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Consumer Spending Survey

Texas Downturn Had an Upside

By Ali Anari

A Real Estate Center research study found that the larger the share of housing expenditures in consumers' budgets, the more home prices in their region fell since 2007. The Center's analysis of consumer spending data explains why the Texas housing market has fared far better than other states that have suffered plummeting home values and rising foreclosure rates. More importantly, the study suggests why the state's economy is expected to continue to do better than the rest of the U.S. economy.

Consumer Expenditure Survey

Spending by U.S. consumers accounts for about 70 percent of the nation's gross domestic product (GDP). Because consumer expenditures are so critical to the nation's economy, since 1980 the U.S. Census Bureau has conducted the Survey of Consumer Expenditures for the U.S. Bureau of Labor Statistics. The survey collects data and information on the buying habits of American consumers. These data are available for the United States, four geographic regions of the country (Northeast, Midwest, South and West), and for major metropolitan areas.

The Dallas-Fort Worth and Houston-Galveston-Brazoria metro areas are two of the major metropolitan areas for which consumer expenditure (CE) data are available. These two metros accounted for 50.3 percent of Texas labor force in 2009 and 64 percent of Texas GDP in 2008.

Consumers allocate their incomes among various goods and services and by doing so determine the quantities produced and prices of consumer goods and

Major Metropolitan Areas Ranked by Shelter Expenditures as Share of Total Expenditures

Region	Percent of Total Expenditures Spent for Shelter			Median Home Price Change
	2008	1987	Change	2007–09
Houston-Galveston-Brazoria, Tex.*	18.6	17.6	1.0	0.4
Dallas-Fort Worth, Tex. **	18.6	16.4	2.2	–3.8
Cleveland-Elyria-Mentor, Ohio	20.1	14.3	5.8	–17.8
Minneapolis-St. Paul, Minn.-Bloomington, Wis.	20.1	18.8	1.3	–19.5
Seattle-Tacoma-Bellevue, Wash.	21.9	17.5	4.4	–20.9
Chicago-Naperville-Joliet, Ill.	22.5	17.1	5.4	–28.0
Philadelphia, Pa.-Camden, N.J.-Wilmington, Del.	22.7	16.8	5.9	–8.1
Boston-Cambridge, Mass.-Quincy, N.H.	23.3	22.7	0.6	–15.8
Atlanta-Sandy Springs-Marietta, Ga.	23.4	19.2	4.2	–28.3
Washington, D.C.-Arlington-Alexandria, Va.	24.3	20.7	3.6	–28.3
Baltimore-Towson, Md.	24.6	17.8	6.8	–12.2
Miami-Fort Lauderdale-Miami Beach, Fla.	25.7	19.0	6.7	–42.2
New York, N.Y.-Northern New Jersey, N.J.-Long Island, N.Y.	26.1	20.1	6.0	–18.6
Los Angeles-Long Beach-Santa Ana, Calif.	26.3	22.1	4.2	–43.8
San Francisco-Oakland-Fremont, Calif.	27.3	24.6	2.7	–38.7
San Diego-Carlsbad-San Marcos, Calif.	30.8	21.7	9.1	–38.9

*Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller counties
**Collin, Dallas, Delta, Denton, Ellis, Henderson, Hood, Hunt, Johnson, Kaufman, Parker, Rockwall, Tarrant and Wise counties
Sources: Bureau of Labor Statistics, National Association of Realtors and Real Estate Center at Texas A&M University

services. Regardless of income level, the most important items in a consumer's budget are food, shelter and clothing. However, no matter how important an item, its share of a consumer's total expenditures cannot continually increase for a long time.

When expenditures in a particular category in the consumer's budget take larger and larger shares of total expenses, consumers look for less expensive substitutes. This can lower demand for more expensive goods and services, leading to lower prices for those goods and services. For example, if the price of beef gets too high, people eat more chicken.

Houston and Dallas consumers spent the smallest shares of their total expenditures for shelter in 2008 than residents of all other U.S. major metropolitan areas.

Consumers in housing markets have a number of options. The most important choice is whether to rent or buy. The next decision is to choose from various housing options across the income spectrum.

Data from the consumer expenditure survey show that shelter expenses typically account for the largest portion of the average household's expenditures. Shelter expenses include expenditures on owned dwellings, rented dwellings and other lodging.

Expenditures on owned dwellings include:

- mortgage interest,
- interest on home equity loans and lines of credit,
- property taxes and insurance,
- refinancing and prepayment charges,
- ground rent,
- expenses for property management and security,
- homeowners' insurance,
- fire insurance and extended coverage,
- expenses for repairs and maintenance contracted out, and
- expenses of materials for owner-performed repairs and maintenance for dwellings used or maintained by the consumer.

Mortgage principal repayments are not included in shelter expenses as principal payments are considered to be reductions in mortgage loans.

Expenses on rented dwellings include:

- rent paid,
- rent received as pay,
- parking fees and
- maintenance.

Expenses on other lodging include costs for vacation homes, schools, colleges, hotels, motels and other lodging while out of town.

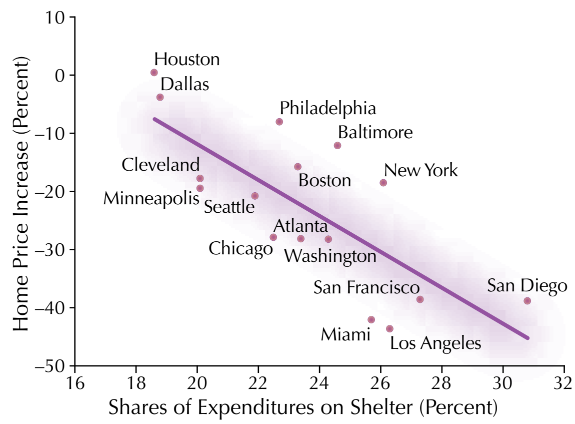
The share of shelter expenses in average annual expenditures per consumer unit in the United States in 2008 was 20.2 percent, up from 17.2 percent in 1987. Consumer units include families, single persons living alone or financially independent single persons sharing a household with others.

Texas Metros Versus Major U.S. Metros

Average annual expenditure shares for shelter per consumer have increased in all major metropolitan areas for which data have been collected since 1987 (see table). Houston and Dallas consumers spent the smallest shares of their total expenditures for shelter in 2008 (18.6 percent), followed by Cleveland-Elyria-Mentor (20.1 percent), Minneapolis-St. Paul-Bloomington (20.1 percent) and Seattle-Tacoma-Bellevue (21.9 percent).

Three California metros recorded the largest expenditures going for shelter. San Diego-Carlsbad-San Marcos had the largest share (30.8 percent), followed by San Francisco-Oakland-Fremont (27.3 percent) and Los Angeles-Long Beach-Santa Ana (26.3 percent). San Diego-Carlsbad-San Marcos experienced the largest increase in share of expenses spent for shelter, 9.1 percent from 1987 to 2008.

Expenditure Shares for Shelter in 2008 and Percent Change in Home Prices, Major Metropolitan Areas, 2007–09



The two Texas metros did not have large increases in their expenditure shares for shelter from 1987 to 2008. Houston's share rose by 1 percent while Dallas' share increased by 2.2 percent.

Percent change in median home values sold from 2007 to 2009 according to the National Association of Realtors is shown in the table. Houston is the only metro in the study to post home price appreciation during the nationwide home price correction. Dallas had the smallest rate of home price decline (–3.8 percent) followed by Philadelphia-Camden-Wilmington (–8.1 percent), and Baltimore-Towson (–12.2 percent).

Los Angeles-Long Beach-Santa Ana recorded the largest home price decline (–43.8 percent). San Diego-Carlsbad-San Marcos and San Francisco-Oakland-Fremont also had high rates of home price declines.

In general, there is a negative relationship between the shares of shelter expenditures and home price appreciation rates, with a correlation coefficient of minus 58.2 percent.

A scatter diagram for the pairs of shelter expenditure shares and home price changes and the estimated regression line fitted to the two variables by regressing home price growth rates on shelter's shares is shown in the figure. The fitted line intersects the zero line at the point where the share of shelter expenditures is about 16.5 percent, which represents the equilibrium share of shelter expenditures. At this point, the home price appreciation rate is zero.

The Houston and Dallas housing markets are not far from this point, so it is not surprising that the two Texas regions are experiencing normal home price fluctuations. The risk of a home price decline for Texas is low.

Expenditure Effect Versus Wealth Effect of Home Prices

Home price changes have expenditure effects and wealth effects. On the demand side, lower housing costs allow consumers to spend more on nonhousing goods and services, leading to higher regional economic growth rates. More affordable housing also can attract more immigrants to a region, leading to higher population growth rates, a larger labor force and more demand for goods and services.

On the supply side, lower costs and prices of real estate properties can significantly increase profitability of more economic activities, leading to more investments in a region and higher economic growth rates. One reason for the Texas economy's higher-than-national-average growth rate is the state's lower-than-national-average housing costs.

By increasing homeowners' wealth, higher home prices can increase consumption and investment when homeowners' equity is used to finance consumption or investment. Although falling home prices do wipe out a portion of consumers' wealth, the benefits of lower housing costs caused by expenditure effects may offset the negative impact of falling home prices.

In retrospect, this "great recession" will be remembered as the Great Correction.

One reason for the Texas economy's higher-than-national-average growth rate is the state's lower-than-national-average housing costs.

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THE TAKEAWAY

Texans pay a smaller portion of their incomes on housing than those in other states. A Center research study based on consumer spending data for major U.S. metropolitan areas found that the larger the share of their budgets consumers pay for shelter costs, the more home prices in their regions have fallen since 2007. Study results suggest why Texas has suffered less than other states during the downturn, and why continuing home price declines are unlikely in the state.

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