

DISCUSSION OF
“HOUSING WEALTH AND CONSUMPTION: THE ROLE OF
HETEROGENEOUS CREDIT CONSTRAINTS”
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DISCUSSION ROADMAP

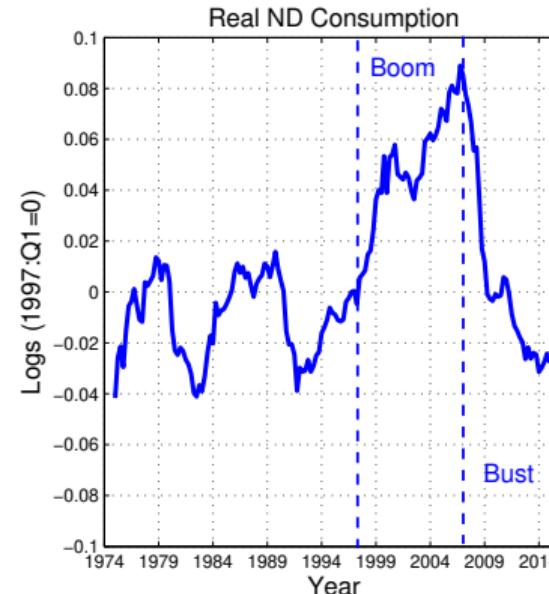
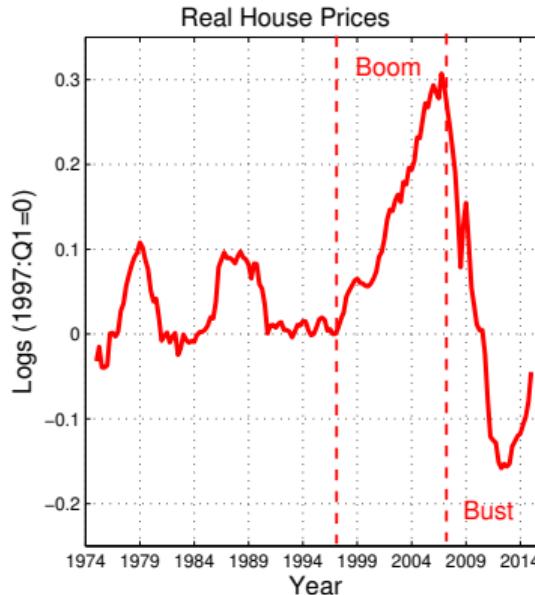
1. Very brief overview of the paper
2. Motivation and discussion of the question
3. Specific comments on their analysis
4. Their results in context

QUICK SUMMARY OF THE PAPER

- ▶ Significant decline in consumption during the Great Recession
- ▶ Large drop in house prices has been seen as a culprit
- ▶ Objective: see if other shocks can explain drop in consumption
- ▶ Focus on credit constraints, local GE effects, bank credit supply on consumption
- ▶ Nice combination of micro/macro data to tackle big policy question

MOTIVATION: HOUSE PRICES AND CONSUMPTION

- Empirical regularity: house prices and consumption co-move:



- Papers by Mian & Sufi suggest most of movement in C driven by HP
- ...but co-movement of C and HP suggests common shocks could move both...

HOUSE PRICES AND CONSUMPTION: THEORY

- ▶ Nice paper by Berger et al (2018) derives theoretical predictions for the link between house prices and consumption
- ▶ Effect on non-durable consumption of a permanent change in house prices is:

$$MPC_{it} \times (1 - \delta) P_{t-1} H_{it}$$

where MPC_{it} is the marginal propensity to consume out of a transitory income shock

- ▶ They show analytically that the income, substitution, and collateral effects exactly cancel, leaving only the endowment effect.
- ▶ Many simplifying assumptions, but they show good approximation even in richer models

HOUSE PRICES AND CONSUMPTION: DATA

- ▶ Mian et al (2013) started a huge literature looking at the effect of HP on C
- ▶ Focus of Mian et al (2013) mostly on new car registrations, but also some measures of non-durable consumption
- ▶ Kaplan, Mitman & Violante (2020) finds similar results for non-durable expenditure from Kilts-Nielsen data
- ▶ KMV (2020) find about 20% of decline in expenditures due to lower prices (so C falls by less)

HOUSE PRICES, UNEMPLOYMENT, AND CONSUMPTION: DATA

	Baseline		MRS Baseline	
	OLS	IV	OLS	IV
<u>Panel B: Real</u>				
ΔHNW	0.092** (0.026)	-0.125 (0.163)	0.128* (0.050)	-0.016 (0.182)
$\Delta \log U$	-0.101** (0.018)	-0.179** (0.062)	-0.118** (0.019)	-0.151** (0.049)
N	21226	16748	22938	19506
Clusters	584	382	329	232
R^2	0.016	0.001	0.02	0.017

In the cross-section, there doesn't seem to be any effect of house prices once you control for changes in unemployment

COMMENT ON INCLUDING UNEMPLOYMENT

- ▶ How should we think about U as a control for local GE?
- ▶ If U rises because HP makes C fall, isn't U proxying $HP \rightarrow C$?
- ▶ My concern is that individual HP measures may be noisy, where U more accurately captures fall in C in an area
- ▶ What should we think about direction of causality here?

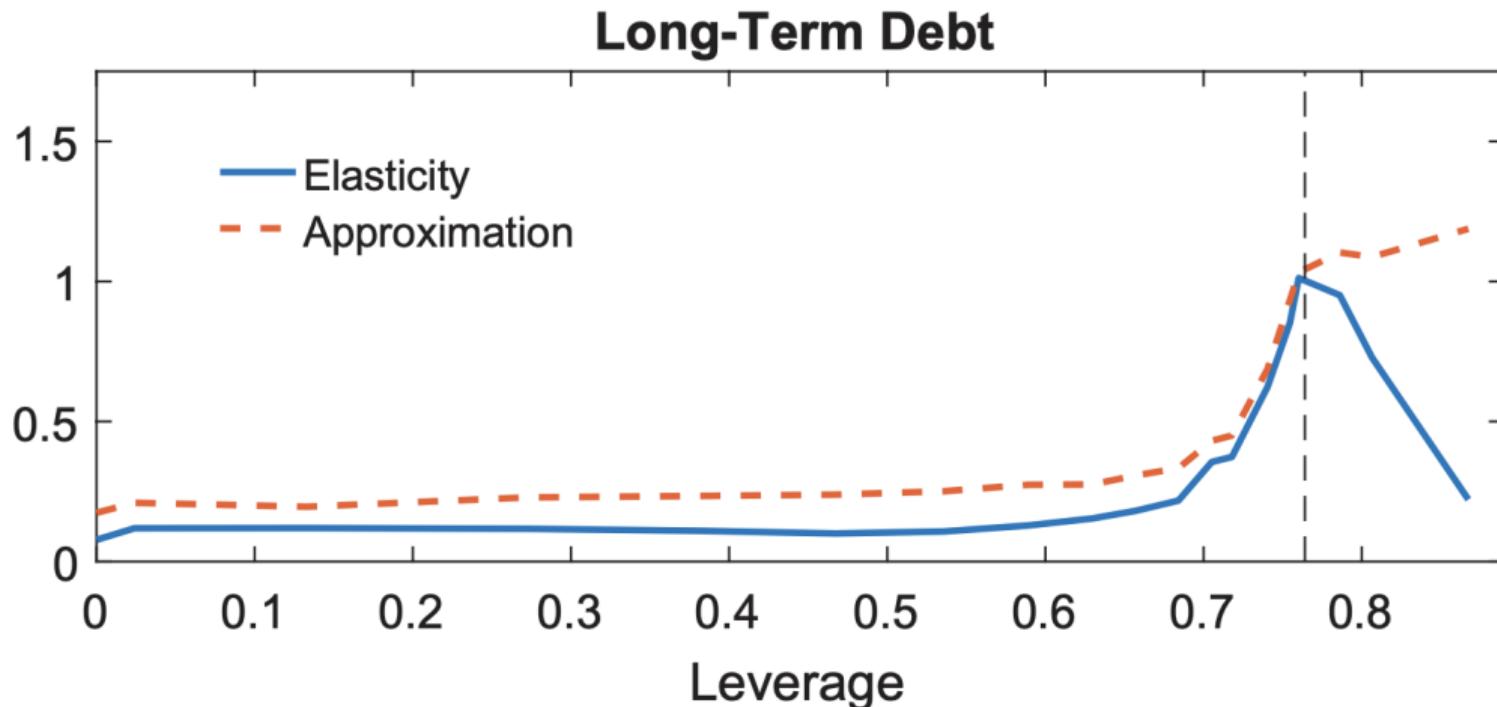
COMMENT ON THE “BAD MORTGAGE”

- ▶ How should we think about the inclusion of BM as a control?
- ▶ Recent work by Ganong & Noel (2023) suggests compelling evidence for double trigger
- ▶ But negative equity seems necessary for a BM
- ▶ BM flag seems to capture negative equity, income loss, bad credit score...
- ▶ What should we think about direction of causality here?

COMMENT ON THE CREDIT SUPPLY SHOCK

- ▶ There is very little discussion of the construction of the credit supply shock in the paper
- ▶ Paper refers to two other papers
- ▶ I'd like to see more discussion / validation of this control that they use
- ▶ The fact the CS attenuates the coefficient on HP clearly suggests that the two measures are correlated
- ▶ What should we think about direction of causality here?

HOW SHOULD WE THINK ABOUT NON-LINEARITIES?



Source: BGLV (2018)

FINAL THOUGHTS

- ▶ Very nice paper
- ▶ Good use of micro data to try to dig deeper into what drives the drop in consumption
- ▶ I think some more use of theory could help motivate the controls
- ▶ Looking forward to seeing the next version