

Discussion
"House Prices, Local Demand, and Retail Prices"
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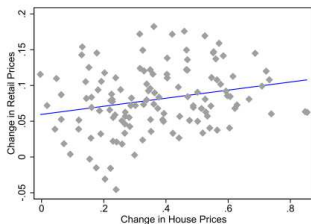
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What is the paper about?

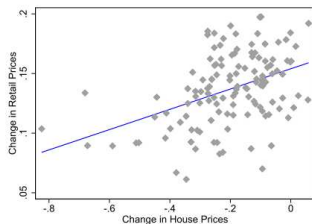
- How does inflation respond to demand shocks?
- Here: shocks on local house prices
- Due to wealth effects, house price variations might affect consumption and demand, which affects prices, inflation through markups
- Large implications for modelling business cycles and cyclicalities of markups

Retail prices and house prices

(A) Retail Price Level: 2001-2006



(B) Retail Price Level: 2007-2011



Data and methods

- Large and detailed micro data sets:
 - Micro data on retail prices (IRI) including a data set with marginal costs and markups for a large retailer (Eichenbaum et al. 2011)
 - Local house prices (MSA or zip-codes level)
 - Shopping data (total expenditure, use of coupons...) (but also prices?)
- Identification:
 - Cross section identification: difference across zip-codes / MSA
 - Elasticity of housing supply as an instrument of house prices (Saiz, 2010; Mian and Sufi, 2014)
 - Interaction with homeownership rates
 - Two periods 2001-2006 and 2007-2011

What are the main results?

- Main results:
 - Positive effect on retail prices 0.15 - 0.20% elasticity
 - Positive effect on markups but no effect on marginal costs
 - Affects shopping behavior - households are less price sensitive
- Many robustness checks including controls for product quality, demographics, states, competition, sales....
- One fourth of aggregate price movements explained by house price changes

Identification issues

- Using supply elasticity as instrument for house prices
 - Correlated with house prices but uncorrelated with other demand factors (exclusion restriction)
 - Davidoff (2015) finds correlation with long run demand factors like historical education levels, immigration...
 - Why not using demand factors in interaction like in Chaney et al. (2012) or Appendix ?
- Local variations in homeownership rates
 - Are they exogenous?
 - Possibly reflect expectations on future income/productivity (see Attanasio et al. 2009 for the UK) or age composition effect?
 - Negative effect of homeownership rates on prices and consumption: why?

Identification issues

- Timing of the effects:
 - Estimations on long periods (5 years) versus estimations at higher frequencies (quarterly)
 - Are results robust to the choice of the time period? Annual changes and variations over the sample period?
 - Very quick effects on prices when we look at higher frequency regressions. Does it say something on the transmission of house price variations to retail prices?
- No strong asymmetries in retail price reaction to house price variations.
- Interpretation of some results:
 - A positive effect of unemployment variations on prices?

What about product heterogeneity?

- In the paper, construction of "aggregate" price indices
- Is there any heterogeneity of price effects across products?
- Does it depend on markup product differences?
- Implications for the effect on overall inflation

Implications for wealth/collateral effects

- Are results consistent with large wealth effects?
 - Need large effects on consumption?
 - How do the results on log expenditure compares with price effects?
- How do house prices affect consumption?
 - Wealth effects? (share of movers?)
 - Collateral effects? (share of credit constrained consumers?)

Monetary policy

- House price variations generate pro-cyclical markups + inflation variations
- What consequences for the monetary policy strategy? closer look at house prices?
- Implications might be different in Europe vs US because of small wealth effects in Europe

Wealth effects across countries (Slacalek (2015))

Table 4: Wealth Effects for Country Groups—Eventual MPCs

Country	Wealth		
	Total	Financial	Housing
All Countries	1.97***	2.77***	1.19***
“Complete” Mortgage Markets	4.04***	4.34***	3.77***
“Incomplete” Mortgage Markets	0.67*	1.75**	0.09
p val: CMM = IMM	0.000	0.020	0.000
Market-Based	3.70***	3.79***	3.76***
Bank-Based	0.74*	2.02**	0.08
p val: MB = BB	0.000	0.101	0.000
Anglo-Saxon	5.86***	6.40***	5.30***
Non Anglo-Saxon	0.84**	1.74**	0.16
p val: AS = Non AS	0.000	0.001	0.000
Euro Area	0.78**	1.83**	0.12
Non Euro Area	4.21***	4.60***	3.88***
p val: EA = Non EA	0.000	0.014	0.000

Notes: Marginal propensities to consume in cents per dollar of additional wealth. SUR Estimates, [*, **, ***] = Statistical significance at [10, 5, 1] percent. Time range: 1979Q1–1999Q4.

All Countries: Aus, Can, Fra, Ger, Ita, Jap, UK, US, Aut, Bel, Den, Fin, Ire, Ned, Swe.
 “Complete” Mortgage Markets (following Cardarelli et al. (2008)): Aus, Can, UK, US, Den, Ned, Swe.

Market-based (following Levine (2002)): Aus, Can, Jap, UK, US, Ire, Ned, Swe.

Anglo-Saxon: Aus, Can, UK, US, Ire.

Euro Area: Fra, Ger, Ita, Aut, Bel, Fin, Ire, Ned.