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INFLATION AND WEALTH ACCUMULATION OF YOUNG GERMAN HOUSEHOLDS: EVIDENCE FROM SOEP PANEL DATA (2015–2022)

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Abstract:

This paper summarizes the main findings of the dissertation on the financial impact of inflation on the wealth of young adults in Germany in the period 2015-2022. The aim is to present the key findings in a scientific article that covers all essential aspects and is suitable for publication in a specialist journal. The analysis is based on extensive data from the German Socio-Economic Panel (SOEP), supplemented by macroeconomic information from the Deutsche Bundesbank, the Federal Statistical Office and international organizations. Fixed-effects panel regressions are used to examine how inflation shocks influence the savings and investment behavior of younger and older households. The study shows that wealth inequality between younger and older households was already high during the low-inflation phase and worsened further as a result of the sharp price increases from 2021. The study focuses on the central hypotheses; that inflation significantly inhibits wealth accumulation among young adults. The empirical results only partially support these assumptions. Although young households suffer real losses in value, a heterogeneous adjustment can be identified: Well-qualified young people with higher incomes invest more in tangible assets, while financially weaker groups reduce their savings and prefer consumption. The paper concludes with an outlook on political measures to strengthen the financial resilience of young generations.

Keywords:

inflation, young adults, household assets, Wealth inequality in Germany, Wealth inequality

JEL Classification: E31, D14, D31

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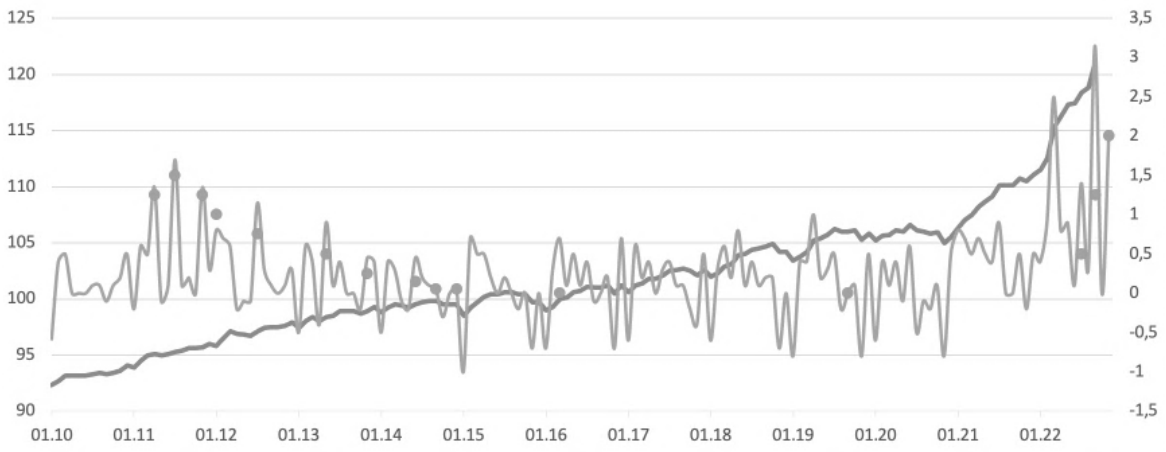
1 Introduction

After decades of price stability in the euro area, German households were suddenly confronted with consumer price inflation exceeding 10 % in 2022. Young adults are particularly vulnerable because their assets are small and concentrated in liquid deposits. Between 2015 and 2022, the German economy went through an exceptional phase characterized by low inflation, expansionary monetary policy and subsequent price increases. In the years 2015-2019, the inflation rate was mostly between zero and two percent (Destatis, 2023), driven by low energy prices and moderate growth. The European Central Bank (ECB) responded with massive bond-buying programs (Cardoso et al., 2022) and negative key interest rates to ward off deflationary trends and stimulate lending. For households, this phase meant favorable financing conditions, but also sharply rising property prices. Particularly in metropolitan areas, residential properties increased in value by over 40%, making it difficult for many young adults to buy their own home (Deutsche Bundesbank, 2019; Immenkötter, 2024; REFIRE, 2023). The resulting widening wealth gap between renters and homeowners was already apparent during this period of low inflation. The situation changed with the outbreak of the COVID-19 pandemic in spring 2020. The German government launched extensive economic stimulus packages, temporarily reduced VAT and supported companies and employees with short-time working allowances (Christl et al., 2023; CSIS, 2020; ABN AMRO, 2021). Although these measures stabilized purchasing power, together with global supply bottlenecks and the rapid reopening of the economy from 2021 onwards, they led to considerable price pressure. As a result, consumer price inflation rose to 3.1% in 2021 and, boosted by Russia's invasion of Ukraine and the resulting energy price shocks, reached over 10% in October 2022 (Destatis, 2023; Reuters, 2023) - the highest level since the 1950s. Energy prices rose by more than 30 percent and food by 13 percent. These price increases particularly affected low-income households, including many young adults who are still at the beginning of their careers and have little financial buffer.

Figure 1: Inflation 2010-01/2022-12 in Germany based on 2015 change in CPI and ECB Tenders Fixed Rate



Source: Own presentation based on data from Statistisches Bundesamt

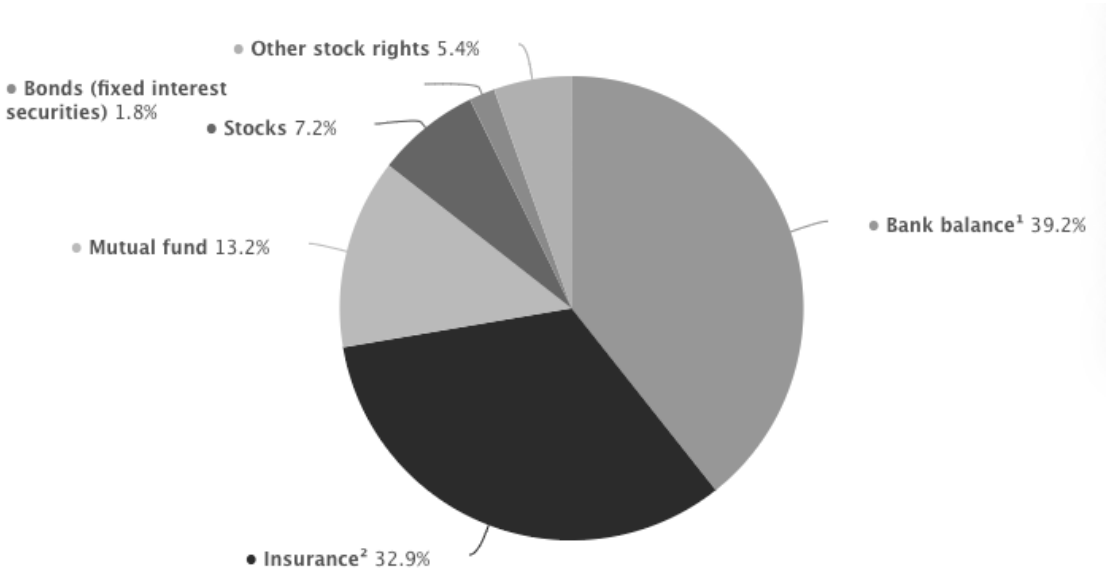
Parallel to the macroeconomic developments, structural problems in wealth distribution have worsened. Germany is one of the countries with the highest concentration of wealth in Europe. The richest tenth of households hold around 60 percent of net wealth, while the bottom 20 percent have virtually no savings. This inequality is particularly pronounced in the group of young adults: The richest ten percent of under-30s have at least 14 times the median wealth of this cohort. At 0.85, (Deutsche Bundesbank, 2023; Deutsche Bundesbank, 2025) the Gini coefficient for the net wealth of the under-30s is significantly higher than the value of 0.65 observed in older age groups . Theoretically, a certain concentration of wealth is to be expected in young life phases, as wealth is only built up over the course of a lifetime. However, the extremely high concentration points to structural barriers that go beyond the life cycle model. These barriers include a tight housing market, high minimum investments for inflation-protected financial products, insufficient financial education (Bucher-Koenen et al., 2023; Lusardi & Mitchell, 2017; Deutsche Bundesbank, 2015) and insecure employment biographies.

In the years after the study period the economic environment in Germany began to stabilise, with price pressures subsiding and monetary policy gradually returning to normal. Despite this moderation in headline inflation, households continue to face elevated costs for services and rents, and wage growth has not fully restored purchasing power. This means that the financial situation of young adults remains fragile, even though the immediate inflation shock has passed. While living costs are no longer rising as steeply as they did during the peak of the crisis, the legacy of that period still weighs on savings behaviour and wealth accumulation. At the same time, the distribution of wealth in Germany remains highly unequal. A small share of households still owns the bulk of assets, and property ownership plays a major role in this divide. Younger people are far less likely to own their homes than older generations, which locks them out of the appreciation in real estate values and leaves them paying high rents. This generational gap in home ownership has persisted and even widened over the past decade, reinforcing intergenerational differences in wealth and financial security. Several structural factors continue to limit the ability of young adults to build assets. Housing prices have increased faster than incomes, making it difficult to accumulate the equity needed to enter the property market. Participation in capital markets remains limited, with many households preferring to keep their savings in low-return bank deposits rather than investing in equities or funds that could offer higher returns over the long term. In addition, gaps in financial literacy and digital confidence persist, particularly among those with lower income or less education. These factors combine to create significant barriers to wealth accumulation and financial resilience. Policymakers have recently acknowledged these challenges and launched initiatives aimed at strengthening financial capabilities and promoting asset accumulation. A national financial literacy strategy has been introduced to encourage long-term saving, increase participation in capital markets and improve budgeting and digital skills across all age groups. Complementing this, proposals for a “starting capital” programme would provide children with a modest, state-funded investment account to give them early exposure to capital markets and a foundation for future wealth building. These initiatives represent a shift towards more proactive policies designed to address structural impediments and reduce intergenerational wealth gaps.

Young households differ from older groups in many respects. On average, they have lower incomes and assets, exhibit higher income volatility and rarely have access to home ownership. This increases their vulnerability to price increases. Studies show that people under the age of 30 are more likely to be in temporary or atypical employment and tend to receive lower wages (Destatis, 2021). Due to limited financial resources, they are also more affected by price trends for rent, energy and food. Many young people have little or no financial reserves. The Bundesbank report

"Private households and their finances" (Deutsche Bundesbank, 2022; Deutsche Bundesbank, 2023) shows that households under the age of 30 have only a fraction of the assets of older households. At the same time, the need for consumer goods increases for many in this phase of life planning, which brings additional burdens. Debt, for example in the form of student loans or consumer credit, can benefit from inflation in the short term if the real value of the debt falls, but interest rates often rise rapidly during periods of high inflation, making new loans more expensive. Banks often only grant loans with sufficient creditworthiness and high equity, which excludes many young people. These specific characteristics must be taken into account when analyzing the effects of inflation.

Figure 2: Distribution of financial assets in private households in Germany in 2021, by type



Source: Statista 2021

The years 2015 to 2022 represent an extreme range of monetary policy and macroeconomic conditions. During the low inflation phase 2015-2019, the ECB's key interest rates fell to historic lows. Negative interest rates for deposits and large-scale bond purchases were intended to drive inflation towards the two percent target. Nevertheless, consumer prices initially remained subdued; instead, prices for assets such as real estate and shares rose sharply. Young households hardly benefited from this, as they are less likely than the average to own their own home or invest in shares. The real estate market was particularly dynamic: prices for condominiums in large cities increased by around 8% per year, while wages rose only slowly. The "lock-in effect" of renting became entrenched - those who do not own property miss out on the increases in value and have to pay rising rents. The German economic area was hit by the COVID-19 pandemic in 2020. Measures to contain the pandemic led to a slump in gross domestic product. The German Government responded with extensive fiscal support measures (Christl et al., 2023; CSIS, 2020). The temporary VAT rate and short-time working allowance stabilized incomes but, together with supply bottlenecks, led to excess demand when the economy recovered in 2021. Inflation rose to 3.1 percent. In February 2022, the Russian war of aggression against Ukraine escalated. Sanctions against Russia, supply disruptions and a sharp rise in energy and commodity prices pushed

inflation into double digits in the fall of 2022 (IMF, 2022; Reuters, 2023). This shock hit Germany harder than many other countries, as it was heavily dependent on gas. The German government introduced relief packages e.g. 9-euro ticket, energy flat rates) to alleviate the burden. Nevertheless, households had to accept a noticeable loss of real income. For young adults, this means that at a time of rising energy costs, high rents and stagnating wages, they had fewer resources to save and partially depleted their savings.

A paradoxical development emerged during the low inflation phase. On the one hand, real estate and share prices rose sharply, while on the other, young people's savings behavior remained heavily focused on traditional bank deposits (German Bundesbank, 2015; Felici et al., 2022; Commerzbank, 2024). The real interest rate on savings deposits was negative, yet many households held on to their savings accounts. The reasons for this are a lack of financial education, risk aversion and the desire for liquidity. Studies such as "Private households and their finances" (Bundesbank, 2019) show that the securities ratio among under-30s is low (German Equity Institute, 2021; Bucher-Koenen et al., 2023) and that they only have small equity holdings. Nevertheless, interest in securities increased slightly in Germany during the pandemic - driven by online brokers and social media. However, the majority of young adults did not participate in the increases in value on the capital markets. As a result, the wealth gap between those who invested and those who only saved grew.

In the years 2015-2020, no significant catch-up in the home ownership rate of young people was observed either. As the SOEP data shows, the proportion of 25 to 45-year-olds living in their own home fell from 32% (2010) to 26% (2022). The high purchase prices, stricter lending policies and the need for a high level of equity represented an almost insurmountable hurdle for many people. Couples or single parents in large cities often had to pay rents that accounted for an average of around 30 percent of their net income.

Inflation from 2021 onwards led to noticeable changes in behavior. According to surveys by the Association of German Banks (2024) young people stated that they were reducing their consumption and increasingly using short-term forms of savings such as call money. At the same time, interest in tangible assets, particularly gold and shares, increased. Numerous online brokers recorded a strong influx of young investors, with digital platforms and social media playing an important role. However, this was often short-term speculation driven by high return expectations and peer influence "memestock" phenomenon (Coibion et al., 2023; Braggion et al., 2023). Many investors still lack the means and knowledge to make sustainable, long-term investments. In contrast, a targeted shift into real estate and equities was observed among more highly qualified young households (Weber et al., 2024; Paz-Pardo, 2022). This group benefited from more stable incomes and was able to compensate for the loss in value of nominal investments. Overall, however, the majority remained with low-interest savings products, which led to real losses.

Existing research on the distributional effects of inflation largely relies on aggregate euro-area evidence or centers on older households, leaving limited micro-level evidence for young adults in Germany and rarely disaggregating responses by asset class, tenure, or region; this gap is explicitly noted in prior discussions of the literature and motivates a youth-focused analysis in the German context. The omission is consequential given Germany’s specific institutional and market features comparatively low homeownership among young households, a strong preference for liquid bank deposits over market-based assets, and the unusual 2015–2022 sequence that paired a prolonged low-inflation, low-rate environment with an abrupt inflationary shock which together shape exposure and adjustment margins for early-life portfolios. The present study addresses this gap by exploiting

eight consecutive waves of SOEP micro-data (2015–2022), augmenting each observation with macro indicators, and estimating two-way fixed-effects models to identify within-household adjustments in saving and wealth accumulation in response to inflation, thereby improving on descriptive or cross-sectional approaches prevalent in earlier work. The value added is threefold: first, a demographic and national focus that isolates the experience of young German adults; second, a systematic accounting for heterogeneity across asset components and across salient subgroups; and third, a methodological design that strengthens causal interpretation and yields policy-relevant evidence on which young cohorts are most exposed to inflation-induced wealth erosion and which margins of adjustment dominate. Taken together, these contributions extend the literature with context-specific, micro-founded estimates for a population whose early-life portfolio choices have outsized long-run consequences, and they inform ongoing debates on financial education, capital-market participation, and housing access for younger generations

2 Objectives and hypotheses

This study pursues several key objectives that are derived from the initial situation described above. Firstly, the wealth situation of young adults in Germany is to be comprehensively described and compared with older cohorts. How high are the median assets of 17 to 30-year-olds compared to older-aged and older households? How large is the proportion of young people without significant savings? Secondly, the determinants of wealth differences within the group of young adults will be identified. In particular, the role played by factors such as place of residence east west will be examined. Thirdly, it is analyzed the extent to which the inflation phase from 2021 onwards influences wealth accumulation and whether changes in savings and investment behavior can be detected.

These objectives give rise to the following research questions: Which factors account for the observed differences in wealth, considering both structural framework conditions and individual characteristics? To what extent does inflation influence the wealth accumulation of young households, specifically, do high price increases lead to falling real incomes, lower savings rates, and losses in the real value of nominal investments, and do young households adopt protective measures in response?

Based on the research questions and the theoretical framework, the central hypothesis is formulated: Inflation has a significant negative impact on the wealth accumulation of young adults in Germany. This hypothesis is based on the assumption that young households have lower savings and more volatile incomes and hold a higher proportion of nominal assets. When prices rise, these assets lose value in real terms, while wages only increase with a time lag. In addition, young people are confronted with the rising cost of living, which means they have less money left over to save.

3 Literature review and theoretical framework

Research into the effects of inflation on the distribution of wealth is a classic issue in macroeconomics and finance. As early as the 1950s, models were developed to explain saving and consumption behavior over the life cycle. More recent approaches extend these traditional theories to include psychological aspects and take institutional framework conditions into account.

The following section presents the most important theoretical concepts and discusses current research findings on the wealth accumulation of young households.

The life cycle model according to Modigliani and Brumberg (Modigliani & Brumberg, 1954; Ando & Modigliani, 1963) assumes that individuals want to smooth their consumption over their entire life span. They build up assets during their working years in order to be able to maintain their standard of living in retirement and consume these assets later on. For young people, the model tends to imply low or even negative savings rates as they finance their education or prioritize consumption. Older-aged households, on the other hand, have higher savings rates to provide for retirement, while older people slowly reduce their assets. Inflation can disrupt this planning behavior by reducing the real value of savings. Unexpected price surges reduce the purchasing power of saved assets and can lead to a shift in consumption and saving. For young households, this means uncertainty regarding the future real value of their savings and potentially lower incentives to save. Although debtors benefit in the short term from the devaluation of their nominal liabilities, inflation makes wealth accumulation more difficult in the long term if it leads to high price levels and low real interest rates.

The permanent income hypothesis developed by Friedman (Friedman, 1957; Carroll, 1997) supplements the life cycle model by assuming that households base their consumption on their expected average income. Temporary changes in income or price fluctuations therefore have less of an impact on consumption as long as long-term income remains stable. Expected inflation is compensated for in nominal income; only unexpected price shocks reduce real disposable income in the short term. For young households with limited income, this means that unexpected inflation means they have to temporarily restrict their consumption or liquidate savings until wages and salaries catch up. In addition, high inflation can have a negative impact on long-term expectations of real income and lead to cautious consumer behavior. Despite its rationality, the permanent income hypothesis assumes sufficient information processing, which is not always the case for young people. A lack of separation between nominal and real variables can lead to inflation being perceived more strongly than the models assume.

From a Keynesian perspective, consumption and saving depend primarily on current disposable income. If prices rise faster than wages, real income falls, which leads to a decline in consumption and lower savings rates (Dash & Kumar, 2018). Young people, who are more often in precarious employment and receive lower wages, are particularly affected. In times of high inflation, they may have to spend a larger proportion of their budget on everyday goods, leaving less for savings. Keynesian models also take into account uncertainty about future income and prices. Increased inflationary expectations can lead to stockpiling or early consumption. On the other hand, increased uncertainty can lead to an increase in cash holdings as a precautionary measure, although these lose value due to negative real interest rates. For young households, the situation is ambivalent: on the one hand, their purchasing power is falling, while on the other, they may be tempted to bring forward purchases before prices rise further.

Monetarists, above all Friedman (1963), view inflation as a purely monetary phenomenon caused by an excessively rapid expansion of the money supply. In terms of saving behavior, this means that high inflation reduces the attractiveness of holding money. Households try to convert surplus liquidity into material assets or consumption as quickly as possible, as the real value of money shrinks. Empirical studies show that demand for inflation-protected investments such as real estate, shares or precious metals increases during periods of high inflation. For young households with little financial leeway, however, such a reallocation is difficult because investing in tangible assets

requires high minimum amounts and borrowing becomes more expensive. From a monetarist perspective, the incentive to save for nominal assets would therefore decrease, while investments in real assets would increase - a pattern that was only partially observed in Germany during the low-interest phase of the 2010s.

The New Classical School, represented by economists such as Lucas (1972), assumes that economic agents are rational and use all available information. Expected inflation rates are taken into account in contracts and nominal values, so that inflation has no real effects in the long term. Only unexpected changes in the money supply lead to temporary distortions. For savings and investment behavior, this means that no significant adjustment is necessary if monetary policy is credible. Households demand higher nominal interest rates if they expect higher inflation, so that the real return remains stable. In reality, however, it turns out that households often have different expectations and that nominal interest rates do not always increase to the same extent when inflation rises. In Germany, the sudden rise in inflation after years of stability was underestimated by many households, leading to a loss of purchasing power in real terms. Young people with little experience of periods of inflation may find it difficult to adjust their expectations quickly and rebalance their portfolio accordingly.

In addition to traditional theories, behavioral economics takes into account psychological biases that influence financial behavior. A central concept is the money illusion (Shafir et al., 1997; Deloitte, 2021), which states that people orient themselves more towards nominal than real values. For example, households may feel better off if they receive higher wages in nominal terms, even if these are eaten up by higher inflation. Young adults with little financial education may internalize this illusion more strongly and overvalue nominal savings. Present preference also plays a role: younger people tend to favor short-term consumption, which can be reinforced under inflation. At the same time, loss aversion and risk avoidance can lead to young savers sticking with traditional investments despite negative real interest rates and avoiding riskier but inflation-protected investments. The increasing importance of social media also leads to herd behavior: Trend movements on equity or crypto markets can tempt young investors to speculate in the short term without adequately considering the long-term risks. These behavioral economic phenomena make it clear that the reaction of young households to inflation is heterogeneous and depends heavily on their level of education, experience and social influences.

Although numerous studies have investigated the impact of inflation on households, the specific situation of young households in Germany has received little attention. Earlier studies by Doepke and Schneider (2006) and Auclert (2019) show that inflation redistributes nominal wealth from creditors to debtors. Other studies, such as by Pallotti et al. (2024), find that the 2021-2023 inflation wave in Europe actually benefited some young households by reducing the real debt burden. However, these analyses mostly refer to aggregated European data and do not take into account the particularities of the German market with its low home ownership rate and the high importance of bank deposits. Moreover, many studies focus on the macroeconomic level or on older households and neglect the heterogeneous reaction of different asset classes. This study closes this gap by using microdata from the SOEP to analyze the development of young adults' wealth in detail and distinguishing the effects of inflation on different wealth components like real estate, financial assets and liquid assets. In addition, regional differences and age comparisons are identified in order to adequately reflect the diversity of young people's life situations.

4 Methodology

Using eight consecutive waves (2015–2022) of the German Socio-Economic Panel, this study follows a cohort of 17- to 30-year-olds and augments each annual observation with macro-level indicators, most notably consumer-price inflation and Morgan Stanley Capital International (MSCI) World equity returns. Time-Fixed-effects panel regressions (Twoway-FE) exploit within-respondent variation, while conditioning on key household covariates, to isolate the causal impact of inflation on young adults' saving behaviour.

4.1 Research design

A quantitative research design based on panel data analysis was chosen to answer the research questions. The 2015-2022 waves of the German Socio-Economic Panel Study (SOEP), a representative longitudinal study that collects data on income, wealth, work and living conditions from around 30,000 households in Germany every year, are used. The data makes it possible to observe individual changes over time and identify causalities. Macroeconomic indicators such as the consumer price index, real estate price index and interest rates as well as regional labor market data are also integrated. By linking microeconomic and macroeconomic information, the reaction of households to general price developments can be analyzed.

4.2 Data basis and sample

The sample comprises all households in the SOEP whose main income earners are between 17 and 30 years old. Groups of 31-plus households are included for comparison. Only those observations are included for which complete information on wealth, income, education, employment status and other control variables is available. In the SOEP, wealth is defined as the sum of real estate, financial assets (Deutsche Bundesbank, 2019; 2023), business assets and tangible assets less debts. As assets are not surveyed in every wave, an interpolation procedure is used to obtain annual estimates. Price indices are used to deflate all monetary amounts to the price level of 2022 (Destatis, 2023). In addition, regional indicators (west vs. east), from the microcensus are used to reflect regional differences.

The empirical analysis draws on the German Socio-Economic Panel (SOEP), a large longitudinal survey of private households conducted annually since 1984. The SOEP aims to provide a representative picture of the resident population of Germany. The survey began with two core samples: Sample A, consisting of households headed by German citizens, and Sample B, an oversample of households with household heads from major migrant groups. To maintain cross-sectional representativeness, the SOEP regularly integrates refreshment samples and targeted oversamples (e.g. East Germans, migrants, high-income households). In total, approximately 15 000 households and 30 000 individuals participate each wave. A two-stage stratified sampling design is used: first, sampling points are drawn by federal state and municipality size, and second, households are selected using a random-walk procedure. This probability sampling enables the construction of design weights and longitudinal weights that adjust for sampling design, non-response and post-stratification to official population margins.

For this study, eight consecutive SOEP waves from 2015 to 2022 are used. Households are included if the main income earner (defined by SOEP as the person contributing the largest share

of household income) was aged 17–30 in at least one wave. Households with main earners aged 31 years or older serve as the comparison group. To ensure longitudinal consistency, households must appear in at least three waves during 2015–2022, and we exclude households with missing information on wealth or income after imputation (see below). After applying these criteria and incorporating longitudinal household weights, the young cohort comprises approximately 4 800 household-year observations from roughly 850 distinct households, while the comparison group contains around 9 000 household-year observations from 1 500 households. Applying the SOEP's longitudinal weights makes estimates representative of Germany's population of younger and older households.

4.3 Variables and modeling

The empirical analysis models household saving behaviour using a fixed-effects panel framework. The primary outcome is the saving rate, defined for each household i in year t as monthly savings divided by monthly disposable income. Monthly savings are calculated as the difference between net household income and self-reported consumption expenditures, while disposable income aggregates after tax earnings, transfers and capital income. In sensitivity analyses the dependent variable is replaced with the amount of savings in euros or the logarithm of real net wealth W, which sums real estate, financial assets, business assets and tangible assets minus debts and deflates these values to 2022 euros according to the procedure described in the data section.

To explain saving behaviour, the model includes several macroeconomic and household level variables. The central explanatory factor is national consumer price inflation, measured as the year-on-year change (YoY) in the CPI for month t. Inflation is treated as exogenous because a single household's saving behaviour has no appreciable impact on national price indices. The return on the MSCI World index provides a proxy for global equity market performance and captures alternative investment opportunities. Household debt service is represented by monthly interest repayments on mortgages and consumer credit; large repayments may crowd out saving. A dummy variable identifies households where the main income earner is aged 17–30, and its linear interaction with monthly inflation (YoY) allows the inflation effect to differ for young households. Additional controls capture socio-economic characteristics – real income, education level, employment status, family composition, region East vs. West Germany and home ownership – because theory and previous research suggest that income and education determine saving capacity and that employment, family responsibilities and housing markets influence consumption needs. Macro-controls such as nominal interest rates, regional unemployment rates and real estate price indices account for other economic forces that could correlate with both inflation and saving behaviour.

The identification strategy relies on treating inflation as a common national shock that is exogenous to individual households. Because the CPI is computed from aggregate price data and individual households have no measurable influence on it, inflation can be viewed as an externally determined variable. Nevertheless, several sources of endogeneity are considered. Reverse causality is unlikely because a single household's saving has negligible impact on aggregate demand and thus on inflation, but macro-controls and year dummies are included to account for any coincidental cycles. Unobserved time-varying factors, such as changes in inflation expectations or credit access, might affect both saving and perceived inflation; the control variables and fixed effects help to mitigate this risk. Measurement error is minimal because CPI is based on official statistics, but

lagged inflation specifications are estimated to check whether expectations or adjustment costs drive the results. An instrumental-variables approach using exogenous monetary policy shocks could be considered to further rule out endogeneity, although data limitations preclude its implementation here.

Estimation proceeds via weighted least squares with the SOEP longitudinal household weights to preserve representativeness. Heteroskedasticity-robust standard errors are clustered at the household level, as recommended in applied econometric guidance, to allow for serial correlation and arbitrary Patterns of Heteroscedasticity within households. Comparing fixed-effects results to random effects estimates and conducting Hausman tests confirms that the fixed-effects specification is appropriate, consistent with the principle that when unobserved individual effects are correlated with observed regressors, fixed effects should be preferred over random-effects due to Compensation of Omitted Variable Bias and in Consequence biased estimates of the longitudinal effect of monthly Inflation (YoY) on household-specific saving and investment behavior.

4.4 4.4 Analytical method

A fixed-effects panel regression is used (Allison, 2009; Angrist & Pischke, 2009; Wooldridge, 2010) to estimate the impact of inflation on real wealth. This method controls for all time-invariant, household-specific factors that could influence both wealth and the response to inflation. The basic model is:

$$\text{Saving rate}_{(it)} = \beta_1 * \text{Inflation}_{(it)} + \beta_2 * \text{MSCI World ROI}_{(it)} + \beta_3 * \text{interest Repayment}_{(it)} + \beta_4 * \text{Age}_{(it)} + \beta_5 * (\text{Age}_{(it)} \times \text{Inflation}_{(it)}) + \alpha_i + \text{year}_t + \varepsilon_{(it)} \quad (1)$$

where Age = 0 (Old) vs. Age = 1 (Young)

To check robustness, alternative specifications are estimated, such as random effects models and instrumental variable estimates, to address potential endogeneity of inflation. In addition, the saving rate as a share of disposable income is examined in order to shed light on short-term adjustments in household-specific saving and investment behaviour.

4.5 4.5 Validity and reliability

The study's identification strategy treats national consumer-price inflation as an exogenous macroeconomic shock: individual households cannot influence the German CPI, which is driven by aggregate consumption, energy prices and monetary policy. Inflation data are collected independently of the SOEP, and therefore any measurement error is unrelated to household saving. Possible endogeneity concerns arise from reverse causality and omitted variables. While, in principle, higher saving could reduce aggregate demand and dampen inflation, the contribution of any single household to national demand is negligible. Moreover, the inclusion of macroeconomic controls and year dummies helps ensure that within-household variation in savings is compared across periods with similar macro conditions. Omitted variables, such as inflation expectations or access to credit, could influence both saving and the perception of inflation. To address this, the fixed-effects model controls for time-invariant unobservables and includes a rich set of socio-economic variables income, education, employment, family status, region and home

ownership that theory and previous research have linked to saving behaviour. aditional macro controls further reduce the risk that the inflation coefficient is picking up the effects of other economic forces. To evaluate the robustness of the estimated inflation effect, several sensitivity analyses are performed. First, the model is re-estimated using inflation lagged by one month and one year. If inflation operates through expectations or adjustment costs, lagged effects should be detectable; a persistent negative effect of lagged inflation would strengthen the causal interpretation. Second, the dependent variable is varied: the saving rate is replaced by the amount saved in euros and by the logarithm of real net wealth. Similar signs across these outcomes indicate that inflation dampens both saving and wealth accumulation. Third, placebo tests are conducted by substituting inflation with macro variables that should not affect household saving, such as international oil prices or exchange rates. Non-significant placebo coefficients suggest that the observed inflation effect is not driven by spurious correlations. Finally, heterogeneity is explored by re-estimating the model for sub-samples. Separate regressions for eastern and western households allow for different regional housing markets; likewise, comparing homeowners with renters tests whether real-asset ownership buffers inflation's impact. Sub-samples based on education or income reveal whether financially literate or affluent households are better able to hedge against inflation. Presenting these results in the main text or an appendix shows whether the inflation coefficient remains stable across specifications.

5 Results

The descriptive analysis shows that young households own significantly less wealth than older groups between 2015 and 2022. The median net wealth of 17- to 30-year-olds was around EUR 15,000 in 2015 and rose only slightly to around EUR 18,000 by 2022 constant prices (Deutsche Bundesbank, 2023; Deutsche Bundesbank, 2025). This is well below the median wealth of 30 to 49-year-olds around EUR 85,000 and the over-50s over EUR 200,000. At the same time, the distribution of wealth within the young group is very unequal: the top decile owns 60% of the total wealth of young households (Deutsche Bundesbank, 2023), while the lowest quartile has practically no savings and is often in debt. The home ownership rate among 17 to 30-year-olds stagnated at around 26% during the period under review. There are considerable regional differences: The home ownership rate is higher in rural areas of eastern Germany, while it is particularly low in western German metropolitan areas. The composition of wealth also differs according to age. Young households hold the majority of their assets in liquid assets bank deposits, cash, while older households own a higher proportion of real estate and securities (Deutsche Bundesbank, 2019; 2023). Real estate accounts for around 60 percent of the total assets of over-50s, compared to just under 20 percent for young households. Shares and funds play a subordinate role for young households. This explains why they benefit less from rising real estate and share prices.

5.1 Influence of inflation on the monthly savings rate

Empirical Results show that the inflation rate has a statistically significant negative effect on the savings rate of young households. One percentage point higher inflation is associated with a reduction in the savings rate by an average of 0.3 percentage points ($p < 0.01$), while the effect is weaker (-0.1 percentage points) or not significant for older households (European Central Bank, 2022; Bobasu et al., 2023). The own empirical Results of a Time-Fixed-Effects-Regression (Table

1) for monthly general savings rate on monthly inflation (YoY) show that within older Households there is a negative but insignificant Reduction of average Savings Rate of β (old) = -.0025 Points. Within young households this Reduction is strengthened with a negative total Coefficient of β (young) = -.0040. This Results show that younger households decrease their average saving rate stronger then older households in a Phase of high monthly Inflation (2021 – 2022).

Table 1: Influence of inflation on monthly general savings rate

Predictor	Effect coefficient (B)	t-value (p-value)	Valid HH
Inflation (%) x Old	-0.0025 n.s.	-1.62 (p = .11)	
Inflation (%) x Young	-0.0015 (-0.0040) n.s.	-0.42 (p = .68)	
Return MSCI World (%)	+0.00006 n.s.	0.19 (p = .85)	
Monthly repayments	-0.00004*	-2.44 (p <.05)	
Year 2022	-0.0022 n.s.	-0.17 (p = .87)	
ICC = 69.11%			
F(6, 4794) = 19.99 (p <.001), R^2-Within =.031 (3.1%)			N = 4795

Source: Own representation based on SOEP.
*Notes: n.s. = not significant, * p < .05, ** p < .01, *** p < .001*

These results confirm hypothesis H1. A closer look shows that low-income households in particular have to reduce their savings rates in order to cover rising living costs. Households in the upper income quintile, on the other hand, are less sensitive. The negative effect is less pronounced for young households with residential property, which indicates partial protection through real assets (DIW Econ, 2022; Dietz & Haurin, 2003).

Table 2: Influence of inflation on the monthly savings rate for Pension Planning

Predictor	Effect coefficient (B)	t-value (p-value)	Valid HH
Inflation (%) x Old	-0.0008 n.s.	-0.56 (p = .57)	
Inflation (%) x Young	+0.009 (+0.0082)*	2.47 (p <.05)	
Return MSCI World (%)	+0.00012 n.s.	1.31 (p = .19)	
Monthly repayments	-0.00001**	-2.92 (p <.01)	
Year 2016	+0.0026 n.s.	1.73 (p = .08)	
Year 2017	+0.0054 n.s.	1.82 (p = .07)	
Year 2018	+0.0052 n.s	1.90 (p = .06)	
Year 2019	+0.011***	5.12 (p <.001)	

Year 2020	+0.013***	7.19 (*p* <.001)	
ICC (HH) = 50.16%			
F(10, 4847) = 11.21 (*p* <.001), R²-Within= .0073 (0.73%)			*N* = 4848

*Source: Own representation based on SOEP. Notes: n.s. = not significant, * p < .05, ** p < .01, *** p < .001*

Empirical Results of a second Time-FE-Model for monthly savings (Pension Planning) on monthly Inflation (YoY) show a slightly negative but insignificant Effect of Inflation within old households: The average saving rate (Pension Planning) declines by -.0008 Points for a one-point increase of monthly Inflation (YoY) over time. Within young households there is a positive Effect of monthly Inflation (YoY) on savings for Pension Planning with β (young) = +.0082 (p < .05). Young HH tend to increase their monthly saving rate over time independent of (moderately) rising Inflation (Table 2).

The analysis of the type of savings also shows that young households increasingly rely on short-term savings products such as call money accounts and savings books during periods of inflation. Demand for shares or real estate increases only moderately and is concentrated among households with higher education and higher incomes. During the 2021-2022 inflation phase, only 15% of young households increased their equity investments, compared to 35% of 35 to olds (German Equity Institute, 2021; Bucher-Koenen et al., 2023). This suggests that access and risk appetite are important determinants.

Table 3: Influence of inflation on the monthly savings rate for asset accumulation

Predictor	Effect coefficient (B)	t-value (p-value)	Valid HH
Inflation (%) x Old	+0.0003 n.s.	0.25 (*p* = .80)	
Inflation (%) x Young	+0.0032 (+0.0035) n.s.	1.52 (*p* = .13)	
Return MSCI World (%)	+0.00004 n.s.	0.54 (*p* =.59)	
Monthly repayments	-0.00002**	-2.60 (*p* <.01)	
Year 2016	+0.0013 n.s.	1.04 (*p* = .30)	
Year 2017	+0.0014 n.s.	0.58 (*p* = .56)	
Year 2018	+0.0026 n.s.	1.20 (*p* = .23)	
Year 2019	+0.0040***	2.24 (*p* <.05)	
Year 2020	+0.0035***	2.31 (*p* <.05)	
ICC = 50.40%			
F(10, 4851) = 4.11 (*p* <.001), R²-Within =.0031 (0.31%)			N = 4852

*Source: Own representation based on SOEP. Notes: n.s. = not significant, * p < .05, ** p < .01, *** p < .001*

Empirical Results of a third Time-FE-Model for monthly savings (Wealth Accumulation) on monthly Inflation (YoY) show a slightly positive but insignificant Effect of Inflation within old households: The average saving rate (Wealth Accumulation) increases by -.0003 Points for a one-point increase of

monthly Inflation (YoY) over time. Within young households there is a stronger total positive Effect of monthly Inflation (YoY) on savings for Wealth Accumulation with β (young) = +.0035 (p = .13). Younger HH tend to increase their monthly saving rate over time independent of (moderately) rising Inflation in the low Inflation Phase of 2015 – 2020 (Table 3).

5.2 Regional differences and age comparisons

Regional analyses show that the influence of inflation on wealth accumulation varies from region to region. In eastern Germany, real incomes were lower, unemployment rates higher and real estate prices more moderate than in western Germany (European Commission, 2015; Deutsche Bundesbank, 2023). Young households in the east were therefore able to purchase residential property to a lesser extent as prices were lower, but suffered more from unemployment and lower wages. In the western German cities, rents and property prices rose much more sharply, making it virtually impossible for young people to buy property. The regressions show that the negative inflation effect on the savings rate is greater in western Germany than in the east. At the same time, young West Germans own fewer real assets despite higher incomes because they are trapped in the rental market.

An age comparison shows that older households were able to benefit from inflation to some extent if they acted as debtors or held significant real estate assets. Their pensions and annuities are often linked to inflation and their debt burden is lower. Their savings rate therefore remained stable. form an intermediate position.They have higher assets, but are often involved in real estate loans. For them, inflation has a neutral or slightly positive effect, as it reduces the real debt burden. Inflation therefore contributes to widening the wealth gap between the generations.

Table 4: Influence of inflation on monthly savings rate for capital accumulation (West).

Outcome (DV)	**Sample**	**Period**	**Inflation effect (old) B [sig]**	**Inflation × Young B [sig]**	**Young effect (sum B)**	**R^2-Within**	**ICC**	**F-stat (p)**	**N**
Retirement provision	All households	2015–2020	−0.0008 (n.s.)	+0.0090 (*)	**0.0082**	0.73%	50.16 %	F(10, 4847)=11.21, p<.001	4,848
Wealth accumulation	All households	2015–2020	+0.0003 (n.s.)	+0.0032 (n.s.)	**0.0035**	0.31%	50.40 %	F(10, 4851)=4.11, p<.001	4,852
General savings rate	All households	2020–2022	−0.0025 (n.s.)	−0.0015 (n.s.)	**−0.0040**	3.10%	69.11 %	F(6, 4794)=19.99, p<.001	4,795
Retirement provision	West	2015–2020	−0.0022 (n.s.)	+0.0100 (*)	**0.0078**	0.69%	49.54 %	F(10, 3618)=8.18, p<.001	3,619

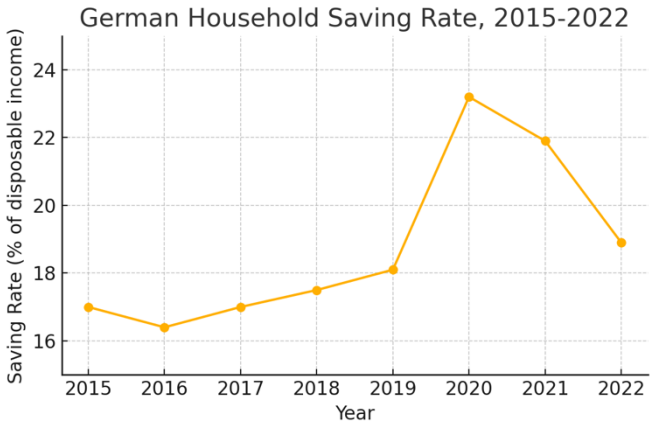
Retirement provision	East	2015–2020	+0.0043 (n.s.)	+0.0038 (n.s.)	**0.0081**	1.08%	53.49 %	F(10, 1264)=4.48, p<.001	1,265
Wealth accumulation	West	2015–2020	+0.0008 (n.s.)	+0.0023 (n.s.)	**0.0031**	0.32%	50.47 %	F(10, 3623)=2.70, p<.01	3,624
Wealth accumulation	East	2015–2020	−0.0014 (n.s.)	+0.0043 (n.s.)	**0.0029**	0.48%	49.53 %	F(10, 1025)=3.01, p<.001	1,266
General savings rate	West	2021–2022	−0.0022 (n.s.)	−0.0016 (n.s.)	**−0.0038**	2.62%	69.17 %	F(6, 3563)=12.44, p<.001	3,564
General savings rate	East	2021–2022	−0.0030 (n.s.)	−0.0080 (n.s.)	**−0.0110**	5.40%	69.13 %	F(6, 1234)=9.37, p<.001	1,235

*Source: Own representation based on SOEP. Notes: n.s. = not significant, * p < .05, ** p < .01, *** p < .001*

6 Discussion

The results of the panel analyses show that inflation has had a considerable negative impact on the financial situation of young households in Germany. The negative effect on the savings rate confirms the fear that rising prices are reducing the financial scope of the younger generation.

Figure 3: German household saving rate (% of disposable income), 2015–2022



Source: Eurostat national accounts data and author's calculations.

Low-income households in particular have to spend a larger proportion of their income on consumption, while higher energy and rental costs erode their savings. The result is in line with the

Keynesian perspective that real income erosion lowers consumption and reduces savings potential. However, it contradicts the theory that inflation systematically favors younger borrowers: Although inflation reduces the real value of existing debt, it mainly benefits households with mortgages (Auclert, 2019; Pallotti et al., 2024). Young people with consumer loans or variable interest rates, on the other hand, are confronted with rising financing costs. High property prices, strict credit regulations and a lack of financial knowledge represent significant hurdles. Only a minority of young people with high incomes and family support are able to invest in inflation-linked assets. This group benefits from increases in the value of real estate and shares and has thus been able to compensate for real losses. However, the majority of young adults remain in traditional forms of savings, which leads to asset losses in the face of negative real interest rates. This underlines the importance of financial education and measures to facilitate access to capital markets for young people. The regional analysis shows that the effects of inflation are heterogeneous. Although it is easier to buy a home in regions with moderate real estate prices, this is often accompanied by lower incomes and higher unemployment. In expensive urban areas, young people are unable to save enough capital to buy property despite higher wages. This result emphasizes the relevance of housing market policy. An increase in the supply of housing, especially affordable owner-occupied housing, could promote wealth accumulation among young people in the long term.

As with any empirical study, there are methodological limitations. Firstly, the SOEP wealth data is partly based on self-reported data, which can lead to measurement errors (Goebel et al., 2019). In particular, assets such as jewelry or art are often incompletely recorded. Secondly, the fixed-effects method can only eliminate unobserved heterogeneity that is constant over time; unmeasured factors that vary over time remain as potential confounding variables. Third, the effects of inflation are modeled as linear; non-linear effects or thresholds may exist. Fourth, the analysis takes inflation into account with the consumer price index; however, individual baskets of young households differ from the average, e.g. higher share for rent, mobility, leisure Bobasu et al., 2023; Cardoso et al., 2022). Finally, the available data is limited to 2022; more recent developments, such as further increases in interest rates or changes in housing policy, cannot be mapped (Lusardi & Mitchell, 2017; Bucher-Koenen et al., 2023; European Central Bank, 2022).

It is note that employees are likely to push for wage compensation during the next upswing, which could trigger renewed wage-driven inflation, particularly in services. These medium-term risk suggest that young households may continue to face elevated living costs and uncertain real returns on savings, reinforcing this study's finding that high inflation erodes their wealth accumulation. Cross-country survey evidence corroborates the behavioural adjustments identified in the panel regressions. The European Central Bank's Consumer Expectations Survey for early 2023 asked households how they coped with the recent inflation shock. The primary response was to cut consumption; 69% of respondents reported modifying their spending, while 43% resorted to drawing down savings or using credit and 31% sought to increase their income by taking additional work or negotiating pay rises (Deutsche Bundesbank 2023). Notably, 35% of households reduced their savings to maintain consumption. These survey responses mirror this paper's results showing a statistically significant decline in the savings rate of young households. They also underline the heterogeneity in adjustment strategies. Households with constrained budgets were more likely to switch to cheaper products and cut back on savings. Such evidence reinforces the conclusion that inflation squeezes disposable income and forces younger, lower-income households to liquidate financial buffers.

New evidence on generational confidence highlights an important nuance in the distributional impact of recent shocks. Deutsche Bank's 2023 "Focus Germany" outlook finds that saving

intentions remained elevated in 2023, with the household saving rate averaging 11.4%, 0.7 percentage points above the long-term average. However, consumer confidence diverged markedly across age groups: older Germans exhibited unusually low confidence, while young households remained relatively optimistic. The report attributes this pattern to the uneven financial burdens of recent years, noting that high inflation and falling property prices affected older, asset-rich households more than younger ones. This finding suggests that, although younger households lost purchasing power through higher prices, they may have been partially insulated from the simultaneous decline in asset values that hit older homeowners. Policymakers should nevertheless be cautious in interpreting this apparent resilience, as this data reveal that young people's optimism coexists with very low wealth levels and limited buffers.

The persistence of low-risk saving preferences further constrains the ability of young adults to protect their wealth from inflation. A representative study commissioned by Commerzbank in late 2023 found that while 70% of Germans save, only one quarter follow a deliberate investment strategy (Commerzbank 2023). The majority continue to favor overnight and term-deposit accounts over higher-yielding securities, primarily because of limited financial education and reluctance to seek investment advice. Although the study notes that many young respondents intend to increase their savings and recognize that early investing helps prevent old-age poverty, only 19% of savers hold securities and only one in ten feels very knowledgeable about financial products. This study' results therefore likely underestimate the potential benefits of portfolio rebalancing for young households, since a lack of financial literacy and advisory support continues to restrict their participation in inflation-protected assets.

International comparisons underscore the economic vulnerability of young adults. The's Risks That Matter survey of 27countries reveals that 69% of 18- to 29-year-olds worry about meeting short-term expenses, and 29% fear losing their job or self-employment income (OECD 2024). Housing is a particularly acute concern: seven out of ten respondents aged 18–29 are worried about being unable to find or maintain adequate housing beyond the next decade. These concerns are far more prevalent among young people than among the 30–64 age group and are especially high among women, minorities and those not in education or employment (OECD 2024). Such survey evidence supports the authors conclusion that inflation exacerbates existing vulnerabilities by increasing living costs and housing pressures, making it harder for young adults to save and invest.

Policy initiatives point to avenues for mitigating the adverse effects identified in this study. In March 2023 the German Federal Ministries of Finance and Education launched the Financial Literacy Initiative, and in 2024 the OECD published a proposal for a National Financial Literacy Strategy. The strategy recognises that higher levels of financial literacy can promote capital-market participation and retirement planning and help prevent old-age poverty (OECD 2024). It notes that almost 90 % of adults in Germany save, yet only 18 % hold investment products, and only 52 % feel confident about their retirement plans. The proposal calls for targeted measures, including improving long-term saving for retirement, encouraging participation in capital markets, supporting digital finance skills and addressing over-indebtedness. In the context of this study's findings, such initiatives are essential. They would reduce informational barriers to investing in inflation-protected assets and equip young households to make more informed financial decisions. Complementary policies aimed at expanding affordable homeownership, indexing social benefits to inflation and stabilizing energy prices could further bolster the financial resilience of young adults.

By integrating these recent developments, the discussion highlights that the inflationary episode of 2021-22 did not end the challenges faced by young German households. Although headline inflation has moderated, price growth and long-term inflation risks remain. Behavioural data show that high prices force households to cut consumption and deplete savings, while structural factors such as low financial literacy and a preference for low-risk deposits limit their ability to hedge against inflation. Addressing these constraints through comprehensive financial education, accessible investment products, housing policy reforms and prudent macroeconomic management is therefore crucial if Germany is to prevent the further widening of intergenerational wealth gaps.

The study has important political implications. Firstly, it shows the need to strengthen financial education. General economic education programs should start in schools and enable young people to distinguish between nominal and real values, assess risks and make long-term investment decisions. Secondly, access to capital markets should be made easier. Measures such as the promotion of equity savings plans, state subsidies for ETF investments or the digitalization of investment processes can lower barriers. Thirdly, housing market policy needs to be reformed. State support programs for first-time buyers, a reduction in real estate transfer tax or the expansion of public housing construction could be useful to promote wealth creation among young households. Fourthly, the stability of monetary policy should be emphasized. A credible fight against inflation by central banks reduces uncertainty and enables households to plan reliably. Finally, the study opens up areas of research, such as the investigation of wealth transfers between generations, the influence of digital financial platforms on investment behavior and the long-term consequences of the current phase of rising interest rates on young households.

7 Conclusion

This study set out to answer how the surge in consumer price inflation between 2015 and 2022 affected the saving and wealth accumulation of young adults in Germany relative to older households. Using eight waves of the German Socio-Economic Panel linked with macroeconomic indicators, the analysis estimated fixed-effects models of household saving rates and real net wealth. The findings show that inflation significantly reduces the saving rate of young households and has no discernible effect on older households. Young adults with higher incomes and education levels partially offset real losses by reallocating into real assets, whereas financially weaker groups cut savings and increase consumption. Regional and tenure differences matter: renters and households in western Germany experience larger negative effects than homeowners or households in eastern regions, reflecting disparities in housing markets and income levels.

The paper contributes to the literature by combining rich micro-data with macro-level shocks to uncover heterogeneity in the response to inflation. The SOEP's longitudinal structure allows for controlling unobserved household traits and comparing within-household changes over time. Interactions between inflation and age, region, and home ownership reveal that vulnerability to inflation is not uniform but depends on demographic and structural factors. Nevertheless, several limitations temper the conclusions. Wealth and consumption measures are self-reported and subject to measurement error; interpolation between wealth survey waves may smooth true variation; and the sample covers only up to 2022, missing subsequent monetary policy tightening and inflation developments. Potential endogeneity of inflation or omitted variables such as expectations and credit access may bias estimates despite controls. Future research should extend the analysis to more recent data, explore the role of intergenerational wealth transfers and

parental support, and evaluate the impact of policy initiatives such as financial literacy programmes or starting-capital schemes. Understanding how these factors interact with inflation will be vital for designing interventions that enhance the financial resilience of young generations in an era of persistent price volatility.

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