Housing markets, wealth and the business cycle

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Real house prices increased unusually rapidly in recent years
Recent house price gains have been countercyclical.
House price increases are more common across countries than before.
From housing prices to economic activity: possible transmission mechanisms

- Consumption and housing wealth
- Consumption and borrowing capacity
- Residential investment and the profitability of construction
Impact of housing conditions on consumption: empirical evidence

• Changes in housing wealth have a significant effect on consumption in Australia, Canada, the Netherlands, the United Kingdom and the United States

• In France, Germany, Italy, Japan and Spain, the housing wealth effect appears to be smaller or insignificant

• Housing equity withdrawal has increased consumption in Australia, Canada, the Netherlands, the United Kingdom and the United States
Mortgage market indicators are correlated with the size of the wealth effect.

- **Mortgage debt ratios**
  - Marginal propensity to consume out of housing wealth
  - R² = 0.534

- **Housing equity withdrawal**
  - Marginal propensity to consume out of housing wealth
  - R² = 0.848

- Countries: Australia, Canada, Netherlands, United Kingdom, United States, Italy, Japan, France, Germany.
Structural factors explaining differences in housing wealth effects

- Easy access to mortgage financing and to financial products which facilitate equity withdrawal
- High rate of owner-occupation implying a wider distribution of housing wealth
- Low housing transaction costs and no capital gains taxes on housing wealth which liquefy housing assets
Easier access to financing strengthened the wealth effect

Effect of mortgage market completeness

On consumption sensitivity to changes in real house prices

Contemporaneous correlation (1971-2002)

0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1

Synthetic indicator of mortgage market completeness

R2 = 0.688

Spain

Portugal

Germany

United Kingdom

France

Netherlands

Denmark

On housing equity withdrawal

Housing equity withdrawal average level (in % of disposable income) since 1990

2
0
-2
-4
-6
-8

Synthetic indicator of mortgage market completeness

R2 = 0.696

United Kingdom

Netherlands

Denmark

Spain

Italy

Germany

France
Other factors facilitating the access to mortgage financing

- LTV ratios
- Mortgage terms
- Legal protection of collateral
Higher rates of owner-occupation open up the housing wealth channel

Share of owner-occupied housing

Per cent
Lower transaction costs make housing assets more liquid

Housing transaction costs
Transaction costs for sales of medium sized houses

Per cent of total price

Stamp duties and Value Added Tax
Real estate agents
Other costs (legal costs, insurance, etc.)
House prices influence residential construction activity

Change in housing investment (percentage points of GDP)

Change in Q ratio
Structural determinants of house price variability

Regional differences in price to rent ratio
Index, 1995 = 100

United States
California
Florida
New England

United States
Mid-Atlantic
Michigan
Texas

Source: Office of Federal Housing Oversight for house prices and Bureau of Labor statistics for rents.