

29 October 2009

## PRESS RELEASE

### EURO AREA ECONOMIC AND FINANCIAL DEVELOPMENTS BY INSTITUTIONAL SECTOR: SECOND QUARTER 2009

In the second quarter of 2009, the annual growth rate<sup>1</sup> of **net disposable income in the euro area** equalled -4.6%, compared with -4.4% in the first quarter of 2009 (see Annex Table 1). **Final consumption** in the euro area decreased by 0.4% annually in the second quarter, following an increase of 0.5% in the previous quarter. The annual growth rate of **gross fixed capital formation** decreased to -13.0% in the second quarter of 2009, from -10.9% in the previous quarter. In the second quarter of 2009, the annual growth rate of **net saving** increased to -58.2%, up from -64.9% in the previous quarter.

The annual growth rate of **households' adjusted gross disposable income** decreased to 0.4% in the second quarter of 2009, compared with 1.2% in the previous quarter (see Table 2). The annual growth of households' **consumption expenditure** declined to -1.9% in the second quarter compared with -1.4% in the previous quarter. The annual growth rate of **gross saving** of households decreased to 11.0% in the second quarter (from 19.2% previously). The households' gross saving rate<sup>2</sup> stood at 15.4%, compared with 14.1% in the second quarter of 2008. The annual growth rate of **financing** of households remained almost unchanged in the second quarter at 1.6% from the first quarter, and the annual growth rate of their **financial investment** was 2.8% in the second quarter of 2009, compared with 2.5% in the previous quarter. Households' **net financial wealth** decreased by -3.3%, after a decrease of -9.1% in the previous quarter (see Chart 6).

The annual growth rate of **gross fixed capital formation of non-financial corporations** in the euro area decreased to -17.1% in the second quarter of 2009, from -13.4% in the previous quarter (see Table 3). The annual rate of growth of **net entrepreneurial income** of non-financial corporations declined to -15.6% in the second quarter, compared with -19.9% in the previous quarter. The annual growth rate of **financing** of non-financial corporations was 2.7% in the second quarter, compared with 3.2% previously, and the annual growth rate of their **financial investment** was 2.5% in the second quarter of 2009, compared with 2.8% previously.

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<sup>1</sup> The euro area accounts are expressed in current prices and they are not seasonally adjusted. The (nominal) growth rates are presented as year-on-year changes (see the notes).

<sup>2</sup> The households' saving rate is based on four-quarter cumulated sums of both their saving and their gross disposable income.

### Total euro area economy

The annual growth rate of euro area net disposable income has declined to -4.6% in the second quarter of 2009 as compared with -4.4% in the previous quarter. This negative growth in net disposable income is almost entirely due to a drop in net disposable income of non-financial corporations and general government (see Chart 1). The decrease in the annual growth of **gross fixed capital formation** (-13.0%), compared to the previous quarter (-10.9%), was mainly due to negative investment growth by non-financial corporations and households (see Chart 2). The growth rate of **gross capital formation**<sup>3</sup> decreased to -17.7% in the second quarter, compared to -12.3% in the previous quarter. This negative investment growth coincided with an annual growth rate of euro area **net saving** to -58.2%, compared to -64.9% in the previous quarter as decreases in net saving of the government and the non-financial and financial corporate sectors exceeded increases in households' saving (see Chart 3).

### Households

The households' **adjusted gross disposable income**<sup>4</sup> increased by 0.4% in the second quarter of 2009, compared to 1.2% in the previous quarter. This increase was mainly driven by an increase of household's receipts of **net social benefits and contributions** and a decline in taxes on income and wealth that offset the decrease in property income received and operating and mixed income earned (see Chart 4).

The annual growth rate of households' **consumption expenditure** (-1.9%) was below the annual growth rate of their disposable income, which led to a continued, if slower, growth of households' saving, of 11.0% (after 19.2% previously). The annual rate of change of gross fixed capital formation of households declined further to -13.4% in the second quarter, down from -11.3% in the first quarter. The four-quarter moving average households' gross saving rate increased to 15.4% (compared to 14.1% in the second quarter of 2008). The annual growth rate of **household sector's net lending**,<sup>5</sup> increased to 3.5% in the second quarter of 2009, from 3.0% in the previous quarter.

The annual growth rate of **financing** of households via the incurrence of loans decreased to 2.0% in the second quarter of 2009, from 2.7% in the first quarter. This coincided with a decline in the annual growth of their **gross non-financial investment** to -14.2%, from -11.4% previously (see Chart 5) whilst their **financial investment** increased to 2.8% from 2.5% in the previous quarter.

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<sup>3</sup> This also includes changes in inventories and net acquisitions of non-produced, non financial assets.

<sup>4</sup> Net adjustment for the change in net equity of households in pension fund reserves (receivables - payables).

<sup>5</sup> For the sectors households and non-financial corporations, the figures for net lending / net borrowing derived from the non-financial accounts differ somewhat from those derived from the financial accounts, due to remaining statistical discrepancies.

Turning to the components of **households' financial investment**, the annual growth rate of their investment in currency and deposits decreased to 5.8% in the second quarter of 2009, from 6.5% in the previous quarter. The annual growth rate of their investment in debt securities decreased to 1.5%, from 4.0% previously. The growth rate of household's investment in shares and other equity stood at -1.0% in the second quarter, compared to -2.2% previously. The annual growth rate of households' additions to life insurance and pension fund reserves remained broadly the same at 3.6%.

Developments in **households' financial balance sheet** were dominated by valuation changes of their financial assets. Households' **net financial wealth** decreased by an annual growth rate of -3.3%, after -9.1% in the previous quarter (see Chart 6). The market value of households' holdings of shares and other equity decreased by 15.1% in the second quarter of 2009, compared with a decrease of 25.5% previously (see Table 2).

### **Non-financial corporations**

The annual growth rate of **net entrepreneurial income** of non-financial corporations<sup>6</sup> stood at -15.6% in the second quarter of 2009, up from -19.9% in the previous quarter (see Table 3). This reflects a decline of net value added generated by non-financial corporations of -8.4%, compared with -6.6% in the previous quarter and a decline in property income receivable of -5.7% compared with -5.9% in the previous quarter, as well as an increase in compensation of employees of 2.3% compared to 1.1% in the first quarter and interest and rent payable of 6.9% compared to 5.9% previously. (see Chart 7 and Table 3). **Gross fixed capital formation** of non-financial corporations decreased by 17.1% in the second quarter of 2009, after a decrease of 13.4% in the previous quarter (see Chart 8). The annual growth rate of total gross non-financial investment further declined to -25.5%, compared with -15.7% in the previous quarter. Non-financial corporations' net non-financial investment, decreased noticeably in the second quarter and was broadly matched by a fall in net borrowing.

In the second quarter of 2009, the annual growth rate of **financing** by non-financial corporations decreased to 2.7%, from 3.2% previously. The growth rate of their loan financing amounted to 3.9%, compared with 6.7% previously. The annual growth rate of their issuance of debt securities increased to 11.9%, from 9.9%. The annual growth rate of their equity financing, via the issuance of quoted and unquoted shares and other equity, increased to 2.1% compared with 1.5%, from the previous quarter.

**Financial investment growth** of non-financial corporations moderated to 2.5% after 2.8% in the previous quarter, as net disposal of debt securities accelerated further to -20.7%

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<sup>6</sup> Net entrepreneurial income is broadly equivalent to current profits in business accounting (after the receipt and payment of interest and including the profits of foreign subsidiaries, but before the payment of income taxes and dividends).

(compared to -8.3% previously) while the annual growth rate of their investment in currency and deposits increased to 2.3%, from 0.5% previously. The growth rate of loans granted decreased to 9.5% in the second quarter of 2009, after 11.6% previously. The growth rate of their investment in shares and other equity decreased to 4.3%, after 4.7% in the first quarter.

The decline of the outstanding amounts of assets and liabilities in the **financial balance sheet** of non-financial corporations slowed in the second quarter of 2009, due to a more moderate decline in the market value of shares and other equity (held as well as issued). The outstanding amount of financial assets decreased by -5.8% in the second quarter (compared to -9.4% previously), whereas outstanding liabilities decreased by -6.1% compared to -9.5% in the previous quarter (see Table 3).

### **Insurance corporations and pension funds**

The annual growth rate of **insurance technical reserves**, the major financing instrument of insurance corporations and pension funds, was broadly unchanged at 3.1% in the second quarter of 2009 (see Table 6). The annual growth rate of the issuance of quoted shares decreased to 0.4% from 0.9% previously. The annual growth rate of their **financial investment** increased to 2.9% from 2.6% in the previous quarter. The growth rate of their investment in debt securities declined to 2.4%, from 4.4% previously, while that of their investment in shares and other equity increased to 3.5%, from 0.9% previously.

The decline in outstanding amounts of assets and liabilities in the **financial balance sheet** of insurance corporations and pension funds slowed as the market value of shares and other equity held and issued declined less. In particular, the market value of quoted shares held declined by 26.5% (after declining by 35.8% previously) and that of mutual fund shares held declined by 1.7% (after a decline by 9.2% in the previous quarter).

### **Data revisions and methodological changes and additional information on the euro area accounts**

The euro area aggregates presented in this press release include data for Slovakia also for the reference periods prior to their adoption of the euro.

This press release incorporates revisions for the first quarter of 2009 and for previous quarters. The revisions to the outstanding amounts of debt securities are partly due to the valuation of long-term debt securities issued by monetary financial institutions which are for the first time valued at market prices prevailing in the respective observation periods (rather than at their nominal values). This market valuation has already been the standard valuation method for debt securities issued by other sectors (as well as for shares issued by all sectors) as recommended by the European System of Accounts (ESA 95).

The euro area accounts encompass integrated non-financial and financial accounts, including financial balance sheets, are jointly compiled by the ECB and the European Commission (Eurostat), in close cooperation with the national central banks and the national statistical institutes in the EU.<sup>7</sup> The European sector accounts follow the methodology of the European System of Accounts 1995 (ESA 95).<sup>8</sup> A detailed set of quarterly data is published in Tables 3.1 - 3.5, "Euro area accounts", of the statistics section of the ECB's Monthly Bulletin.

A comprehensive set of tables is made available at <http://www.ecb.europa.eu/stats/acc/> (ECB). The time series for the euro area accounts can be downloaded from the ECB's Statistical Data Warehouse.

The publication of euro area economic and financial developments in the third quarter of 2009 is scheduled to take place on **28 January 2010** at 10.00 am (CET).

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<sup>7</sup> See <http://ec.europa.eu/eurostat/sectoraccounts> (Eurostat) for the non-financial accounts of the EU.

<sup>8</sup> For more details, see <http://forum.europa.eu.int/irc/dsis/nfaccount/info/data/esa95/en/titelen.htm>.

Annex:

**Euro area**

Chart 1 Growth of euro area net disposable income and its allocation to sectors (annual percentage changes and percentage point contributions)

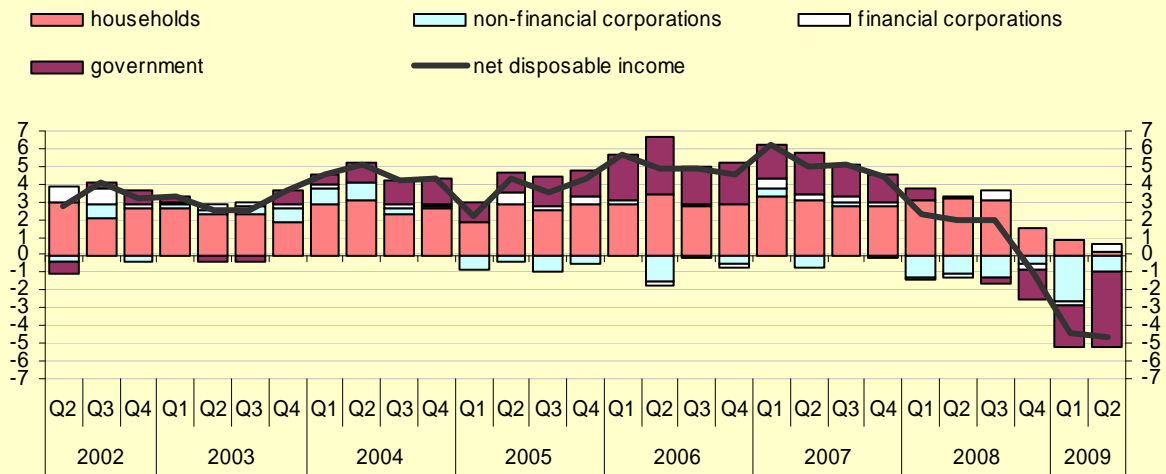


Chart 2 Growth of euro area gross fixed capital formation and contributions by sector (annual percentage changes and percentage point contributions)

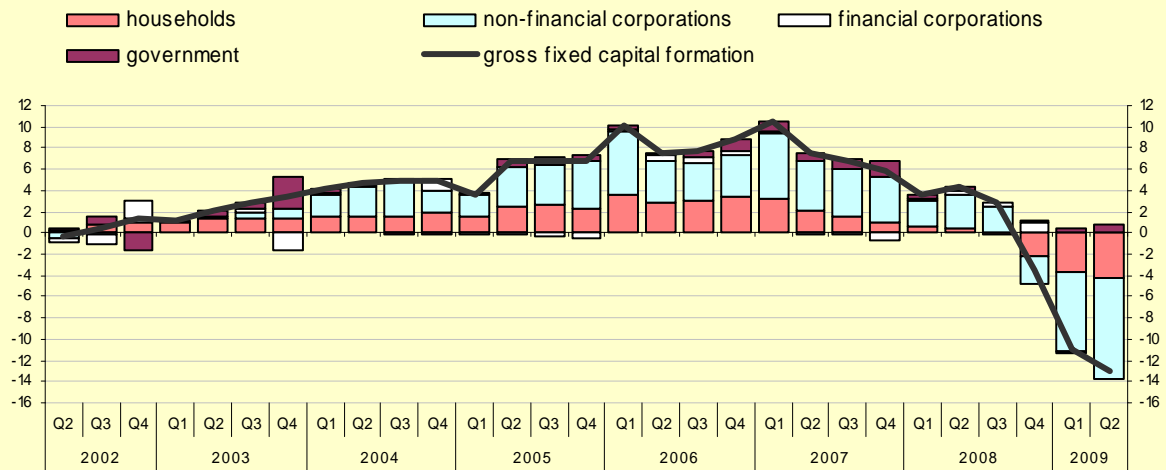
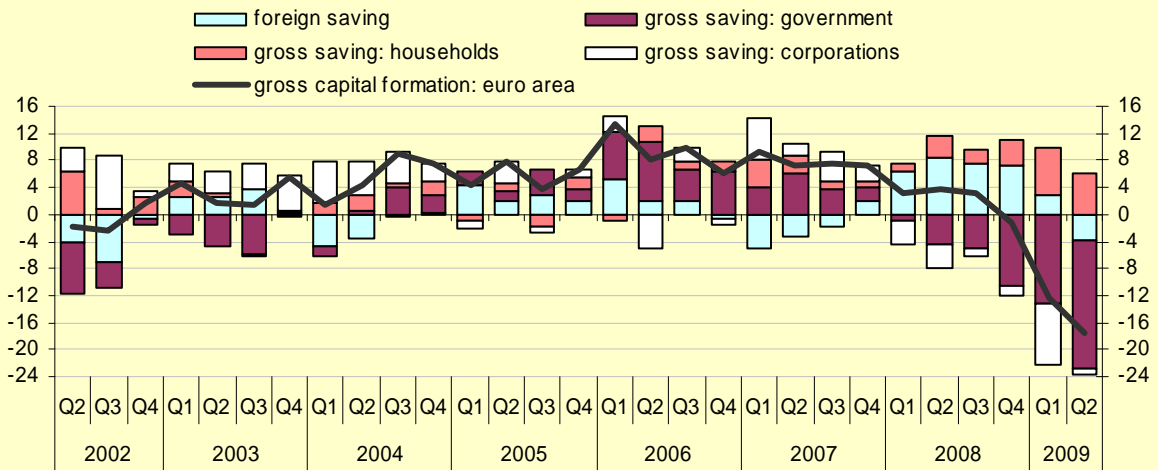


Chart 3 Growth of euro area gross capital formation and its financing by sectoral (net) saving (annual percentage changes and percentage point contributions)



Sources: ECB and Eurostat

## Euro area households

Chart 4 Growth of households' gross disposable income and contributions by income component  
(annual percentage changes and percentage point contributions)

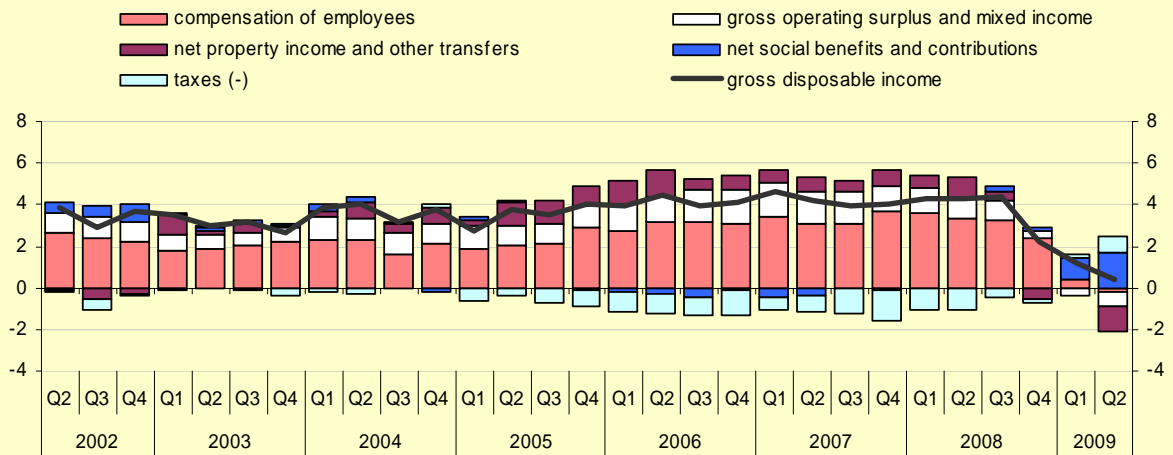


Chart 5 Growth of households' non-financial investments and contributions by source of internal and external financing  
(annual percentage changes and percentage point contributions)

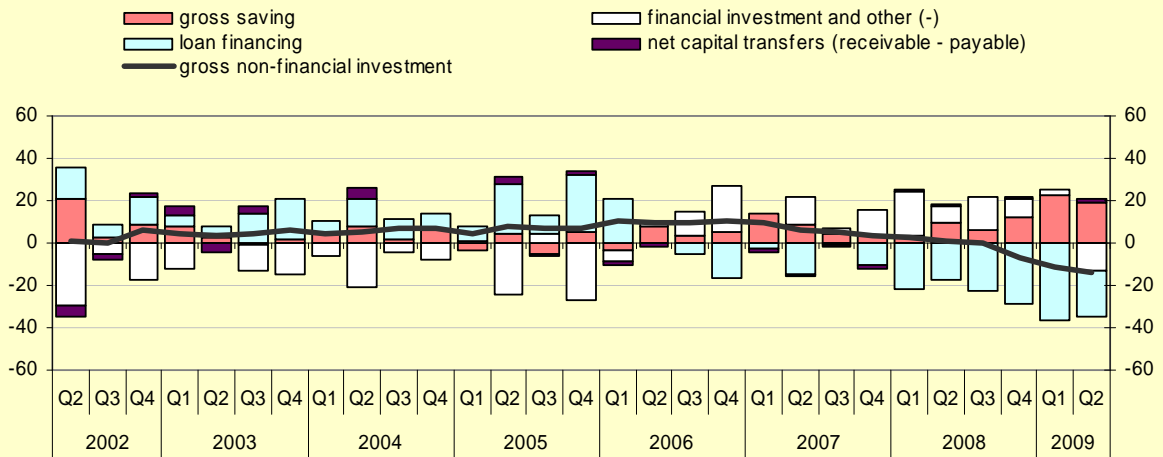
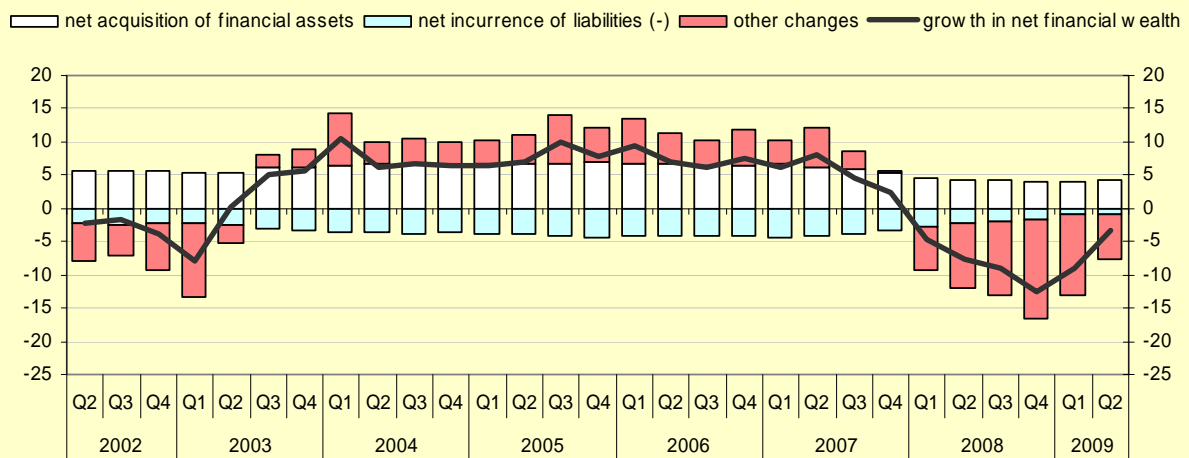


Chart 6 Growth of households' net financial wealth and contributions by type of wealth change  
(annual percentage changes and percentage point contributions)



Sources: ECB and Eurostat

## Euro area non-financial corporations

Chart 7 Growth of net entrepreneurial income of non-financial corporations and contributions by component  
(annual percentage changes and percentage point contributions)

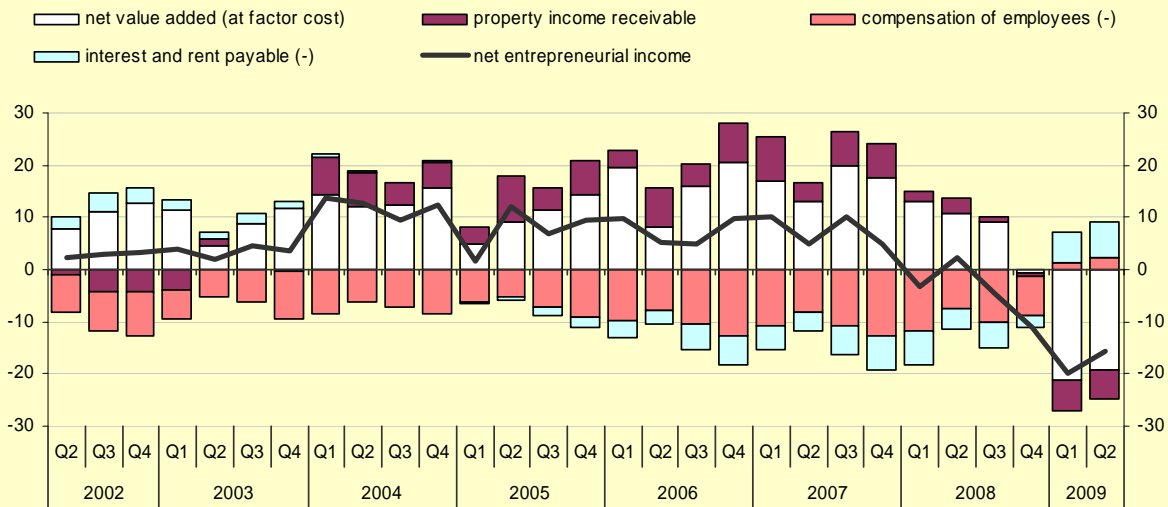
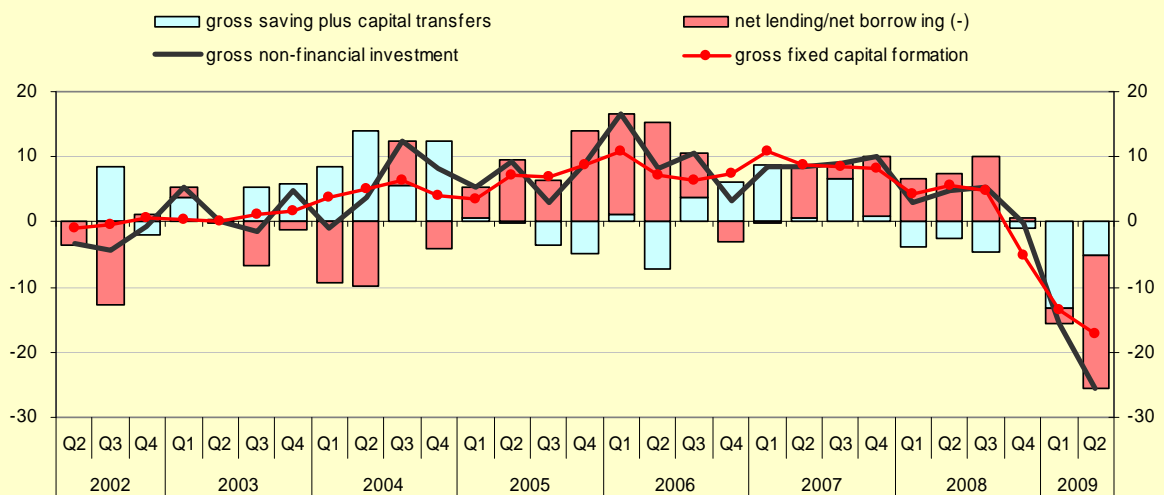


Chart 8 Growth of non-financial investment of non-financial corporations and contributions by source of internal and external financing  
(annual percentage changes and percentage point contributions)



Sources: ECB and Eurostat



Notes

- The **annual growth rate of non-financial transactions and of outstanding financial assets and liabilities (stocks)** is calculated as the percentage change between the value of the transaction or outstanding amount for a given quarter and that value recorded four quarters earlier. Let  $x_t$  be the level of a non-financial transaction or end-of-quarter stock, then its annual percentage change  $g(x_t)$  is calculated as:

$$g(x_t) = \frac{(x_t - x_{t-4})}{x_{t-4}} * 100.$$

- The **annual growth rate used to analyse financial transactions** refers to the total value of transactions during the year in relation to the outstanding stock a year before. These growth rates for financial transactions exclude the effect on the outstanding stock of revaluations, reclassifications, and further changes that do not arise from transactions. When  $f_t$  represents the value of transactions in a particular financial instrument, and  $F_t$  represents the value of the corresponding stock outstanding at the end of quarter t, then the annual growth rate  $g(f_t)$  is calculated as the sum of the transactions during the year divided by the outstanding stock a year ago:

$$g(f_t) = \left( \frac{\sum_{i=0}^3 f_{t-i}}{F_{t-4}} \right) * 100$$