Impacts of Housing Bubbles on Industrial Investments in China

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Abstract

Firstly, housing bubbles are identified in major cities and have caused huge volume of vacant new housing being considered as over-supply of housing construction, then we use matrix of direct input coefficients of input-output table to identify the 13 industries as housing related industries from 36 industrial sectors in China. Secondly, Marginal $q$ by sector is estimated over the period 2001–2016, and the investment can be explained by Marginal $q$ theory via panel estimations. The elasticity of Marginal $q$ on investment for 13 housing related industries, the left 23 industries, and the totally 36 industries is 0.2412, 0.8539, 0.6956, respectively. Finally, we find that the housing price Granger causes the producer price index (PPI) and the PPI Granger causes the Marginal $q$ of 36 industrial sectors. Hence, overcapacity via overinvestment should exist at least in the 13 housing related industries including metal and cement during the housing bubble.

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