

# Recovery on the cards?

Q2 2009 Card Data Bulletin



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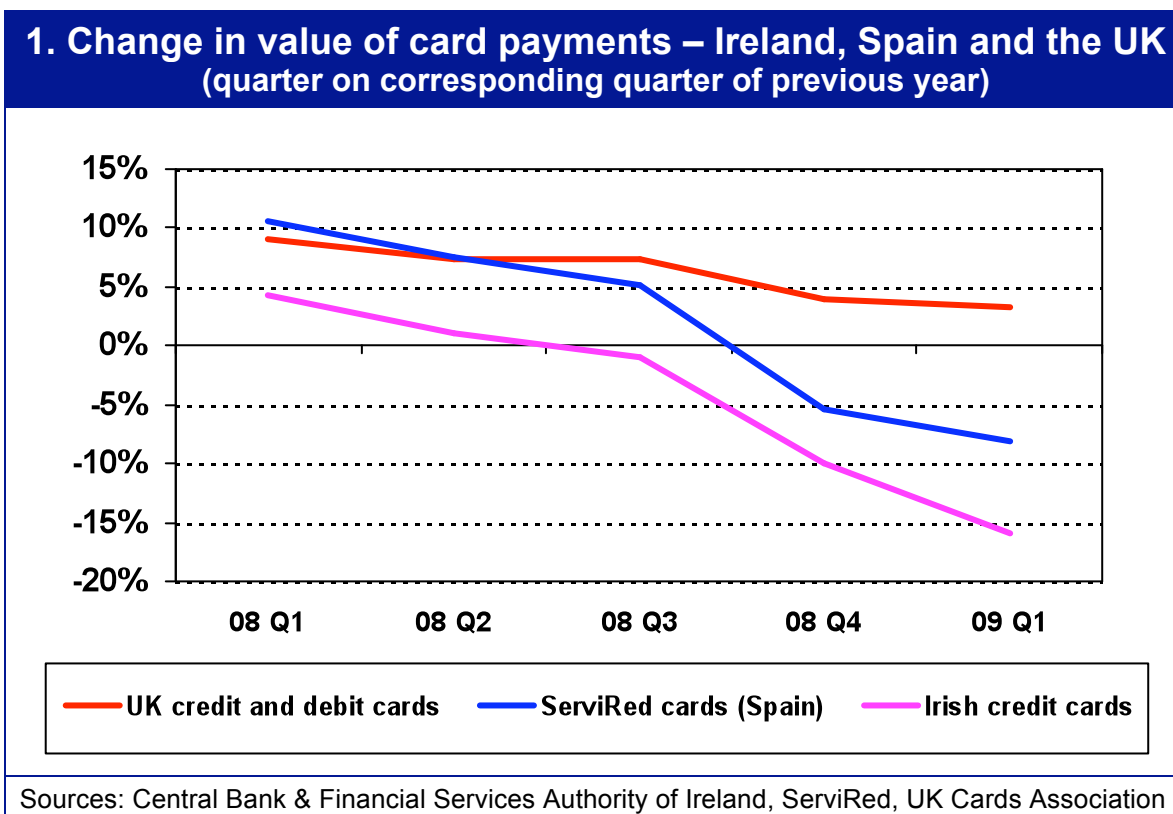
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# Recovery on the cards?

Earlier bulletins in this series (available on the PCM website) used quarterly data for Ireland, Spain and the UK to explore the impact of the financial crisis on payment card use. Following the intensification of the crisis during the second half of last year, the bulletins showed how the growth in card use fell sharply, and in some cases turned negative. This bulletin updates the picture. It examines whether data now available for the second quarter, and in the case of Ireland, third quarter of 2009, shows any signs of an upturn.

Among European economies, Ireland, Spain and the UK have often been grouped together in the wake of the financial crisis. All three countries shared house price bubbles which amplified the impact of the crisis on their economies. All three have suffered deep recessions. They therefore make a coherent set of countries with which to examine the impact of the crisis on card use.

Despite the difficulties in comparing card use between countries (see the concluding comments and note on statistics at the end of the bulletin), the impact of the crisis was clearly evident in all three markets. However, looking at data to first quarter 2009, the scale of the impact differed significantly (Chart 1).

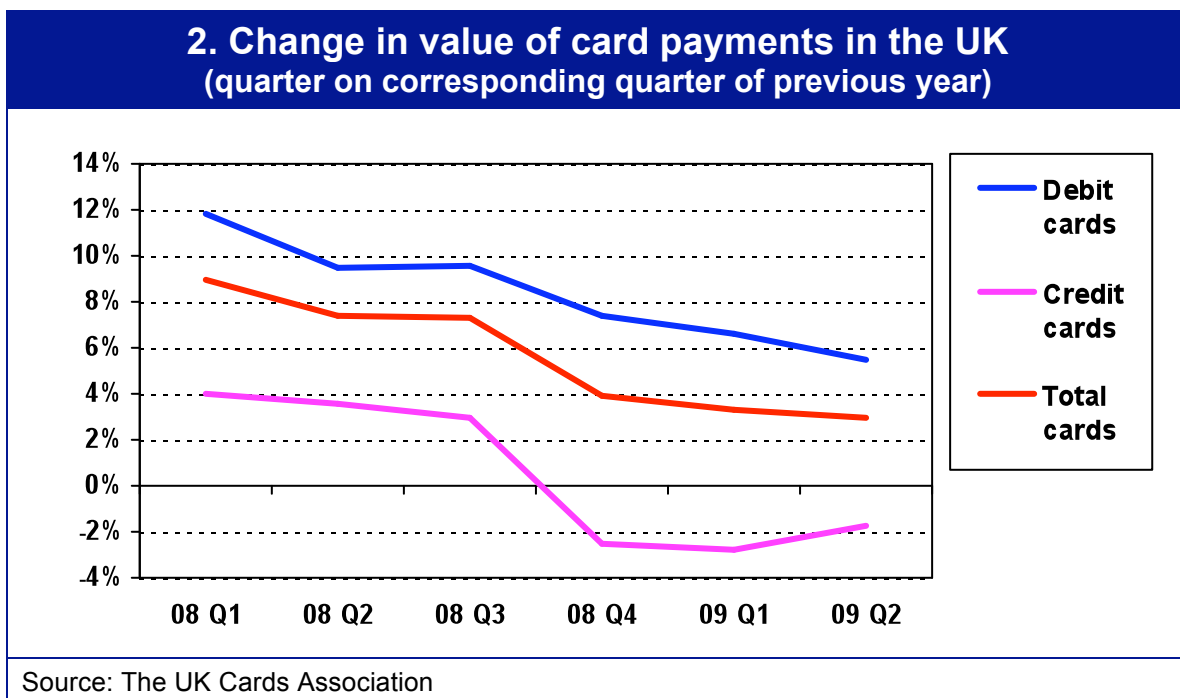


This update looks first at the UK, where the impact of the crisis on card use appeared weakest. It then examines the latest data for Spain, where the impact appeared more severe. Finally, it considers Ireland, where the impact appeared greatest, and where data for both the second and third quarters is now available. Concluding comments offering a more general overview.

# UK

The UK data to the first quarter of 2009 showed a significant slowdown in the rate of growth in overall card spending (debit and credit), with the growth in credit card spending turning negative in fourth quarter 2008.

During the second quarter, the rate of growth in card use (spending in the quarter compared with the corresponding quarter of the previous year) continued to slow. However the decline was only marginal, from 3.3% in Q1 to 3.0% in Q2. The rate of growth in debit card use fell from 6.6% in Q1 to 5.5% in Q2. However, the rate of decline in credit card use moderated from 2.8% in Q1 to 1.7% in Q2.

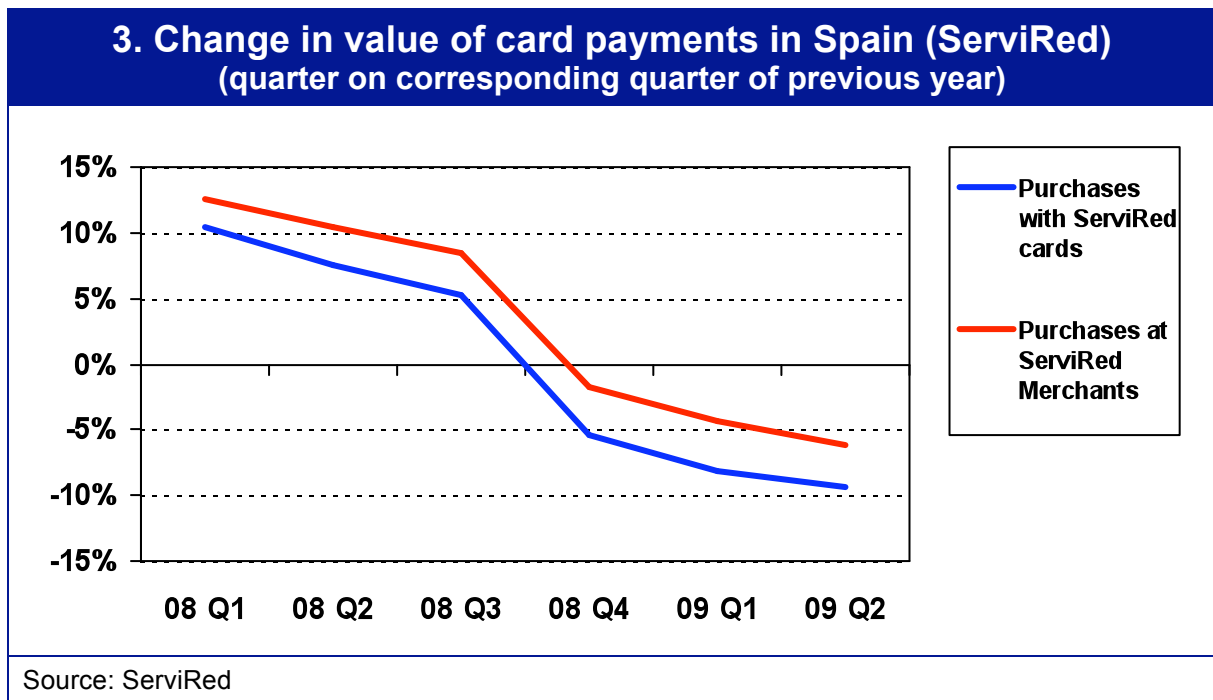


Because the UK card spending numbers are seasonally adjusted, it is also possible to compare the latest quarterly numbers with the previous quarter. On this measure, UK card spending of £95.5 billion in Q2 2009 was 1.3% higher than in Q1, the highest quarter on previous quarter increase since Q2 2008. In contrast, the value of card spending in Q1 2009 was almost exactly the same as in Q4 2008.

## Spain

Taking ServiRed’s figures as a proxy for the Spanish market (ServiRed is the largest of the three Spanish card networks), card use in Spain showed a much sharper decline. The value of purchases made with ServiRed cards in the first quarter of 2009 was 8.1% below the figure for the same quarter of 2008. And though the trend line ran a little higher, the quarterly pattern for purchases at ServiRed merchants was almost identical.

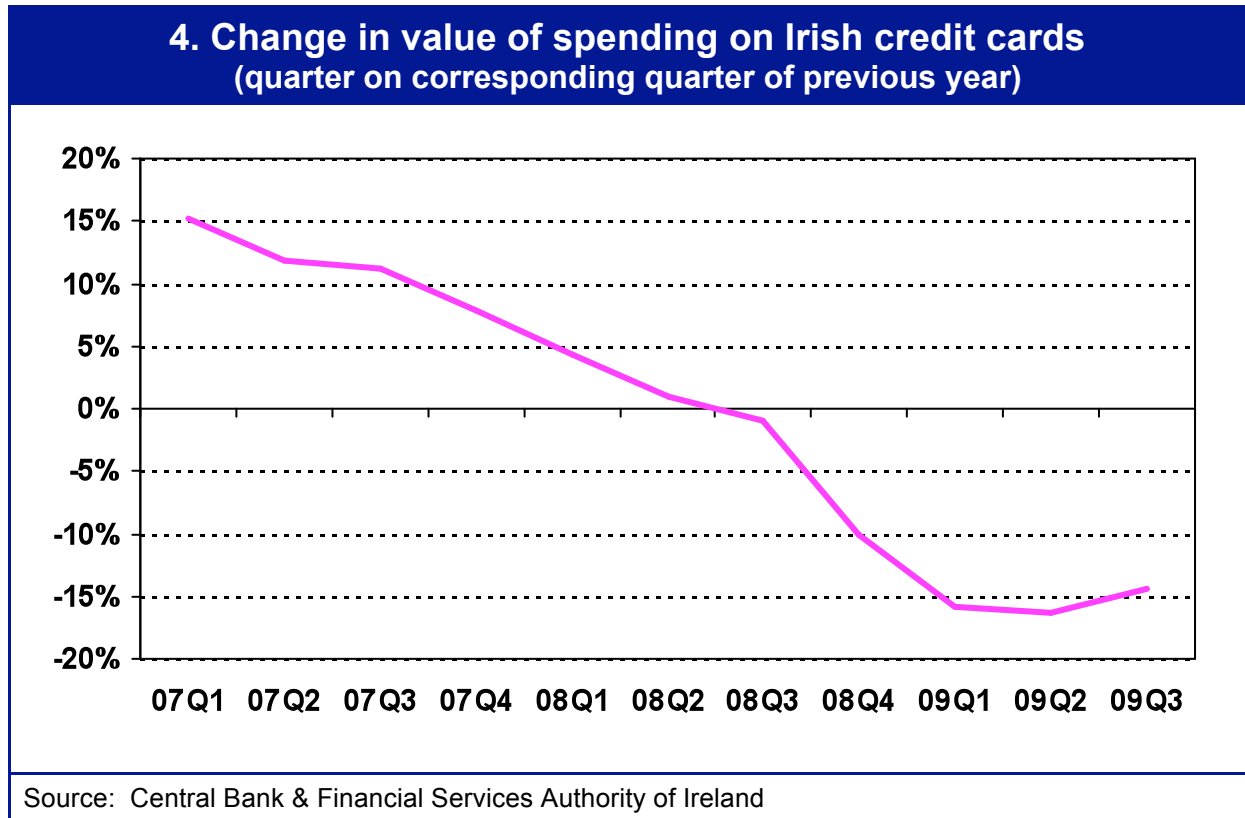
The data for second quarter 2009 shows a continuing decline. At €15.1 billion, the value of purchases made with ServiRed cards was 9.4% lower than in Q2 2008. And at €14.8 billion, the value of purchases at ServiRed merchants was 6.1% lower than in Q2 2008. The one glimmer of hope is that the rate of decline in card use appears to be slowing.



## Ireland

The impact of the crisis was most evident in the data for spending on Irish credit cards. During the final quarter of 2008, spending on Irish credit cards fell by an astonishing 10% compared with the same quarter of 2007. And spending in the first quarter of 2009 was 15.9% lower than in Q1 2008.

The data for the second and third quarters shows that the rate of decline has stabilised, and started to moderate. The value of spending in the second quarter was 16.3% lower than in Q2 2008, and the value of spending in the third quarter was 14.4% lower than in Q3 2008.



Though care needs to be taken interpreting quarter on previous quarter numbers in the absence of a seasonal adjustment, spending in Q3 of just under €2.7 billion was 4.4% higher than in Q2.

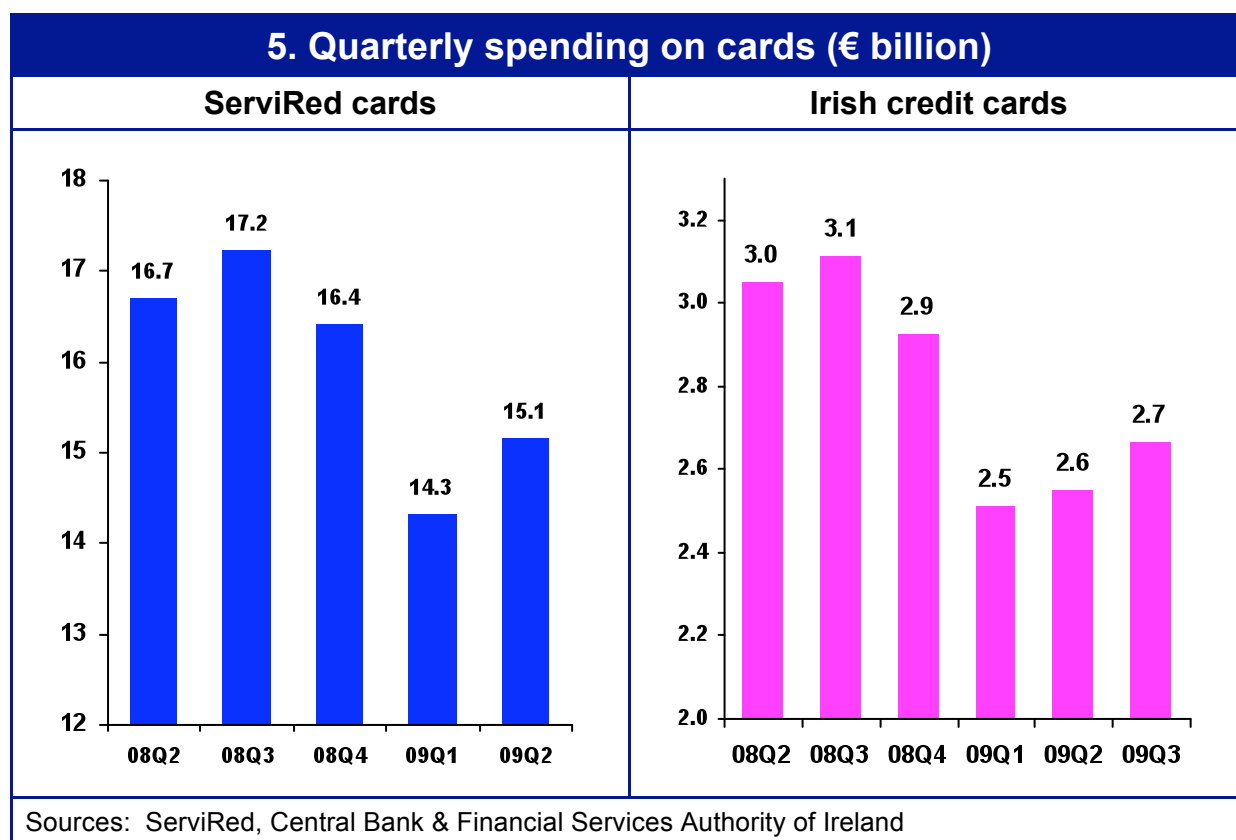
In the Information Note accompanying its Monthly Statistics for September 2009, the Central Bank & Financial Services Authority of Ireland commented: "September is now only the second month so far in 2009 where new spending on personal cards exceeded repayments on these cards. However, gross new spending on personal credit cards continues to decline on an annual basis, being 14.8% lower compared with September 2008. This is consistent with other measures of consumer spending, such as the Retail Sales Index."

## Concluding comments

The comparison between the three countries is not on an entirely like-for-like basis (see the note on sources and statistics below).

More generally, card use is much higher in the UK than in Ireland and Spain. And the stronger euro (used in both Ireland and Spain) and weaker British pound will affect the figures to some extent. The exchange rate changes encourage visits by euro area residents to the UK, while discouraging visits by UK residents to euro area countries.

All these factors may have some bearing on the data. But the sharp change in card spending evident in all three countries, particularly from Q3 2008 onwards, clearly reflected the impact of the financial crisis on the real economy during the closing months of last year.



The figures for the second, and in Ireland's case third quarter, show no evidence of a sharp turnaround. However, particularly in the case of the UK, they do provide some tentative ground for optimism. With Spain, the rate of decline in card use appears to have slowed. With Ireland, it may have passed its low-point.

However, the absolute falls in card use in Ireland and Spain following the crisis are substantial, particularly given the desire of the Irish and Spanish payment organisations to raise card use at the expense of cash. Purchases on ServiRed cards in the second quarter were over €1.5 billion lower than in Q2 2008. Purchases on Irish credit cards in the third quarter were over €0.4 billion lower than in Q3 2008. Even when card use starts growing again, all this ground will need to be made up before card use recovers beyond pre-crisis levels.

## Note on sources and statistics

Bulletin focuses on the value of card spending compared with the corresponding quarter of the previous year (for example, spending in Q2 2009 compared with Q2 2008). In some cases, the value of spending in a quarter is also compared with the preceding quarter (for example, spending in Q2 2009 compared with Q1 2009).

### Ireland

Irish data relate to credit cards (i.e. Visa, MasterCard) in issue by credit institutions resident in Ireland. Debit cards or store cards are excluded. The use of Irish debit cards may present a different pattern. Figures relate to personal cards only. Spending on business credit cards has been excluded.

### Spain

Spanish payment cards are mainly debit or deferred debit cards.

Figures for ServiRed cards only, not all Spanish payment cards, though ServiRed is the largest of the Spanish card networks (according to ServiRed, its cards accounted for 61.6% of the total monetary volume of purchases made with Spanish cards in 2008).

Purchases with ServiRed cards include use of cards internationally. Purchases at ServiRed merchants include use of foreign-issued cards.

### UK

The UK data is based on acquirer rather than issuer numbers. Spending in the UK on plastic cards as reported to The UK Cards Association by the banks that process card purchases on behalf of UK merchants, retailers and other service providers. The data include a small proportion of spending using non-UK-issued cards, eg, by tourists. Spending outside the UK by holders of UK-issued cards is excluded. UK data covers both credit and debit cards. Cash withdrawals from ATMs are not included. UK figures are seasonally adjusted (though this should not unduly affect comparisons with the same quarter of the previous year).

In the statistical release containing data from The UK Cards Association for Q2 2009, some of the data for card spending in previous quarters (Q1 2009 and earlier quarters) has been revised. The percentage changes in UK card spending in this bulletin may therefore differ from the changes reported in previous bulletins.

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