



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

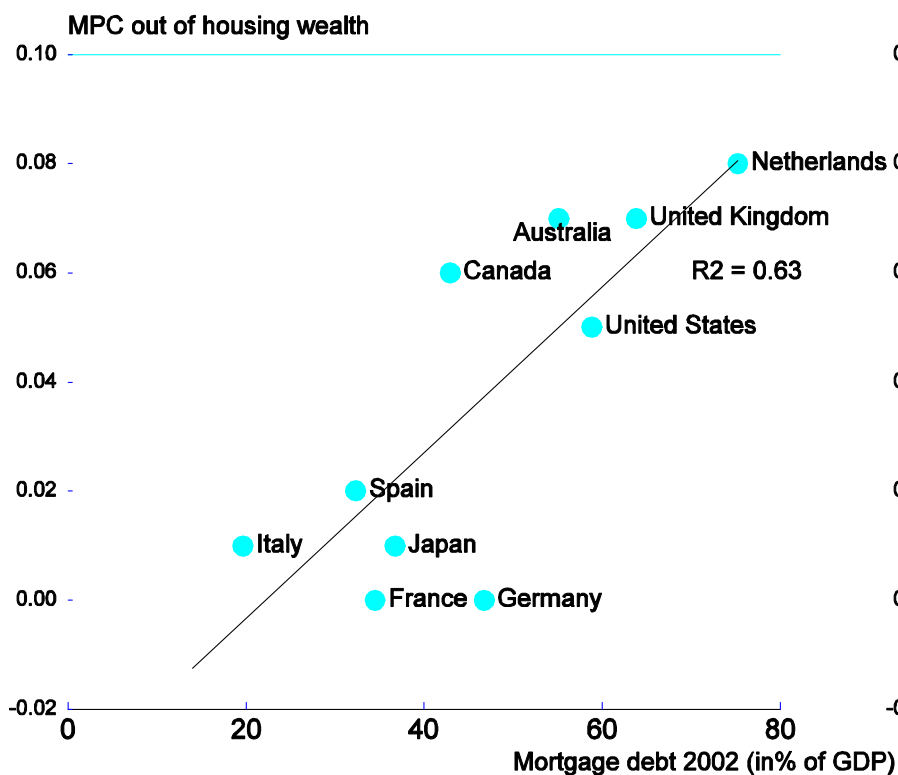


International evidence on the relationship between wealth, consumption and housing

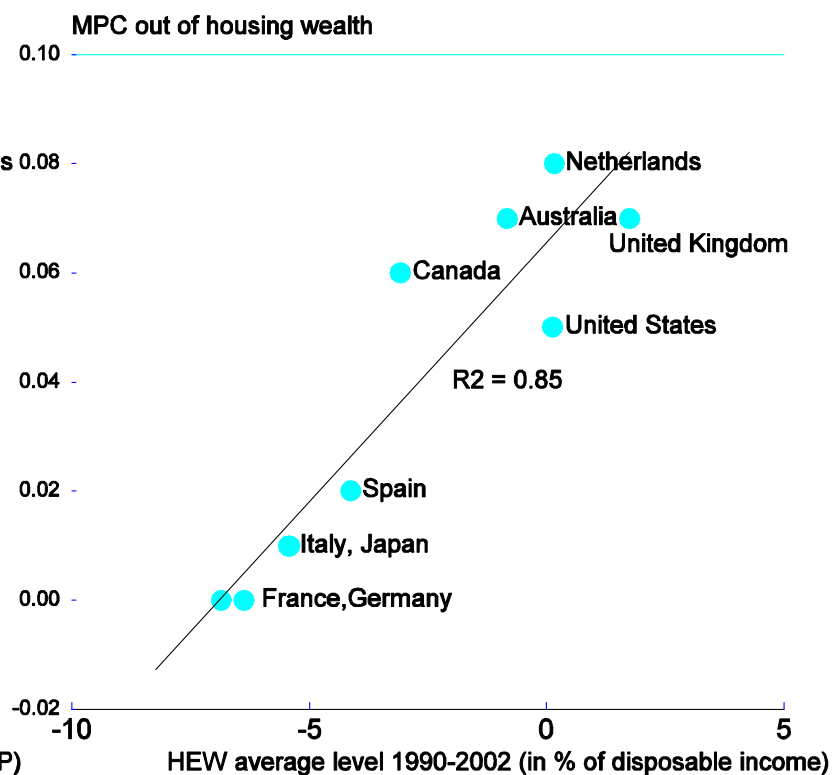
- **Wealth effect**
- **Liquidity channel (housing equity withdrawal)**

Marginal propensity to consume housing wealth and mortgage market indicators

A : Mortgage debt ratios



B : Housing equity withdrawal

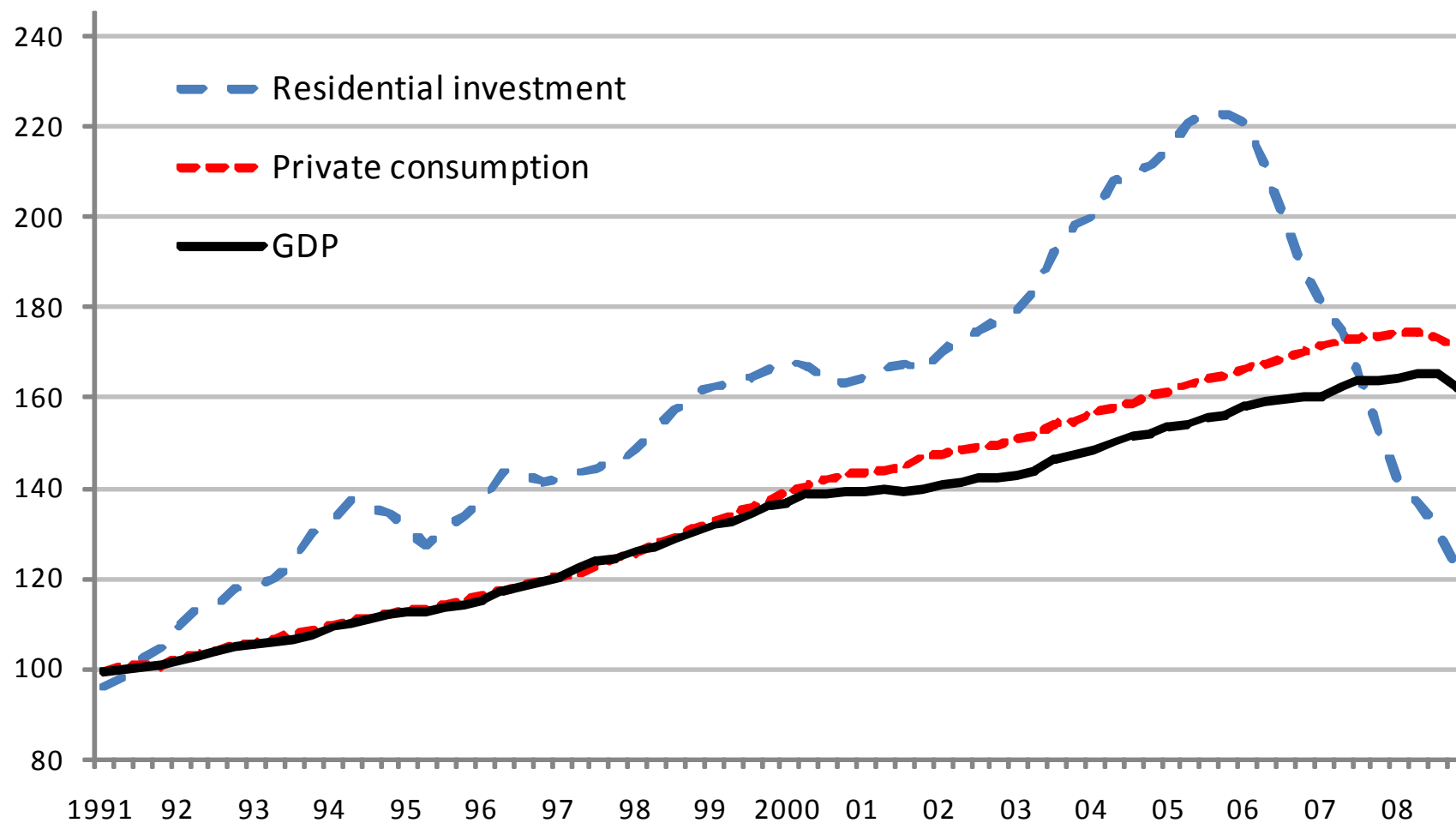


Note : MPC is for marginal propensity to consume; HEW is for housing equity withdrawal.

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

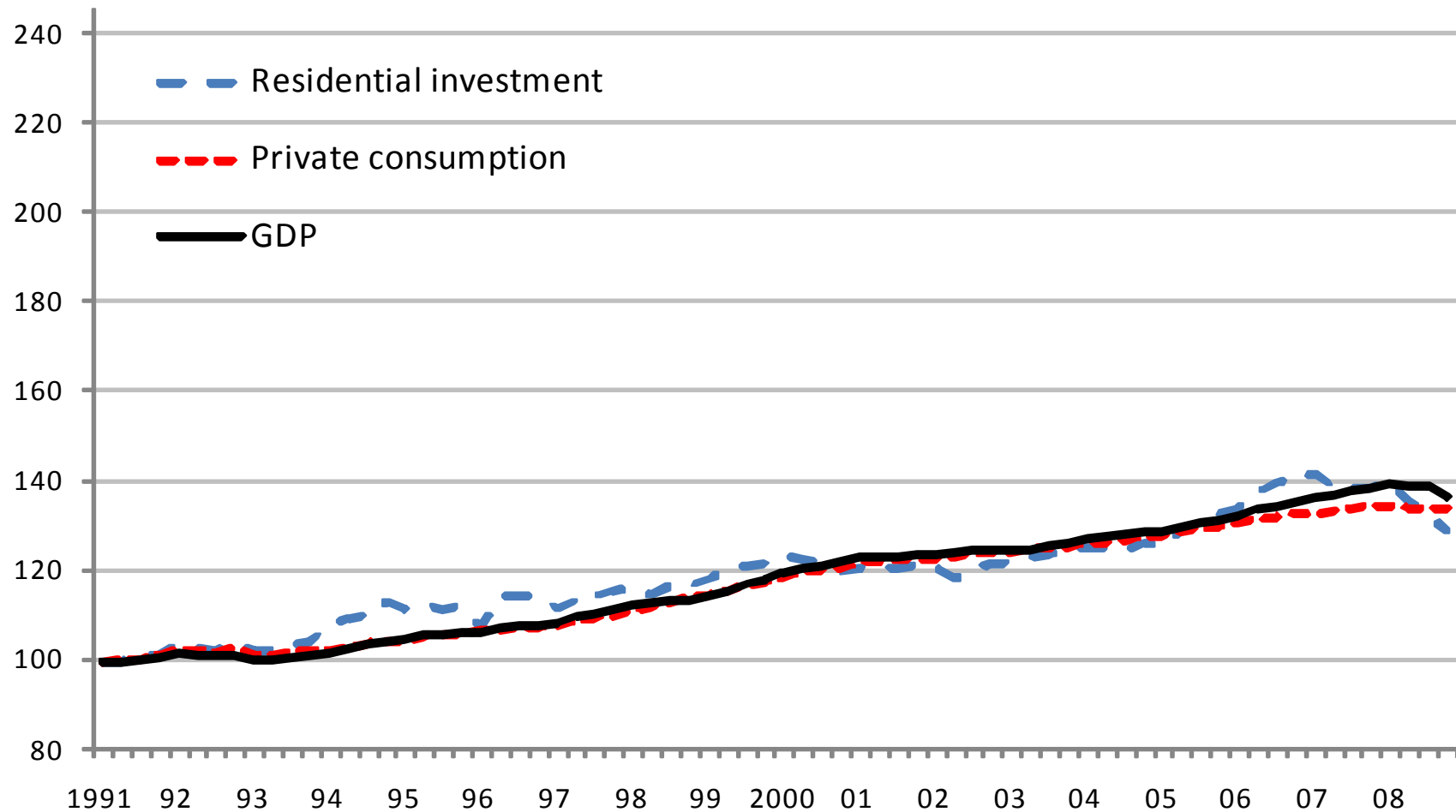
Residential investment and private consumption - United States

Volume indices, 1991=100



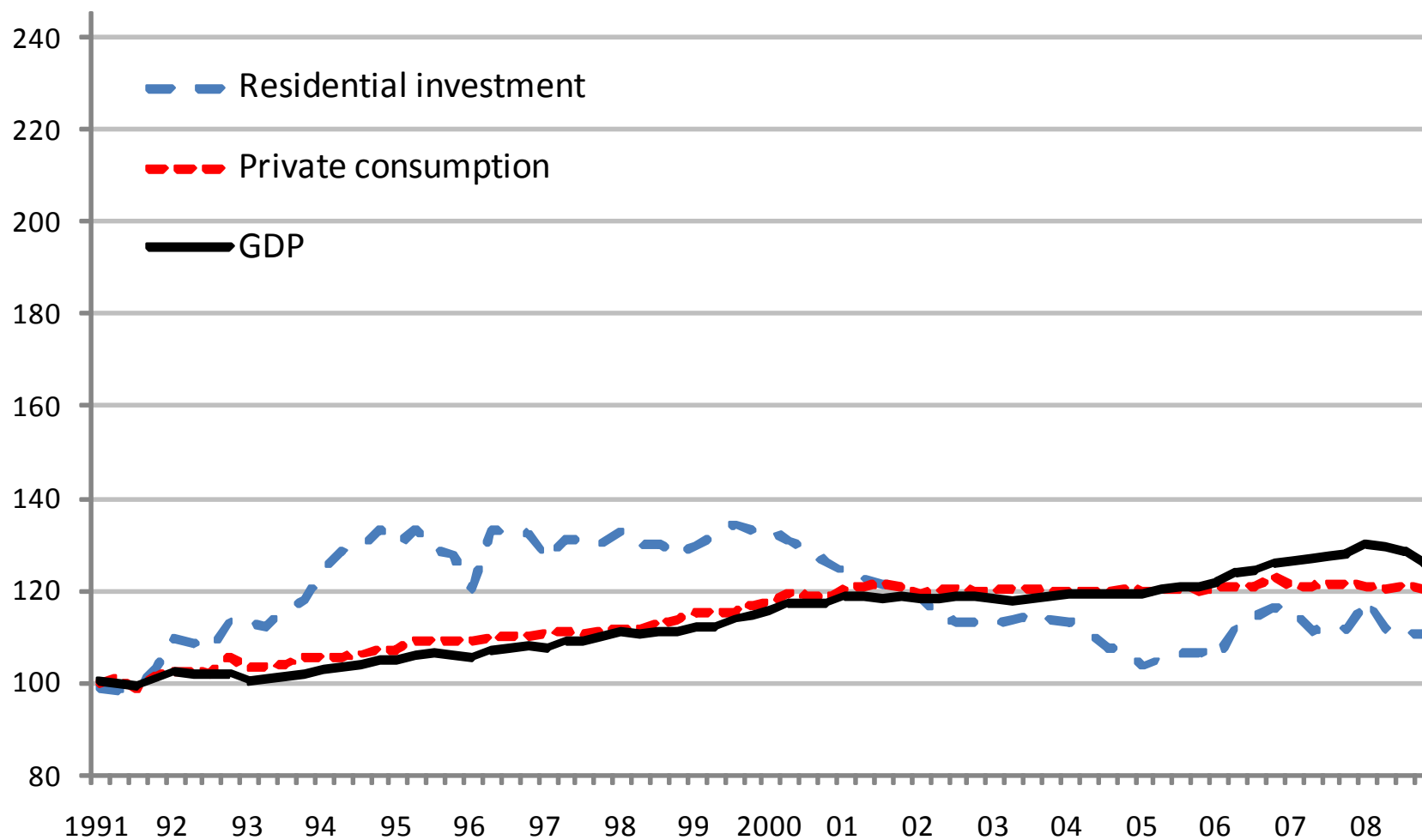
Residential investment and private consumption – Euro area

Volume indices, 1991=100



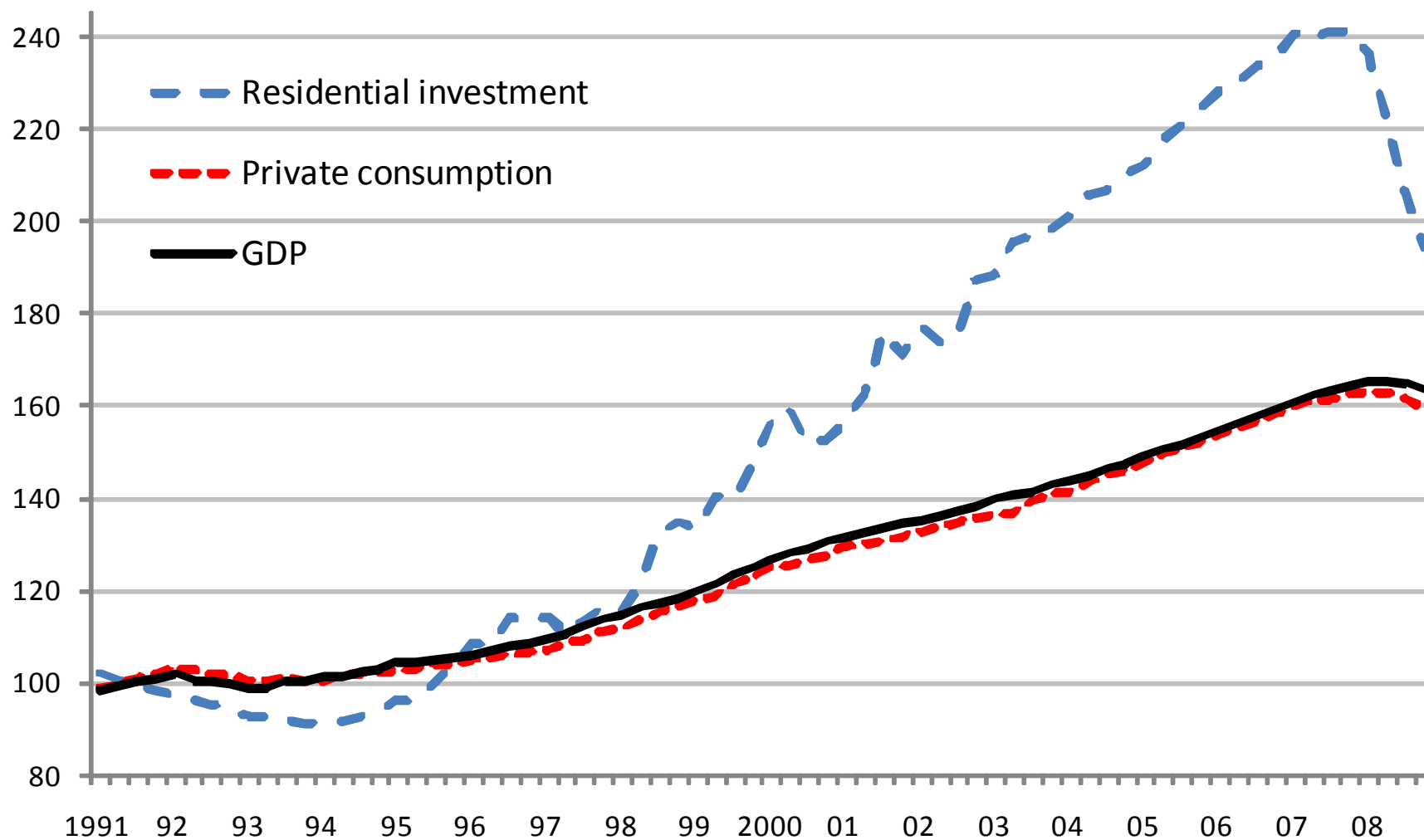
Residential investment and private consumption – Germany

Volume indices, 1991=100



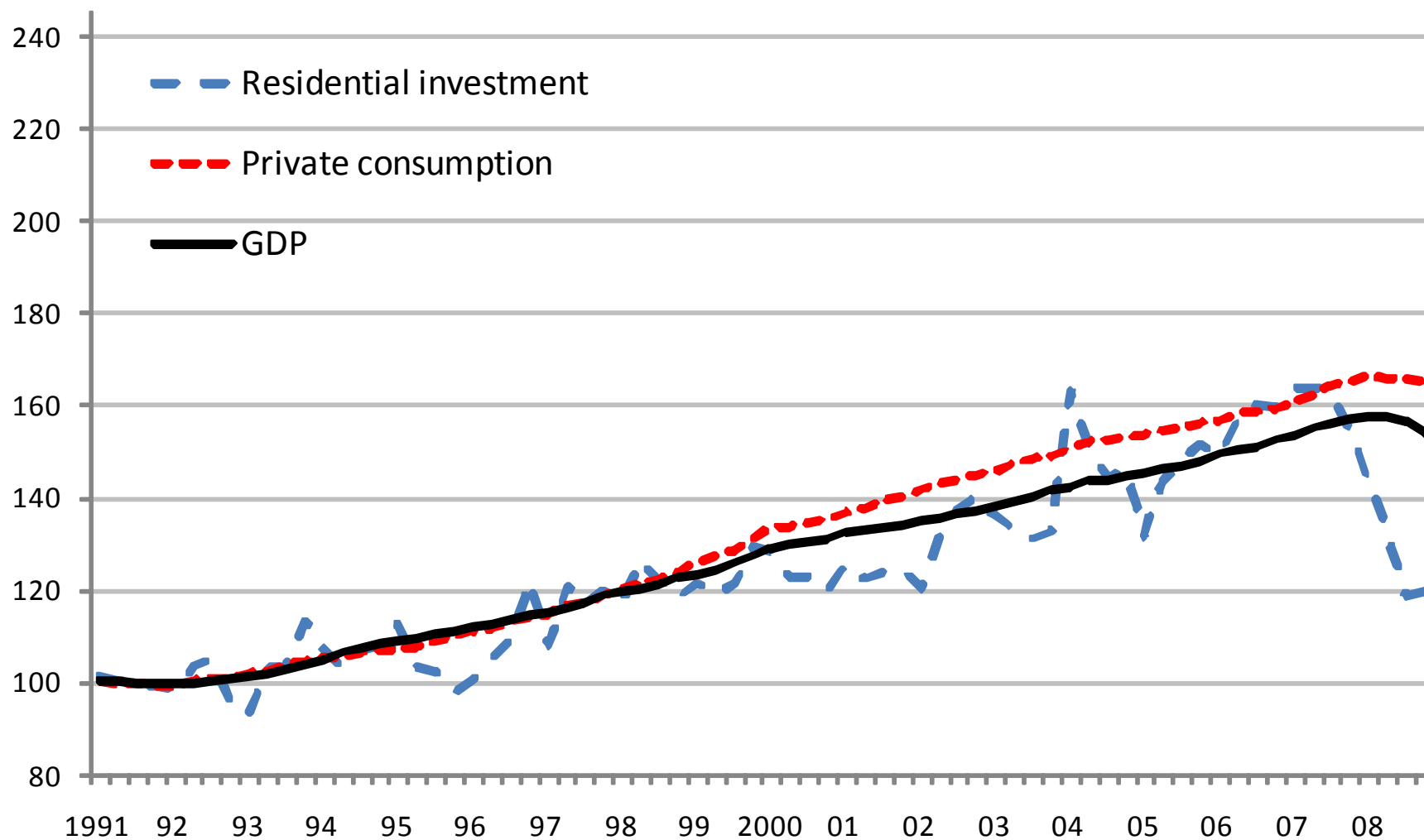
Residential investment and private consumption – Spain

Volume indices, 1991=100



Residential investment and private consumption – United Kingdom

Volume indices, 1991=100





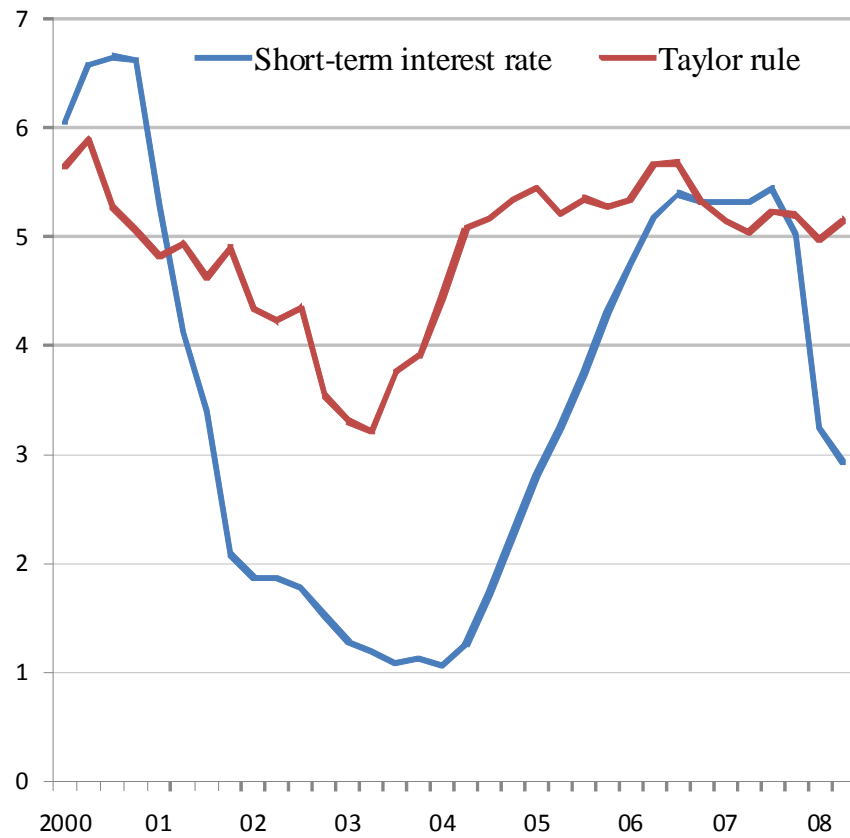
The impact of fiscal and monetary policy on housing - Did policy get it right ?

- 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





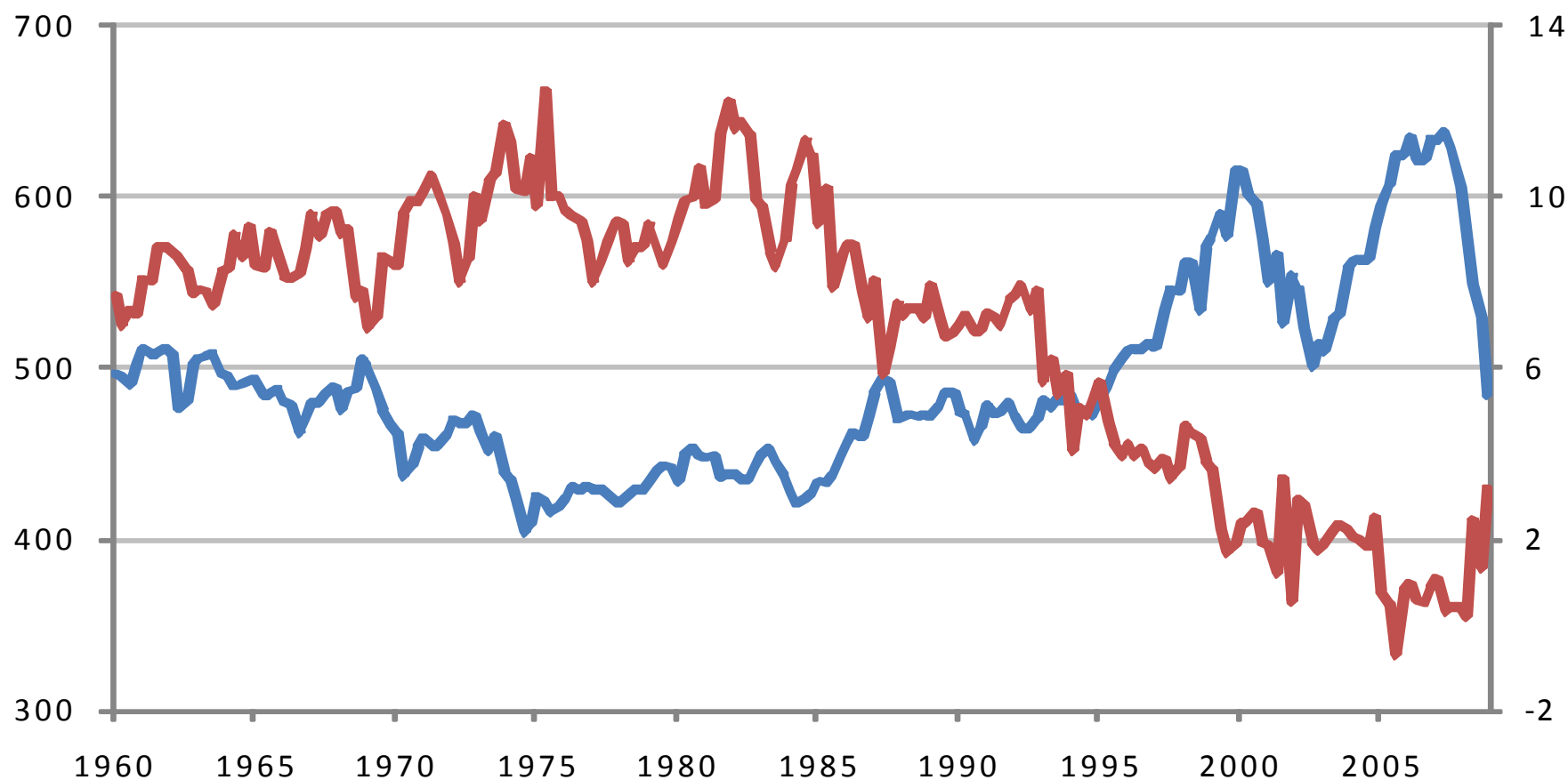
Globalisation of housing and synchronisation of cycles

- **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

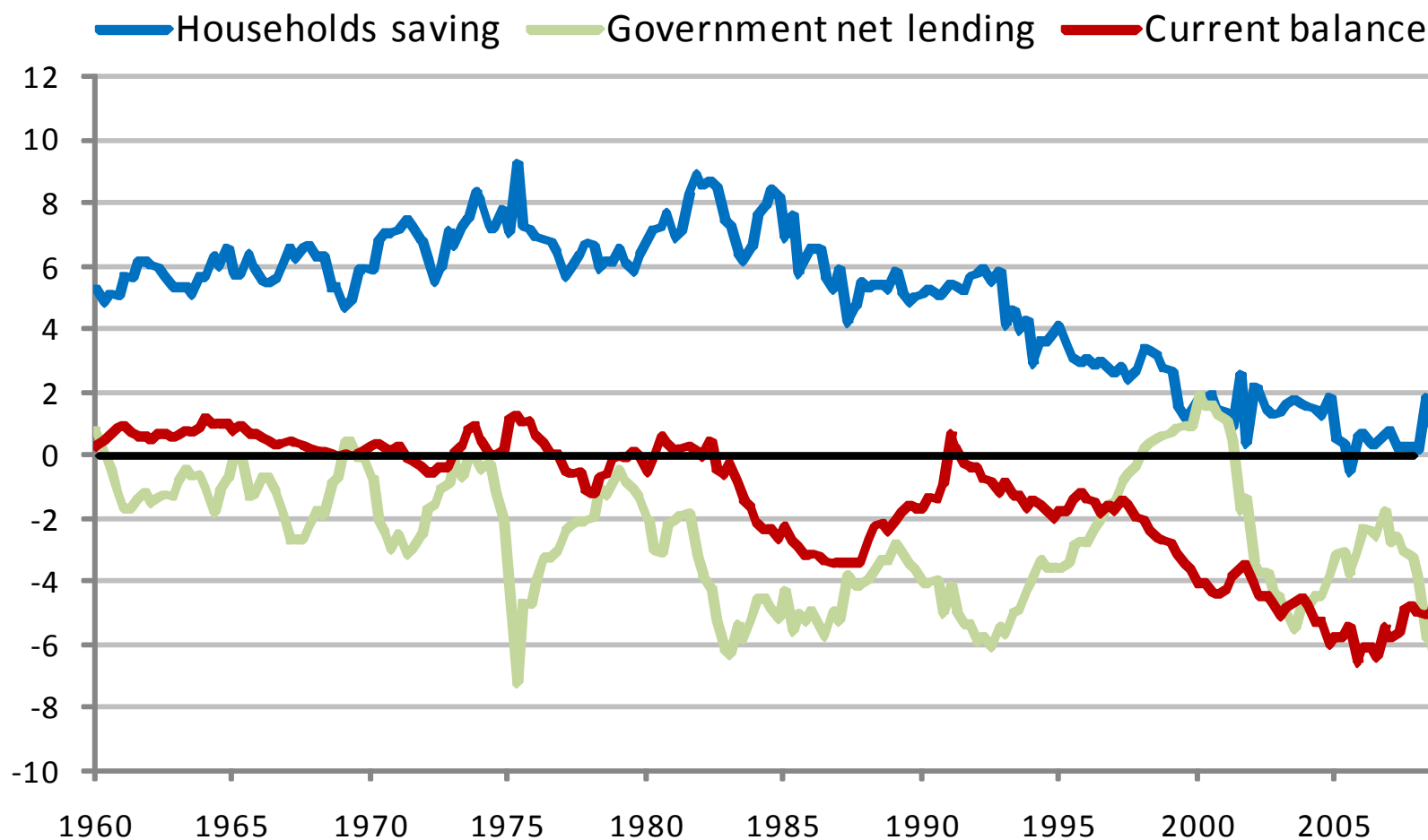
— Net household wealth (left scale) — Saving ratio (right scale)



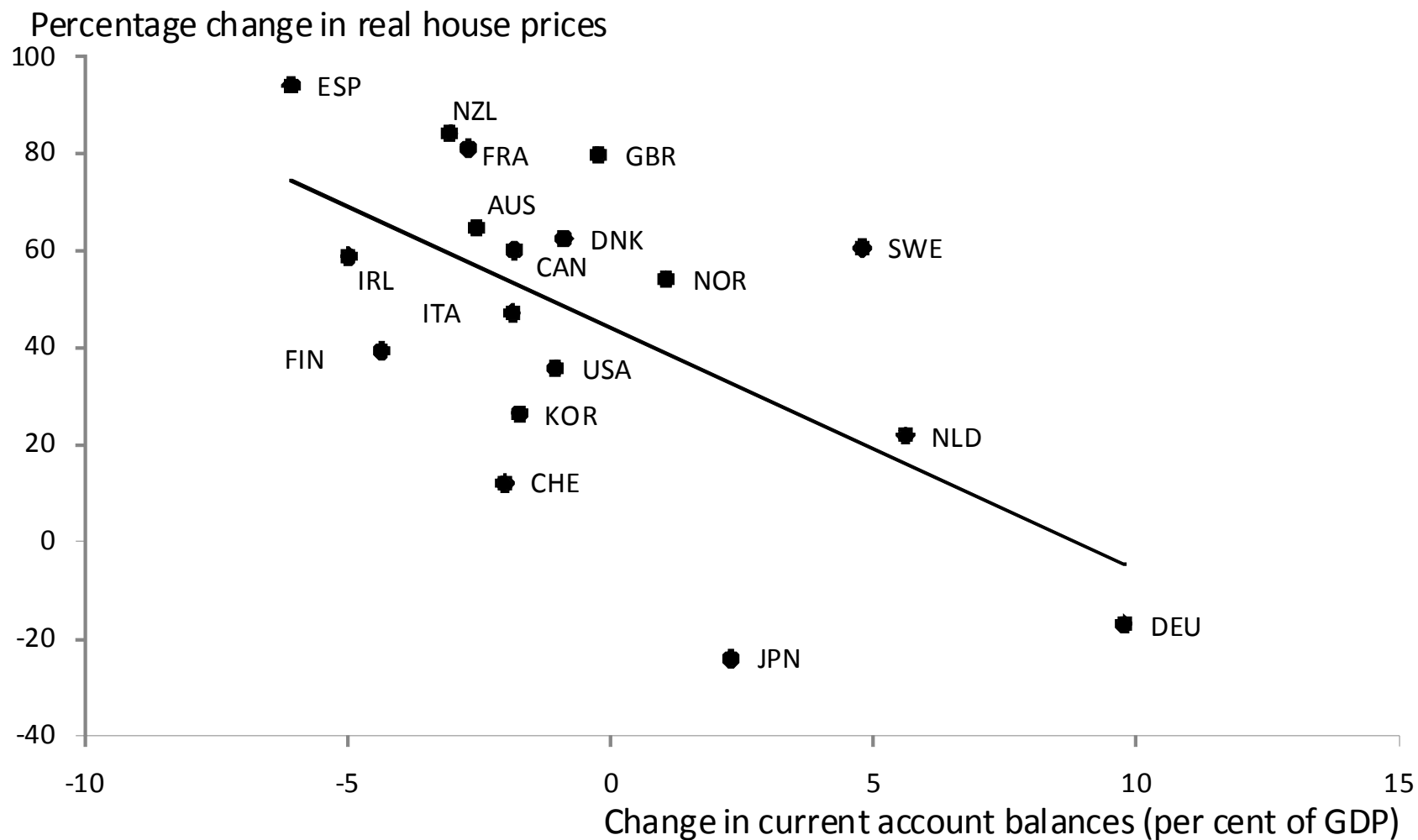


Households saving, government deficit and current account balance – United States

Per cent of GDP



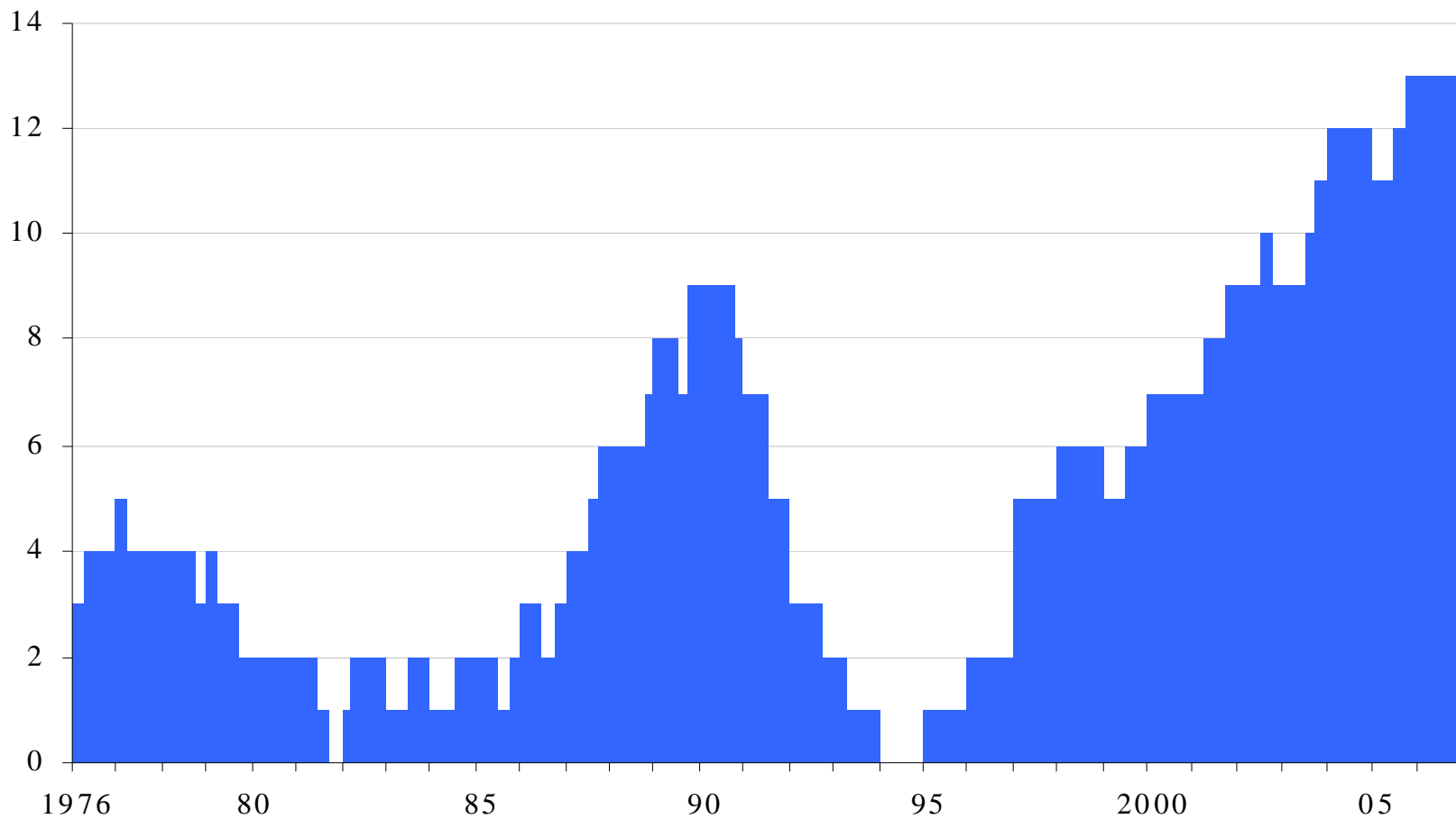
Evolution of real house prices and current account balances 2000-2007



Cross-country coincidence of real house price booms

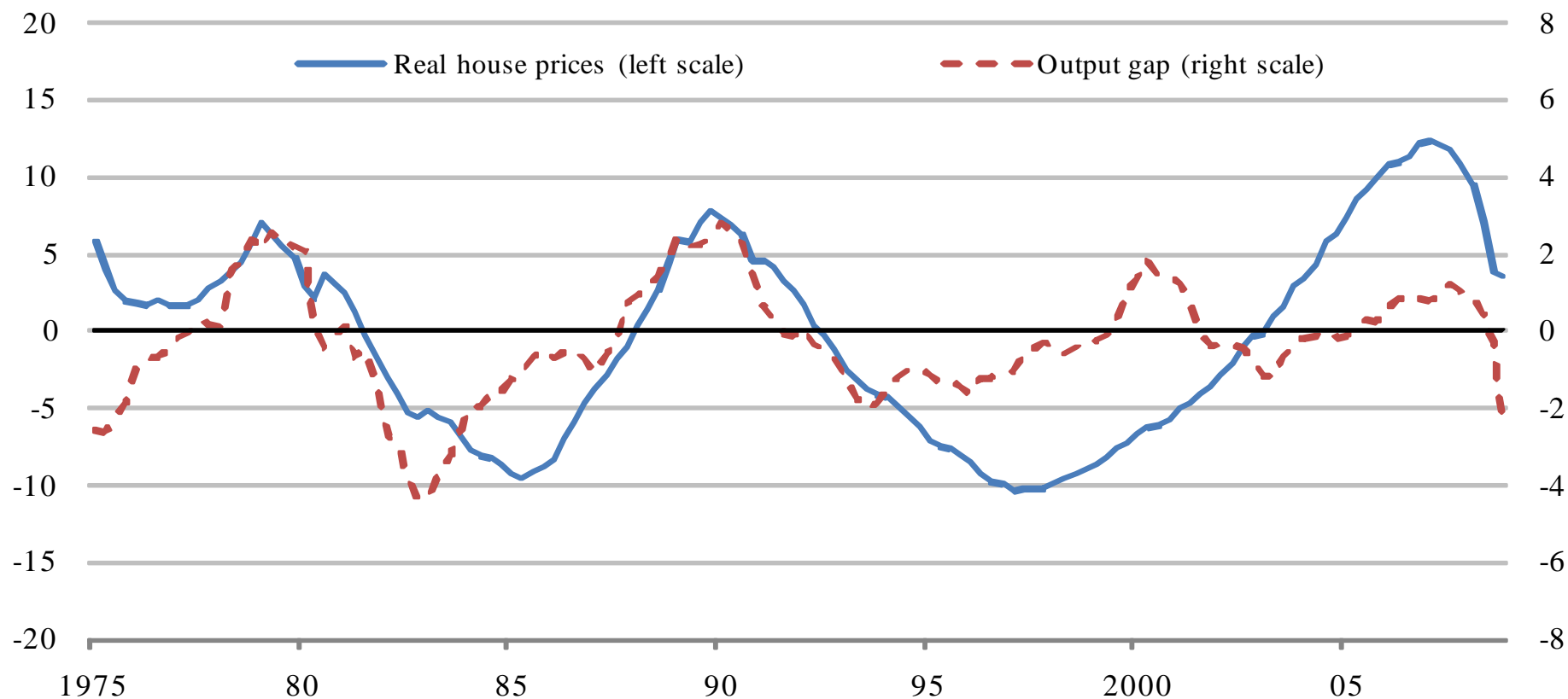
Over 25 % increase in real house prices over 5 years

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

