Rortybomb

Housing Lock is not a Major Part of this Crisis, Plus Scatterplots of Deleveraging!

Posted on April 11, 2011 by Mike

Last year I thought that "housing lock" – where people couldn't move because they were underwater – was a minor but important part of our unemployment and economic crisis. Now I think it's not an issue, with a small probability that it is either a very small issue or perhaps even a plus. But many people still think this is important, and it is understandable because it's an easy idea to understand.

Let's go over a few things we know about "housing lock" now from the latest research that we didn't know before:

> *"In the available data, negative equity does not make homeownersless mobile [...] home-owners with negative equity are at least as mobile as those with positive equity, holding other characteristics constant. Homeowners with extremely negative equity are especially mobile." (Sam Schulhofer-Woh.)*

> *"After we remove the effect of the change in procedures, we find that the annual interstate migration rate follows a smooth downward trend from 1996 to 2010. The 2007–2009 recession is not associated with any additional decrease in interstate migration relative to trend." (Greg Kaplan and Sam Schulhofer-Wohl.)*

> *"[We] explores the effects of two such forces that have had large economic effects in the past five years: the recession and housing market contraction. We find relatively small roles for both of these cyclical downturns…we find no evidence that migration rates were lower in the recent period in states with a larger share of underwater mortgages…preliminary studies by other researchers have also found little evidence that house lock has reduced migration or raised unemployment in the past several years." (Molloy, Smith, Wozniak.)*

> *"Using data from the DWS on the unemployment experience of movers and non-movers, these differences in the staying rate across states by house-price changes suggest that the overall effect of*
> *housing lock is likely to be small" (John Schmitt and Kris Warner of CEPR.)*

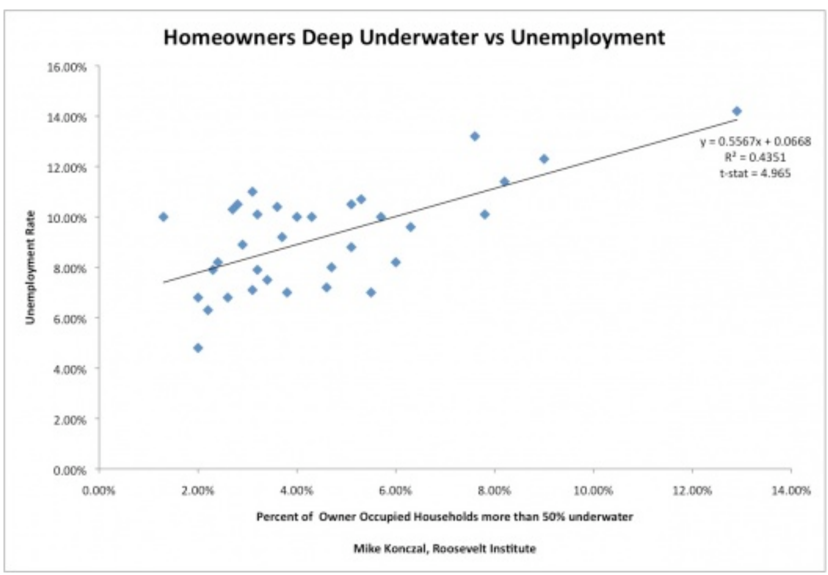
Got that? According to all the recent research, there's been no sudden change in mobility related to the housing crash. It looks like people with high negative equity might have even higher mobility than others, meaning they are more likely to rent out their place or simply walk away. Americans already have a very high rate of mobility (compared to other countries) which gives us plenty of churn, and unemployment is up everywhere. The sudden hit previous noted to mobility turned out to be a data questioner fluke. Nobody can find evidence of a sudden shock to mobility as a result from the housing crash.

Christina Romer has also summarized this in her excellent [Jobless Rate Is Not the New Normal:]

> What about declining geographic mobility? Today, [about 11 million families] are underwater on their mortgages, which means they owe more than their homes are currently worth. This could make it harder for them to sell their homes and move to jobs in other regions.
>
> But the argument that such "house lock" is a source of high unemployment runs into two empirical walls. First, jobs are not plentiful anywhere. In the most recent data, the unemployment rate in every state was above its level before the recession. So our unemployment problem wouldn't go away if only people could move more easily.
>
> Second, if house lock were an important factor, we would expect to see greater declines in labor mobility in states with more underwater mortgages, and among homeowners compared with renters. A [study scheduled for publication] in The Journal of Economic Perspectives finds no support for either of these hypotheses.

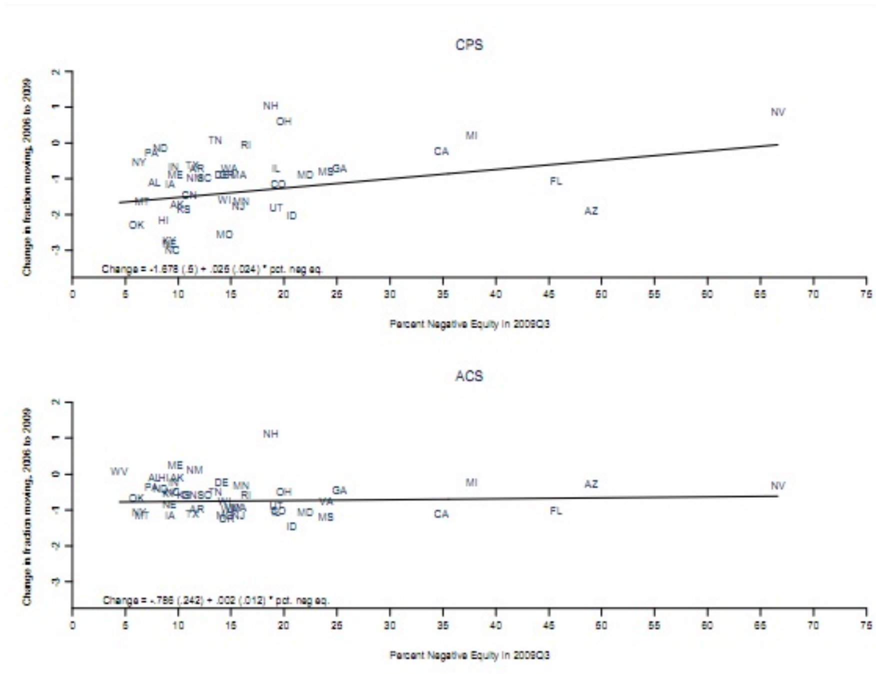
Get Your Scatterplot On – Housing Lock and Deleveraging Edition

I like telling this story as a series of graphs. We've noted before that underwaterness is correlated with unemployment ([last August]):



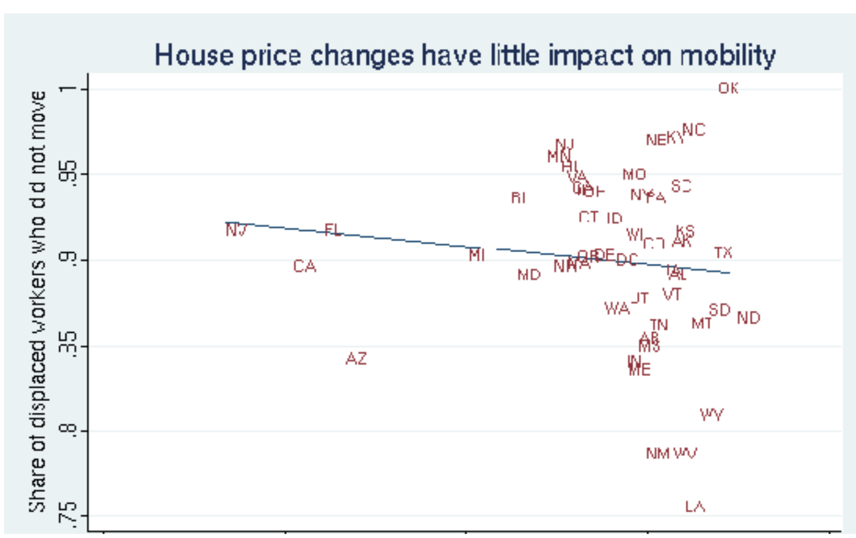
We can now invoke Delong's parrot, who knows two words: supply and demand. Is this is a supply (of labor) issue, where homeowners can't move, and thus workers can't reshuffle to new places? Or demand, related to a sudden shift to deleveraging even with zero interest rates? Let's scatterplot the underwaterness of states by mobility. From [Internal Migration in the US: Updated Facts and Recent Trends] (Molloy, Smith, Wozniak):

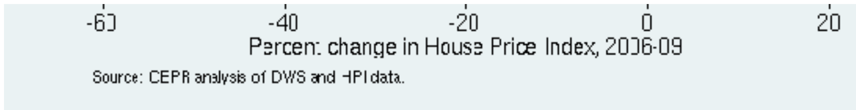
Figure 3
Negative Equity and Changes in Migration 2006-2009



I'm still amazed at that being such a flat line, or one where it actually increases mobility. "Five states had the largest share of underwater mortgages by far, but these states did not experience larger drops in migration than average. Interestingly, migration out of states with a high negative equity share appears to have risen a bit more than other states in the CPS, but this result is not evident in the ACS data." If you are that deeply underwater, chances are you are more likely to walk and either default or rent out the place.

John Schmitt created a scatterplot of mobility versus displaced workers when I emailed him about his study that is mentioned above. The researchers at CEPR will kindly create graphs based on their analysis at the requests of interested reporters, thinkers and writers; their people are <hustle> just as helpful and informative as the experts that are available at the Roosevelt Institute. </hustle>

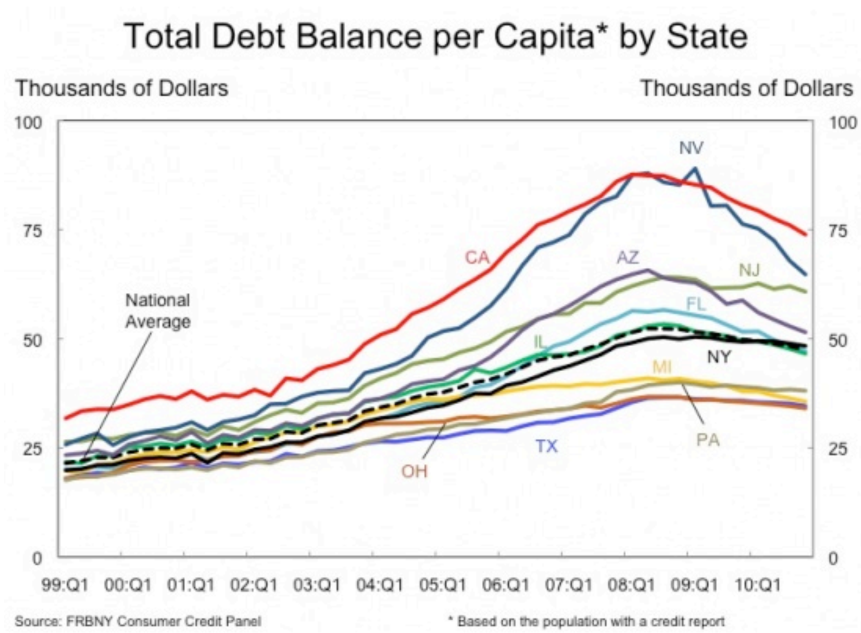




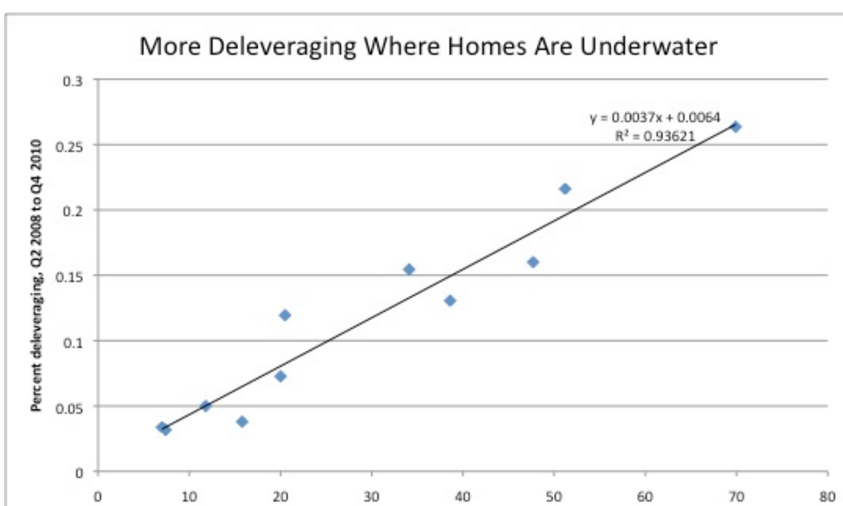
The line is close to flat, and not statistically significant. This specifically targets displaced workers, who as a category are ~~probably younger and less likely~~ older and more likely to be homeowners.

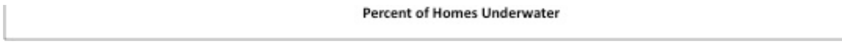
Demand

So what else could be going on? [The Federal Reserve Bank of New York collects] the credit conditions of the country as a whole and also a selection of 11 states. Since 2008 people have been deleveraging:

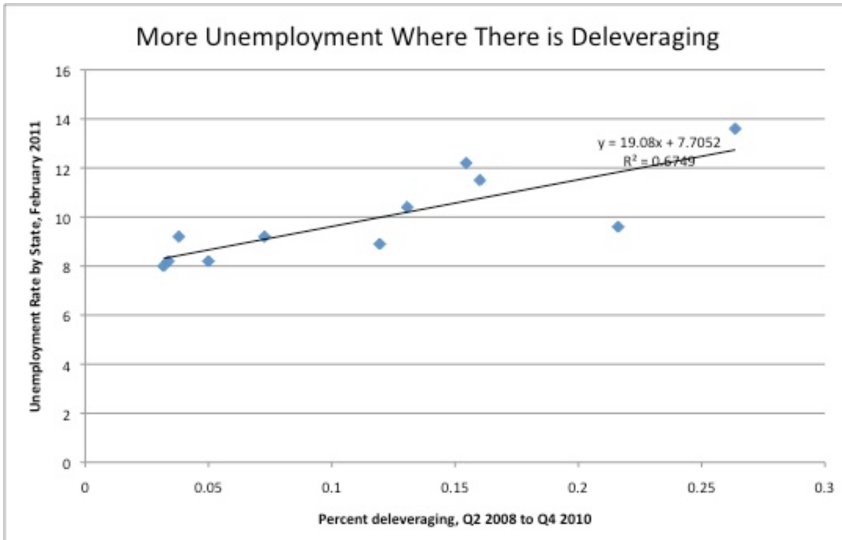


Now how does deleveraging look when plotted against underwater homes? I am using the percent decline per capita from Q2 2008 to Q4 2010 as reported by FSBNY. The results are the same if I use actual decline per capita (is there a best practice for this analysis between the two?). Here's the plot:





And how does deleveraging look against the state level unemployment?



For one approach to the idea linking deleveraging and the economic crisis see Paul Krugman and Gauti Eggertsson's paper, [Debt, Deleveraging and the Liquidity Trap], with an informal [summary at VoxEU]. This appears to be in motion at the state level far more than a housing lock story.

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6 Responses to *Housing Lock is not a Major Part of this Crisis, Plus Scatterplots of Deleveraging!*

Main Street Muse *says:*

April 11, 2011 at 10:10 am

"Nobody can find evidence of a sudden shock to mobility as a result from the housing crash."

You might want to talk to moving companies and relocation experts. They actually feel like they've been at ground zero since 2008.

Housing lock remains a big factor for corporations today. Perhaps, as the charts indicate, mobility is not halted, but companies are paying more to relocate employees. This has huge impact on their budget and spending, and thus is a big issue to be resolved to get full recovery.

For companies, relocation is heavily weighted toward the employed, not a gauge for the number of unemployed. Companies are moving talent from one location to the next. Worldwide ERC, a workforce mobility organization, published a chart in February 2011: http://bit.ly/fL4A8e. If you click on that link, you'll see that THE top issue employees give for declining a transfer is housing/mortgage concerns. Prior to the collapse of the housing market, the top reason given for declining a move was "family ties." Negative equity is also high on the list of reasons to decline a promotion/relocation.

Because of this, relocating an employee post-crash has become much costlier for the company. Companies have to offer incentives to help persuade the employee to move – and these incentives include "loss-on-sale" protection (traditionally, the difference between current sale price and original purchase price.)

Focusing on the mobility of those most underwater is not relevant. They have no skin in the game and can and do move out of a negative equity situation simply by vacating the house. I'd like to see the experts take a look at the subset of homeowners who are stable, employed, have a negative equity situation but have invested a good percentage into their home. They can't walk away from their home without losing a lot. They're stuck. If they're under- or unemployed, moving will cost them a ton of money unless the hiring company pays for the loss-on-sale.

Reply

Nylund *says:*
April 11, 2011 at 3:14 pm

Anecdotes are not data, I get that, but I've heard numerous stories recently from people applying for distant jobs where employers explicitly ask them if they are home owners. If they answer, "yes" their application moves further down the pile as the employer fears that owning a home in their current location will impede their ability to relocate quickly. Whether or not is a justifiable rationale, I can't say, but I have been hearing more of such stories recently.

On a more technical note, the microeconometric research on mobility tends to focus on two issues…the effect of home-ownership (and the mobility issues it causes) on becoming unemployed, and its effect on the duration of unemployment. Home-owners, in fact, seem to have a lower chance of becoming unemployed. A lot of reasons have been given (eg, you need the job more so you work harder to make sure you're not the one the company lays off). Their hasn't been much research regarding the duration of unemployment, given that you've been laid off though. Not using US data at least (there are some decent ones using EU data). Of course, the overall effect on unemployment would involve the combined effects of both. It could be that housing makes one worse, the other better, but the net effect is a wash. I haven't seen any papers that attempts to find each effect and combine them into the net effect. Point being, its hard to draw conclusions directly from the net effect itself.

Whether or not one is "underwater" might not be the right way to think about things given that, as you point out, those already in a lot of trouble, have little to lose. The effect might not be monotonic and any attempt to fit a linear relationship might be flawed. Plus, there is a huge amount of endogeneity between the housing and labor markets. Both effect each other. There are also issues of self-selection, and a whole bunch of co-variates one would have to control for. I haven't looked closely at the papers you cite (except for the one on the flaws of census data) to see what has and hasn't been done.

All in all, you may very well be right, but, in my opinion, we still need to investigate the matter much more deeply before I'd feel comfortable drawing your conclusion.

Reply

RMGHicks *says:*

April 12, 2011 at 4:40 am

Full disclosure – I happen to be a Realtor®. This is having a much bigger impact than the data indicates. People who are underwater and have shoveled money into their homes have an enormous problem. The banks are not allowing short sales and this is dinging their credit for the next 7 years if they are forced to foreclose. Since the banks seem to PREFER foreclosure that is a lot of people locked out of car loans, home loans, credit etc. There is nothing trivial about this. Although I am no economist – I used to be a scientist in my former life…so I will say this – your data isn't matching the facts on the ground. If your data is matching the facts – the data is either flawed or the analysis is.

Reply

jefff *says:*

April 12, 2011 at 10:10 am

I wonder if mobility related to owning a home might already be heavily suppressed in California due to the property tax which increases very slowly if you keep the same home.

Reply

Main Street Muse *says:*

April 15, 2011 at 3:48 pm

Mike, some reasons why the stats and graphs you use in this post do not paint the full pic of mobility in America: http://bit.ly/hRhROg

Reply

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