

28 January 2010

PRESS RELEASE

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

In the third quarter of 2009, the annual growth rate¹ of **net disposable income in the euro area** equalled -3.2%, compared with -4.8% in the second quarter of 2009 (see Annex Table 1). **Final consumption** in the euro area continued to decrease in the third quarter (-0.2% annually, after -0.3% in the previous quarter). The annual growth rate of **gross fixed capital formation** was -12.0% in the third quarter of 2009, against -13.5% in the previous quarter. In the third quarter of 2009, the annual growth rate of **net saving** was -43.0%, up from -63.5% in the second quarter.

The annual growth rate of **households' adjusted gross disposable income** decreased to 0.1% in the third quarter of 2009, compared with 0.6% in the previous quarter (see Table 2). The annual growth of households' **consumption expenditure** declined to -1.9% in the third quarter compared with -1.8% in the previous quarter. The annual growth rate of **gross saving** of households increased to 16.0% in the third quarter (from 11.8% previously). The households' gross saving rate² stood at 15.5%, compared with 13.8% in the third quarter of 2008. The annual growth rate of **financing** of households remained broadly unchanged at 1.7% in the third quarter of 2009 compared 1.8% in the previous quarter, and the annual growth rate of their **financial investment** was 3.0% in the third quarter of 2009, compared with 2.7% in the previous quarter. Growth of households' **net financial wealth** turned positive in the third quarter (4.5%) after negative growth in the previous quarter (-2.8%) (see Chart 6).

The annual growth rate of **gross fixed capital formation of non-financial corporations** in the euro area increased to -13.7% in the third quarter of 2009, up from -17.1% in the previous quarter (see Table 3). The annual rate of growth of **net entrepreneurial**

¹ 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).

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

income of non-financial corporations increased to -7.8% in the third quarter, compared with -15.9% in the previous quarter. The annual growth rate of **financing** of non-financial corporations was 2.1% in the third quarter, compared with 2.8% previously, and the annual growth rate of their **financial investment** was 2.4% in the third quarter of 2009, compared with 2.9% previously.

Total euro area economy

The annual growth rate of euro area net disposable income has increased to -3.2% in the third quarter of 2009 as compared with -4.8% in the previous quarter. The negative growth in net disposable income is due to a drop in net disposable income of general government and financial corporations, not compensated for by an increase in non-financial corporations' net disposable income (see Chart 1). The decrease in the annual growth of **gross fixed capital formation** (-12.0%), compared to the previous quarter (-13.5%), was almost entirely due to negative investment growth by non-financial corporations and households (see Chart 2). The growth rate of **gross capital formation**³ increased to -15.7% in the third quarter, up from -18.7% in the previous quarter. This negative investment growth coincided with an annual growth rate of euro area **net saving** of -43.0%, compared to -63.5% in the previous quarter, as decreases in net saving of the government continued to exceed increases in households' saving (see Chart 3).

Households

The households' **adjusted gross disposable income**⁴ increased by 0.1% in the third quarter of 2009, compared to an increase of 0.6% in the previous quarter. This was mainly due to an increase of household's receipts of **net social benefits and contributions** that offset the decline in compensation of employees, 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 growth of households' saving, of 16.0% (after 11.8% previously). The annual rate of change of gross fixed capital formation of households increased to -14.0% in the third quarter, up from -15.1% in the second quarter. The four-quarter moving average households' gross saving rate increased to 15.5% (compared to 13.8% in the third quarter of

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

⁴ Adjusted for the change in net equity of households in pension fund reserves (receivables - payables).

2008). The annual growth rate of **household sector's net lending**,⁵ increased to 3.7% in the third quarter of 2009, from 3.3% in the previous quarter.

The annual growth rate of **financing** of households via the incurrence of loans stood at 1.7% in the third quarter of 2009, broadly unchanged from 1.8% in the second quarter. This coincided with an increase in the annual growth rate of their **gross non-financial investment** to -15.0%, from -15.8% previously (see Chart 5) whilst their **financial investment** increased by 3.0% from 2.7% in the previous quarter.

Turning to the components of **households' financial investment**, the annual growth rate of their investment in currency and deposits decreased to 5.3% in the third quarter of 2009, from 5.9% in the previous quarter. The level of their investment in debt securities increased to 0.2% in the third quarter, up from 0.0% in the previous quarter. The growth rate of household's investment in shares and other equity increased to 0.1% in the third quarter, up from -1.3% previously. The annual growth rate of households' additions to life insurance and pension fund reserves increased to 3.9% in the third quarter, compared to 3.6% previously.

Developments in **households' financial balance sheet** were dominated by valuation changes of their financial assets. Growth of households' **net financial wealth** turned positive in the third quarter of 2009 (4.5% annually), after negative growth in the previous quarter (-2.8% annually) (see Chart 6). The growth rate of the market value of households' holdings of shares and other equity was -0.3% in the third quarter of 2009, compared with -14.8% previously (see Table 2).

Non-financial corporations

The annual growth rate of **net entrepreneurial income** of non-financial corporations⁶ stood at -7.8% in the third quarter of 2009, up from -15.9% in the previous quarter (see Table 3). This improvement largely reflects further cost savings by non-financial corporations as regards interest and rent payable. (see Chart 7 and Table 3). The decrease in **Gross fixed capital formation** of non-financial corporations became less pronounced. (Growth was -13.7% annually in the third quarter of 2009, after -17.1% in the previous quarter) (see Chart 8). The annual growth rate of total gross non-financial investment was -20.1%, compared with -26.6% in the previous quarter, reflecting also decreases in inventories. Non-financial corporations' net non-financial

⁵ 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.

⁶ 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).

investment decreased in the third quarter and was broadly matched by a fall in net borrowing.

In the third quarter of 2009, the annual growth rate of **financing** by non-financial corporations decreased to 2.1%, from 2.8% previously. The growth rate of their loan financing amounted to 1.6%, compared with 4.1% previously. The annual growth rate of their issuance of debt securities increased to 11.9%, from 11.2%. The annual growth rate of their equity financing, via the issuance of quoted and unquoted shares and other equity, increased to 2.6% compared with 2.3%, from the previous quarter.

Financial investment growth of non-financial corporations moderated to 2.4% after 2.9% in the previous quarter, while the annual growth rate of their investment in debt securities decreased to -28.5% (compared to -22.1% previously) and the annual growth rate of investment in currency and deposits increased to 3.3%, from 2.3% previously. The growth rate of loans granted decreased to 6.1% in the third quarter of 2009, after 8.6% previously. The growth rate of their investment in shares and other equity decreased slightly to 4.9%, after 5.0% in the second quarter.

The decline of the outstanding amounts of assets and liabilities in the **financial balance sheet** of non-financial corporations slowed in the third quarter of 2009, due to a moderate increase in the market value of shares and other equity (held as well as issued). The outstanding amounts of both financial assets and financial liabilities increased in the third quarter (by 1.2% and 1.7% respectively), whereas for the previous quarter the annual growth rates are negative (-4.6% and -5.3% 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, increased slightly to 3.6% in the third quarter of 2009 compared to 3.4% in the second quarter (see Table 6). The annual growth rate of the issuance of shares and other equity increased by 1.0% after an increase of 0.5% previously. The annual growth rate of their **financial investment** increased to 3.6% from 3.1% in the previous quarter. The growth rate of their investment in debt securities increased to 2.8%, from 2.5% previously, while that of their investment in shares and other equity increased to 5.2%, from 3.6% previously. An increase in outstanding amounts of assets and liabilities in the **financial balance sheet** of insurance corporations and pension funds occurred as the market value of shares and other equity held and issued increased by 2.1%. This followed a decrease in the preceding period (-9.2%).

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, 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.⁷ The European sector accounts follow the methodology of the European System of Accounts 1995 (ESA 95).⁸ 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.
- This press release incorporates revisions for the second quarter of 2009 and for previous quarters. The revisions to the outstanding amounts are mostly due to a change in the treatment of financial transactions and stocks between monetary financial institutions. In the past, these financial transactions and

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

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

stocks were netted out, whereas from this press release onwards they are presented on a gross basis.

- 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 euro area aggregates presented in this press release include data for Slovakia also for the reference periods prior to their adoption of the euro.
- The publication of euro area economic and financial developments in the fourth quarter of 2009 is scheduled to take place on **30 April 2010** at 10.00 am (CET).

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Annex:

Euro area

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

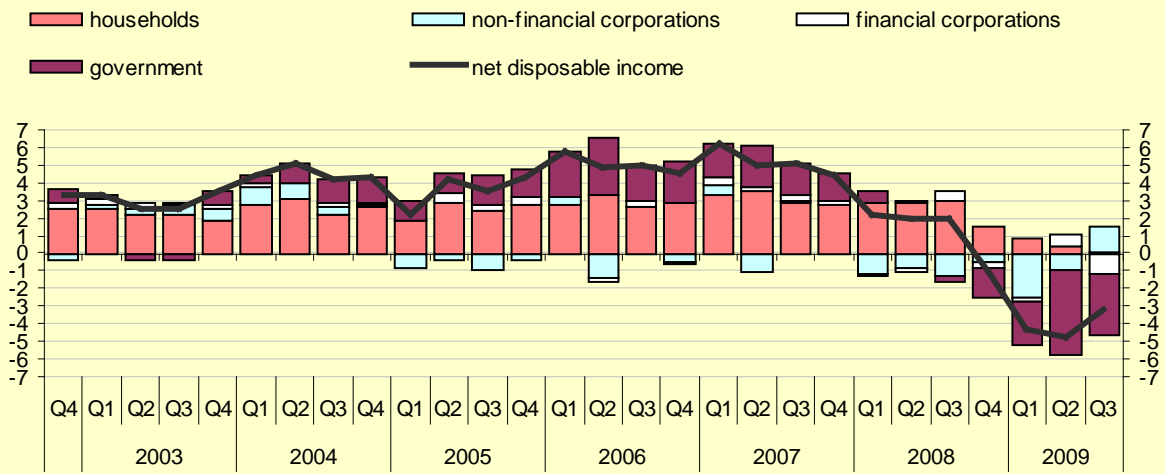


Chart 2 Growth of euro area gross fixed capital formation and contributions by sector (annual percentage changes and percentage point contributions)

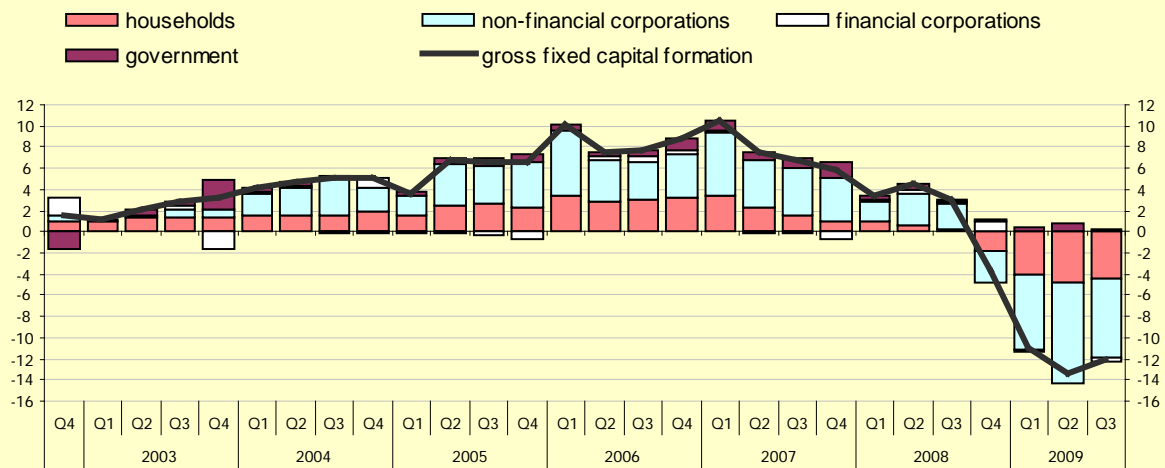
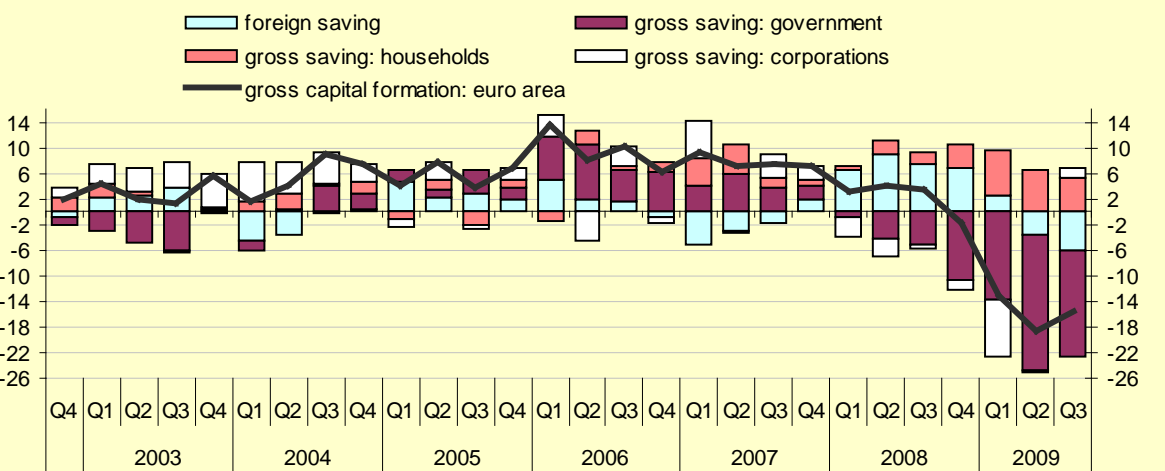


Chart 3 Growth of euro area gross capital formation and its financing by sectoral (net) saving (annual percentage changes and percentage point contributions)



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)

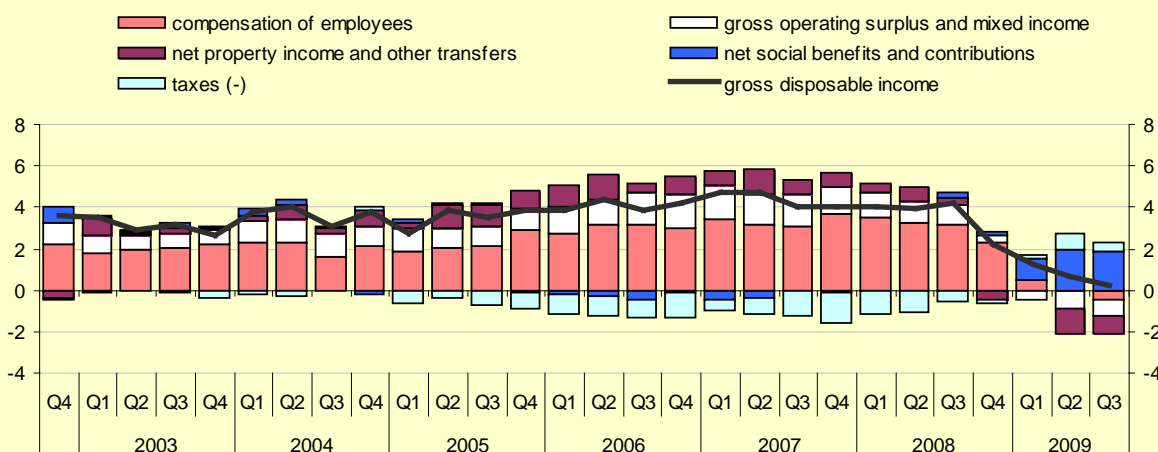


Chart 5 Growth of households' non-financial investments and contributions by source of internal and external financing (annual percentage changes and percentage point contributions)

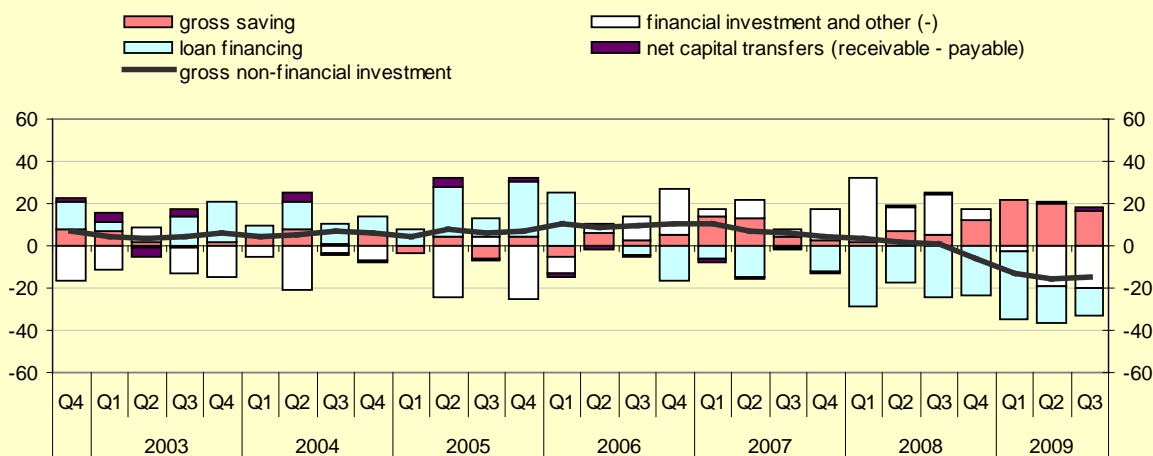
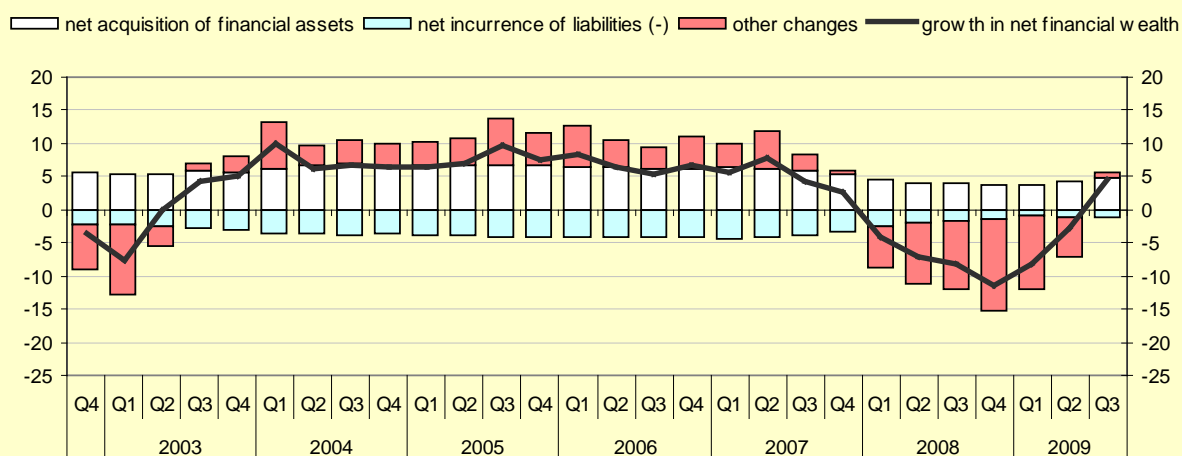


Chart 6 Growth of households' net financial wealth and contributions by type of wealth change (annual percentage changes and percentage point contributions)



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)

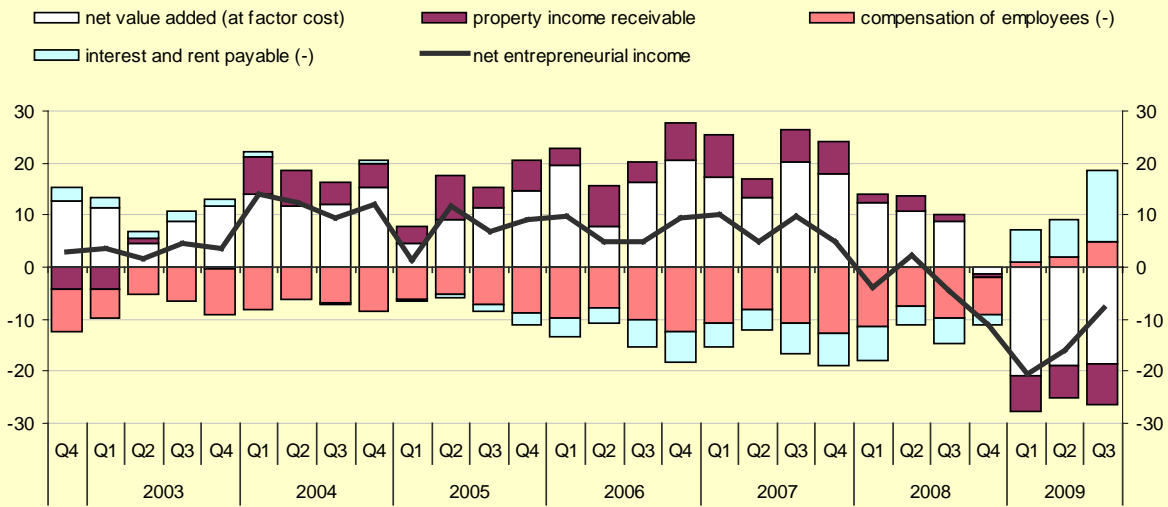
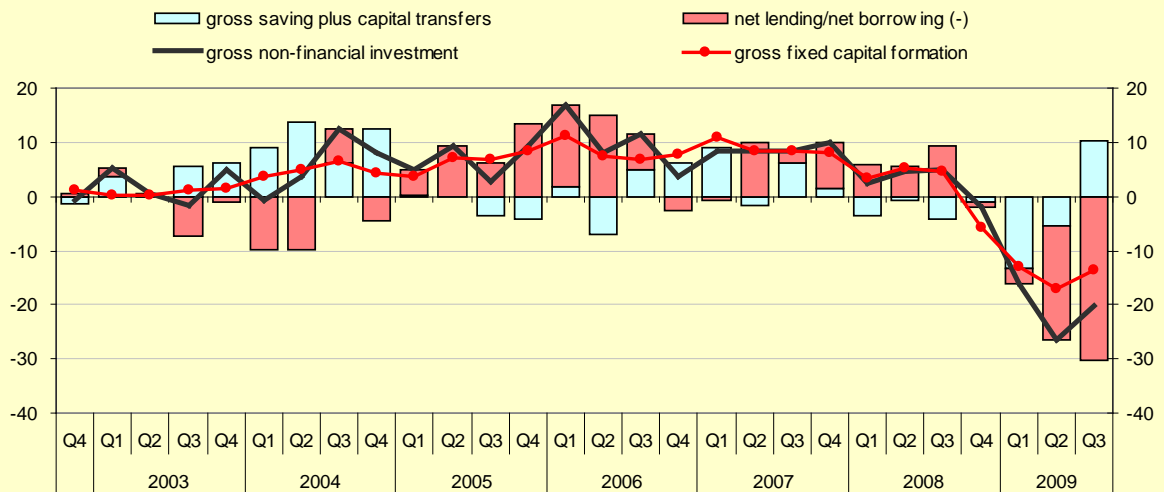


Chart 8 Growth of non-financial investment of non-financial corporations and contributions by source of internal and external financing
(annual percentage changes and percentage point contributions)



Sources: ECB and Eurostat