Discussion of

Bank Size and Household Financial Sentiment: Surprising Evidence from the University of Michigan Surveys of Consumers

A.N. Berger, F. Irresberger and R. Roman

Glenn Schepens
(ECB)

March 29, 2019

Disclaimer: The views expressed in this presentation do not represent those of the ECB.

Main takeaway

- Large banks boost households' financial sentiment
- Why?
  1. Economies of scale leading to better borrowing conditions for households

     and

  2. (Perception of) superior safety of large banks

     lead to improvements in financial sentiment

Why is this paper important

- Berger et al.:
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  - Consumer spending major component of GDP
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  - Consumer spending major component of GDP
  - Message for regulators: bank size has positive impact on households financial sentiment
- But also:
  - Inflation expectations!
    - Of critical importance for central banks, but limited knowledge on consumers expectations
    - Financial sentiment likely related to inflation expectations (del Giovane et al., 2009; del Giovane, 2009; Ehrmann et al., 2017)
    - Interesting, additional angle to motivate the paper

This discussion

1. Hypotheses and underlying mechanisms at work
2. Threats to identification - potential endogeneity issues

Hypotheses and channels

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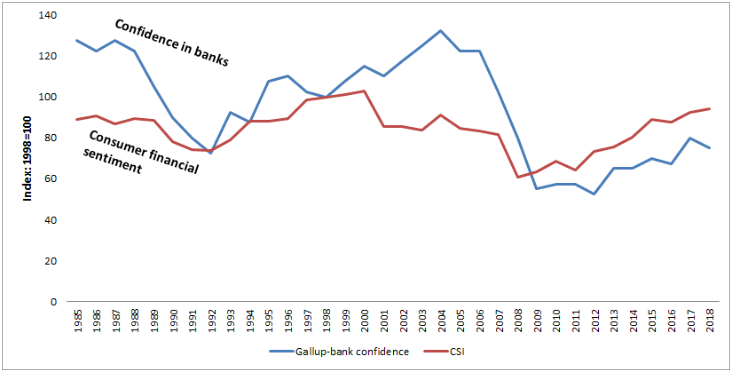
- 1 and 4: Confidence in banks
- 2 and 3: Alleviating financial constraints
- No 1-to-1 match between these mechanism and small vs. large banks.

Hypotheses and channels: Confidence in banks

- Does confidence in banks improve household financial sentiment?
- Often positvely correlated, good start



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- Suggestions
  - Make use of plausible variation in confidence between small and large bank over time or in the cross-section
    - ⋆ Trust in large banks likely severely hit during crisis: should show in relation between large banks and financial sentiment indicator
    - ⋆ Exploit small bank failures (FDIC failed bank list: 555 since Oct. 1, 2000). Safety argument for large banks should become more important after failure of small bank in county.

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  - Be more precise through which survey question you expect confidence in banks to impact financial sentiment

Hypotheses and channels: Confidence in banks

1) "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago?

2) "Now looking ahead — do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now?" (*PEXP*)

3) "Now turning to business conditions in the country as a whole — do you think that during the next twelve months we'll have good times financially, or bad times, or what?" (*BUS12*)

4) "Looking ahead, which would you say is more likely — that in the country as a whole we'll have continuous good times during the next five years or so, or that we will have periods of widespread unemployment or depression, or what?" (*BUS5*)

5) "About the big things people buy for their homes — such as furniture, a refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good or bad time for people to buy major household items?" (*DUR*)

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Hypotheses and channels: Financial constraints

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Panel A: ICS Index Decomposition — OLS and Ordered Logit Models

	(1)	(2)	(3)	(4)	(5)
			OLS with County Fixed Effects		
Dependent Variable:	*PAGO*	*PEXP*	*BUS12*	*BUS5*	*DUR*
Independent Variables					
Small Bank Share	-0.079	-0.127*	-0.643***	-1.026***	-0.018
	(-0.885)	(-1.892)	(-2.947)	(-5.033)	(-0.198)

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- Maybe bank presence matters for financial constraints and not small vs. large?

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    - Higher social capital could lead to higher (local) economic growth, in turn impacting household sentiment
    - Weberian view: religion affects economy by fostering traits such as work ethic, trust, etc. (Weber, 1930)

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  - Two potential problems for exclusion restriction:
    - Higher social capital could lead to higher (local) economic growth, in turn impacting household sentiment
    - Weberian view: religion affects economy by fostering traits such as work ethic, trust, etc. (Weber, 1930)
  - What matters for social capital argument is number of members of a congregation, not necessarily number of congregations

Final thoughts

- Very interesting paper on an important topic, definitely worth reading
- Looking forward to next version

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