

Housing is slumping, the economy is stalling; consumer spending is faltering; the public finances are deteriorating; and the stock market is tanking. Yes, things are turning out pretty much as expected.

You see, our housing downturn is following a typical pattern. In a study of dozens of property cycles across 18 industrial countries since 1970, my former colleagues at the US Federal Reserve and I documented what a typical house price boom and bust looks like. The results are revealing and sobering. I find it amazing that many commentators ignore the foreign experience.

A housing downturn typically lasts five years. The economy usually plunges into recession in the year after the peak in house prices—and then gradually recovers as interest rates fall.

The boom in consumer spending during the run-up in house prices gives way to sluggish household spending for several years, as income growth weakens and sentiment drops. Retail sales here have been flat on balance since May and the IIB/ERSI index of consumer confidence has fallen off a cliff.

The fiscal position typically worsens significantly in the aftermath of the downturn in housing, with the largest deficits recorded a few years after the peak. If you thought last Wednesday's budget was tight, wait until you see next year's!

Stock prices and house prices tend to move up and down together, though stocks experience a steeper decline. After two years of heading south, stocks usually rebound, even as house prices continue to fall. The ISEQ's roughly 30 per cent drop from February's high is par for the course.

As we try to peek around the corner, other countries' experience offers a glimpse of what's to come.