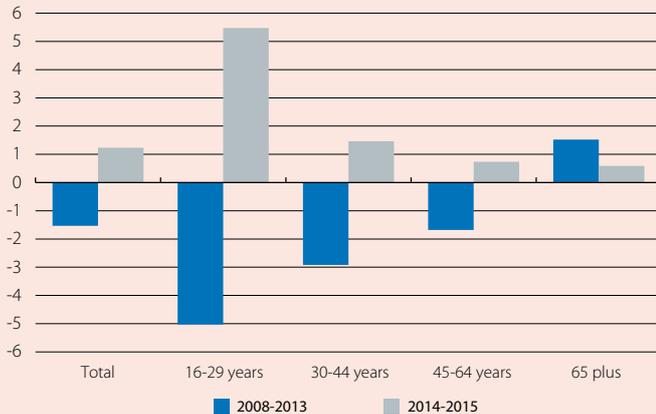


## Consumption: who, how much and of what?

One of the economic recovery's main features is dynamic household consumption. But this brilliant performance by consumption in general hides very different patterns depending on households' sociodemographic characteristics. Not everyone was hit as hard by the economic crisis nor are they all experiencing the recovery similarly.

### Household consumption by age range \*

Annualised average change (%)



Note: \* Mean consumption per person in households whose head is within this age range. Data in nominal terms.

Source: CaixaBank Research, based on data from the INE (Encuesta de Presupuestos Familiares).

The last recession cost over 3.5 million jobs in Spain. Directly or indirectly, more or less close to home, we all noticed the impact of the crisis. But one group of people felt it especially keenly: young people. This can clearly be seen by the unemployment trend for those aged from 16 to 29, which reached 44% in 2013 and was around 20 pp higher than the unemployment rate for the population as a whole. The consumption trend was also clear, falling by 5% annually among younger households between 2008 and 2013, three times the rate of the average household.<sup>1</sup>

Fortunately such patterns have reversed during the recovery. Consumption is now increasing more intensively among young households. In 2014 and 2015 (the last years with information available), growth exceeded 5% year-on-year and tripled the overall growth for households (see the chart). The increase in spending by young people is particularly strong for eating out, clothing and automobiles, up by 17.5%,

10.2% and 37.3% respectively in the annual average for 2014 and 2015. Moreover, young households tend to consume these three groups more than the average for Spanish households (see the table).

This rapid recovery in spending among young people is partly due to the stronger labour market (youth unemployment has fallen by 14 pp since 2013). This is also helping to form new households, a key factor in dynamic consumption since it tends to boost young people's spending on consumer durables, the segment of the population that forms most new households. 68,200 households were created in 2016. Although this number is still relatively small, it is 45% up on 2015.<sup>2</sup> All the evidence points to both factors, the improved labour market and household formation, continuing over the coming years, which should support the recovery in consumption among young households.

There are some reservations to this optimistic outlook for younger households, however. Firstly, the extremely temporary nature of youth employment is still an obstacle to consumption's recovery since temporary contracts tend to be associated with lower wages. Moreover, households whose members are employed on temporary contracts tend to save more for precautionary reasons. Spain's temporary employment rate stands at 27%, double the average for large European countries, rising to 53% among young adults under 29 years of age. Secondly, the emergence of new technologies and especially the growing importance of e-commerce and the sharing economy, especially among the young, represent a paradigmatic change for consumption habits that is difficult to predict (for more details, see the article «Consumption in the digital era» in this Dossier).

Continuing with our detailed analysis in sociodemographic terms, another important aspect to examine is the different effect of the crisis on household consumption depending on income level. Consumption data in nominal terms show that lower income Spanish households were hardest hit by the crisis, with year-on-year falls close to 6% (compared with 1.5% for households as a whole). Consumption by these households has also failed to increase as quickly during the first few years of the recovery. In absolute terms, this has placed them in a worse situation in consumption terms than the one they were in before the crisis. It is also in relative terms since the gap has widened between them and higher income households.

1. Based on data from the *Encuesta de Presupuestos Familiares*, the average expenditure is analysed per person in nominal terms in the type of household whose main member's characteristics are specified.

2. For more information, see the Focus «Leaving home: a dream or reality for young adults?» in this *Monthly Report*.

This increase in the consumption gap actually forms part of a much wider and controversial debate; whether the greater inequality in income levels occurring over the past decade in most advanced economies, and also in Spain,<sup>3</sup> has led to greater inequality in consumption. And whether the crisis actually aggravated this inequality. The data for Spain do seem to point to an increase in inequality in consumption terms during the crisis.

However, the economic literature offers important information on the consumption trend in low income households. This notes that real consumption (a more accurate measurement of well-being) has fallen much less than suggested by the data in nominal terms. As a result, the increase in consumption inequality by income level may not have been as acute.<sup>4</sup>

Several academic articles suggest that the prices paid by low income households for the goods and services they consume have risen less than indicated by the general price index. This is largely due to the capacity of households to replace products with similar but cheaper ones when there is a negative and unexpected shock in their income. This situation is not clearly indicated by the consumer price index (CPI), however. The emergence of new establishments offering products more cheaply, such as large commercial centres or online stores, is not accurately reflected by the CPI either. And it is precisely low income households that tend to take most advantage of such opportunities.<sup>5</sup>

In short, the recovery in consumption is widespread but also varies depending on the sociodemographic characteristics of households. The trend in the labour market, its temporary bias and household formation will affect the continuity of this recovery. However, the role of technologies and the sharing economy are creating a new panorama for consumption trends, especially among the young.

#### Household consumption by type of good or service \*

	All ages		16-29 years	
	Mean spend per person (euros) *	Annualised average change 2014 and 2015 (%)	Mean spend per person (euros) *	Annualised average change 2014 and 2015 (%)
Meals and drinks outside the home	947	7.3%	1,332	17.5%
Clothing	415	1.7%	483	10.2%
Vehicle purchases	336	13.7%	565	37.3%
Furniture	80	-3.3%	115	3.8%
<b>Total</b>	<b>10,960</b>	<b>1.2%</b>	<b>10,637</b>	<b>5.5%</b>

*Note:* \* Mean consumption per person in households whose head is within this age range; 2015. Data in nominal terms.

*Source:* CaixaBank Research, based on data from the INE (Encuesta de Presupuestos Familiares).

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3. See OECD (2016), «Income inequality remains high in the face of weak recovery», Income Inequality Update; and the Dossier «The consequences of inequality» in MR01/2017.

4. See Sacerdote, B. (2017), «Fifty Years of Growth in American Consumption, Income, and Wages», NBER Working Paper no. 23292, for the US case.

5. See Campos, R. and Reggion, I. (2017), «Do the Unemployed Pay Lower Prices? A Reassessment of the Value of Unemployment Insurance», Working Paper 08/06. For Spain, the authors conclude that the unemployed pay prices that are around 1.5% lower than those paid by employed people, which could account for approximately one sixth of the gap in consumption.