Box 3

INTEGRATED EURO AREA ACCOUNTS FOR THE FIRST QUARTER OF 2011[1]

The integrated euro area accounts up to the first quarter of 2011 that were released on 29 July 2011 offer comprehensive information on the income, spending, financing and portfolio decisions of institutional sectors in the euro area. Against the background of a continued recovery, the latest data point to a progressive rebalancing in financial deficits/surpluses across sectors in the euro area. Households maintained their saving rate at the lowest level recorded

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

since 2000, keeping private consumption somewhat resilient in the face of a large and persistent commodity price shock. Non-financial corporations (NFCs) stepped up investment and increased their net borrowing position. Governments managed to cut their deficits significantly in the first quarter of 2011. In addition, the pattern of pronounced financial disintermediation that had emerged since the inception of the financial crisis seems to be receding.

Euro area income and net lending/net borrowing

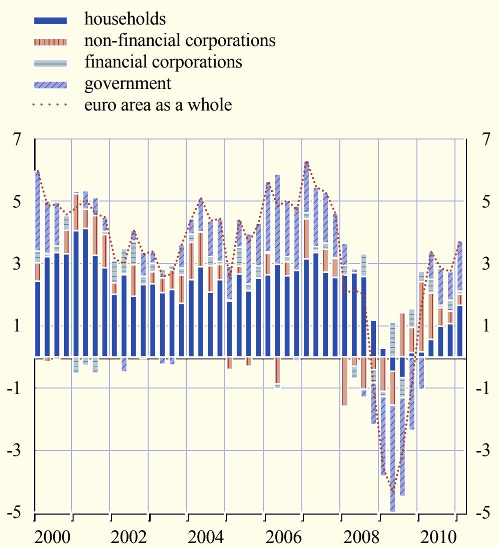
Nominal gross disposable income in the euro area rose faster in the first quarter of 2011, to an annual growth rate of 3.7%, which was to the benefit of, in particular, the government and household sectors (see Chart A).

Euro area saving increased notably, year on year, on the back of an expansion in euro area income that was faster than that in total consumption (marked by noticeably lower government consumption growth), with reduced government disaving contributing most, while household gross saving continued to decline. Gross capital formation rose significantly faster (11.9%, year on year), helped by some restocking, as well as by solid growth of gross fixed capital formation, in part reflecting sizeable favourable weather effects.

With euro area total investment growing faster than saving, the net borrowing of the euro area increased (to 0.9% of GDP, expressed as a four-quarter sum). From a sectoral point of view, this masked further rebalancing between sectors, with another reduction in government net borrowing (the government deficit falling to 5.5% of GDP on a four-quarter moving-sum basis, from a peak

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

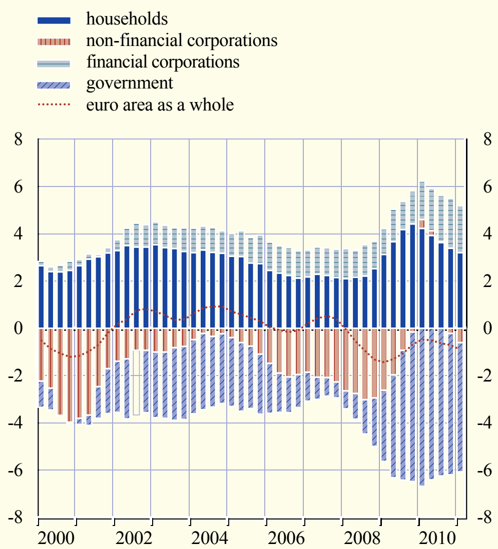
(annual percentage changes; percentage point contributions)



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.

of 6.7% in the first quarter of 2010) and a further decline in households net lending, while the net borrowing of NFCs increased sharply (see Chart B).[2]

The mirror image of these developments can be seen in the external accounts, with a deterioration of the current account balance reflecting the adverse impact of the terms of trade, which was only partly compensated for by a positive net trade contribution in volume terms. On the financing side, cross-border transactions expanded in the order of €100 billion per quarter, pointing to a gradual normalisation. Regarding the funding of the net financing requirement of the euro area, net inflows in equity continued to replace gradually reduced net inflows in debt securities.

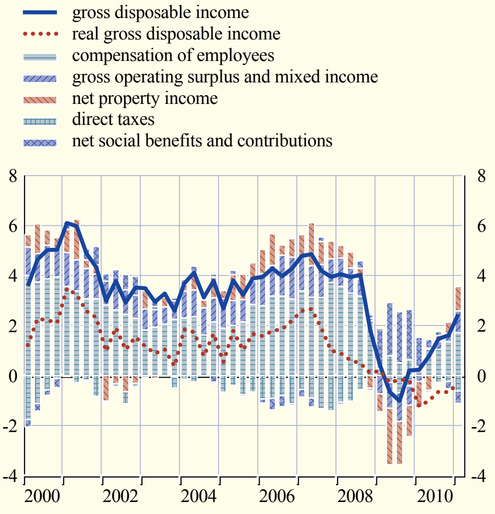
Behaviour of institutional sectors

The further acceleration in *households'* nominal income growth (2.4%, year on year) in the first quarter of 2011 was driven by more rapidly rising salaries, strong mixed income and buoyant property income received (dividends), while income streams originating from government (net social transfers and tax payments) continued to be an incrementally larger drag. Households' income still decreased in real terms, eroded by the rise in inflation due mainly to commodity price increases, albeit at a far slower pace than in the previous four quarters (Chart C). In this context, the annual growth of private consumption was again higher than the income growth, as households chose to continue to dip into their stock of precautionary savings. Viewed in seasonally adjusted terms, their savings ratio remained at the very low level reached in the previous quarter (13.3%; see Chart D), consistent with a somewhat better employment outlook, increasing household wealth

2 The net lending/net borrowing of a sector is the balance of its capital account, which measures the excess of saving and net capital transfers received over capital investments (net lending), or vice versa (net borrowing). It is also the balance of the financial accounts, which measures the difference between transactions in financial assets and transactions in liabilities.

Chart C Households' nominal gross disposable income

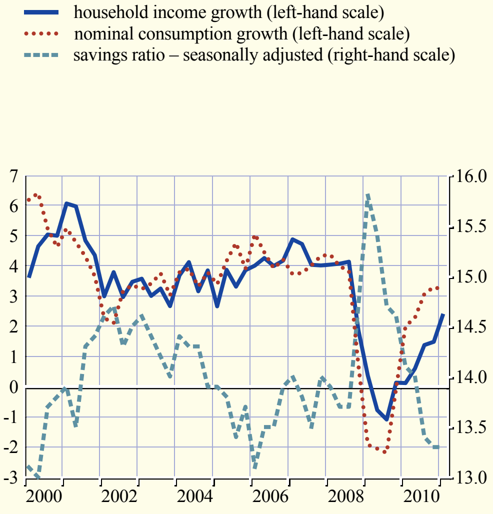
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB.

Chart D The growth of households' income and consumption, and their savings ratio

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



Sources: Eurostat and ECB.

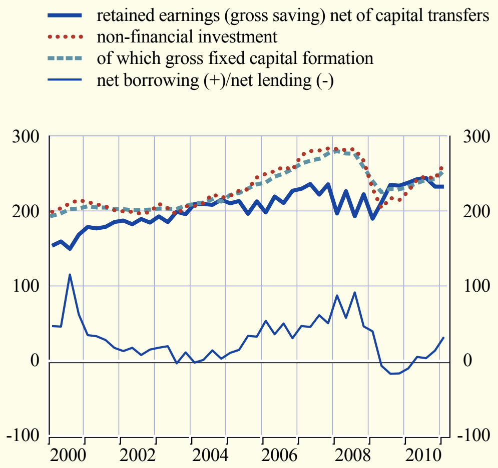
and a rebound in selected housing markets. With saving flows still falling on a year-on-year basis and housing investment recovering, households' net lending again fell markedly, approaching pre-crisis levels. Growth in loans incurred continued at a moderate pace, while the accumulation of financial assets slowed, with signs of a return to preferences for funds intermediated via banks.

The gross operating surplus of *non-financial corporations* again grew markedly in the first quarter of 2011, on the back of strong value-added growth, despite a further increase in the growth of compensation of employees. However, far higher direct taxes paid and dividends distributed led to a mere stabilisation of NFC saving at high levels, which, combined both with a faster expansion in fixed capital investment and with stock-building, induced NFCs to reduce their recourse to internal funds. Hence, net borrowing increased sharply in this quarter (Chart E). This expansionary behaviour on the part of NFCs did not, however, translate into any increase in the growth of their overall external financing, because of signs of re-intermediation: MFI lending picked up (turning positive in the first quarter of 2011), while hitherto strong market funding and buoyant intra-sector lending (trade credit and intra-group credit) moderated. After the failure of Lehman Brothers, trade credit had contracted noticeably less than value added, mitigating constrained bank credit (notably for small and medium-sized enterprises) and/or poor market access (see Chart F). At the same time, NFCs increased their liquidity buffers further (deposits and, in particular, debt securities), pointing to continued caution.

In this context, *government* deficits fell sharply in the first quarter of 2011, reflecting both automatic stabilisers in a recovering economy and the impact of sizeable consolidation measures. Taxes and social contributions grew solidly, while total expenditure contracted in year-on-year terms, for the first time since the start of Monetary Union. The annual growth of compensation of government employees also remained close to zero for the third successive quarter. Debt issuance, however, remained elevated.

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

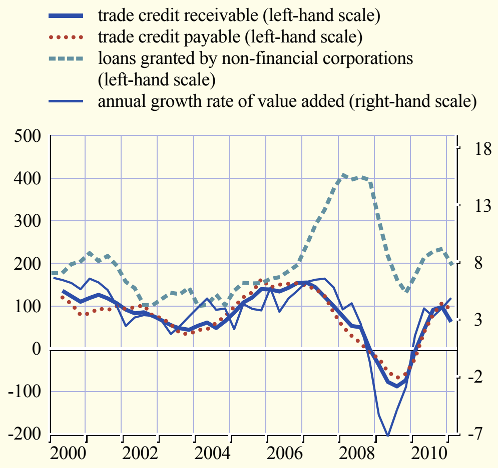
(EUR billions; seasonally adjusted)



Sources: Eurostat and ECB.

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

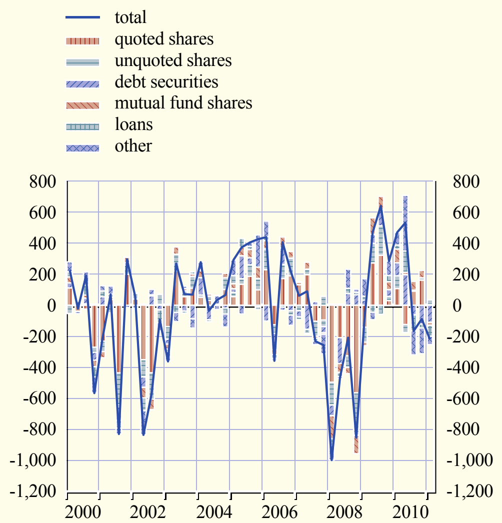
(four-quarter moving sums in EUR billions; annual percentage changes)



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

Chart G Holding gains and losses in financial corporations' assets

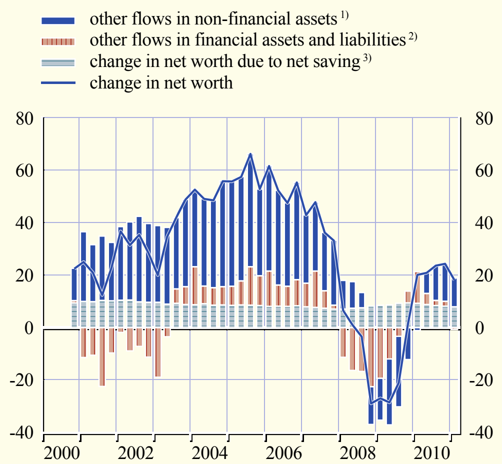
(quarterly flows; EUR billions)



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).

Chart H 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 and 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.

The increase in *financial corporations'* disposable income again resulted mainly from the fact that the growth in dividends earned was higher than that of dividends paid, while value added plus net interest earned grew more slowly. Sizeable net retained earnings (€40 billion per quarter) compensated for valuation losses on debt securities held (stemming from turmoil in some government debt markets) and on instruments denominated in US dollars (see Chart G). Small holding gains on equity were generated in the first quarter of 2011, in contrast to what was experienced in six of the seven previous quarters. In a context of deleveraging pressures, additions to financial corporations' balance sheets (excluding interbank lending) remained subdued, averaging of €200 billion per quarter, compared with up to €1 trillion during the preceding leverage boom. However, the pattern of pronounced financial disintermediation that had emerged since the inception of the financial crisis seems to be receding: households favour more intermediated funds and NFCs' external financing draws less on intra-sector or market funding.

Financial markets

On the *debt securities market*, the government sector stepped up issuance in the first quarter of 2011 (a seasonal pattern), while NFCs again reduced their recourse to the debt securities market on a four quarter moving-sum basis and MFIs resumed their significant issuance of debt securities (partly a seasonally pattern). NFCs, households, insurers and pension funds, and other non-monetary financial intermediaries (referred to as "OFIs") added to their portfolios of debt securities held, while MFIs moderated their selling activities. The rest of the world was a significant net buyer. On the *mutual fund share market*, issuance of non-money market mutual fund shares moderated somewhat from elevated levels (while redemptions in money market mutual fund shares continued), with insurance corporations and non-residents the biggest net buyers. On the market for *quoted shares*, net issuance moderated in the case of MFIs, but again accelerated somewhat in that of NFCs. MFIs and NFCs were sellers of quoted equity held, while non-residents were heavy net buyers. On the *loan market*, NFCs stopped their net redemptions of MFI loans to resume their net incurrence of loan liabilities, in particular in the short-term segment, while the growth of households' loan liabilities remained stable.

Balance sheet dynamics

In the first quarter of 2011, the net worth of households continued to grow at a significant annual rate, which nonetheless dropped to 18% of their income. Aside from the positive influence of net saving (7.9% of income – gradually declining on the back of falling saving ratios), households benefited from holding gains (10.2% of income) – but less so than in the previous two quarters – on mainly house prices. Residential property prices have now been rising, year on year, for five quarters in a row, after five consecutive quarters of decline (see Chart H).