



News-driven housing booms: Spain vs. Germany

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Abstract

In this paper we investigate how the economy responds to anticipated (news) shocks to future investment decisions. Using structural vector autoregressions (SVARs), we show that news about the future relative price of residential investment explains a high fraction of the variance of output, aggregate investment and residential investment for Spain. In contrast, for Germany it is the news shocks on business structures and equipment that explain a higher fraction of the variance of output, consumption and non-residential investment. To interpret our empirical findings we propose a stylized two-sector model of the willingness to substitute current consumption for future investment in housing, structures or equipment. The model combines a wealth effect driven by the expectation of rising house prices, with frictions in labour reallocation. We find that the model calibrated for Spain displays a response to anticipated house price shocks that stimulate residential investment, whereas for Germany those shocks enhance investment in equipment and structures. The results stress that the propagation mechanism of anticipated shocks to future investment is consistent with the housing booms in Spain.

Keywords investment-specific technical change; news shocks; housing booms; wealth effects.

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