

Safe as houses?
Housing as a store of value and its impact on
consumption in China

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Abstract

This paper studies how access to mortgage credit interacts with a scarcity of safe assets in affecting savings and consumption at the aggregate (city) and the household level in China. We construct a novel measure of the attractiveness of housing as a store of value that is based on fundamental growth expectations in housing prices (FHGE) at the city level. We find that cities with higher FHGE have lower deposit-loan ratios and that this correlation is stronger in cities with many credit-constrained households. Also, renters have a higher propensity to save out of income and again this pattern is stronger in cities with high FHGE. Conversely, house owners have lower consumption volatility conditional on income shocks (better risk sharing) and their level of consumption risk sharing increases with FHGE. We discuss implications of our findings for consumption heterogeneity and a rebalancing of the Chinese economy.