

Box 2

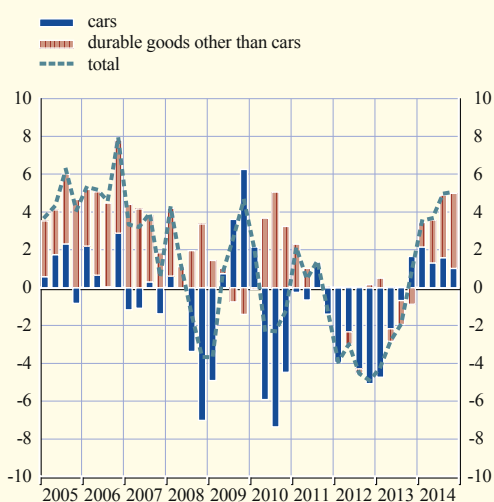
RECENT DEVELOPMENTS IN THE CONSUMPTION OF DURABLE GOODS

Consumption of durable goods in the euro area has recently exhibited vigorous growth.¹

In 2014 the average annual growth in consumption expenditure on durable goods in the euro area was similar to pre-financial crisis rates (see Chart A). This recovery is largely explained by the solid positive contribution of durable goods other than cars. Car sales also contributed to some extent to the recovery, showing a sizeable increase in comparison with 2013. However, it should be noted that the underlying trends in car sales are more difficult to identify as they have been strongly influenced by various temporary national measures in recent years. Meanwhile, the improvement in durable goods consumption since 2013 was not confined to a few countries but was widespread across the euro area, pointing to a broad-based recovery in durables spending (see Chart B).

Chart A Consumption of durable goods in the euro area

(annual percentage changes and contributions)

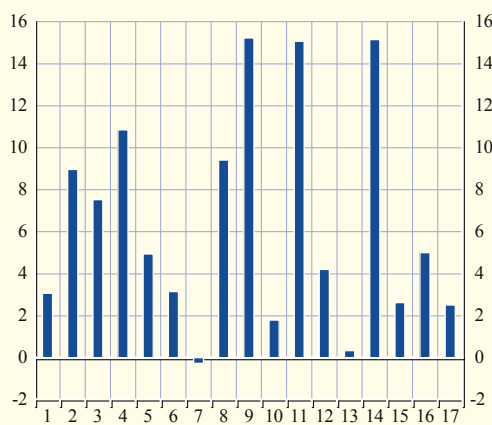


Sources: Eurostat and ECB calculations.

Notes: Euro area aggregates are approximated using available data for all countries except Belgium and Ireland. The latest observation is for the fourth quarter of 2014 (with the exception of Luxembourg for which data are only available until the third quarter of 2014).

Chart B Consumption of durable goods across euro area countries in 2014

(annual percentage changes)



1 Germany	7 Cyprus	13 Austria
2 Estonia	8 Latvia	14 Portugal
3 Greece	9 Lithuania	15 Slovenia
4 Spain	10 Luxembourg	16 Slovakia
5 France	11 Malta	17 Finland
6 Italy	12 Netherlands	

Source: Eurostat.

Notes: This chart is based on annual data with the exception of Luxembourg and Finland for which only quarterly data are available. For Luxembourg, data are only available until the third quarter of 2014. Data for Belgium and Ireland are not available.

¹ See also the box entitled “Recent developments in the consumption of durable goods in the euro area”, *Monthly Bulletin*, ECB, May 2014.

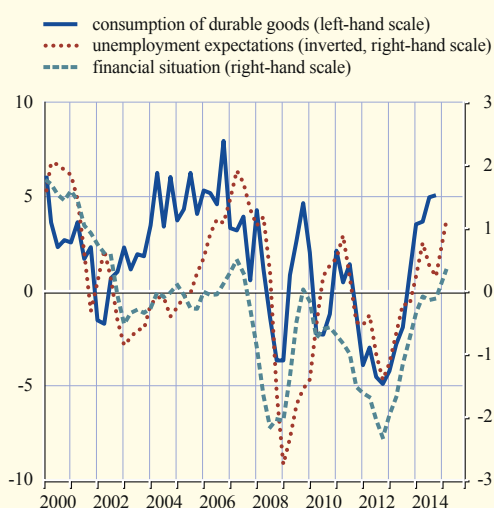
Consumption of durable goods is typically more sensitive to changes in economic conditions than consumption of non-durables and services. Changes in economic conditions may include unexpected changes in income or in financing conditions, higher macroeconomic uncertainty or changes in price expectations. The consumption of durable goods is typically more sensitive to such changes because durable goods have a long life cycle and high price per item, which means that their purchase might be postponed. Thus, while consumption of durable goods represents a relatively small share of total private consumption, around 9% in the euro area, it can serve as an important indicator of households' perceptions of economic conditions.

The current widespread recovery in durables consumption is supported by the reversal of past headwinds, despite some remaining dampening factors. Over the period from 2012 to around mid-2013, concerns in some countries about debt sustainability, rising unemployment, weak developments in real disposable income and household wealth, household deleveraging pressures, as well as heightened uncertainty and low consumer confidence, were the main factors behind the negative evolution of expenditure on durable goods. These headwinds have largely disappeared and, in some cases, have even reversed. In particular, the very accommodative monetary policy stance, the lower oil prices, as well as improving labour market conditions and the slowdown in the pace of fiscal consolidation, have led to a recovery in households' real disposable income and easing financing conditions. Some special factors may have also played a role. For example, the strong gains in car sales recently recorded in

Spain were in part related to the government extending its car scrappage programme (Plan PIVE). The recovery in consumption of durable goods other than cars (e.g. household appliances and furniture) may also be evidence of improvements in the residential construction sector. Reflecting improving economic conditions, consumer confidence and, in particular, households' expectations about unemployment and their financial situation have improved markedly since 2013 (see Chart C).² Furthermore, consumers may now need to replace durable goods that depreciated during the recent episode of very high uncertainty and rising unemployment. Nevertheless, high household indebtedness and the lower, but still sizeable, level of uncertainty about the economic outlook may continue to have a dampening effect on purchases of "big-ticket" items.

Chart C Consumption of durable goods and households' expectations in the euro area

(annual percentage changes; standardised quarterly survey balances)



Sources: Eurostat and European Commission.
Notes: The survey balances are taken from the European Commission's consumer survey. Expectations refer to the next 12 months. The data are standardised using the historical mean and standard deviation. The latest observation is for the first quarter of 2015 for surveys and the fourth quarter of 2014 for durables consumption.

Looking ahead, the survey indicators of consumers' intentions to make major purchases have been strengthening. The indicators of current and future intentions

² For more details, see the box entitled "What has been driving the recent increase in consumer confidence?" in this issue of the *Economic Bulletin*.

to make major purchases have been a good gauge of future purchases of durables in the euro area. The indicator of present intentions currently stands at its pre-financial crisis values (see Chart D). The indicator of future intentions (purchases in the next 12 months) has improved significantly over recent months, albeit while remaining at levels far below its long-term average.

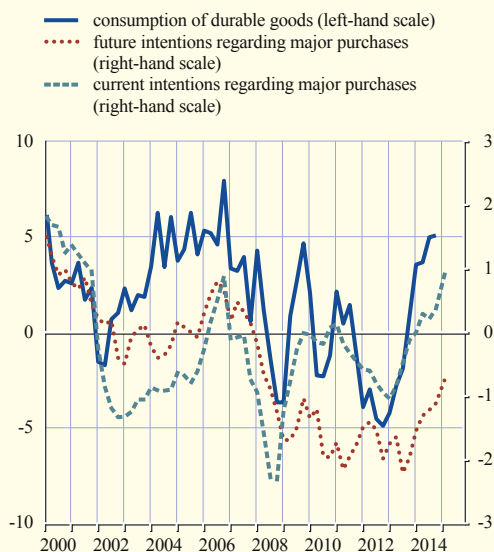
Overall, despite the low inflation environment, there is no evidence of consumers currently postponing purchases of durable goods. Such a postponement

is one of the channels through which negative inflation or deflation might have an adverse effect on economic growth, in particular in the presence of a zero lower bound on interest rates. When consumers expect lower prices in the future, they may delay purchases of less essential and more expensive durable goods. This channel has found some empirical support in studies of deflationary or low inflation episodes.³ By contrast, recent data for the euro area suggest that the boost to households' real income provided by lower inflation is translating into higher consumption, including of durable goods, thereby supporting the economic recovery.

³ See, for example, Cargill, T.F. and Parker, E., "Price deflation and consumption: central bank policy and Japan's economic and financial stagnation", *Journal of Asian Economics*, Vol. 15(3), 2004, pp. 493-506; and Hori, M. and Shimizutani, S., "Price expectations and consumption under deflation: evidence from Japanese household survey data", *International Economics and Economic Policy*, Vol. 2(2), November 2005, pp. 127-151.

Chart D Consumption of durable goods and consumer intentions to make major purchases

(annual percentage changes; standardised quarterly survey balances)



Sources: Eurostat and European Commission.

Notes: The survey balances are taken from the European Commission's consumer survey and are standardised using the historical mean and standard deviation. The latest observation is for the first quarter of 2015 for surveys and the fourth quarter of 2014 for durables consumption.