

SPECIAL ANALYSIS

Prices in the housing market

After rising rapidly for a long time, housing prices in Sweden faltered during the autumn, with prices falling month-on-month in September, October and November. The NIER believes that the downturn is only temporary. The macroeconomic effects of the fall in prices observed to date are expected to be minor.

DIP IN PRICES AFTER LENGTHY UPSURGE

Prices in the Swedish housing market have climbed relatively strongly in recent years. According to the HOX index, prices for houses and co-operative apartments have more than doubled since 2005. The market has lost momentum in recent months, however, and prices have fallen slightly for the past three months. Both the index for house prices and the index for co-operative apartment prices have lost ground (see Diagram 128).

The overall HOX index has come down around 6 per cent in recent months in seasonally adjusted terms, and the decrease in prices can be observed widely around the country (see Diagrams 129 and 130).

The slowdown in the housing market can also be seen in expectations of future housing prices. SEB's housing price indicator has dropped and shows a negative net balance (see Diagram 131), which means that more households now expect prices to fall than to rise. The last time the indicator was at this level was at the end of 2012.

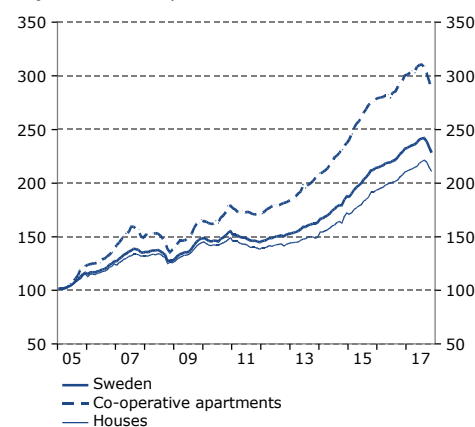
HOUSING PRICES CAN IMPACT BOTH CONSUMPTION AND INVESTMENT

Housing prices can act on the economy in a number of ways, for instance via household consumption. The effects on household consumption can arise through various channels. For example, housing prices are a determinant of households' overall wealth, and hence their consumption. Housing prices also affect households' ability to borrow against their homes. A change in the value of a property will change its value as collateral, affecting how much the household can borrow, and so also how much it can spend. Another effect of falling housing prices is an alteration of household debt ratios. This can affect decisions on repayment and make households less likely to take out new loans, impacting in turn on their consumption.

Housing prices can also act on the economy in other ways besides via household consumption. The will to invest in housing is affected by property prices. The higher prices are, the more profitable it is to build new homes. Both housing invest-

Diagram 19 HOX housing prices for Sweden

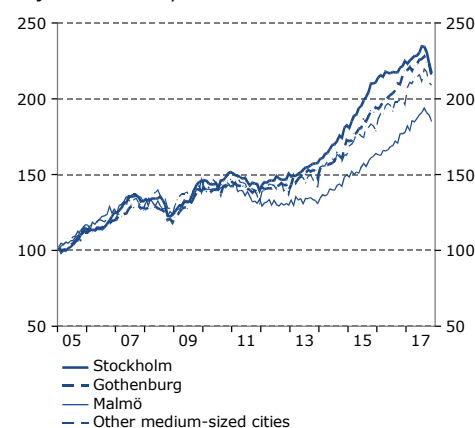
HOX price index, January 2005=100, seasonally adjusted monthly values



Sources: Valuegard and NIER.

Diagram 20 Price index for houses in different regions

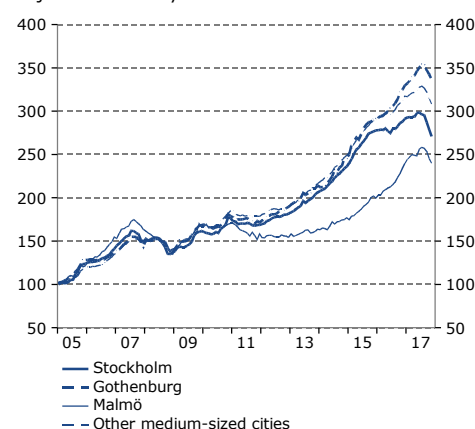
HOX price index, January 2005=100, seasonally adjusted monthly values



Källor: Valuegard och Konjunkturinstitutet.

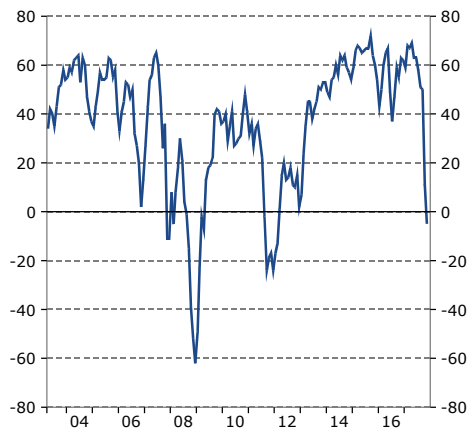
Diagram 21 Price index for co-operative apartments in different regions

HOX price index, January 2005=100, seasonally adjusted monthly values



Sources: Valuegard and NIER.

Diagram 22 SEB's house price indicator
Balances, monthly values



Note. The share that believes in price increases minus the share who believe in price reduction
Sources: SEB and NIER.

ment and homebuilding activity are therefore influenced by movements in housing prices.

As well as having direct effects on aggregate demand, and hence on output and employment, housing prices can also affect key functions in the economy. The financial crisis clearly demonstrated how important a role the financial system plays for the economy. If movements in housing prices have a negative impact on the financial system, this can affect the economy through a reduced supply of credit, for example.

How great a role housing prices play in economic developments has been explored in a number of studies. The NIER has previously looked at how a drop in housing prices might affect the economy.¹ Model simulations indicate that housing prices have a certain effect on household consumption. In one of the scenarios studied, it is assumed that real housing prices fall 5 per cent for four successive quarters, in other words by 20 per cent in a year, before slowly returning to normal levels. In this scenario, household consumption drops temporarily below trend. The decline peaks at almost 2 per cent after five quarters, but consumption is back to the original trend level after three years. Unemployment increases at most by around 1.5 percentage points relative to a base scenario. Similar calculations have been performed by the Riksbank.² The central bank finds that if housing prices drop 20 per cent over a one-year period, GDP will be just over 1 per cent lower after two years, and unemployment almost 1 percentage point higher.³ The results of these two studies indicate that the macroeconomic effects of a sharp fall in housing prices can be appreciable, but not necessarily severe. In the light of these calculations, the macroeconomic effects of this autumn's dip in housing prices are expected to be minor, not least because the decrease observed so far has been relatively small and short-lived up to this point.

At the same time, it is important to remember that the economic impact of a weaker housing market can also depend on how much scope there is for monetary policy to react to the knock-on effects of lower housing prices. In a situation with limited monetary leeway, the impact could be greater than the estimates above suggest. The macroeconomic effects could also be greater if a housing crash coincides with a global economic

¹ See NIER Occasional Study No. 41, "Makroekonomiska effekter av ett bostadspisfall i Sverige", June 2014, also published as Gustafsson, P., Stockhammar, P. and Österholm, P. (2016), "Macroeconomic Effects of a Decline in Housing Prices in Sweden", *Journal of Policy Modeling* 38(2), 242-255.

² Sveriges Riksbank, *Monetary Policy Report*, July 2010.

³ See NIER Occasional Study No. 41 (ibid) for a more detailed account of various estimations.

downturn, or if the functioning of the financial system is adversely affected.

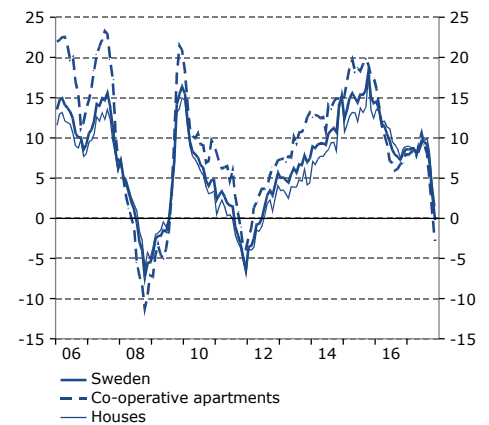
MORE NORMAL HOUSING PRICE INFLATION AHEAD

The downturn in the housing market during the autumn follows a long period of strong growth. Although prices have now fallen for several successive months, the slowdown in terms of the annual change is still minor (see Diagram 132). The NIER's forecast is based on the decline in housing prices being only limited, and the macroeconomic effects minor. Factors supporting a limited decline include the Swedish economy in general looking strong and being expected to continue to grow healthily, with further increases in employment and incomes, and interest rates rising only slowly during the forecast period. Developments abroad are also expected to be robust in the coming years.

As with other asset markets, forecasts of short-term movements in the housing market are associated with great uncertainty. A number of macroeconomic variables are nonetheless affected by changes in housing prices, which means that we need a set path for housing prices in order to produce a forecast for the Swedish economy. The NIER estimates such a path. The idea is to paint an approximate picture of developments in the slightly longer term, rather than to provide an exact forecast of what prices will be in specific months (see Diagram 133). The NIER's housing price path indicates that housing prices at an aggregated level will increase by around 7 per cent in 2017 and then fall by around 2 per cent in 2018 before climbing again by around 4 per cent in 2019. In the long term, when the housing market is in equilibrium, the NIER expects housing prices to rise by around 3 per cent per annum.⁴

Diagram 23 HOX housing prices for Sweden

Annual percentage change, monthly values



Sources: Statistics Sweden, Valuegard and NIER.

Diagram 24 Housing price index for co-operative apartments and houses

Index 2016 quarter 4=100, quarterly values



Note. Combined index consisting of property price index (Statistics Sweden) and price index for co-operative apartments (HOX).

Sources: Valuegard, Statistics Sweden and NIER.

⁴ This is a result of households allocating a constant share of their disposable income to accommodation. See NIER Working Paper No. 106, "Strukturell utvecklingstakt av arbetskostnad och priser i den svenska ekonomin" [Structural growth in labour costs and prices in the Swedish economy], May 2011.