

Financial Stability Institute

A photograph of a modern, curved building facade with large windows and a metallic finish, set against a clear blue sky. The building's design is characterized by its sweeping, curved lines and the way light reflects off its metallic panels.

**Macro Shocks and Housing Markets, by Amromin and Eberly**  
Discussion at the 7th Annual Macroprudential Conference, Stockholm

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*Views expressed are my own and do not necessarily represent those of the BIS*

## The paper contains

1. Description of recent developments in US housing markets
2. A calibrated model able to replicate stylised facts
3. Some policy reflections

# On recent developments (around the pandemic outbreak)

## Two phases

1. Policy easing phase (E)
  - substantial increase in house prices (HP)
  - supported by favourable financing conditions
  - a preference shock
  - ... and sluggish supply
  
2. Policy tightening phase (T)
  - not much HP correction
  - ... due to the persistence of the preference shock
  - ... and of supply constraints

## Model 1/2

- Able to generate different house price dynamics, as a function of
  - financing conditions
  - housing preference shocks
  - housing supply constraints
  - frictions in mortgage markets (MM)

SCENARIOS	PM	PREF	SUPPLY CONSTRAINTS	FRICIONS - MM	HP*
E	↑	↑	↑	↓	↑
T	↓	↑	↑	↑	↑

(\*) Relative to s scenario without preference shocks, MM frictions and major supply constraints

↑: contributes to higher prices

↓: contributes to lower prices

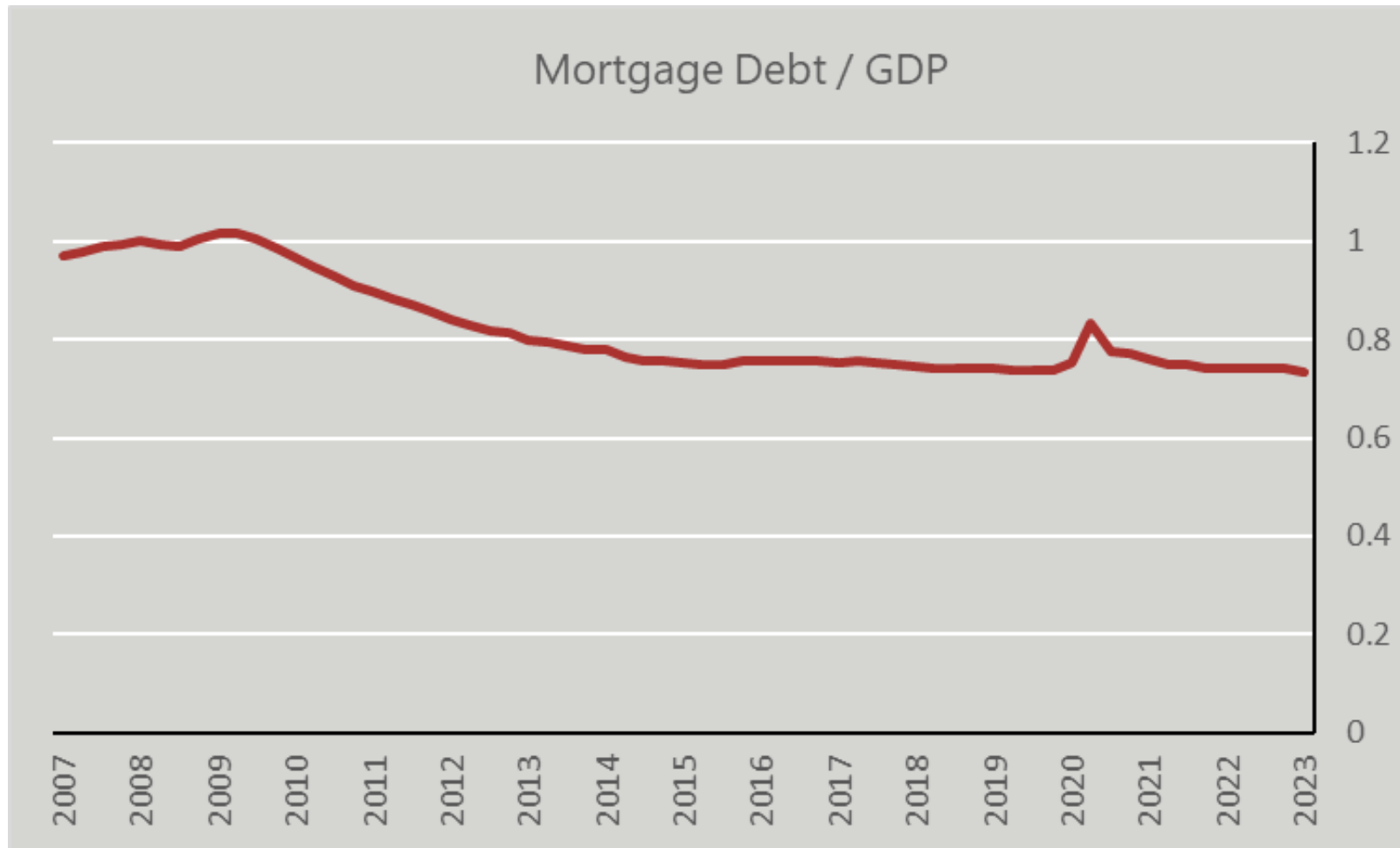
## Model 2/2

- In sum:
  - monetary policy less effective in both scenarios
    - mortgage refinancing is constrained when  $r \downarrow$
    - owners are locked-in low-rate mortgages when  $r \uparrow$
  - preference shocks and persistent supply constraints help explain
    - pronounced HP  $\uparrow$  when  $r \downarrow$
    - small HP  $\downarrow$  when  $r \uparrow$

## Policy insights 1/2

- On inequality
  - frictions in MM / preference shocks / supply constraints penalises first-time buyers
    - when  $r \downarrow$  as they exacerbate house price increases: deteriorate affordability
    - when  $r \uparrow$ , slow-down price corrections and increases financing costs
  - solution: not macro. Rather look into frictions.
- On financial stability
  - not much
  - model without a role for banks, households' balance sheets or house price bubbles.
  - weak case for macro-pru policies to react to house-price inflation largely driven by a preference shock and supply constraints.
  - No evidence for financial exuberance

## Graph 1: Mortgage debt ratios-US



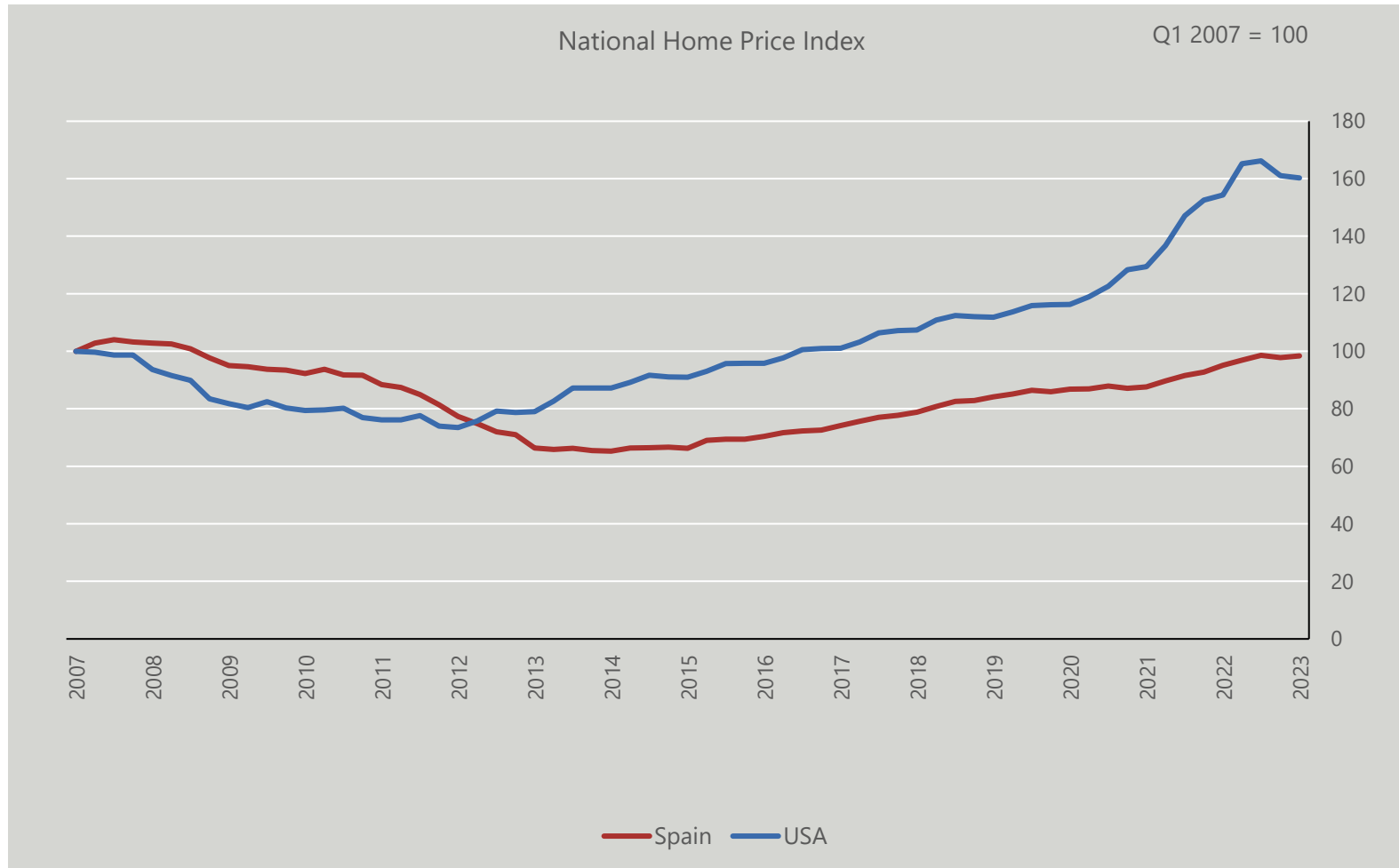
Source: Federal Reserve Economic Data

## Policy Insights 2/2

- On monetary policy
  - frictions made prices grow more than expected in E and remain high in T
  - could be a case for reducing purchases of mortgage-based securities in E.... as housing market was already quite dynamic.
  - but not clear case (in the paper) to moderate monetary accommodation after the Covid shock: what is the counterfactual?
  - Suggestion: further explore the empirical relevance of MM frictions for price dynamics



## Graph 2: National Home Price Index- US vs Spain



Source: S&P / Case-Shiller home price index for US and Spain's house price index (National Statistics Institute), Federal Reserve Economic Data