

Housing Prices and Financial Development Nexus Consumption Behaviour: New Evidence from a Panel Threshold Model

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Abstract:

The study explores the asymmetric effect of housing and financial wealth on household consumption behaviour using panel data from 24 OECD countries, spanning the period 2000 to 2016 by employing a financial development index (financial depth) and the house price-to-income ratio (housing affordability) through a threshold empirical framework. The analysis tests certain hypotheses, such as: (i) the housing wealth effect is stronger than its financial counterpart, (ii) overall wealth effects increase (decrease) during (post bubble) periods, (iii) the higher level of financial development and the lower level of housing affordability ratio both result in stronger wealth effects, (iv) increasing wealth effects show a bubble formation. The results suggest that housing wealth has generally a greater positive effect on consumption. The effect of housing and financial wealth increases, depending on higher financial development and declining housing affordability. The evidence also suggests that the impact of housing and stock market wealth has increased during the dot.com and housing bubble periods.

Keywords: Housing Prices, Consumption Behaviour, Housing Affordability, Financial Development, Panel Threshold

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