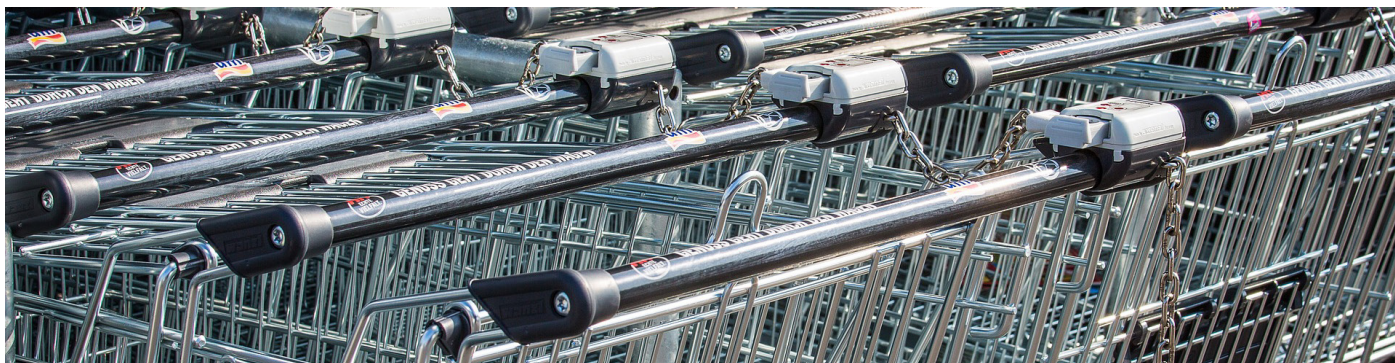
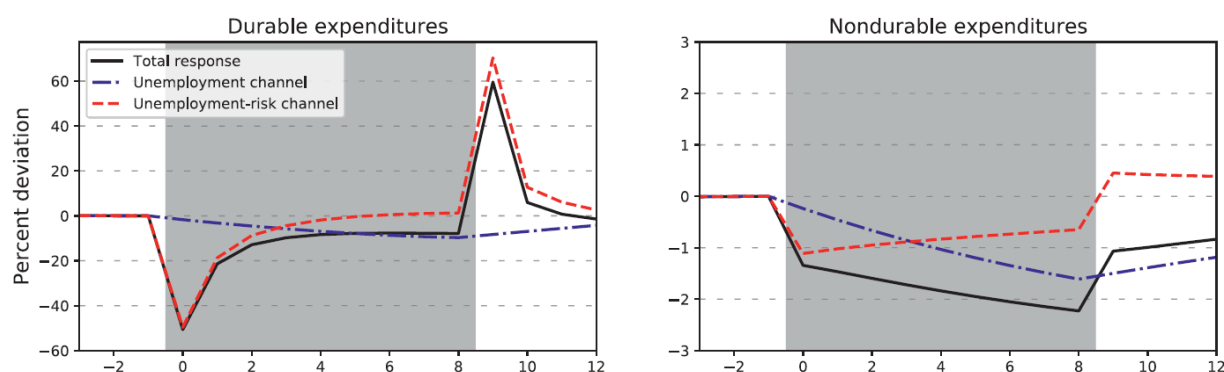


## Unemployment and unemployment fears shape household consumption decisions



- As a recession deepens, household consumption of both nondurable and durable goods falls
- The reduction in consumption of nondurable goods is mainly due to reduced expenditure among households that *become* unemployed
- The decrease in consumption of durable goods is mainly due to working households being *concerned* about becoming unemployed



Researchers have developed a model that predicts how household consumption responds to cyclical changes in the labor market. How do households respond to *actual* unemployment and *the fear* of future unemployment regarding their consumption of durable goods such as cars, furniture and consumer electronics compared to the consumption of nondurable goods such as food and hygiene items?

The results show that the reduced expenditure on durable goods is mainly due to a *concern* among working households about losing their jobs. The reduced expenditure on nondurable goods is mainly due to the *actual loss* of income that results from rising unemployment. When households have a small buffer of cash and cash equivalents, the marginal propensity to consume nondurable goods increases, while the marginal propensity to consume durable goods decreases.

-The model's predictions are in line with what we see in the survey data, which show that this model can be useful for predicting future consumption patterns. We hope that our research and our model can be used to study various economic policy measures in the future, says Erik Öberg.

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The article "[\*Consumption dynamics under time-varying unemployment risk\*](#)" is to be published in the February edition of *Journal of Monetary Economics*.

Download here: <https://doi.org/10.1016/j.jmoneco.2020.10.004>