Expenditure

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There have been substantial changes in the patterns of household expenditure over the last 40 years. Trends in household expenditure provide an insight into changes in consumer preferences, the growth in choices available to consumers and their increased purchasing power, standards of living and wider changes in society. There have also been developments in the way that purchases are made, for example the use of different methods of payment and credit.

Key points:

Household and family expenditure

- In 2009 the volume of consumption of goods and services by UK households was more than two-and-a-half times the consumption in 1971
- Average weekly expenditure by households in the North East, between 2006 and 2008, was the lowest in the UK at £386.10, more than £73 less than the UK average of £459.70
- In 2008/09, for children aged 7 to 15 in the UK, the average total expenditure per child was £10.52

Consumer credit

- Between 1987 and 2009 total household debt, as a percentage of household disposable income, rose from 103 per cent to 161 per cent, slightly lower than the peak of 173 per cent in 2007
- In Q2 2010 there were 34,743 individual insolvencies, of which 14,982 were bankruptcies

Transactions

- The volume of consumer payments made by cheque has fallen by 64 per cent to 0.6 billion in 2009 from 1.8 billion in 1985
- Debit card payments accounted for the largest volume (49 per cent) of non-cash payments in 2009 with 5.8 billion transactions
- In 2009 the volume of retail sales in Great Britain was approximately 54 per cent higher than in 1996
- Retail sales peaked in November and December in the period up to and immediately after Christmas, accounting for 20 per cent of retail sales in 2009

Prices

- Between 2008 and 2009 the only category of goods and services for which prices fell was clothing and footwear, which decreased by 7.7 per cent

Household and family expenditure

This section gives an overview of the patterns and trends of household spending on goods and services, starting with the volume of domestic household expenditure. **Figure 1** shows the growth in the volume of consumption of goods and services by UK households over the last four decades.

Changes in the pattern of expenditure can be the result of changes in prices, in the volume of goods or services purchased or a combination of the two. Volume indices are useful for analysing time trends in consumption as they remove the effect of price changes which can differ depending on the category of expenditure.

Figure 1 Volume of domestic household expenditure

United Kingdom

Index numbers (1971=100)

Source: Office for National Statisticsⁱ

In 2009 the volume of consumption of goods and services by UK households was more than two-and-a-half times the consumption in 1971 (£810 million compared with £312 million at 2006 prices). The volume of spending increased every year over the period, except 1974, 1975, 1980, 1981, 1991 and 2009. These years correspond to periods of contraction in the UK economy (see Social Trends: Income and wealth). Between 2008 and 2009 the volume of domestic household expenditure in the UK fell by 2.3 per cent from £829 million to £810 million (at 2006 prices).

There have been substantial changes over the last 40 years in the way households in the UK allocate expenditure between different goods and services. **Table 1** shows that the rise in volume of expenditure has not been the same for all categories of goods and services.

Table 1 Volume of household expenditure:¹ by purpose

United Kingdom

Index numbers (1971=100)

						£ billions (current prices)
	1971	1981	1991	2001	2009	2009
Food and non-alcoholic beverages	100	105	117	137	151	84
Alcoholic beverages and tobacco	100	99	92	88	90	31
Clothing and footwear	100	120	187	344	553	48
Housing, water and fuels ²	100	117	139	152	160	193
Furnishings, household equipment and maintenance	100	117	160	262	263	44
Miscellaneous goods and services	100	121	240	336	377	105
Restaurants and hotels ³	100	126	167	193	185	89
Recreation and culture	100	158	279	545	869	99
Transport	100	128	181	246	273	125
Communication	100	190	306	790	1126	19
Health	100	125	182	188	229	14
Education	100	160	199	255	222	13
Total domestic household expenditure	100	121	166	225	259	863
Total goods	100	117	156	227	285	412
Total services	100	128	184	231	245	452
UK tourist expenditure abroad	100	193	298	699	576	29
less foreign tourist expenditure	100	152	187	222	258	20
Household final consumption expenditure⁴	100	121	168	232	265	873

1 Constant prices

2 Excludes mortgage interest payments, water charges, and council tax and Northern Ireland domestic rates. These are included in 'Other expenditure items'.

3 Includes purchases of alcoholic drinks in restaurants and hotels.

4 Includes expenditure by UK households in the UK and abroad.

Source: Office for National Statisticsⁱ

Over the period 1971 to 2009 the category with the strongest growth in volume was communication which increased by more than 11 times. The communication category includes mobile phone

equipment and services, and Internet subscription charges, the estimates for which first became available in 1996 and 1998 respectively. Household ownership of mobile phone equipment and services has risen from 27 per cent in 1998/99 to 79 per cent in 2008, while the number of households with Internet access has risen from 10 per cent to 66 per cent over the same period (ONS, 2009).

Recreation and culture showed the next largest growth in volume expenditure between 1971 and 2009 increasing by over eight times, followed by UK tourist expenditure abroad which increased over five times. Alcoholic drinks and tobacco was the only category where the volume of expenditure fell.

The volume of spending by UK tourists abroad in 2009 was nearly six times that in 1971, this corresponds to an increase in the number of UK residents making holiday trips abroad over the same period (ONS, 2010a). Expenditure by foreign tourists in the UK increased much less, by just over two-and-a-half times over the same period. In 2009 the largest category of expenditure (at current prices) was spending on housing, water and fuel at £193 billion, followed by expenditure on transport at £125 billion.

Figure 2 shows how the level of household expenditure varied across the different regions and countries of the UK. These differences may arise because of differences in price levels between regions and countries, or differences in the volume of consumption of the various categories, or a combination of the two factors.

Figure 2 **Total average weekly expenditure per household:¹ by country and Government Office Region, 2006–2008**

¹ Total expenditure is based on COICOPs definition of total expenditure.

Source: *Living Costs and Food Survey*, (ONS, 2009)

Total household expenditure varies across the UK. Averaged over the period 2006–2008 total average weekly household expenditure in the UK was £459.70. In four regions household

expenditure was higher than this; London (£544.70), South East (£512.30), East (£493.40) and the South West (£469.20). Average weekly household expenditure in Northern Ireland and England was also higher than the UK average at £479.70 and £465.20 respectively. The North East had the lowest average weekly household expenditure at £386.10, more than £73 per week less than the UK average. This was followed by Wales at £406.70 per week, £53 less than the UK average.

On average, expenditure of households in rural areas was higher than of those in urban areas, £505.40 compared with £446.70. Proportionately, rural areas spent more per week on transport compared with urban households, while urban households spent more per week on housing (excluding mortgage interest payments), fuel and power. In absolute terms, rural expenditure on transport was higher compared with urban expenditure (£76.10 per week compared with £58.10 per week) as was rural expenditure on recreation and culture (£67.40 per week compared with £56.00 per week).

The Living Costs and Food Survey collect information about the expenditure patterns of children in the UK. Children aged 7 to 15 are asked to keep diaries in which they record their expenditure over a two-week period. **Figure 3** shows children's weekly average spending on selected items.

Figure 3 Children's expenditure on selected items:^{1,2} by sex, 2008/09

United Kingdom
Percentages

1 Aged 7 to 15.

2 From children's income, recorded by Living Costs and Food Survey as being wages, cash gifts and pocket money.

3 Expenditure item 'Snacks and takeaway meals' reflect the COICOP category 'Restaurants and hotels'. For children, hotel expenditure is negligible.

Source: *Living Costs and Food Survey, Office for National Statistics*

In 2008/09 the average expenditure on selected items by children aged 7 to 15 was £13.52 per week and the average total expenditure per child was £10.52 per week. Children's spending patterns in 2008/09 were very similar to those in 2001/02 with the bulk of their weekly spending

going on recreation and culture, snacks and takeaway meals and clothing and footwear. However, there were differences between boys and girls. While expenditure on snacks and takeaway meals was similar, boys spent more than girls on recreation and culture (£4.74 compared with £3.89) while girls spent more than boys on clothing and footwear (£3.11 compared with £2.46).

Income and expenditure patterns are reflected in the ownership of goods, or in some cases, the inability of families to afford some goods and services. **Figure 4** shows that in 2008, households in the lowest 10th of the income distribution (the lowest decile group) had the lowest rate of ownership of durable goods.

Figure 4 Household ownership of selected durable goods: by gross household income decile group, 2008

United Kingdom
Percentages

Source: *Living Costs and Food Survey (ONS, 2009)*

In 2008, 37 per cent of households in the lowest income decile group owned a tumble dryer compared with 75 per cent in the highest income decile group. Seventy-seven per cent of households in the highest income decile group owned a dishwasher in 2008 compared with just 11 per cent of households in the lowest income decile group. Household ownership of a microwave and washing machine was high across all of the income decile groups with 100 per cent of households in the highest income decile group owning a washing machine.

Consumer credit

In response to the Special Eurobarometerⁱⁱ 321 survey, people reported different experiences of their ability to keep up with bills and credit commitments.

Figure 5 Ability to keep up with bills and credit commitments: ¹ EU/UK comparison, 2009

¹ Respondents were asked "Which of the following best describes how your household is keeping up with bills and credit commitments at present?" and shown above options. Excludes those who responded 'don't know'.

Source: *Special Eurobarometer 321 (Eurostat, 2010)*

Figure 5 shows that in December 2009, people in the UK reported having less difficulty in keeping up with bills and credit commitments when compared with respondents across the EU-27. However, only 53 per cent of respondents in the UK and 44 per cent of respondents across the EU-27 reported no difficulty.

Thirty per cent of UK citizens stated that their households struggle sometimes to keep up with bills and credit commitments; 10 per cent said that keeping up with bills and credit commitments had been a constant struggle; 2 per cent had fallen behind on some payments and 1 per cent had experienced real financial trouble. In the EU-27 as a whole, 33 per cent of citizens said that keeping up with bills and credit commitments was a struggle sometimes; 16 per cent said it was a constant struggle; 3 per cent had fallen behind on some payments and 2 per cent have experienced real financial trouble.

Total net lending to individuals by banks, building societies and other lenders is a measure of the value of new loans, less repayments, over a given period. **Figure 6** shows flows of net lending to individuals over the past 23 years.

Figure 6 Net lending to individuals¹

United Kingdom

£ billion per quarter at 2009 prices²

1 Lending secured on dwelling and consumer credit. Also includes lending to housing associations, seasonally adjusted.

2 Adjusted to 2009 prices using retail prices index.

Source: Bank of England; Office for National Statistics

The increase in total net lending between 1993 and 2004, adjusted for inflation, was driven primarily by growth in new loans for house purchases secured against those dwellings. The flow of net lending secured against dwellings fell in the recession of the early 1990s, and then started to gradually increase after 1996, and more rapidly from 2000 onwards with the acceleration in house prices. In Q4 2003 the flow of net lending secured on dwellings peaked at £33.1 billion, followed by a decline and subsequently another peak at a similar level in Q4 2006. It then decreased again, with the pace of decline increasing sharply at the beginning of the economic downturn which began in 2008; falling to £2.0 billion in Q2 2009, increasing to £4 billion in Q4 2009 and falling again to reach £2.1 billion in Q2 2010. The flow of total net lending reached a low point of £1.4 billion in Q3 2009, increasing slightly to £2.3 billion in Q2 2010. Although the flow of net secured lending in real terms remained positive during the recent financial crisis, the real stock of loans outstanding has fallen since Q1 2008. ST41: Housing, which will be published in February 2011, covers housing market and finances in more detail.

Consumer credit consists of credit card lending, overdrafts and non-secured loans and advances to individuals, less repayments of such lending. This type of lending has not shown the same level of volatility as net lending secured on dwellings. The net flow of consumer credit lending showed an upward trend from 1992, stabilising at around £7 billion between Q4 2001 and Q1 2005. Consumer credit then fell to -£0.8 billion in Q3 2009 (in other words, repayments were £0.8 billion larger than the amounts loaned). Consumer credit was also negative in Q4 2009 (-£0.3 billion) before rising to £0.2 billion in Q2 2010.

High levels of borrowing over a long period can lead to an increase in household debt relative to household disposable income. **Figure 7** shows how UK household debt has risen to historically high levels in recent years as consumers have borrowed to raise spending levels relative to income.

Figure 7 Household debt¹ as a percentage of household income

United Kingdom
Percentages

¹ Includes secured and unsecured debt.

Source: Office for National Statistics ⁱⁱⁱ

In 1987 total household debt (both secured and unsecured) as a percentage of household disposable income, known as debt ratio, was just over 100 per cent. In other words, household debt and household income were almost equal. Between 1997 and 2007 the debt ratio rose from 103 per cent to 173 per cent. This was the result of an increase of 159 per cent in household debt over the period while household income only increased by 54 per cent. The debt ratio fell by 11 percentage points between 2007 and 2009 to reach 161 per cent, though this was still over one-and-a-half times higher than the ratio seen in 1987.

In the UK in 2009 (in current prices) household debt was £1.5 billion.

Homeowners are likely to have access to better credit than non-homeowners, as they are able to use the value of their property as security for their borrowing. Housing equity withdrawal is defined as new borrowing secured on homes that is not used for house purchase or home improvements. This form of borrowing can represent a substantial supplement to a household's income and can be used to increase consumption expenditure, pay off debts, or invest in financial assets. **Figure 8** shows the pattern of household equity withdrawal over the last 40 years.

Figure 8 Household equity withdrawal¹ as a percentage of post-tax income²

United Kingdom
Percentages

1 New borrowing secured on dwellings that is not invested in the housing market.

2 Post-tax income is household's total income less direct and indirect taxes.

Source: Bank of England; Office for National Statistics

During the 1980s housing equity withdrawal, defined as net borrowing secured on dwellings that is not invested in the housing market (for example, not used for house purchase or home improvements), in the UK began to increase from around 0.3 per cent of post-tax income in Q1 1980 to peak at 7.7 per cent in Q3 1988.

Housing equity withdrawal fell in the 1990s and remained below 2 per cent of post-tax income until 1999. Between 2000 and 2004 housing equity withdrawal rose again to peak at 8.6 per cent of post-tax income in Q4 2003 before falling sharply to 3.5 per cent of post-tax income in Q1 2005. Between Q1 2005 and Q1 2007 housing equity withdrawal rose again but began to fall in Q2 2007, becoming negative in Q2 2008, falling to its lowest level of -2.8 per cent in Q4 2008. Housing equity withdrawal remained negative into 2010 but has increased to -2.5 per cent in the second quarter. Low interest rates, as well as people's fears over future debt and job losses, may have caused individuals repayments of these loans to exceed new borrowing.

Individuals in financial trouble may keep up with bills and credit commitments by running down savings, selling assets or borrowing money. High levels of borrowing have been accompanied by an increase in the number of individual insolvencies as debtors found themselves unable to keep

up with repayments. **Figure 9** shows how the number of individual insolvencies in England and Wales has risen over time.

Figure 9 Individual insolvencies

England and Wales

Thousands

1 Data for 2009 include debt relief orders.

2 Individuals declared bankrupt by a court.

3 Individual Voluntary Agreements. Individuals who make a voluntary agreement with their creditors. Includes Deeds of Agreement, which enable debtors to come to an agreement with their creditors.

Source: *The Insolvency Service*

Some of the statutory insolvency instruments available to individuals experiencing financial difficulty in England and Wales include bankruptcy, individual voluntary arrangements (IVAs) and debt relief orders. The number of bankruptcies and IVAs in England and Wales remained generally stable from 1970 until the recession period in the early 1990s when they started to rise.

Bankruptcies were the first to increase, starting in 1991 followed closely by an increase in IVAs from 1992. Total insolvencies did not go down to pre-recession levels again but stabilised in the 1990s before rising rapidly to peak at 35,682 in Q1 2010. There was then a slight fall to 34,743 in Q2 2010, an increase of 33.8 per cent compared with Q2 2008 (the first quarter of the recent recession), of which 14,982 were bankruptcies (a fall of 8.5 per cent compared with Q2 2008), 13,466 were IVAs (an increase of 40.4 per cent compared with Q2 2008) and 6,295 were debt relief orders.

Transactions

The ways in which transactions are carried out in the UK has changed dramatically over the last decade, **Figure 10** shows how the use of debit cards and automated payments has increased and the use of cheques and cash has declined.

Figure 10 Non-cash transactions:¹ by method of payment

United Kingdom

Billions

1 Figures are for payments made by households. Cheque encashment and cash withdrawals from cash machines and branch counters using credit, charge and debit cards are not included. Based on data supplied by UK card issuers.

2 Visa Debit and Switch cards in all years; includes Electron cards from 1996 and Solo cards from 1997.

3 Direct Debits, standing orders, direct credits and inter-branch automated items.

4 Visa, MasterCard, travel/entertainment cards and store cards.

Source: *The Payments Council; The UK Cards Association*

An increase in the use of electronic payment methods for regular payments such as mortgages, and of plastic cards for face-to-face, online and telephone retail payments has led to a decline in the use of cheques. Since 1985, the volume of consumer payments made by cheque has fallen by 64 per cent to 0.6 billion in 2009. The volume of transactions using credit and charge cards rose steadily between 1988 and 2004, but has stabilised since 2005 at 1.8 billion, increasing slightly in 2009 to approximately 1.9 billion.

Debit card payments accounted for the largest volume of non-cash payments (49 per cent) in 2009 with 5.8 billion transactions, followed by automated payment transactions (3.5 billion) and credit and charge card transactions (1.9 billion).

Figure 11 **Volume of retail sales** ^{1iv}

Great Britain

Index numbers (2006=100)

1 Includes sales of automotive fuel

Source: *Retail Sales Inquiry* (ONS, 2010b)

Purchases from businesses classified as retailers forms a considerable part of household expenditure. The retail sales index reflects the trends in overall consumer expenditure and, to a certain extent, the level of consumer confidence at the time. The retail sales index is a monthly measure of the turnover of retail businesses in Great Britain and is used as a key economic indicator. **Figure 11** shows how the volume of retail sales has increased steadily over the last decade. In 2009 the volume of retail sales in Great Britain was approximately 54 per cent higher than in 1996.

The volume of retail sales varies considerably over the course of the year and sales increase sharply in the run-up to Christmas. In 2009 November and December sales made up 20 per cent of the total sales for the year, a proportion that has shown little change since 1998 (ONS, 2010b).

Prices

The way people choose to spend their money is affected by the prices of goods and services. There are two main measures of UK consumer price inflation – the consumer price index (CPI) and the retail price index (RPI). The RPI was introduced in 1947 and is the longest standing measure of inflation in the UK. The CPI was launched in 1996 (although estimates are available from 1988), and since December 2003 has been the main domestic measure of UK inflation for macroeconomic purposes. The CPI excludes a number of items mainly related to housing costs – council tax, mortgage interest payments and housing depreciation.

Figure 12 **Percentage change in consumer price index: ^{1v} by purpose of expenditure, 2009**

United Kingdom

Percentage change over 12 months

1 Percentage change between 2008 and 2009.

2 Excludes mortgage interest payments.

3 Includes household equipment and routine home repairs.

4 Includes personal care, personal effects (for example jewellery and watches), social protection, insurance and financial services.

Source: *Consumer Price Index* (ONS, 2010c)

While the overall rate of inflation has been low over the last decade, at around 2 per cent per year measured by the consumer price index, the prices for some categories of goods and services have increased more than others. Between 2008 and 2009 expenditure on education recorded the highest rate of price increase at 7.6 per cent (**Figure 12**). The second highest rate of price increase was for food and non-alcoholic drinks at 5.4 per cent, followed by alcohol and tobacco at 4.4 per cent. The only category of goods and services for which prices fell was clothing and footwear, which decreased 7.7 per cent between 2008 and 2009.

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Notes

i Underlying data are available at

www.statistics.gov.uk/StatBase/TSDTables1.asp?RELEASEID=ct&GLOBALRELEASEPOSITION=9

ii Special Eurobarometer reports are based on in-depth thematic studies carried out for various services of the European Commission or other EU Institutions and integrated in Standard Eurobarometer's polling waves.

iii Underlying data area available at

www.statistics.gov.uk/StatBase/TSDTimezone.asp?vlnk=bb&Pos=2&ColRank=1&Rank=-1

iv The retail sales index (RSI) is a measurement of monthly movements in the average weekly retail turnover or retailers in Great Britain. All retailers selected for the Retail Sales Inquiry are asked to provide estimates of total retail turnover, including sales from stores, e-commerce (including the Internet), mail order, stalls and markets, and door-to-door sales. Retail turnover is defined as the value of sales of goods to the general public for personal and household use. For further details see retail sales at: www.statistics.gov.uk/rsi

v The consumer price index (CPI) is the main measure of inflation used within the Government's monetary policy framework. Prior to 10 December 2003, this index was published as the harmonised index of consumer prices. For further details see consumer prices at: www.statistics.gov.uk/cpi