

# MEASURING PERSISTENCE ON CONSUMPTION IN PORTUGAL

José Belbute, António Caleiro,  
University of Évora, Department of Economics and CEFAGE-UÉ  
[jbelbute@uevora.pt](mailto:jbelbute@uevora.pt), [caleiro@uevora.pt](mailto:caleiro@uevora.pt)

## Abstract

*The paper deals with the detection and measurement of the level of persistence on aggregate private consumption in Portugal, USA, European Union and EuroZone as well as on some categories of aggregate consumption in Portugal. By the use of a non-parametric methodology applied to monthly data (1992-2007) it is concluded that aggregate consumption in Europe (both European Union and Euro Zone) is more persistent than in the USA and in Portugal. In particular, the relatively lower degree of persistence shown by the consumption in Portugal can be beneficial for the effectiveness of the countercyclical fiscal and monetary policies that are currently being implemented to overcome the current economic crisis. Our results also suggest that consumption of durables is less persistent, also being more volatile. This result is important in the explanation of the severity of the current economic crisis in Portugal.*

**Keywords:** Consumption, Persistence, Portugal

**JEL Classification:** C14, C22, E21

#### **4. Conclusions and directions for further research**

This paper has explored the issue of consumption persistence in Portugal. One important stylized facts of the short-run business cycle is the relative smooth behavior of consumption relatively to GDP. Indeed, private consumption is less volatile than GDP and, in fact, the most stable component of aggregate demand. Put differently, consumption exhibits a high degree of inertia or persistence.

Persistence is associated with the speed with which a variable responds to a *shock* and with its convergence (or its return) to its previous level. Consumption is said to be (highly) persistent if, following a shock, it converges slowly to its previous level. In other words, a high degree of persistence in consumption means that when consumption is above (or below) the trend, it tends to stay above (below) the trend for more time. This property is quite relevant for economic forecasting as it allow to confidently predict the short run behavior of consumption. However, countercyclical policies that act through the consumption may be ineffective if consumption is very persistent. Households may be fearful about the future, may identify uncertainty factors that might restrain their consumption expenditures or even look current fiscal policies as equivalent to future taxes.

Our conclusions suggest that aggregate consumption in Europe (both European Union and Euro Zone) is more persistent than in the USA and in Portugal. In the particular context of the world economic crisis, our results suggest that private consumption will stay less time above the trend in Portugal than in USA and than in European Union and/or European Zone. Furthermore, the relatively lower degree of persistence shown by the consumption in Portugal can be beneficial for the effectiveness of the countercyclical fiscal and monetary policies that are currently being implemented to overcome the current economic crisis.

When data is disaggregated between durables and non-durables, our results suggest that the consumption of durables are less persistent, being also more volatile as expected. This apparently non-intuitive result lies on the nature of the “consumption” of durables. In fact, as happens with capital goods, they yield a flow of consumption services over its lifetime (they are not consumed simultaneously with consumer spending and enjoyment). However, data includes “expenditures” on durable goods, not its services or enjoyment, whose pro-cyclically and high volatility nature is well known in the literature.

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