

28 October 2010

## PRESS RELEASE

### EURO AREA ECONOMIC AND FINANCIAL DEVELOPMENTS BY INSTITUTIONAL SECTOR - SECOND QUARTER 2010

*In the second quarter of 2010, the annual growth rate<sup>1</sup> of **net disposable income in the euro area** increased to 4.4%, compared with 1.7% in the first quarter of 2010 (see Annex Table 1). The annual growth rate of **final consumption** in the euro area increased to 2.4% in the second quarter compared with 1.8%, in the previous quarter. **Gross fixed capital formation** increased by 0.7% in the second quarter of 2010, compared with a decrease (-5.5%) in the previous quarter.*

*The annual growth rate of **households' gross disposable income**<sup>2</sup> was 1.0% in the second quarter of 2010, up from 0.6% in the previous quarter (see Table 2). The annual growth rate of households' **consumption expenditure** was 2.4% in the second quarter compared with 1.9% in the previous quarter. **Gross saving** of households continued to decrease (-5.5% in the second quarter compared with -8.1% previously). The households' gross saving rate<sup>3</sup> stood at 14.7%, compared with 14.9% in the second quarter of 2009. The annual growth rate of **financing** of households was 2.6% in the second quarter of 2010 compared with 2.8% in the previous quarter, and the annual growth rate of their **financial investment** was 3.0% in the second quarter of 2010, compared with 3.3% in the previous quarter. Households' **net worth**<sup>4</sup> increased by 4.0% in the second quarter after 3.9% in the previous quarter (see Chart 6).*

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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> Adjusted for the change in net equity of households in pension fund reserves (receivable - payable).

<sup>3</sup> The households' saving rate is based on four-quarter cumulated sums of both their saving and their gross disposable income.

<sup>4</sup> The euro area accounts include for the first time non-financial assets. Households' non-financial assets mainly consist of housing wealth (residential structures and land). In addition, they also include non-financial assets of unincorporated enterprises classified within the household sector.

The annual growth rate of **gross fixed capital formation of non-financial corporations** in the euro area increased to 4.2% in the second quarter of 2010, from -4.5% in the previous quarter (see Table 3). The annual growth rate of **net entrepreneurial income** of non-financial corporations was 13.5% in the second quarter, after 15.7% in the previous quarter. The annual growth rate of **financing** of non-financial corporations was 1.6% in the second quarter, the same as the previous quarter, and the annual growth rate of their **financial investment** remained broadly unchanged at 2.7% in the second quarter of 2010, after 2.6% in the previous quarter.

### **Total euro area economy**

The annual growth rate of euro area net disposable income stood at 4.4% in the second quarter of 2010 up from 1.7% in the previous quarter. The positive growth in net disposable income is due to increases in net disposable income in all sectors (see Chart 1). Euro area **gross fixed capital formation** increased by 0.7% annually, compared with -5.5% in the preceding quarter due to positive growth by non-financial corporations and less negative growth by households (see Chart 2). The growth rate of **gross capital formation**<sup>5</sup> increased to 7.5% in the second quarter, up from -4.0% in the previous quarter (Chart 3).

Investment growth was accompanied by broadly comparable growth of euro area **gross saving** in the latest quarter which due to an increase in corporate savings, more than offset a decrease in household savings (see Chart 3). In the second quarter of 2010, the annual growth rate of **net saving** was 102.3%, (largely due to the very low value of 2009Q2) compared with -2.7% in the first quarter of 2010.

### **Households**

The annual growth rate of households' **gross disposable income**<sup>6</sup> increased to 1.0% in the second quarter of 2010, up from 0.6% in the previous quarter. This was in part due to increases in **compensation of employees** exceeding a declining contribution of net social security benefits (see Chart 4).

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<sup>5</sup> This also includes changes in inventories and net acquisitions of non-produced, non-financial assets.

<sup>6</sup> Adjusted for the change in net equity of households in pension fund reserves (receivable - payable).

The annual growth rate of households' **consumption expenditure** (2.4%) was above the annual growth rate of their disposable income, which led to a continued decline in households' gross saving (-5.5% after -8.1% previously). The annual rate of change of gross fixed capital formation of households amounted to -1.4% in the second quarter, compared with -7.5% in the previous quarter. The four-quarter moving average households' **gross saving rate** was 14.7% (compared with 14.9% in the second quarter of 2009). The annual growth rate of **household sector's net lending**,<sup>7</sup> was 3.3% in the second quarter of 2010, compared with 3.6% in the previous quarter.

The annual growth rate of **financing** of households stood at 2.6% in the second quarter of 2010, down from 2.8% in the first quarter. The annual growth rate of their **gross non-financial investment** was 0.0%, up from -7.1% in the previous quarter (see Chart 5) whilst their **financial investment** was 3.0% compared with 3.3% previously.

Turning to the components of **households' financial investment**, the annual growth rate of their holdings of currency and deposits decreased to 2.8% in the second quarter of 2010, from 3.0% in the previous quarter. The annual growth rate of their investment in debt securities was -6.1% in the second quarter, compared with -7.3% in the previous quarter, while the investment in shares and other equity was up 2.8% in the second quarter, compared with 3.5% in the previously. The annual growth rate of households' additions to life insurance and pension fund reserves was 5.4% in the second quarter, compared to 5.7% previously.

Developments in **households' financial balance sheets** were dominated by valuation changes of their non-financial assets. Growth of households' **net worth** was 4.0% in the second quarter of 2010, after 3.9% in the previous quarter (see Chart 6). The annual growth rate of **housing wealth** was 3.1% as compared to 0.8% in the previous quarter, whereas the growth rate of the market value of households' holdings of shares and other equity was 6.0% in the second quarter of 2010, compared with 17.1% previously (see Table 2).

### **Non-financial corporations**

The annual growth rate of **net entrepreneurial income** of non-financial corporations<sup>8</sup> was 13.5% in the second quarter of 2010, down from 15.7% in the previous quarter (see Table 3). The annual growth rate of net value added was 4.2% (up from 1.4% in

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<sup>7</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.

<sup>8</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).

the previous quarter, see Chart 7 and Table 3). **Gross fixed capital formation** of non-financial corporations increased by 4.2% in the second quarter of 2010, after a decrease (-4.5%) in the previous quarter. The annual growth rate of **total gross non-financial investment**, which also includes inventories, was 19.8%, compared with -1.6 in the previous quarter (see Chart 8).

In the second quarter of 2010, the annual growth rate of **financing** by non-financial corporations stood at 1.6%, unchanged from the previous quarter. The growth rate of their loan financing amounted to 1.0%, compared with 0.8% in the previous quarter. The annual growth rate of their issuance of debt securities was 10.1%, from 13.6% in the previous quarter. The annual growth rate of their equity financing, via the issuance of quoted and unquoted shares and other equity, was 1.5%, compared with 1.8% in the previous quarter.

**Financial investment growth** of non-financial corporations remained broadly unchanged at 2.7% after 2.6% in the previous quarter. The annual growth rate of their investment in debt securities increased to 11.1% (compared with a decrease of -3.9% previously), while the annual growth rate of investment in currency and deposits was 4.1%, after 6.0% previously. The growth rate of loans granted increased to 7.1% in the second quarter of 2010, after 5.7% previously. The growth rate of their investment in shares and other equity decreased to 0.8%, after 1.3% in the previous quarter.

The outstanding amounts of both financial assets and liabilities increased in the second quarter by 8.9% (after 11.8%) and by 5.7% (after 10.9%) respectively (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, decreased to 5.6% in the second quarter of 2010 compared to 6.1% in the first quarter (see Table 6). The annual growth rate of the issuance of shares and other equity increased to 0.8% after 0.6% previously. The annual growth rate of their **financial investment** was broadly unchanged at 5.1% from 5.2% in the previous quarter. The growth rate of their investment in debt securities increased to 7.5%, from 5.3% previously, whilst that of their investment in shares and other equity decreased to 5.9%, from 9.5% in the previous quarter.

An increase in outstanding amounts of assets in the **financial balance sheet** of insurance corporations and pension funds occurred as the market value of shares and other equity held increased by 15.0 % following an increase of 29.3% in the preceding period.

## 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:

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

- The euro area accounts encompass integrated non-financial and financial accounts, including financial balance sheets. They 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>9</sup> The European sector accounts follow the methodology of the European System of Accounts 1995 (ESA 95).<sup>10</sup> A detailed set of quarterly data is published in

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<sup>9</sup> See <http://ec.europa.eu/eurostat/sectoraccounts> (Eurostat) for the non-financial accounts of the EU.

<sup>10</sup> For more details, see <http://forum.europa.eu.int/irc/dsis/nfaccount/info/data/esa95/en/titelen.htm>.

Tables 3.1 - 3.5, "Euro area accounts", of the statistics section of the ECB's Monthly Bulletin.

- This press release incorporates revisions for the first quarter of 2010 and for previous quarters.
- A comprehensive set of tables is made available at <http://www.ecb.eu/stats/acc/html/index.en.html> (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 2010 is scheduled to take place on **28 January 2011** at 10 a.m. CET.

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**European Central Bank**

Directorate Communications, Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

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