



Flossbach von Storch  
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 12/12/2019

**H1-2019:**

# **Inflation in Greece, deflation in France**

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Abstract

By mid-2019, prices for the assets of private households in the Euro zone had risen by +1.6% in comparison to the previous mid-year figure. While asset prices rose massively in Greece, France had to struggle with deflation.

Zusammenfassung

Zur Mitte des Jahres 2019 haben sich die Preise für das Vermögen privater Haushalte in der Eurozone im Vergleich zur Mitte des Vorjahres um +1,6 % verteuert. Während in Griechenland die Preise für Vermögensgüter massiv zunahmen, hatte Frankreich mit Deflation zu kämpfen.



## 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, Germany, 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.<sup>1</sup>

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<sup>1</sup> Data is available on [www.flossbachvonstorch-researchinstitute.com](http://www.flossbachvonstorch-researchinstitute.com).

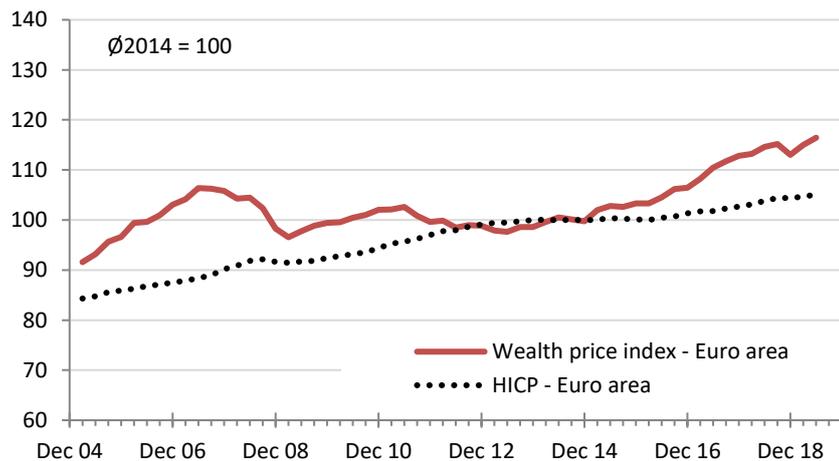


### Asset price inflation in the Euro area

*Inflation at +1.6%*

While asset prices in the Euro zone fell towards the end of 2018, they rose within the first and second quarter of 2019. Therefore, the year-on-year price change amounted to +1.6% at the end of the first quarter and the end of the second quarter as well. The main reasons for this development are rising real estate prices and falling prices for business assets in almost all Euro zone countries. At +1.5 % and +1.2 %, the year-on-year price increase in consumer goods at the end of the first and the second quarter of 2019, respectively, was at a similar level. However, the variation of asset prices between individual countries is significantly higher than the variation in consumer prices. It seems that the low interest rate policy of the ECB has limited and similar effects on consumer prices of euro area countries but affects wealth prices in the countries more strongly and rather differently.

**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 2019.



## Real assets in the Euro area

*Prices for business wealth fell.*

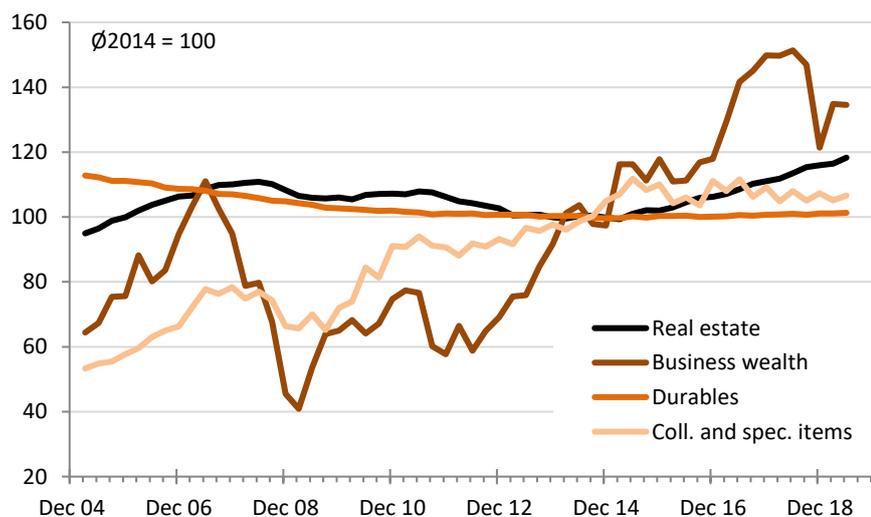
Due to a high share of real assets in the average private household portfolio in the Euro zone, the price development of real assets is the dominant factor for the overall index. Among these, real estate and business wealth are particularly decisive.

At the end of the second quarter of 2019, prices for business wealth in the Euro zone fell by -11.1% year-on-year. The price change is measured by the market price of small publicly traded companies, which is rather volatile and declined significantly over the last four quarters after having surged before.

The price rally on the real estate markets continued steadily. Real estate owned by private households in the Euro zone became +4.1 % more expensive at the end of the first quarter of 2019 and +4.2 % more expensive at the end of the second quarter compared with the same quarter of the previous year. Compared to Q2-2014, real estate prices were up +18.4 % while the price of business assets even increased by +29.9 %.

Prices for durable consumer goods stagnated at +0.2 % and +0.3 % respectively in the first two quarters. Collective and speculative goods initially increased by +0.3 % year-on-year but fell by -1.3 % year-on-year in the middle of the year.

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



Source: Flossbach von Storch Research Institute, December 2019.



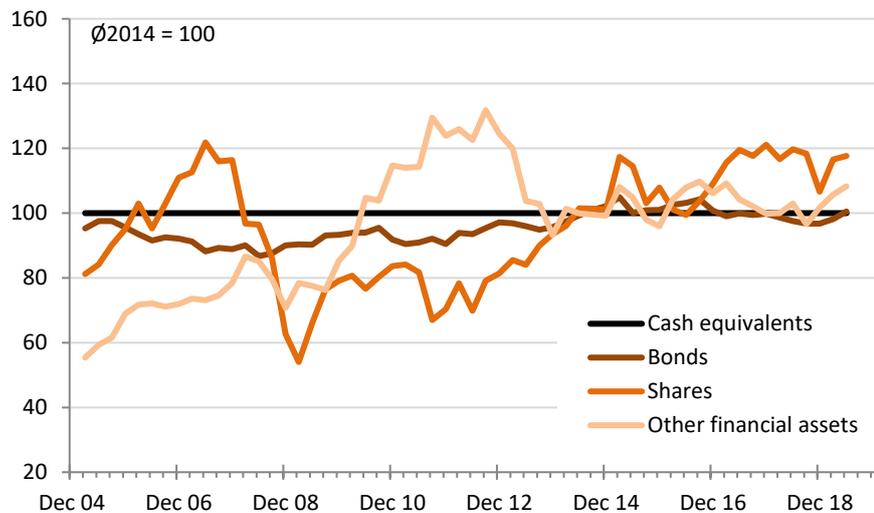
### Financial assets in the Euro area

*Gold and bond prices are on the rise.*

Prices for household financial assets in the Euro area moved only slightly. Bonds fell by -0.5 % at the end of the first quarter, but then rose by +3.0 % in the middle of the year compared with the middle of the previous year. Prices for shares stagnated in the first quarter but were -1.8 % lower in the middle of the year than in the middle of the previous year.

Other financial assets (measured by gold and commodity prices) showed the highest price increase of all assets. Other financial assets rose by +5.7% year-on-year in the first quarter and by +5.2% in the second quarter. Prices for savings deposits remained unchanged. However, compared to Q2-2014 equity prices were up most (+15.9 %), followed by prices of other financial assets (+8.4 %), while bond prices were virtually unchanged.

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



Source: Flossbach von Storch Research Institute, June 2019.



*Price jumps in Greece and Portugal.*

### The southern countries

While Greece, Portugal and Spain recorded rising asset prices, in Italy the asset prices fell.

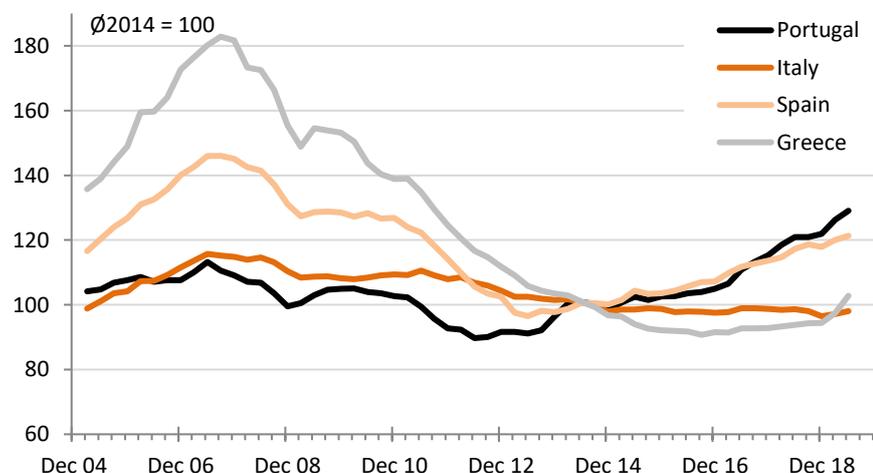
After serious deflation in previous years, **Greece** exhibited now the highest asset price increases of all Euro area countries with +9.5 % year on year at mid-year. This development was driven by a sharp rise in real estate prices (+8.0%) and a massive increase in the price for business wealth (+42.6%). In contrast to all other Euro zone countries, prices for Greek business wealth have finally risen rather than fallen, reflecting the long-awaited recovery of the economy.

Prices for the assets of **Portuguese** households rose by +6.8% year-on-year at the end of the second quarter. The price rally on the Portuguese real estate market (+10.1%) was decisive for this development and the highest increase in real estate prices of the Euro zone.

At the end of the second quarter, prices for the assets of **Spanish** households rose by +3.4% compared with the same quarter of the previous year. This moderate rate of inflation reflects the combination of rising real estate prices and falling prices for Spanish business wealth.

**Italy**, on the other hand, is struggling with a slight asset price deflation. At the end of the second quarter, prices for assets of Italian households were -0.6% lower than in the previous year and slightly down from 2014. A weak real estate market and additionally falling prices for business wealth depressed prices.

**Figure 4: Wealth price indices for the southern countries**



Source: Flossbach von Storch Research Institute, December 2019.



*High inflation in the Netherlands, deflation in France.*

### **The northern countries**

In the first half of 2019, asset prices rose in all northern Euro zone countries except France.

In the **Netherlands**, prices for the assets of private households rose by +6.4% year-on-year towards the middle of the year. Strongly rising prices for real estate (+8.3%) and only relatively slightly falling prices for business wealth (-5.9%) contributed to this development.

In **Austria**, asset price inflation at mid-year was +3.0%. Prices for Austrian real estate rose by +6.7%, while prices for business wealth declined by -6.8%.

In **Belgium**, asset prices developed somewhat more moderately. Real estate prices rose by +3.1% year-on-year at mid-year, while prices for business wealth and for financial assets stagnated. Together, the assets of Belgian households rose by +2.1%.

In **Germany**, asset price inflation at mid-year was at +1.7%. Although real estate prices rose by +5.2% year-on-year, business wealth prices fell by -10.2%.

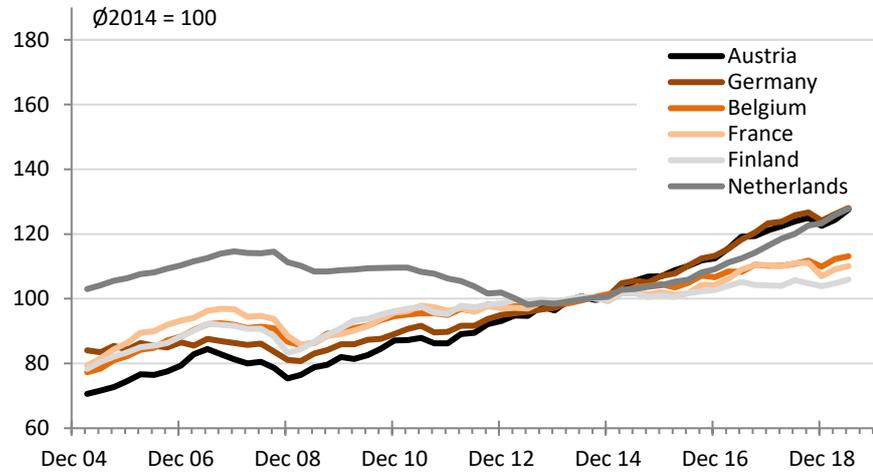
In **Finland**, asset prices stagnated. The combination of falling prices for business wealth and only slightly rising real estate prices led to a price increase of just +0.2%.

**France** is the only country in the northern Euro zone where asset prices have fallen. Deflation was driven by a sharp fall in business wealth (-16.9%) and a moderate rise in real estate prices (+3.2%). Taken together, the price of the assets of French households fell by -0.9%.

Compared to 2014, wealth prices rose most strongly in Austria, Germany, the Netherlands, Portugal, and Spain, and only moderately in the other countries.



**Figure 5: Wealth price indices for the northern countries**



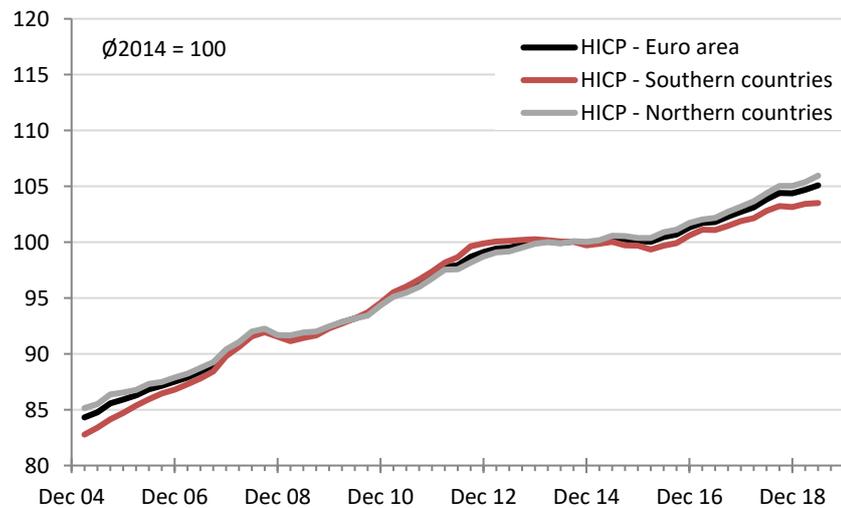
Source: Flossbach von Storch Research Institute, December 2019.

### Consumer prices

*Uniform development  
in the euro area.*

The evolution of consumer prices within the Euro area is much more homogeneous than the evolution of asset prices. The lowest consumer price inflation was recorded in Greece at +0.3% in the middle of the year. In the Netherlands, on the other hand, consumer prices rose more sharply by +2.7% year-on-year.

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



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, December 2019.



## 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
<b>Country weight in the overall index</b>	-	16,5%	1,4%	2,1%	15,2%	3,0%	5,0%	1,8%	22,9%	27,0%	5,0%
<b>average household wealth (in 1.000 €)</b>	256	236	112	185	308	276	370	239	279	240	233
<b>Weights</b>											
<b>Total real assets</b>	<b>82,1%</b>	<b>88,6%</b>	<b>93,4%</b>	<b>88,1%</b>	<b>85,1%</b>	<b>86,0%</b>	<b>76,7%</b>	<b>83,1%</b>	<b>81,2%</b>	<b>77,7%</b>	<b>75,2%</b>
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%
<b>Financial assets</b>	<b>17,9%</b>	<b>11,4%</b>	<b>6,6%</b>	<b>11,9%</b>	<b>14,9%</b>	<b>14,0%</b>	<b>23,3%</b>	<b>16,9%</b>	<b>18,8%</b>	<b>22,3%</b>	<b>24,8%</b>
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 Artprice Global Index by artprice.com provides information on art prices, 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 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.<sup>2</sup>

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<sup>2</sup> For further details on the FvS Vermögenspreisindex see <http://www.fvs-ri.com/>.



### **List of data sources**

artprice.com

Barclays

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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