

Impact of the recession on household spending

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Abstract

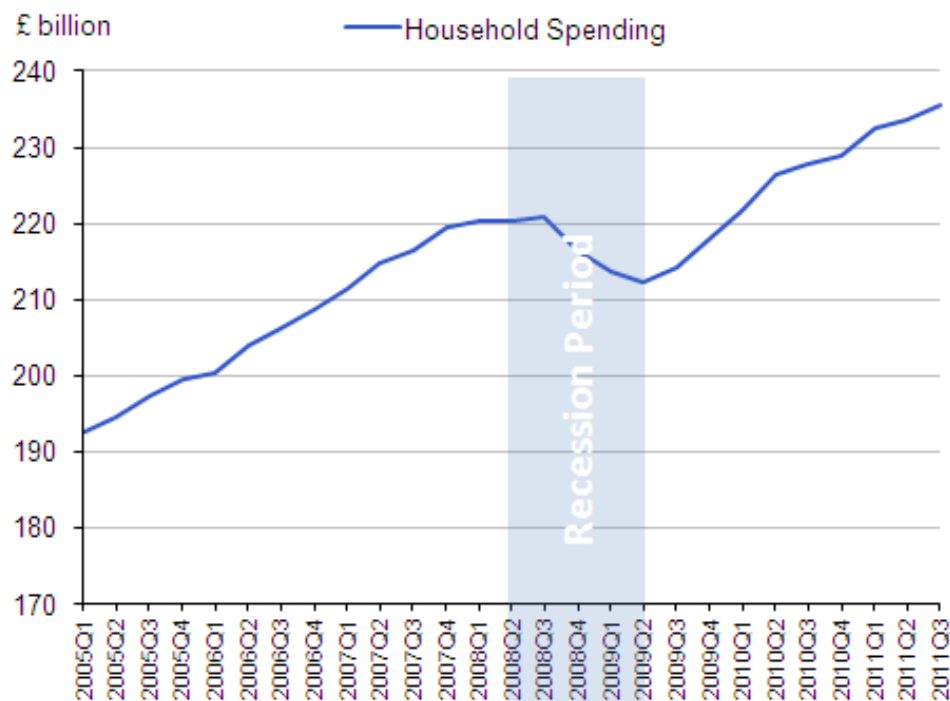
This article looks at how household spending changed over the last few years, including the impact of the recession. It does this by looking at two measures of household spending: current prices expenditure, which is the value spent, and chained volume measures expenditure which takes account of changing prices (inflation). The volume measure is useful because by adjusting for inflation it provides an estimate of the volume of goods and services bought. The article contains analysis looking at how the aggregate current price and volume of household spending has changed and then looks at how the changes were caused by comparing discretionary and non-discretionary household spending.

Movements in aggregate current price and volume spending

In the fourth quarter of 2008 the total amount spent by households (in current prices) fell 2.0 per cent. This was the first fall in the value of household spending since 1968. Spending then fell for a further two quarters - the first time this had occurred since records began.

Figure 1

Value of Household Spending in Current Prices



Source: Office for National Statistics

Download chart

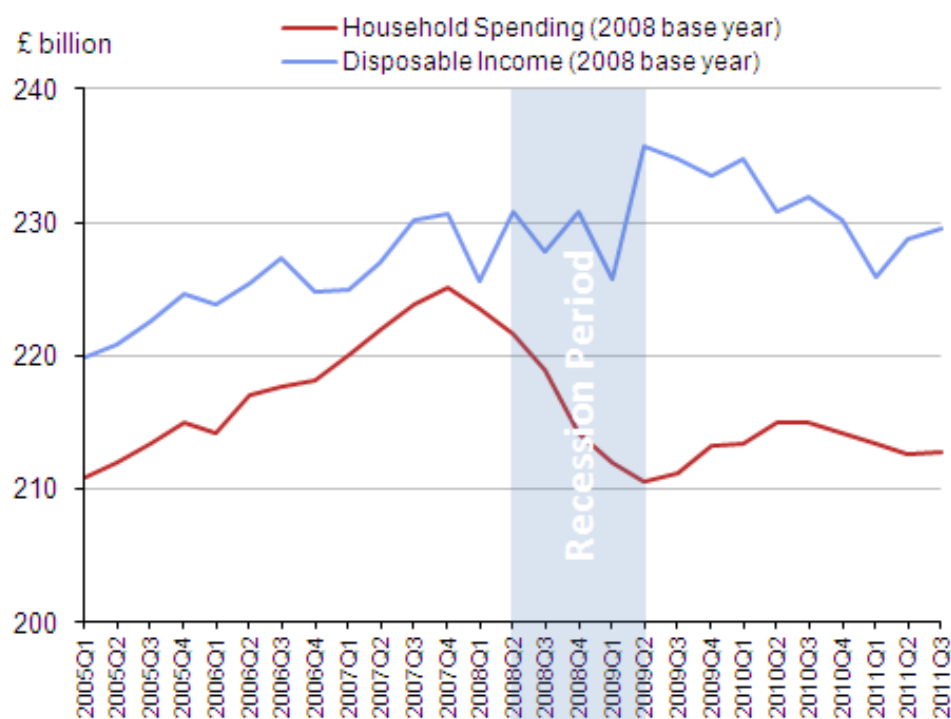
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The volume of goods and services purchased by households peaked in quarter four 2007, before falling by 0.7 per cent in the first quarter of 2008. This fall preceded the start of the recession period by one quarter and was the biggest single quarter reduction in the volume of goods and services bought by households since the 1990's recession.

The reduction in volume of household spending continued for five more quarters, falling to the lowest level since 2005 (a fall of 6.5 per cent). By quarter three 2011, over two years after the recession's lowest point in 2009 quarter two, the volume of goods and services purchased by households had only recovered 1.0 per cent.

Figure 2

Volume of Household Spending and Disposable Income



Source: Office for National Statistics

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Household spending began to fall before the start of the recession, despite real disposable income remaining relatively stable (see Figure 2). The counterpart is that households' saving increased. This may have been motivated by factors such as the emerging financial crisis and associated economic uncertainty.

This higher saving continued when real disposable income increased in 2009. Uncertainties about the future, domestically and internationally, the prospect of higher unemployment and a continuing need to repair over-extended balance sheets may all have played a part in this.

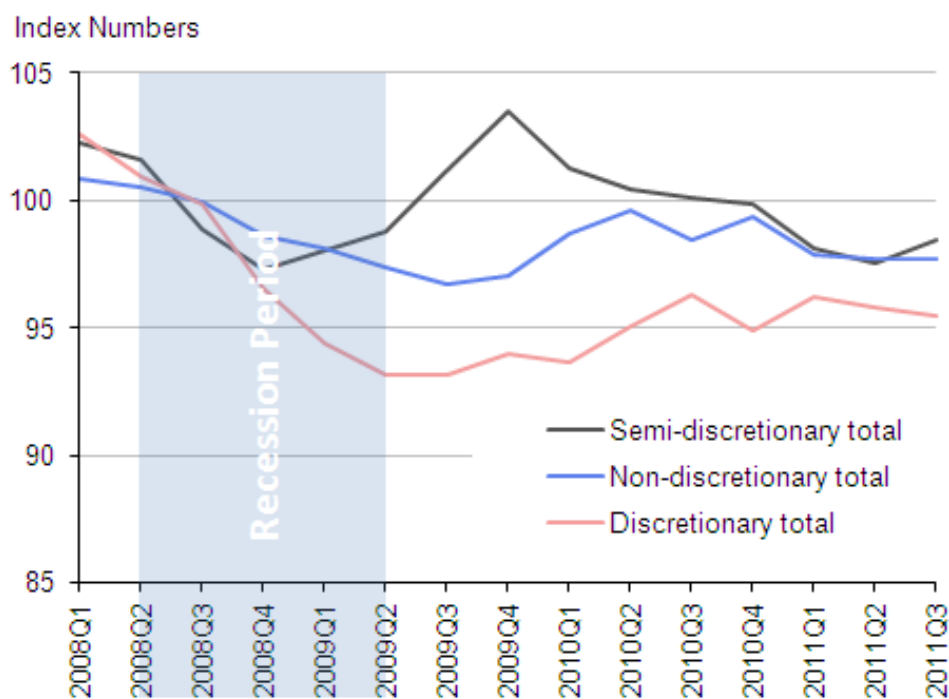
How households changed their spending patterns by types of goods and services

Analysing the volume of goods and services bought by households by essential (non-discretionary) and non-essential (semi-discretionary and discretionary) purchases indicates how the recession has changed the nature of household spending. There is no absolute definition to split discretionary and non-discretionary spending. However, items such as food and energy seem essential, while alcohol and tobacco appear to have a greater degree of choice associated with their purchase.

(A full explanation of the nature of household spending breakdown is provided in Annex 1). The following section examines spending in these categories.

Figure 3

Volume of Goods and Services Purchased 2005-2011 (2008=100)



Source: Office for National Statistics

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Households reduced discretionary purchases by nearly 9 per cent between quarter one 2008 and quarter two 2009. In contrast, they cut back on non-discretionary purchases by around 3 per cent over the same period. Growth in discretionary and non-discretionary purchases both subsequently remained fairly flat, although discretionary purchases had recovered around 2 per cent by quarter three 2011.

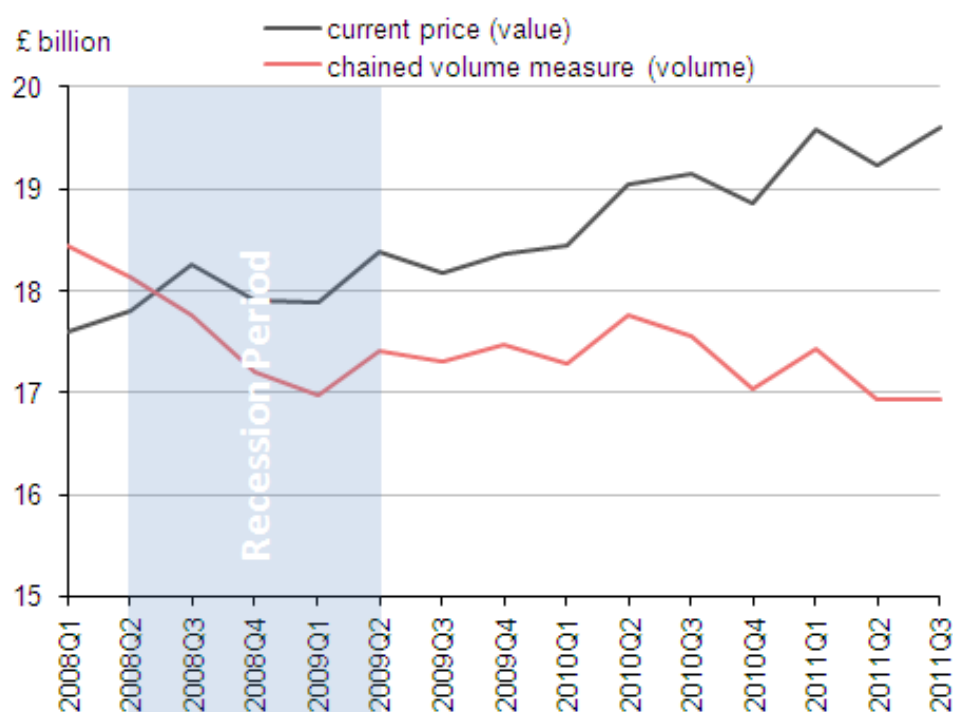
Household semi-discretionary purchases initially behaved in the same way as discretionary purchases, reaching a low in quarter four 2008 (a 5 per cent fall). However, they then rebounded in quarter four 2009, briefly reaching a level above that of quarter one 2008. This may have been influenced by the introduction of the government car scrappage scheme that ran from quarter two 2009 to quarter one 2010.

Non-discretionary purchases – households cut back a little on essentials

Analysis of two of the larger components of non-discretionary household spending (purchases of food and non-alcoholic beverages, and housing, water and energy costs) shows households reduced consumption a little, before levelling off.

Figure 4

Value and volume (2008 base year) of food and non-alcoholic beverages



Source: Office for National Statistics

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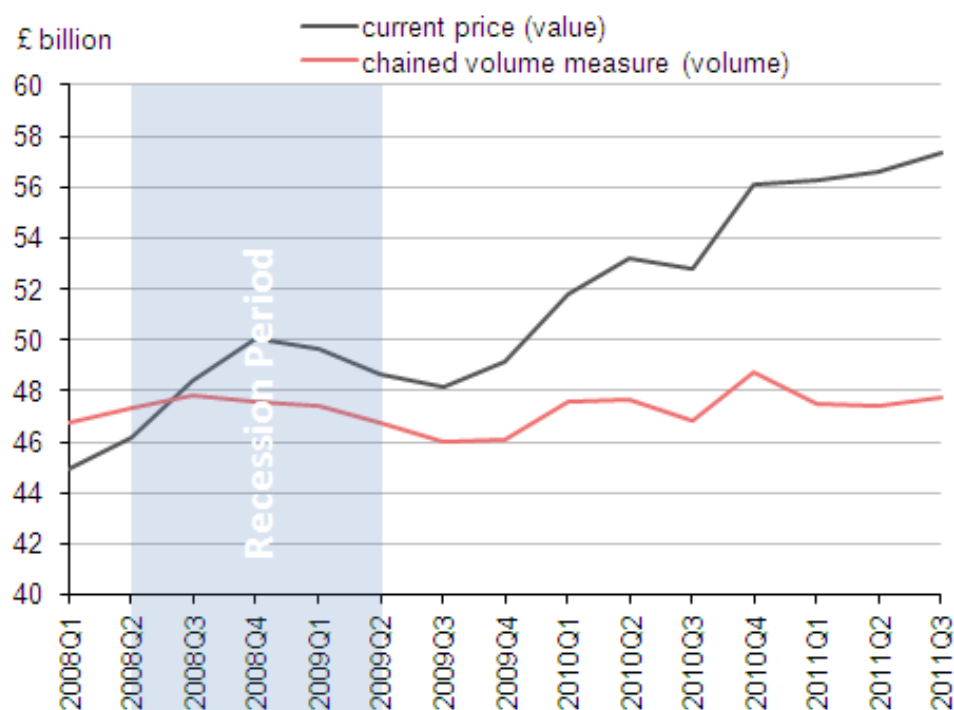
Spending in current prices on food and non-alcoholic beverages showed steady growth throughout the recession. Between quarter one 2008 and quarter two 2009, the value of households spending increased by 4.5 per cent. However, the volume (amount) of food purchased fell over the same period by 5.6 per cent, and then remained relatively stable.

This picture fits with the pattern of rising food prices during the period. The initial fall in volume suggests that households did cut back a little on the amount purchased. However, the rising current price values over the period show that prices increased.

Housing, water, and energy costs

Figure 5

Value and volume (2008 base year) of housing, water and energy



Source: Office for National Statistics

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In current prices, household spending related to housing (rentals, water, energy etc) grew substantially during the recession and beyond. Between quarter one 2008 and quarter two 2009, the value of households spending increased by 8.4 per cent. However, households continued to purchase approximately the same volume throughout the period. The pattern seems to be one of little scope to cut back on these items, despite substantial price rises.

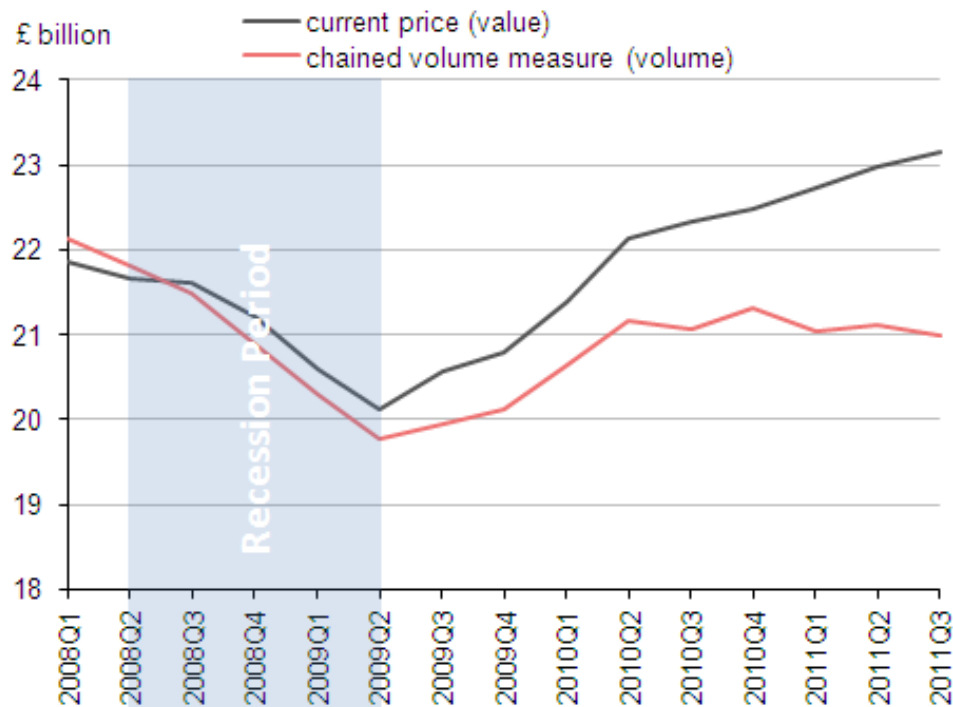
Discretionary purchases – cut back, but with some recovery since the end of the recession

This section looks at two large components categorised as discretionary purchases. Both showed a fall in the amount of good or service purchased throughout the recession. However, estimates post quarter two 2009 for restaurants and hotels and audio-visual equipment indicate interesting household spending behaviour patterns.

Spending in restaurants and hotels

Figure 6

Value and volume (2008 base year) of restaurants and hotels



Source: Office for National Statistics

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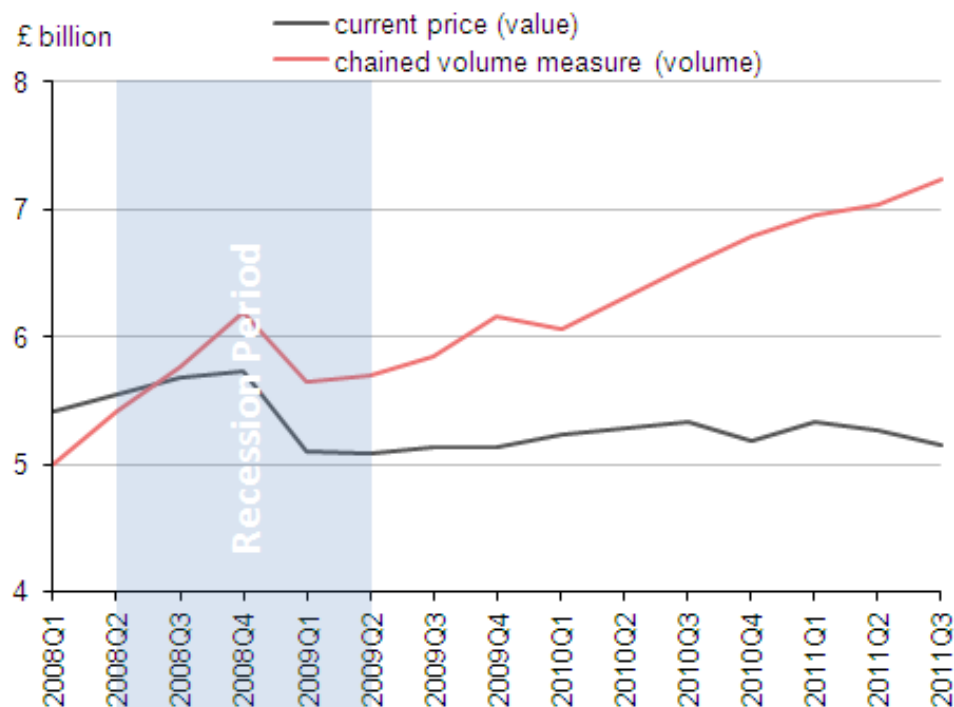
Restaurants and hotels spending showed a reduction in both value and volume terms during the recession. Between quarter one 2008 and quarter two 2009 the value of households spending fell by around 8 per cent, while volume fell by around 11 per cent.

Between quarter two 2009 and quarter three 2011 current price household spending increased by 15 per cent. Volume increased by 7 per cent between quarter two 2009 and quarter two 2010 before flattening off, and not recovering to pre-recession levels. After quarter two 2010 the growing gap between the current price and volume measures shows the rise in prices may have affected demand.

Audio-visual, photo and information processing purchases

Figure 7

Value and volume (2008 base year) of audio-visual, photo and information processing



Source: Office for National Statistics

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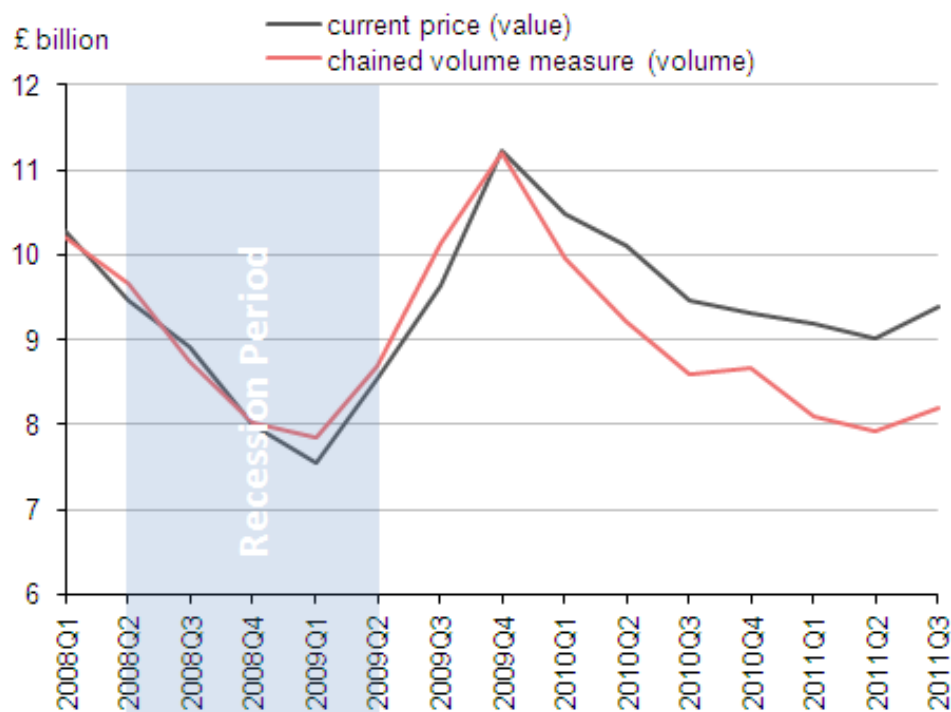
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Current price spending on audio-visual equipment fell around 6 per cent between quarter one 2008 and quarter two 2009 and has been broadly stable since. However, volume continued to grow sharply, increasing by 27 per cent since the end of the recession. These estimates show that consumers increased the volume of their purchases without having to increase the value of their spending. This suggests either a fall in prices in the sector or the purchase of cheaper alternatives.

Semi-discretionary purchases – households' purchases affected by prices**Purchase of New Vehicles**

Figure 8

Value and volume (2008 base year) of new vehicles



Source: Office for National Statistics

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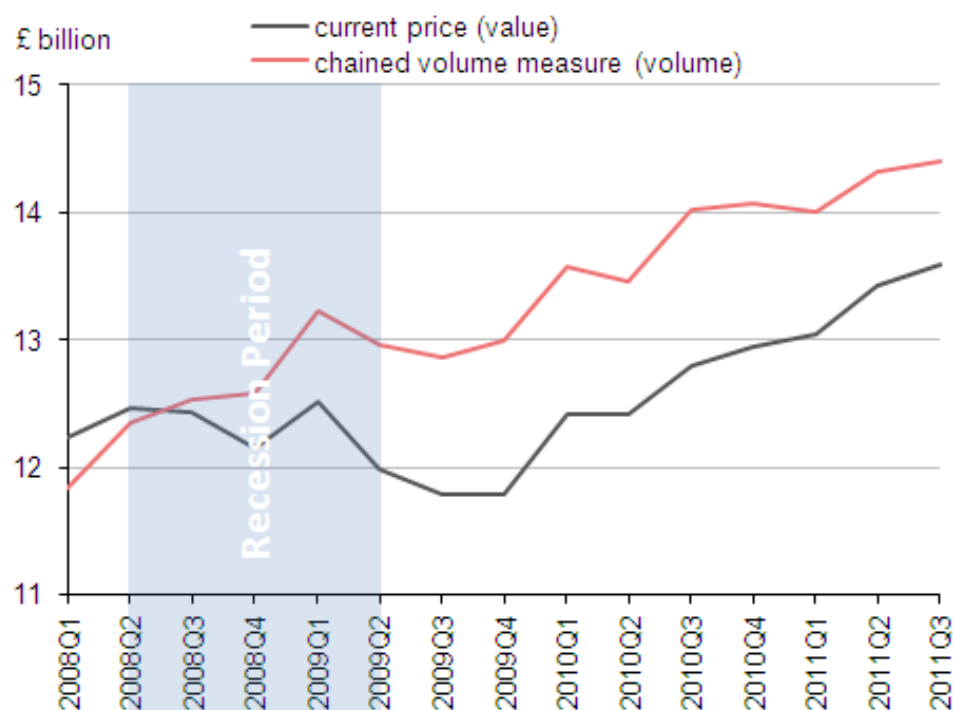
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Purchases of new vehicles fell sharply in both value and volume terms from the start of the recession. Between quarter one 2008 and quarter one 2009 spending fell by around 25 per cent in both value and volume. However, there was then a sharp recovery of around 45 per cent to quarter four 2009, almost certainly reflecting the government car scrappage scheme, which was in effect between quarter one 2009 and quarter two 2010. Following the end of the scrappage scheme, the volume of vehicle purchases fell back to the pre scheme levels. This supports the view that households were cautious about major non-essential purchases, but prepared to spend where they saw value for money.

Purchase of clothing and footwear

Figure 9

Value and volume (2008 base year) of clothing and footwear



Source: Office for National Statistics

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In current price terms, household spending on clothing and footwear fell 2 per cent between quarter one 2008 and quarter two 2009, while the volume of purchases increased by 9.5 per cent over the same period. The fall in current price and increase in volume suggests households were purchasing at lower prices.

After quarter two 2009 the value of spending increased by 13 per cent, while the volume increased by 11 per cent. The similar growth in the total amount spent and the amount of goods purchased suggests relatively stable growth in prices.

Annex 1 – Classification of products by nature of purchase

Household final consumption estimates are categorised according to the international COICOP (Classification of Individual Consumption by Purpose) standards.

For the purposes of this article, published level COICOP estimates have been aggregated into a further classification that categorises spending by the nature of purchase. It is important to recognise that this classification (non-discretionary; semi discretionary; and discretionary spending)

is not based on an international standard and is therefore inevitably subjective. This classification is designed to help users better understand the data and is explained in detail below.

Non-discretionary spending

This is spending on goods and services where the consumer has little choice but to continue to buy regardless of price and income pressures. They are broadly staple items such as food, rental, and energy payments. Of course, there may be an element of substitution to cheaper alternatives and of “cutting back”, but generally it is assumed that some consumption is needed other than in exceptional circumstances.

Semi-discretionary spending

This is spending on goods and services where the consumer has a high degree of control over the quality (and hence the price) and amount purchased, but where it is unlikely that spending can cease altogether. This spending is mainly assumed to be in transport and clothing, but also include some miscellaneous goods and services. This presentation of data is particularly useful in that it enables the effect of the car scrappage scheme, which ran in the UK between quarter 1 2009 and quarter 2 2010, to be isolated from the discretionary spending totals.

Discretionary spending

This is spending on goods and services where consumer exercises a high degree of choice over whether or not to buy. These are broadly considered to be luxury purchases and are taken from a wide range of COICOPS including alcohol and tobacco, recreation and culture, and restaurants and hotels.

The detailed categorisation is described in Table 1, categorisation of spending.

Table 1

Categorisation of Spending

Non Discretionary Spending		Semi Discretionary Spending		Discretionary Spending	
01.1.1	Bread and cereals	3	Clothing and footwear	01.1.8	Sugar confectionery and ice cream
01.1.2	Meat	05.3.1	Major household appliances electric or not	2	Alcoholic beverages and tobacco
01.1.3	Fish	06.1.3	Therapeutic appliances and equipment	5.1	Furniture and furnishings, carpets and other floor coverings
01.1.4	Milk cheese and eggs	7.1	Purchase of vehicles	5.2	Household textiles
01.1.5	Oils and fats	7.2	Operation of vehicles	05.3.2	Small electric household appliances
01.1.6	Fruit	07.3.1	Passenger transport by railway	5.4	Glassware tableware and household utensils
01.1.7	Vegetables	07.3.2	Passenger transport by road	5.5	Tools and equipment
01.1.9	Other food products	12.1.3	Other products for personal care	05.6.2	Domestic and household services
01.2.1	Coffee tea and cocoa	12.7	Other services	06.1.1	Pharmaceutical products
01.2.2	Fruit and vegetable juices and			06.1.2	Other medical products

Non Discretionary Spending	Semi Discretionary Spending	Discretionary Spending	
	other soft drinks		
4	Housing, water, gas, electricity, and other fuels	6.2	Out-patient services
05.3.3	Repair of household appliances	6.3	Hospital services
05.6.1	Non - durable household goods	07.3.3	Air transport
12.4	Social protection	07.3.4	Water transport
12.5.2	Dwelling insurance	07.3.6	Other transport
12.5.4	Transport insurance	8	Communication
12.6	Financial services	9	Recreation and culture
		10	Education
		11	Restaurants and hotels
		12.1.1	Hairdressing
		12.1.2	Electric appliances for personal care
		12.3	Personal effects
		12.5.1	Life Insurance
		12.5.3	Health insurance
		12.5.5	Other insurance

Table source: Office for National Statistics

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Relevant Articles

[The impact of the recession on household income, expenditure and saving - Q2 2011](#)

Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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