

Will Housing Save the U.S. Economy?

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November 2013

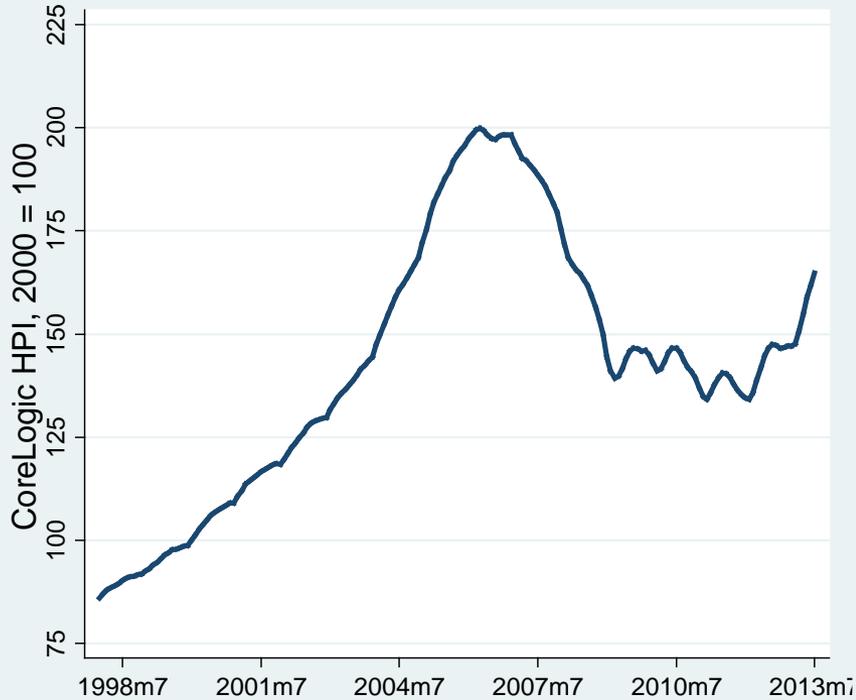


Housing: The New Bright Spot?

- Residential investment best predictor of economic cycle (Leamer (2007))
- House prices are recovering
- Will housing drive economic recovery?

Hope?

House Prices



Notes: Data from CoreLogic
Amir Sufi, @profsufi

Residential Investment



Notes: Data from Census, annualized rate based on first 8 months of each year
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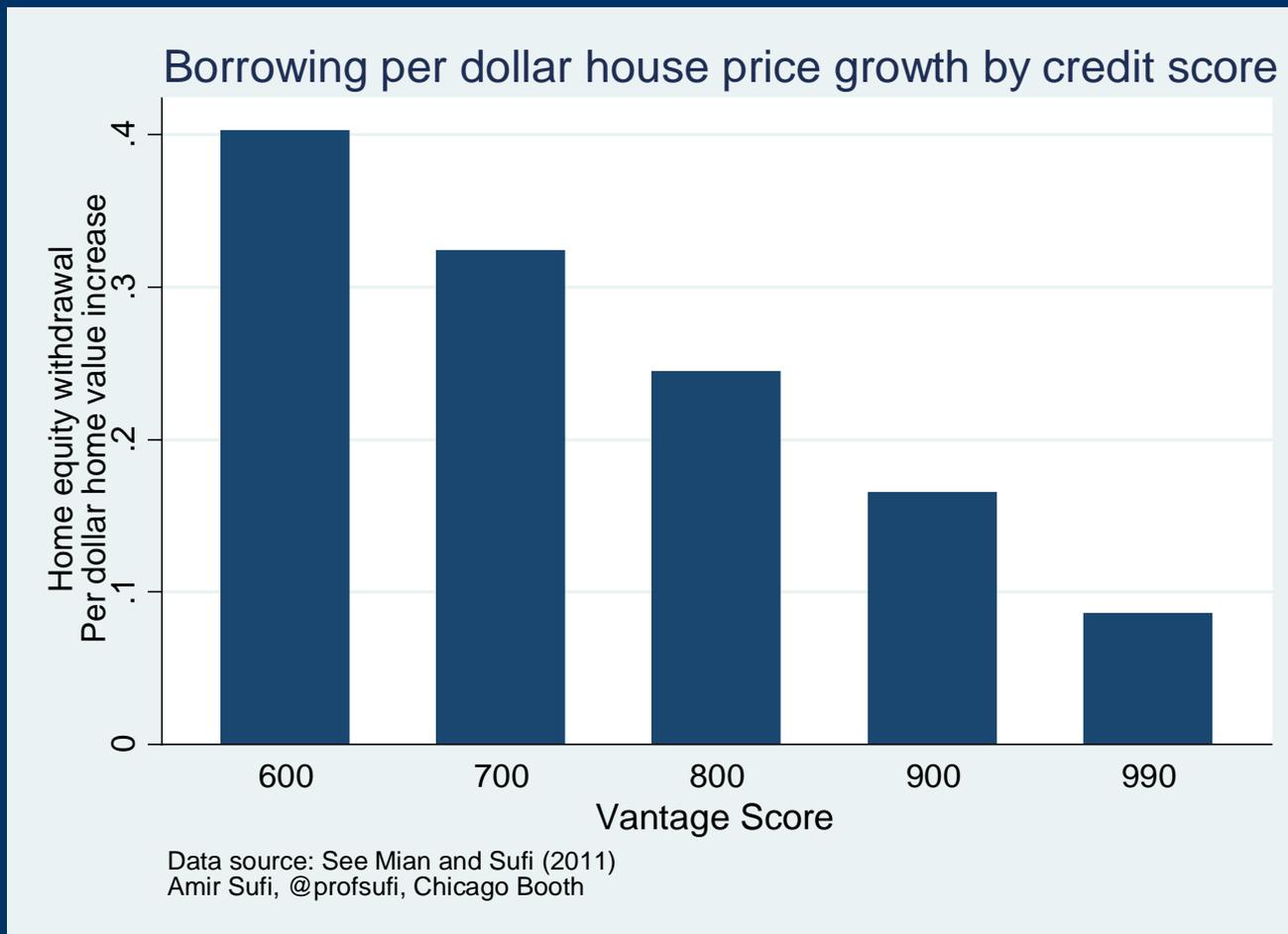
My Thesis

- Housing was a main driver of economic activity prior to recession
- Despite nascent recovery, housing will not drive economic activity as substantially, even in the longer term
- My focus is on so-called “wealth effect” from housing in particular

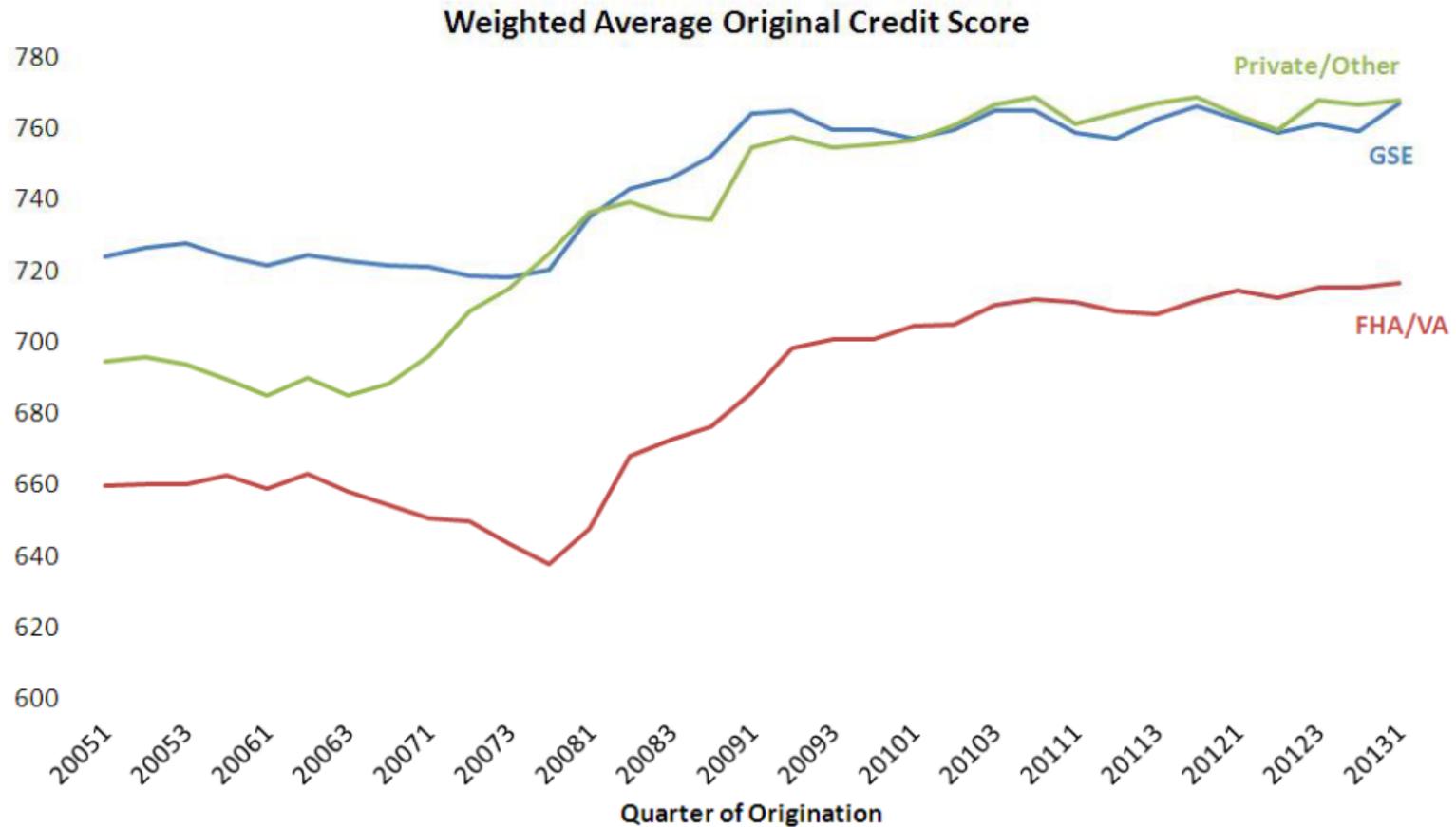
Housing and Broader Economy

- Housing affects broader economy in two ways
 1. New residential construction
 2. The “housing wealth effect”
- Housing wealth effect is a misnomer – only “constrained” homeowners borrow aggressively

Who Withdrew Home Equity During 2002-2006 Housing Boom?



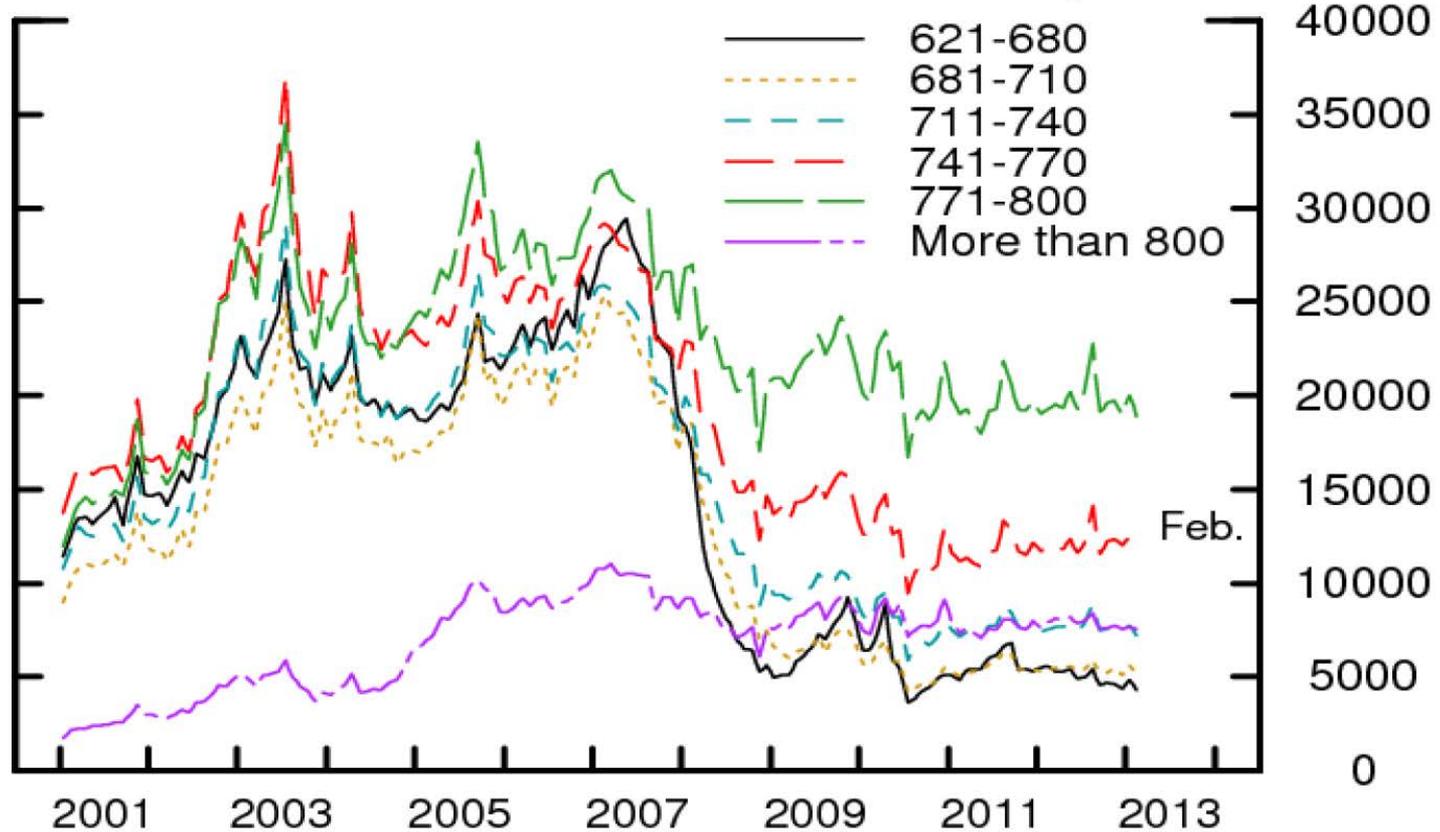
Credit standards have increased for all product; limited availability < 700



Lender Processing Services

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Figure 6. Purchase Mortgage Originations, by Credit Score

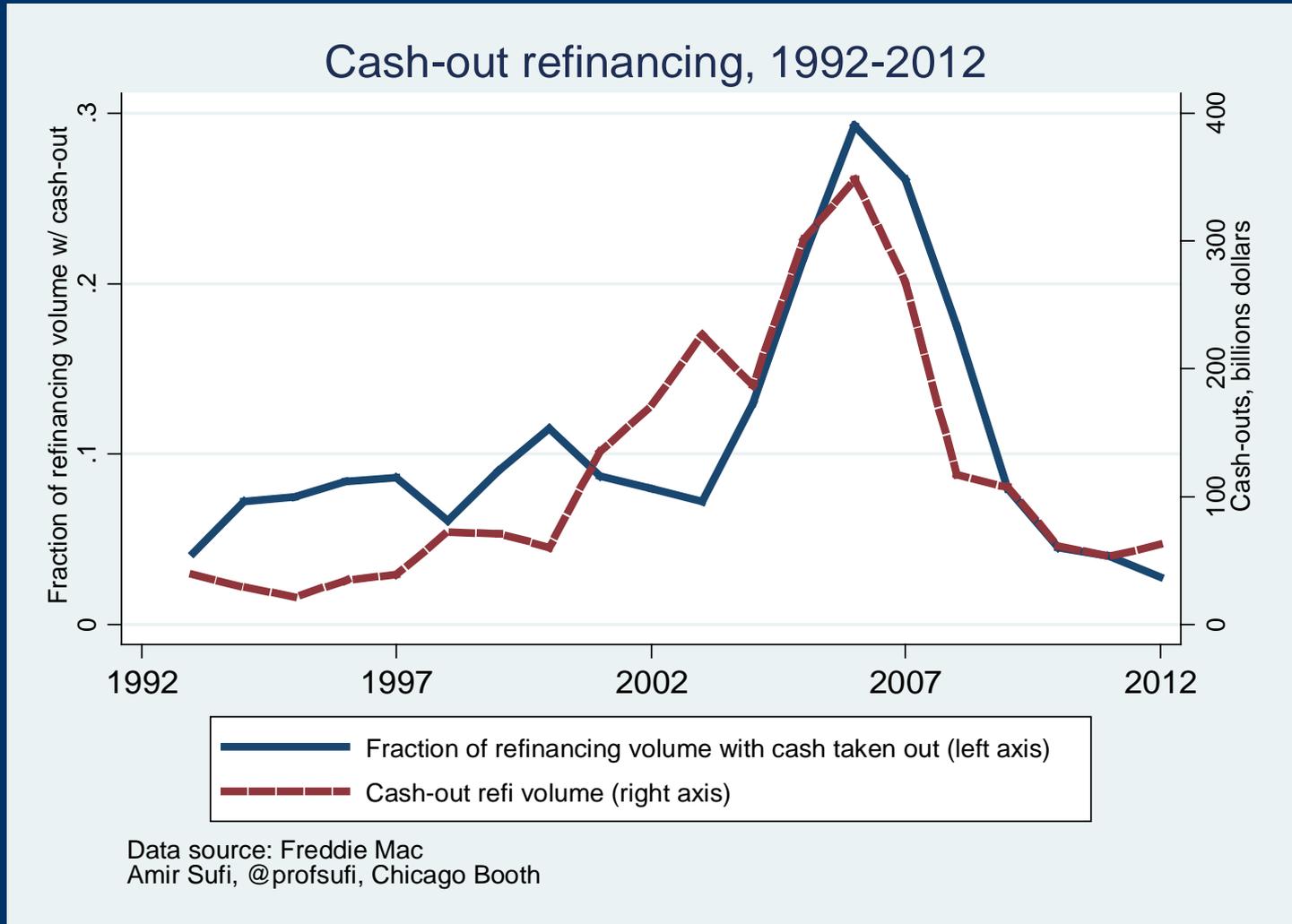


Note: Prime mortgages only.

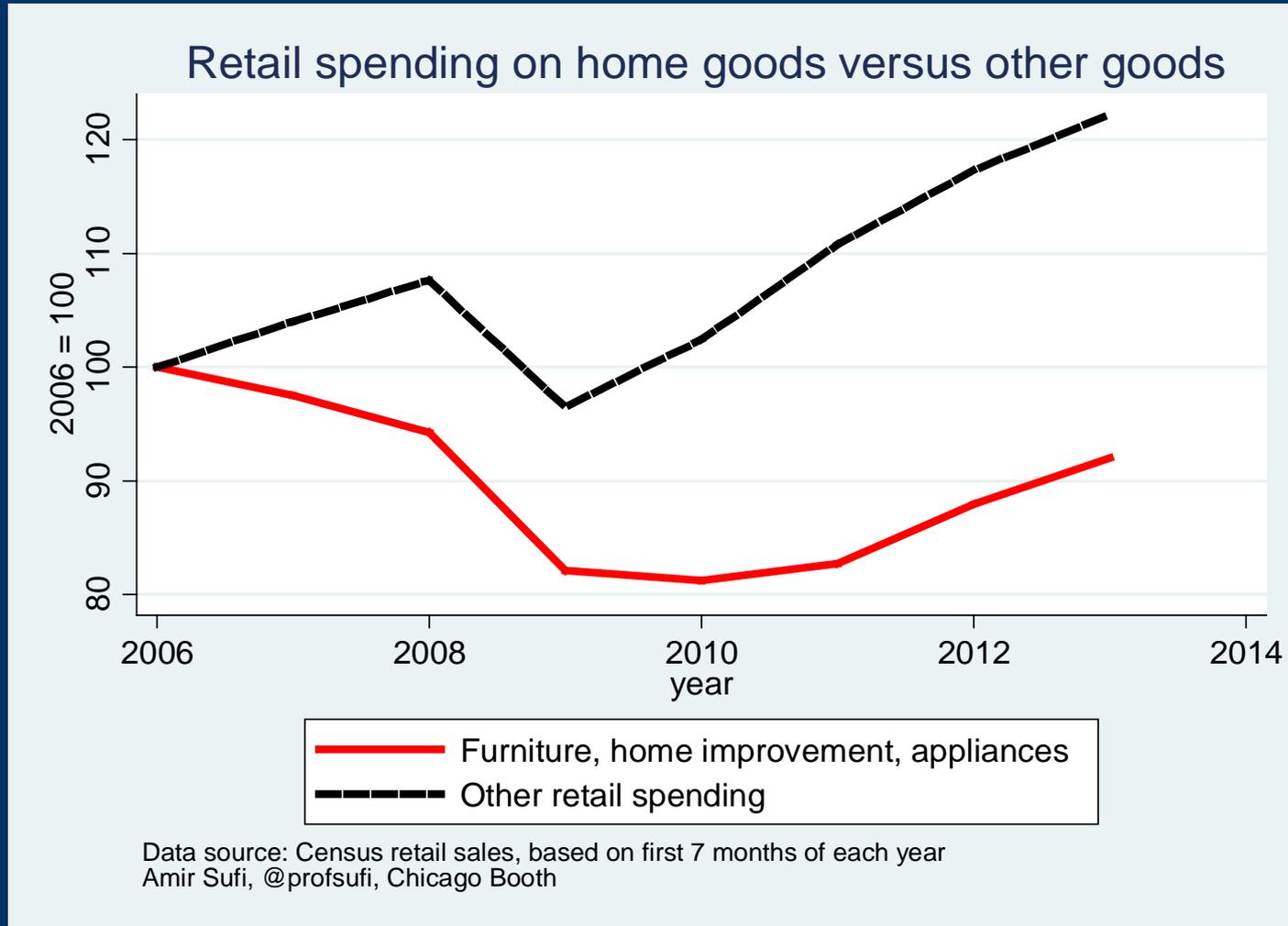
Source: Staff calculations based on data provided by McDash Analytics, LLC, a wholly owned subsidiary of Lender Processing Services, Inc.

Source: Duke, Elizabeth, 2013.

Disappearance of Cash-out Refinancing



Spending on “Home” Goods Weak



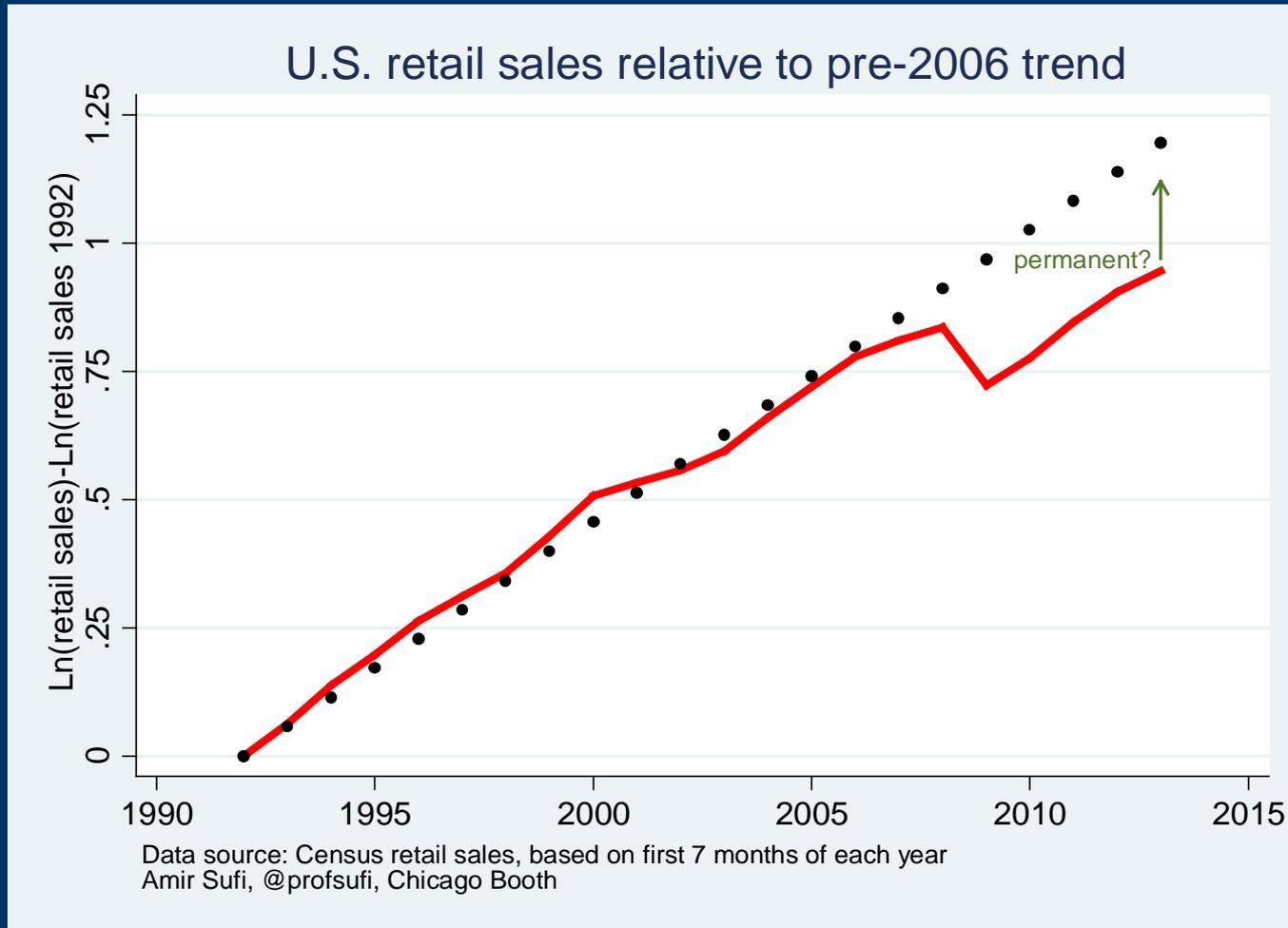
Mitigated Housing Wealth Effect

- Borrowers most likely to spend out of housing wealth no longer have access to mortgages
- Many are now renters – rising house prices may actually reduce their spending
- Don't expect debt-fueled spending boom like we saw before Great Recession

Household Spending More Broadly

- Must appreciate how housing drove household spending during housing boom
- Our estimates: households extracted \$1.25 trillion in home equity from 2002 to 2006
- Perhaps 2002 to 2006 was the real aberration for household spending, and we are never going to catch up

Permanent Damage?



We Aren't Going Back, Nor Should We!

- Debt-fueled, collateral-based household spending model is unsustainable
- Spain, Ireland learning the same painful lesson
- Whatever the shape of the recovery, let's hope it is based on fundamental improvements, not artificial debt-fueled household spending