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Eric Monnet, Clara Wolf

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ERIC MONNET AND CLARA WOLF

Abstract

The correlation between residential investment over GDP and the growth rate of the 20-49 age group in OECD countries suggests a demographic explanation of housing cycles: booms and busts arise because this age group invests more in housing than in other GDP components. However, correlations may be driven by reverse causality between migration and housing. We instrument by past demographic data to avoid the endogeneity bias and find evidence of a strong significant causal relationship. By reconstructing migration flows by age group, we then point out that the bias is in fact small and that migration is also likely to be a key driver of housing cycles.

JEL Codes: E32, J11, R21.

Keywords: housing investment, demography, migration, business cycle.

*Monnet: Banque de France, DGEI-DCPM-DIACONJ, 31, rue Croix des Petits Champs, 75049 Paris, France (e-mail: eric.monnet@banque-france.fr); Wolf: Sciences Po, 28 Rue des Saints-Peres, 75007 Paris, France (email: clara.wolf@sciencespo.fr). We are especially grateful to Yannick Kalantzis for many comments and suggestions at the early stage of this project, as well as to the editor, Paul Carrillo and three anonymous referees. We would also like to thank Philippe Bracke, Laurent Gobillon, Guillaume Chapelle, Nicolas Coeurdacier, Gabrielle Fack, Violaine Faubert, Jacques Friggit, Thomas Grjebine, Guy Lévy-Rueff, Philippe Martin, Joan Monras, John Muellbauer, Pierre Sicsic, Alain Trannoy, Vichett Oung as well as seminar participants at the Banque de France, Sciences Po, T2M conference, the Oxford Symposium on Population, Migration and Environment, the ECB/CBRT conference, and the Louis André Gérard Varet conference. We are grateful to Stephanie Evans for reviewing spelling and syntax, all errors remain ours.

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