

(9) Girouard, Nathalie, Blöndal, Sveinbjörn. "House Prices and Economic Activity." OECD Economic Department Working Paper 279, 2001.

The authors analyze whether residential property prices can be useful indicators for demand pressures in the economy, by examining the role of house prices in influencing private consumption in OECD countries, through either wealth effects or through easing liquidity constraints after the deregulations of the mortgage markets that took place lately in most of these countries which made it easier for households to borrow for current consumption on the basis of their housing wealth.

Studying the data, the authors find that house price developments in most OECD countries have been characterized by cyclical fluctuations around an upward trend, and the amplitude of house price fluctuations has differed markedly across countries and over time within countries, and changes in real house prices appear to be closely correlated to business cycles, where the cumulative rise in house prices in some of these countries has been associated with strong economic expansion.

They then examine the empirical evidence for the role of housing wealth and housing equity withdrawal on private consumption. Studying the long run relationships, to estimate the marginal propensities to consume, by regressing private consumption on household net worth, the results suggest a long run MPC ranging from 0.02-0.05 which are broadly in line with the range of estimates found in the literature. Disaggregating net worth into housing, financial and other wealth, they found that the MPC out of housing equity range from 0.02-0.18 in these countries, while using gross housing assets instead of housing equity allows a significantly higher MPC in the U.S. that increases from 0.02 to 0.048. Analyzing the short run relationship was satisfactory as they find the error correction term always significant and with the expected sign. The change in financial wealth has a positive impact on the growth rate of consumption for all the countries understudy, while changes in housing wealth has positive effect for Japan, U.K. and France, negative for the U.S. and Italy, and no influence found for Canada. Using gross housing assets instead of housing equity allows for a significant and positive effect for the U.S. and Canada.

The authors further test whether housing equity withdrawal has an impact on the consumption ratio. Introducing the level of equity withdrawal as a proportion of income into the long term relationship, they found that the coefficient is positive and significant in the U.S., U.K., Canada, and France. In the short term relationship, the error correction term is always significant and with the expected sign, and the change in housing equity withdrawals has a positive and significant impact on the growth rate of consumption in all these countries, while the change in housing wealth is significant and has a positive effect for Canada and France, and negative effect for the U.S.