

(S)CARS AND THE GREAT RECESSION*

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Abstract

In this paper we consider how car purchases behaviour changes at the onset and during a recession. In particular, by using the rich information available in the Consumer Expenditure Survey, we look both at the number of individuals buying a car, and at the size of the car they buy. We show that the behaviour during the great recession of 2008-2010 is remarkably different from previous recessions. We interpret the evidence through the prism of a life cycle model where individuals receive idiosyncratic uninsurable income as well as aggregate income shocks and stochastic borrowing constraints. Households allocate their resources between cars and non durable consumption. Cars are large and costly to transact but can be financed through car loans. This implies an (S,s) type of durables adjustment. We show that, because of their salience and the transaction costs, cars are particularly sensitive to changes in the perception of future expected income and its variability. We show that persistent common income shocks explain the consumption data better than changes in borrowing constraints and idiosyncratic income shocks.

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