Discussion

Trade Uncertainty and U.S. Bank Lending

by

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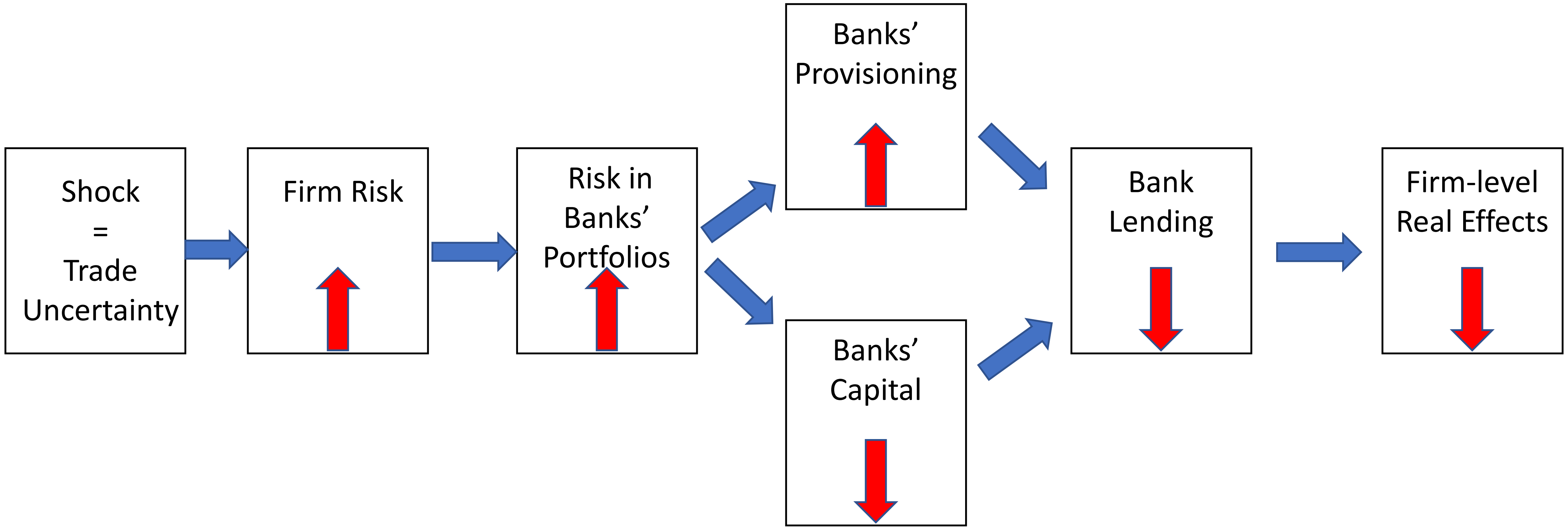
The views expressed here are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the staff of the Federal Reserve System.

The Paper

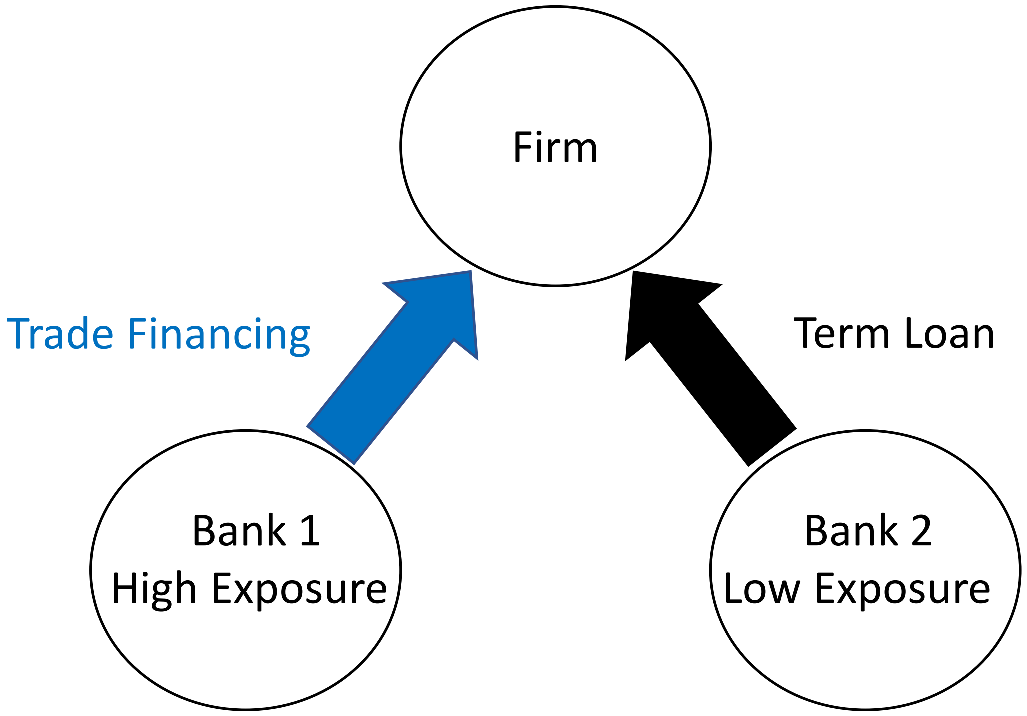

Shock
=
Trade
Uncertainty
Firm Risk
Risk in
Banks'
Portfolios
Banks'
Provisioning
Banks'
Capital
Bank
Lending
Firm-level
Real Effects

Identification Police:
Isn't this driven by firms' condition/loan demand?

Authors:
Firm-Time FE, Bank-Firm FE, Khwaja-Mian.

The Problem

- Key assumption in Khwaja and Mian-type identification is that credit is a homogenous good, which is not true in this context.



- Trade Uncertainty goes up, firm’s demand for trade financing goes down, term loan unchanged.
- Bank-Firm FE: lower for bank 1, no change bank 2
- Firm-Time FE: lower credit demand post.
- Diff-in-diff estimate on high bank exposure is going to be negative.
- And high exposure banks are likely to have more exposure because they provide more trade financing.

The Solution – Focus on Spillovers

Authors already have some results in this direction but need to show that the results including the real effects hold for:

1. Firms in sectors with low trade uncertainty (see table 4)
2. Firms in sectors with low (no direct) trade exposure (see table 7)
3. Provide additional evidence for different loan types across bank-firm matches (what exactly is “other”?)
4. What about the extensive margin?

Substitution?

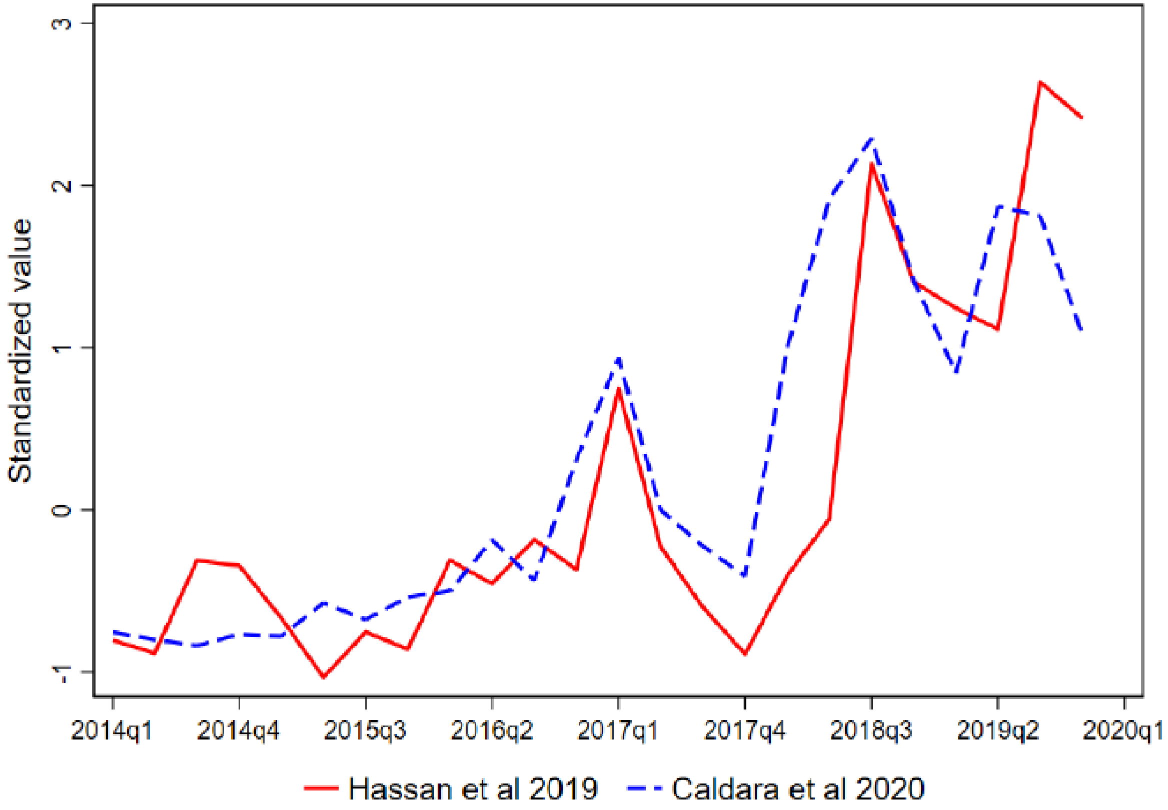
- This paper shows real effects in table 11 (include industry-year fixed effects)

- Favara et al (2021) and Berrospide and Edge (2022) do not find real effects of credit supply shocks from the GSIB surcharge or stress tests but find substitution.

- Favara et al: other banks, Berrospide and Edge (2022): nonbanks, bonds

- Look at substitution (Compustat, Capital IQ, Sector level (Berrospide/Edge))

Measurement



- "We use end-2017 loan shares to pre-date the period of uncertainty peaks…" (p. 8).
- Clearly, trade uncertainty increased with 2016 election.
- Generally, use measures from first quarter of sample (or 2015:Q4/pre-sample average) for exposure aggregation.
- Why the 75th percentile? Is the median 0?

Firm and Loan Outcomes

- Table A5
  - shows that high-uncertainty firms draw less from their credit lines --- how does that fit your story?
  - is run on all loans instead of new loans for spreads and maturity

- What do you know about performance of loans to high uncertainty firms?
  - Were they more risky ex-post?

- Given that in 2019, there was talk about a recession, other cuts on how cyclical the industry is may be warranted.

Conclusion

- Very interesting paper on how trade uncertainty can be amplified through banks.

- Some more clarity about identification and mechanisms upfront would help to convince the skeptical reader.

- Good luck with the paper.