

Bank Health and Local Economic Outcomes

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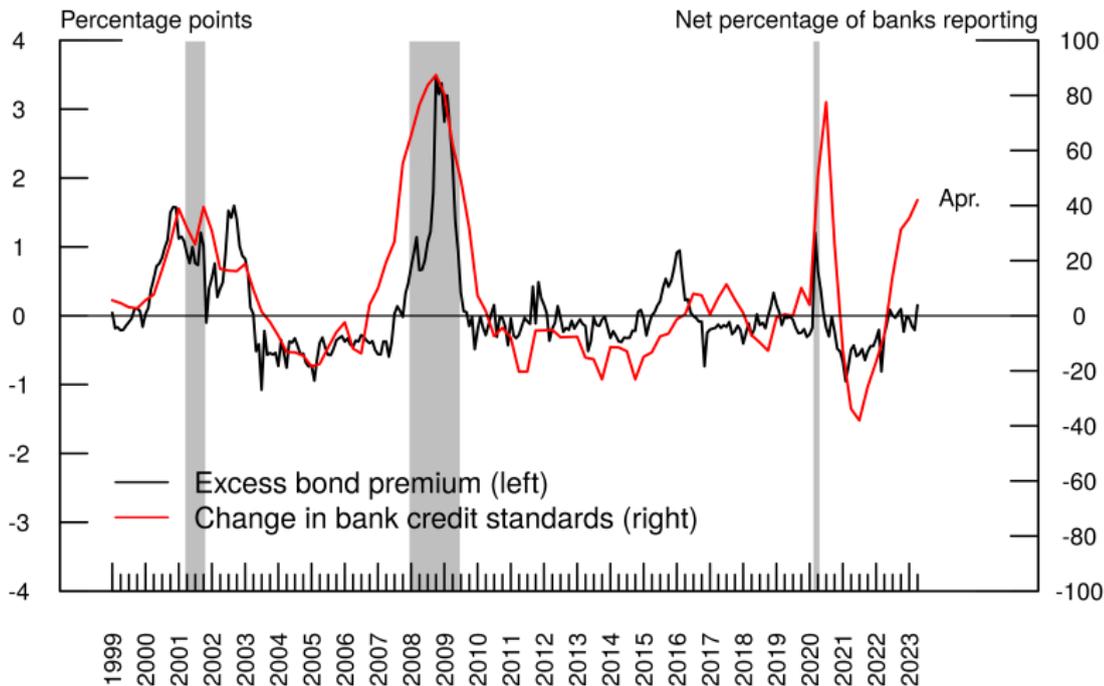
²Federal Reserve Board

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Federal Reserve Bank of New York
Economic Advisory Panel

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Conditions in U.S. Credit Markets

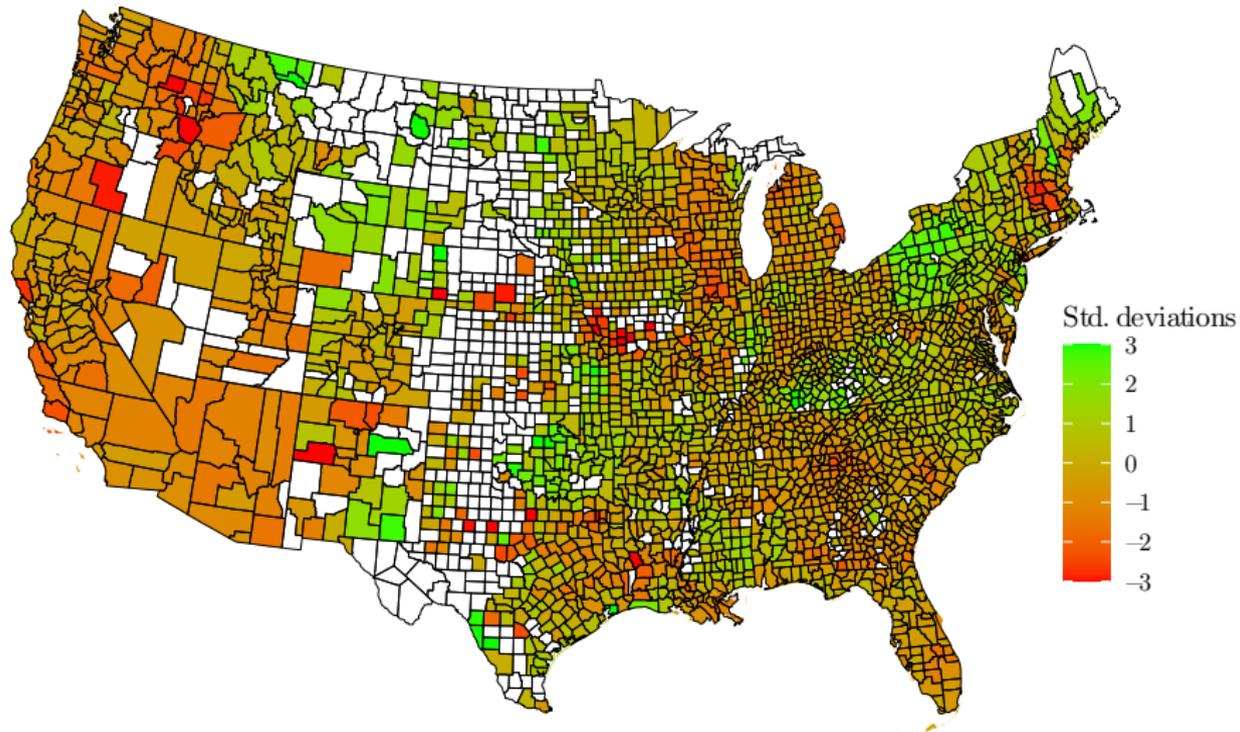


Measuring Local Bank Health

- Use HMDA data to estimate bank credit supply at granular level.
- Identify component of credit supply that is due to variation in bank health:
 - ▶ Loan chargeoffs
 - ▶ Tier 1 capital
- Construct county-level measure of bank health using deposit shares to measure bank's footprint in local market.
- IV regression of county-level economic activity on bank mortgage lending using local bank health as an instrument.

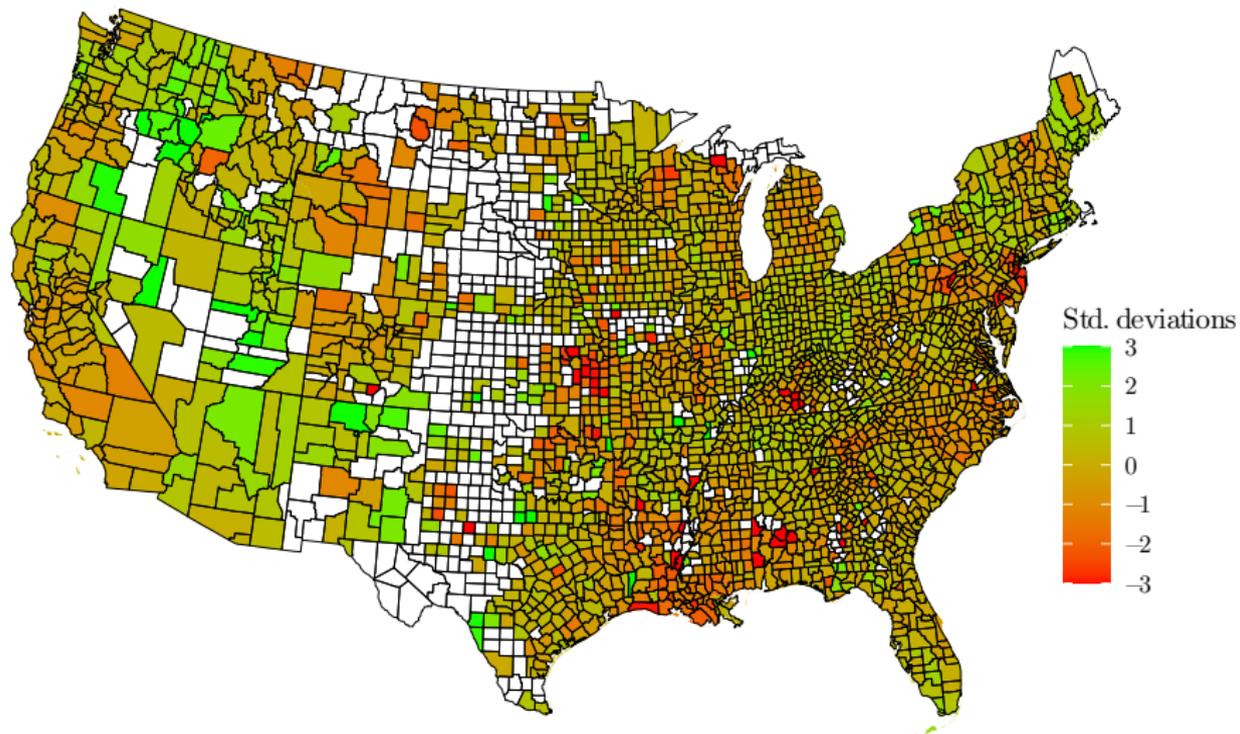
Distribution of Credit Supply Shocks

Sample period: 2007–2010



Distribution of Credit Supply Shocks

Sample period: 2011–2018



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IV regressions

Regressor	Dependent Variable: $\Delta_2 \ln Y_{k,t}$				
	Total mortgage originations	Home prices	Small Business Lending	GDP	Employment
A. Sample period: 2007–2010					
$\Delta_2 \ln(\text{Bank Mortg. Orig.})_{k,t}$	0.529*** (0.106)	0.417*** (0.259)	0.798*** (0.189)	0.147*** (0.038)	0.081*** (0.021)
No. of counties	934	951	951	935	951
Observations	2,802	2,853	2,853	2,805	2,853
B. Sample period: 2011–2018					
$\Delta_2 \ln(\text{Bank Mortg. Orig.})_{k,t}$	0.832*** (0.093)	0.555*** (0.094)	0.349*** (0.119)	0.112*** (0.039)	0.093*** (0.028)
No. of counties	949	949	949	933	949
Observations	6,642	6,638	6,642	6,530	6,642

NOTE: All variables are in per capita terms with the exception of home prices.

Summary of Findings

- A deterioration in bank health causes a pronounced contraction in local economic activity.
 - ▶ Estimates imply bank health effects are equally important post-GFC.
 - ▶ Effects are concentrated in construction and non-tradeable sectors.
 - ▶ Effects are concentrated at small and young firms.
- Mechanisms:
 - ▶ Home prices and household spending.
 - ▶ Small business lending.
- Results robust to controlling for household demand channel:
 - ▶ Primary effect works through a contraction in lending to local businesses.
 - ▶ Supply shocks → inflation?
- Looking forward: looming commercial real-estate losses can potentially have a significant adverse impact on local economic outcomes.