Housing and Consumer Spending

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Housing and the Economy Old and New Perspectives

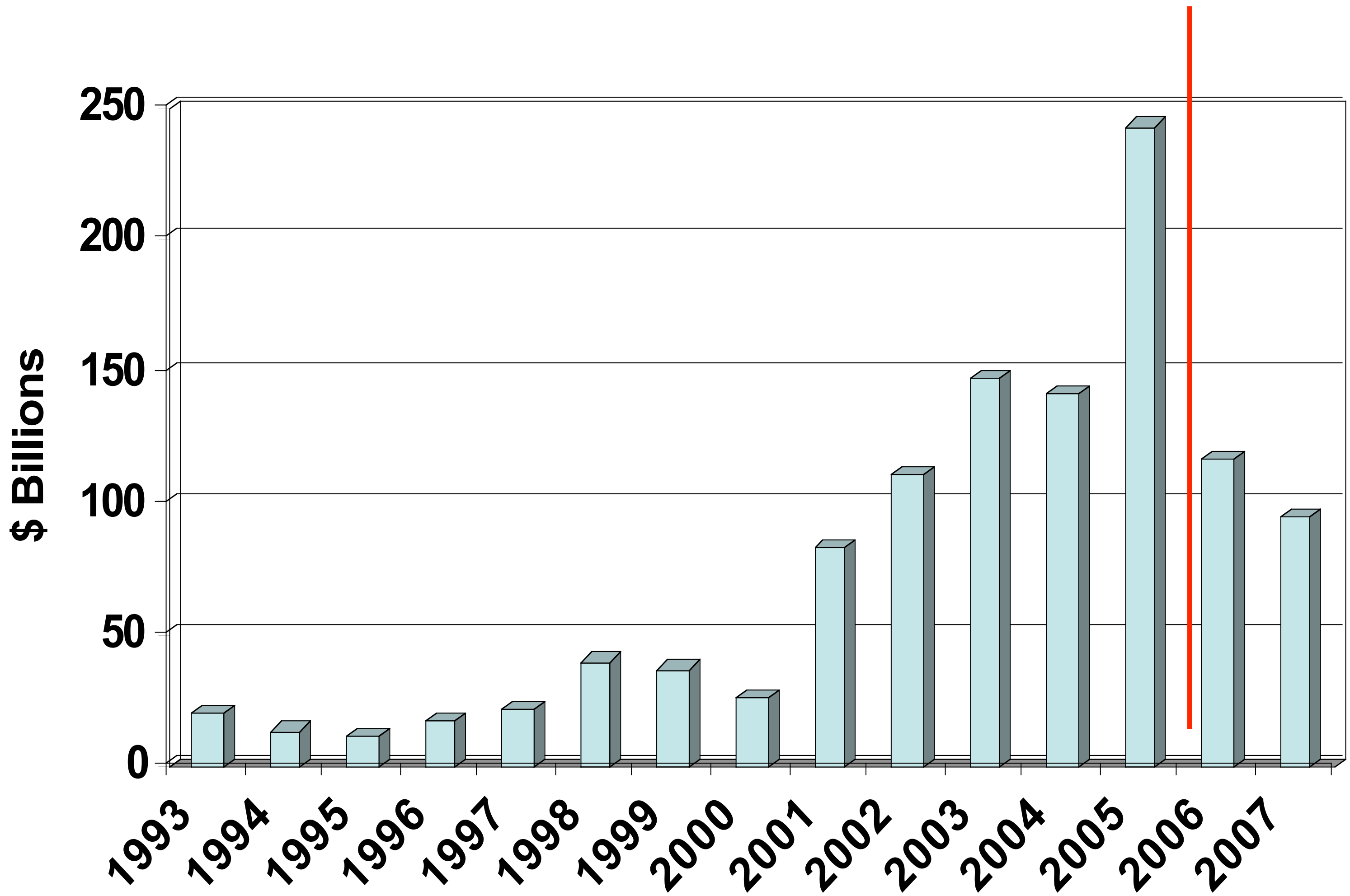
- Housing starts and new home construction
- Impacts on other industries
- Turnover of existing homes

- Housing as an asset
- Cash-outs, consolidations and tapping home equity
- Bubbles, real and imagined
- What do home sale prices say about the local economy?

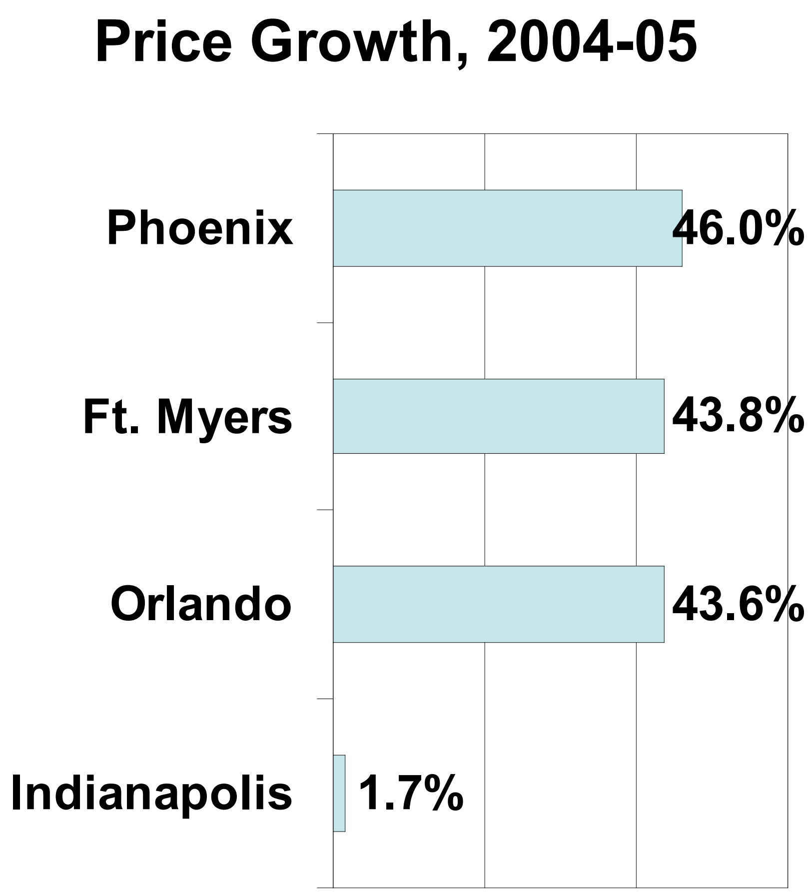
Housing as an Asset
The “Greenspan Theory”

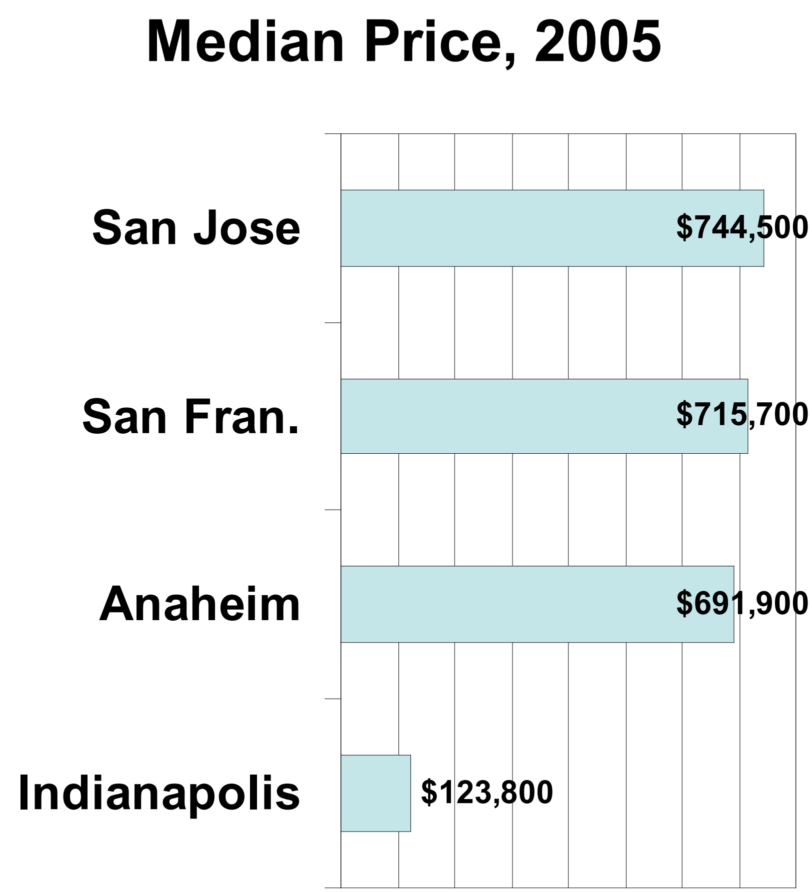
- Income is not sufficient to predict consumption – wealth matters
- Propensity to spend out of increases in housing wealth is larger than financial assets
- Cash-outs from refinancing are spent equally on retiring non-mortgage debt, purchasing financial assets, home improvements, and personal consumption

Cash-outs from Refinancing

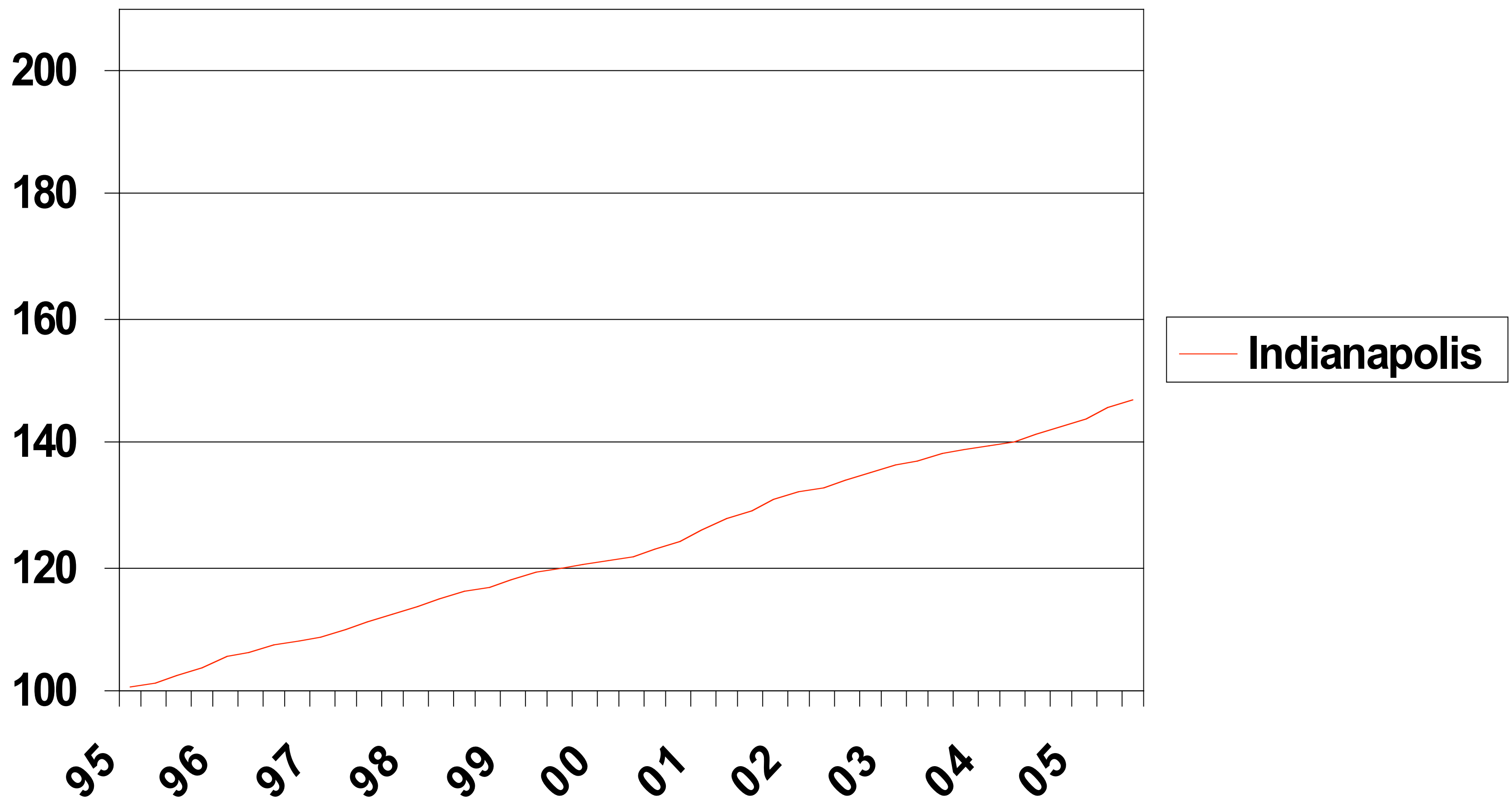


Bubble or No Bubble?



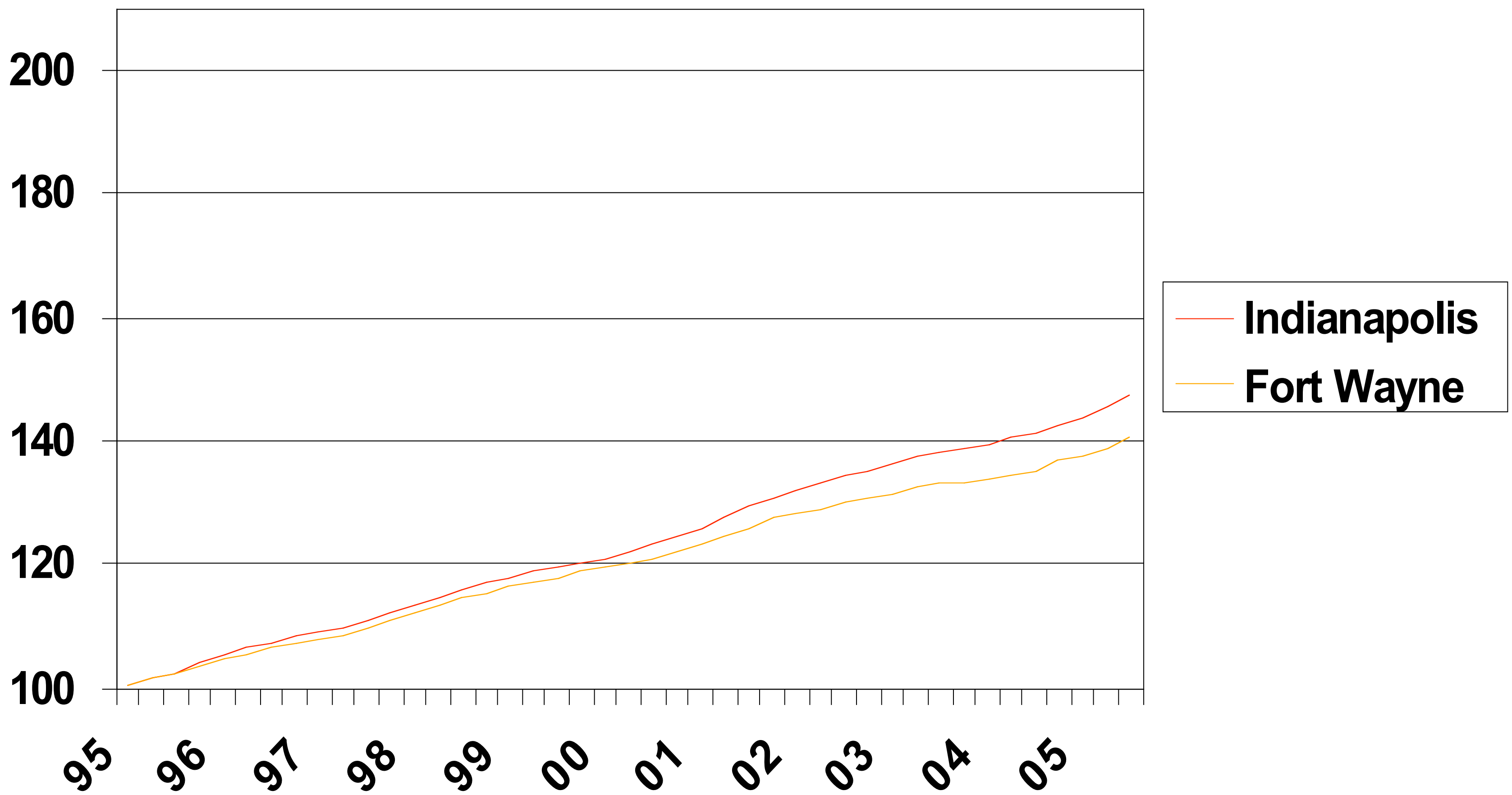


Median Home Price Comparison



Median Home Price as Percent of 1995Q1 Prices

Median Home Price Comparison



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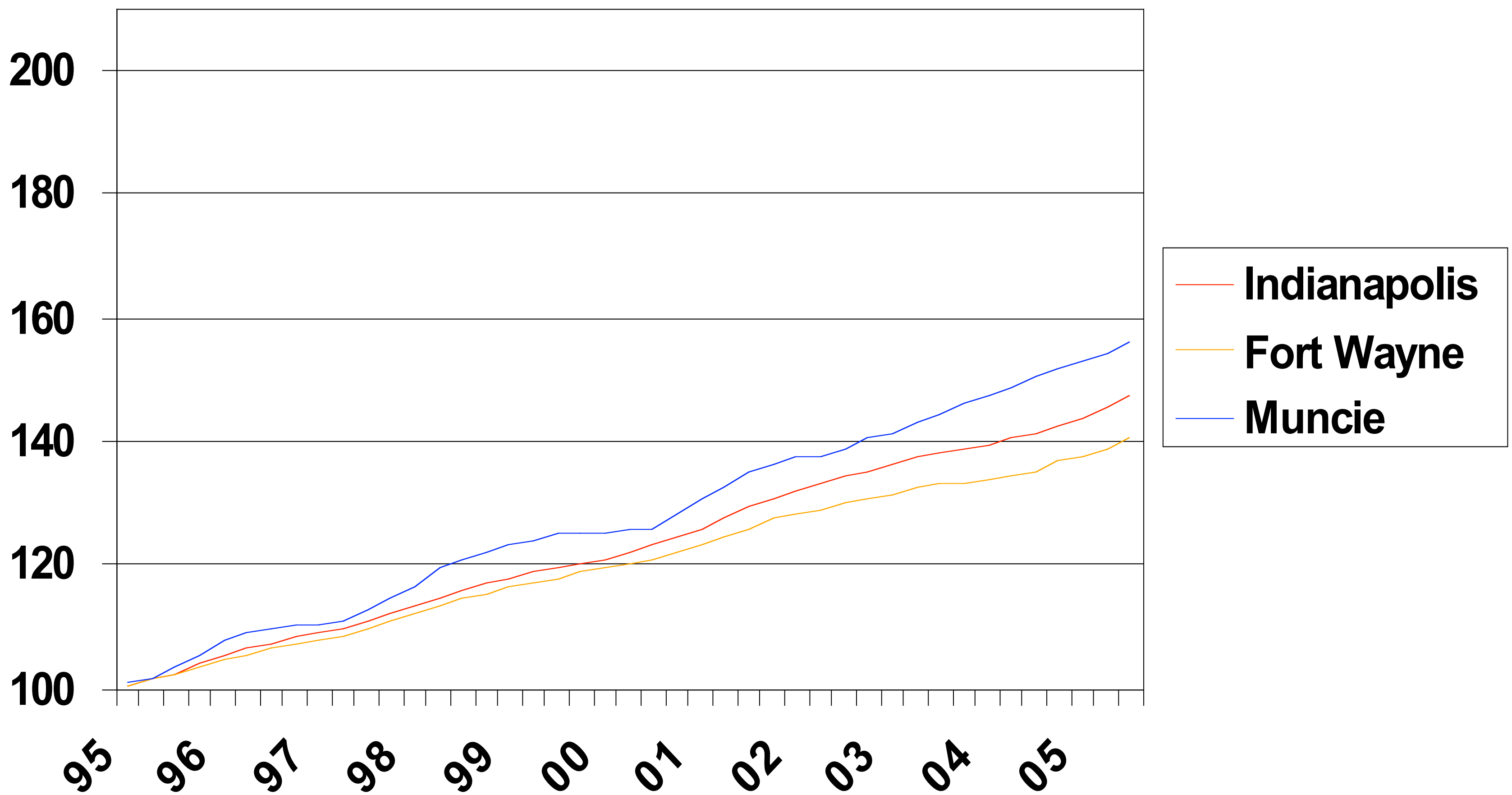

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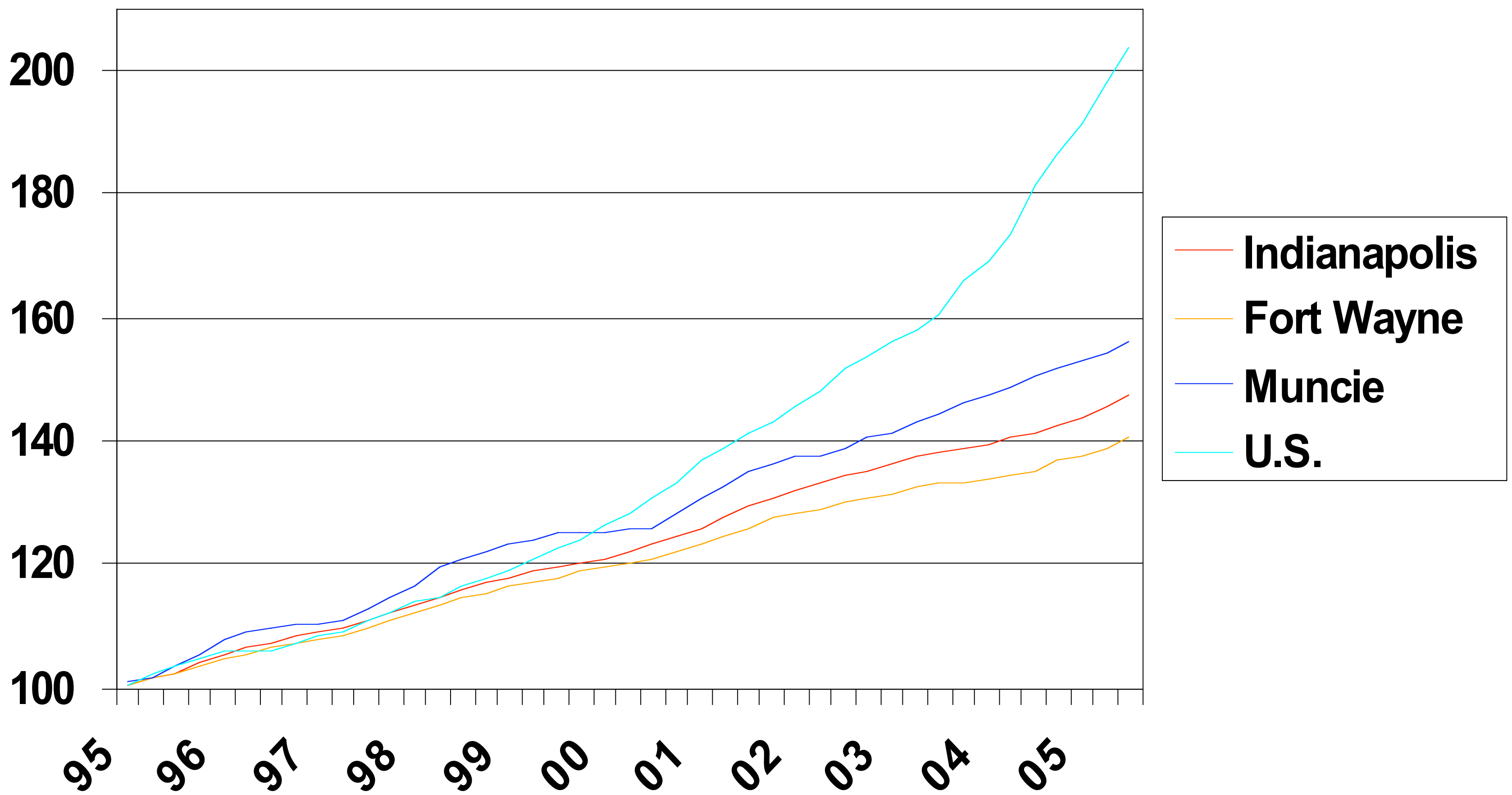

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Conclusions

- The relationship between housing and the economy is not a settled area
- The Greenspan Fed watched home price appreciation and refinancing very closely
- There probably is no real estate bubble, generally
- Lower refinancing rates will take some steam out of consumer spending this year