Study on monetary wealth: Prosperity to rise, but savings propensity on a decline

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Monetary wealth of Austrians expected to rise 14.4% or from EUR 7,900 to 62,800 by 2015; savings ratio to decrease from 9.1% to 8.1%

In 2010, Austrians saved EUR 1,819

Thomas Uher, board member of Erste Bank, warns: “We need to revive the spirit of saving."

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Prosperity in Austria will continue to rise in the coming five years despite the economic crisis. This is the general positive conclusion drawn from the findings of the latest monetary wealth study conducted by Macro-Consult on behalf of Erste Bank. The average monetary assets per Austrian are estimated to rise from currently EUR 54,900 to EUR 62,800. This is a gain of 14.4% or EUR 7,900. This increase is driven mainly by the rising incomes of Austrians. At the same time, the latest monetary wealth study ascertains a decline in the savings propensity. The savings ratio will decline further from currently 9.1% to 8.1% “unless countermeasures are taken in time,” warned Thomas Uher, Member of the Management Board of Erste Bank. A greater propensity to save is what called for in his view.

Despite the on average higher incomes and growing assets, the propensity to save of Austrians has hit a ten-year low. The latest monetary wealth study shows that the savings ratio, which is the share of disposable income put aside, will drop to 8% by 2015. The last time the savings ratio was this low was in the year 2000, and before that, at the beginning of the 1980s. The figure for the euro area is 8.8% now, and in Austria 9.1%. “Money is now increasingly being spent on consumption in Austria as well. The declining savings ratio is also having a negative effect on investment activity in Austria,” said Thomas Uher, Member of the Management Board of Erste Bank Oesterreich.

At present, every Austria saves EUR 1,819 or 9.1% of disposable income every year. In 2005, the figure was EUR 1,742 or 9.7%. And by 2015, the annual amount saved will still be EUR 1,819 despite rising incomes, and therefore, at the same level as in 2010. This effect is attributable to the decline in the savings ratio to 8.1%.

The authors of the study assume that Austria’s economy will grow in the coming five years (2011 to 2015) real by 1.8% p.a. and disposable income by 2.7% p.a.

Inflation is forecast at 1.8% on average. “Not exceptional, but nonetheless solid base to save for hard times which might lie ahead as of 2015,” said Josef Christl, Head of Macro-Consult. By way of comparison: From 2006 to 2010, Austria’s economy grew on average only 1.2% and incomes by 2.5%.

Austria traditionally has a higher savings ratio compared to the euro area and the EU. In 2009, the savings ratio was still 11.1% of disposable income, while in the euro zone it was only 9.6%, and in the EU, even lower at 7.9%. “Overall, in the years preceding the global financial crisis we saw rising savings ratios in Europe,” said Christl, “which can be explained by the positive development of incomes in these years. Meanwhile, a decline has set in in all European countries due to the crisis that was, of course, much pronounced in Austria than in the rest of Europe.

Declining propensity to save has negative consequences for investment activity
“Countries with high savings ratios have the big advantage - especially in times of crisis – that they can finance budget deficits largely from domestic savings (e.g. Italy, Japan), while countries with low savings ratios (e.g. Greece, Ireland) are dependent on foreign financing,” the economist explained.

Now, the savings ratio is at risk of decreasing over the medium term from currently 9.1% to the forecasted level of 8.1% by 2015. Likewise on a decline is the investment ratio, which is the share of nominal gross corporate spending on capital goods in nominal GDP. While this figure had been far above 25% in the 1970s, in the past ten years (period from 2000 to 2010), it has fluctuated within a bandwidth of 21% to 23%, and is expected to drop further to 20% in the years until 2015.

Josef Christl: “This is related to the waning spirit of saving. In current economic policy, saving and its long-term positive effects on investment activity and innovation have shifted into the background.”“

“Austria coped very well with the global financial and economic crisis. The government quite correctly took countermeasures during the crisis. But now we need to revive the spirit of saving. Because saving in the private and public sectors is important for long-term growth. Frequent changes to taxation and other framework conditions are also counterproductive for long-term saving trends,” said Thomas Uher in summing up the findings of the study.