

Box 9

RECENT DEVELOPMENTS IN THE HOUSEHOLD AND CORPORATE SECTORS: INFORMATION FROM NEW QUARTERLY EURO AREA SECTOR ACCOUNTS

On 1 June 2007, the ECB and the European Commission (Eurostat) for the first time published quarterly euro area accounts for institutional sectors, including the rest of the world accounts.¹ The new accounts are a milestone in the development of the euro area economic and financial statistics. From now on, almost complete “national accounts” for the euro area will become available every quarter. This includes both general economic (non-financial) and financial accounts and financial balance sheets. These accounts supersede the Table of Financing and Investment previously published by the ECB. This box introduces some of the data and then describes recent non-financial activities of the household and corporate sectors. A discussion of the financial developments on the basis of these data is included in Section 2 of the Monthly Bulletin.

The quarterly euro area sector accounts

Macroeconomic and financial developments are driven by the actions of individual agents in an economy. Grouping agents with similar behaviour into institutional sectors (households, financial and non-financial corporations and government) greatly facilitates the understanding of those developments. The new data provide, on a quarterly basis, a much richer breakdown of non-financial activities – for example, income generation, income distribution, consumption, saving, investment – for each sector.² They also increase the consistency between economic and financial statistics in the euro area, allowing a more integrated analysis of financial and non-financial developments.

The compilation of these comprehensive and consistent quarterly euro area sector accounts is the outcome of a continued collaboration between the ECB and the Commission (Eurostat), in cooperation with national central banks and national statistical institutes. The first part of that process was the production of annual sector accounts, released in May 2006, providing data from 1999 to 2004. The new quarterly accounts include data from the first quarter of 1999 up to the fourth quarter of 2006. For the moment, euro area sector accounts will become available roughly 120 days after the end of the quarter. Because the euro area sector accounts data are not seasonally adjusted, this box presents year-on-year comparisons. All data are in current prices. Since the quarterly accounts for the households and non-financial corporations sector contain more new information than those of the government and financial corporations sectors and those of the rest of the world, the description below focuses on the former two sectors.

Recent developments in the household sector

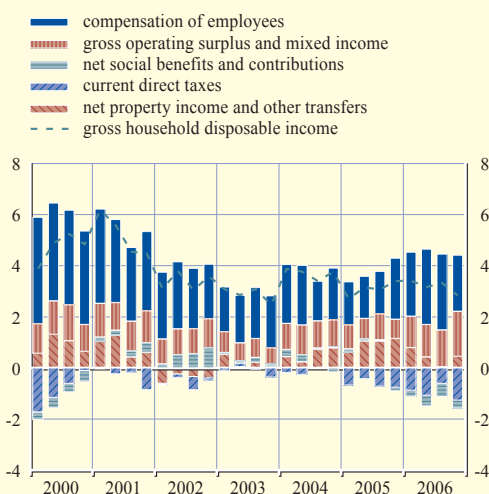
During 2006 nominal household disposable income continued to show moderate growth, increasing by 3.2% overall, slightly above the rate of change in 2005 and broadly in line with the average pace of growth since 2002 (see Chart A). Compensation of employees (i.e. wages

1 The complete euro area accounts are available at <http://www.ecb.int> (ECB). In addition, non-financial accounts for the European Union are available at <http://ec.europa.eu/eurostat> (Eurostat).

2 For a comprehensive summary of the features and concepts of the euro area sector accounts, see the document entitled “Quarterly euro area and European Union accounts for institutional sectors (European Sector Accounts)”, which can be found at <http://www.ecb.int/stats/acc/html/index.en.html> and the article “Integrated financial and non-financial accounts for the institutional sectors in the euro area”, in the October 2006 issue of the Monthly Bulletin.

Chart A Contributions to changes in household gross disposable income

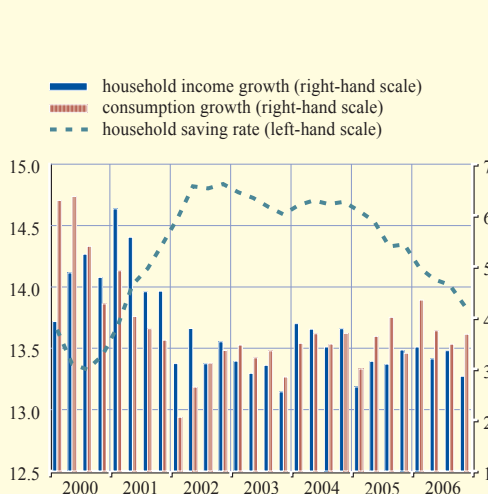
(annual percentage changes; percentage points)



Sources: Eurostat and ECB.

Chart B Household disposable income, consumption and saving rate

(annual percentage changes; percentages)



Sources: Eurostat and ECB.
Note: The household saving rate is expressed as a percentage of household gross disposable income (four-quarter moving average).

and salaries received by households plus the social contributions paid by employers), which accounts for about three-quarters of nominal household gross disposable income, rose steadily during 2005 and 2006, as employment and wage rates increased. ‘Gross operating surplus’ and ‘mixed income’ earned by the self-employed, a further quarter of household income, also grew quite strongly in the same period. However, this was partly offset by an increase in the household payments of direct taxes – mainly income taxes – and net social contributions (for example, payments for pensions, unemployment and health insurance).

Household nominal consumption growth strengthened in 2006, rising by 3.8% – the fastest rate of increase since 2001 – although it moderated somewhat during the year (see Chart B). Consumption increased faster than gross disposable income in all quarters and so the saving ratio declined. Since the end of 2004 this ratio has fallen by 0.8 percentage points to 13.8%.³ Households’ investment in non-financial assets (mainly the purchase of new housing and fixed investment by unincorporated enterprises) rose steadily in 2005 and 2006. Combined with the fall in saving in the same period, this meant that the net lending position of households declined. As a consequence, households reduced their investment in financial assets (e.g. equity) during this period. At the same time, their net financial wealth still increased substantially, mainly because of holding gains on their financial assets.

Recent developments in the non-financial corporate sector

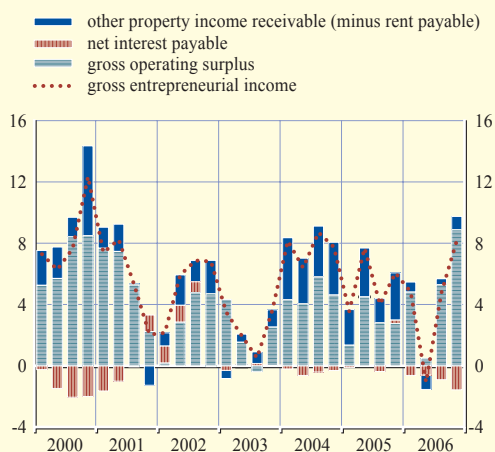
The growth of non-financial corporations’ gross entrepreneurial income moderated to 4.0% in 2006 as a whole, from 5.3% in the previous year and 7.7% in 2004 (see Chart C).⁴ The quarterly

³ The saving rate is shown as a percentage of gross disposable income and includes an adjustment for households’ net equity in pension fund and life insurance reserves.

⁴ Entrepreneurial income is akin to profits in business accounting in which earnings are recorded after net interest payments but before payments of dividends and taxes. It includes gross operating surplus generated in production and property income received from financial assets owned by corporations, both domestically and abroad.

Chart C Contributions to non-financial corporations' gross entrepreneurial income

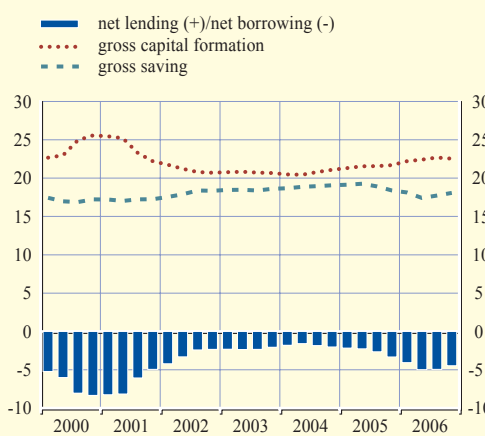
(annual percentage changes; percentage points)



Sources: Eurostat and ECB.

Chart D Non-financial corporations' income, gross capital formation and saving

(percentages)



Sources: Eurostat and ECB.
Note: The ratios are expressed as a percentage of gross value added (four-quarter moving average).

profile was more volatile, with income growth falling sharply in the second quarter of 2006 before recovering strongly in the third and fourth quarters. The changes in the growth rate were largely driven by movements in gross operating surplus. Other property income (mainly dividend receipts and profits from foreign direct investment) contributed positively to income growth in 2006, although significantly less than in 2004 and 2005.

The continued growth of entrepreneurial income helped support investment by non-financial corporations. Gross capital formation has picked up since mid-2004, increasing at its fastest rate since 2001 and rising to close to 23% of gross value added by the end of 2006 (see Chart D). With increases in non-financial investment exceeding growth of internally generated funds (or retained earnings) over this period, non-financial corporations maintained their position as net borrowers, i.e. financing investment through the accumulation of debt and the issuance of shares and other equity.

By providing an insight into the non-financial and financial developments of the main institutional sectors, their relationships with the rest of the world and their interrelationships, the new quarterly euro area sector accounts are a welcome enhancement to the data available for economic and financial analysis. Overall, they show that over the past year households have benefited from increases in wages and self-employment income but that this has been partly offset by rising income tax payments. Consequently, growth in nominal disposable income has been relatively modest and, although the saving ratio has fallen slightly, the pick-up in nominal consumption has remained moderate. During the same period, the profitability of non-financial corporations has been robust, helping support strong growth in investment.