

# Consumer Trends, Q2 2012



Coverage: **UK**

Date: **27 September 2012**

Geographical Area: **UK**

Theme: **Economy**

**In Q2 2012, the volume measure of household spending (adjusted for inflation) fell by 0.2 per cent (£527 million), the first contraction since Q3 2011.**

- The volume measure provides an estimate of the amount of goods and services purchased by households. In Q2 2012 it was 5.5 per cent below the peak of Q4 2007, and 1.2 per cent higher than Q2 2009.
- The value of current price household spending (inflation included) shows how much UK households spent. In Q2 2012 it increased by 0.7 per cent on the quarter, meaning it was 9.5 per cent higher than Q4 2007.
- The positive growth in the value of household spending and the negative growth in spending adjusted for inflation shows that households are spending more, but getting fewer goods or services.
- In Q2 2012, the value of UK household spending per head was £3,813. This was £214 higher than in Q4 2007, the peak of pre recession spending.
- To put the recent changes in context, between 1992 and 2007 the value of household spending was driven by both increases in prices and the volume of goods and services purchased.

## Summary of Household Expenditure, Q2 2012

- The volume of expenditure on goods and services (seasonally adjusted) fell by 0.2 per cent in Q2 2012.
- 'Transport' expenditure (which includes motor vehicle purchases and motor fuel) showed the largest positive contribution to growth in volume terms.
- 'Restaurants and Hotels' and 'Alcohol and Tobacco' showed the largest negative contributions to volume growth.
- In current prices, seasonally adjusted, household expenditure increased by 0.7 per cent.

- The household expenditure implied deflator (a measure of price measures faced by households) increased by 1.0 per cent.

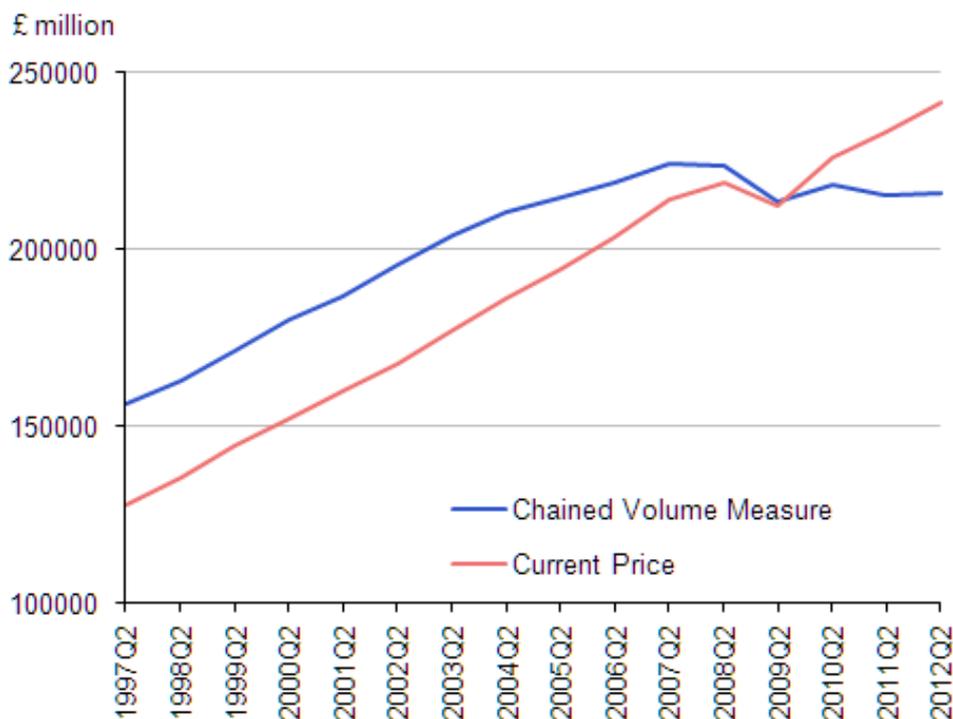
## Trends in Household Expenditure

Household final consumption expenditure includes spending on goods and services except: buying or extending a house, investment in valuables (paintings, antiques) or purchasing second-hand goods. Explanations for these exceptions and the related concepts are available in the [Consumer Trends guidance and methodology section](#).

Household expenditure is used in National Accounts to measure the contribution of households to economic growth and accounts for about 60 per cent of GDP. There are two measures:

- Current prices: which is the value of spending in a particular quarter measured in the prices at that time.
- Volume terms: which adjusts for price inflation and gives a better picture of whether households are purchasing more goods and services.

**Figure 1: Household Final Consumption Expenditure Total (£ million)**



Source: Office for National Statistics

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Analysis in this section of the Statistical Release is conducted from 1997 because this is the period from which revisions were applied in Blue Book 2012.

Figure 1 shows the paths of household final consumption expenditure over the past fifteen years. It shows that household spending:

- Increased in current prices to £220.1 billion (in Q1 2008), before falling to £212.2 billion in Q2 2009, then returning to predominantly positive growth to reach £241.2 billion in the present quarter.
- Increased to £228.5 billion in volume terms in Q4 2007, before falling to £213.3 billion in Q2 2009. It then increased slightly between Q3 2009 and Q4 2010, but since then has fallen back to similar levels to those seen in 2009.

The pre-2007 increases in household spending are a consequence of households facing higher prices and buying more goods and services. However, in 2008 and 2009 households spent less because they bought less and they faced weaker prices. Since 2009, household spending has increased, but the volume of goods and services purchases has been broadly flat.

In the most recent quarter household spending continued the recent increases in current price expenditure and weak or negative growth in the volume measure.

In Q2 2012, the value of household spending in current prices increased by 0.7 per cent on the quarter, and by 3.4 per cent on the same quarter in 2011. The volume measure of household spending fell by 0.2 per cent on the quarter, but showed a small increase of 0.2 per cent on the same quarter in 2011.

The increases in current price estimates and relative weakness (small increases or falls) in the volume estimates (inflation adjusted) signify households are spending more for a lower volume of goods and services than in the past.

## Household Spending Per Head

Trends in household spending per head have followed a similar pattern to overall household expenditure. In Q2 2012 the value of current price spending per head was £3,813, an increase of £20 on the previous quarter. This continued the increases of the past year, between Q2 2011 and Q2 2012 household spending per head increased by £95.

In Q1 1997 the value of household spending per head in current prices was £2,155. It reached £3,599 in Q4 2007 before falling to £3,435 in Q2 2009. Since this date the current price expenditure per head has continued to increase to reach the Q2 2012 level of £3,813.

The volume measure (inflation adjusted) of household spending per head fell to £3,413 in Q2 2012, down £15 from Q1 2012, and £20 from Q2 2011.

In the latest quarter, the largest share of household spending per head has been on 'Housing' (which includes spending on electricity, gas and rental charges). This accounts for almost 25 per cent of current price spending. In the latest quarter, spending increased to £933 per head, an increase of

£16 on the previous quarter. This reflects price increases seen in the rental and energy markets as well as weather being colder than average in April and June.

Spending on 'Transport' is the next largest component of overall spending this quarter, with current expenditure rising to £557, a rise of £14 on the quarter. 'Transport' expenditure includes the purchase of vehicles, the fuel to power vehicles, and other modes of transport. This reflects increasing costs in motor fuel and purchases of motor vehicles being stronger than last year.

In volume terms, spending on 'Housing' has remained fairly stable over the last 3 quarters, with spending per head this quarter at £763. However, volume spending on 'Transport' has increased by £7 to £472 per head.

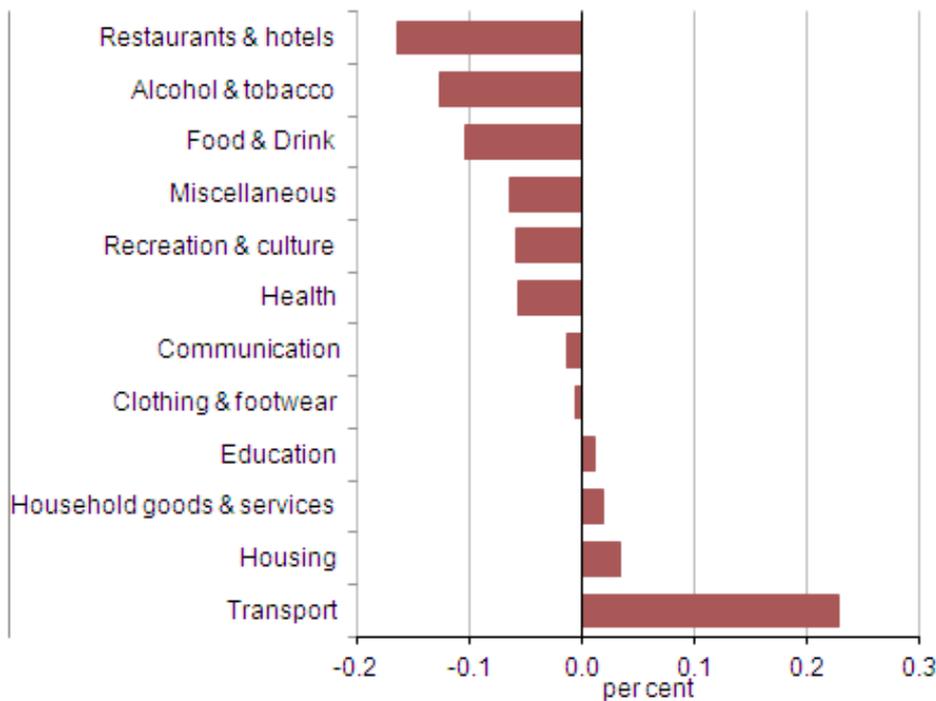
## Spending by Product

In volume terms (adjusted for inflation), spending on 'Restaurants and Hotels' made the largest contribution to the negative growth in Q2 2012, falling by 1.6 per cent on the quarter.

Within this category, 'Restaurants and Cafes' (which includes all food and drink purchased for consumption away from the home) showed the largest fall when adjusted for inflation. The fall of £282 million in volume terms in the latest quarter means that half of the positive growth achieved since Q2 2009 has been removed. This means that the volume of household purchases in this area is still weaker than before the GDP contraction in 2008, however the amount households are spending in 'Restaurants and Hotels' is higher.

'Food and Non Alcoholic Drink' and 'Alcohol and Tobacco' also contributed to the overall contraction in volume spending, with falls of 1.1 per cent and 3.6 per cent respectively. Household spending on 'Food and Non Alcoholic Drink' is now 1.6 per cent (£308 million) above the Q2 2011 level, but in the context of the last fifteen years this remains weak.

'Transport' showed the largest positive contribution to growth this quarter, with spending in volume terms increasing by 1.7 per cent. The main area providing strength in this category was the volume of 'Motor Cars' purchased by households which increased by 5.3 per cent on the quarter. Even with the positive growth in the latest quarter the volume of purchases in Q2 2012 is still weak in comparison to before the contraction in GDP in 2008.

**Figure 2: COICOP Contribution to Overall Growth**

Source: Office for National Statistics

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## Focus on Prices in Household Expenditure

The household expenditure measure of prices is an important component of the GDP deflator which is used to determine the real growth in the economy.

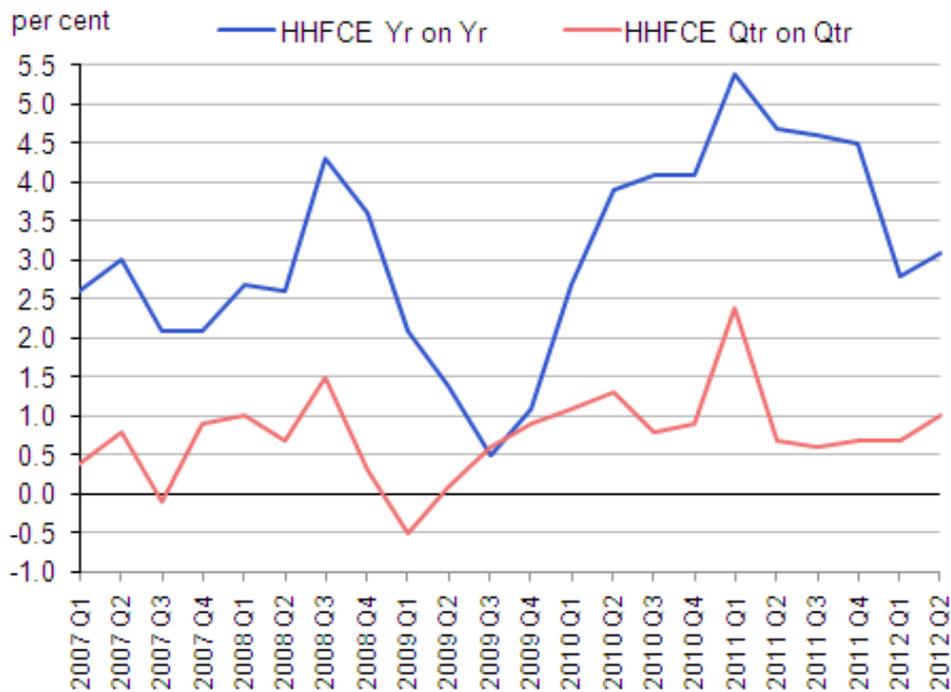
This quarter the household expenditure measure of prices (the deflator) (seasonally adjusted) increased by 1.0 per cent. The household expenditure deflator (seasonally adjusted) is now 3.1 per cent higher than in Q2 2011. This continues the trend of positive deflator growth (positive growth since 2009 Q2), indicating the increases prices that households face when purchasing goods or services.

Although the household expenditure measure of price inflation is positive (indicating increasing prices) the growth in the first two quarters of 2012 is weaker than in 2010 and 2011. This indicates that the rate of increase in prices has slowed.

In Q2 2012, the largest increases in percentage terms in the household deflator were seen in 'Alcohol and Tobacco' and 'Restaurants and Hotels' which grew by 3.5 per cent and 2.4 per cent respectively.

It should be noted that the CPI and RPI are the two official main measures of inflation. From Blue Book 2011, CPI has been used to deflate estimates of Household Expenditure.

**Figure 3: Household Expenditure Implied Deflator - Seasonally Adjusted Per Cent Change**

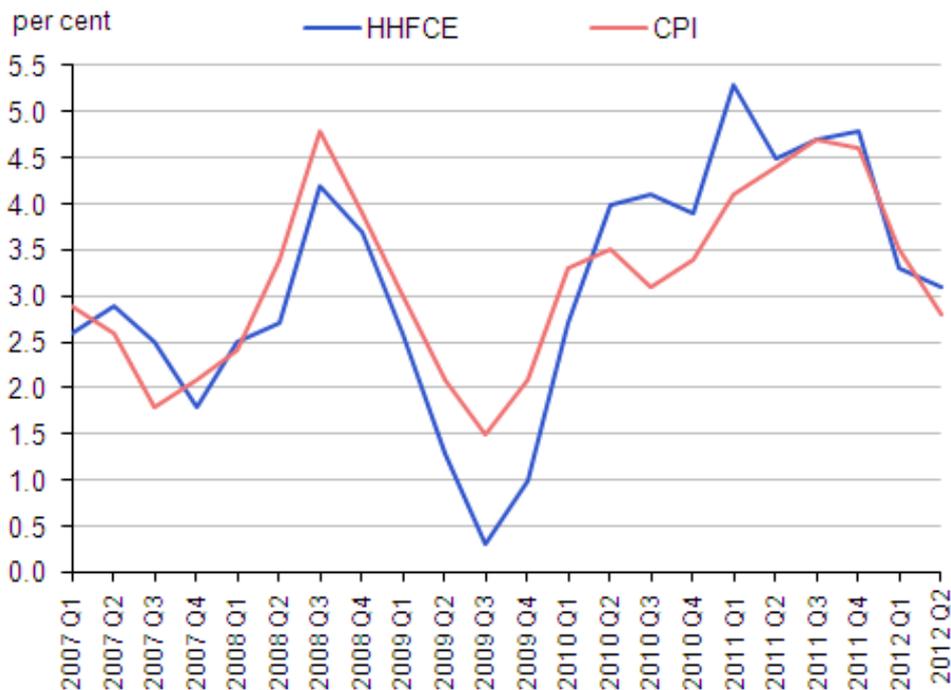


Source: Office for National Statistics

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**Figure 4: Price Measures Not Seasonally Adjusted - Year-on-Year Per Cent Change**

Source: Office for National Statistics

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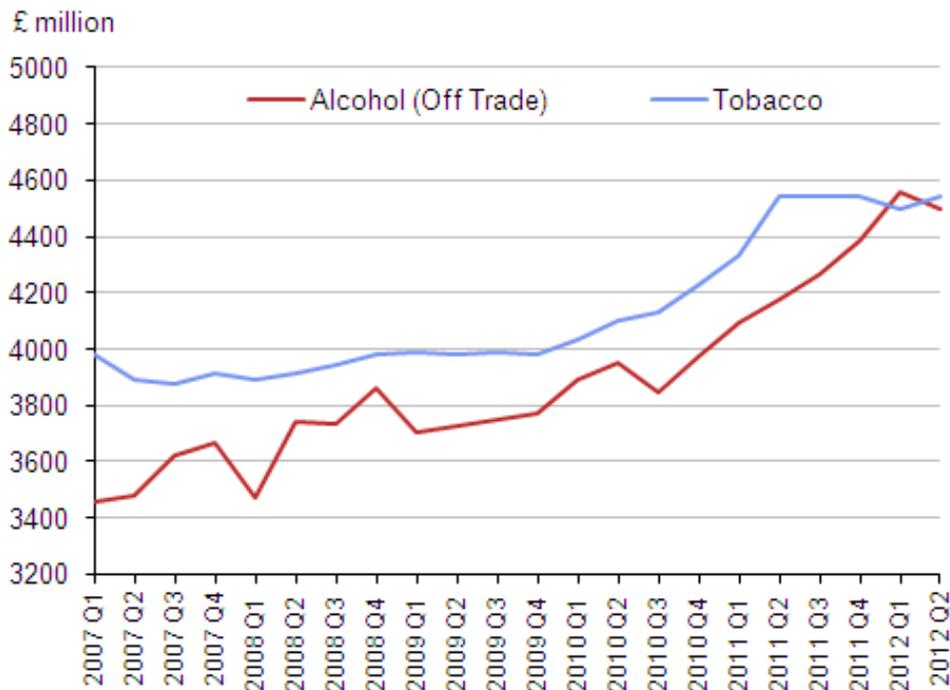
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### Focus on Alcohol and Tobacco

This section focuses on household spending on alcohol purchased from unlicensed premises (off-trade) and tobacco. This is because although the two goods are included in the same category, the patterns of consumption displayed in recent periods are different.

The value of household spending on 'Alcohol and Tobacco' fell by 0.2 per cent in the latest quarter. The volume measure (inflation adjusted) of household spending fell by 3.6 per cent.

In the last five years, the value of spending in current price terms for both 'Alcohol' and 'Tobacco' increased to reach £4.5 billion. However, expenditure on 'Tobacco' reached a plateau in Q2 2011, and in Q2 2012 expenditure on 'Alcohol' did not increase. Of particular note is that UK households spent more on off-trade 'Alcohol' in Q1 2012 than 'Tobacco' for the first time.

**Figure 5: Alcohol and Tobacco Current Price Expenditure Levels (£ million)**

Source: Office for National Statistics

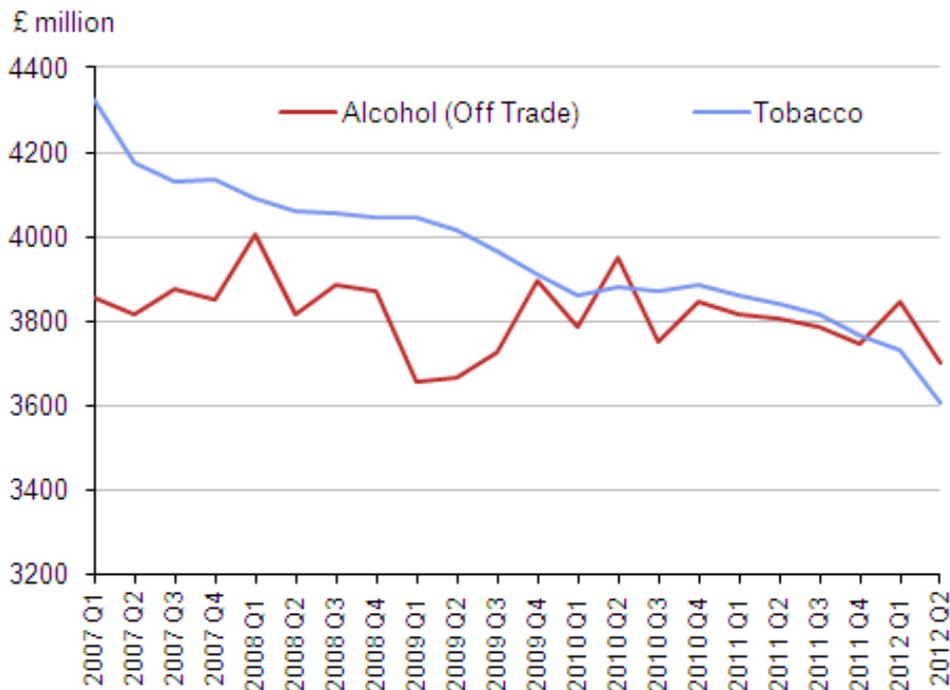
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When comparing the volume measures for spending on 'Alcohol' and 'Tobacco' the patterns are markedly different in the past five years. Although volume spending on 'Alcohol' has varied over time, broadly speaking it has remained at a similar level. In contrast, expenditure on 'Tobacco' in volume terms by UK households has fallen consistently over the period to reach its lowest point in fifteen years.

Since Q1 2007 the volume measure of expenditure on 'Tobacco' has fallen by 16.6 per cent, while current price expenditure has increased by 14.1 per cent. This indicates that tobacco price inflation has maintained the level of UK household spending despite any reduction in tobacco purchased.

Statistics produced relating to smoking cessation in England show that the number of people setting a quit date and the number of successful quitters have increased between 2007 and 2012. So [health statistics](#) fit with the declining volume measure shown in the household expenditure statistics.

**Figure 6: Alcohol and Tobacco Chained Volume Expenditure Levels (£ million)**

Source: Office for National Statistics

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### Revisions

In common with all components of UK Gross Domestic Product (GDP), household final consumption expenditure (HHFCE) estimates are subject to the revisions policy of the UK National Accounts. This allows revisions to estimates to be made at particular times of the year.

In Q2 2012, the revisions to total household final consumption expenditure have been made from the first quarter of 2011.

Revisions between the previous edition of Consumer Trends (Q1 2012) and the latest HHFCE estimates are summarised in Table 1 'Revisions to Household Final Consumption Expenditure'. They reflect updated data from suppliers, as well as adjustments to HHFCE as a result of the GDP balancing process.

**Table 1: Revisions to Household Final Consumption Expenditure, Seasonally Adjusted**

	£ million	Percentage	
	Revisions to value (current prices)	Revisions to growth (current prices)	Revisions to growth (volume measure)
<b>2011</b>	2497	0.3	–
<b>2011 Q1</b>	-229	-0.1	-0.4
<b>2011 Q2</b>	472	0.3	0.3
<b>2011 Q3</b>	1490	0.4	0.7
<b>2011 Q4</b>	764	-0.3	-0.3
<b>2012 Q1</b>	2100	0.6	0.4

Table source: Office for National Statistics

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All growth rates in Consumer Trends are rounded to one decimal place. This may cause disparity between revisions displayed in the main Consumer Trends tables and the revisions table above.

## Background notes

### 1. Date of this publication

27 September 2012.

### 2. Next Edition

The next edition of Consumer Trends, Q3 2012, will be published on 21 December 2012. Estimates will be consistent with Blue Book 2012.

### 3. Release policy

Household Final Consumption Expenditure estimates produced in Consumer Trends are produced according to the National Accounts timetable. The preliminary estimate of GDP for the second quarter of 2012 will be published on 25 October 2012, followed by the second estimate of GDP on 27 November 2012. The next full set of quarterly national accounts will be published on 21 December 2012.

### 4. Basic Quality Information for Consumer Trends Statistical Bulletin

## Summary Quality Reports

A [Summary Quality Report \(134.3 Kb Pdf\)](#) for this Statistical Bulletin can be found on the National Statistics website.

### Key quality issues

Household expenditure volume series are chainlinked annually. Estimates in this Consumer Trends are now based on 2009 price structures, i.e the chained volume measure estimate in 2009 equals the current price value of expenditure in 2009.

Growth in each year up to and including 2009 is calculated at average prices of the previous year. Growth from 2009 onwards is calculated at average prices of 2009. Volume series are only additive for the most recent periods; annual data for 2009 onwards and quarterly data for quarter one 2010 onwards.

Common pitfalls in interpreting series: Very few statistical revisions arise as a result of 'errors' in the popular sense of the word. All estimates, by definition, are subject to statistical 'error' but in this context the word refers to the uncertainty inherent in any process or calculation that uses sampling, estimation or modelling.

Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information which allows the statistical error of previous estimates to be reduced. Only rarely are there avoidable 'errors' such as human or system failures and such mistakes are made quite clear when they do occur.

### Coherence

Household Final Consumption Expenditure estimates published in Consumer Trends are a component of the GDP expenditure approach. However, the preliminary estimate for GDP is produced based on the GDP output approach. Historic experience shows that the output approach provides the best timely approach to measuring GDP growth. GDP growth according to the expenditure and income approaches is therefore brought into line with that recorded by output.

## 5. Code of practice

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