Discussion of Shiller & Thompson "What Were They Thinking?" Ten-Year Retrospective

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BPEA
March 25, 2022

Outline

1. Survey Evidence in Housing Markets
   - Impact of CST (2012)
   - Comparison to Other Surveys, What We Learn From 10-Year Update
2. Housing Market Dynamics In Last 10 Years
   - The Second Boom 2012-2020
   - The COVID Boom 2020-Present

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- Motivates literature on **non-standard expectations** to explain cycle.
  - CST is major data point for models that explain cycle.
  - Vast majority of legitimate explanations of 2000s housing cycle include overoptimistic or out-of-line expectations.

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    - NY Fed and Michigan in particular use newest methodologies, released at high frequency.
    - But slightly different, especially for long-term expectations.
        - NY Fed: Expected growth between years 2 and 3.
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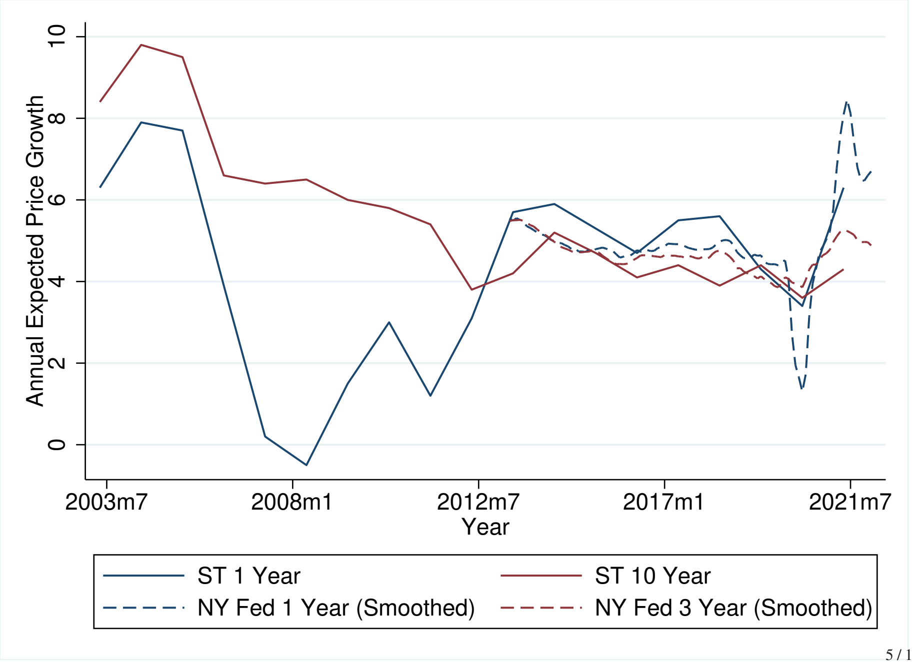
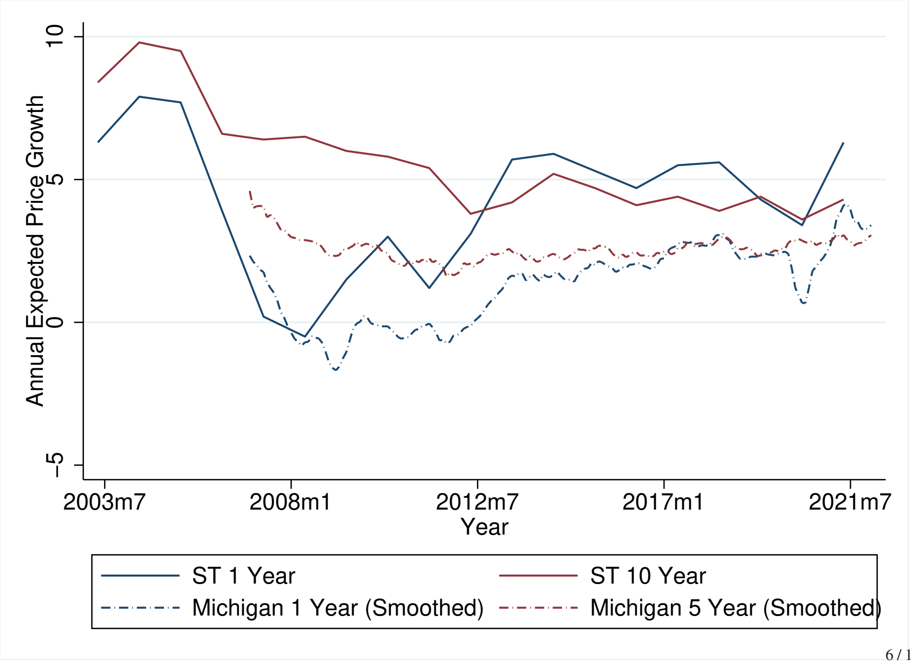
- **What is special about the Case-Shiller-Thompson survey?**
  - Authors: Longest, "home buyers rather than public opinion at large."
  - My view: **Only survey that covers the 2000s boom and bust.**
    - This is the Great Depression for housing cycles.

Cross-City Averages in Shiller-Thompson

Comparison With NY Fed Monthly series



Comparison With Michigan Monthly Series



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- **Encourage Shiller and Thompson to work with NY Fed and Michigan to compare survey designs and questions.**
  - Analogy: Like having only data set covering Great Depression, but does not quite line up with modern BLS and BEA data.
    - Huge returns to harmonizing.
  - These surveys should be seen as complements not competitors.

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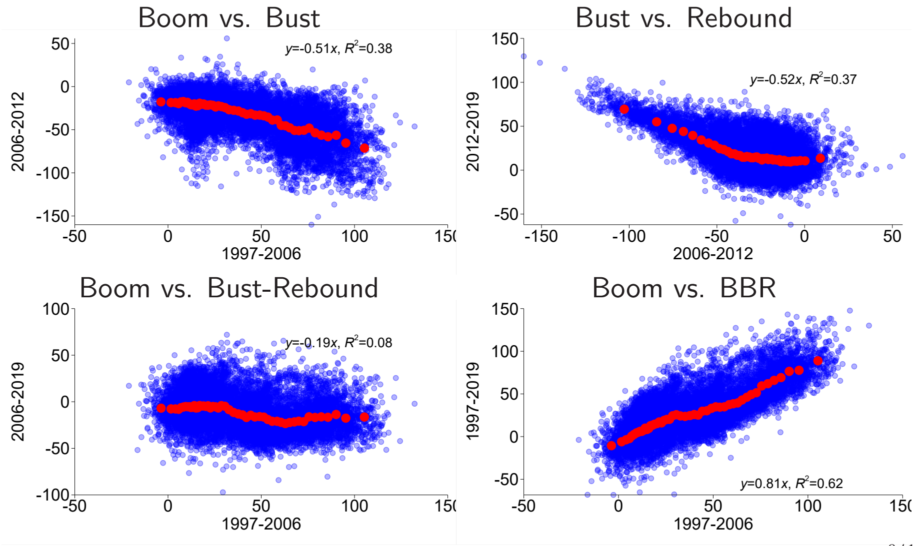

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- Chodorow-Reich, Guren, and McQuade (2022): Areas with largest booms and busts had largest rebounds, long-run price growth.
  - Long-run price growth driven by *fundamentals* (measured empirically using structural urban framework).
  - Model of **cycle driven by overreaction to improvements in fundamentals** (drift term of dividends).
    - Boom: **Diagnostic expectations** lead to over-optimism.
    - Bust: Beliefs correct, overshooting due to **foreclosures**.
    - Rebound: Foreclosures recede, converge to high growth BGP.
  - Why diagnostic as opposed to other non-rational expectations?
    - In part, to match CST fact that long-run expectations do not overshoot in bust and instead converge smoothly from above.
- Facts on 2012-2020 in this paper consistent with this story.

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- Shiller-Thompson suggest **high long-run expectations can be used like yield curve inversion to predict housing bubble.**
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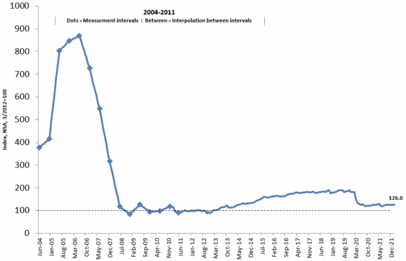
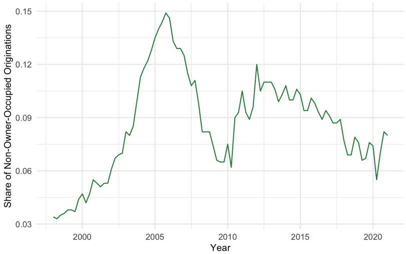
- I agree: **It does not look like a bubble like last time,** so unlikely to experience a correction like the one we had last time.
  - Their observation about expectations is an **important data point, but not the only one.**
  - Also lack of rapid credit growth and speculation.
    - ★ Greenwood et al. (2021): Financial crises likely with high asset price growth *and* credit growth.
    - ★ Less likely to be large foreclosure crisis causing overshooting bust.
- Good reasons why demand is so high (increased taste for space) and supply is constrained (supply chains, labor markets, few sellers).

MBA Mortgage Credit Avail Index



Share Mortgages Non-Owner Occ



Source: National Mortgage Database (NMDB) Aggregate Data.

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1. **When and how will supply respond?**
   - Supply constrained even in long-run elastic housing markets. When will this change? Are agents accounting for a supply response?
   - Builders: Supply chains, labor market tightness.
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2. **Will preferences reverse or are changes permanent?**
   - Preferences driving demand; will they reverse?
     - Taste for space. Work from home. Suburbs vs. downtown. etc.
   - Malmendier-Nagel work on lived experience is crucial to think about these questions (and not about COVID!).
     - M-N suggests will have long-lasting impact, but how?
     - Need to be humble: Hard to forecast preference shocks!