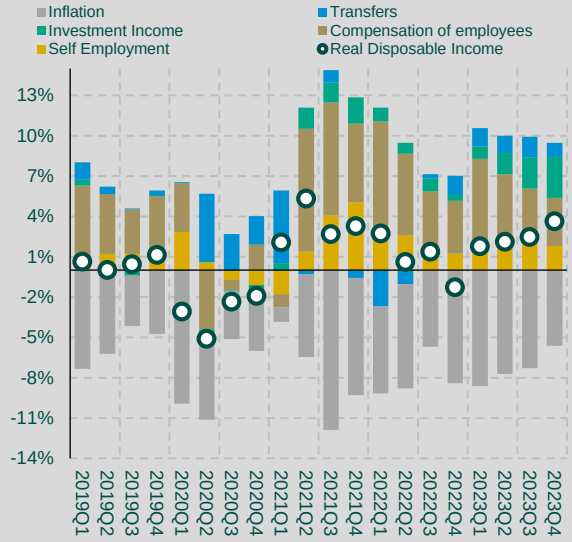
## Box 3: Sources and uses of household disposable income

The various challenges and trade-offs faced by Irish households in recent years are, perhaps, most evident from the Institutional Sector Accounts (ISA). These data document both the source (or origin) of disposable income of the household sector – in aggregate terms – and the subsequent allocation (or use) of this income between current spending and saving.

The sources of real (inflation-adjusted) household income (**figure 7A**) illustrate the resilient performance of the labour market over the last number of years, with compensation of employees (essentially employee earnings) driving growth in household income since mid-2021. This has, however, been somewhat offset by the corrosive effects of inflation, which has been a major drag on real income growth over the past two years. In 2023, for instance, real household incomes grew by just over 3 per cent, despite compensation of employees (the national wage bill) rising by 8½ per cent, with the difference largely driven by price increases.

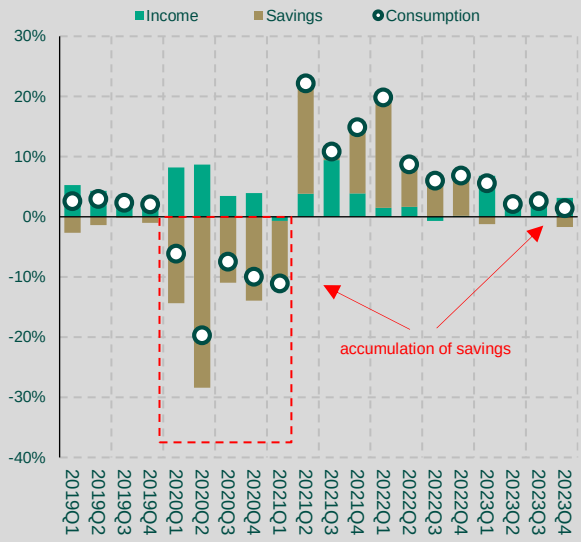
### Figure 7: Household disposable income growth – source and uses

A: Source of real household incomes, year-on-year




Note: Inflation refers to the personal consumption deflator (PCD)
Source: CSO.

B: Use of real household income and saving, year-on-year




Note: Savings, consumption and income all deflated by PCD
Source: CSO

Against this backdrop of inflation, households have faced a trade-off between adjusting their spending or forgoing savings. In aggregate terms, households have responded by softening consumer spending. A large wedge exists between the value of consumer spending which has increased by 20 per cent since the first quarter of 2022 and the volume of spending which only increased by 7½ per cent over the same period.

The decision to slow the pace of real consumer spending growth takes on increasing significance when the stock of household savings is taken into consideration. Having accumulated substantial 'excess' savings during the pandemic (**figure 7B**) households could have used these excess savings to support consumption volumes during the period of high inflation, as has been the case in the US,^ where households have now largely exhausted their existing stock of 'excess' savings.

The decision by Irish households not to do the same, and indeed to increase savings over the past year, may reflect a number of factors including the precautionary behaviour of households at a time of heighted uncertainty and the concentration of savings within higher-income households.^^ As a result, Irish households continued to hold around over €152 billion in deposit accounts at the start of this year.

Looking ahead, despite the period of elevated inflation, household balance sheets remain in a healthy position (at least in aggregate terms). The easing in inflation should give rise to a pick-up in real income growth this year, which in turn should boost consumer spending over the coming quarters.

^ https://www.frbsf.org/research-and-insights/data-and-indicators/pandemic-era-excess-savings/
^^ See *Two sides of the same coin: consumption and savings patterns post-pandemic, Economic Insights – Winter 2023*, available at: https://www.gov.ie/en/publication/6a0b0-economic-insights-winter-2023/