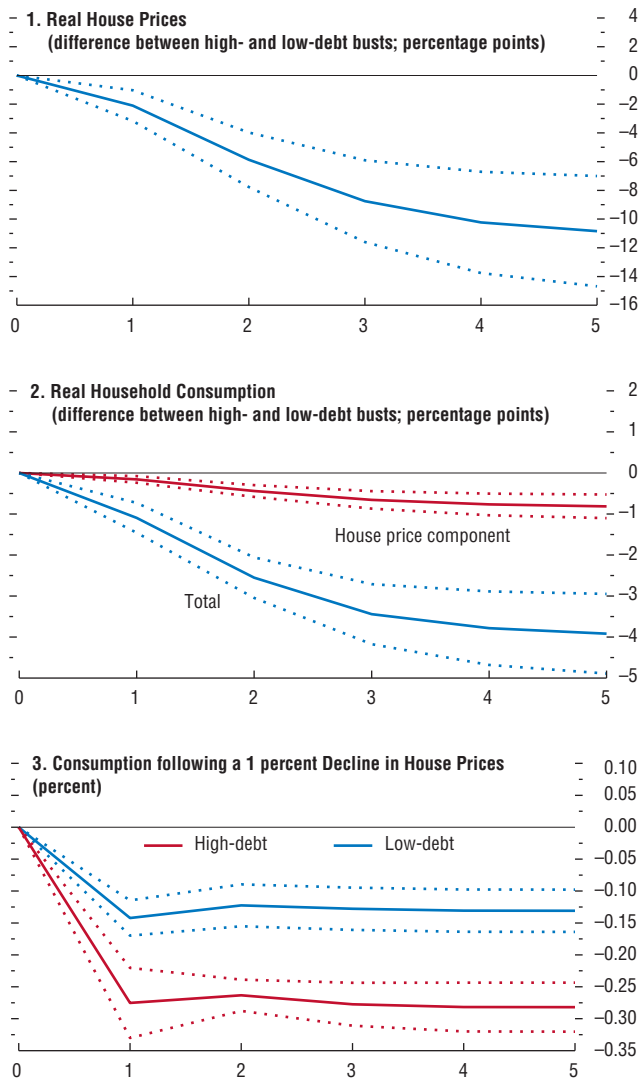


Figure 3.4. Housing Wealth and Household Consumption

House prices fall more during housing busts preceded by a larger run-up in debt, but this alone cannot explain the sharper decline in consumption in the wake of such busts. The larger fall in house prices explains about a quarter of the greater decline in consumption based on a standard elasticity of consumption with respect to housing wealth. Also, a 1 percent decline in real house prices is typically associated with a larger decline in real household consumption when it is preceded by a larger run-up in household debt.



Source: IMF staff calculations.

Note: X-axis units are years, where $t = 0$ denotes the year of the housing bust. Dashed lines indicate 1 standard error bands. House price component is defined as the fall in real house prices multiplied by a benchmark elasticity of consumption relative to real housing wealth, based on existing studies (0.075). High- and low-debt are defined, respectively, as above and below the median increase in the household debt-to-income ratio during the three years preceding the fall in house prices.