

Consumer Trends, Q3 2013



Coverage: **UK**

Date: **20 December 2013**

Geographical Area: **UK**

Theme: **Economy**

Key Points

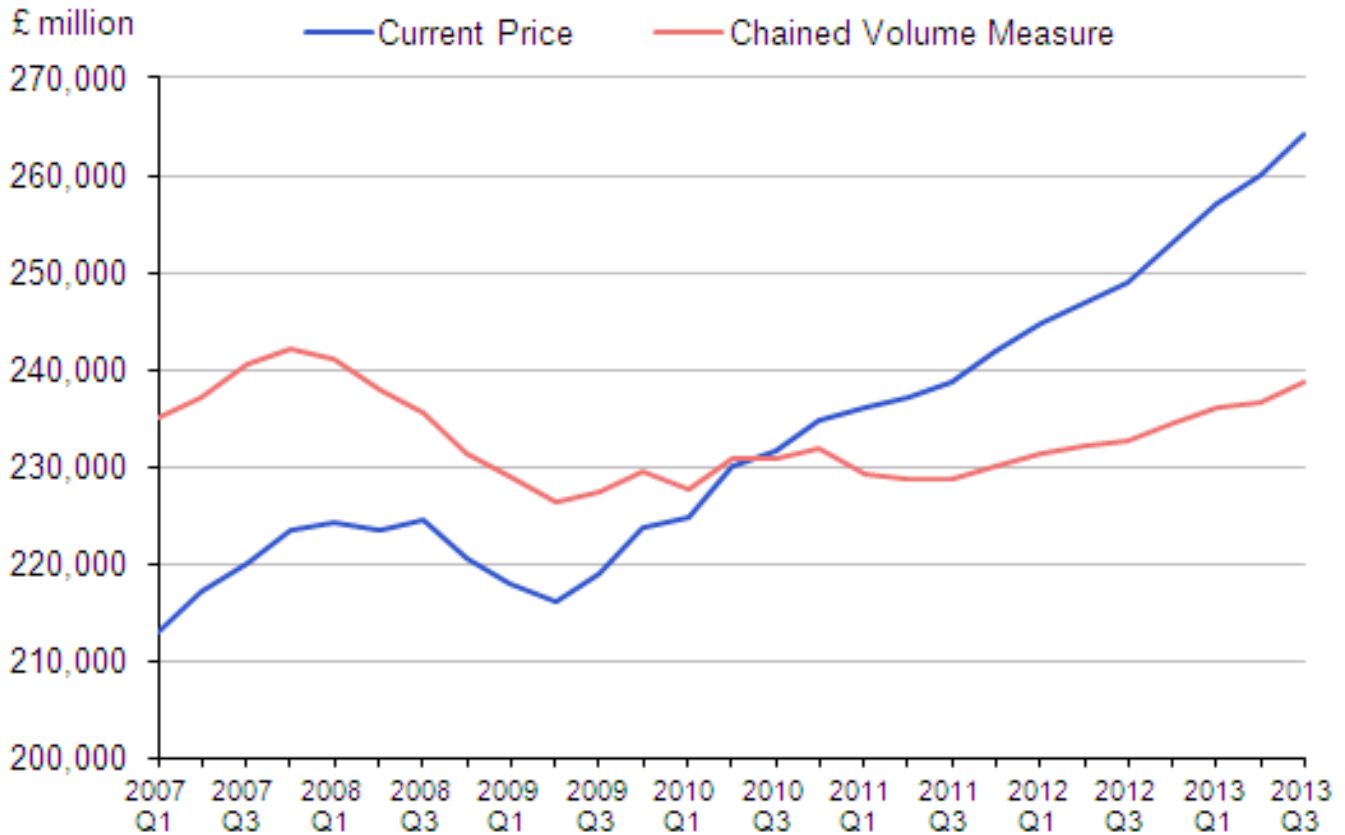
- In Q3 2013, household spending (adjusted for inflation) grew by 0.8% (£1.9 billion). All areas showed positive growth with the exception of 'Housing' and 'Health'.
- Household spending when compared with the same quarter a year ago has risen in every quarter since Q1 2012 and was 2.5% higher in Q3 2013. This is the highest comparable growth since Q1 2008.
- Household spending still remains 1.5% below the peak of spending (in volume terms) in Q4 2007.
- The current price value of household spending, which includes inflation, shows how much UK households spent. In Q3 2013 current price spending increased by 1.7% compared with Q2 2013, continuing the trend of positive growth which has continued since Q3 2009. Current price spending is now 18.2% higher than Q4 2007.
- In current price terms, the value of UK household spending per head was £4,117, an increase of 1.5% on the quarter.

Summary of Household Expenditure in Q3 2013

The volume measure provides an estimate of the amount of goods and services purchased by households. In Q3 2013 it increased by 0.8%, meaning it was 1.5% below the peak of spending (in volume terms) in Q4 2007.

The current price value of household spending (inflation included) shows how much UK households spent. In Q3 2013 it increased by 1.7% compared with Q2 2013, meaning it was 18.2% higher than Q4 2007, the seventeenth consecutive quarter of current price growth.

Figure 1: Quarterly Household Final Consumption Expenditure Total (£ million), Seasonally Adjusted



Source: Office for National Statistics

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Trends in Household Expenditure

Household Final Consumption Expenditure (HHFCE) includes spending on goods and services except for: 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 the National Accounts to measure the contribution of households to economic growth and accounts for about 60% of the expenditure measure of GDP. There are two measures:

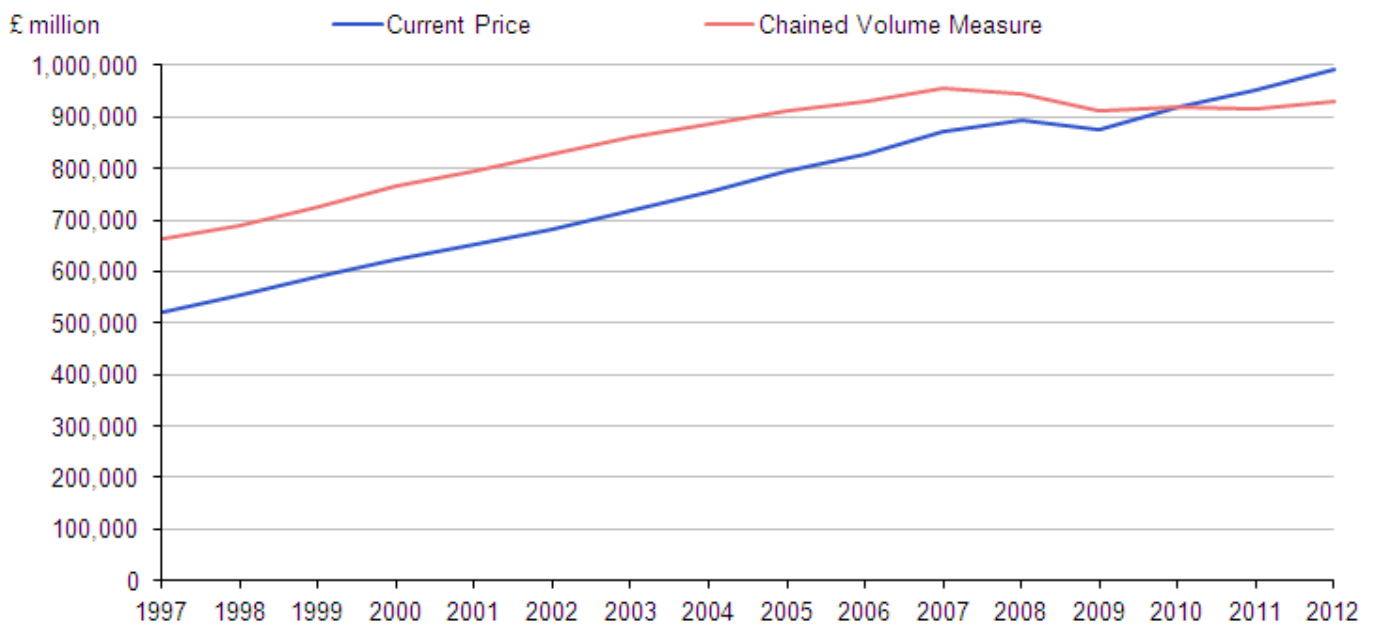
- Current prices - which is the value of spending in a particular quarter measured in the prices at that time;

- Volume terms - which adjusts for price inflation and gives a better picture of whether households are purchasing more goods and services.

The estimate of HHFCE where net tourism expenditure is included is called the UK national estimate. When net tourism is excluded, this produces the aggregate total UK domestic expenditure.

Lower level analyses in this bulletin are based on the domestic concept. This is discussed in greater detail in Definitions and Conventions for UK HHFCE.

Figure 2: Annual Household Final Consumption Expenditure Total (£ million), Seasonally Adjusted



Source: Office for National Statistics

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Analysis in this section of the Statistical Release is conducted from 1997, the period from which a full HHFCE dataset is available.

From 1997, household final consumption expenditure:

- In current prices, increased to £224.3 billion in Q1 2008, falling to £216.0 billion in Q2 2009, then returning to predominantly positive growth to reach £264.3 billion in the latest quarter.
- In volume terms, increased to £242.1 billion in Q4 2007, falling to £226.4 billion in Q2 2009. It has now increased to £238.6 billion, the highest volume spending since Q1 2008.

The pre-2007 increases in household spending were a consequence of households facing higher prices and buying more goods and services. However, in 2008 and 2009 households spent less

because they predominantly bought less, in volume terms. Since 2009, household spending has increased, but the volume of goods and services purchased has experienced far lower growth.

In Q3 2013, the value of household spending in current prices increased by 1.7% on the previous quarter, and by 6.1% on the same quarter in 2012. The volume measure of household spending increased by 0.8% on the quarter and 2.5% on the same quarter in 2012, signifying that households are spending more for a relatively lower volume of goods and services.

Household Spending Per Head

In Q3 2013 the value of current price spending per head was £4,117, an increase of £61 on the previous quarter continuing the trend of positive growth started in Q3 2009. The volume measure per head increased by £23 in the same period, indicating that households spent more because they bought more, in addition to the effect of positive price increases.

In Q1 1997 the value of household spending per head in current prices was £2,177. It reached £3,659 in Q1 2008 before falling to £3,496 in Q2 2009. These changes in current price spending by households were primarily influenced by the increase and then fall in the volume of goods and services bought. Since Q2 2009, the current price expenditure per head has continued to increase to reach the Q3 2013 level of £4,117, an increase of 12.5% when compared with the first peak of expenditure in Q1 2008.

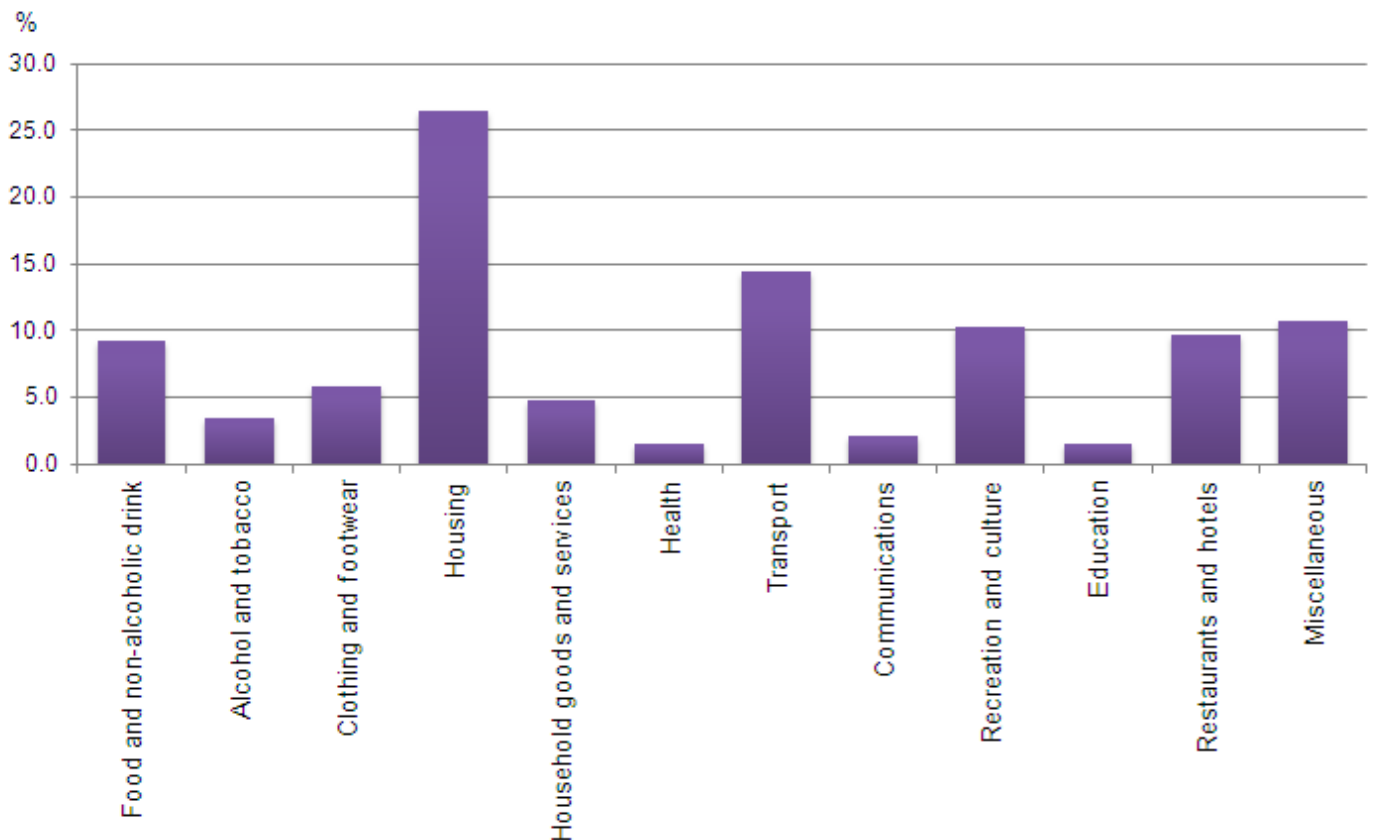
The changes in spending per head after 2009 were mostly caused by price increases, with per head spending in volume terms increasing only 1.4% since Q2 2009, while current price spending increased by 17.8%. The increase in the volume measure of spending since Q4 2011 shows that households have recently increased the underlying amount of goods and services they are purchasing. This pattern has continued into the current quarter.

In current price terms, 'Housing' and 'Transport' have predominantly shown the largest contributions to household spending per head over recent years, this quarter taking a 26% and 14% share of the overall spend respectively.

The largest per head increase this quarter has been seen in 'Transport' which has increased by £12. Within 'Transport', 'Operation of personal transport equipment' has contributed the most to this increase, with growth of £8. This area includes spending on fuels, spare parts and maintenance.

'Food and non-alcoholic beverages', 'Alcohol and tobacco' and 'Miscellaneous' have all seen an increase of £8 per head this quarter, with 'Housing', the largest contributor to overall spending, rising by £7 per head.

Figure 3: Percentage Share of Spending per Head, Domestic Measure, Current Price, Seasonally Adjusted



Source: Office for National Statistics

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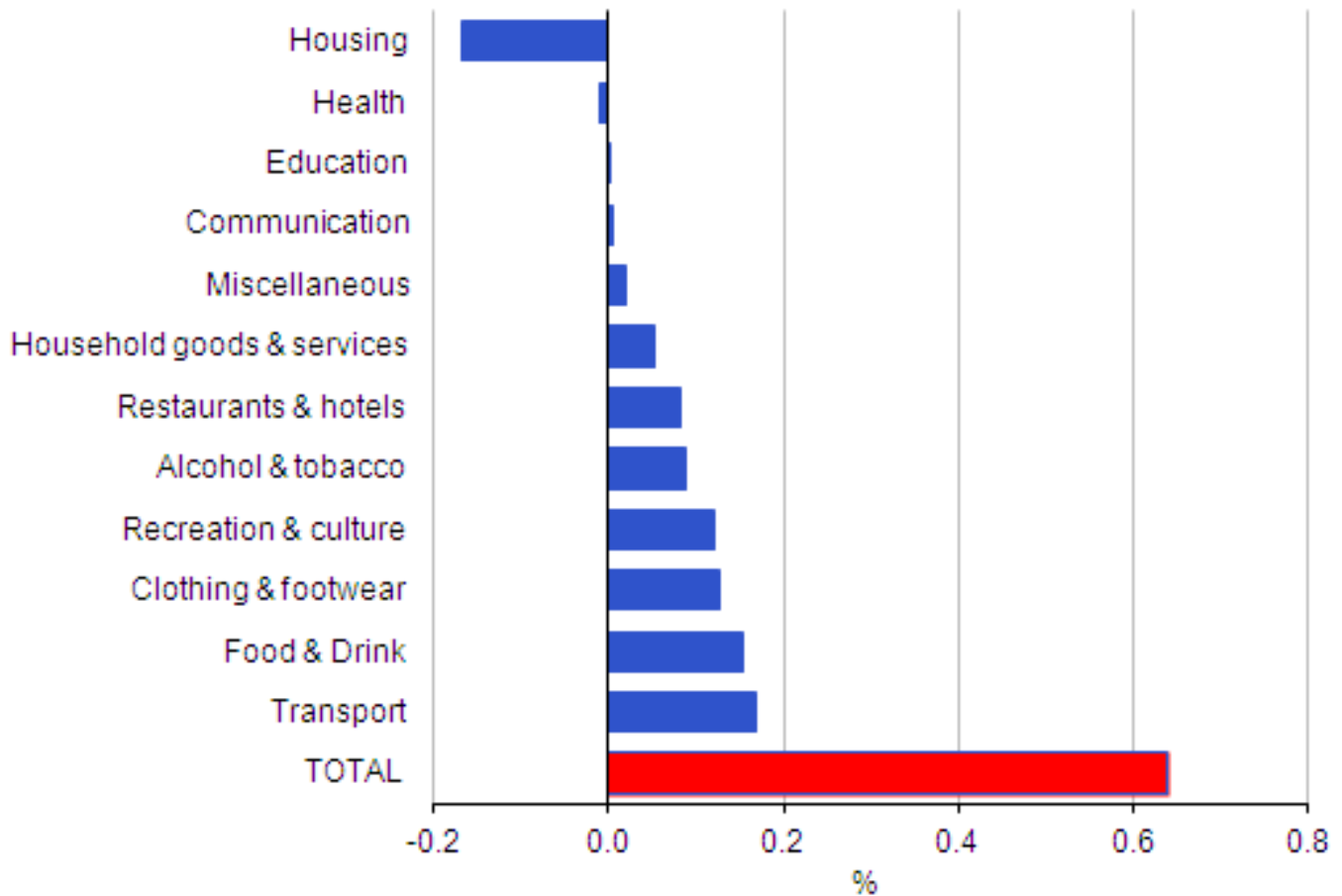
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Spending by Product

In volume terms (adjusted for inflation), spending on 'Transport' has made the largest contribution to the positive growth in Q3 2013, increasing by 1.2% on the quarter. Within 'Transport' the 'Operation of personal transport equipment' showed the largest increase of 2.2% compared to Q2 2013.

The largest negative contribution to growth over this quarter can be seen in 'Housing' which has fallen by 0.7% in volume terms. This is driven by decreased spending on 'Electricity, gas and other fuels' which has fallen by 7.3%.

Figure 4: COICOP Contribution to Overall Growth, Domestic Measure, Chained Volume Measure, Seasonally Adjusted



Source: Office for National Statistics

Notes:

1. COICOP - Classification Of Individual Consumption by Purpose

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Focus on Prices in Household Expenditure

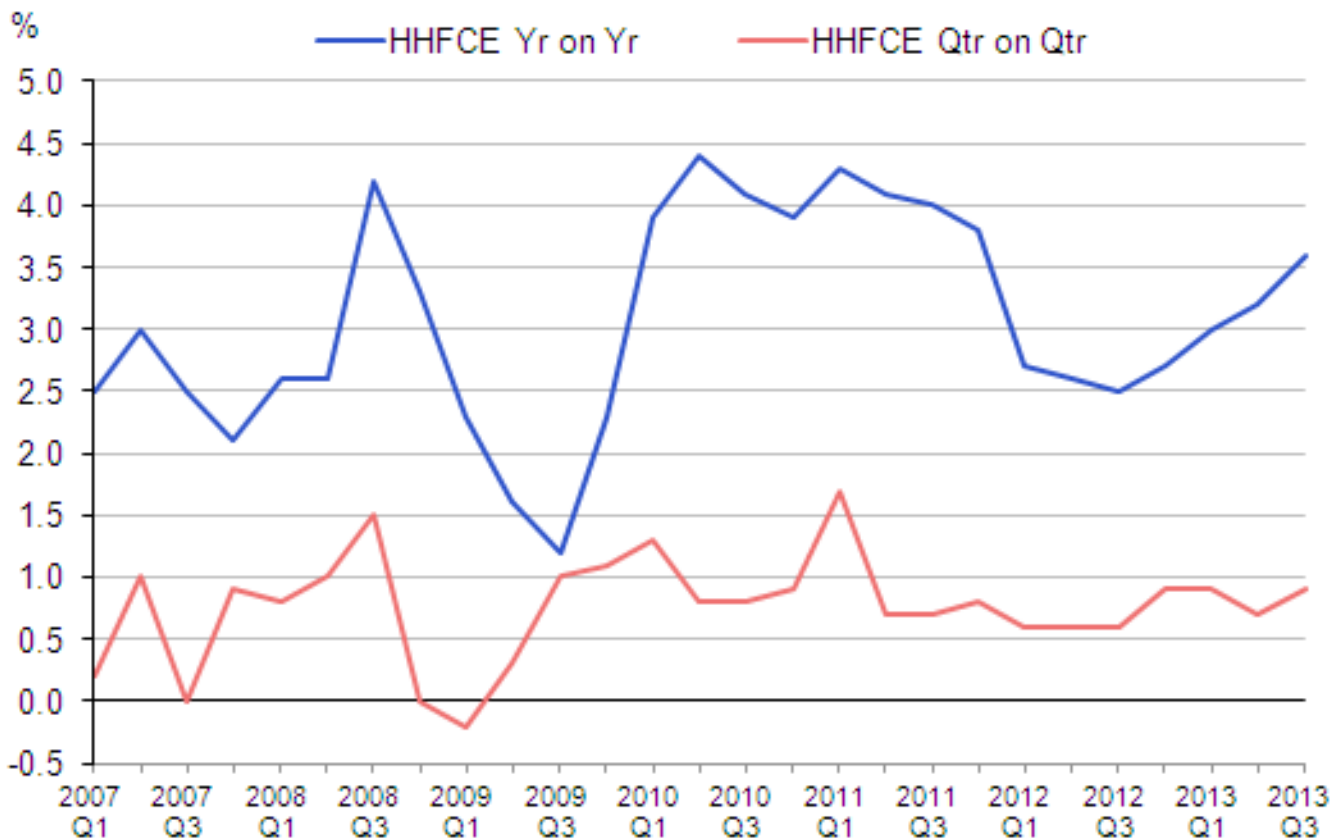
The household expenditure measure of prices is an important component of the GDP deflator which is used to determine price pressures in the economy.

This quarter the seasonally adjusted household expenditure measure of prices (the deflator) increased by 0.9%. The household expenditure deflator (seasonally adjusted) is now 3.6% higher than in Q3 2012. This continues the trend of positive deflator growth since Q2 2009, indicating the increased prices that households face when purchasing goods or services.

In Q3 2013, the largest increase in percentage terms in the household deflator was seen in 'Alcohol and tobacco', which grew by 3.0%. However, the 1.5% growth in the deflator of 'Housing' contributed the most to the overall household expenditure deflator.

From Blue Book 2011, CPI has been used to deflate estimates of Household Expenditure.

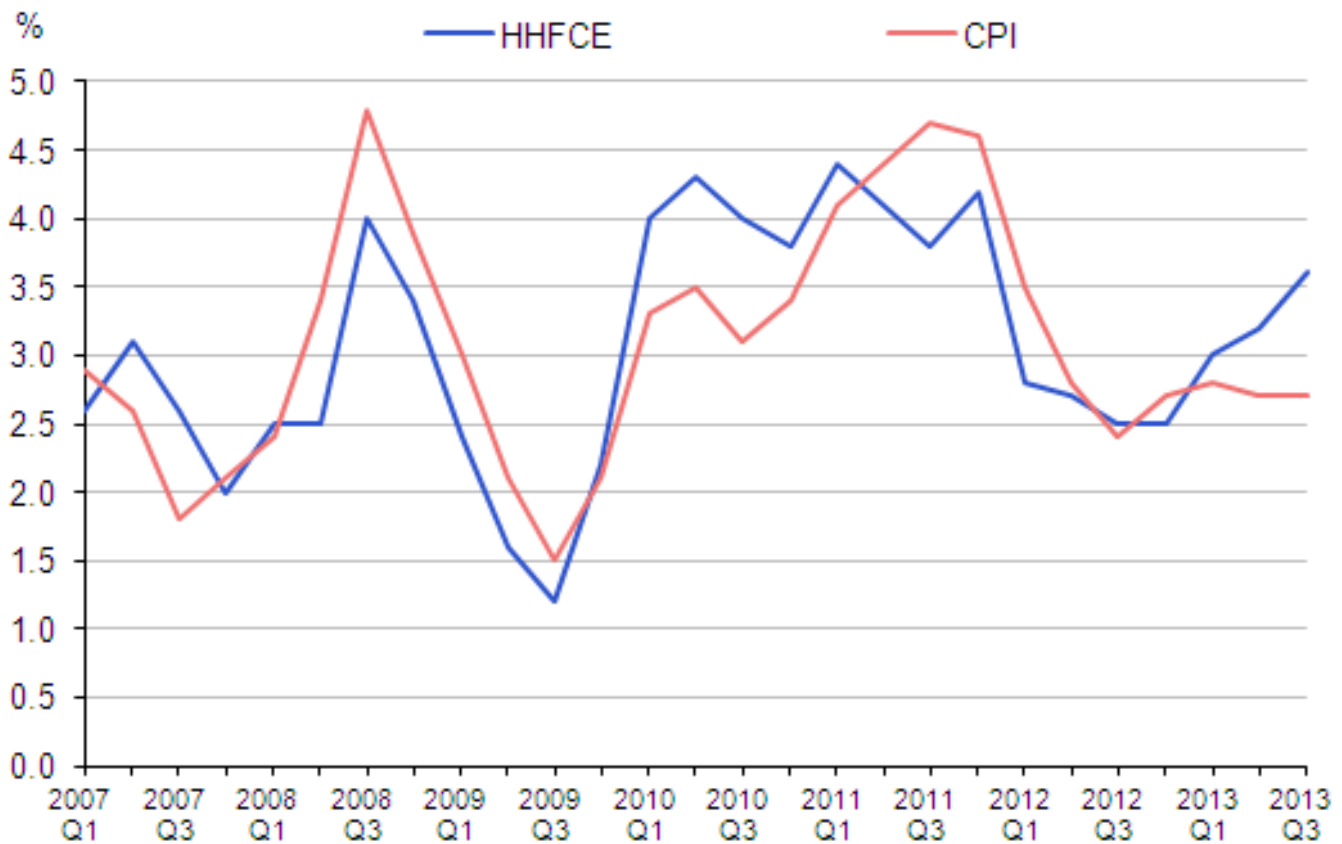
Figure 5: Household Expenditure Implied Deflator, Seasonally Adjusted, Percentage Change



Source: Office for National Statistics

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Figure 6: Price Measures, Not Seasonally Adjusted, Year-on-Year Percentage Change

Source: Office for National Statistics

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Focus on Household Spending on Energy

In Q3 2013, spending on 'Electricity' and 'Gas' in current price terms (seasonally adjusted) has increased by 3.6% and 5.1% respectively when compared with Q3 2012. This contrasts with volume spending, removing price growth, which has seen falls of 4.3% in spending on 'Electricity' and 3.3% on 'Gas' over the same period.

When comparing current price spending for the most recent quarter with Q3 1997, levels of spending have increased by 101% for 'Electricity' and 138% for 'Gas'. However, volume spending in Q3 2013 has fallen when compared with Q3 1997 by 3.3% on 'Electricity' and 22.5% on 'Gas'.

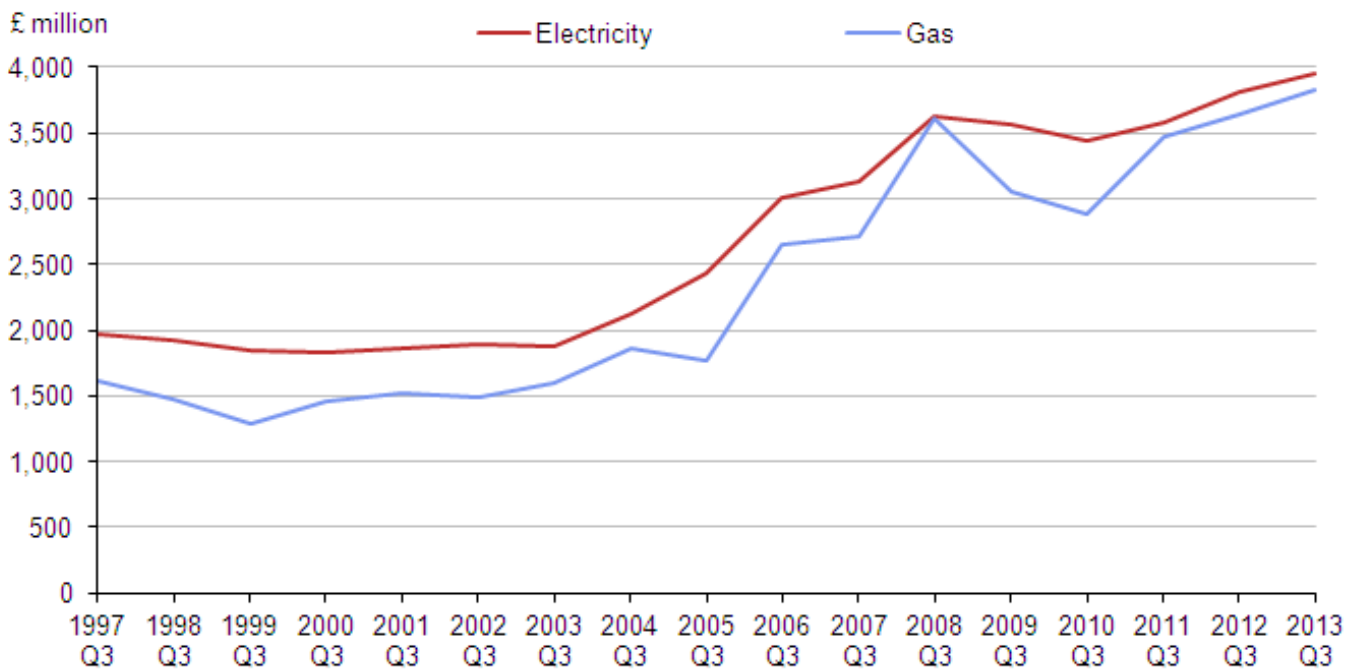
Looking at the period in more detail, between Q3 1997 and Q3 2008, current price spending on 'Electricity' and 'Gas' showed steady growth (when compared with the same quarter in the previous year). Spending then fell until Q3 2010, since when current price expenditure again began to rise through to the most recent period.

In volume terms between Q3 1997 and Q3 2008, expenditure on 'Electricity' grew 7.6% with 'Gas' expenditure falling 2.5%. This period was characterised by relatively steady growth in 'Electricity' spending and three sharp declines in 'Gas' expenditure each followed by a period of increased spending.

From Q3 2008 onwards, both 'Electricity' and 'Gas' have shown a decline in expenditure by volume. 'Electricity' spending fell 10.2% and 'Gas' expenditure fell 20.5%. The sharp fall in 'Gas' expenditure in Q3 2009 has not been followed by the period of increased spending seen previously.

The overall trend in household fuels suggests that households are spending more on household energy, although they are continuing to reduce consumption.

Figure 7: Spending on Electricity and Gas, Current Price, Seasonally Adjusted (£ million)

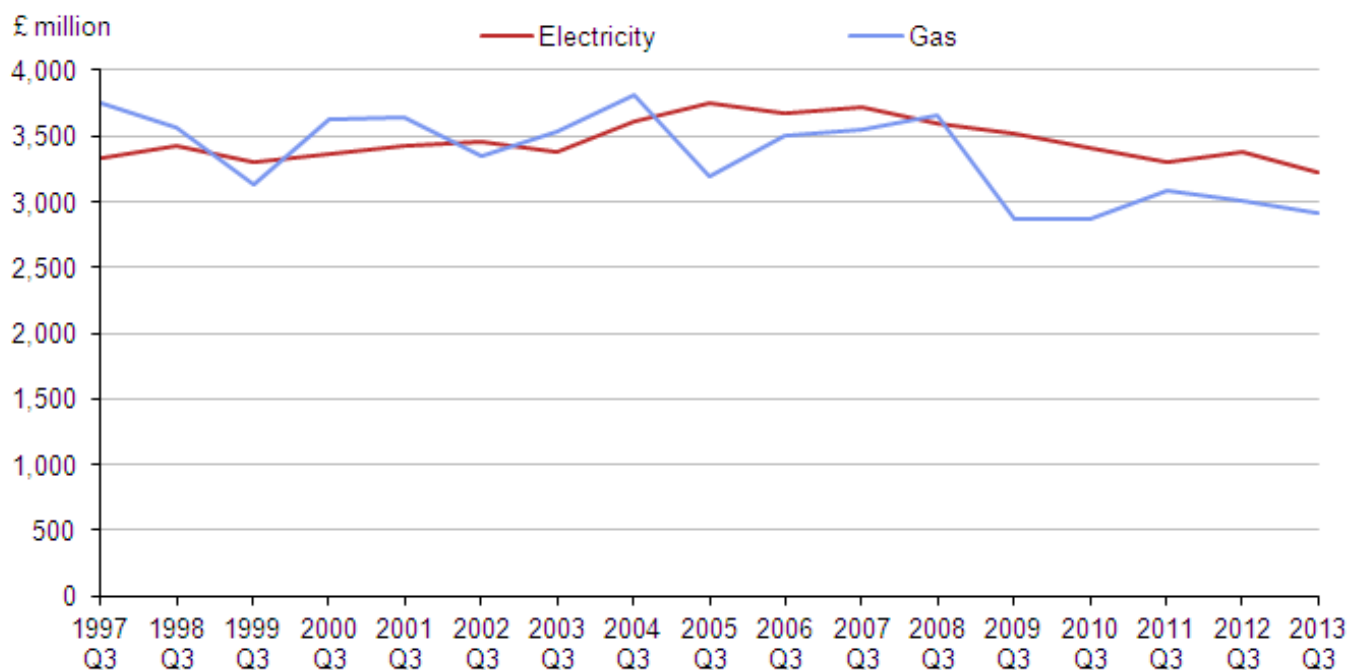


Source: Office for National Statistics

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Figure 8: Spending on Electricity and Gas, Chained Volume Measure, Seasonally Adjusted (£ million)



Source: Office for National Statistics

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Household Final Consumption Expenditure Revisions Q3 2013

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 Q3 2013, the revisions to total household final consumption expenditure have been made from the first quarter of 2012.

Revisions between the previous edition of Consumer Trends (Q2 2013) 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: Household Final Consumption Expenditure Revisions, Q3 2013

| | £ million | % | % |
|----------------|--|---|---|
| | Revisions to value (current prices) | Revisions to growth (current prices) | Revisions to growth (volume measure) |
| 2011 | – | – | – |
| 2012 | 2,871 | 0.3 | 0.3 |
| 2012 Q1 | 684 | 0.3 | 0.3 |
| 2012 Q2 | 119 | -0.2 | 0.1 |
| 2012 Q3 | 898 | 0.3 | 0.1 |
| 2012 Q4 | 1,170 | 0.1 | – |
| 2013 Q1 | 2,184 | 0.4 | 0.2 |
| 2013 Q2 | 2,556 | 0.1 | – |

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.

Guidance and Methodology

[Consumer Trends guidance](#) offers full details regarding this publication.

Background notes

- Date of this publication:** 20 December 2013.
- Next Edition.** The next edition of Consumer Trends, Q4 2013, will be published on 26 March 2014.
- 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 fourth quarter of 2013 will be published on 28 January 2014, followed by the second estimate of GDP on 26 February 2014. The next full set of Quarterly National Accounts will be published on 26 March 2014.
- 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 2010 price structures i.e. the chained volume measure estimate in 2010 equals the current price value of expenditure in 2010.

Growth in each year up to and including 2010 is calculated at average prices of the previous year. Growth from 2010 onwards is calculated at average prices of 2010. Volume series are only additive for the most recent periods, i.e. annual data for 2010 onwards and quarterly data for quarter one 2011 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. **Further information.** Further Quarterly National Accounts, Quarterly Sector Accounts and Financial Accounts tables are available in the [United Kingdom Economic Accounts](#).

Details of the policy governing the release of new data are available from the press office.

6. The [ONS compliance plan](#) can be found on the ONS website.
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