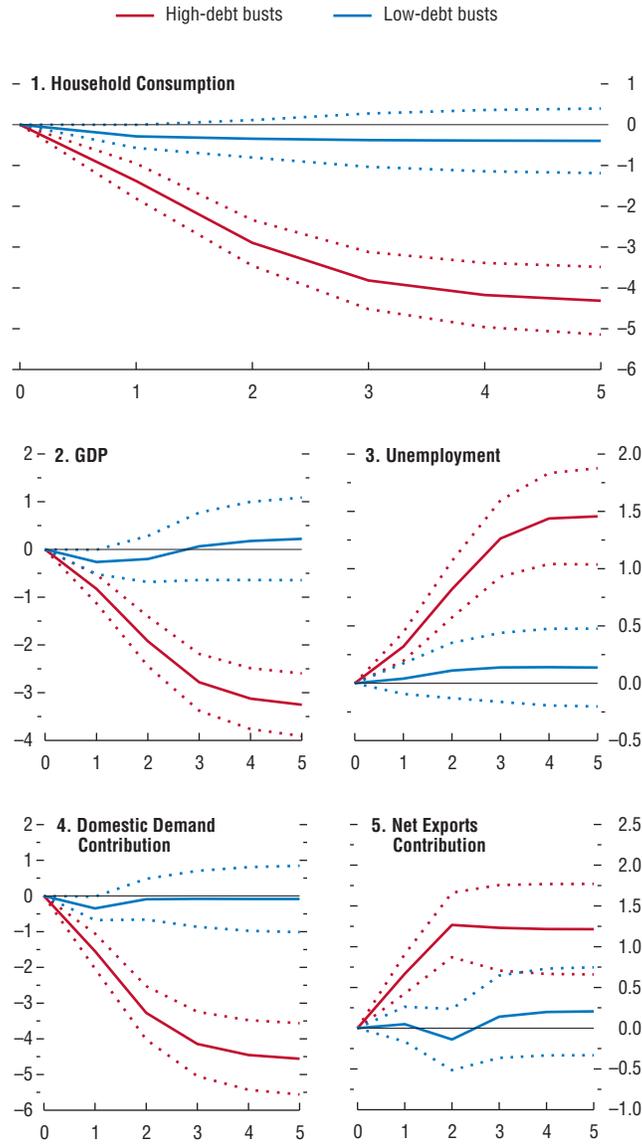


Figure 3.3. Economic Activity during Housing Busts

Real household spending and GDP fall more during housing busts preceded by a larger run-up in household debt, and the unemployment rate rises more. There is a greater fall in domestic demand, which is partly offset by a rise in net exports.



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. High- and low-debt busts are defined, respectively, as above and below the median increase in the household debt-to-income ratio during the three years preceding the bust. The unemployment rate and the contributions to GDP are in percentage points; all other variables are in percent.