Discussion
"House Prices, Local Demand, and Retail Prices"
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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 trough markups
- Large implications for modelling business cycles and cyclicality 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
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?)
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.
Euro Area: Fra, Ger, Ita, Aut, Bel, Fin, Ire, Ned.