
**Household Savings Behaviour in a
Volatile Market
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L'OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

Household Savings Behaviour in a Volatile market

This document is the reproduction of slides used at the ALFI Annual Conference in Luxemburg, Tuesday 11 March 2003.

It is incomplete without the commentary that has accompanied its presentation

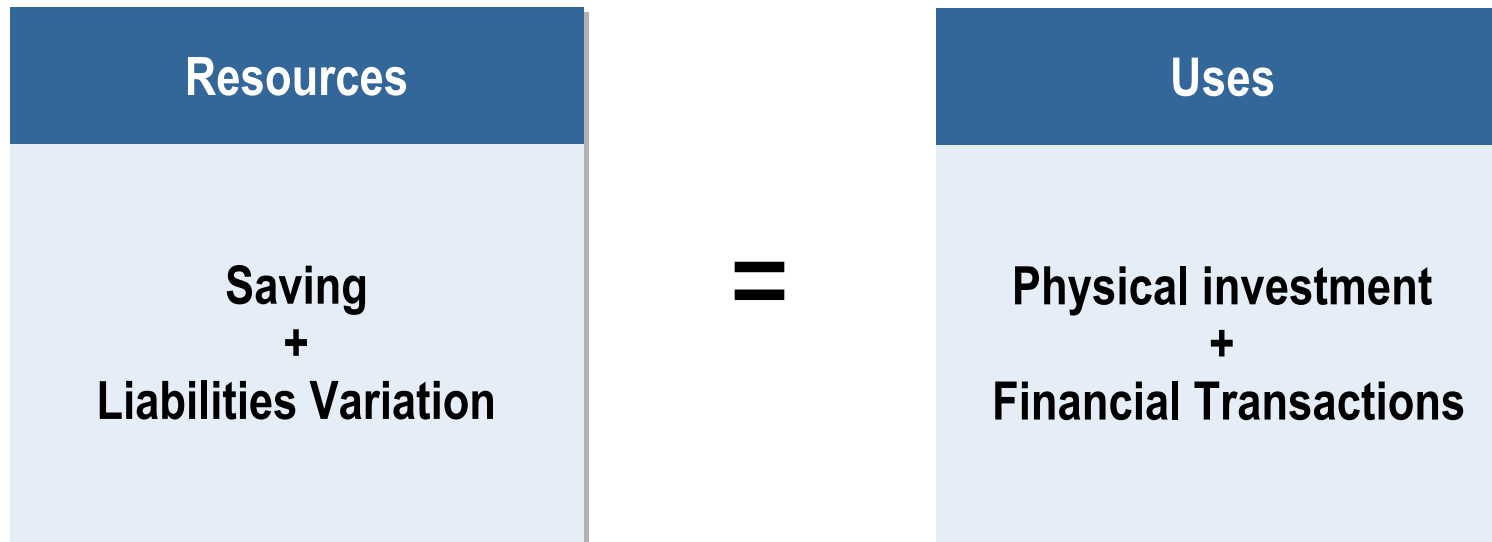
1995-2002: The rise and the fall

The « shock » of year 2000

- **The decrease in the savings rate is stopped**
- **The rise of credit begins to go back**
- **Financial transactions are shrinking**
- **But, almost everywhere, capital formation (housing and individual enterprises) offers a good resistance.**

A relevant framework for analysis

Balance between resources and their allocation



Households financial behaviour in the Euro Zone between 1995/2002: two contrasted periods

Households resources and uses (in % of GDI)

	1995	1999	2000	2001
Gross savings rate	17.6	14.5	14.1	14.5
Indebtmnt rate	3.9	6.9	5.5	3.9
Others	1.2	1.4	1.4	1.3
Total resources	22.7	22.8	21.0	19.7
Gross capital formation rate	10.2	10.2	10.3	9.8
Financial transactions rate	12.5	12.6	10.7	9.9
Total uses	22.7	22.8	21.0	19.7

1995-1999 – The « Crazy Years »

- **Financial wealth increases more than 10% a year (only 3% for GDI)**
- **Liabilities have also been increasing very rapidly : at the end of 2000, they correspond in the Euro Zone to 74% of GDI (only 60% in 1995)**
- **A sharp increase in the proportion of risky assets in financial wealth.**

The increase of risky assets in households financial wealth (in % of financial wealth)

Year end	1995	1999
Spain	25	48
Italy	19	46
United-Kingdom	33	39
France	30	38
Germany	13	23

This evolution is to be attributed partly to the price increase... but the investment choices have also changed

Structure of households financial transactions in the Euro Zone (in %)

Year	Currency and bank deposits	Obligations	Shares (including mutual funds)	Insurance and pension funds	Others	Total
1995	47	21	ε	45	-13	100
1999	24	1	42	51	-18	100

A multiform increase of risky assets

- **Direct acquisitions of quoted shares, in spite of privatisations, remain relatively modest**
- **But the diffusion of non quoted shares is vigorous**
- **Within Mutual Funds, equity funds tend to take the lead (e.g. Italy, Spain, France and even Germany)**
- **Within life insurance, Unit Linked investment vehicles show a strong development (except in Germany, Austria and Denmark)**
- **Regarding pension funds, DC schemes are growing to the detriment of DB**

The rise of Unit linked investment vehicles has been very strong in the transactions, but also in outstanding

Unit linked instrument as a percentage of households claims on life insurance companies

	End 1995	End 2000
United Kingdom	42.0	42.0
Netherlands	25.7	37.2
Italy	5.0	31.1
France	6.0	21.1
Spain	0.0	18.8
Germany	1.3	2.2
Denmark	0.8	1.1

But this diffusion of risky assets in the households financial wealth was rather late, when market prices were already very high

Net acquisitions of shares and mutual funds by households in the Euro zone (billions of euros)

1995	1.2
1996	93.6
1997	194.3
1998	288.8
1999	196.4
2000	132.1
2001	67.1

Concerning the household choices of financial investment, 2000 divides Europe

Same trends as before	Strong change towards security
Belgium	Italy
France	Netherlands
Germany	Portugal
Sweden	Spain
United-Kingdom	

More generally, regarding the speed of reaction to the circumstances, there are strong specificities in Europe :

- countries like Italy, Spain or Portugal seem to overreact
- on the contrary, countries like Austria, Denmark and Germany seem to be rather underreactive
- Belgium, France and Netherlands lie in the in-between

These specificities result of course from many factors : non only psychological, but also institutional, regulatory...

The reversal of 2000-2001 has been brutal :

- **due to the lack of confidence, saving rates are rising**
- **for the same reason, the use of credit is slowing down**
- **the growth of residential wealth is going on (volume and prices)...**
- **...but the growth of financial wealth is curbed and in some countries negative, the new financial investment does not compensate the amount of capital losses...**
- **regarding the new choices of financial assets by households, 2001 has reunified Europe in the direction of security research**

In 2001, saving rates are rising almost everywhere...

Gross Saving Rates (in % of GDI)

	2000	2001
Germany	15.4	15.8
Belgium	15.2	15.0
Italy	14.8	15.5
France	15.4	15.9
Netherlands	12.8	15.7
Portugal	9.8	10.6
Spain	9.6	9.8
Finland	7.2	9.2
United-Kingdom	4.2	6.2

Until 1999, the price contribution to the growth of financial wealth has been strongly positive

On the contrary, in 2001, the price contribution is everywhere negative

	1999	2001
Belgium	4.5	-3.1
Spain	6.7	-2.3
Germany	4.4	-2.1
France	7.1	-6.9
Italy	9.2	-8.7
Netherlands	7.5	-4.8

In 2001, the European convergence towards « security research »

Structure of financial investment by households in 9 countries of the Euro Zone (Luxembourg, Eire and Greece excluded)

	1999	2000	2001
Currency and banking deposits	20.4	10.1	31.0
Obligations	-4.5	12.8	12.3
Shares	6.5	7.4	-0.7
Mutual funds	29.3	20.2	14.2
Insurance and pension funds	41.3	48.7	43.8
Others	-2.0	8.0	-6.0
Total	100.0	100.0	100.0

In 2002, a still stronger flight to security than in 2001...

In Italy, an inextinguishable thirst for obligations

Italy – Structure of households financial investments

	2001	2002 (the first three quarters)
Currency and banking deposits	24.1	-37.4
Obligations	42.9	122.6
Shares	16.4	-21.7
Mutual funds	-10.1	-6.2
Insurance and pension funds	22.4	41.0
Others	4.3	1.6
Total	100	100

In the case of France...a more liquid savings

Structure of households financial investment

	2001	2002(*)
Currency and banking deposits	25.9	38.8
Mutual funds	3.9	4.5
Obligations	-0.8	-1.7
Shares	-1.5	-4.7
Life insurance	15.9	8.2
Insurance à taux garanti	47.5	44.7
Pension funds	4.8	1.9
OPCVM actions et diversifiés	-1.3	-3.0
OPCVM obligations et garantis	2.1	3.5
Others	3.5	7.8
Total	100.0	100.0

(*) Estimate

At the end of the period, financial wealth per capita is still very different from one country to the other...

Financial wealth per capita at the end of 2001 (in euros)

Netherlands	74 600
Belgium	73 200
United-Kingdom	59 800
Denmark	57 300
Italy	44 900
Germany	44 600
France	43 600
Spain	29 800
Portugal	23 600

...and so is also the structure of financial wealth from one country to the other

Structure of financial wealth at the end of 2001

	Austria	Netherlands
Currency and deposits	55.3	20.6
Securities other than shares	7.4	2.3
Shares and other equity	4.4	14.6
Mutual funds shares	11.1	4.9
Insurance and pension funds	21.1	55.4
Other accounts receivable	0.1	2.2
Total	100.0	100.0

... Nevertheless, the global structure has changed in the same direction from 1995 to 1999 and from 1999 to 2001

Structure of financial wealth for 9 countries of the Euro Zone (Luxembourg, Eire and Greece excluded)

	1995	1999	2001
Currency and deposits	39.0	29.5	30.4
Obligations	14.1	8.8	9.7
Shares	16.2	29.5	24.9
Mutual funds	7.4	8.3	8.3
Life Insurance and pension funds	19.1	20.4	23.2
Others	4.2	3.5	3.5
Total	100.0	100.0	100.0

1990-2000 The rise of risks

- **Bank desintermediation**
- **A moderate progression of shares direct holding**
- **A sharp decline in direct holding of bonds**
- **The growing importance of mutual funds intermediation (specially equity funds in 1998 and 1999)**
- **A regular positive trend for life insurance (Unit linked) and pension funds (Defined contributions)**

2000-2010 Towards more diversified choices : a future difficult to « decrypt »

- **Bank reintermediation?**
- **The decline of shares direct holding?**
- **The revival of bonds (Public? Corporate?)**
- **What transformation for investments funds?**
- **Two types of life insurance?**
- **For very long term saving, more secured DC pension funds?**