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Macro Roundup Artcile

Headline: House Prices Respond Promptly to Monetary Policy Surprises

Article Link: https://www.frbsf.org/economic-research/publications/economic-letter/2023/march/house-prices-respond-promptly-to-monetary-policy-surprises/

Author(s)	Denis Gorea, Augustus Kmetz, et al
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Tweet: Using data from 2000-2019, @sffed researchers conclude that after a 1% mortgage rate increase generated by a policy shock, there is an immediate 1% reduction in house prices and a 3% total reduction after three weeks.

Summary: We examine how mortgage rates change in response to monetary policy shocks. We use data on 30-year fixed-rate mortgages from the Primary Mortgage Market Survey. We find that monetary policy surprises affect house prices far more quickly than commonly thought. Monetary policy impacts housing prices through list prices—the prices of properties for sale posted by sellers—within a matter of weeks instead of years. The response is driven largely by unanticipated policy changes to forward guidance and large-scale asset purchases. We find that a 1 percentage point increase in the mortgage rate generated by a monetary policy shock is associated with house prices falling immediately by 1%. Prices continue declining in the weeks following a monetary policy announcement and ultimately settle 3% lower three weeks after the shock.

Primary Topic: Banking

Topics: Banking, Factoid, Government/NGO, Housing, Monetary Policy

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