

Discussion of “The Effects of Sector-Specific
Credit Supply Shocks on the U.S. Economy”
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Brief Summary

- ▶ This paper studies sector-specific credit supply shocks on real economic activity
- ▶ Three sectors
 - ▶ private households
 - ▶ non-financial corporations
 - ▶ banks
- ▶ Credit supply shocks vary by the sectors
- ▶ Their effects on business cycle dynamics vary by the sectors

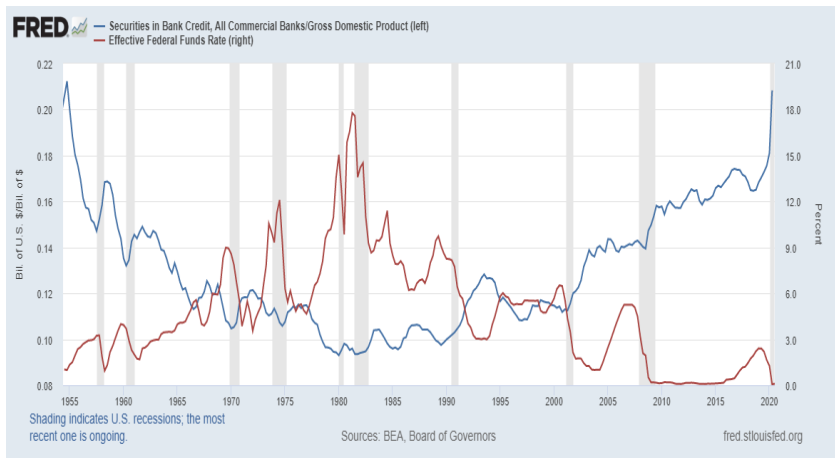
Brief Summary

- ▶ Historical decomposition of GDP forecast errors
- ▶ Empirical validity and relevance are assessed via historical context.
- ▶ Bank credit supply shocks may explain up to 25% of GDP fluctuations.

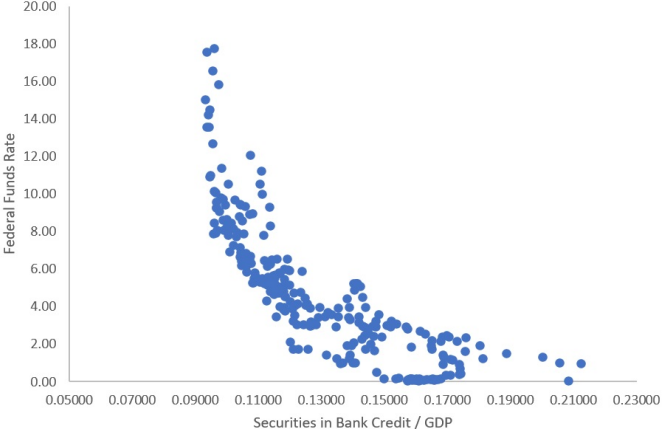
Comment: What are these “Credit Supply Shocks”?

- ▶ Household credit: Loans to households and non-profit institutions serving households
- ▶ Corporate credit: Loans and debt securities to non-financial corporations
- ▶ Bank credit: Loans and debt securities to non-financial private sector provided by domestic banks

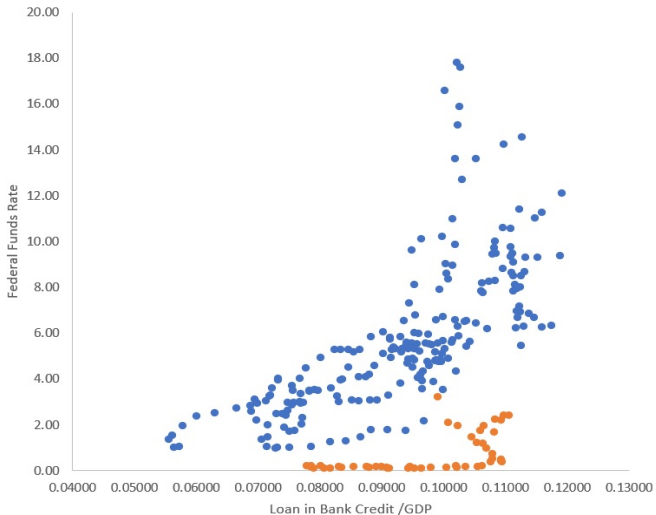
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Table 1: Assets and Liabilities of Commercial Banks, Nov. 2005

Assets		Liabilities	
Bank credit	7,449.5	Deposits	5,733.3
Interbank loans	306.3	Borrowings	1,708.7
Cash assets	313.6	Net due to foreign offices	72.2
Other assets	702.7	Other liabilities	501.6
Total Assets	8,704.5	Total Liabilities	8,015.9

- ▶ What are the sources of these credit shocks? For the bank credit, it should be associated with banks' balance sheet.
- ▶ Reminds me Freeman & Kydland (2000, AER) and money-income causality study by Chris Sims.

Conclusion

- ▶ Very nice and persuasive work, very well written paper
- ▶ Successfully placed the result in historical context
- ▶ Allows one to think about importance of credit supply to the real economic activity
- ▶ Going forward: One may need to look at what these credit are to link more explicit mechanism/transmission.

References

Freeman, S. & Kydland, F. E. (2000), 'Monetary aggregates and output', *American Economic Review* **90**(5), 1125–1135.