

# **The Property Market and the Macroeconomy of the Mainland: A Cross Region Study**

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## **Summary**

This paper studies the nexus between the property market and the macroeconomy of Mainland China in 1998-2004, using panel data models covering 31 provinces and major cities. The estimates suggest three main conclusions. First, there seemed to be a two-way linkage between property price and GDP growth. In particular, changes in property prices affect GDP growth mainly through the investment channel. Property price inflation in recent years is found to have had a significant and positive effect on growth in fixed asset investment, particularly real estate investment. Second, bank credit expansion did not seem to play an ‘accelerating’ role in property price inflation, although the latter is found to have contributed to an increase in bank credit in recent years. Third, property price growth may have deviated from fundamentals in coastal areas, as evidenced by a negative relationship between housing and rental prices.