

Does Housing Wealth Affect Consumption? The Case of Cyprus[±]

Nektarios A. Michail^{*,a,b} and George Thucydides^a

^a *Economic Analysis and Research Department, Central Bank of Cyprus*

^b *School of Economics and Management, Cyprus University of Technology*

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.

[±] All views expressed in this paper are strictly personal and do not necessarily reflect the views of the Central Bank of Cyprus or the Eurosystem. We are indebted to George Georgiou, the Economic Analysis and Research Department at the Central Bank of Cyprus and especially Marios Polemiodiotis, for their valuable comments and suggestions. We would also like to thank the participants in the Consultative Committee for the Construction of Real Estate Indices (December 2017) for their constructive comments. All remaining errors and omissions are ours.

*Address: Economic Analysis and Research Department, Central Bank of Cyprus, P. O. Box 25529 CY-1395 Nicosia, Cyprus, Telephone: +357-22714538, Email: nektariosmichail@centralbank.gov.cy.