Stock Market Returns and Consumption

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This paper employs unique data containing household-level information on stock holdings and consumption for the entire Swedish population. We find that the marginal propensity to consume (MPC) from stock market returns is about 2% and is constant across the entire wealth distribution, except for investors in the top 10%, who exhibit an MPC close to 0.5%. In contrast, households' consumption is very responsive to dividend payouts across all parts of the wealth distribution. Specifically, on average households consume more than 50% of dividend payments. Combining these findings with information on the distribution of stocks holdings across households, we show that the total MPC out of stock returns is about 3% ; most of it driven by dividend payments.

These results have three broad set of implications:

1. **Monetary Policy**: Stock returns increases generated by the recent unconventional monetary policies have very limited effects on consumption inasmuch as they do not affect firms' dividend payments.
2. **Inequality**. A 5 percent increase in the stock ownership share by the wealthiest 10 percent (and a corresponding reduction for the bottom 60%) reduces the total consumption response to changes in stock returns by about 20%.
3. **Consumption Literature**. Classical models predict that investor consumption patterns should not be affected by the division of stock returns into dividends and capital gains, while our findings support the mental accounting theory, which suggests that investors have a higher MPC from stock returns in the form of dividends.