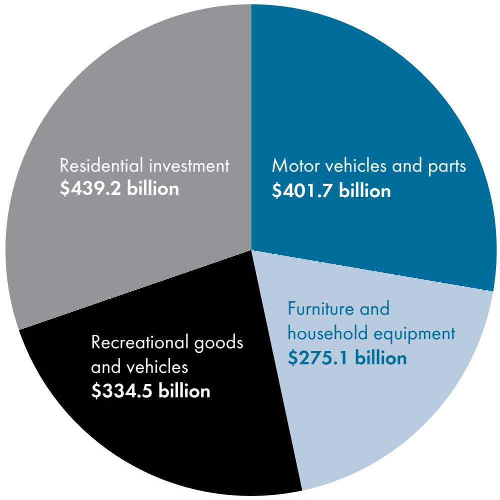
THE DURABILITY OF

DURABLE GOODS

Despite record-low interest rates, the pace of the current economic recovery has been only moderate. This pace was unexpected by many forecasters and prompted extensive research into the roles of credit frictions, uncertainty and other factors. One way these factors may have weakened the recovery is by reducing the stimulative effect that a decline in interest rates usually has on consumer purchases of durable goods.

A broad measure of consumer durables spending includes four categories of spending: residential investment, personal consumption expenditures (PCE) on motor vehicles and parts, PCE on recreational goods and vehicles, and PCE on furnishings and durable household equipment. Combined spending on these goods was 9 percent of GDP in 2012.

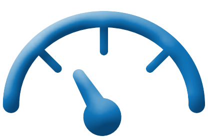


Current consumer spending on motor vehicles and parts has lagged behind past recoveries.

6.6%

Real 4-year auto loan rate

*Four years after previous recoveries started



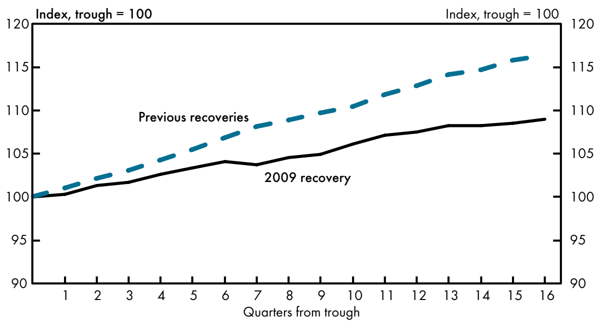
2.9%

Real 4-year auto loan rate

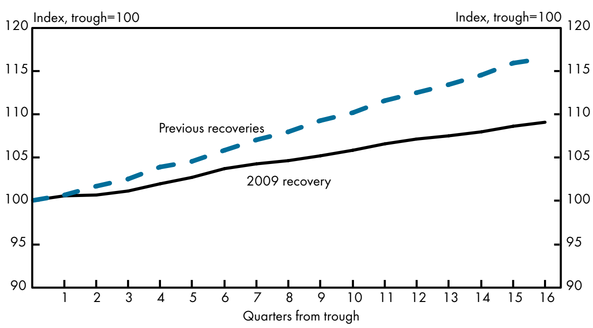
Four years after the 2009 recovery started

The slow growth in consumer durable goods spending, a small but volatile component of GDP, has likely contributed to the moderate pace of the recovery.

Real Gross Domestic Product



Real Personal Consumption Expenditures



* Note: The lines labeled "Previous recoveries" is the average of the recoveries from the recessions of 1981-82, 1990-91, and 2001. The trough of the current business cycle occurred in the second quarter of 2009.
Source: Bureau of Economic Analysis.

Real Residential Investment [First four years of economic recoveries]

52% Increase
Previous recoveries

29% Increase
2009 recovery

The growth of residential investment has been slower in the current recovery than in the average of previous recoveries. Historically, residential investment rebounded vigorously at the onset of a recovery. In the first four years of the current recovery, which started in 2009, residential investment grew just over half as much as in the past three recoveries.

Real 30-year conventional mortgage rates

5.6%
Four years after previous recoveries started

2.5%
Four years after the 2009 recovery started

Real Interest Rate on All Credit Cards

Real interest rates fell substantially during the current recovery, but have had minimal effect on consumer spending.

13%
Four years after previous recoveries started

10.7%
Four years after the 2009 recovery started

A statistical model that relates real durable goods spending to real interest, lending standards and real disposal income confirms that the sensitivity of this type of spending to interest rates has diminished. This model can be used, in a counterfactual exercise, to assess how much more real GDP growth might have been achieved in the current recovery if sensitivity had not diminished. The model shows that by the fourth year of the current recovery, from beginning 2012 to midway 2013, the average contribution of durable goods spending to quarterly real GDP growth could have been 0.45 percentage point higher than what has occurred.

For further reading: "Has Durable Goods Spending Become Less Sensitive to Interest Rates?" by Willem Van Zandweghe and John Carter Braxton. www.kc.frb.org/publicat/econrev/pdf/13q4VanZandweghe-Braxton.pdf