swap branded food and drink products for own-brand
- **31%** plan to travel to Northern Ireland to avail of cheaper products

Changing our habits

- **79%** of us are budgeting more because of rising cost of living
- **64%** of us are cutting back on car journeys because of higher fuel costs
- **26%** plan to start or change a meal plan for the household

Switching providers

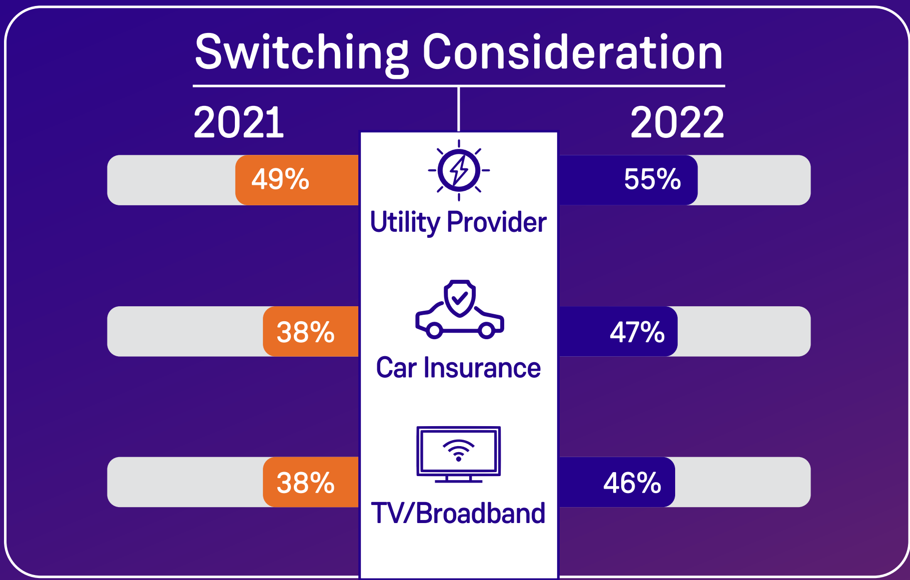
- **55%** of us are considering switching utility provider
- **47%** of us are considering switching car insurance
- **46%** of us are considering switching TV/broadband provider

Switching providers on the rise

More people are now considering switching as a way to reduce their expenses. This is a positive step in managing our finances but, from a behavioural perspective, switching is a two-stage process. We first need to consider switching, we then need to act on it.

Despite recognising the benefits of switching, we often fail to do so. This is what is known as the Intention-Action gap.

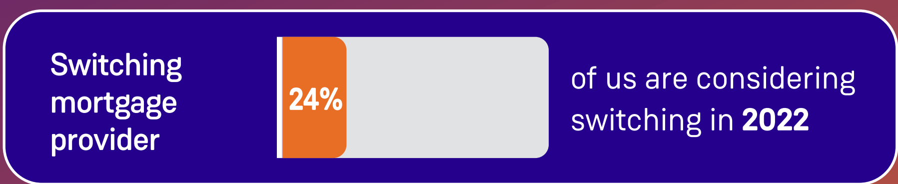
The areas where we are most likely to consider switching providers are utilities (gas or electricity), car insurance and TV/broadband. In all three cases switching consideration is on the increase.



Some areas see significantly less switching activity despite the potential for significant savings. This is potentially beginning to change.

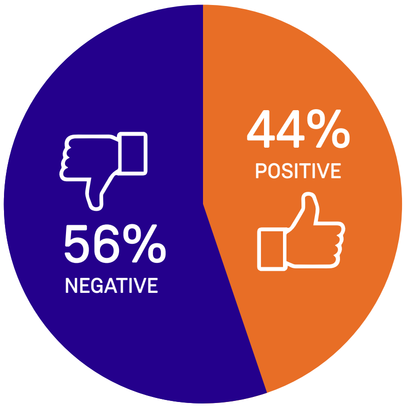
The imminent departure of KBC and Ulster Bank from the Irish market and the need for their account holders to switch is undoubtedly a contributing factor to this trend.

Regardless of cause, one particular area in financial services that is likely to see a dramatic change is mortgages. According to Central Bank and BPFI data, just under 9% of mortgages were switched in 2021 with just under 4% in the first four months of 2022. The next 12 months could see this number grow significantly.



Macroeconomic Consumer Sentiment

Examining consumer sentiment at a broader level, it is clear that we have moved into sharply negative territory – a significant change from three months ago.



For the first time since 2017, more of us feel downbeat about living in Ireland than upbeat. Over half of us (56%) describe our mood in negative terms compared to (44%) that report feeling positive. Those of us feeling optimistic has fallen from 23% in January to 15% in April.

In January we heard the ECB and the Central Bank maintain that the inflationary trend was temporary and that consumer price rises would ease during 2022 *(5,6)*. Since then, changing circumstances – including the war in Ukraine – have resulted in a dramatic shift where concern about the rising cost of living has exploded.

Only three times in 32 years have more people felt the economic situation was likely to get worse over the next 12 months. This was in January and April 2009, at the very beginning of the financial crash, and again in January 2012, when we were still enduring the Great Recession.

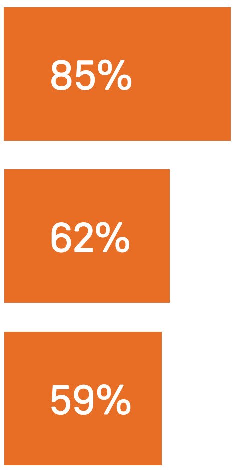
The number of people who think we are on the wrong track has almost doubled in three months from 33% to 60%. This is the first time in ten years that a majority of us have taken this position.

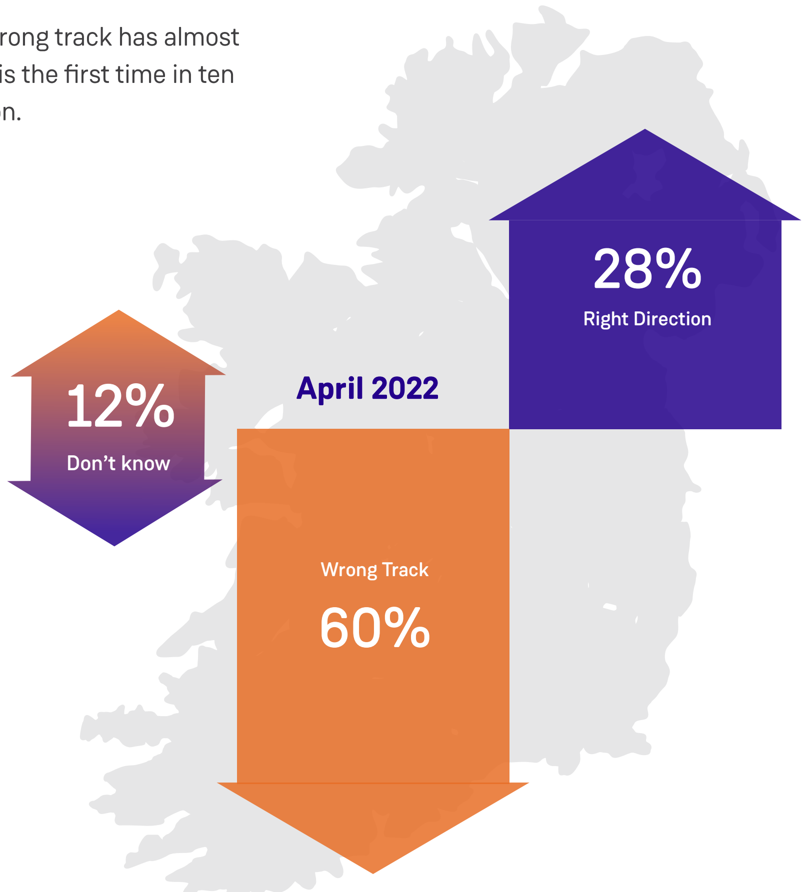
The Outlook

85% of us worry that the cost of living is going to get much worse over the coming year.

62% of us expect the general economic situation will get worse over the next 12 months.

59% of us don't see the cost of living crisis as temporary and don't expect a return to normal anytime soon.

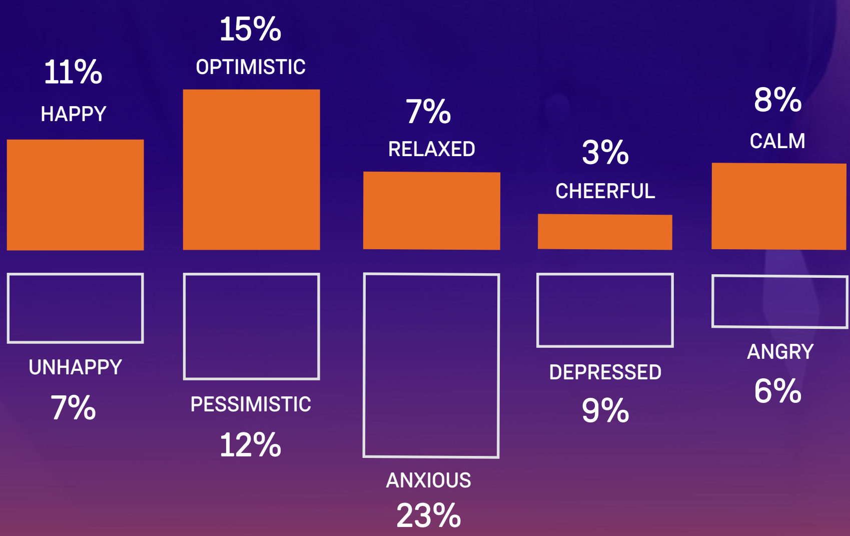


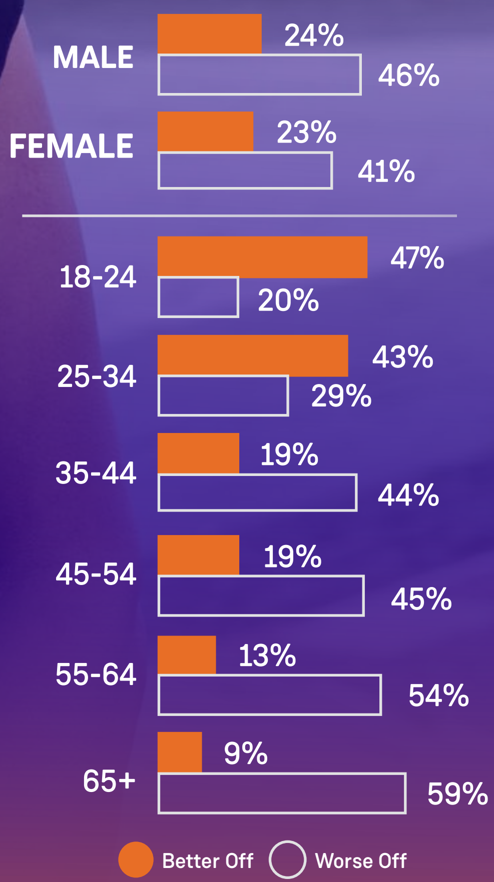


Just 1 in 4 of us expect to be better off this time next year.

The dominant mood in Ireland today is anxiety, felt by almost 1 in 4 of us (23%). This had reached 19% in 2021 – in the midst of the pandemic – before falling to 16% in January this year. With the emergence of the cost of living crisis, anxiety levels are now once again on the rise.

One silver lining is that younger people are feeling more positive when we look at the next 12 months. While just 1 in 4 of the general population (24%) feel we will be better off this time next year, this almost doubles among those aged 18-34.





Reflecting the Nation

A Regional Look at Financial Wellbeing

The financial wellbeing of people in Ireland is in a precarious situation. People in Dublin appear to be in the best place to cope, while the Connacht and Ulster region has the fewest people with money left over at the end of the month. Only 30% of people in Munster feel they could handle a major unexpected expense.

CONNACHT & ULSTER

I have money left over at the end of the month: **27%**

My finances control my life: **53%**

I am just getting by financially: **61%**

I could handle a major unexpected expense: **33%**

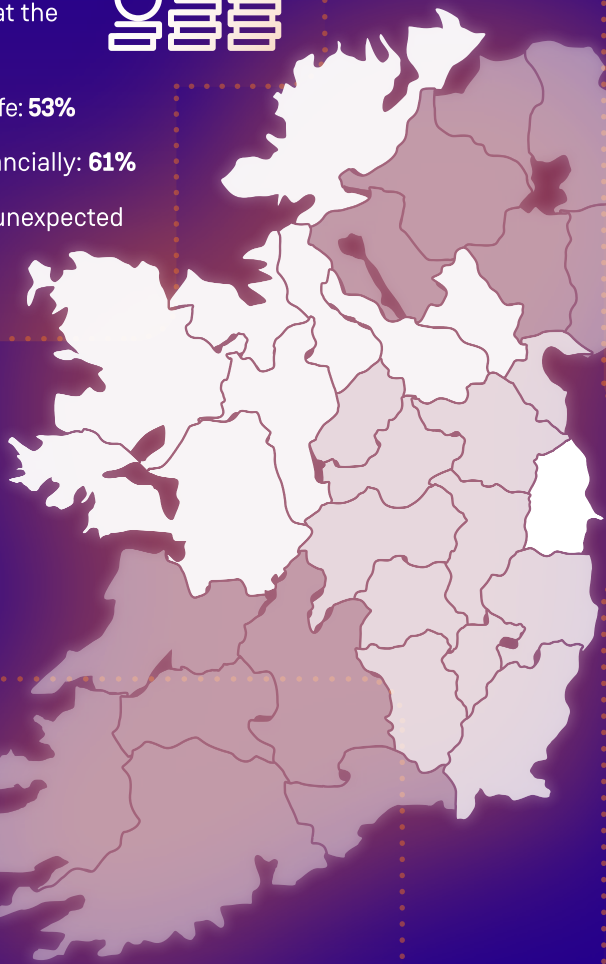
DUBLIN

I have money left over at the end of the month: **43%**

My finances control my life: **50%**

I am just getting by financially: **61%**

I could handle a major unexpected expense: **43%**



MUNSTER

I have money left over at the end of the month: **37%**

My finances control my life: **51%**

I am just getting by financially: **65%**

I could handle a major unexpected expense: **30%**

LEINSTER

I have money left over at the end of the month: **39%**

My finances control my life: **57%**

I am just getting by financially: **57%**

I could handle a major unexpected expense: **33%**

Methodology

Permanent TSB and Kantar's Reflecting Ireland research series looks at how consumer behaviour is changing in Ireland.

Our fourth report focuses on consumer sentiment, attitudes towards the cost of living, how people are adapting towards increasing prices, how their future spending habits will be affected and how they rate their ability to cope.

- Interviews were conducted online among a sample of those aged 18+.
- Quota controls were set on gender, age, social class and region to mirror the 18+ population profile.
- 1002 interviews were conducted in total.
- Interviews were carried out between 13th - 22nd of April 2022.
- Data weighted to reflect the adult population aged 18+.
- The margin of error for this research is +/- 3.1%.

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