

## Box 2

### HOUSEHOLD CONSUMPTION OF DURABLE GOODS DURING THE LATEST RECESSION

This box looks at developments in household consumption, analysing household spending on durable goods and comparing it with spending on non-durable goods and services. Separate analysis of these two forms of expenditure can be informative because their dynamics are likely to differ and their determinants may exercise influences of differing intensities. By their nature, durable goods tend to last and can be used repeatedly, providing consumers with a flow of services over a number of years. Their long-lasting nature means that they have some of the attributes of assets. For households, the decision to purchase a durable good is similar to that of a firm making an investment decision: firms weigh the cost of purchasing an additional unit of capital against the present value of the expected future income that it will generate; consumers weigh the cost of an additional durable good against the benefits from the flow of services derived from the good or from saving the income.

A key implication is that the rate of change of households' purchases of durables is likely to experience wider swings than the growth rate of their purchases of non-durable goods and services. For example, a drop in expected lifetime income should prompt households to moderate their consumption. While households adjust to the new conditions, consumption growth should fall temporarily. For household purchases of non-durable goods and services, that adjustment can take place relatively quickly – consumers adjust their purchasing behaviour in the light of their new expected income. For durable goods and services, however, households must adjust their stock of durables rather than simply the flow of services derived from these goods. Households may be required to make a sharper adjustment to their flow of purchases in order to reach the desired overall stock level of durables.

### Recent developments in household consumption of durable goods

Eurostat does not publish a breakdown of euro area private consumption into durable and non-durable consumption, in view of the relatively low and changing country coverage. To form a view of durable and non-durable consumption, euro area aggregates have been approximated in this box using available country data. For recent years, the data cover over 80% of the euro area. However, data for earlier periods have more limited coverage.

Over the past three decades the relative level of euro area households' expenditure on durables compared with non-durable consumption has fluctuated fairly significantly, generally displaying a pro-cyclical pattern (see Chart A). In the years prior to the most recent euro area recession consumption of durable (and semi-durable) goods was particularly strong.<sup>1</sup> The ratio of durable consumption to non-durable consumption in the euro area rose rapidly from the end of 2003. Indeed, growth in purchases of durable goods accounted for about 40% of overall consumption growth between 2005 and 2007, even though durables make up only around one-fifth of total household expenditure on average (see Chart B).

Since the onset of the latest recession household spending on durable goods has declined rapidly. The adjustment was initially led by car purchases, which fell sharply towards the end of 2008. However, that decline subsequently partly reversed as fiscal incentives encouraged consumers to buy new cars. Purchases of other durable goods, nevertheless, continued to fall rapidly in 2009.

### The outlook for consumption of durable goods

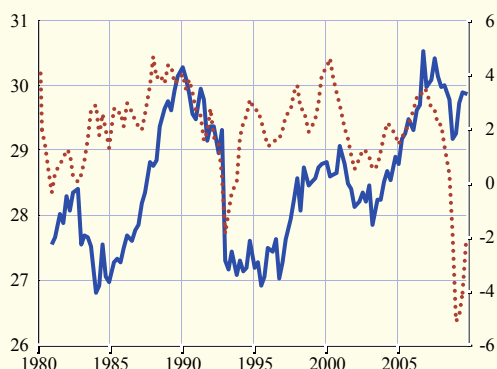
In past downturns, households appear to have adjusted their stock of durables relatively slowly, despite the pronounced shifts observed in the rate of change of their purchases, with sluggish

1 In the analysis we consider durable and semi-durable goods as a single component.

**Chart A Ratio of euro area consumption of durable goods relative to non-durable consumption and real GDP growth**

(percentages; annual percentage changes)

— ratio (left-hand scale)  
..... GDP growth (right-hand scale)

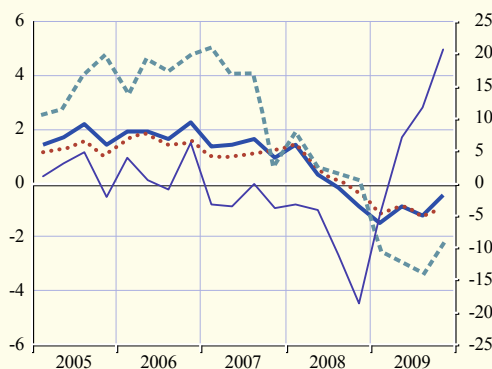


Sources: Eurostat and ECB calculations.

**Chart B Private consumption components**

(annual percentage changes)

— total private consumption  
..... non-durables (left-hand scale)  
- - - durables excluding cars (left-hand scale)  
— cars (right-hand scale)

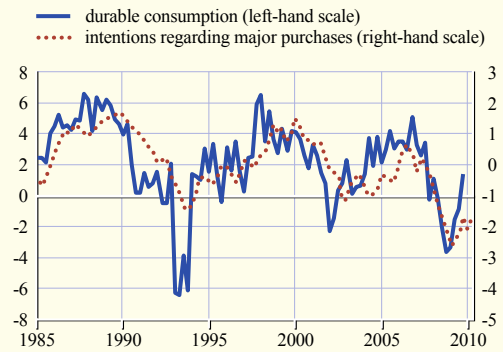


Sources: Eurostat and ECB calculations.

growth in consumption of durable goods continuing for some time (and a sharp decline in the ratio of durable to non-durable consumption – see Chart A). Although durable consumption is difficult to forecast with any confidence, the pattern of adjustment observed in the past suggests further weakness in purchases of durable consumption goods in the euro area in the quarters ahead. Such a scenario would be consistent with the picture from the European Commission’s consumer survey which shows that households remained cautious about making major purchases in the first few months of 2010 (see Chart C). As this indicator typically has good leading indicator properties for future purchases, it may suggest that euro area private consumption is likely to remain relatively subdued in the near term.

**Chart C Durable consumption and consumer intentions to make major purchases**

(annual percentage changes; survey balance minus mean and divided by standard deviation)



Sources: Eurostat and European Commission.  
Notes: The survey balance is taken from the European Commission’s consumer survey. The relevant question asks “compared to the past twelve months, do you expect to spend more or less money on major purchases over the next twelve months?”.