Extreme macro risk, personal expectations, and financial decisions. A survey experiment on 5 European countries.

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$\Rightarrow$ how are these risks perceived by European households and do they matter for their personal decisions?

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3. Study the relationship between these expectations and financial decisions
4. Document country differences

Methodology

- Questionnaire on 1,000 individuals in each of 5 European countries (France, Germany, Italy, Spain and the UK) conducted in September 2023 with IPSOS

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- Questions on expectations of future extreme macroeconomic risks and on current and anticipated financial situation and decisions
- "Survey experiment"= participants randomly assigned to a "control group" or a "treated group" (who receives additional information) to identify the **causal** effect of information provision on perceptions and decisions

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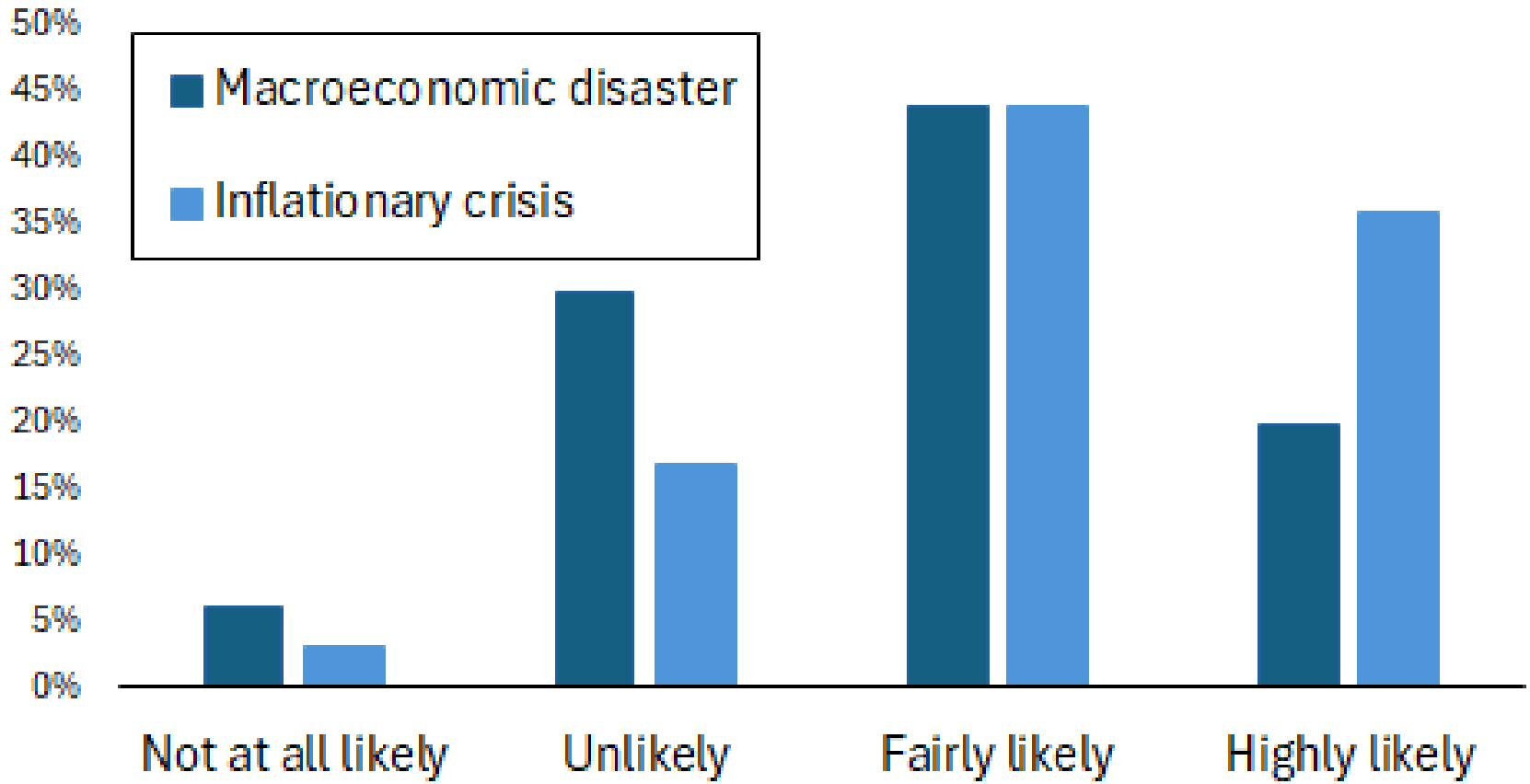
$\Rightarrow$ We deliberately focus on **particularly extreme and rare** events

Expectations of extreme macroeconomic risks (qualitative)

Do you think there is a risk of a macroeconomic disaster/inflationary crisis occurring in the next 10 years in the country where you currently live?



Expectations of extreme macroeconomic risks (distribution)

*In your view, what are the **percentage odds** of a MD/IC occurring in the next 10 years in the country where you currently live? Please give a percentage between 0 and 100, where 0 indicates absolutely no likelihood and 100 indicates absolute certainty.*

	Mean	Std deviation	P25	P50	P75
Macro. disaster (MD)	**40.8%**	29.5	12%	40%	60%
Confidence (MD)	5.7/10	2.9	5/10	5/10	8/10
Inflationary crisis (IC)	**54.0%**	31.1	25%	50%	80%
Confidence (IC)	6.6/10	2.7	5/10	7/10	9/10

$\Rightarrow$ **Very high** average expectations of future extreme macro risks, especially for inflationary crises

Country heterogeneity

	France	Germany	Italy	Spain	UK
MD: mean	**45.5%** (28.0)	**32.9%** (28.7)	40.7% (30.8)	42.2% (29.2)	42.6% (29.3)
IC: mean	**59.6%** (29.2)	52.5% (32.5)	53.3% (31.7)	55.3% (31.1)	**49.4%** (30.2)

$\Rightarrow$ Expectations of extreme macro risk the **highest** in France, the **lowest** for macroeconomic disasters in Germany and the **lowest** for inflationary crises in the UK

The gender gap

	Women	Men
MD: mean	**42.7%** (28.9)	**38.7%** (30.0)
Confidence : mean	5.5/10 (2.9)	5.9/10 (2.9)
IC: mean	**56.4%** (30.7)	**51.5%** (31.4)
Confidence: mean	6.4/10 (2.8)	6.7/10 (2.6)

$\Rightarrow$ **Higher risk expectations** for women, who are also slightly less confident in their estimates. In line with the literature on the "gender gap" in macroeconomic expectations (e.g. d'Acunto et al., 2020)

Can information provision causally affect extreme risk expectations?

- We provide information on past macroeconomic disasters/inflationary crises in 15 European countries since 1950/1951 to half of participants (randomly selected).

  Then, all participants are asked their expectations again.

- Breakdown of our sample:

	Information provision	Control
MD (N=2,499)	N=1,249, $\simeq$ 250 per country	N=1,250, $\simeq$ 250 per country
IC (N=2500)	N=1,251, $\simeq$ 250 per country	N=1,250, $\simeq$ 250 per country

Information on past macroeconomic disasters since 1950 in Europe

"From a sample of 15 European countries, including the country where you currently live, the following episodes of macroeconomic disaster have been observed since 1950:

1. 1990-1993 in Finland (national economic crisis) with a downturn in economic activity of 12%.
2. 2008-2009 in Ireland (the "sub-prime" financial crisis) with a downturn in economic activity of 12%.
3. 2008-2013 in Greece (Eurozone crisis) with a downturn in economic activity of 26%.
4. 2008-2013 in Spain (Eurozone crisis) with a downturn in economic activity of 10%.
5. 2020 in the United Kingdom (Covid-19 pandemic) with a downturn in economic activity of 10%.
6. 2020 in Spain (Covid-19 pandemic) with a downturn in economic activity of 11%."

   List of countries (1950-2022): Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Ireland, Italy, the Netherlands, Portugal, the United Kingdom, Sweden, Switzerland.

Information on past inflationary crises since 1951 in Europe

"Since 1951, in a sample of 15 European countries, including the country where you currently live, the following inflationary crises have been observed:

- 1951 in Austria (increase in prices of 29%)
- 1974, 1980-82 and 1986 and 1990 in Greece (increases in prices between 20 and 25%)
- 1974-1975, 1977-1979 and 1982-1984 in Portugal (increases in prices between 20 and 28%)
- 1975 in the United Kingdom (increase in prices of 25%)
- 1975 and 1981 in Ireland (increase in prices of 21% and 20%)
- 1977 in Spain (increase in prices of 25%)
- 1980 in Italy (increase in prices of 21%)"

List of countries (1951-2022): Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Ireland, Italy, the Netherlands, Portugal, the United Kingdom, Sweden, Switzerland.

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- Information provision on past inflationary crises in Europe causally **decreases** expected risk by 4.66 p.p. in **France**

$\Rightarrow$ On average, information surprises French participants **downwards** (they are the ones who expected the highest risk)

- On the contrary, information provision on past macroeconomic disasters in Europe causally **increases** expected risk in **Germany** by 6.20 p.p.

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- No significant effect of information provision in countries that have experienced past extreme events since 1950 (Italy, UK & Spain)

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- E.g., for France: a 1 s.d. increase in expected MD risk corresponds to a probability of an anticipated increase in living standard vs. a decrease or constancy 27.8 times lower
- We find evidence of a **positive** significant association with anticipated unemployment risk over the next 12 months

Do extreme macro risk expectations transfer to financial decisions?

Controlling for socio-demographic variables and saver profile, we find the following significant effects of an increase in perceived extreme macro risk:

Variable	Sign	Case
Anticipated increase in saving frequency	-	IC
Anticipated increase in savings	-	IC
Anticipated increase in risk-free assets	-	IC
Anticipated increase in risky assets	+	IC Germany
Anticipating to take out a consumer credit	-	IC
Anticipating to borrow from family	+	IC & MD

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$\Rightarrow$ Further work needed to investigate whether these effects are **causal**

(with a 2-step approach that exploits the exogenous variation in macro expectations resulting from the treatment)

Housing credit

- Heterogeneous situations across countries:

Variable (%)	FR	GE	IT	SP	UK
Owner	54.8	36.2	71.8	68.1	52.1
Ongoing housing credit	28.4	18.5	21.2	31.7	23.9
Housing as main saving objective	8.1	3.3	6.3	7.7	7.7
Anticipating a housing credit	6.6	3.5	3.3	4.8	7

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We find:

- No significant association between the probability to anticipate to take out a **housing credit** in the next 12 months and expectations of extreme macro risks

- A negative association with age and a positive association with financial risk appetite

Conclusion and public policy implications

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- Hence, these macroeconomic expectations can transfer to expectations on one's personal economic risk and financial decisions
- **Information provision on past events** can be used by regulators to affect expectations and decisions, as individuals are imperfectly informed about rare and extreme events
- However, information provision has heterogeneous effects, depending on the country and the type of extreme risk