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Asset price inflation continues

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Abstract

In the first and second quarter of 2018 asset price inflation in the Euro area remains robust but somewhat lower than in 2017. The highest inflation rate is found in Portugal and the lowest in Italy.

Zusammenfassung

Im ersten und zweiten Quartal 2018 ist die Vermögenspreis-inflation im Euroraum weiterhin robust, aber etwas niedriger als im Jahr 2017. Die höchste Inflationsrate ist in Portugal zu verzeichnen und die niedrigste in Italien.



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.



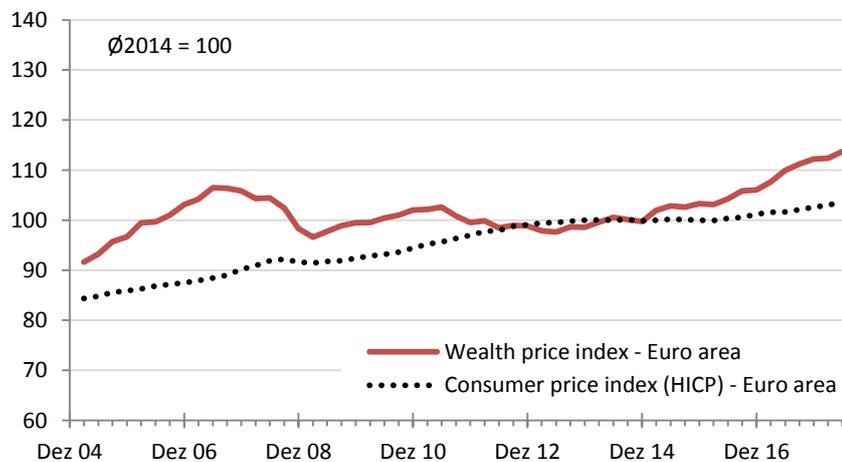
Asset price inflation in the Euro area

4.4% inflation in Q1
and 3.4% in Q2.

The first and second quarter of 2018 were characterized by robust but declining asset price inflation. By the end of the first quarter, the price index for the Euro area was 4.4% higher than in the same quarter of the previous year. At the end of the following quarter (Q2-2018), the inflation rate on assets amounted to 3.4%. At the end of 2017 it still was 5.8%. Thus, inflation has now decreased for three quarters in a row.

In contrast to asset price inflation, consumer price inflation remained fairly low. Prices for consumer goods rose by 1.3% year-on-year in the first quarter and by 2.0% in the second quarter of 2018. In comparison to previous quarters, the difference between the two inflation figures has become smaller but still amounts around two percentage points. Developments shown in Figure 1 suggest that the ECB's more aggressive monetary policy easing since 2014 has primarily boosted asset prices.

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 2018.



Business wealth and real estate up

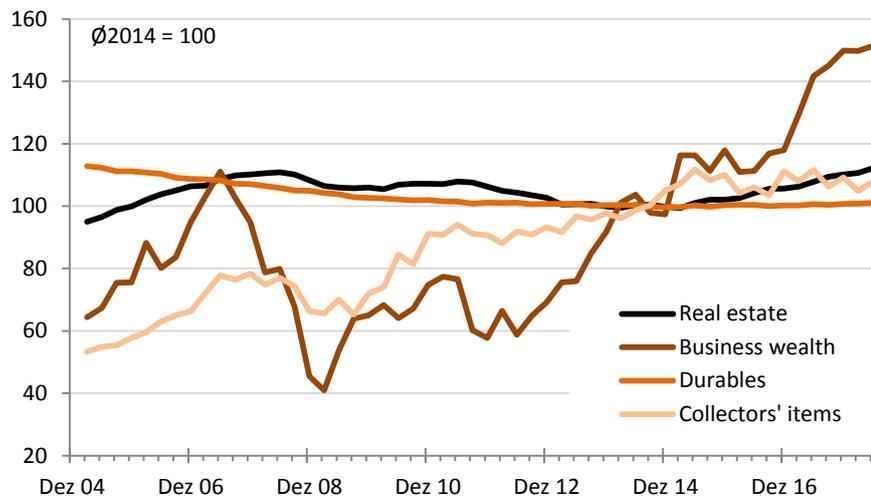
Real assets in the Euro area

Real assets are the most dominant factor for the overall index. Amongst real assets, business wealth and real estate are the most important drivers.

At the end of Q2, prices for business wealth increased by 6.8% in comparison to the same quarter of the previous year. Although it has remained high in 2018, the inflation rate on business wealth was in double digits throughout 2017.

Prices for real estate in the Euro area rose by 4.3% in Q2 year-on-year, while those for consumer durables stagnated (+0.4%). The price for collectors' items fell by 3.3% year-on-year. This marks the third price drop in a row.

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



Source: Flossbach von Storch Research Institute, December 2018.

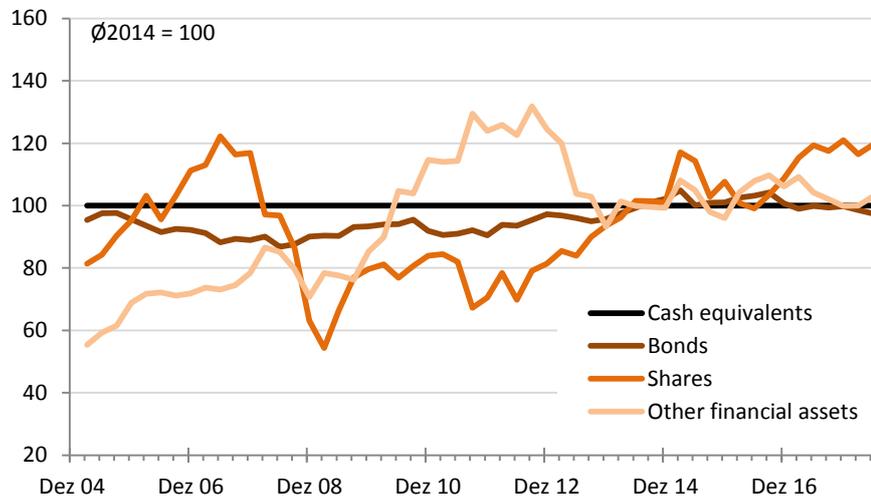


Financial assets in the Euro area

Prices for financial assets fell.

Prices for financial assets fell year-on-year in the first and in the second quarter. Within financial assets, the price erosion for “other financial assets” was the strongest in the first quarter at -8.4%. Bond prices also fell in both quarters, while shares rose by one percentage point year-on-year in Q1 but stagnated towards the end of the second quarter.

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



Source: Flossbach von Storch Research Institute, December 2018.



The southern countries

In Greece, Portugal and Spain asset prices increased while they stagnated in Italy.

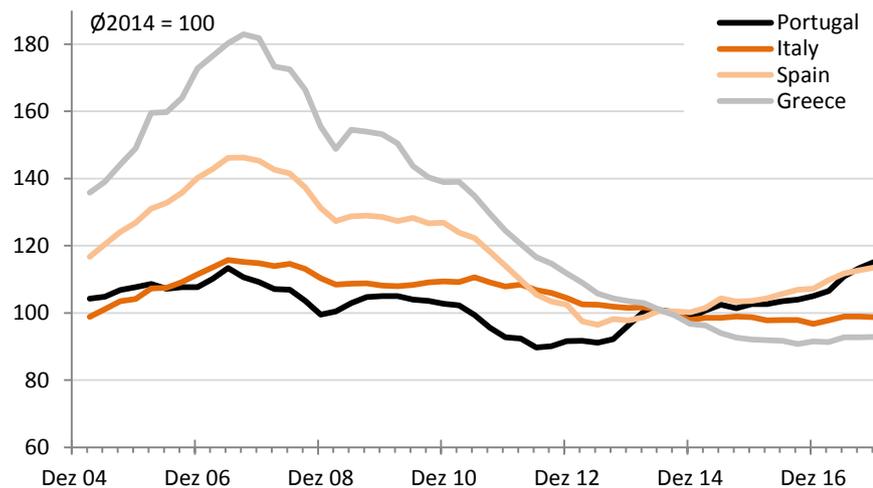
Once again, prices for assets held by **Portuguese** households exhibited the highest growth rate. Prices rose by 11.3% in the first quarter in comparison to the prior year and by 9.0% in the second quarter. The high inflation rate reflects real estate prices that increased by more than eleven percent. Portugal has already been among the countries with the highest asset price inflation throughout 2017.

In **Spain** the inflation rate on household assets amounted to 4.5% in the first quarter and to 5.0% in the second quarter. As in Portugal, rising prices of real estate are the main driver of the inflation rate.

Asset price inflation in **Greece** remained at a low level, ranging from 2.2% in the first quarter of 2018 to 1.2% in the second quarter. Greek real estate became slightly more expensive (+1.2%) and prices for Greek bonds increased by 12.3% year-on-year.

Italy is the country with the lowest asset price inflation in the Euro area. In the first quarter of 2018, prices increased by 0.7% and stagnated in the second (-0.1%).

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, December 2018.



The northern countries

Stagnating prices in Finland. High inflation in Austria, Germany and the Netherlands.

The asset price inflation figures for the northern countries of the Euro area ranged from 0.0% in Finland to 6.8% in the Netherlands.

As in previous quarters, asset price inflation remained high in **Austria**. The price of assets held by private Austrian households increased in the first quarter year-on-year by 6.0% and in the second quarter by 4.0%.

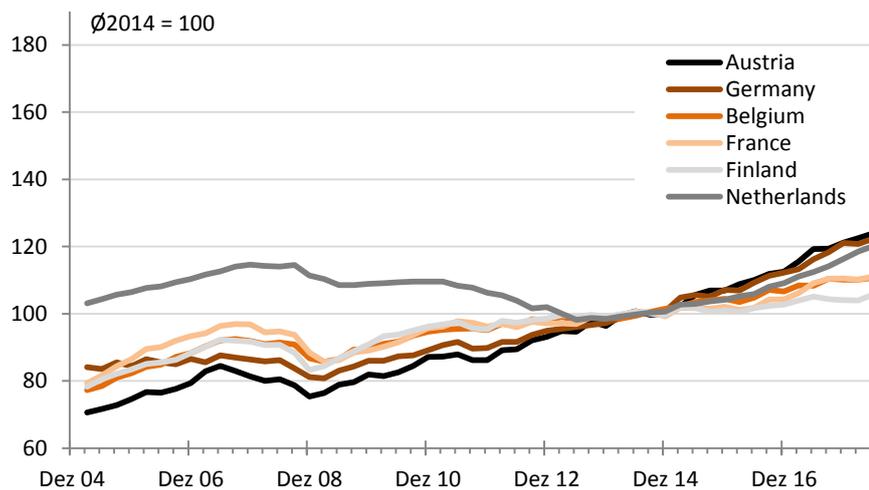
Asset price inflation remained positive but low in **Belgium** with price growth rates of 1.6% in the first quarter and 2.2% in the second.

Prices for **Finish** assets stagnated in the first two quarters of 2018. Across all asset categories, price changes were close to zero with the exception of other financial assets, which fell by 8.4% in the first quarter.

The inflation rate in **France** was moderate in comparison to the other countries. Prices first rose by 3.7% and then by another 1.8% year-on-year.

Germany and the **Netherlands** showed similar patterns in asset price inflation. Country inflation rates ranged between 5.2% and 6.7%.

Figure 5: Wealth price indices for the northern countries



Source: Flossbach von Storch Research Institute, December 2018.

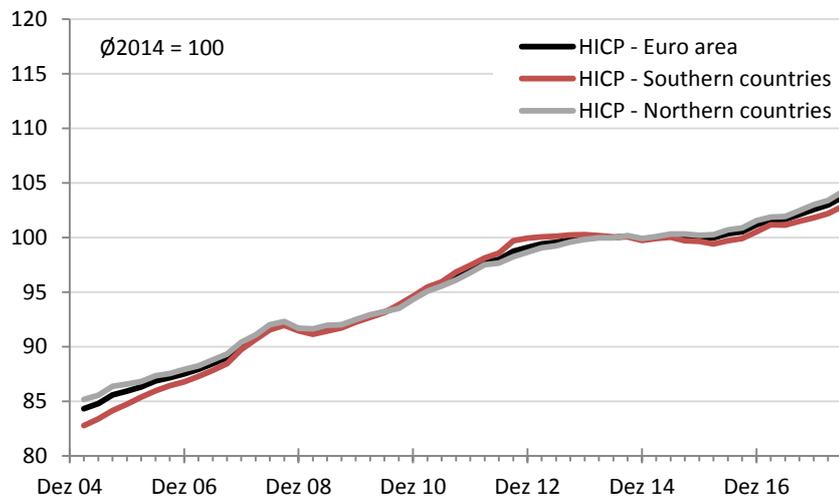


Consumer prices

Consumer prices on the rise again.

Consumer price inflation is on the rise again. At the end of the second quarter of 2018 consumer prices were up by 2.0% year-on-year. This is the highest consumer price inflation figure since the year 2012.

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



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, December 2018.



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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