

Consequences of the great crisis in the economic situation and in housing prices: the case of the Basque Autonomous Community

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Abstract

In this work it will be studied the consequences of the great crisis in the economy and in housing prices in the Basque Autonomous Community (BAC) in Spain. The economic situation that this region has lived during the decade between 2007 and 2017 will be analyzed with the variables Gross Domestic Product and Unemployment Rate. Afterwards, the housing market in the Basque Autonomous Community will be analyzed with the help of the variable Price of Housing for Sale per m². As main results, it can be said that the global economic crisis has severely affected the economy in the BAC, reaching the highest unemployment rate and the highest free housing price in its history. The same did not happen with the prices of the houses from official protection, which increased during the period. This fact evidences the need for different policies for the two types of housing studied. Fortunately, the crisis is lagging behind and both the economy and housing prices are recovering in recent times.

JEL classification numbers: 010, 018.

Keywords: great crisis, housing prices, economic situation.

1 Introduction

Much has been said in recent years about the economic crisis called the "Great Recession" in the United States started in 2007 and about its consequences. One of its main causes was that banks could easily afford mortgages to buy estates and,

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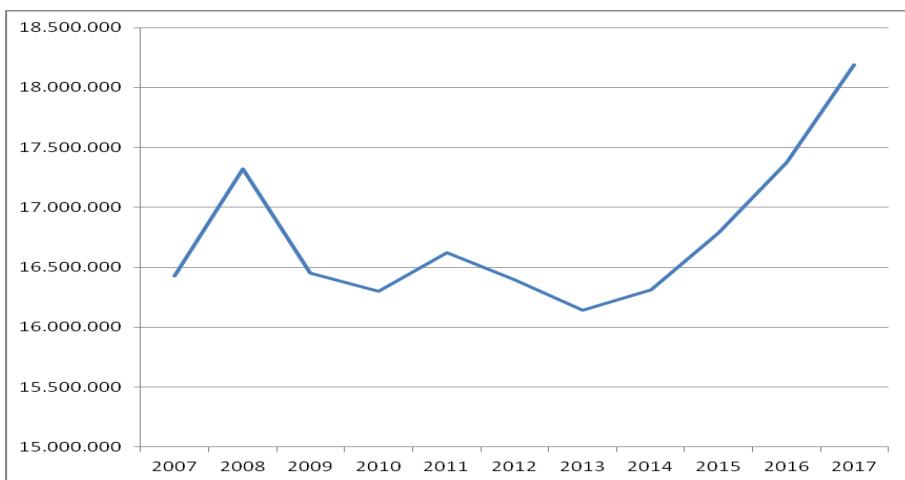
unfortunately, in many cases, without proper warranty. Bank doubtful loans were sold and purchased, this operation was called "Subprime" ([1] Fernández, P.M. (2008)), which eventually led savers in a worse financial situation. In the housing market, the "real estate bubble" ([2] Aziz Poswal, B. (2012)) was created.

Although that year the price of housing was at a very high level, the prices of housing fell sharply. The value of the houses was below the value of mortgages in many cases, and many debtors stopped paying for mortgages. As a result, in the United States, the decline in the value of "Subprime assets" led to a large number of bank losses, some of which were bankrupt, including "Lehman Brothers" ([3] Laffaye, S. Lucángeli J. (2011)).

The fear of financial markets began to prevail and the credit for businesses and families was chopped up. In addition, governments were forced to rescue companies from different financial and non-financial corporations as a result of the "debt crisis" ([4] Hernández Recio, MC, Atienza Montero, P. (2018). This economic situation, called the Great Recession, initially created in the United States, got to expand to several Eurozone countries.

2 The economic situation in the Basque Autonomous Community

The Basque Autonomous Community, as it has happened throughout the world, has had to suffer the impact of the Great Recession. The Gross Domestic Product and the Unemployment Rate will be analyzed below since they indicate how a country's economic situation is. The data obtained from the Basque Statistics Institute (Eustat) has been used to make graphs to analyze the economic situation. As it can be seen in Graphic 1, in 2007, during the global economic crisis in the United States, the total amount produced by the Basque Autonomous Community was below 16,500,000 (thousand euros). The following year, in 2008, the level of domestic Gross Domestic Product in the country was observed, surpassing the number of 17,000,000. Since 2009 the situation in the Gross Domestic Product of the BAC has changed dramatically with a significant drop in data, mainly between 2009 and 2010. During these two years, the effects of the dreaded economic crisis were suffered strongly and it came to have similar or worse Gross Domestic Product data than at the beginning of the crisis; In 2011, there was a slight recovery in the economic activity of the BAC reaching 16,620,036 points but again, from 2012 onwards, the country had to live in a recession situation. Between 2012 and 2013, the situation of the economic activity was worse with a much lower level of output produced; In 2012, the level of Gross Domestic Product provided was 16,396,232 and in 2013 it achieved the worst Gross Domestic Product data of 16,142,373.

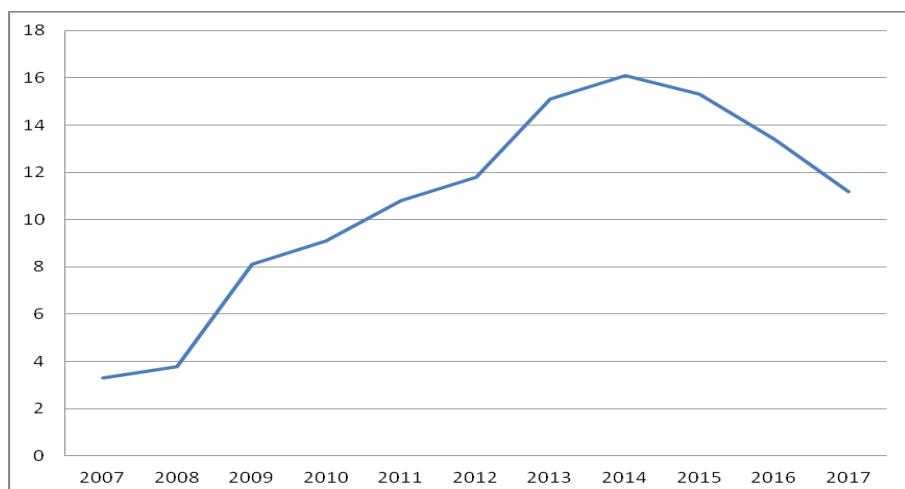


Source: Own elaboration extracted from Eustat data

Figure 1: Analysis of the evolution of the level of GDP of the BAC provided by the current prices (thousands of euros) from 2007 to 2017.

However, since 2014 the Basque Autonomous Community has faced the situation of a world-wide economic crisis, the economic activity of the country has gone towards growth and stability. One of the the strongest motor for achieving this positive goal has been the tendency for the industrial policy of the country's governing authorities.

Afterwards, the unemployment rate for the population over 16 years old (measured in %) from the Basque Autonomous Community will be analyzed from 2007 to 2017 in Graphic 2. The unemployment rate ([5] Becerra Benítez, F. (2011)) is a variable that allows the analysis of a country's economic situation. In fact, this variable allows us to analyze the situation and evolution of the labour market.



Source: Own elaboration extracted from Eustat data

Figure 2: Unemployment rate in the Basque Autonomous Community (%) from 2007 to 2017

Before the economic crisis, in 2007, the unemployment rate was relatively small in the BAC, it was 3.3%. However, since 2007, as a result of the crisis, several companies in the Basque Autonomous Community had losses and, eventually, forced some companies to go bankrupt. Many families were left without work and others had a reduction in their salaries and revenues.

According to Graphic 2, the highest unemployment rate in the BAC was reached in 2014 (16.1%). But, fortunately, after 2014, once the unemployment rate reached the maximum, the Basque Country improved its economic situation year after year. Many new jobs are being created and the result is the decrease of the unemployment rate to 11.2% in 2017.

The powerful motor of the progressive improvement of the Basque Autonomous Community has been the industrial policy that has been applied over the years. This industrial policy is based on research, development and innovation. Through the effort made in these areas, attached to the economic situation, the Basque Autonomous Community is on a path of growth.

3 Price of housing in the Basque Autonomous Community

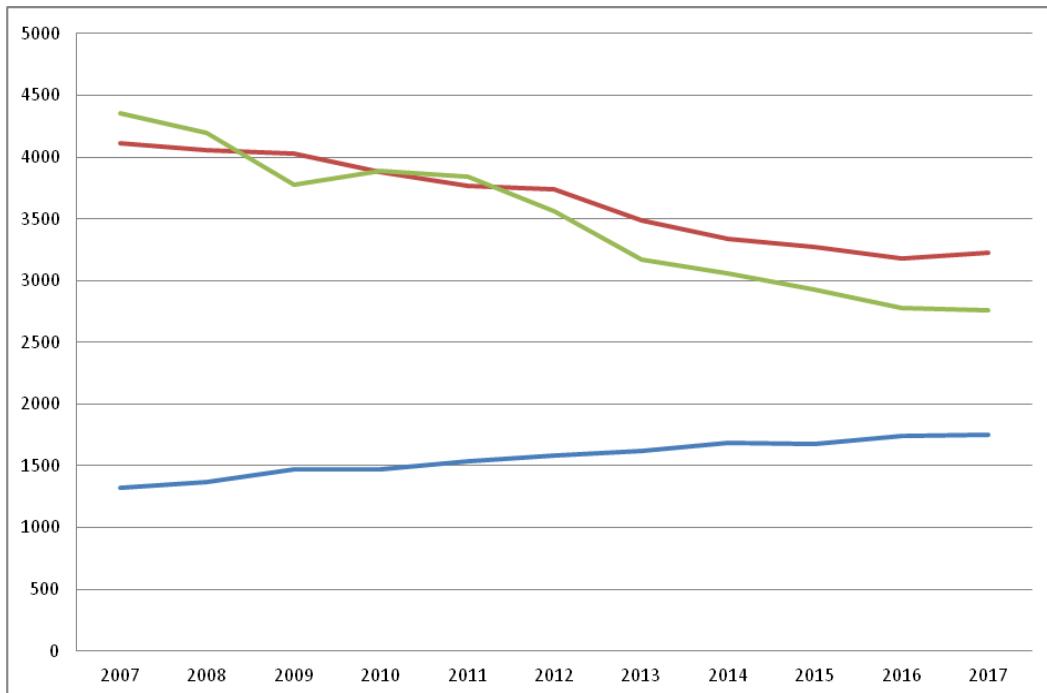
If it is defined housing as a good, it can be said that it is a long-term consumer good ([6] Álvarez Moreno, M.T. (2013)). As a consumer good it gives utility to the consumer and as an investment good it brings profitability to the owner from rent, or capital gains. That is why housing is a consumer property for a type of consumer and an investment for other consumers.

Afterwards, the average price of the useful surface (m²) of available houses for sale in the Basque Autonomous Community will be analyzed between the years 2007 and 2017 in Graphic 3.

As it can be seen, there are two types of new houses: houses from official protection, in blue in the graphic, and free market houses². These last ones are classified as free market new houses, in red in the graphic, and free market used houses³, in green in the graphic.

²The main purpose of the houses from official protection policy is to provide public income to people who want to get access to housing at affordable prices. [7] Barrios, J.A., Rodríguez, J.E. (2002). On the other hand, free market houses is defined as houses of a private company and construction fluctuations have a direct impact on its price.

³New houses: they are considered new homes when they are built and when it is done the first transmission of use. The transmission from the builder to the user; Used houses: in this case, the transmission from the builder to the user has been done before this transmission.



Source: Own elaboration extracted from Eustat data

Figure 3: Average price of the useful surface (m²) of available houses for sale in the Basque Autonomous Community from 2007 to 2017

First of all, it is remarkable that the prices of free market houses have dropped substantially in the years that the crisis has lasted, as it was expected. Between the years 2007 and 2017 the price of the free market new houses decreased 22% and the price of free market used houses decreased 36%. On the other side, the prices of houses from official protection increased 32% in the same period.

It can be seen in Graphic 3 that the average price of the useful surface (m²) of available free market houses for sale is much above houses from official protection. First of all, looking at the data for 2007, the difference can be said to be triple, because free market ones exceed 4,000 points, specifically, new 4,113.2 points and used 4356.4 points, and houses from official protection by under 1,500 points, specifically 1,322.9 points. Therefore, the strength of free market housing is seen versus the case of houses from official protection.

However, as the years go by since 2007, the difference between free market housing and houses from official protection has decreased. In the year 2017 the Graphic 3 shows the lowest average price (3,222 points) for free market new houses and 2,758.1 for free market used houses. Houses from official protection have less than half this price 1,750.

As it is said earlier, there are two types of free market housing: free market new houses and free market used houses. Comparing the new ones with the used ones, the price of the new ones is almost always higher than the price of the used

ones. Just in 2007, 2008, 2010 and 2011 was the other way. In those years, the effects of the Great Recession were important. In fact, people with relatively high income levels had less savings and, as a result, they preferred to choose free market used houses rather than choosing new ones.

4 Conclusions

The economic downturn in the world led Basque Autonomous Community to the worst unemployment rate data in its history, 16.1% in the year 2014. The rise of Gross Domestic Product in that year was also very low, 1.3%. As a consequence of this economic situation, many companies broke up and others have had to make employment regulations and, unfortunately, the poverty level in society increased.

Fortunately, from 2014 onwards, the growth and stability in the BAC has been increased thanks to the global economic situation and to the basque industrial policy. In spite of the fact that the Basque Autonomous Community has undergone a strained economic crisis, its efforts in research, development and innovation has been able to counteract some of the effects of the great crisis. The Basque Autonomous Community has placed an important role in its productive structure; above all, it has focused its industry on its main activity. The different governments in the Basque Autonomous Community have always had a strong policy of constant development in support of industrial development ([8] Arrieta, I. (1986)). At this point, it is necessary to mention the "Cluster". "Clusters"; ([9] Iturrioz, C., Larrea, M., Aragón, C., Aranguren, MJ (2005)) are companies that are related to cooperating with one another. It was a strategic point of view that the "Cluster" were located in the same geographical areas, that is why today, in the BAC, there are several well-known centers and technology parks ([10] García, FJ (1992)).

By analyzing the price of housing, it is possible to say that the price of free housing is above the houses from official protection and that, from 2007 onwards, the difference between the prices of free market houses and houses from official protection decreased.

As it has been seen in the analysis, the evolution of the prices of the two main categories of houses has been different. Although the prices of free market houses have decreased, the prices of houses from official protection have been increased during the crisis. It is remarkable that if the variable purchasing power is analyzed, the high-income people tend to buy free market homes because their purchasing power is large enough and they have not any public aid, as opposed to the behavior of low-income people who tend to choose houses from official protection. It could be said that distinguishing the characteristics of these two types of housing policies, free market houses and houses from official protection, would be interesting.

In order to conclude and taking into account the macroeconomic data, from 2017 onwards, the Basque Autonomous Community can expect growth and economic stability. The unemployment rate in the Basque Country has already fallen to 11.2% (from 16,1% in 2014) and it is expected to go down more because, nowadays, many private and public companies are offering new jobs, and most of these works have better quality and better wage conditions.

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