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