

**Long-run Effects of the Boom-and-bust Cycle of Housing Prices on Consumption:
Evidence from Japan**

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Abstract

We examine the long-run effects of Japan's boom-and-bust housing price cycle on household consumption during and after the housing bubble of the 1990s and 2000s. We first propose the hypothesis that consumption and savings decline with the loan repayment ratio, defined as the ratio of the repayment required to fully repay a mortgage by retirement age to the actual repayment. Using a novel pseudo-panel dataset of households, we show that this ratio varies with the timing of home purchase and significantly affects consumption and savings. Our results suggest that boom-and-bust cycles in housing prices have persistent effects on consumption.

Keywords: Boom-and-bust cycle, Consumption, Savings, Japan.

JEL classification: D12, D14, E21.

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