The Private Sector Financial Balance As a Predictor of Financial Crises

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US Private Sector Financial Balance

*Total income minus total spending or, alternatively, total saving minus total investment, all households and businesses.

Source: Haver Analytics, Goldman Sachs Global Investment Research
Incidence of Crisis in Next 3 Years: Private Sector Balance Buckets vs. Debt Growth Buckets

Source: Macrohistory Database, Haver Analytics, Goldman Sachs Global Investment Research
Private Sector Balance Outperforms Debt Growth as a Predictor of Financial Crisis

Logit Panel Regression for 1985-2016
Dependent variable: Three year ahead alarm for financial crisis

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Private sector balance (% of GDP)</td>
<td>-0.272***</td>
<td>-0.226***</td>
<td>-0.175***</td>
<td>-0.204***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-6.1</td>
<td>-4.1</td>
<td>-3.8</td>
<td>-3.5</td>
<td></td>
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<tr>
<td>Real credit growth, 4y % change</td>
<td>0.058***</td>
<td>0.022*</td>
<td>0.011</td>
<td>-0.021</td>
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<td></td>
<td>5.6</td>
<td>1.7</td>
<td>0.8</td>
<td>-1.3</td>
<td></td>
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<tr>
<td>Real house price growth, 4y % change</td>
<td>0.053***</td>
<td>0.061***</td>
<td>0.061***</td>
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<tr>
<td></td>
<td>4.5</td>
<td>4.4</td>
<td>4.1</td>
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<tr>
<td>Real equity growth, 4y % change</td>
<td>0.005</td>
<td>0.008**</td>
<td>0.006</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>1.3</td>
<td>2.3</td>
<td>1.5</td>
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<td>486</td>
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<tr>
<td>Pseudo R²</td>
<td>0.16</td>
<td>0.11</td>
<td>0.17</td>
<td>0.23</td>
<td>0.19</td>
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Note: We use robust standard errors.

Figures in italics denote t-statistics, and stars denote significance (*** p<0.01, ** p<0.05, * p<0.1).
Incidence of Crisis in Next 3 Years: Private Sector Balance Buckets vs. Current Account Balance Buckets

Source: Macrohistory Database, Haver Analytics, Goldman Sachs Global Investment Research
Hyperlink

Global Investment Research

Private Sector Balance Outperforms Current Account as a Predictor of Financial Crisis

Logit Panel Regression for 1985-2016
Dependent variable: Three year ahead alarm for financial crisis

<table>
<thead>
<tr>
<th>Private sector balance (% of GDP)</th>
<th>-0.272***</th>
<th>-0.321***</th>
<th>-0.175***</th>
<th>-0.177***</th>
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<td>-6.1</td>
<td>-5.2</td>
<td>-3.8</td>
<td>-2.6</td>
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<td>Current account balance (% of GDP)</td>
<td>-0.185***</td>
<td>0.084</td>
<td>-0.141***</td>
<td>0.004</td>
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<td></td>
<td>-3.1</td>
<td>1.7</td>
<td>-2.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Real house price growth, 4y % change</td>
<td></td>
<td></td>
<td>0.053***</td>
<td>0.062***</td>
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<td></td>
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<td>4.5</td>
<td>5.4</td>
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<tr>
<td>Real equity growth, 4y % change</td>
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<td>0.005</td>
<td>0.009**</td>
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<td>Observations</td>
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<td>Pseudo R^2</td>
<td>0.16</td>
<td>0.07</td>
<td>0.16</td>
<td>0.23</td>
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</table>

Note: We use robust standard errors.

Figures in italics denote t-statistics, and stars denote significance (*** p<0.01, ** p<0.05, * p<0.1).

Source: Goldman Sachs Global Investment Research
Private Sector Balance Looks Encouraging in the Biggest DM Economies

Source: Haver Analytics, Goldman Sachs Global Investment Research
A Sizable Deficit in Canada, Especially Relative to the United States

Source: Haver Analytics, Goldman Sachs Global Investment Research
Private Sector Deficit in the UK Reinforces Concerns on the Eve of Brexit

Source: Haver Analytics, Goldman Sachs Global Investment Research
Disclosure Appendix

August 27, 2018

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