

# A NOTE ON HOUSING WEALTH AND PRIVATE CONSUMPTION

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## Abstract

This paper analyses the relationship between house prices and private consumption of the US economy. Based on Granger's causality test, we ask whether this relationship is driven by causality or whether it is merely an ambiguous connection. Based on latest quarterly data, our results show that there is indeed a causal relationship with changes in house prices affecting private consumption, fundamentally supporting economic theory. Considering existing research, it is therefore suggested that the US economy is at the outset of a severe economic downturn, confirming pessimist's expectations.

**Keywords:** Wealth effect; House prices; Consumption; Granger causality