Did the Housing Price Bubble Clobber Local Labor Market Job and Worker Flows When It Burst?

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Housing and the Labor Market

- Housing bubble, with a peak in 2006
- Subsequent recession seems to be different from previous recessions:
  - Longer in the labor market (unemployment rate sticky, LF participation rate down)
  - Housing market still declining (played no apparent role in previous recessions)
- Is it a red herring?
Usual and Unusual Suspects

• Increase in unemployment benefits (response and cause; Bender, Schmieder, von Wachter, 2011)

• Low vacancy rates/ structural (skill) mismatch

• Unusual amount of “underwater” mortgages but also foreclosures, leading to “lock-in” (Farber, 2011; Donovan and Schure, 2011)
Something Else As Well

The graph shows the fraction of employment over time from 1993q1 to 2011q1. The following lines are represented:

- Green line: Seasonally adjusted wrr
- Orange line: HP-filtered wrr
- Blue line: JOLTS: Worker Reallocation Rate
- Red line: JOLTS: WRR adjusted
Going on for Quite Some Time

Figure 5. Job Creation and Job Destruction in Manufacturing, 1947 - 2005

Notes: Estimates come from author's calculations from the BED and a spliced series of LTS and LRD manufacturing job flow data. The series are spliced together using GMM estimation to match key moments of the data. See text and Davis and Haltiwanger (1999) for details. Shaded areas represent NBER-dated recessions.
Labor Market Rigidity in the Great Recession

• Overall job reallocation in the labor market has declined
  – Secular decline lasting several decades
  – More severe declines in the past two, including the last recession
  – No sign of upward tick
BACK TO HOUSING AND THE LABOR MARKET
Housing Indices

• Remarkable heterogeneity across MSAs
• But also persistence within MSAs
• We classify MSAs by their 2006:4 location in the distribution, track them throughout
• Focus on the top 10%
National and Local Labor Markets

- Focus on stable jobs and associated earnings, separations, accessions
- Use QWI data reported/aggregated to MSA level
- Use National QWI (NQWI) data (Abowd & Vilhuber, 2011)
MSAs in the Top HPI Decile

- Employment peaks earlier
- Full-quarter accessions fell off the cliff
- Full-quarter separations fell only very gently
Analysis

• We attempt to capture the differentially strong effect of the housing price bubble on the top MSAs

• MSA-level estimates of the responsiveness of gross worker and job flows to the HPI
  – controlling for the national levels
  – isolating the marginal contribution of the local HPI on the predicted flows
Model

- National equation

\[ y_{ot} = x_{ot} \bar{\beta} + \epsilon_{ot}. \]

- \( x \): set of (lagged) national indicators

- Local equation

\[ y_{jt} = x_{ot} \bar{\beta} + (x_{jt} - x_{ot}) \beta_j + \epsilon_{ot} + \epsilon_{jt}. \]
• **Flexible estimation equation**

\[ y_{jt} = \beta_{1j}y_{ot} + \beta_{2j}x_{ot} + \beta_{3j}x_{jt} + \epsilon_{jt}, \]

• **Restated as mixed-effects model**

\[
y_{jt} = \bar{\beta}_1 y_{ot} + \bar{\beta}_2 x_{ot} + \bar{\beta}_3 x_{jt} \\
+ \bar{\nu}_1 y_{ot} + \bar{\nu}_2 x_{ot} + \bar{\nu}_3 x_{jt} \\
+ \epsilon_{jt}
\]
Fitted marginal predictors

\[ \hat{y}_{jt} = \hat{\beta}_1 y_{ot} + \hat{\beta}_2 x_{ot} + \hat{\beta}_3 x_{jt} \]

- Effects of the overall market conditions and MSA variation in the housing market and local labor market conditions
Fitted marginal predictor + EBLUPs

\[ \hat{y}_{jt} = \tilde{y}_{jt} + \tilde{u}_{1j}y_{ot} + \tilde{u}_{2j}x_{ot} + \tilde{u}_{3j}x_{jt}. \]

- captures the incremental contribution of the MSA-specific variation in the coefficients
RESULTS
<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>National Variable Coefficient</th>
<th>Random Effect Standard Deviation</th>
<th>Log Local Housing Price Index Coefficient</th>
<th>HPI Random Effect Standard Deviation</th>
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</thead>
<tbody>
<tr>
<td>FQ accession rate</td>
<td>0.9649</td>
<td>0.1364</td>
<td>0.0267</td>
<td>0.0110</td>
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<tr>
<td></td>
<td>(0.0307)</td>
<td></td>
<td>(0.0072)</td>
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<td>FQ separation rate</td>
<td>1.0318</td>
<td>0.1519</td>
<td>0.0222</td>
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<td>(0.0084)</td>
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<tr>
<td>FQ job creation rate</td>
<td>0.9748</td>
<td>0.2485</td>
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<tr>
<td></td>
<td>(0.0399)</td>
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<td>(0.0069)</td>
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<tr>
<td>FQ job destruction rate</td>
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<td>0.2693</td>
<td>0.0101</td>
<td>0.0128</td>
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<tr>
<td></td>
<td>(0.0491)</td>
<td></td>
<td>(0.0079)</td>
<td></td>
</tr>
</tbody>
</table>

Standard errors are in parentheses.
Model Results for Middle 80% Earnings

For HPI Decile Group 2

- Recessions
- Avg. Full prediction
- Avg. Actual
- Avg. Marginal prediction (no RE)
Model Results for Top 10%

Log real full-quarter earnings

1993q1 1997q3 2002q1 2006q3 2011q1

Recessions
 Actual (Group 2)
 Actual (Group 3)
Model Results for Top 10%
Conclusions

• For most MSAs the collapse of the labor market during the Great Recession was primarily a macro-economic phenomenon.

• In the MSAs most severely impacted by the housing price decline, employment fell more rapidly (and sooner), accessions crashed more severely, and earnings failed to adjust as predicted by the average-MSA model.
THE END
ADDITIONAL GRAPHS