

Panel 2: Housing and Macroeconomics

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**Housing, Stability and the Macroeconomy:
International Perspectives**

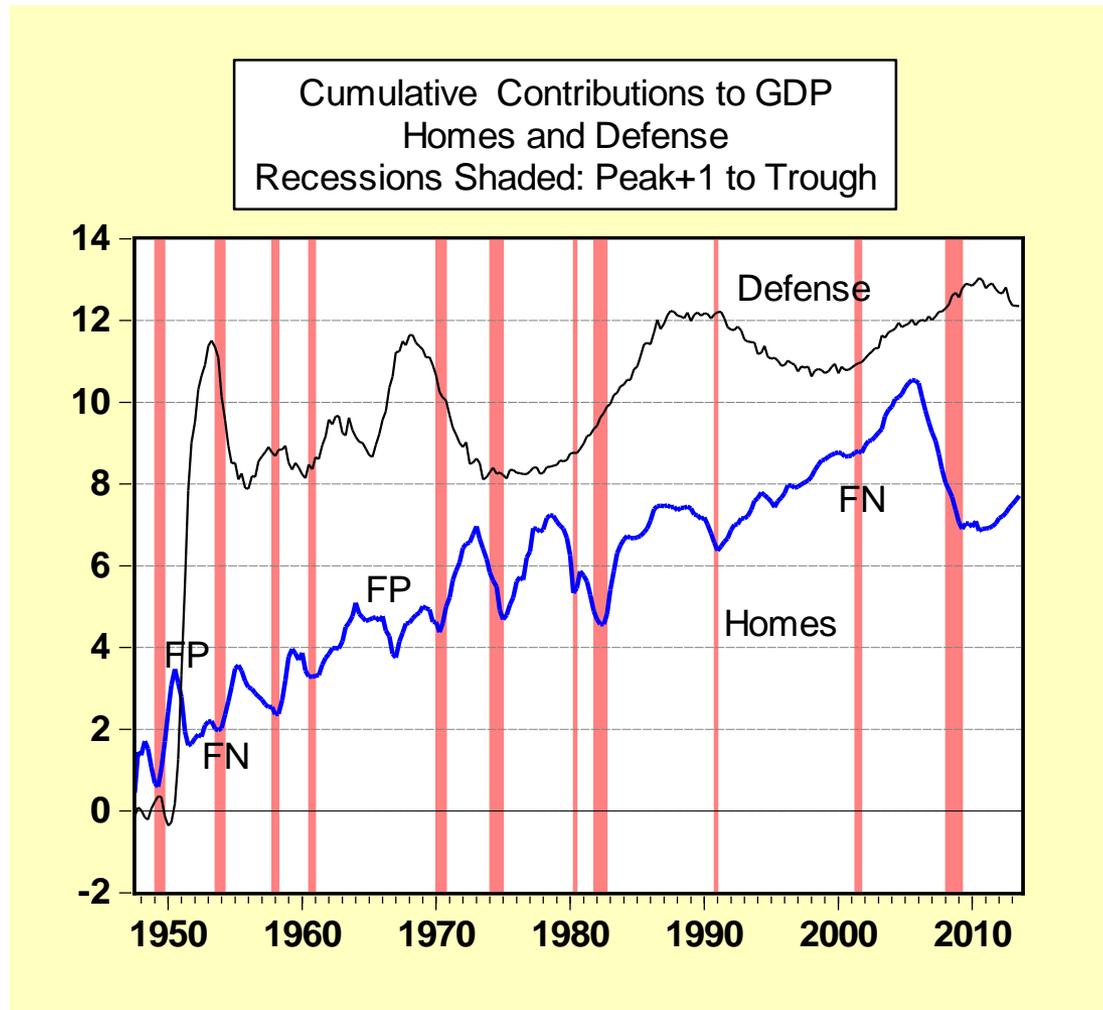
**November 14–15, 2013 · Federal Reserve
Bank of Dallas**

Housing IS the Business Cycle (2007)

What Survives the Lessons of 2008/09

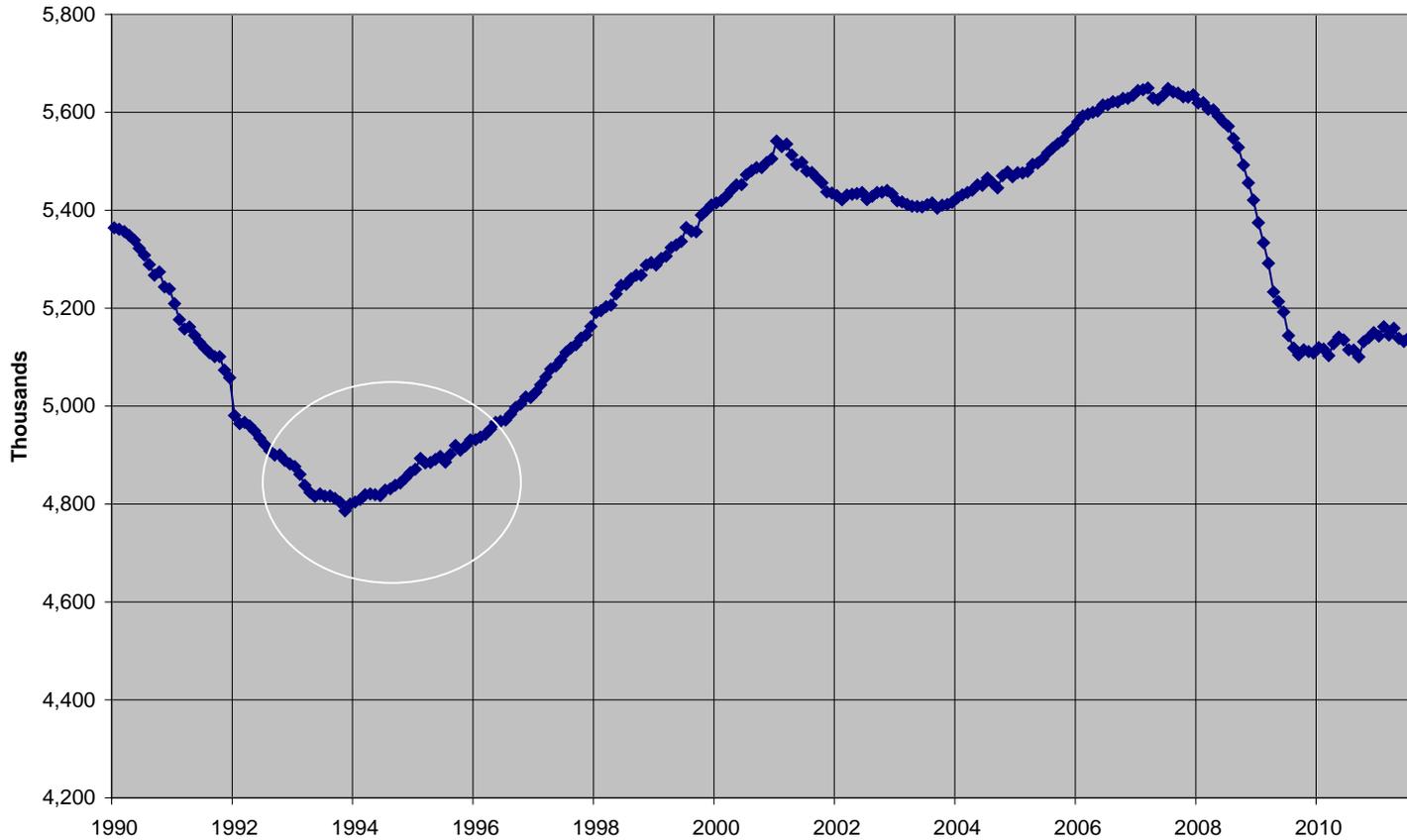
- Housing is the single most critical part of the US business cycle, certainly in a predictive sense, and, I believe, also in a causal sense.
- The proper conduct of monetary policy needs to be cognizant that choices made at one point in time affects the options later. It's an intertemporal control problem.
- The best time to intervene in the housing cycle is when the volume of building is above normal and growing more so.
- Homes experience a volume cycle, not a price cycle.

Homes and Defense: That's Almost All You Need to Know



What Made the LA Housing Market Recover in the 1990s?

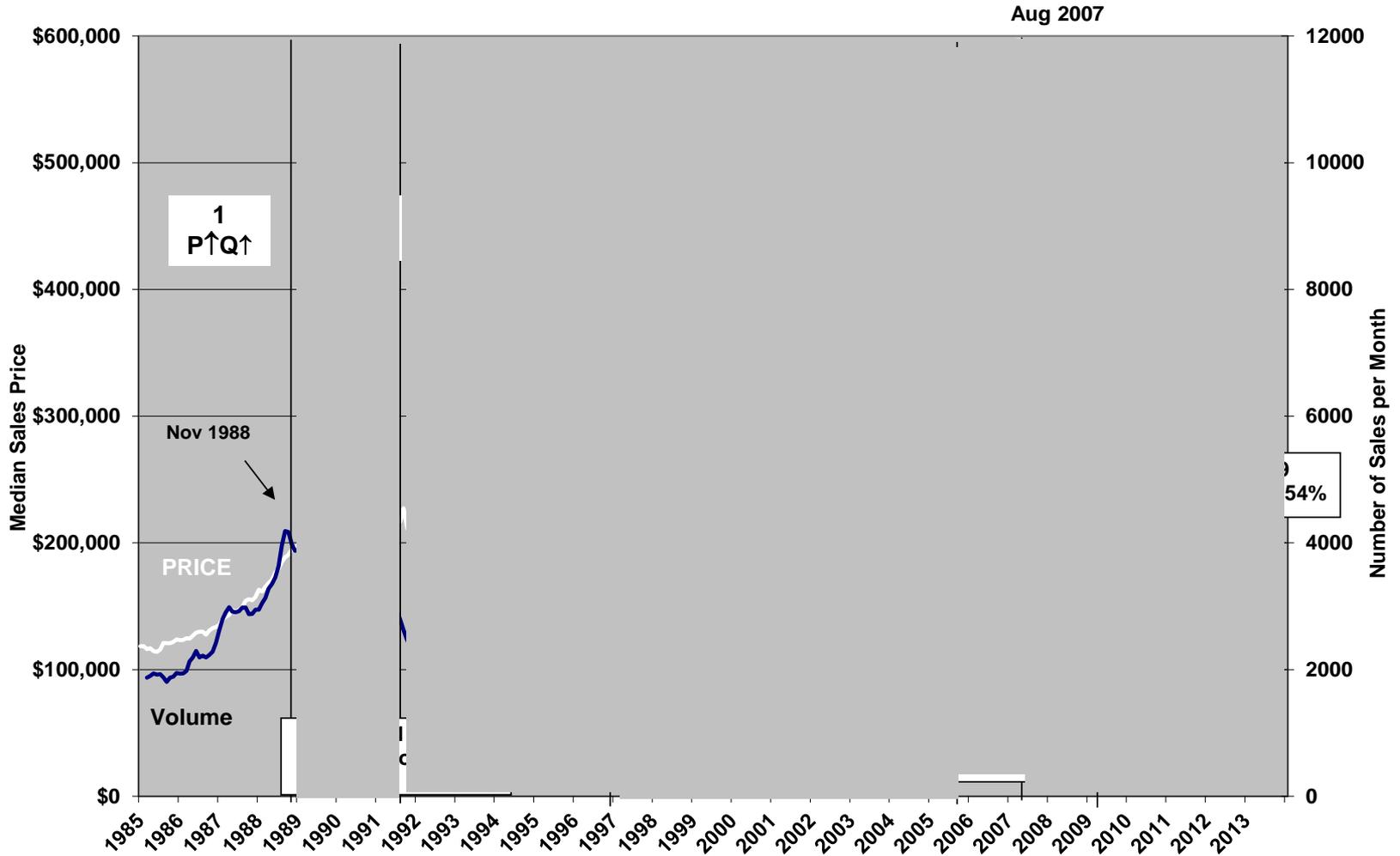
Payroll Jobs In Los Angeles-Long Beach-Santa Ana, CA



The Past is not Always a Good Guide for the Future

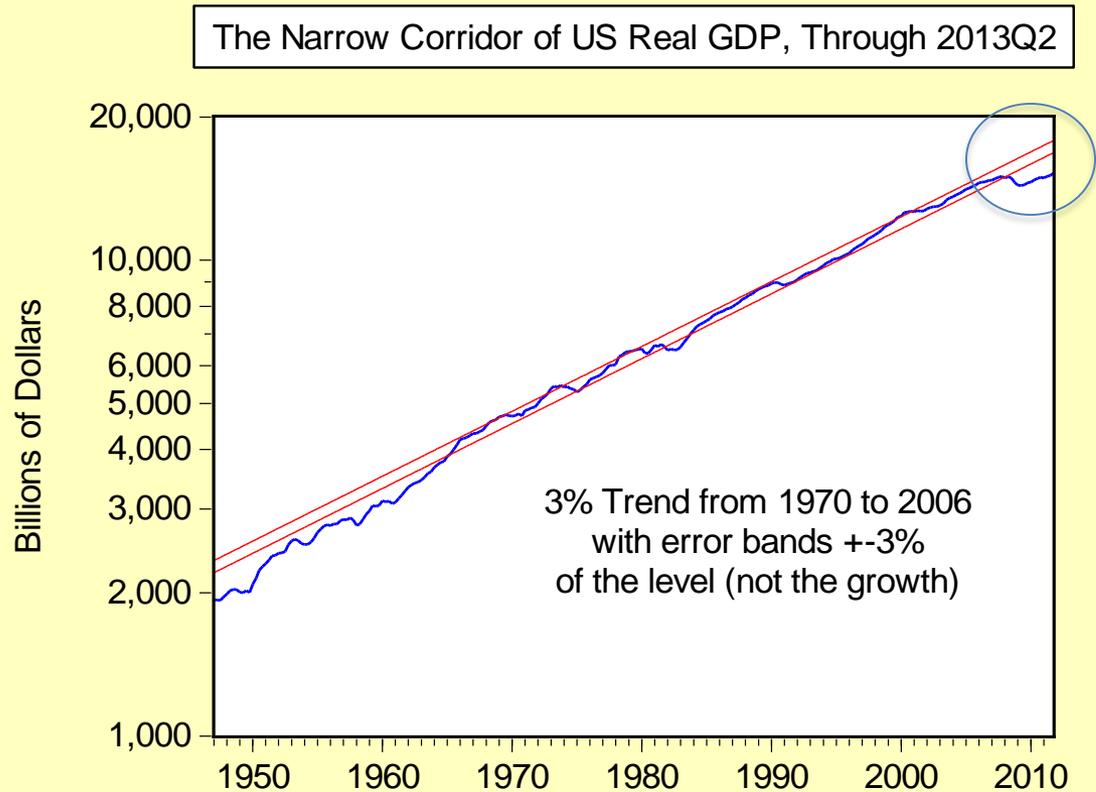
Los Angeles Housing Price and Volume

Los Angeles Median Home Price (SA) and Sales Volume (3 month moving average, SA)

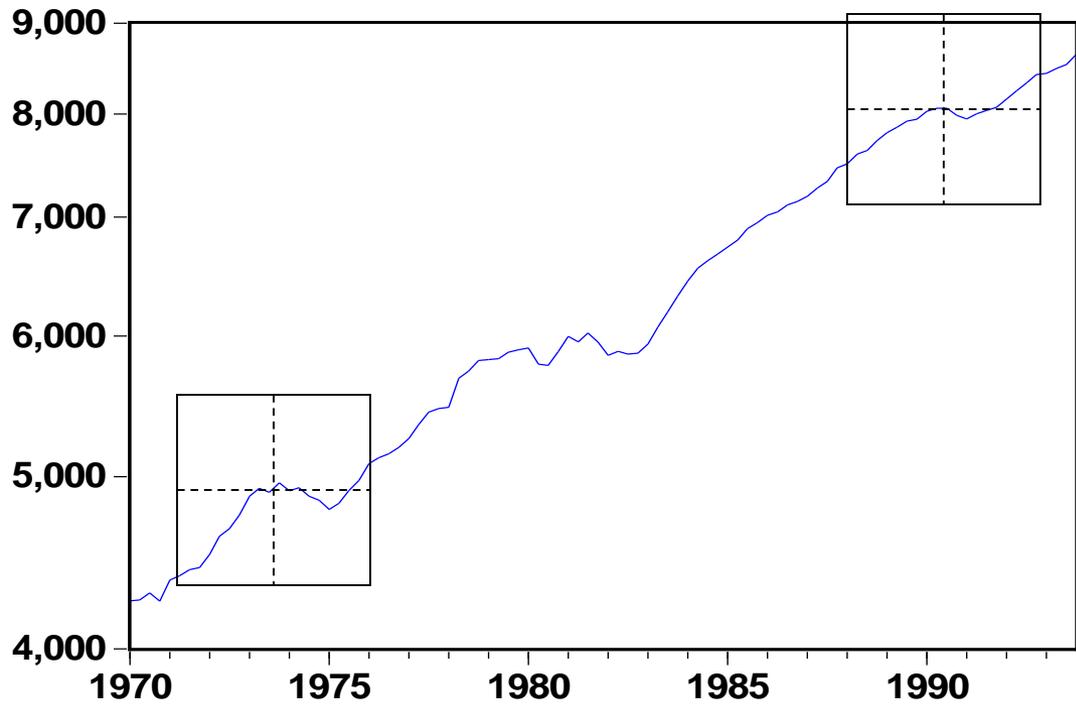


The Narrow Corridor of US Growth

Can it continue?

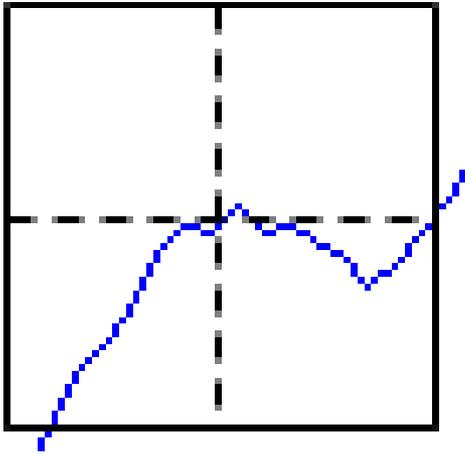


Real GDP

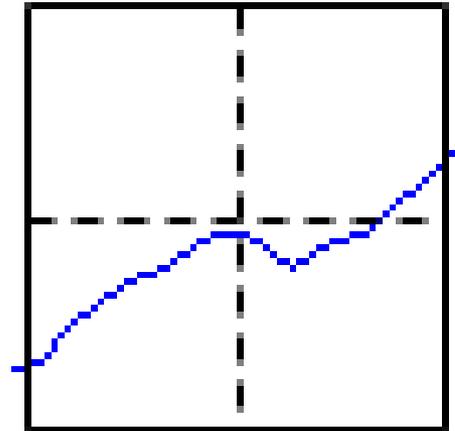


Side-by-side Comparison

1974

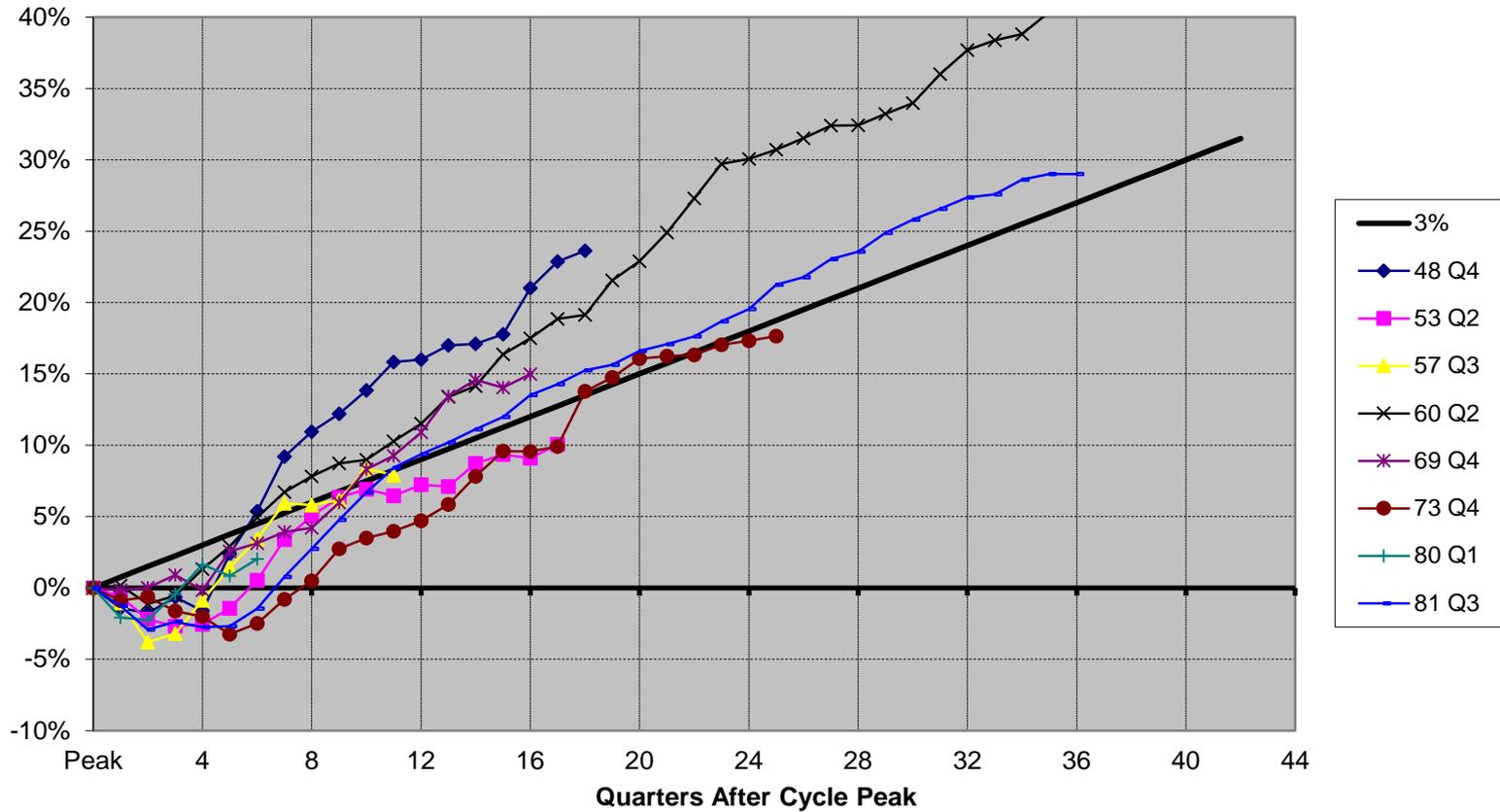


1990



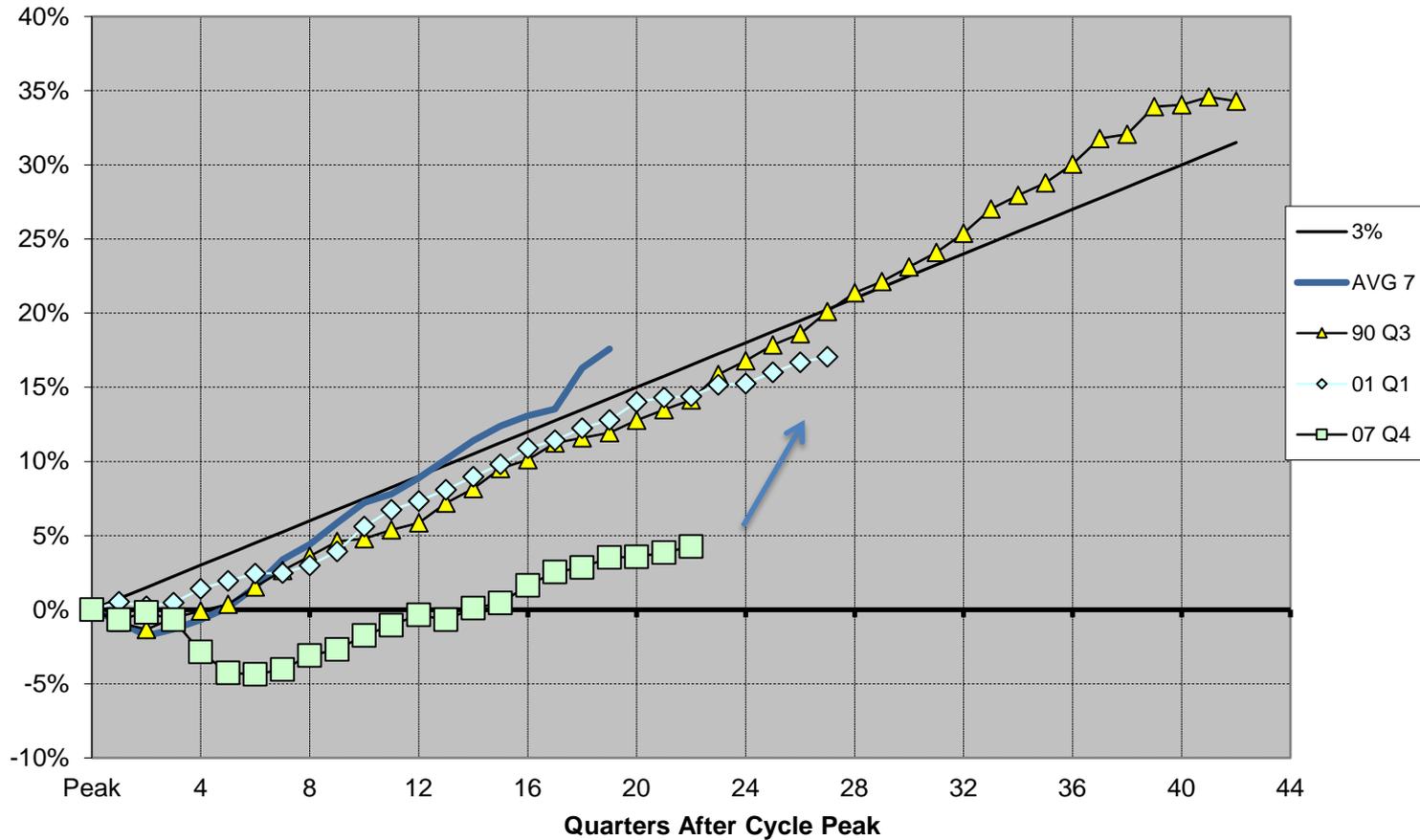
The First Eight Recessions Since WWII Had Recoveries

Growth In Real GDP: Peak to Peak



The Last Three Recessions Have Not Had Recoveries

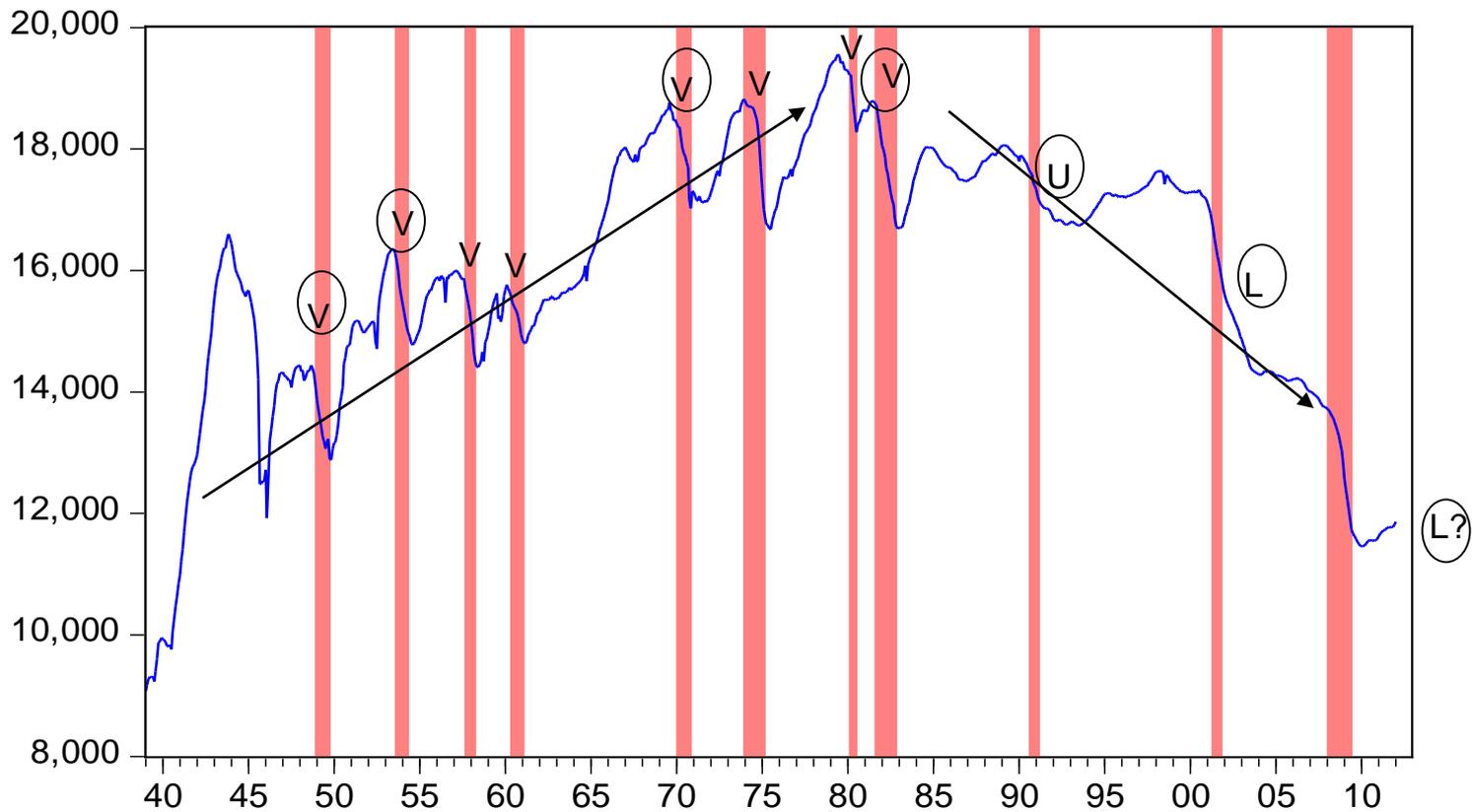
Growth In Real GDP: Peak to Peak
Data Through 2013q2



What's Different?

Permanent Displacements in Manufacturing!

Payrolls in Manufacturing
Recessions Shaded: Peak+1 to Trough



Negative Trend Turns V into L

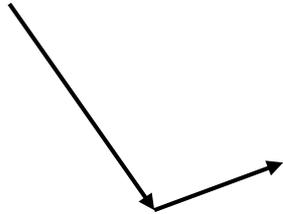
Cost-Cutting

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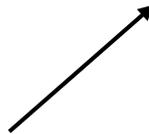
Trend

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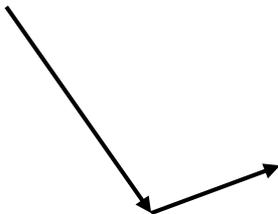
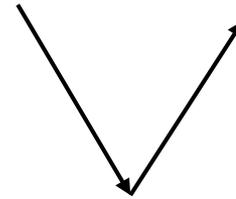
Cycle



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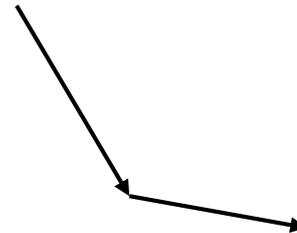
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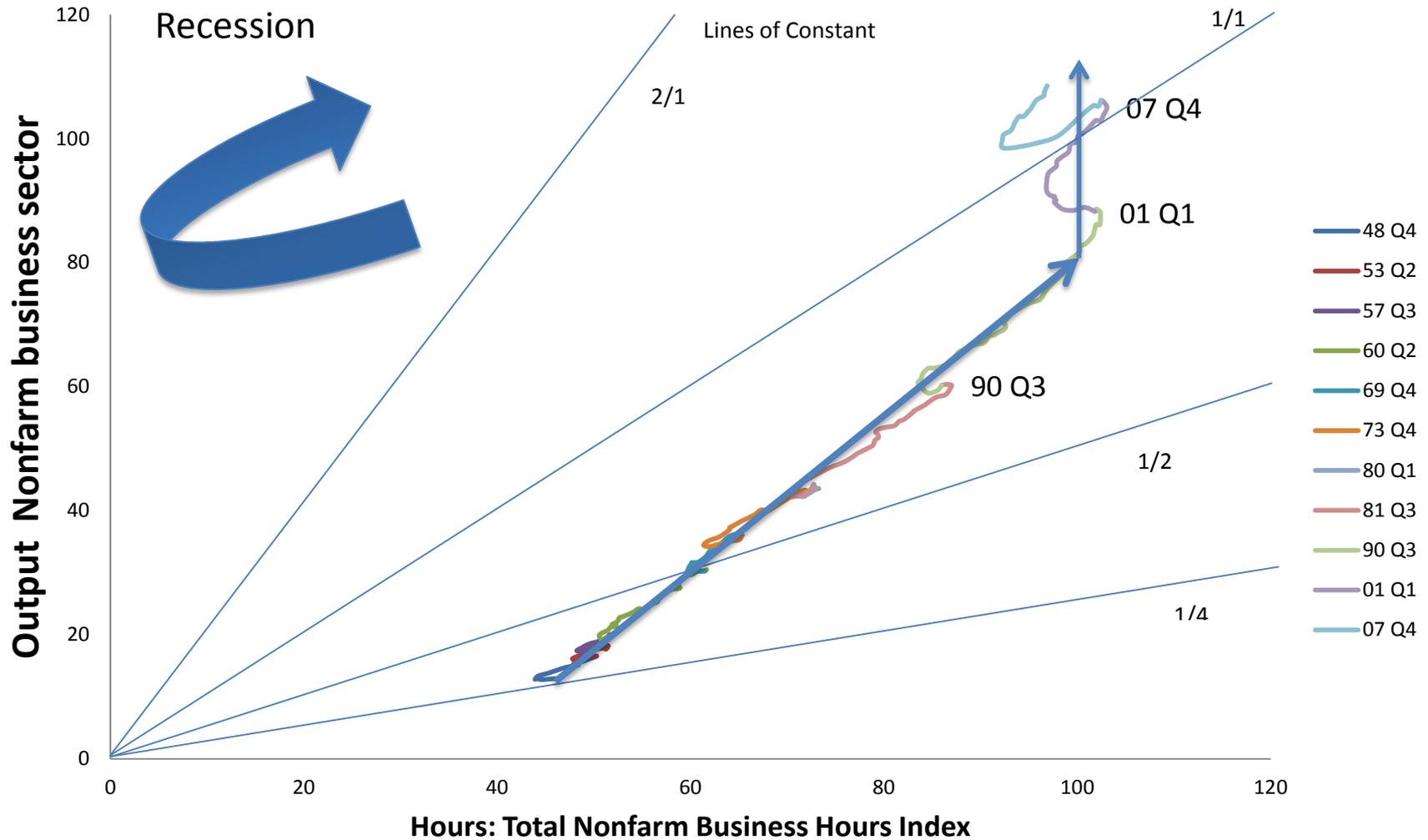


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US Nonfarm Hours and Output Indexes, 1947 Q1 to 2012 Q3

Trends and Cycles



Two Structural Transitions

- Supply Side: From Industrial to Post-Industrial Economy
- Demand Side: From a Spending Society to a Saving Society

Where's the Cycle Theory?

Where's the Hazard Rate?

- A cycle has an increasing hazard rate
 - Keynesian models are used to design the medicine once the recession disease has taken hold.
 - Real business cycle theory is about the dynamics after a shock.
 - The shock has a constant hazard rate.
- Even mechanical engineering allow for wear-out and rising hazard. Why not economics?
- A cycle allows preventive medicine, as well as treatments for the disease.
 - We have not thought enough about preventive medicine.
- I firmly believe that the crises of 2008/09 was preventable, don't you?