

Empirical Evidence of Wealth Effects on Consumption

Sabine Winkler

WHU - Otto Beisheim School of Management

Paper Abstract:

The paper uses cointegration theory to study the interplay between consumption, income and housing wealth in 14 countries, observed quarterly from 1995 to 2013. Cointegration is found to be present in Canadian, Danish, German, Italian, Japanese and United States data, implying that the consistently estimable propensity to consume out of housing wealth is in the range of two cents per US dollar in Italy and five cents per US dollar in Canada. The housing wealth effect on consumption tends to be lower in countries where income elasticity of consumption, wealth volatility and income inequality are higher. The effect tends to be larger in countries where business conditions are superior and access to credit is easier. Examining the short-run relation between consumption, income and housing wealth highlights that transitory income moves do not Granger-cause consumption growth, and transitory housing wealth changes contain information useful for predicting consumption growth in each sample country.