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## THE INTER-RELATIONS BETWEEN CHINESE HOUSING MARKET, STOCK MARKET AND CONSUMPTION MARKET

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### **Abstract**

Recent years have witnessed a dramatic increase in real estate prices in mainland China. Current research mainly takes the Chinese housing market as an independent market and focuses on potential future growth or the increasing asset bubble in this market. This research, however, studies the short- and long-run interrelationship between the housing market and two other major markets in mainland China - the stock market and the domestic consumption market - from 2005 to 2019. In addition, the codependency between China's economy and the real estate market is also examined. After detecting the structural breaks in the time series of property price index by using the recursive CUSUM test, the whole examining period is divided into sub-periods. In each sub-period, the variance decomposition and Granger causality tests are used to identify the time-varying short- and long-run interdependencies between these markets. Results indicate that there is time-varying relation between property prices and stock indexes, and the correlation between property prices and stock indexes becomes weaker over time. In terms of housing market and the domestic consumption market, a weak relation between these two markets is observed over the whole period. These findings are of vital importance for China domestic investors to help them understand and diversify the risk of their portfolios, which are mainly composed by property and stock assets. In addition, these results offer new insight into the impact of the housing market on the domestic consumption market within Chinese context. This further aids the Chinese government in regulating these three markets more efficiently and avoiding any unwanted "domino effect" between them.

**Keywords:** Variance decomposition, Stock market, Property market, Domestic consumption market, China.

**JEL Classification:** C12, R21, R31.

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