FINANCIAL CONDITIONS AND THE REAL ECONOMY

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GZ Credit Spread

Sample period: 1973:M1–2019:M10

Percentage points

Monthly

Oct.
Excess Bond Premium (EBP)
Sample period: 1973:M1–2019:M10
Macroeconomic Implications of an Adverse EBP Shock
Sample period: 1973:M1–2019:M10

NOTE: Shaded bands represent 90% confidence intervals.
12-Month-Ahead Recession Risk

Probit model with EBP and (10y/3m) term spread

Note: The dashed line denotes the unconditional probability of an NBER-dated recession over any subsequent 12 months.
Contribution of the EBP to Recession Risk

Sample period: 1973:M1–2019:M10

NOTE: Contribution of the EBP is evaluated at the average level of the (10y/3m) term spread.
Contribution of the Term Spread to Recession Risk

Sample period: 1973:M1–2019:M10

NOTE: Contribution of the (10y/3m) term spread is evaluated at the average level of the EBP.
EBP captures broad movements in financial conditions that determine credit supply.

Increases in EBP have large contractionary effects on the real economy:
- 25 bps. increase in $EBP_t \Rightarrow 50 \text{ bps. contraction in } GDP_{t+6}$.

EBP is a robust predictor of recessions on par with, but independent, of the term spread.

Further evidence suggests that monetary policy easing has significant effects on economic activity through its impact on EBP.