

# A Macroeconomic Perspective on Housing

Still Rethinking Conference

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# Outline

Housing, Household Sector Indebtedness and Economic Stability

Housing and the Business Cycle

Policy Conclusions

Appendix

References

# Housing, Household Sector Indebtedness and Economic Stability

# Housing and Economic Stability

- ▶ Housing not only important for direct demand impact on business cycle
- ▶ Real estate single most important reason for households to take on debt
- ▶ High private debt levels predict financial crises (Schularick & Taylor, 2012)
- ▶ Highly leveraged recessions deeper (Mian & Sufi, 2010)

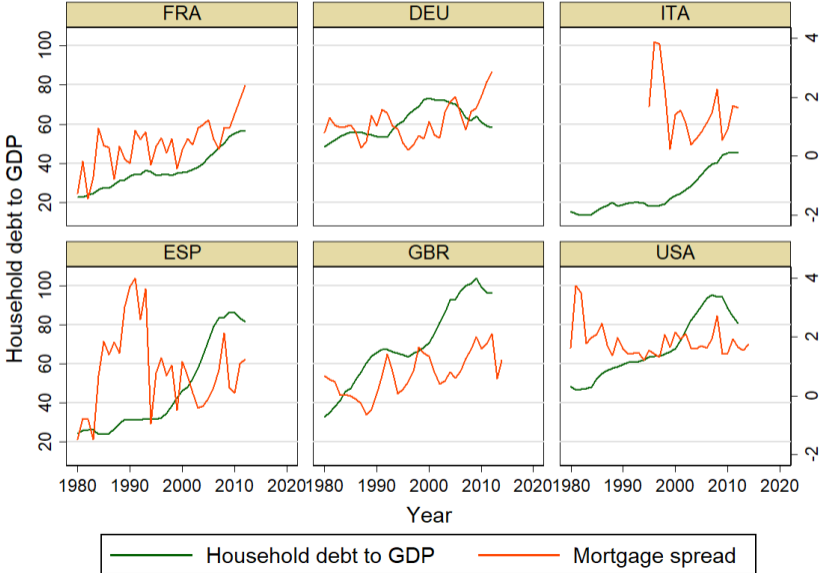
# The Housing Doom Loop

- ▶ Large literature around financial stability aspect of house price and household debt bubbles  
(see Stockhammer and Wildauer (2018) for overview)
- ▶ What causes what?
- ▶ Most popular explanation: eased credit supply pushed up house prices  
(Mian and Sufi + co-authors)
- ▶ Is credit supply all there is?

# Household Debt Channels: What drives Household Indebtedness

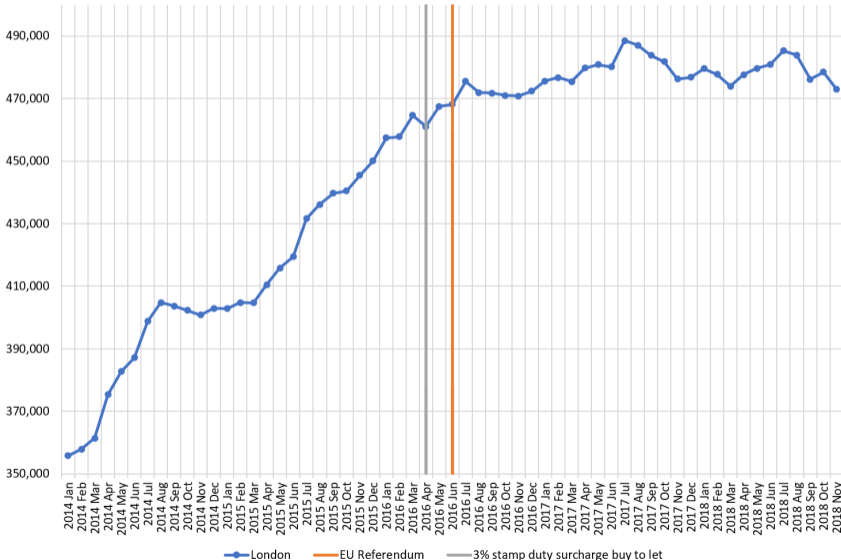
- ▶ Easing of credit supply conditions  
(Mian, Sufi, & Verner, 2017; Mian & Sufi, 2018)
  - ▶ due to deregulation of financial sector / regulatory changes (Basel I)
  - ▶ banks focussed on (rising) collateral values
  - ▶ increasing income inequality
  - ▶ (lots of loanable funds thinking)
- ▶ Increased credit demand
  - ▶ Momentum trader dynamics in housing markets (speculation)  
(Dieci & Westerhoff, 2012; Shiller, 2016)
  - ▶ Income inequality triggering status spending  
(Frank, 2014; Kapeller & Schütz, 2014; Kumhof, Rancièrè, & Winant, 2015)
  - ▶ Demographic trends and adjustments to stock-flow-norms

# Credit Supply: Mortgage-Sovereign Spread



# Speculative Demand

Average House Prices London



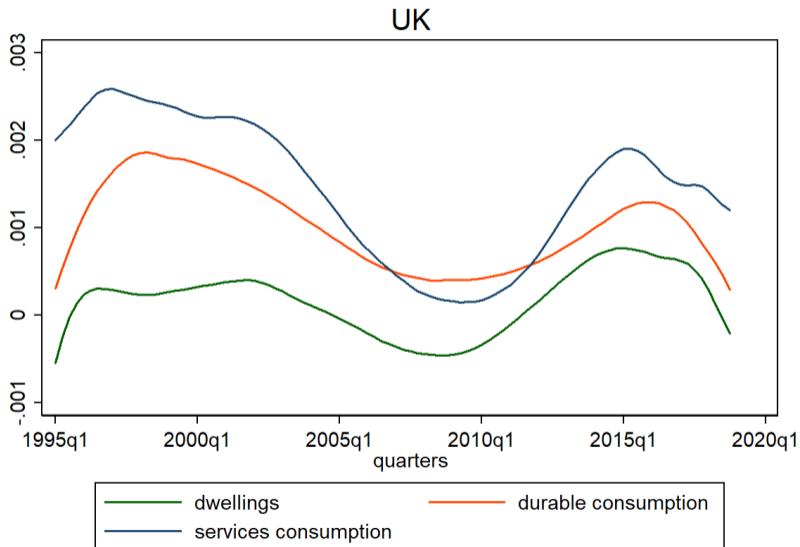


# Housing and the Business Cycle

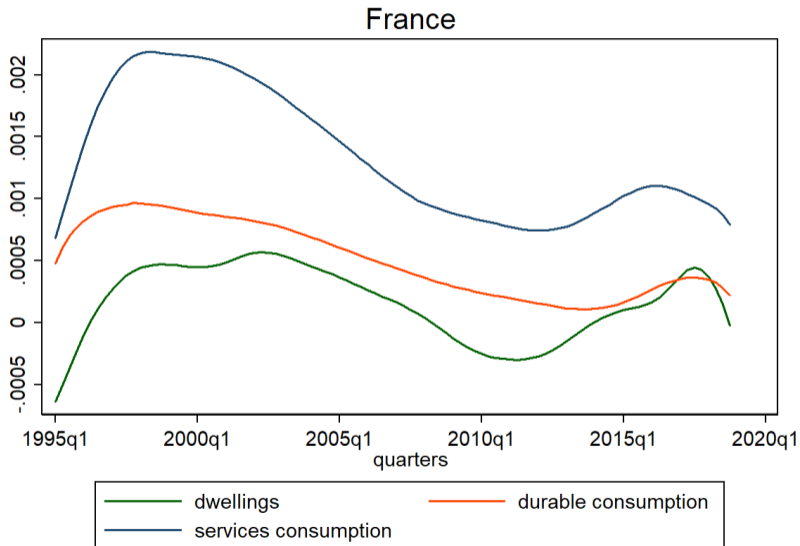
# Housing and the Business Cycle

- ▶ Building new and improving existing homes part of **Gross Fixed Capital Formation (GFCF)** in national accounts.
- ▶ **In Addition:** construction of dwellings is a leading business cycle indicator for the US see: Leamer (2007, 2015)
- ▶ Despite modest growth contribution overall, dwellings constructions peaks ahead of recessions
- ▶ Next applying Leamer (2007) to further countries

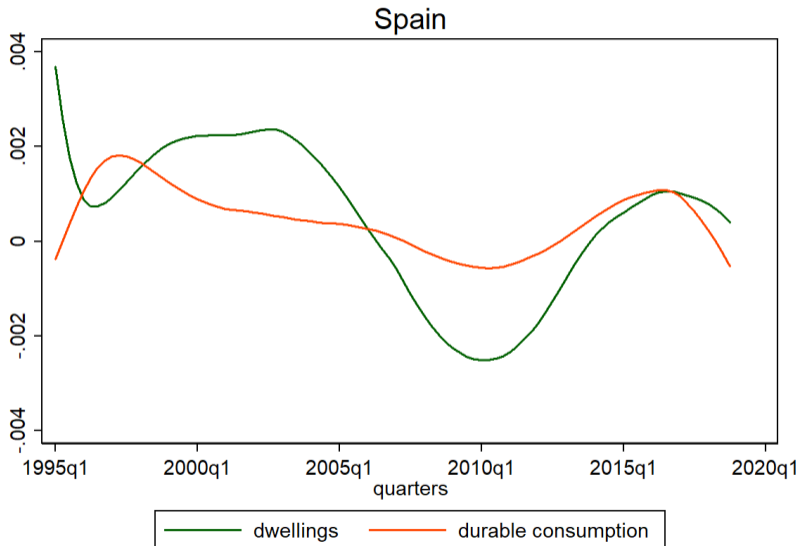
# Normal (trend) growth contributions



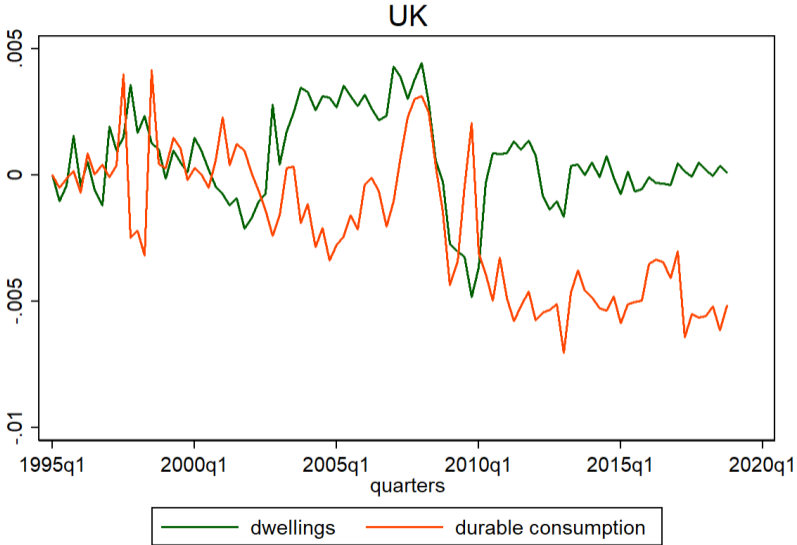
# Normal (trend) growth contributions



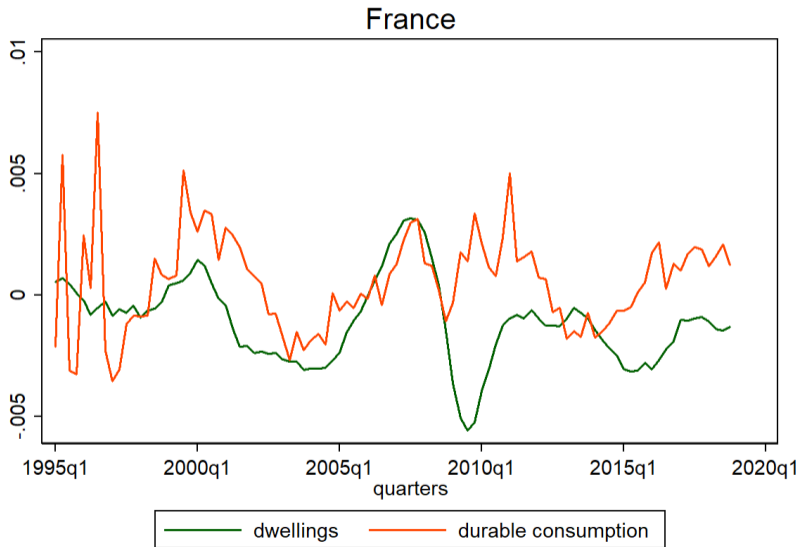
# Normal (trend) growth contributions



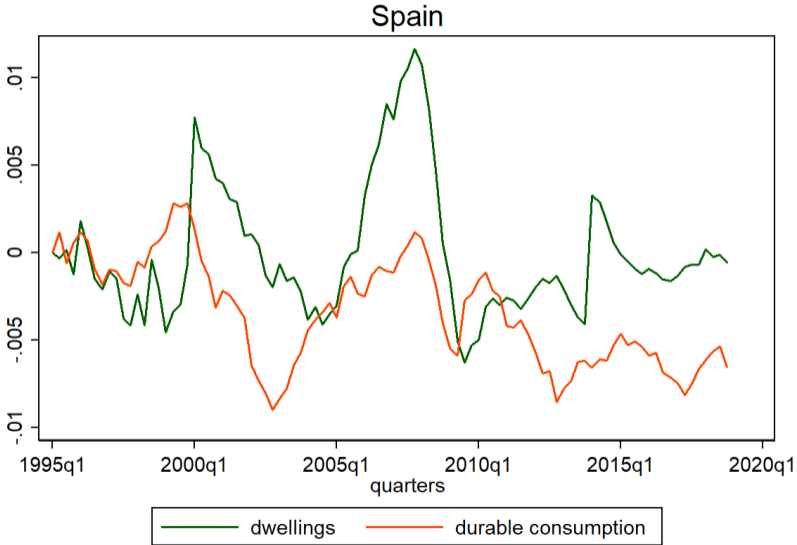
# Abnormal (cyclical) growth contributions



# Abnormal (cyclical) growth contributions



# Abnormal (cyclical) growth contributions





## Policy Conclusions

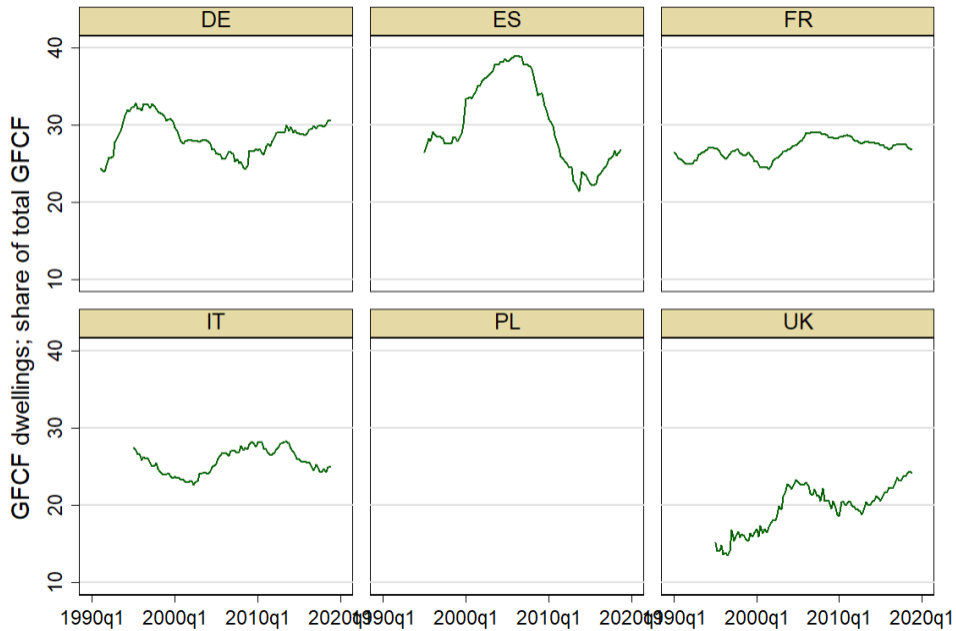
## Reigning in The Housing Doom Loop

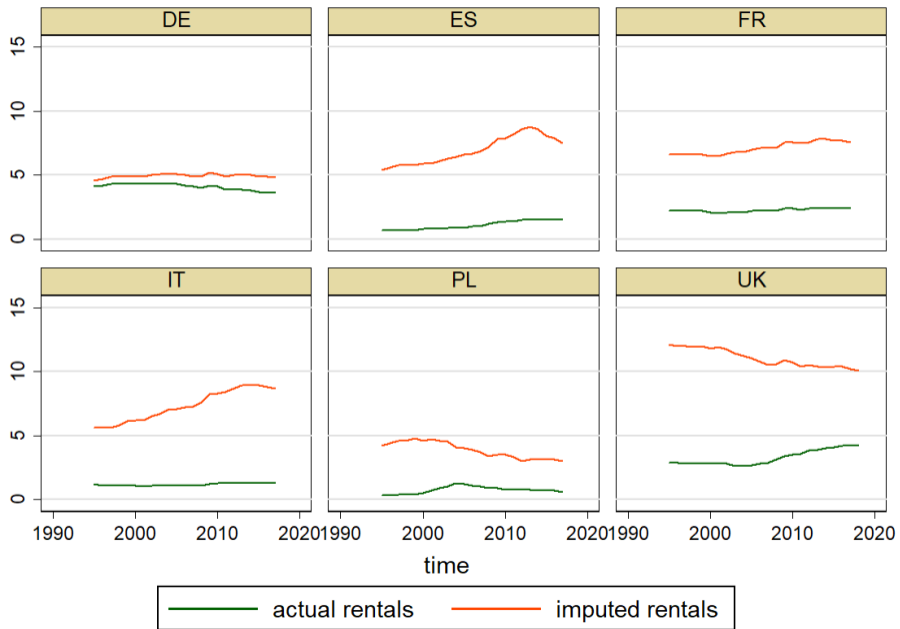
- ▶ Several factors at work, local differences (country-level, regional level)
- ▶ Limit speculative demand (prospect of double digit price growth turns housing into attractive asset)
- ▶ Limit credit supply to certain players (buy to let)
- ▶ Limit housing demand in general:  $200m^2$  house vs  $70m^2$  flat
- ▶ Increase high quality (not size) affordable supply

# Appendix

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East Midlands average houseprice

