

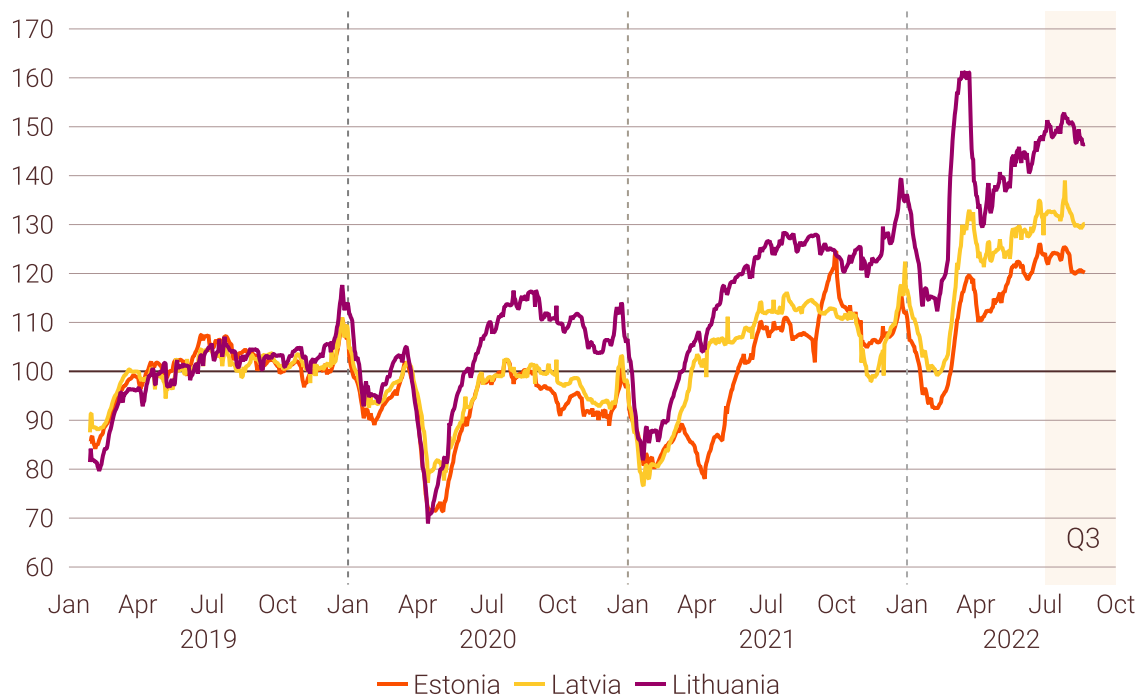
Baltic consumer spending observer

Feasting now, fasting later?

- Card spending shows that people are slow in adjusting their spending habits despite collapsing purchasing power
- Card turnover, adjusted for inflation, has started limping in recent months

Daily card spending and cash withdrawal

Index, 2019 average = 100, 4 week MA



Sources: Swedbank Research & Macrobond

People keep spending considerably more than last year or before the pandemic and absorbing stubbornly high inflation. Even though they are wary about the future, it seems that many if not most are unwillingly and only slowly adjusting their consumption habits in the face of soaring prices. Tired from pandemic curbs, cautiousness, and boredom over the past couple of years, people are celebrating the lift-off of restrictions by unleashing their spending on enjoyment and relaxation.

Job growth and wage uptick have helped prop the spending up. However, the wage gains fell short of consumer price growth in the Baltic economies already in spring. The decline in the purchasing power has worsened to almost 10% since then. In some cases, to prolong the celebration, in other cases, to cover the needs expenses people have reduced their savings rate, and we also see some uptick in borrowing for consumption purposes.

Tightening inflation grip has started to weigh on consumption though. Although, the nominal card turnover is still growing at a double-digit year-on-year rate, adjusted for changes in prices, it decreased in June and July in all the Baltics. The fall and winter months are likely to be gloomier, as we enter the heating season with higher utility bills.

Analysts:

Agnese Buceniece, agnese.buceniece@swedbank.lv, +371 28796654

Greta Ilekýtė, greta.ilekyte@swedbank.lt, +370 6201 52 70

Laura Orleāne, laura.orleane@swedbank.lv, +371 6744 58 75

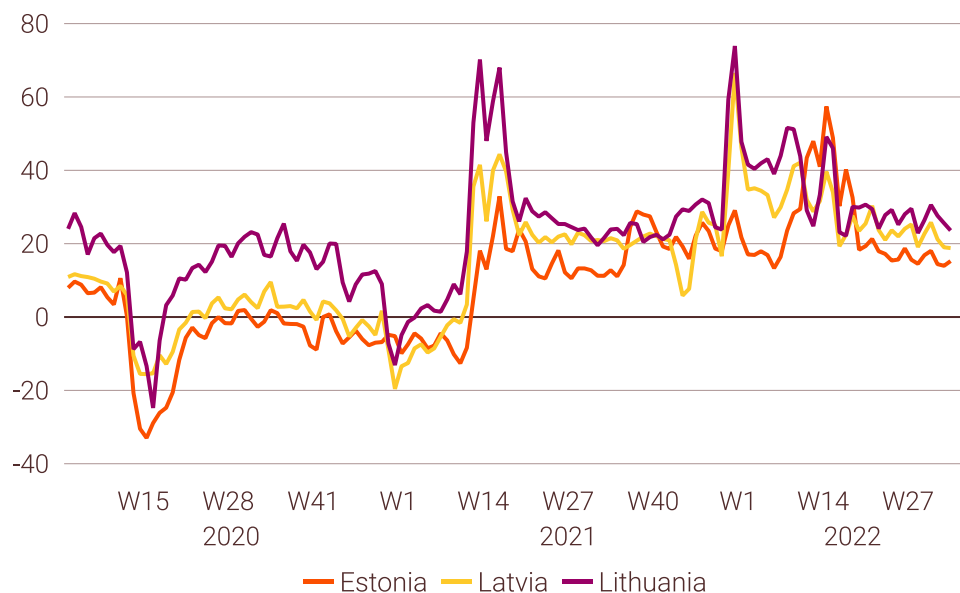
Laimdota Komare, laimdota.komare@swedbank.lv, +371 6744 42 13

Consumers keep spending and absorbing most of the price surge

Card purchases, adjusted for inflation, have held up better in LV than EE and are still growing in LT

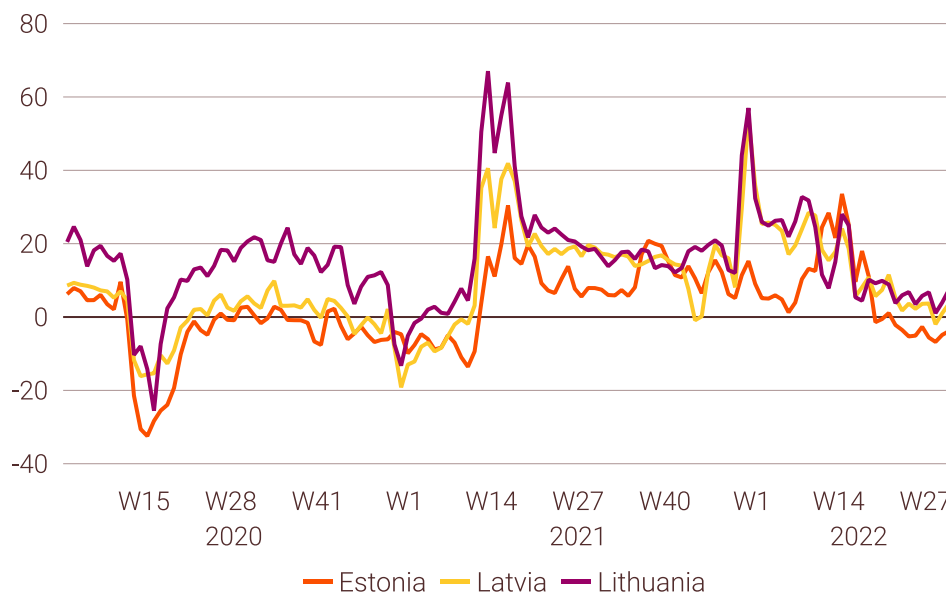
Total spending - card purchases and ATM withdrawals

Transaction turnover, y/y %, 2wma



Total real spending - card purchases and ATM withdrawals

Transaction turnover, HICP deflated spending, y/y % 2wma



W = week
Sources: Swedbank Research & Macrobond

W = week
Sources: Swedbank Research & Macrobond

- In the second quarter, the card purchases (excl., ATM transactions) increased by 25-30% year on year in the Baltics boosted by the release of the pent-up demand for services. The consumption shift in favour of goods and away from services brought on by the pandemic woes seems to be reversing much faster than anticipated. The nominal spending expanded at a slightly slower pace over the summer months, likely reflecting not only the fading base effects from last spring but also growing financial constraints and wariness of households.
- Inflation has shot up to about 20% in the Baltics, eroding the purchasing power of households and curbing real spending. The card purchases, adjusted for soaring prices, started to fall already in late May in Estonia, while only in August in Latvia, and they are still growing by about 5% in Lithuania. But of course, card payments do not capture the total spending of households. E.g., cash is also part of the picture. Cash withdrawals have been growing at a more muted pace than card purchases. But adjusted for inflation, they've been falling since April in all three Baltic countries.
- People may be choosing cards as their preferred method of payment more often. But it may also be the case that people are holding back cash withdrawals as they are spending the cash, they took out from ATMs just after Russia invaded Ukraine.

Double digit growth in all spending categories amidst skyrocketing inflation

Real spending down on food and fuel, while people still splurge on recreation, catering, and travel

Card spending by sector in Q2 2022, y/y %

	EE		LV		LT	
	Nominal	Real	Nominal	Real	Nominal	Real
Food and misc.	12%	-2%	13%	-3%	21%	6%
Beauty and health	15%	9%	20%	12%	23%	14%
Constr., home, garden	21%	5%	12%	4%	12%	-7%
Electronics	36%	36%	16%	14%	17%	13%
Airports and Airlines	150%	128%	270%	273%	252%	252%
Hotels and Motels	133%	114%	171%	141%	133%	117%
Travelling	134%	122%	52%	50%	152%	139%
Fuel	32%	-15%	37%	-15%	52%	0%
Clothing, accessories	29%	24%	27%	21%	30%	28%
Restaurants	63%	52%	79%	69%	81%	66%
Financial, legal services	16%	15%	28%	21%	20%	10%
Leisure	47%	39%	25%	23%	50%	44%
<i>ATM cash-out</i>	<i>13%</i>	<i>-8%</i>	<i>8%</i>	<i>-9%</i>	<i>8%</i>	<i>-11%</i>
<i>Card payments</i>	<i>25%</i>	<i>5%</i>	<i>26%</i>	<i>10%</i>	<i>31%</i>	<i>13%</i>
Total transactions	21%	1%	19%	2%	20%	1%

Note: We use the closest available subcategories of inflation (HICP) to estimate the real spending by sector. However, due to differences in the classification of inflation and card spending categories, the real card spending estimates can be imprecise and should be viewed critically. Moreover, card turnover represents both domestic transactions and transactions made abroad, while we consider only local inflation.

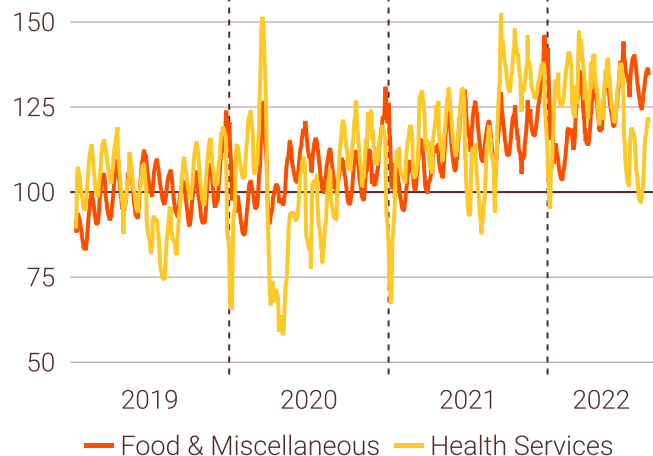
Sources: Swedbank card data, Eurostat, and Swedbank Research calculations

- In the second quarter, total card turnover - cash withdrawals and card purchase volume - in the Baltics continued to record a strong growth of around 20%, as consumers absorbed the double-digit inflation - the highest in almost three decades. All categories of card purchases were growing at least at a double-digit rate, but the pace has retreated from its peak registered in late winter, early spring.
- The most impressive growth rates were still seen in the categories related to tourism, recreation, and eating out, which rebounded from the pandemic gloom of previous years. The availability of vaccines and the lift-off of COVID-19 restrictions in the Baltics and abroad encouraged people to travel, go out and socialize more. Much of this spending has taken the place outside the borders of the Baltics. The share of total card payments made abroad (at about 22-26% in July) have recovered close to their pre-pandemic levels. Increasing prices of necessities and warnings about tough winter have not deferred fun-related consumption.
- The weakest growth rates were registered for ATM cash withdrawals, and for spending in food and miscellaneous stores, beauty and health stores and service providers, as well as in stores specializing in selling building materials, home and gardening goods. These categories, exc. beauty, were less affected by the pandemic restrictions and some even benefitted from people spending more time at home. Currently, they have a lower upside.
- Total card turnover, adjusted for higher prices, barely increased in the second quarter compared to the same period a year ago, up 1-2%, and it declined by about 4-6% in Lithuania and Latvia and by almost 10% in Estonia in June and July.
- Most of the decline in card turnover adjusted for inflation is due cash withdrawals. We also see that people have reduced their fuel consumption (falling also in Lithuania over summer) and the real spending in food stores is also down. While the real spending in construction, home, and garden related stores in the summer has slipped below last year's levels. The real spending in restaurants and on health has stopped growing in Estonia in July. Across the Baltics some people already must save on necessities, while others still splurge on travel. The least well off are harder hit by the soaring food and energy prices, as these categories account for larger shares in their budget. Inequality is likely rising.

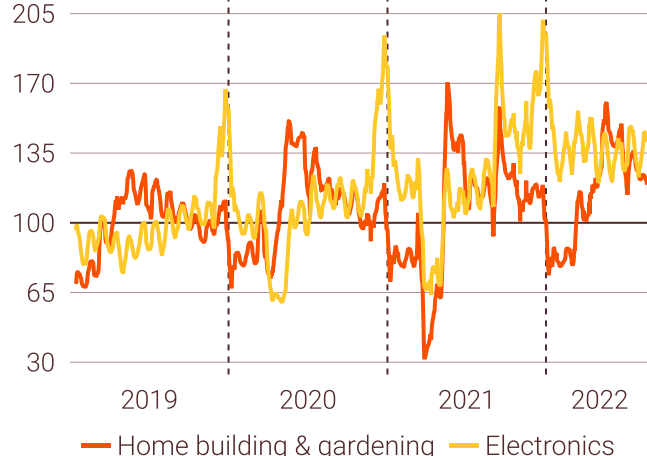
Estonia: daily transaction turnover according to sectors

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

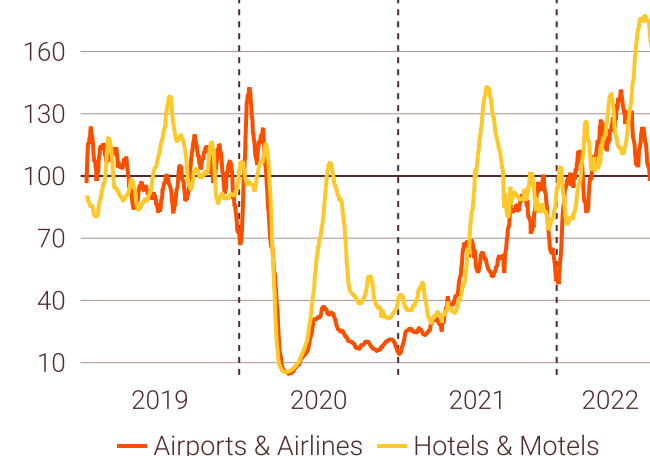
Necessities



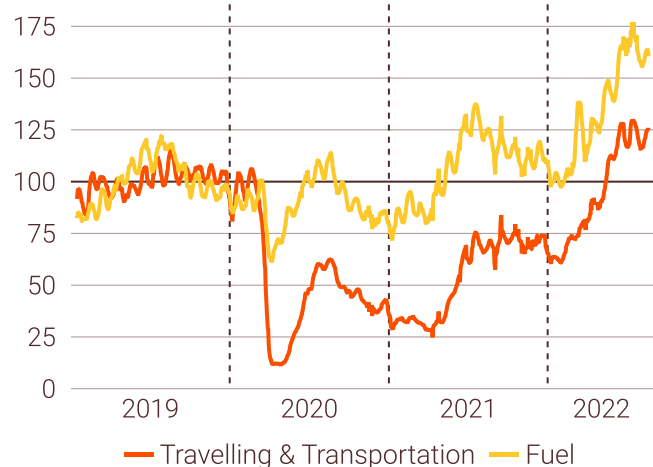
Activities at home



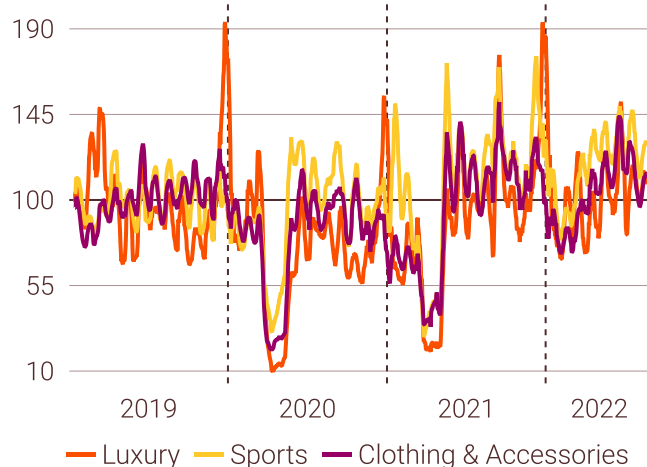
Tourism



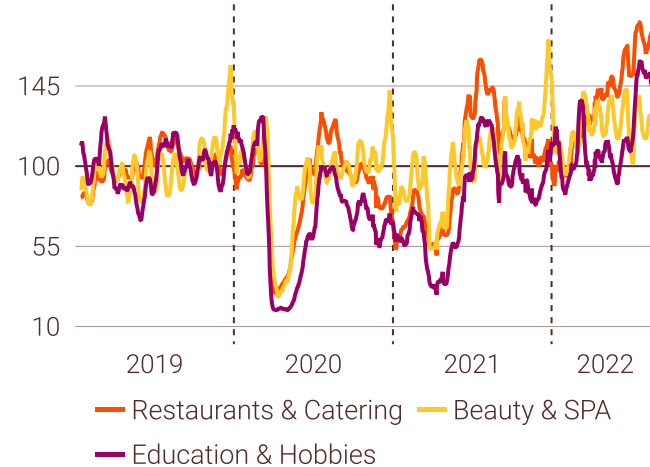
Mobility



Clothing, sports & accessories



Services

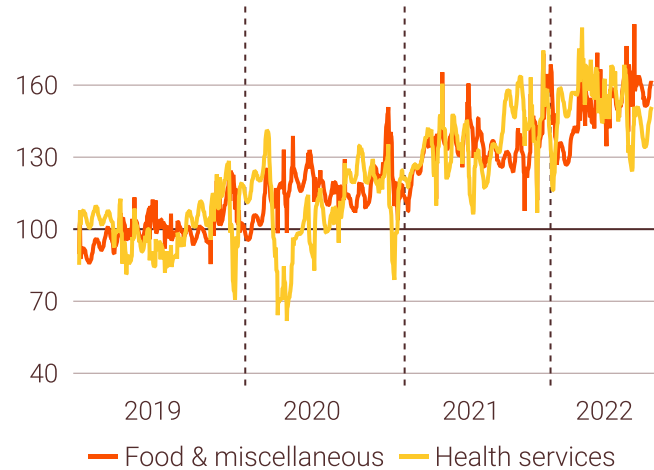


Source: Swedbank Research & Macrobond

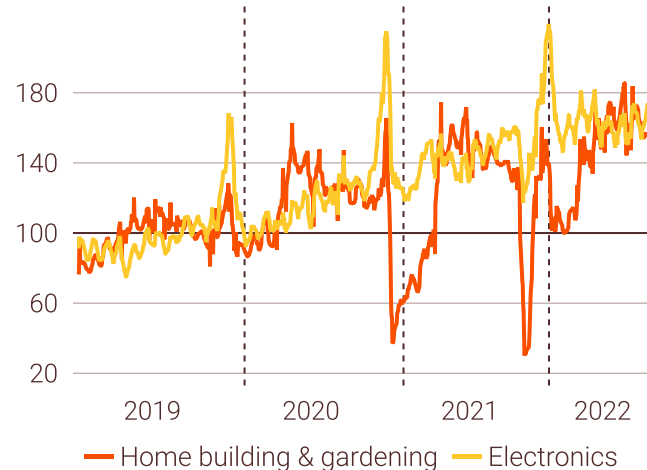
Latvia: daily transaction turnover according to sectors

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

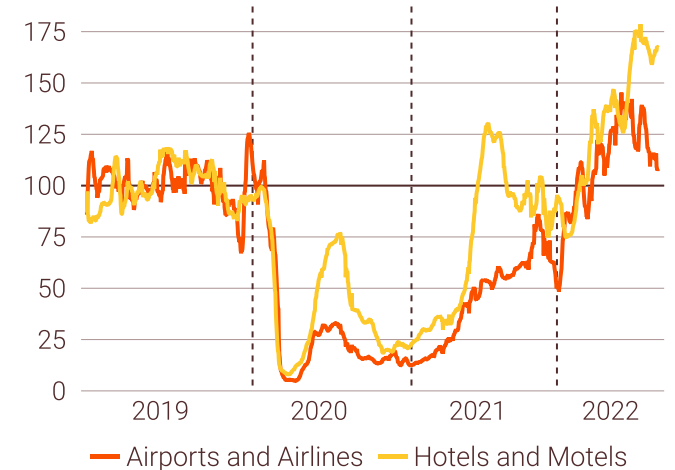
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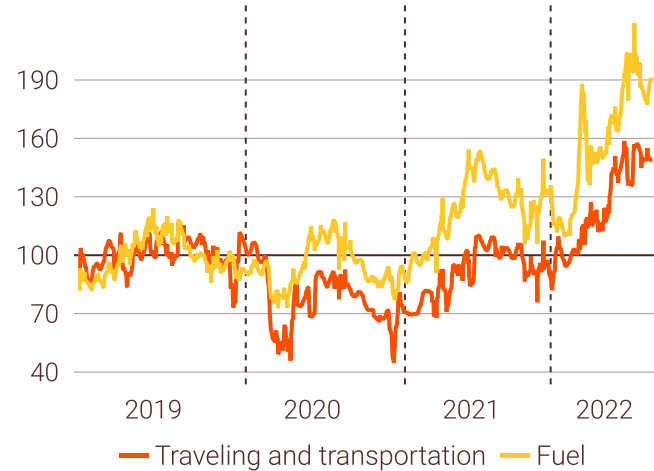
Activities at home



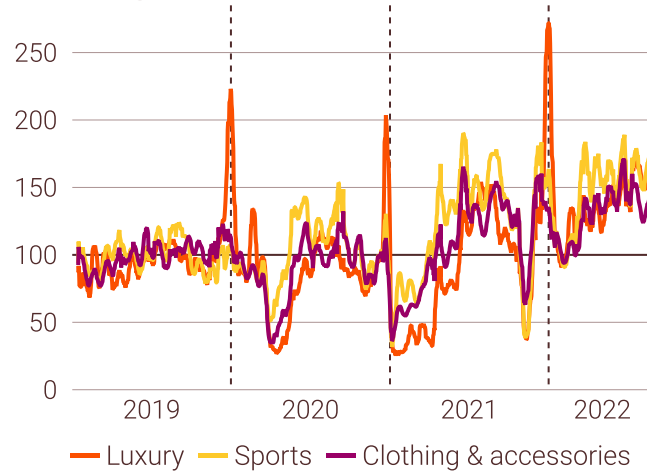
Tourism



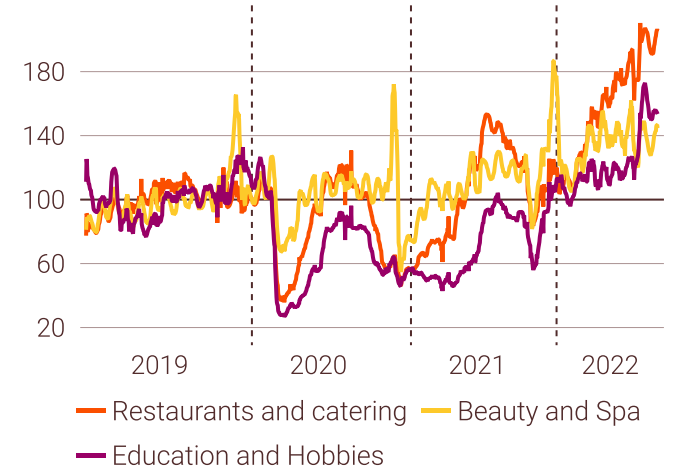
Mobility



Clothing, sports & accessories



Services

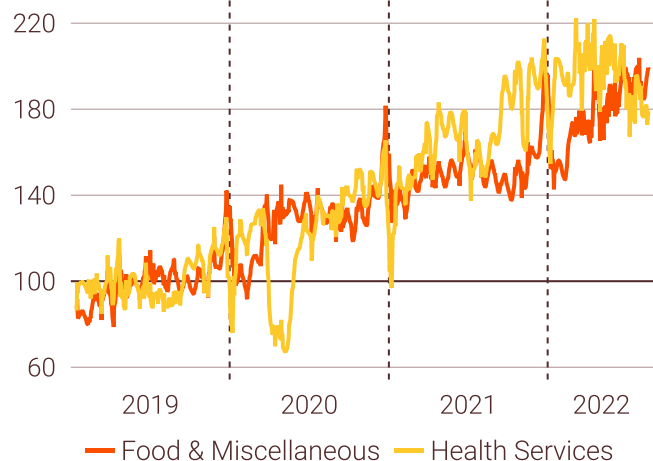


Source: Swedbank Research & Macrobond

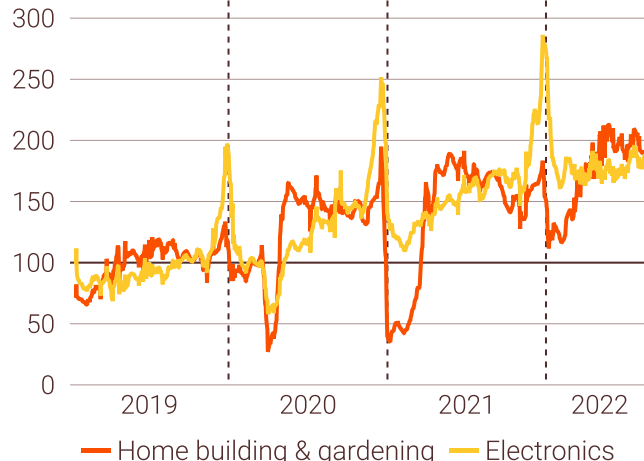
Lithuania: daily transaction turnover according to sectors

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

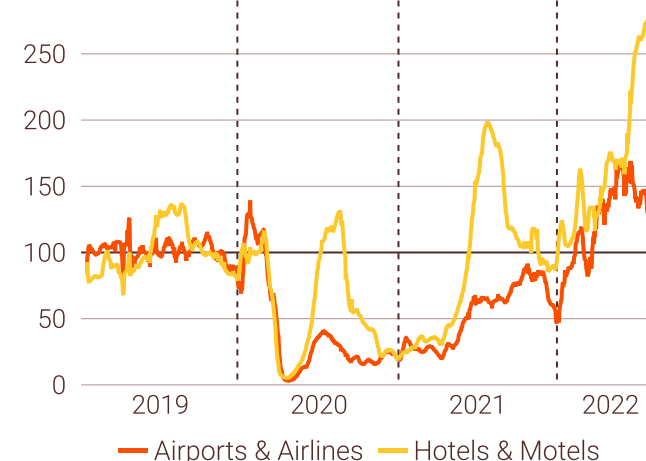
Necessities



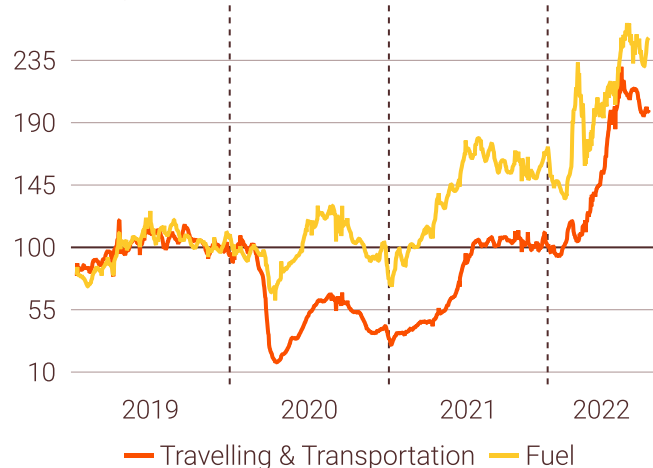
Activities at home



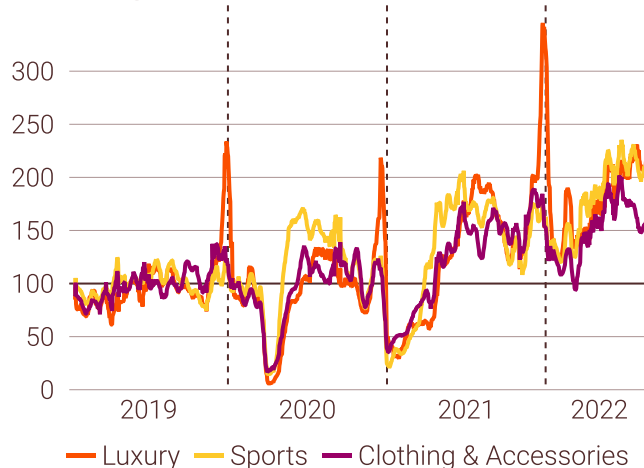
Tourism



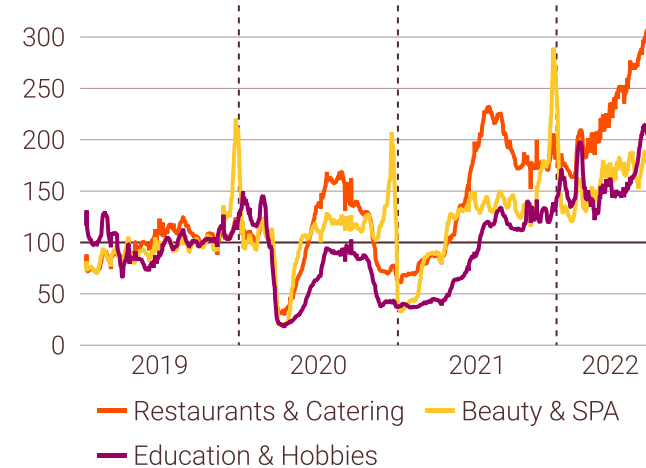
Mobility



Clothing, sports and accessories



Services



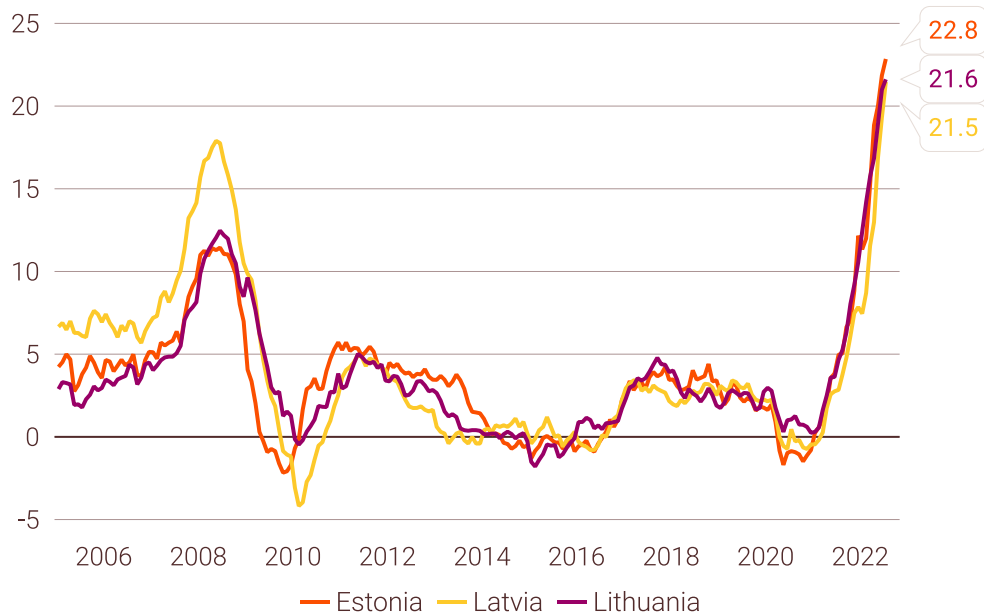
Source: Swedbank Research & Macrobond

Background: Inflation blues hit consumer confidence more than spending

Inflation close to its peak, but purchasing power still falling; households will have to tighten their belts

Consumer prices

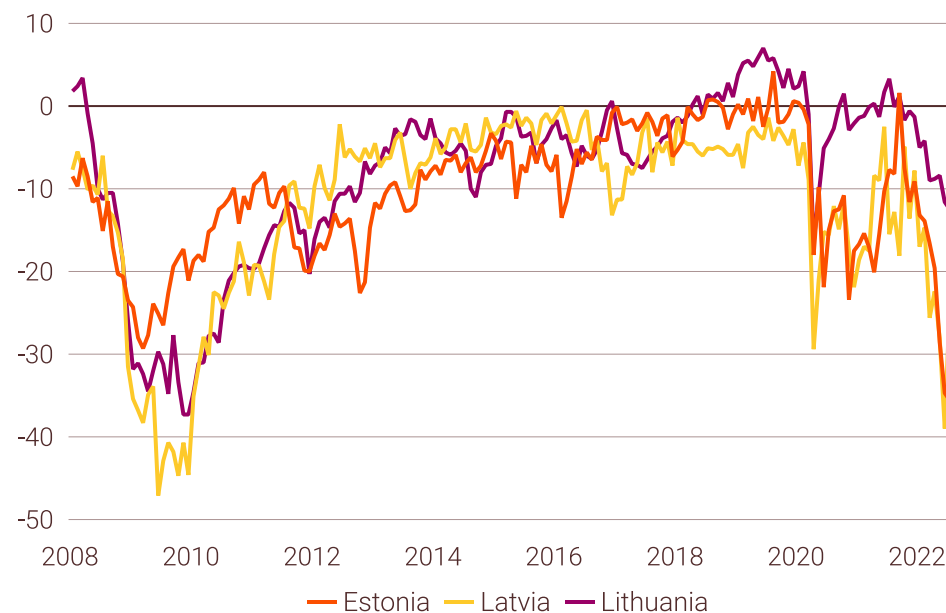
CPI, y/y %



Sources: Swedbank Research & Macrobond

Consumer confidence, SA

Balance, %, SA



Sources: Swedbank Research & Macrobond

- Inflation has surged past 20% in the Baltics in the summer mostly driven by higher energy and food prices but also rising labour costs. Worries about global recession and weakening demand have led to retreating non-energy commodity and oil prices. Together with easing supply chain bottlenecks it should help to reduce inflationary pressure in the Baltics. Inflation is close to its peak and is moderating soon.
- However, the high natural gas and electrical energy trading prices and uncertainty surrounding them may hinder inflation retreat. More utility tariff hikes are expected this fall and winter in the Baltics.
- Collapsing purchasing power, uncertainty about heating season bills, and mounting talks of recession have dented consumer confidence. But despite these worries, plans to make major purchases have not changed much. The price surge hits different parts of society unequally, and the least well off are already struggling. At the same time, many households still have some financial buffers, allowing them to stick to their consumption habits for longer and enjoy some frivolous spending before the heating bills arrive.
- This behaviour is unlikely to last. Consumers will have to tighten their belts and reduce the consumption of non-necessities over the fall and winter months.

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Visiting address: Malmkillnadsgatan 23, 111 57 Stockholm.