

A Study on the Spillover Characteristics of CPI to PPI from the Perspective of Real Estate Financialization—Including a Discussion on Monetary Policy Regulation

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Abstract

The study of the transmission factors between CPI and PPI is quite extensive, but the impact of real estate financialization on their relationship still holds room for exploration. This paper uses data related to China's CPI, PPI, and the real estate sector to examine the importance of the real estate industry, the intrinsic meaning of real estate financialization, and its effects on macroeconomic factors like monetary policy. Using QVAR and MS-AR models, it empirically analyzes how real estate financialization affects the spillover characteristics of CPI to PPI across different regions. The main conclusions are: First, the real estate sector is a key economic hub, and financialization is a trend and prominent feature of the real estate market; Second, unlike Western economic theories, in China, asset prices represented by real estate are directly related to borrowing capacity and monetary policy effectiveness, and a "soft landing" for real estate is necessary; Third, real estate financialization amplifies the "wealth effect" on CPI, which in turn affects PPI, with the spillover index of CPI to PPI showing a "U" shape in the short term, and remaining stable in the long term, indicating robustness in the spillover mechanism; Fourth, the impact of real estate financialization on CPI to PPI spillover varies with different economic stages and time frames, with a generally positive effect in the current "low inflation, high risk" stage, suggesting that moderately increasing real estate valuations can help reinforce the transmission from CPI to PPI and narrow their divergence. Based on these conclusions, the government should create a more liquid environment, enhance policy stability and specificity, invest in the entire real estate-related industry chain, shift from stimulating to stabilizing the real estate market, and remain cautious of the potential backlash of excessive real estate financialization on the real economy.

Keywords

Estate Financialization, PPI, CPI