Introduction to the Eurosystem Household Finance and Consumption Survey
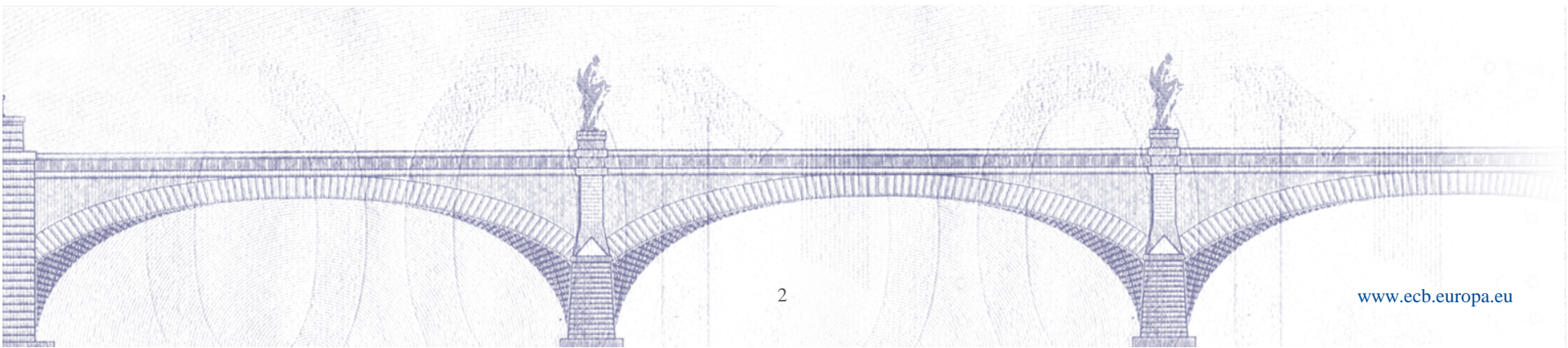
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ECB conference 17-18 October 2013

Outline

- **Background information on the HFCS**
  - Motivation
  - Characteristics
  - Content

- Summary of key facts
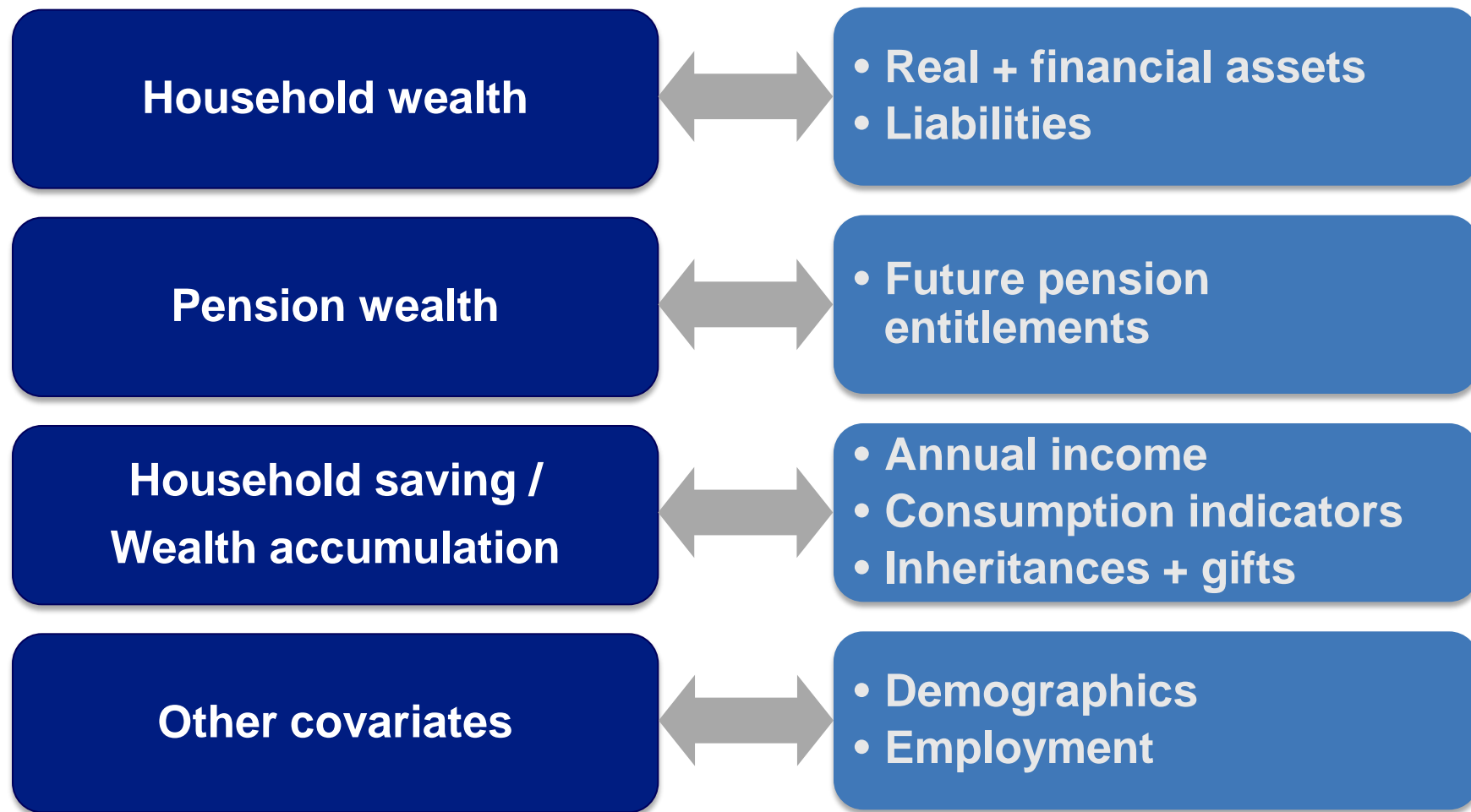
- Communication challenges

- The road ahead

What is the HFCS?

- A cross-country survey collecting household-level data in 15 euro area countries
  - All except Ireland and Estonia
  - All countries will participate in the second wave

- Focus on wealth (real and financial assets, liabilities), but also covering consumption/savings, income, employment, pension entitlements, intergenerational transfers, etc.

- Decentralised effort. Each NCB/NSI finances and conducts its own wealth survey

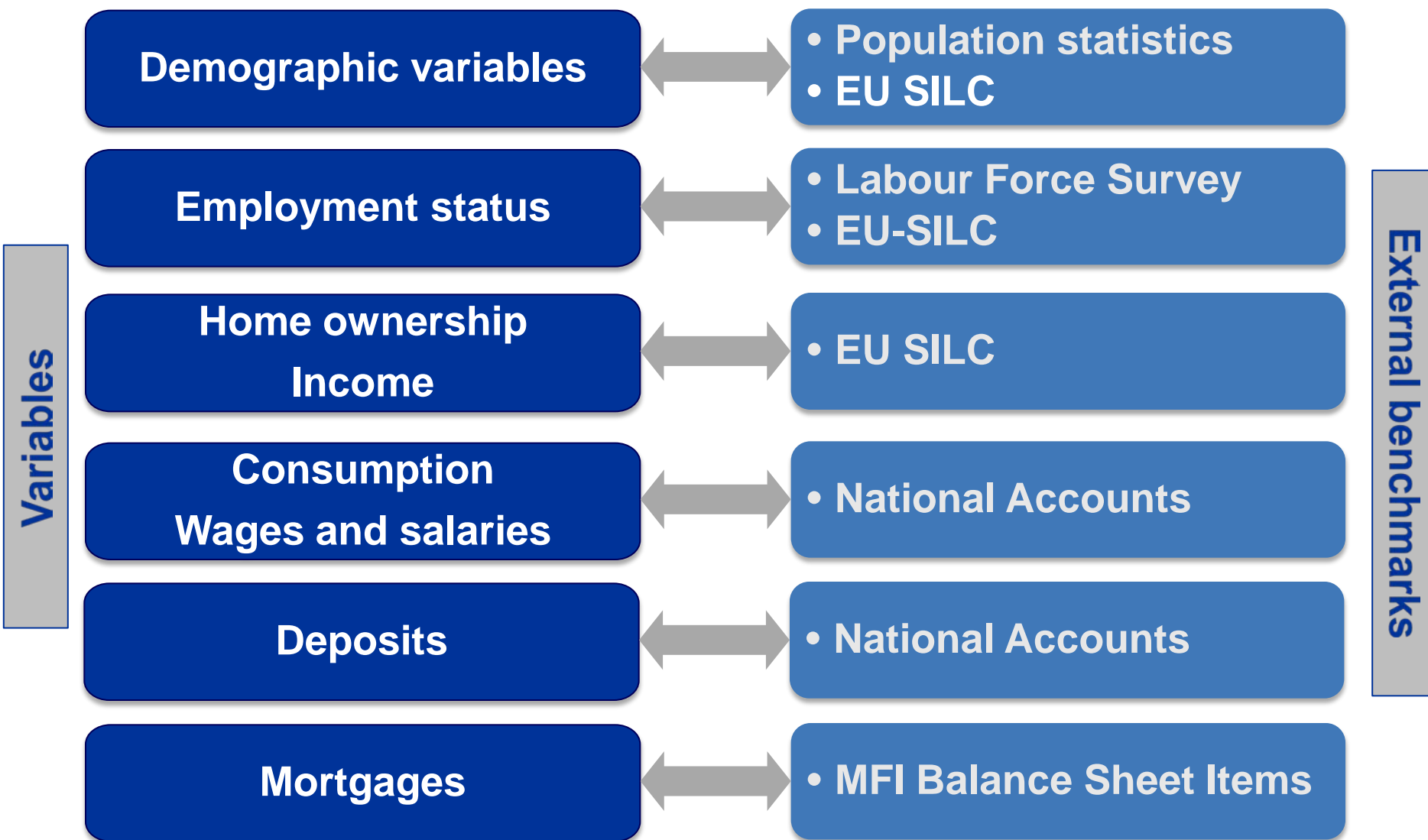- ECB coordinates and ensures common methodology and definitions across countries

What is the HFCS?

- Representative sample: 62,000 households (1st wave)

- Reference year for most (11) country surveys: 2010

- Complete dataset (balance sheet) multiple imputation ➔ labour/time-intensive post-fieldwork at NCBs/ECB

- Wealthy HHs oversampled in most countries (using different methods)

- Panel component (same HHs in subsequent waves): BE, DE, ES, IT, NL

- Survey frequency: every 3 years (2 in some countries)

Content: areas covered by HFCS

Household wealth	• **Real + financial assets** • **Liabilities**
Pension wealth	• **Future pension entitlements**
Household saving / **Wealth accumulation**	• **Annual income** • **Consumption indicators** • **Inheritances + gifts**
Other covariates	• **Demographics** • **Employment**

Sources for systematic cross-checks

Variables

Demographic variables	⟷ • **Population statistics** • **EU SILC**
Employment status	⟷ • **Labour Force Survey** • **EU-SILC**
Home ownership **Income**	⟷ • **EU SILC**
Consumption **Wages and salaries**	⟷ • **National Accounts**
Deposits	⟷ • **National Accounts**
Mortgages	⟷ • **MFI Balance Sheet Items**

External benchmarks

Why a Eurosystem survey?

- Micro data allow a better understanding of the transmission mechanism of monetary policy and of the impact of shocks on financial stability

  - Sub-population developments may cancel out / hide behind macro aggregates

  - Micro data allows analysis of specific groups of HHs:

    - Lowest/highest income/wealth deciles / Over-indebted / Credit-constrained, etc.

  - Survey data may complement national accounts with distributional information

  - Cross-country comparative analysis: institutions / shocks / policies vary across countries

Why a Eurosystem survey?

- Specific issues micro data may help understand
  - Do household debt levels raise sustainability concerns?
  - Which households are under financial pressure?
  - Portfolio choice: (lack of) demand for certain assets (e.g. stock market participation), share of risky assets
  - Real estate / other asset prices: effect on consumption (marginal propensity to consume out of wealth)
  - Credit constraints, precautionary saving: effects on consumption
  - Home-ownership: Does availability of mortgage finance affect home-ownership?
  - Ageing / pension reforms: impact on household saving/consumption

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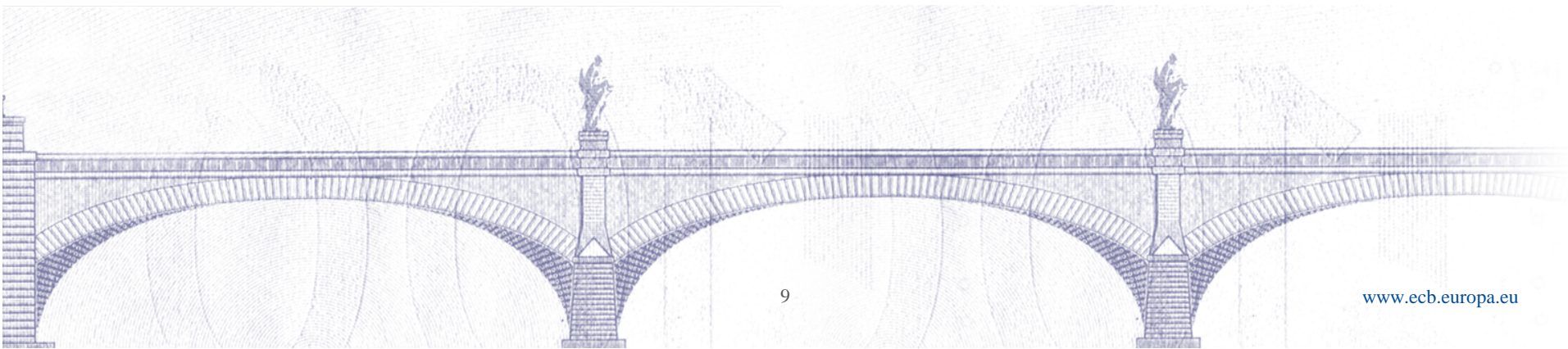
Issues to be borne in mind

- Reference periods differ
  - Comparisons with US based on SCF 2010 (reference year in 11 euro area countries)

- Single cross-section
  - does not allow identifying age, cohort and time effects as yet

- Self-reported prices for some assets (e.g. real estate)

Households' indebtedness

- 44% of euro area households have debt

- Considerably below US (75%)

- Large cross-country variation
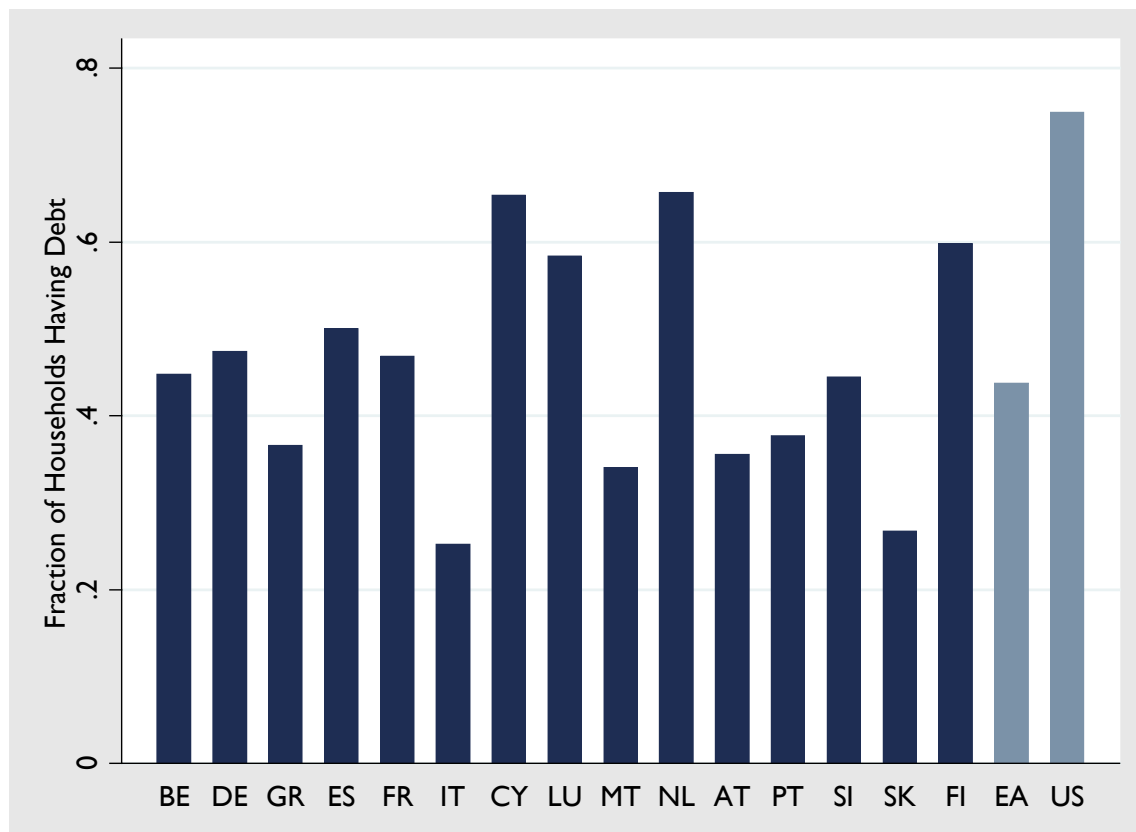
Debt burden - the prevalence of high debt service-to-income ratios

- Debt service-to-income ratio measures the drain of debt servicing on current gross income

- 9% of euro area indebted HHs have debt service-income ratios > 0.4

  - Somewhat below US

- Large cross-country differences
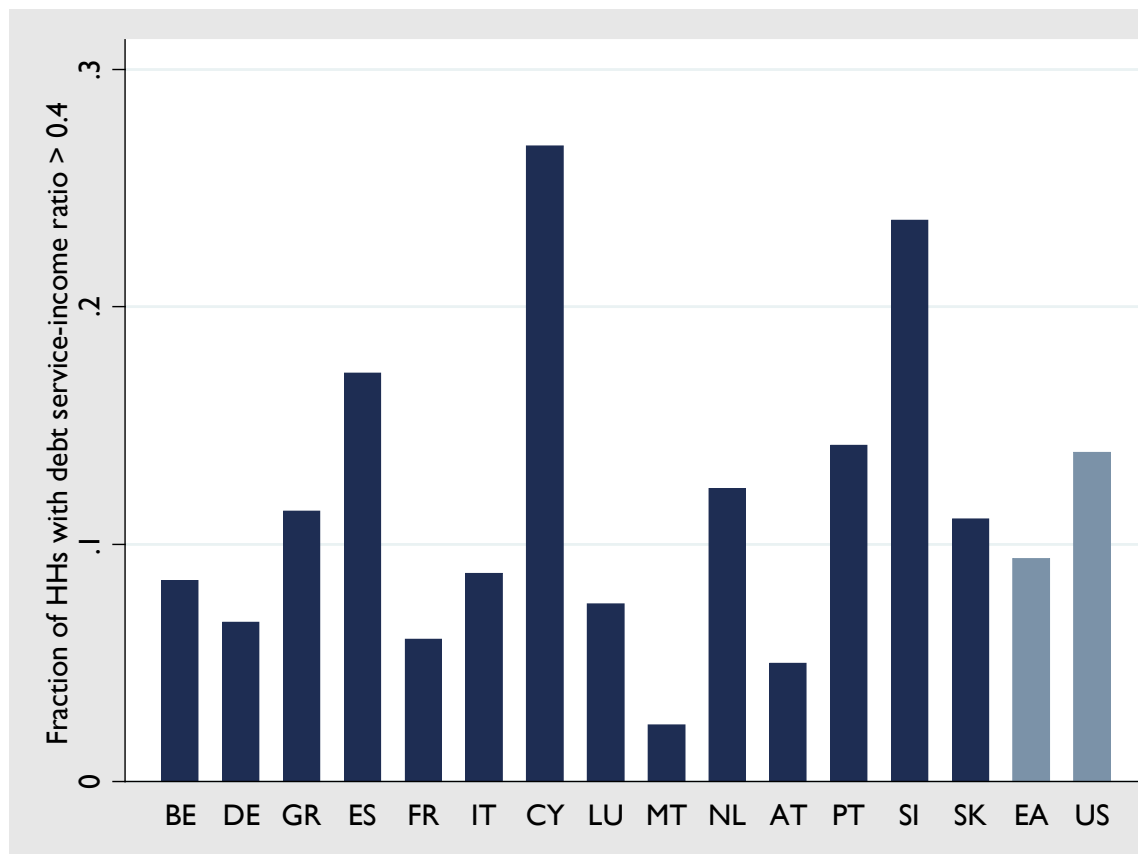
Debt burden - the prevalence of high debt service-to-income ratios, by income quintiles

- Prevalence of high debt burden decreases with income

- Indebted low-income households particularly vulnerable

Share of indebted households with debt service-income ratios > 0.4

	Euro Area	United States
1st income quintile	36.0	25.8
2nd income quintile	13.1	18.5
3rd income quintile	8.9	15.3
4th income quintile	5.3	11.0
5th income quintile	3.9	4.2

Credit constrained households

- 8% of households in the euro area are credit constrained

- 12% of low income households in the euro area are credit constrained

- Cross-country variation: 19% of credit-constrained households in SI, while less than 5% in MT, NL and AT

- Only in some countries the share of credit constrained households significantly higher in the bottom income quintile (access to credit by poor HHs very limited though)
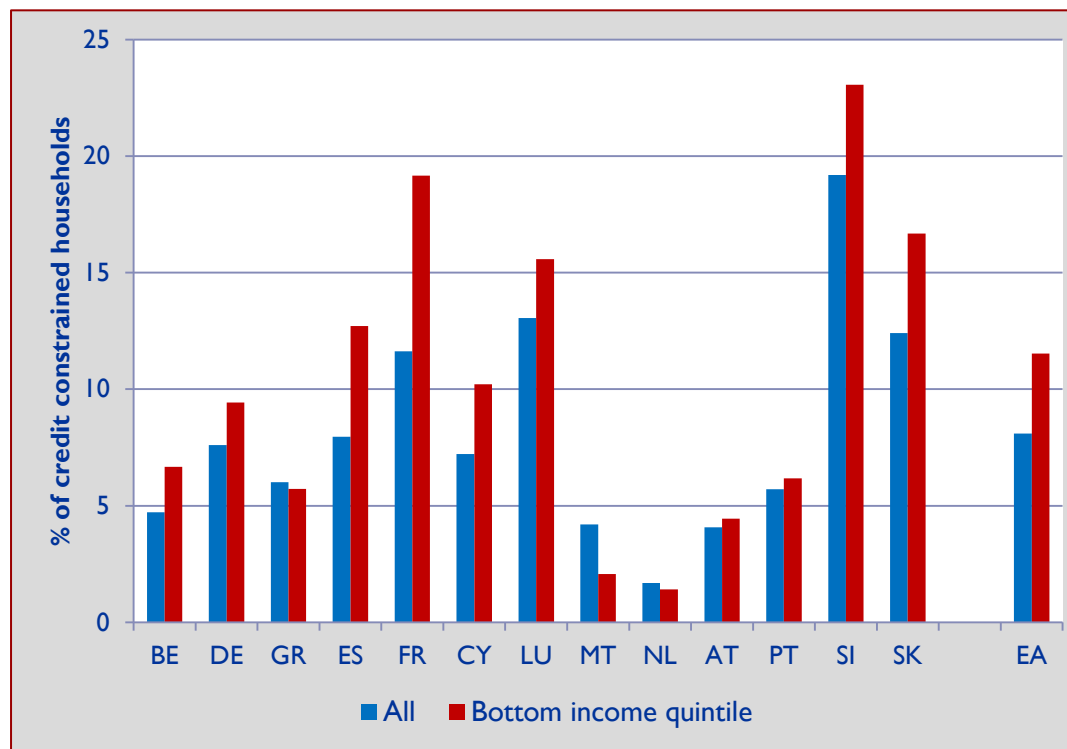

Credit constrained households: applied for credit and turned down and do not report successful later re-application, or applied for credit and were not given as much as they applied for, or did not apply for credit due to perceived credit constraint.

Income quintile classifications based on rankings of equivalised gross income in each country
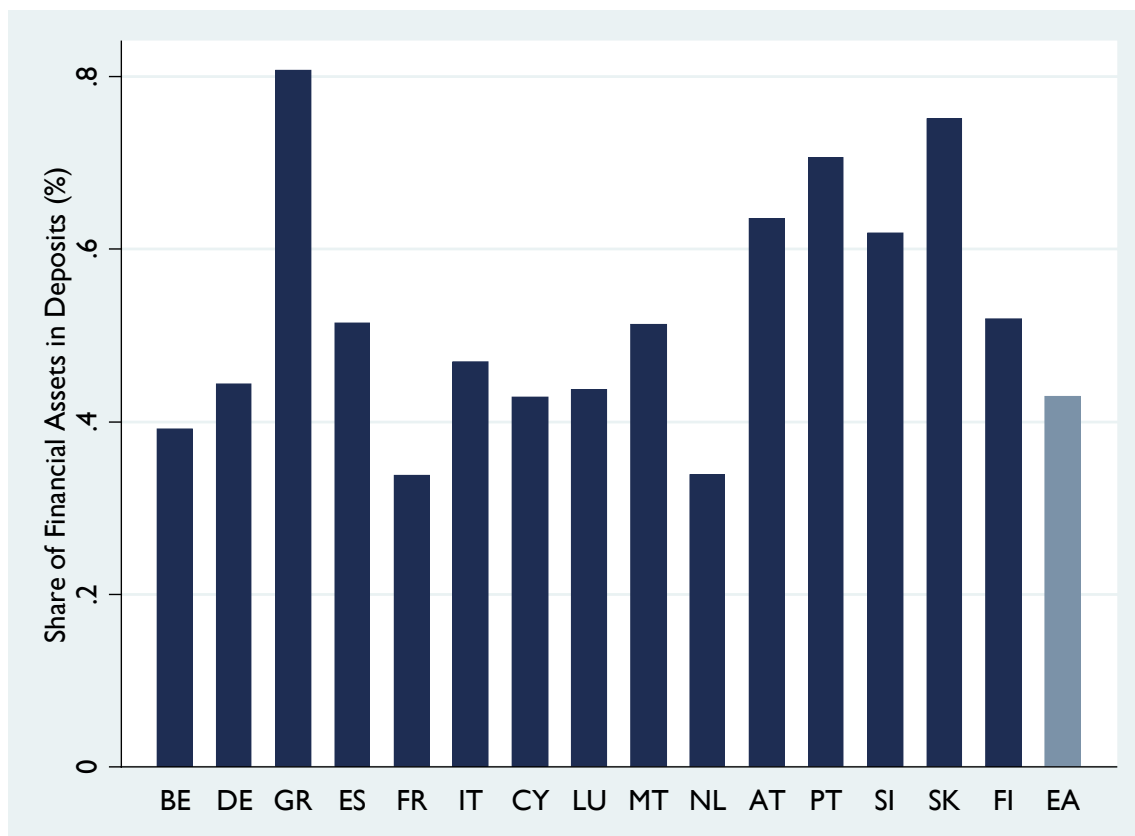
Home ownership across countries

- Ownership of the household main residence varies substantially across countries

  - EA average 60%, somewhat below US (67%)

  - <50% in DE and AT
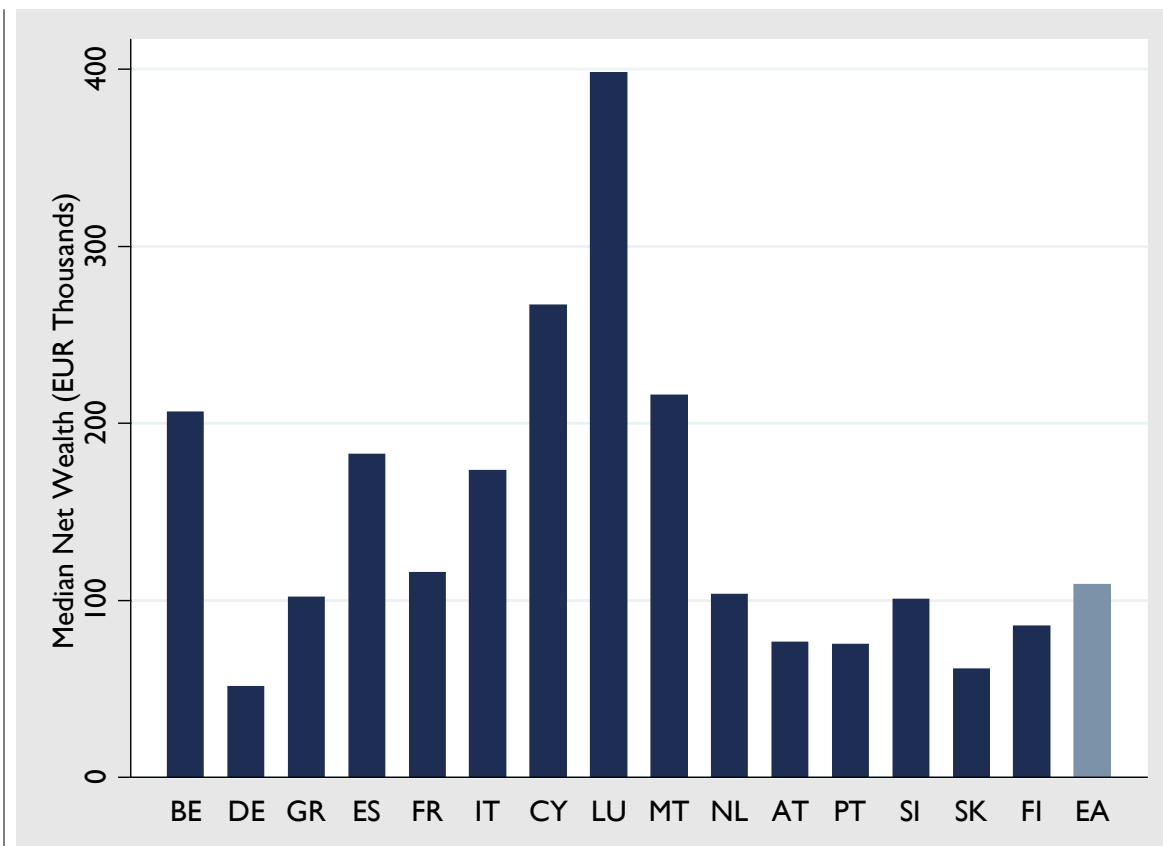
  - >80% in ES, SI and SK
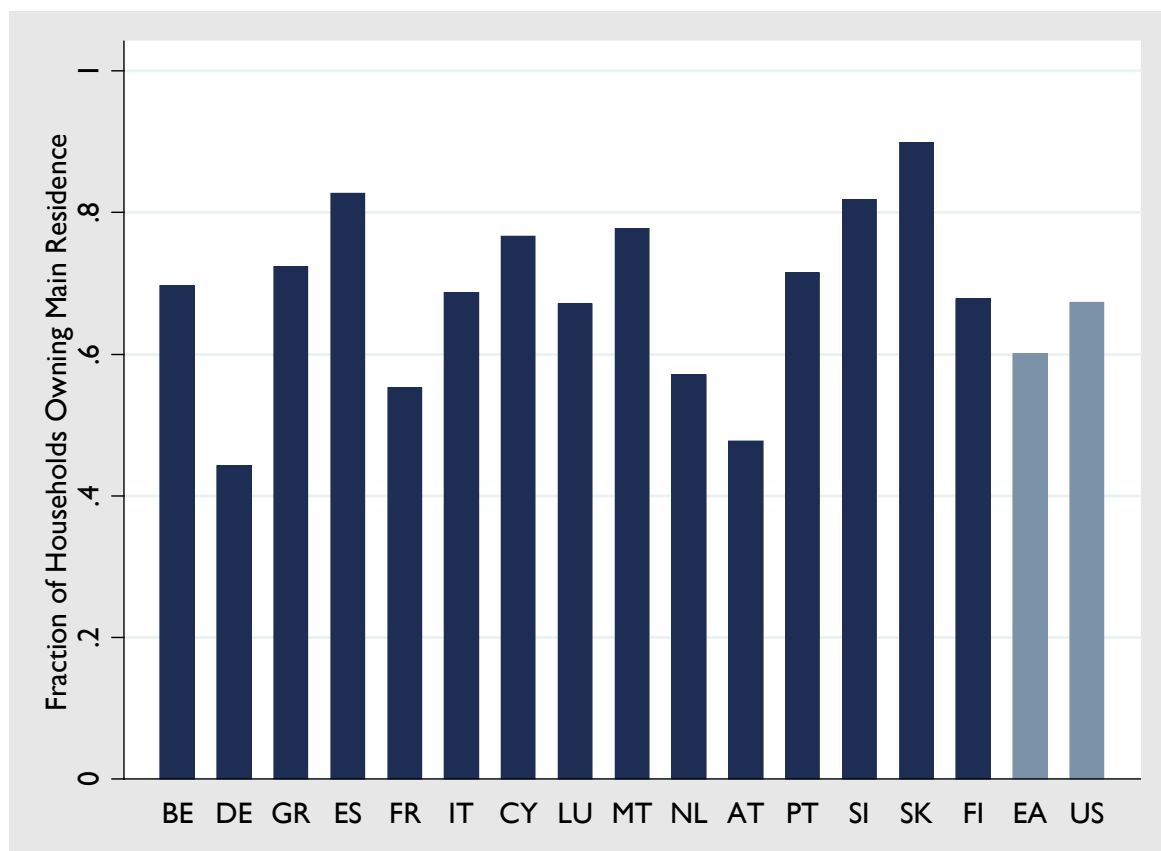
Share of financial assets in deposits

- Although participation rates in deposits are very high across countries, there are substantial differences in the importance of these: 33.8% (FR) to 80.7% (GR).
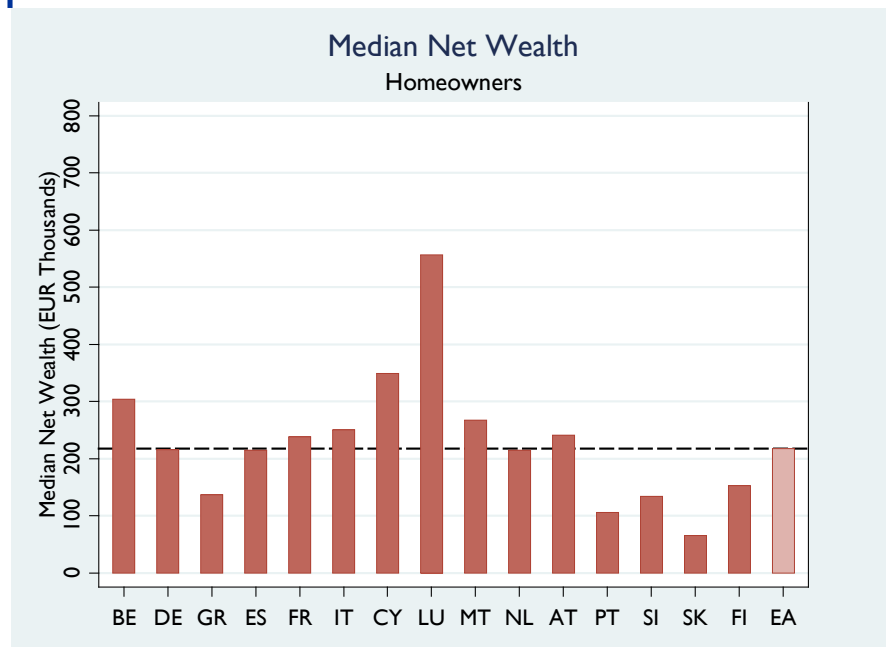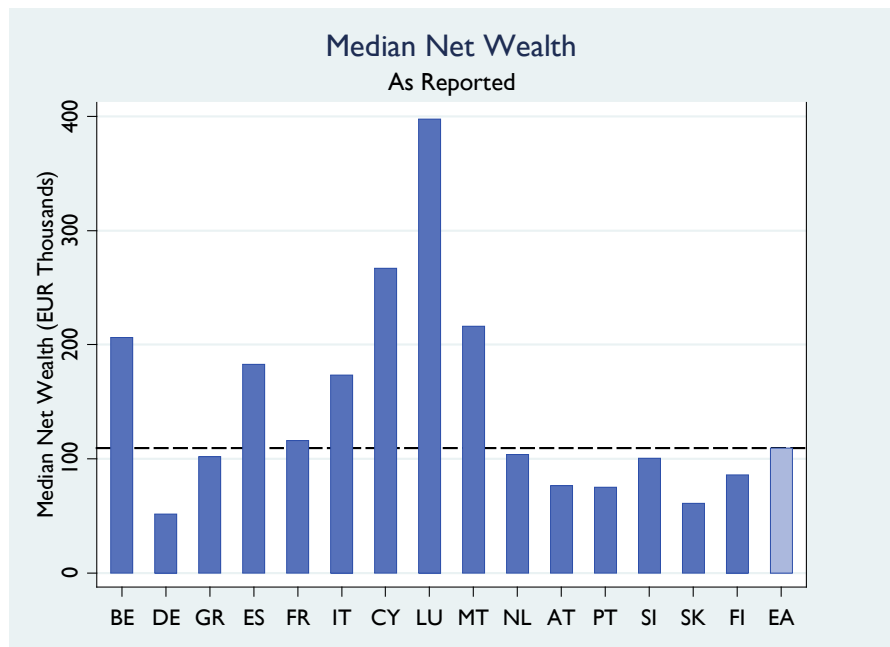
Median net wealth across countries

- Median net wealth €109,200

- Large differences across countries

The role of home ownership

Median Net Wealth — As Reported

Median Net Wealth — Homeowners

- How do the relative country positions change for home owners? We compare
  - Median net wealth, as originally reported (blue)
  - Median net wealth for home owners (red)

- Differences substantial

Summary: key facts

Debts

- Lower proportion of households holding debt than in US (though large cross-country variation)

- Yet indebted households considerable debt burden in terms of

  - resources to manage stock of debt;

  - flow of income versus stock of debt; and

  - debt service drain on current income

- Particularly substantial for indebted low-income households

Summary: key facts

Assets

- Cross-country differences in home ownership rates

- Low participation rates (especially of low-income HHs) in most financial assets

Wealth distribution

- Cross-country differences in median/mean net wealth
  - Key role of home ownership and house price developments, but…
  - … no single explanation: other factors important role

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- **Communication challenges**

- The road ahead
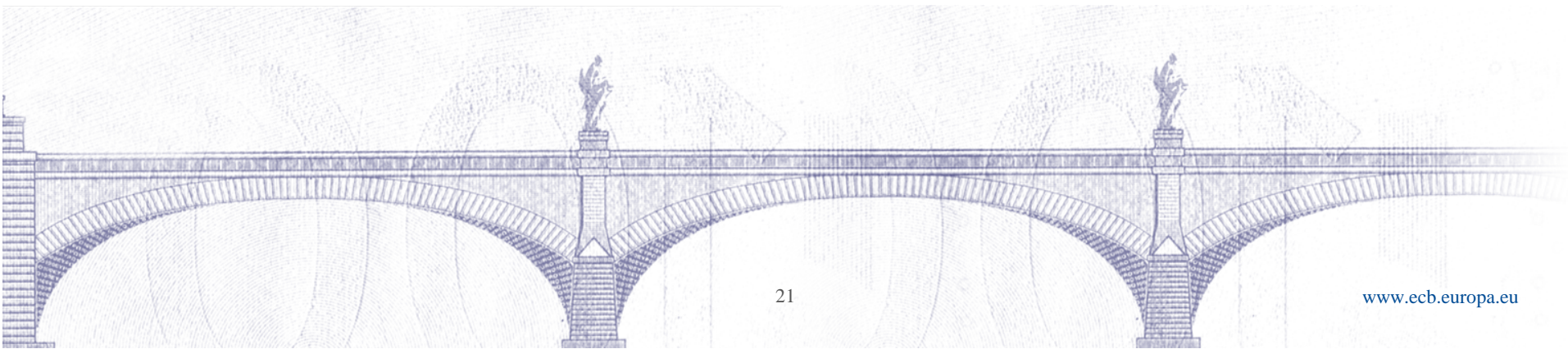
Presentation of results - challenges

- Unexpected nature of some results required thorough explanations

- Two exhaustive (methodological and descriptive) publications to put numbers in perspective

- Press Office of the ECB organised press briefing with journalists

- Nonetheless, the media often misinterpreted the numbers

Communication challenges

- Communication crucial in Central Banks
  - Try to avoid "if I turn out to be particularly clear, you've probably misunderstood what I said"

- "Perfect media storm" of elements in HFCS:
  - **Country comparisons** ➔ country rankings, the "euro cup"
  - **Wealth, income** ➔ high interest of media
  - **Unexpected** ➔ position of Cyprus
  - **Complex statistics** ➔ median per household ≠ average per capita
 - **Uncertain frame of reference** ➔ "the wealth of nations" vs. private

How to address communication issues

- ~~Not publish anything that can be misinterpreted~~

- Impossible to avoid completely
  - Ill-intentioned commentators

- Be as clear as possible on key messages
  - Reduce the possibility of honest errors or bad interpretations
  - Make bad interpretations more obvious

- What is *in* and what is *out* of the data

- Work out the policy impact and address it directly

- Once the Gini is out of the bottle, it is difficult to put it back

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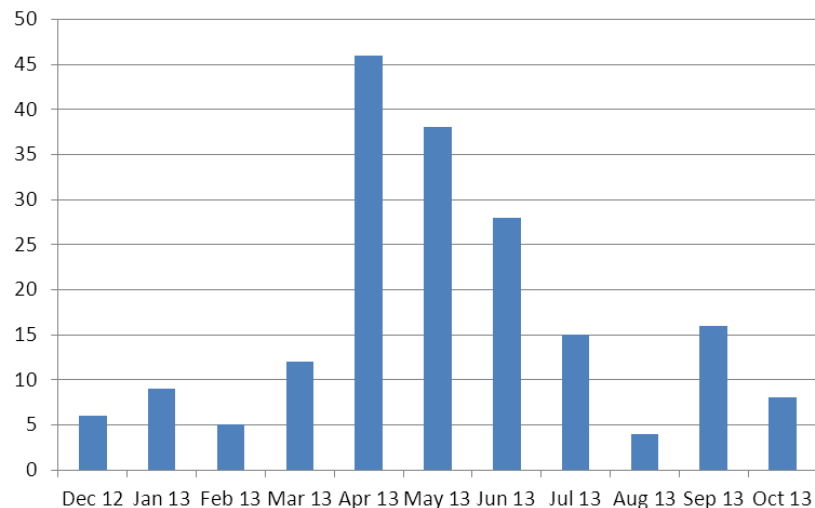 - Content

- Communication challenges

- **The road ahead**
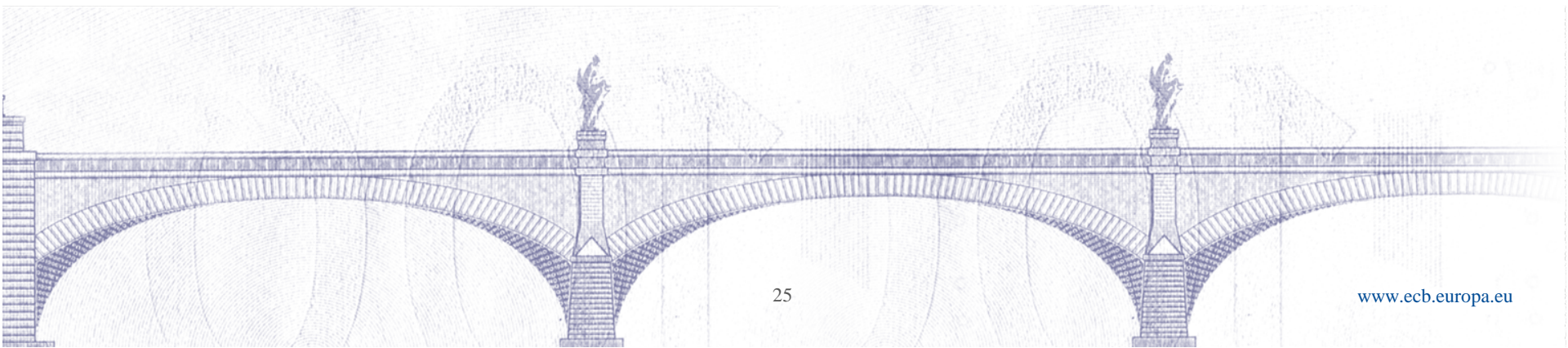
And now, to use the data!

- Micro data of the HFCS are available for research use

- (Relatively) simple procedure to access the data

- Over 190 access requests have been received so far

Number of researchers by country of residence

Non-euro area ■ euro area
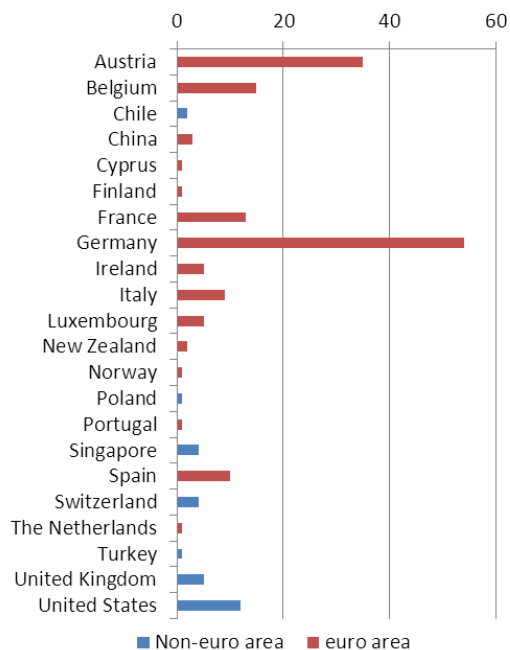
Number of researchers by month of application

The road ahead - second wave

- In progress, now for all 17 euro area countries (and soon 18)

- Reference periods more harmonised
    - mostly 2nd half of 2013 and 1st half of 2014

- Slight questionnaire expansion (e.g. more information on consumption expenditure and informal loans)

- Next report: expected in 2016

Thank you for your attention!

Any questions?

For further information and survey materials, see:
http://www.ecb.europa.eu/home/html/researcher_hfcn.en.html

Background slides

Main features of HFCS country surveys

Country	Responsible institution	Fieldwork period	Frequency (years)
Belgium	National Bank of Belgium	2010	Three
Germany	Deutsche Bundesbank	2010/2011	Two/Three
Estonia	Bank of Estonia	n.a.	Three
Ireland	Central Bank of Ireland	n.a.	Three
Greece	Bank of Greece	2009	Three
Spain	Banco de España	2008/2009	Three
France	Insee / Banque de France	2009/2010	Three
Italy	Banca d'Italia	2010	Two
Cyprus	Central Bank of Cyprus	2010	Three
Luxembourg	Banque centrale du Luxembourg	2010/2011	Three
Malta	Central Bank of Malta	2010/2011	Three
Netherlands	De Nederlandsche Bank	2010	Three
Austria	Oesterreichische Nationalbank	2010/2011	Three
Portugal	INE Portugal / Banco de Portugal	2010	Three
Slovenia	Banka Slovenije	2010	Three
Slovakia	Národná banka Slovenska	2010	Three
Finland	Statistics Finland / Suomen Pankki	2009/2010	Three

The road ahead

- Research

  - Several projects at the ECB:

    - *Mortgage choice (Ehrmann & Ziegelmayer).*

    - *Macroeconomic experiences and risk taking (Ampudia & Ehrmann).*

    - *Wealth distribution (Vermeulen).*

    - *Differences in household debt across countries (Christelis, Ehrmann & Georgarakos).*

    - *Cross-country evidence on wealth distribution and the response of consumption (Carroll, Slacalek & Tokuoka).*

The road ahead

- Research

  - Projects within the HFCN network:

    - 3 coordinated papers on assets, liabilities and saving behaviour/credit constraints.

    - Work on portfolio decisions, wealth distributions, methodological issues…

  - Public access of the data for researchers: more than 200 petitions received.

The road ahead

- Policy

    - MB article (April 2013) and MB Box (July 2013)

    - Contribution to Financial Stability Report (May 2013)

    - Several on-going research/policy projects in DGR and DGE

Motivation: why a Eurosystem HFCS?

- **Support policy analysis** in all major functions of the Eurosystem

  – Monetary policy and monetary analysis

  – Financial stability

  – Payment systems

- Analyse impact of shocks, policies and institutional changes on **HH sub-groups of particular policy interest:**

  – Lowest/highest income/wealth deciles

  – Over-indebted

  – Credit-constrained, etc.

- Heterogeneity of the household sector: ➜ complement NAs with distributional (not level) information:

- Similar surveys conducted by NCBs in 8 euro area countries, in the US (Fed's Survey of Consumer Finances since 1983), etc.

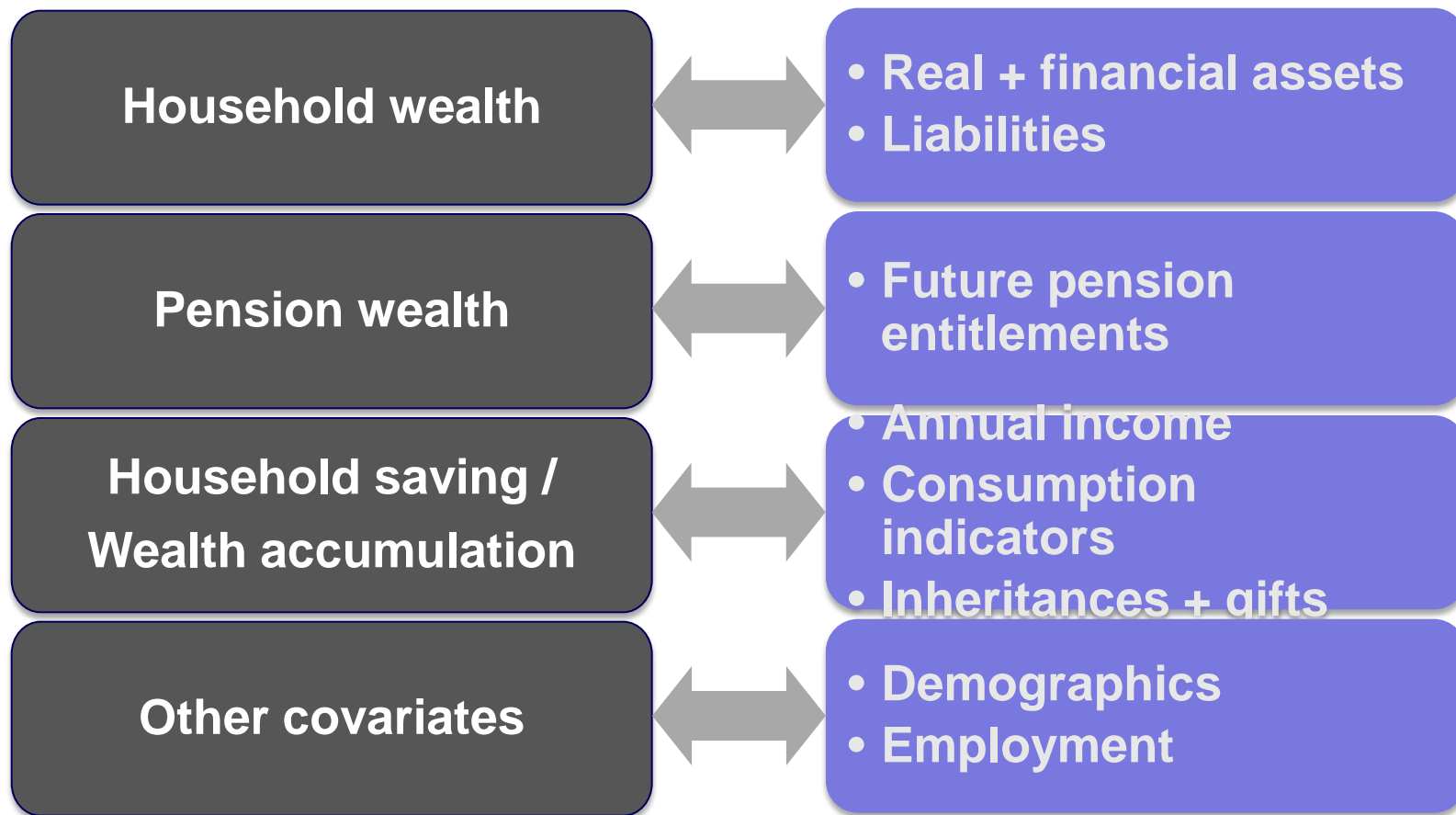# HFCS and NA mean net wealth and total assets per person
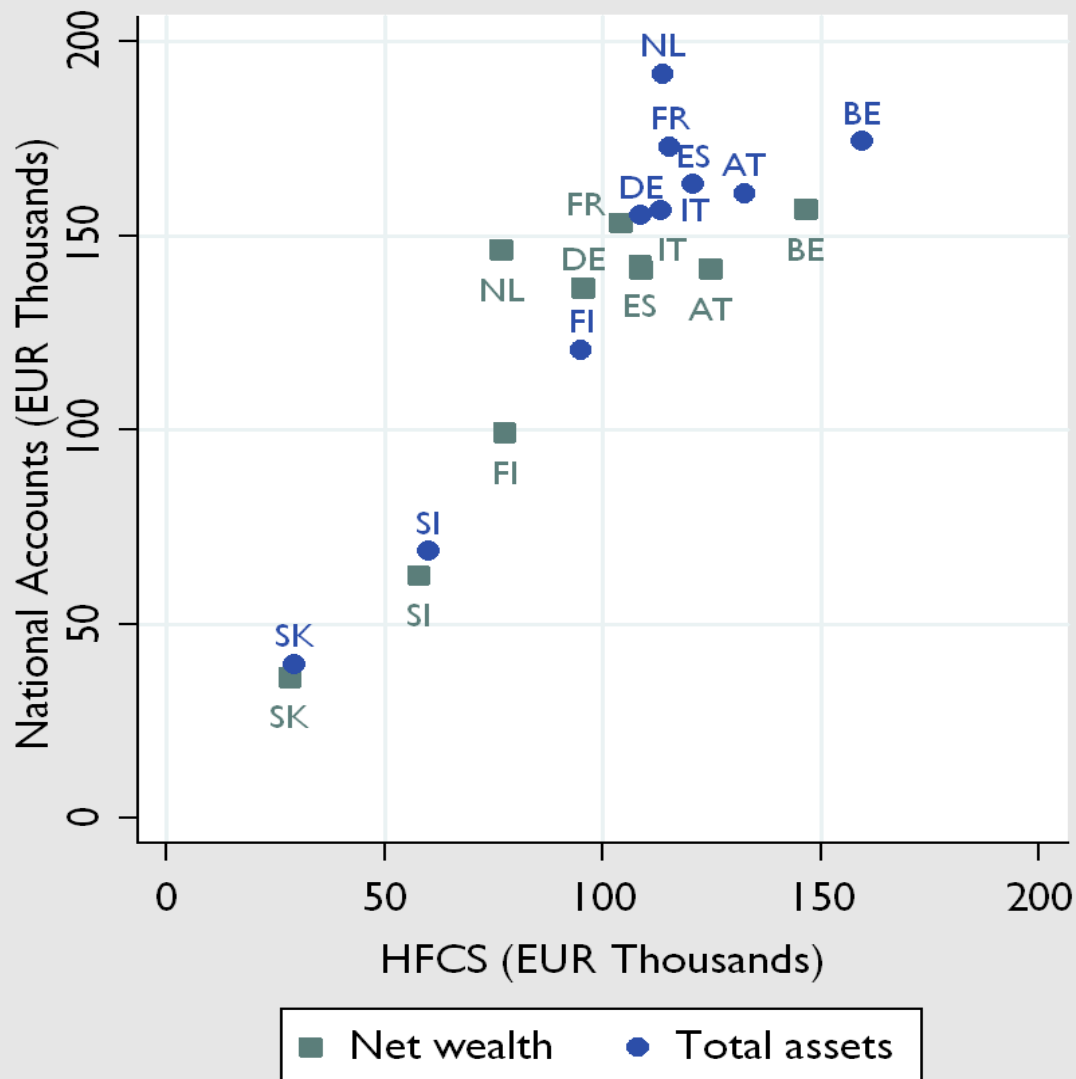
Note: only countries with complete NA data are shown

The case of real assets in the HFCS

Country	Household main residence (HMR)	Other real assets	Home ownership rate	(Conditional on ownership) mean value of HMR
	(Unconditional on ownership) *per capita* means			
BE (2010)	82,331	30,917	69.7%	273,000
DE (2010)	44,543	41,117	44.2%	206,000
GR (2009)	33,832	22,461	72.4%	123, 000
ES (2008)	65,107	43,225	82.7%	211, 000
FR (2010)	54,829	38,102	55.3%	222, 000
IT (2010)	68,953	33,048	68.7%	254, 000
CY (2010)	95,325	176,256	76.5%	344, 000
LU (2010)	165,563	117,935	67.1%	612, 000
MT (2010)	58,512	56,218	77.7%	215, 000
NL (2009)	69,684	13,871	57.1%	271, 000
AT (2010)	59,170	51,427	47.7%	258, 000
PT (2010)	30,095	25,024	71.5%	114, 000
SI (2010)	40,313	16,227	81.8%	127, 000
SK (2010)	21,789	5,077	89.9%	69, 000
FI (2009)	51,956	28,846	69.2%	160, 000

- **Reasonable results for HMR**
- **More difficult to benchmark other real assets (properties, self-employment businesses, valuables, etc.)**

Content: areas covered by HFCS

Household wealth	⟷	• **Real + financial assets** • **Liabilities**
Pension wealth	⟷	• **Future pension entitlements**
Household saving / Wealth accumulation	⟷	• **Annual income** • **Consumption indicators** • **Inheritances + gifts**
Other covariates	⟷	• **Demographics** • **Employment**

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