Household income, consumption and wealth

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Following a steady increase in recent years, household financial investment reached EUR 13.9 billion in 2018. This is a level last seen in 2009, but still clearly below the levels recorded before the onset of the financial crisis. In general, the saving behavior of Austrians continued to be characterized by a strong preference for liquidity: Despite weak profit opportunities, transferable deposits increased by close to EUR 18 billion, while other deposits dropped by almost EUR 7 billion in 2018.

In the course of 2018, household financial wealth in Austria thus climbed to EUR 674.5 billion. Thereof, deposits (including cash) accounted for just under 42% and funded pension entitlements made up almost 20%, whereas securities played a subordinate role.

Between 2001 and 2018, Austrians earned lower rates of return on financial wealth than Germans: Above all due to structural differences, the actual annual rate of return received by Austrian households in that period was 0.7% on average, compared with 1.9% for German households.

1 Preliminary review of household financial behavior in 2019[2]

Taken together, the financial wealth of households (around EUR 705 billion) and nonprofit institutions serving households (NPISHs[3], around EUR 14.7 billion) stood at EUR 719.7 billion at end-September 2019, up 4% from one year earlier.

In line with the different investment strategies and financial instruments available to investors, this sum can be broken down into EUR 301.7 billion (43%) linked with flexible financial instruments and EUR 403.2 billion (57%) linked with less flexible financial instruments. When we break the figures down further, we find transferable deposits (including cash) to continue to top the list of flexible saving forms (EUR 183.1 billion). Most of the money invested in less flexible instruments (EUR 303.3 billion) has been invested in instruments that are sensitive to price risk (e.g. pension plans and equity interests).

At the same time, Austrian households had total liabilities of EUR 195.2 billion at end-September 2019, with long-term housing loans accounting for 72% thereof (EUR 140.6 billion).

2 Household financial investment mainly driven by saving in 2018

In 2018, the net disposable income of Austrian households and NPISHs (which are together referred to as the household sector in this publication) increased to EUR 216.3 billion[4] (+3.6% compared with 2017). Against this backdrop, the saving rate rose to 7.7% (compared with 7.3% in 2017), as consumption expenditure grew at a slower rate (+3.3%) than income.

Most of the resources available for investment (72%) were accumulated by saving out of earned income, with another 24% (EUR 5.7 billion) coming from loans.

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[2] *This review looks only at the first three quarters of 2019, as more recent data were unavailable at the time of writing.*

[3] *NPISHs include e.g. trade unions, associations, churches and charities.*

[4] *Net disposable income was EUR 214.7 billion, and the change in pension entitlements was EUR 1.6 billion. The sum of the two items, EUR 216.3 billion, serves as the basis for calculating the saving rate.*

The remaining 4% (EUR 0.9 billion) were generated through capital transfers, e.g. subsidies for savings plans and investment grants for the self-employed.

The household sector used about 62% (EUR 14.3 billion) of these resources for financial investment, and 38% (EUR 8.8 billion) for real investment.

3 Household sector financial investment comparatively low in Austria by euro area standards

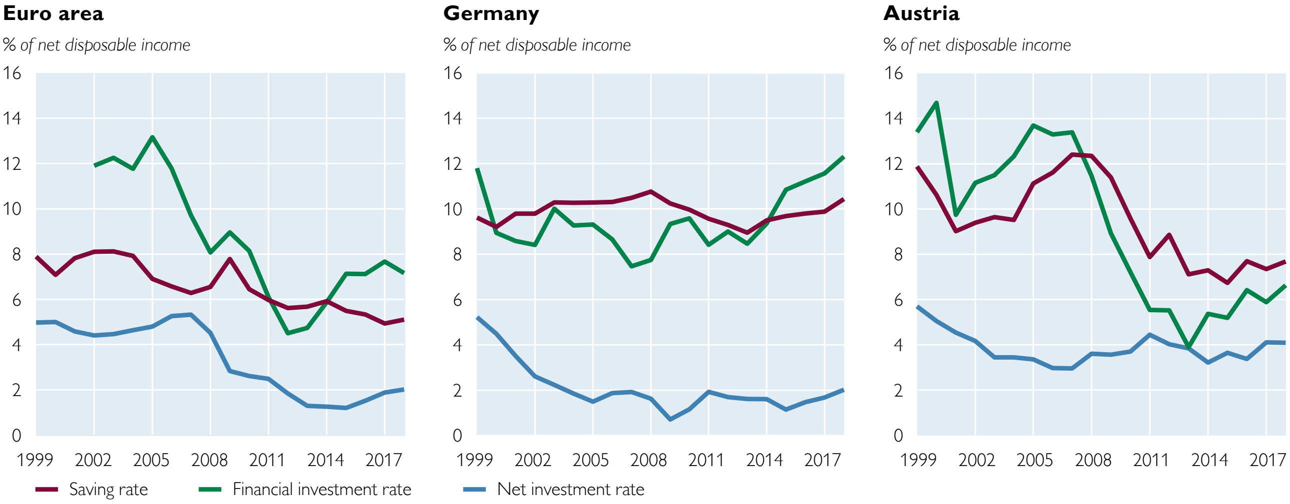
While the average saving rate of the Austrian household sector was 9.5% over the past 20 years, it declined markedly after the onset of the financial crisis of 2008, averaging 8.2% in the decade that followed. Overall, the Austrian household sector's saving rate was higher than the euro area average (6.6% for the entire period under review and 5.8% between 2009 and 2018), but lower than e.g. the 20-year average saving rate reported for the German household sector, which was relatively stable at 9.9%.

In 2018, the Austrian household sector invested around 4% of its income in real assets, which is in line with the net investment rate[5] observed on average during the past 20 years. Most of the real investment was business-related investment by self-employed individuals and housing investment. Another 6.6% of disposable income was used for financial investment. The share of income that the household sector uses for financial investment is correlated with the saving rate. Chart 1 shows that lower saving rates go hand in hand with declining financial investment rates. The financial investment rate of 6.6% observed in 2018 is representative of the past four years.

Chart 1 shows a completely different picture for the euro area: Over the past 20 years, the saving rate declined, too, as did the net investment rate, but the movement of the financial investment rate was disconnected from this trend. Yet another pattern can be observed in the biggest euro area economy, Germany.

Chart 1

Saving, financial investment and net investment



Source: Eurostat.

[5] *The net investment rate is the share of real investment in net disposable income.*

While saving and financial investment moved more or less in tandem, real investment as a share of disposable income declined from the turn of the millennium.

In Austria, the drop in the saving rate was attributable to consumption expenditure growth outpacing income growth: Over the past ten years, household sector income rose by 2.2% on average in Austria, compared with 1.4% for the euro area as a whole. At the same time, consumption expenditure grew by 2.7% on average in Austria, compared with 1.6% in the euro area. As a result, Austria reported a steeper decline in the saving rate than the euro area.

4 Deposits have come to dominate financial investment

Financial investment by the Austrian household sector peaked at EUR 14.3 billion in 2018 (after EUR 15.5 billion in 2009), but was still markedly lower than before the onset of the financial crisis of 2008 (2007: EUR 22.6 billion). A breakdown by subsectors shows that households accounted for EUR 13.9 billion and NPISHs for EUR 0.4 billion.

2015 (by which time the key policy rate for refinancing with the Eurosystem was already as low as 0.05%) marked the first year in which deposits made up the bulk of financial investment. In the period from 2015 to 2018, deposits (including cash) made up around 82% of total household financial investment. This share was 88% in 2018.

All other forms of financial investment were much less in demand: In the period from 2015, net acquisitions of bonds, shares and mutual fund shares (marketable securities) accounted for around 5% of financial investment. Funded pension plans[6] made up only 4%, down from 31% in the period from 2009 and 2014, which was above all attributable to the declining importance of life insurance products.

5 Austrian households prioritize flexibility in their financial investment decisions

Flexible financing instruments[7] made up the bulk of financial investment between 2015 and 2018: Households invested almost EUR 67.2 billion in such instruments. Total financial investment was at EUR 48.6 billion between 2015 and 2018, which implies considerable portfolio reallocations from nonflexible instruments to flexible ones. Investment flexibility is among the usual preferences determining investment behavior but has become even more important in the low interest environment.

A breakdown of flexible instruments shows an increase in transferable deposits (including cash) by EUR 64.7 billion between 2015 and 2018, driving up their share of flexible instruments around 96%. With only EUR 2.5 billion invested in marketable securities, investors largely avoided instruments that are sensitive to price risk.[8]

Between 2015 and 2018, investment in other deposits (nonflexible instruments) declined by EUR 25.8 billion. In the same period, investment in pension plans (nonflexible instruments that are sensitive to price risk) amounted to EUR 1.7 billion, and equity interests amounted to around EUR 1.1 billion. Taking into account

[6] *Funded pension plans include life insurance products, funded retirement savings plans and severance benefits.*

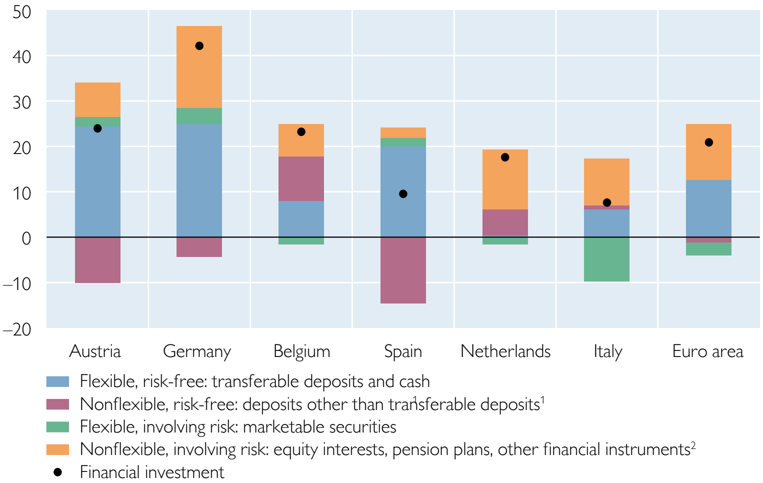
[7] *Flexible financing instruments include transferable deposits, marketable securities and currency.*

[8] *Marketable securities include bonds, mutual fund shares and quoted shares, i.e. instruments that may be subject to market price fluctuations by their very nature.*

Chart 2

Portfolio allocation in the euro area

Cumulated transactions 2009–2018 in % of 2008 financial wealth



Source: OeNB, Eurostat, ECB.

[1] *Other deposits also include deposits redeemable at notice.*
[2] *Other financial instruments include nonlife insurance policies, other accounts receivable, financial derivatives and schilling cash not exchanged for euro.*

other financial investment,[9] this means that household investment in nonflexible financing instruments declined by EUR 18.5 billion.

6 Substantial differences in portfolio allocation across the euro area

Chart 2 reveals differences in the degree to which households and NPISHs in the euro area reallocated funds to flexible instruments after the onset of the financial crisis of 2008. The chart compares cumulated financial transactions for the period 2009 to 2018 as a percentage of the household sector's financial wealth based on 2008 data. In this period, new investment accounted for a 24% increase in Austrian financial assets.

A breakdown by financing instruments shows that transferable deposits and cash contributed the most to this increase (24 percentage points). Equity interests and pension plans accounted for a much smaller share (8 percentage points), marketable securities made up a very small share (2 percentage points), and a decline was recorded for other deposits (–10 percentage points).

The preference for liquid financial assets was also observed in the euro area, above all Spain and Germany. While Spain recorded even more pronounced reallocation effects than Austria, the data for Germany show an increase in liquid financial assets without any marked reallocation effects. In Italy, and to a lesser extent in Belgium, security sales went hand in hand with increased deposit-making. The Netherlands are an outlier in that the country's extensive private pension system served as an incentive for people to invest more in retirement savings plans.

7 Structure of household financial wealth in 2018

At end-2018, Austrian households' financial wealth stood at EUR 674.5 billion, and the entire sector's financial wealth (i.e. including NPISHs) totalled EUR 688.5 billion, up from EUR 682.1 billion one year earlier.

Financial investors' growing preference for risk-free instruments and for flexible rather than nonflexible instruments is also reflected in the financial wealth data: Table 1 shows that deposits continued to play a dominant role in Austria. At end-2018, transferable deposits (EUR 153.5 billion) and cash (EUR 23.6 billion) accounted for around 26% of total household financial wealth, namely EUR 177.1 billion in sum. This compares with EUR 101.5 billion (15%) held in other risk-free deposits.

Another 20% of household financial wealth were pension entitlements worth EUR 134.2 billion (life insurance, funded pension and severance entitlements) at

[9] *E.g. nonlife insurance policies and other accounts receivable.*

end-2018. In Austria, unlike many other euro area countries, this share was stable in the period under review, as was the share of Austrians who have taken out such savings plans: 35% of households had life insurance, and 16% had voluntary retirement savings plans.

At 16% of the household sector's portfolio, marketable securities – mutual fund shares (EUR 57.3 billion), bonds (EUR 29.2 billion) and quoted shares (EUR 22.4 billion) – played a subordinate role only. In 2018, fewer than 3% of

Table 1

Structure of Austrian households' financial wealth in 2018

	Financial investment		Financial wealth	
	2009	2018	Dec. 09	Dec. 18
	EUR billion			
Financial investment/financial wealth	**15.5**	**13.9**	**501.7**	**674.5**
Flexible instruments	***14.8***	***18.9***	***168.7***	***285.9***
not subject to price risk[1]	**14.0**	**18.5**	**76.6**	**177.1**
Cash	0.9	0.8	15.9	23.6
Transferable deposits with MFIs	13.1	17.7	60.7	153.5
subject to price risk	0.8	0.4	92.1	108.9
Bonds	–0.6	–1.7	40.7	29.2
Quoted shares	0.3	0.0	14.4	22.4
Mutual fund shares	1.0	2.1	37.0	57.3
Nonflexible instruments	***0.7***	***–5.0***	***333.0***	***388.6***
not subject to price risk	**–5.6**	**–6.7**	**141.9**	**101.5**
Other deposits with MFIs	–5.6	–6.7	141.9	101.5
subject to price risk	**6.3**	**1.7**	**191.1**	**287.1**
Other equity	1.6	0.5	77.3	139.2
Pension plans	4.6	0.4	98.2	134.2
Other assets[2]	0.1	0.8	15.6	13.6

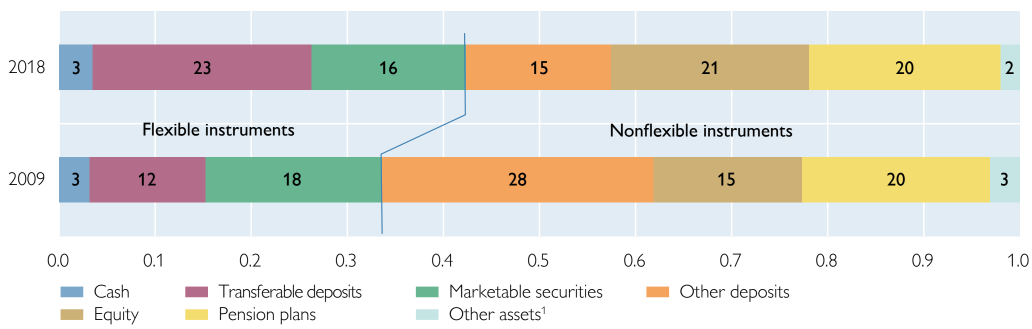
Source: OeNB, Statistics Austria.

[1] *Subject to market fluctuations or not, depending on the type of investment.*
[2] *Other assets include entitlements under nonlife insurance policies, other accounts receivable, financial derivatives, cash denominated in Austrian schilling and claims on other banks.*

Chart 3

Structure of household financial wealth: 2009 vs. 2018

% of household financial wealth



Source: OeNB.

[1] *Other assets include entitlements under nonlife insurance policies, other accounts receivable, financial derivatives and schilling cash not exchanged for euro.*

households hold bonds, 5% hold shares, and fewer than one in ten Austrians held mutual fund shares.

Chart 3 shows that portfolio reallocations over the past ten years led to a marked change in the structure of household financial wealth (2009: EUR 501.7 billion, 2018: EUR 674.5 billion): The share of flexible financing instruments (transferable deposits including cash, marketable securities) rose to 42%, up from 34% ten years earlier. This shift was virtually driven by deposit growth.

In the same period, the share of nonflexible instruments declined from 66% to 58%, driven by different factors to different degrees: While the share of pension entitlements remained unchanged at 20%, that of equity interests rose from 15% to 21%, and the share of other deposits declined markedly from 28% to 15% of total household financial wealth.

8 Investment income generates but a fraction of disposable income

Between 2001 and the onset of the financial crisis of 2008, investment income (from deposits, marketable securities and pension entitlements) accounted for on average 6.4% of the household sector's disposable income. This share declined from 6.2% in 2009 to 2.5% in 2018, which translates into a ten-year average of 4%, compared with a mere 2.9% for the period from 2015 to 2018 (EUR 6 billion on average per year). Interest income on deposits declined especially sharply: Between 2009 and 2018, its contribution to disposable income dropped from 2.5% to just 0.2%, which translates into a ten-year average of 1% and a four-year average of 0.3% for the period from 2015 to 2018.

Over the past four years, investment income represented a small fraction of disposable income both in Austria and the euro area as a whole. In Austria, it accounted for less than 3% of household disposable income, which boosted the importance of wages and salaries for consumer spending and ultimately also investment. In the same period, investment income made up 5% of disposable income in Germany and 4.9% in the euro area, which is above all attributable to differences in the structure of financial wealth.

9 Low yield curve and even negative return on financial wealth due to market developments

While the annual nominal rate of return on financial wealth (interest earned, dividends received and price effects for deposits, marketable securities and pension entitlements) was 2.4% on average in the ten-year period between 2009 and 2018, it was only 1.4% on average between 2015 and 2018 and –0.7% in 2018 (above all due to plummeting prices in the fourth quarter of 2018). Adjusted for inflation, the ten-year annual average was 0.6%, the four-year annual average was –0.1%, and the 2018 average was –2.8% (table 2).

For deposits, the annual rate of return as adjusted for inflation was even lower, namely –0.9% in the period from 2009 to 2018, –1.3% in the period from 2015 to 2018 and –2% in 2018.

After the turn of the millennium, the inflation-adjusted rate of return on household financial wealth averaged 0.7% (–0.3% for deposits) and never rose beyond 3.5% – with the exception of an upward movement in stock prices in 2009.

Table 2

Nominal and real rates of return on financial wealth (deposits, marketable securities, pension entitlements)

	Nominal rate of return			Real rate of return		
	2001–2008	2009–2018	of which: 2015–2018	2001–2008	2009–2018	of which: 2015–2018
	%					
Financial wealth (deposits, marketable securities, pension entitlements)	2.9	2.4	1.4	0.8	0.6	–0.1
of which deposits	*2.5*	*0.9*	*0.2*	*0.5*	*–0.9*	*–1.3*

Source: OeNB, Statistics Austria.

10 An international comparison of real rates of return

With an inflation-adjusted annual return of 0.7% on average since 2001, Austrian households did less well than German households (around 1.9%) and the euro area average (1.7%). Of the difference between Austria and Germany, 0.9 percentage points (=¾) are due to differences in the structure of financial wealth, above all a higher share of funded pension entitlements and, to a lesser extent, a somewhat higher share of marketable securities. The remaining 0.3 percentage points (=¼) can be explained by the inflation differential between the two countries.