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Housing cycles and macroeconomic fluctuations: A global perspective



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This paper investigates the international spillovers of housing demand shocks on real economic activity. The global economy is modeled using a Global VAR, with a novel house price data set for both advanced and emerging economies. The impulse responses to an identified U.S. housing demand shock confirm the existence of strong international spillovers to advanced economies. In contrast, the response of some major emerging economies is not significantly different from zero. Moreover, the analysis of synchronized housing demand shocks speaks in favor of the recent evidence of increased resilience of emerging economies to shocks originating in advanced economies; and it also suggests that a close monitoring of housing cycles in advanced economies as well as in emerging economies should be of interest for policy-makers.

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1. Introduction

The recent global financial crisis and ensuing recession led many to look at the housing market as a possible source of macroeconomic fluctuations. Moreover, the sluggish pace of the recovery among industrialized countries highlighted the crucial role played by emerging market economies as a source of world growth.

Many theoretical models stress the important linkage between the price of assets, such as stocks or house prices, and real economic activity (among many others, see [Bernanke et al., 1999](#); [Iacoviello, 2005](#);

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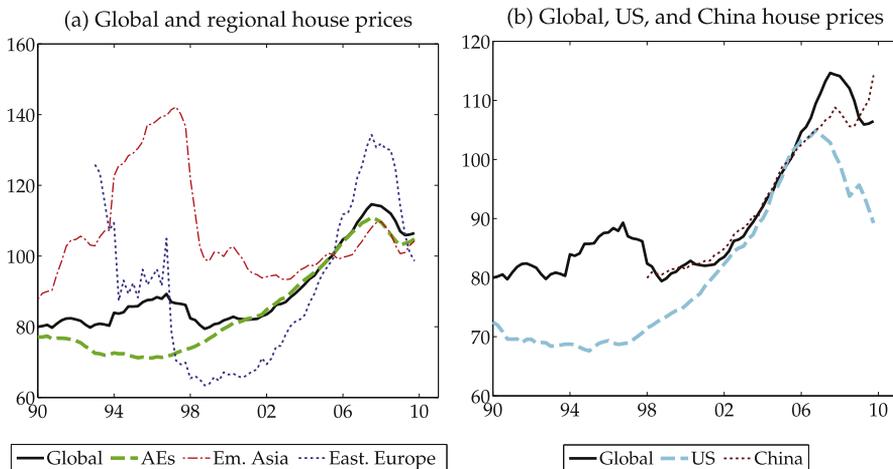
Iacoviello and Neri, 2010). Also, many empirical studies show that house prices are subject to frequent boom- and -bust cycles and that housing busts can be very costly in terms of output loss (e.g., Bordo and Jeanne, 2002). Moreover, the surprisingly high synchronization of the housing downturn, as observed during the global financial, is likely to have exacerbated such episodes (e.g., Claessens et al., 2010).

The similarity of the house price pattern within the major advanced economies during the last two decades raised a number of questions concerning the existence of common international factors affecting house prices. While much of the debate has focused on advanced economies, it is surprising that housing markets in emerging market economies and their links to the broader economy have not been systematically researched yet.

Fig. 1(a) displays the behavior of a global house price index and three group-specific indices, for advanced economies, emerging Asia (excluding China), and eastern Europe, respectively. Both the global and the group-specific indices clearly show the pronounced boom- and -bust cycle of the last decade. However, the group-specific indices also display significant differences. While comoving closely from the beginning of the 2000s, house prices in each group display distinctive features during the whole 1990s. Fig. 1(b) compares the global house price index with the country-specific indices for the U.S. and China. House prices in the U.S. are in free fall since the fourth quarter of 2006, excluding an up-tick in early 2009 (most likely propelled by the U.S. first-time home buyer credit provision of the American Recovery and Reinvestment Act of 2009). In contrast, house prices in China dropped for only two quarters, namely 2008:2 and 2008:3, and then started growing again.

Motivated by this evidence, many interesting questions arise. Are international house prices really correlated across countries? Is there a common factor driving a global housing cycle? How are house price shocks transmitted to the real economy? Across these questions, which is the difference, if any, between advanced economies (AEs) and emerging economies (EMEs)?

This paper takes a global perspective and aims to provide an assessment of the linkages between the macroeconomy and the housing market, as well as to investigate the effects of housing demand shocks onto real economic activity. Exploiting a novel multi-country data set of real and financial variables, a



Note. Real house price indices (2005=100). The global index is computed as the average across all series in the dataset (described below); advanced economies (AEs), Emerging Asia excluding China (Em. Asia) and Eastern Europe (East. Europe) indices are computed as the mean across all countries belonging to each group. The sample period is 1990:1–2009:4

Fig. 1. Real House Price Indices.

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