A back-of-the-envelope analysis of house prices: Czech Republic, 2013-2021

CFM-DP2021-20

Roman Šustek
Centre For Macroeconomics and Queen Mary University

Building on Garriga, Kydland, and Šustek (2017), a simple practical method for quantitative analysis of house prices is proposed. Similar to consumer theory, housing demand is approximately decomposed into changes in income and a relative price. The latter includes implicit costs of mortgage finance, determined by monetary and macroprudential policies and future income growth and inflation expectations. To demonstrate the method, I apply it to the 63% increase in real house prices in Czechia, 2013-2021. The income effect accounts for 32% of the increase, implicit mortgage costs for another 20%. Most of the latter hinges on income growth expectations, reflecting the robust 2013-2020 economic recovery.