

Has There Actually Been a Sustained Increase in the Synchronization of House Price (and Business) Cycles across Countries?

William Miles

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William Miles^a

^aDept. of Economics

Wichita State University

1845 Fairmount

Wichita, KS 67260-0078

E-mail: william.miles@wichita.edu

Ph: 316-978-7085

Fax: 316-978-3308

Abstract

Housing has been demonstrated to affect the macroeconomy, particularly business cycle fluctuations. Given the more globalized nature of financial and economic activity in comparison to past decades, there has been much research on how synchronized home values are across countries. This research mirrors a similar line of inquiry on business cycle movement across nations. The degree of co-movement has implications for portfolio management in real estate investment, as well as for macroeconomic policy coordination across countries. In this paper, we apply a newly developed set of international house price data and utilize some recently created tools to investigate international housing and business cycle co-movement. We find that there has been no sustained increase in co-movement for either house prices or income across nations.

Keywords: International Business Cycles; Housing Demand

JEL Codes: F44, R21

Introduction

The run-up in home prices during the early 2000s and the sharp drop in values over the latter half of the decade were not merely, for some nations, unprecedented in magnitude. They also occurred across a large number of countries. This possible co-movement has generated a research agenda on the global nature of house price dynamics. Several papers—Beltratti and Morana (2010), DeBandt, Barhoumi and Bruneau (2010) and Hirata, Kose, Otrok and Terrones (2012) all examine home price movements across countries and all find substantial international linkages for housing values.

The research on house price co-movement mirrors another literature on output co-movement, or business cycle synchronization (BCS). Indeed, the econometric tools employed in the BCS literature are often the same as those used on housing co-movement. Kose, Otrok and Whiteman (2008) and Kose, Otrok and Prasad (2012), like all three papers on house values, apply dynamic factor analysis to output data across different countries.

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