Abstract

This study describes the topic of how housing prices influence households’ consumption. We test the wealth effect hypothesis which postulates that change in housing or stock market wealth increases consumption. We provide empirical analysis of Czech aggregate data for 1998–2009 by combining the public databases of the Czech National Bank and Czech Statistical Office. To the best of our knowledge, this analysis on aggregate data is the first of its kind in the Czech Republic. We analyse the effect of change in housing prices on the consumption of both durable and non-durable goods employing the VAR and VEC models on quarterly seasonally adjusted data. We find a positive effect of both wealth components on both types of consumption. In case of non-durable goods consumption we estimate the cointegrating vector and conclude that the elasticity of non-durable goods consumption with respect to housing wealth (0.18) is over three times greater than with respect to stock market wealth (0.05).

Keywords

Households, housing prices, consumption, housing wealth, stock market wealth, VAR model, VECM