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The Effect of Housing Market on Macroeconomy in the Post-Pandemic Period

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Abstract: Many economists believe that homebuyers today are in a better place relative to 2008 (Alcynna Lloyd, 2022). If it doesn't look like the housing bubble in 2008, what is going on in today's housing market? Houses serve as a necessity for people's daily lives, however, fewer families can make home purchases through their accrued savings, and most families choose to take loans for purchasing (Levitin and Wachter, 2020). People depend on mortgages to make home purchases and government needs the mortgages to promote homeownership (John C. Weicher, 1994). Through this paper, I will look into the housing and housing finance market to find their relationship with the macroeconomy and propose possible solutions for the housing market.
Keywords: Housing Market; Macroeconomics; Post-Pandemic

The housing price is at its highest point and on an increasing trend worldwide. According to the International Monetary Fund, global housing price has been rising since the pandemic (International Monetary Fund, 2021). The ratio of median home price to the median income is 4.7 in April 2022 and "household incomes cannot keep up with increasing home prices" (Jonathan Jones, 2021). Besides, people today lose the ability and desire for home purchasing, which will slow down aggregate economic growth in the long term (Emily Badger, 2022).

Inflation is also a significant problem, for both the housing market and the whole economy. By the Bureau of Labor Statistics, the inflation rate has already reached 8.6% in the US, which is the highest point over the last four decades (U.S. Bureau of Labor Statistics, 2022). The disposable income of people will decrease since the high inflation rate. According to the U.S. Bureau of Economic Analysis, the real disposable income in 2022 is decreasing (U.S. Bureau of Economic Analysis, 2022). Low disposable income discourages people from purchasing houses; people who've already taken the loans could default, which will generate a multiplier effect and the housing market will be extremely unstable and may cause market failure.

To remedy the inflation, many countries increase the interest rates (Trading Economics, 2022), which makes people inclined to save money instead of borrowing from banks and financial institutions, a decrease in mortgage demand. Consequently, the demand for the mortgage market decreases, and therefore, with a high-interest rate and low mortgage applications, the housing market is in a recession stage.

With the benefits of homeownership and the intention to avoid crisis, we seek a stable mortgage system that reduces mortgage rates and allows lower-cost, more-affordable mortgages over the long run (Levitin and Wachter, 2020). And high housing prices and inflation with high mortgage rates indicated above are threats to the stability and affordability of the housing market.

Stability is the essence of the housing market and it is the core object of governmental interventions in the housing market (Tyler J. Frederick et al., 2014). Instead of directly fixing high housing prices and inflation, the government needs to keep both the supply-side and demand-side stable to protect both sides from the problems indicated above. Firstly, stabilizing the demand-side implies consumer protection, which means ensuring that consumers can complete the payment; the government should also provide penalties if the consumers cannot repay the mortgages, while "the penalty should be less vulnerable since the primary purpose is to protect consumers "(Levitin and Wachter, 2020). From experience, several improvements have been proven to be effective to stabilize

the consumers in the housing market. For example, the Consumer Financial Protection Bureau (CFPB) issued new rules to protect borrowers from risky lending such as “no docs” and require lenders to promise that borrowers can repay the mortgages (Consumer Financial Protection Bureau, 2013).

The government should also keep the suppliers stable in the mortgage market by alleviating the influences of unstable interest rates and high housing prices. There are plenty problems if the market fails to keep the investors stable. In 2008, many investors fail to cover their losses through the federal securities laws because of the lag times to discover the flaw in mortgages (Mark Adelson, 2020), which increases the instability in the supply of the housing finance market. “In September 2014, the central bank released a policy document encouraging banking organizations to commit to the development of mortgage-backed securities (MBS) and other financial bonds with long-term maturities to raise capital exclusively for mortgages, particularly for first-home buyers of self-occupied premises” (Zhihua Zhou, 2017). This is to maintain the long-term stability of the financial institutions, which also maintains the stability of the mortgage market over a long period.

The risk competition in the mortgage market is also necessary to keep the housing market stable. In the mortgage market, there are two kinds of risk competition: interest-risk competition and credit-risk competition. Financial institutions put the risk on the investors through securitization and as soon as borrowers default on the loans, the crisis will ensue (Paul Willen, 2014). This results in an increase in undocumented loans and financial institutions focusing on short-term gains by ignoring long-term stability. Therefore, regulations on financial intstitutions are necessary to prevent vicious competition in the market, in other words, enhancing the investigation of credit towards mortgages. For instance, the Code of Federal Regulation (CFR) published the Truth in Lending (Regulation Z) to promote the informed use of consumer credit by requiring disclosures about its terms and cost (Code of Federal Regulations, 2022). Plus, the Eligible Mortgage Loan Regulations asserted by the government of Canada evaluate the credit score of the mortgage loans, providing consumers with sufficient accessible information about loans to prevent the prevalence of undocumented loans and unhealthy competition (Canada Branch Legislative Services, 2022).

Another core of government intervention is affordability. Stability begets affordability (Levitin and Wachter, 2020), and vice versa. A turbulent housing finance market will erode the affordability of housing, and an unaffordable housing finance system will unstable. The definition of affordability varies. During the mortgage crisis, a dramatic increase in mortgage activity, a consequence of financial deregulation drives the housing prices high, simultaneously decreasing purchase affordability (Michel McCord et al., 2011); inflation reduces affordability as well since it undermines disposable income as we mentioned before. The affordability can be improved in several ways. The first way is increasing affordability through levy taxation on high-income borrowers to offset the credit-risk premium on lower-income borrowers and the second way is the mandatory housing outcome goals (Levitin and Wachter, 2020). To achieve the long-term stability of the housing market, we could apply the cross-subsidy through housing outcomes goals as supporting affordable homeownership over the cycle, rather than limited funding support via tax-and-transfer programs (Levitin and Wachter, 2020). Similar policies can be found as well, the “streamline affordable housing funding processes” is the policy of Los Angles to accomplish the goal of affordable housing for people (Los Angeles Department of City Planning, 2013).

The housing market is a complex matter, it is impossible to cure the whole market with perpetual policies. Several policies issued for short-term gains interact with each other and could generate downside effects that were never expected (Jeffery Friedman, 2009). Though government intervention can effectively inhibit the problems that exist in the housing market and housing finance market, excessive regulations may jeopardize the balance of the market and make the market overdependent on the government. After the 2008 mortgage crisis, the government strengthened the regulations, but still abused by politicians (Levitin and Wachter, 2020).

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