



Flossbach von Storch
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 26/06/2020

H2-2019: Price increase by 6.3 percent

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Abstract

At the end of 2019, asset prices for private households in the Eurozone had risen by +6.3% compared with the end of the previous year. While asset prices rose significantly in Greece, the smallest price increase was observed in Italy.

Zusammenfassung

Zum Jahresende 2019 haben sich die Preise für das Vermögen privater Haushalte in der Eurozone im Vergleich zum Vorjahresende um +6,3 % verteuert. Während in Griechenland die Preise für Vermögensgüter deutlich zunahmen, war in Italien die geringste Preissteigerung zu beobachten.



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.

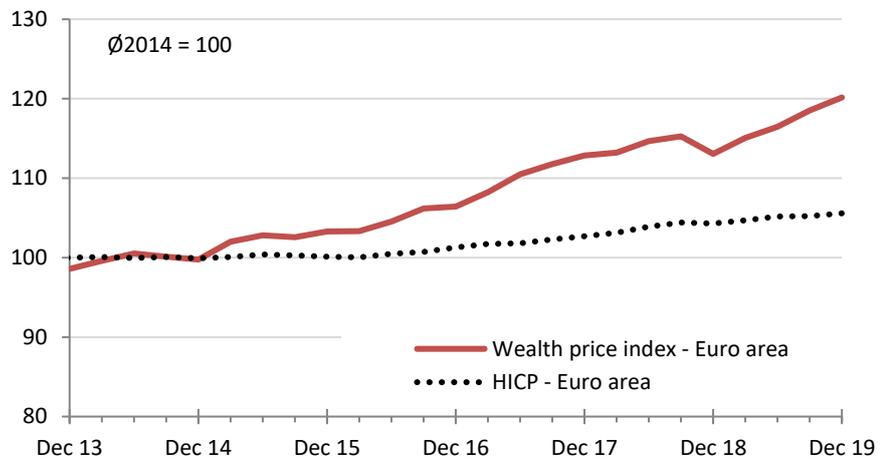


Asset price inflation in the Euro area

Significant price increase in the Euro zone

In 2019, the prices of assets held by Euro area private households rose by +6.3% compared with the end of the previous year. The price increase was driven by both real assets (+6.1%) and financial assets (+6.8%). Consumer price inflation, on the other hand, remained at a significantly lower level of +1.2% at the end of 2019 and also below the ECB's price stability target of close to but below two percent.

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 2020.

Real assets in the Euro area

Business wealth on the rise again

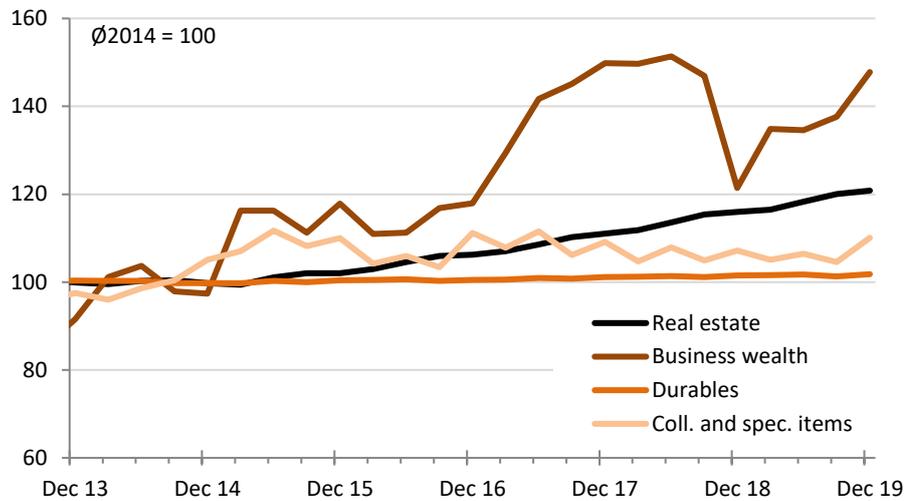
Given the high share of real assets held by the average Euro area private household, the price development of real assets is the dominant factor for the overall index. Among these, real estate and business wealth are particularly decisive.

The rally on the European real estate market continued in 2019. At the end of the year, prices for real estate held by Euro zone households were +4.2% higher than at the beginning of the year. Prices for business wealth increased by +21.7% at the end of the fourth quarter of 2019. The change in the price of business wealth is measured by the market price of small publicly traded companies, whose prices have risen significantly over the last four quarters but were previously at a higher level in 2018.

The price of durable consumer goods stagnated at +0.3% at the end of the year compared to the end of the previous year. Collectibles and speculative items increased by +2.7% compared to the end of the previous year.



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



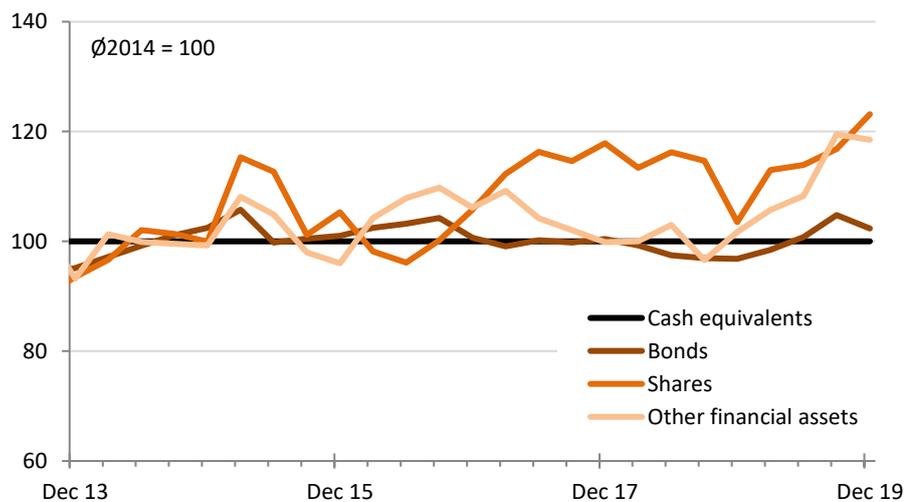
Source: Flossbach von Storch Research Institute, June 2020.

Financial assets in the Euro area

Prices on financial markets rise

The prices of financial assets of private households in the Euro area have risen significantly in 2019. Prices for bonds rose by +5.7% due to continued falling interest rates, and prices for shares increased by +19.0%. Prices of other financial assets (measured by gold and commodity prices) rose by +16.5%. The price of gold was the driving factor here. Cash equivalents were not subject to price changes.

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



Source: Flossbach von Storch Research Institute, June 2020.



Price surges in Greece and Portugal

The southern countries

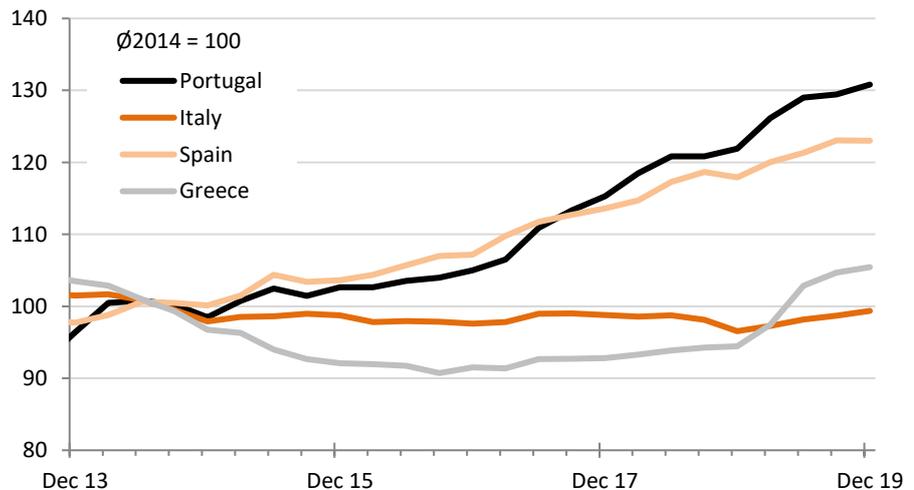
With a price increase of +11.7%, **Greece** recorded the strongest price increase in the entire Euro area. On the one hand, the prices of business wealth of private Greek households have risen by +72.3% in 2019 and, on the other hand, the prices of Greek real estate have increased by +8.3%. Despite the high price increases, both the prices of real estate and business wealth are still far below the level before the Euro and financial crisis.

The prices of **Portuguese** private household assets increased by +7.3% at the end of the year compared to the end of the previous year. This development was mainly due to the price rally on the Portuguese real estate market (+8.9%), where the highest real estate price increase of the Euro area was recorded.

The prices of assets held by private **Spanish** households rose by +4.3% at the end of the year compared with the end of the previous year. This development was driven by rising prices for financial assets, moderately rising real estate prices and a +10.0% increase in the price of Spanish business wealth.

At +2.9%, the price increase of assets held by private **Italian** households was more moderate. Although the prices of Italian household business wealth rose by +23.5%, real estate prices in Italy stagnated (+0.3%). Nevertheless, the price increase in 2019 was the highest since 2007. Before the middle of 2019, Italy had been struggling with asset price deflation for twelve years.

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, June 2020.



High inflation in the North

The northern countries

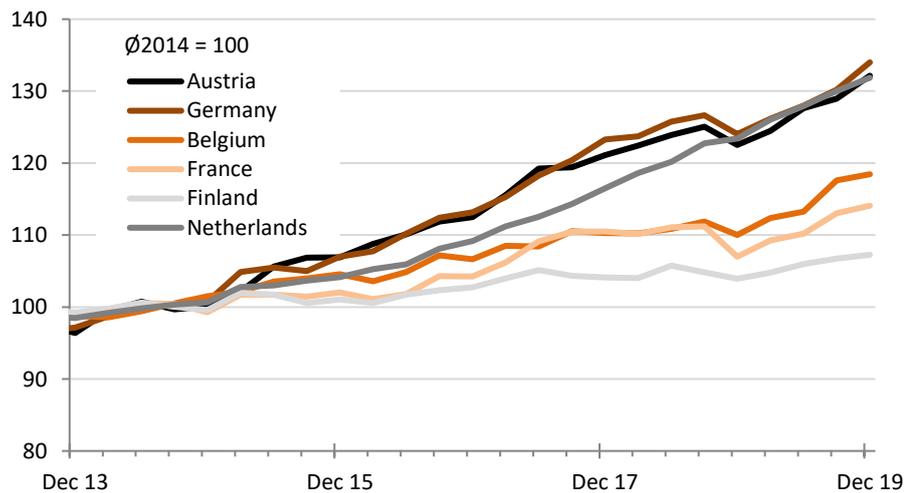
In **Germany**, prices for private household assets rose by +8.0% in 2019. Rising prices for real estate, business wealth and financial assets have contributed to this development.

In **Austria** and **Belgium**, a similarly high increase in the price of private household wealth was recorded at +7.7%. In these two countries, too, the combination of incessantly rising real estate prices, a sharp rise in the price of business assets and rising prices for financial goods is the cause.

In the **Netherlands** (+6.8%) and **France** (+6.6%), asset prices also rose significantly. In the Netherlands, although the increase in the price of business wealth was very high (+29.6%), the relative share of business wealth is lower than in other northern countries of the Euro zone. On the other hand, Dutch real estate prices rose sharply by +6.3%. By contrast, the average French private household has significantly higher business wealth, so that even with a relatively small price increase of +3.8% on the real estate market, the inflation rate was similar to that in the Netherlands.

At +3.2%, asset price inflation in **Finland** was significantly lower than in the other northern Euro area countries. On the one hand, real estate in Finland showed a very low price increase (+0.8%). On the other hand, the prices of business wealth also rose significantly, by +21.2%.

Figure 5: Wealth price indices for the northern countries



Source: Flossbach von Storch Research Institute, June 2020.

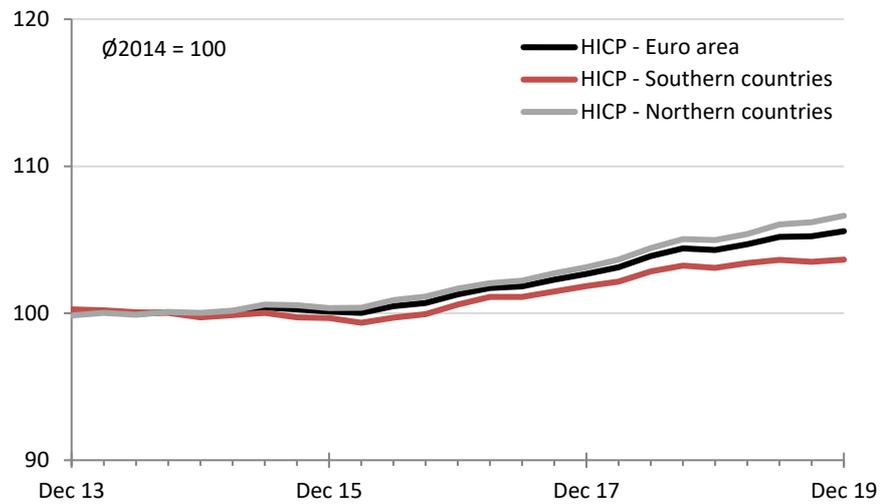


Consumer prices

More homogeneous development in the Euro zone

The development of consumer prices within the Euro zone is much more homogeneous than the development of asset prices. The lowest consumer price inflation was in Portugal, at +0.3% at the end of 2019. In Belgium and Austria, on the other hand, consumer prices rose most strongly, with a year-end increase of +1.8% compared to the beginning of the year.

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



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, June 2020.



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 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.²

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



List of data sources

artprice.com

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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