Modeling the relationship between non durable consumer expenditures and stock market prices: An empirical analysis for the period 2004-2014

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Modeling The Relationship Between Consumer Discretionary and Staples Sector Prices and Non Durable Consumer Expenditures

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Study Objective
1. Determine the consumption function for non durable expenditures
2. Determine the functional relationship between non durable expenditures and consumer discretionary and staples sector prices

Research Approach
• Univariate regression analysis
• Time Period 2004-2013
• Data frequency: Quarterly
• Data sets:
  1. Personal income (PI)
  2. Non durable expenditures (ND)
  3. Consumer discretionary sector ETF (XLY)
  4. Consumer staples sector ETF (XLP)

Model Specification
• ND= A+B(PI)
• XLY= A+B(ND)
• XLP= A+B(ND)

Hypothesis
• For ND f(PI), B>0, TSTAT>2
• For XLY f(ND), B>0,TSTAT>2
• For XLP f(ND), B>0, TSTAT>2

Findings
• ND Covaries with PI, B coefficient stable overtime
• ND predicts XLY price movements. B coefficient is significant and positive
• Elasticity coefficient for 09-13 is highly elastic
• ND predicts XLP. B coefficient increases overtime.
• Elasticity coefficient for 09-13 is highly elastic

Conclusion
• Consumption function positive and significant
• ND predicts sector price movement for XLY and XLP