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Focus: Financial assets in Germany

Allianz Global Investors

Boost to gross financial assets of German households

The DAX's superb final spurt in the fourth quarter of last year provided yet another visible boost to gross financial assets of German households. At year-end 2010, financial assets came to an estimated EUR 4.88 trillion, up from EUR 4.67 trillion a year earlier. On the back of the fourth-quarter stock market rally, the valuation losses incurred in the crisis year 2008 were further offset. The other important factor behind the journey of financial assets to new record highs was the Germans' strong tendency to save persistently.

High savings rate and strong stock market performance push gross financial assets to EUR 4.88 trillion in 2010

After the asset losses incurred by German private households in the crisis year 2008 were already offset in the preceding year, with financial assets even rising above their pre-crisis level, asset accumulation has steadily gathered pace. According to estimates of Allianz Global Investors, gross financial assets advanced almost EUR 220 billion in 2010, hitting a new record high of EUR 4.88 trillion by year-end, compared with EUR 4.67 trillion at the close of 2009. In purely statistical terms, every German citizen owned assets in the amount of EUR 59,900 last year, up from EUR 57,000 at the end of 2009.

Seen in retrospect, 2010 was not much different from the previous year as regards investment. German citizens continued to save persistently, which, in combination with on balance strong gains in equities, helped to boost financial assets by 4.7%. Like 2009 (plus 5%), 2010 was hence a year in which asset growth exceeded the average increase recorded in the first decade of this century (nominal 3.3%).

Nonetheless, the 2010 annual rise was lower than in the 1990s and 1980s, when asset growth averaged around 7% per year.

The higher savings volume in 2010 can be attributed to rising disposable income as well as a moderate increase in the savings rate, to 11.3% from 11.1% in 2009. The reduction in short-time work, the tax deductibility of health insurance premiums and, last but not least, the recovery of employment on the back of the rebound in German economic activity pushed disposable income some 2.6% higher. While total savings were up slightly from their 2009 level, inflows into financial assets remained more or less unchanged compared with the previous year, as the housing market rebounded, thanks to exceptionally low interest rates, rising income and the positive labour market situation. As a result, the proportion of capital formation flowing into tangible assets was up from the preceding years.

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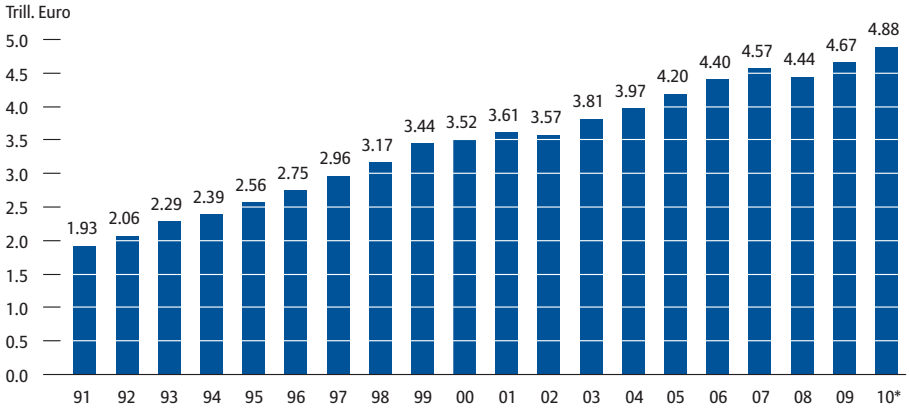
Chart 1: Financial assets of German private households

Stock at year end; gross



* Estimates Allianz Global Investors

Source: Deutsche Bundesbank November 2010; Illustration: Allianz Global Investors, International Pensions.

According to estimates of Allianz Global Investors, capital formation should have come to some EUR 150 billion in 2010, compared with EUR 147.7 billion in 2009. Roughly two-thirds of the increase in financial assets was added as new investment of 220 billion, while approximately EUR 70 billion was attributable to valuation gains. The valuation losses incurred in the crisis year 2008 were thus further reduced, though not fully offset. The strong performance of the DAX, particularly in the final quarter of the year, was a key driver of asset growth. On balance, the DAX rose 16%, despite being stuck in a sideways movement up until the autumn. All in all, 2010 was a fairly turbulent year for the financial markets, sparked by concerns over the debt-stricken countries in southern Europe, the sovereign debt crisis in Greece and long-run uncertainty about the economic outlook, particularly in the western industrial countries.

Safety still dominates the decisions of investors

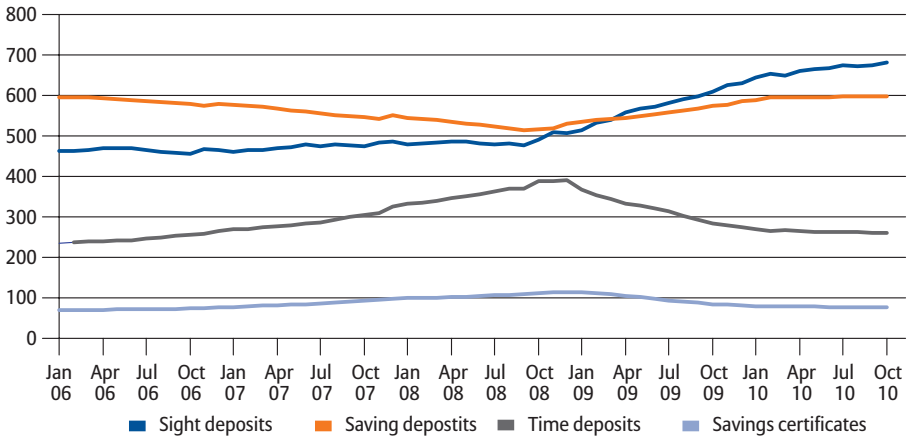
Safety continued to dominate the investment decisions of private investors, although Germans became increasingly optimistic in 2010 thanks to the robust recovery of the German economy and the rise in disposable income. In the light of the high volatility and intense uncertainty in the financial markets as well as exceptionally low interest rates, German investors remained extremely wary. Like in 2009, they shifted their money into accounts that are accessible at short notice, pushing up investment in this vehicle by around 10%. At some EUR 750 billion, deposits that are accessible on a daily basis by now exceed savings deposits. While the latter also recorded an increase in 2010, to a good EUR 600 billion, they fell behind sight deposits.

Once again, the outflows in the portfolios held by German private households were time deposits and savings certificates. Low interest rates, in combination with the fact that these investments cannot be withdrawn for a specified period of time, made them unattractive for savers, resulting in outflows of around EUR 30 billion, after EUR 120 billion in 2009. On balance, private households in Germany stocked up their bank deposits by around another EUR 55 billion. Since the beginning of the crisis in September 2008, inflows into sight and savings deposits totaled just under EUR 330 billion.

The financial crisis has deeply shaken investor confidence. As a result, investors are still shying away from equities. While the valuation gains again led to a higher equity element in the portfolios of German households, a reversal of the trend in private equity investment is not in sight. In fact, reports of Deutsche Bundesbank that equity funds saw a return to moderate inflows in the first and second quarter

Chart 2: Bank deposits of private households

Stock at month end in billion Euro



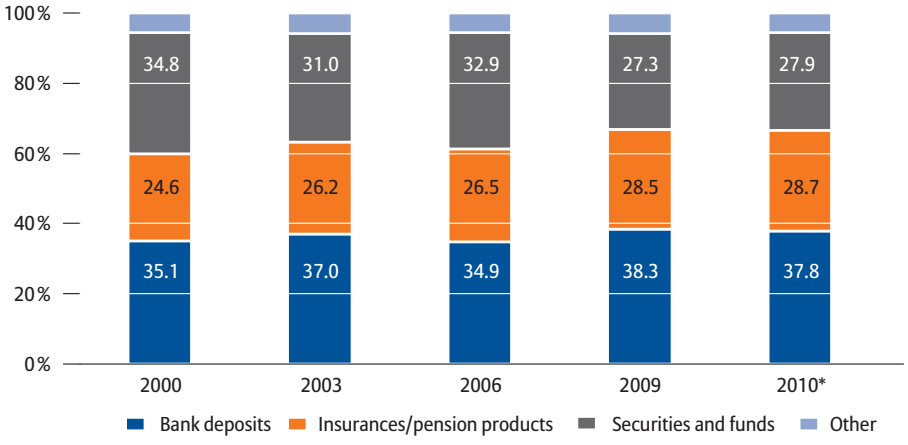
Source: Deutsche Bundesbank, December 2010; Illustration: Allianz Global Investors, International Pensions

of 2010 should be interpreted as a sign of stabilisation, at the very most. However, according to Deutsches Aktieninstitut, the number of equity and fund holders continued to decline in the first half of 2010. Safety also dominated investment in funds, with multi asset funds, in particular, gaining ground last year. Investment at insurances was considered a safe haven in 2010. Saving for retirement is still playing an important role in this context. Insurances are in high demand as crisis-proof old-age provisions, as is also reflected in the trend of Riester policies. Last year, they continued to rise, well above the level of 14 million from 13.25 million in 2009, with insurance policies by far accounting for the largest share.

38 % of financial assets are held at banks

The composition of German households' financial assets has changed only marginally compared with 2009. Deposits at banks and savings banks continue to dominate at almost 38 %, with around EUR 1.85 trillion held there as sight, time and savings deposits and as savings certificates. Although capital market products such as equities, investment funds, bond securities and unlisted shareholdings did improve again slightly over the past year, their proportion is currently just under 28 %. In 2006 the proportions of bank deposits and capital market investments were still close to each other, and at the start of the millennium they were on an equal footing. The insurance element remained more or less stable at just below 29 % and claims from company pension commitments also retained their weighting to a large extent, at just under 6 %.

Chart 3: Structural changes in household financial assets



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