

Box 5

INTEGRATED EURO AREA ACCOUNTS FOR THE FIRST QUARTER OF 2013¹

The integrated euro area accounts, released on 30 July 2013 and covering data up to the first quarter of 2013, offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. The euro area external balance improved further (on a four-quarter sum basis) as a consequence of an increase in the trade balance which reflected growing external demand and declining internal demand – largely driven by a retrenchment in expenditure on the part of non-financial corporations (NFCs) and households. Benefiting from lower inflation and a slight moderation of the fiscal drag, the pace of the decline in households' real income slowed down significantly. The household saving ratio rebounded from record lows, while household investment fell further. NFCs increased their unusual net lending position (instead of traditional net borrowing) through further increases in retained earnings and deeper cuts in fixed investment, which reached historic lows as a share of value added. The reduction in government deficits stalled, owing to lower tax revenue in a recessionary environment and a slight pick-up in expenditure. From a balance sheet perspective, household net wealth declined, while NFC deleveraging continued. Financial corporations' capital ratios stabilised at a high level. The net external position of the euro area (as measured by the international investment position – i.i.p.) further improved.

Euro area income and net lending/net borrowing

Consistent with a slowdown in nominal GDP (with real GDP contracting), the pace of euro area nominal gross disposable income growth declined in the first quarter of 2013 to stand at 0.4%, year on year, reversing a temporary rebound in the fourth quarter of 2012 and mainly affecting government income growth (see Chart A).

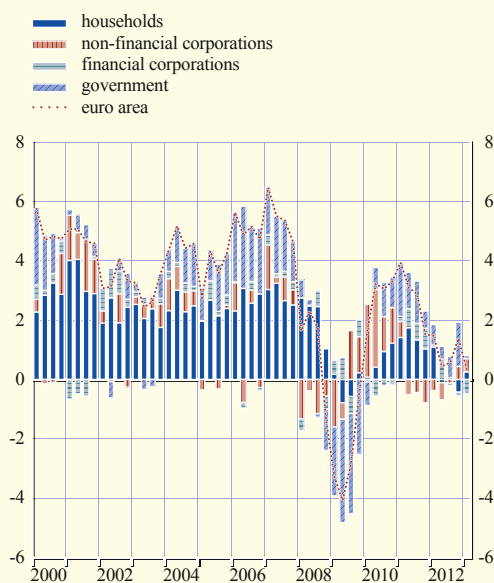
With euro area consumption growing only slowly in the first quarter of 2013 (as an increase in government consumption broadly offset a fall in private consumption), and by less than income, overall euro area gross saving increased slightly, year on year. The household saving ratio rebounded from historical lows and NFCs increased their retained earnings. By contrast, the government sector's reduction of dissaving stalled. The pace of the decline in euro area fixed capital formation accelerated markedly to stand at -6.7%, year on year, in the first quarter of 2013, reflecting a sharper contraction in both NFC and household investment (which stood at -7.8% and -5.5% respectively). As the slight destocking seen in the fourth quarter of 2012 continued at the same pace in the first quarter of 2013, the contribution of changes in inventories to growth was neutral and, accordingly, capital formation fell at broadly the same pace as fixed capital formation.

With capital formation decreasing rapidly and savings increasing slightly, euro area net lending again improved markedly in the first quarter of 2013, to stand at 1.8% of GDP on a four-quarter sum basis, which reflected an increase in the current account surplus (resulting from strong net trade and net property income earned). From a sectoral viewpoint, this improvement

¹ Detailed data can be found on the ECB's website (available at <http://sdw.ecb.europa.eu>).

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

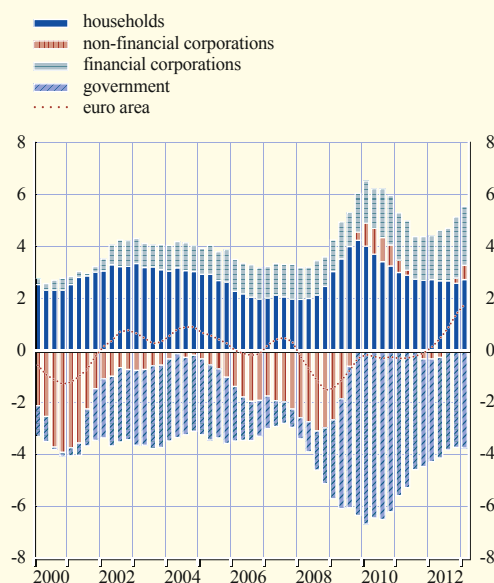
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart B Net lending/net borrowing of the euro area

(percentages of GDP; four-quarter moving sums)



Sources: Eurostat and ECB.

stemmed from a further increase in the net lending position of NFCs and households (exerting contractionary pressures), while there was a slight reduction in the net lending position of financial corporations, albeit from a high level. By contrast, the improvement in government deficits came to a halt (see Chart B). On the financing side, cross-border flows remained subdued in the first quarter of 2013, as non-residents substituted deposits for debt securities issued by residents other than banks. The i.i.p., which measures the assets net of liabilities of euro area residents vis-à-vis non-residents, improved further in the first quarter, to stand at -17.7% of GDP.

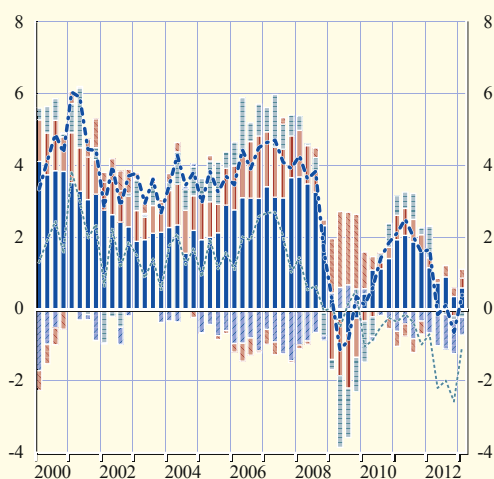
Behaviour of institutional sectors

In the first quarter of 2013 *household* nominal disposable income growth rebounded (to stand at 0.4%, year on year, after -0.6% in the fourth quarter of 2012) as a result of a slight attenuation in fiscal drag (i.e. lower household net transfers vis-à-vis government), which subtracted 0.3 percentage point from income growth, compared with 0.7 percentage point in the fourth quarter of 2012. An increase in compensation of employees (notably in the government sector) and a pick-up in the gross operating surplus contributed to the rebound in household income (see Chart C). In combination with falling inflation, the fall in real income slowed sharply to -1%, year on year, in the first quarter of 2013, after -2.5% in the fourth quarter of 2012. As nominal consumption fell, households rebuilt their savings and their saving ratio rebounded to 13.2% in seasonally adjusted terms, from the record low reached in the second half of 2012 (see Chart D). Housing investment contracted markedly, year on year, in the first quarter of 2013. As a result, household net lending increased. Growth in both external financing and financial investment of households continued to be very subdued, with further portfolio shifts into bank deposits, insurance technical reserves and mutual funds, alongside significant disposals

Chart C Households' nominal gross disposable income

(annual percentage changes; percentage point contributions)

- compensation of employees
- gross operating surplus and mixed income
- net property income
- direct taxes
- net social benefits and contributions
- real gross disposable income
- gross disposable income

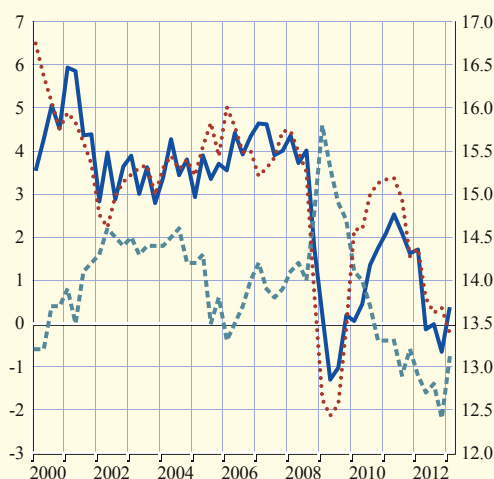


Sources: Eurostat and ECB.

Chart D Households' income, consumption and saving ratio

(annual percentage changes; percentage of gross disposable income, seasonally adjusted)

- income growth (left-hand scale)
- nominal consumption growth (left-hand scale)
- saving ratio – seasonally adjusted (right-hand scale)



Sources: Eurostat and ECB.

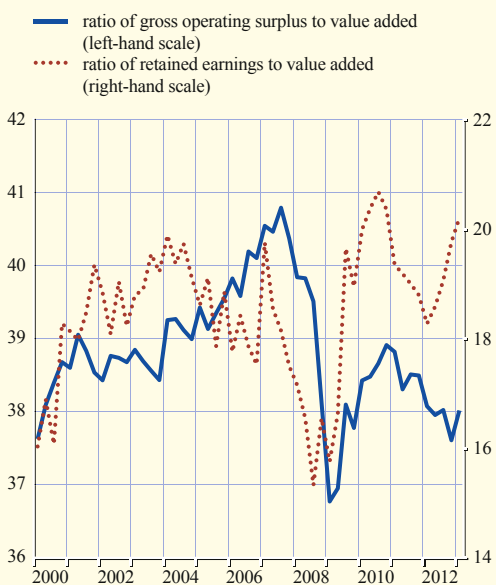
of debt securities. Household net wealth fell, year on year, in the first quarter, as holding losses on housing exceeded net saving and gains on equity held (see Chart G).

The gross operating surplus of *NFCs* fell again, year on year, in the first quarter of 2013, as wages continued to grow and value added decreased. Business margins rebounded only slightly in the first quarter, from the very low level reached in the fourth quarter of 2012 (based on seasonally adjusted data; see Chart E). At the same time, a number of factors contributed to a further increase in *NFC* savings, which rose to elevated levels, namely a sharp fall in net interest paid, lower taxes paid, a further increase in earnings on foreign direct investment and a decline in net dividends paid. In conjunction with a sharp decline in fixed capital expenditure, which stood at -7.8%, year on year, in the first quarter (reaching a historic low as a share of value added), *NFCs* increased their unusual net lending position further (see Charts B and F). *NFCs* continued to tap the bond market (issuing €103 billion over the last four quarters), to compensate for a contraction in bank lending, in the amount of €123 billion over the same period (in part reflecting bank restructuring in Spain). Intra-sector lending, comprising loans granted by other *NFCs* and trade credits, remained strong, which is particularly important for small and medium-sized enterprises facing bank financing constraints. *NFCs* slowed the build-up of ample liquidity buffers, while the deleveraging process continued, in part owing to the higher valuation of equity held.

Despite further consolidation measures, the reduction in *government* deficits stalled (to stand at 3.8% on a four-quarter sum basis), owing to an abrupt deceleration in tax revenue growth

Chart E Non-financial corporations margins

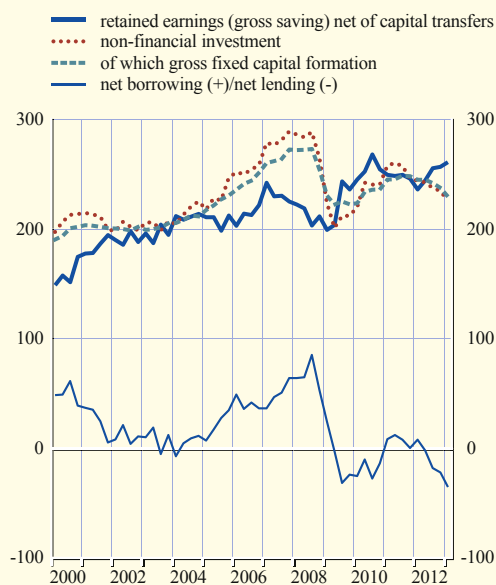
(percentages, seasonally adjusted)



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

Chart F 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.

against the background of a contracting economy. Growth in current expenditure, notably government consumption, increased, returning to its trend level of close to 1% per annum, following the deep cuts in compensation of employees at the end of 2012 (1% in the first quarter of 2013, after -1.6% in the fourth quarter). Investment expenditure fell further in the first quarter of 2013 (-7.8%). Debt issuance continued to fund large deficits, as well as significant increases in financial assets, notably reflecting sizeable intergovernmental lending. Debt securities issued were bought by non-residents, banks, and insurance and pension funds.

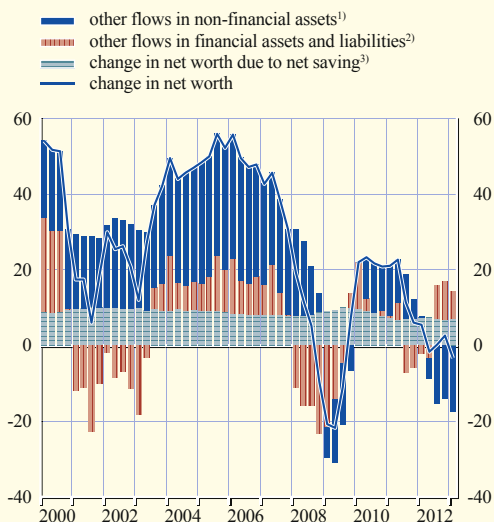
The disposable income of *financial corporations*, though still at high levels, declined markedly in the first quarter of 2013, as value added and net interest earned, taken together, continued to fall, and compensation of employees continued to rise. Despite still sizeable but falling net retained earnings (amounting to €25 billion in the first quarter) and holding gains on financial assets, financial corporations' net assets at market value (an aggregate measure of "capital") rose only moderately, implying a stabilisation of their capital ratios – albeit at high levels – as direct recapitalisations declined compared with previous quarters. Additions to financial corporations' balance sheets remained subdued on a consolidated sector basis.

Balance sheet dynamics

The net wealth of households declined, year on year, in the first quarter of 2013, falling by the equivalent of 3.2% of income. The positive influence of net saving (which stood at 7.2% of annual income in the first quarter) and of holding gains on their financial portfolio (which amounted to 7.1% of annual income) was more than offset by significant holding losses on non-financial assets (namely housing, amounting to 17.4% of annual income) (see Chart G).

Chart G Change in the net worth of households

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



Sources: Eurostat and ECB.

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

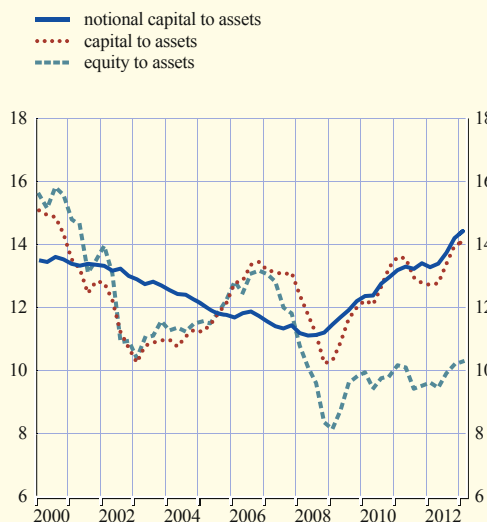
1) Mainly holding gains and losses on real estate (including land).

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

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

Chart H Capital ratios of financial institutions excluding mutual funds

(percentage of total assets)



Sources: Eurostat and ECB.

Financial corporations posted significant holding gains on their financial assets held, mainly on equity holdings (as a result of the recovery in stock markets). This contributed to the stabilisation in financial corporations' capital-to-assets ratios, measured in the national accounts as net assets at market value over total assets (see Chart H).