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

$ Billions

Bubble or No Bubble?

Price Growth, 2004-05

- Phoenix: 46.0%
- Ft. Myers: 43.8%
- Orlando: 43.6%
- Indianapolis: 1.7%

Median Price, 2005

- San Jose: $744,500
- San Fran.: $715,700
- Anaheim: $691,900
- Indianapolis: $123,800
Median Home Price as Percent of 1995Q1 Prices

Indianapolis
Median Home Price Comparison

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Median Home Price as Percent of 1995Q1 Prices

- Indianapolis
- Fort Wayne
- Muncie
- U.S.
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.