

# Housing and the Economy: The Outlook

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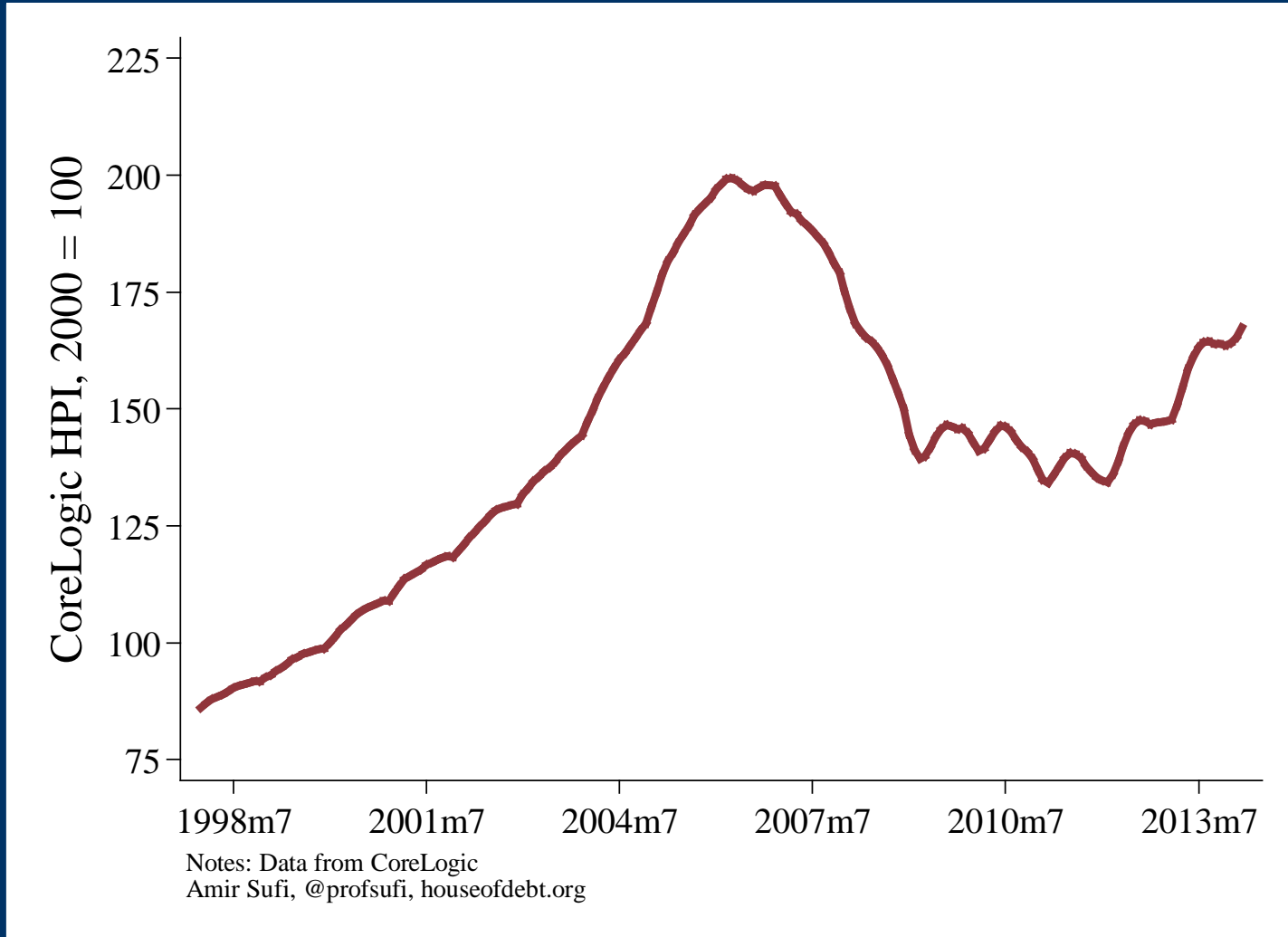
# My Thesis on Housing Market

- Strong rebound from 2011 to 2013 should be viewed as a bounce-back from excessively depressed housing market
- Similar to consensus forecasts, I don't believe prices and investment can continue such growth in the near term (2-3 years)
- Income growth of middle/lower income Americans will be key to future housing market

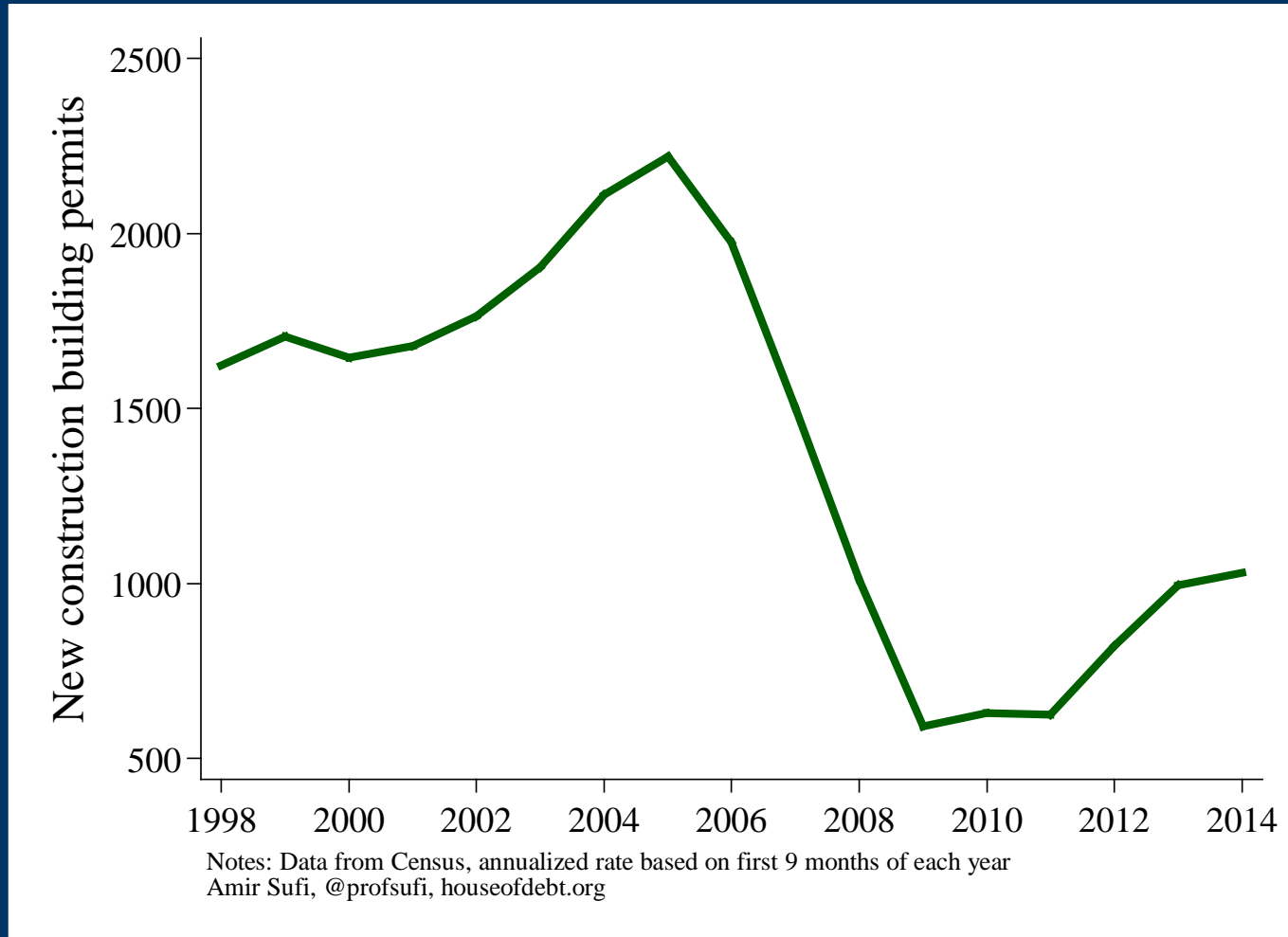
# Structure of Presentation

- I. Preliminaries – aggregate patterns
- II. House prices – forecasts and why they look pessimistic
- III. Does weak housing reflect excessively tight credit or poor income growth?

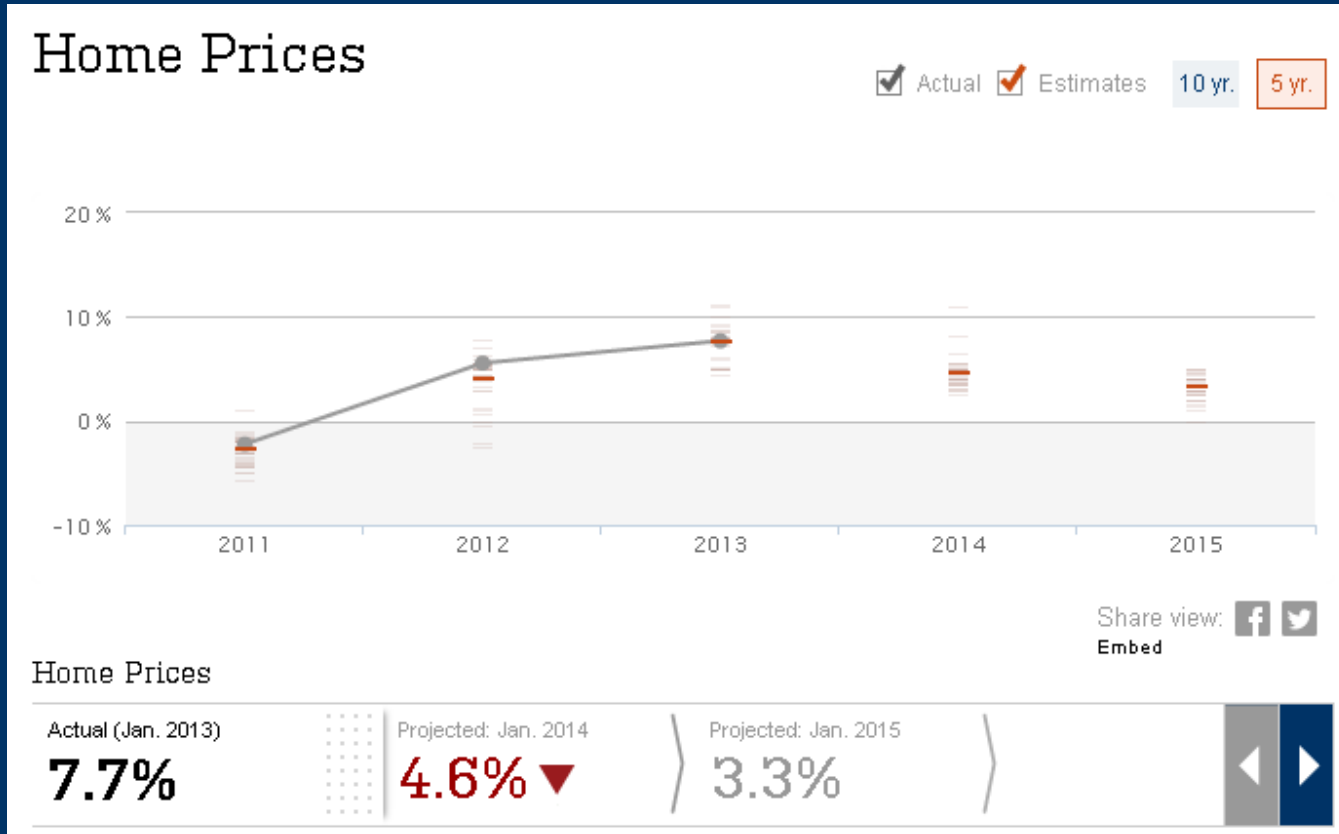
# House Prices



# Residential Investment



# House Price Forecasts

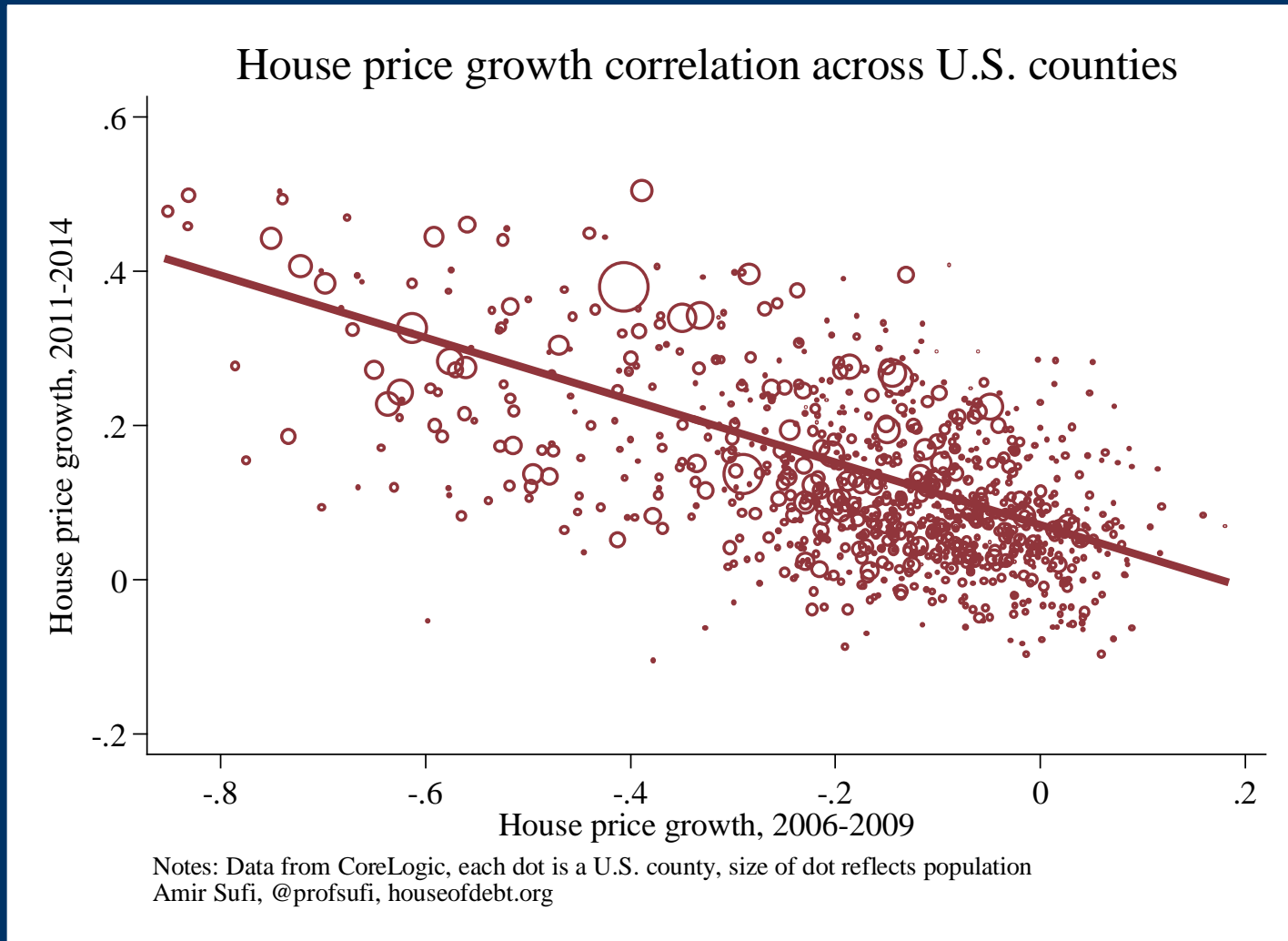


Credit: Wall Street Journal, Survey of Economic Forecasters

# My Views on House Prices

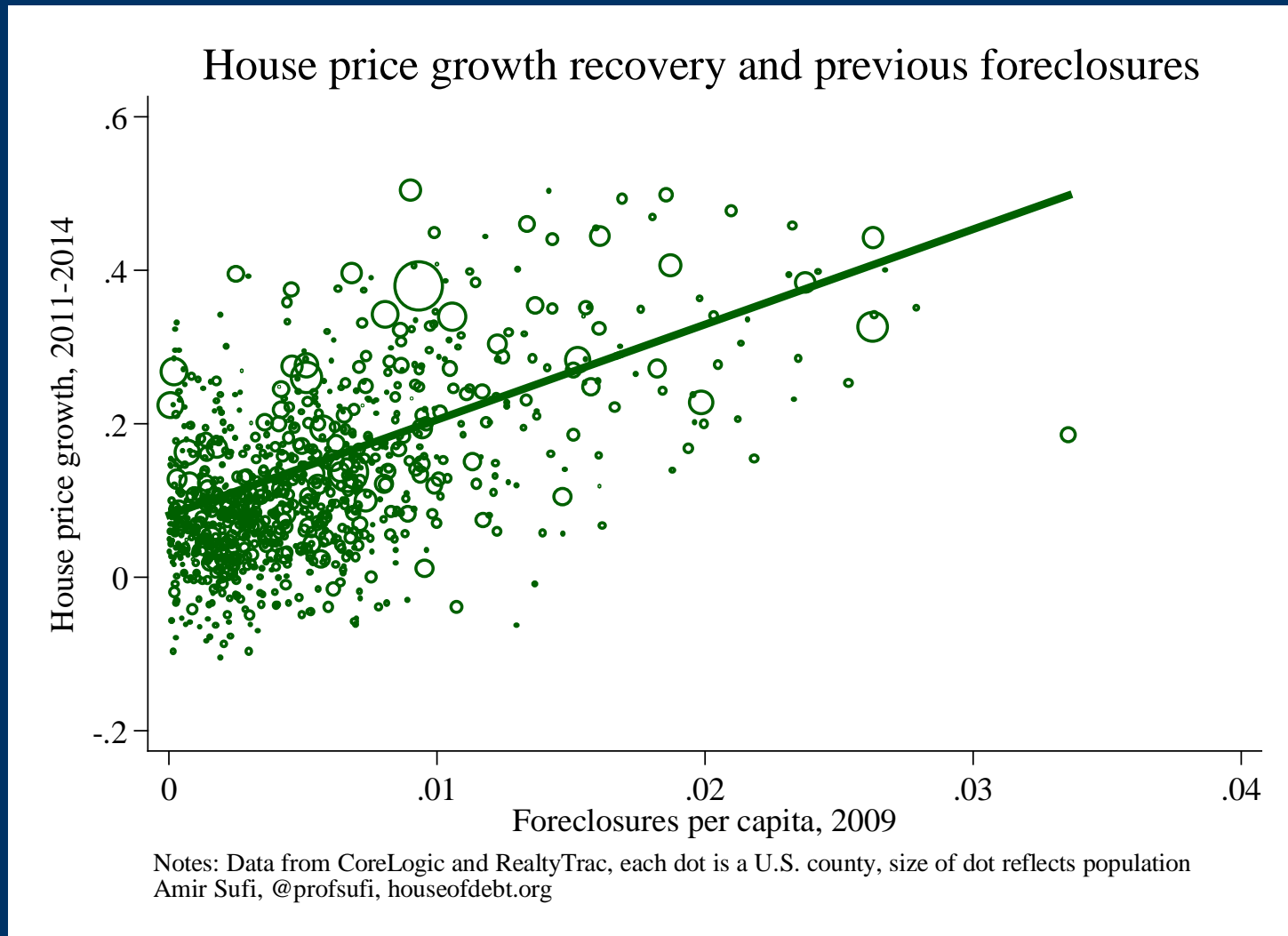
- Don't have much to add to these forecasts; they strike me as reasonable
- For the record, I was much more pessimistic than consensus forecasts in Spring 2013 – they have moved strongly in my favor
- Why weak house price growth in 2014 and 2015? Because the 2011 to 2013 price increase was correction from overshooting

# Strong Mean Reversion across Counties

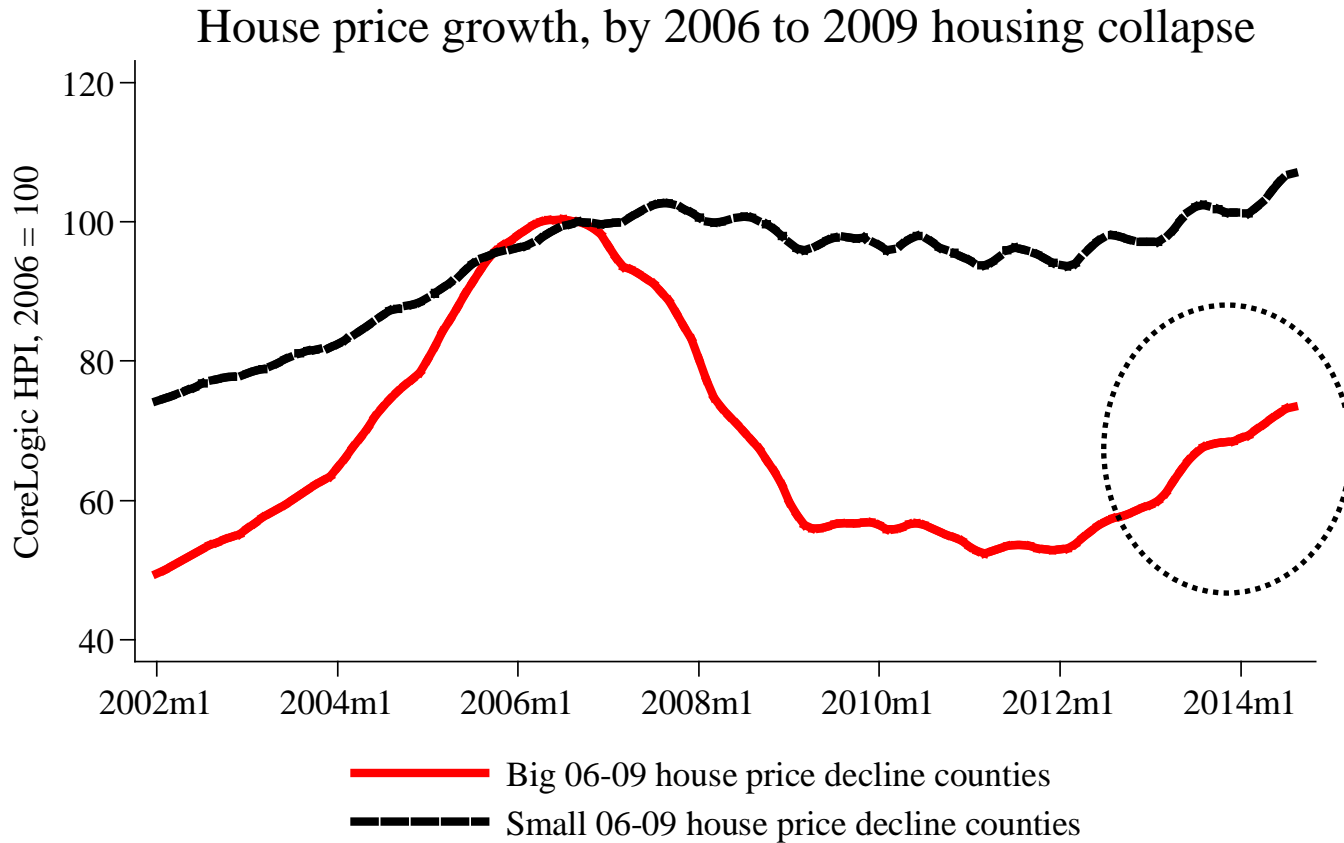




# Foreclosures and House Price Growth



# Snapback from Overshooting



Notes: Data from CoreLogic  
Amir Sufi, @profsufi, houseofdebt.org

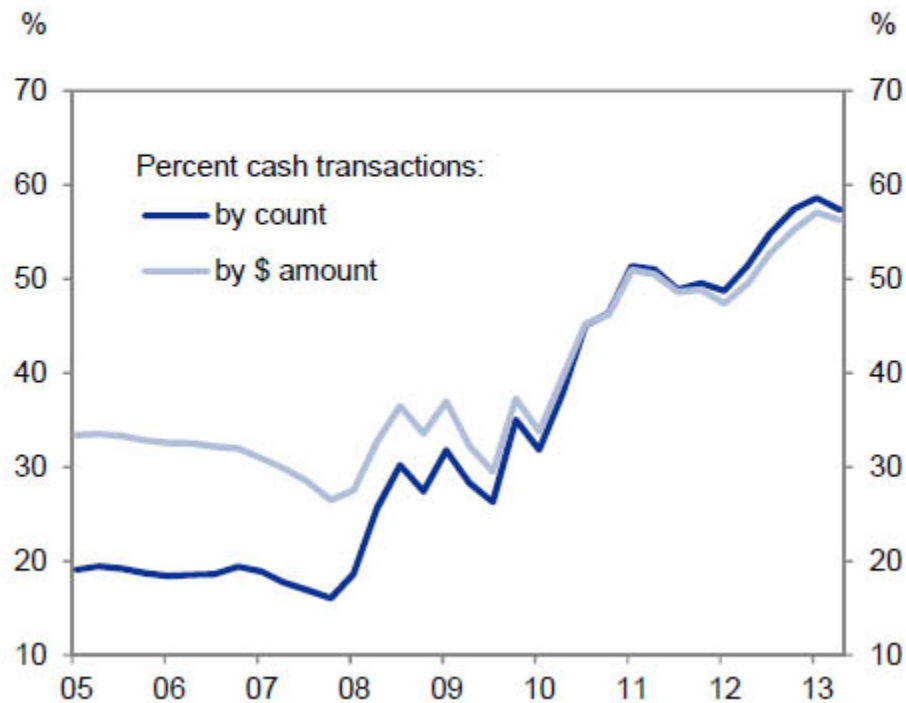
# The Rise of the Investor

- Investors played a large role in housing market in the 2012 and 2013
- Measures: cash purchases and “absentee” purchases, both increased substantially
- What happens now that investors are leaving market?

# All Cash Share of Home Purchases

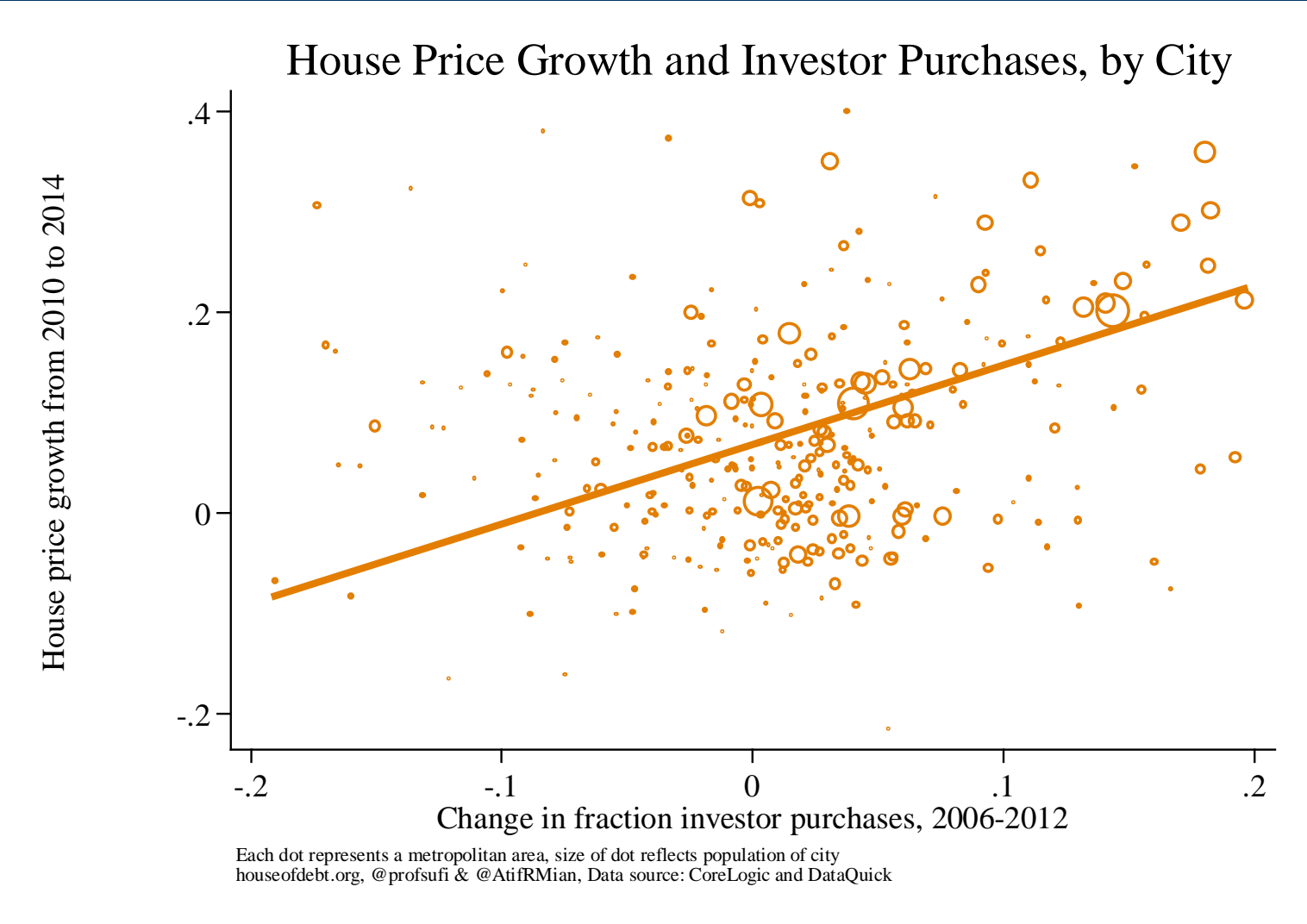
**Exhibit 4: ...reflecting the sharply rising share of cash transactions**

Estimated percent cash transactions by count and by dollar amount (4-quarter moving average)



Source: Goldman Sachs Global Investment Research.

# Investor-Driven House Price Growth



# Will Owner-Occupiers Step In?

- This is the ultimate question ...
- Two polar extreme views
  - Income levels and expected income growth justify more purchases, higher homeownership rate, but credit is excessively tight
  - Credit is not excessively tight – high prices and poor income prospects mean homeownership rates are not coming back and may go lower

# Why This is a Difficult Debate

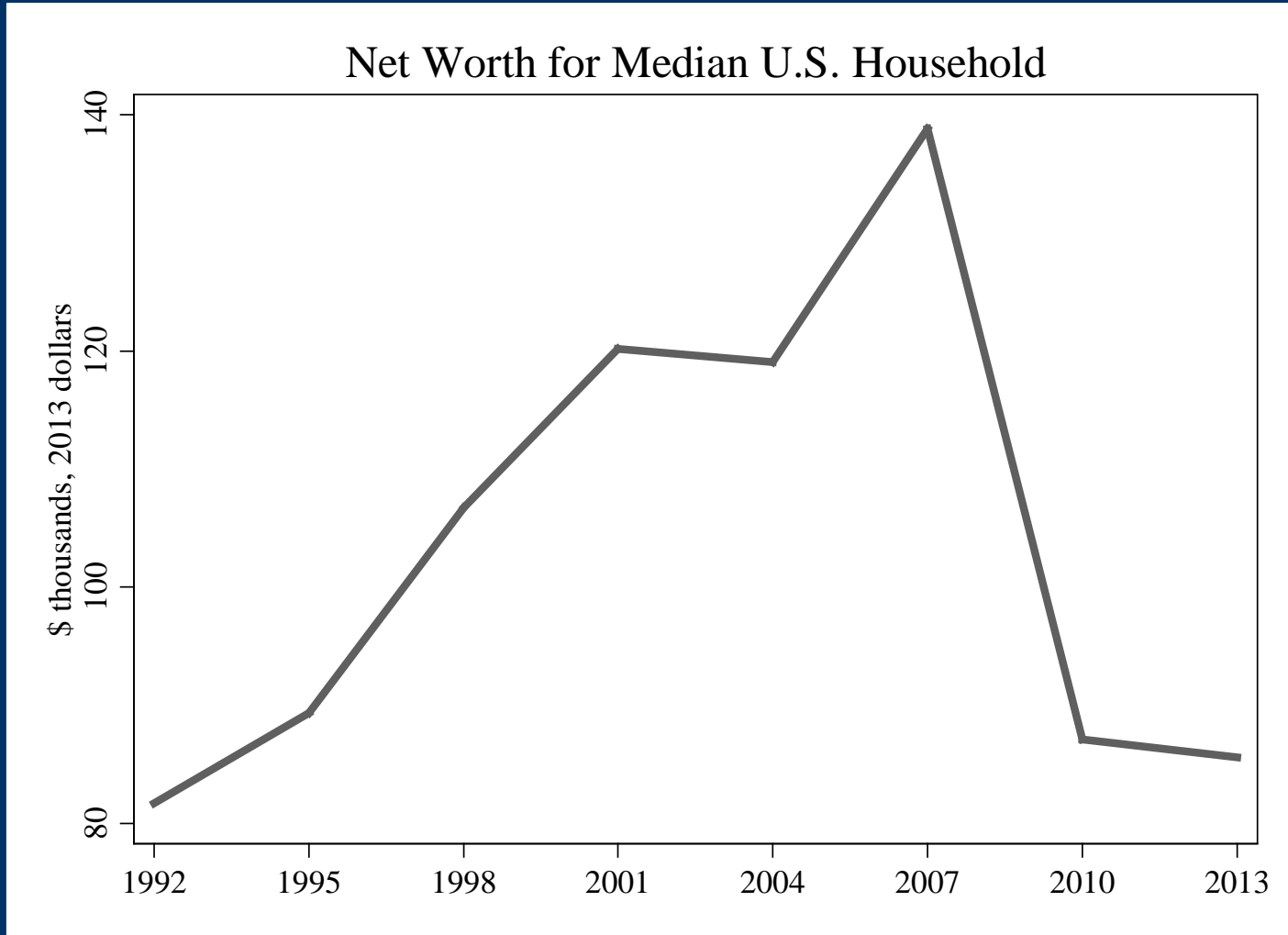
- What do “normal” mortgage credit conditions look like? House purchases have been massively subsidized for half century
- Changes in credit standards are usually due to changes in discount rates/risk tolerance, not changes in expected cash flows
- This is analogous to the asset pricing result that high P to E ratios forecast low returns, not high cash flow growth

# My View

- Decline in owner purchases and homeownership rate a direct function of weak economic position of median U.S. household
  - Weak income growth
  - Low levels of wealth
  - High student debt burdens
- I don't buy "demand" side argument that younger households no longer want to be homeowners – they simply cannot afford it

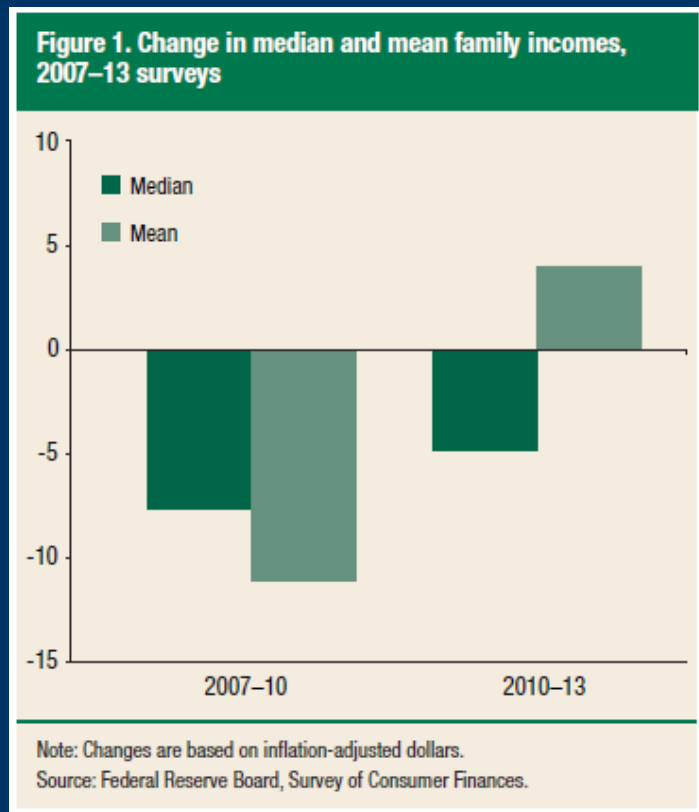


# Household Net Worth Depressed



# The Evidence on Income Growth

- Survey of Consumer Finances

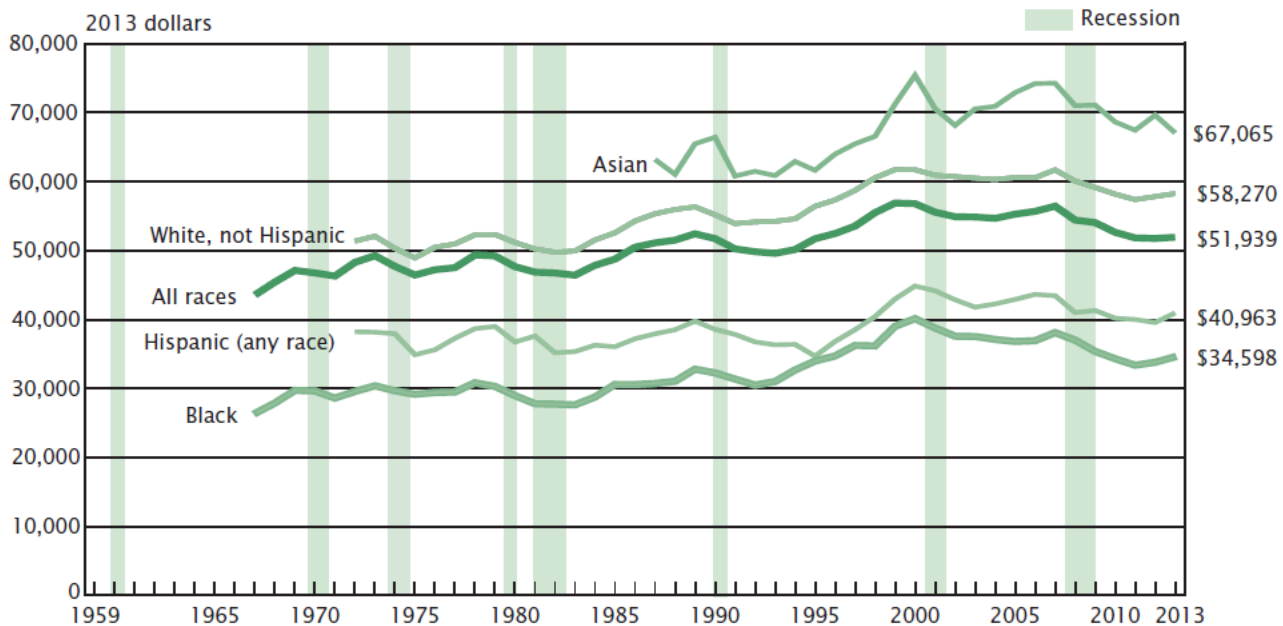


Family characteristic	Median income		
	2010	2013	Percent change 2010-13
<b>All families</b>	49.0 (.6)	46.7 (.6)	-5
<b>Percentile of usual income</b>			
Less than 20	15.8	15.2	-4
20-39.9	32.7	30.4	-7
40-59.9	51.8	48.7	-6
60-79.9	79.5	77.9	-2
80-89.9	125.3	121.7	-3
90-100	217.9	223.2	2

# The Evidence on Income Growth

- Census

Figure 1.  
**Real Median Household Income by Race and Hispanic Origin: 1967 to 2013**

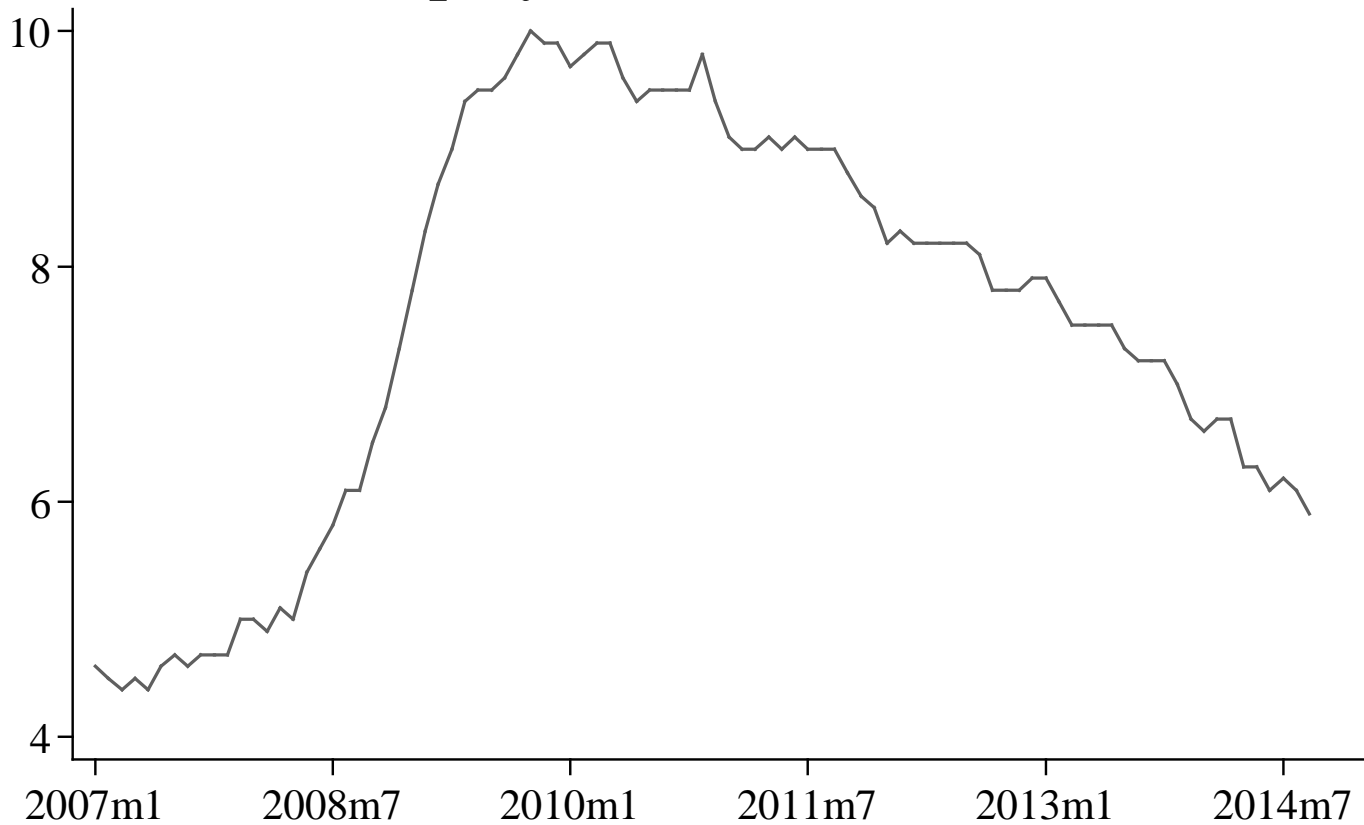


Note: Median household income data are not available prior to 1967. For more information on recessions, see Appendix A. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <<ftp://ftp2.census.gov/programs-surveys/cps/techdocs/cpsmar14.pdf>>.

Source: U.S. Census Bureau, Current Population Survey, 1968 to 2014 Annual Social and Economic Supplements.

# Unemployment Rate Falling ...

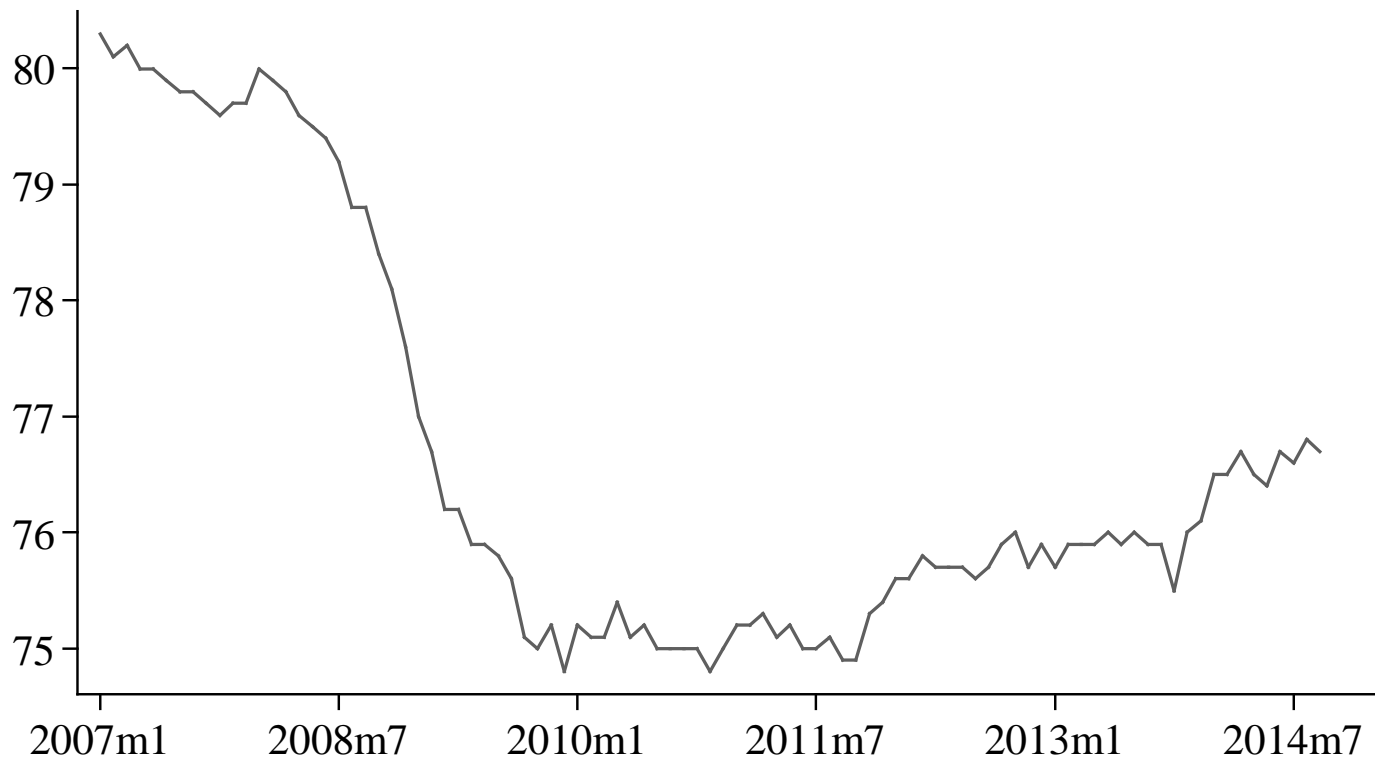
## Unemployment Rate, 2007-2014



Amir Sufi, @profsufi, Data source: BLS

# ... But a Bit Misleading

## Employment to Population Ratio, 25-54 2007-2014

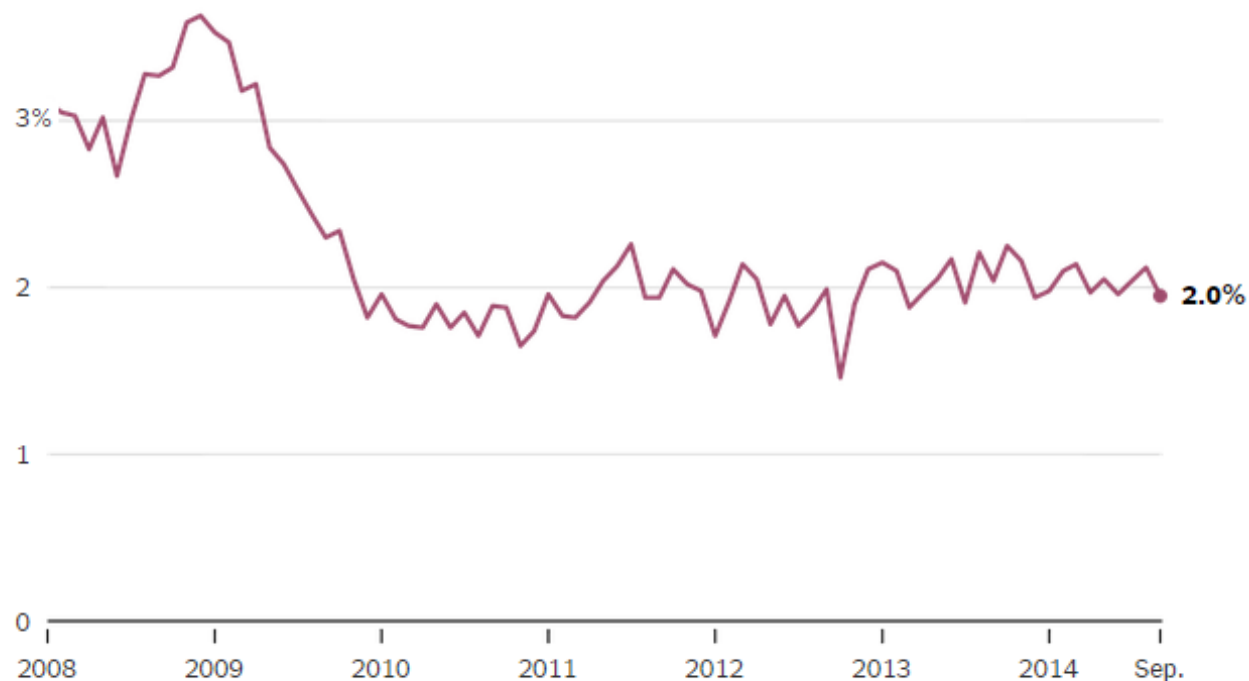


Amir Sufi, @profsufi, Data source: BLS

# Wage Growth is Not Great

Worker Pay Is Rising Only Slightly Faster Than Inflation

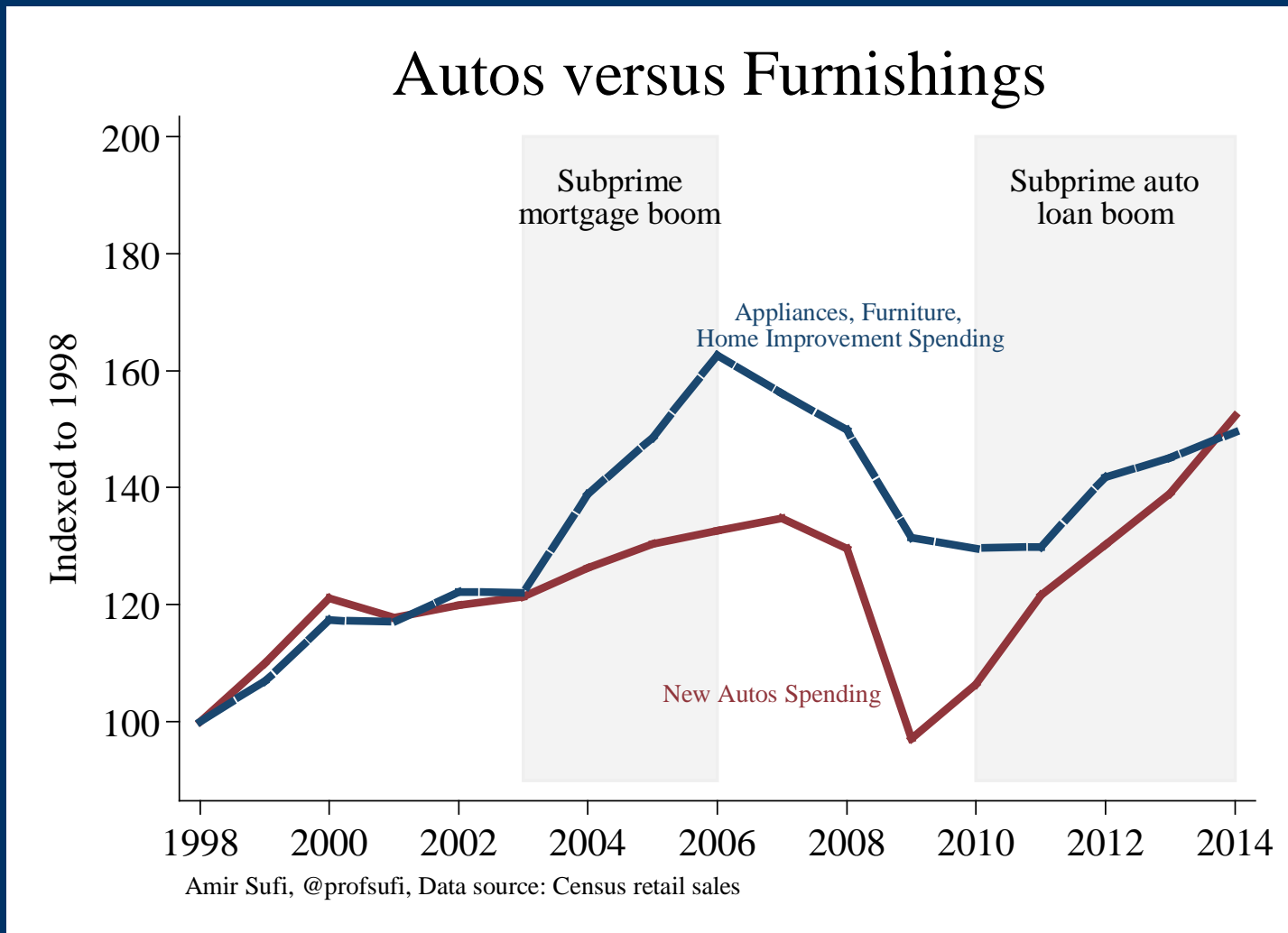
**Percent change in average hourly wages in the private sector, year-over-year**



Not adjusted for inflation

Source: Bureau of Labor Statistics

# Subprime Lending Drives Spending



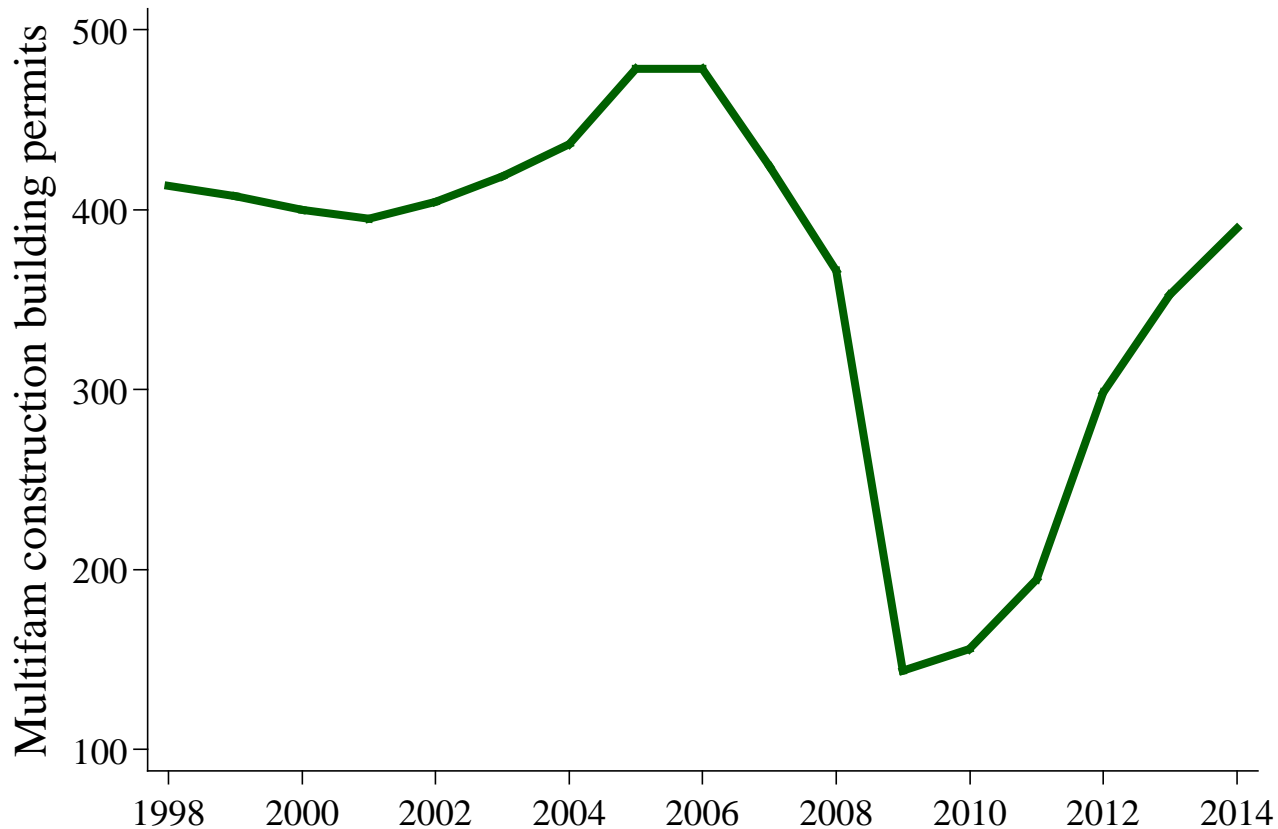
# Bet on Housing, Bet on Income Growth

- What would convince me I'm wrong? What do I watch most closely?
- Median income growth, or other measures of the earnings power of middle and lower income Americans
- Low risk free rates, a low risk premium, and easy credit may temporarily boost housing, but not in a sustainable way
- Stronger income prospects at median is linchpin for sustainable long-term healthy housing market



# Hope?

## Multi-family Construction



Notes: Data from Census, annualized rate based on first 9 months of each year  
Amir Sufi, @profsufi, houseofdebt.org

# Final Comments

- I have a dour personality, so I generally focus on downside risks relative to forecasts
- My purpose here wasn't to depress you, but I may have
- Important take-away: unless median income growth improves, I don't see how we beat forecasts

# Buy *House of Debt* !

- Larry Summers in FT:  
“*House of Debt*, despite some tough competition, looks likely to be the most important economics book of 2014; it could be the most important book to come out of the 2008 financial crisis and subsequent Great Recession.”

