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Macro Roundup Artcile

Headline: The Disparate Outcomes of Bank and Nonbank Financed Private Credit Expansions

Article Link: https://libertystreeteconomics.newyorkfed.org/2024/08/the-disparate-outcomes-of-bank-and-nonbank-financed-private-credit-expansions/

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Summary: Credit extended by the banking and nonbanking sector[s] do not always move together. One type of lending is [often] expanding while the other is contracting, which suggests a substitution between bank and nonbank lending. Overall booms in private credit can be driven by either. We find that bank and nonbank credit expansions predict differentially the downside risk to growth—that is, the probability of extreme negative real GDP growth realizations. The blue line in the chart shows that the likelihood of an extreme negative real GDP growth realization —which we define as year-on-year real GDP growth below -2%— increases following expansions in bank credit for horizons of one to three years, while at the same horizon, growth in nonbank credit actually lowers the probability of a large drop in real GDP growth. In particular, a 1 s.d. Increase in bank credit increases the probability of real GDP growth below -2% in two years' time by 2.5 ppts relative to a baseline 6% probability in our sample. In contrast, a 1 s.d. higher growth rate in nonbank credit lowers the probability of real GDP growth below -2% in two years' time by 1.9 ppts.

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Primary Topic: Banking

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

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