



Flossbach von Storch
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Declining Prices in Northern Europe

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Abstract

In 2018, asset prices fell in many countries of the Euro area. In contrast to the development in recent years, however, it is not the southern countries of the euro area that have experienced a price erosion, the northern countries have. Drastically falling prices for business wealth have compensated for the rise in property prices in the northern countries. At the end of the year, France recorded the largest fall in prices with -3.2%, while Portugal and the Netherlands recorded the highest asset price inflation with +5.8% and +6.0% respectively.

Zusammenfassung

Im Jahr 2018 sind in vielen Ländern der Eurozone die Preise für Vermögensgüter gefallen. Im Gegensatz zur Entwicklung der letzten Jahren sind es jedoch nicht die südlichen Länder der Eurozone, die den Preisverlust hinnehmen mussten, sondern die nördlichen Länder. Drastisch gefallene Preise für Betriebsvermögen haben den Preisanstieg der Immobilienwerte in den nördlichen Ländern egalisiert. Frankreich verzeichnete zum Jahresende mit -3,2 % den größten Preisverfall, während in Portugal und den Niederlanden mit +5,8 % bzw. +6,0 % die höchste Vermögenspreisinflation vorlag.



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.¹

¹ Data is available on www.flossbachvonstorch-researchinstitute.com.



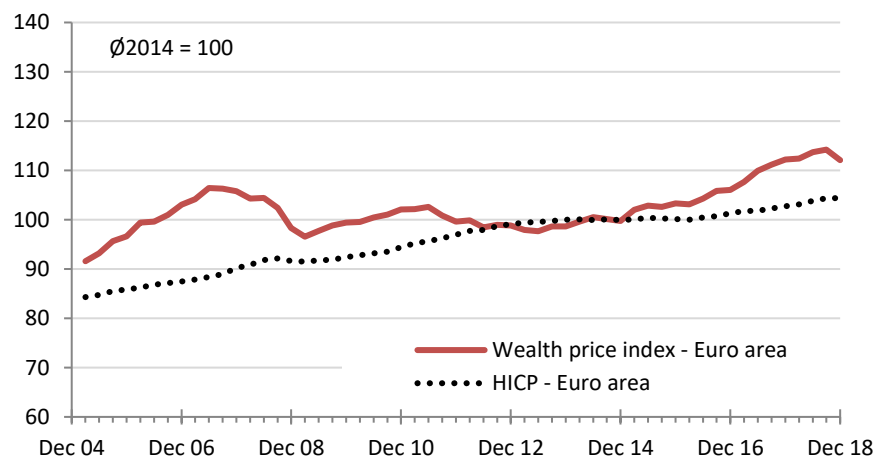
Asset price inflation in the Euro area

Asset prices stagnate.

While prices for the assets of the average European household rose by +2.7% year-on-year in the first quarter, prices stagnated at the end of the fourth quarter of 2018. At the end of the year, the inflation rate was even marginally below zero (-0.1%) compared with the end of the previous year. The development is driven by stagnating prices for real assets while financial assets fell in price.

For the first time since 2013, asset price inflation is not only below zero, but also below consumer price inflation. Consumer price inflation was +1.6% in the third quarter and +2.0% in the fourth quarter compared with the same quarter of the previous year.

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, June 2019.



Real assets in the Euro area

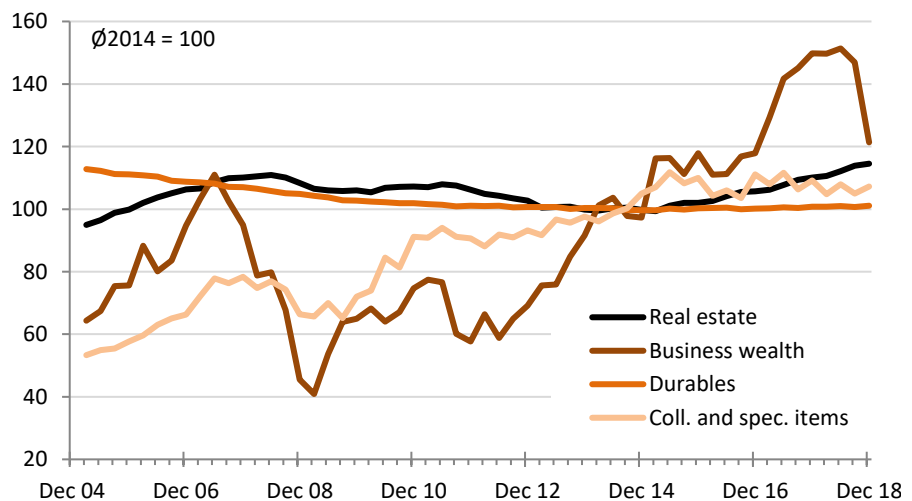
Price for business wealth drops drastically.

Due to the high share of real assets in the average European household, the price development of real assets is the predominant factor for the development of the overall index.

At the end of the fourth quarter, prices for business wealth fell drastically by -19.0%. This is caused by the price drop on the stock markets in December 2018, which pushed down prices for business wealth significantly. By contrast, the price rally on the European real estate market continued. Real estate prices rose by +4.2% in Q3 and +4.0% in Q4 in comparison with the previous year's quarters.

The prices for collectibles and speculative items continued their downward trend and became cheaper in both quarters, so that at the end of the year they were -1.8% below the previous year's value. Durable consumer goods stagnated with a price change of +0.3% in both quarters compared to the previous year.

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



Source: Flossbach von Storch Research Institute, June 2019.

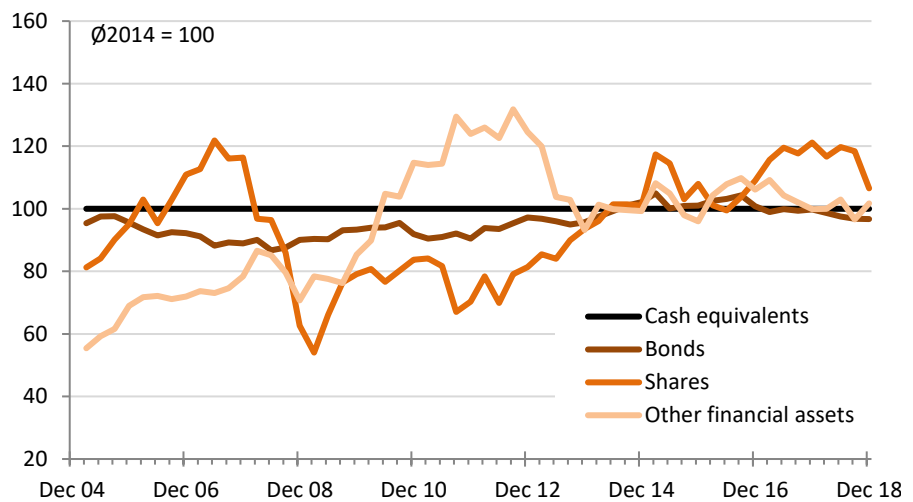


Financial assets in the Euro area

Falling prices for shares and bonds.

Throughout 2018, aggregate prices for the financial assets of euro households fell. Prices for bonds were -2.6% lower in Q3 and -3.1% lower in Q4 than in the same quarters of the previous year. While shares were still +0.6% more expensive in Q3 than in the prior-year quarter, they were -12.0% below the prior-year figure at the end of the year. By contrast, the other financial assets of euro households (measured by gold and commodity prices) rose by +1.8% at the end of the year. By definition, the price for savings deposits remained unchanged.

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



Source: Flossbach von Storch Research Institute, June 2019.



Price increase outside Italy.

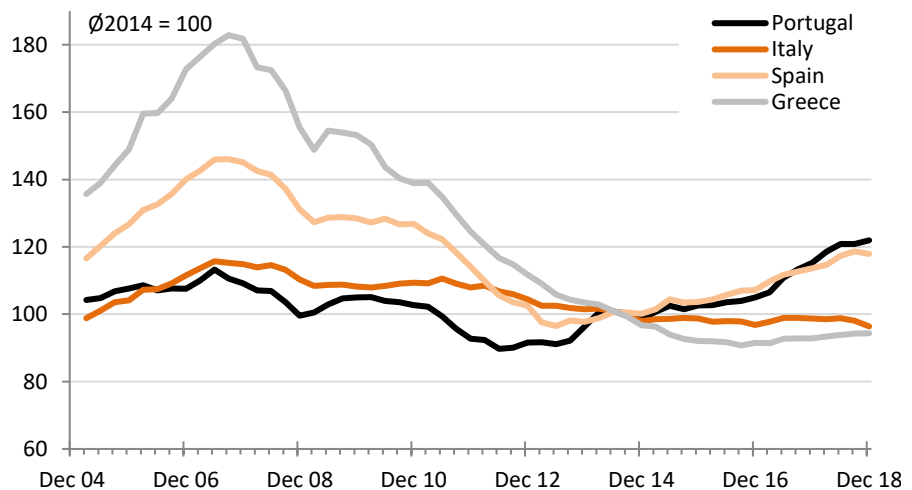
The southern countries

While Greece, Portugal and Spain recorded rising asset prices, prices for the assets of Italian households fell.

The highest price increase within the southern Euro area group occurred in **Portugal**, where prices rose by +6.7% in the third quarter compared to the same quarter of the previous year, followed by a price increase of +5.8% at the end of the year. **Spain** is also experiencing comparatively high price increases. Prices for the assets of Spanish households rose by +5.3% at the end of the third quarter and by +3.8% year-on-year in the fourth quarter. In **Greece**, asset price inflation was +1.6% in both Q3 and Q4. In all three countries, the reasons for the increase were a high proportion of real estate and a significant rise in real estate prices.

Italy, on the other hand, had to accept a decline in prices due to a weak real estate market. At the end of the third quarter, prices for assets of Italian households were -0.9% lower than in the previous year. The trend intensified in the fourth quarter, with the result that prices at the end of the year were -2.4% lower than at the end of the previous year.

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, June 2019.



The northern countries

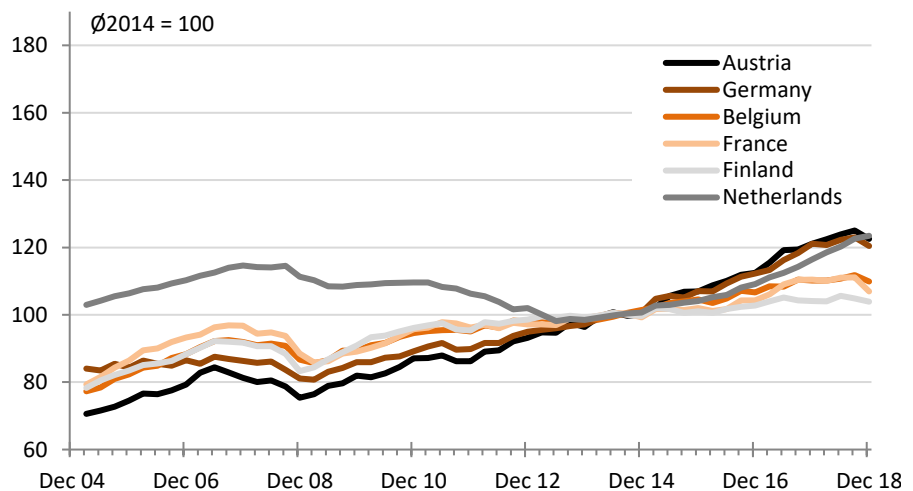
Falling prices in Belgium, Finland, France and Germany.

While in the third quarter all northern eurozone countries reported rising asset prices, prices in Belgium, Finland, France and Germany fell year-on-year at the end of the year. At -3.2%, the price reduction was most pronounced in **France**, while it was -0.5% in **Germany**, -0.3% in **Belgium** and -0.1% in **Finland**.

In all four countries, prices for business wealth fell significantly, in **France** by as much as -26.1% at the end of the year, pushing down the respective country index. The positive development of real estate prices, on the other hand, held steady, but was only between +1.0% and +5.0%.

In Austria and the Netherlands, on the other hand, asset prices have risen. **Austrian** households recorded a price increase of +1.2% at the end of the year, but this was well below the price increase of +4.7% in the third quarter. Price developments in the **Netherlands** are largely detached from the rest of the euro zone. In Q3, prices were +7.4% higher than in the previous year and +6.0% higher at the end of the fourth quarter. The reason for this is that Dutch households have relatively low business wealth compared with other European households.

Figure 5: Wealth price indices for the northern countries



Source: Flossbach von Storch Research Institute, June 2019.

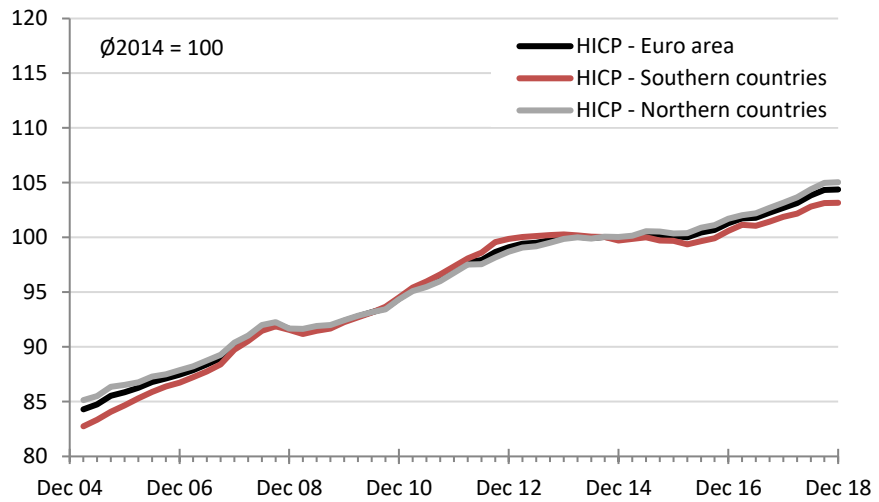


Consumer prices

*Uniform development
in the euro area.*

The development of consumer prices within the Euro area is much more homogeneous than the development of asset prices. In the northern countries of the Euro area, consumer prices were on average +1.8% higher than at the end of the previous year, while the southern countries recorded a price increase of +1.3% over the same period.

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



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, June 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
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 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.²

² 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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