

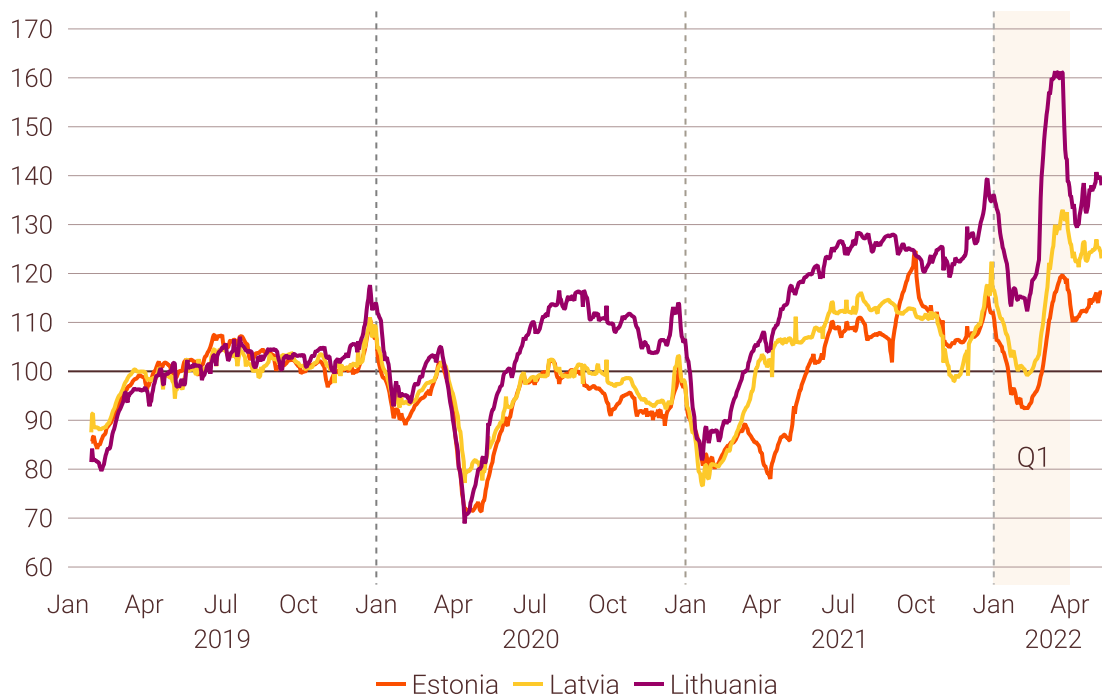
# Baltic consumer spending observer

## Consumer spending strong despite rising inflation and war uncertainty

- Cash withdrawals temporarily shot up following Russia's invasion of Ukraine on pre-cautionary motives
- Despite weaker consumer confidence and soaring prices, consumer spending expanded at a double-digit rate in Q1

### Daily card spending and cash withdrawal

Index, 2019 average = 100, 4 week MA



Sources: Swedbank Research & Macrobond

- Retreating pandemic risks and looser virus curbs have made shopping and services consumption more accessible and more enjoyable in the Baltics. According to the Google mobility data, the flow of people in retail stores and recreation places was notably larger at the start of this year compared to the beginning of 2021, especially in Latvia and Lithuania. The pent-up demand, job, wage and pension growth, government aid, and savings, including due to the funded pension scheme pay-outs in Estonia, are supporting consumption, despite rising inflation, which is increasingly denting the private purchasing power.
- Russia's invasion of Ukraine and associated price pressures have shattered consumer confidence. The fear caused by the war led to a spike in Swedbank ATM cash withdrawals in late February and early March, especially in Lithuania. However, so far households are not showing any signs of holding back their spending, and cash withdrawals have already normalised.
- In the first quarter, the Swedbank card spending, and cash withdrawal surged by 39%, 27% and 25% over the year in Lithuania, Latvia, and Estonia respectively. Real consumption growth is also strong, but it is expected to slow considerably later in the year.

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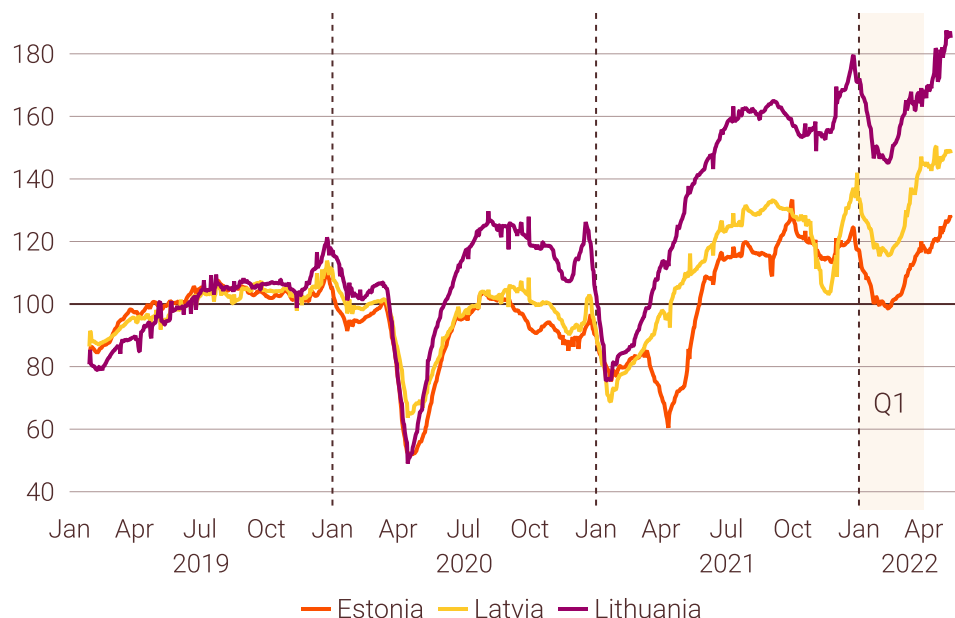
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## Card spending rebounded following January lull, strong annual growth through April

### Cash withdrawal spiked across the Baltics, surging most in Lithuania, after Russia invaded Ukraine

#### Daily spending without food and miscellaneous sectors

Index, 2019 average = 100, 4 week MA

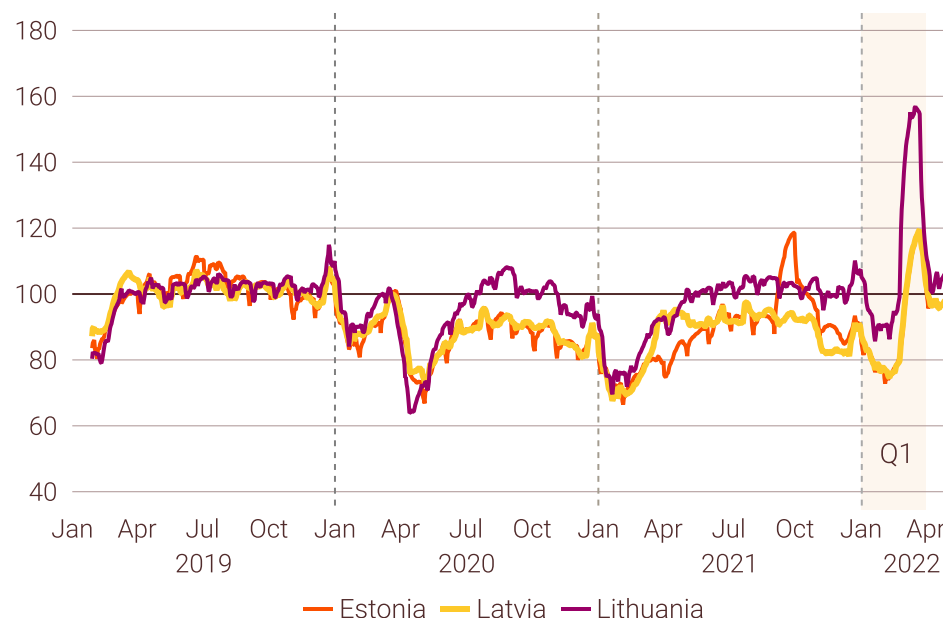


Sources: Swedbank Research & Macrobond

- Swedbank cards spending in non-food stores and for services remained strong across the Baltics in the first quarter. Its growth even accelerated compared to early 2021 on looser virus curbs. The spending dropped in January amid a calmer post-holiday period after the Christmas shopping spree but rebounded soon after.
- The eye-watering inflation and the war in Ukraine have not derailed the non-food spending. In fact, the shock and fear may have added to the demand for some vital non-food items such as medicine and fuel. Willingness to donate goods and money (gift vouchers) to Ukrainian residents likely also supported card spending.

#### Cash withdrawal

Index, 2019 average = 100, 4 week MA



Sources: Swedbank Research & Macrobond

- Cash withdrawals spiked after Russia's invasion of Ukraine on pre-cautionary motives, especially in Lithuania, which is closer to the war zone. Yet, cash-outs across the Baltics normalised in the second half of March.
- Despite the one-off surge, the share of cash withdrawals within total card transactions remained similar to the previously observed levels. Around 30% in EE, 40% in LV and around a half in LT. The war effect on the cash withdrawal was more pronounced in LV and LT. Two weeks after the invasion the cash share in total transactions temporarily rose to 59% in LT, 46% in LV and 40% in EE.

## Strong nominal growth registered in all cards spending categories in the Baltics

### Base effects and soaring inflation added to the strong spending growth

#### Card spending by sector in Q1 2022, y/y %

	Estonia		Latvia		Lithuania	
	Real	Nominal	Real	Nominal	Real	Nominal
Food and misc.	3%	12%	5%	15%	2%	14%
Health services	13%	19%	19%	25%	82%	92%
Home and garden	8%	20%	54%	65%	-1%	12%
Electronics	28%	25%	24%	22%	35%	41%
Airports and Airlines	264%	278%	474%	499%	255%	253%
Hotels and Motels	134%	162%	224%	259%	264%	301%
Travelling	107%	122%	39%	42%	134%	160%
Fuel	-1%	30%	5%	39%	26%	69%
Clothing	30%	35%	61%	70%	84%	88%
Restaurants	51%	61%	88%	100%	115%	139%
Beauty	31%	37%	32%	39%	95%	115%
Leisure	29%	39%	59%	65%	142%	159%
ATM cash-out		22%		16%		37%
Card payments (POS)		26%		35%		41%
<b>Total card turnover</b>	<b>11%</b>	<b>25%</b>	<b>16%</b>	<b>27%</b>	<b>22%</b>	<b>39%</b>

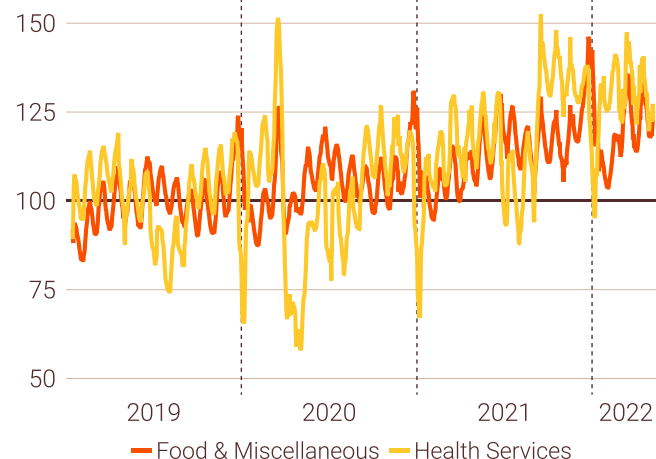
Source: Swedbank card data, Eurostat, and Swedbank Research calculations

- In Q1, Swedbank cards turnover growth picked up to 25-40% annually in nominal terms in the Baltics supported by favourable base effects and higher prices. Private consumption was also reinforced by growing nominal income given rising employment, higher wages and pensions, as well as government aid and demand arising from the support to Ukrainian residents. Broader spending opportunities, especially on previously restricted services, are driving the release of pent-up demand. But high and accelerating inflation is increasingly weighing on the private purchasing power. So, it seems some households have already resorted to their savings to support their real consumption. Real growth of Swedbank card turnover in the Baltics was obviously slower, albeit still very solid at 11-22% in the Baltics.
- The number of cards transactions has slid from its 2021 Q3 peak but is well above Q1 levels of 2019-2021 in all three countries. The average cards transaction value was up 7-13% y/y.
- Spending in all categories, except travelling and transportation in Estonia, has reached or exceeded its pre-pandemic level in nominal terms. Most impressive growth rates in Q1 were registered in categories related to tourism and recreation, which benefitted most from retreating pandemic risks and looser virus curbs compared to last year. Increased spending on tourism has also lifted spending outside the country of residence. Nominal spending abroad in Q1 increased by 54% in EE, 37% in LT and 38% in LV.
- Nominal spending on food saw a solid growth despite a strong rebound in the spending on restaurants and catering. However, the increase was mostly driven by higher food inflation, as the real spending growth was more muted. Fuel spending shows a similar picture in Estonia and Latvia, while in Lithuania the real spending has been more upbeat. It is possibly because of higher war-related panic buying and demand to ensure support to Ukraine. If the EU imposes an embargo of Russian oil imports, the prices of fuel could soar even more, and people will have to adjust their commuting habits and hence spending on fuel.
- The fallout from the war in Ukraine will continue putting upwards pressure on inflation, negatively affecting the purchasing power in the Baltics. While higher inflation will support nominal spending, real spending levels will be less resilient. On a positive note, household consumption will be supported by the refugees from Ukraine, while they stay in the Baltics.

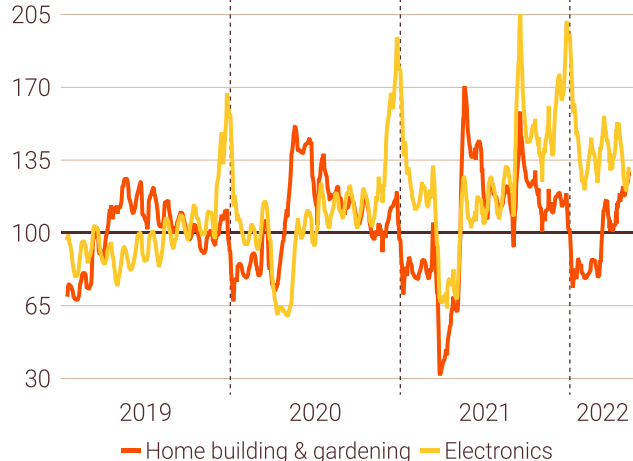
## Estonia: daily transaction turnover according to sectors

### 2 weeks moving average, index (2019 average = 100)

#### Necessities



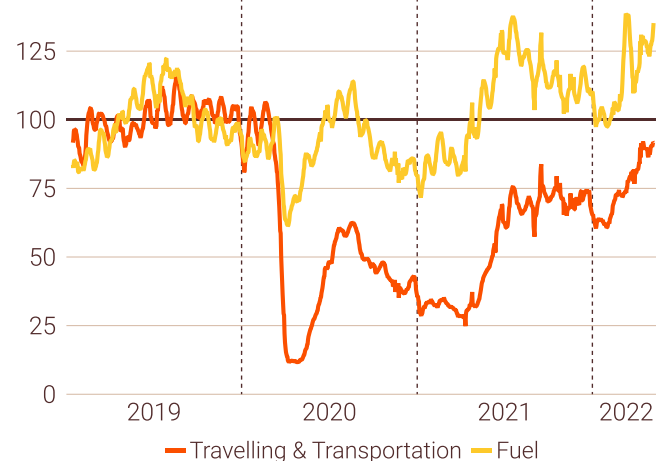
#### Activities at home



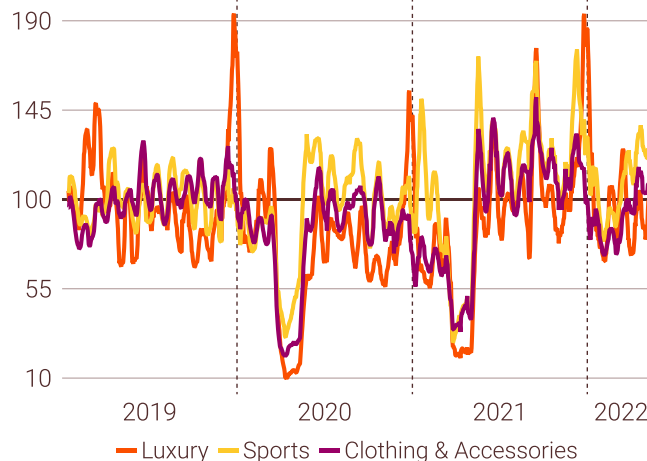
#### Tourism



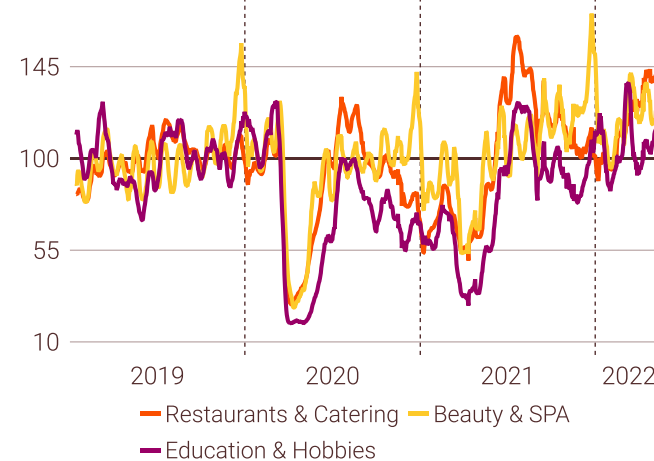
#### Mobility



#### Clothing, sports & accessories



#### Services

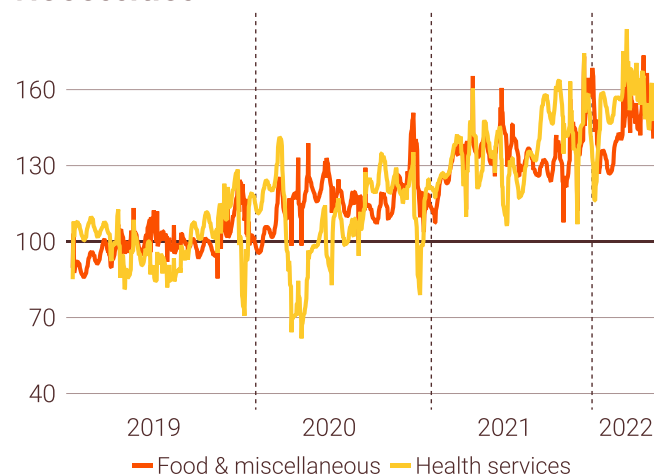


Source: Swedbank Research &amp; Macrobond

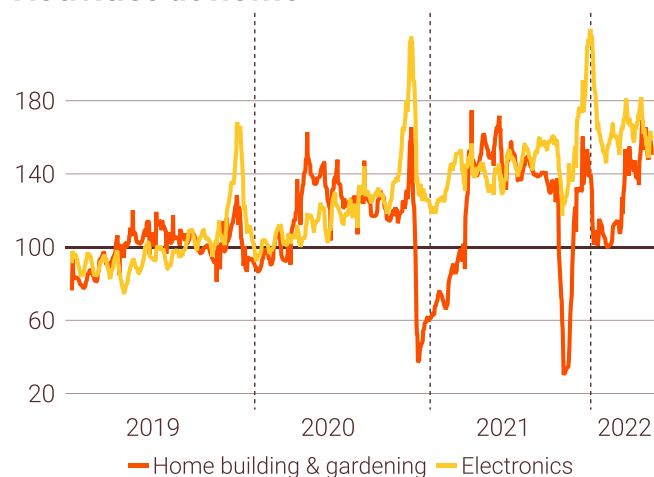
## Latvia: daily transaction turnover according to sectors

### 2 weeks moving average, index (2019 average = 100)

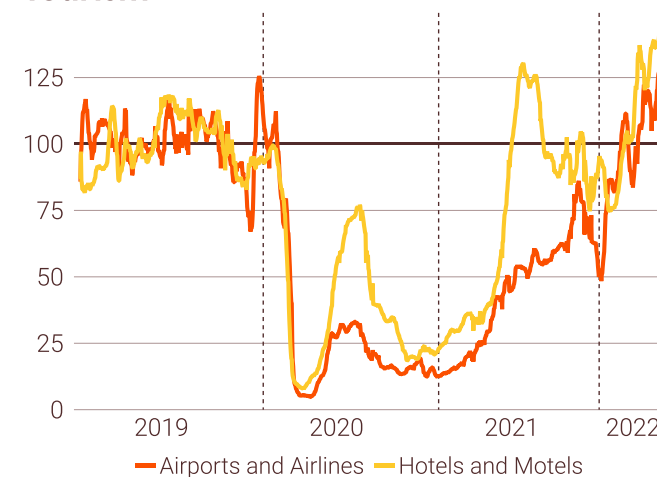
#### Necessities



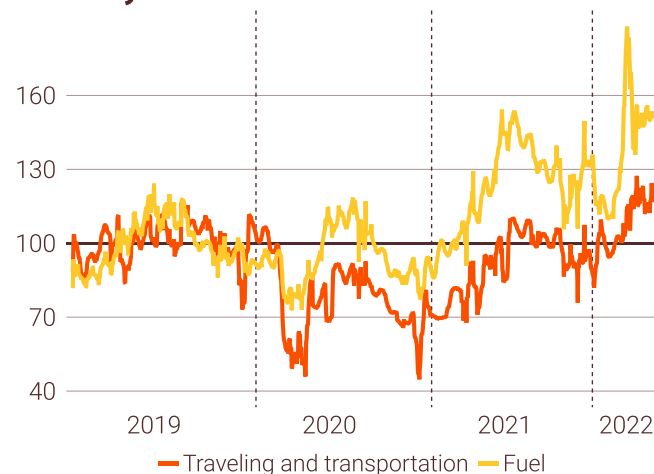
#### Activities at home



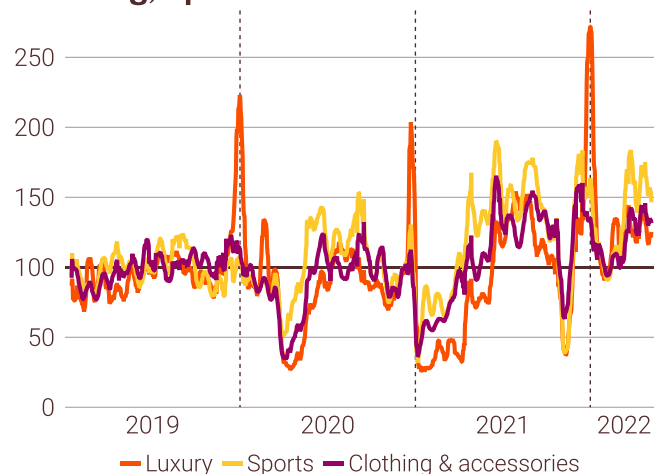
#### Tourism



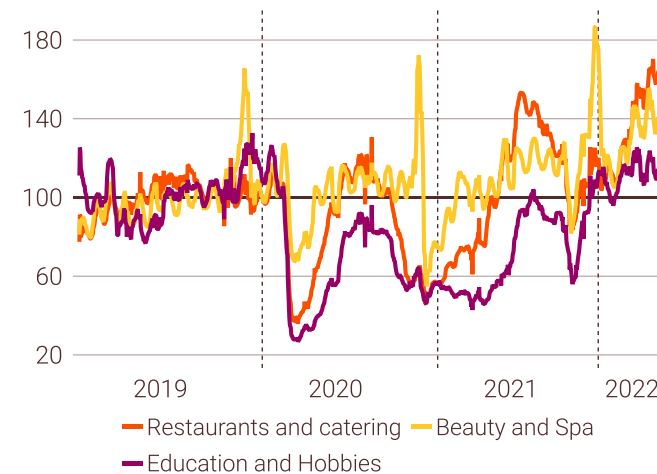
#### Mobility



#### Clothing, sports & accessories



#### Services

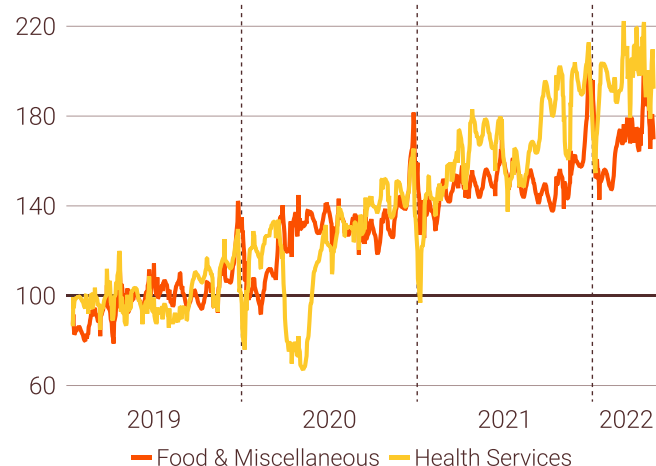


Source: Swedbank Research & Macrobond

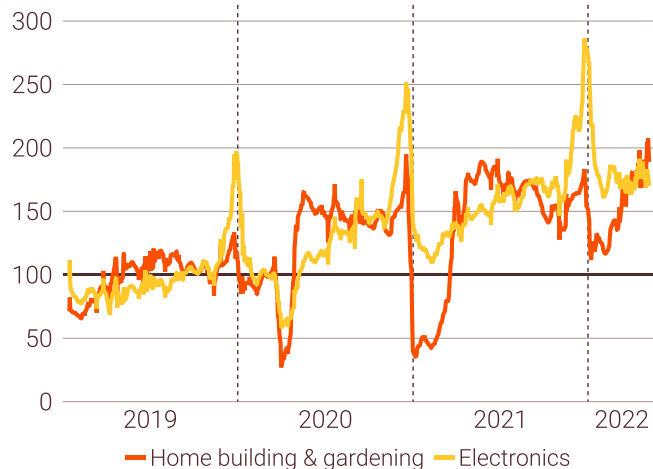
## Lithuania: daily transaction turnover according to sectors

### 2 weeks moving average, index (2019 average = 100)

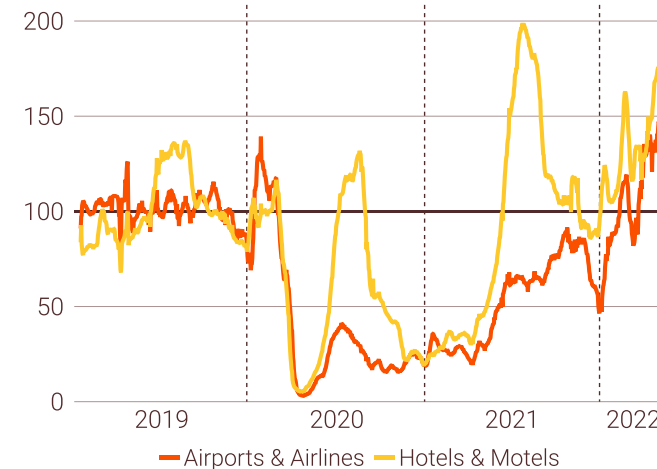
#### Necessities



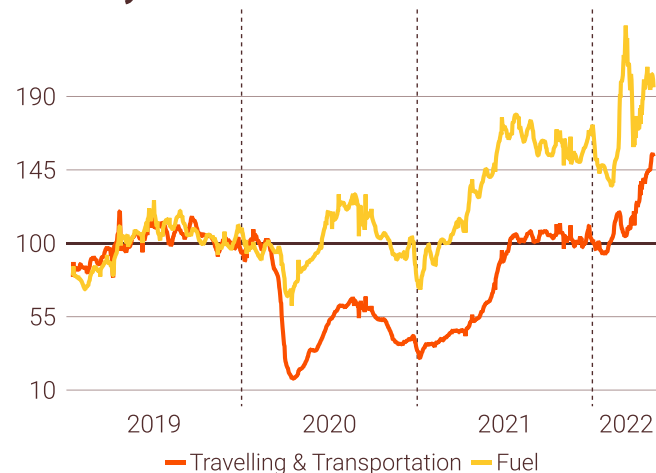
#### Activities at home



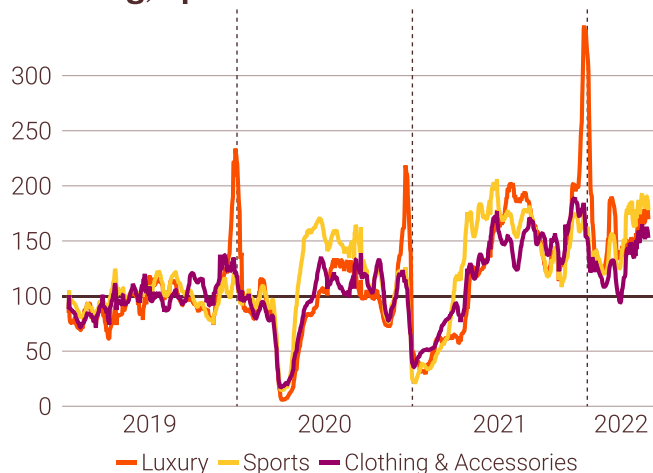
#### Tourism



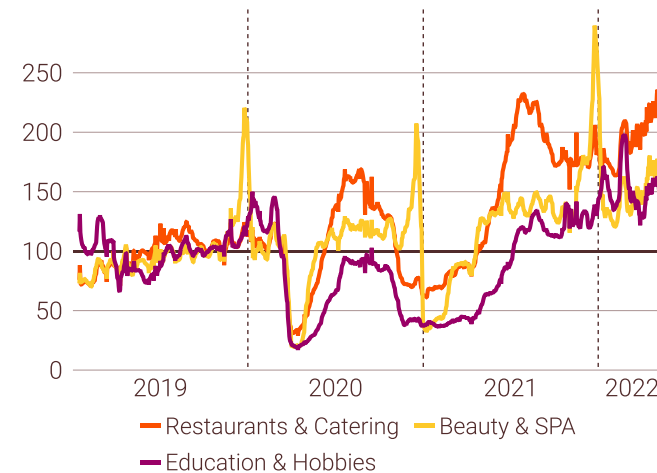
#### Mobility



#### Clothing, sports and accessories



#### Services



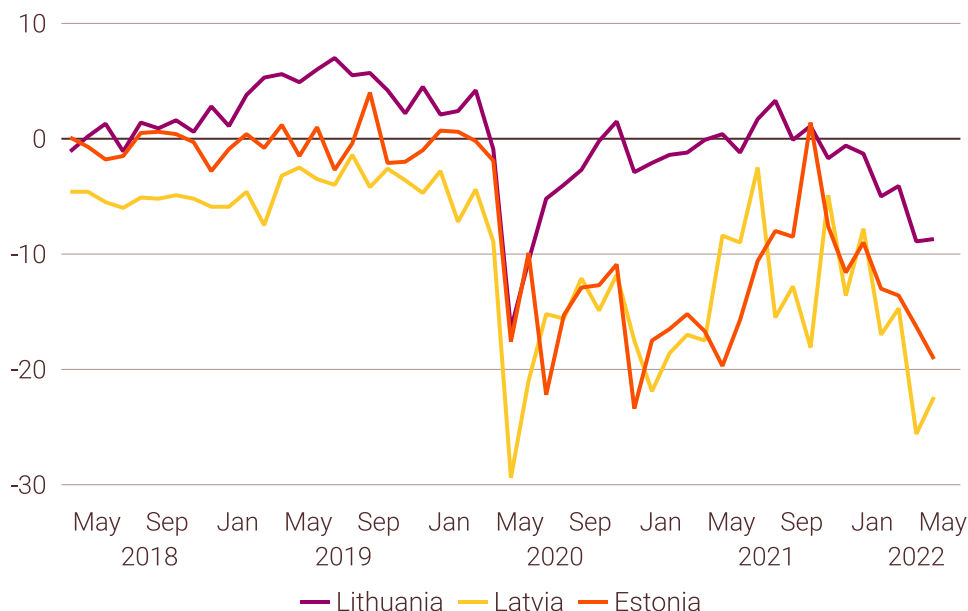
Source: Swedbank Research & Macrobond

## Background: Weaker consumer confidence and climbing inflation

Baltics are feeling the negative consequences from the plethora of problems on the Eastern front

### Consumer confidence, SA

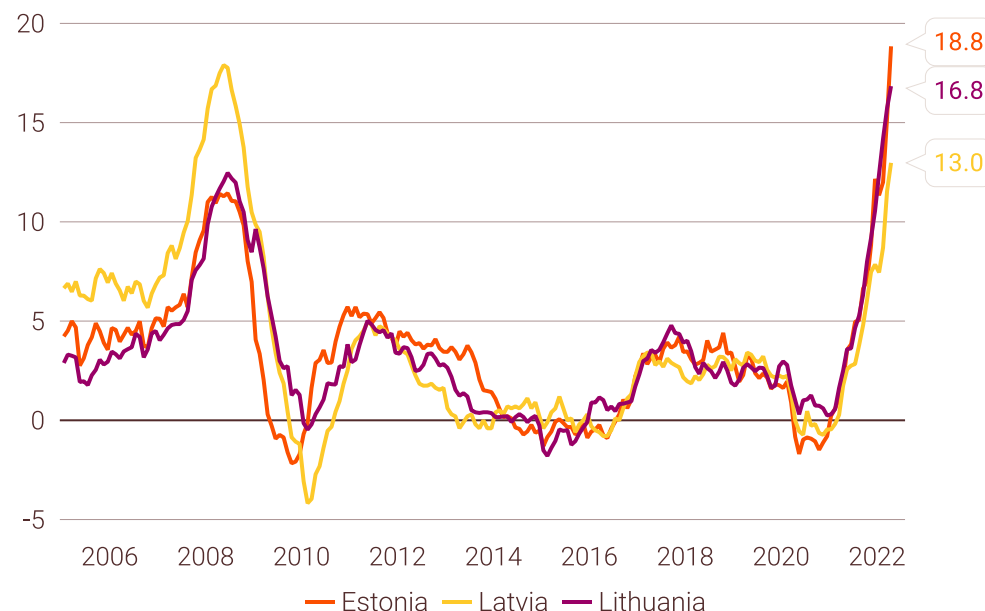
Balance, %, SA



Sources: Swedbank Research & Macrobond

### Consumer prices

CPI, y/y %



Sources: Swedbank Research & Macrobond

- Because of the war and high inflation, consumer confidence has dropped in recent months, but households are not expected to cut their spending dramatically. We forecast that household consumption will still increase by 1–2% this year, but downside risks are still present.
- In April, inflation increased to 13-19% in the Baltics. The peak is still ahead, as spiking commodity prices have not yet been fully reflected in utility tariffs and other prices. Inflation is likely to exceed 10% on average in all three countries this year.
- An even deeper and more prolonged inflation shock cannot be ruled out, as most input prices are driven by unpredictable and ongoing geopolitical shocks.
- Food inflation, prices related to housing and fuel are the main driving forces of accelerating price increase - all greatly affected by the consequences of the war and sanctions.
- Governments are considering different fiscal measures that could ease the inflationary burden on households. In Lithuania, a wide range of support measures has already been approved.

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