

Essays on Consumption - Evidence from U.S. State Data

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Regional data has seldom been employed in the consumption literature. This is unfortunate since regional variation could potentially help avoid problems of both macro and micro data. This thesis contributes to the literature by constructing new stock wealth and consumption data at the U.S. state level. These data are then used to study wealth effects, interstate risk sharing and regional business cycles.

1 Measuring Wealth Effects Using U.S. State Data (job market paper)

This paper describes a new panel data set of financial wealth for U.S. states constructed from anonymous proprietary account-level records on geographic wealth holdings. The new dataset is more comprehensive and representative than existing alternative measures. The paper also constructs significantly improved state-level consumption data, then combines these datasets to provide new estimates of effects on consumption from changes in stock and housing wealth. I find large but sluggish housing wealth effects. The estimated response of consumption to a one dollar change in housing wealth that happened two years ago is about 6.5 cents. Surprisingly, the data show no evidence for significant stock wealth effects, although large standard errors mean that the differences from housing wealth effects are statistically insignificant.

2 Excess Sensitivity and Risk Sharing Across States (in progress)

This paper further explores the dynamics of state-level consumption documented in the first paper. Using a framework related to that of Ostergaard, Sorensen, and Yosha (2002), the same question can be addressed using my improved consumption data and including lagged housing wealth and stock wealth in the tests. In preliminary tests, state-specific consumption growth is still very sensitive to lagged state-specific income and housing wealth growth, opposite to the findings of Ostergaard, Sorensen, and Yosha (2002).

3 Economic Indexes for the US States (in progress)

Although there is a considerable body of work on characterizing national business cycles, little corresponding work has been done on the regional or state level despite rising interest in regional fluctuations. But the choice of variables in the construction of state indexes is always restricted to wages, employment, and GSP. This paper will adopt the Stock-Watson methodology and incorporate state retail sales, housing wealth and stock wealth to help estimate a consistent set of indexes to characterize state business cycles, and examine how these added variables would make a difference in terms of deciding the turning points of state-level business cycle movements.