



UNIVERSITI TEKNOLOGI MARA

**THE MACROECONOMIC DETERMINANTS OF
HOUSE PRICE INDEX IN MALAYSIA**

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ABSTRACT

The objectives of this study are to identify the macroeconomic determinants of house price index in Malaysia and to study the relationships between gross domestic product, money supply, interest rate and consumer price index towards house price index. This study uses time series data which is collected on quarterly basis from year 2011 until 2019. All the data were obtained from the Department of Statistics Malaysia, National Property Information Centre (NAPIC) and International Monetary Fund. Ordinary Least Squares (OLS) estimated regression was applied to analyse the model. The findings showed that the gross domestic product is significant with house price index. The result also showed that consumer price index, money supply and interest rates are statistically insignificant with housing price in Malaysia. In order to get better result, future researcher is encouraged to take longer period of time to carry out the study as well as includes other choice of independent variable data that required studying the changing of housing prices because it can influence the result of the study. The study also suggests the government to implement monetary policy to stimulate house demand and monitor the investment among foreign investors.

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CHAPTER ONE INTRODUCTION

1.1 Introduction

The property market is one of the most valuable investments in any economy and one of the metrics for calculating the economic development of society. It is the sector which represents the economic viability and sustainability of the economy (Hui, 2009). As in other countries, Malaysia's housing sector is an important part of the domestic economy. On the opposite, long-term house prices make the domestic economy vulnerable to an economic slowdown and potentially prone to financial uncertainty and imbalance (Abraham & Hendershott, 1996). There are sub-sectors in real estate market such as residential property, agricultural, commercial and industrial and development. Property companies have diversified into unrelated sectors, such as professional services, investment assets, education, medical care and hospitals. Diversification has, subconsciously, consequences for risk and return on the real estate portfolios of companies in Malaysia.

One of the big issues in the Malaysia property market is the changes of the prices. Changes in house prices have both direct and indirect impact on the household demand for loans and their debt servicing capacity (Bank Negara, 2012). Strict lending norms and the increasing accumulation of debt by household and housing developers did not follow an increasing price of the home. There is a significant effect on financial stability on changing home prices (Bank Negara, 2012). The increasing in housing price has also contributed to an individual buying the house becoming unaffordable (Racheal, 2020). Affordability is one of the keys for a person to purchase an estate as a home. The affordability houses are one of the challenges in the housing market.

Thus, the trend of residential overhang is increasing every year due to the issues the unaffordable consumer to buy the houses. Malaysia's residential overhang is direct effect of the market demand-supply gap as developers continue to build homes (Kathy, 2019). Since residential is the principal segment of the property market in in Malaysia with the majority of local demand, the property market will probably be among the first to witness the effect of a weakening buying power (Kathy, 2019). Unaffordable cost for graduating students could also result in a slowdown in the short to medium term of new demand joining the residential industry.