



## Abstract

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## Household Balance Sheets, Consumption, and the Economic Slump

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**Abstract:**

We investigate the consumption consequences of the 2006 to 2009 housing collapse using the highly unequal geographic distribution of wealth losses across the United States. We estimate a large elasticity of consumption with respect to housing net worth of 0.6 to 0.8, which soundly rejects the hypothesis of full consumption risk-sharing. The average marginal propensity to consume (MPC) out of housing wealth is 5 to 7 cents with substantial heterogeneity across zip codes. Zip codes with poorer and more levered households have a significantly higher MPC out of housing wealth. In line with the MPC result, zip codes experiencing larger wealth losses, particularly those with poorer and more levered households, experience a larger reduction in credit limits, refinancing likelihood, and credit scores. Our findings highlight the role of debt and the geographic distribution of wealth shocks in explaining the large and unequal decline in consumption from 2006 to 2009.

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