

Note : Below are extracts from an article published by The Irish Times( 3<sup>rd</sup> August 2022) and latest quarterly report by the Central Bank of Ireland as referenced below.

## Irish Household wealth surpasses €1 trillion for the first time



The latest Central Bank of Ireland (CBI) Quarterly Accounts Q1 2022 reports that household net wealth increased by €19.6bn in Q1 2022, to reach a record high of just over €1trn. So what is driving this significant rate of deposit saving and what does it mean for Irish investors with an appetite to look at cash alternative options?

According to The Irish Times, Burke -Kennedy (2022) reports that Irish households were saving more of their monthly disposable income than any other euro zone country at the height of the Covid-19 pandemic in 2020:

The rise in wealth, detailed in the Central Bank's latest quarterly financial accounts, comes despite the crippling effects of inflation and is, in the main, a function of higher house prices. Increased savings rates during the pandemic also played a role.

The figures show net household wealth in the Republic rose by €19.6 billion in the first quarter of 2022 to reach a record high of just over €1 trillion. The increase was driven by housing assets, which also reached a series high of €649 billion, above its previous peak of €630 billion recorded in the previous quarter.

“Positive revaluations in housing assets” represent the dominant driver of increases in net wealth in recent quarters, the regulator said, noting the year-on-year jump in housing values amounted to €95 billion, representing the highest annual revaluations on record.

Increasing deposits and upward revaluations of other financial assets, collectively totalling €32 billion year-on-year, have also been important sources of growth in net wealth, it said.

(Burke-Kennedy, 2022)

We tend to think about money in nominal terms – euro and cent - in our current and bank deposit accounts. However, in the long run, the only rational definition of money is purchasing power. If my capital (money) and any interest thereon simply remain the same and my living costs double, in real terms I have effectively lost half my money. If money is purchasing power, risk becomes that which either threatens its security or that which preserves or enhances it.

Defining risk, not as volatility, but as loss of purchasing power, changes the investment landscape completely. What is traditionally defined as low risk, cash and bonds, becomes high risk in this context (as they have historically provided minimal security from inflation). The default position of holding cash has always extracted a price in the form of opportunity cost

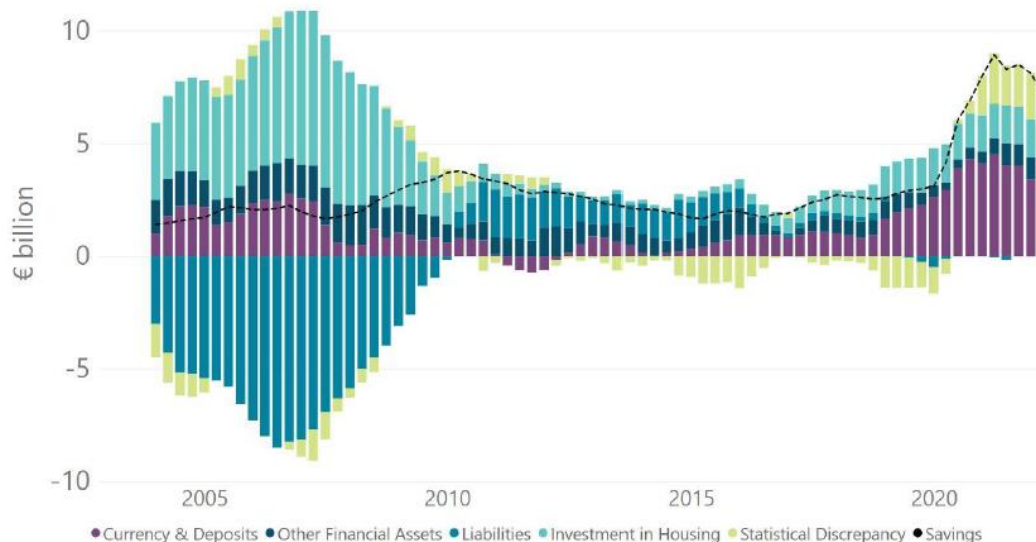
This Irish Times report by Burke-Kennedy(2022) continues with a description of how the CBI has reached its net worth calculation for households. Burke-Kennedy stipulates that :

In particular, the Covid-19 pandemic is likely to have had varying effects on the wealth of different household groups. Household net worth is calculated by adding the total value of the housing stock and financial assets — such as cash savings, shares, pensions and possessions such as cars and antiques — and subtracting debt owed or liabilities.

It is considered a crude measure of prosperity as it hides the distribution of household assets and liabilities across income groups and age categories.  
(Burke-Kennedy 2022)

The Central Bank Q1 2022 Review highlights further key influences on the net wealth calculation:

Household housing assets reached a series high of €649bn in Q1 2022, above its previous peak of €630bn last quarter. Positive revaluations in housing assets represent the dominant driver of increases in net wealth in recent quarters, with increases in the year to Q1 2022 representing the highest annual revaluations on record (€95bn). The below chart\* represents a snapshot of the distribution of household savings in Ireland since 2005:



**\*Note**, the CBI report highlights that this chart presents data smoothed over four quarters and so differs to actual quarterly movements described in Charts 1 and 2. The statistical discrepancy presented in this chart is a result of differences between the CSO's estimate of 'Savings' and savings as estimated through Financial Accounts concepts. Note that the methodology for estimating 'Investment in Housing' has been revised. This is now calculated by the Central Bank (based new house price and completions data) rather than CSO estimates of Gross Capital Formation (GCF). Consequently, the revised series for 'Investment in Housing' excludes investment in other non-financial assets.

Burke-Kennedy (2022) goes on to emphasize that “households are expected to run down savings built up during the pandemic to pay for higher energy and food bills.”

To counteract the current low interest rate environment, investors may have to consider moving some of their cash deposited in Irish financial institutions.

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In constructing the most appropriate risk adjusted portfolios for clients all asset classes may have a constructive positioning and holding – depending on the risk profile of the client and appropriate time horizons.

### References

Burke-Kennedy, E. (2022) ‘Wealth of Irish households rises above €1tn for first time’, *Irish Times*, 03 August. Available at : <https://www.irishtimes.com/business/economy/2022/08/03/wealth-of-irish-households-rises-above-1-trillion-for-first-time/> . (Accessed 04 August 2022).

## THE IRISH TIMES

Central Bank of Ireland (2022) ‘*Quarterly Financial Accounts for Ireland Q1 2022*’. Dublin. Available at: [https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/financial-accounts/quarterly-financial-accounts-for-ireland-q1-2022.pdf?sfvrsn=c65a941d\\_4](https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/financial-accounts/quarterly-financial-accounts-for-ireland-q1-2022.pdf?sfvrsn=c65a941d_4) [Accessed 05 August 2022].



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