Discussion:
Household Balance Sheets, Consumption, and the Economic Slump (Mian, Rao and Sufi)

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Overview

• How much of consumption decline from 2006 and 2009 was driven by decrease in housing wealth?

• Study variation in change in housing wealth compared to county-level auto, durable and non-durable consumption

• Incorporate household balance sheet data

• Results: Elasticity 0.6-0.8, MPC of 5-7 cents/dollar, higher in areas with lower net worth, higher housing leverage
Methodology

• Largely, cross-county analysis

\[ \Delta C_i = \alpha + \beta \star \Delta NW_{\text{Housing},i} + \varepsilon_i \]

• Instrument with housing supply elasticity

• Add interactions with net worth, income and housing leverage
Data

- Excellent data on expenditures and household debt
- Expenditures
  - New automobile registrations by zip code (R.L. Polk)
  - Credit/debit spending: merchant category and location (Mastercard)
- Debt
  - Credit bureau records (Equifax)
- Assets - some challenges here!
  - Interest and dividend income (IRS) to impute financial assets
  - Home ownership and median home value (2000), along with change in population, homeownership and house prices to impute housing assets, 2006 and 2009
Evidence

• Elasticity of consumption to housing wealth of 0.6, robust to state FEs, IV, dropping states with most extreme price changes

• Interactions: MPC, particularly for autos, decreases with income, net worth and increases with housing leverage

• Signs of reduced credit availability as housing wealth declines: HELOC and credit card limits reduced, greater share < 660 FICO
Comments - Methodology

• Where is ΔIncome?
  • Need to hold income constant in measuring MPC out of wealth
  • County-level data available from BEA

• Measurement error – housing wealth
  • Attenuation?

• Substitution?
  • Used car purchase rather than new
  • Mode of payment: cash/check rather than credit, particularly when credit limit reduced
Interpretation

• Precautionary savings v. credit tightening?
  • Control for credit constraint measure

• On credit tightening
  • Response to decreased wealth or FICO deterioration (delinquency?)

• Identifying MPC using dramatic declines in housing wealth
  • Should effect be symmetric for increases/decreases? Is recent period unique (aside from greater variation in housing wealth)?
Summing up

• Very nice, topical paper

• Estimates suggest that decline in housing wealth accounts for 40% of consumption decline relative to linear trend

• Evidence that household financial position affects MPC out of wealth