Consumption: seeing is believing

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June 2013. Household spending in Spain ended the second quarter down by 0.2 of a percentage point, completing three successive years of decline. Since the third quarter of 2010 private consumption had declined by 9.8%, on top of the 6.6% fall posted between 2008 and 2009. The reduction in spending was such that it accounted for nearly 90% of the fall in GDP during the crisis.

September 2016. Private consumption grew by 0.6 of a percentage point in the third quarter, completing more than three years of consecutive increases. Between the summer of 2013 and that of 2016, household spending increased by 8.1%, and our forecasts indicate that it will continue to do so throughout next year.

Seeing is believing

Why has an economy with an unemployment rate of more than 26% in the first half of 2013 had such a prolonged recovery in private consumption? The main reason was the change of cycle in the labour market. Since the end of 2013, 1.3 million jobs have been created, leading to an increase in workers' pay of more than €10 billion. This, together with the notable fall in the price of oil and the cut in personal income tax rates from mid-2015, has contributed to an increase in households' real disposable income and consequently an uptick in consumption.

Spending has been driven not only by income but also by the increase in wealth. The growth in financial assets brought about by rising stock market prices, and the uninterrupted decline in liabilities due to households' deleveraging and the fall in interest rates, have increased real net financial wealth by around €400 billion since 2012. The real estate sector, which has increased at a similar rate to the financial sector in the past two years, has started to pass on the dampening effects on consumption of the loss of value of residential properties during the crisis.

The recovery in households' purchasing power has stimulated their demand for consumer finance, which together with the boost in supply has led to a significant increase in new consumer credit transactions since 2013, particularly at medium and long term.

And yet the increase in income and wealth and the dynamism of credit do not fully explain the recovery in private consumption. Households' perception of the economic situation improved sustainedly from the beginning of 2013, leading them to reduce their precautionary savings and consequently spend more. The decrease in uncertainty and the advance of consumer financing drove demand for durable goods such as cars and domestic appliances, which had been postponed during the crisis, waiting for the horizon to clear.

However, nothing lasts forever. Since the end of last year, household spending has been slowing. Although new consumer credit transactions continue to grow at two-digit rates and the economy continues to create jobs, property wealth is recovering more slowly than hoped and financial wealth is declining due to both external tensions and internal weaknesses. Moreover, uncertainty is mounting and conditioning households' consumption and savings decisions. In this regard, doubts about what economic policy measures will be adopted may limit households' propensity to spend.

Growth in consumption will moderate i0n 2017, but it will still be above its historical average. Having increased by around 3% in 2016, growth in household spending will slow to 2.3% next year. The expected increase in energy costs and the disappearance of transitory factors that have encouraged demand recently, such as tax cuts, will limit the dynamism of income and wealth in real terms. According to our forecasts, at the end of 2017 consumption will still be below its pre-crisis level. So there's still quite some way to go.