



## **Australian Social Trends 2007**

### **Article: Trends in household consumption**



EMBARGO: 11.30 AM (CANBERRA TIME) TUES 7 AUG 2007

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## Article: Trends in household consumption

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ABS catalogue no. 4102.0

ISSN 1321-1781

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## SYMBOLS AND USAGES

billion	1,000 million
kg	kilogram
m	metre
n.a.	not available
n.e.c	not elsewhere classified
n.p.	not published
n.y.a.	not yet available
no.	number
'000	thousand
'000m	thousand million
\$	dollar
\$m	million dollars
\$b	billion dollars
\$US	American dollar
%	per cent
*	estimate has a relative standard error of 25% to 50% and should be used with caution
**	estimate has a relative standard error of greater than 50% and is considered too unreliable for general use
. .	not applicable
—	nil or rounded to zero (including null cells)

Where figures have been rounded, discrepancies may occur between the sums of the component items and totals.

# Trends in household consumption

**Real household final consumption expenditure per capita increased 152% from 1960–61 (\$10,400) to 2005–06 (\$26,100), an average annual growth rate of 2.1%.**

One dimension of wellbeing is people's command over resources to obtain goods and services to satisfy their needs and wants.<sup>1</sup> In general, an increase in the volume (i.e. the quantity and/or quality) of goods and services consumed by people is regarded as progress.<sup>2</sup> However, reduced consumption of certain goods and services can indicate progress towards social and environmental goals such as improved health and cleaner air.

Final consumption describes the 'using up' of goods and services by householders (to directly satisfy their personal needs and wants) and by governments (to directly satisfy collective community needs and wants). It excludes intermediate consumption expenditure (i.e. consumption of goods and services to produce other goods and services) and expenditure on fixed assets (e.g. dwellings) and valuables.

This article focuses on final consumption expenditure on the goods and services that households purchase on the market, produce for themselves, or receive from private non-profit institutions serving households. Analysis of change over time in the volume of per capita household final consumption expenditure on different goods and services provides an indication of the broad direction in which our society is evolving.

Goods and services which are provided by local, state and national levels of government for individual consumption (e.g. schooling,

## Data sources and definitions

Data presented in this article have largely been drawn from the Australian System of National Accounts.

*Household final consumption expenditure* is expenditure on goods and services by persons and non-profit institutions serving households. It mainly comprises personal expenditure on motor vehicles and other durable goods and the imputed rent of owner-occupied dwellings.

A *per capita* measure is obtained by dividing an aggregate total (e.g. total household final consumption expenditure for Australia) by the estimated resident population of Australia.

A *chain volume measure* of consumption removes the effect of price inflation or deflation so that change in the *volume* (i.e. quantity and/or quality) of consumption can be determined and analysed.

*Imputed rent for owner-occupiers* is the imputed value of housing services accruing to home owners from their occupation of their principal residence and any additional residence such as a holiday home. It is primarily designed to facilitate comparison of consumption levels between countries with high and low rates of home ownership.

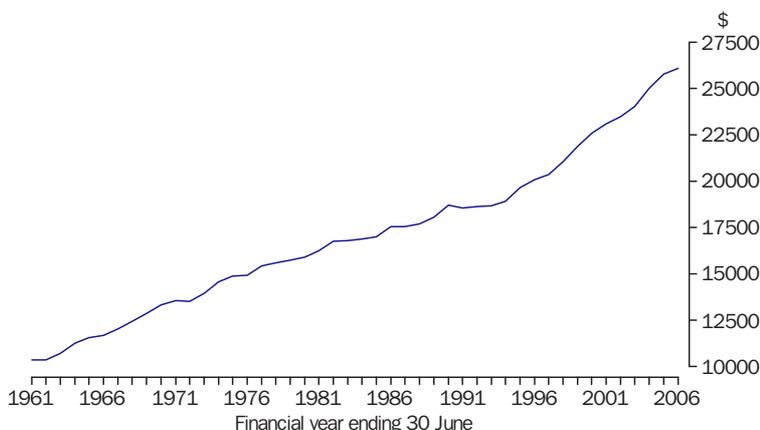
housing, public transport and pharmaceuticals) form part of the actual final consumption of households. While excluded from this analysis for practical reasons, these government social transfers in kind represent a considerable proportion of the actual final consumption of households. Any shift between the government sector and the household sector in final consumption expenditure on such goods and services can change household final consumption expenditure without changing the actual final consumption of households.

## The long-term trend

Expressed in real terms (at 2004–05 prices), household final consumption expenditure per capita rose from \$10,400 in 1960–61 to \$26,100 in 2005–06. The magnitude of this real increase (152%) suggests that we enjoy a much higher standard of material wellbeing than we did in the early 1960s.

Growth in real household final consumption expenditure per capita was particularly strong between 1992–93 and 2005–06. After rising by 1.9% a year between 1960–61 and 1992–93, real household final consumption expenditure per capita increased by 2.6% a year between 1992–93 and 2005–06.

## Real(a) household final consumption expenditure per capita



(a) Chain volume measure with the reference year being 2004–05.

Source: 2005–06 Australian System of National Accounts (ABS cat. no. 5204.0); Australian Historical Population Statistics, 2006 (ABS cat. no. 3105.0.65.001); Australian Demographic Statistics, September 2006 (ABS cat. no. 3101.0).

## Trends over recent decades

Real household final consumption expenditure per capita increased at an average annual rate of 2.0% between 1985–86 and 2005–06. Set against the backdrop of a changing economic environment, as well as social, demographic and technological change, per capita consumption of some goods and services changed at markedly different rates between 1985–86 and 2005–06. Consumption expenditure on some goods and services increased at a similar rate to the overall average. However, consumption expenditure on some goods and services grew much more rapidly than average, while household expenditure on other goods and services barely increased or reduced over the period.

Various factors have the potential to change the volume of household expenditure on particular goods and services. In addition to changes in the public/private funding mix (such as spending on education), these factors include changes in income, prices, technology, demography and lifestyle. For example, higher labour force participation rates and higher real income could induce people to buy more services such as cleaning, housekeeping and child care. Conversely, health awareness campaigns could be expected to reduce alcohol and tobacco consumption.

Between 1985–86 and 2005–06, there was a substantial rise in real net national disposable income per capita, and varying rates of price change across the range of goods and services available for consumption (see *Australian Social Trends 2007*, Purchasing power, pp. 153–157). Rising real income has the potential to alter consumption patterns by boosting real spending on discretionary goods and services (wants) more strongly than on basic goods and services (needs). For example, with strong rises in real incomes, real spending on luxury motor vehicles and overseas travel would be expected to increase at a faster rate than real spending on food.

Differential rates of price change can also shape consumption patterns. To satisfy their needs and wants, consumers sometimes choose to substitute spending on a particular product or service with spending on an alternative product or service in response to a relative price movement of the items. All other factors being equal, consumption expenditure volumes would be expected to rise more strongly on spending options subject to lower rates of price inflation.

## Government final consumption expenditure

Household final consumption expenditure is not a comprehensive measure of peoples' consumption levels. Households also consume vast quantities of services (and some goods) that are provided by local, state and national levels of government. Examples of goods and services provided by governments to households at either no charge or at a subsidised price include housing, schooling, medical treatment, immunisation, health screening, pharmaceuticals, transport, cultural events, and recreational activities.

Health and education are categories of final consumption expenditure for which households consume a considerably greater volume of government-provided goods and services than they purchase or receive from market producers and private non-profit institutions serving households. During 2005–06, government final consumption expenditure on health (\$2,555 per capita) and education (\$1,703 per capita) outweighed household final consumption expenditure on health (\$1,356 per capita) and education services (\$909 per capita).

## Components of household final consumption expenditure

During 2005–06, nearly half (46%) of all household final consumption expenditure was accounted for by rent and other dwelling services, food, catering and transport. The remainder of this article examines change in the volume of consumption of these relatively large components of household final consumption expenditure before analysing rates of consumption growth (or decline) for some of the other components of household final consumption expenditure.

### ... rent and other dwelling services

Rent and other dwelling services comprises actual rent on housing, imputed rent for owner-occupiers, and water and sewerage services. Per capita real household final consumption expenditure on rent and other dwelling services was 51% greater in 2005–06 (\$4,551) than it had been in 1985–86 (\$3,020). This equates to an average annual rate of increase of 2.1%, which is almost identical to the rate of increase in total real household final consumption expenditure per capita.

Within the rent and other dwelling services category, per capita real household final consumption expenditure on actual rent for housing increased by 2.1% per year and imputed rent for owner-occupiers rose by 2.2%. These increases are in step with trends toward living in larger homes and living with fewer people (see *Australian Social Trends 2007*, Larger dwellings, smaller households,

### Components of real household final consumption expenditure(a) per capita

	Change from 1985–86 to 2005–06				
	1985–86	2005–06		Total	Average annual
	\$	\$	%	%	%
Communication services	176	777	3.0	341.0	7.7
Goods for recreation and culture	303	1 219	4.7	302.4	7.2
Insurance services	360	834	3.2	131.7	4.3
Personal effects	97	212	0.8	118.5	4.0
Transport services	295	613	2.3	107.3	3.7
Purchase of vehicles	544	1 008	3.9	85.4	3.1
Recreational and cultural services	882	1 606	6.2	82.1	3.0
Furnishings and household equipment	822	1 486	5.7	80.8	3.0
Personal care	277	478	1.8	72.3	2.8
Education services	540	859	3.3	59.0	2.3
Miscellaneous services	643	1 007	3.9	56.5	2.3
Imputed rent for owner-occupiers	2 140	3 290	12.6	53.7	2.2
Actual rent for housing	704	1 072	4.1	52.1	2.1
Health	903	1 313	5.0	45.3	1.9
Electricity, gas and other fuel	403	532	2.0	32.0	1.4
Catering	1 297	1 679	6.4	29.5	1.3
Accommodation services	254	302	1.2	19.1	0.9
Operation of vehicles	1 209	1 409	5.4	16.5	0.8
Alcoholic beverages	474	547	2.1	15.4	0.7
Clothing and footwear	888	998	3.8	12.4	0.6
Food	2 597	2 800	10.7	7.8	0.4
Water and sewerage services	178	190	0.7	6.8	0.3
Books, papers, stationery and artists' goods	406	416	1.6	2.5	0.1
Financial services other than insurance	1 065	977	3.7	-8.3	-0.4
Cigarettes and tobacco	855	473	1.8	-44.7	-2.9
<b>Total</b>	<b>17 545</b>	<b>26 094</b>	<b>100.0</b>	<b>48.7</b>	<b>2.0</b>

(a) Chain volume measures with the reference year being 2004–05. Apart from the reference year and the year following it, component volume estimates do not usually sum to their totals. For more information about chain volume measures see the information paper *Introduction of Chain Volume Measures in the Australian National Accounts* (ABS cat. no. 5248.0).

Source: 2005–06 Australian System of National Accounts (ABS cat. no. 5204.0); Australian Historical Population Statistics, 2006 (ABS cat. no. 3105.0.65.001); Australian Demographic Statistics, September Quarter 2006 (ABS cat. no. 3101.0).

pp. 184–187 and *Australian Social Trends 2003*, Changes in Australian housing, pp. 175–179). Unlike rent, per capita real household final consumption expenditure on water and sewerage services grew comparatively slowly between 1985–86 (\$178) and 2005–06 (\$190), at an average annual rate of 0.3%.

#### ... food

There was a similarly low average annual increase (0.4%) during the period in per capita real household final consumption expenditure on food and non-alcoholic beverages other than at restaurants, cafes, hotels, clubs and similar catering establishments.

#### ... catering

Another way to consume food is to dine at a catering establishment such as a restaurant, cafe, hotel or club. Between 1985–86 and 2005–06, per capita real household final consumption expenditure on catering rose by 30% or 1.3% per year on average (from \$1,297 to \$1,679). This rate of growth in consumption spending on catering substantially exceeded growth in expenditure on food. The comparatively large increase is consistent with some people electing to 'contract out' meal preparation activity in response to their reduced availability of time from increased employment combined with their expanded spending capacity from higher real income.

### ... transport

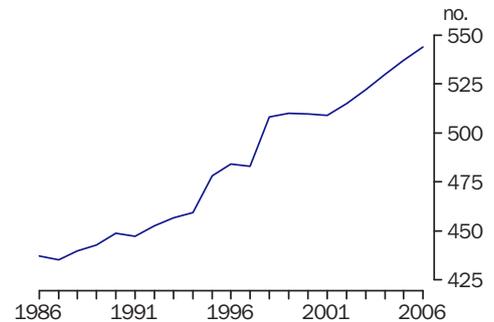
Transport comprises the purchase of vehicles, the operation of vehicles, and transport services. Per capita real household final consumption expenditure on transport grew by 2.2% per year, close to the average annual rate of total consumption growth between 1985–86 and 2005–06. Yet growth was stronger for some transport-related goods and services than others. Average annual growth in the volume of spending on transport services (3.7%) and the purchase of vehicles (3.1%) was greater than it was on the operation of vehicles (0.8%).

Disparity between volume growth in spending on the purchase and the operation of vehicles reflects several trends. The number of registered passenger vehicles per 1,000 estimated resident population increased markedly between 1986 (437) and 2006 (544). Yet the average annual number of kilometres travelled per passenger vehicle dropped from 15,500 during the year ended 30 September 1985 to 14,100 during the year ended 31 October 2005.<sup>3,4</sup> Improvement in the average fuel efficiency of petrol-fuelled passenger vehicles also contributed to the relatively low increase in spending on the operation of vehicles. Over the same period, the average amount of petrol needed to travel 100 kilometres reduced from 12.0 litres to 11.4 litres.<sup>3,4</sup>

### ... communication services

There has been relatively strong growth in the volume of communication services consumed by Australians over recent decades. From a low base in 1985–86, per capita real household final consumption expenditure on these

### Registered passenger vehicles(a) per thousand people



(a) Data point interpolated for the year 2000 as the number of registered passenger vehicles was not collected in that year.

Source: *Motor Vehicle Registrations, Australia, 1990–91 to 1992–93 editions* (ABS cat. no. 9304.0) and *December 1994* (ABS cat. no. 9303.0); *Australian Historical Population Statistics, 2006* (ABS cat. no. 3105.0.65.001); *Motor Vehicle Census, Australia, October 1997, October 1998, and March 2001 to 31 March 2006 editions* (ABS cat. no. 9309.0).

services more than quadrupled by 2005–06 (an increase of 341% or 7.7% each year on average). Much of this growth is related to the emergence and popularity of new technologies for communicating with others. In particular, household use of mobile phone and internet services has surged over the past decade.

In February 1996, only 24% of all households owned or paid for a mobile phone, and few (4%) had access to the internet. This profile changed considerably over the ensuing decade. Averaged across 2002, the proportion of households who had access to a mobile phone had jumped to 72% and, averaged across the 2005–06 financial year, the proportion with access to the internet at home had risen to 60%. Relatively low average annual rates of price inflation during the period for telecommunication services (0.9%) may have contributed to the comparatively strong growth observed in per capita consumption of communication services.

### ... recreation and culture

Between 1985–86 and 2005–06, there was a similarly large average annual increase (7.2%) in per capita real household final consumption expenditure on goods for recreation and culture. Such goods include television, video, hi-fi and telecommunication equipment (e.g. mobile phones), cameras and personal computers.<sup>5</sup> Most households (70%) had access to a home computer in 2005–06, compared with just 29% in February 1994.

Rising take-up rates fuelled by rapid technological progression and price deflation for many digital electronic devices is likely to

### Proportion of all households with selected communication and recreational technologies

Selected technology	February 1994	February 1996	2000	2002	2005–06
	%	%	%	%	%
Mobile phone	n.a.	24.1	61.0	72.0	n.a.
Access to a home computer	29.4	36.0	53.0	61.0	70.0
Home internet access(a)	n.a.	3.9	32.0	46.0	60.0
Dedicated games machine(b)	17.8	15.9	32.0	32.0	n.a.
DVD player(c)	n.a.	n.a.	6.0	23.0	n.a.
Pay TV	n.a.	3.0	17.0	21.0	n.a.

(a) Access at any location in February 1996.

(b) Proportion using a dedicated games machine in February 1994 and February 1996.

(c) Excludes DVD drives in computers.

Source: *Australian Social Trends, 1999* (ABS cat. no. 4102.0); *Household Use of Information Technology, Australia, February 1996* (ABS cat. no. 8128.0), 2001–02 and 2005–06 editions (ABS cat. no. 8146.0).

have underpinned the relatively large increase in real per capita consumption of goods for recreation and culture. When priced to constant quality, audio-visual and computing equipment prices fell by 74% (6.5% year after year on average) over the twenty year timespan.<sup>6,7</sup>

Per capita real household final consumption expenditure on recreational and cultural services was 82% higher during 2005–06 than it had been in 1985–86, representing an increase of 3.0% per year throughout the period. Consumption of recreational and cultural services includes net losses from gambling, the current expenditure of private non-profit social clubs, admission charges to entertainment, and subscription to pay TV services.<sup>5</sup> The proportion of households who had pay TV grew strongly between February 1996 (3%) and the year 2002 (21%).

Not all aspects of recreation and culture consumption rose strongly over recent decades. For example, per capita real household final consumption expenditure on books, papers, stationery and artists' goods was barely higher in 2005–06 (\$416) than in 1985–86 (\$406).

### ... furnishings and equipment

Per capita real household final consumption expenditure on furnishings and household equipment was 81% higher during 2005–06 than it had been 20 years earlier. This equates to average consumption volume growth of 3.0% per year during the period.

Many goods are covered by the broad category of furnishings and household equipment. Included is furniture, floor coverings, textiles, decorative ware, tools, utensils, non-durable items such as cleaning and maintenance products, and household appliances.<sup>5</sup> Between 1994 and 2005, several major appliances became more commonplace in

Australian homes. The proportion of homes with a washing machine increased only marginally between June 1994 (94%) and March 2005 (96%) as almost every household had one in June 1994. There were more substantial rises over the same period in the proportion of homes with an air conditioner (33% to 60%), a dishwasher (25% to 42%) and two or more refrigerators in use (24% to 33%). An enabling factor in such increased rates of appliance ownership is that household appliances became more affordable between 1985–86 and 2005–06 (see *Australian Social Trends 2007*, Purchasing power, pp. 153–157).

### ... electricity, gas and other fuel

Residential energy consumption is partly determined by the number, type and amount of use of home appliances.<sup>8</sup> The increased presence of numerous energy-consuming appliances in Australian homes, combined with the trend towards smaller households and their lower economy of scale in energy use, might be expected to have raised the level of per capita energy consumption in the household sector.

Per capita real household final consumption expenditure on electricity, gas and other fuel was 32% greater during 2005–06 than during 1985–86, increasing by an average of 1.4% each year throughout the period.

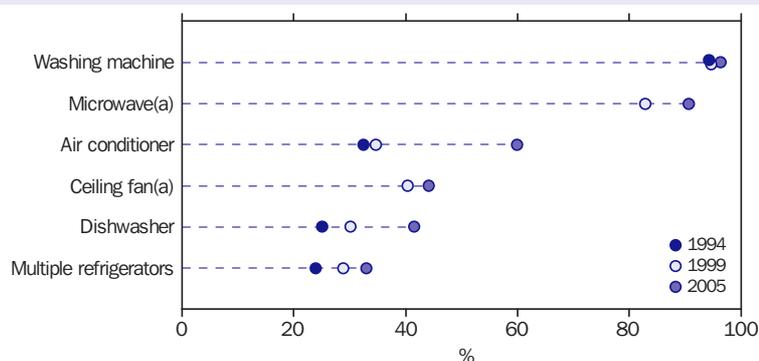
### ... financial services other than insurance

Household consumption of some services declined between 1985–86 and 2005–06. In contrast to the relatively strong growth in per capita real household final consumption expenditure on insurance services during this period (132% or 4.3% per year), there was an 8% decline (0.4% per year) in per capita real household final consumption expenditure on other financial services.

Household final consumption of financial services other than insurance comprises the direct and indirect service charges of financial institutions (e.g. account keeping fees, travellers' cheque commission, unit trust management fees, brokerage on share trading, fees for financial advice, and margin interest earned from borrowing and lending activity other than mortgages on dwellings owned by persons) together with government tax on financial transactions by households (e.g. financial institutions duty and stamp duty on trade in financial instruments).<sup>5</sup>

Per capita real household final consumption expenditure on financial services other than insurance was 8% lower in 2005–06 than it

**Prevalence of selected appliances in Australian homes**



(a) Data not collected in 1994.

Source: *Environmental Issues: People's Views and Practices, March 2005* (ABS cat. no. 4602.0).

had been in 1985–86 (an average decline of 0.4% per year). This decline may be attributable to greater competition in the financial services industry following the deregulation of financial markets in the 1980s. It may also be due to changes in the business cycle. Per capita real household final consumption expenditure on financial services other than insurance dropped sharply during 1987–88, and continued to decline until 1993–94. This period encompasses the October 1987 stockmarket crash and the years of recession and high unemployment during the early 1990s.

The decline does not appear to represent a gradual movement away from consuming financial services other than insurance. Per capita real household final consumption expenditure on these services grew at the relatively rapid average annual rate of 4.9% between 1993–94 and 2005–06, a period of sustained strong economic growth.

### ... cigarettes and tobacco

The decline in the real value of personal outlays on tobacco products between 1985–86 and 2005–06 was fairly linear, and represented the continuation of a long-term trend which has prevailed since 1969–70.

There are several possible reasons for the observed reduction in the volume of per capita spending on tobacco. Findings from research into the health consequences of tobacco smoking, mandatory warnings on cigarette packets, advertising restrictions, health campaigns, and bans on smoking in enclosed spaces could be expected to have had some impact. Consumption may have

been further discouraged by tobacco products being much less affordable in 2005–06 than in 1985–86 (see *Australian Social Trends 2007*, Purchasing power, pp. 153–157).

Demographic change in the form of population ageing may have also contributed to lower tobacco consumption. The reason population ageing may have contributed is that older adults are less likely to smoke than younger adults,<sup>9</sup> as the effects of smoking on personal health start to materialise with age.

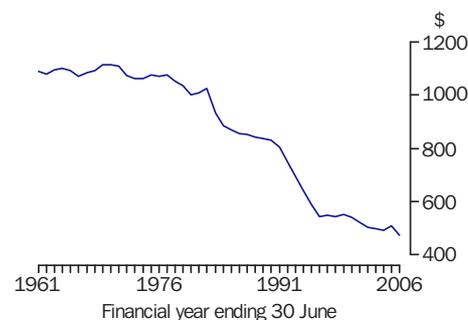
### Impact of population ageing

Projected continuation of the ageing of the Australian population over coming decades could be expected to be accompanied by altered per capita consumption expenditure volumes for a range of goods and services. This is because the spending patterns of people tend to change as they grow older. Illustrations of how spending patterns generally change through the life cycle are provided in *Australian Social Trends 2006*, Household expenditure patterns by life cycle, pp. 160–165, and Household expenditure patterns, pp. 156–159.

### Endnotes

- 1 Australian Treasury, 'Policy advice and Treasury's Wellbeing Framework' in *Economic Roundup*, Winter 2004.
- 2 Australian Bureau of Statistics 2006, *Measures of Australia's Progress 2006*, cat. no. 1370.0, ABS, Canberra.
- 3 Australian Bureau of Statistics 1986, *Survey of Motor Vehicle Use, Twelve Months Ended 30 September 1985*, cat. no. 9208.0, ABS, Canberra.
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- 5 Australian Bureau of Statistics 2000, *Australian System of National Accounts: Concepts, Sources and Methods 2000*, cat. no. 5216.0, ABS, Canberra.
- 6 Australian Bureau of Statistics 2005, *Australian Consumer Price Index: Concepts, Sources and Methods 2005*, cat. no. 6461.0, ABS, Canberra.
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- 9 Australian Bureau of Statistics 2006, *Tobacco Smoking in Australia: A Snapshot, 2004–05*, cat. no. 4831.0.55.001, ABS, Canberra.

### Real(a) per capita household final consumption expenditure on cigarettes and tobacco



(a) Chain volume measure; reference year is 2004–05.

Source: 2005–06 Australian System of National Accounts (ABS cat. no. 5204.0); Australian Historical Population Statistics, 2006 (ABS cat. no. 3105.0.65.001); Australian Demographic Statistics, September Quarter 2006 (ABS cat. no. 3101.0).



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