Guest editorial

Housing markets and European economic imbalances
This Special Issue is devoted to the impact of the housing mechanism in economic imbalances in relation to the different macro-perspectives of European markets.

Over the past decade, and especially since the Global Financial Crisis (GFC), housing market research has acquired a macroeconomic profile, in which researchers have reverted to principles relating to housing prices and financial influences.

As the GFC was associated with financial and derivatives markets' collapse, the implications of imbalances in housing markets have been recognized as a key element contributing to the macroeconomic disequilibrium. As a consequence of the GFC, the European Union's Economic Imbalance Procedure (EIP) was implemented recognizing that housing price change is an early variable to follow regarding countries' imbalances. Furthermore, the GFC aftermath is far from being fully understood because of the differences in housing market reactions to similar incentives among developed economies and their effects on the aggregate economies. In some countries, house prices have recovered, while in others, they remain depressed with lower than average transaction activities in most markets. Recent research has focused on the analysis of house prices as a relevant part of Monetary Policy transmission channels. It is accepted that changes in housing prices (derived from housing market conditions) could have multiplier effects on credit and housing transactions because of their influence through different transmission channels.

The papers published in this Special Issue cover several aspects of the macroeconomic aspects of housing prices mentioned above and give evidence of those relationships. The papers could be classified in two groups. One group covers liquidity and volatility in housing prices. Within this group, house prices are extensively analyzed, showing their behaviour and implication on economic imbalances.

Margarita Rubio and Jose Carrasco-Gallego, using DSGE, theoretically define a two-sector model with housing and collateral constraints illustrating how monetary policy, asymmetric (housing and technology) shocks and housing preferences affect the economy increasing housing prices and credit flows in the euro area. The model aggregates countries into two groups (core and periphery) and observes imbalances created in housing and credit markets because of the asymmetric responses to and increase on liquidity. One conclusion reached by the paper is that such a combination of liquidity and technological shocks with the asymmetry in housing price reactions contributes to an increase in credit in peripheral rather than in central European economies.

Yener Coskum and Hasan Murat Ertugrul analyze house price volatility patterns from different perspectives in several Turkish cities. The paper estimates the volatility pattern in each city capturing the impact of the GFC to identify differences in investment incentives among regions. The findings show co-movements on volatility among regions, a high volatility period in the first part of the crisis followed by volatility stabilization after a post-crisis period supports the existence of positive economic shocks. The paper identifies how less persistent financial shocks in Turkey contribute to a non-significant effect on house price return volatility, suggesting that a lack of

sensitivity of housing prices to shocks makes housing a good long-term investment asset.

Philipp Klotz, Lin, Tsoyu Calvin and Hsu, Shih-Hsun define an indicator to measure house price bubbles to identify whether or not a bubble exists in some selected European countries and its financial determinants. The bubble indicator is based on a comparison between observed price from fundamental value, and the paper shows empirical results found from VAR analysis explaining changes in bubbles based on credit flows. The authors consider that bubble effects have been asymmetric among peripheral European countries, with moderate bubbles in Portugal and Greece but large in Spain and Ireland both being affected by interest rates evolution and credit flows.

The second group of papers covers the role of house prices in two specific channels of Monetary Policy transmission and give evidence about the existence of credit and asset price channels.

Stanimira Milcheva and Steffen Sebastians' paper identifies the housing market channel to consumption testing the wealth effect in nine euro area countries. The findings suggest that house prices do not contribute to changes on consumption directly but through the monetary policy measures. The authors suggest that changes in housing prices affect the transmission mechanism in different intensities depending on how well developed the mortgage market is in a particular country.

Paloma Taltavull and Michael White define and estimate the Asset Price channel for Spain and UK, identifying the role of monetary liquidity (M1) on housing prices. They find the effect on housing prices directly coming from the changes in liquidity in a demand model controlled by supply reaction. The findings provide evidence of two ways in which causal effects through liquidity affect housing price changes: prices and demographic changes (migration). Both of these are statistically significant in explaining house prices in Spain, but only the latter could be interpreted as having a significant effect on UK housing prices. Interpreting the two-direction causal effects, the paper supports the existence a housing accelerator effect in Spain between liquidity and housing prices. In the UK, liquidity affects house price correction but only in one direction, rejecting the accelerator hypothesis.

The papers in this Special Issue provide the basis for future research in the housing market and the relationships with macro policies and aggregates. The topics are relevant to understanding how the housing market is integral to macroeconomy and the existing interdependencies. It is the intention of these papers to generate curiosity to researchers and increase the further research in these areas.

Paloma Taltavull de La Paz
Department of Applied Economics Analysis, University of Alicante,
Alicante, Spain