

Erste Bank's forecast on savings and loans trends in 2Q: Austrians invest EUR 5,670 on average

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Investments: Ø of roughly EUR 200 more than in 1Q

Average lending volume down to 62,000

Around 40% do not expect higher inflation

The survey conducted every quarter by INTEGRAL for Erste Bank looked at the latest monetary flows of Austrians in the second quarter. Savings passbooks advanced one percentage point and remained the most popular form of saving in Austria with a 63% share. Building society savings accounts were the second most popular at 55% (1Q: 58%) and for 40% life insurance policies continue to be the form of savings selected for the coming 12 months. Remarkable in the first quarter were the trends in gold and real estate: At the beginning of the year, only 8% had planned to invest in gold, while now it is 11%, and the percentage in real estate rose from 11% to 13%. The average sum invested is EUR 5,670 (1Q: EUR 5,460) and therefore slightly higher. The number of persons planning larger purchases remained unchanged at 31%. A share of 14% intend to finance their purchases with loans, with the average loan amount dropping from EUR 70,200 to EUR 62,000. Austrians views on inflation: A share of 30% expect inflation to stay more or less the same as today over the next 12 months, 61% are afraid it will rise, and 9% expect it to sink.

Cash flow forecasts for households

After the latest hikes in key lending rates, interest on savings accounts rose again slightly in Austria too. This again boosted the popularity of savings accounts: 63% plan to save money on savings passbooks in the next 12 months, 55% set store by building society savings schemes and 40% save money in the form of life insurance. The figures refer not only to new investments but also to current products during this period. In comparison to the start of the year, the trend towards gold and real estate is growing: Investments in gold rose from 8% to 11%, and in real estate from 11% to 13%. "Nonetheless, you should always make sure that your investments are broadly diversified," according to Peter Bosek, Member of the Management Board of Erste Bank. "It would be a mistake to put all your eggs in one basket."

The average amount of invested capital by Austrians is on a slight upwards trend. While the average investment amount in the first quarter was only EUR 5,460, right now it is EUR 5,670. This amount refers to both existing and planned investments over the next 12 months.

A look at spending patterns shows that nothing has changed versus the beginning of the year. 31% are planning major purchases for housing, cars or new furniture in the next 12 months. 83% (1Q: 85%) plan to finance their purchases with savings and 14% (1Q: 15%) intend to take out a loan for this purpose. The amount planned to be borrowed is stated at around EUR 62,000, which is EUR 8,200 less than in the first quarter.

Four out of ten Austrians do not fear higher inflation

Currently, inflation in Austria is at a relatively high level of 3.3%. The ECB raised the key lending rate to 1.5% in order to anchor medium-term inflationary expectations in the euro zone close to or below 2%. Nonetheless, Austrians are sceptical about the further course of developments. 61% expect rising inflation for the next 12 months, 1/3 believes it will stay around



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the same and 9% even expect lower inflation rates.

"We are often asked about inflation trends by worried customers," said Mr. Bosek. Currently, Erste Bank is recommending savings passbooks with short maturities in order to be able to profit from further interest hikes. However, if you expect inflation to rise you can protect yourself by buying inflation-linked bonds, for example.

Austria's economy on the path to expansion

Economic development in Austria continued on a positive course. In the first quarter, the domestic economy grew by 0.9%. For the full year 2011, Austrian economists are forecasting a rise in gross domestic product (GDP) of around 3.0%. This is much higher than the European average (forecast EU -27: 2.0%). The ECB will probably raise the key lending rate in November again by 25 basis points to 1.75%. Consequently, interest on savings accounts and loans will also rise next year. "Therefore, we are now recommending savings passbooks with maturities of a maximum of one year." Moreover, this interest rate level is a good entry point for high-return but secure investments. "We do realize that confidence in securities has currently hit rock bottom. But it would be a mistake to generalize all investments as bad," said Mr. Bosek. Although the interest rate hike by the ECB is a move to fight inflation, the interest earned on short-term savings after capital gains tax will not climb that fast above the still relatively high inflation rate. On the credit side, interest rates are already on the rise at present. In historic comparison, loans are still inexpensive, but one should start considering a future of higher interest rates: "We continue to recommend interest caps or fixed-interest agreements," explained Mr. Bosek.