



Global House Price Watch

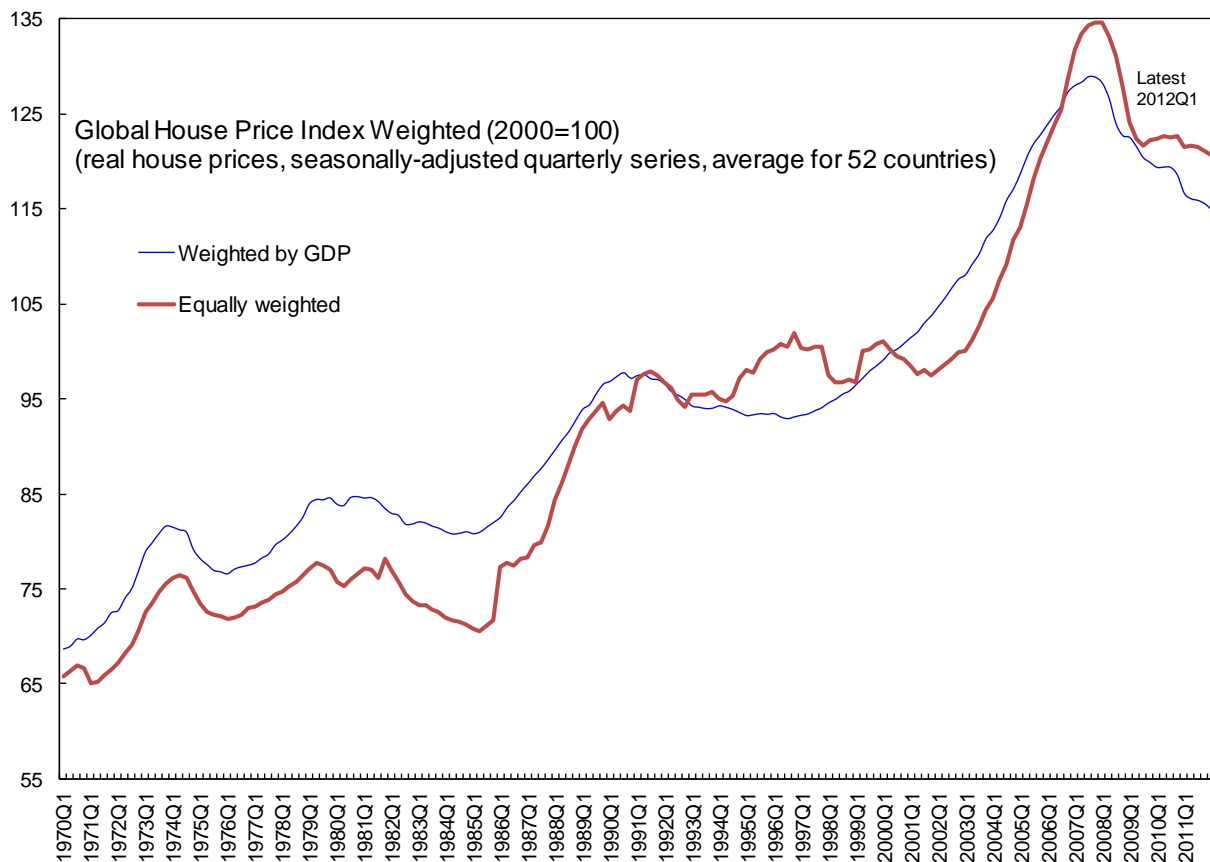
Hites Ahir, Deniz Igan, Prakash Loungani & Jair Rodriguez
September 2012

This document draws on “Global Housing Cycles”, an IMF Working Paper 12/217 by Deniz Igan and Prakash Loungani (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=26229.0>). It updates a few of the charts from that paper. As with Working Papers, the views expressed in this document are those of the authors and do not necessarily represent those of the IMF or IMF policy.

The Global House Price Roller Coaster

Our global index of house prices—a weighted average of price in 52 countries—shows no sign of an uptick. The equally-weighted index moved sideways during the first quarter of 2012 and the GDP-weighted index continued to decline (see Chart 1).

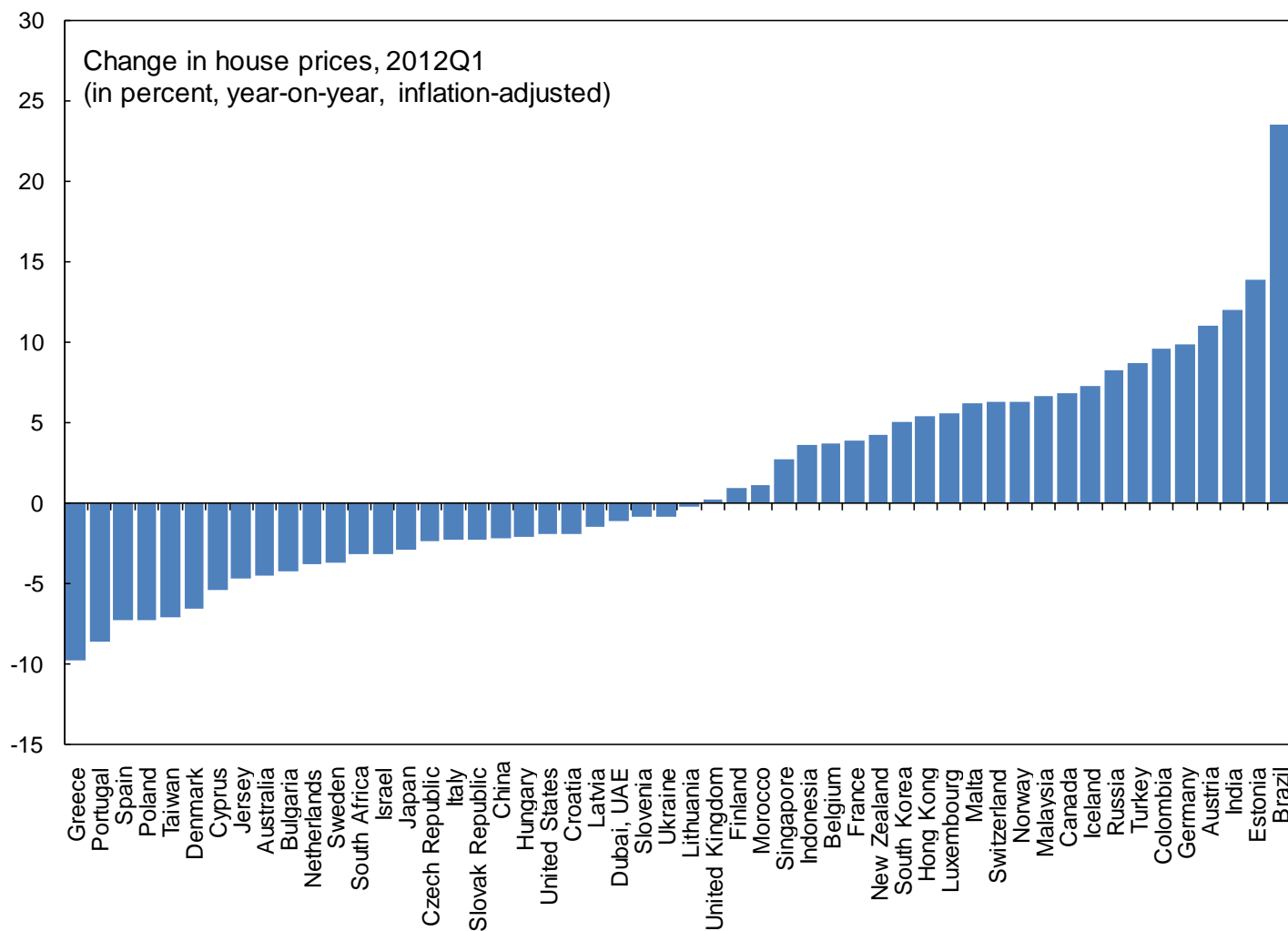
Chart 1. Global House Price Index



Up or Down?

The global index continued to mask very different developments across countries. House prices have fallen over the past year in just over half of the countries and risen in the rest, in Asian countries in particular (see Chart 2).

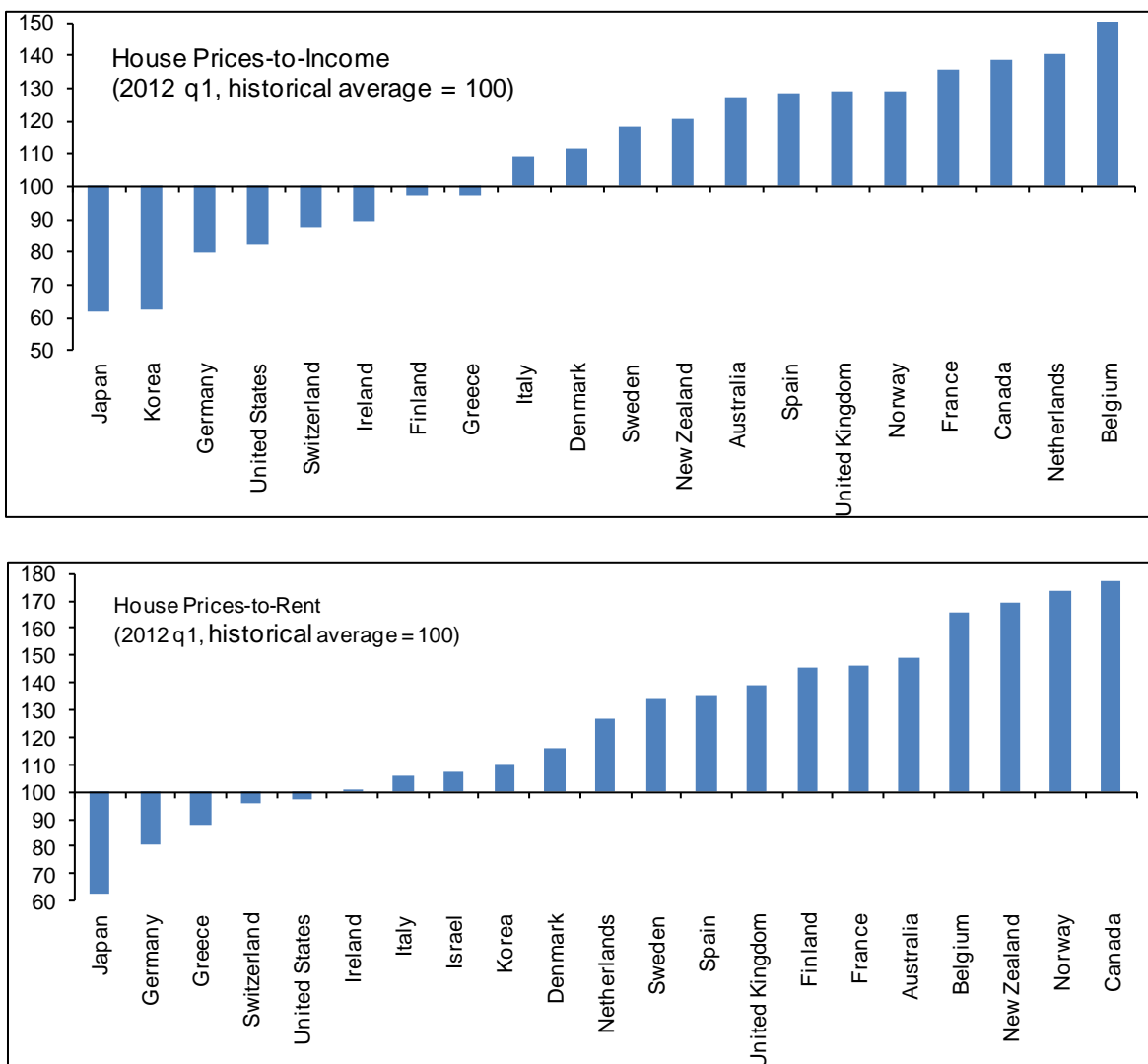
Chart 2. House Prices around the World



Hold on tight

The ratio of house prices to income and the ratio of house prices to rents are two indicators that give a sense whether prices are likely to decline or rise. The price to income ratio is the basic affordability measure for housing in a given area and the price to rent ratio compares the total costs of homeownership vs. the cost of renting a similar property. If these ratios are above their historical averages, economic theory suggests that the house prices may decline in the future. The latest data shows that both ratios continue to remain above—and in many cases well above—their historical averages, signaling that there may potential for corrections still to come (see Chart 3).

**Chart 3. House Prices Relative to Incomes & Rents:
Current Ratios Compared With Historical Averages**

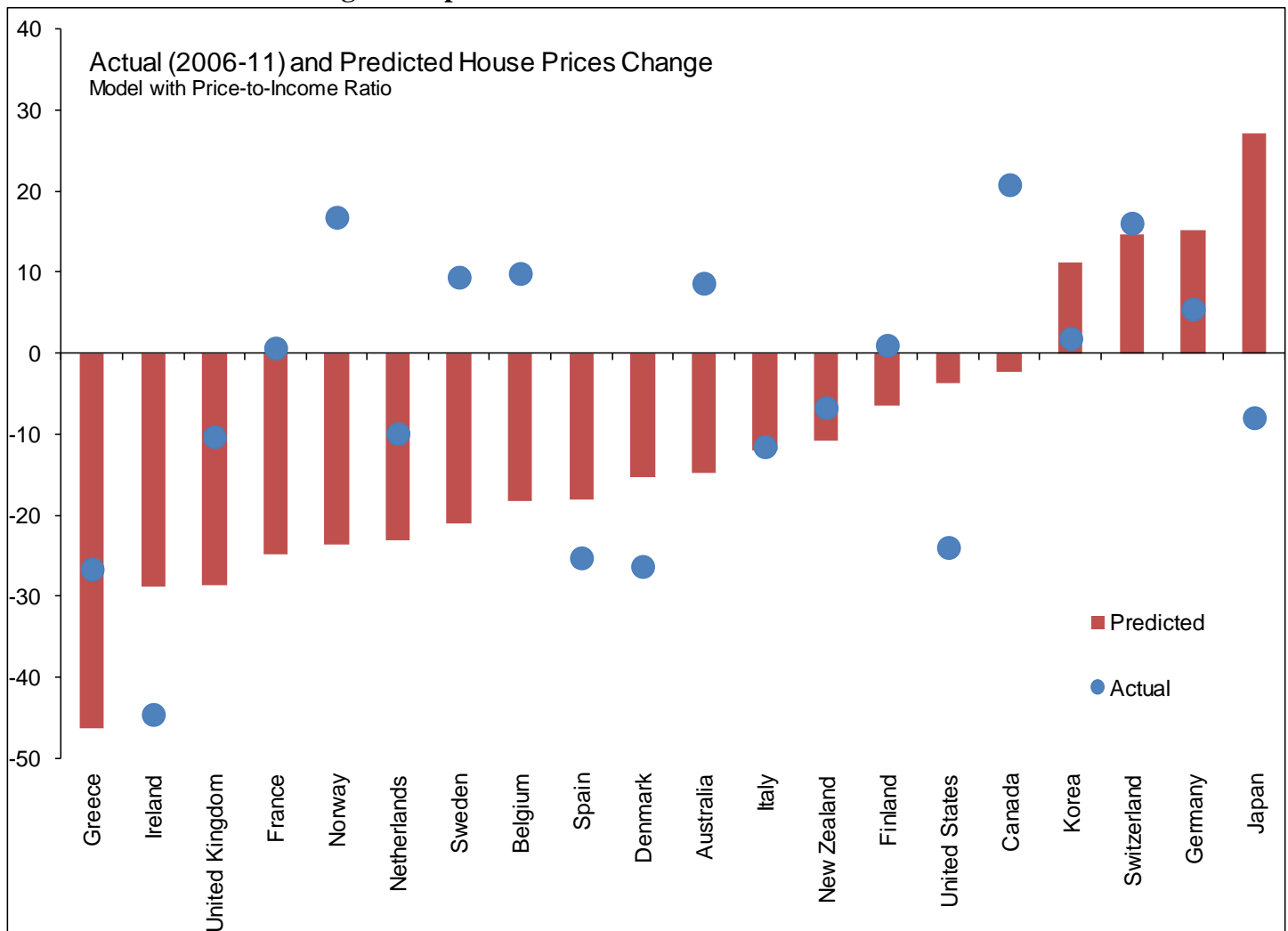


Driving factors

An econometric model of the determinants of house prices, used in the working paper by Igan and Loungani explains house price growth based on several short-run factors, such as growth in incomes, asset prices, and population, and long-run-factors, such as the ratio of house prices to incomes. The difference between house prices and those predicted on the basis of these fundamental factors gives another indication of whether prices may have more room to fall.

The results from this exercise show that in many countries the declines in house prices over the past five years (the 'actual') are close to, or even exceed, what was predicted by the model. But for many countries, house prices are still resisting the predictions of the model (see Chart 4).

Chart 4. House Prices Changes Compared With Predictions from an Econometric Model



“Location, Location, Location”: A Closer Look within the United States

With house prices falling substantially over the past few years, housing affordability improved in most U.S. states last year. In most U.S. states, a family making the median income for the state could afford the median house (Chart 5). There were still a few states, along the coasts, where the median house still remained out of reach of the median household. A similar picture emerges when looking at price-to-rent ratios by metropolitan areas: house prices remained out of line with rents in some areas along the coasts (see Chart 6).

Chart 5. United States: House Price Affordability by State

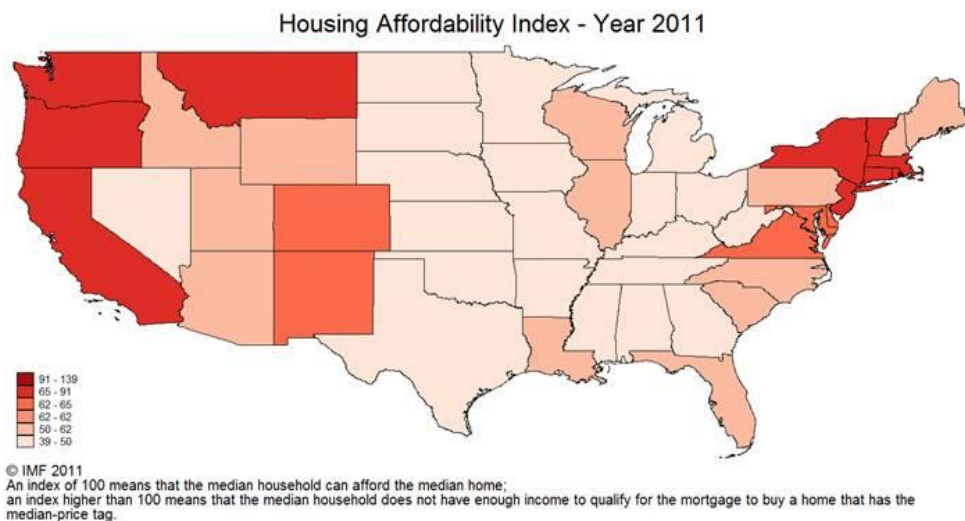
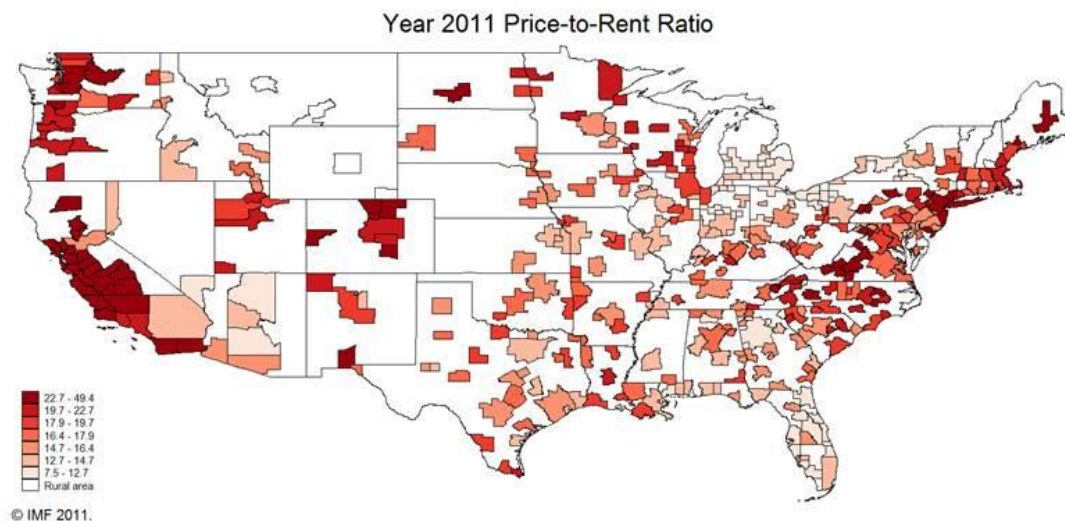


Figure 6. United States: Price to Rent Ratios by Metropolitan Areas



Recent IMF staff studies

As part of its regular monitoring of economic conditions in countries (the so-called “Article IV” reports), the IMF staff often provides an assessment of conditions in the housing markets. Readers are encouraged to complement the broad-brush analysis in this document with the country-focused assessment provided in those reports. A list of some of the countries for which housing markets were described in recent reports is given below.

Housing Markets in Recent IMF Staff Reports		
	Link to:	Date of Report
Discussion of housing markets	Full report (pages on which housing is discussed)	
Germany	Staff Report, Article IV (pg. 8)	Jul-12
Ireland	Staff Report, Article IV (pg. 6,7)	Mar-12
Lebanon	Staff Report, Article IV (pg. 8)	Feb-12
Norway	Staff Report, Article IV (pg. 12 to 14)	Feb-12
Philippines	Staff Report, Article IV (pg. 28)	Mar-12
Singapore	Staff Report, Article IV (pg. 41)	Aug-12
Sweden	Staff Report, Article IV (pg. 27)	Jun-12
United Arab Emirates	Staff Report, Article IV (pg. 6)	May-12
United States	Staff Report, Article IV (pg. 51)	Aug-12

