

THE REAL ESTATE CYCLE AND REAL BUSINESS CYCLE: EVIDENCE FROM THAILAND

PIRIYA PHOLPHIRUL and PUNGPOOND RUKUMNUAYKIT
National Institute of Development Administration, Thailand

ABSTRACT

This paper estimates the real estate cycle in Thailand. From the estimated results, we find that duration of the expansion period in the real estate cycle in Thailand was approximately 25.25 months while the contraction period lasted much longer (44.00 months). The duration of the trough-to-trough cycle is estimated to be approximately 69.25 months. The significant leading indicators for the real estate cycle are construction price index, money supply (M2), property stock index and post-credit finance. Compared to Thailand's economic cycle, the real estate cycle leads the trough and the peak in the business/economic cycle by approximately 14.3 months and 20.3 months respectively. In expansion periods, the real estate cycle is always found to lead the business/economic cycle. However, it is not clear that in contraction periods the real estate cycle leads the business cycle. This finding differs from that of previous studies. We found that real estate crises led to economic crises in the early 1980s and in 1997, while in other contraction periods it was an economic recession that led to a contraction in the real estate sector.

Keywords: Real estate cycle, real business cycle, Thailand

INTRODUCTION

Financial crises always lead to tremendous shocks and adverse effects wherever they occur. The major causes of this type of crisis are always investigated. Such inquiries reveal variations in market structure, timing and degree of vulnerability to the crises. During the period of this study, the real estate industry in Thailand constituted about 6-6.5% of gross domestic product (GDP). The current study investigates the conditions under which the real estate sector became a major source of vulnerability in a rapidly growing economy during the boom decade of 1986-1996. It then proceeds to show how the fundamentals of rapid economic growth originally started a genuine real estate boom that eventually turned into a costly bubble. In addition, a number of other studies have explained how a rapidly growing economy can cause inefficiency and distortion in the market when ineffective regulatory measures are in place, which in turn leads to a high degree of speculation in asset markets. The aftermath of this bubble played a major role in the domestic banking crisis. In other words, the costly financial crisis in Thailand comprised at least three different crises: a real estate crisis, a banking crisis, and finally a