Study: consumers keep up -- or down -- with the joneses during recession

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(PhysOrg.com) -- Consumers relatively unaffected by economic downturns spend less on luxury items during recessions because social standards shift along with the cycles of the economy, according to a study led by a Duke University marketing professor.

In addition, the role of social status in household spending decisions is strongest for non-essential goods that are more visible, such as jewelry or fancy clothes. These are among the findings that challenge the traditional assumption that consumers change their spending habits during economic slowdowns simply because of budgetary constraints.

The study by researchers from Duke and the University of Houston will be published later this year in the Journal of Consumer Research. An advance copy of "How Economic Contractions and Expansions Affect Expenditure Patterns" is available online.

The researchers examined U.S. Bureau of Labor statistics data on spending by more than 66,000 American households from 1982 to 2003, a period spanning three recessions: July 1981 to November 1982; July 1990 to March 1991; and March to November 2001.

The study found non-essential goods and services have a "positional value" that signals social status.

"Non-essential goods like jewelry, clothing and travel maintain their attractiveness regardless of the state of the economy," said Wagner

Kamakura, marketing professor at Duke's Fuqua School of Business and lead author of the study. "But the positional value of non-essentials is reduced during recession.

"When households affected by recession spend less on positional goods, households not directly affected by recession -- even though their overall consumption budgets may remain constant -- can follow suit and still maintain their social status. Those households whose budgets are not significantly impacted by recession may choose to divert more money into savings."

Rex Yuxing Du, marketing professor at the University of Houston's Bauer College of Business, added, "Our research indicates consumers draw more value from consuming the same quantity of a certain non-essential good if they see others consuming less of it. This phenomenon can have significant implications for marketers of luxury goods during a recession, when people generally have less to spend and feel less compelled to visibly demonstrate their wealth by purchasing luxury items."

Provided by Duke University

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