Housing Prices:  
Global Correction, Local Consequences

Prakash Loungani  
Advisor, Research Department  
International Monetary Fund

The views presented here are those of the author and should not be attributed to the IMF.

Economic Forecasting Center  
Georgia State University  
J. Mack Robinson College of Business

Conference on “Surviving the Age of Turbulence: A Guide”  
February 25, 2009
outline

1. a global boom and bust

2. how much further will house prices fall?

3. local consequences
   a. housing affordability
   b. housing and unemployment
1. global boom and bust

oecd countries: prices & quantities
a global boom in OECD countries ...
... is now a global bust
globally, a residential investment boom ...
... is turning to bust
prices and quantities: up together ...
prices and quantities: down together...
residential investment impact depends on: interest payment to GDP ratio

Residential Investment Impact and Interest Payments

$R^2 = 0.4397$
residential investment impact depends on: mortgage debt-to-GDP ratio
residential investment impact depends on: mortgage market characteristics

Residential Investment Impact and Mortgage Market Index

R² = 0.194
2. how much further will house prices fall?

evidence from past cycles

evidence from long-term relationships
for how long have house prices fallen in previous cycles?
by how much have house prices fallen in previous cycles?

Amplitude of Declines (OECD)
price-income ratios are above historical values ...
... suggesting price gaps

Price Gap
(Price to income average 70-00)
price/rent ratios are also above historical values ...
... suggesting price gaps
3. local consequences

a. housing affordability
b. housing and unemployment
Year 2008 House Affordability Index

HAI < 100 not affordable, HAI> 100 affordable
Year 2008 House Affordability Index

HAI < 100 not affordable, HAI > 100 affordable
housing affordability, then and now
Price-to-Rent Ratio maximum drop (%) projection (Scenario 2, alpha = 50%)
Price-to-Rent Ratio time to recovery projection (Scenario 2, alpha = 50%)
Housing bust magnifies impact of recessions on unemployment