Investigation of The House Price Expectations Channel of Consumption

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Summary

Motivating question :

- How does a change in house price expectations affects consumption ?

Method :

- use a **randomized experiment** that provides survey participants with different information
- **instrument the effect of house price expectations** on the expected growth rate of spending with this exposure to different information
- look into the effect of the treatment on **other expectations** + the **heterogeneity** of the main effect

Contribution

Large literature on the Great Recession that emphasizes the **role of expected and realized price changes**

This paper

- while there is empirical evidence about specific mechanisms through which house price expectations : measures the **overall effect** of house price expectations on the expected growth rate of spending
  $\Rightarrow$ finds a significant, positive effect
- does so using a **different identification** method as Bover (2015)
- could possibly **disentangle** the effect of a change in house price expectations on households' decisions and its effect on banks' decisions

Comment 1 : how useful ?

- Contrary to inflation expectations, house price expectations are **not easily influenced by policy-makers**
- **Empirical evidence exist** on the main channels through which house price expectations can affect consumption :
  $\Rightarrow$ effect of house price expectations on
  - realized house price (though importance is debated)
  - borrowing (e.g. De Stefani (2017), Bailey, Davila, Kuchler, Stroebel (2019)) + different types of mortgage (e.g. Brueckner, Calem, and Nakamura (2016))
  - on consumption (Bover (2015))

  $\Rightarrow$ effect on consumption of
  - wealth (e.g. Mian, Rao Sufi (2013))
  - housing collateral (e.g. DeFusco (2018))
  - macroeconomic expectations (e.g. Roth and Wohlfart (2018))

Comment 1 : how useful ?

- Empirical evidence that the importance of each mechanism is strongly heterogeneous
  $\Rightarrow$ overall effect is likely to vary over time with economic conditions
  $\Rightarrow$ policy-makers might more easily predict future overall effect when knowing the mechanisms and their magnitude rather than knowing past magnitude of overall effect

Comment 2 : possible endogeneity of the instrument

- Paper notes that once you **control for effect of treatment on income expectations**, effect of house price expectations is only significant at 10% (5% for nationwide prices when additionally controlling for prior expectations)
- The effect of the treatment on income expectations is presented as a **channel** because the treatment is about house prices :
  HPE of forecasters -> HPE of the individual-> income E of the individual
  $\Rightarrow$ yet it would still be a **confounding variable** if the relation is :
  HPE of forecasters -> income E of forecasters -> income E of the individual

Comment 2 : possible endogeneity of the instrument

- Instrument = professional forecast of house prices between t and $t+1$
- Likely to **affect as well house price expectations between** $t+1$ **and** $t+2$, between $t+2$ and $t+3$, etc
- These longer-run expectations are likely to affect current consumption as well (through a wealth effect)

$\Rightarrow$ longer-run house price expectations could be confounding variables

$\Rightarrow$ would **bias upwards** your result

Comment 3 : insights about possible mechanisms are imprecise

Main mechanism proposed = constrained households expect their borrowing limit to expand once price realize thus expect their consumption to rise

But :

- the sample breakdowns yield results that are **not statistically different** across categories (bad luck)
  $\Rightarrow$ difficult to be sure
- **ambiguity about the timing** : borrowing constraint could only be relaxed once the changes in house price are realized, so consumption might not increase over the next year but maybe later

Minor comments

- Why multiply the average change in growth rate with the average expected spending to compute the level change in expected spending ? (you neglect the covariance between the two, while you could directly observe the level change for each household)
- Use the questions about expected spending before and after treatment (exactly the same) as a check ?
- Effect of asking exactly the same question twice ? I know more uncertain/younger persons update more but could also be more sensitive to experimenter demand effect