

# Balance Sheet Effects on Household Consumption: Evidence from Micro Data\*

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## Abstract

While considerable evidence has been accumulated for the wealth effect on consumption, much less is known about how changes in household assets and liabilities are related to household consumption. Using micro data for U.S. households, this paper provides evidence on conditions when balance sheet effects have large impact on household consumption. By using a nonparametric regression model, the balance sheet effects are specified as nonlinear functions, and this allows to detect nonlinearities at different net changes of household assets and liabilities. Our major finding is that durable consumption is subject to large balance sheet effects, especially from net additions to household liabilities, and from net reductions in household assets. In contrast, balance sheet effects on nondurable consumption are much smaller.

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