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

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**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
CST (2012): Influential and Ahead of Its Time

In 1988, idea one would ask people their expectations was outlandish. Even in 2012, was novel. But now it is standard and widespread. CST is a big reason why. Inspired huge literature (Survey: Kuchler-Piazzesi-Stroebel, 2022). Key CST predictions borne out. ⋆ Underreaction of 1 yr, overreaction of longer-run (Armona et al., 2019). ⋆ Social networks (Bailey et al., 2018); expectations matter for behavior. Surveys like theirs proliferate. ⋆ High-quality and frequency surveys by NY Fed and Michigan. ⋆ Across countries as well, providing more data. See KPS. 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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What Is Novel About Authors’ Survey Today?

- Success of CST 2012 in inspiring high-quality house price surveys makes analysis of last 10 years less novel.
  - NY Fed and Michigan in particular use newest methodologies, released at high frequency.
  - But slightly different, especially for long-term expectations.
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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

Annual Expected Price Growth

Year

ST 1 Year  ST 10 Year

2003m7  2008m1  2012m7  2017m1  2021m7
Comparison with NY Fed Monthly series

![Graph showing annual expected price growth with NY Fed monthly series comparison.](image-url)

- **ST 1 Year**
- **ST 10 Year**
- **NY Fed 1 Year (Smoothed)**
- **NY Fed 3 Year (Smoothed)**
COMPARISON WITH MICHIGAN MONTHLY SERIES

Annual Expected Price Growth

Year

ST 1 Year
ST 10 Year
Michigan 1 Year (Smoothed)
Michigan 5 Year (Smoothed)
Huge Gains From Harmonizing Data

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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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- Chodorow-Reich, Guren, and McQuade (2022): Areas with largest booms and busts had largest rebounds, long-run price growth.
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### Boom vs. Bust

\[ y = -0.51x, R^2 = 0.38 \]

### Bust vs. Rebound

\[ y = -0.52x, R^2 = 0.37 \]

### Boom vs. Bust-Rebound

\[ y = 0.19x, R^2 = 0.08 \]

### Boom vs. BBR

\[ y = 0.81x, R^2 = 0.62 \]
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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.
What to Make of the COVID Boom?

- 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).
Credit and Speculation

MBA Mortgage Credit Avail Index

Share Mortgages Non-Owner Occ

QUESTIONS FOR THE COVID HOUSING MARKET

- Does not mean there will not be a different kind of correction.

- Housing economists should look to same factors that are important for broader macroeconomy.

- 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.

- When will older homeowners start selling and downsizing?

- 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!
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