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Wealth prices in Euroland: North-south divide continues

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- The present note gives an update of our wealth price series for euro area countries until the middle of this year.
- Wealth price inflation remained substantially higher in the northern than in the southern countries of the euro area. While prices rose by 4.7% and 4.0% in the first and second quarter, respectively, in the northern countries, they rose by only 0.7% and 2.3% in the southern countries.
- Hence, our earlier conclusion of a north-south divide in wealth price developments remains valid. However, wealth price divergence between north and south eased somewhat during the first half of 2015.

Earlier this year we introduced a set of wealth price indices for the euro area to complement our wealth price index series for Germany.¹ Previously we commented on developments ending in the fourth quarter of 2014. The present note gives an update of developments until the middle of this year. Our previous conclusion of a north-south divide in wealth price developments remains valid. However, wealth prices divergence eased somewhat during the first half of 2015.

Conceptual issues and data sources

The Flossbach von Storch (FvS) wealth price indices measure the price development of the wealth of private households in key euro area countries. We include Austria, Belgium, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, and Spain in our country sample. The indices are calculated as the weighted averages of price developments of real and financial assets owned by the households.² Real assets include real estate, business wealth, durable

¹ "Wealth prices in Euroland: The North-South Divide", Flossbach von Storch Research Institute Economic Policy Note 27/7/2015. For the German wealth price index see <http://www.fvs-ri.com/fvs-vermoegenspreisindex/ueberblick.html>.

² We use wealth prices and not asset valuation indicators and we exclude asset returns, 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.



consumer goods as well as collectors' items and objects for speculation. Financial assets consist of stocks, bonds, savings and sight deposits as well as other financial instruments (gold and commodity holdings). Real estate accounts for the largest share in private household wealth in all euro area countries. Other sizeable asset classes are business wealth and cash holdings.

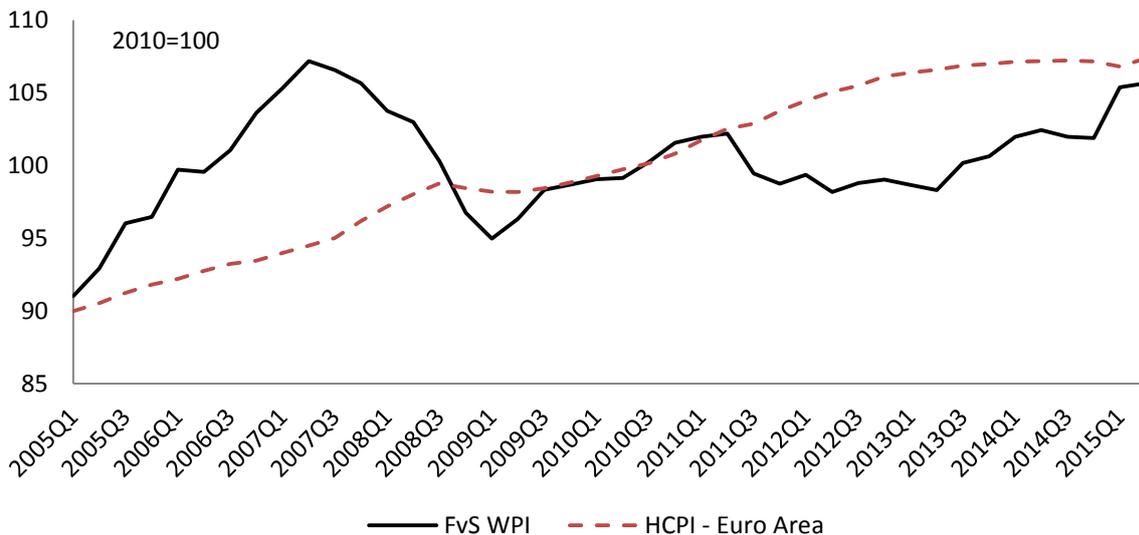
Recent wealth price developments in the euro area

For the euro area as a whole year-on-year wealth price inflation accelerated to 3.3% in the first and 3.1% in the second quarter of this year from an average rate of 1.5% in the second half of 2014. The strongest gains were recorded in the northern countries (Belgium, Germany, France, Netherlands, Austria and Finland, where wealth prices were up a yearly 4.7% in the first

and 4.0% in the second quarter after an average increase of 2.3% in the second half of 2014. Prices increased by 0.7% in the first and 1.5% in the second quarter in the southern countries (Greece, Spain, Italy and Portugal) after having been virtually flat on the year on average in the second half of 2014.

Chart 1 shows the development of the aggregate FvS Wealth Price Index for the euro area together with the harmonized consumer price index for the entire period we cover. Until the beginning of the financial crisis, wealth prices rose significantly faster than consumer prices. They peaked in the second quarter of 2007 and fell until the first quarter of 2009. Since the second quarter of 2013, wealth price developments have picked up again, closing the gap to consumer prices, which have gently trended higher since mid-2009.

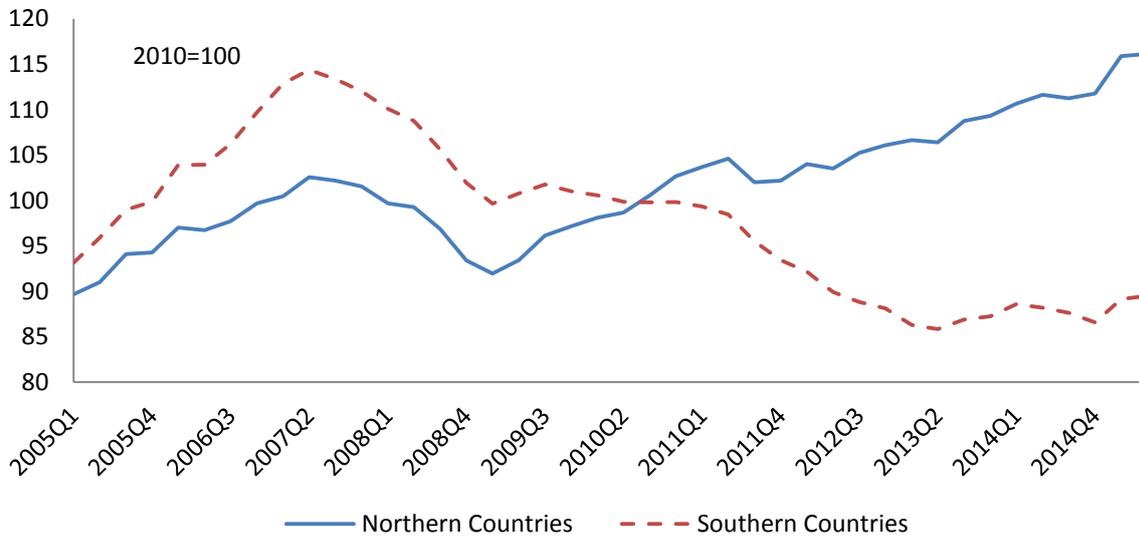
Chart 1. Wealth and consumer price in the euro area



Source: ECB, FvS Research Institute



Chart 2. Euro area wealth prices in northern and southern countries

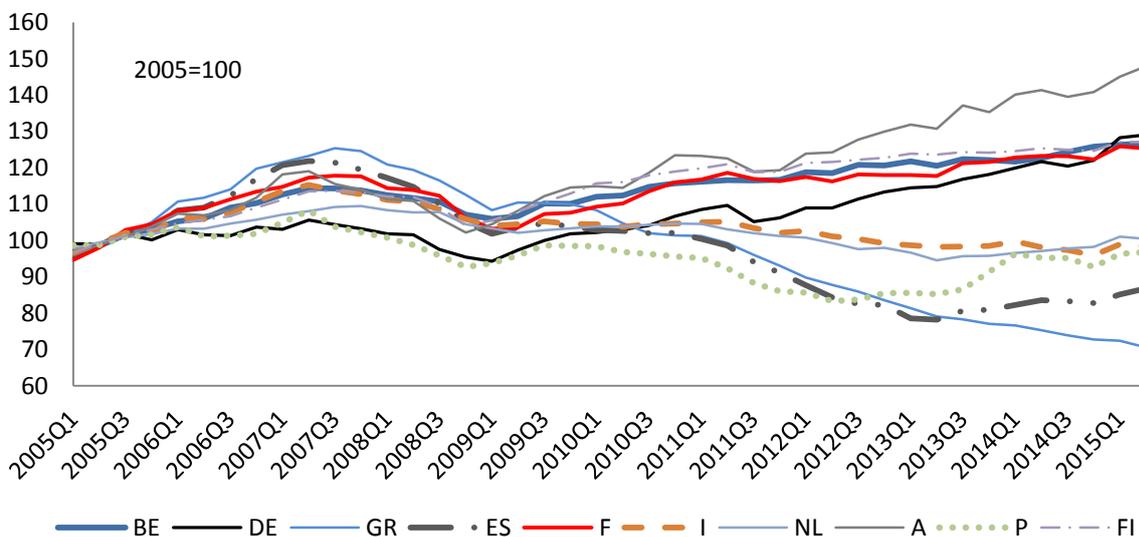


Source: FvS Research Institute

As can be seen from Chart 2, developments were significantly different in the two groups of countries. In the northern countries, wealth prices have increased steadily since the first quarter of 2009. Against this, wealth prices declined substantially between the second quarter of 2007 and the second quarter of 2013 in the southern countries. Since then, wealth prices in the southern countries have broadly moved sideways.

Chart 3 shows developments in individual countries. Greece has led the rise of wealth prices until the second quarter of 2007 and the drop since then. Prices also plunged substantially in Spain and Portugal. They fell more gently in Italy. Prices in the Netherlands have also weakened substantially since 2007, qualifying this country for membership in the southern group. Among the northern countries, Austria has seen the largest rise. Prices in

Chart 3. Wealth prices in several euro area countries



Source: FvS Research Institute

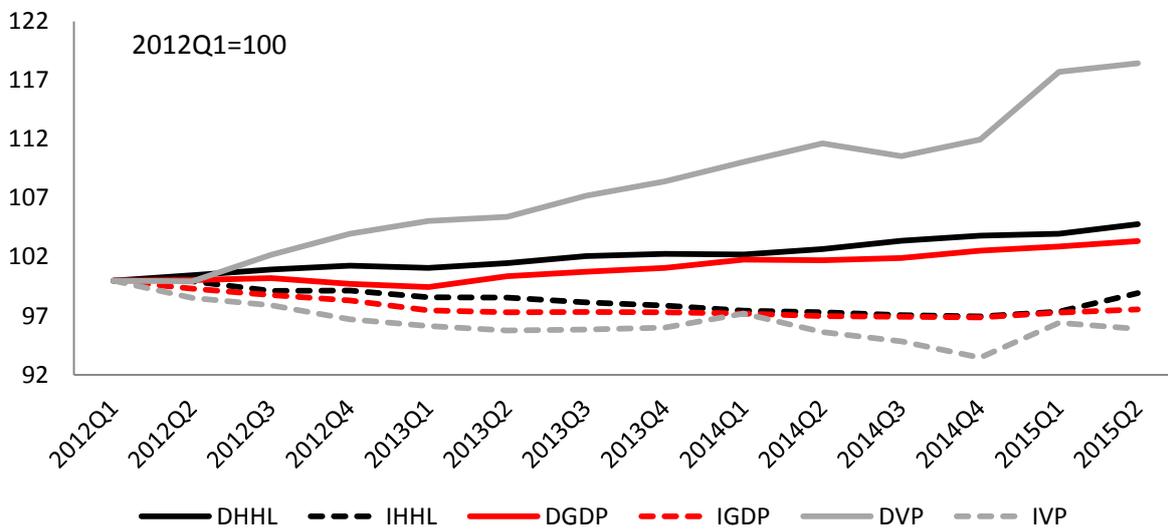


Germany have recovered forcefully from their 2009 low while prices in France have drifted higher more gently. Interestingly, despite a severe recession at present, prices are holding up in Finland.

In our previous note we have argued that higher wealth prices raise the capacity to borrow and boost GDP. Chart 4 is a reminder of this

argument. As wealth prices rose in Germany (DVP) loans to households expanded (DHHL) and GDP increased (DGDP). By the same token, the fall in wealth prices in Italy (IVP) depressed loans to household (IHHL) and weakened GDP (IGDP). More recently, however, Italian wealth prices have strengthened a little. This has helped loans to increase, which sooner or later will have a positive influence on GDP.

Chart 4. Wealth prices, loans, and GDP in Germany and Italy



Source: FvS Research Institute, Haver Analytics



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