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Media Release

Allianz Global Wealth Report: The end of complacency

- Financial asset growth rate rises further to 7.7% – this year a serious setback is on the cards
- Investment in securities makes a comeback – return of inflation makes bank deposits even less attractive
- Liabilities keep growing, as do concerns over debt-bearing capacity
- Germany: Financial assets enjoy highest growth since financial crisis – debt growth sets new record
- Globalization reduces wealth inequality on a global level but increases it on a domestic level

Financial assets[1] of households rose by a significant 7.7% to EUR 168 trillion in 2017, supported by synchronized economic recovery and strong financial markets according to the ninth edition of the 'Allianz Global Wealth Report' released today. However, first data for 2018 suggests a much reduced growth. The report puts the asset and debt situation of households in more than 50 countries under the microscope. "Last year was a good year for savers with securities," said Michael Heise, chief economist of Allianz. "But they might be looking at more difficult times ahead as the post-crisis era is over for good. Gone are the days when an extremely expansive monetary policy provided for a continuous and steady upward trend in the financial markets. The signs are already worrying: Rising interest rates, trade conflicts, and increasingly populistic politics are causing tension and turbulences. The first month of this year had already given us a bitter foretaste."

Investment in securities makes a comeback

There was a noticeable shift in investment behavior last year. Savers had largely ignored shares and investment funds in the post-crisis years, but 2017 saw significant inflows into this asset class. Its share last year reached almost a fifth of fresh funds, even more than in the years preceding the crisis. In the context of booming stock markets, this meant that securities enjoyed by far the strongest growth among all asset classes in 2017, increasing by 12.2% in total and representing over 42% of all savings at the end of the year. In the second

[1] Financial assets include cash and bank deposits, receivables from insurance companies and pension institutions, securities (shares, bonds and investment funds) and other receivables. Real estate assets are not included for lack of comparable global data.

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place were receivables from insurance companies and pensions, which accounted for 29% of the asset portfolio and grew by 5.2% last year.

While investors rediscovered the capital markets, bank deposits fell out of favor with households across the globe. Only 42% of new investments went to banks, compared with 63% the year before. In absolute numbers, this meant a drop of over EUR 390 billion. As a consequence, growth in deposits declined by two percentage points to 4.3% (share of asset portfolio almost 27%). “Savers finally recognized the signs of the times,” said Kathrin Brandmeir, co-author of the report. “The fading love for bank deposits, particularly in the “old” industrialized countries, came not a second too early. Inflation rates in these countries tripled in 2017 – albeit still on a low level. As a result, losses in purchasing power shot up, too: They are estimated to add up to EUR 400 billion in 2017 alone.”

Industrialized nations catch up – the US overtakes China

The years following the crisis were mainly characterized by relatively weak asset growth in industrialized nations compared with emerging countries. This also changed in 2017. The acceleration in growth was due solely to development in industrialized nations: while growth in these countries increased by more than one percentage point to 6.5%, in emerging countries it slackened by three percentage points to 12.9%. The growth differential between these two groups of countries was thus at its lowest level since 2005, at 6.5 percentage points. The average figure for the past decade was twice as high at 13 percentage points. The “catch-up” of industrialized nations is mainly due to the positive stock markets.

This contrasting development when it comes to growth in financial assets was largely due to the respective heavyweights, the US (where growth accelerated from 5.8% to 8.5%) and China (where growth slowed from 18.3% to 14%). In the eurozone, growth eased slightly by 20 basis points to 3.7%. The US has thus overtaken China again in terms of absolute growth. In 2017, the US accounted for around 44% of the global growth in gross financial assets of households, while China accounted for only about 25%. The average of the preceding three years was 26% versus 35% – but with China coming out on top.

Debt growth accelerates

Worldwide household liabilities rose by 6% in 2017. The growth rate was thus slightly above the previous year's level of 5.5%. Debt growth accelerated in the eurozone too, albeit to a still modest 2.6% (2016: 1.5%). Thanks to strong economic growth, however, the global debt ratio (liabilities as a percentage of GDP) increased only minimally to 64.3% (eurozone: 62.9%).

These global averages naturally mask huge differences. In some countries debt levels and dynamics have reached critical figures in the past few years. “In a majority of the countries analyzed, private debt dynamics are not worrisome,” said Michaela Grimm, co-author of the report. “However, in Asia in particular, there are some countries – Thailand, Malaysia, South Korea and China, for example – where supervisory agencies should monitor the development very closely. In these countries, similarities to the credit excesses before the financial crisis cannot be overlooked.” Despite the strong growth in liabilities, net financial assets – i.e. the difference between gross financial assets and debt – reached a new global record high of EUR 128.5 trillion at the close of 2017. This represents an increase of 8.3% compared with the previous year.

Germany: Highest growth in financial assets and liabilities since the financial crisis

Financial asset growth of German households reached 5.1%, the fastest increase since the financial crisis. At the same time, liabilities grew by 3.4% – the fastest increase since the turn of the century. However, there is no such thing as a credit boom in Germany, the debt ratio of households has now been falling for eight years in a row. Just over 53%, Germany's debt ratio is lower than in any other industrialized country (with the exception of Austria). Net financial assets grew by 5.8% in 2017, slightly faster than the year before. With net financial asset of EUR 52,390 per capita, Germany comes in – as in the previous years – at 18th in the list of the 20 richest countries (financial assets per capita, see table). Switzerland recaptured the top spot that it lost the year before to the US. In general, European countries did better in 2017 than in the previous years; this, however, is first and foremost a reflection of a stronger euro.

In Germany too, a (cautious) shift in investment behavior could be observed. For the first time in three years, the share of bank deposits in new investments fell below 50% and demand for shares and investment funds increased. As a result, the implicit return on financial assets notched up by 10 basis points to almost 3% (before adjusting for inflation) – the first increase since 2012. This improved performance, however, did not change the fact that German households, along with Austrian ones, have on average the lowest returns when looking at the last six years since 2012. While real returns were just above 2% in Germany, they reached around 3.5% in France and Italy and more than 4% in Spain and the Netherlands. German households (again with Austrian ones) topped another list: Loss of purchasing power in bank deposits climbed to EUR 400 per capita in 2017 – representative of the negative real returns of this asset class.

However, negative returns (after adjusting for inflation) are only one side of the coin of the ultra-expansive monetary policy. Households are not only savers but also borrowers who benefit from low interest rates. But as shown by our "net interest income calculator" (https://www.allianz.com/de/economic_research/research_data/interest-income-calculator/), even after including the credit side in the calculation, German households did not benefit from the ECB policy. On the contrary, since the start of monetary expansion in 2008, net interest income fell by roughly EUR 110 billion on a cumulated basis. This, for example, compares with a rise of EUR 140 billion for Spanish households.

Nevertheless, German companies and the state have no reasons to complain: Looking at all the sectors of the economy, Germany belongs in the list of winners of the zero interest rate policy as (non-financial) companies (to the tune of EUR 130 billion) and the state (almost EUR 160 billion) benefitted well from low interest rates. "Looking at these numbers, the often heard criticism of the ECB by politicians should be put in perspective," said Arne Holzhausen, co-author of the report. "Policymakers should not complain about savers' hardship but act instead. It's in their hands to mitigate the fatal blow of zero interest rates to savings by using an adequate tax policy, raising allowances, for example."

More participation thanks to globalization

The past two decades of rapid globalization have given rise to a new global wealth middle class, which included almost 1.1 billion people at the end of 2017. Fewer than half a billion people belonged to this group at the turn of the millennium, with just under half of them coming from Western Europe, North America or Japan. Today, these countries account for only a quarter of the global wealth middle class. In contrast, China's share has soared from just

under 30% to over 50% in this period. The figures accompanying this success story are impressive: around 500 million Chinese people have moved up to join the ranks of the global wealth middle class since 2000, and over 100 million more can now even consider themselves part of the global wealth upper class.

More inequality in industrialized countries

The development of inequality in the national context, however, shows a heterogeneous picture. Wealth distribution has improved in many countries since the turn of the millennium, but it has deteriorated in many others. The latter group includes a large number of industrialized countries, from the US to the euro crisis countries and even Germany and Japan. The perception that the "old" industrialized nations in particular have been suffering in recent decades from a growing gulf between the rich and the poor seems to match reality in many cases. However, in some of these countries – such as Germany and Italy – the trend has reversed again since the financial crisis.

A new indicator for the national distribution of wealth

To obtain a nuanced picture of national distribution in an international context, we have introduced a new indicator in this report, the Allianz Wealth Equity Indicator (AWEI). Some of the results are surprising. Along with the "usual suspects" – the US, South Africa, Indonesia and the UK – countries where the distribution of wealth is distorted relatively strongly also include Denmark, Sweden and Germany. In Scandinavia, this may primarily be due to high debt levels among large parts of the population; in Germany, the country's delayed reunification and the general shortage of capital-funded pension schemes play a crucial part.

On the other hand, those countries where wealth distribution is relatively balanced include many eastern and western European countries, some of which are euro crisis countries such as Italy, Spain and Greece. Even if it’s the last few years of the crisis and austerity that have led to greater inequality in the last two countries in particular, they still have a relatively solid base to fall back on, as assets have traditionally been widely distributed. “Our new wealth equity indicator shows clearly that we should be wary of drawing hasty or generalized conclusions,” said Michael Heise. “Apart from the US, barely any country conforms to the cliché of wealth distribution that is already extremely distorted but is still getting worse. In most countries, shades of grey prevail.”

Top 20 in 2017 by…

	…net per capita financial assets		
	in EUR	y-o-y in %	rank 2000
#1 Switzerland	173,990	6.7	1
#2 USA	168,640	8.9	2
#3 Sweden	98,380	5.1	12
#4 Netherlands	95,880	-1.1	6
#5 Belgium	93,580	0.2	3
#6 Japan	92,000	4.7	4
#7 Singapore	90,650	8.9	15
#8 Taiwan	90,260	6.3	14
#9 Denmark	88,270	8.4	13
#10 Canada	87,390	6.3	8
#11 New Zealand	83,570	2.0	9
#12 UK	82,360	2.1	5
#13 Australia	72,080	5.4	18
#14 Israel	68,710	3.9	10
#15 France	59,100	4.1	11
#16 Italy	58,610	4.9	7
#17 Austria	53,980	3.5	17
#18 Germany	52,390	5.5	19
#19 Ireland	47,440	5.9	16
#20 Finland	30,230	4.8	20

	...gross per capita financial assets		
	in EUR	y-o-y in %	rank 2000
#1 Switzerland	261,100	5.0	1
#2 USA	208,500	7.7	2
#3 Denmark	154,560	5.4	6
#4 Netherlands	143,950	-0.5	4
#5 Sweden	141,280	5.3	12
#6 Australia	134,460	5.1	15
#7 Canada	127,470	5.5	8
#8 Singapore	125,960	7.2	10
#9 Belgium	117,940	0.9	5
#10 UK	114,890	2.4	7
#11 Japan	112,470	4.2	3
#12 New Zealand	109,700	2.8	11
#13 Taiwan	108,820	6.0	17
#14 Norway	91,050	5.1	20
#15 Israel	87,150	3.8	18
#16 France	82,930	4.2	13
#17 Ireland	79,250	2.2	14
#18 Austria	75,460	3.0	19
#19 Italy	74,240	4.5	9
#20 Germany	73,630	4.8	16

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You can find the study on our homepage:
https://www.allianz.com/en/economic_research/ in the Publications/Specials section.

An interactive world map on households' assets and liabilities can be found here:
https://www.allianz.com/en/economic_research/research_data/interactive-wealth-map

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These assessments are, as always, subject to the disclaimer provided below.

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