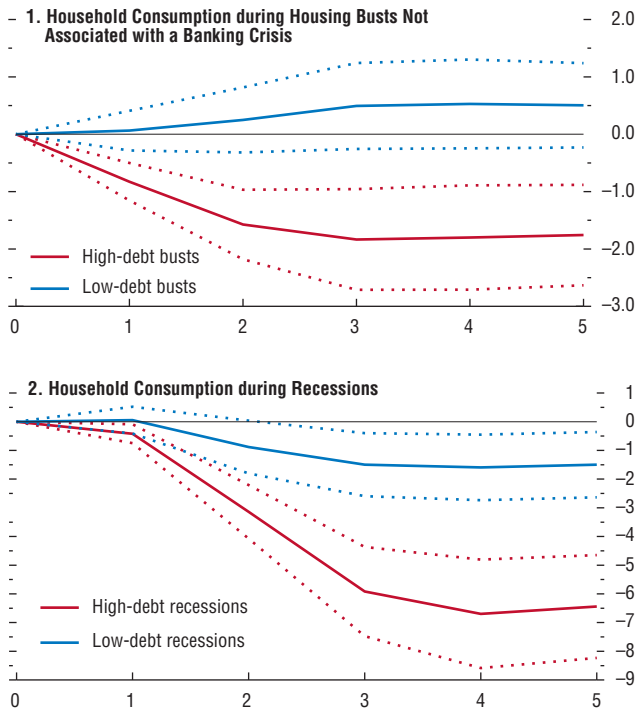


Figure 3.6. Household Consumption
(Percent)

The finding that consumption falls more during housing busts preceded by a larger run-up in household debt is not driven by banking crises. It holds for a subset of housing busts not associated with a systemic banking crisis within a two-year window. In addition, recessions are generally deeper if they are preceded by a larger run-up in household debt.



Source: IMF staff calculations.

Note: In panel 1, x-axis units are years, where $t = 0$ denotes the year of the housing bust. Housing busts associated with a systemic banking crisis within two years of the bust are not considered in the analysis. Systemic banking crisis indicators are from the updated Laeven and Valencia (2010) database. 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 housing bust. In panel 2, x-axis units are years, where $t = 0$ denotes the year of the recession. Dashed lines indicate 1 standard error bands. High- and low-debt recessions are defined, respectively, as above and below the median increase in the household debt-to-income ratio during the three years preceding the recession.