

Comments on
*“Banks’ financial distress, lending supply and
consumption expenditure”*
by Evren H. Damar, Reint Gropp, and Adi Mordel

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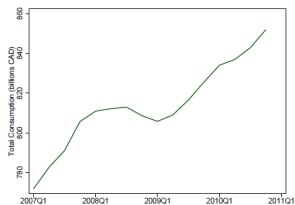
OeNB-Workshop Microdata

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¹ Additional to the usual disclaimer, the opinions expressed in this paper solely represent those of the author and do not necessarily reflect the official viewpoint of the Oesterreichische Nationalbank or of the Eurosystem.

MOTIVATION

Figure 1: Total consumption expenditures, durable consumption expenditures and the growth rate of household credit in Canada (2007Q1-2010Q4)



(a) Total Consumption Expenditure



(b) Growth Rate Household Credit



(c) Durable Consumption Expenditure

Source: Damar et al. 2014

RESEARCH QUESTION

Estimate the causal link between bank distress and households spending behaviour

- Credit supply vs. credit demand shock
- Differences between households (credit constraint household vs. unconstrained)
- Effect on consumption of households

DATA AND METHODOLOGY

Data

- Survey Data: Canadian Financial Monitor (CFM) includes household level information on
 - ▶ socio-economic demographics
 - ▶ financial assets and liabilities
 - ▶ (investment) attitudes
 - ▶ consumption (only in the years after the crisis)
 - ▶ and information about the households' main bank
- Confidential bank level data: Bank exposure of Canadian banks to the U.S. banking system, i.e. share of interbank deposits from the U.S. to total exposure

Methodology

- Difference in Differences approach
- Propensity score matching

MAIN RESULTS

Table 5: Baseline estimation of the average effect of the crisis on exposed households

	N	Mean Diff.	p-value
<i>ln(Liquid Assets)</i>			
Pre-crisis (2005-06)	1246	-0.091	0.43
Crisis (2008-09)	1246	-0.428	0.00
Difference-in-differences	1246	-0.338	0.01
<i>ln(Non-Mortgage Liabilities)</i>			
Pre-crisis (2005-06)	1246	0.001	0.99
Crisis (2008-09)	1246	-0.462	0.03
Difference-in-differences	1246	-0.463	0.03
<i>ln(Consumption During the Crisis (2008-09))</i>			
Durables	1246	0.1425	0.29
Luxuries	1245	-0.164	0.09
Total consumption	1246	-0.009	0.77

Note: Mean difference between exposed and unexposed households. Standard errors are calculated based on the procedure described in Abadie and Imbens (2006, Theorem 7). N refers to the number of exposed households. Each exposed household is matched to four unexposed households. Unexposed households may be matched to several exposed households.

Source: Damar et al. 2014

- Canadian Financial Monitor is no panel
 - Restrict to households that
 - ▶ re-participated in at least two waves (2005/06 and 2008/09),
 - ▶ have no missing information on matching covariates (both connection to bank as well as socio-economics information), and
 - ▶ negative consumption.
- ⇒ remaining 3,804 households out of 12,000 every year. Selective sub-sample?
- Duplicated households that are taking part in the survey 2005/06 and 2008 as well as 2009. How many are there?
 - Why winsorizing the data (top and bottom 1% of households according to consumption, liabilities and liquid assets)
 - ▶ Effect on the results
 - ▶ Sequential deletion of households

COMMENTS \leftrightarrow Methodology

- Common trend assumption (in liabilities, liquid assets, and consumption expenditure). \rightarrow Could one construct the trend even without the longer panel structure?
- Survey weights:
 - ▶ Used in the estimations?
 - ▶ Calculation of standard errors?
- Alternative approach: Coarsened exact matching

COMMENTS \leftrightarrow Substantive I

- In the analysis we see a decline in average non-mortgage liability holdings and liquid assets.
 - ▶ In the aggregate there is a decrease in the growth rate of credit
 - ▶ Aggregate development of liquid assets?
- How much of decline in drop credit growth can be attributed towards the credit supply shock?
- Where is the dip in consumption coming from? Reduction in liabilities and liquid assets offset each other.

COMMENTS ↔ Substantive II

- Some households have no liquid assets
 - ▶ classification of constraint households without home equity line of credit (HELOC) might be problematic
 - ▶ classification might be done over a definition that households do not own liquid financial assets before the crises
 - ▶ if these households experience credit supply shock reduction of consumption is necessary

- What about mortgage loans? Affected to a greater extent?