The Fed - Effects of Monetary Policy on Household Expectations The Role of Homeownership

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We study the role of homeownership in the effectiveness of monetary policy on households' expectations. Empirically, we find that homeowners revise down their near-term inflation expectations and their optimism about future labor market conditions in response to a rise in mortgage rates, while renters are less likely to do so. We further show that the monetary-policy component of mortgage-rate changes creates the difference in expectation revisions between homeowners and renters. This result suggests that homeowners are attentive to news on interest rates and adjust their expectations accordingly in a manner consistent with the intended effect of monetary policy. We characterize these findings using a rational inattention model with two types of households---homeowners and renters.

**Url:**<https://www.federalreserve.gov/econres/feds/effects-of-monetary-policy-on-household-expectations-the-role-of-homeownership.htm>