Irving Fisher Committee on
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

IFC Satellite meeting at the ISI Regional Statistics Conference on *"Is the household sector in Asia overleveraged: what do the data say?"*

Kuala Lumpur, Malaysia, 15 November 2014

Linking micro and macro data – old and new questions for central banks[1]

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[1] Discussion of the presentation *"The development of databases linking micro and macro data – an Australian perspective"* by Giancarlo La Cava, Reserve Bank of Australia. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the meeting.

BANK FOR INTERNATIONAL SETTLEMENTS

Discussion:

The development of databases linking micro and macro data – An Australian perspective

by Giancarlo La Cava

Fabrizio Zampolli

Bank for International Settlements

Satellite meeting of the IFC at the ISI Asian Regional Conference

«Is the household sector in Asia overleveraged? What do the data say?»

Kuala Lumpur, 15 November 2014

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My discussion

1. Overview of the paper
2. Further examples / questions

Overview of the paper

- Describe method adopted by the ASB for matching micro and macro data
  - Coverage rate? Time variation?
  - Linear interpolation? Is there a better method exploiting unit micro data?
- Overall, I agree with the main conclusion of the paper:
  - Statistical agencies should focus more on making micro data set richer and more timely than on matching micro & macro data
  - At the same time, the disaggregate matched data may perhaps provide more insights than what the examples of the author suggest

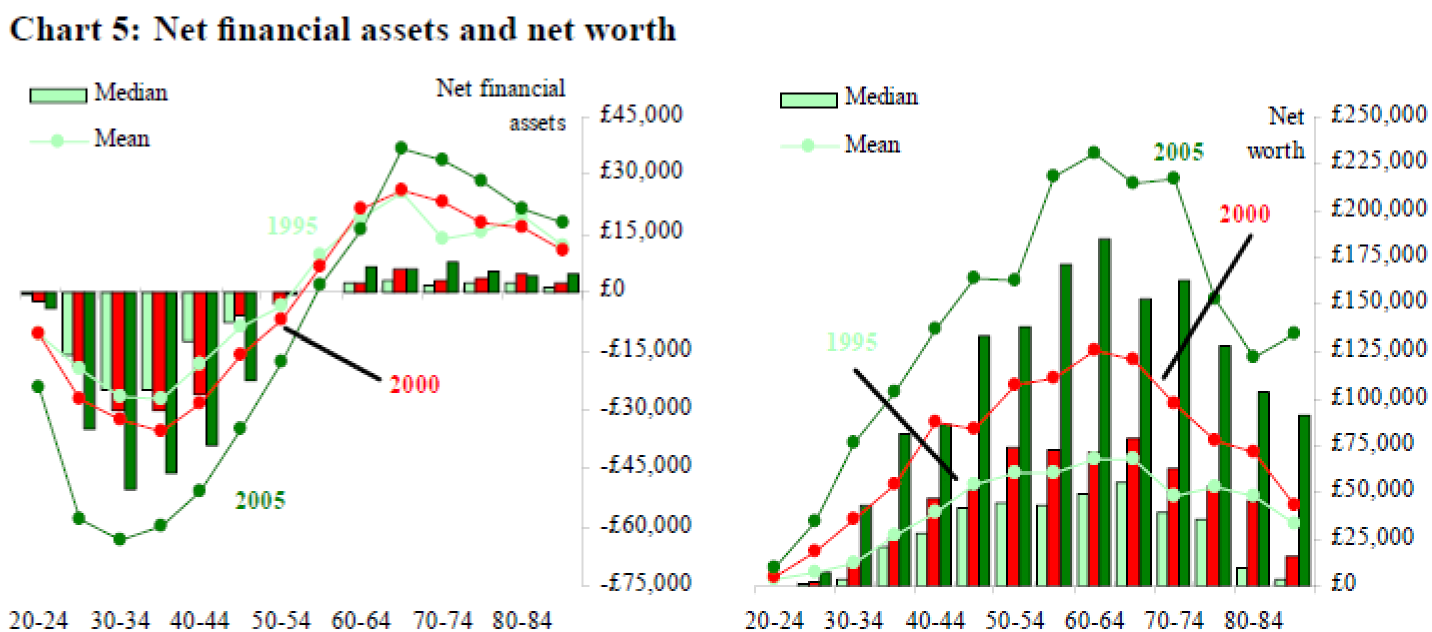
Rise in saving rate since 2007

- Matched and unmatched data show a similar time trend
- Rise is broad-based across income, net worth and age distribution
  - However, the rise in the saving rate for +65 is steeper!
  - Rise in saving rates may be a response to a change in net worth / net housing wealth / income
    - Even if univariate, matched data when looked at jointly may provide more information
    - Enough data to calibrate a life cycle model of saving…
- Do disaggregated matched data provide more information than in the example?
  - Use of pseudo cohorts? Deaton (1985): error-in-variable / heteroskedasticity / necessarily inferior to panel data (eg attrition)?

Rise in inequality?

- Matched and unmatched data show similar trends in income inequality (disposable income), although diverging since 2009
  - Possible reason is differences in income definitions
- Wealth inequality:
  - Rise in wealth inequality due to a rise in financial wealth inequality
    - Not surprising as housing generally represents smaller share for top earners than average earner
  - Has the housing boom increased inter-generational inequality?
    - Benefited the old more than the young?

Example: Debt and housing boom in the UK



- One of the drivers is a declining real interest rate
- It may sound counter-intuitive but lower interest rates may have benefited the old more than the young…
- Do matched data for Australia show a similar pattern?

Old and new questions for central banks requires distributional data

- **Old Q: How does the distribution of wealth & debt affect the monetary transmission mechanism?**
  - Aggregate debt not enough. Useful to know about:
    - the distribution of debt / wealth across age groups (MPC varies across the life cycle and depends on the amount of debt / net worth)
    - Characteristics of contracts (fixed vs variable rate; period of fix rates, etc)
  - Econometric model estimates based on long sample may not be reliable when there are sharp changes in distribution
  - Eg debate at the BoE in 2005-2006 about the size of the monetary policy multiplier: higher debt offset by longer maturities?

Old and new questions for central banks requires distributional data

- **Negative equity?**
  - UK and other countries' household debt larger than US but less negative equity after the bust (and less than in 1992 bust)

- **Level of debt or its rate of increase?**
  - Fast credit growth may be associated with misallocation of resources or concentration of risk
  - Important to understand who is borrowing and contract characteristics (teaser, discount rates, etc)
  - eg US subprime

New key questions for central banks

- **Q1: Limits of monetary policy in the post crisis environment?**
  - Low interest rates should provide a cash flow boost to debtors, helping them to deleverage
  - Low interest rate should encourage savers to save less…
  - … but their effectiveness depends on relative strength of substitution and income effects
  - Households (especially middle age / pre-retirement) may have life-cycle saving objectives: they may save more, not less if confronted with persistently or permanently low interest rates
- **Q2: What is the impact of unconventional monetary policy OR very low interest rates on the distribution of wealth and income?**
  - First round distributive effects involve substantial transfers from creditor to debtors
  - But ultimate effects very complex (eg housing is boosted by low interest rate and may favour the old) … and largely unknown.

Thanks