

Discussion:
Consumption and House Prices
in the Great Recession
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May 2016

Boom and bust in US house prices

- What is the source?
- Can it explain boom-bust in nondurable consumption (by itself)?
- If yes, what are the policy implications?

Boom and bust in US house prices

Two stylized facts:

- Leverage constant during boom and then spikes in the bust
 - » Collateral-constraint cycle does not get this
Justiniano et al. (2015b)
- Simultaneous boom-bust in price-rent ratio
 - » Rules out swings in preferences for housing
Favilukis et al. (2010)

Summary of model

- Overlapping generations of finitely-lived households
- Uninsurable income risk
- Small open economy - interest rate fixed

- Housing and rental market with endogenous prices
- Long-term, non-recourse mortgages

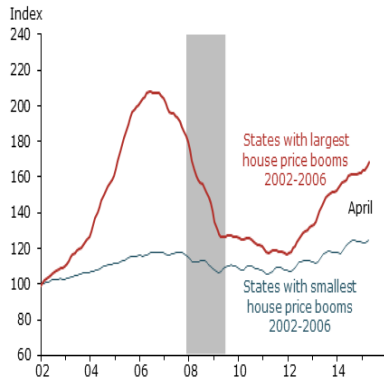
- Sources of aggregate shocks: Productivity, financial deregulation, expected price growth (beliefs)

- Source of house price boom-bust:
Belief in higher house price growth and reversal
- Policy implications:
Debt relief does neither stabilize consumption nor house prices
- Measurement exercise:
Elasticity of consumption to house prices depends on shock driving house prices

- » Financial deregulation has no effect on house prices and consumption
 - Little constraints on housing choice
 - Expansion in LTV only affects marginal home buyer
 - BUT: Financial deregulation amplifies effects of belief shock

- Calibration
- Validation
- Alternative story

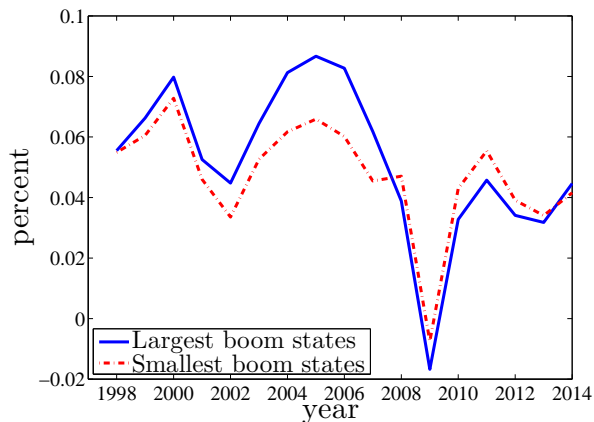
State-level house prices



Note: Largest boom states: HI, FL, NV, CA, AZ. Smallest boom states: MS, ND, OK, SD, KY, CO, ID, NE, OH, IN, MI. Source: San Francisco Fed

- Boom-bust in house price very heterogeneous across states
- This paper is about direct effect of house prices on consumption
- Calibrate towards states with boom-bust in house prices
 - Lower elasticity of housing supply (Mian et al. (2013))
 - Inflow of second-home buyers

Growth of nominal nondurable consumption expenditures



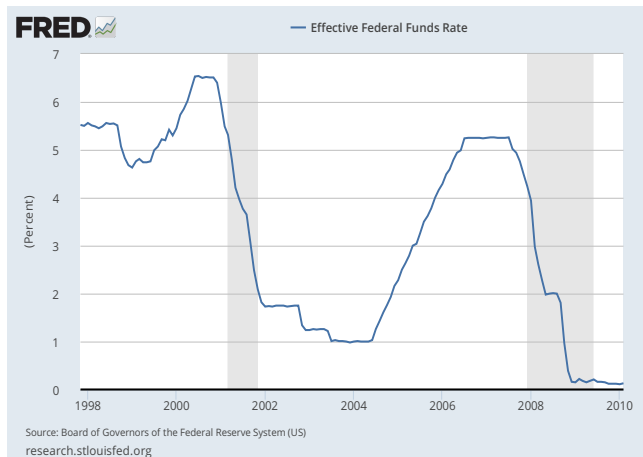
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- Very rich heterogeneity in the model and in the data
- How do conditional consumption responses compare?
- Mian et al. (2013) find that consumption boom-bust
 - ...increases in household leverage
 - ...decreases in household income

- Financial deregulation is about credit demand
- Action at the margin

- Precautionary savings in bonds vs housing
- Portfolio allocation depends on return differences
- Affects all households

Comments: Alternative story



- Favilukis, J., Ludvigson, S. C., and Van Nieuwerburgh, S. (2010). The macroeconomic effects of housing wealth, housing finance, and limited risk-sharing in general equilibrium. Technical report, National Bureau of Economic Research.
- Justiniano, A., Primiceri, G. E., and Tambalotti, A. (2015a). Credit supply and the housing boom. Technical report, National Bureau of Economic Research.
- Justiniano, A., Primiceri, G. E., and Tambalotti, A. (2015b). Household leveraging and deleveraging. *Review of Economic Dynamics*, 18(1):3–20.
- Mian, A., Rao, K., and Sufi, A. (2013). Household balance sheets, consumption, and the economic slump*. *The Quarterly Journal of Economics*, 128(4):1687–1726.