Discussing on " Housing wealth effect in China", by Benoit Mojon and Han Qiu

Kang Shi

Chinese University of Hong Kong

January 14, 2025

Summary

- This paper estimates the wealth effect of housing prices on consumption.

- Data: a unique dataset of Alipay transactions from Chinese households from January 2018 to April 2023.

- The effect is 0.19 across 42 Tier 1 and 2 cities, and larger for Alipay users over 40 years old (a higher proportion of owners).

- The effect is not significant in Tier 3 and 4 cities, although it is comparable in the top 20 richest Tier 3 cities.

Contribution

- This research is timely and has important policy implications for the Chinese economy, especially as the Chinese government is launching a new round of stimulus plans, and stimulating consumption is the core policy.

- This research uses one of the largest payment datasets, to track consumption information, which offers the advantage of high data accuracy and timelines, updated until May 2023.

Comment 1: representativeness of consumption and aggregate effect

- What proportion of household expenses are paid through Alipay?

- The average monthly consumption is approximately 5900 RMB. Tier 1 and 2, 5934, and Tier 3 and 4, 5887.

- First, the living expenses or consumption in Tier 1 and 2 should be much higher than that in Tier 3 and 4, but the consumption difference in the sample (paid through Alipay)is only 47 RMB.

- Second, these consumptions should belong to high-income people in cities. (5900*12=70800RMB)

Top 20 cities by per capita consumption expenditure in 2023

2023年人均消费支出20强城市榜单

排序	城市	2023年城乡居民人均消费（元/年）	2022年	增长率
1	上海市	52508	46045	14.00%
2	杭州市	50129	46640	7. 9%
3	深圳市	49013	44793	9.40%
4	北京市	47586	42683	11.50%
5	温州市	46879	42809	9.50%
6	广州市	46631	44036	5. 9%
7	厦门市	46512	43970	5. 8%
8	苏州市	46018	42889	7. 3%
9	宁波市	45503	42977	5. 8%
10	无锡市	44450	41381	7. 4%
11	绍兴市	43628	40371	8. 1%
12	舟山市	43612	39710	9.80%
13	佛山市	43330	41129	5.40%
14	南京市	43182	40313	7. 1%
15	嘉兴市	42648	39090	9. 1%
16	珠海市	41943	41333	1.50%
17	金华市	41807	38371	9.00%
18	长沙市	41584	39411	5.50%
19	湖州市	41580	38322	8.50%
20	台州市	40878	38330	6. 7%

Comment 2: quantitative size

- If the majority in the sample is high-income households, then aggregate wealth effect in Tier 1 and 2 would be overestimated.

- In Stock Market Wealth and the Real Economy: A Local Labor Market Approach, (NBER Working Paper No. 25959), Gabriel Chodorow-Reich, Plamen T. Nenov, and Alp Simsek find that for every dollar of increased stock market wealth, consumer spending rises by 2.8 cents per year.

- 2million apartment, price goes up 10%, wealth increase by 200000RMB, consumption increase 6000*12*1.9%=1368 RMB

- 1368/200000=0.0068. 0.68 cents!

Wealth effect in the US

Nonetheless, the massive increase in household wealth has been a powerful tailwind to consumer spending via the so-called wealth effect. Wealthier households are able and willing to spend more out of current income and save less. In typical times, we estimate the wealth effect to be approximately 3 cents. That is, every dollar increase in net worth powers a 3-cent increase in consumer spending. These are not typical times, and given how concentrated the increase in wealth has been, the effect may be smaller. But since the excess savings built up during the pandemic have gone mostly into easily accessible checking accounts, the wealth effect could be larger. Sticking with the 3-cent estimate, the wealth effect alone has added 0.35% to per annum real GDP growth over the past four years.

Comment 3: lack of mechanism analysis

Sufi (2023) argues that Chinese households are unable to use home equity to obtain credit for consumption, nor can they refinance their mortgage debt for cash-out refinancing for consumption purposes. Then what is the mechanism in China?

Wealth effect or signal effect?

For instance, when housing prices go up, households have positive expectations about future economic growth, which increases household income. How to disentangle the wealth effect from the signal effect?

The signal effect depends on the policy or shock pushing up the housing price.

Owner vs renter

Cont.

Owner: positive wealth effect + positive signal effect

Renter: negative spillover (rent increases)+ positive signal effect.

Noted that the signal effects might vary across cities.

Kaiji Chen et al (2024), "China Housing market Sentiment Index: A Generative AI approach and an Application to Monetary Policy Transmission."

By incorporating Baidu search data, they refine this index to create an attention-adjusted Chinese housing market sentiment index at the city level.

Then, they apply this index to study China's monetary policy transmission. Monetary easing had a muted effect on households' non-housing consumption, particularly in cities with optimistic housing market sentiment.

Cont.

How to explain that there is a notable crowding–out effect for renters in Tier 3 and 4 but not in Tier 1 and 2?

The oversupply of housing in Tier 3 and 4 should be reflected in the housing price. In other words, this cannot be an explanation for city heterogeneity.

Other comments

- Endogeneity of housing price change, may consider some exogenous policy change.

- Asymmetric effect of housing price change.

- Ownership of parents' apartments.

- You do not live on your "own" property.

- One apartment vs multiple apartments.

- Housing market vs stock market.

- The measurement of city-level housing prices.

Conclusion

- Great paper!
- Important policy implication!