ECONOMIC RESEARCH

Working Paper 201

September 21, 2016

} Macroeconomics } Financial markets } Economic policy } Sectors

Kathrin Brandmeir, Arne Holzhausen

The yield on private financial assets – Germany in an international comparison –. update

Allianz

Working Paper

No. 201

The yield on private financial assets – Germany in an international comparison

AUTHORS:

Kathrin Brandmeir
Fon +49.89.3800-19012
kathrin.brandmeir@allianz.com

Dr. Arne Holzhausen
Fon +49.89.3800-17947
arne.holzhausen@allianz.com

1. INTRODUCTION: ASSET YIELDS IN THE LOW INTEREST RATE ENVIRONMENT

In December 2015, we have analyzed asset yields of households in several eurozone countries, for the years 2010 to 2014. The results were, at least for German households, sobering: Together with Austria, they showed the lowest yields, clearly below 3 percent. Even countries such as Spain and Portugal, severely hit by the euro crisis, reached yields of around 5 percent. The reasons are obvious. The asset class of the securities (shares, bonds and investment funds) is the key to the return on assets: the scale of value gains determines the difference in returns. However, this asset class plays only a minor role in German portfolios. But thanks to the high volume of savings, German households still managed to achieve a satisfactory level of asset growth; with almost 4 percent p.a. it was significantly above that in the euro crisis countries.

In the meantime, 2015 data on financial assets are available.[1] Therefore, we have updated our calculations in order to review last year's results. However, we also changed the time period to the four years between 2012 and 2015. Why? In summer 2012, Mario Draghi held his famous speech to save the euro ("whatever it takes"). Since then, the ECB conducts no longer only monetary policy to stabilize the price level, but is using its expanded tool box (OMT, PSPP, NDR etc.) also to secure the survival of the euro itself. As a consequence, the impact of monetary policy on capital markets has intensified; the distortions in markets particularly for bonds, but also for shares have increased. In sum: The environment for savers has become even more challenging than in the years before.

How did the households in the eurozone countries master these challenges? One result of the analysis can already be anticipated: the differences between asset yields remain huge – and German households are still trailing behind.

[1] See Allianz Global Wealth Report 2016.

BOX: HOW IS THE TOTAL RETURN ON THE ASSET PORTFOLIO CALCULATED?

The financial accounts published by the European statistics authority, Eurostat, which form part of the national accounts, provide an overview of the financial assets of private households. They provide information not only on the amount and structure of the asset base by asset class, but also on annual fund inflows and outflows.

The (nominal) total return on an investment is calculated based on the value gains, the amount of which can be derived directly from the financial accounts (level at the end of a period less the level at the start of the period and financial asset formation during this period) and current income, e.g. interest and dividends. These constitute private household income, which is also recorded in the national accounts.

In particular, the calculation of the total return used data on the income from investments, i.e. interest and other capital gains. The latter comprise income from insurance policies, receivables from pension systems and from investment fund units. This are allocated to the corresponding items in the asset balance sheet. A weighted annual average interest rate[2] was calculated for investment income from overnight money deposits, savings and term deposits with banks, while a return of zero percent was applied to cash. A residual parameter was calculated for income from investments in bonds and other receivables, i.e. the total investment income from interest[3](taken from the national accounts) less the income on bank products resulting from the weighted annual average interest rate. Since some countries do not make any distinction between profit distributions and withdrawals in their national accounts, the income on assets held in equities is calculated based on the domestic dividend yield in each case[4].

An average annual portfolio was created for all items in the asset balance sheet (bank deposits, bonds, equities, investment fund units, receivables from provisions relating to insurance companies and pension systems, and other receivables) and the average return generated in the current year was calculated in each case. This study has left assets and income from other equity interests out of the equation.

The nominal total return for a given year, less the average annual rate of change in consumer prices, produces the real total return.

[2] Allianz SE, Economic Research (2015): Low interest rates, incomes and assets: the winners and the losers, Working Paper 190.
[3] In the case of interest rates, we have only included the interest actually received.
[4] MSCI Austria DY, MSCI Belgium DY, MSCI Germany DY, MSCI Finland DY, MSCI France DY, MSCI Italy DY, AEX Index Datastream DY, Euro Stoxx 50 DY (for Portugal), S&P 500 Composite Datastream DY; Source: Thomson Reuters.

2. GERMANY IN AN INTERNATIONAL COMPARISON

In the middle of the rankings in terms of total assets and asset growth

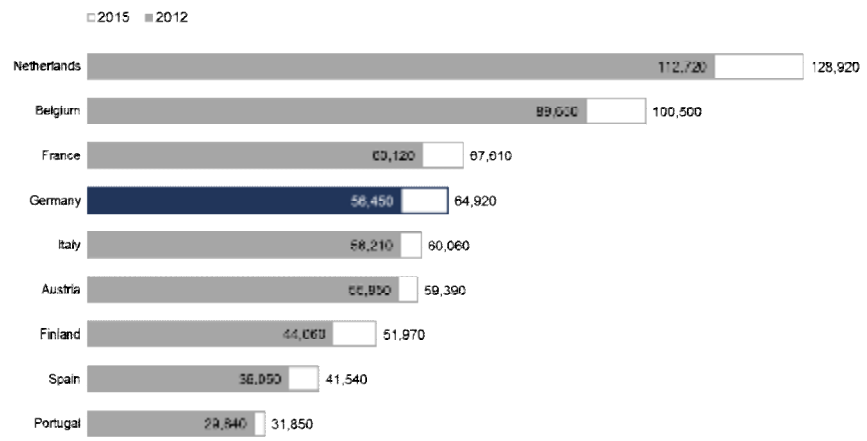
In contrast to the dominant role that Germany plays in economic terms, Germany's households are only in the middle of the European rankings as far as financial assets[5] are concerned. With average per capita assets of EUR 64,920, they lag behind the Netherlands, Belgium and France (see Chart 1). The fact that Dutch households have assets that are twice as high as those held by their German counterparts is largely due to the strong position of retirement provision in the Netherlands. The European crisis countries Spain and Portugal can be found towards the bottom of the rankings, with per capita financial assets coming in at an average of EUR 41,540 and EUR 31,850 respectively.

The rankings remain similar if we look at the average rate of asset growth over the past five years: Germany comes in third – well behind the Netherlands (see Chart 2). Nevertheless, the average annual growth rate of 4.6% is slightly higher than the average rate for the countries included in this analysis. It comes as little surprise to see that the countries with the lowest rates of asset growth are those located in the south of Europe: Spain, Italy and Portugal.

Chart 1

Financial assets per capita

Year-end total, in EUR



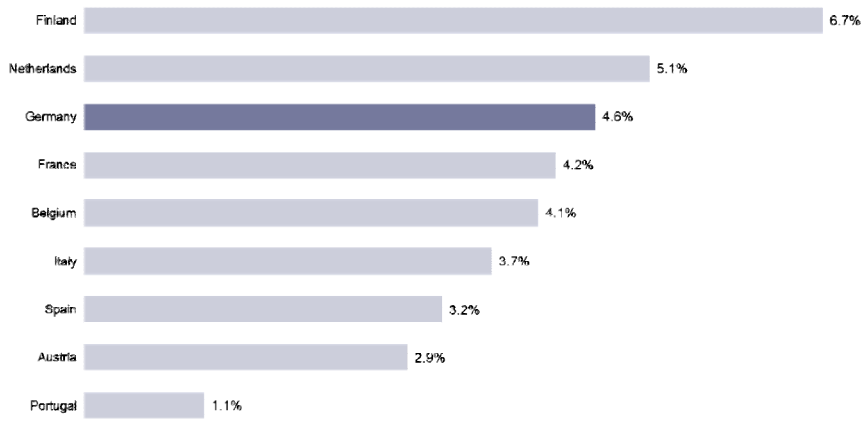
Sources: Eurostat, Allianz SE.

[5] All of the figures cited for financial assets below relate to gross financial assets, excluding other equity interests.

Chart 2

Growth of financial assets

Compound annual growth rate 2012 to 2015



Sources: Eurostat, Allianz SE.

Conservative investment behavior

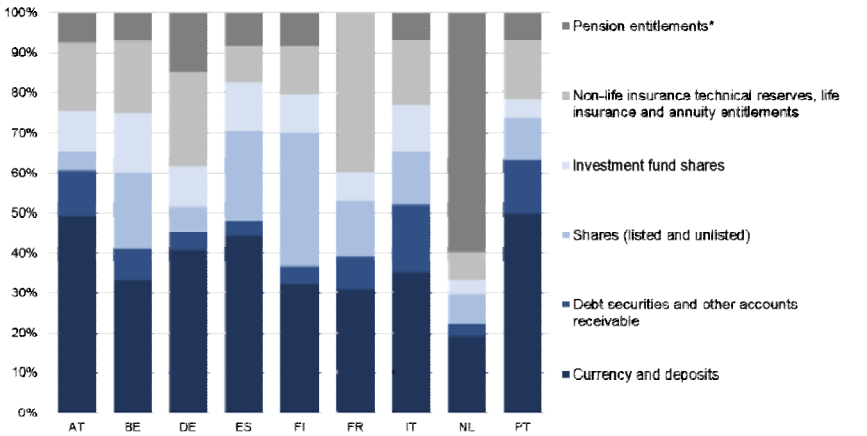
German savers have traditionally entrusted banks with a significant share of their assets. Looking at 2015 on average, total cash and deposits accounted for 40.8% of the portfolio, more than five percent higher than the average value for the countries included in our analysis (see Chart 3). In fact, despite the ongoing drop in interest rates, almost half of total financial asset accumulation, i.e. the balance of inflows and outflows, has been attributable to this asset class over the past five years on average. In addition to bank deposits, households are particularly keen on insurance policies and pensions, which account for a total of 38.3% of financial assets. There are only two countries where this asset class accounts for an even higher share than in Germany: France (39.6%) and the Netherlands (67.1%).

By contrast, households are very hesitant when it comes to investing in shares: assets held in equities account for only 6.5% of the portfolio in Germany, around half the average rate for the overall group of countries. Austria is the only country in which this rate is even lower again, at 4.5%. Finnish households lead the field, investing around one third of their savings in equities, followed by households in Spain (22.4%), Belgium (19%) and France (13.8%). At least in terms of indirect investments in equities, the Germans are slightly above-average: they invest 10.1% of their financial assets in investment fund units, one percentage point ahead of the average. In the other countries in our analysis, the rates range from 3.3% in the Netherlands to 14.7% in Belgium. On average, households in the countries analyzed invest 7.8% of their portfolio in bonds and other receivables, compared with only 4.3% in Germany.

Chart 3

Structure of financial assets

Annual average 2015



*incl. claims of pension funds on pension managers and entitlements to non-pension benefits.

Sources: Eurostat, Allianz SE.

Considerable volume of savings in Germany

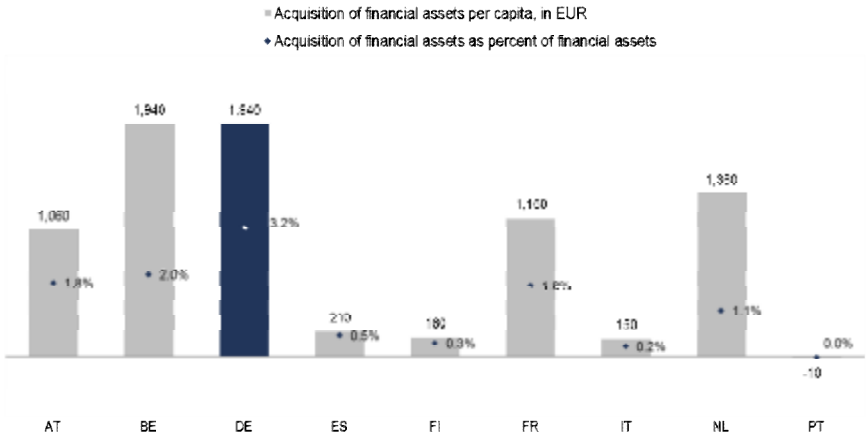
The financial asset accounts confirm the stereotype of the Germans being keen savers. In the period between 2012 and 2015, households saved an average of EUR 1,940 per capita and year, a whopping 50% more than the average for other countries (see Chart 4). Households in Belgium are equally thrifty. Households in the Netherlands (EUR 1,360), France (EUR 1,150) and Austria (EUR 1,060) also put aside an above-average amount. At the bottom of the scale, but at least still in the black, we can find Spain (EUR 210) and Italy (EUR 150), whereas households in Portugal are actually consuming their savings to the tune of EUR 10 per capita and year on average.

Germany leads the field when it comes to annual savings in relation to total financial assets: at 3.2%, this figure comes in at twice the average (1.6%) and no less than 1.2 percentage points ahead of Belgium. As with financial asset formation per capita, households in southern Europe are below-average in this respect as well.

Chart 4

Acquisition of financial assets per capita and as percent of financial assets

Average 2012 to 2015



Sources: Eurostat, Thomson Reuters, Allianz SE.

What does the increase in assets measured over a given period comprise?

The increase in assets measured over a given period, i.e. the difference between the level at the end and the start of the period, comprises three components:

- savings from income from employment,
- savings from income from investments (e.g. interest and dividends)[6] and
- the change in the value of assets (e.g. equities which are valued at their market value at the end of each period).

The method used to calculate the change in the value of assets and the income from investments is set out in the box on p. 4. As part of disposable income, this income from investments can, of course, also be saved, providing the asset base with another boost. In this respect, we assume that households follow a process of implicit "earmarking": in order to reach their savings objectives, households first of all use their income from investments; it is only when this has been used up, but the savings objective has not yet been reached, that part of their income from employment is also saved; this means that savings from income from employment can be calculated as a residual parameter (=increase in financial assets less change in value and income from investments). This also means that, as the income from investments rises, households tend to put less of their income from employment aside.[7] Chart 5 provides an overview of the total increase in financial assets between 2012 and 2015 and the components described, in each case in per capita terms.

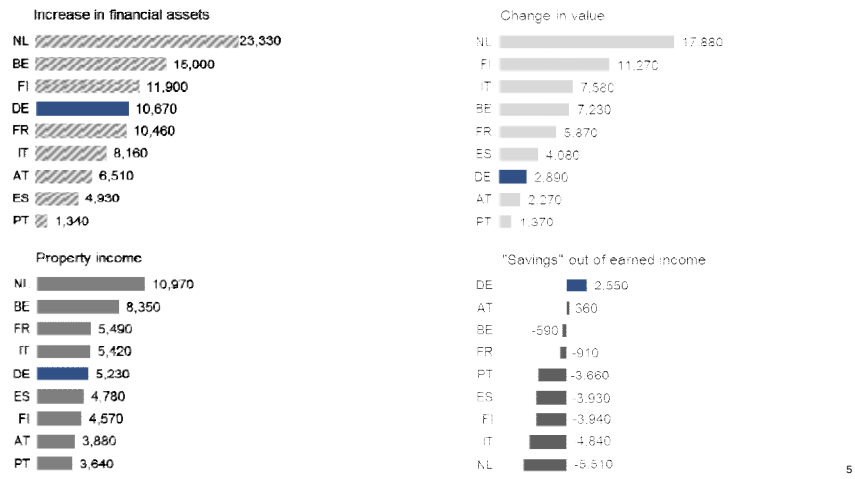
[6] In some cases, however, e.g. when capital gains from insurance policies are involved, the income referred to is notional income, i.e. it was never actually received by the households, but is reported as an increase in assets right away. In other words: the increase in assets is mentally separated into two steps in the national accounts that basically look like this from the perspective of the households: inflow of income from investments and outflow (amounts saved) in the same amount.

[7] Allianz Dresdner Economic Research (2007): Vermögensreport 2007, Working Paper Nr. 89, p. 17.

Chart 5

Increase in financial assets and its components

Sum 2012 to 2015, per capita in EUR



Sources: Eurostat, Thomson Reuters, Allianz SE.

As far as Germany is concerned, two extremes really stand out: while German households fare (besides Austria and Portugal) the worst as far as changes in value go, they have what is by far the largest volume of savings from income from employment; income from investments in Germany is on a moderate level. This puts German households in the middle of the rankings as far as overall asset growth is concerned. This means that, although they cannot reap many benefits from value gains due to their portfolio structure, which focuses on low-risk investments, they can compensate for some of this "deficit" thanks to the considerable amount that they save from income from employment. The fact that financial assets continued to show moderate growth in Germany even during the period of low interest rates is largely due to the significant amount of money saved by German households, i.e. the inflow of "fresh" funds: in recent years, asset growth has first and foremost been the result of positive income development.

On the whole, one thing that is striking about this calculation is that, in the majority of the countries analyzed, private households do not use their income from employment to save. While in the Netherlands, this can largely be explained by the level of income from investments, the main factor explaining this trend in the three southern European countries (Italy, Spain and Portugal), in particular, is likely to be the poor income development resulting from the euro crisis: income from investments is essential in order to safeguard one's standard of living. The very low rates of growth in financial assets are the inevitable consequence of so little being saved. The fact that private assets in these countries have increased at all during the euro crisis and despite the zero interest rate policy is largely thanks to the positive changes in value.

How high is the total return achieved?

There is also another way of describing the relationship between value increases, income from investments and savings based on income from employment: the higher the asset yield (=value increases and income from investments expressed as a percentage of total

assets), the lower the "real" savings efforts can be.

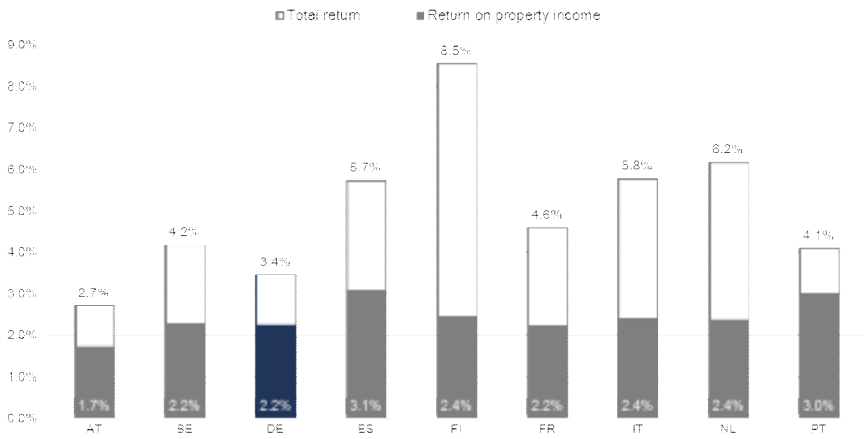
As the combination of a very high level of savings and only moderate asset growth suggests, the analysis for the years from 2012 to 2015 shows that German households generated less from their financial assets than households in most other countries (see Chart 6): our calculations indicate that the average nominal return during this period came in at only 3.4% a year, with the lion's share (2.2 percentage points) coming from income from investments; the remaining 1.2 percentage points were attributable to value gains. Only Austrian savers fare worse than their German counterparts with a total return of 2.7%. This is likely due, among other things, to the fact that Austrians invest even more in bank deposits and even less in equities.

All in all, this analysis shows that the returns based on income from investments are moving within a relatively narrow range, meaning that there are no major disparities between the individual countries. To a certain extent, this reflects the integrated European financial market: interest rates, for example, are at basement levels everywhere and even the dividend policies of major companies are starting to look increasingly similar. The biggest differences in returns arise mainly as a result of value gains; accordingly, bonds and stocks achieved the highest returns as prices of both asset classes rose strongly (see appendix). The level of the total return depends first and foremost on whether or not the portfolio contains assets that offer the potential for (substantial) value gains, and if so, how much.

Chart 6

Return on property income and total return (nominal)

Average 2012 to 2015



Sources: Eurostat, Thomson Reuters, Allianz SE.

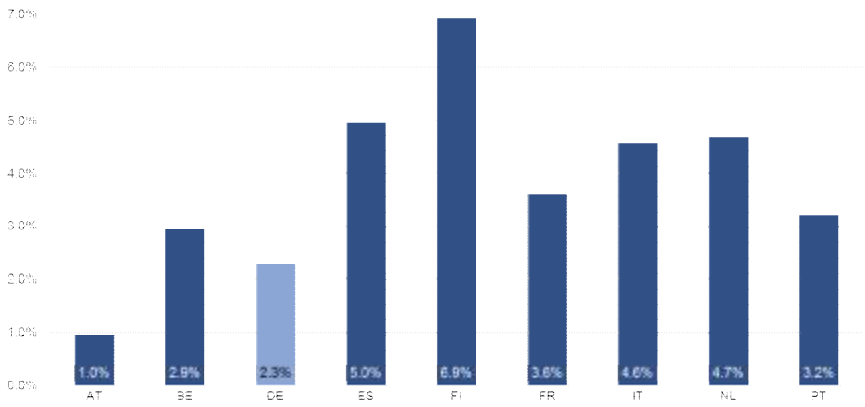
Chart 7 shows the extent to which inflation-induced losses have an impact on the nominal yield. Austria comes bottom of the league with a real return of only 1%, behind Germany (2.3%) and Belgium (2.9%). For savers, the deflationary trend that is the hot topic on everyone's lips does not pose any threat in the low interest rate environment that has been with us for years now. Inflation, on the other hand, does: an increasing loss of purchasing power would only eat even further into nominal returns, which, in some cases, are already rather meager to begin with.

The conclusion to be drawn from this yield comparison is: even in the low interest rate environment that has dominated the last few years, savers can achieve high real returns. The key lies in the composition of the asset portfolio, i.e. ultimately in investment behavior: a greater focus on the capital markets, be it directly or indirectly, certainly pays off. This is likely to be the reason why, for example, households in Spain and Portugal, two countries that have had to weather severe crises in recent years, have nonetheless scooped up real returns on their financial assets that are much higher than those of German households.

Chart 7

Total real return

Average 2012 to 2015



Sources: Eurostat, Thomson Reuters, Allianz SE.

3. SUMMARY

- The update of our calculations on asset yields confirms last year's results: The conservative investment behavior of German households reduces the rate of return on their financial assets considerably. With the exception of Austria, all other eurozone countries achieved higher returns over the last four years.

- The costs of this behavior can be shown by a simple simulation: Over the last four years, Germans parked roughly 40 percent of their financial assets at banks – at a loss. Had they reduced the share of bank deposits to only 30 percent and re-invested the money in equal parts into listed shares and mutual funds, the rate of return would have been almost one percentage point higher. In this manner, German households would have reaped additional investment income to the tune of EUR 200bn.

- Looking in the rear view mirror does not guarantee future returns. Nonetheless, it is evident that times of extreme monetary policy with negative interest rates require adjustments in savings behavior. However, German households should not reduce the high volume of savings where they lead the field. On the contrary, the looming pension crisis resulting from demographic change makes high savings efforts to safeguard old-age income inevitable.

- But choosing the "right" investments becomes ever more important as, to the extent that monetary policy is exhausting its tools, risks and market volatility are increasing. Many savers might be overwhelmed by these challenges. New savings patterns and asset solutions are necessary – a task the financial industry and politics should tackle hand in hand. At the very least, policymakers should refrain from putting additional spokes in the wheel, for example new or higher taxes on savings

TABLE: OVERVIEW OF ASSET YIELDS BY ASSET CLASS

Average 2012 to 2015

	AT	BE	DE	ES	FI	FR	IT	NL	PT
Currency and deposits	0.8%	0.6%	0.8%	1.2%	0.6%	1.5%	0.9%	1.6%	1.9%
Debt securities and other accounts receivable	3.5%	4.3%	5.5%	16.6%	5.1%	0.8%	7.9%	4.0%	7.0%
Shares (liste and unlisted)	7.4%	6.6%	13.7%	9.9%	16.6%	13.4%	19.6%	6.4%	9.6%
Investment fund shares	4.1%	10.1%	7.5%	n/a	10.4%	9.8%	6.6%	7.7%	n/a
Non-life technical reserves, life insurance and annuity entitlements	3.6%	4.5%	4.0%	n/a	15.8%	4.1%	n/a	1.1%	n/a
Pension entitlements	5.1%	3.1%	3.1%	n/a	3.3%	n/a	n/a	8.4%	n/a
Sum of investment fund shares, non-life technical reserves, life insurance and annuity entitlements and pension entitlements				8.2%					4.5%
Sum of non-life technical reserves, life insurance and annuity entitlements and pension entitlements							4.2%		
Total nominal	*2.7%*	*4.2%*	*3.4%*	*5.7%*	*8.5%*	*4.6%*	*5.8%*	*6.2%*	*4.1%*
Total real	*1.0%*	*2.9%*	*2.3%*	*5.0%*	*6.9%*	*3.6%*	*4.6%*	*4.7%*	*3.2%*

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