



Flossbach von Storch
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 25/10/2022

H1-2022: Signs of a trend reversal

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Abstract

At mid-year, prices for private household assets in the euro zone continued to rise, while at the same time signs of a trend reversal are clearly discernible. While real estate prices in the euro zone were still defying the changed conditions at mid-year, prices for business wealth, shares and bonds fell significantly. While asset prices declined in Finland, they rose significantly in Portugal and the Netherlands at mid-year.

Zusammenfassung

Zur Jahresmitte sind die Preise für das Vermögen privater Haushalte in der Eurozone weiter angestiegen, gleichzeitig sind Anzeichen einer Trendwende klar zu erkennen. Während zur Jahresmitte die Immobilienpreise in der Eurozone noch den geänderten Rahmenbedingungen trotzten, fielen die Preise für Betriebsvermögen, Aktien und Rentenwerte deutlich. Während in Finnland Vermögenspreise sogar zurückgingen, stiegen sie zur Jahresmitte in Portugal und den Niederlanden deutlich an.



What is the FvS Wealth Price Series?

The index measures price changes of assets held by private households in key Euro area countries.

The Flossbach von Storch Wealth (FvS) Price Series measures the price development of the assets held by private households in key Euro area countries (Austria, Belgium, Finland, France, Germany¹, Greece, Italy, Netherlands, Portugal, and Spain). The price index for the Euro zone, as well as for the single countries, are calculated as the weighted average of the price development of real assets (real estate, business wealth, durable consumer goods, and collectors' items) and financial assets (stocks, bonds, cash equivalents and other financial assets) owned by private households.

Household wealth and the respective index weights are constructed with help of the "Household Finance and Consumption Survey" by the European Central Bank (2016), which uses survey data from the year 2014. In addition, all price series have been indexed to their average of the year 2014. The appendix provides further information on the methodology as well as on the index weights. Country-specific data on asset prices can be downloaded from our website.²

Asset price inflation in the Euro area

Compared with the middle of the previous year, asset prices for private households in the Euro area increased by +4.7%. While asset prices were still rising in the third and fourth quarters of 2021, they stagnated in both the first and second quarters of 2022. Asset price inflation, which had been present almost continuously since 2014 and was driven by the expansionary monetary policy of the European Central Bank (ECB), now appears to have been halted.

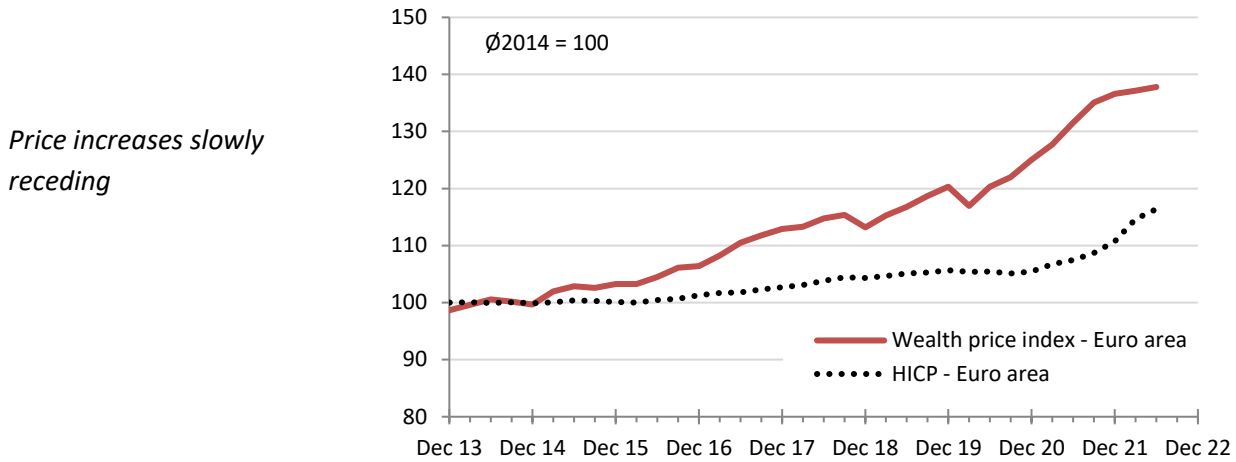
The reason for the stagnating and in some categories even falling asset prices is the already very high consumer price inflation, which is expected to cause economic crises and is being countered by the ECB with rising interest rates. Although the rising consumer prices have been triggered by supply shortages, the ECB's expansionary monetary policy over many years has created the necessary preconditions for consumer price inflation in the form of a massive money surplus. Thus, the ECB's monetary policy is directly linked both to the high asset price inflation of the past years and to the asset prices that are now falling to share.

¹ The index for Germany included in the FvS Wealth Price Series for the eurozone differs from the FvS Wealth Price Index Germany, which is published separately on a quarterly basis, due to the availability of comparable data in the eurozone.

² Data is available on www.flossbachvonstorch-researchinstitute.com.



Figure 1: Wealth price index and consumer price index (HICP) for the Euro area



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, October 2022.

The effect of the changing monetary policy is particularly strong in financial assets. The expectation of rising key interest rates was immediately felt in falling prices for bonds and equities. In real assets, the effect is also noticeable, as the prices of business wealth has fallen, but real estate prices, which represent the largest component of the index, react only very slowly to a change in the general conditions. As a result, asset price inflation in the Euro area is still at a mid-single-digit level in many countries. However, a medium-term trend reversal in the real estate markets is expected to further weaken asset price inflation over the coming quarters.

Real assets in the Euro area

Real assets account for the largest share of the total assets of the average Euro area household and have a decisive impact on the development of the overall index. At mid-year, prices for real assets were only +5.5% higher than at mid-year last year. At the end of 2021, the price increase was still ten percent. The turnaround came about because business wealth prices fell significantly.

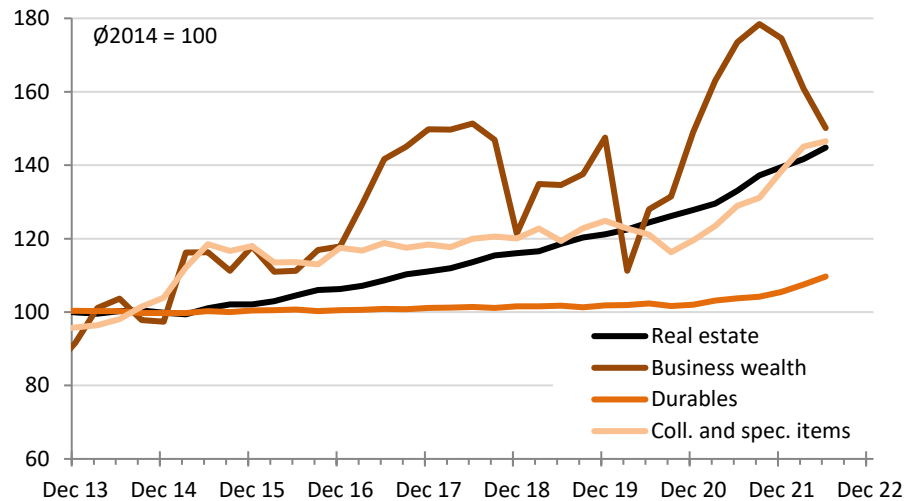
Real estate in the Euro area increased in price by +8.9% year-on-year at mid-year. Although mortgage rates across the Euro area have moved away from historic lows, property prices have continued to rise. The driving forces behind the price increases are a high appreciation for private housing, a shortage of real estate supply in many urban areas of the Euro area, a large amount of investable capital and rising costs for new construction due to a shortage of raw materials and increased energy costs. At the same time, the number of real estate transactions in the Euro area also fell at the end of the second quarter, as investment yields on real estate projects have fallen



due to the now higher mortgage rates and bonds are once again an attractive asset class for many institutional investors. At mid-year, the changed conditions had not yet led to any discernible price effect, but this will become more apparent in the third and fourth quarters.

Figure 2: Real assets in the Euro area – Price levels

Real estate prices still hold



Source: Flossbach von Storch Research Institute, October 2022.

The markets for **business wealth** (privately owned companies) saw a sharp drop in prices. Rising consumer prices, fears of a long and hard recession and rising interest rates have worsened the earnings prospects of companies. Prices for private business wealth fell for three quarters in a row. At mid-year, prices were down 13.5% year-on-year.

The prices of **consumer durables** in the Euro area at mid-year 2021 reflected problems in global supply chains and the geopolitical conflict in Ukraine, as both led to a tightening of supply. In addition, raw material and energy prices impacted the selling prices of durable consumer goods. At mid-year, prices of durable consumer goods were +5.7% higher than mid-year a year earlier.

Prices for **collectibles and speculative items** benefited from uncertainty about future economic developments and increased by +13.5% compared with the middle of the previous year. Prices for precious wines (+22.4%), art objects (+13.4%), and historic automobiles (+12.5%) rose sharply.

Financial assets in the Euro area

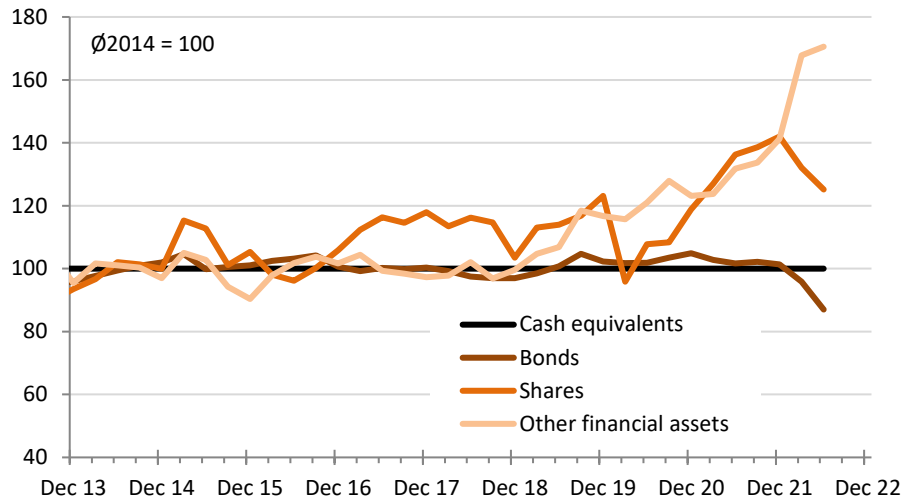
At mid-year, the price of financial assets held by private households in the Euro area was at the same level as at mid-year a year earlier. This was due



to the price of other financial assets, which increased sharply and offset the significant price discounts on the stock and bond markets.

Figure 3: Financial assets in the Euro area – Price levels

Substantial drop in prices for equities and bonds



Source: Flossbach von Storch Research Institute, October 2022.

Prices for **bonds** held by private households in the Euro area suffered a historically high price discount. Compared with the middle of the previous year, the price of bonds fell by -14.5%. The reason for the price drop is the rise in key interest rates of the world's major central banks in the first half of 2022 coupled with an increased probability of default for bonds from issuers with lower credit ratings. The biggest drop in prices is to be found in bonds from issuers in the emerging markets (20.0%), followed by securities from European (-14.4%) and North American issuers (12.3%).

At mid-year, prices of **equities** owned by private households in the Euro area were down 8.1% on the same period a year earlier. While at mid-year 2021 prices still reflected the global economic upturn following the peak of the corona pandemic and continued to rise slightly in the following months, prices on the global stock markets fell sharply in the first half of 2022. The reason for the price drop was the emerging consumer price inflation in the Euro area and the accompanying expectations of rising interest rates and economic downturn. The price decline for equity holdings in the emerging markets was particularly sharp, followed by stocks from the Pacific region and Europe.

The price of other **financial assets**, which is measured by the prices of gold and exchange-traded commodities, showed the highest 12-month growth rate of all categories at +29.4%. Both commodity (+69.9%) and gold (+13.9%) prices increased significantly over the period under review. Most



of the dramatic increase in commodity prices occurred in the first quarter of 2022. In the same quarter, the price of gold also rose sharply, but fell again in the most recent quarter.

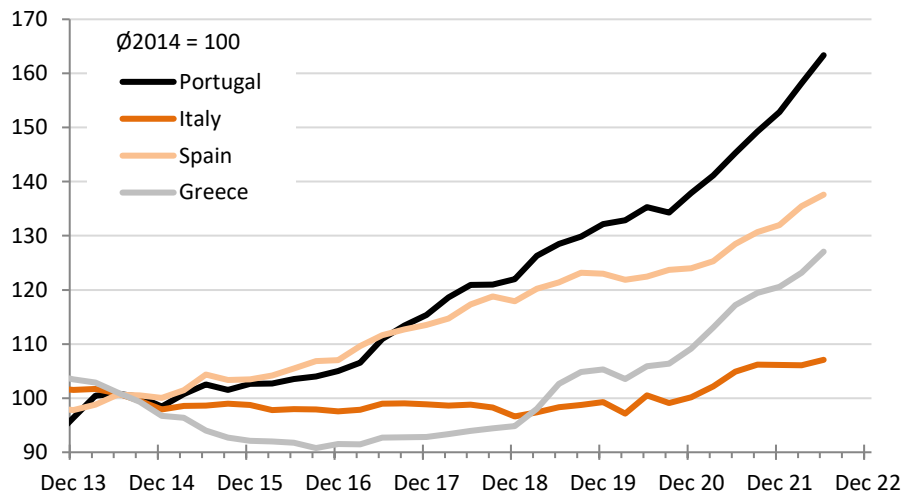
By definition, the prices of **savings and demand deposits** remain unchanged.

The southern countries

In the southern countries of the Euro area (Greece, Portugal, Spain and Italy), asset price inflation continued in the first half of 2022, as real estate and, to some extent, business wealth became more expensive. The development in all countries was dampened by the fall in prices for equities and bonds.

Figure 4: Wealth price indices for the southern countries

Continuation of asset price inflation



Source: Flossbach von Storch Research Institute, October 2022.

In **Portugal**, prices for household assets were 12.4% higher than in the middle of the previous year. Contrary to other price developments for small and medium-sized business wealth in the Euro area, prices for Portuguese business wealth rose by +22.4% at mid-year. However, this is less the result of an economic upturn than of a normalization in prices. Despite the latest increase, prices for Portuguese business wealth still rank slightly below the level of 2019 and far below the prices from 2014. In a cross-comparison of euro area countries, the price increase for consumer durables is high at +7.1%. Real estate has increased in price by +13.2% in Portugal, which is the second highest price increase in the cross-section of the countries under review. In parallel, the number of transactions has declined slightly since



the beginning of the year but was still just above the number of transactions in the prior-year quarter.³

In **Greece**, asset price inflation at mid-year was +8.4% year-on-year. Real estate became more expensive by +9.5% within the four quarters under review, with the largest price increases occurring in the first and second quarters of 2022. Again, the rise in mortgage rates has not yet been reflected in home prices. Private business wealth traded for +4.6% more than a year earlier. However, Greek business asset prices are the lowest in the Euro area as a whole and have so far failed to return to their pre-financial crisis highs.

The price of household assets in **Spain** rose by +7.1%. This development was driven by price increases on the Spanish real estate market, which recorded year-on-year price growth of +8.1%. The price of business wealth in Spain ranked at the same level as in the middle of the previous year.

Among the southern countries of the Euro area, **Italy** recorded the lowest asset price inflation, with price growth of +2.1%. The price increase comes from a small cross-sectional rise in real estate prices (+5.2%) and a significant drop in prices for business wealth (-14.9%). While real estate prices had risen significantly throughout the Euro area over the past few years, the price increase in Italy was only slight. Indeed, the recently observed price increase for real estate is the highest in 15 years.

The northern countries

In the northern countries of the Euro area, there are signs that the long phase of rising asset prices may be coming to an end.

In **Finland**, the trend reversal is already clearly evident. At mid-year, asset prices fell marginally compared with the same period a year earlier (-0.3%). The causal factor here was the sharp fall in prices for business wealth (-24.3%). Real estate prices increased only slightly in Finland (+2.2%), but annual price growth has also been low in recent years compared with the Euro area as a whole.

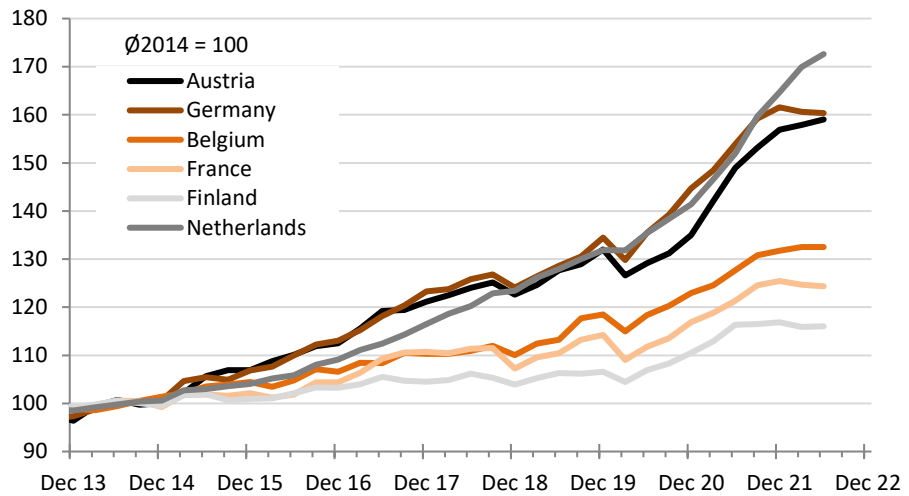
Asset price inflation has also cooled significantly in **France**. Whereas a year ago asset prices for private French households were still rising by more than eight percent, by the middle of the year they had increased by only 2.5%. The reason for this is that, although real estate prices were still up 7.1%, the development of financial assets (1.9%) and business wealth (-13.0%) made themselves felt.

³ Cp. [Idealista.pt](https://www.idealista.pt)



Trend reversal underway

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, October 2022.

For private **Belgian** households, asset price inflation was +3.3% at mid-year. Here, too, the trend reversal has made itself felt; a year ago, asset price inflation in Belgium was around eight percent. Real estate prices rose by just under six percent at mid-year, while the price of business wealth fell by around four percent in a 12-month comparison.

In **Germany**, asset price inflation also declined somewhat, but was +4.2% year-on-year at mid-year. Although German real estate prices again rose strongly over the past four quarters, increasing by more than 10 percent, business asset prices fell sharply by +16.6 percent.

With a price increase of +6.7%, asset prices in **Austria** still rose significantly. This development was driven by the third strongest price increase for real estate in the Euro area of +12.4%. However, price increases were also higher here in previous quarters.

The **Netherlands** is still the country in the Euro area with the highest asset price inflation. Household asset prices rose by 13.6%. This was due to the +18.2% increase in real estate prices compared with the middle of the previous year. However, a look at the past four quarters shows that the price increase has steadily levelled off, and the first reports even indicate a price decline since the most recent mid-year point.⁴

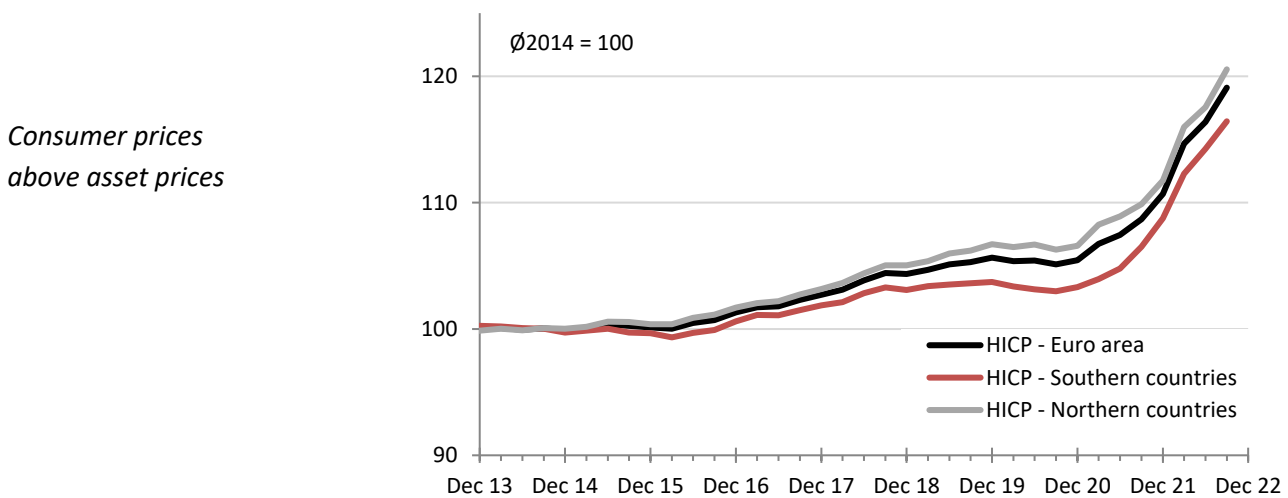
⁴ Cp. [FAZ](#)



Consumer prices

Consumer price inflation has caught up with and overtaken asset price inflation in the Euro area. For the monetary union as a whole, the price increase of consumer goods measured by the harmonized index of consumer prices (HICP) was +9.6% at mid-year compared with the same period a year earlier. In the northern countries of the Euro area, it was +9.7%, higher than in the southern countries (+9.3%).

Figure 6: Consumer prices (HICP) in the Euro area



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, October 2022.

At +17.2%, consumer prices rose most strongly in the Netherlands, followed by Greece (+12.2%) and Belgium (+11.9%). The smallest, but still high, price increases were recorded for France (+6.2%) and Finland (+8.1%). The remaining countries show consumer price inflation of around or ten percent.



Methodology and data sources

This study covers the southern Euro area countries Greece, Italy, Portugal, and Spain as well as the northern countries Austria, Belgium, Finland, France, Germany, and the Netherlands. For each country, the asset composition of the average household is calculated based on “The Household Finance and Consumption Survey: Results from the Second Wave 2” (HFCS, European Central Bank, Statistics Paper Series No.18, December 2016). The assets of a household are split up into real assets and financial assets. Real assets consist of real estate, business capital, durable goods, and collectors’ items. Financial assets are broken down into cash equivalents, bonds, stocks and other types of financial assets. Table 5 reports the overall and country-specific weights. Mutual funds, pension funds and life insurances are broken down into their respective asset classes and allocated to these classes accordingly.

For each asset class, we calculate the country-specific quarterly price change. We use wealth prices and not asset valuation indicators and we exclude cash flows from assets, such as interest, dividends or rental yields. For real asset prices, such as real estate or consumer durables, we use data adjusted for quality changes. Thus, our wealth price indices correspond conceptually to consumer price indices.

Table: Weighting schemes

	all	Southern countries				Northern countries					
		IT	GR	PT	ES	AT	BE	FI	FR	DE	NL
Country weight in the overall index	-	16,5%	1,4%	2,1%	15,2%	3,0%	5,0%	1,8%	22,9%	27,0%	5,0%
average household wealth (in 1.000 €)	256	236	112	185	308	276	370	239	279	240	233
Weights											
Total real assets	82,1%	88,6%	93,4%	88,1%	85,1%	86,0%	76,7%	83,1%	81,2%	77,7%	75,2%
Real estate	67,7%	77,6%	82,2%	70,1%	74,1%	64,5%	66,3%	73,6%	61,8%	61,9%	69,7%
Business wealth	9,7%	6,9%	6,6%	13,6%	7,8%	17,4%	7,5%	4,5%	11,9%	11,7%	1,2%
Consumer durables	3,9%	3,4%	3,8%	3,6%	2,7%	3,4%	2,4%	4,1%	6,2%	3,4%	3,5%
Collector's items	0,8%	0,7%	0,8%	0,8%	0,6%	0,7%	0,5%	0,9%	1,3%	0,7%	0,7%
Financial assets	17,9%	11,4%	6,6%	11,9%	14,9%	14,0%	23,3%	16,9%	18,8%	22,3%	24,8%
Cash equivalents	9,2%	5,7%	5,3%	9,3%	7,7%	9,9%	10,6%	8,6%	7,6%	12,9%	11,5%
Bonds	4,2%	4,0%	0,5%	1,4%	2,3%	2,0%	5,8%	1,5%	6,1%	3,7%	6,8%
Shares	2,3%	0,7%	0,5%	0,6%	1,9%	1,1%	4,5%	5,3%	3,1%	2,3%	4,0%
Other fin. assets	2,3%	1,0%	0,4%	0,6%	3,0%	0,9%	2,3%	1,5%	2,0%	3,3%	2,5%

Source: HFCS, European Central Bank, 2016.



The index is calculated as a Laspeyres price index. All of the time series are indexed to 100 in 2014 which is the year that the results of the HFCS refer to. For time series available on a daily or weekly frequency, the quarterly index value is based on the average price within the last month of the quarter. For monthly time series, the last month of the quarter determines the index value.

Economic data are from Macrobond. Business wealth is measured through MSCI Small Cap price indices of the respective country provided by ThomsonReuters. The price development of durable consumer goods is captured through the HICP time series for the respective country provided by Eurostat.

The price series for collectors' items and objects for speculation consists of the four representative subcategories jewellery, art, fine wines and historic automobiles. While jewellery prices are measured with help of the respective national or HICP time series, the three other categories consist of the same price series for every country. The All Art index by Art Market Research Developments provides information on prices art objects such as paintings, drawings, sculpture, photographs and prints. The Liv-ex Fine Wine 100 by Liv-ex Ltd. denotes prices of fine wine and the HAGI Top Index by the Historic Automobile Group International measures the price development of historic cars.

The geographical distribution of stock and bond investments is captured with help of the coordinated portfolio investment survey (CPIS) by the International Monetary Fund (IMF). The price development of the resulting investments is measured with help of Bloomberg-Barclays bond indices and MSCI stock price indices. Other financial instruments are measured with help of the London Bullion gold price and ThomsonReuters Continuous Commodity Index, both provided by ThomsonReuters.

Consumer prices (HICP) are taken from Macrobond and are seasonally adjusted with help of the X13-ARIMA SEATS method.

The quarterly values for asset price index are published every six months.

Due to data availability, the methodology of the Flossbach von Storch Wealth Price Series for the Euro countries differs slightly from the Flossbach von Storch Vermögenspreisindex for Germany, which is published separately on a quarterly basis.⁵

⁵ For further details on the FvS Vermögenspreisindex see <http://www.fvs-ri.com/>.



List of data sources

Art Market Research Developments Ltd.

Bloomberg

Eurostat

European Central Bank (ECB)

Oxford Economics

HAGI (Historic Automobile Group)

International Monetary Fund (IMF)

Liv-ex Ltd.

Macrobond

MSCI

ThomsonReuters



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