

## **Abstract**

This study investigates key macro-economic variables that influence housing prices in South Africa. Impact of shocks to macro-economic variables on housing prices in the short run is analysed as well as the nature of the relationship between housing prices and seven macro-economic variables in the long run. Using quarterly data from 1978 (3<sup>rd</sup> quarter) to 2014 ( 1<sup>st</sup> quarter ) , the study shows that absa real house prices, rand/us\$ exchange rate, household/debt disposable income, household net wealth/disposable income, new mortgage loans and prime interest rates have a long run equilibrium relationship. Macro-economic variables have a positive impact on house prices in the long run; household net wealth/disposable income and household debt/disposable income are leading variables in explanation of house price movements. Shocks to prime interest rates and rand/us\$ exchange rate impact negatively on house prices in the short run.

**Keywords:** cointegration, house prices, impulse response, unit root, variance decomposition, vector error correction model