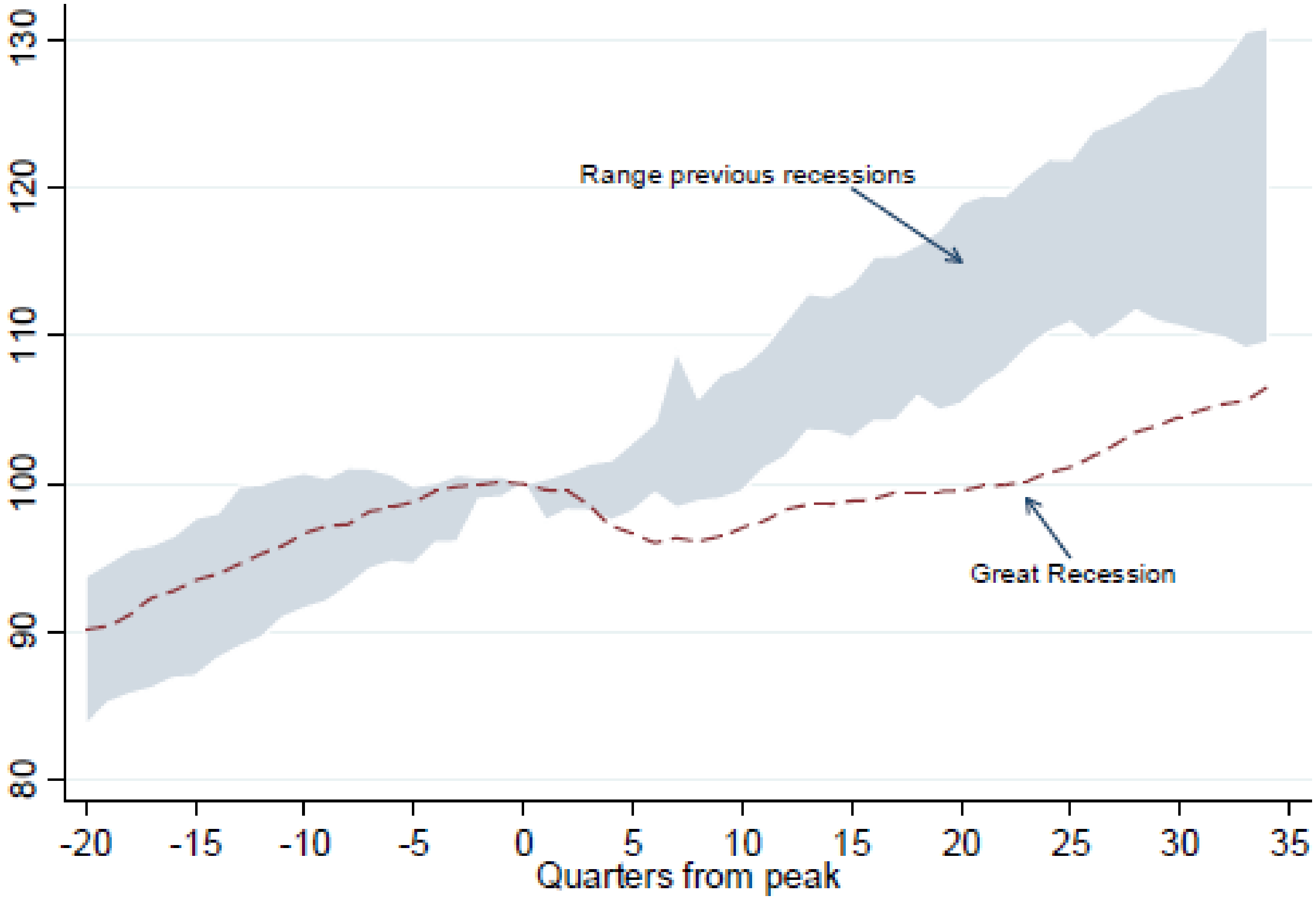
Discussion of “Why Has Consumption Remained Moderate after the Great Recession?” by Luigi Pistaferri

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?

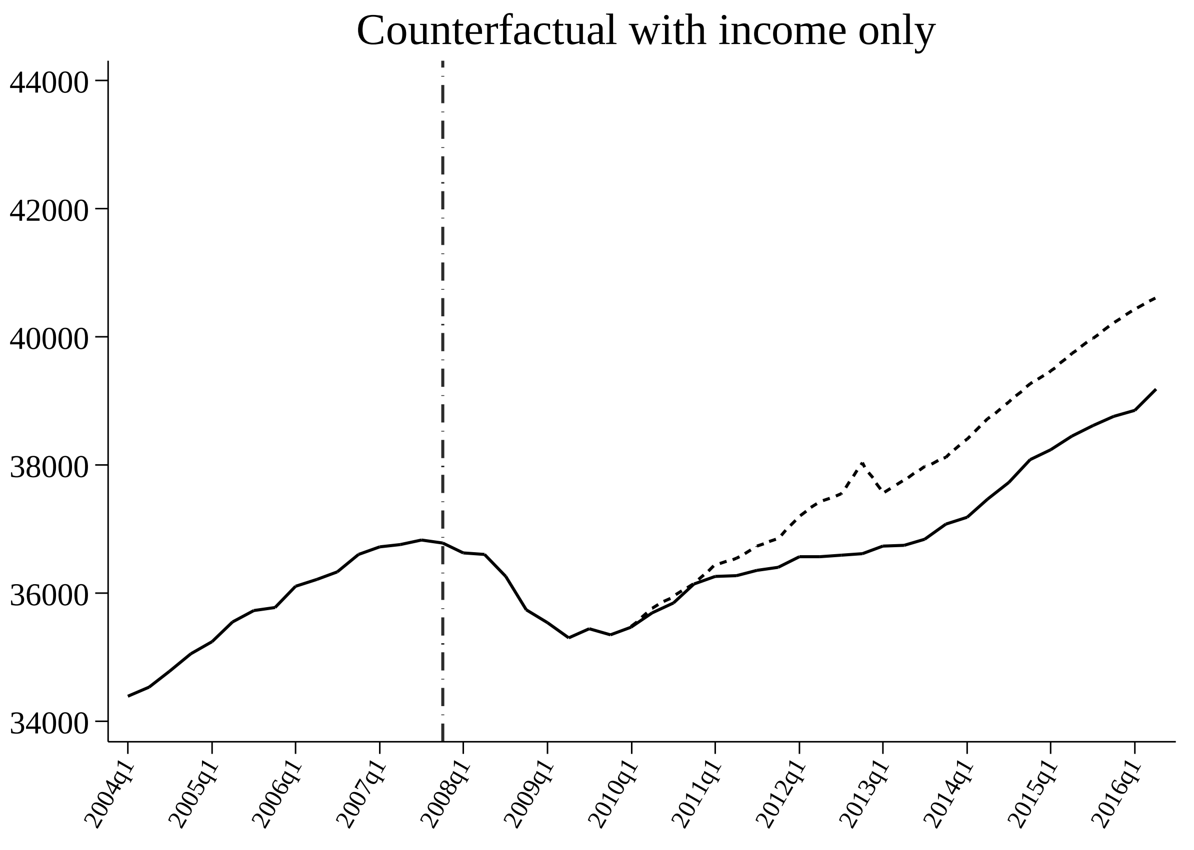


Is consumption growth low even adjusting for income?

- 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)

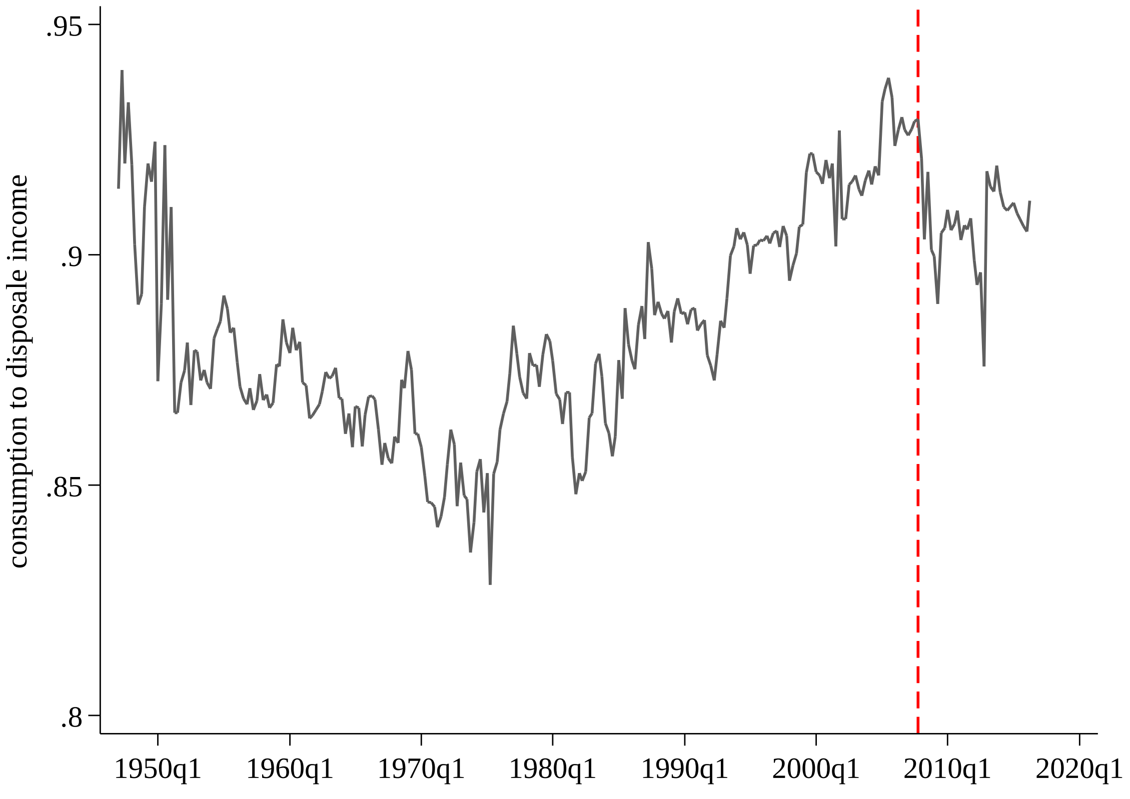
- Estimate $\Delta log C_t = \alpha + \beta\Delta\log Y_t^d + \epsilon_t$ in pre-2007Q4 period and use estimated coefficient to predict counter-factual consumption post-2010Q.

- Yes, consumption growth slower than historical relationship conditional on disposable income growth.



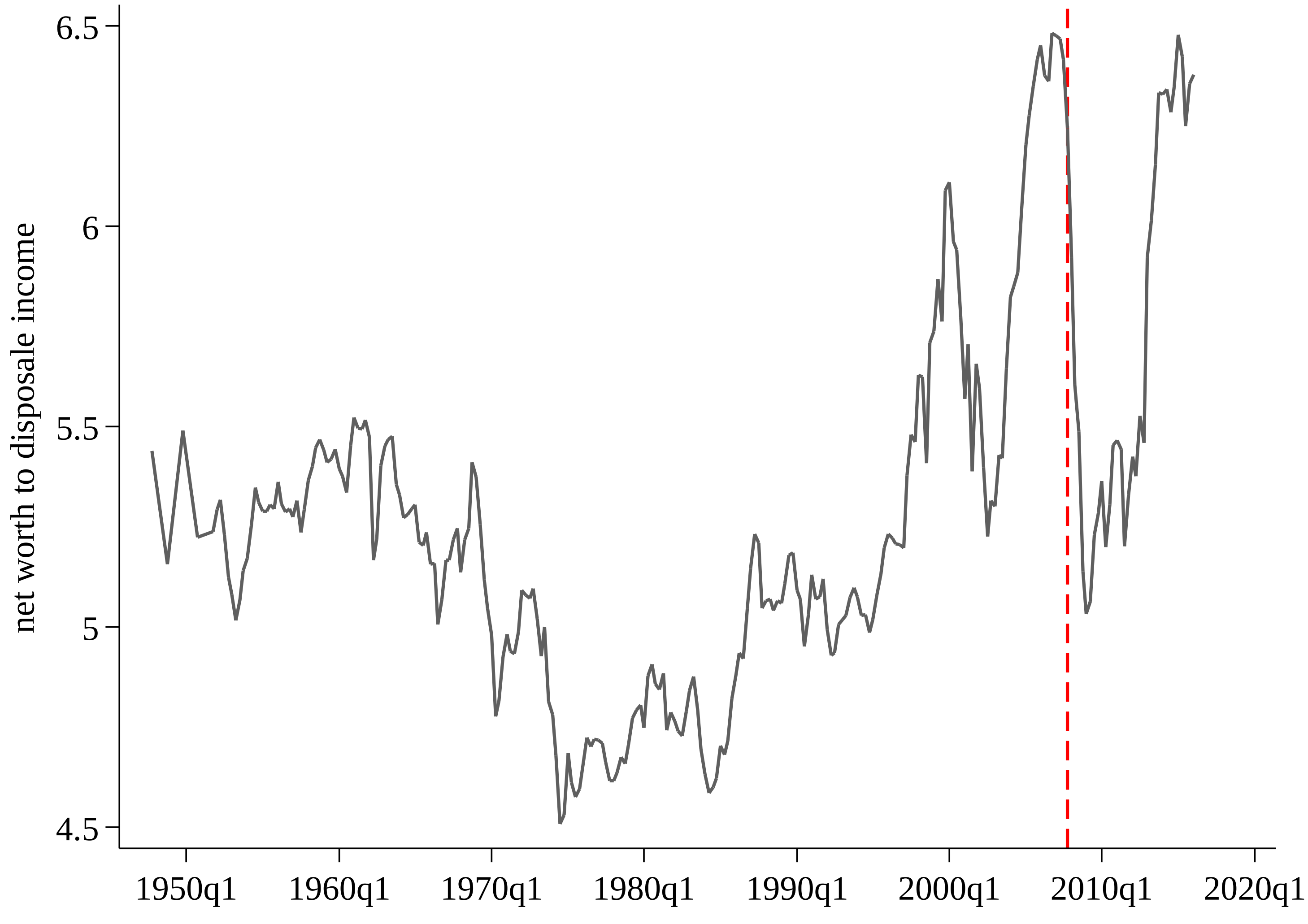
Counterfactual with income only
44000
42000
40000
38000
36000
34000
2004q1
2005q1
2006q1
2007q1
2008q1
2009q1
2010q1
2011q1
2012q1
2013q1
2014q1
2015q1
2016q1

But consumption-income ratio was at historic high in 2007Q4.

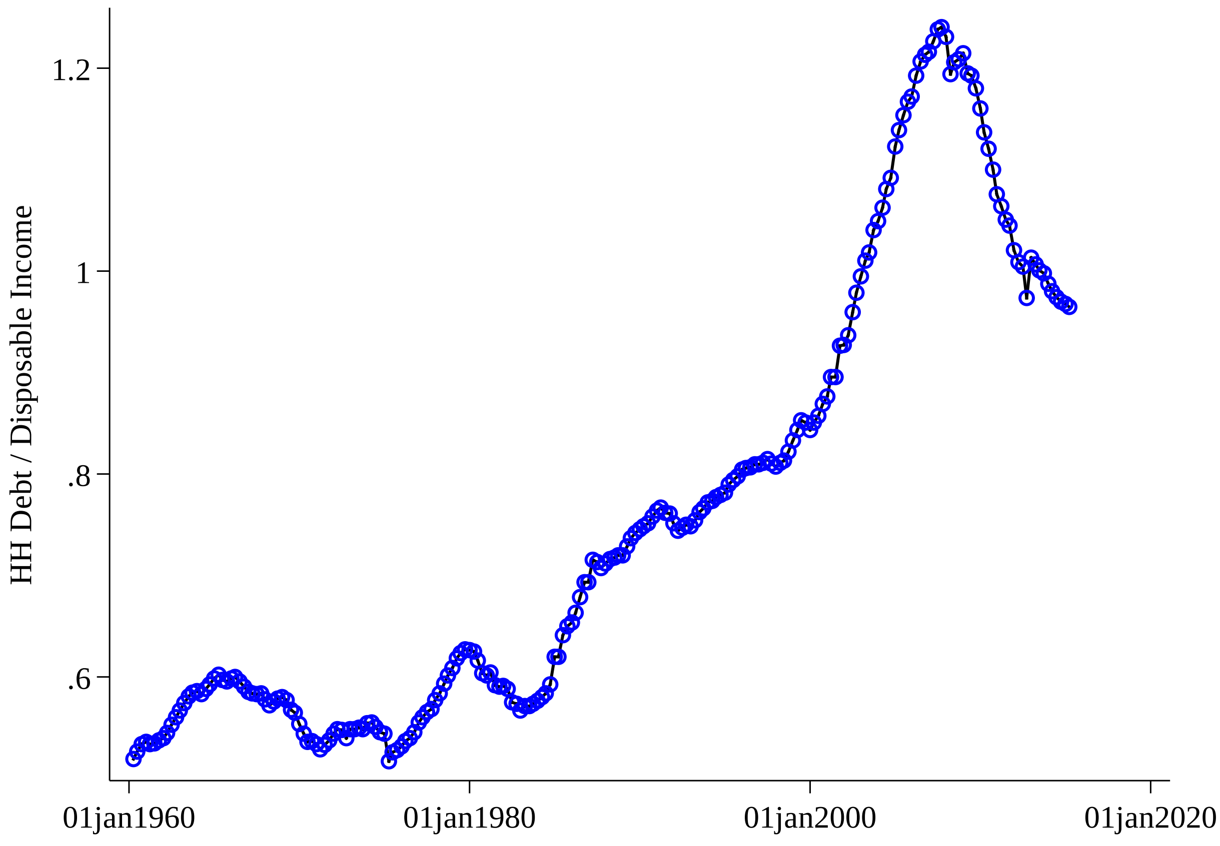


Possible drivers of high consumption growth relative to income in pre-2007 period

- 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

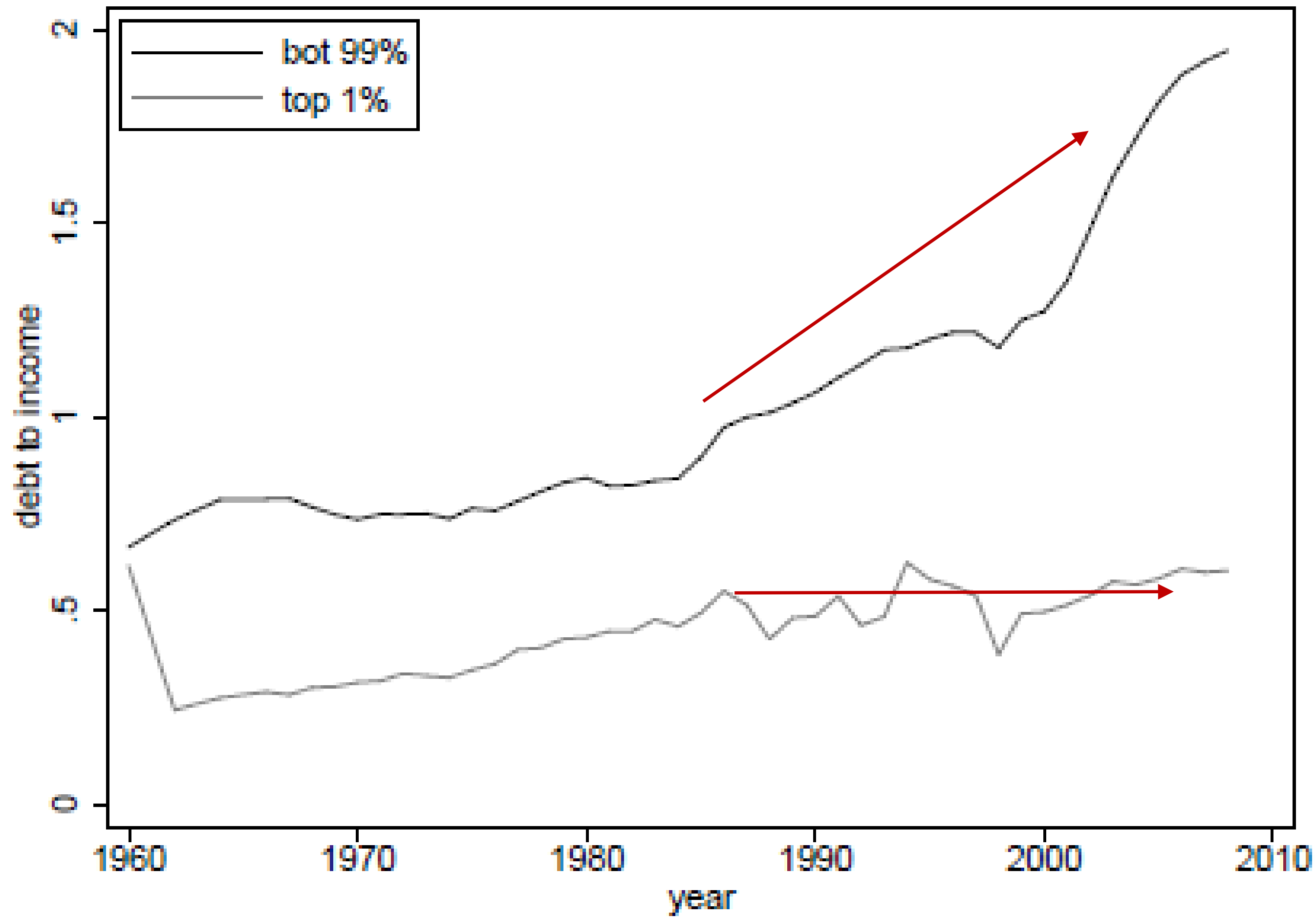

net worth to disposale income
6.5
6
5.5
5
4.5
1950q1
1960q1
1970q1
1980q1
1990q1
2000q1
2010q1
2020q1

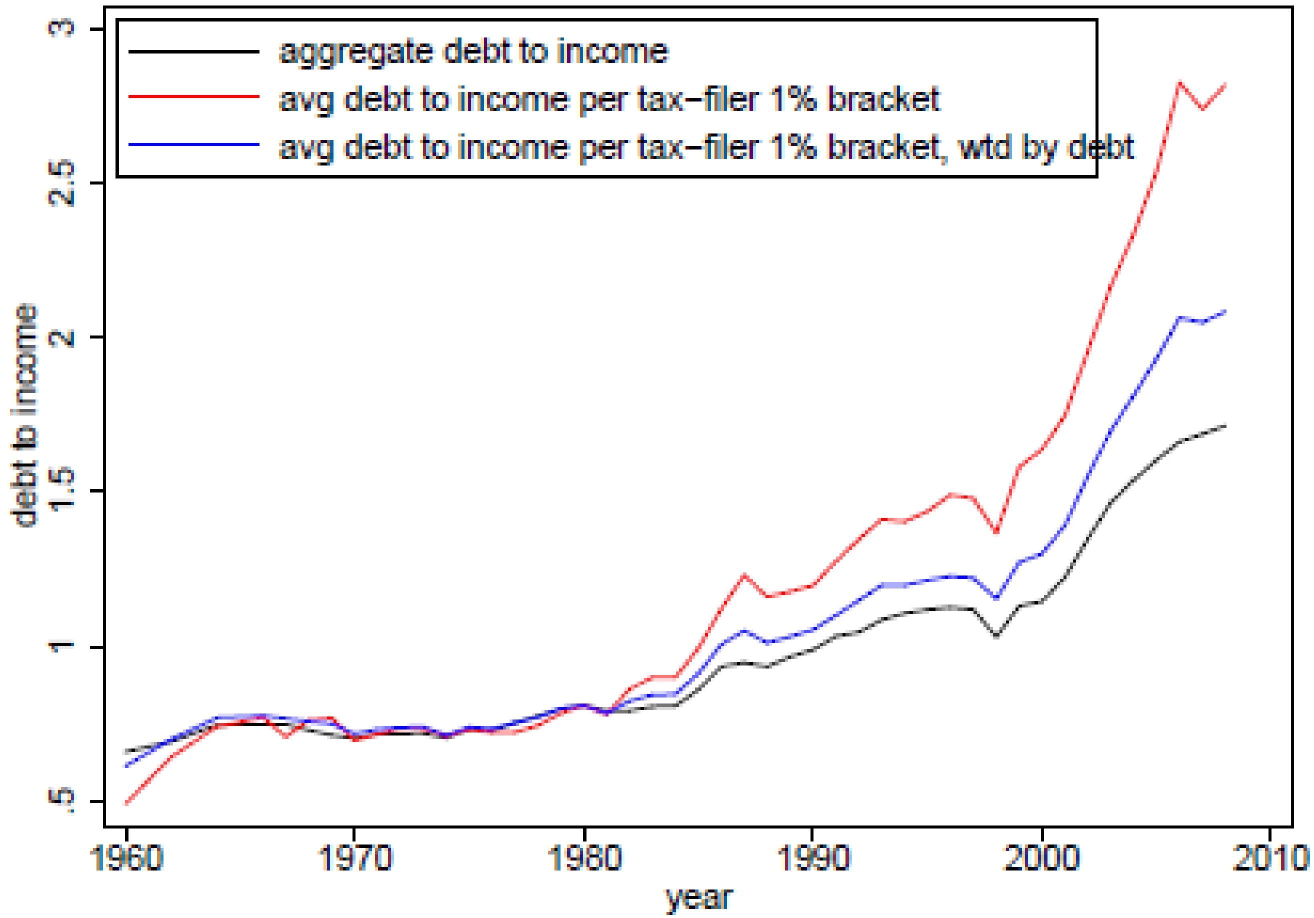
Rising leverage



Leverage growth concentrated in bottom-90 (Mian and Sufi 2016)

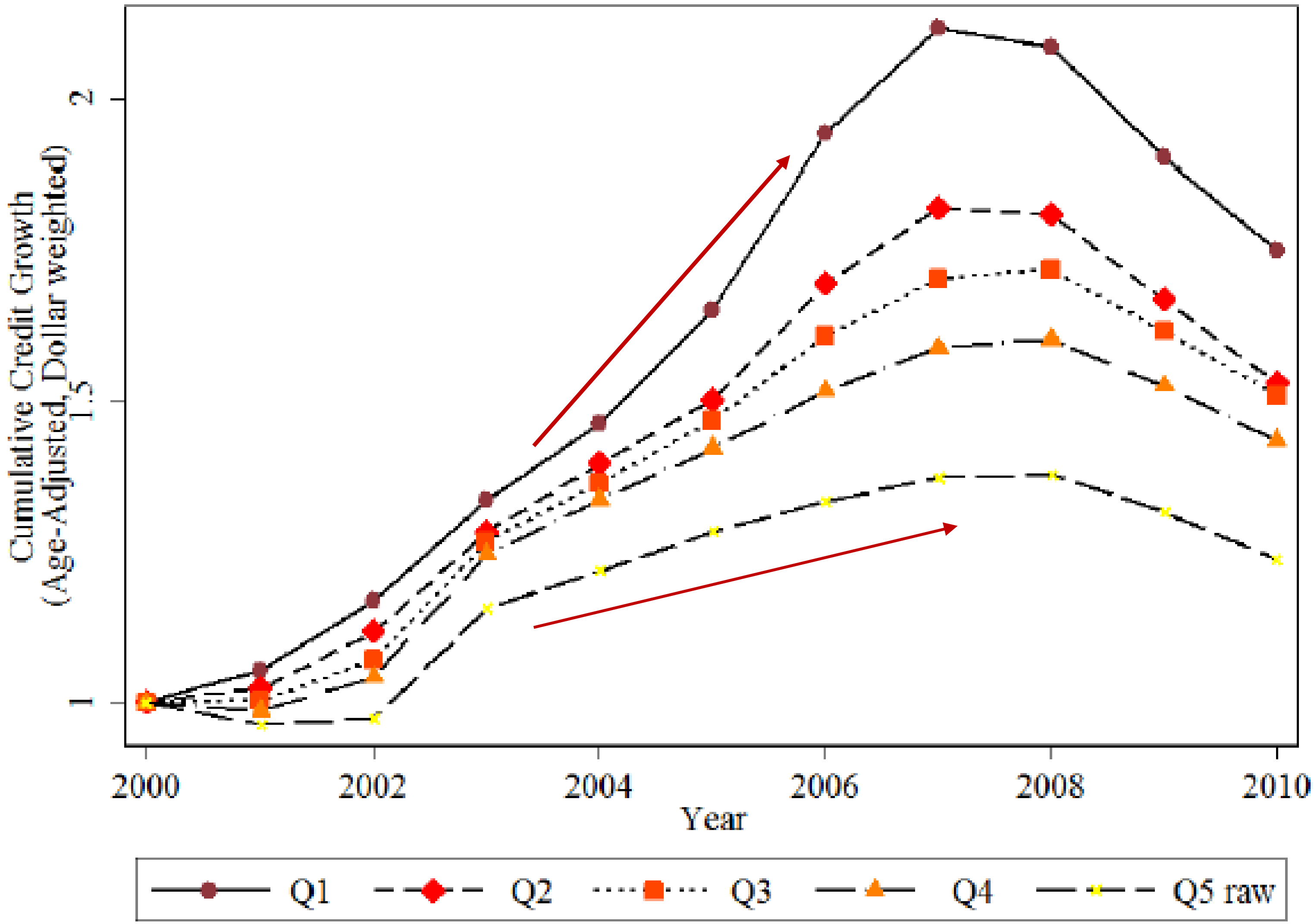
Figure 1: 1% vs. 99%



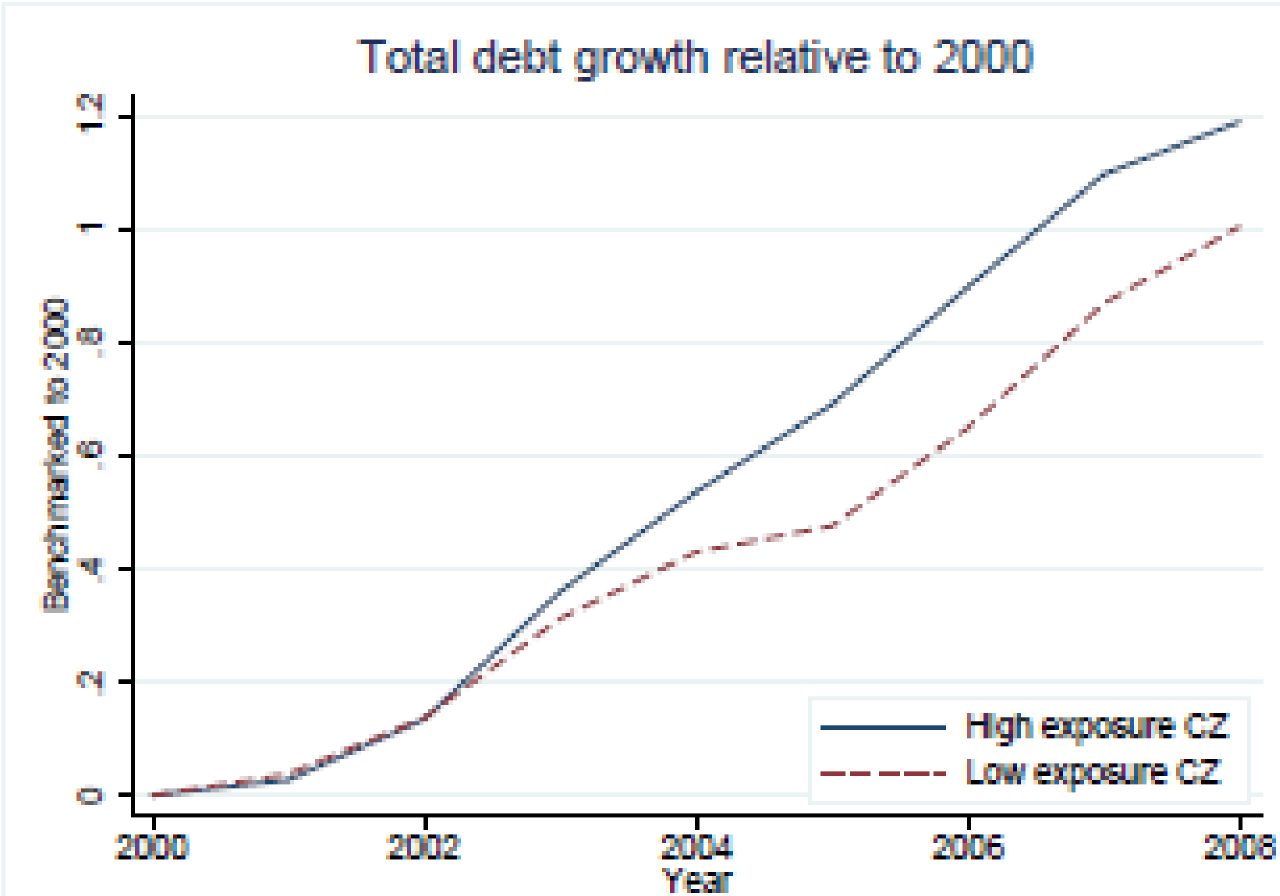


aggregate debt to income
avg debt to income per tax−filer 1% bracket
avg debt to income per tax−filer 1% bracket, wtd by debt
debt to income
.5
1
1.5
2
2.5
3
1960
1970
1980
1990
2000
2010
year

Age-adjusted credit growth by credit score quintile



Debt growth in China-exposed CZ's - Barrot et al (2016)



Possible drivers of high consumption growth relative to income in ~~pre~~ post-2007 period

- Rising net worth to disposable income

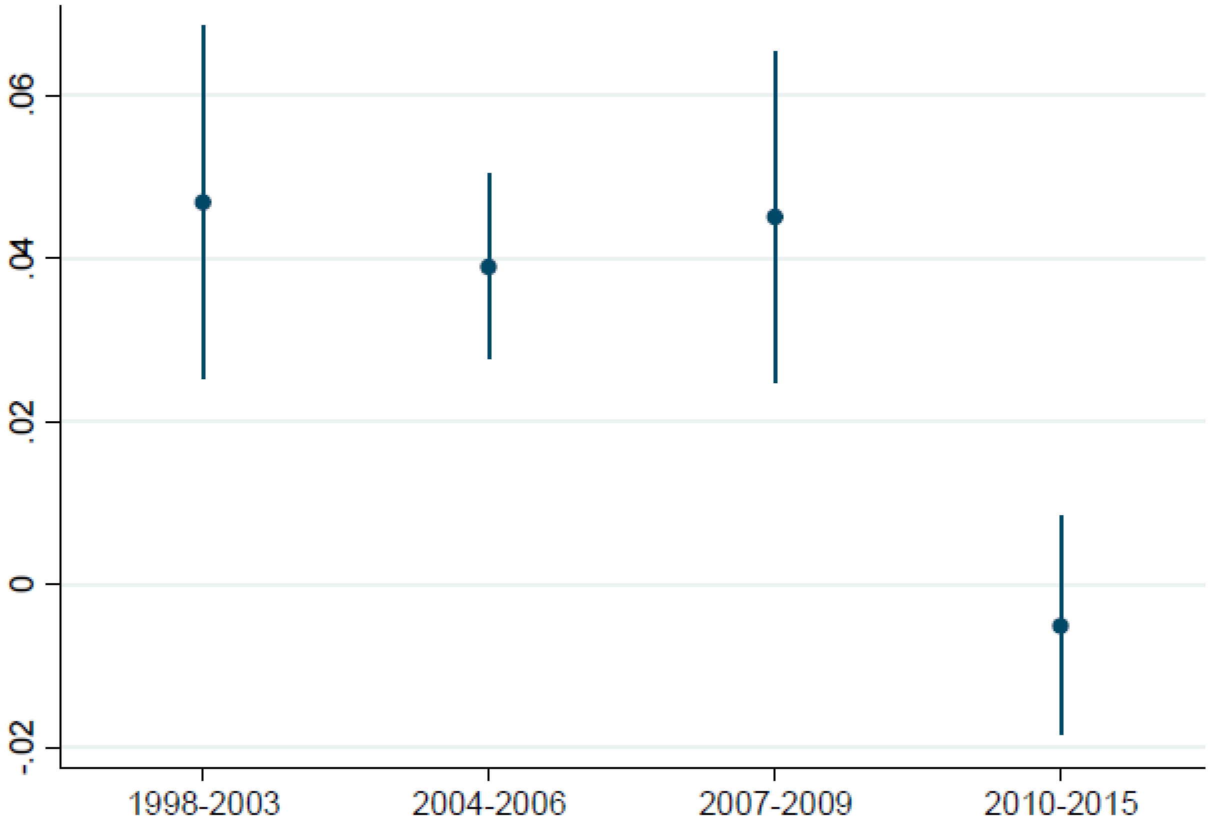
- ~~Rising household leverage~~

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

- ~~Falling long-term rates~~

- Monetary Policy?

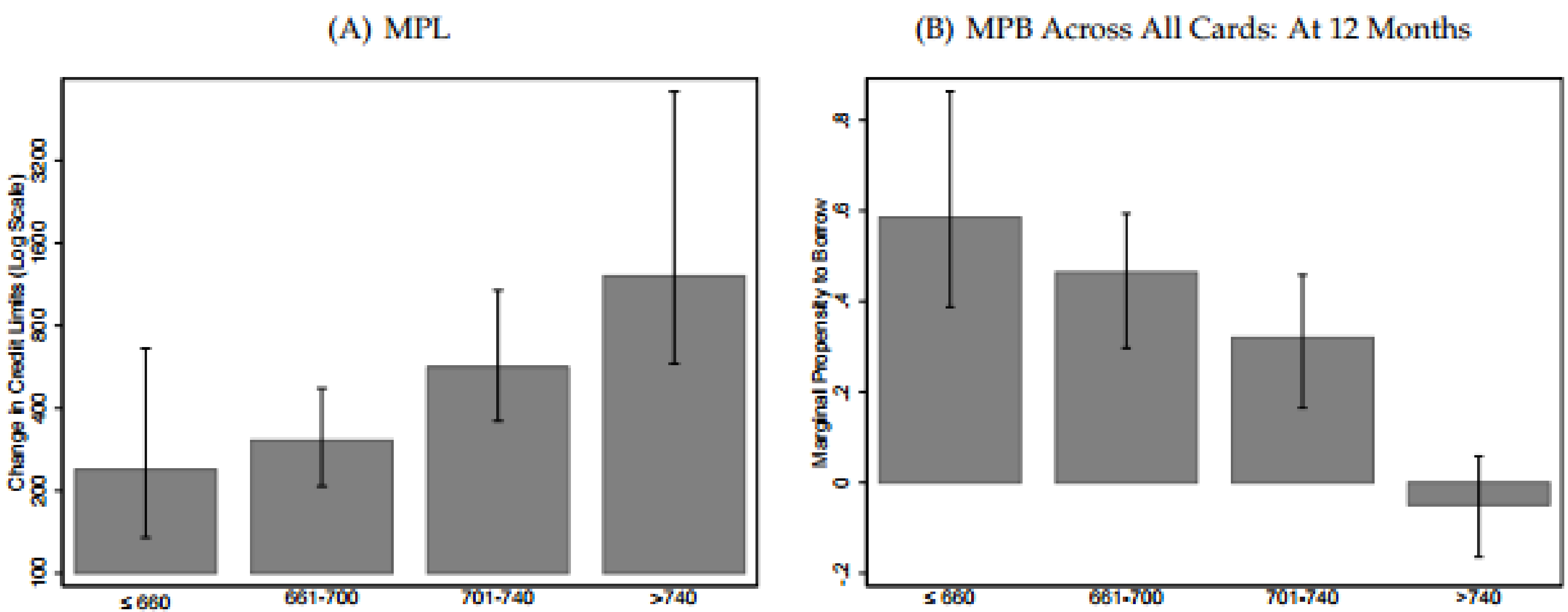
Estimated wealth effects shrink considerably post-recession



Source: BEA, NIPA PCE by state

Monetary Policy pass-through - Agarwal et al (2016)

Figure 11: Correlation between MPL and MPB



The long shadow of HH leverage growth (Mian, Sufi and Verner 2016)

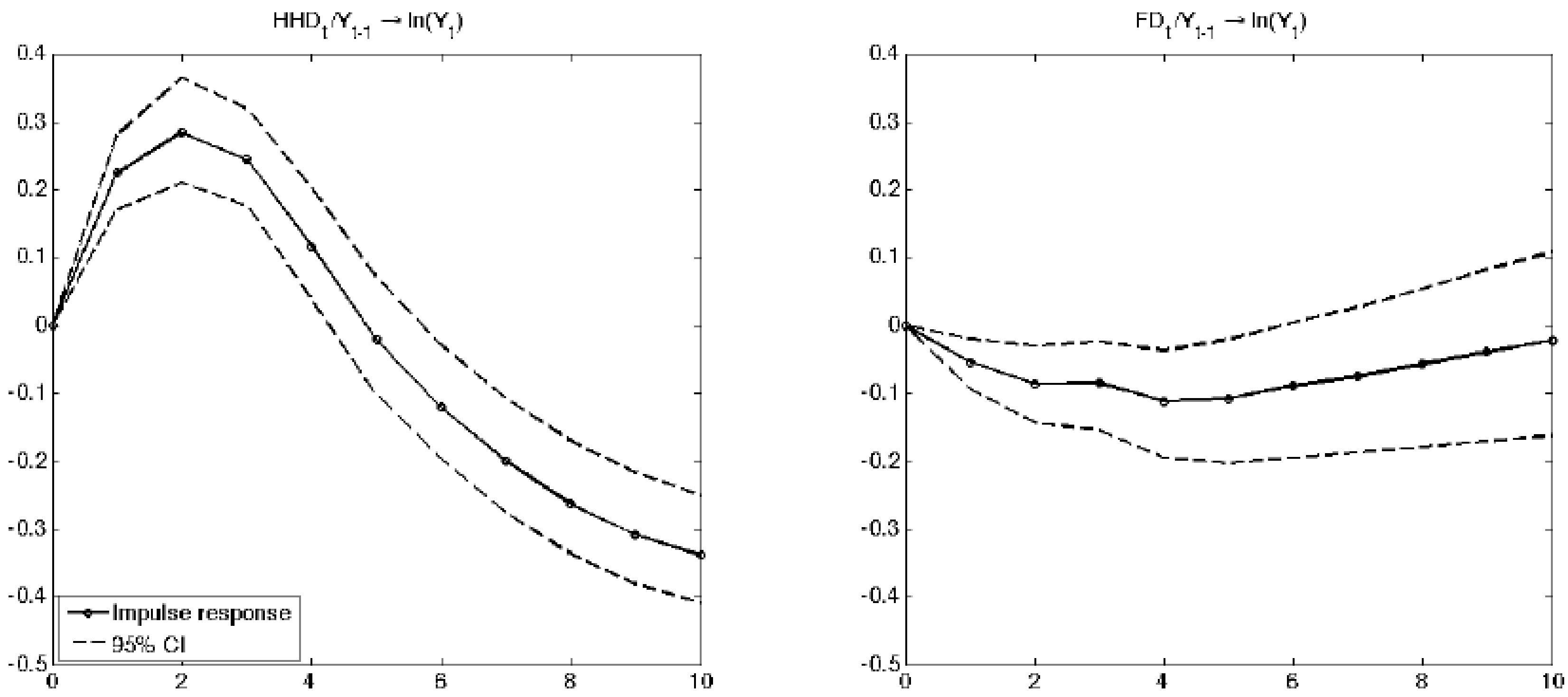


Table 2: Credit Expansion and Contemporaneous and Future Three-Year GDP Growth

	Dependent variable: $\Delta_3 y_{it+k}, k = 0, ..., 6$						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	$\Delta_3 y_{it}$	$\Delta_3 y_{it+1}$	$\Delta_3 y_{it+2}$	$\Delta_3 y_{it+3}$	$\Delta_3 y_{it+4}$	$\Delta_3 y_{it+5}$	$\Delta_3 y_{it+6}$
$\Delta_3 d_{it}^{HH}$	0.176*	0.121	-0.0136	-0.178**	-0.337**	-0.410**	$\boxed{-0.405^{**}}$
	(0.0793)	(0.0810)	(0.0680)	(0.0629)	(0.0779)	(0.0905)	$\boxed{(0.102)}$
$\Delta_3 d_{it}^{F}$	-0.0430	-0.140*	-0.159**	-0.108**	-0.0411	0.0327	$\boxed{0.0876^{*}}$
	(0.0556)	(0.0550)	(0.0437)	(0.0362)	(0.0349)	(0.0395)	$\boxed{(0.0373)}$
R^2	0.026	0.063	0.100	0.103	0.128	0.138	0.128
Country fixed effects	✓	✓	✓	✓	✓	✓	✓
Observations	815	785	755	725	695	665	635

Summary

- Why has consumption growth conditional on income growth slowed?
  - Less surprising, given where we were in 2007Q4.
  - The household debt drivers are not operating thus far.
- Why has income growth slowed?
  - The long shadow of HH leverage growth
  - A statistical result. Need to incorporate in theory.