Financial Stability and Mortgage Markets

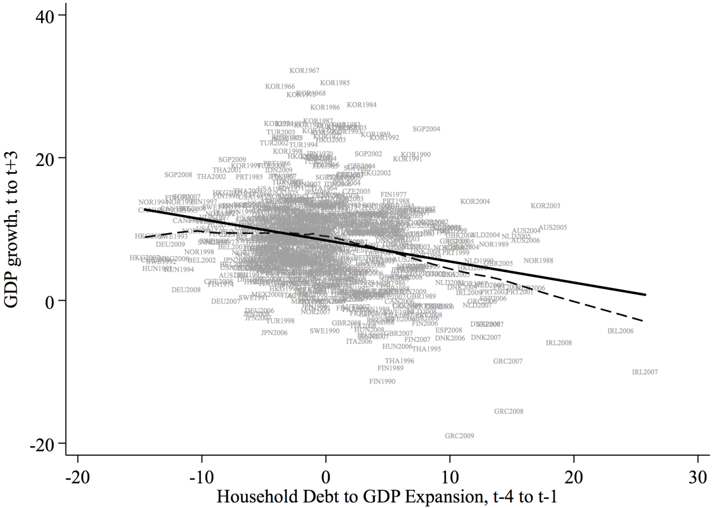
Atif Mian
Princeton University

New York Fed Conference
April 27, 2017

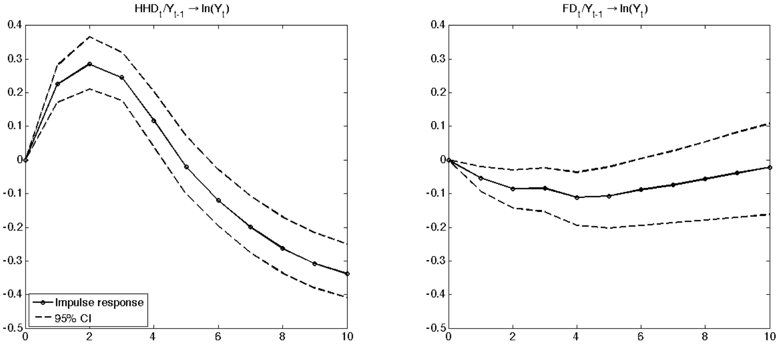
Household debt and Macro-prudential policies

- Traditional focus
  - Bank lending channel impacts the business cycle through firm investment / aggregate supply side.
- More recent focus
  - Household credit impacts the business cycle through aggregate demand side
  - Theory embeds aggregate demand externality or behavioral biases with macro-frictions.
- New evidence from Mian, Sufi and Verner (forthcoming)

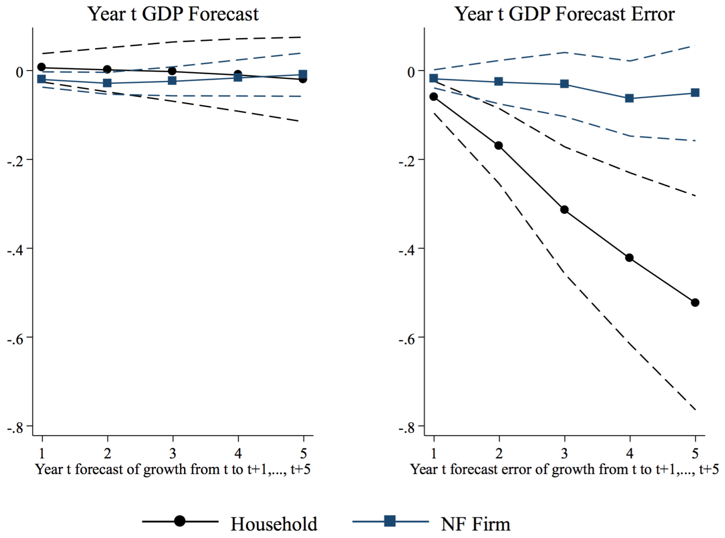
Increase in Household Debt Predicts Lower Growth



How do credit shocks feed into GDP?

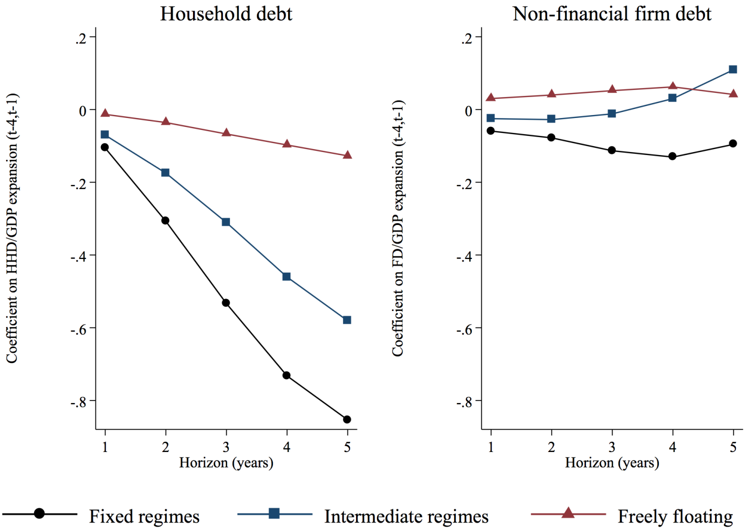


Household Debt Expansion and Forecast Errors

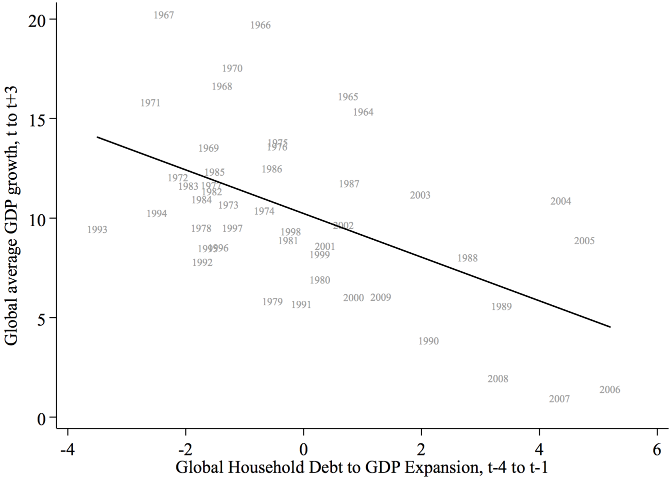


Heterogeneity across Exchange Rate Regimes

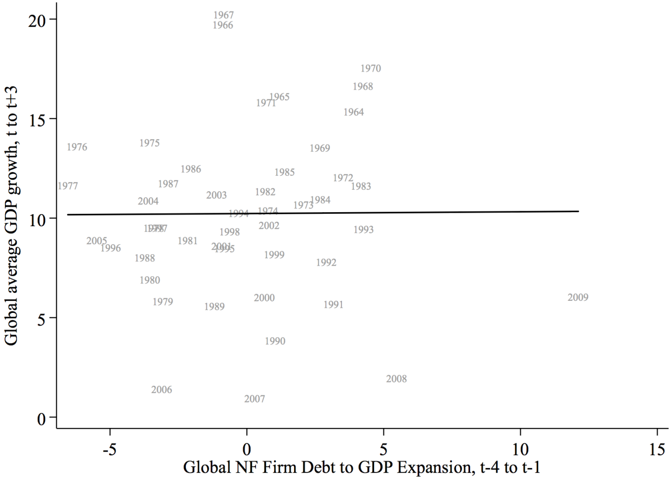
- Result strongest among fixed exchange rate regimes



Rise in Global Household Debt ⇒ Lower Global Growth



Global Non-Fin. Debt Does Not Predict Global Growth



Summary

- Household credit shocks and GDP growth
  - 6 percentage point increase in HHD/GDP over 3 years predicts **2 percentage point lower GDP** 3 years out.
  - **Asymmetry** between household and non-financial firm debt
  - HH credit shocks **negatively predict GDP forecasting errors**
- **Support for macro-frictions** The effect is stronger in fixed ER regimes, ZLB and external borrowing.
- There is a **global household credit cycle** that strongly predicts lower global GDP growth
  - HH credit to GDP predictability stronger for countries with **higher global cycle beta**
  - predicts slower out-of-sample global growth post-2007