

Is there a housing wealth effect?*

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Abstract

In this paper we examine whether there is a housing wealth effect. To do this we use longitudinal survey data with subjective information about current and expected future house prices to calculate unanticipated house price changes. We link this information to high quality administrative records with information about savings in various financial instruments. Controlling for competing explanations we find that an unanticipated increase in housing wealth that compares to one years worth of income leads to an increase in spending (also measured relative to income) of 3-5 percent. The spending increase is followed by a corresponding drop in the following year suggesting that the effect is driven by spending on durable goods. The estimated effect is driven by about 8 percent of the households in the sample who actively refinance their mortgage loan and extract equity to finance the spending increase.

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