

In accordance with its weight in GDP, private consumption has provided more than half of the total growth during the current Spanish economic recovery, which began in the final stretch of 2013. Specifically, from 2014 to 2016, the increase in this variable averaged 2.5% (consumption per capita growth in this period was 2.6%), accounting for 1.5 pp of the average increase in output, which was 2.7% in this period. Such strength in household spending largely responds to the fact that the current recovery has been job creation-intensive.<sup>1</sup> In addition, also playing a significant role in the dynamism of this spending component is the fact that, during the recovery, decisions on goods and services purchases that had been postponed during the recession have been made. This box analyses the extent to which these postponed purchases (“pent-up demand”) have materialised in the recent expansionary

period and the degree to which the influence of this factor in boosting household consumption might wane in the future.

According to economic theory and the international evidence available, adjustments to household consumption during recessions are not proportionately distributed among the different types of goods and services, with the reduction in this variable bearing down to a greater extent on durable goods.<sup>2</sup> Moreover, the spending adjustment in the face of an income shock is not uniform either across the different types of non-durable goods and services. For one thing, there are products whose elasticity with respect to changes in income is low, because they respond to the coverage of basic needs (*necessary goods*), such as food, health care, transport

1 See Chapter 2 of the Banco de España 2015 *Annual Report*, which provides evidence that a pick-up in household labour income due to job creation has a greater expansionary effect on consumption than when it is attributable to an increase in real wages.

2 See González Mínguez, J.M. and A. Urtasun (2015), “Consumption dynamics in Spain by product type”, *Economic Bulletin*, Banco de España, September, for a detailed description of the factors underlying the asymmetric adjustment of the different categories of goods and services.

Chart 1  
CHANGE IN AVERAGE CONSUMPTION BY PERIOD

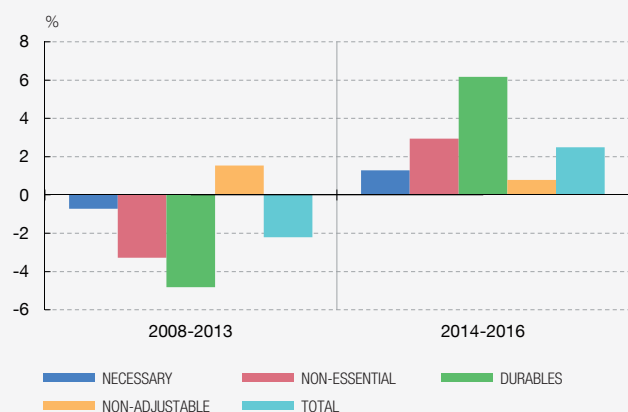


Chart 2  
GAP BETWEEN DESIRED AND OBSERVED STOCK OF DURABLE GOODS (a)

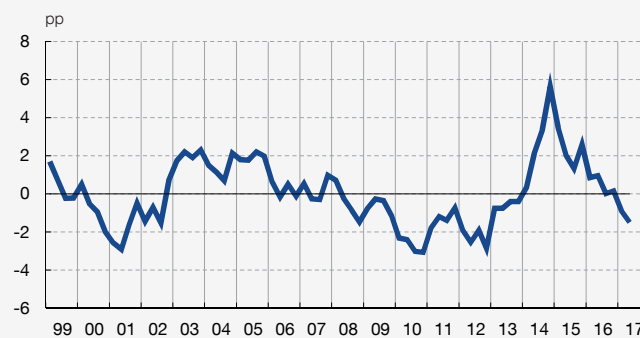
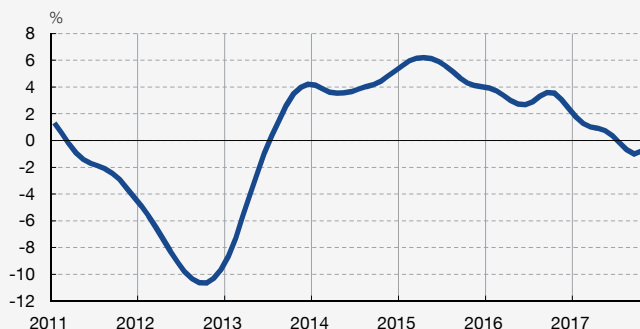


Chart 3  
RETAIL TRADE IN HOUSEHOLD EQUIPMENT  
Trend. Year-on-year rate



Chart 4  
NATIONAL OVERNIGHT STAYS  
Trend. Year-on-year rate



SOURCES: INE and Banco de España.

a Gap between the desired and observed stock (in percentage points of the observed stock). Positive values for the gap, i.e. when the desired stock is greater than the observed stock, will translate into positive contributions to the growth in spending on durable goods.

and education, while others are more dispensable (*non-essential* goods). Finally, there are expenditures whose downward adjustment evidences, especially in the short term, a high degree of stickiness (*non-adjustable* consumer goods), related essentially to basic supplies (housing, water, electricity and gas). Similarly, in recoveries, the most marked rises in household spending are usually concentrated in durables and non-essential products.

These consumption patterns over the course of the economic cycle have been observed in Spain in the past decade. Chart 1 summarises the course in real terms, from 2008 to 2016, of the four above-mentioned categories of goods and services, distinguishing between the adjustment phase, namely from 2008 to 2013, and the recovery phase, running from 2014 to 2016.<sup>3</sup> During the recessionary phase, spending on consumer goods fell off by 4.8%, 2.6 pp more than for consumption as a whole, while in the recovery it increased by 6.2% in annual average terms, outpacing total expenditure by 3.7 pp. Under non-durable consumer goods and services, spending on necessary goods showed much less marked cyclical oscillations, posting annual average rates of -0.7% in the downturn and 1.3% in the upswing, which differ to a much lesser extent than those observed for aggregate consumption. Developments in non-essential, non-durable consumer goods were more volatile, declining by 3.3% during the crisis and posting growth in the subsequent recovery of 2.9%, which was somewhat more robust than that for total consumption. Finally, as was to be expected, non-adjustable non-durables trended more stably over the course of the period considered, averaging growth of 1.5% during the recessionary phase (3.7 pp more than total real household spending), followed by a rate of 0.8% in annual average terms during the recovery (1.9 pp below the rate of increase for consumption as a whole).

Accordingly, a substantial proportion of Spanish households' adjustment to their spending fell on durable goods and, to a lesser extent, on non-essential non-durable consumer goods and services. In the first instance, this is so because households do not derive their utility directly from spending made in the current period, but from the consumer services resulting from the products

acquired in the past. As a result, households may lessen these purchases when their incomes are low (or when uncertainty over such incomes is high) with a relatively small reduction in their utility, postponing them for periods when their incomes have recovered. In the second case, what are involved are goods and services the demand for which is subject to a comparatively higher income elasticity, meaning that households make a more-than-proportionate adjustment to the consumption of this type of product when faced with fluctuations in their income.

In the case of durable goods, and in order to quantify approximately the volume of latent or "pent-up" demand, an empirical model has been estimated in which the stock of durable goods is explained on the basis of their fundamentals (which include most notably income and financial conditions). According to this model, the desired level of durable goods matches that explained by their determinants, meaning that the difference between this level and the observed value can be interpreted as the degree of "pent-up demand".

Chart 2 presents the results of this estimation. In the recessionary phase of the latest crisis, the observed level of the stock of consumer durables stood below the desired level, thereby reflecting postponed spending decisions. In the current recovery phase, the pick-up in the traditional determinants of consumption, along with the need to reduce the significant volume of latent demand, has translated into a strong growth rate of spending on durable goods. According to the model estimated, this rise would have led, by end-2016, to the demand pent up during the crisis being covered, meaning that this factor would not be expected to continue acting as a driver of household aggregate consumption in the short and medium term.

Along these same lines, the latest conjunctural information shows the strong growth of durables consumption to be tailing off, as revealed by the course of retail sales of household equipment (see Chart 3). Likewise, now consumers have regained a higher level of spending on non-essential, non-durable goods and services, a significant slowdown is taking place in the attendant growth rates (as illustrated, for example, by the pattern of residents' overnight hotel stays in Chart 4). Consequently, the stabilisation of the growth rates of spending on specific types of goods and services might augur some slowdown in consumption in the short and medium term.

<sup>3</sup> For a detailed analysis of household consumption developments in recent years, see M. Martínez Matute and A. Urtasun (2017), "The recovery of private consumption in Spain by product type and household", *Economic Bulletin* 2/2017, Analytical Articles, 20 June.