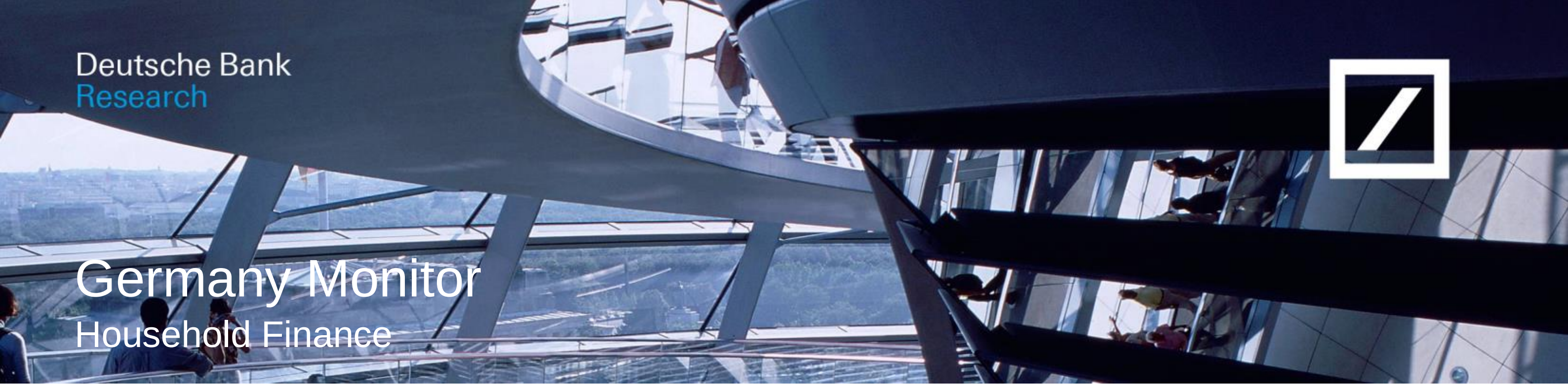

German households (re-)turn to interest-earning assets

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Author
Heike Mai
+49 69 910-31444
heike.mai@db.com

Editor
Jan Schildbach

Deutsche Bank AG
Deutsche Bank Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

www.dbresearch.com

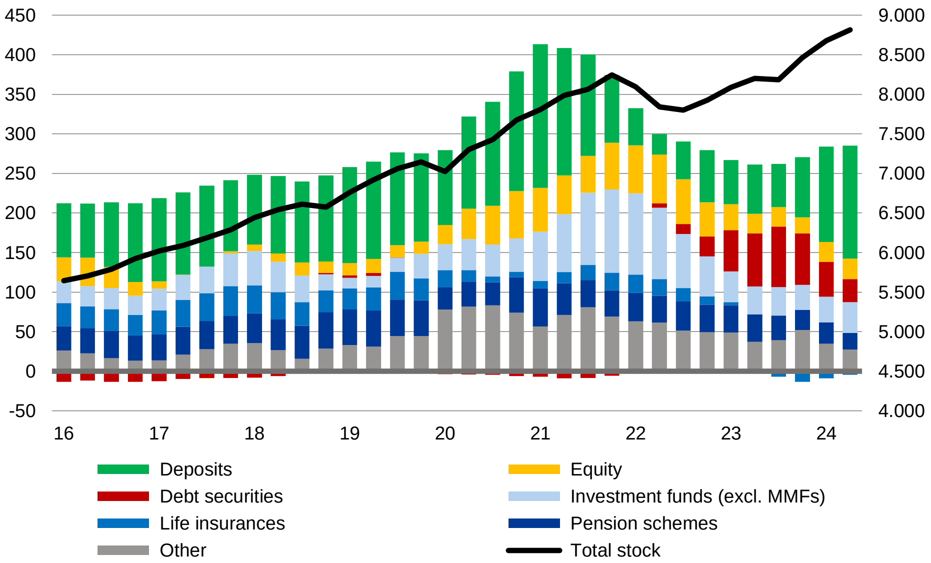
DB Research Management
Robin Winkler

Households in Germany owned financial assets worth EUR 8.8 trillion in June 2024 (latest date available), an increase of 4.1% over the first half of the year. Inflows of EUR 154 bn were topped by valuation gains of EUR 192 bn, driven by rising stock prices and bond values. The increase in wealth outpaced consumer price inflation of 2.1% during the same period.

Looking forward, the upward trend of net nominal inflows into financial savings will probably continue in 2025. Households are expected to benefit from a moderate increase in income and slowing inflation, which should result in somewhat higher absolute amounts to be saved. The savings ratio, however, is poised to soften as consumption will probably grow more strongly than savings.

German households take advantage of higher rates and invest in interest-earning assets 1

Financial assets of households, EUR bn; net flows (4-quarter rolling sum, left), stock (right)



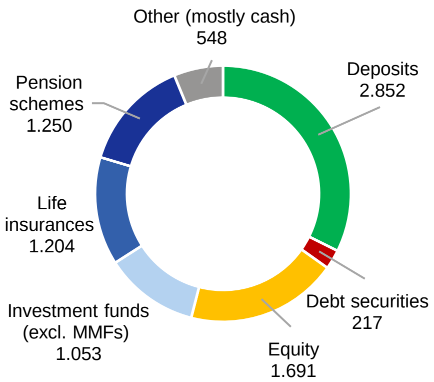
Sources: ECB, Deutsche Bank Research

German households (re-)turn to interest-earning assets

Rising deposit rates and bond yields since 2022 have lured households into interest-earning assets. As regards deposits, savers also reshuffled funds from sight deposits into term deposits and savings bonds, where interest rates rose strongly to over 3% p.a., while rates for sight deposits or savings deposits remained below 1%. Reallocation is likely to continue next year but at a lesser scale; spreads are already narrowing due to lower interest rates. With continued monetary easing, rates are set to recede further. Nevertheless, total deposits may grow again, albeit at a slower pace (June 2024: +4.2% yoy). Low- and middle-income households especially, who tend to save mostly in the form of bank deposits, will probably top up their reserves given a still unfavourable economic outlook and dimmer perspectives on the labour market. Deposits account for one-third of households' total financial assets, by far the most popular savings product.

Deposits most popular savings product 2

Total financial assets held by German households, EUR bn, Q2 2024



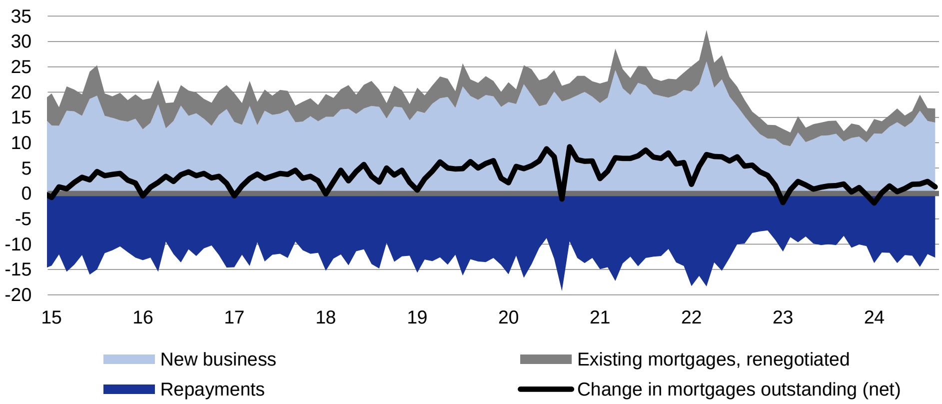
Sources: ECB, Deutsche Bank Research

Bond investments are still historically high, and investment funds focused on debt securities are currently seeing record inflows. Expected returns are more attractive than during most of the past decade, which drives net purchases, yet in absolute amounts these remain comparatively small. In the end, bonds (held directly or in funds) only account for roughly 5% of households' financial wealth.[1] Market perspectives also play a major role for equity investments. Equity makes up 19% of the total asset stock, about evenly divided into share holdings and other equity (incl. stakes in unincorporated businesses like OHG and KG). In addition, almost two-thirds of households' investment fund portfolios are focused on shares. Investment funds overall account for 12%; pension schemes and life insurances for 14% each.

Thus, a good half of total financial assets are directly or indirectly invested in capital markets and the development of household wealth will depend strongly on market performance in 2025 – be it expected performance as a basis for investment decisions or realised performance driving valuation changes.

New mortgages slowly recovering in 2024 3

EUR bn per month, until September 2024



Sources: Deutsche Bundesbank, Deutsche Bank Research

Outstanding bank loans to households amount to EUR 1.5 tr, EUR 1.3 tr of which is for house purchases. Mortgage growth has been anaemic (0.8% yoy in September), but there is a silver lining. Although net new loans remain low, gross new mortgages (without deducting redemptions) have increased from EUR 10 bn on average in Q1-Q3 2023 to EUR 13 bn in the same period this year. On a net basis, a third of banks in Germany are optimistic about future mortgage demand. While house prices have started to increase again – albeit

[1] Based on BVI data, we estimate that roughly one-quarter of households' fund shares are invested in bonds. See BVI (2024), Rentenfonds mit höchstem Absatz seit 2012, November 12. BVI (2021), Der Markt für Publikums-Mischfonds in Deutschland, January.

very moderately – mortgage rates are expected to trend sideways. With household income slowly rising, affordability is likely to not change much. Housing construction might pick up by the end of 2025[2] and help to revitalise mortgage growth. Besides the mortgage market, consumer loans have also been sluggish but could see an uptick in line with stronger private consumption.

Heike Mai (+49 69 910-31444, heike.mai@db.com)

[2] Moebert, Jochen (2024), Construction recession could end in 2025, Focus Germany, Deutsche Bank Research, September 16.

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