San Francisco FED Macro & Monetary Policy 2021

Micro Anatomy of Macro Consumption

Discussion by Guido Lorenzoni

Micro data

- Impressive effort at combining micro data from 5 financial crises
- 2 cases have panel dimension (Peru, Italy)
- Important stylized observation: *contraction in consumption and incomes are widespread in the cross-section and affect also rich and liquid-rich households households*

		Euro Crises	
		Italy	Spain
All Households			
$\Delta \log Y$	Average	-0.15	-0.15
	Top-Income	-0.08	-0.12
$\Delta \log C$	Average	-0.18	-0.15
	Top-Income	-0.08	-0.14

Straw men

- Pitch these finding as useful to distinguish two views of crises: trend shocks vs. financial constraints
- Idea: consumption smoothers should respond less to a temporary shock
- Some consumers are on Euler equation, some not. Second group should respond more

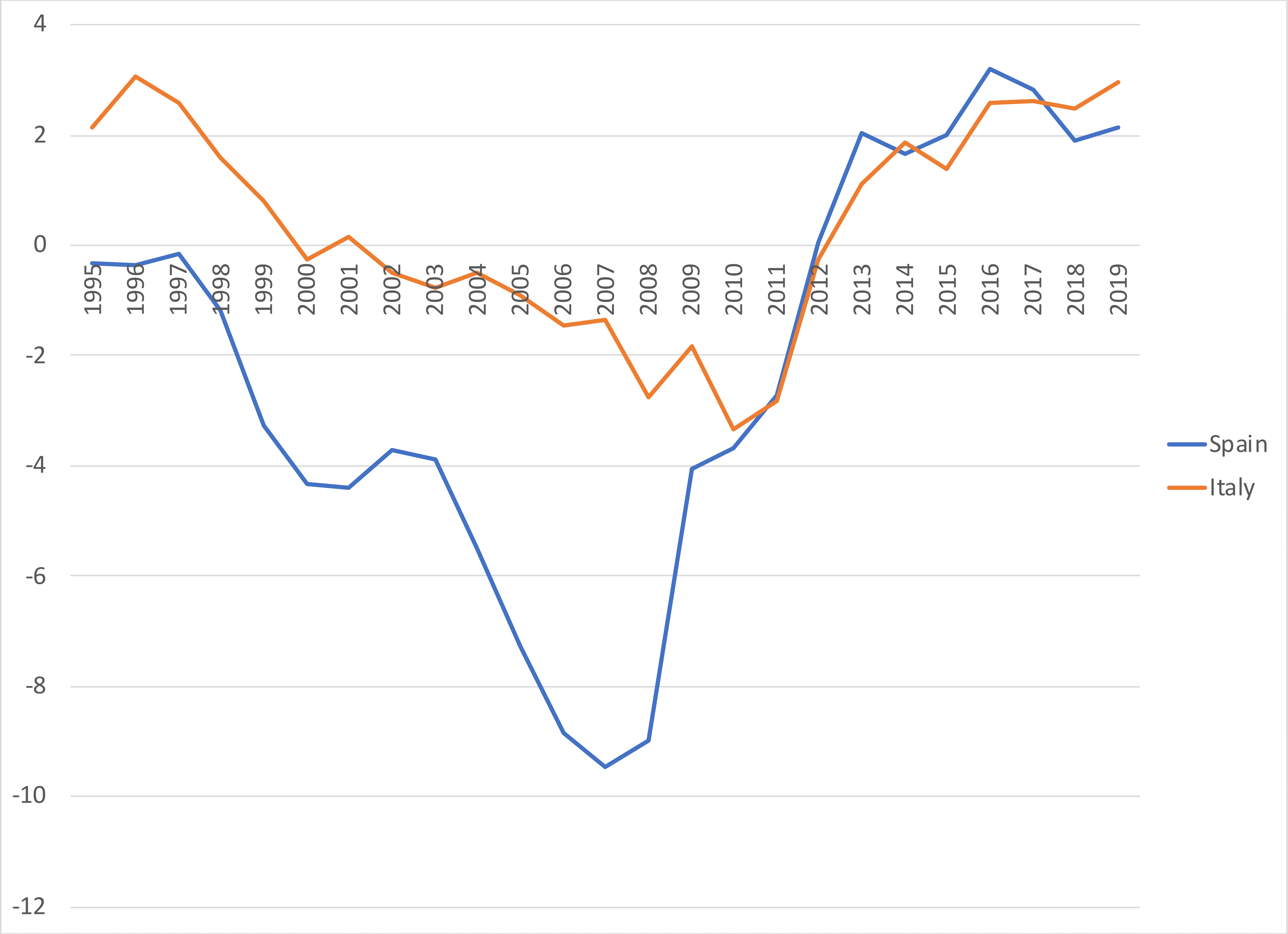
Euler equation

- A critique internal to the model
- Shocks to interest rates and risk premia
- What is the r in the Euler equation?
- r shock: consumption of rich goes down, consumption of poor follows through income channel

Shocks?

- Italy:
  - 2008 is mostly a shock to exports (maybe rich more export-oriented provinces get hit more)
  - 2012 is mostly a fiscal shock, with elements of credit crunch
- Spain:
  - Housing bust with banking crisis

Sudden stops?



Exposure to shocks

- Interesting observation is that *both incomes and consumption* of top income households respond substantially to crisis
- And for EM top incomes respond more!

		Euro Crises		Emerging-Market Crises		
		Italy	Spain	Mexico '94	Mexico '08	Peru '08
All Households						
$\Delta \log Y$	Average	-0.15	-0.15	-0.38	-0.16	-0.09
	Top-Income	-0.08	-0.12	-0.42	-0.19	-0.13
$\Delta \log C$	Average	-0.18	-0.15	-0.29	-0.11	-0.08
	Top-Income	-0.08	-0.14	-0.33	-0.17	-0.14

Great Recession

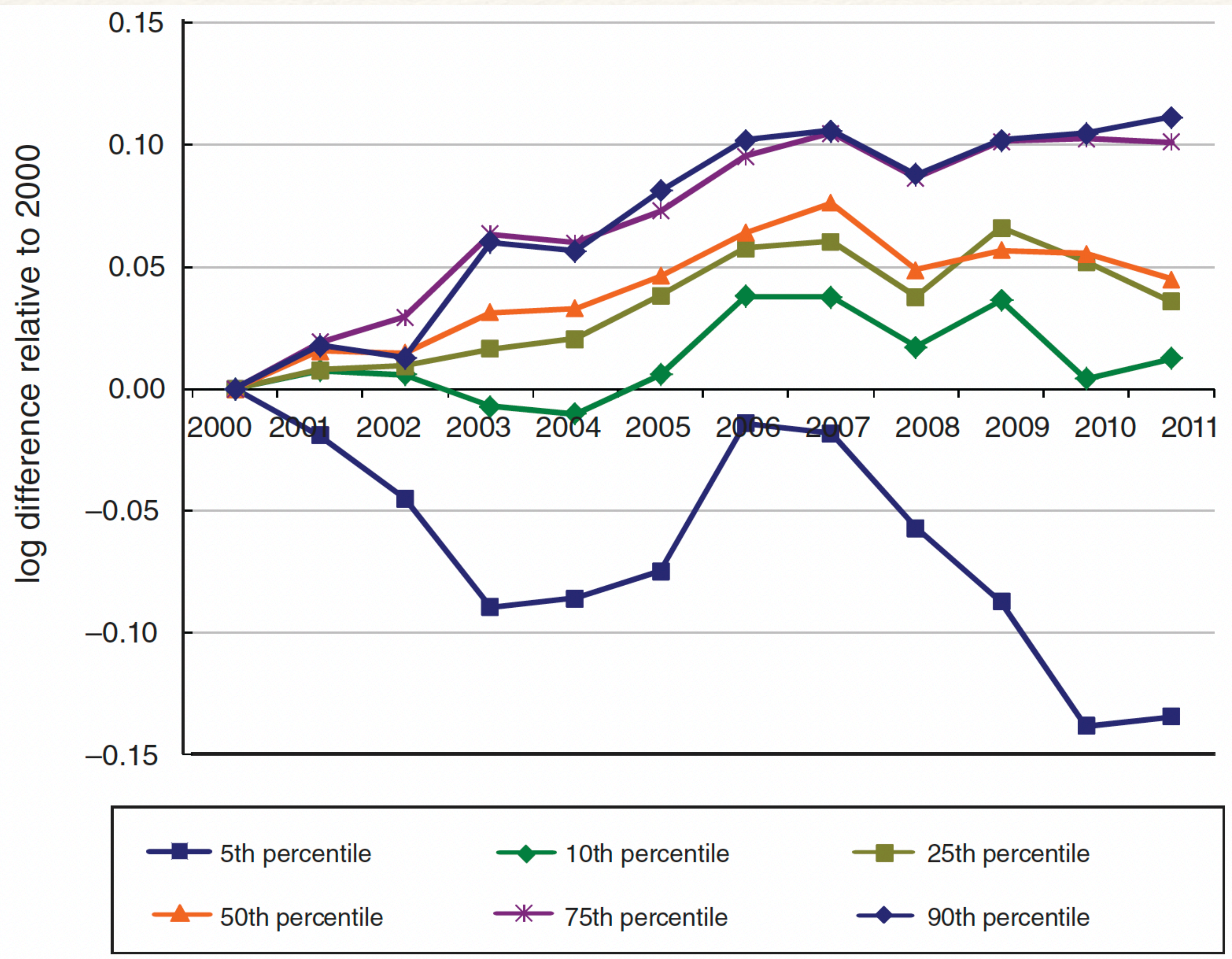


Figure 2. Real Changes in Income at Various Percentiles, 2000–2011

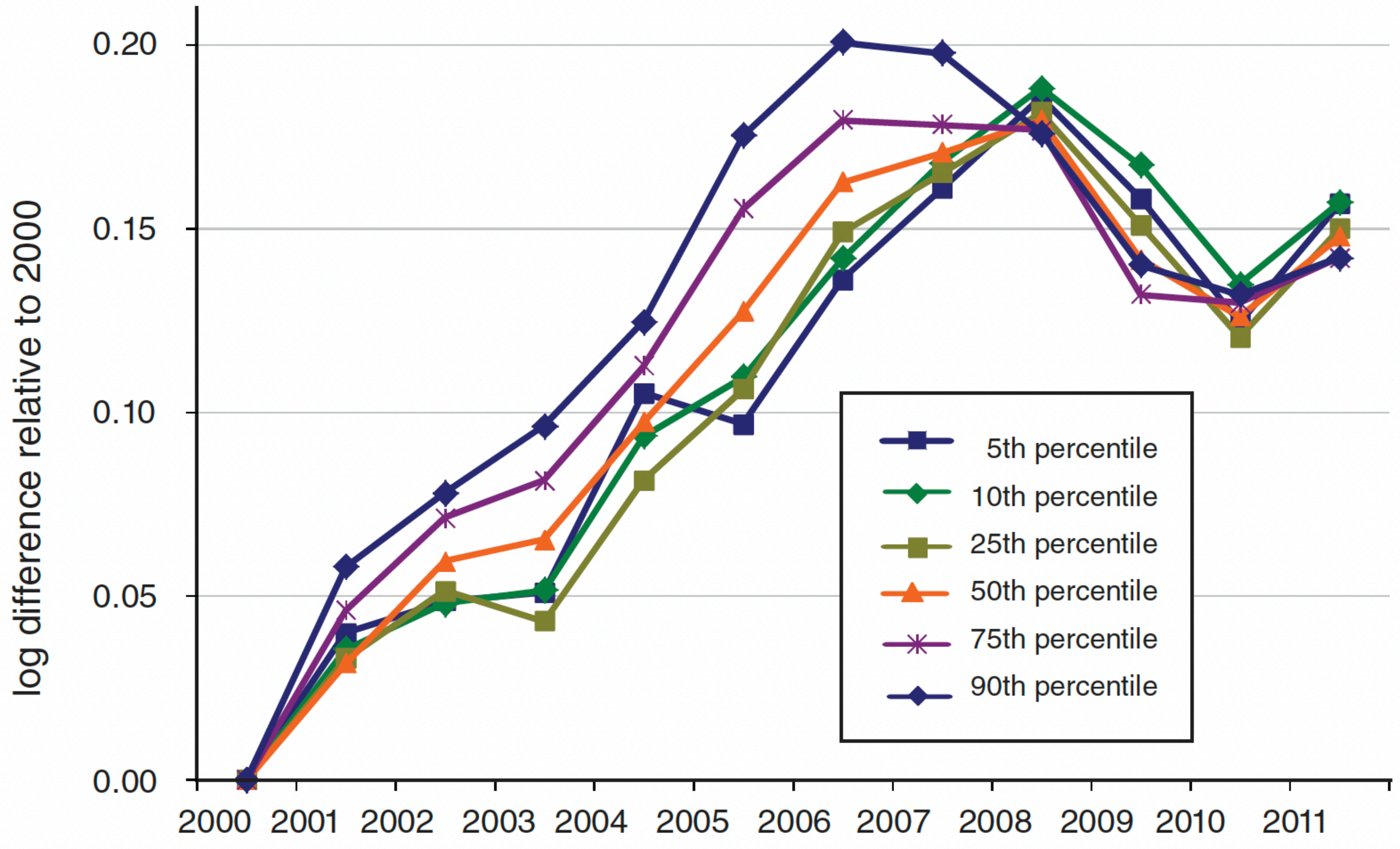


Figure 3. Real Changes in Consumption at Various Percentiles, 2000–2011

From Meyer and Sullivan (2013)

Long lasting effects

- Where do shocks to trend growth come from?
- Maybe from financial crises? Hysteresis?
- Cerra and Saxena (2009), Romer and Romer (2017)

Summing up

- Important to confront our models of crises with heterogeneity in economy
- Great paper for trying to combine micro data from different episodes and bring out stylized facts
- Set of models used for interpretation too narrow