UNIVERSITI TEKNOLOGI MARA

A STUDY ON THE RELATIONSHIP BETWEEN INTEREST RATE (BLR), INFLATION RATE AND GROSS DOMESTIC PRODUCT (GDP) WITH THE PRICE OF HOUSES IN MALAYSIA

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ABSTRACT

The focus of this study is to see the relationship between interest rates (BLR), inflation rates and gross domestic product (GDP) on the price of houses in Malaysia within 10 years starting from 1996 to 2005. This study only focuses on terrace house. This study wants to know what will happen to house price when facing with fluctuation of interest rates (BLR), movement of inflation rates and GDP over the years. Other objectives of this study are to analyze which one of these three independent variables (BLR, Inflation and GDP) has the most significant relationship and the least significant relationship with the house price. Research Methodology that has been used in this study to analyze the hypothesis is Multiple Linear Regression Model. The result shows that GDP and BLR have positive relationships with the House Price Index whereas inflation rate shows there is no significant relationship with House Price Index.

1.0 INTRODUCTION

1.1 BACKGROUND OF STUDY

1.1.1 Overview of Housing Sector in Malaysia

Housing is one of an important sector of the economy in Malaysia, in terms of share of Gross Domestic Product (GDP), size of the capital stock and as a key area of national policy. The most individuals housing represents the largest single investment item of a lifetime. This is especially true as family incomes increase and housing is viewed less as a basic consumption and more as a key to a secure future. Forecasting a near-term prospect for the housing sector has always been difficult because the housing industry fluctuates a lot, and the fluctuations depend on changes in income, interest rate, inflation rate and other conditions that are themselves difficult to forecast.

The housing market situation drastically changed since November 1997 when the foreign exchange crisis led the nation to overall financial and economic crisis. Housing demand fell dramatically resulting from the high rate of interest. High interest rates increase the cost of mortgages and reduce the demand for most types of housing. Conversely, a fall in interest rate should stimulate higher market demand and put upward pressure on house prices. This should increase consumption associated with house-buying and the rise in prices will increase total housing wealth and make consumers more confident about their personal finances.