



Flossbach von Storch
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 06/11/2020

H1-2020: Pandemic divides the eurozone

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Abstract

The corona pandemic is fuelling divergence in the eurozone. Although real estate prices are defying the pandemic, prices for business wealth in the southern countries of the eurozone are suffering more from the pandemic than in the north.

Zusammenfassung

Die Corona-Pandemie treibt die Divergenz in der Eurozone voran. Zwar trotzen Immobilienpreise der Pandemie, jedoch leiden Preise für Betriebsvermögen in den südlichen Ländern der Eurozone stärker unter der Pandemie als im Norden.



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.

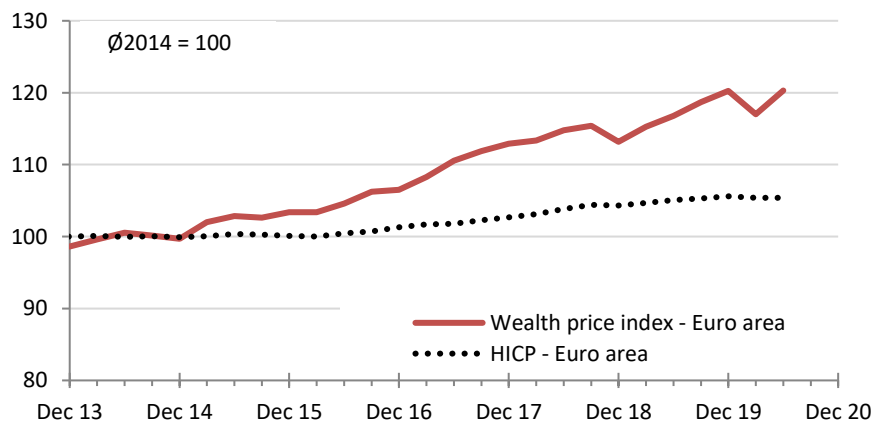
Household wealth and the respective index weights are constructed with help of the "Household Finance and Consumption Survey" by the European Central Bank (2016), which uses survey data from the year 2014. In addition, all price series have been indexed to their average of the year 2014. The appendix 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

Asset price inflation in the Euro area

Pandemic depresses asset prices.

The course of the corona pandemic is reflected in the development of asset prices in the eurozone. With the first wave of infection in Europe, the prices of private household assets in the eurozone fell at the end of the first quarter. Over a twelve-month period, only a slight price increase of 1.5% was recorded. In the second quarter, prices recovered quickly, so that by mid-year, a 12-month comparison showed a price growth of +3.1 %.

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, November 2020.

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



Real assets in the Euro area

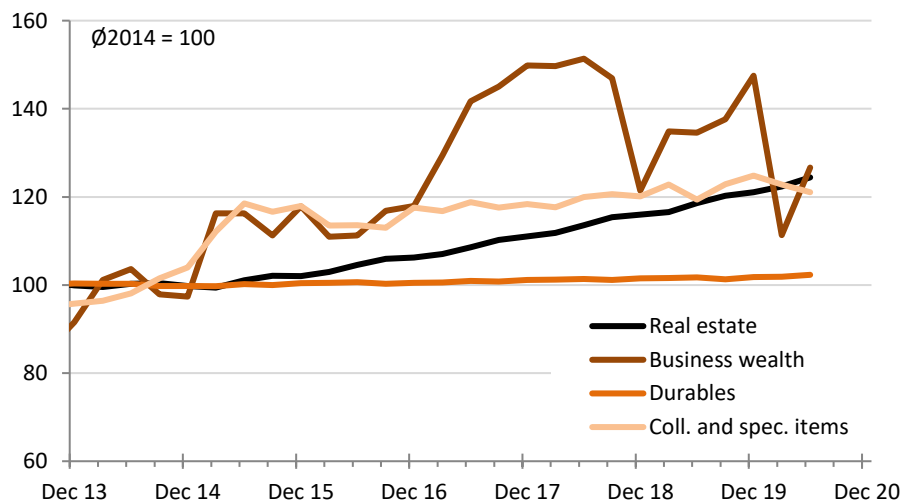
Real estate prices defy the crisis.

Due to the high share of real assets held by the average private household in the eurozone, the price development of real assets is the dominant factor for the overall index. Among these, real estate and business wealth are particularly important.

The development of real estate prices in the eurozone was unaffected by the Corona pandemic. The 12-month growth rate for real estate prices increased once again and stood at +4.9% by mid-year. Prices for business wealth, on the other hand, suffered significantly as a result of the lockdowns. At the end of the first quarter, prices for business wealth were -17.5% down year-on-year. Prices recovered during the second quarter, with the result that by mid-year they were down by -5.9% year-on-year.

Prices for consumer durables were not affected by the pandemic and increased by +0.6%. The price of collectibles and speculative items rose by +1.7 % compared with the middle of the previous year. While prices for jewellery made of precious metals, precious wines and historic automobiles rose, prices for art objects fell.

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



Source: Flossbach von Storch Research Institute, November 2020.



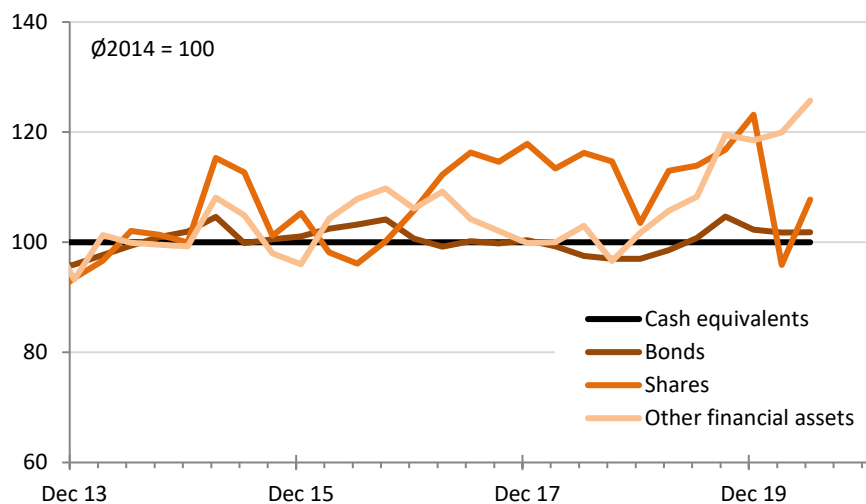
Financial assets in the Euro area

Gold price rises.

The prices of financial assets held by private households in the eurozone rose by +1.7% year-on-year. Within financial assets, there were different trends. The prices of shares owned by private households fell sharply in the first quarter, falling -15.1% short of the prices seen in the same quarter of the previous year. Share prices recovered in the second quarter, with the result that by mid-year they were -5.5% down year-on-year. This price development was mainly due to the deterioration in the earnings prospects of publicly traded companies around the world as a result of lockdowns.

Bond prices have so far come through the pandemic well. Although emerging risks of issuers' financial problems put pressure on prices, both a shift of funds from the stock market to the bond market and further reductions in interest rates by central banks contributed to rising bond prices. At the end of the first quarter, bond prices were +3.2% above the previous year's level and at mid-year they were +1.1% year-on-year. The prices of other financial assets (measured via gold and commodity prices) rose by +16.1%. In this context, the price of gold, driven by the increasing uncertainty on the financial markets, rose by +28.0% at mid-year compared to the middle of the previous year. Commodities became -11.0% cheaper due to lower demand triggered by the decline in economic activity.

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



Source: Flossbach von Storch Research Institute, November 2020.



Moderate growth in the South.

The southern countries

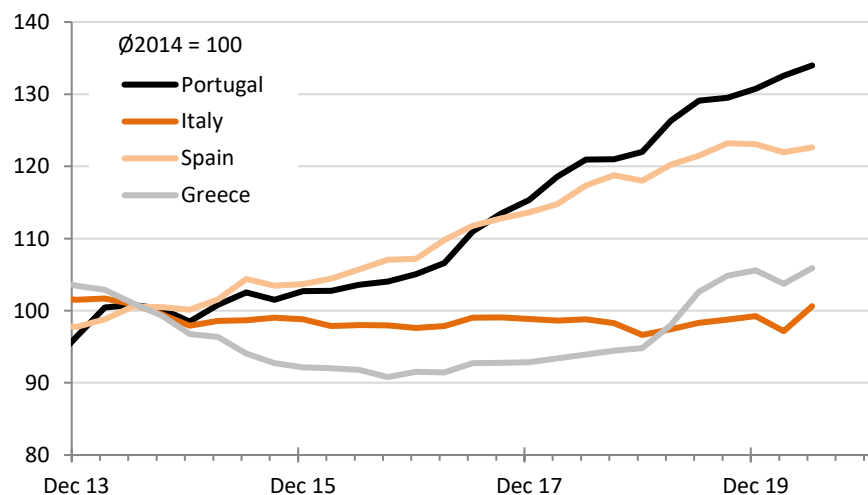
Asset price inflation is moderate in the southern countries of the eurozone. In **Portugal**, by mid-year asset prices rose by +3.8 % year-on-year. This development was driven on the one hand by sharply rising real estate prices (+7.8%) and on the other hand by a massive drop in the price of business wealth (-31.4%), which put a damper on asset prices.

In **Greece**, prices for private household assets rose by +3.2%. Here, too, prices for real estate set the tone, rising by +4.9% compared with the middle of the previous year. Although the prices for Greek real estate have been rising for over two and a half years now, their prices are still far below the level before the Euro and financial crisis.

The prices of assets held by private **Italian** households rose by +3.4 % in the middle of the year. For the first time since 2011, real estate prices in Italy have risen despite massive economic losses due to the Corona pandemic.

In **Spain**, prices for private household assets are stagnating. Compared with the middle of the previous year, prices were +0.9% higher. Although Spanish real estate prices rose slightly by +2.2%, the prices of business wealth held by Spanish households fell sharply (-15.7%).

Figure 4: Wealth price indices for the southern countries



Source: Flossbach von Storch Research Institute, November 2020.



Significant growth in the north

The northern countries

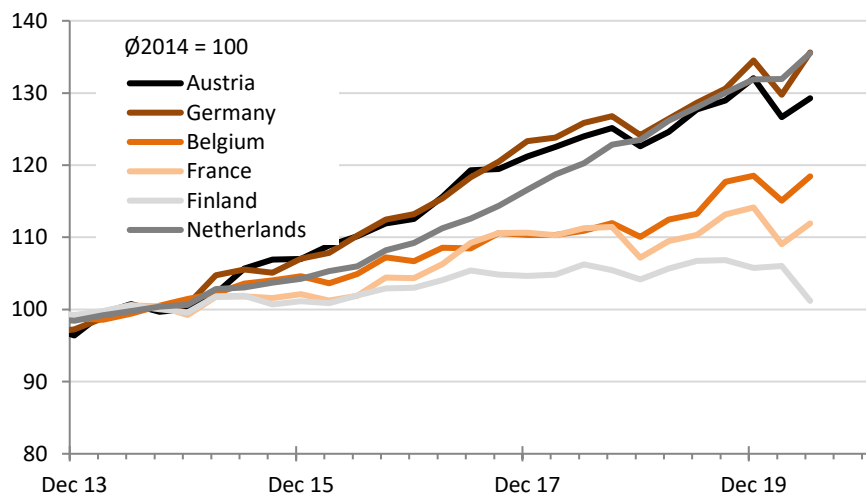
In the **Netherlands** (+5.9 %) and **Germany** (+5.4 %), asset price inflation is highest at mid-year. In both countries, real estate prices are defying the corona pandemic and are rising steadily with annual growth rates of over +6.3%. Due to the pandemic, prices for business wealth have fallen in both countries in the first quarter. By mid-year, however, prices had recovered. In Germany prices were above the previous year's level, and in the Netherlands, they were only slightly lower.

In **Belgium**, significant price increases of +4.6% were recorded. This development is mainly driven by the prices for business wealth, which were +18.3 % higher year-on-year. Prices for Belgian real estate rose by +4.5 % in the middle of the year.

France (+1.4 %) and **Austria** (+1.2 %) show moderate price growth rates for the assets of private households. In France, price developments were characterized by a sharp decline in the price of business wealth in the first and second quarters, although real estate prices rose by +5.5 % in the middle of the year. A comparable picture can be found in Austria, where real estate prices rose (+6.9%), but business wealth prices suffered particularly from the pandemic and were down -19.1% year-on-year.

At +0.5% at mid-year in **Finland**, prices for private household assets are at the same level as in the middle of the previous year. Neither real estate nor business wealth, shares and bonds showed any significant change in prices compared with the middle of the previous year.

Figure 5: Wealth price indices for the northern countries



Source: Flossbach von Storch Research Institute, November 2020.

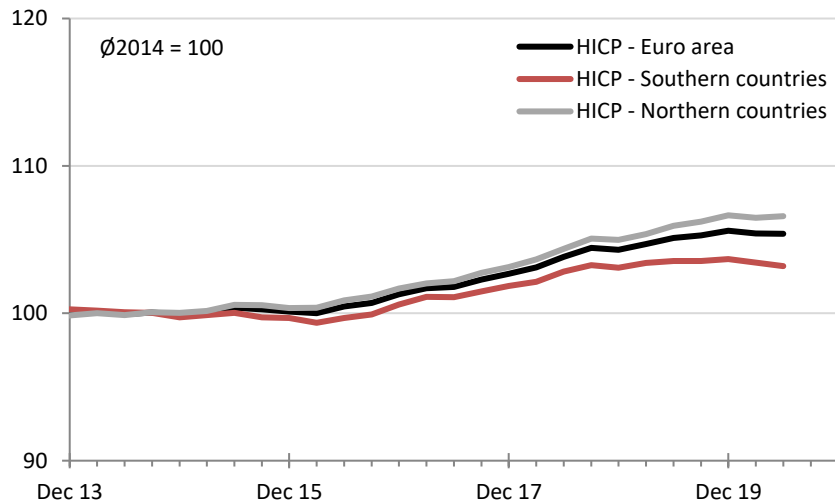


Consumer prices

*Only slight divergence
in the eurozone*

The development of consumer prices in the eurozone is much more homogeneous than the development of asset prices. However, here too there is a clear difference between the North and the South. The rates of price increase for consumer goods ranged from -1.7 % (Greece) to +1.6 % (Netherlands). The negative price growth rates are primarily to be found in the southern countries of the eurozone, while consumer prices have risen in the northern countries.

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



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, November 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 All Art index by Art Market Research Developments provides information on prices art objects such as paintings, drawings, sculpture, photographs and prints. 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

Art Market Research Developments Ltd.
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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