



ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

# Housing and the Wider Economy

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## Outline of the presentation

- International evidence on the relationship between wealth, consumption and housing
- The impact of fiscal and monetary policy on housing. Did policy get it right?
- Globalisation of housing and synchronisation of cycles
- The future outlook for housing and the economy

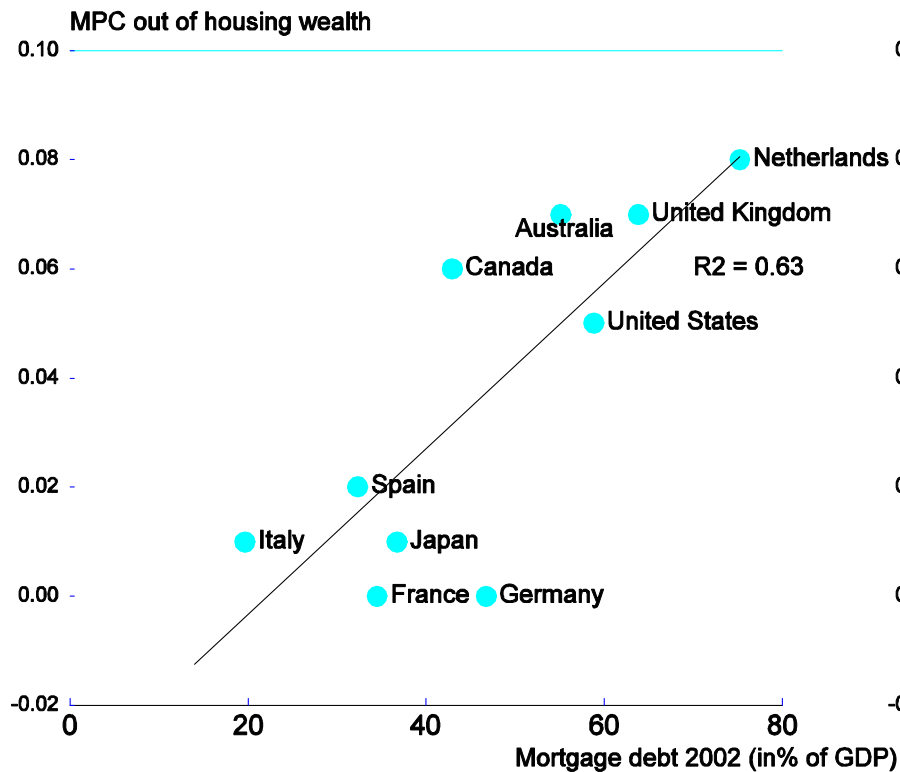


## International evidence on the relationship between wealth, consumption and housing

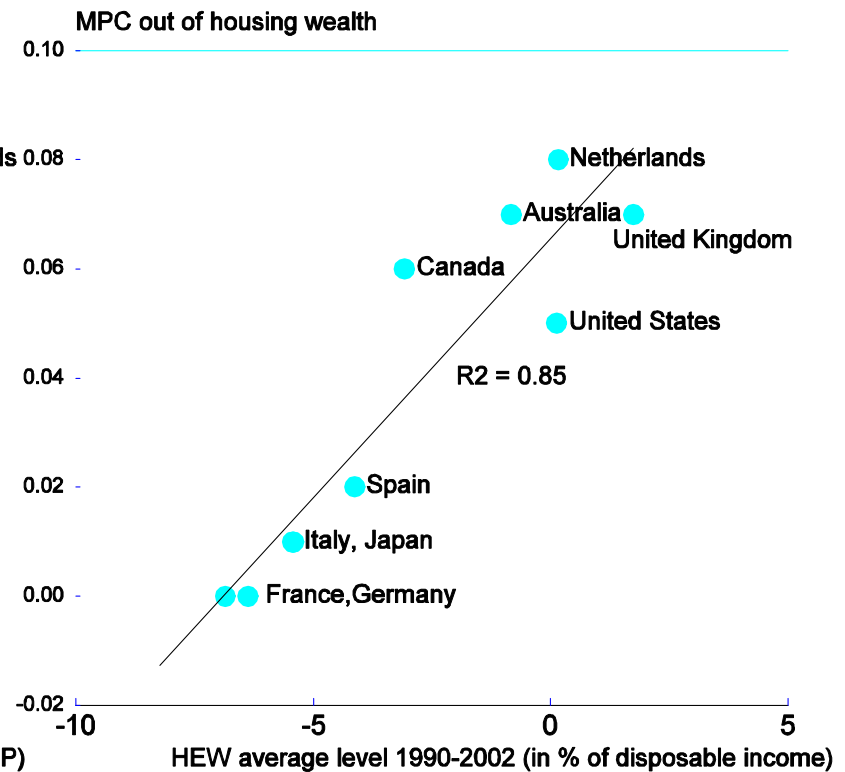
- **Wealth effect**
- **Liquidity channel (housing equity withdrawal)**

# Marginal propensity to consume housing wealth and mortgage market indicators

**A : Mortgage debt ratios**



**B : Housing equity withdrawal**

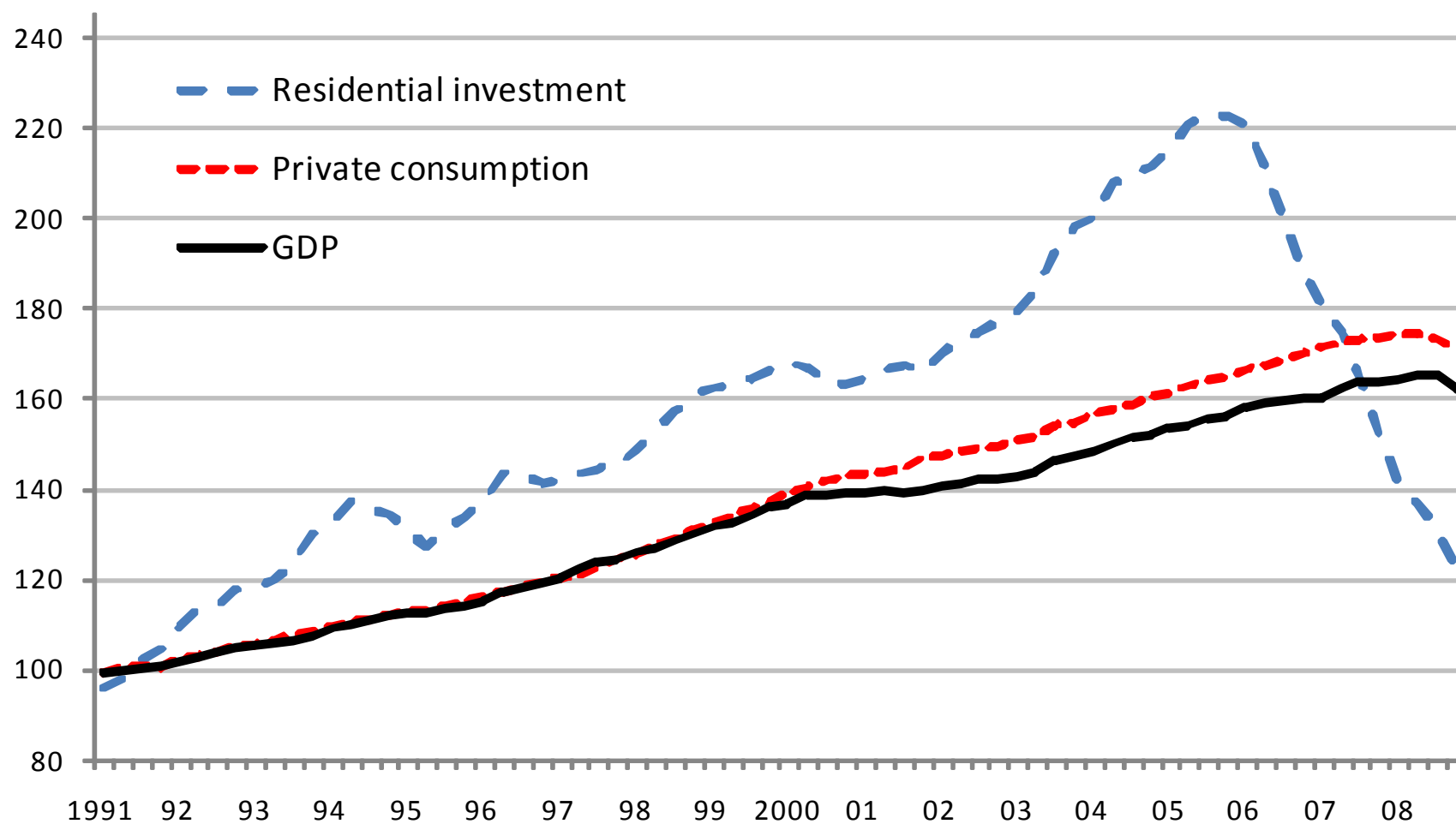


Note : MPC is for marginal propensity to consume; HEW is for housing equity withdrawal.

Source: OECD Economics Department working paper, No 394 (2004).

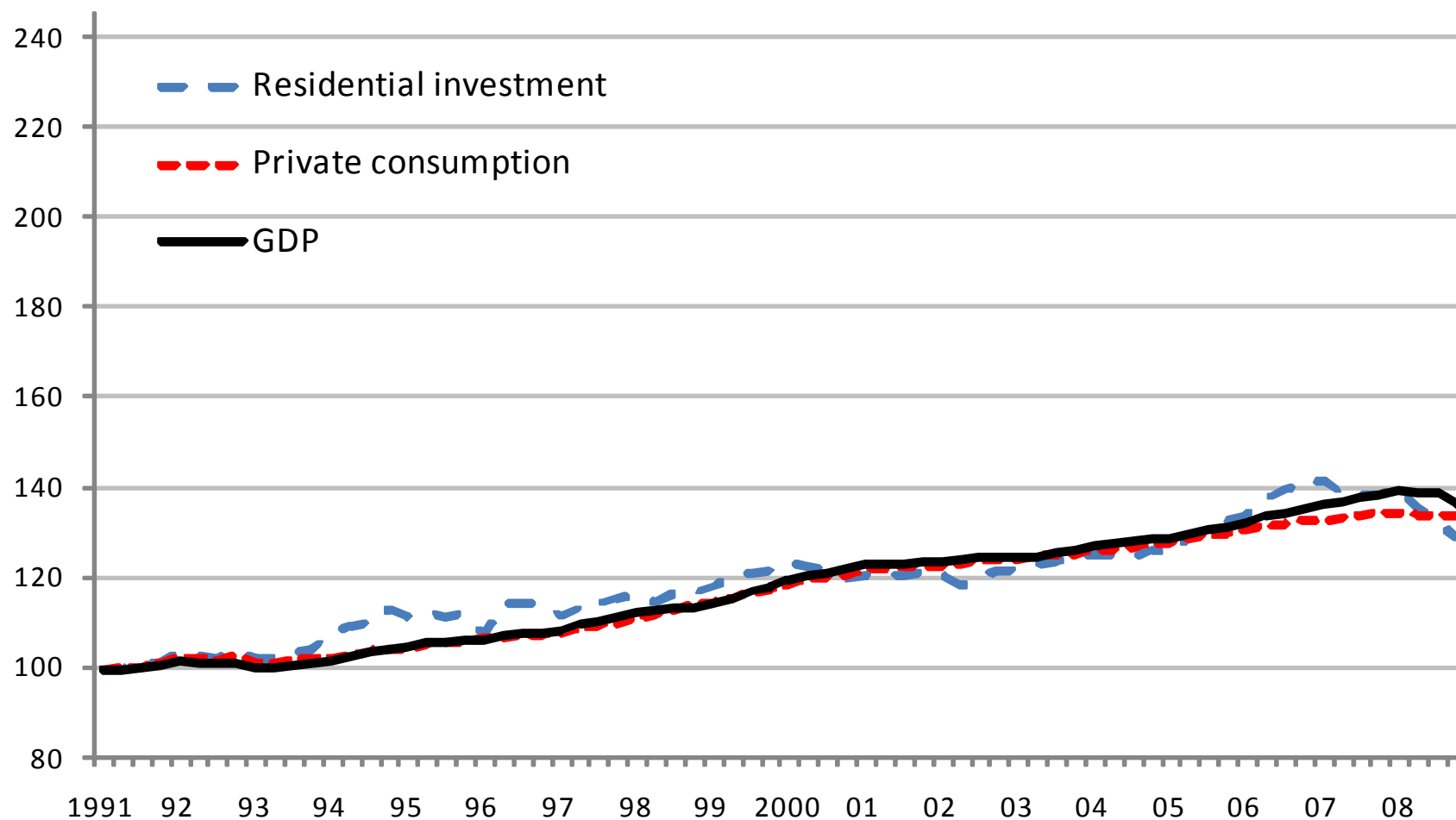
# Residential investment and private consumption - United States

Volume indices, 1991=100



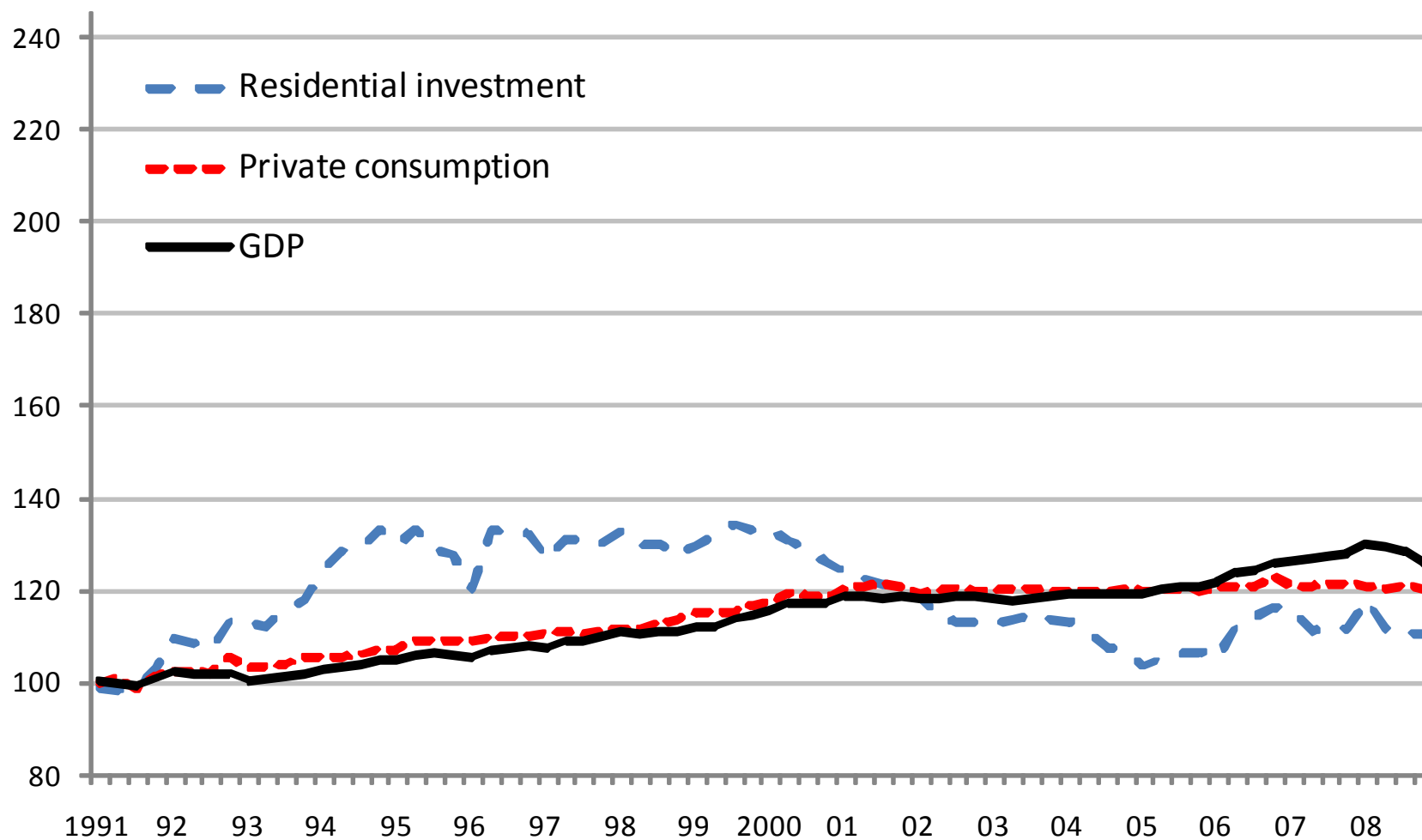
# Residential investment and private consumption – Euro area

Volume indices, 1991=100



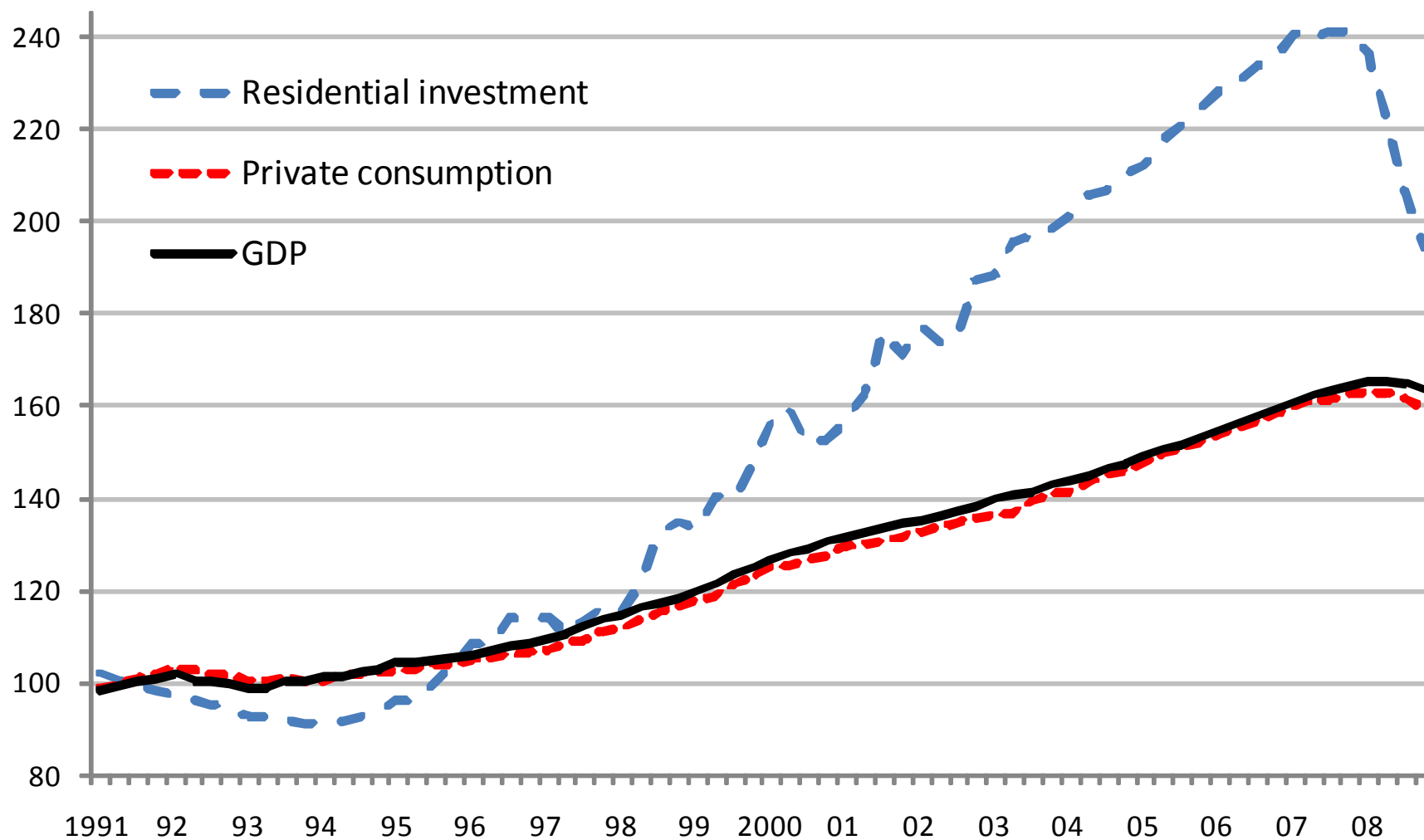
# Residential investment and private consumption – Germany

Volume indices, 1991=100



# Residential investment and private consumption – Spain

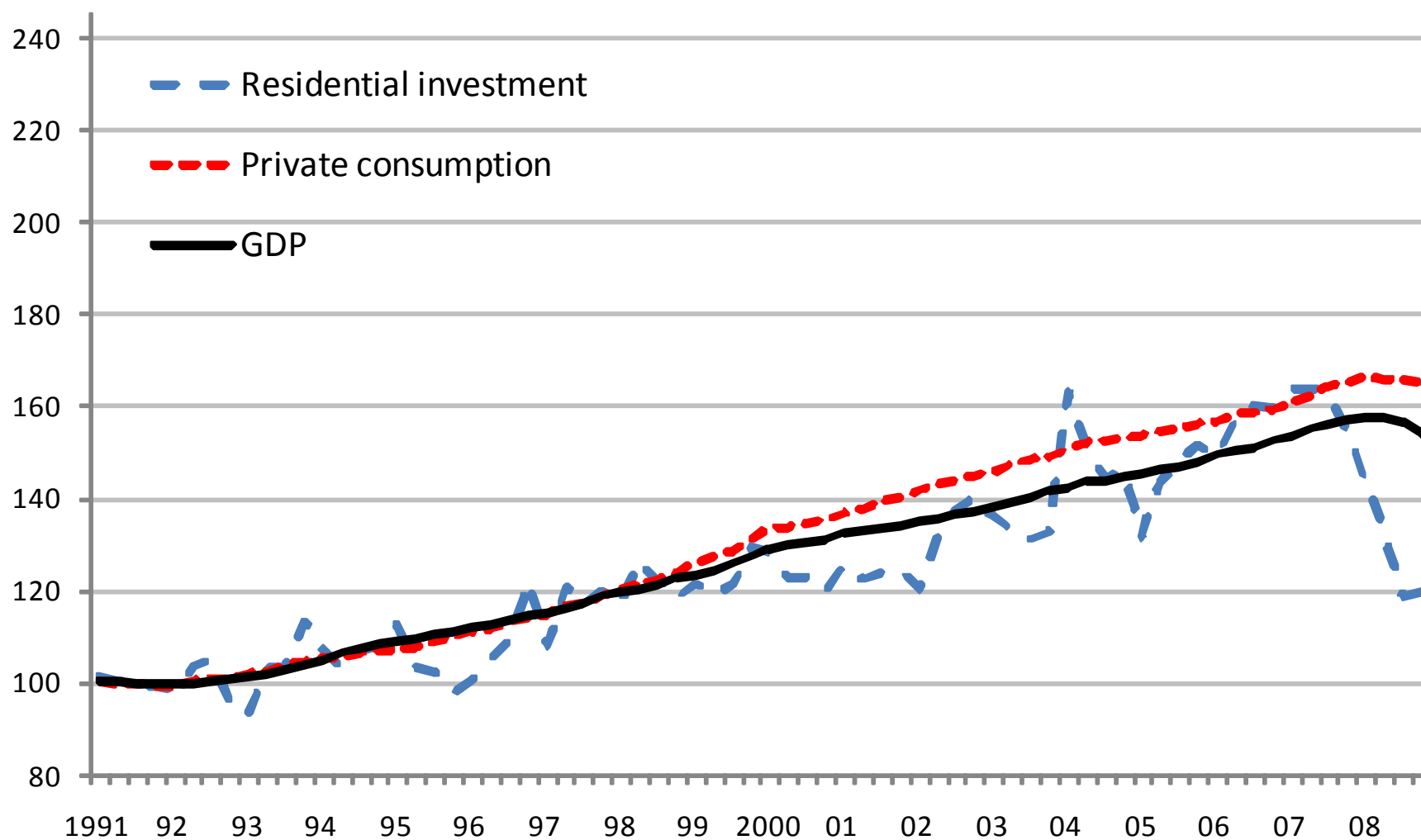
Volume indices, 1991=100





# Residential investment and private consumption – United Kingdom

Volume indices, 1991=100





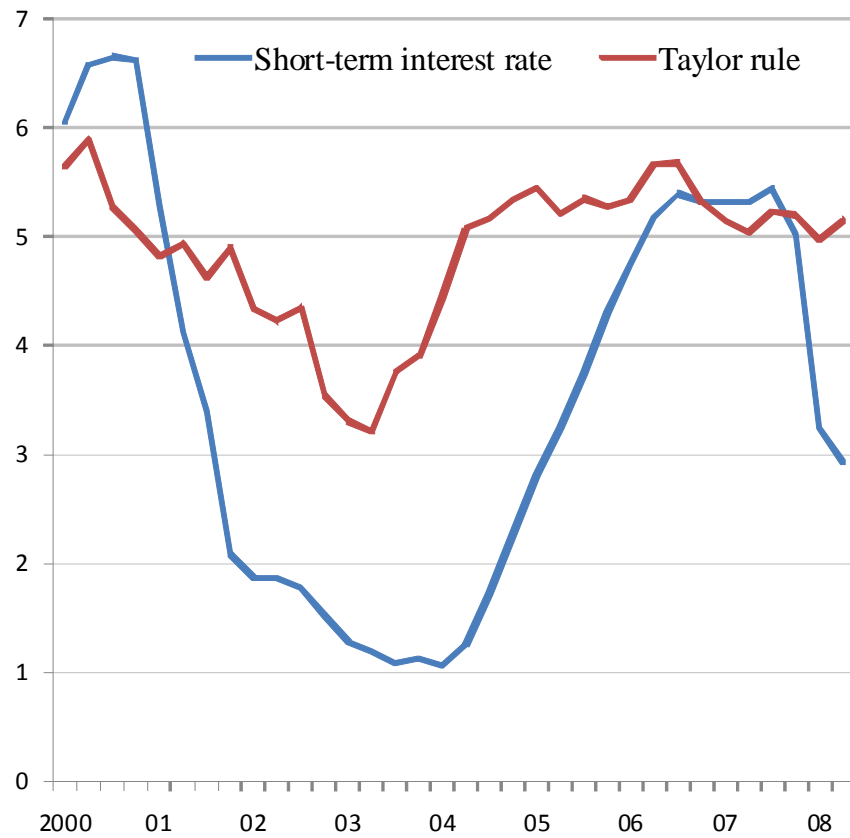
## The impact of fiscal and monetary policy on housing - Did policy get it right ?

- Low interest rates and credit expansion have fuelled housing and consumption booms in many countries
- But the ability of monetary policy to control asset price booms is limited
- Regulatory and supervisory failures have been critical
- Fiscal policies have been too expansionary in some countries but not all
- Fiscal distortions in favour of home ownership tend to increase house price volatility

# Policy rates and Taylor rule

## United States

Per cent



## Euro area

Per cent





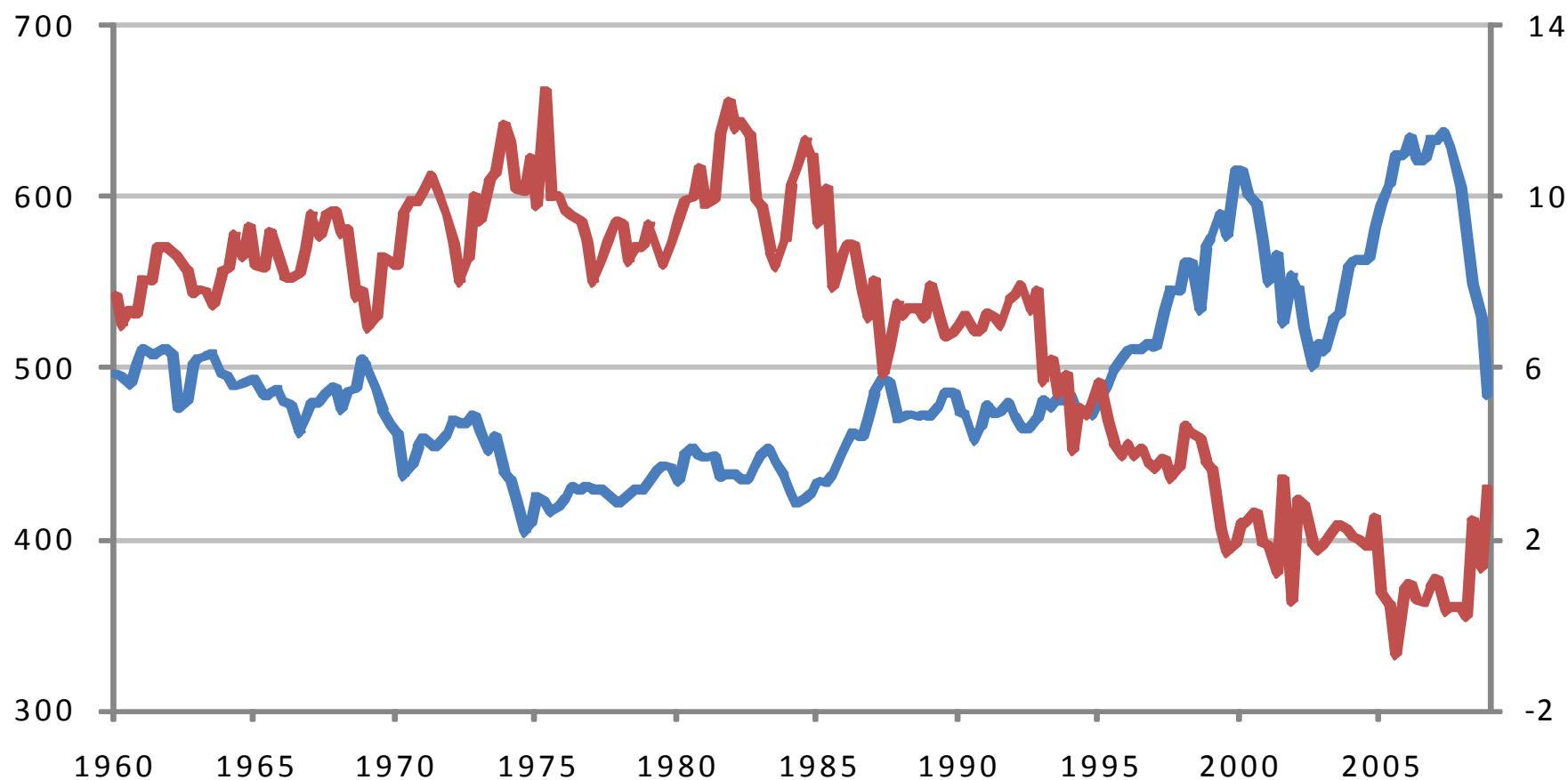
## Globalisation of housing and synchronisation of cycles

- **Capital inflows associated with trade imbalances have played an important role in fuelling the boom in some countries**
- **The “savings glut” has contributed to keep long-term interest rates low**
- **The housing boom has been highly synchronised across countries**

# Households wealth and saving in the United States

Per cent of household disposable income

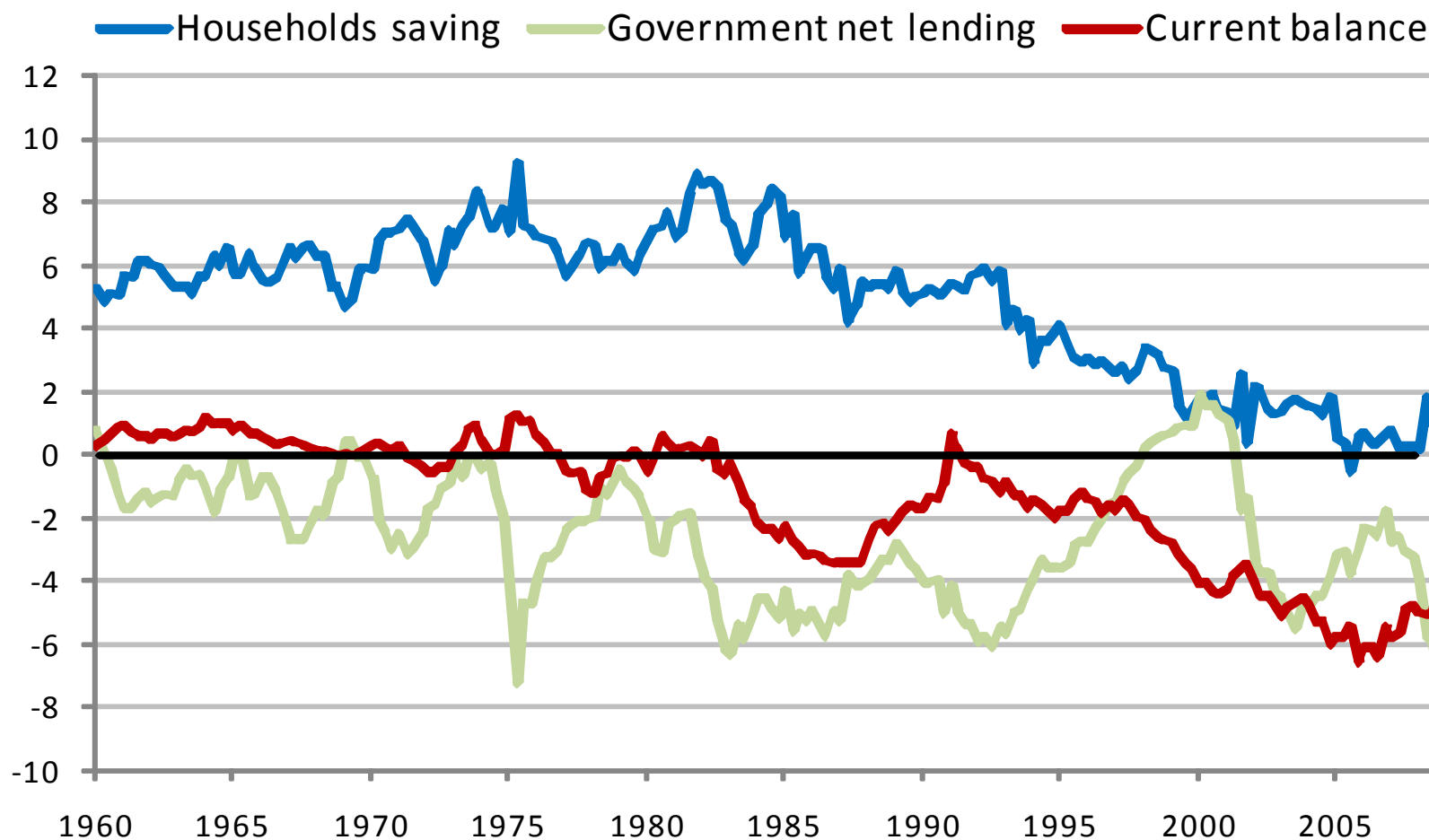
— Net household wealth (left scale)      — Saving ratio (right scale)



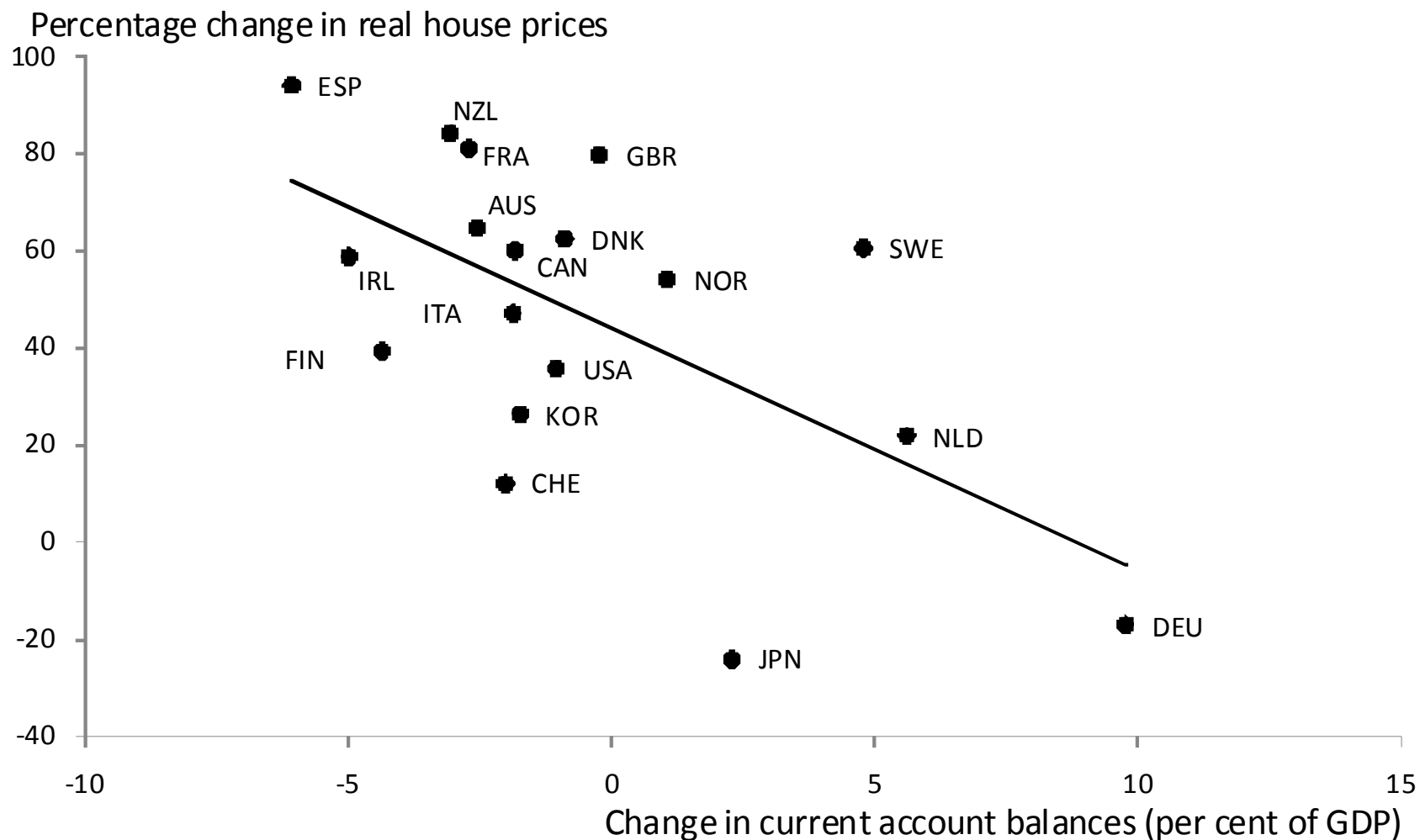


# Households saving, government deficit and current account balance – United States

Per cent of GDP



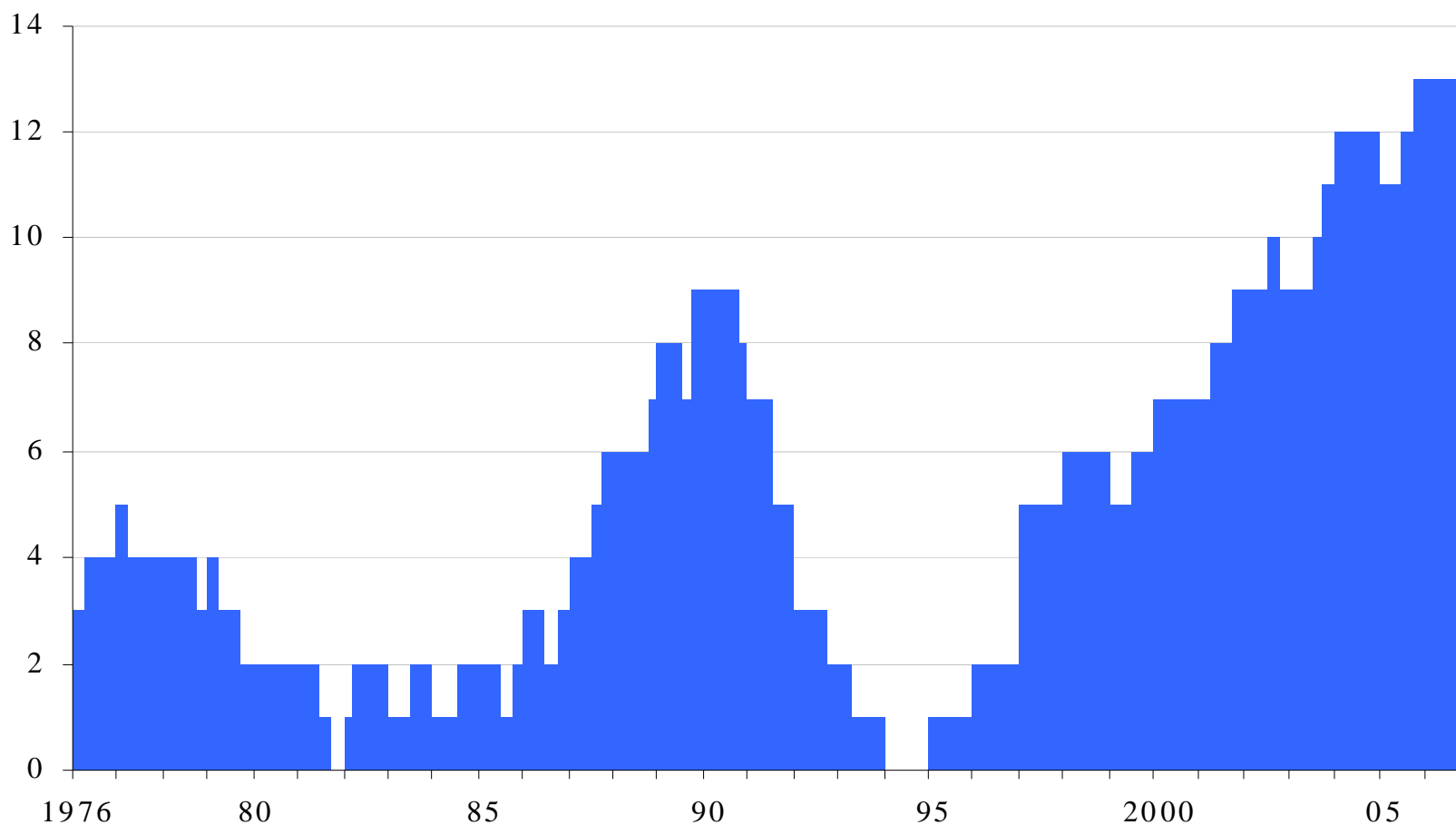
# Evolution of real house prices and current account balances 2000-2007



# Cross-country coincidence of real house price booms

Over 25 % increase in real house prices over 5 years

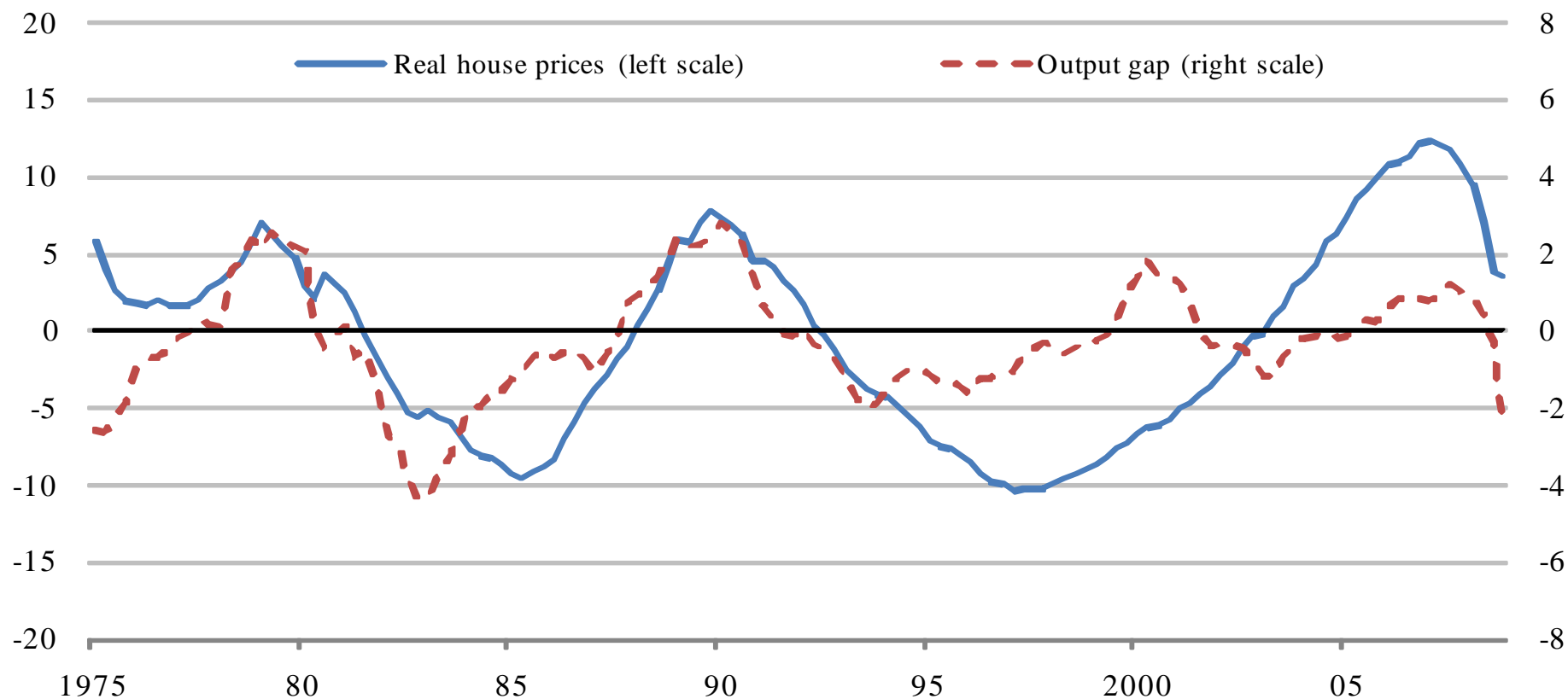
Number of countries (out of 17)







# OECD Real house prices and the business cycle



Note: The OECD real house price index covers 17 countries and uses purchasing power parity-adjusted GDP weights. Deviations from a linear trend are shown on this chart.



## The future outlook for housing and the economy

- Housing crises usually have a strong impact on the Economy
- The financial system has not yet returned to fully “normal” conditions
- Other negative factors (rising unemployment, high levels of household debt, large government deficits, deflation risks...)
- Adjustments on housing are generally protracted when inflation is low
- The global nature of the current crisis makes the outlook even more uncertain



# Real GDP and consumption growth during major housing downturns

