Who Bears the Cost of Recessions?  
The Role of House Prices and Household Debt

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Abstract

This chapter reviews empirical estimates of differential income and consumption growth across individuals during recessions. Most existing studies examine the variation in income and consumption growth across individuals by sorting on \textit{ex ante} or contemporaneous income or consumption levels. We build on this literature by showing that differential shocks to household net worth coming from the collapse in house prices play an underappreciated role. Using zip codes in the United States as the unit of analysis, we show that the decline in numerous measures of consumption during the Great Recession was much larger in zip codes that experienced a sharp decline in housing net worth. In the years prior to the recession, these same zip codes saw high house price growth, a substantial expansion of debt by homeowners, and higher consumption. We discuss what models seem most consistent with this striking pattern in the data. Our main conclusion is that housing and household debt should play a larger role in models exploring the importance of household heterogeneity on macroeconomic outcomes and policies.

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1 Introduction

Severe recessions are characterized by a large decline in household consumption. Consumption in real terms in the United States fell by almost 3% from the second quarter of 2008 to the second quarter of 2009. Consumption fell from 1929 to 1933 of the Great Depression by 18%. From 2008 to 2011, consumption fell by more than 5% in seven countries in the European Union, and by just less than 5% in Ireland and the United Kingdom.

Given the importance of consumption in household welfare, these sharp declines help explain why the study of recessions is a central pursuit of macroeconomics. One approach is to focus on the causes and implications of the aggregate decline in consumption. We believe, however, that an important pursuit of macroeconomic research should be to understand the distribution of the consumption decline across individuals. As the title of our chapter suggests, we want to focus on the question: who bears the cost of recessions? More specifically, which households see the largest drop in consumption during economic downturns?

This is an important question for several reasons. First, there has been an ongoing discussion within macroeconomics on the welfare cost of aggregate fluctuations, a debate instigated by the provocative exercise in Lucas (1987). Research since Lucas (1987) has shown that the distribution of income and consumption losses across individuals during recessions is an important factor in whether business cycles have large welfare consequences. For example, both Krebs (2007) and Krusell, Mukoyama, Şahin, and Smith (2009) use models with heterogeneity across households to argue that the welfare consequences of aggregate fluctuations are an order of magnitude larger than those calculated by Lucas (1987). Understanding both the distribution of consumption losses and their persistence helps reveal how harmful economic downturns are.

Another important reason to study the distribution of consumption growth during recessions is to evaluate the financial system. One of the central roles of the financial system is to efficiently allocate risk. A large body of research has focused on whether the data are consistent with full consumption risk sharing, when an individual’s consumption is not a direct function of idiosyncratic shocks received by the individual (e.g., Cochrane (1991)). A focus on recessions is useful because it helps us evaluate whether risk-sharing is present during times of steep declines in aggregate consumption. If it is not, then further analysis of the financial system and government insurance
provision is warranted.

There are also important asset pricing implications from examining the distribution of consumption growth during recessions. Recessions tend to be times when asset prices decline. In representative agent consumption-based asset pricing models, a security’s payments during recessions (i.e., periods when marginal utility of consumption is high) is a central determinant of the value of the security. But as many researchers have noted, financial securities such as corporate equity are held disproportionately by high income, wealthy individuals. Fluctuations in aggregate consumption may not be as useful in pricing financial assets as the fluctuations in consumption of individuals that tend to hold financial assets (e.g., Mankiw and Zeldes (1991), Malloy, Moskowitz, and Vissing-Jørgensen (2009)). Therefore, a central question in valuing financial assets is whether the consumption of individuals that hold financial assets is more or less cyclical than the rest of the population.

This review is split into three main parts. In the first part, we review the empirical literature on the cyclicality of income and consumption across individuals. We detail the exact time periods studied, data used, and conclusions of each study. Our primary focus is on research examining the cross-sectional differences in income growth and consumption growth across individuals during recessions. But we also cover ancillary empirical studies on consumption-risk sharing and the evolution of consumption and income inequality over time. These latter two areas of research are related both from a theoretical and methodological perspective.

It becomes clear in our review of the literature that the role of wealth shocks, and in particular wealth shocks associated with housing, is largely absent. In the second section of this chapter, we present empirical evidence on the importance of shocks to household net worth in explaining cross-sectional differences across U.S. zip codes in consumption growth during the Great Recession. We begin this section by discussing both the advantages and disadvantages of zip code level data. As a preview, the main advantage of zip code level data is the ability to match high quality administrative data on income, consumption, wealth, and demographics that naturally add up to aggregates used by most macroeconomists. The main disadvantage is that we can only estimate key parameters such as the elasticity of consumption with respect to net worth shocks at a slightly aggregated level.

Using zip code level data, we show that variation in the decline in net worth coming from
the collapse in house prices from 2006 to 2009, what we call the housing net worth shock, is a powerful predictor of consumption growth across zip codes. We utilize zip level administrative data on car ownership, new car purchases, boat ownership, and credit card spending, in addition to survey based measures of the number of individuals living in a housing unit. By all of these measures, zip codes with a more negative housing net worth shock saw a substantially larger decline in consumption during the Great Recession. We also show that births declined by substantially more in zip codes hit harder by the housing crash.

The housing net worth shock in a zip code can be decomposed into the decline in house prices in the zip code, and the \textit{ex ante} exposure of the zip code’s wealth to a decline in house prices. We find that both matter. Prior to the recession, zip codes with a large exposure to the housing collapse saw a larger increase in house prices, homeowner borrowing, and consumption.

Motivated by these empirical results, we then review models of aggregate economic fluctuations that can best explain the link between house price shocks and the cross-sectional differences in consumption growth. We conclude by noting the need for macroeconomic models with heterogeneity that capture both boom and bust dynamics of household debt and consumption.

It is important also to note what this review chapter does not cover. Probably the biggest absence is a detailed review of quantitative macroeconomic models with heterogeneity across households (e.g., the literature started by Bewley (1977) and Huggett (1993) among others). We cover some of this research as it has an important empirical component, but we do not review it comprehensively. This literature has shaped our thinking in important ways, and our exclusion of this excellent body of research reflects the fact that there is already a must-read review of this literature by Heathcote, Storesletten, and Violante (2009). We highly recommend reading their review as a complement to this one.

Another limitation of our work here is the focus on the United States. Research has for the most part focused on the United States, and it is simply beyond the scope of our analysis here to examine research conducted in other countries. Supplementing U.S. evidence with evidence from other countries is a promising line of inquiry.
2 Who Bears Recession Risk? Existing Research

2.1 Categorizing the literature

As noted in the introduction, the cyclicality of consumption and income across the distribution of households in the economy plays a crucial role in important questions in macroeconomics. A critical input into any model of cross-sectional heterogeneity in risk exposure is a set of basic facts. As Guvenen, Ozkan, and Song (2014) put it:

What is common to all of these theoretical and quantitative investigations is that they need to rely on empirical studies to first establish the basic facts regarding the cyclical nature of income risk. Unfortunately, apart from a few important exceptions discussed below, there is little empirical work on this question, largely because of data limitation.

Our goal in this section is to review the empirical evidence on the cyclical nature of both income and consumption risk. While Guvenen, Ozkan, and Song (2014) are correct that the evidence is limited, there are a number of important studies that can be used as a launching pad for further research.

There are five dimensions on which the extant literature can be categorized. First, does the study examine the cyclicality of income growth or consumption growth? Second, what data set is employed? Third, what time period is examined, and more specifically, does the study focus on one recession or a longer time series of cycles? Fourth, on what dimension are households sorted in the cross-section when examining income growth or consumption growth across the distribution? And finally, does the study sort households based on ex ante characteristics, contemporaneous placement in the income or consumption distribution, or shocks received during the recession?

It is this last dimension around which we organize the rest of this section. In our view, the ideal empirical setting is one in which households can be sorted on some ex ante characteristic, and then tracked across cycles. More formally, define some period $\tau = 0$ to $\tau = T$ as an aggregate episode such as an expansion or recession. Following Guvenen, Ozkan, and Song (2014), the empirical object of interest is:

$$f(H_{i-1}^t) \equiv E[y_{iT} - y_{i0} | H_{i-1}^t]$$  \hspace{1cm} (1)

where $H_{i-1}^t$ is a characteristic of individual or group $i$ measured before the episode in question and...
$y^i_{\tau}$ is log consumption or log income for individual or group $i$ at $\tau$.

The empirical object $f(H^i_{\tau-1})$ can be estimated in a flexible manner based on the number of groups.

For example, Guvenen, Ozkan, and Song (2014) examine four recession periods between 1978 and 2013, and their primary specification uses average income over the five years prior to the recession as $H^i_{\tau-1}$. They sort individuals into percentile bins based on this measure of $H^i_{\tau-1}$, and they plot $y^i_{\tau} - y^i_0$ during each recession for each bin, where $y$ is a measure of income. Such a plot allows us to see whether individuals with higher ex ante income levels see larger or smaller declines in income growth during recessions. As Guvenen, Ozkan, and Song (2014) note, researchers must be cautious in estimating object 1 when $H^i_{\tau-1}$ is income or consumption. It is likely that income and consumption have mean-reverting properties. As a result, an estimation strategy that sorts on ex ante income and looks at subsequent income growth will tend to find negative effects of ex ante income on income growth. For example, one is likely to find that high income individuals see larger declines in income growth. But in the presence of a mean-reverting income process, such a result would be partially mechanical.

Notice that availability of panel data is crucial for such an exercise. It is only possible if one can track the same households over time. We refer to the literature that estimates the object in 1 as sorting on ex ante characteristics.

A related technique exploits panel data but sorts not on ex ante household characteristics but instead on shocks received during the recession. For example, a common assumption in quantitative models of heterogeneity is that some households become unemployed, and the probability of becoming unemployed is higher in recessions (e.g., Krusell and Smith (1999)). A natural empirical object of interest in such a model is the decline in consumption among those individuals becoming unemployed during the recession:

$$f(S^i_{\tau}) \equiv E[y^i_{\tau} - y^i_0 | S^i_{\tau}]$$  \hspace{1cm} (2)

where $S^i_{\tau}$ is a shock received during the recession such as unemployment or a decline in wealth. Once again, panel data is required to estimate this object. We refer to the literature that estimates the object in 2 as sorting on contemporaneous shocks.

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1To minimize notation, $y^i_{\tau}$ represents log average consumption or log average income in the group whenever $i$ is a group instead of an individual.
Unfortunately, estimation of the objects in 1 and 2 requires panel data which is not widely available, especially on consumption. As a result, a third technique is to rely on repeated cross-sections, where households in each cross-section are sorted into percentiles of either the income or consumption distribution. This is common in studies, for example, that rely on income data from the Internal Revenue Service. Letting \( p \) be a percentile group of the distribution, these studies typically follow the object \( y^p_T \) across time.

The drawback of this approach is that the evolution of \( y^p_T \) over time depends both on changes in \( y \) for households that stay within group \( p \), and changes in the composition of households in group \( p \). Following Perri and Steinberg (2012), the change from any period \( \tau = 0 \) to \( \tau = T \) in group \( p \) is:

\[
y^p_T - y^p_0 = \alpha(y^{p,\text{stay}}_T - y^{p,\text{stay}}_0) + (1 - \alpha)(y^{p,\text{in}}_T - y^{p,\text{out}}_0)
\] (3)

The growth in an outcome for the \( p \) percentile of the distribution is a weighted average of the growth in the outcome for households that stay in the percentile group \( (y^{p,\text{stay}}_T - y^{p,\text{stay}}_0) \) and the compositional change in the percentile group \( p \) \( (y^{p,\text{in}}_T - y^{p,\text{out}}_0) \). Notice that the first term of this expression is almost identical to the object of interest in 1 where the sorting variable is the percentile of the distribution \( \text{ex ante} \). We refer to research following 3 as following a \textit{repeated cross-section} approach.

One obvious question is how good a proxy for object 1 is object 3. This depends primarily on movements across the distribution during episode being examined. To our knowledge, there is no comprehensive evaluation of this technique in the literature. The closest we could find is Perri and Steinberg (2012), who highlight different patterns in consumption growth depending on whether individuals or percentiles are tracked over time. We will discuss Perri and Steinberg (2012) in more detail below.

A final group of studies we discuss below are those that use empirical moments from data to calibrate quantitative macroeconomic models of household heterogeneity. As mentioned in the introduction, we do not do a comprehensive review of this literature. But many of these studies contain significant empirical work that is related to the core questions of this review.
2.2 Sorting on *ex ante* characteristics

The gold standard for evaluating the cross-sectional implications of recessions for earnings is the study by Guvenen, Ozkan, and Song (2014). Using a very large data set from the U.S. Social Security Administration, they are able to track the earnings of individuals from 1978 to 2011, which allows analysis of four recessions. Their main data set focuses on US working-age males over this time period. Given the panel structure of the data, they are able to estimate object 1 explicitly by sorting individuals into income bins prior to each recession and expansion.

The exact dates they use for the four recession periods are: 1979 to 1983, 1990 to 1992, 2000 to 2002, and 2007 to 2010. They estimate a slight variation of object 1 above in order to avoid problems associated with those with zero earnings. The actual function they estimate is:

$$
\log(E[y^T_i|H^i_{-1}]) - \log(E[y^0_i|H^i_{-1}])
$$

Figure 13 in their study reveals the central finding with respect to recessions. In all four recessions, there is a positive relation between *ex ante* income and income growth from the 10th percentile of the distribution to the 70th percentile. For all recessions except for 2000 to 2002, the positive relation continues to the 90th percentile. That is, for the majority of the income distribution and for all recessions, lower income individuals suffer more during recessions as measured by income growth. Notice this effect is probably understated given that mean-reversion would bias the coefficient in the opposite direction.

The pattern is less consistent at the upper tail of the distribution. The two latest recessions look remarkably similar at the very top of the income distribution. Individuals in the top 10% of the *ex ante* income distribution see the largest decline in income in the entire population. At the 99th percentile, income drops by a stunning 30%. This pattern is not present in the two earlier recessions. In sum, from the 10th percentile to 90th percentile of the *ex ante* income distribution, lower income individuals see a bigger decline in income during recessions. The results are less definitive above the 90th percentile, with the last two recessions showing the biggest decline among the very rich.

Perri and Steinberg (2012) use panel data from the Panel Study of Income Dynamics (PSID) to study disposable income growth during the 2007 to 2009 recession across the income distribution.
They first show that the bottom 20 percent of the income distribution saw a sharp decline in earnings, falling by 30 percent relative to the median over the course of the recession. However, they also show that redistribution through taxes and transfer programs helped offset the decline in earnings. Disposable income, after taking into account taxes and transfers, declined the same amount for the rest of the population and households in the bottom 20 percent of the income distribution.

The above findings are based on comparing income for the bottom 20 percent of the income distribution in 2006 and 2008. But as mentioned above, a problem with such a methodology is that there may be significant compositional changes in the households in the bottom 20 percent. The study by Perri and Steinberg (2012) is one of the few that discusses this problem, and compares estimates when taking into account the compositional change. They show that 75% of the individuals in the bottom 20% of the income distribution in 2008 were in the bottom 20% in 2006. They also show that the households that enter the bottom 20% of the income distribution from 2006 to 2008 see a dramatic 53.4% decline in disposable income. Households that stayed in the bottom 20% saw a decline of 2% in disposable income. Households that left the bottom 20% from 2006 to 2008 saw a 110% rise in disposable income.

Heathcote and Perri (2015) utilize data from the Consumer Expenditure Survey (CEX) and the Panel Study of Income Dynamics (PSID) to study the relation between ex ante household wealth and the change in consumption rates, or the consumption to income ratio, during the recession of 2007 to 2009. The primary focus is on the PSID, and they sort households in year $t$ based on the ratio of wealth to average consumption in years $t$ and $t + 2$. Because the denominator includes future consumption, the analysis does not strictly sort on ex ante characteristics. Nonetheless, the spirit of the exercise is to sort on individuals on their wealth to consumption ratio prior to the recession.

Heathcote and Perri (2015) find a larger drop in the consumption rate for poor households from 2006 to 2008. The consumption rate out of income drops by almost 10 percentage points for the lower half of the wealth distribution, and only 4 percentage points for the upper half. The authors interpret the larger drop in consumption rates of the poor as evidence consistent with a larger rise in a precautionary savings motive. They conduct tests showing that the wealth shock from 2006 to 2008 was larger for rich households, and income prospects deteriorated equally for the rich and
poor. Both of these factors strengthen the conclusion that the larger drop in consumption rates for poor households was due to precautionary savings.

Another strand of research focuses on variation in the cyclicality of consumption growth across households based on whether the household holds financial assets. The motivation behind this research is a canonical model of consumption-based asset pricing, where the key determinant of asset prices is consumption risk. Isolating who bears risk during recessions is not the central question of this literature. Nonetheless, it offers insight by showing how consumption growth is correlated with stock returns across households that own and do not own stocks.

Mankiw and Zeldes (1991) use the PSID from 1970 to 1984, and sort households based on whether they report a positive market value of stock holdings in 1984. Unfortunately, the PSID first asked this question in 1984, and so the authors must use an ex post measure of stock holding rather than an ex ante measure. They find that stockholders’ consumption is more volatile and more highly correlated with the stock market than households that do not hold stock. They argue that this higher correlation “may be crucial to an ultimate resolution of this puzzle and other asset pricing anomalies.” Households that hold stocks tend to have higher income and higher wealth than those that do not; therefore, this finding suggests that the cyclicality of consumption is highest for richer households.

A more recent paper by Malloy, Moskowitz, and Vissing-Jørgensen (2009) uses the CEX from 1982 to 2004 to test whether long-run consumption growth of households who hold financial assets is more sensitive to asset price fluctuations. The CEX is typically used in the literature as a repeated cross-section of respondents. However, there is a panel element because households are surveyed for four consecutive quarters. Malloy, Moskowitz, and Vissing-Jørgensen (2009) utilize the panel dimension by calculating consumption growth for a group of households from period $t$ to $t+1$ as the average over each household’s consumption growth from $t$ to $t+1$. The resulting group-level consumption growth rates have both a panel and repeated cross-sectional dimension, because households in the sample leave after four quarters.

Using consumption growth of stockholders versus non-stockholders, the authors first show that stockholder consumption growth has a higher sensitivity (or “beta”) to aggregate consumption growth, especially at long horizons. They conclude based on this finding that “stockholders bear a disproportionate amount of aggregate consumption risk relative to nonstockholders and this burden
increases in the long run ...”. Further, the authors find that the consumption growth of stockholders is more correlated with asset returns. Malloy, Moskowitz, and Vissing-Jørgensen (2009) estimate Euler equations using asset returns and the consumption growth of stockholders, and they find that estimated risk aversion is much lower compared to using aggregate consumption growth.

### 2.3 Repeated Cross-Section Approach

Only a few of the existing data sets on income and consumption cover a panel of individuals that one can track over an extended period of time. As a result, many researchers use a “percentile-sorting” methodology, as described above in Section 2.1. A classic example of this technique is the series of studies by Piketty, Saez, and Zucman using IRS tax returns to measure the evolution of income and wealth inequality in the United States (Piketty and Saez (2003), Piketty and Saez (2006) Piketty and Zucman (2014), Saez and Zucman (2014), and Saez (2015)). The primary focus of these studies is long run trends in income and wealth inequality, not isolating who bears the cost of recessions.

However, Saez (2015) uses the same data to try to address the cyclicality of income across different groups. For example, he shows that average real income growth from 1993 to 2013 was 15.1%, and 62.4% for the top 1% of the distribution. Recall that this latter figure takes the income of the top 1% in 2013 and compares it to the income of the top 1% in 1993 – it is not based on the same individuals. Saez then shows that the income of the top 1% falls considerably more in recessions, and increases significantly more during expansions. For example, the top 1% saw a decline in income of 31% and 36% during the 2001 recession and the Great Recession, respectively. The corresponding growth rates for average income are -12% and -17%. These figures include capital gains income, but the pattern is also present excluding capital gains, albeit less pronounced. This finding using repeated cross-sectional analysis confirms the panel data analysis of earnings in Guvenen, Ozkan, and Song (2014): income fell the most for very high income individuals during the 2001 and the 2007 to 2009 recessions.

Parker and Vissing-Jorgensen (2010) use the IRS data to show that more cyclical income growth of high income individuals is a recent phenomenon. They measure income as real pre-tax, pre-transfer income excluding capital gains. They examine the cross-sectional variation in income growth across the income distribution during recessions and expansions, and they find that the top
1% of the income distributions saw sharp declines during the last three recessions. However, the five recessions prior to the last three did not show this pattern. The authors also calculate an income “beta”, which comes from the estimation of the following equation:

$$\Delta \ln Y_{i,t+1} = \alpha_i + \beta_i \Delta \ln Y_{t+1} + \epsilon_{i,t+1}$$

This specification tells us whether income of group $i$ loads more heavily on changes in aggregate income. Parker and Vissing-Jorgensen (2010) show that the top 1% of the income distribution has a much higher $\beta$ from 1982 to 2008 than in previous years. Further, the higher cyclicality of income of the very rich is robust to alternative measures of income from the Census.

Parker and Vissing-Jorgensen (2010) also examine the cyclicality of consumption across the ex ante expenditure distribution. They utilize the CEX and a methodology that is similar to Malloy, Moskowitz, and Vissing-Jørgensen (2009). More specifically, they first sort households into groups based on expenditure level in quarter $q$, and they calculate the quarterly consumption growth for the group as the average of the quarterly growth rates of the households within the group. Recall that the CEX allows for such a calculation because households are surveyed for four consecutive quarters. They then calculate annual consumption growth for each group as the sum of the four quarterly growth rate figures. In this manner, the consumption growth measure has both a repeated cross-section and panel dimension.

The authors estimate a similar equation as the income specification above to find a consumption $\beta$ of each group on aggregate consumption and aggregate income. They find that the top 5% of the expenditure distribution has more cyclical consumption than the rest of the population. They find higher cyclicality using a number of measures of including aggregate pre- and post-tax income from NIPA or aggregate consumption from NIPA. As with Malloy, Moskowitz, and Vissing-Jørgensen (2009), the measures of consumption used by Parker and Vissing-Jørgensen (2010) are primarily expenditures on non-durable goods and services. Expenditures on durable goods, for example, are not included.

Meyer and Sullivan (2013a) focus on consumption inequality from 2000 to 2011 using the CEX. They convert expenditures into consumption for vehicles using a service flow equivalent, and they exclude housing outlays and spending on education. Their analysis is a pure repeated cross-section;
they do not take advantage of the panel element of the data. For each year, the sort households into percentiles based on the level of consumption, and they plot the log difference for each group relative to 2000. They find more cyclical consumption in the high consumption groups. For example, for the 90th percentile, consumption increased by 20% from 2000 to 2007, and then subsequently fell 6% from 2007 to 2009. In contrast, consumption at the median increased by 16% from 2000 to 2007 before dropping by 4% from 2007 to 2009.

Most of the extant research on consumption growth variation across households relies on either the CEX or the PSID. Cynamon and Fazzari (2014) is an exception. They focus on consumption of the bottom 95% and top 5% of the income distribution, and they track these two groups over time. They estimate consumption by each of these two groups by estimating income and saving rates, and using the difference as the consumption rate. Their methodology takes aggregate savings and uses micro-economic estimates of savings rates to distribute savings to each of the two groups. Similarly, they distribute income to the two groups based on information from the Congressional Budget Office and the Piketty and Saez IRS data sets. By construction, total income, saving, and consumption adds up to the aggregates from NIPA.

Cynamon and Fazzari (2014) show that the consumption to income ratio of the bottom 95% of the income distribution fell sharply during the Great Recession from 92% in 2007 to 87% in 2010. The consumption to income ratio rose sharply for the top 5% of the income distribution, which the authors argue is evidence that the top 5% smoothed consumption (income fell but consumption remained constant). The consumption to income ratio of the top 5% also increased substantially during the 2001 recession. Looking at the level of consumption, the authors show that consumption during the Great Recession deviated sharply from trend for both groups, with the magnitude of the decline being slightly larger for the bottom 95% of the income distribution.

2.4 Sorting on Shocks Received in the Recession

Unemployment increases sharply in recessions. For example, Davis and von Wachter (2011) show that the quarterly layoff rate rises by 129 basis points from 1990Q2 to 1991Q2, 85 basis points from 2000Q2 to 2001Q4, and 208 basis points from 2007Q3 to 2009Q1. Rather than sorting on \textit{ex ante} characteristics, Davis and von Wachter (2011) sort individuals based on exposure to a mass layoff wave during recessions.
More specifically, the authors regard a worker as “displaced” in year $y$ if he separates from his employer in $y$ and the employer experiences a mass-layoff in $y$. A mass-layoff event is one where the employer meets the following criteria: 50 or more employees in year $y-2$, a contraction of employment between 30 and 99% from $y-2$ to $y$, employment in $y-2$ is no more than 130% of employment in year $y-3$, and employment in $y+1$ is less than 90% of employment in $y-2$. They utilize longitudinal SSA records from 1974 to 2008 to measure earnings, which is the same data used by Guvenen, Ozkan, and Song (2014). Given the sample period, there are three main recession periods they analyze: the early 1980s, the early 1990s and the early 2000s.

The central finding is that individuals losing a job during a mass layoff in a high unemployment environment (greater than 8%) lose 2.8 years of predisplacement earnings in present value terms. The loss is 1.4 year of predisplacement earnings if an individual loses a job in a mass layoff event when the unemployment rate is below 6%. The large loss of income when losing a job during a high unemployment rate environment is supported by a number of other studies. For example, Jacobson, LaLonde, and Sullivan (1993) show that job displacement in Pennsylvania in the early 1980s led on average to a near-term earnings loss of more than 50%. Losses persist for at least 10 years (Sullivan and Von Wachter (2009)). Topel (1991) finds that workers displaced from 1979 to 1984 who can find a new job face a 14% reduction in earnings. Davis and von Wachter (2011) have data only through 2008, and are therefore unable to measure the long-term consequences of the Great Recession. However, as they note, the existing research “suggests that workers who have experienced job displacement events since 2008 are likely to suffer severe and persistent earnings losses.”

A related line of research examines the effects of graduating from college during a recession. Kahn (2010) uses data from the National Longitudinal Survey of Youth on students that graduated from college between 1979 and 1989. She uses both variation in the national unemployment rate and the state unemployment rates to identify the effect of graduation in a weak economy on wages. She finds “large, negative wage effects of graduating in a worse economy which persist for the entire period studied.” More specifically, she finds an initial wage loss of 6 to 7% for a 1 percentage point increase in the unemployment rate. The wage loss dissipates over time, but wages remain 2.5% lower even 15 years after graduation. A related study by Oreopoulos, von Wachter, and Heisz (2012) examines Canadian data. They find that a rise in unemployment rates by 5 percentage
point implies an initial loss in earnings of about 9% that halves within 5 years and finally fades to 0 by 10 years.

Recessions are also times when there are substantial shocks to both housing and financial wealth. Such shocks typically have a strong cross-sectional component, given substantial cross-sectional variation across households in exposure to such shocks. Mian and Sufi (2010) and Mian, Rao, and Sufi (2013) exploit cross-sectional variation across U.S. geographic units—counties or zip codes—in the exposure to housing net worth shocks during the Great Recession. In Mian, Rao, and Sufi (2013), the authors define the housing net worth as the decline in household net worth coming from the collapse in house prices. The variation across the country is large: the housing net worth shock was almost -50% in the bottom decile of county distribution, but 0% in the top. They show that the decline in consumer spending was much larger in counties with a more negative housing net worth shock. Using zip-code level data on auto purchases, they also show that the marginal propensity to spend out of housing wealth is substantially larger for lower income and higher household leverage zip codes.

One concern with sorting individuals based on a shock received in the recession is that the decline in income of consumption could be related an omitted variable driving both the shock and the outcome of interest. For example, in Davis and von Wachter (2011), one worry is that the individuals laid off during a recession are lower quality workers, which partially explains the high earnings displacement. Or in Mian, Rao, and Sufi (2013), the worry is that some omitted variable drives both the collapse in house prices and the collapse in consumption in a given county. In the section below, we will extend the results in Mian, Rao, and Sufi (2013) and discuss why we believe this is unlikely to be the case. The studies examining college graduation are less exposed to this criticism given that the timing of college graduation is less likely to be driven by an omitted variable correlated with a recession occurring.

2.5 Results from Quantitative Models

As mentioned in the introduction, we focus in this review chapter on studies focusing on the cross-sectional variation across individuals in consumption growth and income growth during recessions. There is a large body of research employing quantitative models and calibration to assess the importance of business cycle fluctuations, and the review chapter by Heathcote, Storesletten, and
Violante (2009) covers these studies in detail. We did, however, want to highlight some of the empirical findings from this literature, as they are related to the core question of who bears the cost of recessions.

Storesletten, Telmer, and Yaron (2001) and Storesletten, Telmer, and Yaron (2004) use the PSID to make two main points. First, they argue that innovations to the idiosyncratic component of an individual’s income process is highly persistent. And second, they argue that idiosyncratic earnings risk is counter-cyclical. They support these arguments with a number of results. For example, they show that the cross-sectional standard deviation of earnings increases substantially during recessions just as the cross-sectional mean of earnings falls. Further, they show that an age cohort of individuals who have lived through more contractionary periods have higher cross-sectional dispersion in earnings even as they age.\(^2\) The authors use these facts to motivate a quantitative model where the welfare losses associated with business cycle fluctuations are substantially larger than those implied by Lucas (1987).

### 2.6 Summarizing the Literature

Appendix Table 1 summarizes the main points of each of the articles discussed above, detailing the data used, the outcome measure, the time period examined, the cross-sectional sort employed, and main findings. A few points emerge when looking at the research as a whole.

First, there remains a need for more panel data, especially when it comes to consumption. Of the studies reviewed, only two sort on *ex ante* characteristics, and then track consumption through a recession for the same units. One of these is based on county-level data, not individual level data. On this same point, we need more research detailing whether sorts on contemporaneous placement within the distribution biases results in a meaningful way. This related to the discussion in section 2.1 above about people moving into and out of groups.

Second, the results on consumption growth in recessions are mixed. Researchers using the CEX tend to find that consumption of the rich is more cyclical and falls more in the Great Recession. Researchers using the PSID find that the poor see substantial declines in consumption, and one study shows that the decline in the consumption rate is much larger for the poor than the rich. It

\(^2\)Guvenen, Ozkan, and Song (2014) use SSA data to argue that variance of idiosyncratic earnings shocks is not counter-cyclical. Instead, it is the left skewness of shocks that is strongly counter-cyclical.
is difficult to reconcile the different findings because different data are used and different points in
the distribution are analyzed. It may be that the perfect consumption data (the analogous data of
the SSA on income) would show the same non-monotonicity shown in Guvenen, Ozkan, and Song
(2014) where the very rich see the largest decline in consumption, but the moderate rich see less of
a decline than the poor.

Third, researchers that sort on shocks received in the recession find long-lasting effects. This is
especially true when sorting on whether one loses a job in a recession.

2.7 Related Areas of Research

There are two areas of research that are related to the core question of this chapter: consumption
risk sharing and consumption inequality. We do not present a comprehensive review of these areas
here, but we want to mention a few studies that are related to the issue of who bears recession
risk. Full consumption risk sharing is the idea that an individual’s consumption is insured against
idiosyncratic shocks. Cochrane (1991) is one of the earliest contributions. He uses the PSID to test
whether idiosyncratic shocks such as illness, unemployment, or forced moving affect consumption.
He finds that involuntary job loss in particular has a large effect on consumption growth. However,
given a limited sample, he concludes that “many of the variables examined here do not yield a
robust rejection of the theory.”

Attanasio and Davis (1996) examine how consumption responds across groups in response to
changes in the hourly wage structure of U.S. workers in the 1980s. They note the “extreme scarcity
of longitudinal data sources with high-quality information on both earnings and consumption ...”.
Given this problem, they instead construct synthetic panels of individuals based on earnings infor-
mation from the Current Population Survey and consumption data from Consumer Expenditure
Survey. They form groups of men based on age and education, and they examine how relative
movements in wages for each group affects consumption growth during the 1980s. Their core find-
ing, best illustrated in their Figure 2, shows a strong relation between relative wage movements
and consumption growth. They conclude that their findings represent “a spectacular failure of
between-group consumption insurance, a failure not explained by existing theories of information-
ally constrained optimal consumption behavior.”
Schulhofer-Wohl (2011) argues that it is crucial to take into account heterogeneity in risk preferences when conducting tests of consumption risk sharing. For example, he shows that if less risk-averse households have more pro-cyclical incomes (as would be expected if individuals sort into occupations based in part on risk tolerance), standard tests of consumption risk sharing will tend to reject full risk sharing even if it is present. He uses the PSID to show that accounting for such heterogeneity leads to a failure to reject full consumption risk sharing.

Another related area of research is on the evolution of consumption inequality over the past 50 years in the United States. There is an enormous literature on this subject, which includes contributions by Slesnick (2001), Attanasio, Battistin, and Ichimura (2004), Krueger and Perri (2006), Heathcote, Perri, and Violante (2010), Aguiar and Bils (2011), Attanasio, Hurst, and Pistaferri (2012), and Meyer and Sullivan (2013b). For the purposes of this chapter, we want to highlight the data used and controversy regarding whether there in fact has been an increase in consumption inequality. The earlier studies in this literature found that consumption inequality measured using the CEX does not track the increase in income inequality. However, later studies argued that this may be due to reporting biases associated with the CEX. Attanasio, Hurst, and Pistaferri (2012) in particular make adjustments in the use of the CEX and look also at evidence from the PSID to find that consumption inequality did in fact rise over the past 30 years.

This debate was particularly fruitful because it helped researchers understand better the advantages and disadvantages of the CEX, which is the main data set on consumption used in the literature. Our approach in our own research has been to rely on administrative data collected by private companies. We will return to some of the issues associated with the CEX in the next section.

3 Zip Code Level Consumption Measures

3.1 Toward administrative measures of consumption

Following the discussion in Section 2.1, a key goal of empirical research in macroeconomic fluctuations is to estimate loadings on \textit{ex ante} factors that predict the decline in consumption across individuals during economic downturns. Substantial progress has been made on the factors that predict a decline in \textit{income} during recessions, in large part due to advances in the administrative
data on earnings that has become recently available. But less progress has been made on consumption. They key limitation is the lack of individual-level panel data that very accurately measures consumption.

As noted above, researchers have primarily used data from two surveys: the CEX and the PSID. However, these two data sets have important limitations. First, neither data set is an ideal panel. The CEX data set only tracks the same individuals for four quarters, and the PSID is only conducted once every two years. This makes a comprehensive analysis of consumption growth during a recession difficult.

Second, both data sets are based on surveys rather than administrative data. The CEX in particular has been criticized as a method for studying cross-sectional variation in consumption across individuals (e.g., Attanasio, Battistin, and Ichimura (2004), Cantor, Schneider, and Edwards (2011)). Studies have outlined many problems with the CEX, such as underreporting by high income households and a low response rate. Further, according to Cantor, Schneider, and Edwards (2011), these problems are becoming worse over time. More generally, there is an extensive body of showing non-classical error in measures of consumption using survey data. One of the most striking examples from the literature comes from Sweden. Koijen, Van Nieuwerburgh, and Vestman (2014) measure actual car purchases from registry data versus responses to a survey. They find underreporting in the survey of 30%—that is, 30% of the households that actually buy a car do not report the purchase to the survey. This underreporting is worse for low income, poor, and older households.

To be clear, we are not saying we should never use survey-based measures of consumption. Adjustments to the measures can be made, or measurement errors may be less relevant for certain questions. However, we believe a promising avenue is to follow the income literature which increasingly relies on administrative data, such as the Social Security Administration data used in Guvenen, Ozkan, and Song (2014).

Some progress on this front has been made very recently. For example, Baker (2014) uses data

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3The debate on the quality of CEX data is not settled. For example, Bee, Meyer, and Sullivan (2012) argue that the CEX performs well once adjustments are taken into account. Attanasio, Hurst, and Pistaferri (2012) argue that adjustments can be done to the CEX which makes cross-sectional comparisons across individuals more accurate. We do not wish to wade too deep into this debate; our goal is to point out that alternative measures of consumption can help.

4See for example the cites in Koijen, Van Nieuwerburgh, and Vestman (2014)
from a large online personal finance website that connects users’ financial accounts. Because the website has bank and credit card accounts, Baker (2014) can measure consumption using administrative data on transactions and withdrawals. Using these data, he finds that highly indebted households are more sensitive to income fluctuations. In particular, a one-standard deviation increase in the debt to asset ratio increases the elasticity of consumption by approximately 25%. Two studies use administrative data from personal finance websites to study the effect of the 2013 government shutdown on consumption and borrowing (Baker and Yannelis (2015), Gelman, Kariv, Shapiro, Silverman, and Tadelis (2015)).

3.2 Zip code level data on consumption

The approach we have used in our own research is to use administrative data that is aggregated by some geographical unit (Mian, Rao, and Sufi (2013)). We have utilized two measures: new auto sales at the zip code level from R.L. Polk, and purchases from debit card and credit card transactions at the county level from MasterCard Advisers. The county identified in the latter data set reflects the county of the store where items are purchased, not the county of residence of the buyer. Both of these data sets are based on actual transactions as opposed to survey responses. The R.L. Polk data are based on the universe of new vehicle registrations. The MasterCard data are limited to transactions where MasterCard is the servicer, but Mian, Rao, and Sufi (2013) show that aggregate spending using the MasterCard data closely tracks aggregate spending from Census retail sales.

In the work that follows we introduce four new measures of consumption. The first is also from R.L. Polk, and reflects the total number of vehicles registered to individuals living in a zip code. We have the total number of vehicles broken down by model year, which we use to depreciate the older vehicles using average used car prices reported in Jacobsen and van Benthem (2014). The final zip code level variable is the total number of vehicles in units of the current year (where older vehicles are depreciated before adding up to the total).

The second measure is credit card spending at the zip code level from Argus Information Services. The zip code in the Argus data reflects the zip code of the buyer’s residence. We explain these data in more detail in Mian, Sufi, and Khoshkhou (2015). It is important to note that this spending measure does not include debit or cash transactions.
The third measure of consumption is registered recreational boats. The boat data come from Merchant Vessels of the United States, a data file of merchant and recreational vessels documented by the U.S. Coast Guard. Code of Federal Regulations (2001) requires any vessel of at least five net tons which engages in the fisheries on the navigable waters of the United States or in the Exclusive Economic Zone, or coastwise trade to be registered each year, with some minor exemptions. Most vessels longer than 25 feet measure five net tons.

The data contain variables for the general service type of the vessel and the registration status. We take the number of all boats with recreational service type and valid registration to calculate the amount of boat consumption. Roughly 70% of vessels with valid registrations are recreational vessels in the data. We use the postal code of the managing owners address to allocate boats to zip codes.\(^5\)

The fourth measure of consumption comes from the American Community Survey. The ACS provides zip code level statistics for every five year wave of surveys conducted. We use the 2005 to 2009 wave and the 2008 to 2012 wave. Two of the five years overlap (2008 and 2009), which will mechanically bias us away from finding large changes in a zip code. We refer to each wave by their midpoint year: the earlier wave is the 2007 wave and the later wave is the 2010 wave. The specific measure of consumption we use from this survey is the number of individuals over 16 per housing unit. We calculate the change in the number of adults living per housing unit from 2007 to 2010 as a measure of per capita consumption of housing services.

There is an additional measure we use that is better interpreted as a measure of welfare than consumption: the number of child births. We have this data set only for the state of California, which collects information on the number of births for residents of zip codes.

### 3.3 Advantages and Disadvantages of Zip Code Level Data

The main advantage of administrative zip code level data on consumption is that it is measured very well, and therefore closely tracks aggregates. For example, total new purchases of vehicles according to R.L. Polk almost perfectly matches total purchases according to Census retail sales. In an ideal world, we would be able to decompose aggregate macroeconomic consumption data into

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\(^5\)We should be depreciating the boats as well but were unable to find depreciation schedules for recreational boats – the next draft will properly depreciate older boats.
each individual. The zip code level administrative data sets are the closest we have at this point to this ideal.\textsuperscript{6}

Relative to the ideal individual level panel data set, what are the disadvantages of using data at the zip code level? The first major disadvantage is that any aggregation procedure smooths differences across the population. If we are interested in how differences in \textit{ex ante} factors or \textit{ex post} shocks affect consumption growth during recessions, we must have sufficient variation across zip codes to estimate parameters. The extent of this problem depends crucially on how people sort across zip codes. If, for example, there is a large degree of heterogeneity across individuals but no heterogeneity across zip code averages, then analysis using zip code level data has no variation to exploit. This would be the case if people randomly sorted across zip codes.

How big of a problem is this in the United States? As of 2000, there were 220 million individuals living in the United States over the age of 16, and approximately 31 thousand zip codes, which gives an average number of adults per zip code of about 7 thousand. However, the zip code level population is heavily skewed to the right. The median number of adults per zip codes is 2,225 and there are 21,732 at the 90th percentile. There are 43,377 at the 99th percentile.

How much variation do we lose by using zip code level data? To answer this question, we need data for some variable at both the individual level and zip code level. One important sorting variable in the literature is income. IRS data is available at both the individual level (in the public use file) and the zip code level. Figure 1 plots the distribution of the individual and zip code level data. For the zip code level data, we calculate the adjusted gross income per return, and then we look at points in the distribution when weighting by the total number of returns. As figure 1 shows, the zip code level distribution is smoothed, especially at the tails of the distribution. The 99th percentile in the individual level data is almost $400 thousand. The 99th percentile zip code has an average AGI of $250 thousand. But even with this smoothing, there is substantial variation in average income across zip codes.

The second potential problem is movers. This is the same criticism that applies to repeated cross-sectional analysis based on percentiles already discussed in Section 2.1, equation 3. Over long periods, people moving across zip codes presents a serious problem. It is not obvious how large a

\textsuperscript{6}Baker (2014) shows that data he employs from a personal finance website closely tracks aggregates once weights are taken into account to adjust for differences in the characteristics of individuals who use the website.
problem moving is when studying a two to three year window such as the Great Recession.

We are unaware of estimates that document the likelihood of people moving across zip codes during a two to three year period. The Census provides information on annual mover rates, which averaged 12.5% from 2006 to 2009. However, most of these movers stayed within the same county. From 2006 to 2009, annual moving rate to another county was 3.9%.

We do not yet have sufficient evidence to assess how moving across zip codes affects the cross-sectional variation of consumption growth using zip code level data. For example, if movers tend to move to other zip codes that are similar based on the sorting variable in question, such movement may not be a concern.7

4 Housing Net Worth Shock and the Great Recession

In this section, we review and build on evidence on the importance of shocks to net worth coming from the collapse in house prices during the Great Recession. In particular, Mian, Rao, and Sufi (2013) show that variation across U.S. counties in the housing net worth shock – or the percentage decline in household net worth coming from the collapse in house prices – is correlated strongly with consumption growth. Using new measures of consumption at the zip code level, we build on this study and discuss possible interpretations of the results.

4.1 Housing net worth shock: definition

Following Mian, Rao, and Sufi (2013), we define the housing net worth shock in a zip code as:

$$HNWShock_z \equiv \frac{p_{z,2009} - p_{z,2006}}{p_{z,2006}} \cdot \frac{H_{z,2006}}{F_{z,2006} + H_{z,2006} - D_{z,2006}}$$

(4)

where $p_{z,t}$ is the median price of an owner-occupied unit in zip code $z$ at time $t$, $H_{z,2006}$ is the value of housing assets owned by residents in zip code $z$ in 2006, $F_{z,2006}$ is the value of financial assets held by residents in zip code $z$ in 2006, and $D_{z,2006}$ is the book value of debt outstanding for residents of zip code $z$ in 2006. This definition follows from the decomposition of the percentage

7 The closest study we could find to answering this question is Yagan (2014) who examines whether workers bore the incidence of local labor demand shocks during the Great Recession even after they move to less affected areas. He finds that even workers that migrate to less impacted areas see “unusually small employment gains.” This does not answer the key question we have in mind: do individuals that move end up in zip codes with a similar shock as the one they left.
change in net worth from 2006 to 2009, where we isolate the percentage change in net worth coming from the collapse in house prices.\(^8\)

As definition 4 illustrates, the cross-sectional variation across zip codes in the housing net worth shock during the Great Recession is driven by two factors: house price growth in zip code \(z\) during the Great Recession and the \textit{ex ante} housing wealth to net worth ratio. The latter captures the effect of leverage. All else equal, zip codes that have more leverage have a higher housing wealth to net worth ratio. This amplifies the effect of house price growth on total net worth. Throughout, we define the housing wealth to total net worth ratio as the second term:

\[
HousingWealthtoNetWorthRatio_z \equiv \frac{H_{z,2006}}{F_{z,2006} + H_{z,2006} - D_{z,2006}}
\] (5)

As we show below, the housing wealth to net worth ratio is a strong predictor of consumption growth across zip codes during the Great Recession, with high housing wealth to net worth ratio zip codes seeing a larger decline in consumption.

The main sample restriction we must make is due to the fact that not all zip codes have accurate house price indices available. In particular, we use CoreLogic data on house prices, which cover approximately 6,600 of the 31,000 zip codes in the United States. These zip codes account for 65\% of the adult population of the United States as of 2000. The main difference between zip codes with and without house price data is population density. The zip codes not in the sample are much more likely to be in rural areas. Rural areas do not have a sufficient number of housing transactions to construct house price indices.

In figure 2, we sort zip codes into five quintiles based on the housing net worth shock during the Great Recession. The quintiles are population-weighted, so each quintile contains the same number of people. We then plot the housing net worth shock across the distribution. By construction, the housing net worth shock is more negative in the lower quintiles.

Figure 2 shows a large degree of heterogeneity across zip codes in the United States in the housing net worth shock. In the first quintile, the collapse in house prices reduced household net worth by almost 30\%. In the fifth quintile, there is almost no change in household net worth coming from the collapse in house prices.

\(^8\)The exact methodology used to construct all variables in definition 4 is in Mian, Rao, and Sufi (2013).
Table 1 shows summary statistics for the sample of zip codes. The summary statistics weight zip codes by total adult population as of 2000. As mentioned above, the housing net worth shock can be decomposed into house price growth from 2006 to 2009 and the housing wealth to net worth ratio as of 2006. As the summary statistics show, there is substantial variation across zip codes in both measures. The average housing wealth to net worth ratio is 0.46, but it is 0.21 at the 10th percentile and 0.77 at the 90th percentile.

Table 1 also shows summary statistics for measures of consumption growth. There is a sharp decline in both new auto purchases and in the stock of vehicles during the Great Recession. Recall that our measure of registered autos depreciates older cars so that the units are in terms of new cars. Credit card spending grew by 4% in nominal terms. The average number of adults per housing units declined by 0.016 from 2007 to 2010. The number of births fell sharply during the Great Recession.\footnote{For auto and boat registrations, we use 2006 to 2010 as the time period of examination. We do so because the registration data is not updated immediately, especially when registrations expire. For births, we use 2006 to 2010 under the assumption that parental decisions on births that are made in 2009 are realized in 2010.}

### 4.2 Housing net worth shock and consumption growth

Figures 3 and 4 show the very strong correlation between consumption growth and the housing net worth shock across zip codes. Zip codes with the most negative housing net worth shock form 2006 to 2009 see a 20% decline in registered autos from 2006 to 2010, a 50% decline in new auto purchases, and a 5% decline in credit card spending. For zip codes in the top quintile, the respective growth was -10%, -25%, and 10%.

Similar results are found in figure 4. Registered recreational boats fall more in zip codes with the most negative housing net worth shock. The number of adults living per housing unit increases the most in these same zip codes. The number of births also falls more in zip codes with the most negative housing net worth shock.

Table 2 presents estimates of the elasticity of consumption growth with respect to the housing net worth shock. Recall that the housing net worth shock is defined as the percentage decline in net worth coming from the collapse in house prices. The estimated elasticities are on the order of 0.2 to 0.8 depending on the measure of consumption. For births, the estimated elasticity is 0.12.

The magnitude in column 5 requires additional information to interpret. Moving from the
90th to 10th percentile of the distribution of housing net worth shocks is a -0.25 movement. The coefficient estimate in column 5 implies such a move leads to a 0.04 increase in the number of adults living per housing unit. This may sound small, but the variation in the number of adults living per housing unit is also small—the standard deviation in the change in number of adults living per unit is only 0.095, and so this effect is almost 1/2 a standard deviation.

In table 3, we decompose the housing net worth shock from 2006 to 2009 into its two components: house price growth from 2006 to 2009 and the housing wealth to net worth ratio as of 2006. Panel A presents OLS estimates. The first column shows that the two components are strongly correlated: zip codes with a high housing wealth to net worth ratio in 2006 experienced a larger decline in house prices during the Great Recession. The powerful correlation makes it difficult to separate the independent effects on consumption. The OLS estimates in columns 2 through 7 show that both components matter, especially for registered autos, new autos, and credit card spending.

In panel B, we include county fixed effects in the estimation. This is useful because the grand majority of the variation in house price growth across zip codes is driven by county-level variation.\textsuperscript{10} For example, the across-county standard deviation in house price growth from 2006 to 2009 is 0.13 whereas the within-county standard deviation is only 0.05. This is a robust feature of house price variation in the United States – the majority of the variation is across county (or across city) as opposed to within county. In contrast, more of the variation in the housing wealth to net worth ratio as of 2006 is driven by within-county differences. The within-county standard deviation in the housing wealth to net worth ratio is 0.16, whereas the across county standard deviation is 0.12.

In an ideal setting, we could test whether the \textit{ex ante} housing wealth to net worth ratio as of 2006 in a zip code predicts a stronger decline in consumption given an identical decline in zip code level house prices. In other words, we could hold the asset price shock constant, and estimate whether larger exposure to the shock has a strong effect on consumption growth.

Unfortunately, even with county fixed effects, house price growth and the housing wealth to net worth ratio are correlated. As column 1 of panel B shows, the regression coefficient remains negative and statistically significant when including county-fixed effects, but the coefficient is smaller with a smaller \( t \) statistic. In columns 2 through 7 we include county fixed effects, and the results indicate a much stronger loading of consumption growth on the housing wealth to total net worth ratio as

\textsuperscript{10}There are 1,021 counties in our sample, so an average of about 7 zip codes per county.
of 2006. That is, controlling for house price growth, zip codes with a larger share of net worth in housing see a bigger decline in consumption.

Figure 5 plots the fraction of homeowners underwater on their mortgage as of 2011 across the 2006 housing wealth to net worth ratio. As it shows, homeowners in zip codes with a higher housing wealth to net worth ratio as of 2006 were almost twice as likely to find themselves underwater on their mortgage when house prices fell.

4.3 Exploring zip codes with high 2006 housing wealth to net worth ratio

We have so far kept silent on the underlying economic mechanism connecting the 2006 housing wealth to net worth ratio to consumption growth during the Great Recession. Table 4 begins our discussion. Each cell in Table 4 is a regression coefficient from a separate regression of the 2006 housing wealth to net worth ratio on factors leading up to the Great Recession. The first column presents OLS estimates, and the second column presents county fixed effects specifications.

Zip codes with a higher housing wealth to net worth ratio as of 2006 experienced higher house price growth from 2002 to 2006. The second row uses as a dependent variable the change in the cash-out refinancing share. This variable is defined as the average share of mortgages refinanced with cash taken out (i.e., the mortgage balance was increased) from 2003 to 2006 minus the average share from 2000 to 2002. As the coefficient estimates show, households with a high housing wealth to total net worth ratio as of 2006 saw a large increase in the share of mortgages refinanced with cash taken out from 2003 to 2006.

Figure 6 shows the result over time. We split the sample into five population-weighted quintiles based on the 2006 housing wealth to net worth ratio, and then plot the share of mortgages refinanced with cash out for the top and bottom quintile. There is a spike in cash-out refinancing in 2003 for both quintiles. But the share drops sharply for low ratio zip codes but remains elevated for high ratio zip codes through 2006. Starting in 2007, the cash-out refinancing share drops sharply for high ratio zip codes.

In Figure 7, we utilize individual level data from Equifax (described in detail in Mian and Sufi (2011)) to plot debt growth of existing homeowners. More specifically, we condition the sample on people who already owned their home in 1998, and then we plot total debt for the high and low 2006 housing net wealth to net worth ratio zip codes. It shows evidence consistent with Figure
6: existing homeowners borrowed much more aggressively against their homes during the housing boom, especially in 2005, 2006, and 2007.

Taken together, the evidence in Table 4, Figure 5, and Figure 7 supports the following narrative. Zip codes with a high 2006 housing wealth to net worth ratio in 2006 saw a large relative increase in house prices from 2002 to 2006, and a large increase in borrowing by homeowners. Figure 8 shows evidence that consumption growth was also higher from 2002 to 2006, which builds on evidence in Mian and Sufi (2014). New auto sales and registered autos increased by more in high housing wealth ratio zip codes during the housing boom, and then fell sharply during the recession.\textsuperscript{11}

\subsection*{4.4 Identification of house price effects}

Our preferred interpretation of the evidence is that cross-sectional variation in exogenous house price growth from 2002 to 2006 across zip codes drove the cross-sectional variation in debt growth and consumption growth by existing homeowners across zip codes. When house prices fell, households in these same zip codes were forced to cut back sharply on consumption. The cut back in consumption was likely due to both an increased in desired savings and a tighter constraints on borrowing. This is the essence of the argument we have built in a series of studies (Mian and Sufi (2011), Mian, Rao, and Sufi (2013), Mian and Sufi (2014)).

It is crucial to note that the causal channel we have highlighted in our previous research is related to zip codes that saw both a \textit{boom} and \textit{bust} in house prices. A zip code level regression of house price growth from 2006 to 2009 on house price growth from 2002 to 2006 yields a negative coefficient with a \textit{t}-statistic of 57 and an \textit{R}^2 of 0.33. In our view, it is impossible to exploit exogenous variation across zip codes in the collapse in house prices independent of the boom in house prices. The boom and bust must be considered together.

The primary concern with an interpretation in which house price movements were the causal factor is that the cross-sectional variation across zip codes in the house price boom and bust was due to omitted factors that may have simultaneously driven house prices, borrowing, and consumption patterns. The most worrisome alternative explanation in our view is a shock to permanent income or productivity during the early part of the 2000s that subsequently reversed during the Great Recession.

\textsuperscript{11}Unfortunately, we do not have credit card spending data prior to 2006.
In an attempt to rule out such alternative explanations for the patterns we have shown above, our previous work has relied on instruments for cross-sectional variation in house price growth. In Mian and Sufi (2011), we use two instruments: one based on across MSA-variation and the other on within-MSA variation. The across-MSA instrument is housing supply elasticity of a city according to Saiz (2010). The logic behind this instrument is that there was a national shock to housing demand from 2002 to 2006 (driven by increased credit availability or stronger preferences for housing services). This national shock translated into higher house price growth in inelastic housing supply MSAs. The within-MSA instrument is based on the interaction of MSA housing supply elasticity and zip-code level credit scores. Mortgage originations for home purchase pushed up house prices disproportionately in low credit score neighborhoods, even though these neighborhoods saw no evidence of stronger wage or income growth.

The third and fourth row of Table 4 examine the regression coefficients of zip code level housing wealth to total net worth ratio as of 2006 on income growth from 2002 to 2006. Echoing results from our previous research, there is no evidence of a contemporaneous positive income shock in these zip codes. In fact, income fell in relative terms in zip codes that saw the most house price growth and borrowing.\footnote{In Mian and Sufi (2014), we also utilize an instrument proposed by Charles, Hurst, and Notowidigdo (2014) which is based on how quickly house prices accelerated in some cities during the 2000 to 2005 period.}

The across-city housing supply elasticity instrument has been criticized by Davidoff (2013), who argues that markets with more inelastic housing supply did not see more severe fluctuations in house prices during the 2000s. It is important to note that his criticism is based on skepticism of the \textit{first stage} relation between house price fluctuations and housing supply elasticity, not on the \textit{exclusion restriction} assumption that more inelastic housing supply cities saw no differential permanent income shock. In our view, the strongest test in Davidoff (2013) is showing that the first stage coefficient of house price movements on the Saiz (2010) measure are not robust to the inclusion of state fixed effects.

However, Davidoff (2013) never argues that inelastic housing supply or high house price growth cities saw stronger permanent income shocks. In fact, he puts forth differential \textit{credit supply} shocks across cities as a major driver of price movements. For example, he points out that Washington Mutual was present in the sand states of Arizona and Nevada, which had high house price growth
but relatively elastic housing supply. If true, then this argument implies that cross-sectional variation across cities in house price growth, borrowing, and consumption may have been driven by differential credit supply shocks. But it does not imply that the variation in house price growth was due to higher permanent income.

There is an additional fact about high housing wealth to net worth ratio zip codes: they are poorer. The final row of Table 4 shows that 2006 average adjusted gross income in high housing wealth to net worth zip codes was lower, and the result is similar with or without county fixed effects. Figure 9 shows the relation across the distribution. In zip codes in the highest quintile of the housing wealth to net worth ratio as of 2006, adjusted gross income was on average $40 thousand. It was almost $90 thousand in the lowest quintile.

This is important because many researchers sort on \textit{ex ante} income or wealth when examining cross-sectional variation in consumption growth during the Great Recession. Lower consumption growth among low income individuals will reflect partially the differential effect of house price declines on low income individuals.

4.5 Models closely related to these facts

In our view, the macroeconomic models that most closely match the facts presented here are Eggertsson and Krugman (2012), Guerrieri and Lorenzoni (2015), and Midrigan and Philippon (2011). All three models feature heterogeneity across agents in the economy where the decline in consumption during a recession is most severe for \textit{constrained} agents.

In Guerrieri and Lorenzoni (2015), agents receive idiosyncratic uninsurable productivity shocks that generate a wealth distribution. There is a borrowing constraint households face, and households that have received the worst realization of productivity shocks end up closest to the constraint. The aggregate shock that precipitates a recession in the model is an exogenous tightening of the borrowing constraint. Such a tightening generates a decline in consumption across much of the distribution. Even unconstrained agents cut back on consumption when the constraint tightens due to a precautionary savings motive.

However, the drop in consumption is largest among households closest to the constraint. Guerrieri and Lorenzoni (2015) provide a figure showing heterogeneity in the consumption response depending on proximity to the constraint (Figure 6 in the current version). The most constrained
agents cut consumption by 10%, whereas the least constrained agents do not adjust consumption. Guerrieri and Lorenzoni (2015) extend the model to address nominal rigidities, the zero lower bound, and durable consumption. But the cross-sectional response to the tightened borrowing constraint is the most relevant aspect of the model for the results shown above.

In Eggertsson and Krugman (2012), there are only two types of agents where an assumption on preferences generates the variation. Constrained agents have a low discount factor and consume up to their borrowing limit every year. Their consumption is therefore pinned down by the borrowing limit. Unconstrained agents lend to the constrained agents, and the interest rate governs their intertemporal consumption allocation decision.

As in Guerrieri and Lorenzoni (2015), the shock that generates the recession is a tightening of the borrowing constraint. In response to the tightening, the constrained agents cut back on consumption. If the interest rate is free to adjust, the unconstrained agents boost consumption as the interest rate falls. However, in the presence of nominal rigidities and the zero lower bound on nominal interest rates, the sharp decline in consumption of the constrained agents pushes the economy into recession. Once again, the key cross-sectional pattern in the model is that the decline in consumption is largest for the constrained agents.

How do these models relate to the empirical findings above? One interpretation is that the tightened borrowing constraint in the model reflects collapsing house prices during the Great Recession. Indeed, as Eggertsson and Krugman (2012) put it: “there are many reasons to expect the borrowing limit to depend to some extent on current condition, for example if the collateral value of the borrowers assets depend on current market conditions (such as the price of houses)...”. Under this interpretation, the model prediction that the cut-back in consumption is largest in zip codes hardest hit by the house price collapse fits well with the data. Mian, Rao, and Sufi (2013) show that counties hit hard by the housing crash saw a larger decline in home equity loan availability, credit card limits, and mortgage refinancing volume.

However, one drawback of these models is that there is no interesting dynamics leading up to the crash. As shown above, it is impossible to separate what happened in the crash from what happened in the boom. Zip codes most exposed to the housing collapse were exposed because they borrowed and consumed so aggressively against rising house prices from 2002 to 2006.

One model that tries to capture both the boom and bust of the housing market is the calibration
exercise of Midrigan and Philippon (2011). In their model, the key friction is a cash-in-advance constraint where both government-issued cash and private credit can be used by households to spend. Private credit for consumption must be collateralized by housing wealth, and the key parameter of interest is the fraction of housing wealth that can be borrowed against, which the authors call $\theta$. The authors introduce heterogeneity by having islands that start identical, but then receive differential positive shocks to their own $\theta$. The positive differential shocks to $\theta$ are meant to explain the differential rise in household debt during the housing boom. But then, $\theta$ reverts back to its pre-boom level, which generates a boom and bust on islands that saw the biggest rise and fall in the collateral constraint.

Midrigan and Philippon (2011) calibrate the model with assumptions on nominal rigidities, labor market rigidities, and collateral constraints that come from cross-sectional analysis of U.S. states during the Great Recession. Their key result is that states with a larger run-up in household debt see a bigger decline in consumption during the Great Recession.

Justiniano, Primiceri, and Tambalotti (2014) build a quantitative model to show that an expansion in credit supply, as opposed to a loosening of borrowing constraints, is more consistent with house price and mortgage debt patterns witnessed from 2000 to 2006. In particular, an expansion in credit supply predicts an increase in house prices, an increase in mortgage debt to GDP ratios, a decline in interest rates, and a flat debt to collateral value ratio. However, Justiniano, Primiceri, and Tambalotti (2014) do not explore how the expansion in credit supply affects consumption.

5 Conclusion

Shocks to household net worth coming from the collapse in house prices was an important determinant of consumption growth during the Great Recession. Further analysis of this pattern reveals that exposure to the housing crash as of 2006, which we measure as the 2006 housing wealth to total net worth ratio, was an important driver of this relation. Our review of the existing literature shows that very few studies focus on exposure to housing shocks when discussing the cross-sectional variation across households in consumption growth over the business cycle. We believe that more work is needed.

We have focused on zip-code level data from the United States during the Great Recession. But
we believe the pattern we have documented is broader. For example, Figure 10 utilizes new state-level personal consumption expenditure data from the BEA, and it shows a very strong relation between house price growth and consumption growth across states during the Great Recession. The estimated elasticity is 0.21, and has a $t$ statistic of 7. There may be skepticism of whether we can interpret this relation as a causal effect. But previous research has attempted to isolate exogenous variation in the boom and bust in house prices, and it robustly predicts a boom and bust in household spending.

Similar analyses have been conducted across countries for the Great Recession. Glick and Lansing (2010) look across countries and find that “countries with the largest increases in household leverage tended to experience the fastest rises in house prices over the same period. These same countries tended to experience the biggest declines in household consumption once house prices started falling.” These results almost perfectly mimic the zip-code level evidence presented here.

An analysis by Leigh, Ignaz, Simon, and Topalova (2012) confirms these findings. They find that countries with a larger run-up in household debt fueled by house price growth from 2002 to 2006 see the largest decline in consumption during the bust. Further, they do a more systematic analysis of past episodes from 1980 to 2011, and they find that housing busts lead to a larger decline in consumption when a large run-up in private debt precedes the bust.

Jordà, Schularick, and Taylor (2014) use a long historical panel on private credit for 17 advanced economies. They find that after World War II, “financial stability risks have been increasingly linked to real estate lending booms which are typically followed by deeper recessions and slower recoveries ... since WWII, it was in particular the overhang of mortgage booms that was associated with more painful recessions and protracted recoveries.”

So where do we go from here? We believe that the empirical regularities are striking, but we still do not have a good sense of the precise economic model that describes them. This in turn is a main drawback of the empirical literature, which has so far attempted to estimate causal effects, not structural underlying parameters of an economic model. We hope that models emerge that help us make sense of these empirical results, which will in turn motivate estimation of the most important underlying economic parameters needed to understand the relation between housing booms and subsequent recessions.
References


Scott R Baker. Debt and the consumption response to household income shocks. 2014.


Barry Z Cynamon and Steven M Fazzari. Inequality, the great recession, and slow recovery. 2014.


Veronica Guerrieri and Guido Lorenzoni. Credit crises, precautionary savings, and the liquidity trap. 2015.


Mark R Jacobsen and Arthur A van Benthem. Vehicle scrappage and gasoline policy. 2014.


Alejandro Justiniano, Giorgio E Primiceri, and Andrea Tambalotti. Credit supply and the housing boom. 2014.


Bruce D Meyer and James X Sullivan. Consumption and income inequality in the us since the 1960s. 2013b.


Danny Yagan. Moving to opportunity? migratory insurance over the great recession. 2014.
Figure 1: Zip Code versus Individual Data: Distribution of 2006 Income

This figure compares zip code level and individual level data on 2006 adjusted gross income from the IRS. For the zip code level distribution, we calculate the AGI per return for each zip code, and then we look at points on the distribution when weighting by the total number of returns in the zip code. As the figure shows, zip code level data smooth the distribution, and the smoothing is substantial at the tails of the distribution.
Figure 2: Housing Net Worth Shock from 2006 to 2009 across Zip Codes

This figure plots the housing net worth shock across the housing net worth shock distribution. Each quintile contains 20% of the adult population.
Figure 3: Housing Net Worth Shock from 2006 to 2009 and Consumption Growth

This figure plots measures of consumption growth across the housing net worth shock distribution. Each quintile contains 20% of the adult population.
Figure 4: Housing Net Worth Shock from 2006 to 2009 and Other Measures of Consumption Growth

This figure plots recreational boats registered, the number of adults per housing unit, and births across the housing net worth shock distribution. Each quintile contains 20% of the adult population. Births are only available for California, and as a result we re-sort zip codes into quintiles based on California only for the right panel.
Figure 5: Housing Wealth to Net Worth Ratio and Underwater Homeowners

This figure plots the fraction of homeowners underwater in 2011 (total mortgage balance greater than the value of the home) across the distribution of the 2006 housing wealth to net worth ratio. Each quintile contains 20% of the population.
For this figure, we sort zip codes into population-weighted quartiles based on the 2006 housing wealth to net worth ratio. We plot the highest and lowest quartile below. The cash out refinancing share is the share of outstanding mortgages refinanced where cash is taken out in a given year.
Figure 7: Total Debt of Homeowners, by 2006 Housing Wealth to Net Worth Ratio

This figure uses individual-level data on people who were homeowners as of 1998. We sort individuals into groups based on the housing net worth to total net worth ratio of the zip code they live in 2006. We then track total debt of homeowners in the top and bottom quartile.
Figure 8: Consumption of Car Services, by 2006 Housing Wealth to Net Worth Ratio

For this figure, we sort zip codes into population-weighted quartiles based on the 2006 housing wealth to net worth ratio. We plot the highest and lowest quartile below.
Figure 9: Average 2006 Income by 2006 Housing Wealth to Net Worth Ratio

This figure plots the average 2006 adjusted gross income across the housing wealth to net worth ratio distribution. Each quintile contains 20% of the adult population.
Figure 10: Consumption Growth and House Price Growth across States, 2006 to 2009

This figure plots consumption growth from 2006 to 2009 against house price growth from 2006 to 2009 for states. We use BEA state-level data on personal consumption growth and house price growth data from CoreLogic.
Table 1: Summary Statistics
This table presents summary statistics for zip codes in our sample. The sample is restricted to zip codes for which CoreLogic house price growth data are available. The housing net worth shock is the decline in net worth driven by the decline in house prices, or the product of house price growth from 2006 to 2009 and the 2006 housing wealth to net worth ratio. Registered autos reflect the total number of autos registered to residents of a zip code, where autos are depreciated according to their model year. Data on births are available only for California. For registered recreational boats, only zip codes with at least 10 registered boats in 2006 are included.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>10th</th>
<th>90th</th>
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<tr>
<td><strong>Housing net worth shock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing net worth shock, 2006 to 2009</td>
<td>6689</td>
<td>-0.106</td>
<td>0.111</td>
<td>-0.262</td>
<td>-0.005</td>
</tr>
<tr>
<td>Housing wealth to net worth, 2006</td>
<td>6689</td>
<td>0.456</td>
<td>0.218</td>
<td>0.212</td>
<td>0.767</td>
</tr>
<tr>
<td>House price growth, 2006 to 2009</td>
<td>6689</td>
<td>-0.201</td>
<td>0.154</td>
<td>-0.429</td>
<td>-0.018</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in autos registered, 2006 to 2010</td>
<td>6689</td>
<td>-0.135</td>
<td>0.084</td>
<td>-0.234</td>
<td>-0.036</td>
</tr>
<tr>
<td>Growth in new auto sales, 2006 to 2009</td>
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<td>-0.382</td>
<td>0.149</td>
<td>-0.582</td>
<td>-0.199</td>
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<td>Credit card spending growth, 2006 to 2009</td>
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<td>0.146</td>
<td>-0.141</td>
<td>0.222</td>
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<tr>
<td>Change in adults per housing unit, 2007 to 2010</td>
<td>6686</td>
<td>-0.016</td>
<td>0.095</td>
<td>-0.125</td>
<td>0.091</td>
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<tr>
<td>Growth in boats registered, 2006 to 2010</td>
<td>3390</td>
<td>-0.079</td>
<td>0.209</td>
<td>-0.333</td>
<td>0.176</td>
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<tr>
<td>Growth in number of births, 2006 to 2010</td>
<td>855</td>
<td>-0.087</td>
<td>0.106</td>
<td>-0.202</td>
<td>0.038</td>
</tr>
<tr>
<td>Fraction of homeowners underwater, 2011</td>
<td>6300</td>
<td>0.337</td>
<td>0.158</td>
<td>0.143</td>
<td>0.565</td>
</tr>
<tr>
<td><strong>Ex ante patterns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House price growth, 2002 to 2006</td>
<td>6689</td>
<td>0.457</td>
<td>0.319</td>
<td>0.090</td>
<td>0.908</td>
</tr>
<tr>
<td>Change in cash-out refinancing share</td>
<td>6689</td>
<td>0.022</td>
<td>0.047</td>
<td>-0.025</td>
<td>0.081</td>
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<tr>
<td>Median household income, 2000</td>
<td>6689</td>
<td>48.705</td>
<td>16.657</td>
<td>31.031</td>
<td>70.821</td>
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<td>Wage growth, per tax return, 2002 to 2006</td>
<td>6689</td>
<td>0.106</td>
<td>0.068</td>
<td>0.030</td>
<td>0.189</td>
</tr>
<tr>
<td>AGI growth, per tax return, 2002 to 2006</td>
<td>6689</td>
<td>0.186</td>
<td>0.124</td>
<td>0.064</td>
<td>0.345</td>
</tr>
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</table>
Table 2: Housing Net Worth Shock from 2006 to 2009 and Consumption Growth

This table presents zip-code level regressions relating measures of consumption growth during the Great Recession to the housing net worth shock from 2006 to 2009. The housing net worth shock is the percentage decline in net worth coming from the collapse in house prices. Births are only available for California. Standard errors are clustered by county.

<table>
<thead>
<tr>
<th></th>
<th>(1) Registered auto growth 06 to 09</th>
<th>(2) New Auto sales growth 06 to 09</th>
<th>(3) CC spending growth 06 to 09</th>
<th>(4) Registered boat growth 06 to 09</th>
<th>(5) Adults per unit change 06 to 09</th>
<th>(6) Births growth 06 to 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing net worth shock, 06 to 09</td>
<td>0.381** (0.020)</td>
<td>0.788** (0.030)</td>
<td>0.493** (0.038)</td>
<td>0.187** (0.052)</td>
<td>-0.153** (0.035)</td>
<td>0.120** (0.026)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.095** (0.003)</td>
<td>-0.298** (0.006)</td>
<td>0.093** (0.005)</td>
<td>-0.061** (0.007)</td>
<td>-0.032** (0.003)</td>
<td>-0.034** (0.009)</td>
</tr>
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<td>Observations</td>
<td>6689</td>
<td>6689</td>
<td>6689</td>
<td>3390</td>
<td>6686</td>
<td>856</td>
</tr>
<tr>
<td>R²</td>
<td>0.250</td>
<td>0.342</td>
<td>0.139</td>
<td>0.007</td>
<td>0.032</td>
<td>0.028</td>
</tr>
</tbody>
</table>
Table 3: Decomposition of Housing Net Worth Shock Effect on Consumption Growth

This table presents zip-code level regressions relating measures of consumption growth during the Great Recession to the components of the housing net worth shock: the 2006 house wealth to net worth ratio and house price growth from 2006 to 2009. Births are only available for California. Panel B includes county fixed effects. Standard errors are clustered by county.

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
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<td>House price growth 06 to 09</td>
<td>Registered auto growth 06 to 09</td>
<td>New Auto sales growth 06 to 09</td>
<td>CC spending growth 06 to 09</td>
<td>Registered boat growth 06 to 09</td>
<td>Adults per unit change 06 to 09</td>
<td>Births growth 06 to 09</td>
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<td>House wealth to net worth, 2006</td>
<td>-0.297** (0.022)</td>
<td>-0.034** (0.013)</td>
<td>-0.149** (0.022)</td>
<td>-0.036* (0.014)</td>
<td>-0.031 (0.024)</td>
<td>0.061** (0.015)</td>
<td>-0.056** (0.014)</td>
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<td>House price growth, 06 to 09</td>
<td>0.271** (0.020)</td>
<td>0.460** (0.034)</td>
<td>0.373** (0.024)</td>
<td>0.093* (0.039)</td>
<td>-0.033 (0.027)</td>
<td>0.059 (0.037)</td>
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<tr>
<td>Constant</td>
<td>-0.065** (0.011)</td>
<td>-0.065** (0.004)</td>
<td>-0.222** (0.009)</td>
<td>0.132** (0.006)</td>
<td>-0.047** (0.011)</td>
<td>-0.050** (0.006)</td>
<td>-0.005 (0.016)</td>
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<tr>
<td>Observations</td>
<td>6689</td>
<td>6689</td>
<td>6689</td>
<td>6689</td>
<td>3390</td>
<td>6686</td>
<td>856</td>
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<tr>
<td>R²</td>
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<td>0.358</td>
<td>0.174</td>
<td>0.006</td>
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Panel B: County Fixed Effects

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<td></td>
<td>House price growth 06 to 09</td>
<td>Registered auto growth 06 to 09</td>
<td>New Auto sales growth 06 to 09</td>
<td>CC spending growth 06 to 09</td>
<td>Registered boat growth 06 to 09</td>
<td>Adults per unit change 06 to 09</td>
<td>Births growth 06 to 09</td>
</tr>
<tr>
<td>House wealth to net worth, 2006</td>
<td>-0.086** (0.009)</td>
<td>-0.075** (0.008)</td>
<td>-0.221** (0.018)</td>
<td>-0.077** (0.012)</td>
<td>-0.108** (0.033)</td>
<td>0.064** (0.013)</td>
<td>-0.051** (0.014)</td>
</tr>
<tr>
<td>House price growth, 06 to 09</td>
<td>0.083** (0.023)</td>
<td>0.222** (0.038)</td>
<td>0.216** (0.036)</td>
<td>0.189* (0.093)</td>
<td>-0.044 (0.024)</td>
<td>0.019 (0.035)</td>
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<tr>
<td>Observations</td>
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<td>6689</td>
<td>6689</td>
<td>6689</td>
<td>3390</td>
<td>6686</td>
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<tr>
<td>R²</td>
<td>0.896</td>
<td>0.556</td>
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<td>0.422</td>
<td>0.251</td>
<td>0.443</td>
<td>0.128</td>
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</table>

**,* Coefficient statistically different than zero at the 1% and 5% confidence level, respectively.
### Table 4: Understanding Variation in 2006 Housing Wealth to Net Worth Ratio

This table presents coefficients from zip-code level univariate regressions of the housing wealth to net worth ratio in 2006 on various zip code level characteristics. Each cell is from a separate regression. The regression specifications in column 2 include county fixed effects. Standard errors are clustered by county.

<table>
<thead>
<tr>
<th>Housing wealth to net worth ratio, 2006</th>
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</thead>
<tbody>
<tr>
<td>House price growth, 2002 to 2006</td>
<td>0.313** (0.040)</td>
<td>0.521** (0.106)</td>
</tr>
<tr>
<td>∆ Cash-out refinancing share</td>
<td>2.495** (0.271)</td>
<td>3.894** (0.205)</td>
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<tr>
<td>Wage growth, 2002 to 2006</td>
<td>-0.626** (0.071)</td>
<td>-1.179** (0.090)</td>
</tr>
<tr>
<td>AGI growth, 2002 to 2006</td>
<td>-0.825** (0.038)</td>
<td>-1.078** (0.051)</td>
</tr>
<tr>
<td>Ln(Adjusted gross income, 2002)</td>
<td>-0.244** (0.025)</td>
<td>-0.339** (0.014)</td>
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<tr>
<td>County Fixed Effects</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**, * Coefficient statistically different than zero at the 1% and 5% confidence level, respectively.
Appendix Table 1  
List of Studies on the Cross-Sectional Implications of Recessions

<table>
<thead>
<tr>
<th>Study</th>
<th>Data</th>
<th>Outcome</th>
<th>Time period</th>
<th>Cross-sectional sort</th>
<th>Main results</th>
</tr>
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<tr>
<td><strong>Studies that sort on ex ante characteristics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guvenen, Ozkan, Song (2014)</td>
<td>SSA</td>
<td>Income growth</td>
<td>1978-2011</td>
<td>Ex ante earnings</td>
<td>Lower income workers lose more in recession through 90th percentile, very high lose most (non-monotonic); variance of earnings not counter-cyclical, left skewness is</td>
</tr>
<tr>
<td>Heathcote and Perri (2015)</td>
<td>PSID/CEX</td>
<td>Consumption to income ratio</td>
<td>Great Recession</td>
<td>Ex ante wealth</td>
<td>Poor see larger decline in consumption rate during Great Recession</td>
</tr>
<tr>
<td>Mian and Sufi (2010)</td>
<td>County-level RL Polk, Census residential permits</td>
<td>Consumption growth (autos and new housing permits)</td>
<td>Great Recession</td>
<td>Ex ante household debt to income ratio</td>
<td>Auto purchases and new housing permits fell more in high household debt to income counties</td>
</tr>
<tr>
<td><strong>Studies that sort on contemporaneous placement in distribution, or mixed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cynamon and Fazzari (2014)</td>
<td>SCF, Flow of funds, NIPA</td>
<td>Consumption to income ratio</td>
<td>1989-2012</td>
<td>Contemporaneous spot in distribution</td>
<td>Consumption rate of lower 95% falls dramatically in Great Recession</td>
</tr>
<tr>
<td>Mankiw and Zeldes (1991)</td>
<td>PSID</td>
<td>Consumption growth</td>
<td>1970-1984</td>
<td>Ex post stock holdings</td>
<td>Consumption of stockholders more volatile, more highly correlated with equity market returns</td>
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<tr>
<td>Study</td>
<td>Database</td>
<td>Measure</td>
<td>Period</td>
<td>Description</td>
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<td>-----------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Parker and Vissing-Jorgensen (2010)</td>
<td>CEX and IRS</td>
<td>Income growth and consumption growth</td>
<td>1982-2009</td>
<td>Contemporaneous spot in distribution, some panel element Consumption of top 5% more cyclical</td>
<td></td>
</tr>
<tr>
<td>Perri and Steinberg (2012)</td>
<td>CEX and PSID</td>
<td>Income growth and consumption growth</td>
<td>Great Recession</td>
<td>Both contemporaneous spot in distribution, and ex ante sorts Bottom 20% does much worse after recession, transfers help but do not completely offset consumption decline</td>
<td></td>
</tr>
<tr>
<td>Saez (2015)</td>
<td>IRS</td>
<td>Income growth</td>
<td>1993 - 2013</td>
<td>Contemporaneous spot in distribution Income of top 1% much more cyclical</td>
<td></td>
</tr>
</tbody>
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**Studies that sort on shock received in recession**

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<td>Job displacement 2.8 years of pre-displacement earnings lost if lose job in recession</td>
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<td>Kahn (2010)</td>
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<td>Oreopoulos, von Wachter, Heisz (2012)</td>
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