

Credit-driven household demand channel

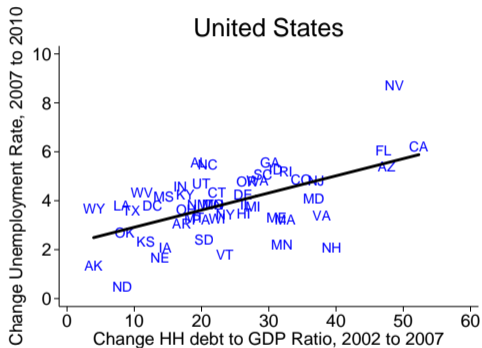
Atif Mian and Amir Sufi

Princeton University and University of Chicago

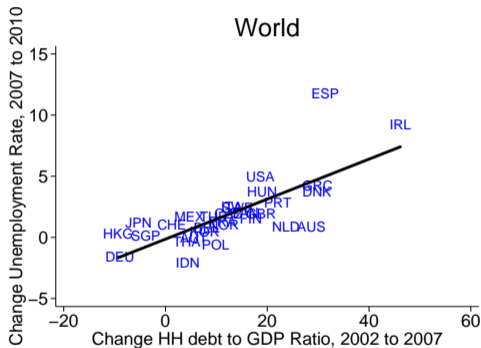
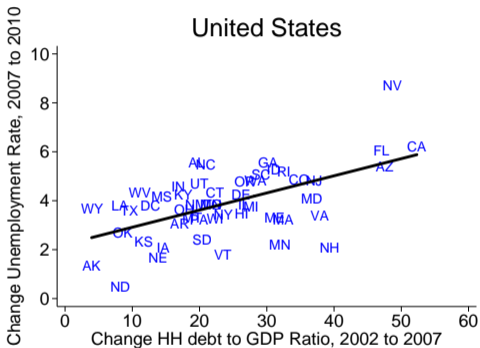
January 26, 2018

An enduring footprint of the Great Recession

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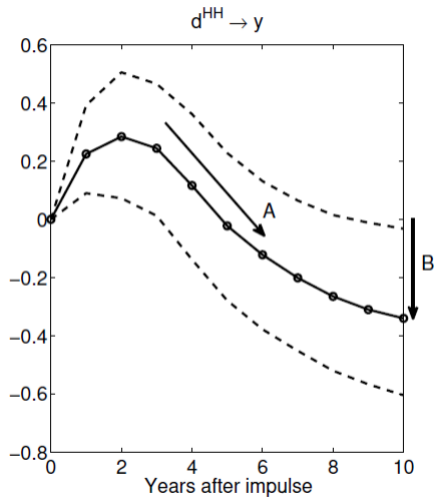


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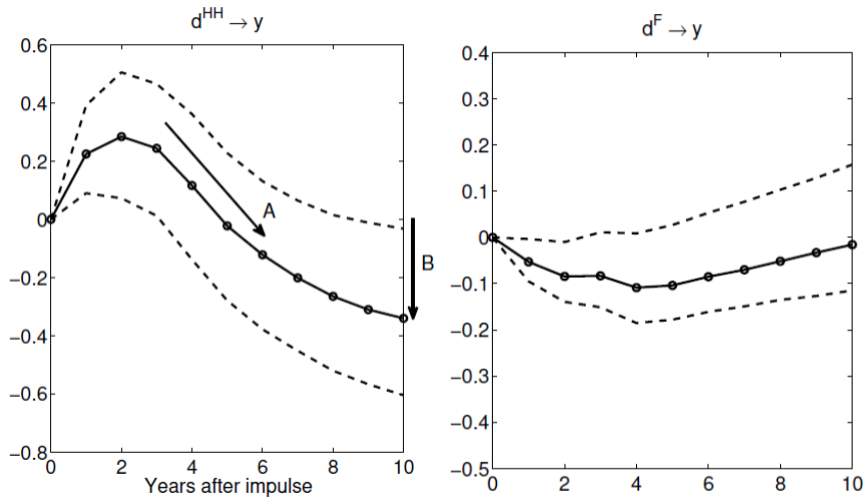


The footprint was always there ... with an asymmetry

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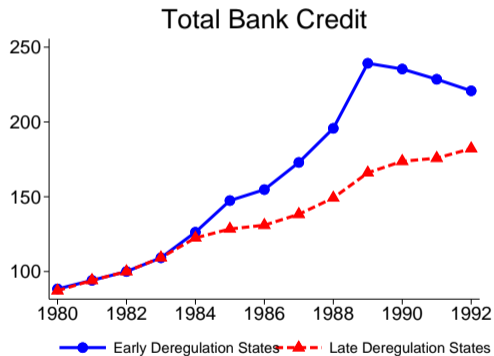


Two possible channels for credit pass-through to real economy

The 1980's natural experiment

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Shift in credit supply ...

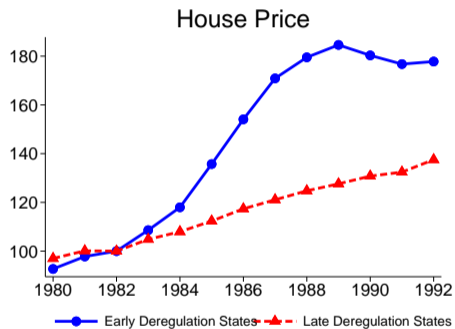


1. ... boom-bust cycle

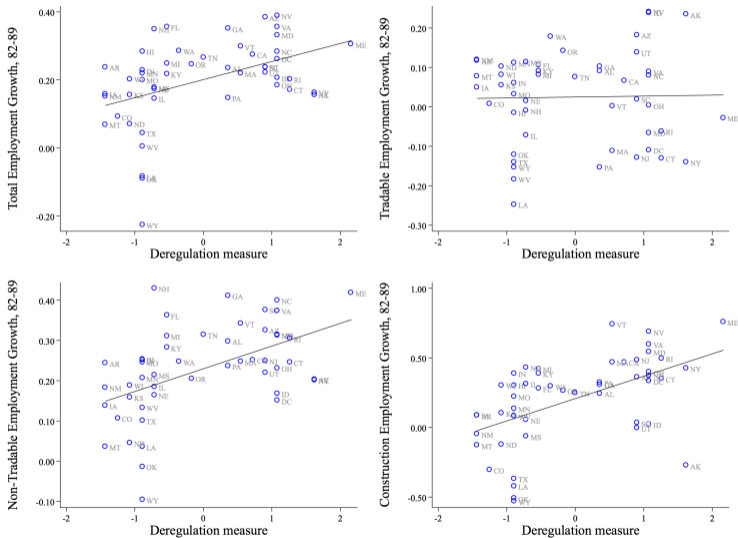
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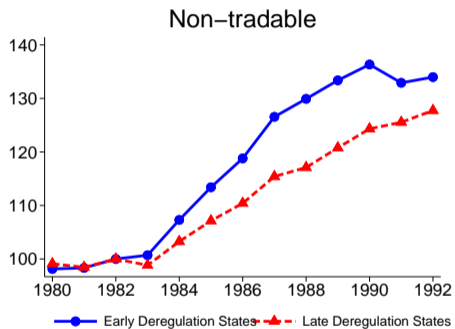


2. The household demand channel

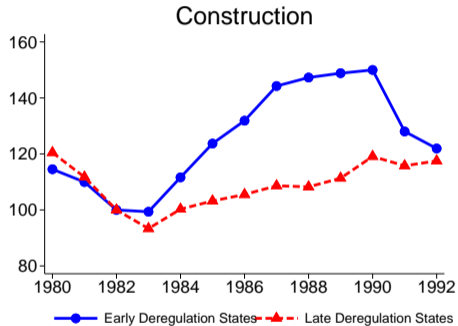
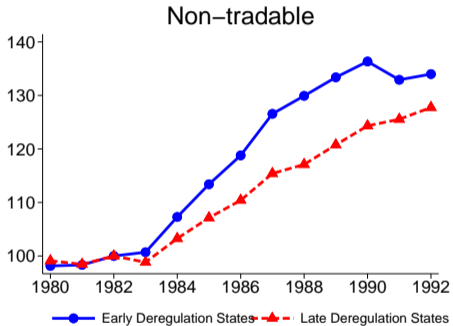


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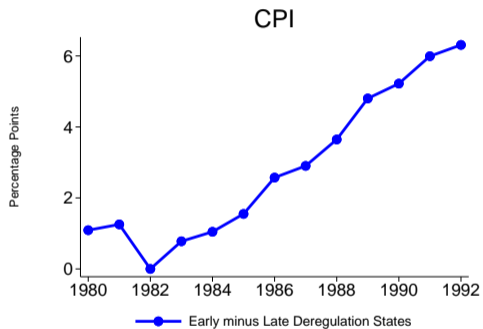


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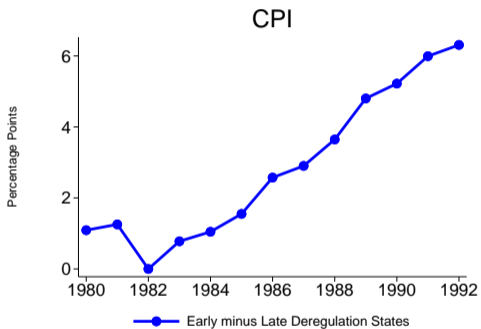


3. Adjustment difficulties on the downside

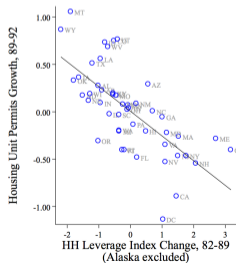
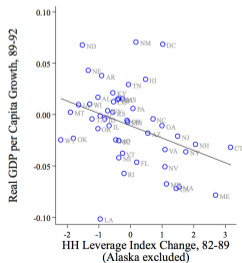
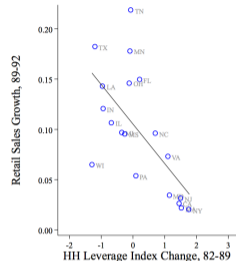
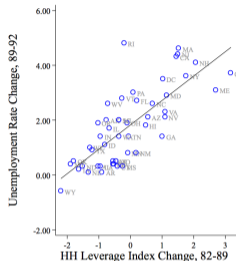
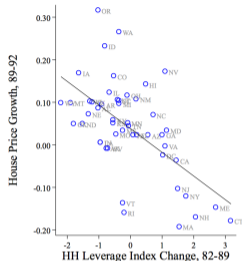
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Household leverage and the recession of 1990 to 1991



Where does it all mean?

Where does credit expansion come from?

- Longer term forces
 - Secular growth in private credit, especially household credit, since 1980 (Jorda et al)
 - Decline in long-term real rate globally.
 - “financial excesses”, e.g. increasing inequality and savings glut.

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- Longer term forces interact with ...
 - behavioral biases and aggregate demand externality
 - financial deregulation, liberalization and innovation.

Policy Implications Of The Credit-Driven Household Demand Channel

- macro prudential policies for household credit
- better risk-sharing inside the financial architecture
- monetary policy effectiveness dependant on demand pass-through
- low interest rate and productivity?
- addressing the structural imbalances, such as financial excesses.