Goodbye to a giant
Slightly more than a week ago, the global economics community lost a giant—Karl "Chip" Case, professor of economics emeritus at my alma mater, Wellesley College, and a senior fellow at the Joint Center for Housing Studies at Harvard University. He was a gifted academic, an amazing mentor to so many students, and a very generous and warmhearted human being. He is familiar to so many because his was one-half of the name of an important index for the housing industry—the Case-Shiller Home Price Index.

Professor Case had been intrigued by home prices since early in his career, when he purchased a home in an affluent Boston suburb in 1976. As he explained it, he was fascinated to see his home grow in value, quintupling in price over the course of a decade. That began many years of focus on the housing market and its impact on the broader US economy.

Wealth effect fuels consumption
The Case-Shiller index was created in 1991 when Professor Case teamed with Professor Robert Shiller of Yale, who was then focused on the study of stock market bubbles. The Case-Shiller Home Price Index tracks the monthly changes in price for single-family home resales, providing transparency on a subject that up until then was difficult to glean. But Professor Case did much more than just track home prices. He conducted significant research on the link between housing wealth and consumption—an area of research that had largely been unexplored until then.

Professor Case's 1992 research paper showed that home prices had a substantial effect on consumption during the real estate price boom in the late 1980's in New England. A whitepaper written by Case, Shiller and Quigley in 2001, and then updated in 2013, posits that higher home prices typically create a "wealth effect" more powerful than rising stock prices, which in turn encourages higher consumer spending. To put it simply, Professor Case demonstrated that housing has a substantial impact on the overall economy.

Housing continues a slow recovery
Since housing has such an important impact on the overall economy, we need to follow housing data closely. In the past week, we have seen various data releases on the state of the housing market and the data paint a picture of a market that is generally continuing to recover. According to the July Housing Market Index, housing market conditions slightly disappointed relative to expectations but
remain strong. The area of weakness is apparently traffic, which remains low—reflecting a reduced number of first-time home buyers.

In addition, June housing starts are low but improving while existing home sales extended gains of the previous month, rising 1.1% to a 5.57 million annualized rate for June—the highest level we’ve seen in nearly a decade. But the improvement in sales volume seems to have come at the expense of relatively stagnant home prices. The Federal Housing Finance Agency House Price Index for May rose only 0.2%—which is the weakest monthly performance in nearly a year and one of the weakest of the whole recovery. The year-over-year rate is also low at 5.6% for a 0.3% dip from April.

**Housing as a source of inflation**

It is also important to note that while housing prices have decelerated recently, the rise in housing costs is continuing to impact inflation. While core goods prices have been held down by the decline in oil prices and a strong US dollar, core service prices have risen 3.2% year-over-year, a large part of which can be explained by owners equivalent rent and rents themselves. Housing, as a source of inflation, can also be economically impactful.

This coming week we'll get even more data on the housing market, including the latest readings from the Case-Shiller Home Price Index. In addition, we'll receive critical information on some of the factors that impact the housing market, including the July FOMC meeting decision on the federal funds rate and overall economic growth. Professor Case recognized that there were several factors impacting the housing market over the long run, including household formation and immigration, which we need to follow as well when projecting longer-term trends. For now, it seems the state of the steadily improving housing market will provide a mild boost to consumer spending.

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