Why does household demand for shares decline during the crisis? The French case

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Key question

The economic crisis has affected French savers, now less willing to take risks in their financial decisions. What is the explanation behind this change? According to standard theory, savers' investments depend on three fundamental determinants: present resources; expected returns and risks on assets and earned income; and individual preferences, in particular risk preferences. After the collapse of Lehman Brothers in 2008 and the sovereign debt crisis in 2011, did the French simply adjust to the new economic environment? Or has the crisis changed their "psyche" as regards risk?

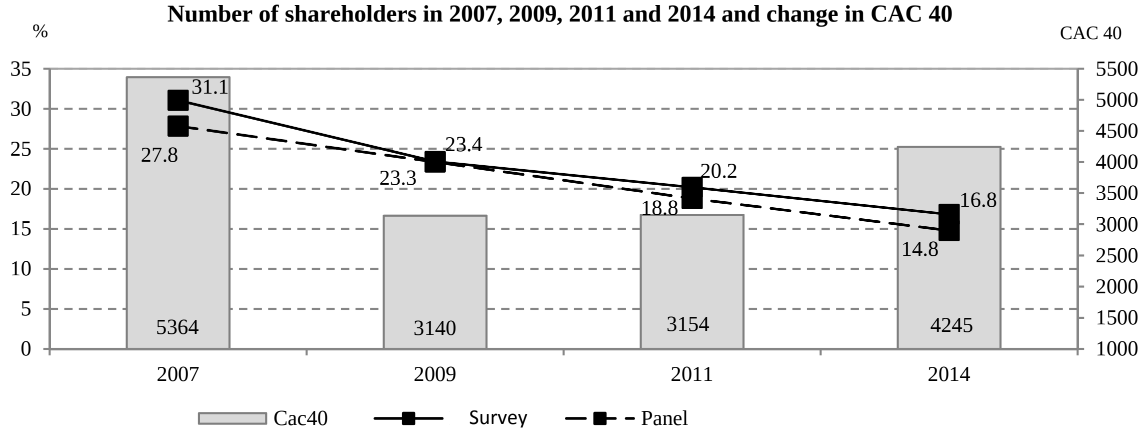
Methodology

The study uses French data from the various waves of the *Pater* survey (Wealth, Time and Risk Preferences). These data, unique in France, offer an incomparable perspective on savers over time, before and after the 2008 crisis, up to end-2014. The survey provides information on household assets and subjective information making it possible to measure, using a variety of methods, individuals' risk preferences, their expectations about the labour market and the stock market. Changes in preferences are measured using an original scoring method.

Main results

- French savers' investments were less and less frequently placed in risky assets during the crisis
- This results in part from their downward revisions of expectations regarding returns from shares and shocks on current resources.
- French households' risk preferences remained stable during the crisis.

Number of shareholders in 2007, 2009, 2011 and 2014 and change in CAC 40



Left axis: percentage of households holding shares. Right axis: CAC 40 index. Coverage: Direct and indirect share holders
Sources: *Pater* surveys, 2011 and 2014, cross-section (Survey) or Panel

Main message

Contrary to a widely-held belief and to the conclusions of certain studies, this article reveals savers to be "stoic" in the face of torment, and no more risk-averse than previously. In contrast, it would appear that savers' regained optimism in 2014 (increase in expected risk premium and rise in intentions to invest in shares) did not play out in reality, as the number of shareholders continued to decrease at least up to March 2016.

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