Household and business debt in the United States

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How financial systems work: evidence from financial accounts

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Aim of the paper

- ✓ **Definition** of household debt and non-financial business debt in the Us Financial Accounts

- ✓ **Recent trends** with specific reference to bank and non-bank credit

- ✓ Enhancing the US Financial Accounts: **the agenda for the next years**

Evidence of the paper

- ✓ **Definition:** household sector includes only *consumer households*, non-profit institutions and other unidentified entities. Non-financial business includes also *producer households*, such as self-employment or unincorporated businesses.

- ✓ **Trends:** strong deleveraging in household mortgages after the crisis. Consumer credit remained strong, specifically for student loans.
  Business debt started recovering relatively early after the crisis. Strong increase in bonds.

- ✓ **Agenda:** aggregate data alone is not enough. Heterogeneity is crucial in economic analysis. They have started an ambitious project to expand the information contained in the Financial Accounts: 1) household debt disaggregated by geographical areas and 2) disaggregation of aggregate wealth, by wealth classes and possibly other dimensions.

Financial Accounts in Europe

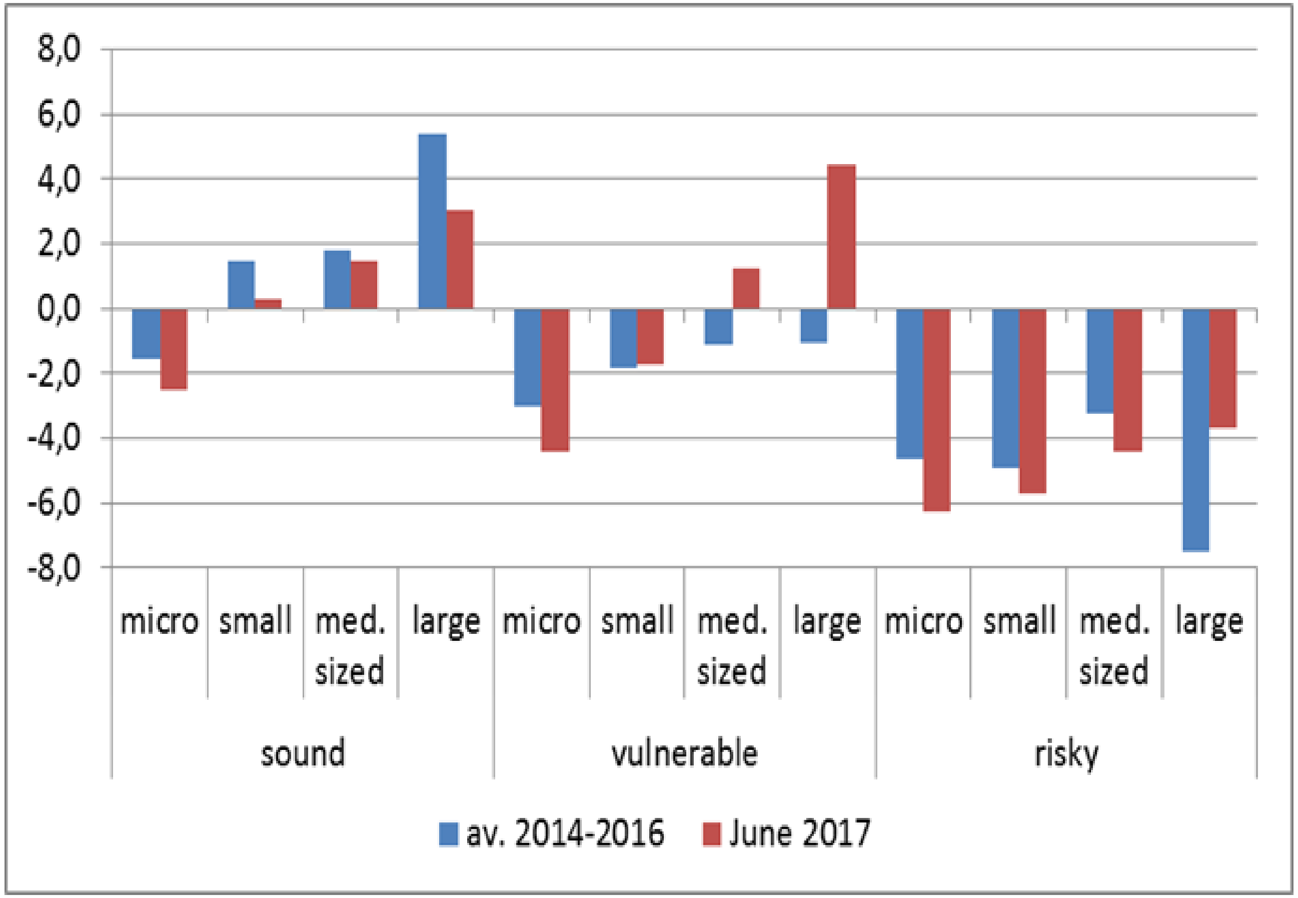
- ✓ **Definition:** household sector includes *consumer and producer households*, other than non-profit institutions. Different from the US Financial Accounts.

- ✓ **This has important effects in the analysis.** First, in the financial portfolio of Italian households there is a high share of equities (more than 20 per cent), though the percentage of listed shares is small (2-3 per cent). The greatest part of the equity share is for investments connected with family businesses, which should not be considered in analyzing the riskiness of households' financial portfolio.

- ✓ Even more important, at this economic juncture, **we are not able to track the financial flows for family businesses with Financial Accounts.** And we know that for this category of firms credit flows are still negative, even for those with sounding financial conditions.

Growth rate of loans to non-financial firms

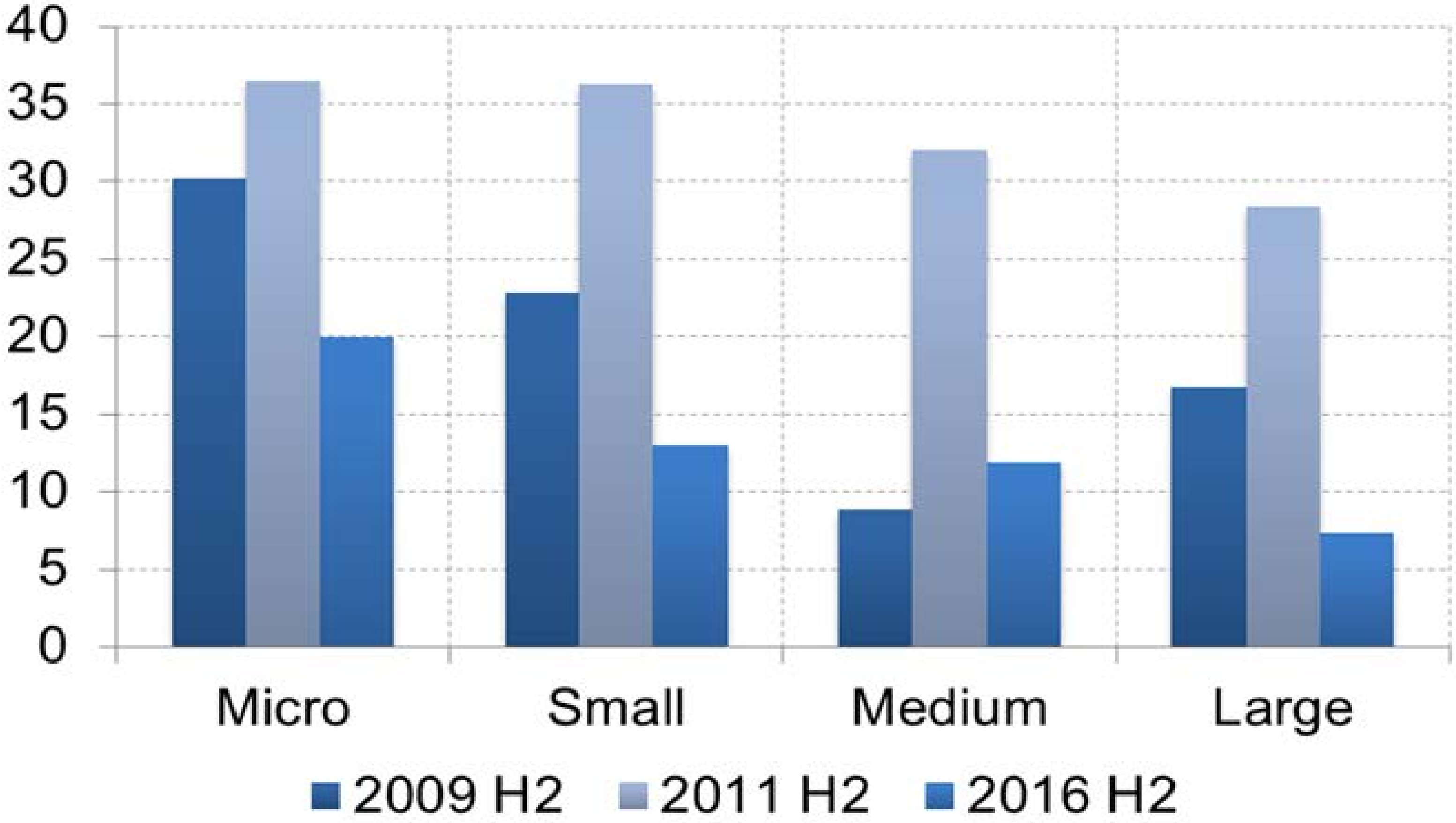
(percentages)



Source: Bank of Italy and Cerved

Credit rationing among Italian firms of different size

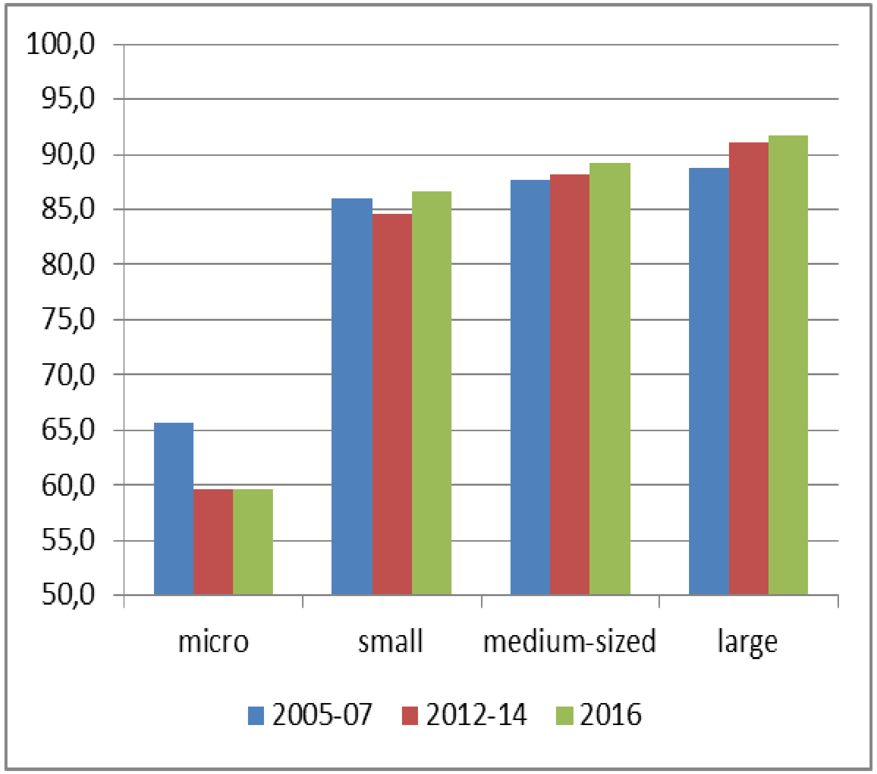
(share of firms reporting difficulties in obtaining credit)



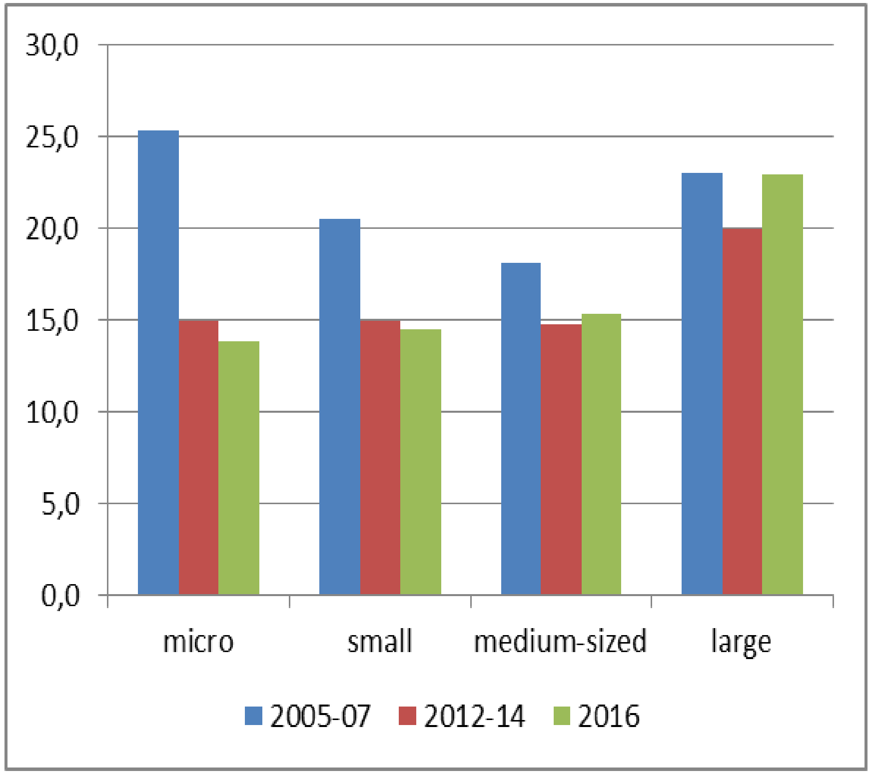
Source: BE/EC, Safe

Investments by firm size

Share of firms with investment expenses >0
(percentages)



Investment expenses to value added ratio
(percentages)



Source: Cerved

One suggestion to discuss

- ✓ **To improve our understanding of how financial system works it is important to split consumer households from producer households in the EU Financial Accounts and analyze the flow of funds of producer households alone.**

- ✓ From a technical point of view this is possible, at least in Italy, because in the Supervisory Reports data for the two sectors are reported separately.

- ✓ This would allow a much better understanding of credit cycles for very small businesses in Italy in comparison with other European countries.

What can we say about the Us Financial Accounts?

- ✓ Even in the US financial accounts **it is not possible to distinguish non-financial firms by size.** We are just told that smaller firms do not have access to capital markets, and so were not able to tap into it.

- ✓ I wonder whether for the US Financial Accounts **there is still the technical possibility to distinguish financial flows for corporations and unincorporated businesses,** as suggested for the EU Financial Accounts.

- ✓ This would be important as we know that, even in the US, **small businesses are facing more difficulties in getting the credit required for their activity.**

- ✓ Different papers on this topic. Recent data show that in 2016 even though many small businesses were profitable and optimistic, a significant majority (61 per cent) faced financial challenges, experienced funding gaps and relied on personal finance (FED NY SB Credit Survey 2016).

- ✓ **So disaggregation of their financial flows would incredibly help the analysis.**

The agenda: enhancing Financial Accounts

- ✓ And **disaggregation** of Financial Accounts is indeed the core of the agenda for the next years in the US.

- ✓ US Financial Accounts are being disaggregated not only at the geographical level, but also using income, wealth and other household demographics or firm characteristics.

- ✓ This is a crucial topic that we should tackle even in Europe. More discussion on this issue would be useful.

- ✓ It is true that heterogeneity is analysed mainly using survey data, whose representativeness is not always as good as in the US. However, disaggregated Financial Accounts could also make aggregated data and micro data from surveys more consistent given that the two sources need to talk more together.