

INTEGRATED EURO AREA ACCOUNTS FOR THE FOURTH QUARTER OF 2011¹

The integrated euro area accounts released on 30 April 2012, covering data up to the fourth quarter of 2011, offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. In the fourth quarter of 2011, the economic weakening interrupted the progressive sectoral rebalancing of financial deficits/surpluses observed during the phase of economic recovery: the gradual increase in net borrowing by non-financial corporations (NFCs) levelled off, as destocking moderated capital formation; the household saving ratio rebounded somewhat from levels near pre-crisis lows, depressing consumption; and the strong reduction in government deficits came to a standstill. At the same time, the euro area current and capital account deficit turned into a surplus (seasonally adjusted). In the quarter under review, households' net wealth declined year on year for the first time in two years, while NFCs resumed their reduction of leverage.

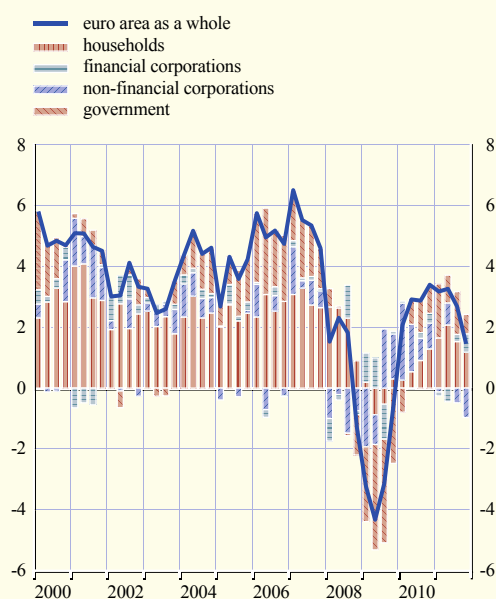
Euro area income and net lending/net borrowing

Annual growth in euro area nominal gross disposable income halved abruptly to 1.5% in the fourth quarter of 2011, reflecting the downturn in economic activity (see Chart A).

As euro area income nonetheless still expanded faster than total consumption (which includes low government consumption growth), euro area gross saving continued growing in the fourth quarter of 2011, albeit at a slower pace. Households increased their saving in the fourth quarter, while governments again reduced their dissaving, although at a slower pace than in previous quarters. Retained earnings of NFCs fell markedly in the fourth quarter (by -9.7% year on year), whereas those of financial corporations increased. Growth in fixed capital formation edged down again to 1.8% in the fourth quarter of 2011, mostly as a result of slower corporate investment

Chart A Gross disposable income in the euro area – contribution by sector

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

¹ Detailed data can be found on the ECB's website at <http://sdw.ecb.europa.eu/browse.do?node=2019181>

(by both NFCs and financial corporations) and government investment continued to contract. In addition, the slowdown in restocking that has been observed since mid-2011 accelerated in the fourth quarter, turning into a mild destocking, with inventories contributing -0.4 percentage point to the annual growth rate of nominal GDP in the fourth quarter of 2011 after 0.2 percentage point in the third quarter.² As a result, gross capital formation abruptly decelerated and posted a slight annual decline in the fourth quarter (-0.2% year on year).

With growth in total saving stronger than that in total investment, the net lending/net borrowing of the euro area improved again, and switched to a surplus (while remaining in deficit at 0.3% of GDP on a four-quarter sum basis), reflecting a shift from a deficit to a surplus in the current account in the fourth quarter of 2011, on a seasonally adjusted basis.

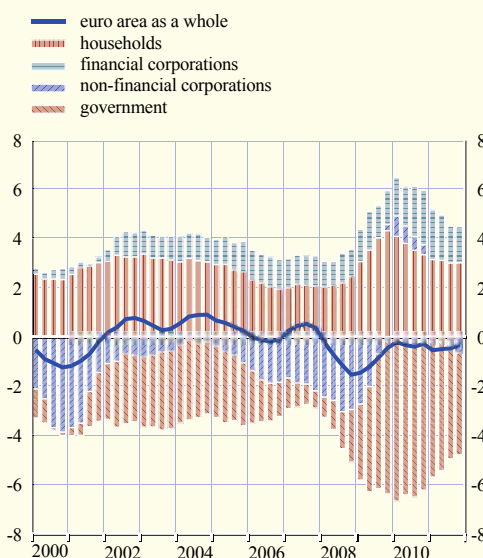
This development is largely due to improved net trade. From a sectoral viewpoint, it mostly reflects increased net lending of households and a limited reduction in government deficit. NFCs stabilised their net lending, as a decrease in capital formation compensated for a decline in savings (see Chart B). On the financing side, cross-border transactions stalled, with a decline in interbank deposits and a sell-off by non-residents of debt securities issued by residents in the fourth quarter, in a context of returning investors' home bias.

Behaviour of institutional sectors

Households' nominal income growth fell again (to 1.8% year on year) in the fourth quarter of 2011 owing to slower growth in the compensation of employees, in gross operating surplus and mixed income, as well as in net property income, despite a lesser fiscal drag (household income originating from income streams with government: net social transfers and tax payments). Given high commodity-driven inflation, household income declined significantly in real terms for the second successive quarter, to -0.6% year on year (Chart C). Private consumption dropped even more, as households increased their savings, in reaction to renewed uncertainty, fiscal retrenchment, adverse employment prospects in some countries, falling stock markets and weaker house prices. As a result, their saving ratio, on a seasonally adjusted basis, rebounded somewhat to 13.7% (Chart D). Given subdued capital investment, households increased their net lending, which they used to repay debt, as the growth rate of household financing continued to edge down. Financial asset accumulation slowed further, with portfolio shifts away from intermediated products (deposits, insurance technical reserves) and equity, in favour of debt securities notably issued by financial institutions in some countries under stress. Household net wealth fell year on year, for the first time in two years,

Chart B Net lending/net borrowing of the euro area

(percentages of GDP; four-quarter moving sums)

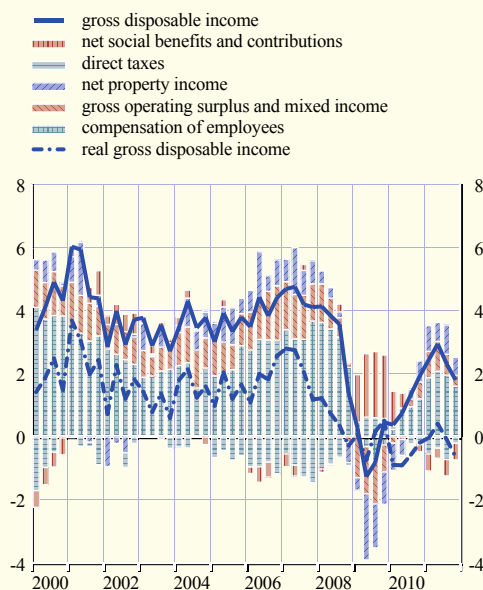


Sources: Eurostat and ECB.

² See the box entitled "Stockbuilding – theoretical considerations and recent developments" in this issue of the Monthly Bulletin.

Chart C Households' nominal gross disposable income

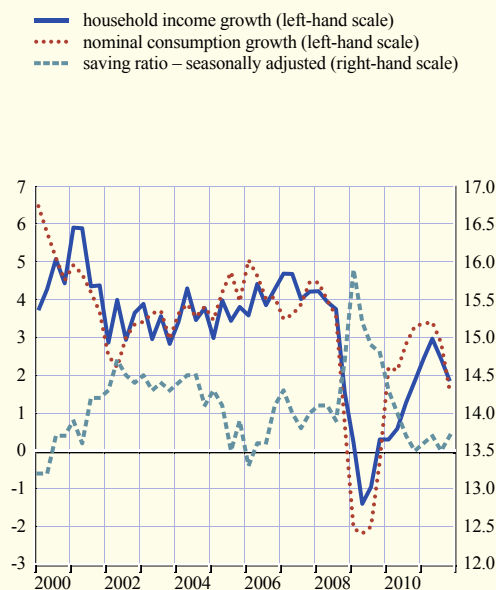
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart D Households' income, consumption and saving ratio

(annual percentage changes; percentage of gross disposable income, four-quarter moving sum)



Sources: Eurostat and ECB.

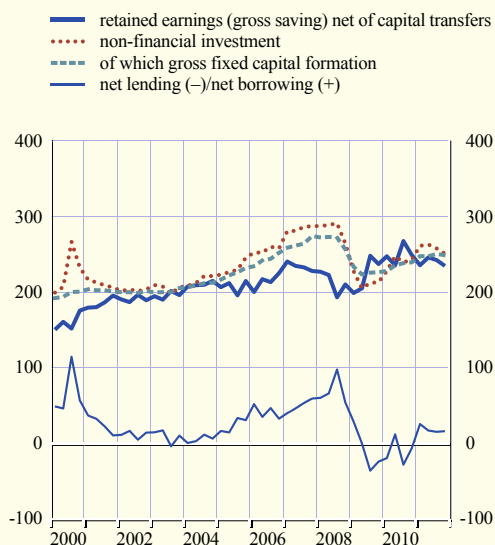
as holding losses on assets exceeded net saving, while the leverage ratio (i.e. debt-to-assets ratio) of households remained at record levels (14.5%).

The gross operating surplus of *NFCs* slowed again markedly in the fourth quarter of 2011, to a standstill on an annual basis, as value added decelerated more abruptly than wages. With *NFCs* also stepping up net dividends paid and with higher corporate taxes, their savings (i.e. retained earnings) fell markedly from high levels, by 9.7% year on year. However, *NFCs*' net borrowing remained broadly stable in recent quarters, as capital expenditure slowed markedly too, on the back of slower fixed capital formation growth and a significant switch from restocking to destocking (Chart E). Consolidated *NFC* financing remained resilient, with market funding again compensating for weakness in bank loans, particularly short-term loans, in a context of destocking. *NFCs* continued to add to their ample liquidity buffers (at €2.7 trillion). At the same time, intra-sector lending (trade credits and loans granted by other *NFCs*, together constituting 40% of *NFC* unconsolidated debt) accelerated, once again providing a buffer to re-emerging bank financing constraints (Chart F). The gradual reduction in *NFC* leverage observed since mid-2009 resumed in the fourth quarter, after a brief interruption.

In the fourth quarter of 2011, the fairly rapid reduction in *government* deficits, seasonally adjusted, observed since the first quarter of 2010, came to a standstill (although, on a four-quarter sum basis, it still fell to 4.1% of GDP in the fourth quarter, from 4.6% in the third quarter and a peak of 6.7% in the first quarter of 2010). This was mostly due to slowing government revenue (VAT, direct taxes on households and on financial corporations) reflecting the impact of automatic stabilisers in a weakening economy. Year-on-year growth in total expenditure remained subdued at close to 1% (in nominal terms, excluding capital transfers), reflecting the

Chart E Non-financial corporations' saving, capital investment and net lending/net borrowing

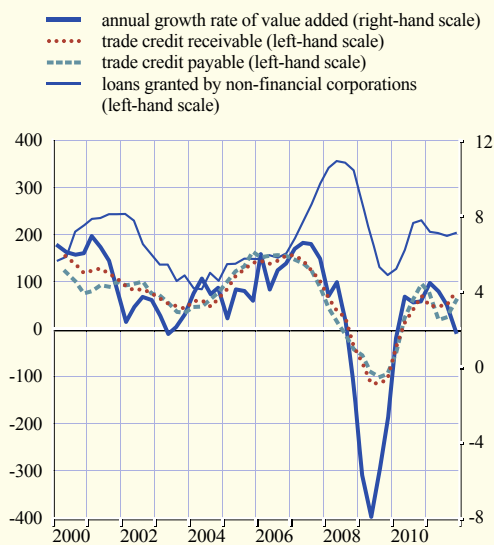
(EUR billions, seasonally adjusted)



Sources: Eurostat and ECB.
Note: Seasonal adjustment by the ECB.

Chart F Loans granted by non-financial corporations and their trade credit receivable and payable

(four-quarter moving sums in EUR billions; annual percentage changes)



Sources: Eurostat and ECB.
Note: Trade credit receivable and payable are estimated by the ECB, on the basis of partial information.

impact of sustained and sizeable consolidation measures (e.g. close to zero annual growth in the compensation of employees), despite significant increases in interest paid (more than 10% year on year). Governments continued robust debt issuance and banks and non-residents offloaded some of their holdings, in part related to the Securities Markets Programme of the Eurosystem, whereas the non-financial sectors and other financial institutions were net purchasers of government debt securities.

The disposable income of *financial corporations* increased as a result of strong net dividends earned and of continued growth in value added plus net interest earned. Despite sizeable net retained earnings (€35 to 40 billion per quarter), equity issuance, and a reversal of previous holding losses on equity, financial corporations' net assets at market value (a euro area accounts' measure of capital) decreased, owing to holding losses on debt securities held and on liabilities (debt securities issued and insurance technical reserves, both recorded at market value). Net assets also remained significantly above the very low market valuation of financial corporations' equity. Losses on debt securities issued by sovereigns under stress were partly compensated by gains on other debt securities held and on assets denominated in foreign currency. In a context of deleveraging pressures, additions to financial corporations' balance sheets, on a consolidated basis, remained subdued, while banks disposed of interbank deposits in the fourth quarter of 2011.

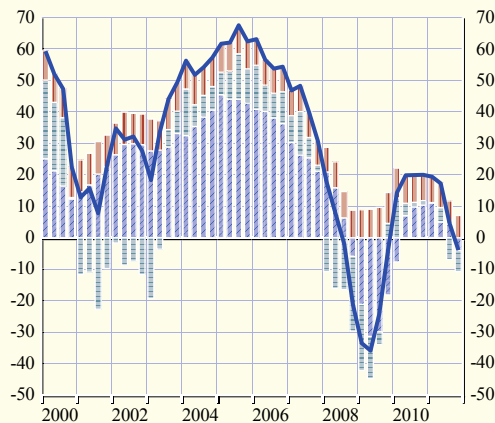
Balance sheet dynamics

In the fourth quarter of 2011, the net worth of households fell year on year, for the first time in two years, by the equivalent of 4.0% of income (after increasing by 4.7% of income in the

Chart G Change in the net worth of households

(four-quarter moving sums; percentages of gross disposable income)

- change in net worth
- change in net worth due to net saving¹⁾
- other flows in financial assets and liabilities²⁾
- other flows in non-financial assets³⁾



Sources: Eurostat and ECB.

Notes: Data on non-financial assets are estimates by the ECB.

1) This item comprises net saving, net capital transfers received and the discrepancy between the non-financial and the financial accounts.

2) Mainly holding gains and losses on shares and other equity.

3) Mainly holding gains and losses on real estate and land.

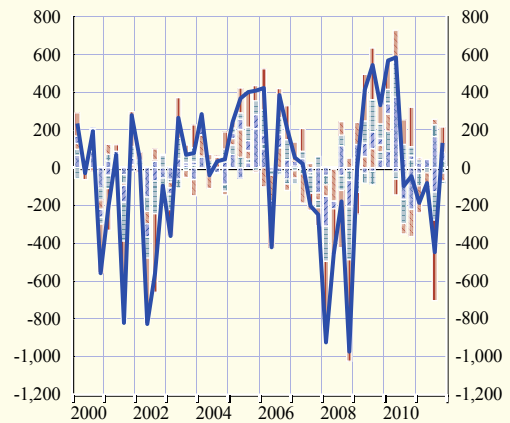
third quarter and by 20.1% in the fourth quarter of 2010). The positive influence of net saving (7.2% of income) was more than offset by holding losses borne by households (11.2% of income), once again on their financial assets portfolio, and, in the quarter under review, on their non-financial assets (mostly housing) (see Chart E).

Financial corporations recovered a significant part of the large holding losses made on their portfolios in previous quarters, largely on equity assets held (quoted shares, unquoted shares as well as mutual funds, notably invested in equity). Holding gains (and other effects, such as reclassification) on instruments primarily stemming from the appreciation of assets denominated in foreign currency (deposits, loans and debt securities held) were broadly offset by losses on debt securities (all recorded at market value in the euro area accounts) due to a strong increase in government bond yields.

Chart H Holding gains and losses on financial corporations' assets

(quarterly flows; EUR billions)

- total
- quoted shares
- unquoted shares
- mutual fund shares
- debt securities
- loans
- other



Sources: Eurostat and ECB.

Note: Total refers to "other economic flows", which mainly relate to (realised or unrealised) holding gains and losses (including loan write-offs).