

Introduction

Welcome to the 14th edition of *Household Spending: Who Spends How Much on What*, your exclusive guide to the spending patterns of American households in 2007. 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. As we publish this edition, we are in the midst of the worst recession since the Great Depression. Although the recession did not officially begin until December 2007, the spending patterns shown in these pages reveal the struggle by the average household to maintain its standard of living. This struggle began years ago as the cost of housing, health care, education, and energy began to grow much faster than incomes.

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 has grown much more slowly than aggregate spending. Between 2000 and 2007, for example, aggregate consumer spending increased by 22 percent, after adjusting for inflation. Average household spending grew by only 8 percent. Between 2006 and 2007, aggregate consumer spending increased by 2.6 percent but average household spending fell by 0.3 percent—most of the decline occurring before the recession became official. Contrary to popular perception, most Americans are cautious spenders.

In 2007, the average American household spent \$49,638, up from \$45,809 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 22 percent more on mortgage interest in 2007 than in 2000. It spent 25 percent more on property taxes and 53 percent more on gasoline. Out-of-pocket spending on health insurance increased 31 percent, and spending on education was up 24 percent.

Many discretionary categories experienced declines. Average household spending on women's apparel fell 14 percent, and shoes were down by an even larger 21 percent. Households cut their spending on new vehicles by 19 percent, and spending on personal care products and services was down 13 percent. Bucking these trends, spending on entertainment rose by a substantial 20 percent—much of the increase devoted to big-screen televisions.

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 14th 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 the 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, and educational attainment of householder.

The Bureau of Labor Statistics' Consumer Expenditure Survey is a complete accounting of household expenditures, including 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 2007 Consumer Expenditure Survey, unless otherwise noted.

The Consumer Expenditure Survey uses consumer units as its sampling unit. A “consumer unit” is defined by the Bureau of Labor Statistics 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, race and Hispanic origin, and education.

Chapters 2 through 11 present detailed spending statistics organized by major product and service category (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, and educational attainment of householder. 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. The remaining tables in each chapter were produced by *New Strategist*'s statisticians and are 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 2007. The Consumer Expenditure Survey produces average spending data for all households in a segment; i.e., all households with a householder aged 25 to 34, not just for those who purchased an 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 \$268 on day care centers in 2007. 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 purchasing individual products and services during an average quarter of 2007, and the amount spent by purchasers per quarter. According to Appendix C, only 5 percent of households spent on day care centers during an average quarter of 2007. The purchasers spent an average of \$1,241 per quarter, for an estimated annual cost of \$4,966—a much more realistic figure than the average of \$268 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** The 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 each household segment spends on a particular item by how much the average household spends on the item, multiplying 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 71

percent more than the average household on newspaper and magazine subscriptions (with an index of 171). 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 106. But the market share of 45-to-54-year-olds is larger than that of 65-to-74-year-olds (22 versus 17 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 \$10 billion (\$10,542,636) on alcoholic beverages in 2007.

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 that is controlled by each demographic segment—i.e., its market share—each segment's total spending on an item was divided 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 35 to 44 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 larger. In fact, householders aged 65 to 74 are far better customers of home maintenance services, spending 28 percent more than the average household on this item. Meanwhile, householders aged 35 to 44 spend 14 percent less than average on home maintenance services (with an index of 86). Marketers who ignore their best customers because they are distracted by their biggest customers could end up with no customers.

For more information

The 14th 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, including 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 hardcopies or downloads with links to Excel versions of each data table.