Abstract for “Non-Durable Consumption and Real-Estate Prices in Brazil: Panel-Data Analysis at the State Level”

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Housing is an important component of wealth for a typical household in many countries. The objective of this paper is to investigate the effect of real-estate price variation on welfare, trying to close a gap between the welfare literature in Brazil and that in the U.S., the U.K., and other developed countries. Our first motivation relates to the fact that real estate is probably more important here than elsewhere as a proportion of wealth, which potentially makes the impact of a price change bigger here. Our second motivation relates to the fact that real-estate prices boomed in Brazil in the last five years. Prime real estate in Rio de Janeiro and São Paulo has tripled in value in that period, and a smaller but generalized increase has been observed throughout the country. Third, we have also seen a recent consumption boom in Brazil in the last five years. Indeed, the recent rise of some of the poor to middle-income status is well documented not only for Brazil but for other emerging countries as well. Regarding consumption and real-estate prices in Brazil, one cannot imply causality from correlation, but one can do causal inference with an appropriate structural model and proper inference, or with a proper inference in a reduced-form setup. Our last motivation is related to the complete absence of studies of this kind in Brazil, which makes ours a pioneering study.

We assemble a panel-data set for the determinants of non-durable consumption growth by Brazilian states, merging the techniques and ideas in Campbell and Cocco (2007) and in Case, Quigley and Shiller (2005). With appropriate controls, and panel-data methods, we investigate whether house-price variation has a positive effect on non-durable consumption. The results show a non-negligible significant impact of the change in the price of real estate on welfare (consumption), although smaller than what Campbell and Cocco have found. Our findings support the view that the channel through which house prices affect consumption is a financial one.