

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

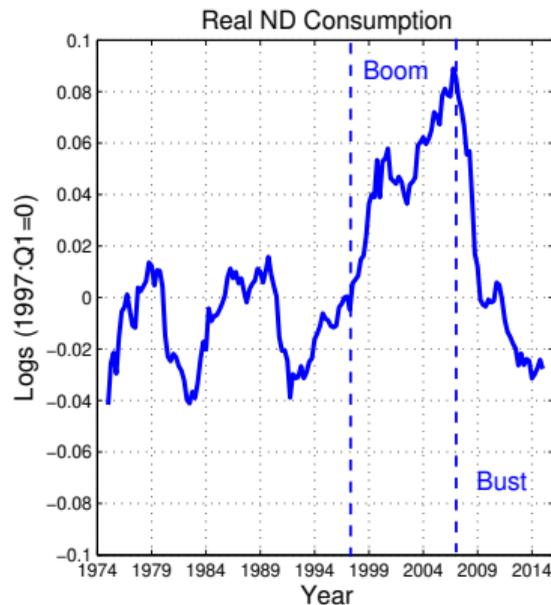
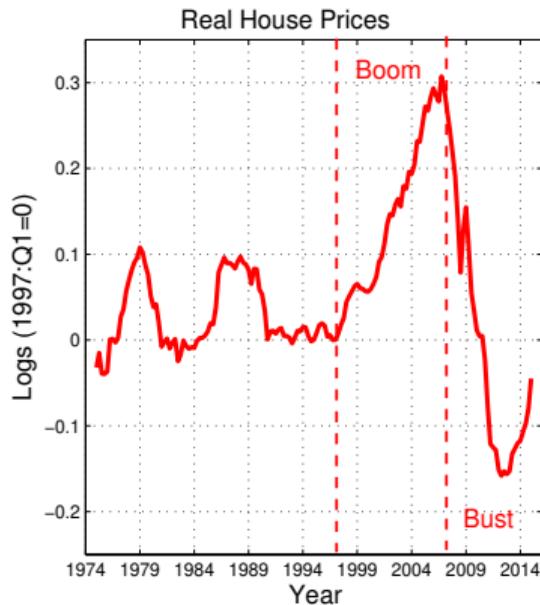
1. Very brief overview of the paper
2. Motivation and discussion of the question
3. Specific comments on their analysis
4. Their results in context

## 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>				
$\Delta HNW$	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”

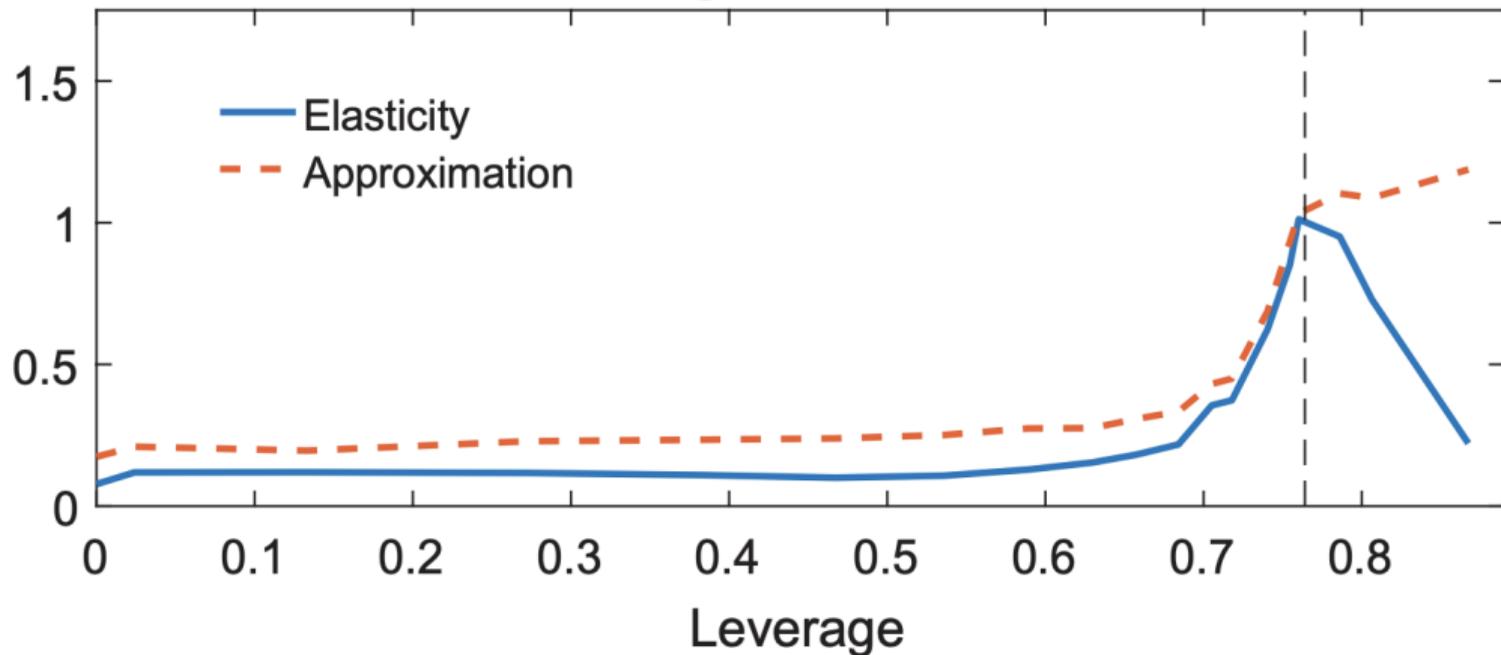
- ▶ How should we think about the inclusion of BM as a control?
- ▶ Recent work by Ganong & Noel (2023) suggests compelling evidence for double trigger
- ▶ But negative equity seems necessary for a BM
- ▶ BM flag seems to capture negative equity, income loss, bad credit score...
- ▶ What should we think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

## Long-Term Debt



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