

# **Changes in Housing Wealth and Consumption: ...**

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Comments by

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## Main Message and Method

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- Housing wealth more related to consumption in 2000s than in 1990s
  - More developed financial markets
  - Composition of homeownership
  - Advertising & acceptance
- Estimate:  $\Delta \log C_{i,t} = \gamma_H \Delta \log H_{i,t} + \dots$   
separately for 1990s and 2000s
- Consumption data:
  - motor vehicle sales by DMA
  - taxable sales by MSA in California
  - new cars by household in SIPP

## **Your motivation / conclusion**

In principle, there are at least three possible explanations for the higher correlation:

- Less insurance / stronger market failure
- Partially improved financial markets, housing wealth more liquid
- Efficient financial markets / stronger wealth effect

What is your conclusion about this?

## Comments & questions

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Why so much focus on vehicles?

Wouldn't we typically be more interested in the effects of house prices on *nondurable* consumption?

## Comments & questions

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Higher correlation because of **more liquid housing wealth?**

Possible wealth effects:

- Higher wealth → higher consumption
- Higher wealth → liquidity constraints relaxed → higher consumption

First effect works through *unanticipated* changes in house prices.

- Evidence supporting this in the paper
- But what are the effects of *anticipated* price changes?

## Comments & questions

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But “wealth effect” also if houses did not become more liquid:

Smaller downpayments, lower equity share



changes in house prices have larger wealth effect



stronger correlation between house prices and consumption

This effect would probably be most important in markets indicated as being “low credit areas”

## **Comments & questions**

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Was there more financial development on the housing market than on other markets?

Some mechanisms in the paper can be questioned if households' access to other sources of credit improved

# Summary

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- Much interesting data
- Clear evidence of stronger relation between housing wealth and spending
- Can the underlying mechanisms be explored further?