



Flossbach von Storch
RESEARCH INSTITUTE

FVS WEALTH PRICE SERIES FOR THE EURO AREA 23/06/2022

H2-2021: Asset prices in the euro zone remain at record levels

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Abstract

In the second half of 2021, asset price inflation in the euro area again ranked at a record level. In the third quarter, the price of assets held by private households in the euro zone increased by +10.5% year-on-year. At the end of the year, prices were 9.1% higher than at the end of the previous year. Asset price inflation was particularly high in Austria, Germany, the Netherlands, Portugal, and Greece.

Zusammenfassung

In der zweiten Hälfte des Jahres 2021 rangierte die Vermögenspreis-inflation in der Eurozone erneut auf Rekordniveau. Das Vermögen privater Haushalte der Eurozone hat sich im dritten Quartal um +10,5 % im Vergleich zum Vorjahresquartal verteuert. Zum Jahresende lagen die Preise 9,1 % oberhalb des Vorjahresendes. Besonders in Österreich, Deutschland, den Niederlanden, Portugal und Griechenland fiel die Vermögenspreis-inflation besonders hoch aus.



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, Germany¹, 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.²

Asset price inflation in the Euro area

In the course of the third and fourth quarters of 2021, asset prices of private households in the euro area increased significantly. Compared with the respective quarter of the previous year, asset price inflation was +10.5% at the end of the third quarter and +9.1% at the end of the fourth quarter. The rate of price increase in the third quarter is the highest asset price inflation measured to date in the euro area since the start of the time series in 2005. Within each of the four quarters examined in 2021, asset price inflation was positive. Within this context, price inflation was weakest within the fourth quarter compared with the previous three quarters.

Various underlying conditions have led to the extraordinarily high rates of price increases. On the one hand, the monetary policy of the European Central Bank and the fiscal policy of the member countries in 2021 have led to increased demand for asset prices. On the other hand, the economic recovery that began at the start of the year has led to rising prices on the markets for financial assets. In some places there is also a base effect, as in the second half of the previous year asset prices in some euro area countries were still suffering from the consequences of the corona pandemic

¹ The index for Germany included in the FvS Wealth Price Series for the eurozone differs from the FvS Wealth Price Index Germany, which is published separately on a quarterly basis, due to the availability of comparable data in the eurozone.

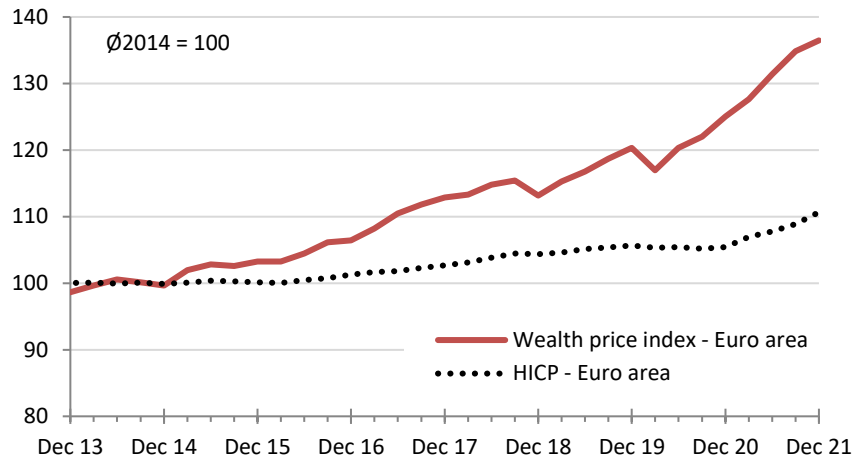
² Data is available on www.flossbachvonstorch-researchinstitute.com.



and were therefore low. In contrast, price increases were dampened by uncertainties about rising consumer prices in the euro zone.

Figure 1: Wealth price index and consumer price index (HICP) for the Euro area

Inflation at record level again



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, June 2022.

Real assets in the Euro area

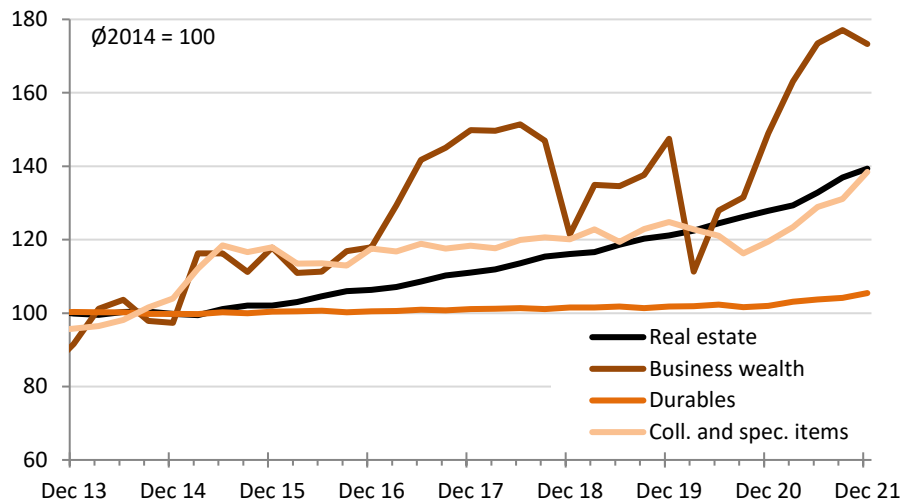
Real assets account for the largest part of the total assets of the average euro area household and have a decisive impact on the development of the overall index. At the end of the third quarter, prices for the real assets of private households in the euro area were +11.6% up year-on-year. This is the highest price increase since the start of the time series in 2005. At the end of the year, the price increase compared with the end of the previous year was +9.8%, just below the record level. The very high price increases for real assets are attributable to steadily rising real estate prices on the one hand and massive increases in the prices of private business wealth on the other.

Real estate in the euro zone has enjoyed strong demand from both private households and institutional investors for some years now. The demand continued in the second half of 2021. At the end of the third quarter, prices for real estate in the euro zone rose by +8.5% compared with the prior-year quarter. At the end of the year, they were even +9.0% higher than at the end of the previous year. The latter price increase marks a new peak in the real estate price rally in the euro zone. Various circumstances favored the development. Financing conditions for real estate in the euro zone remained at historic lows in the third and fourth quarters, so demand for real estate remained high. In addition, the corona pandemic and its control measures have caused a sustained increase in the appreciation of private



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

Another record for real assets



Source: Flossbach von Storch Research Institute, June 2022.

housing both in urban locations in the euro zone and in more rural areas. In parallel, there was a high demand for real estate from institutional investors as interest rates on high-rated fixed-income securities were low throughout the second half of 2021, making them a less attractive perceived investment alternative.

Prices for private business wealth (privately owned companies) were +34.7% higher in the third quarter compared to the same quarter last year. Subsequently, at the end of the year, prices were still +16.3% higher than at the end of the previous year. A base effect is partly inherent in the enormous price growth rates, as in the comparative quarters in the second half of 2020, businesses and thus also their prices suffered significantly from the consequences of the corona pandemic. With the subsequent economic recovery in the first half of 2021, prices for businesses the eurozone rose sharply. In the second half of 2021 the prices remained at a high level which led to the growth rates described above. Within the third and fourth quarters, prices stagnated due to uncertainty about the consequences of increased raw material, energy and producer prices.

The price of consumer durables in the euro zone reflected higher raw material and energy prices as well as problems in global supply chains. At the end of the third quarter, eurozone household durable goods prices were +2.4% above the midpoint of the previous year, and at the end of the year they were even +3.4% above the end of the previous year.

Collectibles and speculative items enjoyed high demand in the second half of the year and increased significantly in price. Compared with the respec-

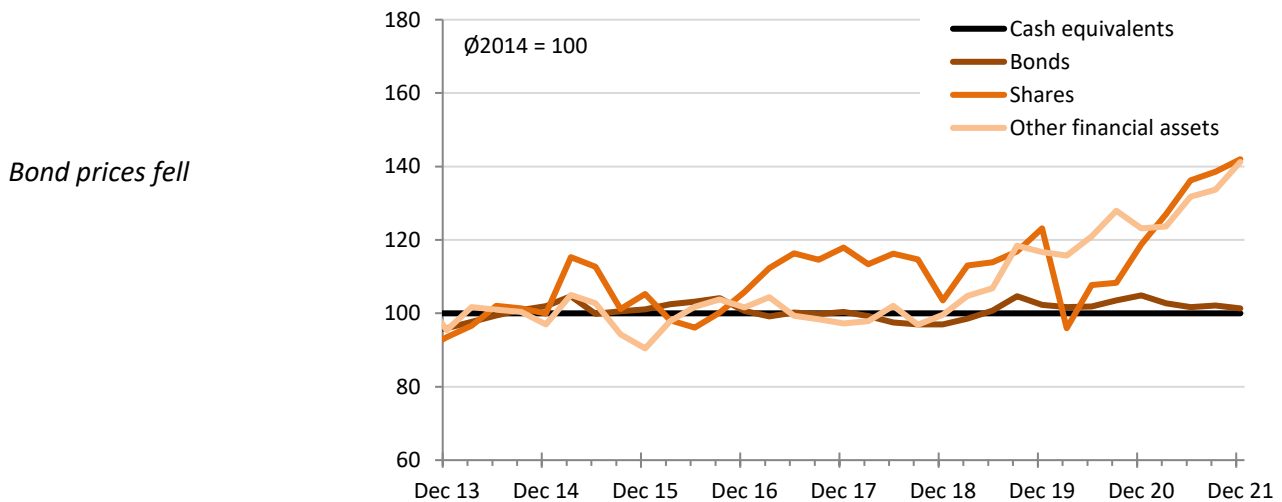


tive quarter of the previous year, prices were +12.8% higher in the third quarter and +15.9% higher in the fourth. Within the category, demand was particularly strong for art objects, historic automobiles, and fine wines.

Financial assets in the Euro area

Financial assets held by private households in the euro area rose slightly but steadily over the course of 2021 as a whole. At the end of the year, a price increase of +3.9% was measured compared with the prior-year quarter. By contrast, there were contrasting developments in the individual categories of financial assets.

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



Source: Flossbach von Storch Research Institute, June 2022.

The price of shares held by euro area households increased by +19.5% at the end of the year. On the one hand, the price increase occurred because prices in the comparative quarter Q4-2020 were still suffering from the consequences of the corona pandemic. On the other hand, the global economic upswing was reflected in prices within 2021. In this context, the largest part of the increase in private share prices occurred in the first quarter of 2021 rather than in the second half of the year. In the second half of the year, price increases were held back by expectations of rising interest rates and uncertainties about the consequences of rising consumer prices. Within the six months of the second half of the year, the increase was only +4.2%. Looking at the geographical distribution of equity assets held by euro area households, equity investments in North America and Europe in particular have become more expensive, while prices for equities in East Asia and the Pacific region have increased only moderately.



The prices of bonds held by eurozone households fell by 3.4% over the course of 2021. Most of the price decline occurred in the first and fourth quarter. Concerns about rising consumer prices caused investors in the euro zone to divest fixed-income securities with low yields. In addition, the expectation of an increase in the key interest rate in the USA was added during the course of the year, which also depressed prices for fixed-income securities. The bond portfolios of private households in the euro zone, which were invested in securities of North American or European issuers as well as issuers from the emerging markets, fell most significantly in price.

The price of other financial assets, which is measured by the prices of gold and commodities, was +14.7% higher at the end of the year than at the end of the previous year. Although gold was only slightly more expensive at +3.7%, commodity prices rose massively by +52.1%. While gold was still in high demand as a crisis metal in 2020 due to the uncertainties surrounding the corona pandemic, price developments in 2021 proved volatile. While the gold price fell in the first and third quarter, it rose in both the second and fourth quarter of 2021. The economic upswing in 2021 and problems in global supply chains gave commodity prices a significant boost throughout 2021.

The prices for savings deposits remain unchanged by definition.

The southern countries

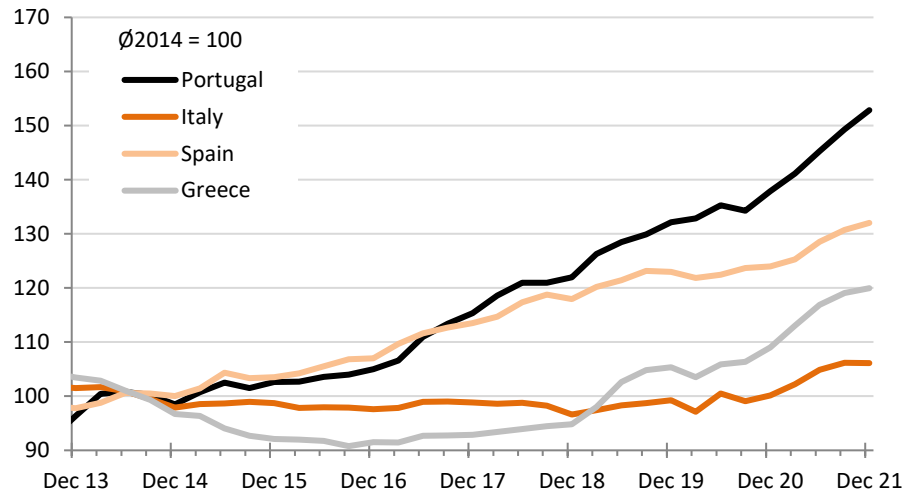
In all the southern euro area countries considered (Greece, Portugal, Spain and Italy), asset price inflation continued in the second half of 2021, ranging between six and twelve percent. Looking at the four quarters of 2021 separately, the first three quarters accounted for the larger share of the year's price increase. Within the fourth quarter, asset price inflation was slightly lower in the southern eurozone countries.

In Greece, the increase in household asset prices was particularly high. At the end of the third quarter, asset price inflation was +12.0% year-on-year. At the end of the year, it was also high at +10.0%. The development was driven by a combination of strongly rising real estate prices (+9.9% in Q4 compared with the end of the previous year) and significantly recovering prices for private business wealth (+57.1% in Q3 compared with the same quarter of the previous year), which benefited from a base effect. At the end of the year, prices for private business wealth had for the first time returned to the price level seen before the euro crisis in 2010.



Figure 4: Wealth price indices for the southern countries

*Greece and Portugal
with double-digit
inflation*



Source: Flossbach von Storch Research Institute, June 2022.

Asset price inflation was similarly high in Portugal in the second half of the year. At the end of the third quarter, prices were +11.2% higher than a year earlier, and at the end of the year they were still +10.9% higher than at the end of the previous year. The reason for the price increase in Portugal is also the real estate price rally that has continued since 2014 and reached a new peak in the third quarter with a price increase of +11.2% compared with the prior-year quarter. Portugal is also the only eurozone country under consideration where the prices for private business wealth have not yet fully recovered from the price drop during the corona pandemic. Although there was a partial recovery in 2021, the prices for private Portuguese business wealth are still below their pre-crisis levels.

In Italy, asset price inflation, at +7.1% and +6.0% in the third and fourth quarters respectively, is high year-on-year but significantly lower than in Greece and Portugal. The reason for this is that Italian real estate only increased in price by around four percent compared with the end of the previous year. Due to the strained economic situation, demand for real estate in Italy was significantly lower than in the other countries of the euro zone. Although prices for business wealth rose by +42.8% year-on-year in the third quarter, most of the price increase occurred in the first and second quarters of 2021 rather than in the second half of the year.

In Spain, asset price inflation is similar to that in Italy, at +5.7% in the third quarter and +6.4% in the fourth quarter year-on-year. The recovery in business wealth prices is somewhat weaker than in the other Southern countries considered. Prices for private Spanish business wealth were only slightly above the level seen before the outbreak of the corona pandemic.



On the other hand, real estate prices increased significantly. Whereas price increases on the real estate market had come to a virtual standstill in 2020, Spanish real estate prices rose by +4.2% in the third quarter and by +6.3% in the fourth quarter compared with the respective prior-year quarter.

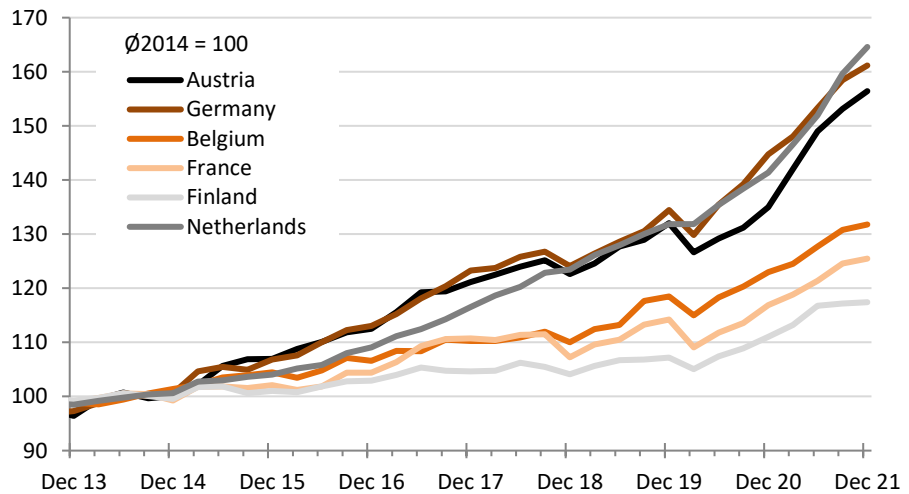
The northern countries

Asset price inflation in the surveyed northern euro area countries was on average higher than in the southern countries at the end of the year, ranging between seven and 16 percent.

With a year-on-year price increase of +16.7% in the third quarter, asset price inflation in **Austria** was the highest of all the countries under review. It is also the highest value ever recorded for Austria. With the exception of bonds, all asset categories in Austria recorded positive price growth rates. Particularly strong price growth was recorded in the third quarter for equity assets (+38.8% year-on-year) and business wealth (+51.2% year-on-year). Austrian real estate prices also rose strongly in 2021, increasing by +12.7% compared with the prior-year quarter. At the end of the year, this figure was even exceeded by a price increase of +14.9%.

Figure 4: Wealth price indices for the southern countries

*Greece and Portugal
with double-digit
inflation*



Source: Flossbach von Storch Research Institute, June 2022.

Asset price inflation for private households in the **Netherlands** was equally high at the end of the year. With a price change of +16.4% at the end of the year compared with the end of the previous year, asset prices for Dutch households rose at an all-time high. Real estate increased in price by +18.7% year-on-year, which is also a record value, having already risen by



new highs in the previous quarters. The price of business wealth in the Netherlands had already recovered from the impact of the pandemic by the end of 2020 and rose significantly again, especially in the first half of the year. At the end of the year, the price of business wealth held by private Dutch households was +36.5% up on the prior-year quarter.

Prices for the assets of **German** private households also showed double-digit growth in the second half of the year. Compared with the end of the previous year, asset prices in Germany rose by 11.3%. The prices of real estate owned by German private households rose at a record rate of +12.2% compared with the end of the previous year. Here, too, asset price inflation was supported by prices for business wealth, which increased particularly within the first and second quarters and were +15.9% more expensive at the end of the year than at the end of the previous year.

In **Finland**, asset prices for households rose by +5.5% at the end of the year compared with the end of the previous year. Finnish real estate prices rose by +3.9% at the end of the year, which is a very low growth rate for real estate prices compared with the euro zone countries. Prices for private Finnish business assets rose by +17.3%. This is also a low figure compared with other eurozone countries, but prices for Finnish business assets were already at a high level at the end of the previous year, so that no recovery effects from the consequences of the pandemic were evident in the prices.

For **France**, the price increase for household assets at year-end 2021 was +7.4% compared with the end of the previous year. Here, too, the trend was driven by real estate prices, which were +7.0% more expensive at the end of the year than at the end of the previous year. At +13.4%, the price increase for French private business wealth was moderate compared with the euro zone. Although prices rose in the first three quarters due to the economic recovery in France, prices then declined slightly in the fourth quarter of 2021.

In **Belgium**, asset price inflation of +7.2% at year-end was at a similar level to neighboring France. At +6.1%, the price of Belgian real estate increased slightly less than in the neighboring country, but prices for business wealth rose somewhat more strongly at +20.9% at the end of the year.

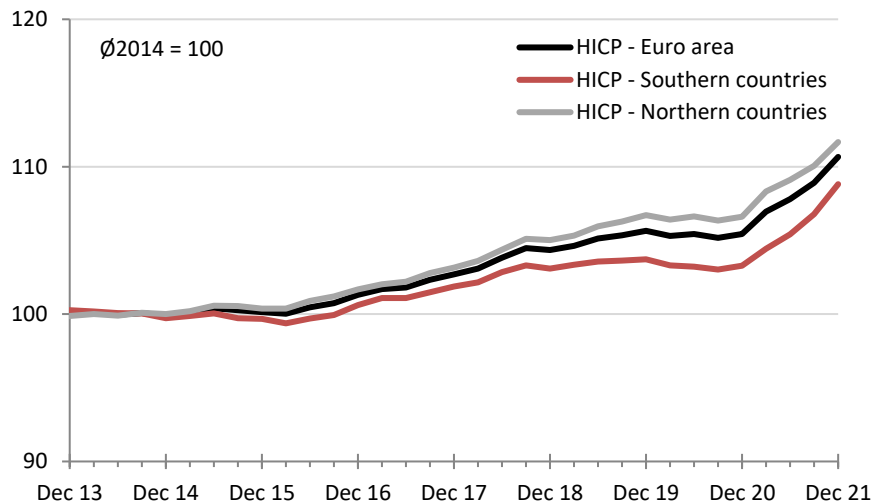


Consumer prices

Data on consumer prices in the euro area show that consumer price inflation increased significantly in the second half of 2021, but at a lower rate than asset price inflation. In all ten eurozone countries under review, consumer prices measured by the HICP increased at the end of the year. The observed price growth rates for consumer goods were significantly higher than in previous years. At +6.7% year-on-year, consumer price inflation was highest in Spain and Belgium, closely followed by price increases in the Netherlands (+6.6%). In Austria (+4.0%), Germany (+5.4%), Greece (+5.0%), and Italy (+4.4%), citizens also had to pay significantly more for consumer goods at the end of the year. By contrast, the increase in prices for consumer goods measured in Finland (+2.9%), Portugal (+3.14%) and France (+3.3%) was still low compared with the other eurozone countries.

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

Consumer prices on the rise



Source: Flossbach von Storch Research Institute and Macrobond, HICP seasonally adjusted, June 2022.



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.³

³ 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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