



Flossbach von Storch
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 14/12/2021

H1-2021: Inflation in the Euro area **higher than ever before**

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Abstract

At mid-year 2021, asset price inflation in the Euro area amounts to +9.2%. This record price increase is being driven by real estate prices and sharply rising prices for private business wealth. Asset price inflation is particularly high in the northern countries of the Euro area, such as Austria, Germany, and the Netherlands.

Zusammenfassung

Zur Jahresmitte 2021 beträgt die Vermögenspreisinflation in der Eurozone +9,2 %. Getragen wird dieser Rekordpreisanstieg von Immobilienpreisen und stark steigenden Preisen für private Betriebsvermögen. Besonders in den nördlichen Ländern der Eurozone wie Österreich, Deutschland und den Niederlanden fällt die Vermögenspreisinflation besonders hoch aus.



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

What is the FvS Wealth Price Series?

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

Euro area household asset prices were +9.2% higher at mid-year 2021 than at mid-year 2005. This is the highest measured asset price inflation for the euro area since the start of the time series in 2005. In each of the four quarters, asset prices recorded significant growth. At +2.9%, price growth was particularly high in the second quarter of 2021.

The coincidence of various circumstances is decisive for the record value. The monetary policy of the European Central Bank and the fiscal policy of the member countries stabilized asset prices and caused them to rise in each of the four quarters. The prospect of an economic recovery also caused prices on the markets for some asset goods to rise. Furthermore, some time series reflect a base effect when, at mid-2020, prices had not yet recovered following the outbreak of the corona pandemic.

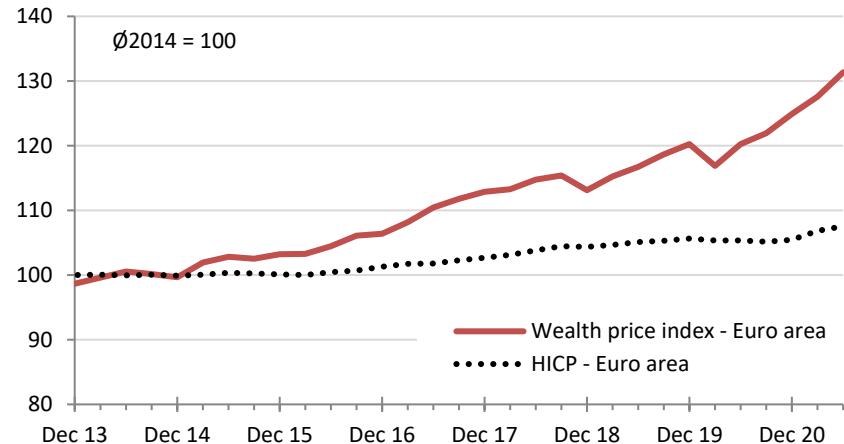
There is a considerable divergence in asset price developments between the countries of the Euro area. In the northern countries of the Euro area, asset price inflation is significantly higher (+11.4%) than in the southern countries (+4.9%).

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.

Inflation at all-time high

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, December 2021.

Real assets in the Euro area

Real assets account for the majority of the total assets of the average household in the Euro area and are therefore the decisive factor for the overall index. With a price increase of +10.0% at mid-year compared with the same quarter of the previous year, a record value was measured for real assets. The key drivers of real assets are real estate and business assets.

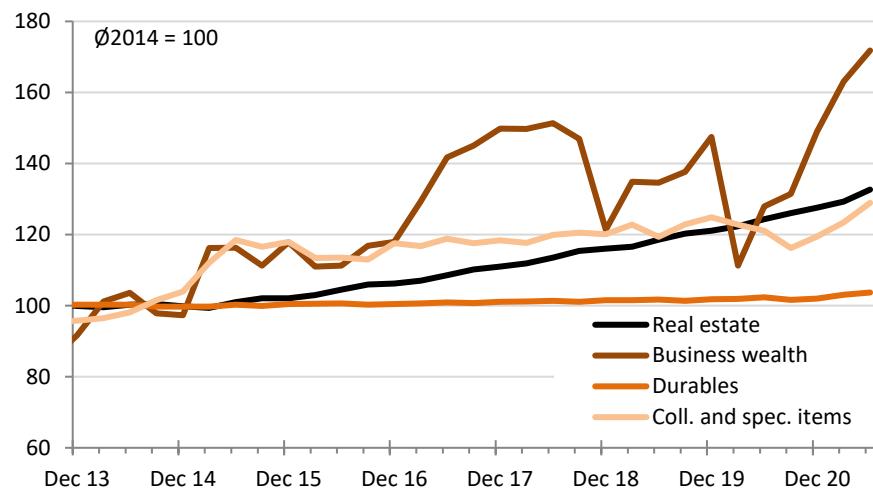
The high demand for real estate continued in the first half of 2021, pushing up prices for real estate assets owned by private households in the Euro area by +6.7% year-on-year at mid-year. The corona pandemic and its containment measures have increased the appreciation of private housing throughout the Euro area, which in many places has further strengthened the already existing excess demand. Favourable financing conditions have additionally boosted the demand. This effect was particularly evident in the second quarter of 2021, as property prices in the Euro area rose by +2.6% in that quarter alone.

Prices for private business wealth showed the highest price increase of all assets at +34.3% at mid-year. The high growth rate is partly due to a base effect, as prices had not yet fully recovered by mid-2020 following the outbreak of the corona pandemic. Fiscal policy measures and an emerging economic recovery in the first half of 2021 caused prices to rise further. Prices for private business wealth are measured using the prices of small and medium-sized publicly traded companies.



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

Record prices for real assets



Source: Flossbach von Storch Research Institute, December 2021.

Prices for consumer durables rose by +1.4% year-on-year in the middle of the year. While prices were still stagnating in the second half of 2020, they increased significantly in the first half of 2021 and showed the highest price growth since the start of the time series in 2005. The reasons for this include delays in global supply chains.

Collectibles and speculative goods in the Euro area increased in price by +6.5 % compared to the middle of the previous year. While within the category the prices for art objects rose by +3.2 % and jewellery made of precious metals increased by +4.2 %, the prices for precious wines (+8.8 %) and historic automobiles (+9.8 %) increased particularly strongly.

Financial assets in the Euro area

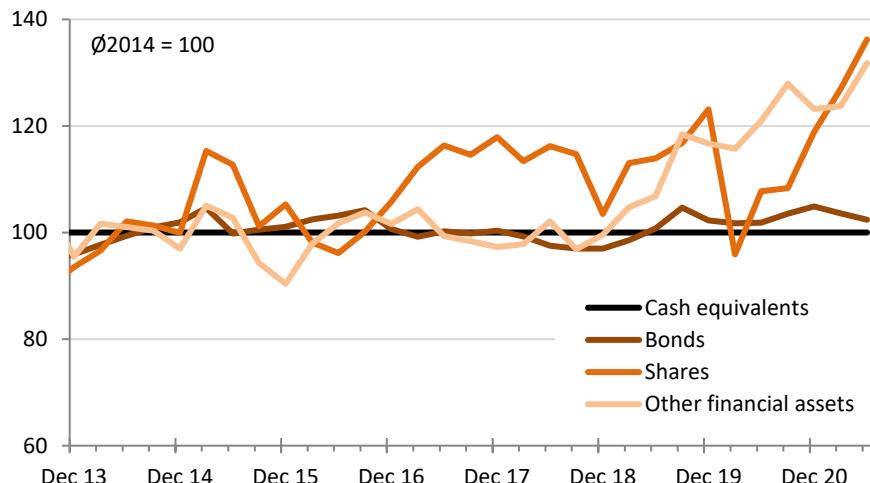
The prices of the financial assets of private households in the Euro area at mid-year were +4.6 % above the prices at mid-year of the previous year. Prices for total financial assets rose in each of the four quarters, with the highest growth rate of +1.7% in the most recent quarter.

Within financial assets, share prices rose the most with +26.4%. While the price increase is partly due to a base effect, as by mid-2020 prices had not yet fully recovered from the slump at the beginning of the corona pandemic, the rising prices also reflect the economic recovery and the monetary and fiscal policy measures of the Euro area countries.



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

Shares significantly more expensive



Source: Flossbach von Storch Research Institute, June 2021.

The prices for bonds of private households in the Euro area rose in the second half of 2020, supported by monetary policy in the Euro area, but then fell in the first half of 2021 due to increased inflation expectations. By the middle of the year, the prices for pension assets were only +0.6 % higher than the middle of the previous year.

The prices for other financial goods, which are measured by gold and commodity prices, were +8.9 % above the previous year's value at mid-year. While gold was still in demand as a crisis metal in the third quarter of 2020, the price fell in the following quarters. The price development for commodities was the opposite, as demand was low in the middle of 2020, but the subsequent economic upswing drove prices up.

The southern countries

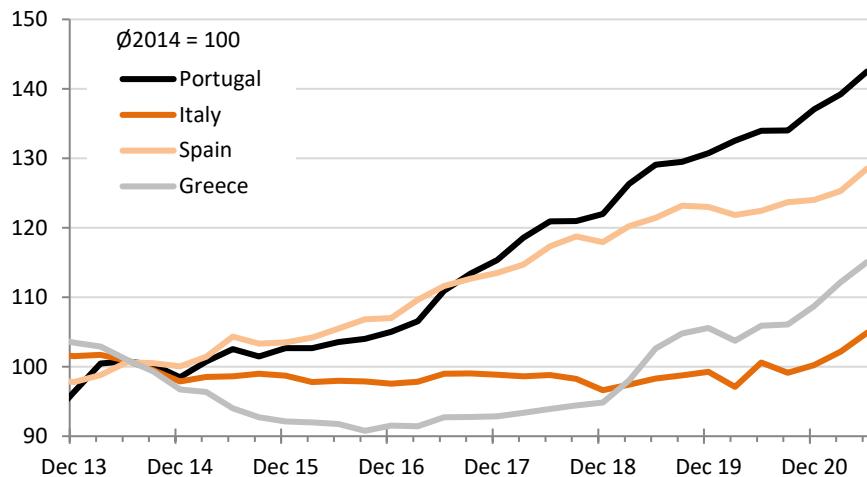
In all countries of the southern Euro area, asset prices for private households were significantly higher in the middle of the year than in the middle of the previous year. The largest share of the price increase occurred in each case in the first half of 2021.

In **Greece**, asset price inflation was the highest among the southern countries of the Euro area at +8.6%. The development was driven by the price increase of real assets. In particular, business wealth, which at mid-year was still significantly cheaper than before the outbreak of the coronal pandemic, rose especially sharply in price (+55.9%).



Figure 4: Wealth price indices for the southern countries

High inflation in all countries



Source: Flossbach von Storch Research Institute, December 2021.

With a price increase of +6.4%, asset price growth in **Portugal** was somewhat lower, but still high. The +6.6% increase in real estate prices was a particular contributor to this. Business wealth, which drives inflation rates in most other Euro area countries, was high in Portugal at +14.9% on its own, but low in a country comparison. Prices for private Portuguese business wealth were still significantly below the pre-crisis level in mid-2021.

In **Spain**, asset price inflation for private households amounts to +4.9 % at mid-year 2021. This is also a high value, but low compared to the Euro area. The reason for this is that Spanish real estate has only increased in price by +3.3% compared to the middle of the previous year.

The lowest asset price increase was recorded in **Italy**, at +4.3 %. Italian real estate stagnated from mid-year to mid-year and recorded a price change of only +0.3 %. This is the lowest value for real estate within the Euro area. In contrast, the price development of private business wealth, which increased by +44.7 %, caused the index for Italy to rise.

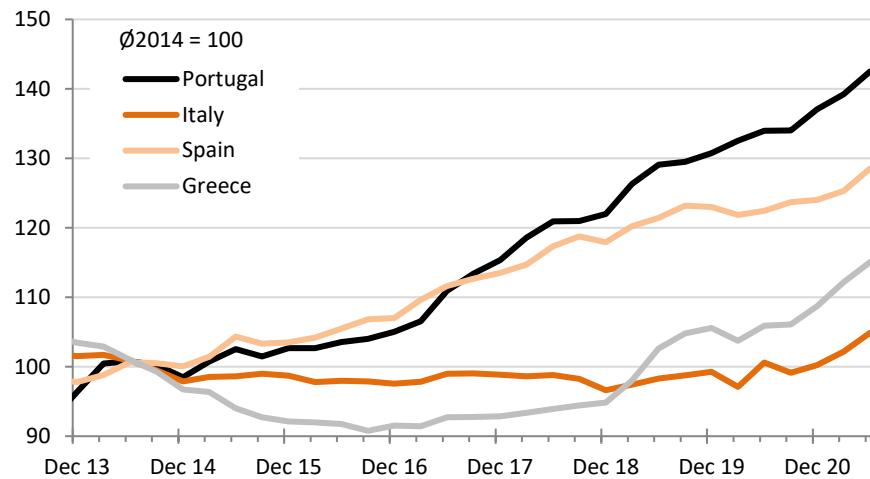
The northern countries

Asset price inflation in the northern countries of the Euro area was significantly higher on average than in the southern countries at mid-year, ranging from just under eight to over 15 percent.



High inflation in all countries

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, December 2021.

Asset prices of private **Austrian** households increased by +15.2%. This is the highest measured asset price inflation among the Euro area countries at mid-year and for Austria the highest price increase since the beginning of the time series in 2005. The development is driven by real estate prices, which increased by +11.6%, and by the price increase of business wealth, which recorded an increase of +44.7%. The price increase rate of business wealth in particular benefits from a base effect, as the prices of private Austrian business wealth were still far below the pre-crisis level in the middle of 2020 and were only able to exceed the pre-crisis level in the most recent middle of the year.

In **Germany**, asset price inflation is also at record levels. The asset prices of private German households rose by +13.6 % compared to mid-2020. In Germany, too, the development is driven by the combination of historically strong increases in real estate prices (+11.3%) and enormously rising business wealth prices (+37.5%).

The **Netherlands** also shows a record value for asset price inflation of Dutch private households at the middle of the year with +12.1 % compared to the middle of the previous year. As in Germany, this development is determined by the price increase of real estate (record value of +12.8%) and business wealth (+67.8%).

In **Finland**, asset price inflation was +8.8% at mid-year. While real estate increased in price by +5.7 % in Finland, business wealth even increased in price by +50.7 %. This is not so much due to a base effect, but rather to the price development of private business wealth in the second half of 2020



and the first quarter of 2021, when the growth rates within the quarters were both above +10.0 %.

For **France**, the price increase of private household assets at mid-year is +8.4 %. The two most important assets, real estate and business wealth, show high values of +5.5 % and +30.9 % respectively, but no record values. In the case of business wealth prices, it is not so much a case of a significant price increase, but rather a continuation of the recovery after the outbreak of the corona pandemic. It was not until spring 2021 that French private business wealth prices returned to pre-crisis levels for the first time. In most other Euro area countries, this was already the case in the course of 2020.

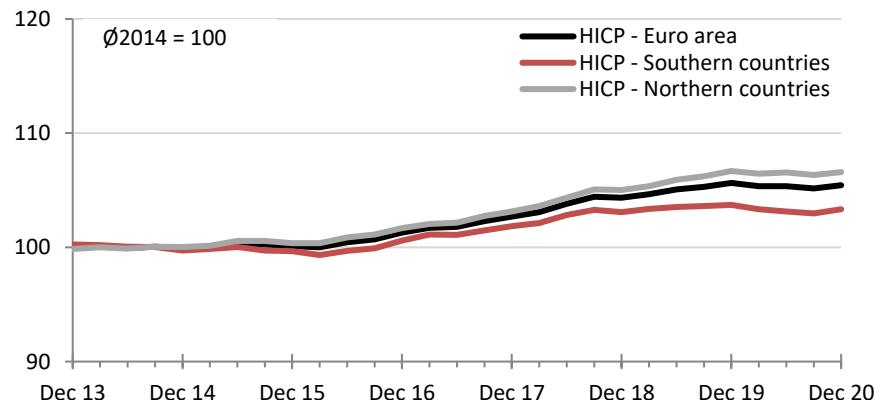
In **Belgium**, asset price inflation was also very high last year at +7.9%, but significantly lower than in Germany or the Netherlands. The prices of real estate owned by private Belgian households rose by +7.4%, which is the highest price growth rate since 2006. Belgian business wealth prices rose by only +17.6% in the middle of the year, which is the lowest in the Euro area. However, prices had hardly collapsed at the outbreak of the corona pandemic and were already back to pre-crisis levels by mid-2020.

Consumer prices

In nine of the ten Euro area countries under review, consumer prices at mid-year, as measured by the harmonised and seasonally adjusted consumer price index (HICP), increased compared to mid-year of the previous year. In all countries, however, consumer price inflation was clearly below asset price inflation. Austria (+2.7%), Belgium (+2.6%) and Spain (+2.6%) have the highest mid-year consumer price inflation in the Euro area. In Portugal, consumer prices fell by -1.4% in the middle of the year.

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

Consumer prices pick up, but significantly less than asset prices.



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, December* 2021.



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.³

³ 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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