

THE RELATIONSHIP BETWEEN THE BEHAVIOUR OF CONSUMPTION AND EMPLOYMENT DURING THE RECOVERY

This box is part of the "Quarterly report on the Spanish economy" for 2019 Q4

In recent years the strength of private consumption has been one of the main drivers of the current expansionary phase of the Spanish economy. Thus, despite its recent slowdown, since 2014 the rate of growth of this demand component has, in annual average terms, been above 2%. Consequently, in real terms its level has gradually converged towards that observed before the crisis. This recovery of consumption seems to be closely linked to the favourable behaviour of the labour market over these years and, in particular, to job creation and the attendant increase in income.

This box uses microdata from the Household Budget Survey to analyse the impact that the behaviour of employment has had on household spending, measured in nominal terms, over the current economic cycle. To this end, it analyses the change in nominal consumption of three household groups over the period from 2007 to 2018, as a function of whether the number of employed members of the household decreases, increases or remains unchanged for two consecutive years.¹ The third of these groups is the most numerous one, and its weight in the sample has risen since the crisis to nearly 82%. Also, consumer spending is divided into four categories of goods and services: (i) staple goods and those whose level of consumption cannot be easily adjusted downward by households, (ii) non-essential non-durable goods, (iii) durable goods and (iv) services.²

During the crisis, households adjusted their spending in response to the higher uncertainty, a worsening labour market and tighter financial conditions. Based on the microdata used in this Box, as shown by Chart 1.1, spending by households in which the number of employed

members did not change at the beginning of the crisis (and whose income was therefore not directly affected *a priori* by the job destruction in these years) began to show much more moderate growth rates than those of their income even before the crisis began. Moreover, once the recession began, consumption (particularly of durable goods) contracted more sharply than income.³ This probably reflected the increase in precautionary saving by these households, which, against a background of rising unemployment, presumably perceived a higher likelihood of job loss.⁴

Spending levels fell much more sharply in the households in which one or more members lost their job (see Chart 1.2), which was nearly 15% of them in 2009. The fall in this group's consumption was, in any event, more contained than that in its income, probably as a result of a desire to smooth the fluctuations in its spending on goods and services over time in the face of falls in income which, although sharp and possibly persistent, may be perceived as temporary.

Subsequently, the recovery of the labour market, along with lower uncertainty, readier access to credit and favourable financing conditions, has subsequently been a major driver of the recovery of consumption via two channels. First, the reduction in the flow of workers from employment to unemployment appears to have lowered households' perceived likelihood of becoming unemployed, therefore reducing the need for precautionary saving. Thus, the consumption of households in which the number of employed members held unchanged seems to have grown even slightly more quickly than their income between 2014 and 2017, in contrast with the behaviour of

- 1 The characteristics of the data used allow information on a specific household to be obtained only for periods of two consecutive years, but not for longer periods.
- 2 These four categories correspond to the following types of goods and services: i) staple goods are food and non-alcoholic beverages, and pharmaceutical and medical products, and non-adjustable goods are rent paid or imputed (in the case of owner-occupiers) for the principle residence and the current expenses associated with its maintenance and utilities; ii) non-essential non-durable goods comprise alcoholic beverages, tobacco, personal care and petrol; iii) durable goods include clothes, footwear, furniture, vehicles, telephones, leisure articles, gardening apparel and pets; and iv) services comprise, inter alia, spending on transport, education, health, telephones, recreational and cultural services, hotels and restaurants, personal care, insurance, domestic service, and repair of furniture and vehicles.
- 3 For an analysis of consumer behaviour by product type and household during the crisis and the first few years of the recovery, see M. Martínez Matute and A. Urtasun (2017), *The recovery of private consumption in Spain by product type and household*, Banco de España, *Economic Bulletin*, 2/2017.
- 4 For an analysis of the contribution of different household groups to the aggregate saving rate between 2007 and 2016, see A. Brindhusa, C. Barceló and E. Villanueva (2019), *The saving rate in Spain between 2007 and 2016: decomposition by population group and possible determinants*, Analytical Article, *Economic Bulletin*, 4/2019, Banco de España.

THE RELATIONSHIP BETWEEN THE BEHAVIOUR OF CONSUMPTION AND EMPLOYMENT DURING THE RECOVERY (cont'd)

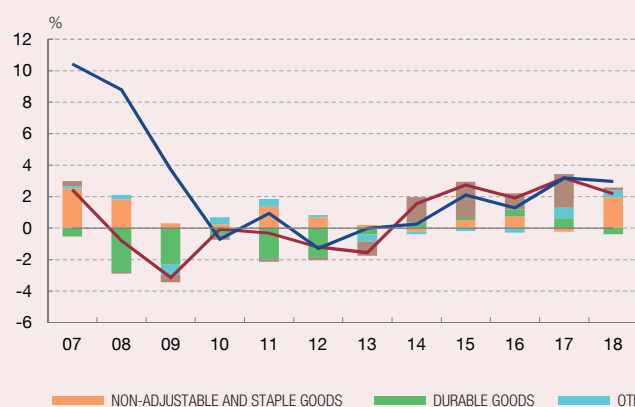
previous years. Moreover, the prospects of finding work for households with unemployed members improved in that period. In households in which the number of members in work decreased between 2014 and 2017, this was presumably conducive to the fall in their spending being proportionately less relative to the decline in income than in the crisis years, suggesting that, compared with that period, they had revised their permanent income expectations downwards less sharply.

Second, improvements in the labour market during the recovery period (that is, from 2014 to 2017) raised the proportion of households in which there was an increase in the number of employed members, and therefore, whose income increased significantly. In this group, spending on both durable goods and services grew notably in those years (see Chart 1.3). In fact, although these households account for a relatively low proportion of total households (around 10%), their spending on

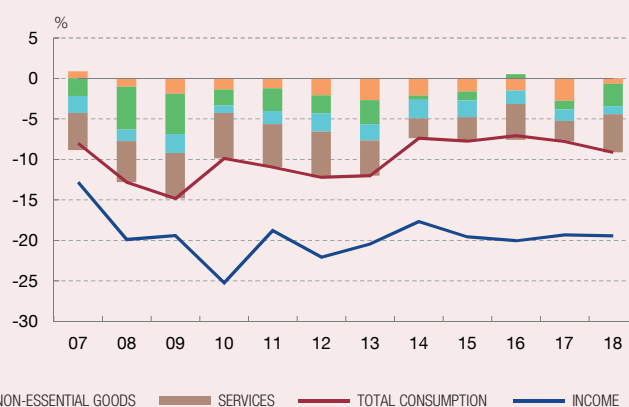
Chart 1

THE RELATIONSHIP BETWEEN THE BEHAVIOUR OF CONSUMPTION AND THE RECOVERY OF THE LABOUR MARKET IN THE EXPANSIONARY PHASE

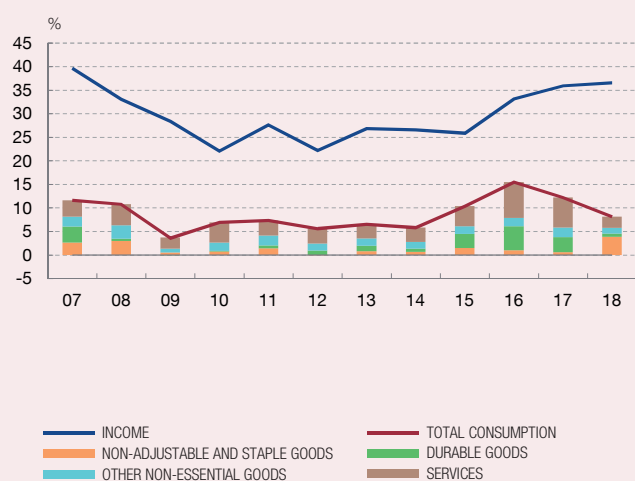
1 GROWTH RATE OF CONSUMPTION OF HOUSEHOLDS IN WHICH THE NUMBER OF EMPLOYED MEMBERS REMAINS UNCHANGED. CONTRIBUTIONS (a)



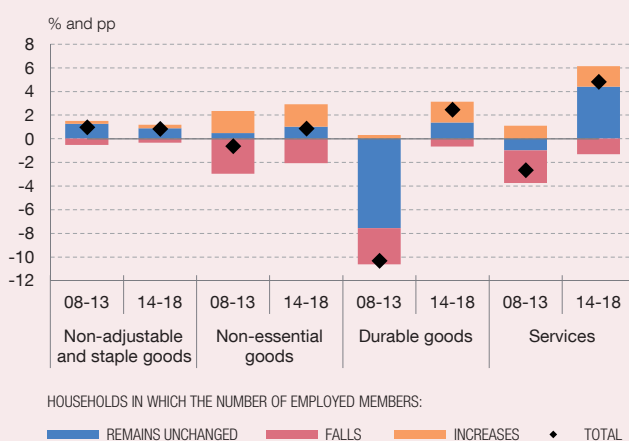
2 GROWTH RATE OF CONSUMPTION OF HOUSEHOLDS IN WHICH THE NUMBER OF EMPLOYED MEMBERS DECREASES. CONTRIBUTIONS (a)



3 GROWTH RATE OF CONSUMPTION OF HOUSEHOLDS IN WHICH THE NUMBER OF EMPLOYED MEMBERS INCREASES. CONTRIBUTIONS (a)



4 PRIVATE CONSUMPTION: GROWTH RATES AND CONTRIBUTIONS OF VARIOUS HOUSEHOLD GROUPS (a)



SOURCES: INE and Banco de España calculations.

a Staple goods: food and non-alcoholic beverages, and pharmaceutical and medical products. Non-adjustable goods: rent paid or imputed (in the case of owner-occupiers) for the principle residence and the current expenses associated with its maintenance, repair and utilities. Non-essential non-durable goods: alcoholic beverages, tobacco, personal care and petrol. Durable goods: clothes, footwear, furniture, vehicles, telephones, leisure articles, gardening apparel and pets. Services: spending on transport, education, health, post, telephones and fax, recreational and cultural services, hotels and restaurants, personal care, social protection services, insurance, financial and remittance services, domestic service, furniture installation and repair, and vehicle repair and parking.

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durable goods largely explains the upturn in spending on such goods by Spanish households overall during that period (see Chart 1.4), their contribution being somewhat higher than that of households in which the number of employed members did not vary (although these represent a far higher proportion of the total). In this latter group, spending on durable goods grew moderately, but not sufficiently, in terms of spending by household, to offset the significant decline during the crisis.

However, the consumption patterns in 2018 seem to differ somewhat from those of the early years of the expansion. That year, income growth outpaced that of consumption (except for households in which the number of people in work fell), with a particularly notable moderation of the dynamism of spending on durable goods and services. This probably reflects the progressive absorption of the demand for durable goods accumulated during the crisis along with the perception by households of heightened uncertainty regarding the economic outlook.