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Consumption Heterogeneity:

Micro Drivers and Macro Implications

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Consumption heterogeneity: Micro drivers and macro implications

Abstract

This paper aims to test the microfoundations of consumption models and quantify the macro implications of heterogeneity. We propose a new empirical method to estimate the sensitivity of consumption to permanent and transitory income shocks for different groups of households. We then apply this method to administrative data from Denmark. The large sample size, along with detailed household balance sheet information, allows us to finely divide the population along relevant dimensions. For example, we find households who stand to lose from an interest rate hike are significantly more sensitive to income shocks than those who stand to gain. Following a one percentage point rate increase, we estimate consumption will decrease by 26 basis points through this interest rate exposure channel alone, making it substantially larger than the intertemporal substitution channel that dominates in representative agent New Keynesian models.

Resume

Dette papir sigter mod dels at teste forbrugsmodellens mikrofundering, dels at kvantificere de makroøkonomiske effekter af heterogenitet. Vi udvikler en ny metode til at estimere forbrugets følsomhed overfor permanente og midlertidige indkomststød for forskellige grupper af husholdninger, og anvender metoden på danske registerdata. Det store antal observationer og den detaljerede information om husholdningernes balancer muliggør en analyse af hvordan forbrugstilbøjeligheden varierer på relevante dimensioner. Eksempelvis finder vi, at husholdninger, hvis disponible indkomst reduceres som følge af en rentestigning, har betydeligt større forbrugstilbøjelighed end husholdninger, hvis disponible indkomst forøges. Vi estimerer, at det samlede forbrug vil falde med 26 basispoint som følge af en rentestigning på et procentpoint alene gennem denne renteeksponeringskanal. Ifølge beregningerne har renteeksponeringskanalen større betydning end den intertemporale substitutionskanal, som dominerer i Ny-Keynesianske modeller med én repræsentativ agent.

Key words

Uncertainty; Consumption Dynamics; MPC

JEL classification

D12, D31, D91, E21.

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The authors alone are responsible for any remaining errors.