

# Why are wealthy consumers less likely to buy luxuries during a recession?

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During an economic downturn, even people who are not directly affected spend less on goods and services that signal social status, according to a new study in the *Journal of Consumer Research*.

"Even when their consumption budget is unaffected by a [recession](#), consumers will change their expenditure patterns because some of these expenses depend on social standards that shift with [economic conditions](#)," write authors Wagner A. Kamakura (Duke University) and Rex Yuxing Du (University of Houston).

The authors delved into a study of the "budget effect," where consumers under pressure first reduce their expenditures on nonessentials, thus increasing the share of spending on essential goods and services. "We argue that for products/services that are visible and nonessential, consumers draw value not only from consumption per se, but also from their 'positionality,'" the authors write. Examples of "positional" goods and services are dining out, dressing up, being pampered, buying new furnishings, or flying around.

The authors analyzed U.S. household expenditure data for more than two decades, using a model that allowed them to separate budget and positionality effects. "As one would expect, we find that the share of [consumption](#) budget devoted to nonessentials (apparel, jewelry and watches, recreation, traveling) drops, while shares devoted to essentials (food at home, housing, utilities) increase during a recession due to the budget effect," the authors write.

Wealthy [consumers](#) don't necessarily spend less out of empathy for those who are less well off. Instead, they perceive a reduction in others' expenditures on positional goods and services and feel they don't need to spend as much to maintain the same status relative to their peers, the authors explain.

During hard times, visible luxuries are hit twice, because people generally have less to spend and those who can consume feel less compelled to show off. "Keeping up with the Joneses is less onerous when they are not keeping up," the authors conclude.

**More information:** Wagner A. Kamakura and Rex Yuxing Du. "How Economic Contractions and Expansions Affect Expenditure Patterns." *Journal of Consumer Research*: August 2012 (published online October 7, 2011).

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