

Housing Prices:

Global Correction, Local Consequences

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

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

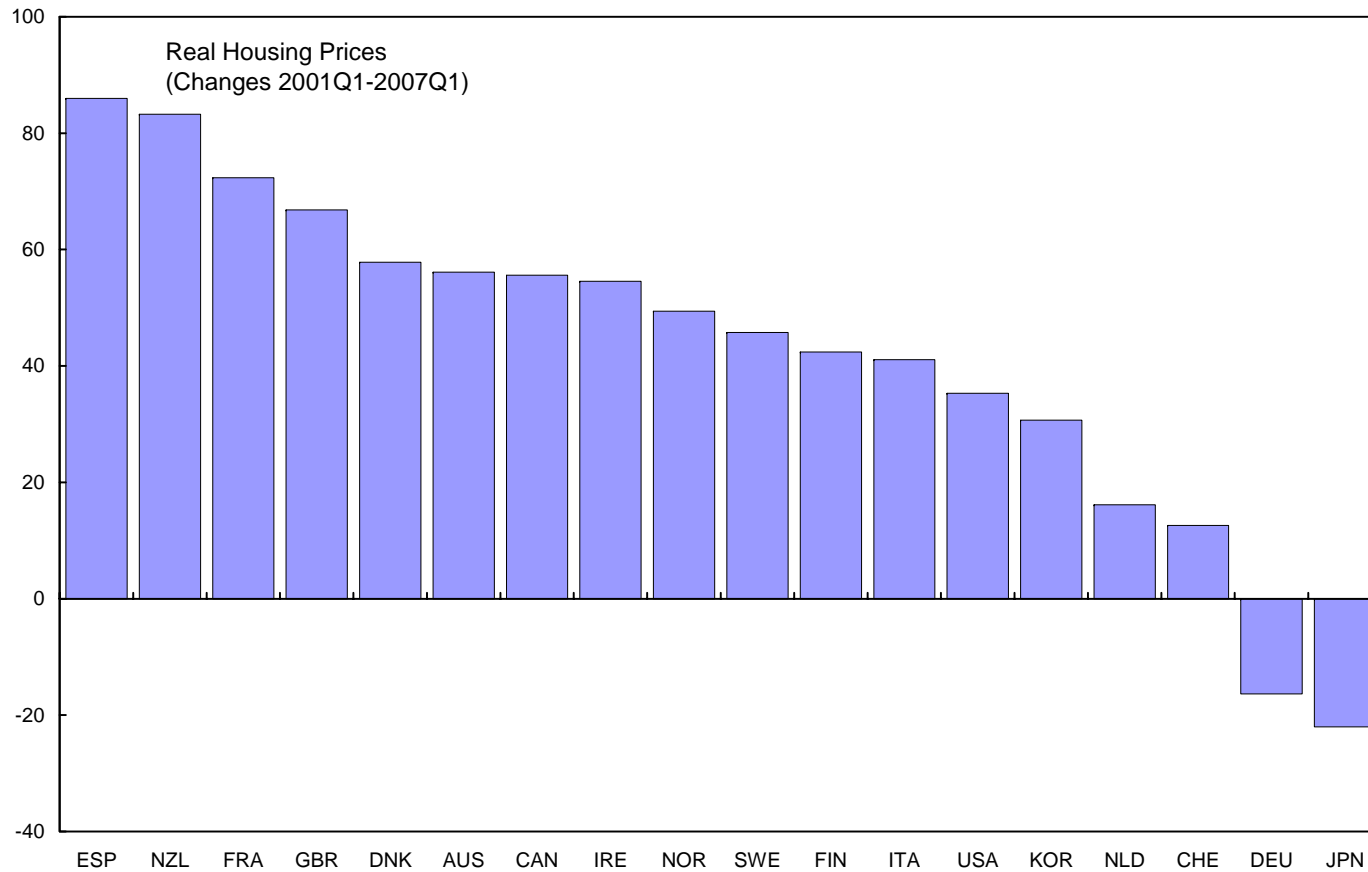
outline

1. a global boom and bust
2. how much further will house prices fall?
3. local consequences
 - a. housing affordability
 - b. housing and unemployment

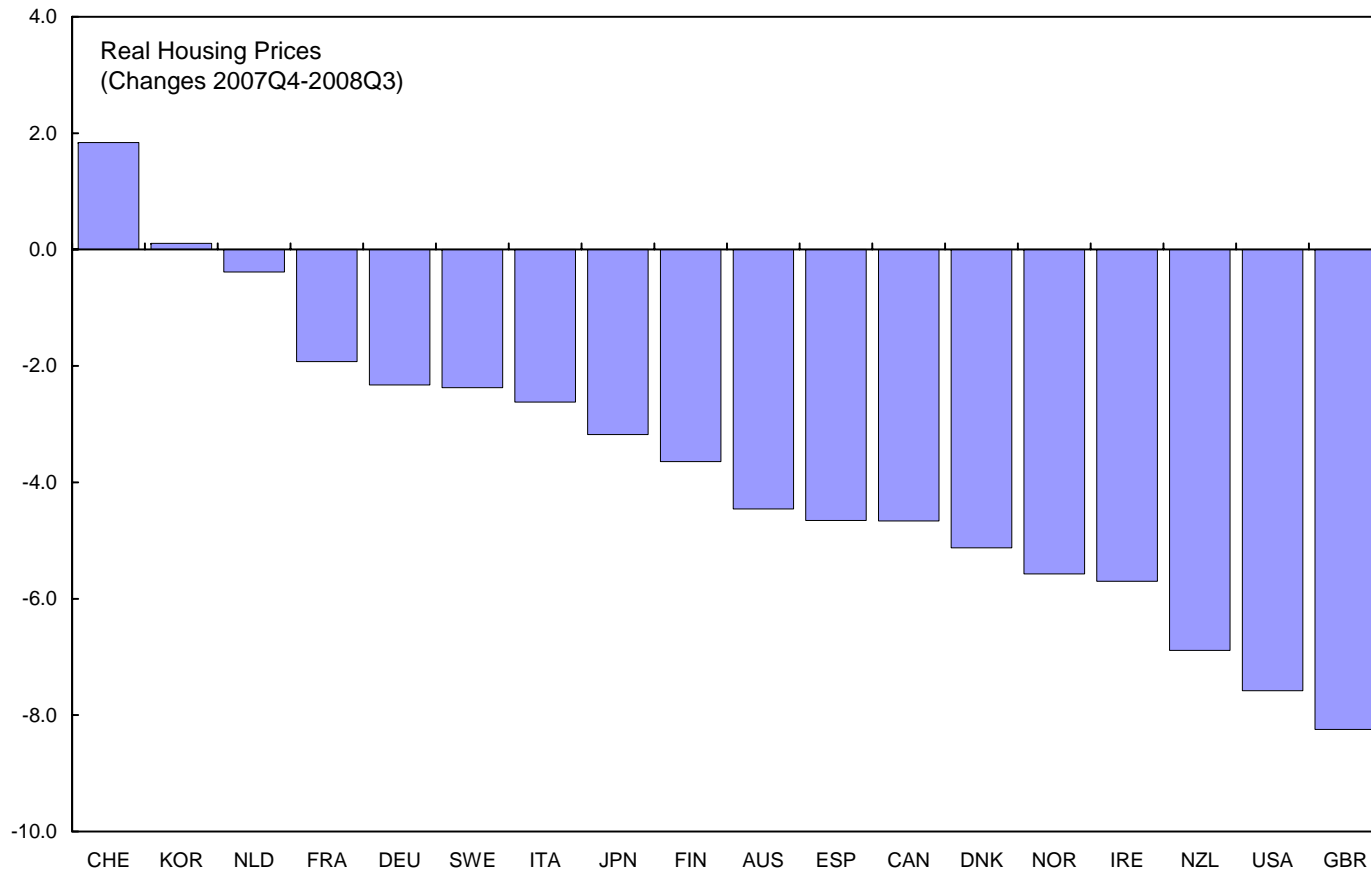
1. global boom and bust

oecd countries: prices & quantities

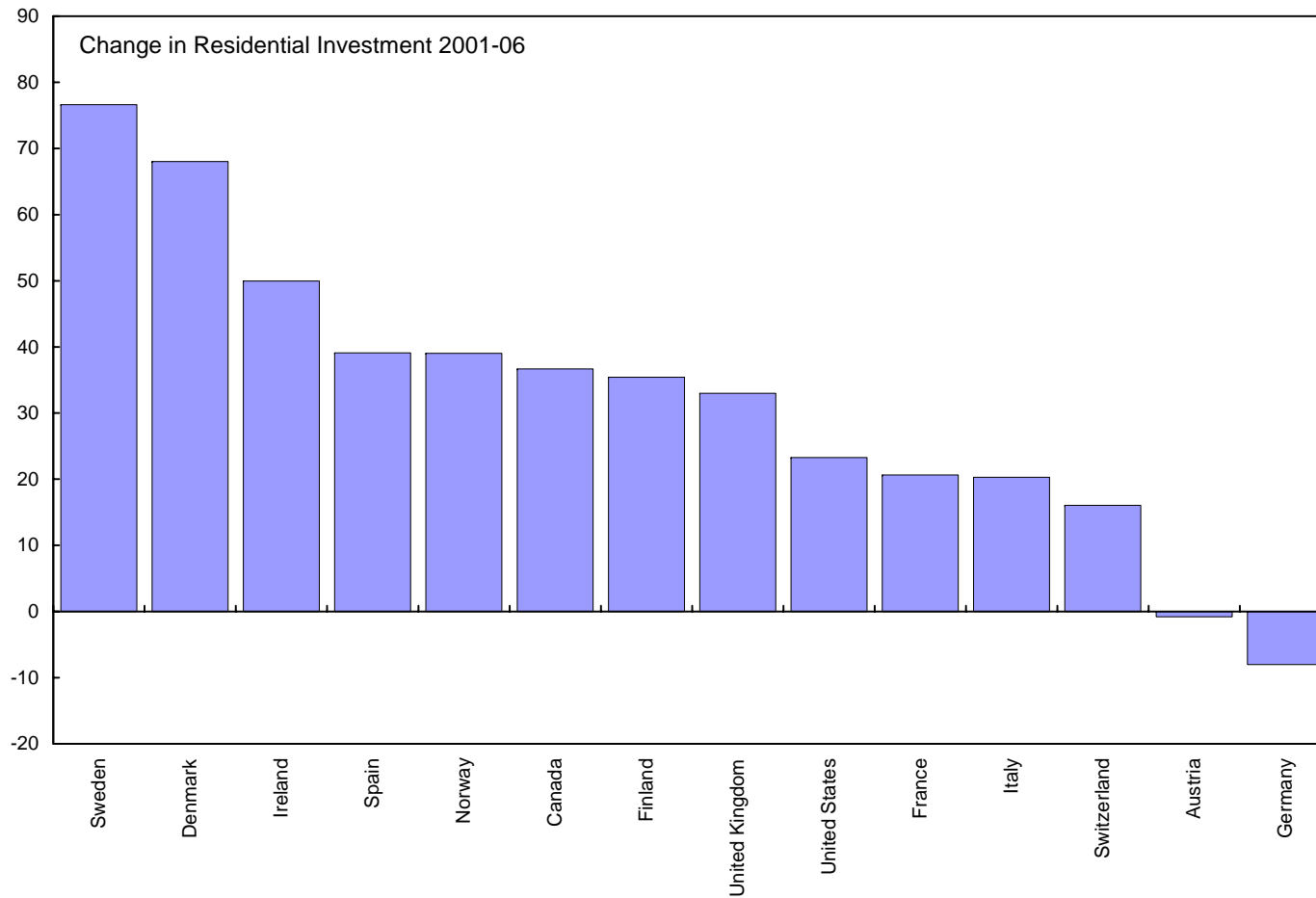
a global boom in OECD countries ...



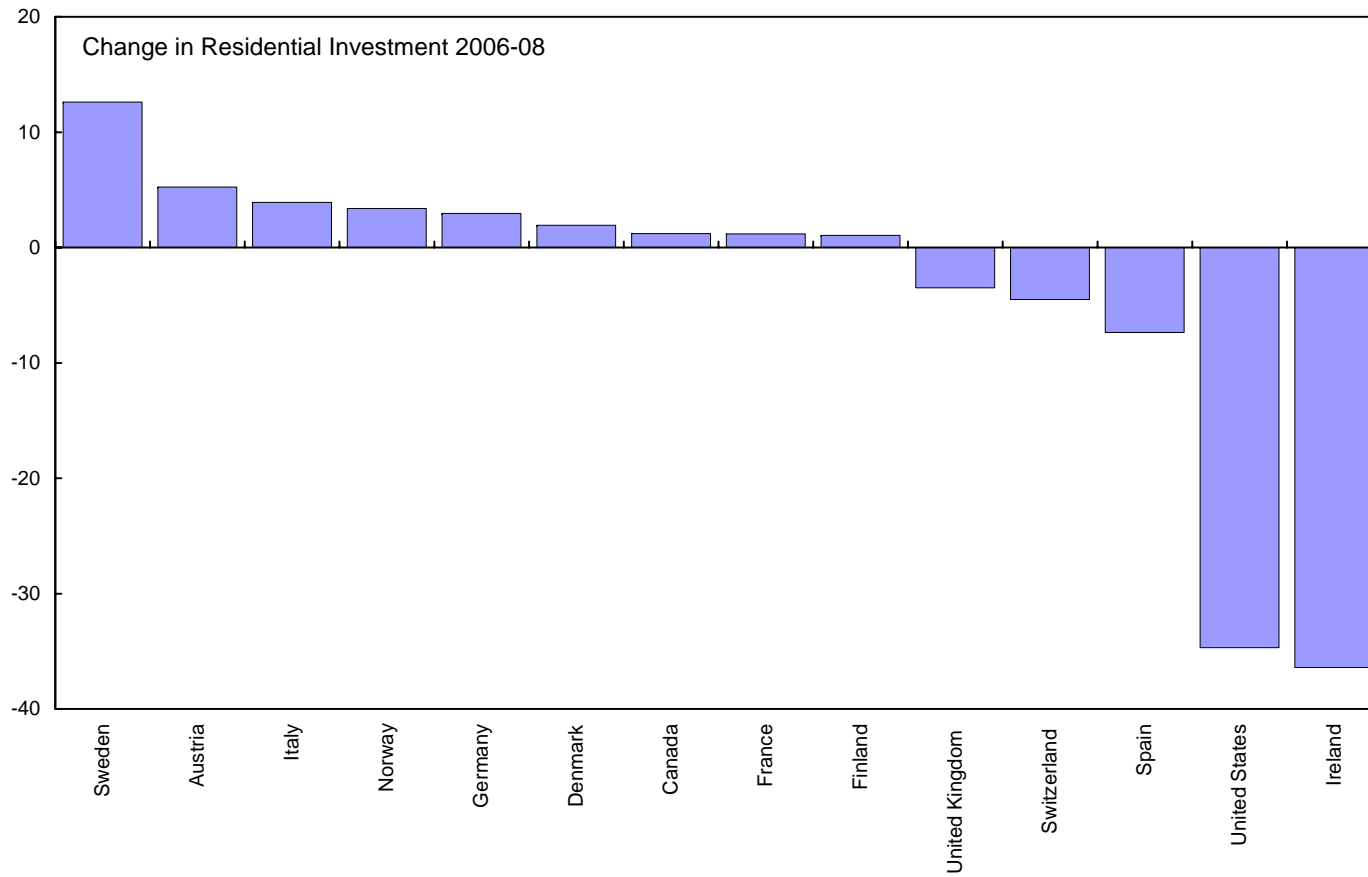
... is now a global bust



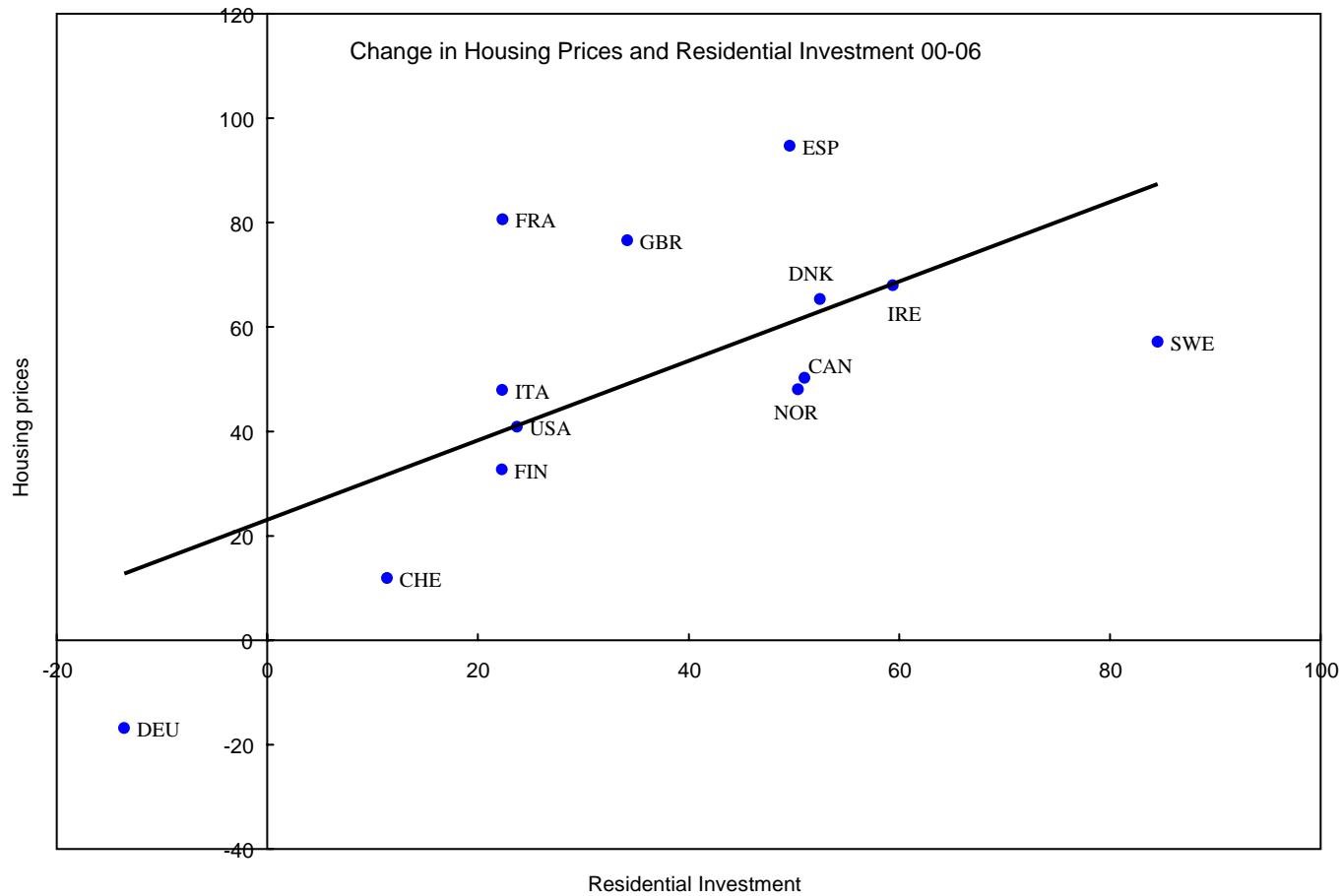
globally, a residential investment boom ...



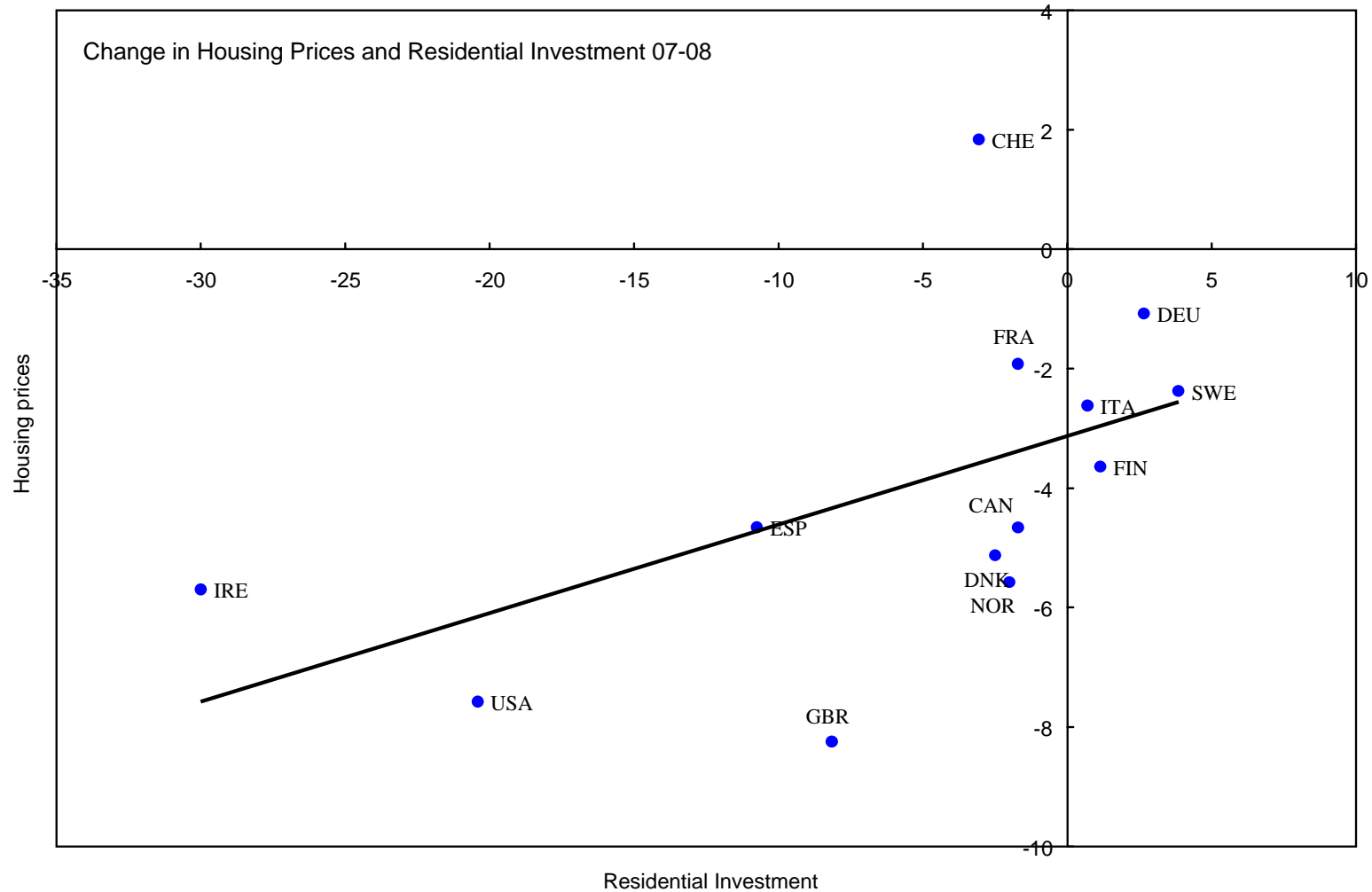
... is turning to bust



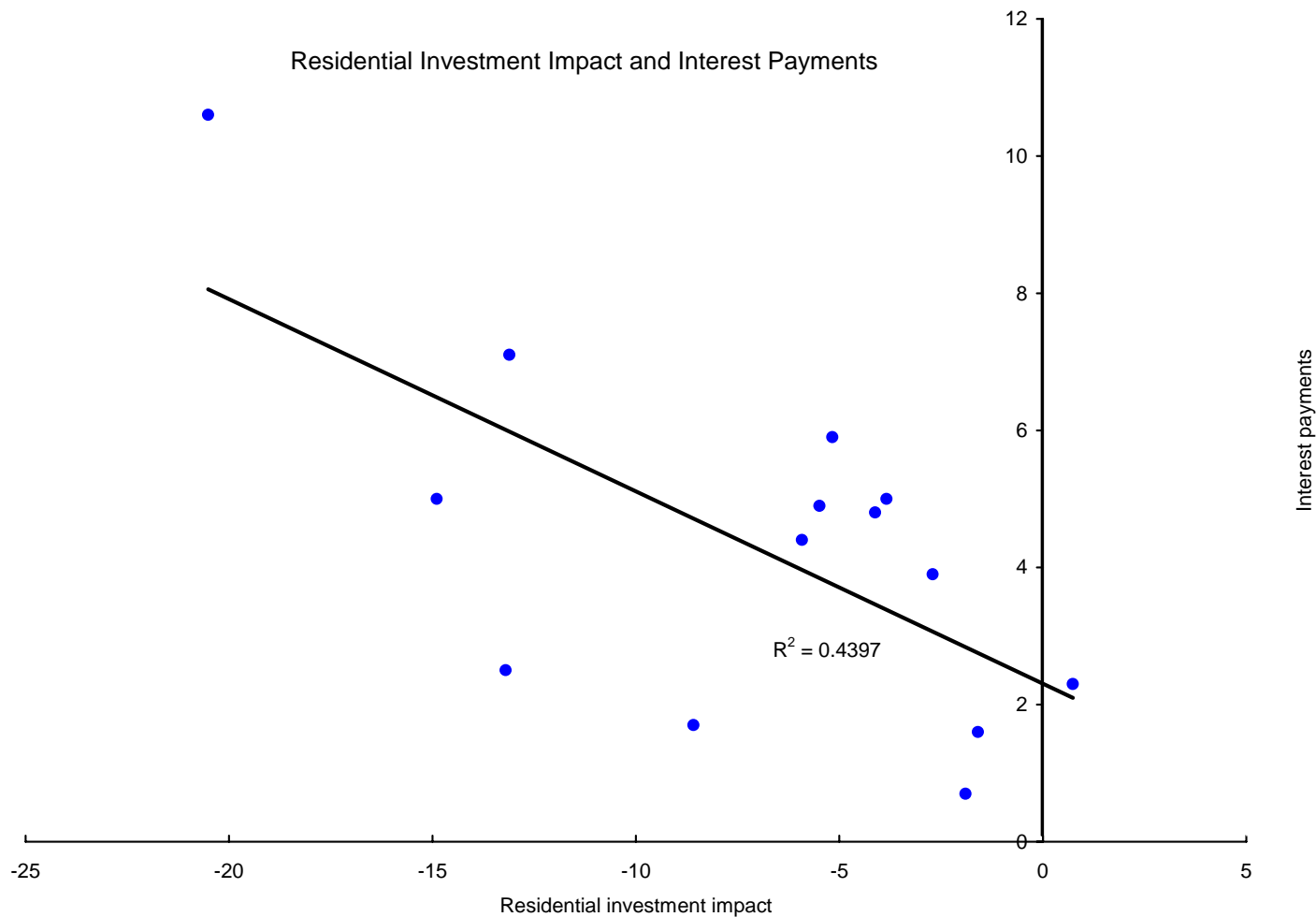
prices and quantities: up together ...



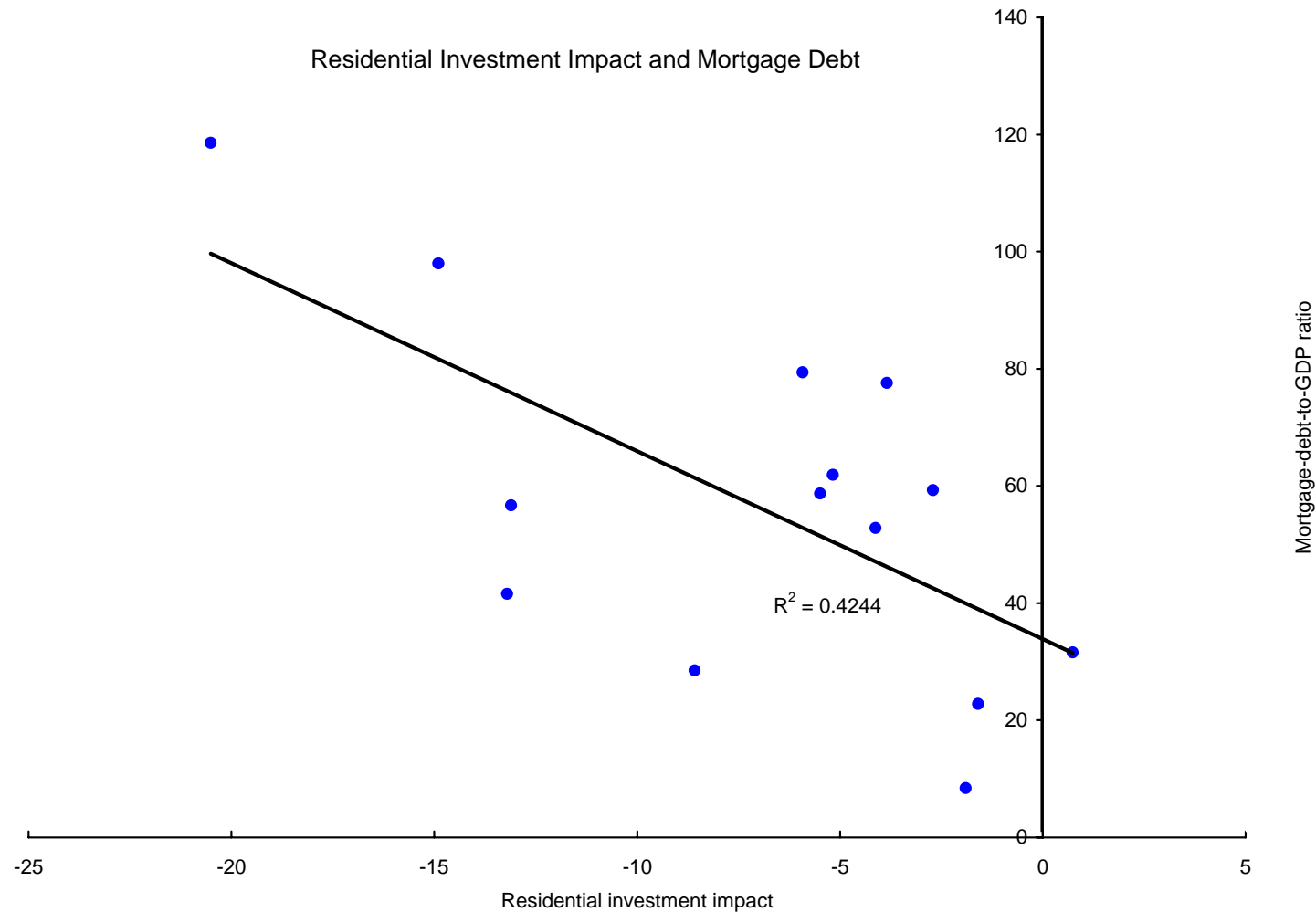
prices and quantities: down together ...



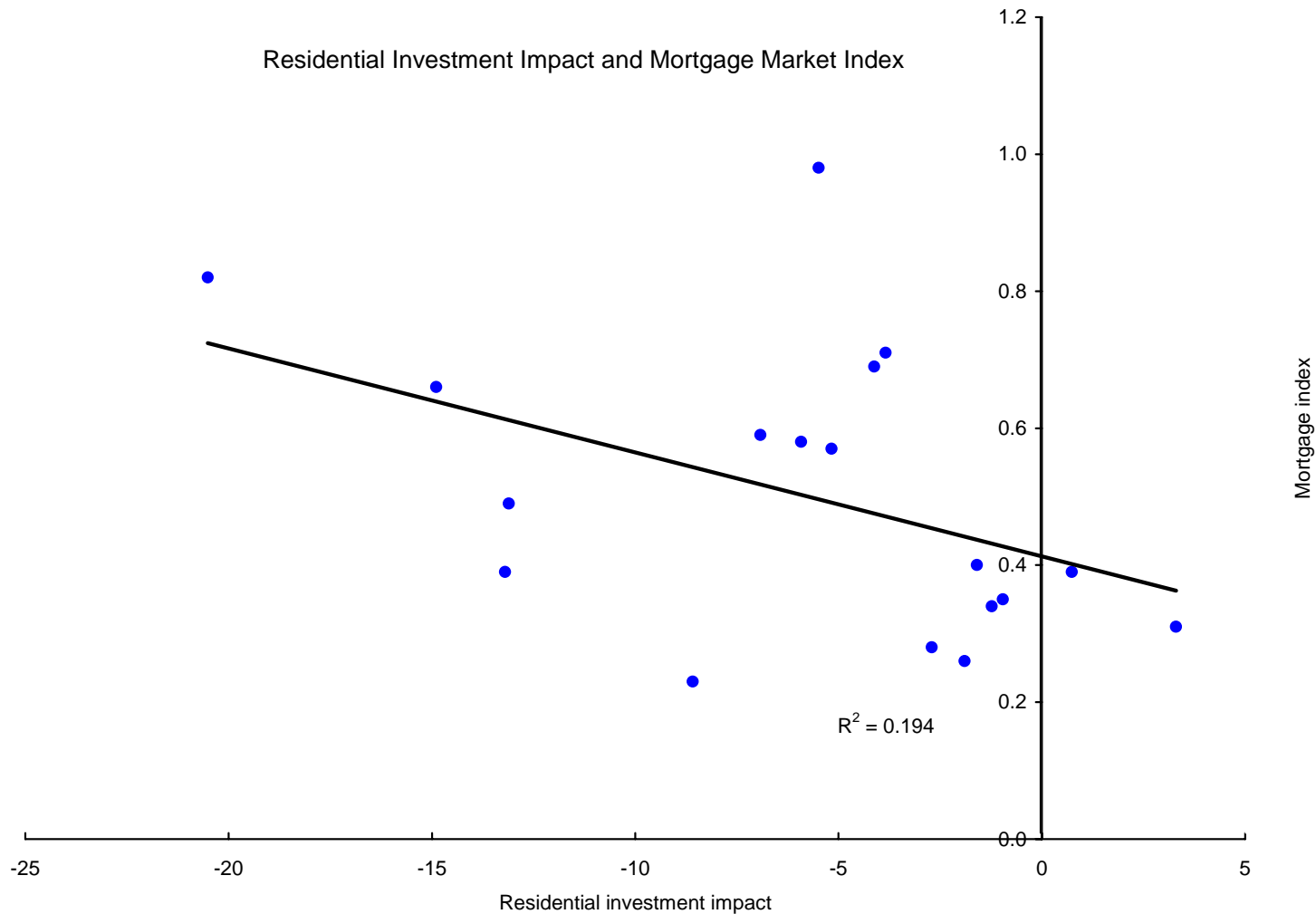
residential investment impact depends on: interest payment to GDP ratio



residential investment impact depends on: mortgage debt- to-GDP ratio



residential investment impact depends on: mortgage market characteristics

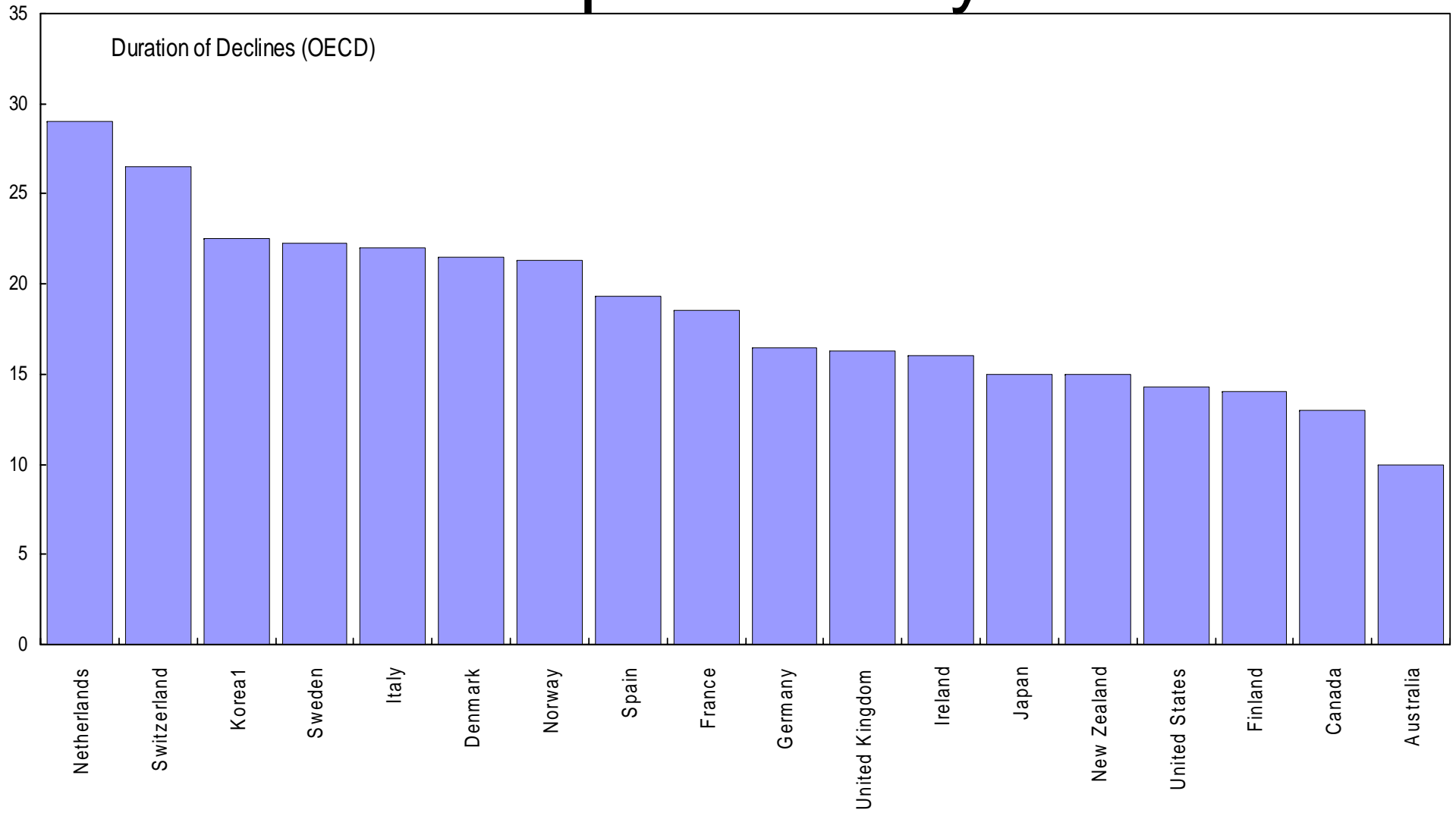


2. how much further will
house prices fall?

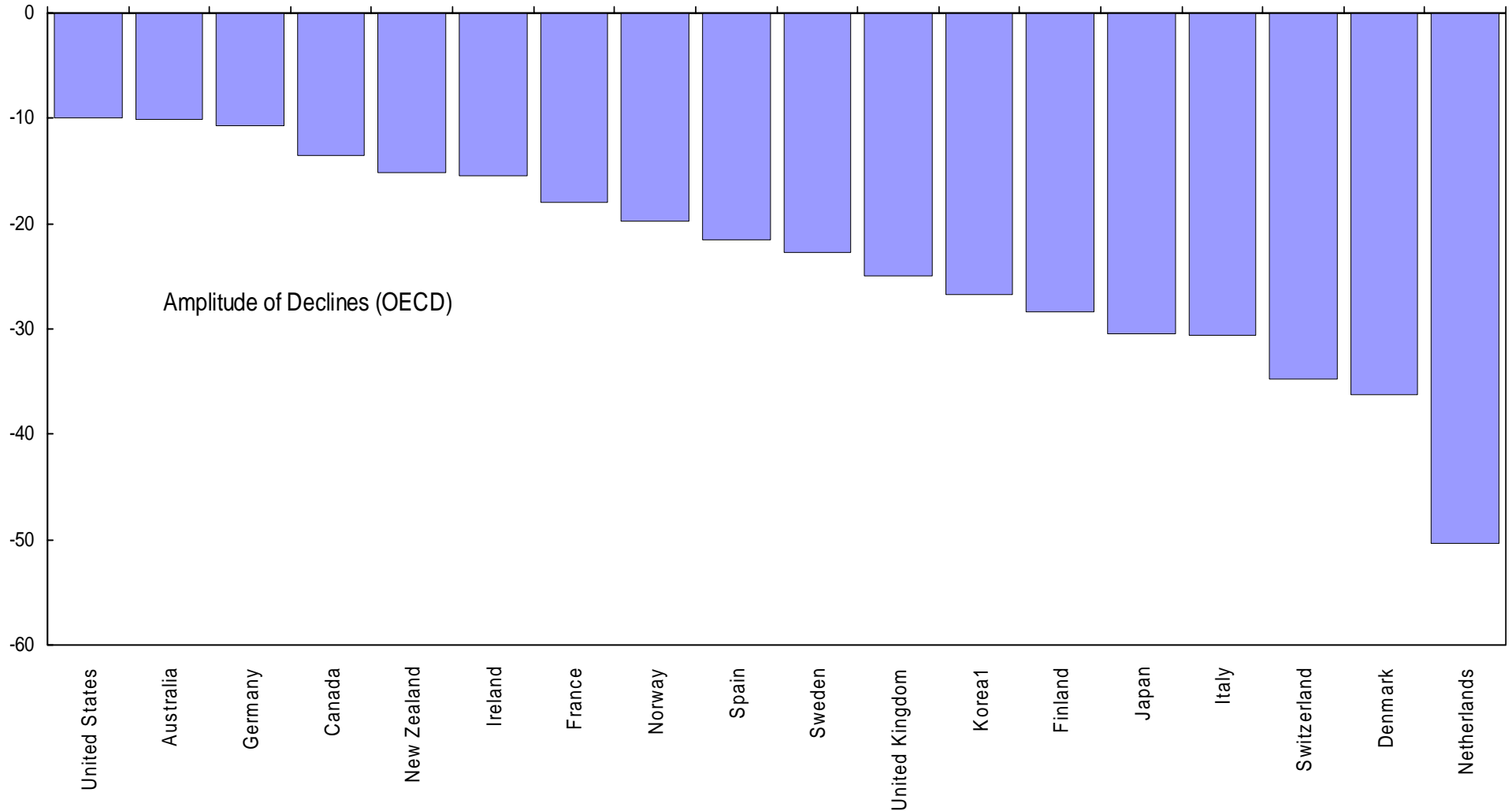
evidence from past cycles

evidence from long-term relationships

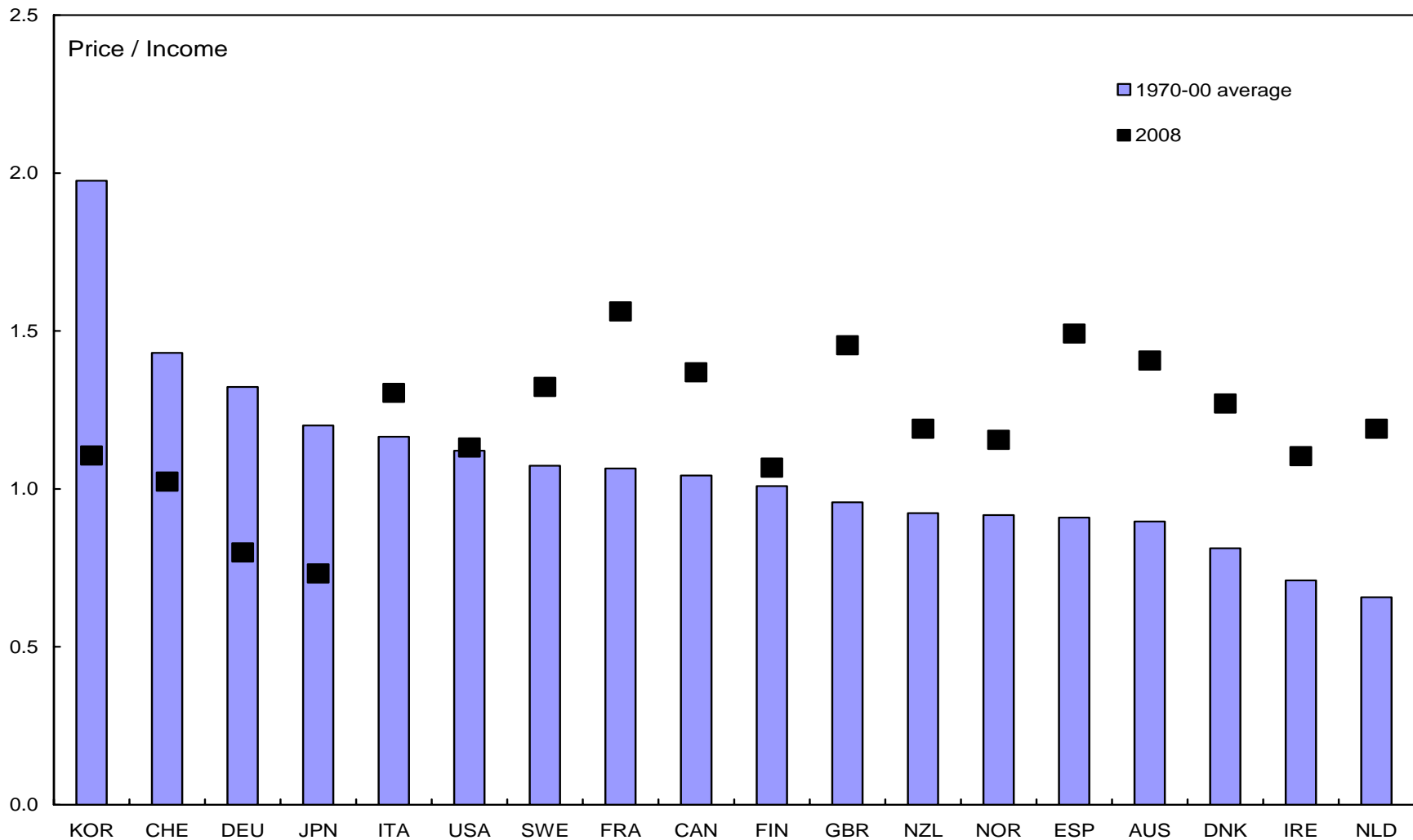
for how long have house prices fallen in previous cycles?



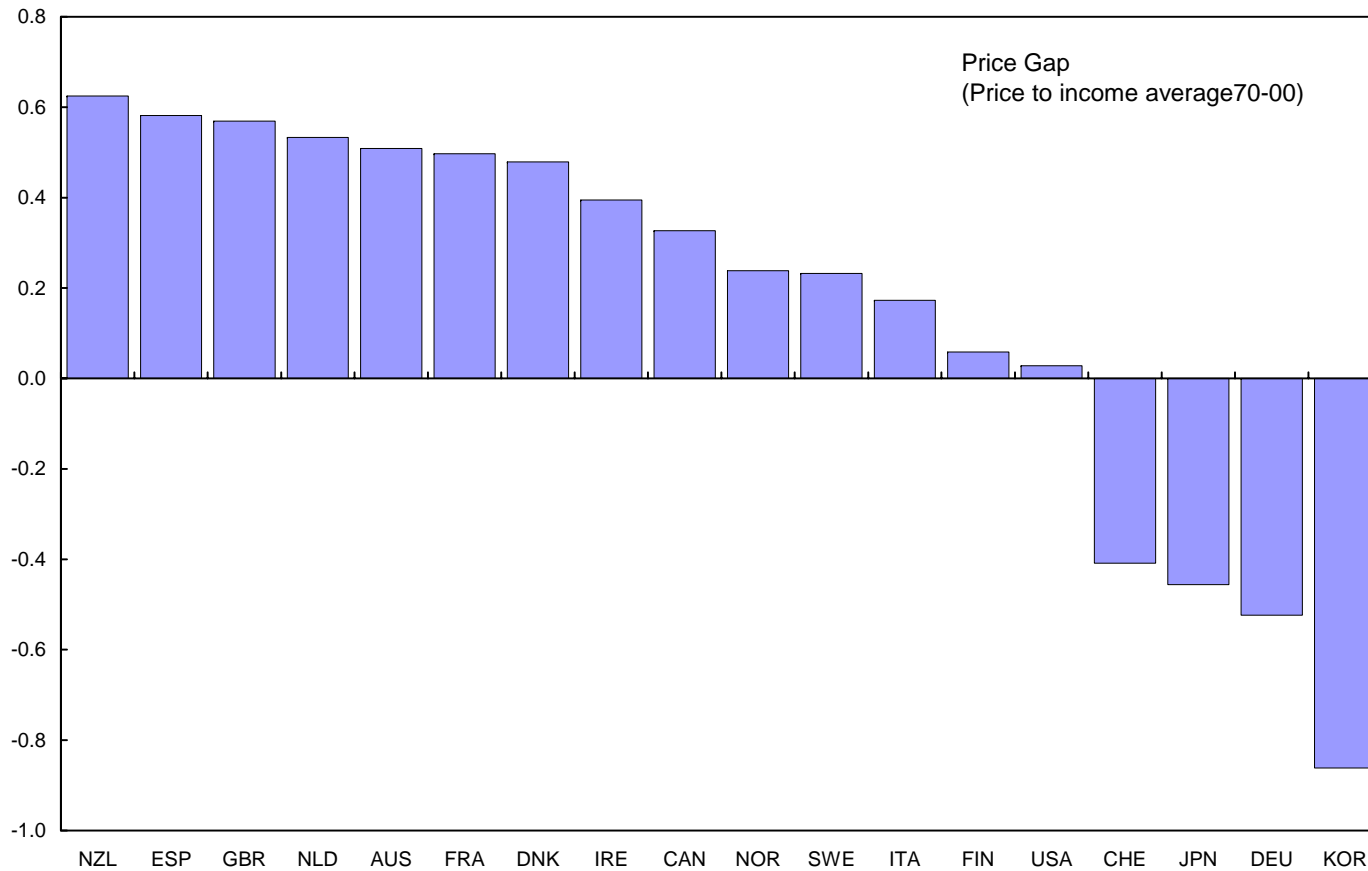
by how much have house prices fallen in previous cycles?



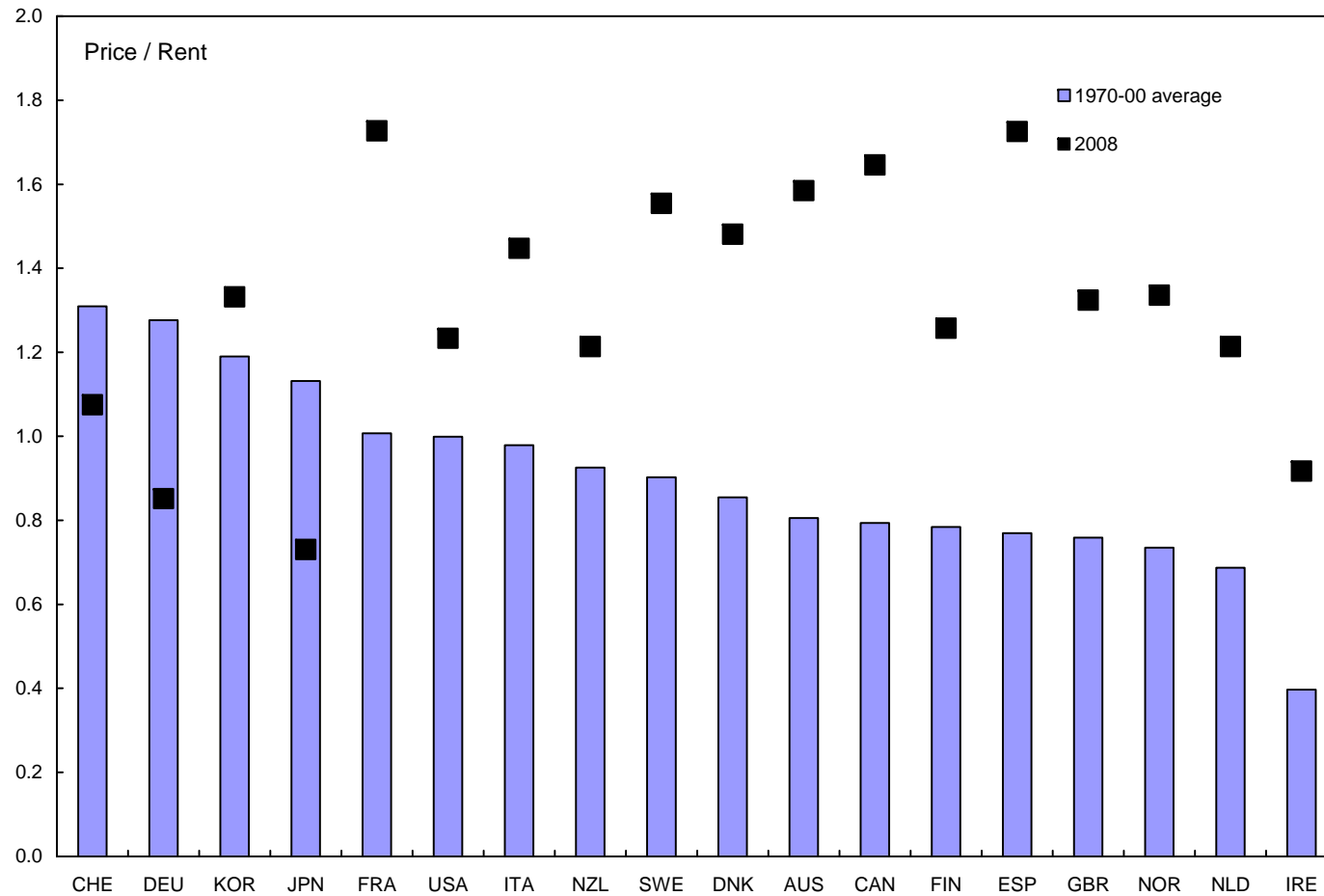
price-income ratios are above historical values ...



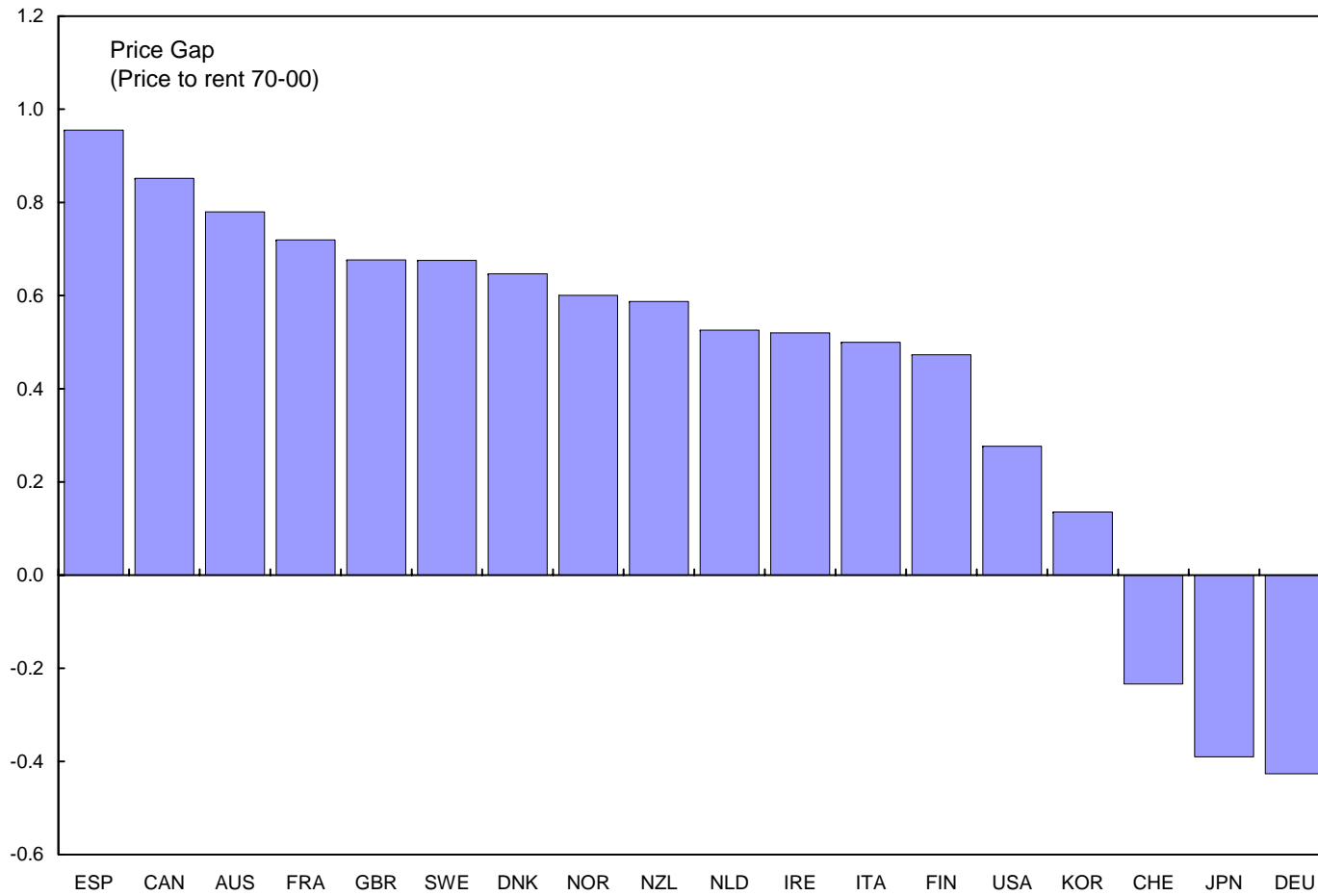
... suggesting price gaps



price/rent ratios are also above historical values ...



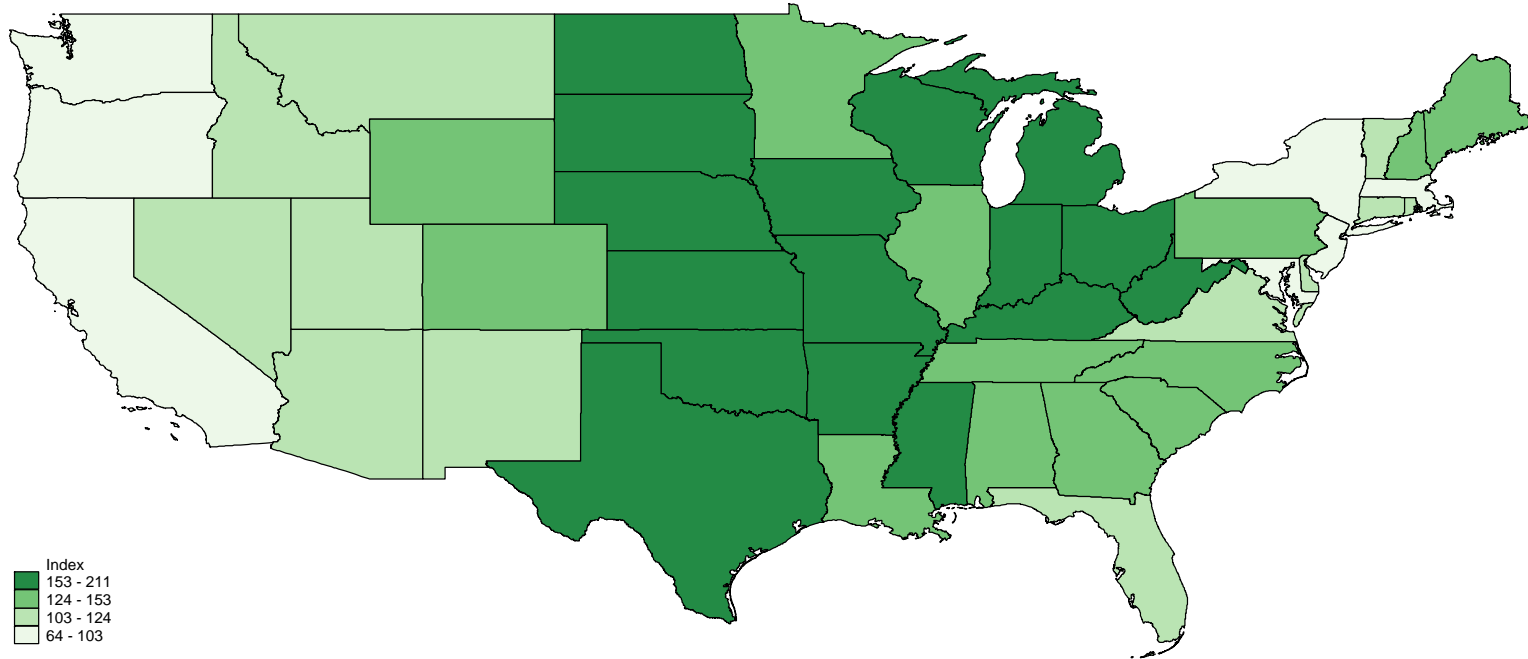
... suggesting price gaps



3. local consequences

- a. housing affordability
- b. housing and unemployment

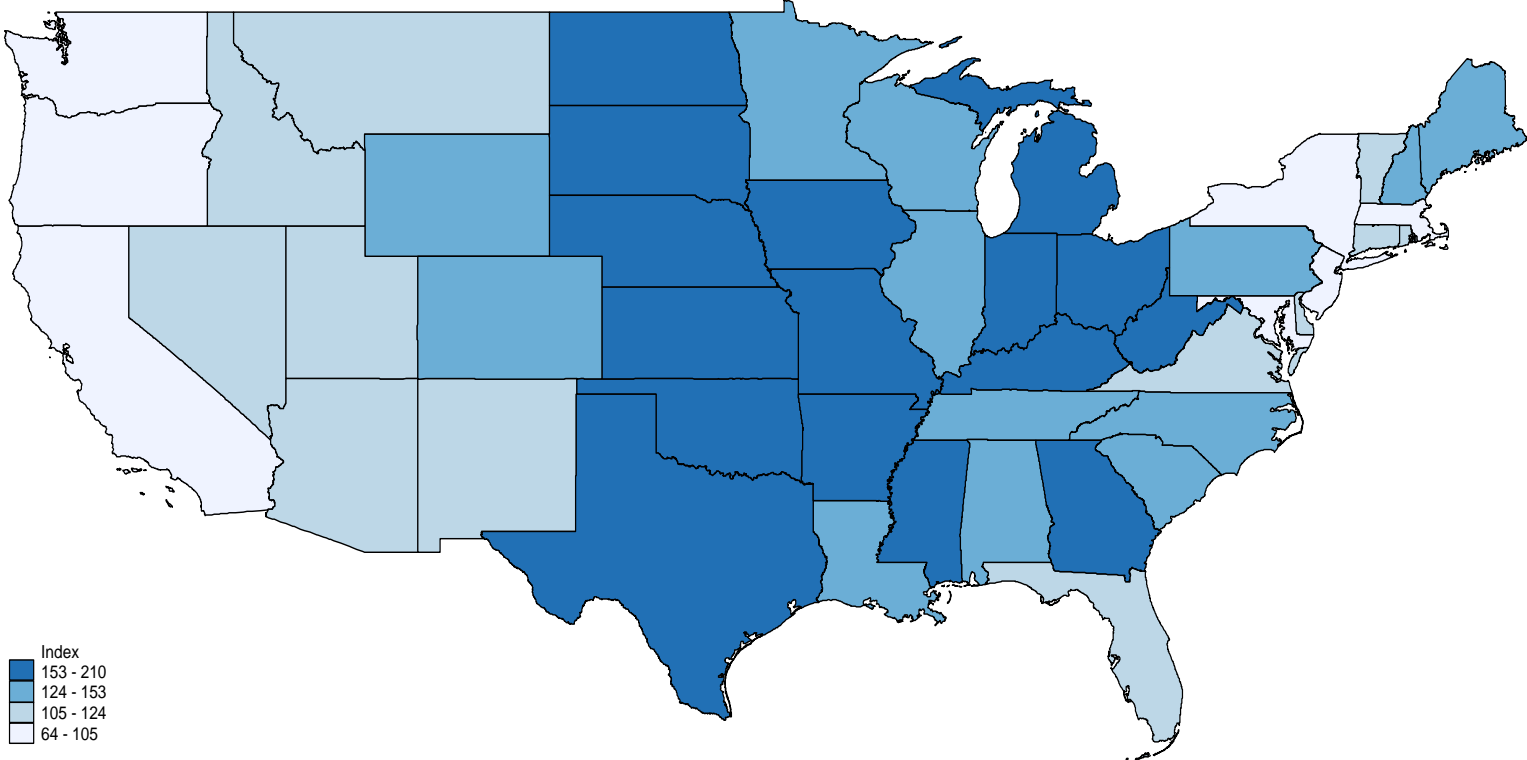
Year 2008 House Affordability Index



Index
153 - 211
124 - 153
103 - 124
64 - 103

HAI < 100 not affordable, HAI > 100 affordable

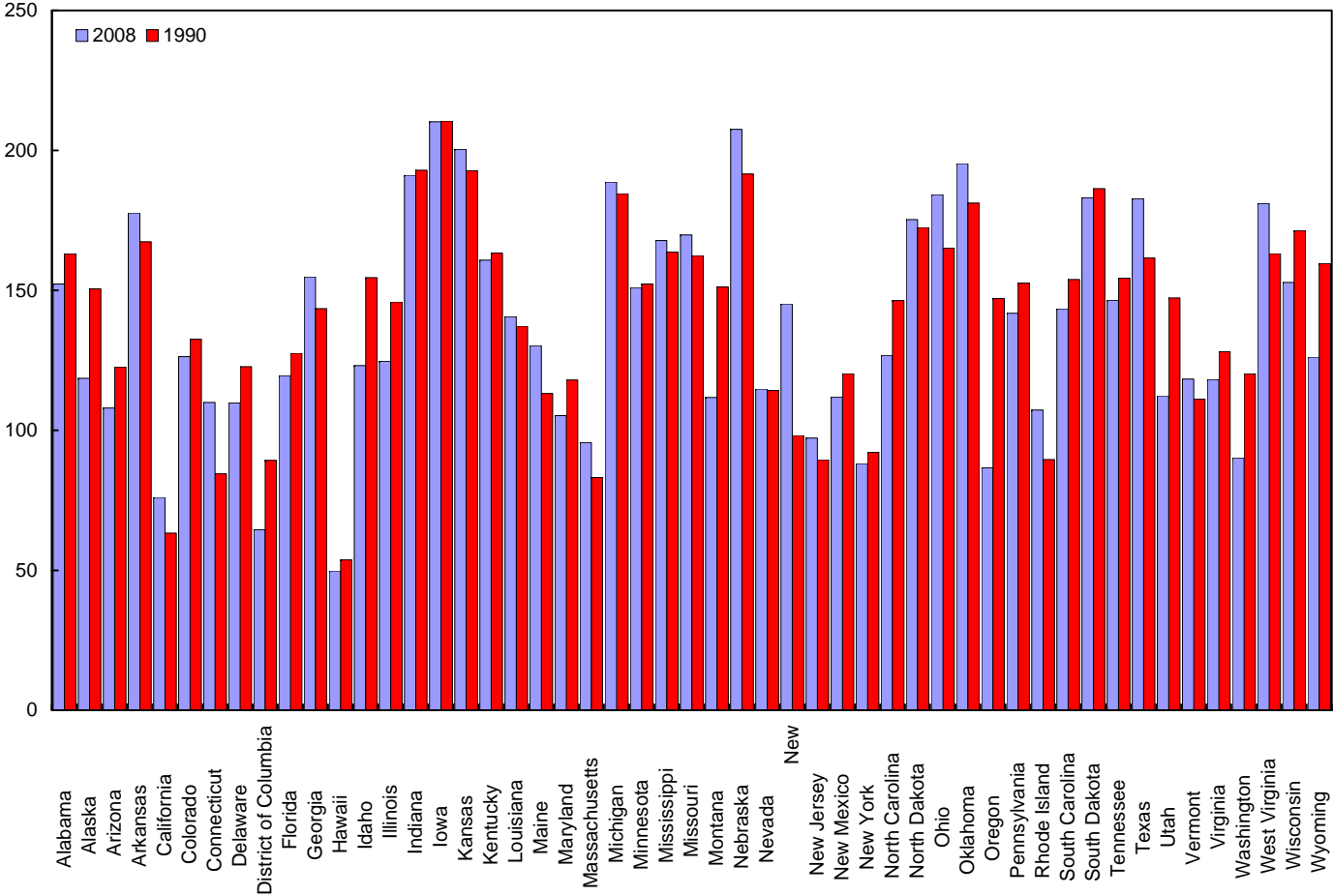
Year 2008 House Affordability Index



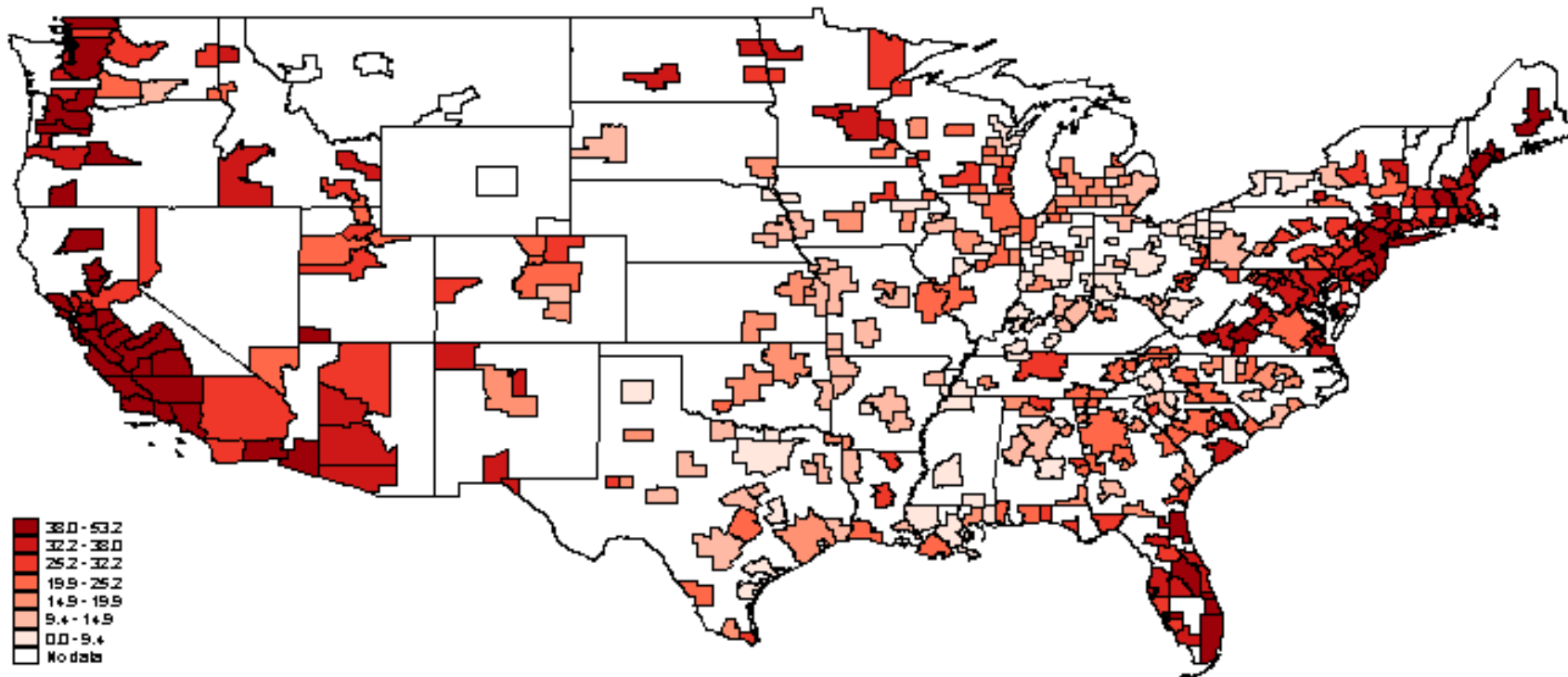
Index
153 - 210
124 - 153
105 - 124
64 - 105

HAI < 100 not affordable, HAI > 100 affordable

housing affordability, then and now

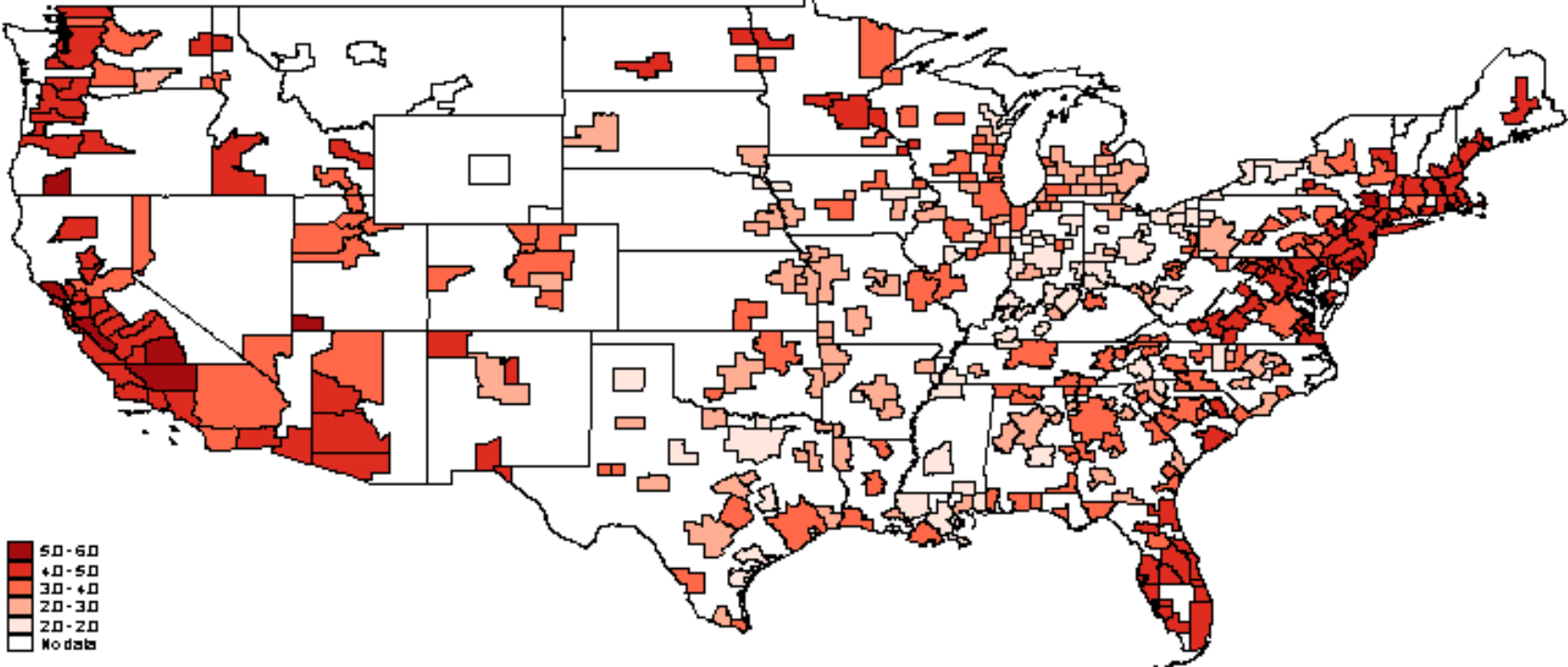


Price-to-Rent Ratio maximum drop (%) projection (Scenario 2, alpha = 50%)



© IMF 2008.

Price-to-Rent Ratio time to recovery projection (Scenario 2, alpha = 50%)



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Housing bust magnifies impact of recessions on unemployment

Unemployment Rate
(Percent)

