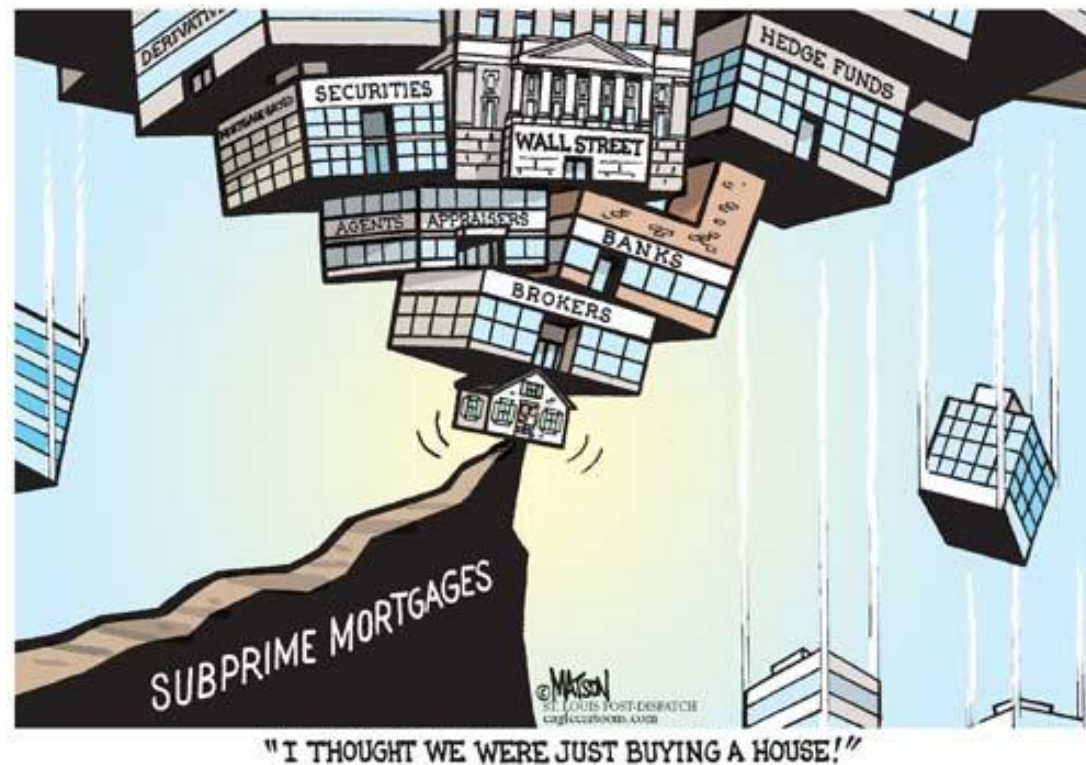


# Housing Markets and the Global Financial Crisis

**Herman Schwartz**  
**Mat Watson**  
**André Broome**  
**Len Seabrooke**









# US Power Rising

## 1. Absence of constraint

equals: US global financial arbitrage / \$ recycling

- The US escaped the usual constraints, '91-05
  - Over-consumed (from 65% to 70% of GDP)
  - Overinvested at home (GFCF from 14% => 19%)
  - Overinvested overseas (\$7 trillion gross)
- And made money doing this! 😊
  - At the cost of rising net foreign debt... ☹

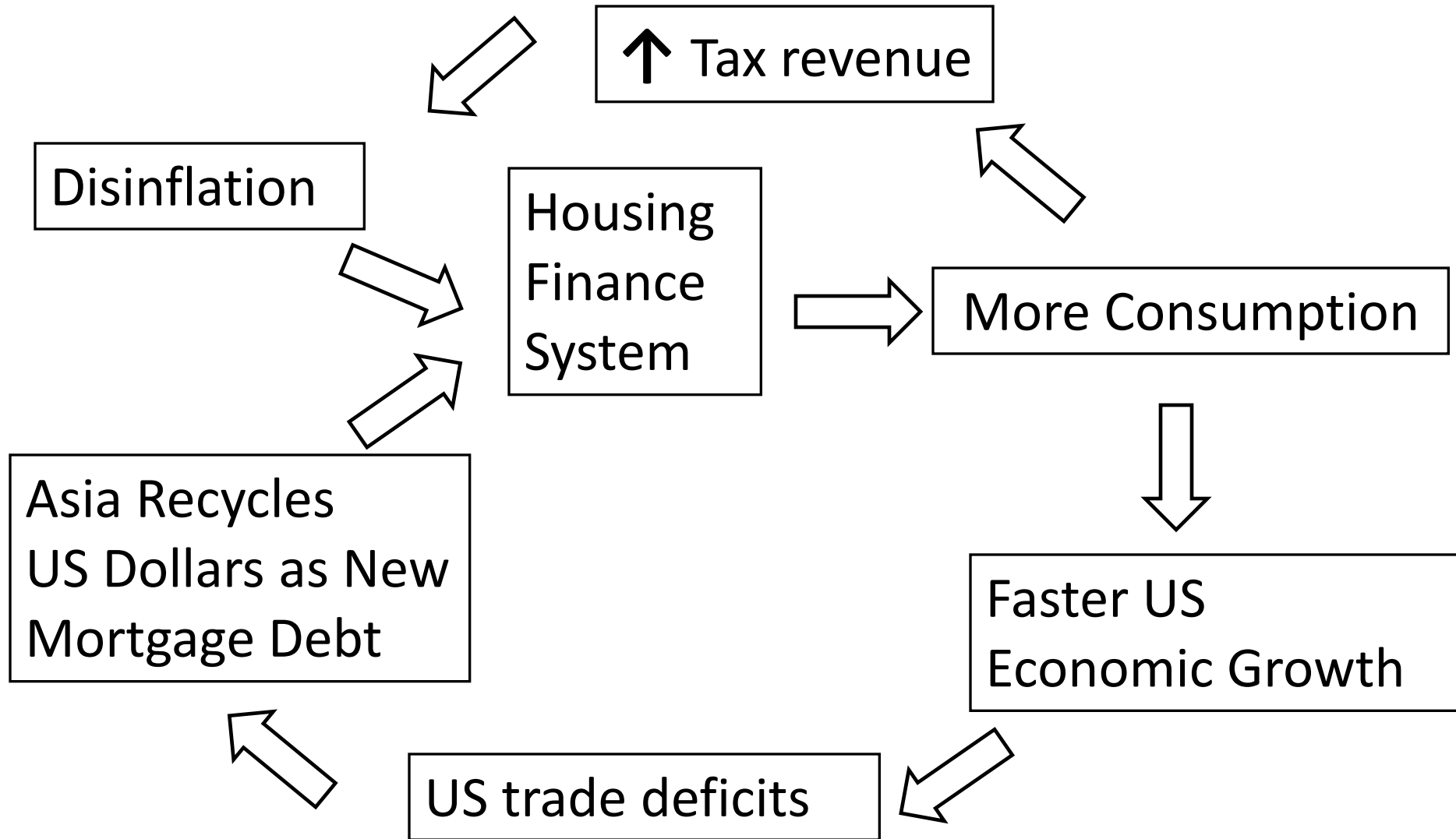
# US Power Rising

1. Absence of constraint
2. Control over production chains
  - US owned share of MSCI from 10% => 24%  
vs. Foreign Share of US from 5% => 9.7%
  - US MNCs' share of GWP up 40% => 7.8%
  - Ratio of USDIA to FDIUS, 1995-2004
    - Assets ratio from 1.32 => 1.5
    - Value added ratio from 1.4 => 1.6
    - Turnover ratio from 1.1 => 1.4

# US Power Rising

1. Absence of constraint
2. Control over production chains
3. Differential growth
  - “*market share*” not absolute growth
  - US share of OECD GDP up 4.2 % points to 42.7%, 1991-2005 (vs fall from 46.6% [1950] => 37.8% [1982])
  - US share of world GDP stable at 20% despite rapid growth in China, India, etc

# The 1990-2000s US growth cycle



# Housing finance

- High rates of homeownership +
- High levels of mortgage debt to GDP +
- Easy refinance of mortgage debt and home equity withdrawal +
- Securitization of mortgages

= “US style housing market”

can create (or destroy) lots of  
aggregate demand

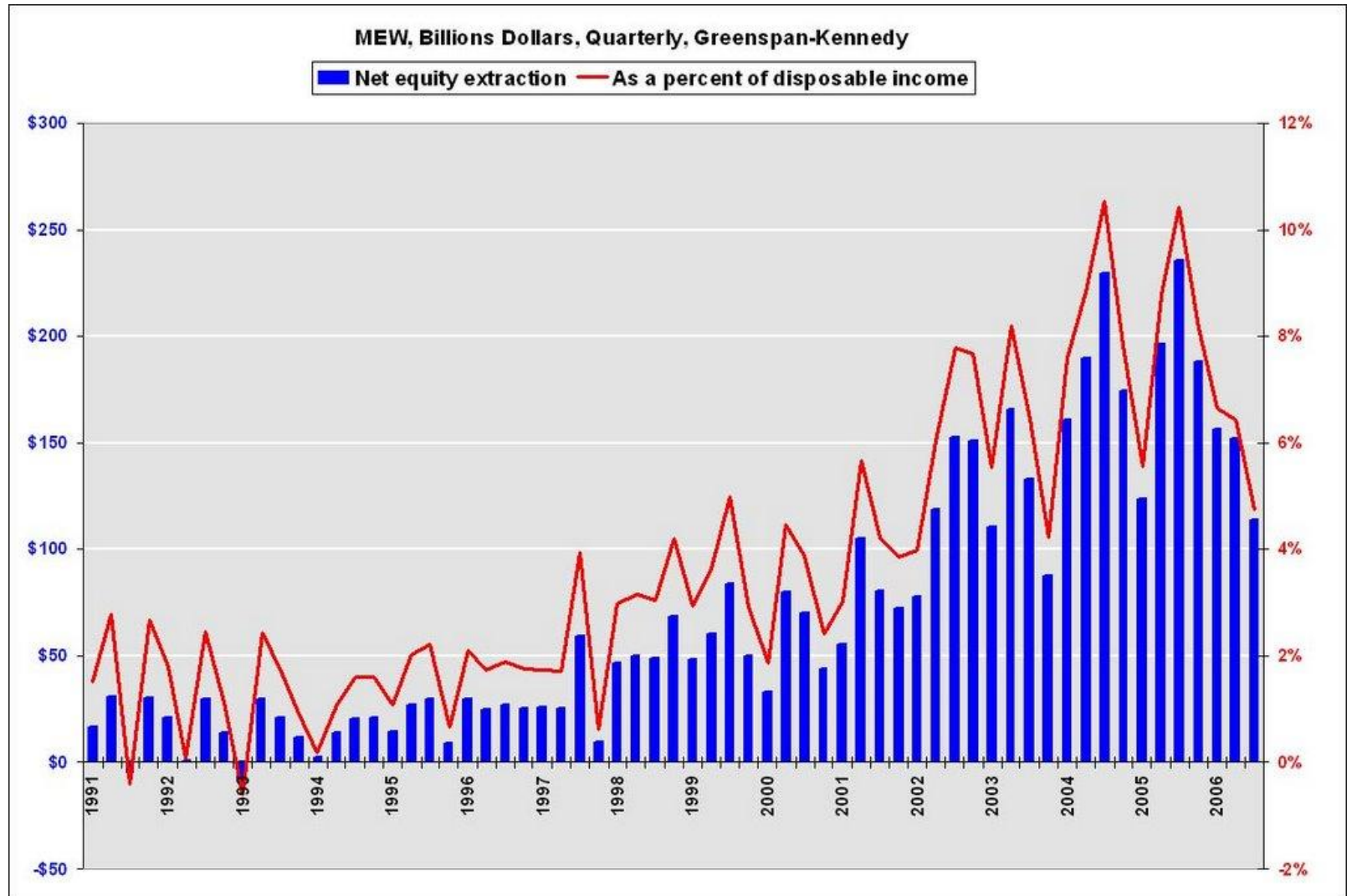


# Housing wealth

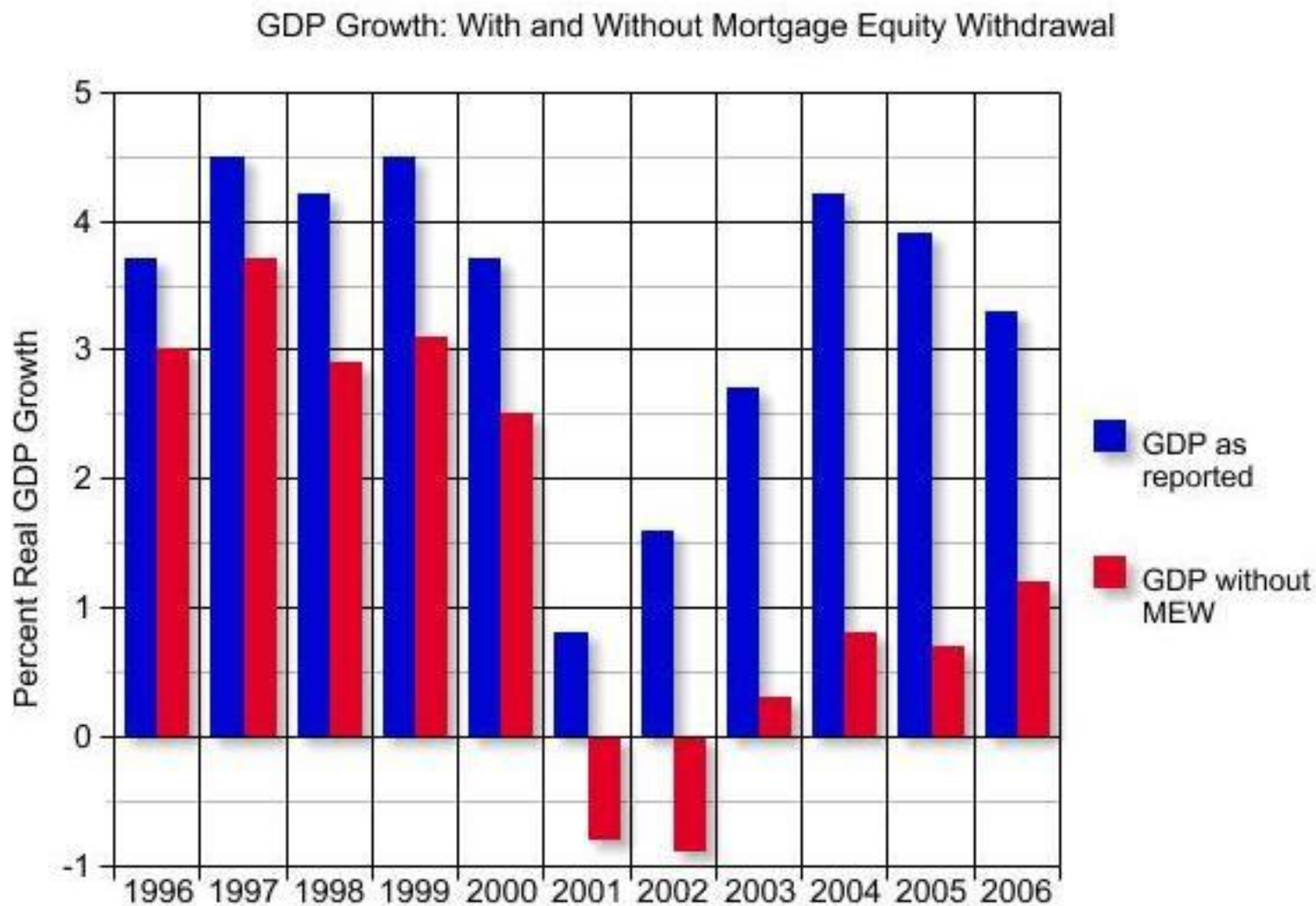
- New homeowners buying between 1999 and 2005 saw an increase in median net wealth from \$11,100 to \$88,000, mostly in home equity
- Incumbent households' median net wealth nearly doubled from about \$152,400 to \$289,000
- People spent this money, powering economy



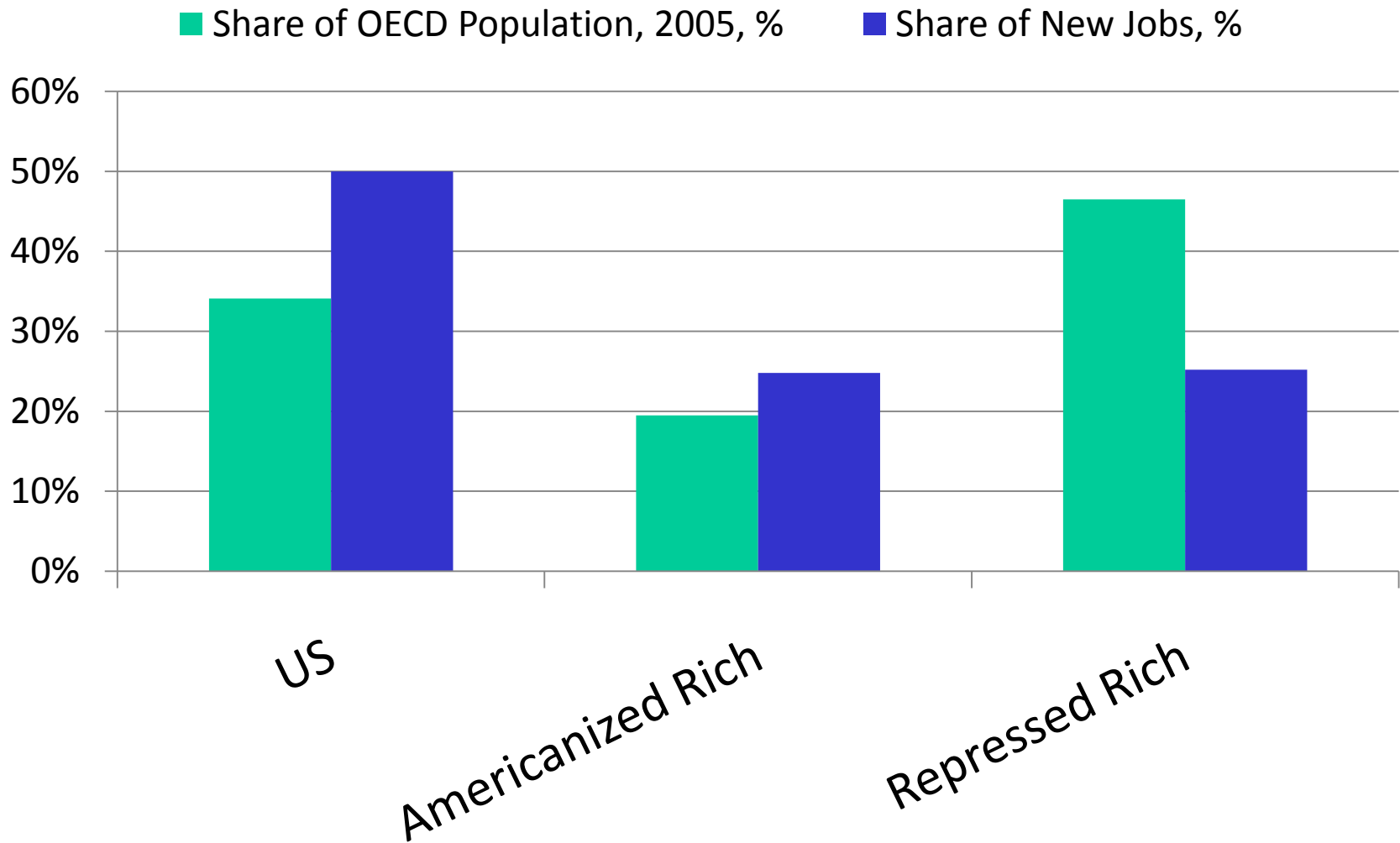
# MEW as % DPI (Greenspan)



# MEW vs GDP, 1996-2006



# Employment gains, 1991-2005

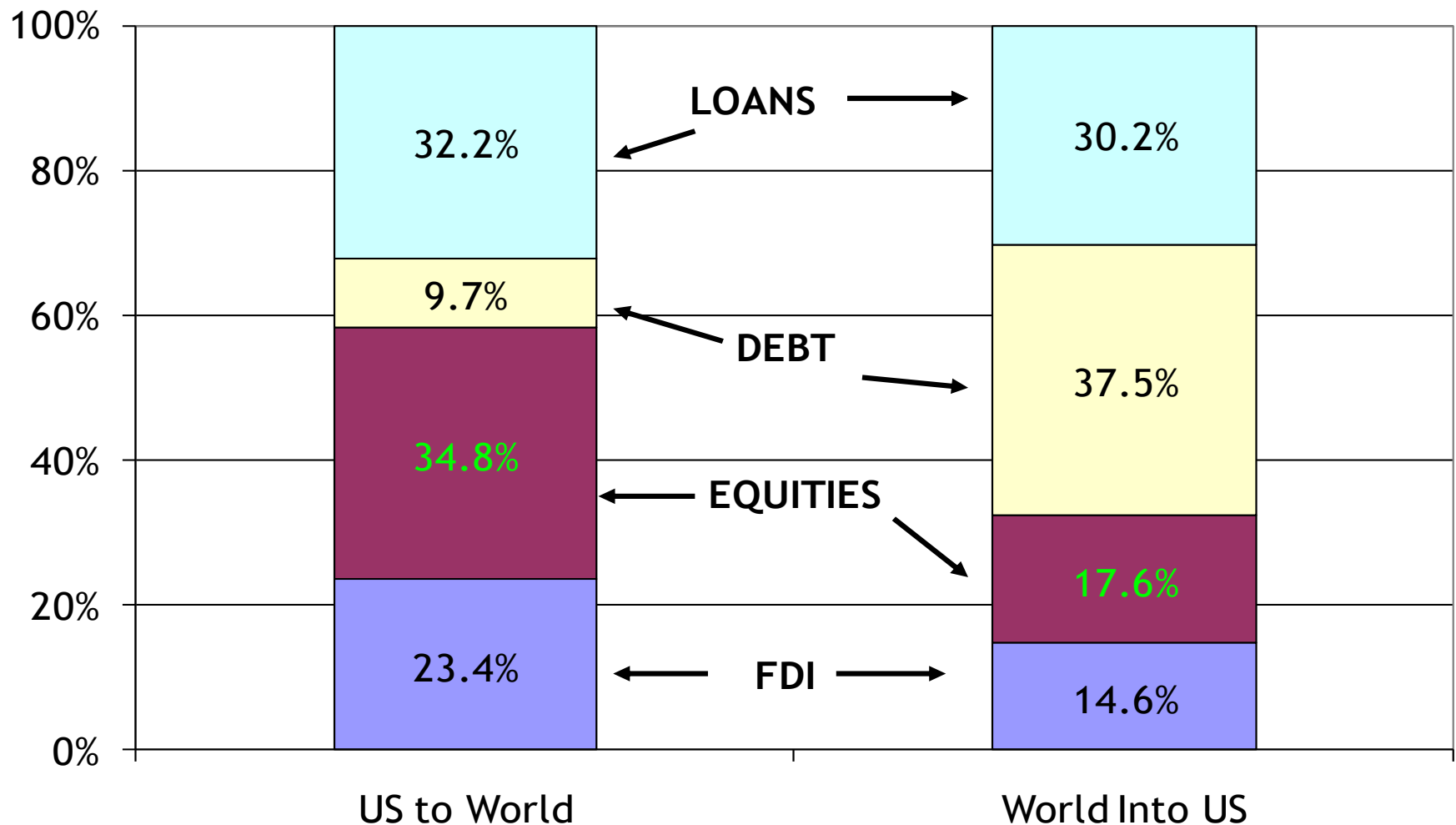


# Differential growth (adjusted)

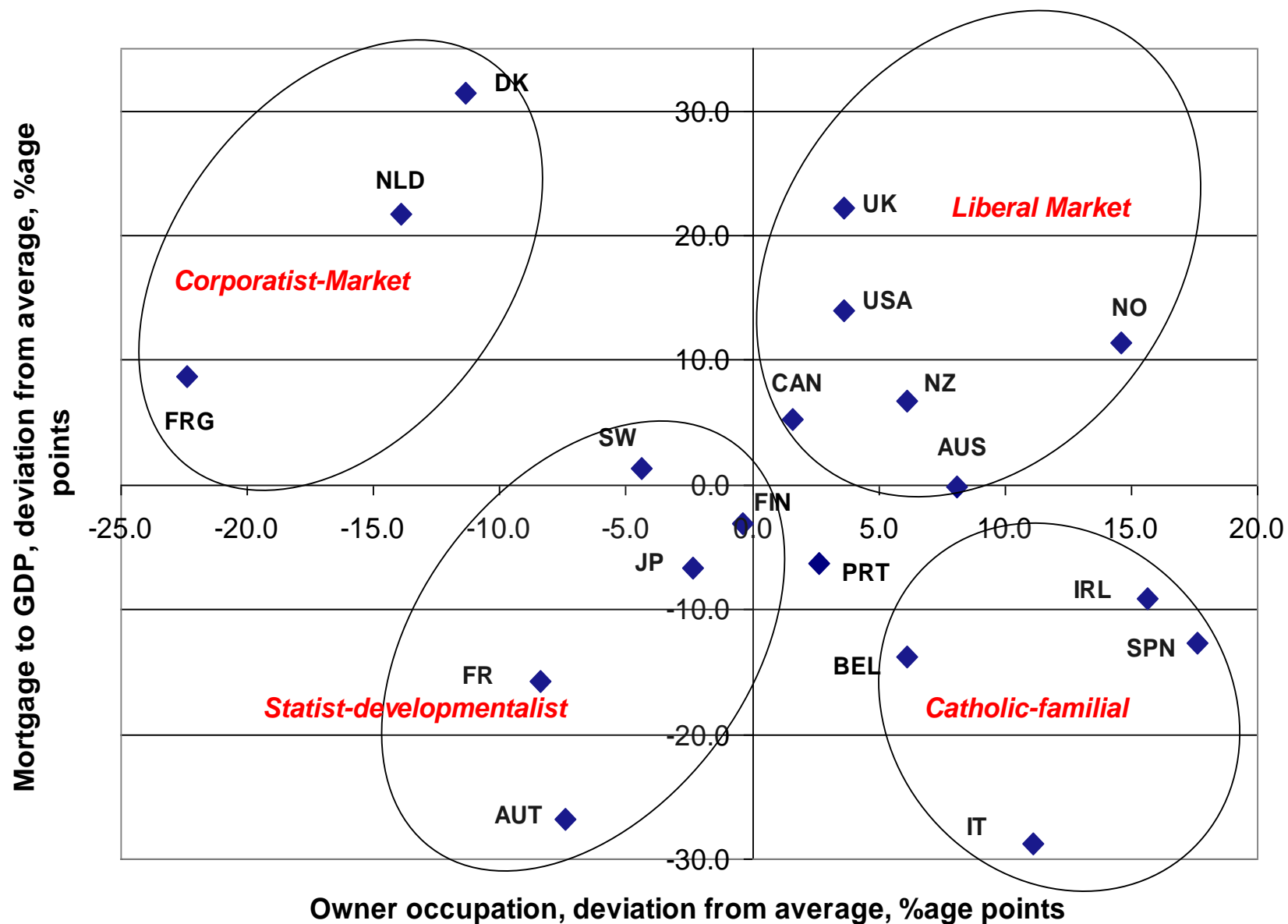
Population adjusted % change, 1991-2005	USA	OECD Ave.	FRG	Japan
GDP (real, local currency)	33.5	28.1	17.3	13.3
# of Employed	1.8	3.0	-2.9	-2.7
# of Unemployed	-24.8	6.8	91.5	109.7
GFCF	79.9	48.2	2.7	-13.5
GFCF Metals/Mach	159.8	100.1	19.0	22.8



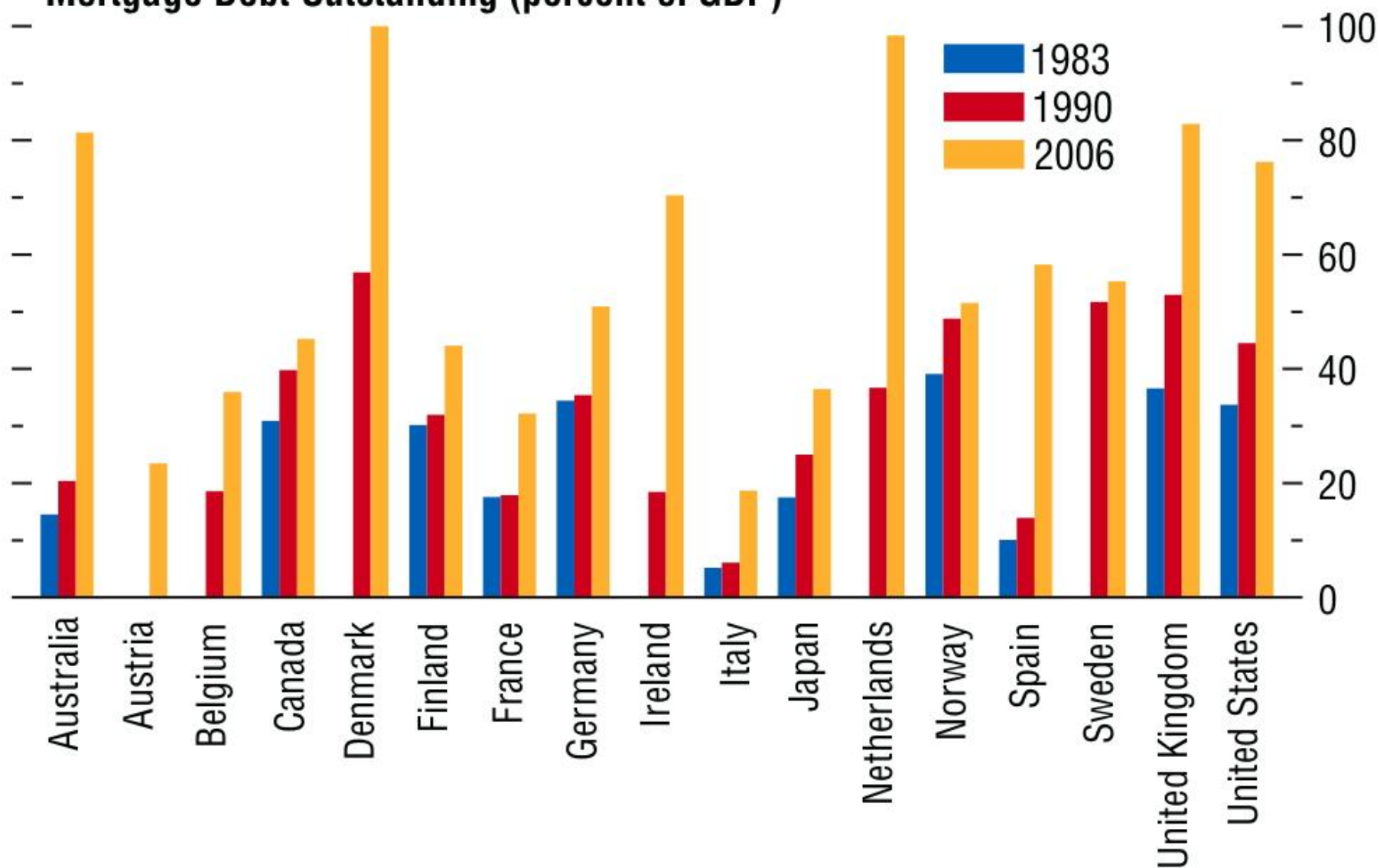
# Share of Four Basic Instruments in Total Outward Investment by Region (% , 2006)



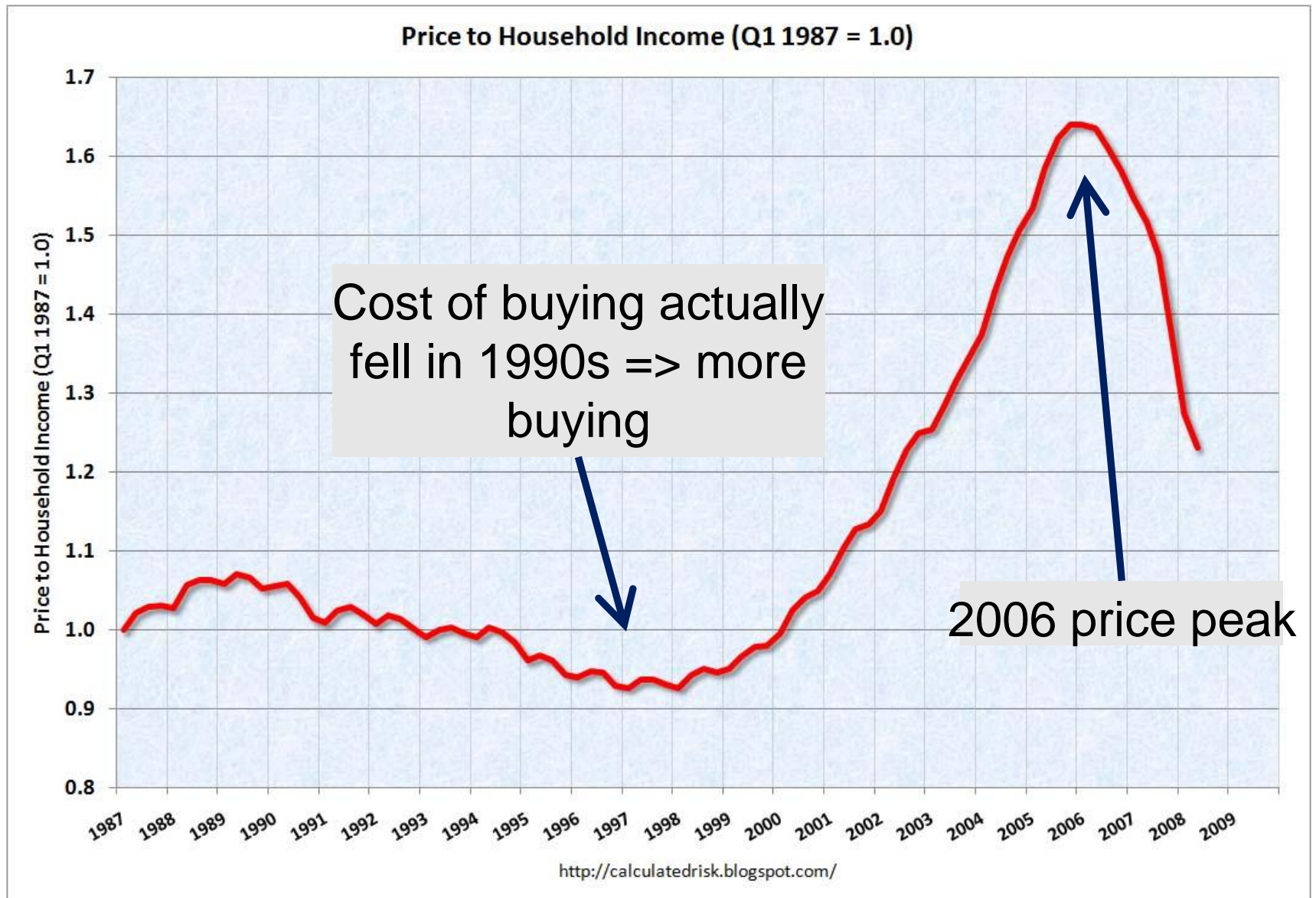
Four types of housing regimes defined by relative deviation from the average OECD levels of mortgage debt to GDP and owner-occupation prevailing 1992 to 2002 (in percentage points)



## Mortgage Debt Outstanding (percent of GDP)



# Ratio of US Housing Prices to Income – the fundamental issue



## House price-to-income ratios\*

Ratio

6

4

2

Australia	Britain
Ireland	Canada
New Zealand	US

1987

1992

1997

2002

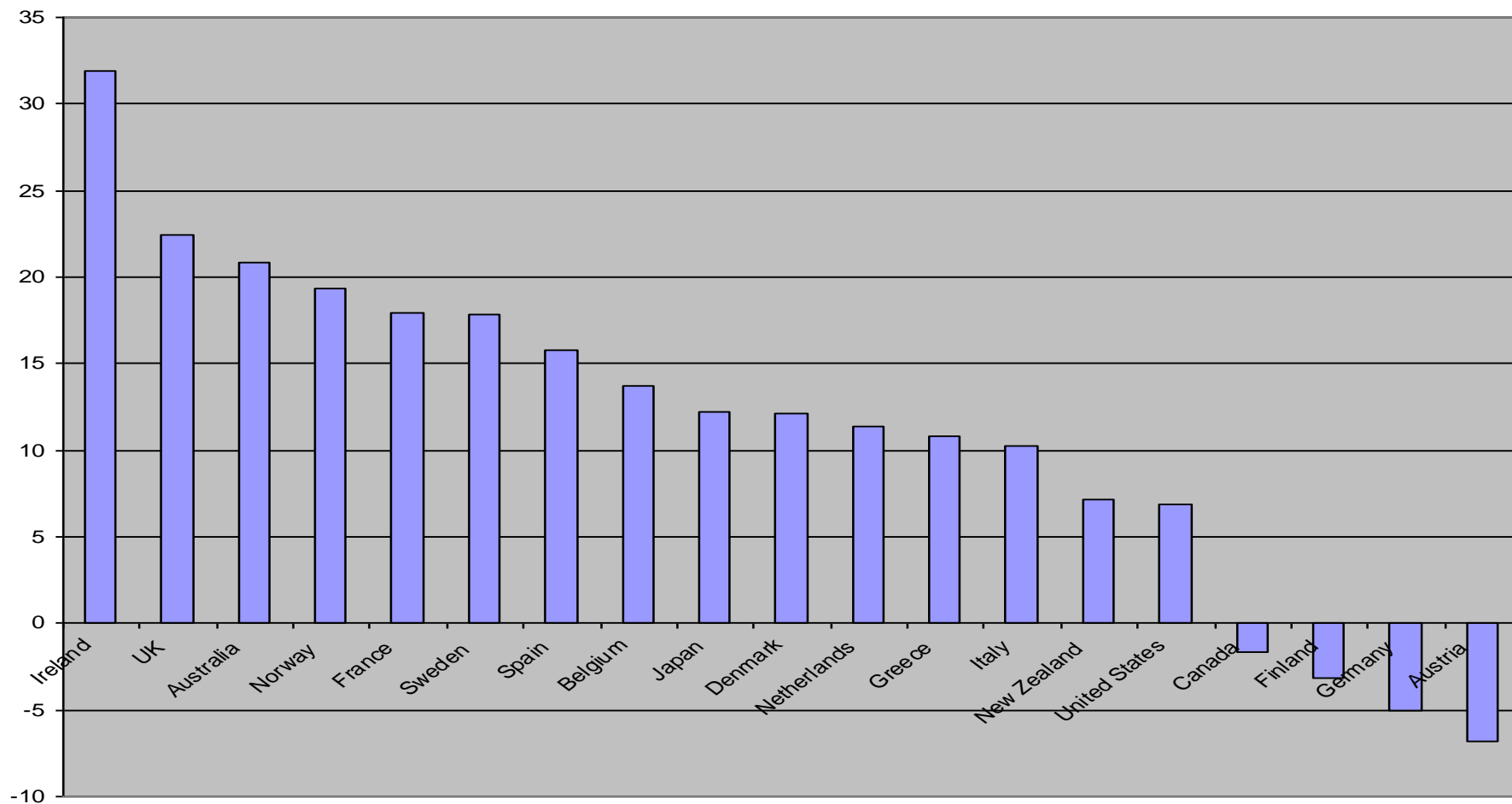
2007

\* Various combinations of median and mean measures of house prices and incomes used depending on availability

Source: ABS; BEA; BIS; CLG; CSO; OECD; ONS; RBNZ; REIA; Statistics Canada; Statistics NZ; Thomson Financial



# Economies at risk – where housing growth is not explained by economic growth



Source: IMF Staff calculations, World Economic Outlook, April and October 2008

Fundamental drivers of house prices are modelled as: the lagged ratio of house prices to disposable incomes, growth in disposable income per capita, short-term interest rates, long-term interest rates, credit growth, and changes in equity prices and working-age population

## Political Time Horizons, Property Booms, and Financial Liberalisation

	<b>Short</b>	<b>Long</b>
<b>Public</b>	<i>Politicians</i>	<i>Regulators</i>
<b>Private</b>	<i>Banks</i>	<i>Homeowners &amp; Citizens</i>

# Changing Housing Markets in Australia and Denmark

- Taxation is a national concern
- Financial deregulation and reregulation is transnational
- Groups fight for credit access within and between generations

# House price-to-income ratios\*

Ratio

6

4

2

Australia

Britain

Ireland

Canada

New Zealand

US

1987

1992

1997

2002

2007

\* Various combinations of median and mean measures of house prices and incomes used depending on availability

Source: ABS; BEA; BIS; CLG; CSO; OECD; ONS; RBNZ; REIA; Statistics Canada; Statistics NZ; Thomson Financial

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# Changing Housing Markets in New Zealand

- Financial liberalization during the 1980s and 1990s aimed to produce an 'asset-based society'
- But reforms created a generational split between housing market 'insiders' and 'outsiders'
- The rate of home ownership fell from 74% in 1991 to 67% in 2006, and is predicted to fall below 62% by 2016
- Home ownership in the 25-44 age group declined by 44% between 1991 and 2001



# Changing Housing Markets in New Zealand

- In the recent property boom policymakers faced a monetary 'catch 22':
  - Interest rates were raised in an attempt to ease the property bubble
  - But borrowers' preference for fixed-term interest rates created a time lag
  - Higher interest rates attracted more foreign capital and pushed up the value of the NZ\$
  - This fuelled consumption, inflation, and a worsening trade deficit
- The impact of the global financial crisis has impeded the impact of interest rate cuts, and constrained the scope for further fiscal stimulus

# Questions?

