Discussion of “Why Has Consumption Remained Moderate after the Great Recession?”
by Luigi Pistaferri

Atif Mian
Princeton University
• Why consumption growth has been slow?
  • Great paper.
  • Informative, comprehensive and provides a number of interesting facts to think about.

• Comments
  ➢ Why has consumption growth conditional on income growth slowed?
    o Less surprising, given where we were in 2007Q4.
  ➢ Why has income growth slowed?
    o The long shadow of HH leverage growth
Why consumption growth so low?
Is consumption growth low even adjusting for income?

• I focus on just disposable income, and from 2010Q1 onwards to focus squarely on “recovery” phase. (disposable income during recession has counter-cyclical transfers, and hence different fundamentally)

• Estimate \( \Delta \log C_t = \alpha + \beta \Delta \log Y_t^d + \epsilon_t \) in pre-2007Q4 period and use estimated coefficient to predict counter-factual consumption post-2010Q.

• Yes, consumption growth slower than historical relationship conditional on disposable income growth.
Counterfactual with income only
But consumption-income ratio was at historic high in 2007Q4.
Possible drivers of high consumption growth relative to income in pre-2007 period

• Rising net worth to disposable income

• Rising household leverage

• Rising inequality, but partly muted due to stronger leverage growth for bottom 90.

• Falling long-term rates
Rising leverage

Graph showing a rise in debt/Disposable Income from 01 Jan 1960 to 01 Jan 2020.
Leverage growth concentrated in bottom-90 (Mian and Sufi 2016)
The graph shows the trend of debt to income ratio from 1960 to 2010. The black line represents the aggregate debt to income ratio. The red line indicates the average debt to income per tax-filer in the 1% bracket. The blue line represents the average debt to income per tax-filer in the 1% bracket, weighted by debt. The graph highlights a significant increase in debt to income ratios over the years, particularly in the last decade.
Age-adjusted credit growth by credit score quintile
Possible drivers of high consumption growth relative to income in pre-2007 period

• Rising net worth to disposable income ✓

• Rising household leverage

• Rising inequality, but partly muted due to stronger leverage growth for bottom 90.

• Falling long-term rates

• Monetary Policy?
Estimated wealth effects shrink considerably post-recession.
Monetary Policy pass-through - Agarwal et al (2016)

Figure 11: Correlation between MPL and MPB

(A) MPL

(B) MPB Across All Cards: At 12 Months
The long shadow of HH leverage growth (Mian, Sufi and Verner 2016)
<table>
<thead>
<tr>
<th></th>
<th>(1) $\Delta_3y_{it}$</th>
<th>(2) $\Delta_3y_{it+1}$</th>
<th>(3) $\Delta_3y_{it+2}$</th>
<th>(4) $\Delta_3y_{it+3}$</th>
<th>(5) $\Delta_3y_{it+4}$</th>
<th>(6) $\Delta_3y_{it+5}$</th>
<th>(7) $\Delta_3y_{it+6}$</th>
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<td>$\Delta_3d_{it}^{HH}$</td>
<td>0.176*</td>
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<td>-0.178**</td>
<td>-0.337**</td>
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<td>(0.0810)</td>
<td>(0.0680)</td>
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<td>$\Delta_3d_{it}^{FE}$</td>
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<td>-0.159**</td>
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Summary

➢ Why has consumption growth conditional on income growth slowed?
  o Less surprising, given where we were in 2007Q4.
  o The household debt drivers are not operating thus far.

➢ Why has income growth slowed?
  o The long shadow of HH leverage growth
  o A statistical result. Need to incorporate in theory.