



Financial assets of German households

More diversified than their reputation

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In focus: Financial assets of German households

German households are said to be very risk averse. Indeed, they hold a higher share of their savings in the form of bank deposits than the French or the British. Yet if all low-risk/low-return investments such as insurance and pension schemes are taken into account, German households nowadays have a similar portfolio composition as their French or British peers.

With around 12% of the total, the share of capital market instruments for German households is also in line with other European countries. But two observations stand out: First, one-third of share-holders are over 60 years of age. Second, the ratio of share-holders is far lower in eastern Germany than in the West.

Driven by the low rate environment, Germans' direct stock market investments have seen significant growth in recent years, with EUR 51 bn in net inflows since 2013. Also, the number of indirect share-holders via funds rose by 18%. Yet with the looming normalisation of benchmark rates, the recent growth in share-holdings will probably slow down or even reverse slightly.

Bank lending and deposits of households in Q2 2018

In Q2, household lending in Germany continued to grow dynamically at 3.8% yoy, driven exclusively by mortgage lending, which saw yet another surge of EUR 12.6 bn qoq (4.3% yoy). However, mortgage growth has not increased much in two years, with the rise in household income lagging behind the surge in house prices. Consumer loans declined for the first time in five years.

Mortgage rates are slowly trending upwards, albeit from a very low basis (1.95%), while consumer loans have grown more expensive (5.87%). Both mortgage and consumer loan rates remain below the EMU average.

Deposits saw an exceptionally large inflow of EUR 32.4 bn in Q2. Households continued to shorten the maturity of their bank deposits. The average overnight deposit rate remained at a rock-bottom 0.02%. The share of retail sight deposits subject to negative interest rates had increased to 4% by the end of 2017.

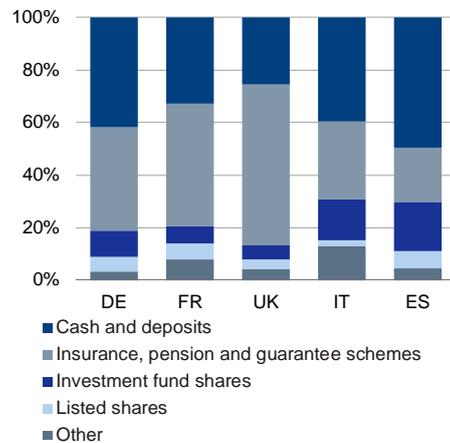


Financial assets of German households

Composition of households' financial assets

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% of total in Q2-2018



Excludes the category "unlisted shares and other equity" due to significant cross-country differences in measurement and valuation.

Sources: ECB, Deutsche Bank Research

Financial assets of German households

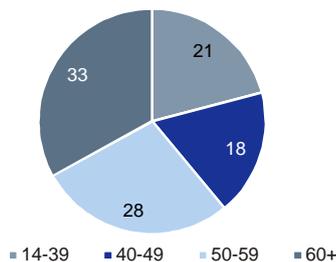
There is a widespread perception that German households are risk averse and that their financial investments are not well diversified. Moreover, household indebtedness and home ownership rates in Germany are below the OECD average. Bank deposits, a core component of savings, have been growing persistently despite almost zero nominal returns. Considering the potential negative implications of this behaviour for (future) household income and for an efficient allocation of capital in the wider economy, the financial portfolios of German households deserve a closer look.

Among the larger EU countries, households' financial assets are highest in the UK (outstanding volume: 3 times GDP or EUR 108,000 per capita) and among the lowest in Germany (1.7 times GDP or EUR 69,000 per capita). This excludes unlisted shares and other equity, which suffer from significant valuation differences between countries. Cash and deposits are the biggest chunk of German households' financial assets: they made up 42% of the total in Q2 2018, a more or less stable figure since 2008. In France and Britain, this figure stood at 33% and 26%, respectively. That said, another important component of households' financial assets are claims on insurance, pension and guarantee schemes.¹ These are illiquid assets with typically slightly larger returns than cash and deposits.² These instruments make up a huge 61% of British households' financial assets. In Germany, by contrast, this figure is lower at 39%, partly a reflection of the differences in the public pension system between the UK and Germany. Taken together these relatively low-yielding and low-risk instruments account for slightly more than 80% of the total financial assets of German households. This is a lower figure than for British households and almost the same as for French ones. As regards risk aversion, households' financial portfolio composition does not suggest that Germany is much different from other large EU countries.

Share-holding by age in Germany

2

% of total in 2017



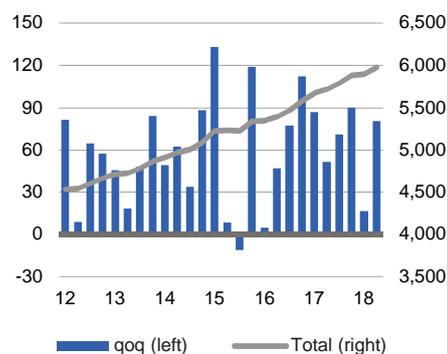
Sources: Deutsches Aktieninstitut, Deutsche Bank Research

The same picture emerges when looking at the holdings of riskier assets. German households invest 6% of their financial assets directly in listed shares, a figure which is very much in line with French households and higher than for British ones. Moreover, German households invest 10% of their financial wealth in investment funds, compared with 5% in the UK. Of this, around one-third are invested in equity funds, with another third in bond funds and mixed funds. This implies that German households invest some 6% to 7% of their financial wealth indirectly in capital markets. Accounting for around 12% to 13% of the total, their risky asset investments are not really small either, at least from a European point of view.³

Financial assets of households

3

EUR bn



Sources: ECB, Deutsche Bank Research

Who owns shares in Germany? In 2017, around 10 m Germans held shares directly or indirectly, with 3 m holding shares only directly, 5 m holding equity funds and 2 m holding both. Turning to socio-economic factors, share-holding correlates positively with income, which is in line with academic literature assertions. Around one-third of share-holders have a monthly net household income of above EUR 4,000, and only 5% have an income below EUR 2,000.

Slightly less than half of the share-owners in Germany are 40 to 59 years old, and one-fifth are younger than 40 years of age. The former group makes up one-third of the German population, the latter one around 40%. Life-cycle hypothesis suggests a hump-shape relation between age and share-holding, i.e.

¹ German and British insurers' portfolio composition is largely similar. In Germany in 2017, insurers had invested 62% in bonds and 20% in equities and in the UK, 57% in bonds and 15% in equities.

² Bundesbank (2018). "Developments in the real portfolio returns of households in Germany". Monthly report August 2018. vol 70 (8), 32-34.

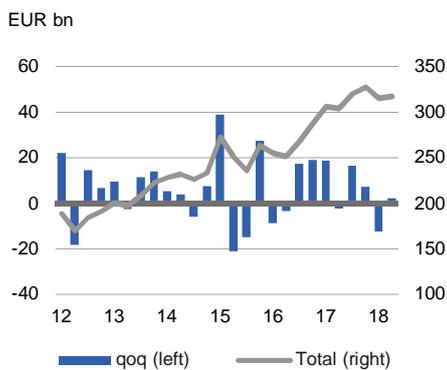
³ Thanks to fundamental differences in pension schemes, share ownership figures in the US and Europe are not directly comparable: they are much higher in the US, with its defined contribution to retirement planning, than in Europe, with its prevalent pay-as-you-go pension schemes.



Financial assets of German households

Households' direct share-holdings*

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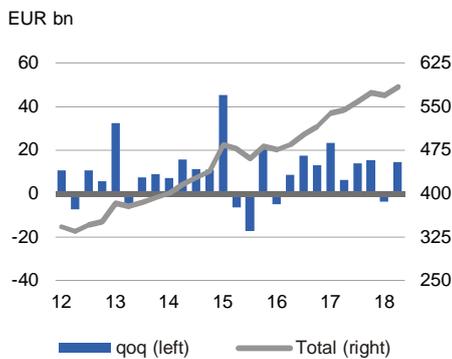


*Listed shares only

Sources: ECB, Deutsche Bank Research

Households' holdings of investment fund shares*

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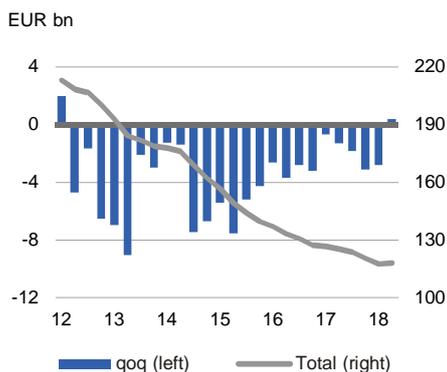


*Excluding Money Market Funds

Sources: ECB, Deutsche Bank Research

Households' bond* holdings

6



*All maturities

Sources: ECB, Deutsche Bank Research

low figures for young individuals and high figures for middle-aged people, falling again during retirement. These expectations seem to hold by and large. However, share ownership remains pronounced among elderly households: 33% of share-holders are 60 years or older (although wealth distribution effects within the elderly generation may complicate the analysis). This might be explained by the dominant role of the public pension system for the provision of retirement income which reduces the need for dissaving for elderly households. There are significant regional differences within Germany though. The number of share-holders (as a per cent of the adult population) in eastern German states is only 11%, compared to 17% in western German states. These differences exist even for households of the same age, wealth and education level.⁴ This gap might indicate systemic differences in risk aversion⁵, i.e. households' saving motives, social interactions, trust characteristics or financial literacy may vary between cohorts or regions. These differences are usually independent of socio-economic characteristics such as income or employment status.⁶ Evidence suggests that it usually takes a very long time for such structural differences in a population to converge without adequate external policies.

Greater involvement in stock markets might lead to higher household incomes in future. With an average dividend yield of around 3%, shares of DAX firms currently offer significantly higher returns than deposits at near-zero rates. German households seem to be reacting to this, though. While the number of direct share-owners has remained by and large constant, volume of direct stock investments has grown persistently since the ECB introduced zero rates. About 60% of this is due to higher valuations in stock markets and the rest is due to existing share-holders investing new funds. The number of indirect share-holders via funds has increased by 18% over the same interval. At the same time, German households seem to rebalance their portfolios by reducing their exposure to the bond market. Looking forward, households' equity investments may rise further as long as the return gap remains high. However, a similar increase in share-holdings had been observed around 2000 during the stock market boom which was reversed later on as naive hopes of massive capital gains did not materialise. Similarly, with the looming normalisation of benchmark rates in Europe, the recent boost in share-holdings will probably also slow down or even reverse slightly.

All in all, German households hold a higher share of their savings in the form of bank deposits than their peers. But their portfolios are more diversified than perception suggests. They invest meaningfully and increasingly in stock markets, both directly and indirectly. The recent upward trend though has probably opportunistic aspects and may be driven by the low interest rate environment.

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⁴ See Börsch-Supan and Eymann (2000). "Household Portfolios in Germany". Papers 00-15, Sonderforschungsbereich 504.

⁵ See Ameriks and Zeldes (2004). "How Do Household Portfolio Shares Vary with Age?". Working paper, for a detailed discussion of cohort effects.

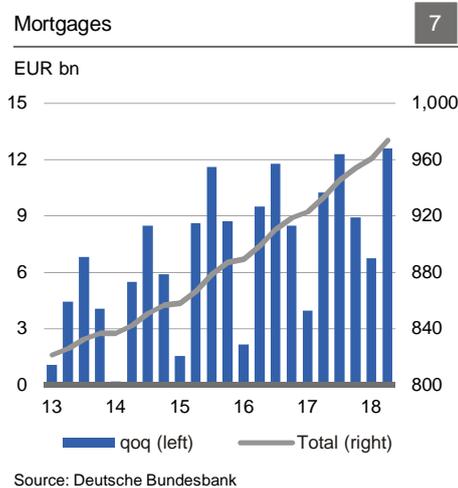
⁶ See Bucher-Koenen and Lamla-Dietrich (2018). "The Long Shadow of Socialism: Puzzling Evidence on East-West German Differences in Financial Literacy". Economic Notes, 47, 2-3, 413-438.



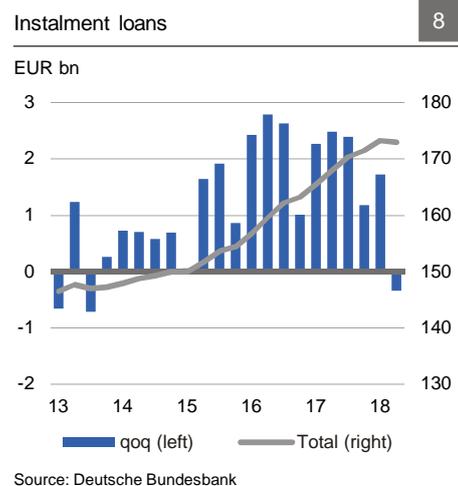
Financial assets of German households

Bank lending and deposits of households

Loan volumes

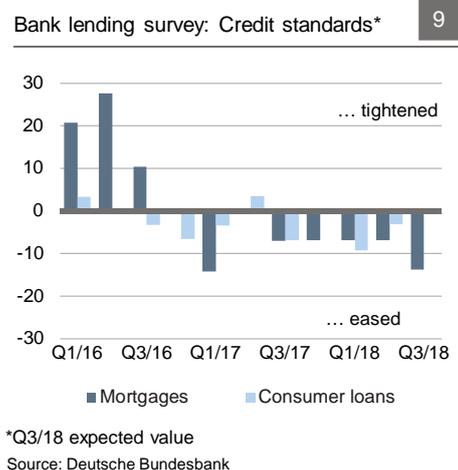


German households took out a net EUR 11.8 bn in new loans in Q2 – another substantial increase, but slightly less than in Q2 2017. The annual growth rate remained almost unchanged at 3.8%. Remarkably, though, it has accelerated only moderately over the past two years, whereas corporate lending has surged and is now much more dynamic (+5.1% yoy) than on the retail side. Loan expansion among households was driven exclusively by mortgages, which surged by EUR 12.6 bn qoq. This pushed yoy growth to 4.3%, the highest since 2000 but not significantly higher than in 2016 already, despite the partly overheating real estate market. Demand for mortgages accelerated significantly qoq, as reported by a net 21% of banks in the Bank Lending Survey. Purchases look attractive, as house prices and rents are expected to climb further. In the years ahead, residential construction is unlikely to keep up with the strong demand for houses and flats. Yet mortgage rates have not provided additional momentum for housing loans recently. They have been slowly trending upwards over the past two years, albeit still at a very low level. Even though households are benefiting from the strong economic development in Germany, the ongoing rises in house prices and interest rates make house purchases less affordable and are thus leaving a mark on mortgage lending. Households may also be using own savings to a significant extent to buy property.



Savings banks and cooperative banks, with their local presence, dominate the mortgage market by volume outstanding (31% and 25% share, respectively). Over the past three years, however, large banks have seen higher growth rates and have thus increased their market share to about 17%. Building societies are also important players, with a 13% share. Foreign banks hold about 9% of retail mortgages.

Household borrowing for consumption surprisingly turned negative in Q2 for the first time in five years. Consumer loans outstanding shrank by EUR 0.4 bn, and yoy growth fell to only 2.9%. However, foreign banks expanded their consumer loan book by EUR 1.2 bn. They are particularly active and successful in this segment and account for one-third of consumer loans outstanding, topping all other banking groups. Despite the actual market contraction, 38% of banks reported increased demand for consumer loans. Banks remain optimistic for loan demand in Q3, although they expect it to grow less dynamically. Households again reduced other loans and debit balances, but these loans only account for 5% of total retail credit.



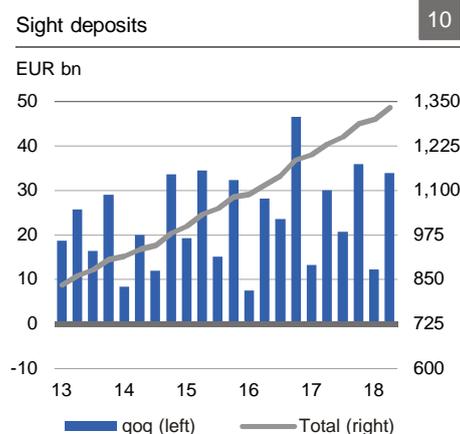
In the euro area, Germany accounts for 29% of total retail loan volumes. Based on ECB statistics, which are somewhat different from the Bundesbank's national data, German households increased their total bank loans at a higher yoy rate in Q2 than their peers in the euro area (without Germany). A closer look reveals, though, that this was only due to stronger mortgage growth (Germany 4.7%, euro area 2.4%), while the expansion in consumer lending in Germany (1.8%) was significantly below the euro area average (6.8%).

Credit standards for approving loan applications

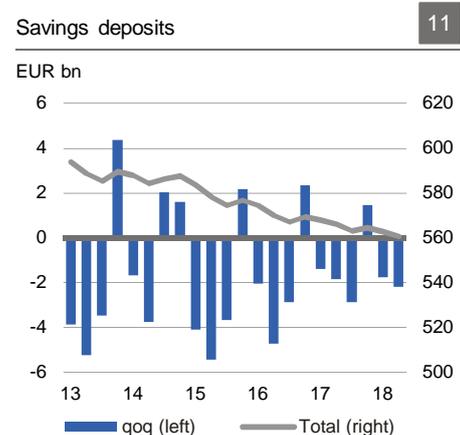
The credit standards used in the approval process of loan applications were eased slightly in Q2; 7% of banks reported eased standards for mortgages, with 3% reporting eased standards for consumer loans, driven by slightly stronger competition from other banks and non-banks. For Q3, 14% of banks foresee further easing of mortgage standards. No modifications are expected for consumer loan standards. Despite slightly eased standards and healthy household finances, 10% of banks reported a higher number of rejected mortgage applications in Q2 than in the previous quarter.



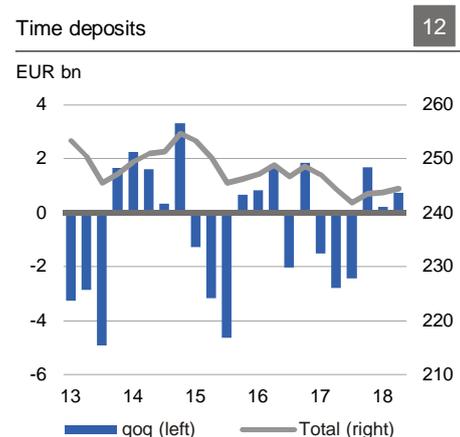
Financial assets of German households



Source: Deutsche Bundesbank



Source: Deutsche Bundesbank



Source: Deutsche Bundesbank

Terms and conditions governing loan contracts

Increased competition was the dominant driver behind shrinking margins in Q2. Competitive pressure intensified across the board, but more so for average than for risky loans; 21% (10%) of banks indicated narrower margins for average (risky) mortgages, and 13% (6%) of banks reported compressed margins for average (risky) consumer loans. Apart from margins, other terms and conditions were hardly altered.

Deposit volumes

Households in Germany boosted their bank deposits by EUR 32.4 bn in Q2, an exceptionally large amount for a spring quarter. Yoy growth increased to 4.8%. Almost the entire increase came from sight deposits, while savings deposits were reduced by EUR 2.2 bn and time deposits rose slightly by EUR 0.7 bn. Households have been shortening the maturity profile of their deposits for years. In Q2, all of the largest banking groups expanded their deposit base at similar rates. However, deposit collection by building societies and foreign banks stayed well below the market average.

In Q2, disposable income and private consumption both continued to grow on the back of strong economic development, albeit at a slower pace than in Q1. Private savings amounted to EUR 50.6 bn, pushing up the savings ratio to 10.2% of disposable income. Even though these numbers are not directly comparable, they suggest that households placed over half of their new “cash flow” in bank accounts.

Interest rates

In Q2, the average overnight deposit rate remained at a mere 0.02%. Banks have become somewhat less reluctant to pass on negative money market rates (Eonia: -0.36%) to retail clients. 12% of banks charged on average negative interest on their total household sight deposits at the end of 2017, up from 4% a year earlier. In terms of volume, the share of retail sight deposits bearing negative interest has grown to 4%. Savings banks had the largest sight deposit volume subject to negative rates. Up to now, though, retail deposits have been mostly spared negative interest. By contrast, 40% of wholesale sight deposits carry negative yields (corporate sight deposit rates on average have even been negative for 1.5 years, currently “returning” -3 bp).

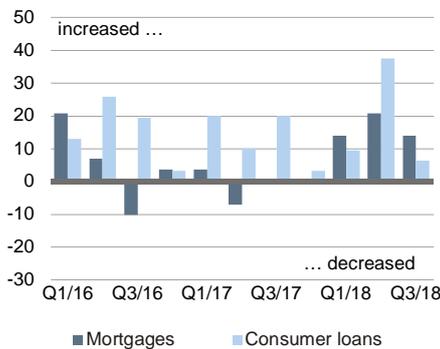
Against the euro area trend, rates for new consumer loans surged by 43 bp to 5.87% in Germany in Q2. However, this is still below the EMU average of 6.1%. There was little movement in the rates for new mortgages in Germany (1.95% at the end of June, +1 bp qoq), which are also somewhat lower than the EMU average (2.12%).

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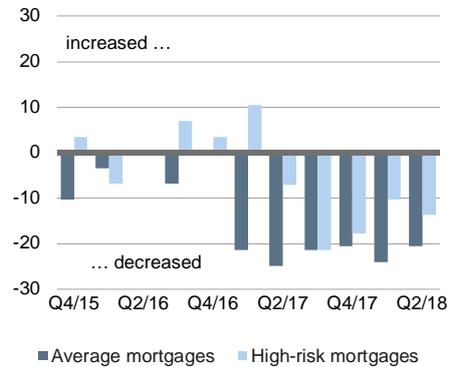
Financial assets of German households

Bank lending survey: Credit demand* 13



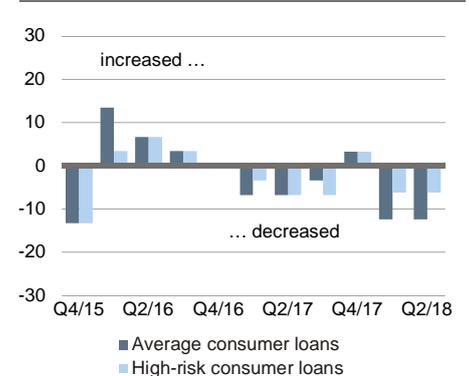
*Q3/18 expected value
Source: Deutsche Bundesbank

Bank lending survey: Mortgage margins 14



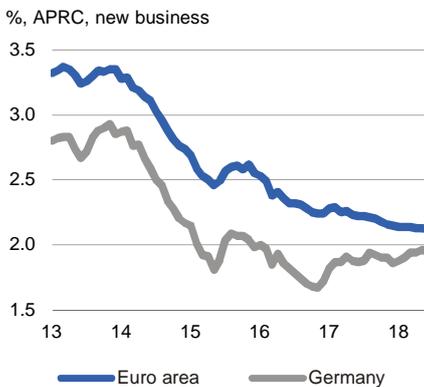
Source: Deutsche Bundesbank

Bank lending survey: Consumer credit margins 15



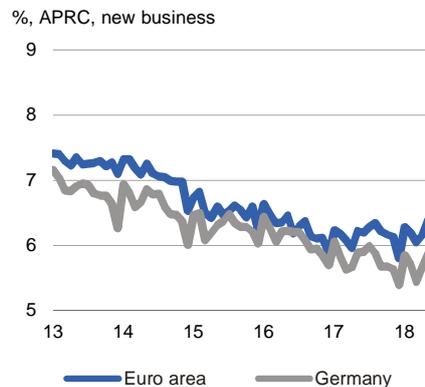
Source: Deutsche Bundesbank

Mortgage rates 16



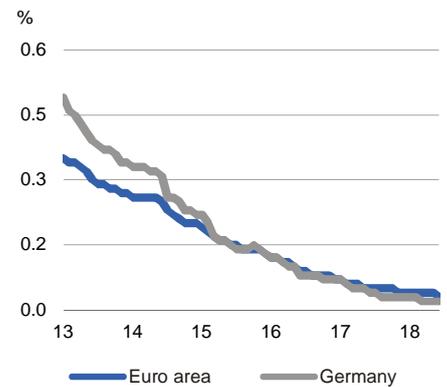
Source: ECB

Consumer credit rates 17



Source: ECB

Overnight deposit rates 18



Source: ECB

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