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MEDIA ADVISORY

STUDY INDICATES HOUSING MARKET CYCLES HAVE BECOME LONGER

Also finds extended housing busts can lead to severe recessions

ALEXANDRIA, VA, MAY 1, 2015 – A statistical analysis of data from 20 industrial countries covering the period 1970 to 2012 suggests housing market pricing cycles—normal, boom and bust phases—have become longer over the last four decades.

The study also found that longer down phases can have dire consequences on national and international economies. While relatively short-lived housing booms tend to deflate, more prolonged booms are likely to spiral out of control. Similarly, compared to short housing busts, longer housing busts are more likely to turn into chronic slumps and, ultimately, lead to severe recessions.

Results of the analysis recently were included in an article in the *Journal of Business & Economic Statistics*, a professional journal published by the American Statistical Association. The study was conducted by Luca Agnello, University of Palermo (Italy); Vitor Castro, University of Coimbra (Portugal); and Ricardo M. Sousa, University of Minho (Portugal).

Other key study findings include the following:

- Housing price booms and busts—and even normal phases—tend to be longer when the previous cycle, no matter the type, is long.
- Housing price booms are broadly similar in terms of length in European and non-European countries, but pricing busts are typically shorter in European countries.
- There is a positive duration dependence in the housing market price booms of European and non-European countries, while the housing price busts in non-European countries do not seem to be duration dependent.
- The results corroborate the existence of a time-varying duration dependence parameter for housing booms and busts. Housing booms and busts that last fewer than 26 quarters display positive duration dependence, but the same does not hold for older events. For example, when housing booms or busts have a duration shorter than 26 quarters, each additional quarter of duration—on average—increases the likelihood of the end of such stages of the cycle by 4 percentage points. In contrast, for housing

booms or busts longer than 26 quarters, each additional quarter of duration raises the likelihood of their end by only 1.76 percentage points. For normal times, no evidence of change-points is found.

The authors conclude the study's findings support preventive policy interventions by governments during periods of boom and bust. A timely counter-cyclical policy response before housing booms and busts reach 26 quarters on average is crucial, they say, for avoiding large and persistent housing price swings and for hastening the return of the housing market cycle to a normal phase.

Note to Reporters and Editors: For a copy of the *JBES* article, send an email to jeffrey@amstat.org with "JBES Housing Market" in the subject line.

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