

Introduction

Welcome to the 13th edition of *Household Spending: Who Spends How Much on What*, your exclusive guide to the spending patterns of American households in 2006. The detailed spending data presented here are not available on any government web site. They were obtained by special request from the Bureau of Labor Statistics. New Strategist has been acquiring and processing these data since 1989 (publishing *Household Spending* every two years through 1999 and annually since 2000), providing a unique and comprehensive analysis of the spending of American households.

Since we published the first edition of *Household Spending*, the economy has cycled through good times and bad. Despite the ups and downs, the average household has held a surprisingly steady course. While spending has grown strongly at the national level over the years, it has increased more moderately at the household level. This caution has served Americans well, helping to insulate their day-to-day lives from the economy's gyrations. The rising costs of housing, health care, education, and energy are now straining household budgets. These factors emerge in the 2006 spending data.

Americans are cautious spenders

To understand spending trends, it is important to distinguish between aggregate consumer spending and average household spending. Aggregate spending is the big picture, the total expenditures of American consumers, businesses, and government. Aggregate consumer spending in the United States has been growing strongly for years because of population growth and the aging of the enormous baby-boom generation into the peak-spending age groups. Average household spending, in contrast, is the more intimate world of bills and budgets. It shows how individual households allocate their dollars. Average household spending is growing much more slowly than aggregate spending. Between 2000 and 2006, for example, aggregate consumer spending increased by 19 percent, after adjusting for inflation. Average household spending grew only 9 percent. Contrary to popular perception, Americans are cautious spenders.

In 2006, the average American household spent \$48,398, up from an inflation-adjusted \$44,541 in 2000. Much of the growth in household spending since 2000 has been involuntary, brought about by the ever-larger claim of necessities on the household budget. After adjusting for inflation, the average household spent 24 percent more on property taxes in 2006 than in 2000. Spending on gasoline rose 47 percent during those years. Out-of-pocket spending on health insurance increased 27 percent, and spending on education grew 20 percent.

The increases in many discretionary categories were much smaller. Spending on "other lodging," a category that includes hotel and motel expenses, climbed by only 1 percent, after adjusting for inflation. Similarly, spending on public transportation (a category dominated by airfares) also grew by just 1 percent. Spending on women's apparel fell 12 percent, and shoes decreased an even larger 24 percent. Households cut their spending on reading material by 32 percent. Bucking the trend, spending on entertainment rose by 9 percent. But spending on fees and admissions to entertainment events increased by less than 1 percent, while spending on audio and visual equipment and services grew by a substantial 24 percent as households upgraded their televisions to big-screen high-definition television sets.

Analyzing spending trends at the individual household level, as *Household Spending* does, provides deep insight into the nation's economic ups and downs. Unfortunately, few tackle the household level data, discouraged by their complexity. Instead, most analysts and reporters take the easy way out, reporting on aggregate consumer spending because it requires an examination of only two figures—today's and yesterday's. In contrast, analyzing spending at the household level requires delving into the who, what, and why of spending—the mindset and motivations of individual consumers. You can find that reality here, in the 13th edition of *Household Spending*. This book is for those who need to know the who, what, and why of American spending patterns.

Consumer spending is the result of a complex mix of wants and needs, hopes and fears. This mix determines the success of individual businesses and the health of our economy. Knowing how consumers spend their dollars is key to understanding where our economy is headed, an insight of immense value as the nation copes with uncertainty.

How the book is organized

Household Spending is based on unpublished data collected by the Bureau of Labor Statistics' Consumer Expenditure Survey, an ongoing, nationwide survey of household spending. The editors of *New Strategist* start with the average spending figures collected by the Bureau of Labor Statistics and analyze them in a variety of ways, calculating household spending indexes, total household spending, and household market shares. We do this for hundreds of spending categories by age of householder, household income, household type, race and Hispanic origin of householder, region of residence, and educational attainment of householder.

The Bureau of Labor Statistics' Consumer Expenditure Survey is a complete accounting of household expenditures. It includes everything from big-ticket items, such as homes and cars, to small purchases like laundry detergent and videogames. The survey does not include expenditures by government, business, or institutions. The lag time between data collection and publication is about two years. The data in this book are from the 2006 Consumer Expenditure Survey, unless otherwise noted.

The Consumer Expenditure Survey uses consumer units as its sampling unit. The Bureau of Labor Statistics defines "consumer unit" as "a single person or group of persons in a sample household related by blood, marriage, adoption or other legal arrangement or who share responsibility for at least two out of three major types of expenses—food, housing, and other expenses." For convenience, consumer units are referred to as households in the text of this book. For more information about the Consumer Expenditure Survey and consumer units, see Appendix A.

Chapter 1 of *Household Spending* is devoted to summary household spending statistics. These are shown for consumer units by age, income, household type, region of residence, race and Hispanic origin, and education.

Chapters 2 through 11 present detailed spending statistics organized by major product and service categories (food, housing, transportation, and so on) and include all typical household expenditures. Within each chapter, spending statistics are shown by age of householder, household income, household type, race and Hispanic origin of householder, region of residence, and educational attainment of house-

holder. For each of the demographic variables, tables show average spending, indexed spending, total (or aggregate) spending, and share of spending.

How to use the tables in this book

The data in *Household Spending* reveal how American households allocate their spending dollars. The starting point for all calculations in *Household Spending* are the unpublished detailed average household spending data collected by the Consumer Expenditure Survey. These are shown in the average spending tables in chapters 2 through 11. New Strategist's statisticians produced the remaining tables in each chapter based on the average figures. The indexed household spending tables reveal whether households in a given segment spend more or less than the average for all households (or for all households in that segment), and by how much. The total household spending tables show the overall size of a particular market. The household market share tables reveal how much spending each household segment accounts for. These four types of tables are described in detail below.

- **Average Household Spending Tables** The average spending tables report the average annual spending of households on each item or category of items in 2006. The Consumer Expenditure Survey produces average spending data for all households in a segment; e.g., all households with a householder aged 25 to 34, not just for those who purchased the item. When reviewing the spending data, it is important to remember that by including both purchasers and nonpurchasers in the calculation, the average is diluted—especially for infrequently purchased items. For example, the average household spent \$265 on day care centers in 2006. Since only a small percentage of households spend money on day care, this figure greatly underestimates the amount spent on day care centers by those who make use of them. To get a more realistic idea of how much buyers spend on an item, Appendix C shows the percentage of households that purchased individual products and services during the average quarter of 2006, and the amount spent by purchasers per quarter. According to Appendix C, only 5 percent of households spent on day care centers during the average quarter of 2006. Purchasers spent an average of \$1,248 per quarter, for an estimated annual cost of \$4,992—a much more realistic figure than the average of \$265 for all households.

For frequently purchased items—such as bread—the average spending figures give a fairly accurate account of actual spending. But for most of the products and services examined in *Household Spending*, the average spending figures are less revealing than the indexes and market shares.

Average spending figures are useful in determining the market potential of a product or service in a local area. By multiplying the average amount married couples spend on children's clothing by the number of married couples in the Dallas metropolitan area, for example, marketers can estimate the size of the market for children's clothing in Dallas. The Dallas media could show those figures to potential advertisers as evidence of the local demand for children's clothing.

Note that because of sampling errors, average values can vary—especially for infrequently purchased items. To examine the standard errors associated with summary average spending figures (Chapter 1), go to <http://www.bls.gov/cex/csxstnderror.htm>. To examine the standard errors associated with detailed average spending data, contact the Bureau of Labor Statistics Consumer Expenditure Survey statisticians by phone at 202-691-6900 or by email at cexinfo@bls.gov.

- **Indexed Household Spending Tables** Indexed spending tables compare the spending of each household segment with that of the average household. To compute the indexes, New Strategist’s statisticians divide the average amount a household segment spends on a particular item by how much the average household spends on the item, and multiplies the resulting figure by 100.

An index of 100 is the average for all households. An index of 125 means the spending of a household segment is 25 percent above average (100 plus 25). An index of 75 indicates spending that is 25 percent below the average for all households (100 minus 25). Indexed spending figures identify the best customers for a product or service. Households with an index of 177 for outdoor furniture, for example, are a strong market for that product. Those with an index below 100 are either a weak or an underserved market.

Spending indexes can reveal hidden markets—household segments with a high propensity to buy a particular product or service but which are overshadowed by larger household segments that account for a bigger share of the total market. Householders aged 65 to 74, for example, spend 64 percent more than the average household on newspaper and magazine subscriptions (with an index of 164). This is a higher index than that of any younger age group, making householders aged 65 to 74 one of the best customers of this item. Householders aged 45 to 54 spend about an average amount on newspaper and magazine subscriptions, with an index of 108. But the market share of 45-to-54-year-olds is much larger than that of 65-to-74-year-olds (22 versus 16 percent) because there are more households in the younger age group. Using the indexed spending tables, marketers can see that older householders are in fact their better customers and adjust their business strategy accordingly.

Note that because of sampling errors, small differences in index values usually are not significant. But the broader patterns revealed by indexes can guide marketers to the best customers.

- **Total Household Spending Tables** To produce the total spending tables, New Strategist’s statistician’s multiplied average spending figures by the number of households in a segment. The result is the dollar size of the total household market and of each market segment. All totals are shown in thousands of dollars. To convert the numbers in the total spending tables to dollars, you must append “000” to the number. For example, households headed by people aged 25 to 34 spent more than \$13 billion (\$13,192,066,000) on alcoholic beverages in 2006.

When comparing the total spending figures in *Household Spending* with aggregate spending figures from the Bureau of Economic Analysis, other government agencies, or trade associations, keep in mind that the Consumer Expenditure Survey includes only household spending, not spending by businesses or institutions. Sales data also will differ from household spending totals because sales figures for consumer products include the value of goods sold to industries, government, and foreign markets, which can be a significant proportion of sales.

- **Household Market Share Tables** New Strategist’s statisticians produced the market share tables by converting total spending data to percentages. To calculate the percentage of total household spending on an item controlled by a demographic segment—i.e., its market share—we divided the segment’s total spending on the item by aggregate household spending on the item.

Market shares reveal the biggest customers—the demographic segments that account for the largest share of household spending on a particular product or service. Businesses can reach a large portion of their customers by targeting the demographic segments in control of the largest market shares. Of course, by single-mindedly targeting the biggest customers, businesses cannot nurture potential growth markets. An additional danger of focusing only on the biggest customers is that businesses may end up ignoring their best customers. This is especially problematic because market shares are unstable, thanks to baby booms and busts over the past half-century. For example, householders aged 45 to 54 control a larger share of the market for home maintenance and repair services than householders aged 65 to 74, but only because the younger age group is filled with the large baby-boom generation. In fact, householders aged 65 to 74 are better customers of home maintenance services, spending 36 percent more than the average household on this item. Meanwhile, householders aged 45 to 54 spend only an average amount on home maintenance services (with an index of 102). Marketers who ignore their best customers because they are distracted by their biggest customers may end up with no customers.

For more information

The 13th edition of *Household Spending* offers researchers a detailed analysis of the voluminous and unpublished spending data collected by the Bureau of Labor Statistics. It provides a convenient way to compare and contrast spending on goods and services by demographic characteristic such as age of householder or household type. For more about the Consumer Expenditure Survey, visit the Bureau of Labor Statistics web site (<http://www.bls.gov/cex/>), where summary average spending figures (as shown in Chapter 1 of this book) are available online. The detailed average spending numbers (as shown in Chapters 2 through 11) are available only by special request.

For household spending trends by single product category, see New Strategist's *Who's Buying* reports. To find out more about these reports and to view tables of contents and sample pages, visit New Strategist's web site at <http://www.newstrategist.com>. All New Strategist books and reports are available as downloads or hardcopies.