

(24) Hoynes, Hilary W., McFadden, D. "The Impact of Demographics on Housing and Nonhousing Wealth in the United States." NBER Working Paper 4666, 1994.

This paper focuses on whether housing prices are forecastable from current information on demographics and housing prices, and whether household savings decisions are affected by capital gains in housing. This is stimulated by the argument that the aging population in the U.S. is likely to induce substantial declines in housing prices resulting in capital losses for future elderly generations. However, if households can anticipate changes in housing prices and if they adjust their nonhousing savings accordingly, then welfare losses in retirement could be mitigated.

The authors develop a standard consumer model of housing demand, and concluded that rational consumers should display behavioral response to anticipated capital gains. If consumers expect no correlation between initial information and future price changes, then the model suggests that ex post savings rates are likely to be negatively correlated with initial housing prices, and correlated dollar for dollar with ex post realized capital gains. On the otherhand, if capital gains are forecastable from initial housing prices and other information, then ex post savings can be positively correlated with initial house prices, and there may be some behavioral offset to the savings these capital gains are expected to generate.

Empirical estimations present mixed evidence concerning the degree to which capital gains in housing are forecastable based on current information, depending on the data used.

They then explore the role of ex post measures of capital gains in the housing market on household savings decisions, by estimating the effect of changes in housing prices on total, housing and nonhousing savings rates. The estimates imply that an increase in the growth rate of real housing prices of ten percentage points will lead on average to an increase in the total savings rate of 2.28 percentage point, with a similar effect on the housing savings rate, but a small and insignificant effect on nonhousing savings. Also, increases in initial housing prices are associated with increases in the total and housing savings rates but have no significant effect on nonhousing savings. In addition, the results find that neither past measures of population and price changes affect household savings. They finally conclude that these results imply that households are not engaged in any behavioral offset in response to changes in housing prices.