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How should we measure residential property prices to inform policy makers?

Topic 2 – Learning more from what we already know

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Introduction

The various motivations for the analysis of house prices, from the monetary policy assessment of price signals to the use for financial stability purposes, or as a soundness indicator, call for alternative measures to be applied. However, these indicators can give different results, which could undermine their credibility for many users. Yet, there should be no unique indicator. The high dimensionality of a complex and diffuse phenomenon such as "the residential property market" cannot adequately be reproduced by a composite indicator. Quite the contrary, the joint distribution of price, financial and real economic indicators seems to be at the centre of the current discussion. There is no simple answer to a complicated question| it might, thus, be better to look at a dashboard of indicators rather than to dissolve existing conflicts between base variables. Last but not least, statistics has a consulting function for policy makers - this makes it even more important to produce unbiased, easily interpretable and manageable measures. In order to determine whether threats to the economy or financial stability emanate from the housing market, the Bundesbank based its analyses on a broad set of indicators. A dashboard comprising the three dimensions price, financial and real economic indicators as well as spatial differences will be discussed.