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Macro Roundup Article

Headline: Economic Effects of Tighter Lending by Banks

Article Link: https://www.frbsf.org/research-and-insights/publications/economic-letter/2024/05/economic-effects-of-tighter-lending-by-banks/

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Tweet: .@VCurdia estimates that the contraction in credit in the aftermath of SVB's failure may have added 0.4pp to unemployment through the end of this year and pushed down inflation slightly.

Summary: Lending standards tightened in 2023 to a degree seen only during the Global Financial Crisis in 2008 and the onset of the COVID-19 pandemic in 2020. It also clearly shows that lending standards began tightening in the second half of 2022, well before the bank collapses in early 2023. Finally, the tightening in 2023 lending standards was very similar for all businesses regardless of their size. The analysis suggests that credit supply shocks account for about 23pp of the tighter lending standards in the first half of 2023. The remaining 22pp of the tightening is associated with the response of lending standards to changes in economic conditions due to supply chain pressures and other factors originating outside the credit market. The measure also shows that lending standards started to tighten before 2023, as early as the second quarter of 2022. This suggests that inflationary pressures and monetary policy tightening in previous quarters played a role in banking conditions more generally. Therefore, tighter credit standards may be related to the bank collapses in that they shared similar root causes in recent economic and financial conditions.

Related Articles: The Secular Decline of Bank Balance Sheet Lending and All Clear and How the Banking System Changed Post-SVB

Primary Topic: Business Cycle

Topics: Banking, Business Cycle, Database, GDP, Op-Ed/Blog Post

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