



Figure 3. Changes in trade receivables, trade payables and inventories of the US non-financial corporate business sector (Source: Federal Reserve Flow of Funds, Table F102)

than other customers.

Well before the crisis, Kashyap, Lamont and Stein (1994) had documented the sensitive nature of inventories to financial conditions, especially to shocks that reduced bank credit supply. The severe banking sector contraction associated with the 2008 crisis can be expected to have exerted very severe brakes on the practice of offshoring and the associated increase in trading volume. The impact on trade is especially large due to the growth in vertical specialization and trade in intermediate goods documented by Yi (2003). Bems, Johnson and Yi (2011) show that gross trade fell more than value-added trade, implying that the demand declines hit vertically specialized sectors harder, reinforcing the case for the role of production chains in explaining recent events.

In a vertically integrated production process, the units could belong to the same firm, or to different firms. To address the boundary of the firm, we must appeal to the contracting environment (as done, for example, by Antras and Chor (2011)). When the transactions are *between* firms rather