The American Consumer: Reforming, or Just Resting?

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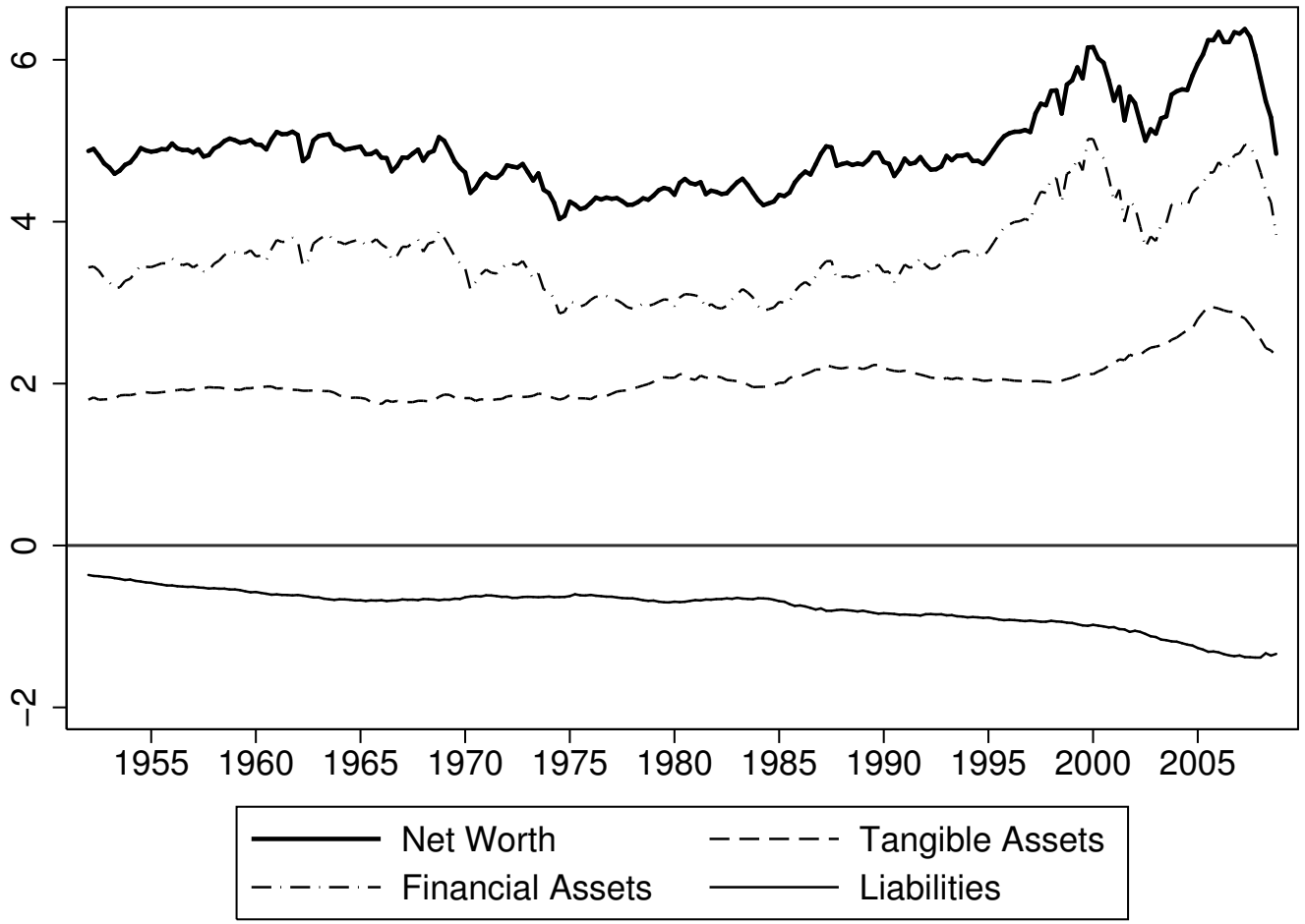
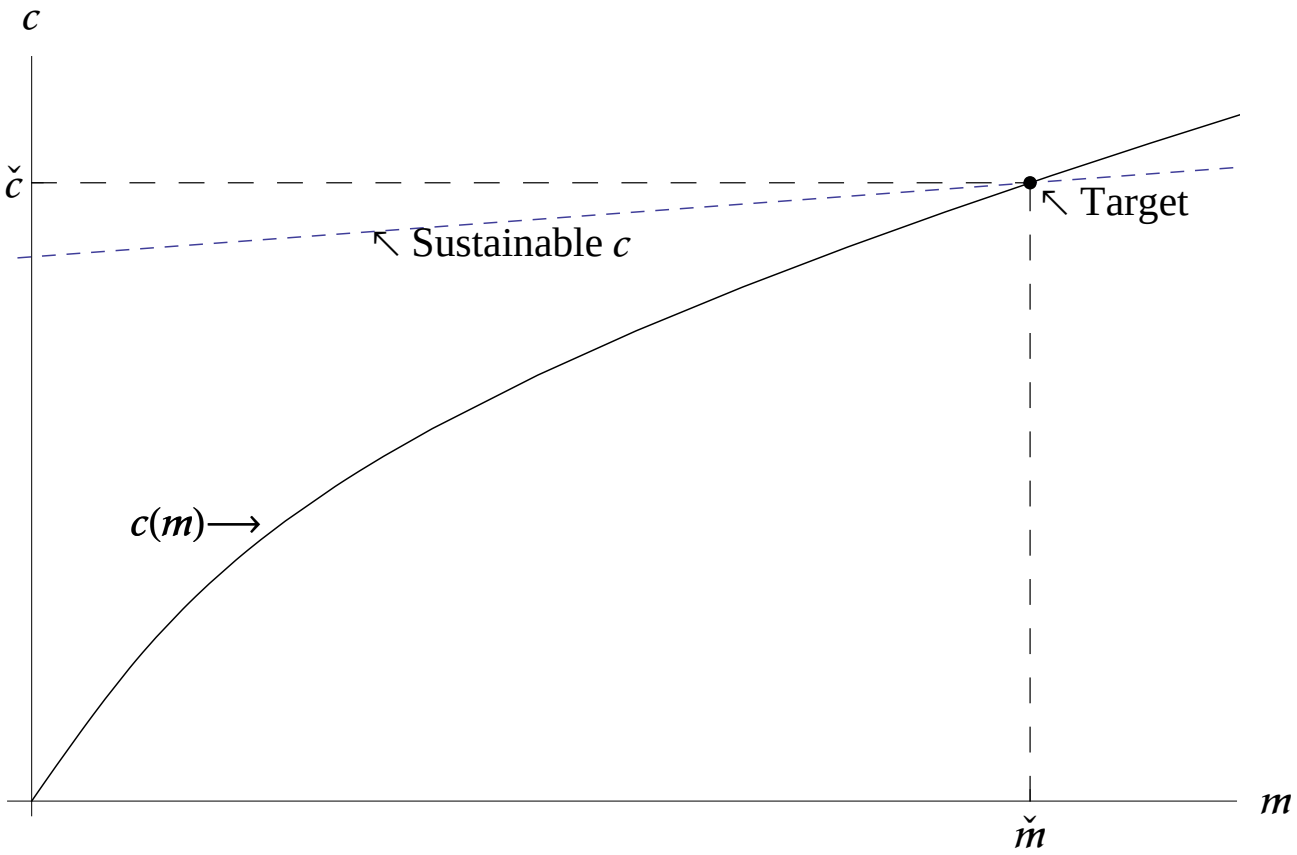
Household Net Worth and Its Components

Figure: Wealth Components as a Ratio to Disposable Income



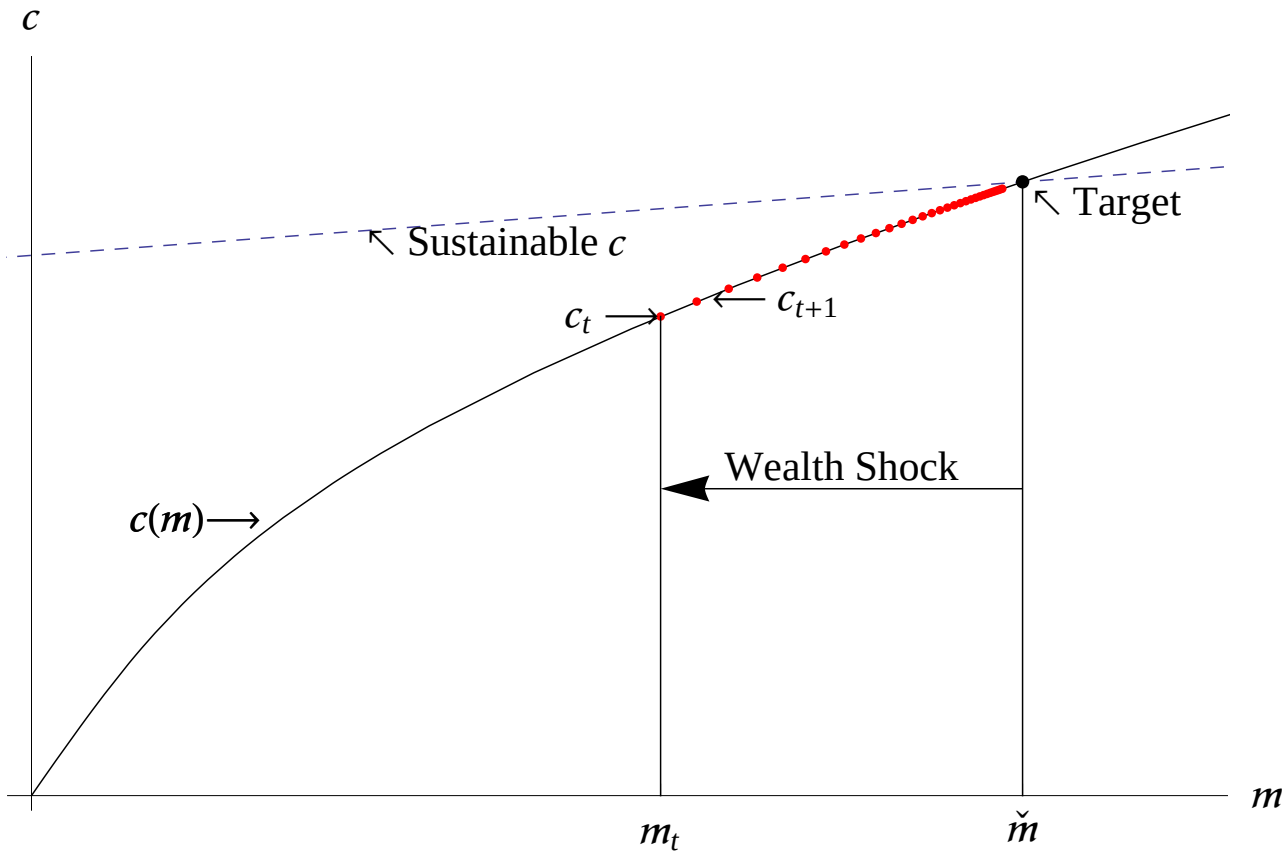
A Simple Buffer Stock Model

Figure: Consumption Function and Target Wealth Ratio



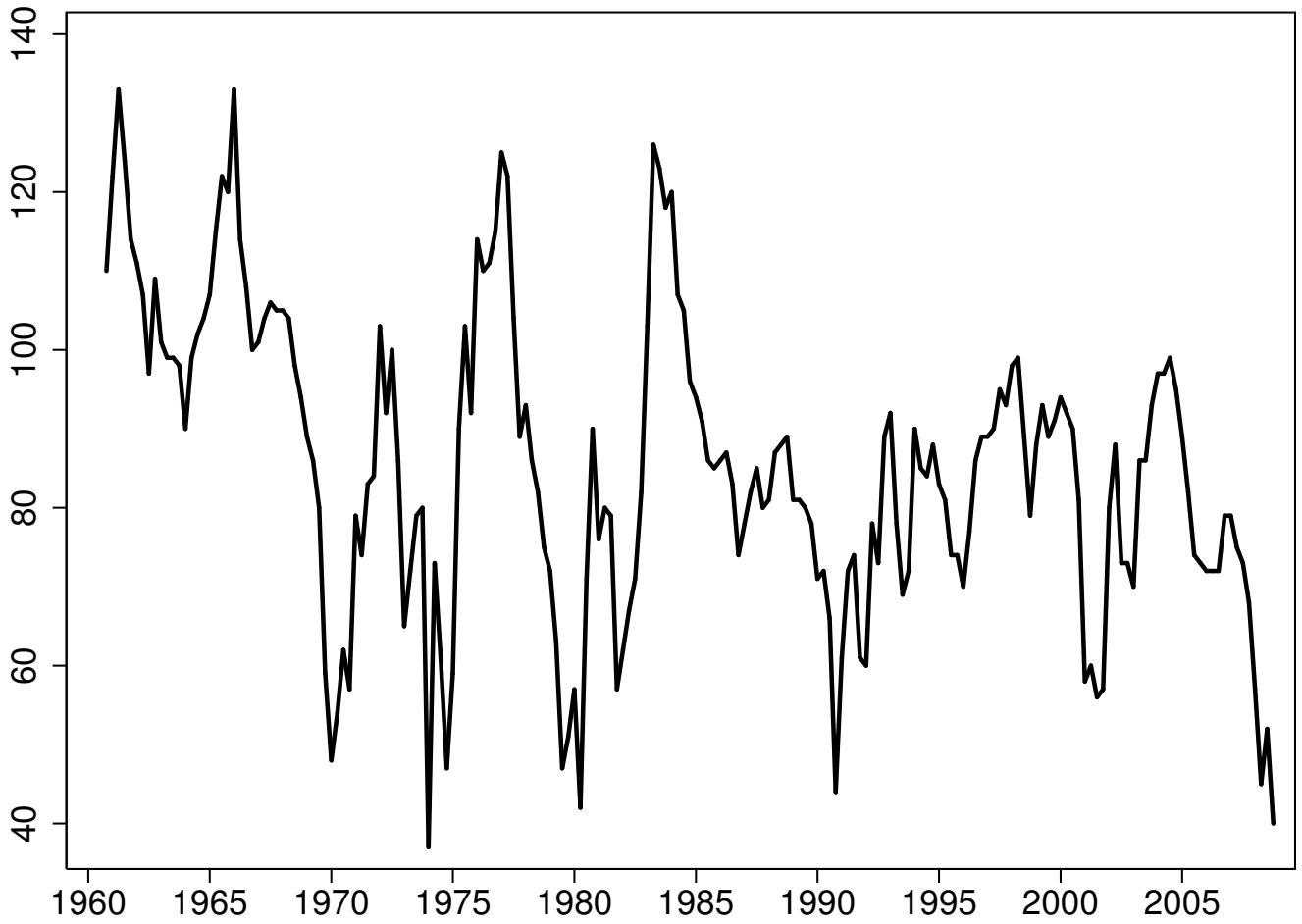
A Wealth Shock

Figure: Consumption Function and Target Wealth Ratio



Unemployment Expectations

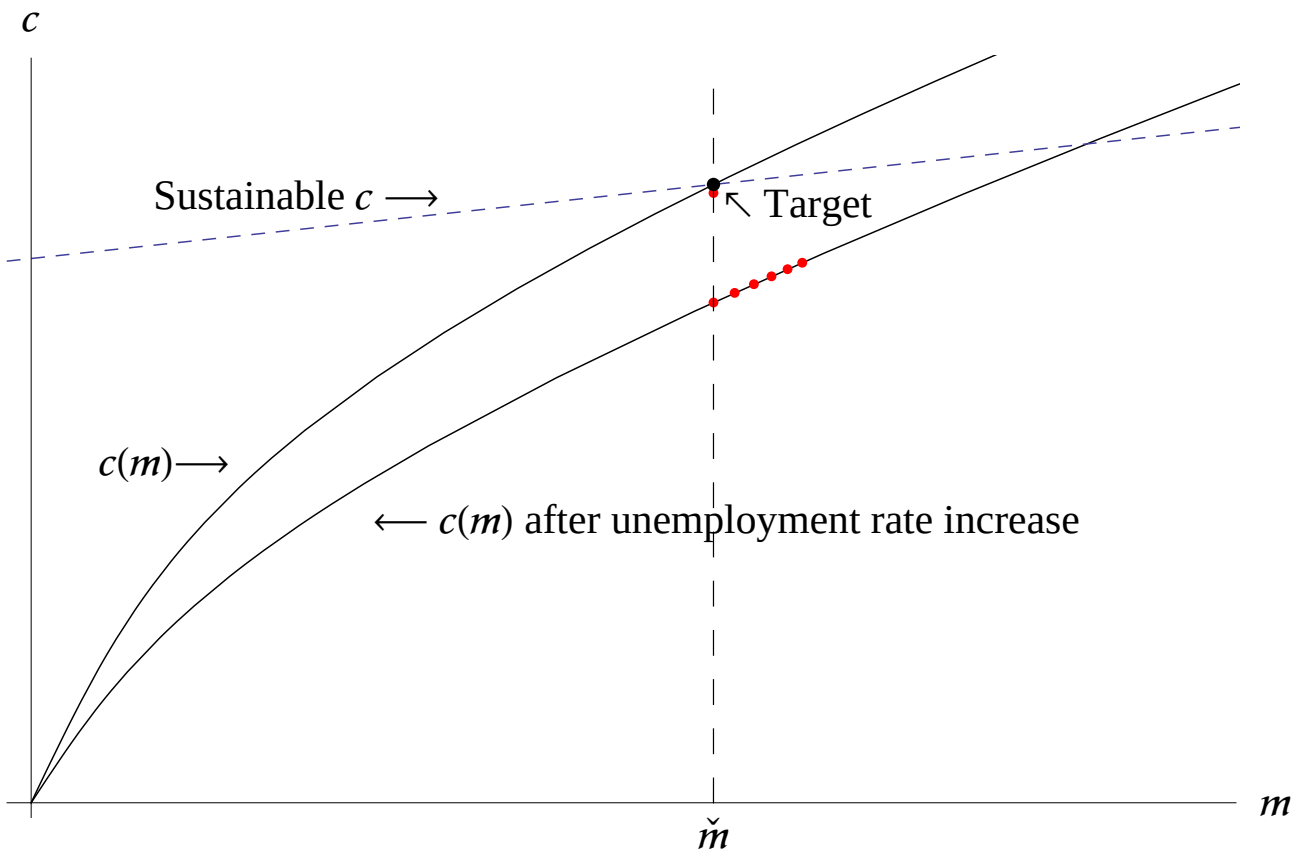
Figure: Household Expectations Of Improving Unemployment Conditions



Source: University of Michigan Survey of Consumers

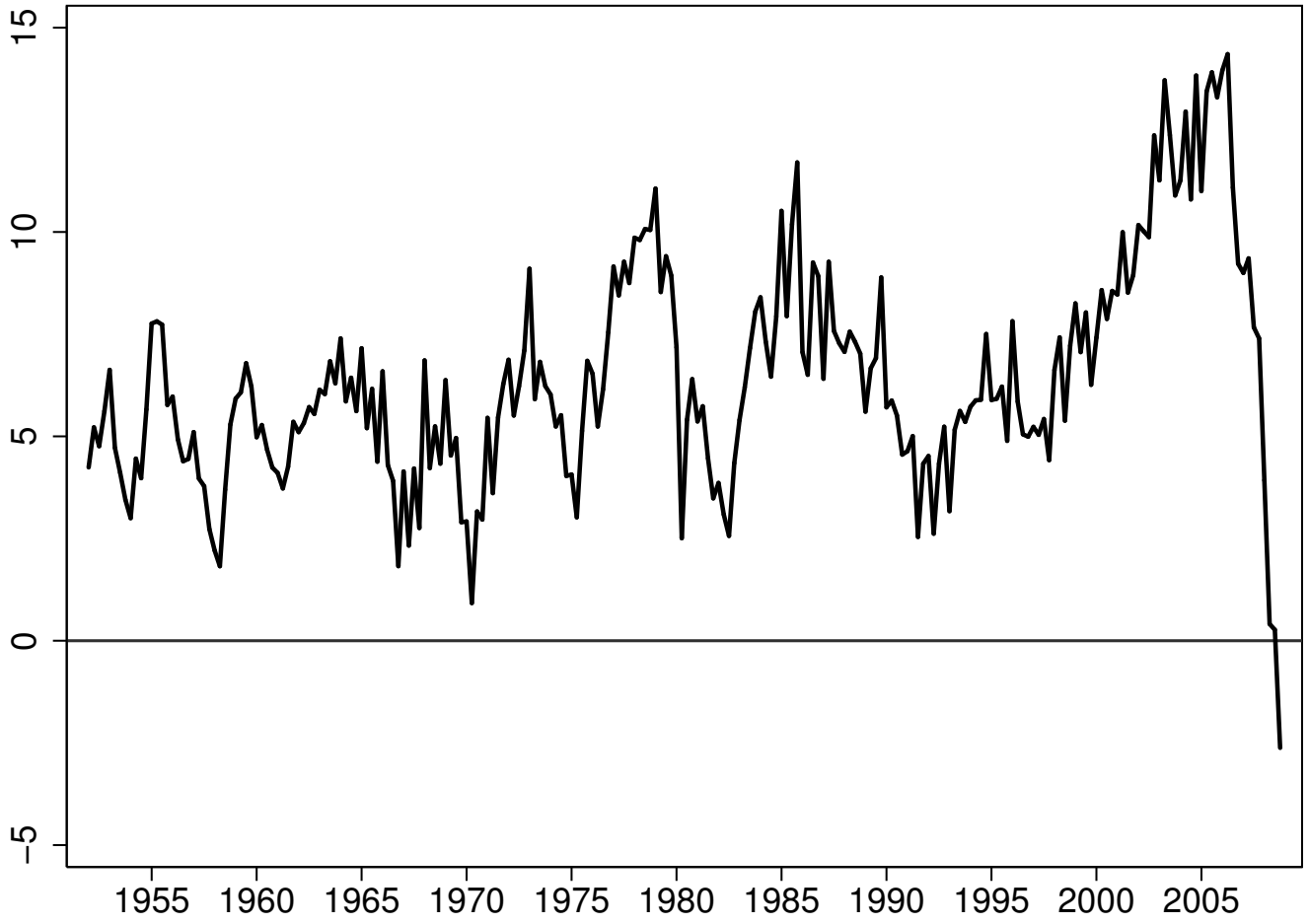
Unemployment Expectations – Theory

Figure: Consumption Function Drops When u Risk Rises



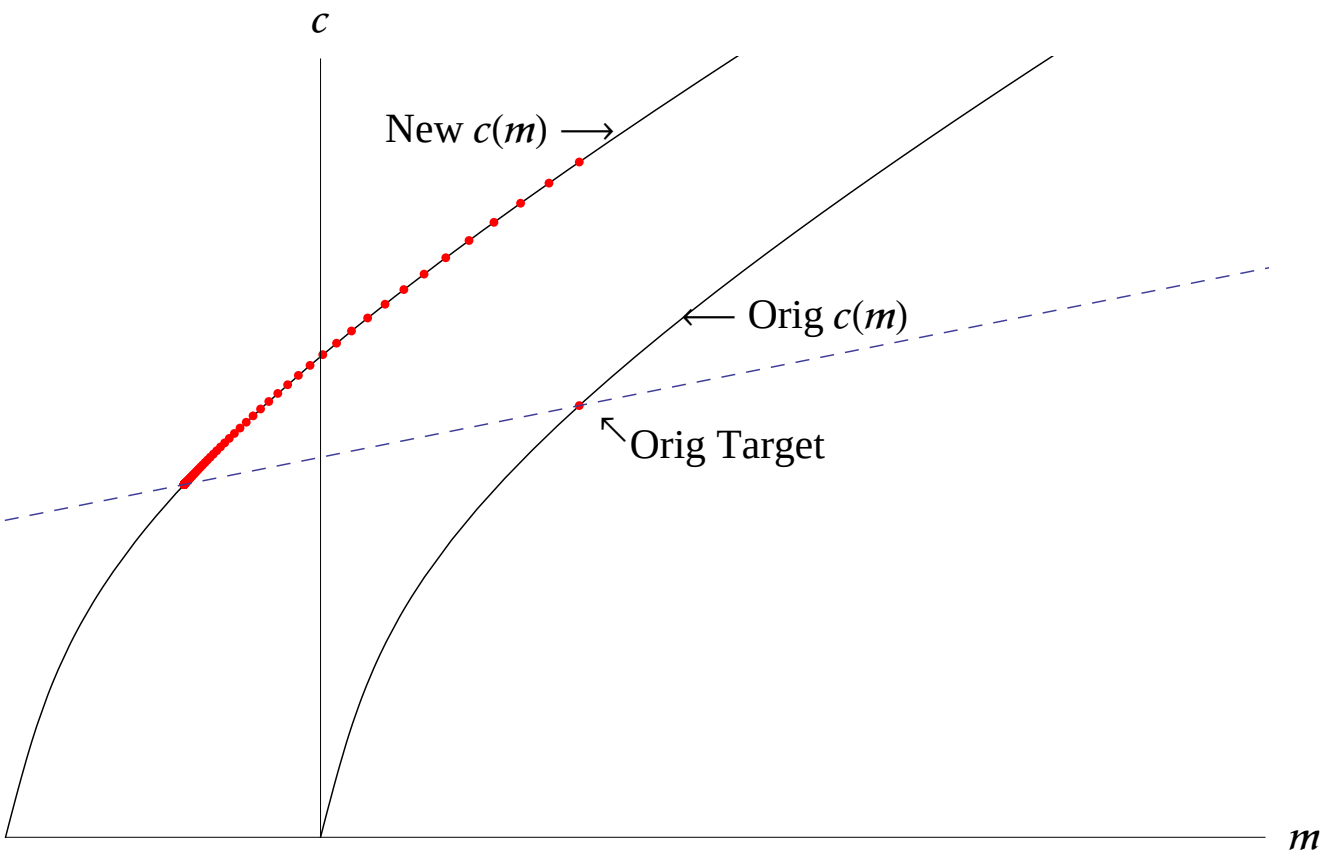
Debt Growth

Figure: Growth of Household Net Borrowing (as a % disposable income)



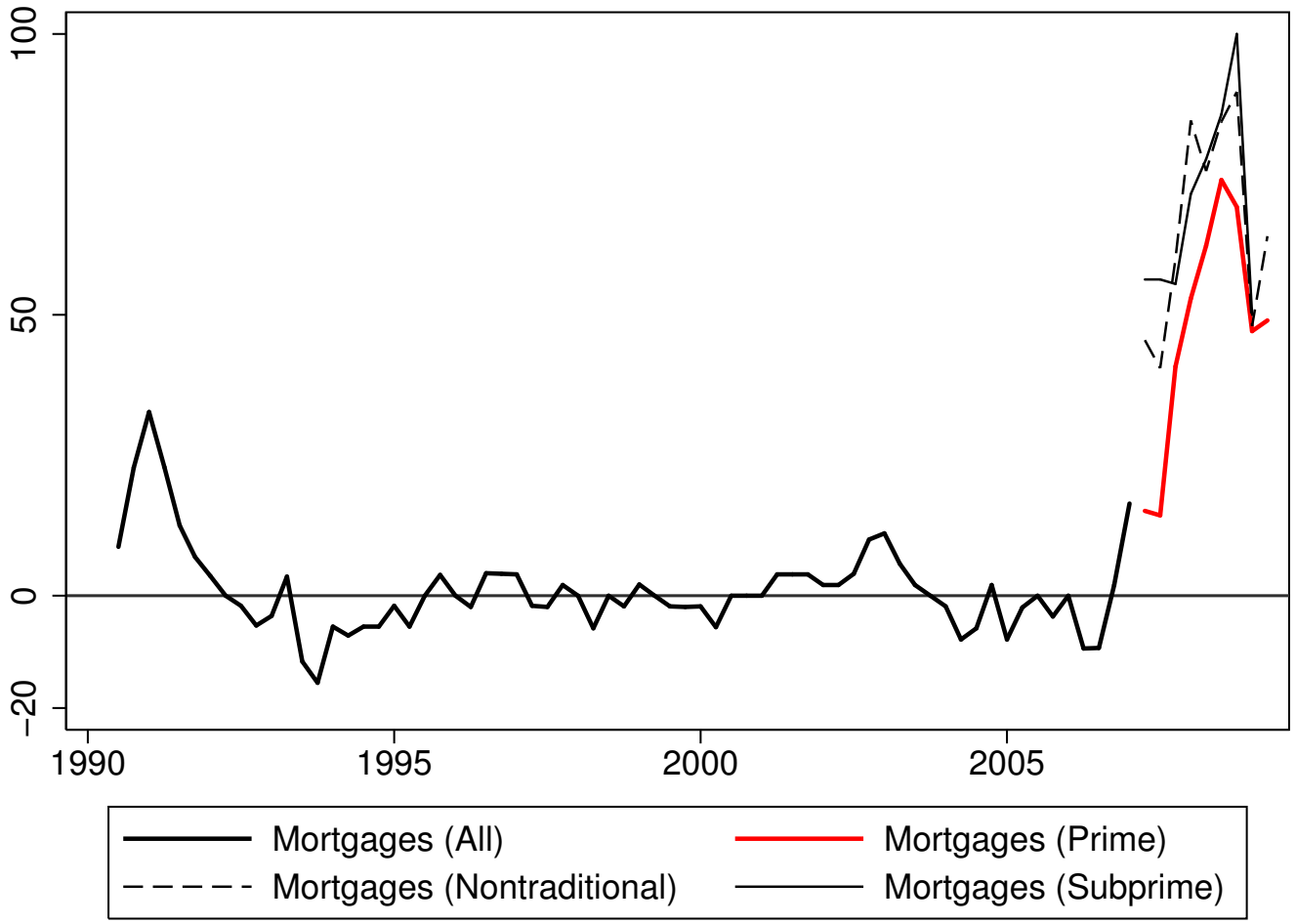
A Relaxation of Borrowing Constraints – Theory

Figure: Effect on Consumption Of A Relaxation of Borrowing Constraints



Senior Loan Officers' Survey Measure of Credit Tightening

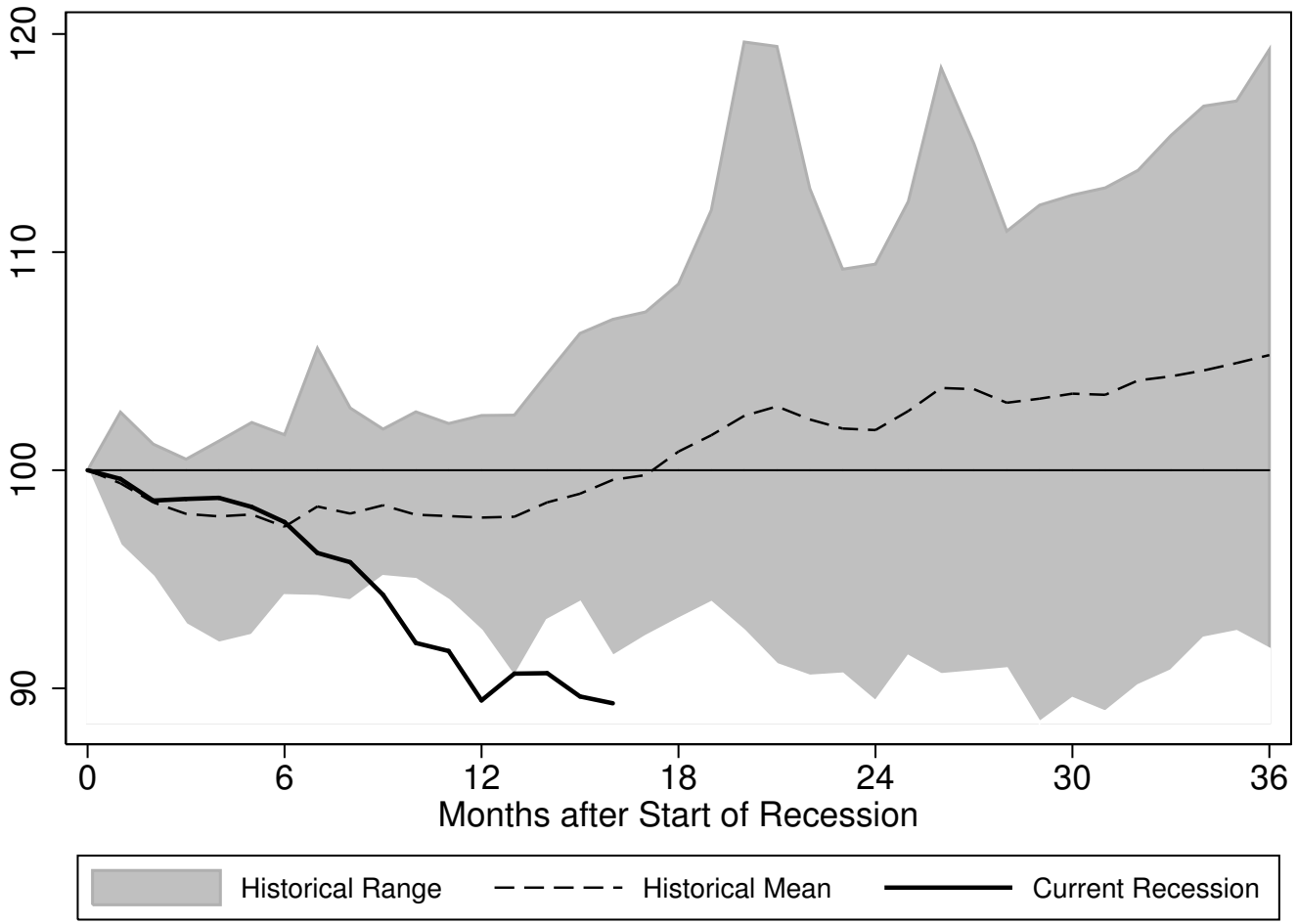
Figure: Fraction of Banks Tightening Mortgage Lending Terms



Source: Federal Reserve Survey of Senior Loan Officers

The Effect

Figure: Retail Sales, Current and Previous Recessions



Note: Historical Range includes all recessions since November 1948

Estimating Wealth and $\mathbb{E}[\Delta u]$ Effects

Sluggishness of C Growth

à la Campbell and Deaton (1989), Constantinides (1990), Rotemberg and Woodford (1997), Fuhrer (2000), Sommer (2002), Carroll, Sommer, and Slacalek (2008)

$$\Delta C_t = \chi \mathbb{E}_{t-2} \Delta C_{t-1} + \varepsilon_t$$

$\chi \approx 0.75$

MPC out of Wealth

- $\partial C_t = \alpha_0 + \alpha \partial B_{t-1}$
- Immediate MPC: α / χ
- Eventual MPC: $\bar{\kappa} = \dfrac{\alpha}{\chi(1-\chi)}$
- $\bar{\kappa} \approx 0.06$ for total B, 0.05 for financial, 0.09 for housing

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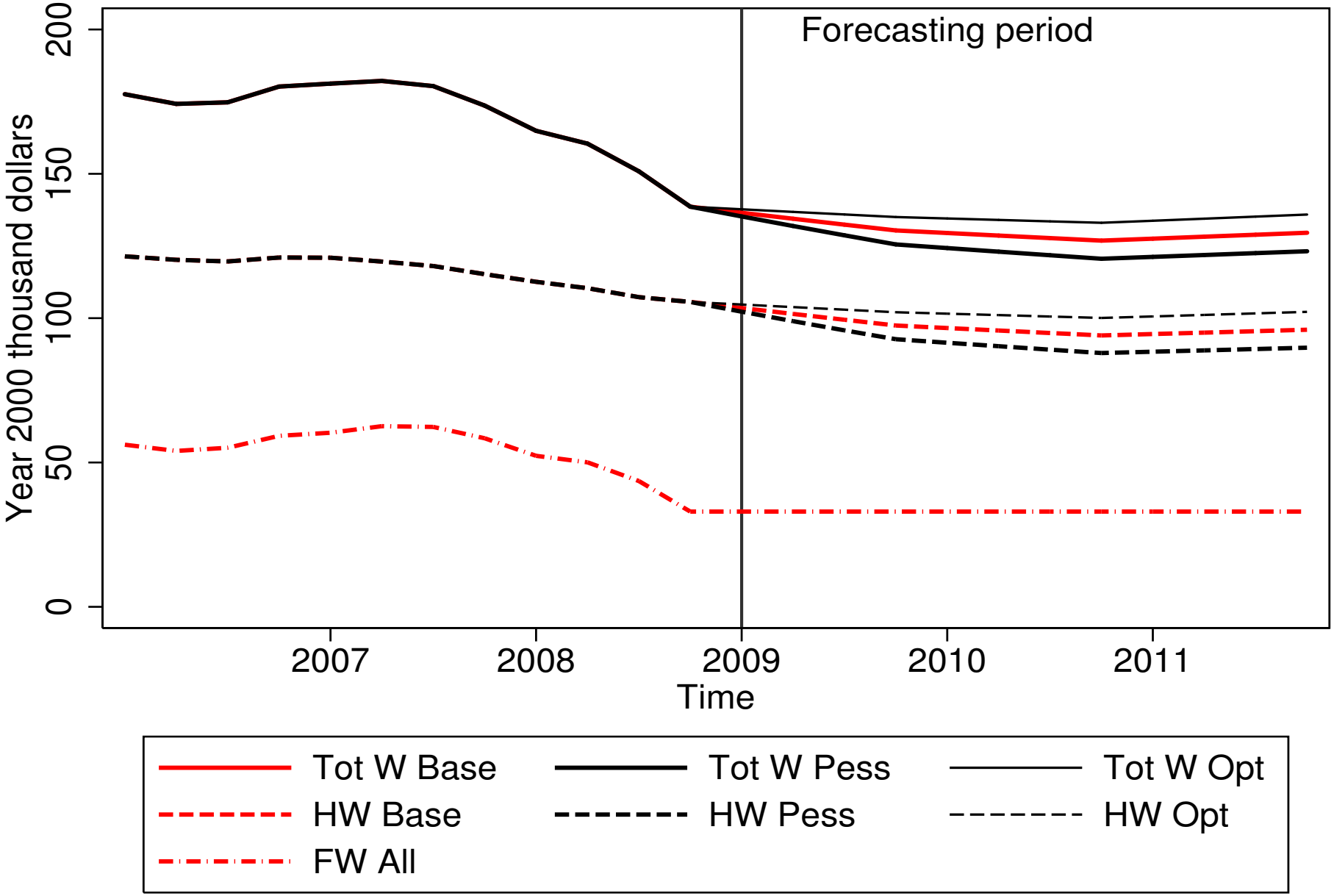
Forecasting Assumptions—2 Models × 3 Scenarios

Models

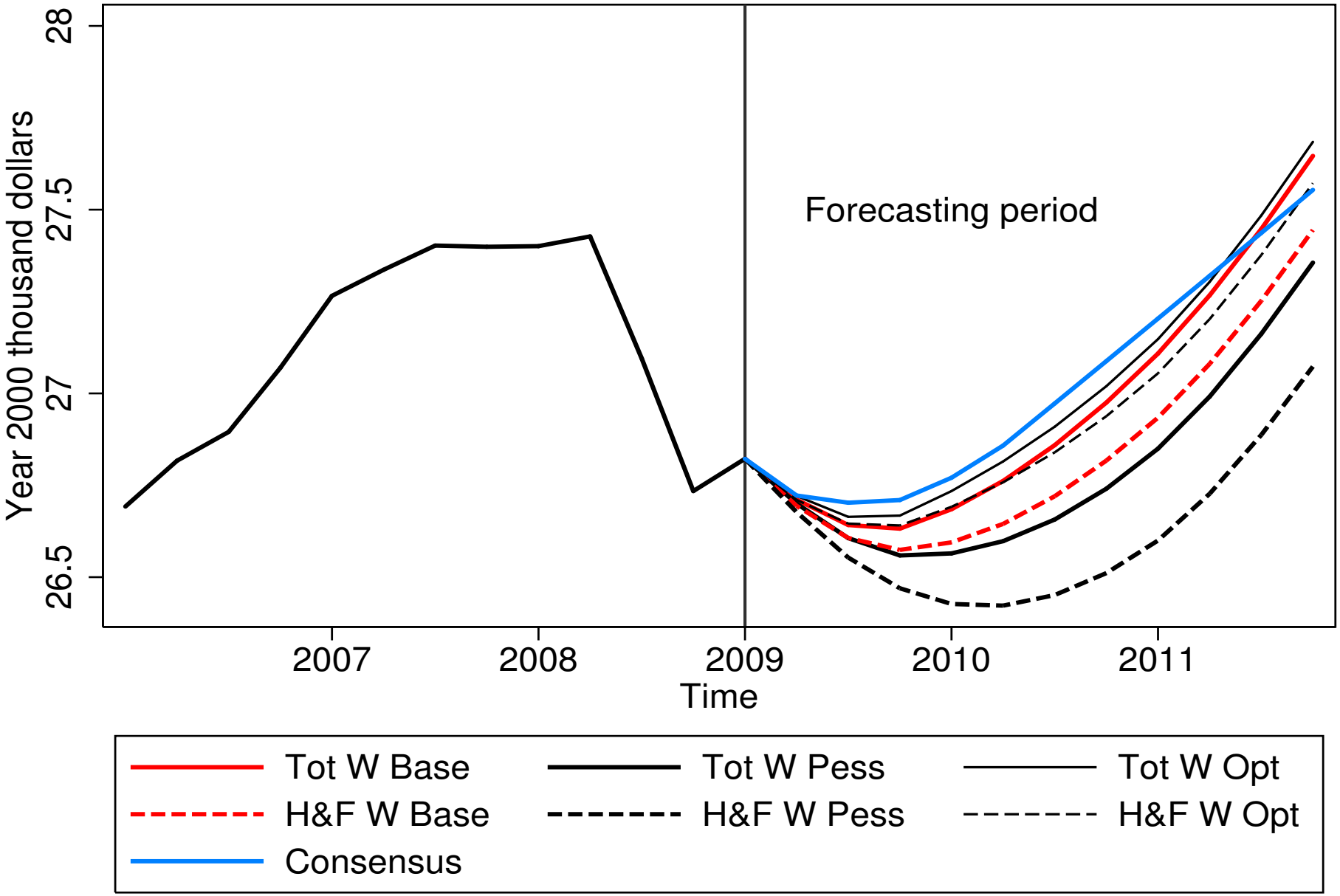
- Total Net Worth
- Housing and Financial Wealth Separately

Scenario	Variable	2009	2010	2011	2012
Baseline	House Prices	−14	−4	–	–
	Unemployment Rate	8.4	8.8	7.9	6.8
	Disposable Income (Per Capita)	−3.8	0.7	2.4	2.6
	Fed Funds Rate	0.3	0.9	0.9	0.9
	Inflation	−0.7	1.6	2.2	2.2
	Population	1.1	1.1	1.1	1.1
	Implied Per Cap Real HW	−14.4	−6.7	2.1	2.1
Pessimistic	House Prices	−22	−7	–	–
	Unemployment Rate	8.9	10.3	9.1	8.2
	Implied Per Cap Real HW	−22.4	−9.7	2.1	2.1
Optimistic	House Prices	−6	−1	–	–
	Unemployment Rate	7.9	7.3	6.7	5.4
	Implied Per Cap Real HW	−6.4	−3.7	2.1	2.1

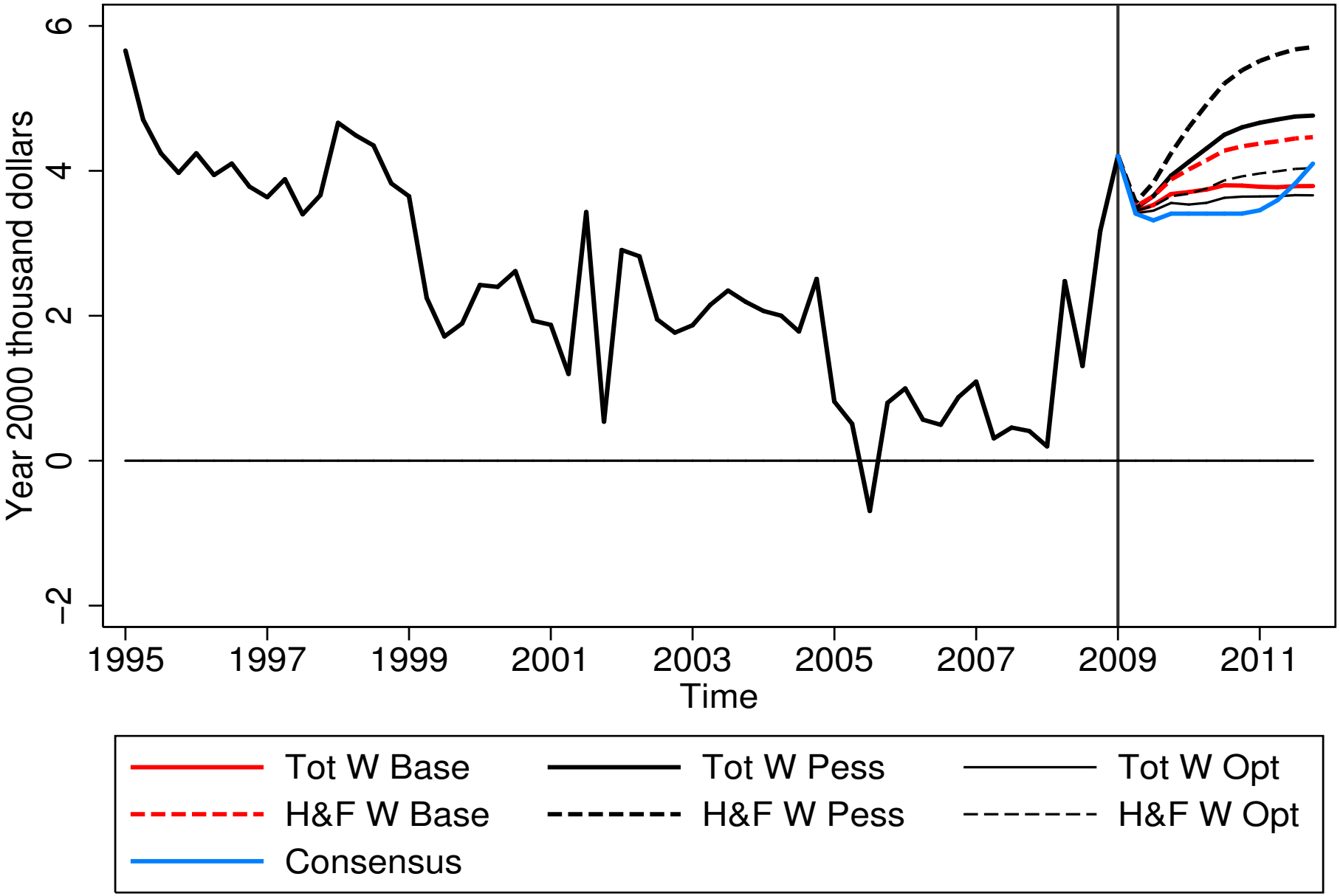
Assumptions about Wealth Components



Projected Consumption Paths



Projected Saving Rates



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