Does Housing Wealth Affect Consumption? The Case of Cyprus

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Abstract

In this paper we investigate the relationship between housing wealth and consumption in Cyprus. To this end, we employ a vector error correction mechanism to examine interlinkages among house prices, private consumption, disposable income, financial assets and financial liabilities. We find that house prices affect private consumption, particularly in the short term, albeit to a lesser extent than similar studies for other countries. Financial liabilities are found to be important for consumption behaviour, while financial assets of Cypriot households appear to not affect significantly their consumption. Distinguishing consumption between durable and non-durable goods, we find that an increase in house prices boosts consumption of durables, while non-durables are found to register an insignificant effect.

Keywords: House prices, consumption, VECM analysis.