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Banking integration and house price co-movement*

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ABSTRACT

The correlation in house price growth across US states increased steadily between 1976 and 2000. This paper shows that the contemporaneous geographic integration of the US banking market, via the emergence of large banks, was a primary driver of this phenomenon. To this end, we first theoretically derive an appropriate measure of banking integration across state pairs and show that house price growth correlation is strongly related to this measure of financial integration. Our instrumental variable estimates suggest that banking integration can explain up to one-fourth of the rise in house price correlation over this period.

JEL Classification: G21, F65, R30.

Keywords: Financial integration, Co-movement, House prices

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