

WELL SPENT?

**An analysis of the latest
Household Budget Survey**

November 2001

Household Budget Survey

1. WELL SPENT?

One might think there is a certain irony in the fact that the latest Household Budget Survey has come off the presses just as the Celtic Tiger economy seems to be grinding to a halt. Some might argue that there is no great point in looking back at the good times, just as things are getting rough and marketing people need to plan for a period when customers are likely to be more “pinched” than they have been in recent years.

Anybody who believes that, is wrong. The £5 cover price for the 1999 Survey Preliminary Results is a real steal; presenting as it does a detailed analysis of the income and expenditure patterns of over seven and a half thousand households throughout the country.

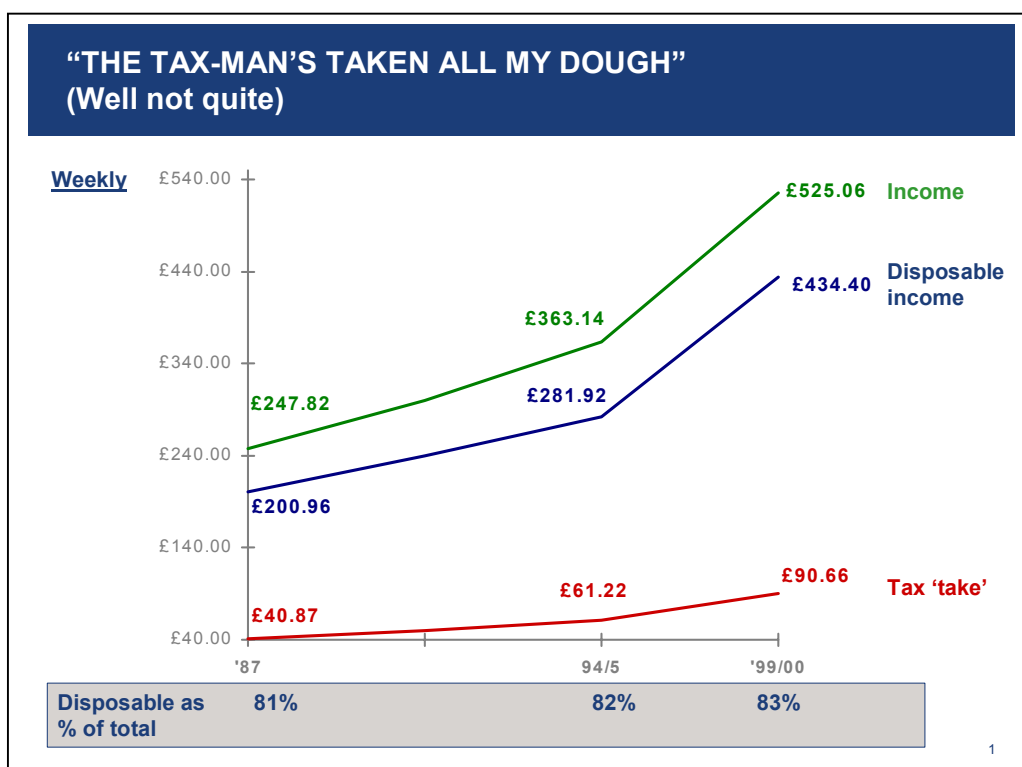
The fact that the results are directly comparable with earlier equivalent surveys adds to the value. By looking at trends we can:-

- See just how far we have progressed in recent times (albeit using purely monetary yardsticks).
- Examine the key drivers of that growth and
- Pinpoint some hints of developments that may act as buffers in the more shaky period that we are now in.

2. HOW WAS IT FOR YOU?

I have lost track of the number of times I have heard people say (usually on radio chat shows) that the Celtic Tiger didn't exist or, if it did, it had passed them by. Others argue that, even if we do earn some extra money, inflation or the taxman take such a bite out of it that it isn't worthwhile.

The hard evidence from the Household Budget Surveys makes this kind of argument rather difficult to sustain.



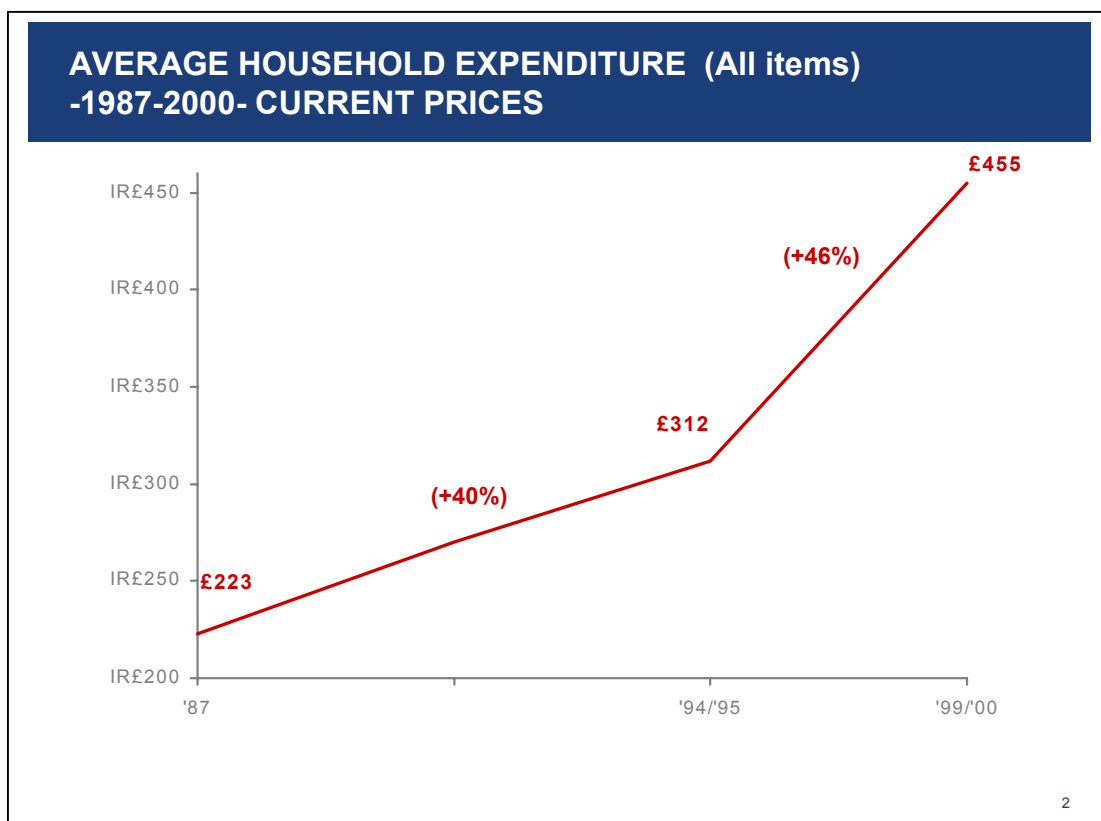
The average Irish household in 1999/2000 (fieldwork extended over a 14 month period up to July 2000) had a gross weekly income of just over £525.00. This had more than doubled since the 1987 survey.

The piece of the evidence that is perhaps most difficult to accept, is that the taxman has in fact taken slightly less out of our gross earnings over time.

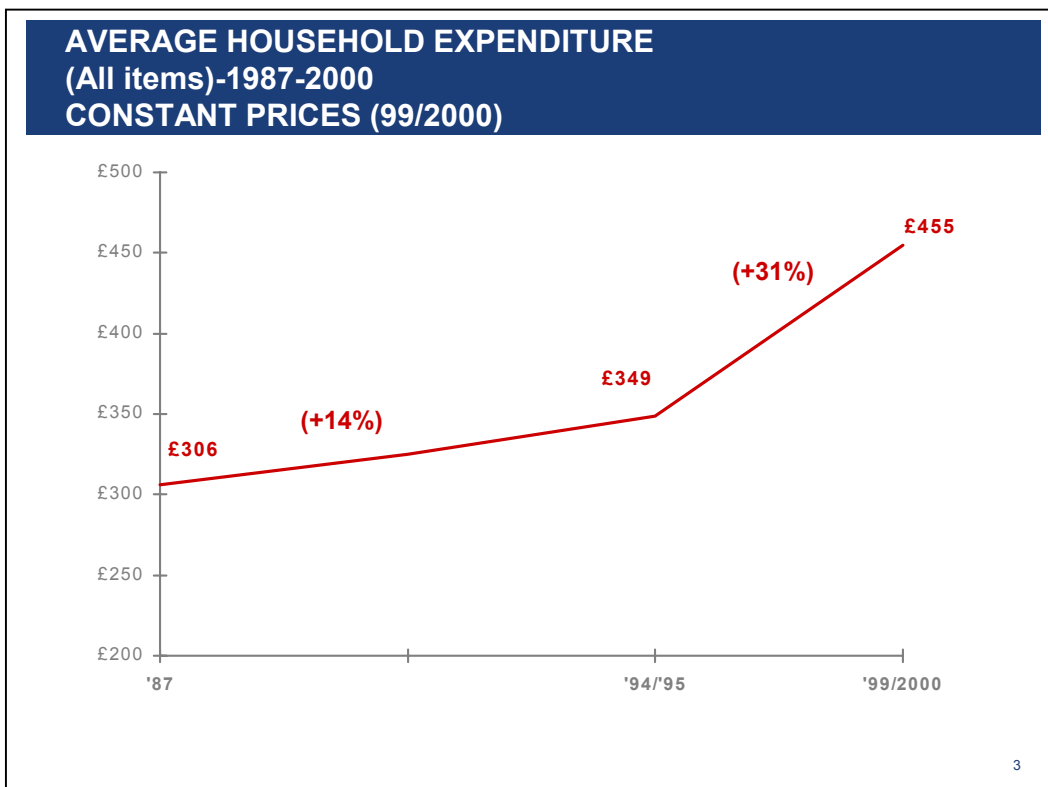
3. SPENDING MORE THAN WE EARN?

One of the elements that can seem like an anomaly for people delving into the Household Budget Survey for the first time is that, when the Census people compute the amount of money spent each week by a typical household, it tends to come out as slightly more than the total disposable income. The difference is that some of our purchases tend to be made on credit or hire purchase arrangements.

Weekly expenditure patterns are set out below in current prices



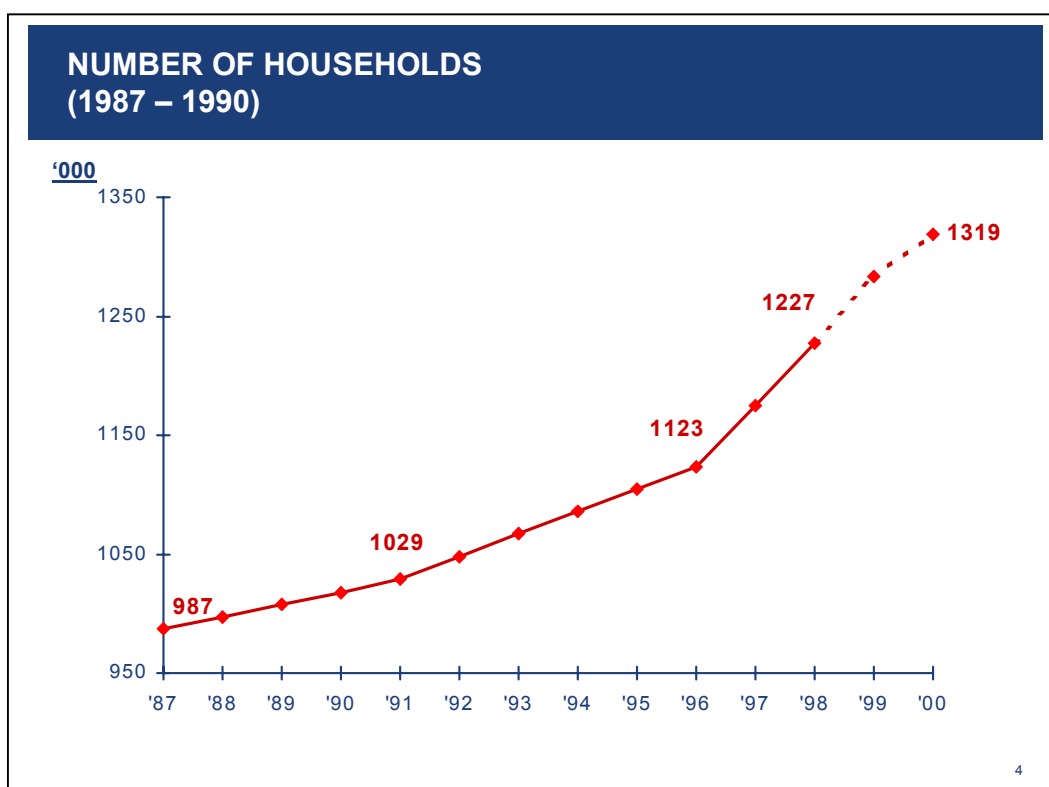
If we take inflation into account and correct everything to 1999/2000 prices this is the pattern of real growth by household.



In real terms the typical Irish household is almost a third better off than was the case five years ago, and almost 50% better off than in 1987.

4. MEASURING AT THE MACRO AND THE MICRO SCALE

One must bear in mind that the increases we have examined so far apply to individual households. To gauge the impact on the economy as a whole, we must take into account the fact that there has been a spectacular increase in recent year in the absolute number of households. The best estimates we have for this are set out below:



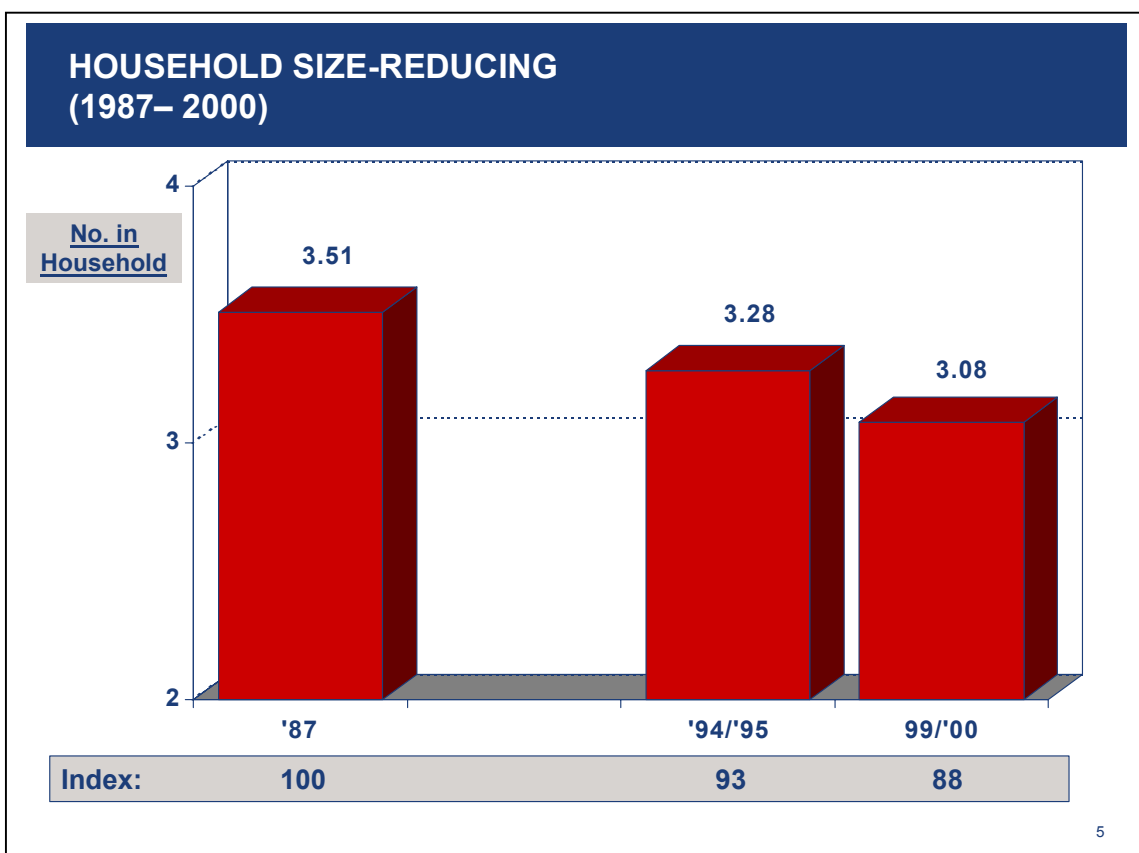
The figures up to 1998 are official CSO estimates. For the two more recent years we show industry estimates, which may be slightly on the high side (but not by much).

If we take the estimates at face value, and multiply the number of households by their average expenditure levels, this suggests that the macro effect on the economy over a five year period has been of the order of +55% in real terms. Even allowing for some possible

overstatement in the estimate of the number of households, the real increase over that period has to be at least 50%.

If we look at matters from the opposite end of the spectrum, so to speak, we can see the impact on *individuals* as against households.

The spectacular increase in household numbers has been driven in part by population growth but it has been greatly accelerated by declines in the average household size, summarised below.

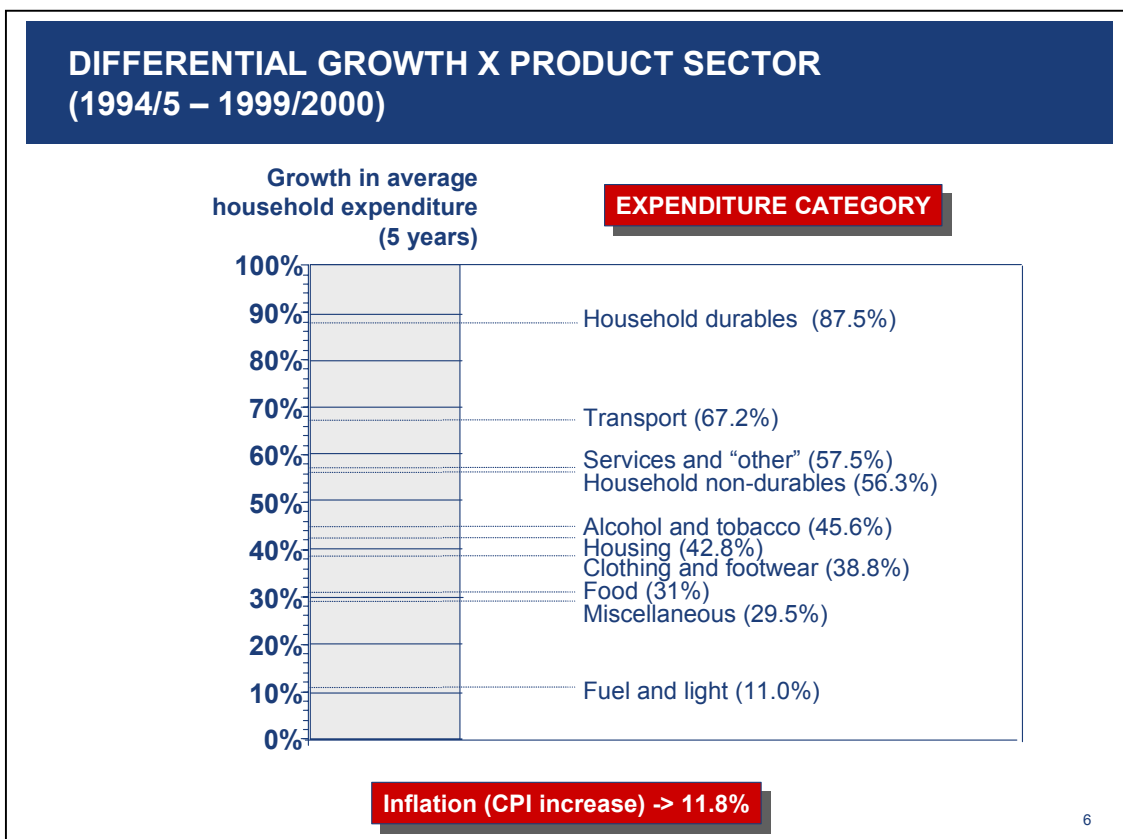


The reality is that there is more and more money being spent by each household and this money is covering fewer individuals over time. The average expenditure *per individual* comes out at just under £148 per week. This is a real increase of 39% as compared to five years ago.

5. WINNERS AND LOSERS (Product and service sectors)

So far we have seen that we have a great deal more disposable income and we are happy to dispose of it. The question that any self-respecting marketing person will ask is – “are we getting our share of that extra spend?”

The answer is that it depends on what business you are in. There have been spectacular differences in the growth performance of different sectors, as is evident below:



Household durables have been the most spectacular growth area, followed by transport, services and household non-durables.

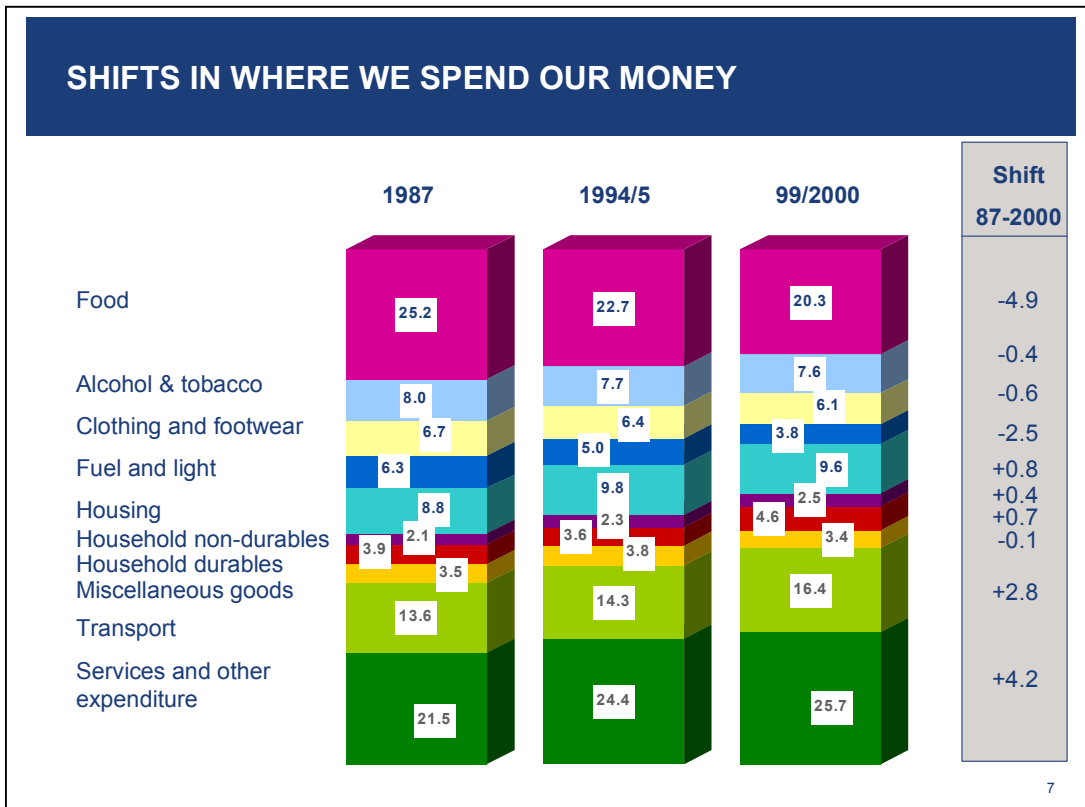
Alcohol and tobacco fit in the middle of the range in terms of reported growth although one should say that household surveys of this kind tend

to underestimate expenditure on items such as alcohol and tobacco because they tend to be such individual purchases (a fact acknowledged by the CSO in their introduction to the report).

The growth in expenditure on food over the past five years has been significantly below average (31% vs. 46%).

What stands out like a sore thumb in this chart is the fact that a typical household's expenditure on fuel and light has increased by only 11% over the period: lower even than the rate of inflation during that time. One can see why the ESB took a belated price hike a month or two back.

One can look at these data in a slightly different fashion, asking whether, over time, we are spending more or less of our available funds on certain categories of item. The picture is pretty clear, and here it is.



We are clearly obeying Maslow's imperative. As we get richer we are devoting a smaller proportion of our available incomes to the basic

necessities of food, drink, fuel and light and rather more to housing, furnishings, transport and services of various kinds.

The three biggest items of expenditure now are: services, food and transport. Between them they account for more than 60% of the typical household spending nowadays. They are also the areas where there has been most significant change over time. These areas obviously warrant some special attention.

6. ARE YOU BEING SERVED?

The fact that “services” is the biggest single item of expenditure for Irish households may come as a surprise to many people. We might even ask – what exactly does that cover. The key items are set out below:

SOME KEY “SERVICES” - EXPENDITURE

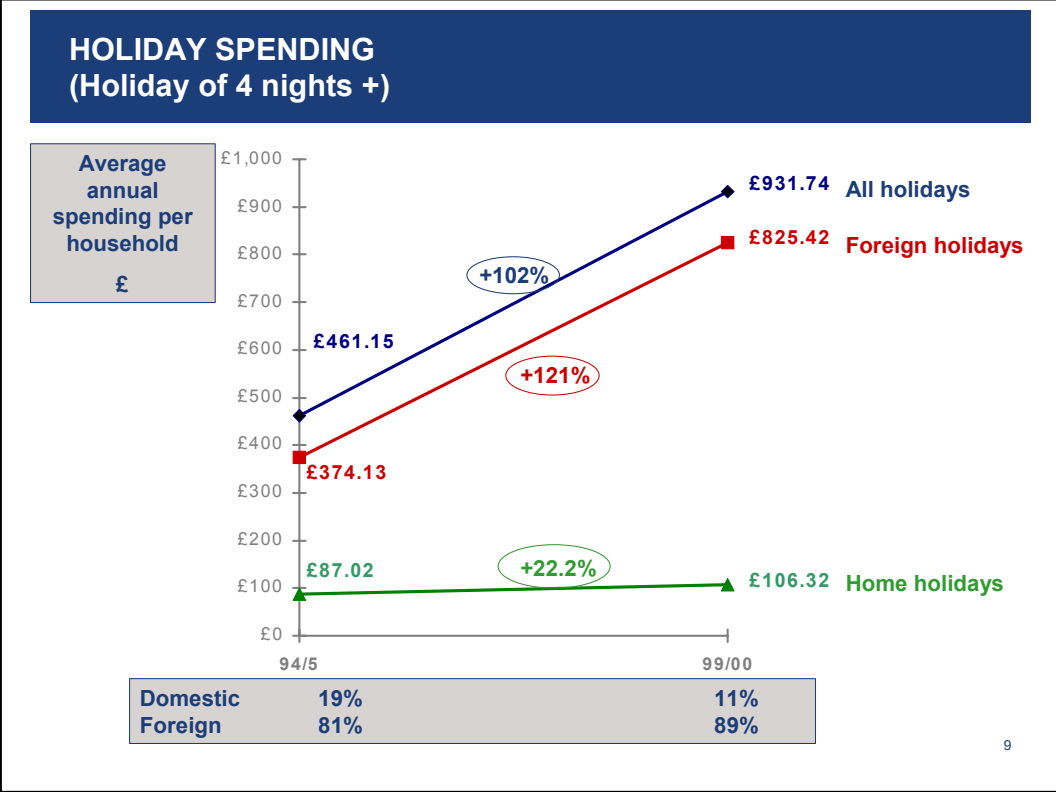
	94/5	1999/2000	
	£	£	% Var.
Insurance/Pensions	17.32	25.88	+49
Holidays/hotels	9.42	20.19	+114
Medical/therapeutic	7.14	12.30	+72
Education/training	6.93	7.07	+2
Telephone	6.22	9.90	+59
Cinema/theatre/dancing	2.42	3.14	+30
Sport	1.23	1.99	+62
Other entertainment	0.78	1.42	+82

8

It can be seen that our typical expenditure on holidays and hotels has just shot up. So has our spending on medical and therapeutic services, entertainment of various kinds and telephony. There has also been a very significant increase in insurance and pension arrangements.

It is a bit disappointing to see the reported increase in spending on education and training although it is likely that this is being supplemented significantly by corporate expenditure in this area.

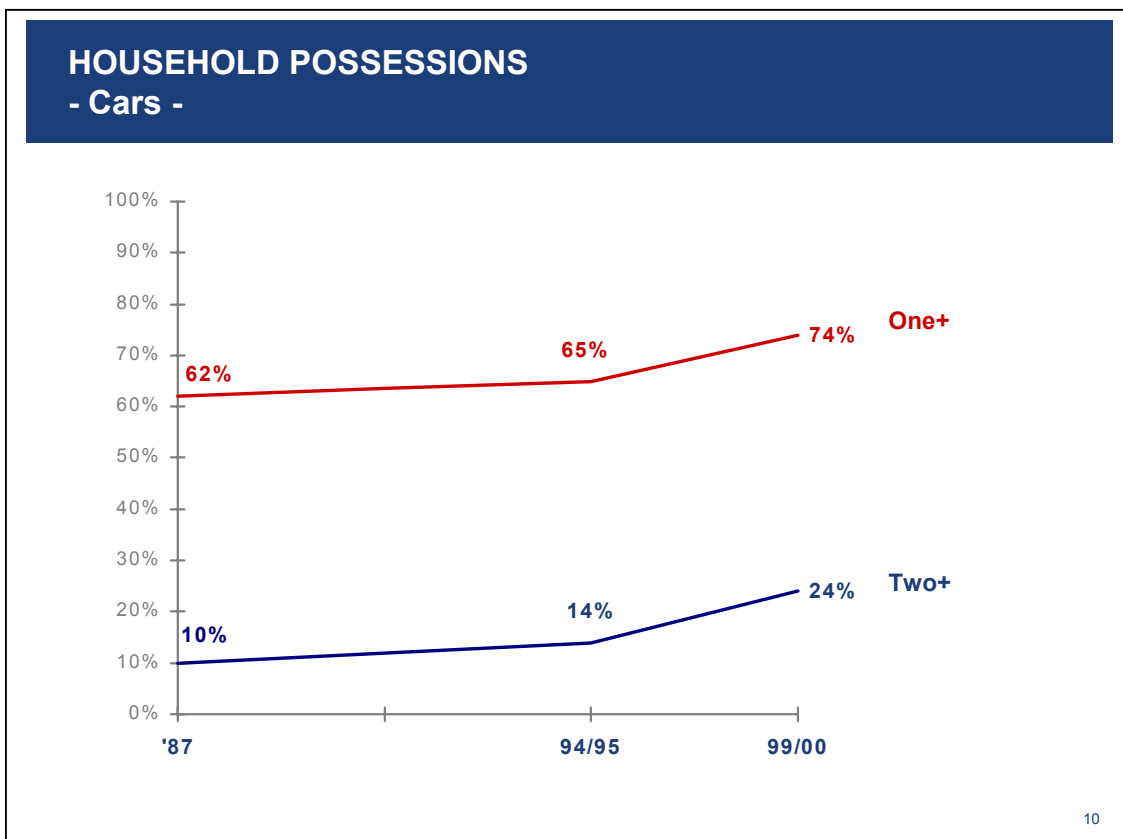
A great deal of the increased expenditure on travel and tourism goes on foreign holidays as is evident here:



7. CAR LOVERS

It is hard (for “hard”, read impossible) to resist the temptation of saying that the primary driver of increased spending on transport is our growing love affair with the motorcar.

As can be seen below there has been a significant increase in household ownership of cars:



The increase in dual car households is even more dramatic than is the case for one car homes.

Against that background it is not surprising to see the scale of the increase in spending on cars, evident in the following analysis

TRANSPORT EXPENDITURE ANALYSIS 1987-2000					
	'87	94/5	% Var	99/2000	% Var
	£	£	%	£	%
Vehicles cost	9.93	14.87	+50%	33.34	+124%
Tax/Insurance	5.62	9.10	+121%	12.61	+39%
Fuel	9.63	11.83	+23%	15.95	+35%
Other motoring expenses	2.63	3.92	+49%	5.05	+29%
Public transport	2.21	2.98	+35%	3.48	+17%
Other travel	1.00	2.03	+103%	4.25	+109%
Total transport	30.30	44.72	48%	74.76	+67%

11

The biggest single element, and the fastest growing one, is our expenditure on vehicles themselves.

The increase in expenditure on motor fuel is surprisingly modest, given the scale of the increase in car numbers.

The contrast with increased spending on public transport (very modest) is really striking. One of the key components of the “other” transport costs is in spending on taxis, which has gone up significantly.

8. THOUGHT FOR FOOD

As we have seen, the big growth areas are in relation to services and transport. The big area of *relative* significant decline is in regard to food. The reality is, of course, that there have been substantial increases in the *absolute* amount spent on food. Beyond that, there have been dramatic changes in the relative popularity of different items within the menu.

If we look first at the major items of expenditure on food we see the following:-

THE BIG FOOD ITEMS			
	94/5	1999/2000	% Var
All food	£70.75	£92.36	+31%
	£	£	%
Food outside home	10.92	18.96	+74%
Meat	15.22	16.71	+10%
Milk and cream	6.68	6.97	+4%
Fresh vegetables	4.27	4.96	+16%
Soft drinks	3.35	4.72	+41%
Bread	3.73	4.11	+10%
Sweets & chocolates	2.62	3.98	+52%
Chip Shop/Take-Away purchases	1.87	3.20	+71%
Fresh fruit	2.24	2.87	+28%
Cheese & eggs	1.86	2.16	+16%
Cakes and breads	1.51	2.14	+42%
Combined spend	54.27	70.78	+30%

12

Of all the listed items, the biggest single expenditure is now on food bought outside the home. This is also the area of biggest increase in the last five years.

We now spend less on meat than we do on food bought outside the home and the increase in spending on meat has been below the rate of inflation.

There are some other very interesting entrants in this top 10 (or top 11 because there was so little difference between Nos. 10 and 11). Soft drinks, as an item in their own right, rank in No. 5 position. Sweets and chocolates are at number 7. (Our dentists will be pleased).

Purchases from chip shops and take-away are at number 8 in this league table.

The rate of increase in expenditure on dairy produce is relatively modest by comparison.

A second way of looking at spending patterns is to simply rank items on the basis of their growth rate in the past 5 years. This produces the following set of results:-

FOOD – THE BIG GROWTH AREAS			
	94/5	1999/2000	Growth
	£	£	%
Fruit juices	0.55	1.33	+141%
Prepared/other foods*	1.60	3.41	+113%
Food outside the home	10.92	18.96	+74%
Chip Shop (Take Away)	1.87	3.20	+71%
Sauces and creams	0.63	1.07	+70%
Crisps	0.71	1.16	+68%
Sweets/chocolates	2.62	3.98	+52%

** Prepared foods/frozen foods/pizzas/pasta and others*

13

Fruit juices and prepared foods are top of the rankings in terms of growth. These are followed by food bought outside the home and take-

away purchases. Sauces and cream, crisps, sweets and chocolate are the next fastest growing categories.

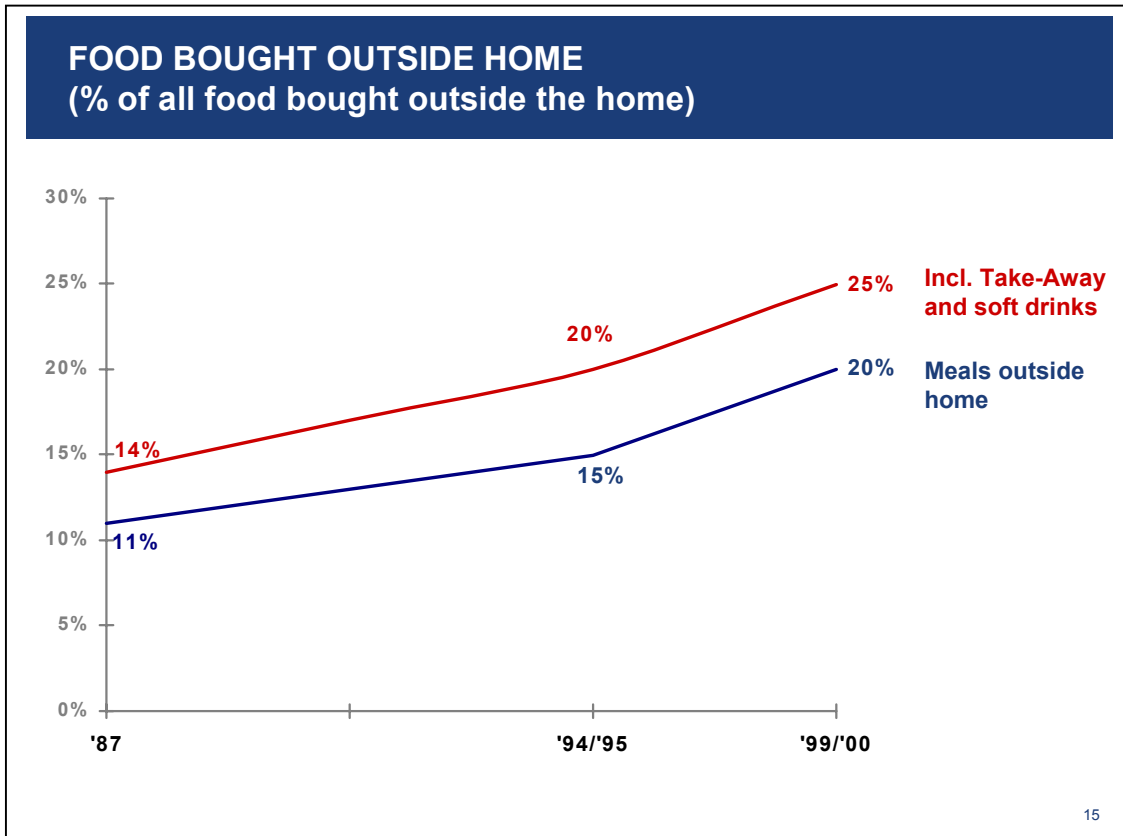
We are clearly moving toward treats and away from staples. This is even more forcefully brought home if we consider the food items that have declined most in terms of average expenditure over this time.

LOSERS IN THE FOOD AREA			
	94/5	1999/2000	%
	£	£	Var.
Flour	0.27	0.17	-37%
Sugar	0.63	0.47	-27%
Butter/fats/cooking oil	1.99	1.89	-5%
Milk and cream	6.68	6.97	+4%
Tea	0.89	0.94	+6%
Tinned vegetables	0.56	0.63	+9%
Bread	3.73	4.11	+10%
Meat	15.22	16.71	+10%
Jams/marmalades	0.41	0.45	+10%
Jelly/custard	0.10	0.11	+10%

9

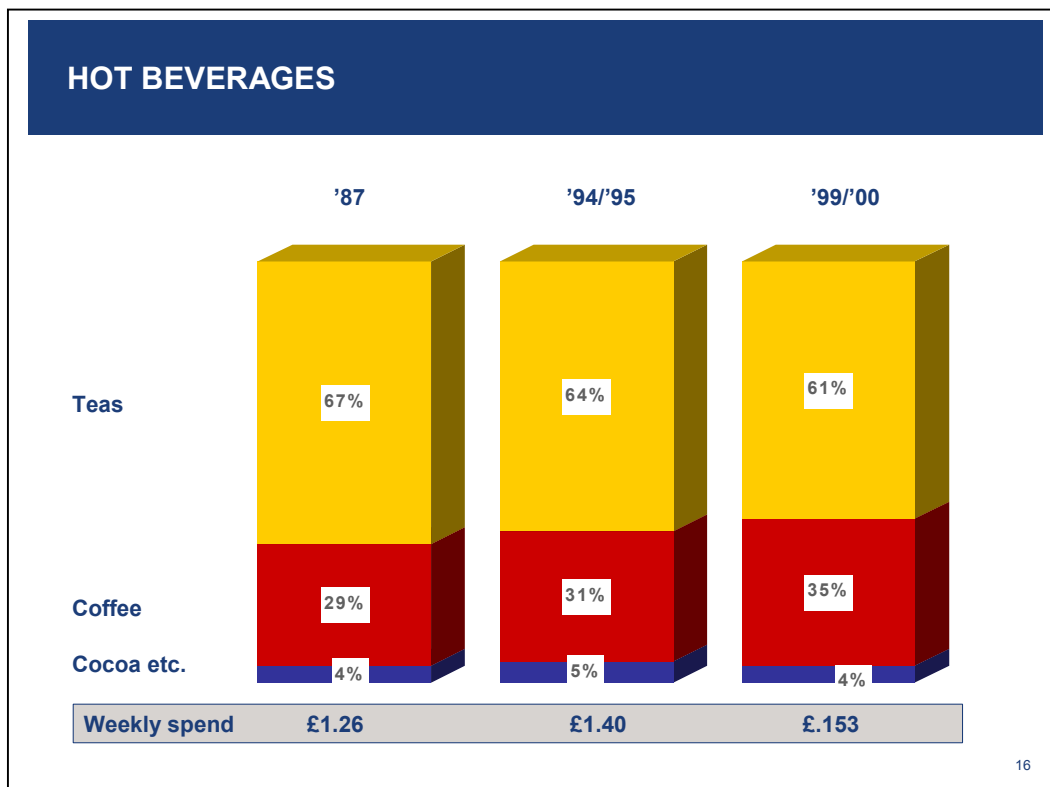
It is quite clear that the traditional staples feature prominently in this list of items where the rate of growth has been lower than the average inflation rate.

The sharp increase in the reported purchases of food outside the home is very significant. The share of all food purchases that are consumed, ready prepared (so to speak) has increased very dramatically over the years as is evident from this chart



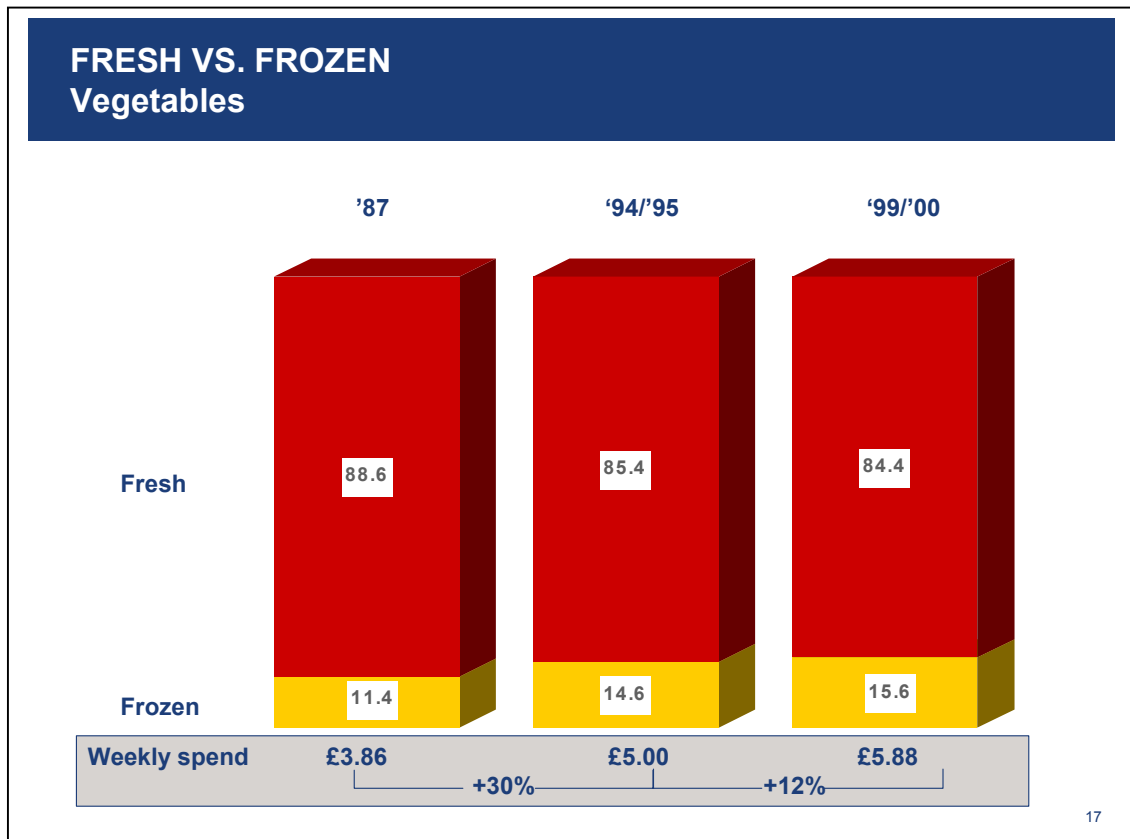
The lower of the two lines in the graph relates to meals purchased outside the home. The higher (red) line includes take-away purchases and soft drinks also bought outside the home. By this yardstick one pound in every four spent on food in Ireland nowadays is on food prepared outside the home. The rate of growth is such that one would anticipate catching up with the European Average (about 30%) in the not too distant future.

There are many other interesting examples of developments within the food sector. A small selection will illustrate the point.

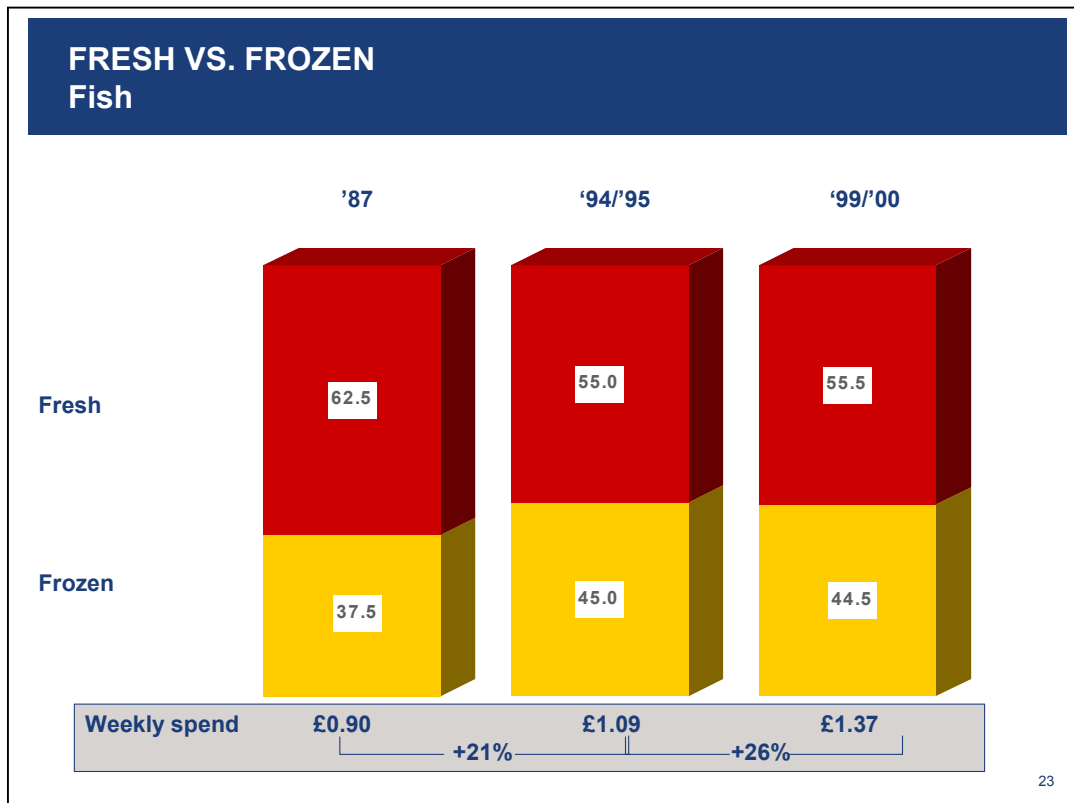


Coffee is clearly gaining share in the hot beverages market.

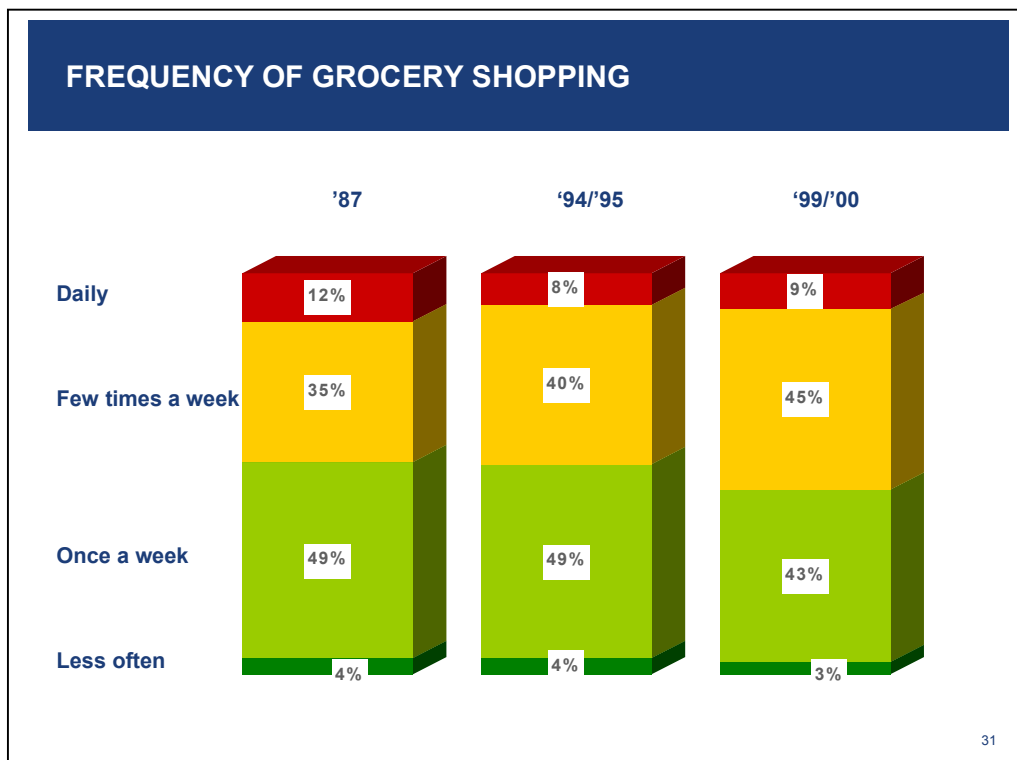
Frozen vegetables are taking up an increasing share of our total vegetable purchases as is evident here.



In the area of fish, frozen product takes up an even bigger share of the market, relative to fresh. However the pattern of change seems to have stabilised in recent times.



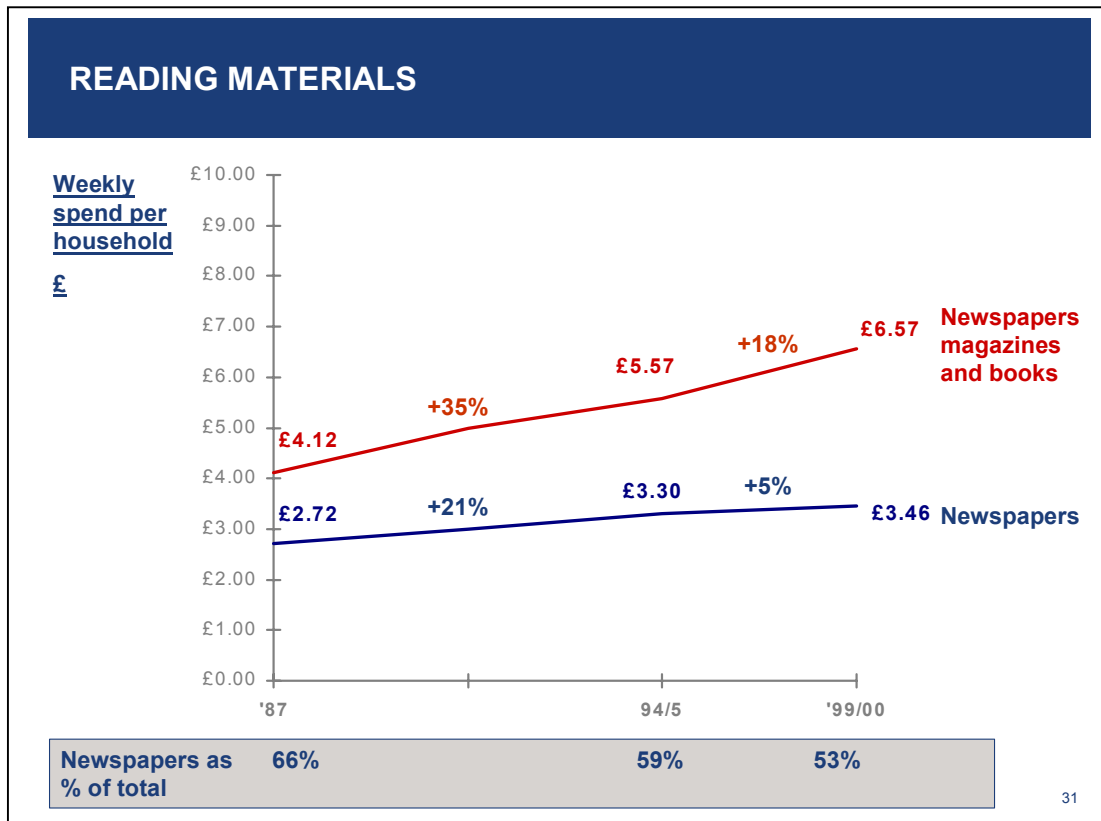
One final point which caught our attention in this context (although it is only loosely connected with food consumption patterns) is an issue relating to shopping patterns. The survey provides strong reinforcement of the notion that there has been a resurgence in the *frequency* with which main shoppers do their grocery shopping as is evident here:



We are now shopping for groceries more rather than less often.

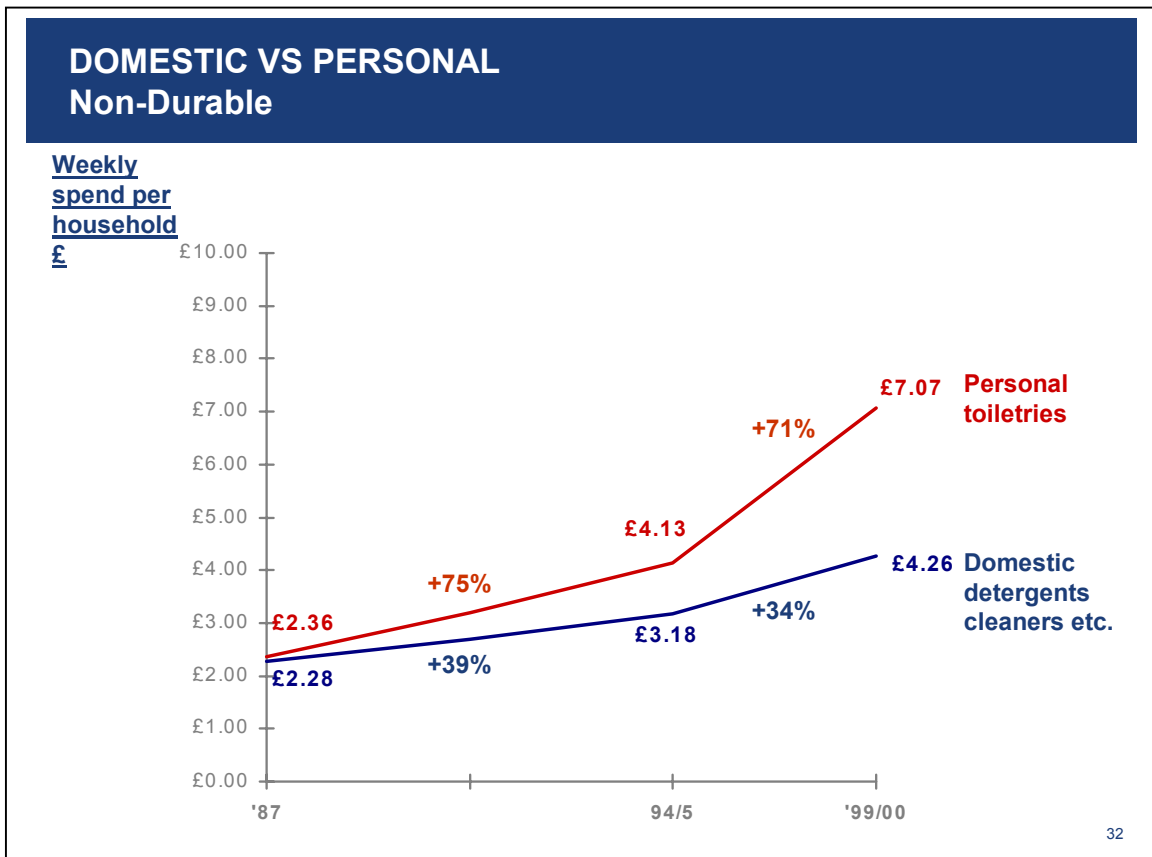
9. HEALTHY MINDS IN HEALTHY BODIES

Our expenditure on reading matter (food for the mind) is also growing, but not as quickly as some of us might wish.



Interestingly the share of this expenditure going on newspapers is declining sharply; almost certainly a result of the swing to tabloids and a reduction in multiple purchases on Sundays.

It is interesting to divide our expenditure on hygiene items into amounts spent on our homes and on ourselves.

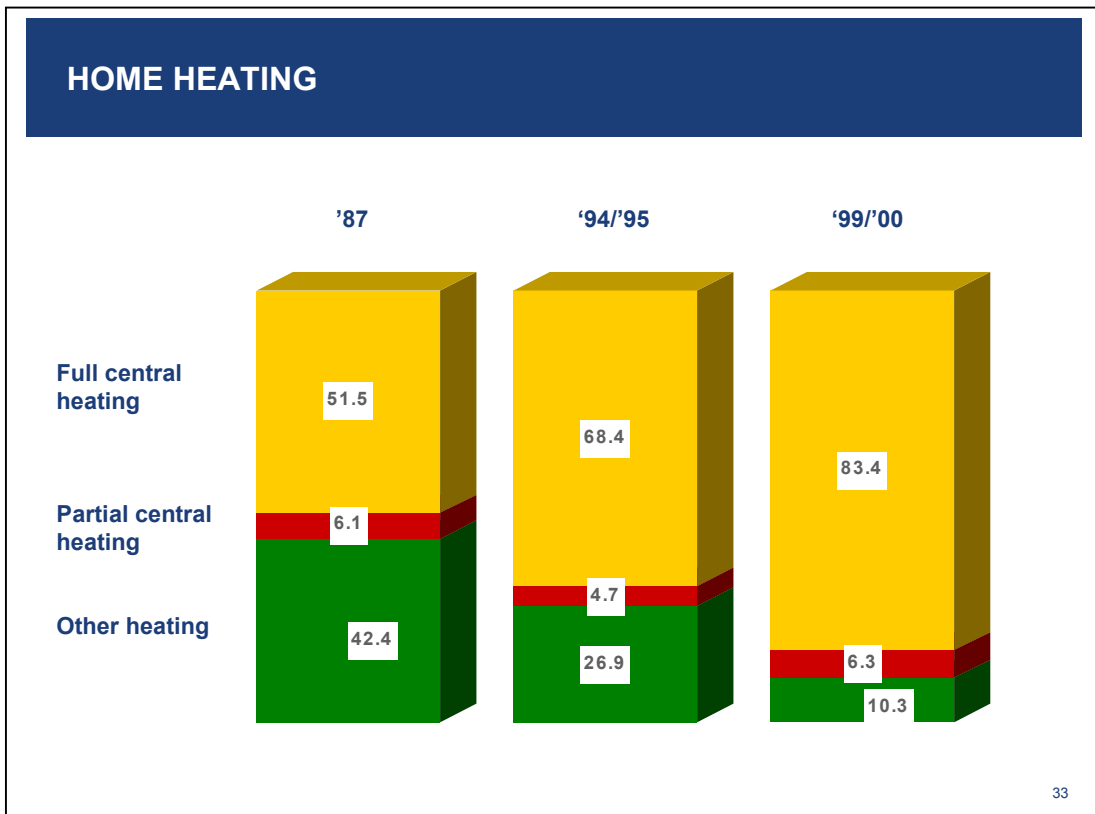


In 1987 we spent almost as much on domestic cleaners as on personal toiletries. Today we spend almost twice as much on personal as on domestic toiletries.

10. CREATURE COMFORTS

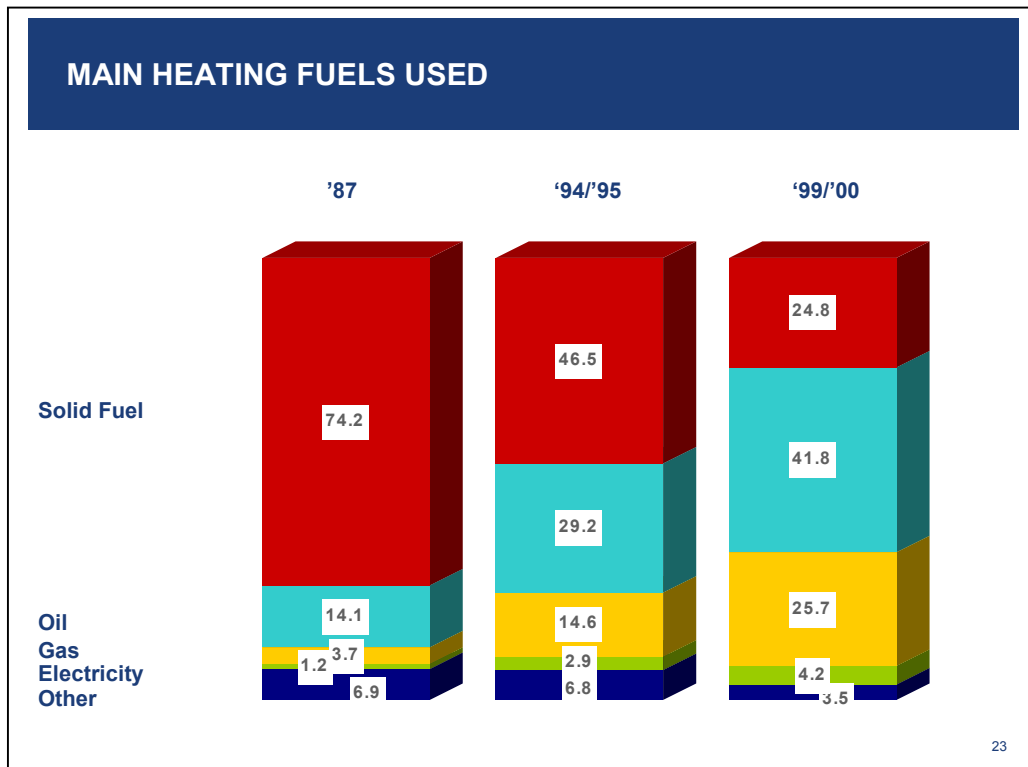
As we saw earlier, the biggest increase in spending in recent years has been on household durables. In light of that development, one would expect to see a significant expansion in ownership of a variety of creature comforts.

The survey provides resounding evidence of such a change. This is how typical home heating arrangements have changed over the years



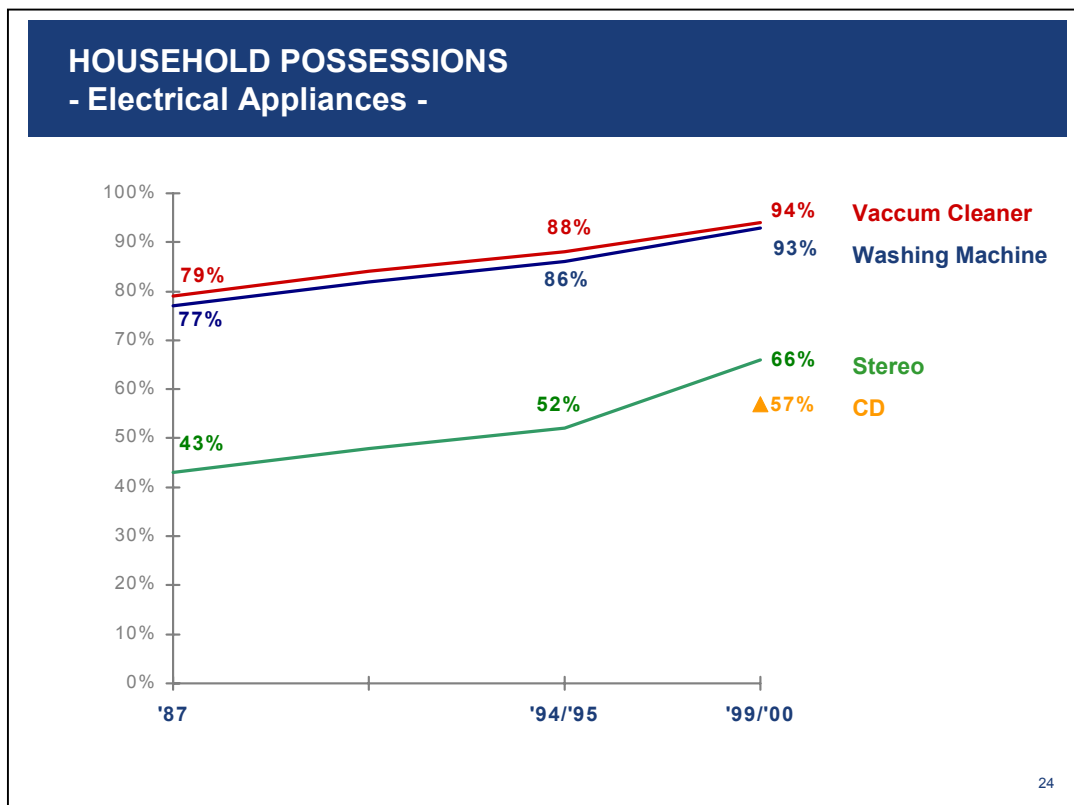
90% of homes now have some form of central heating: a very dramatic change over the years.

Changes in fuel types used for home heating provide further evidence of very significant change



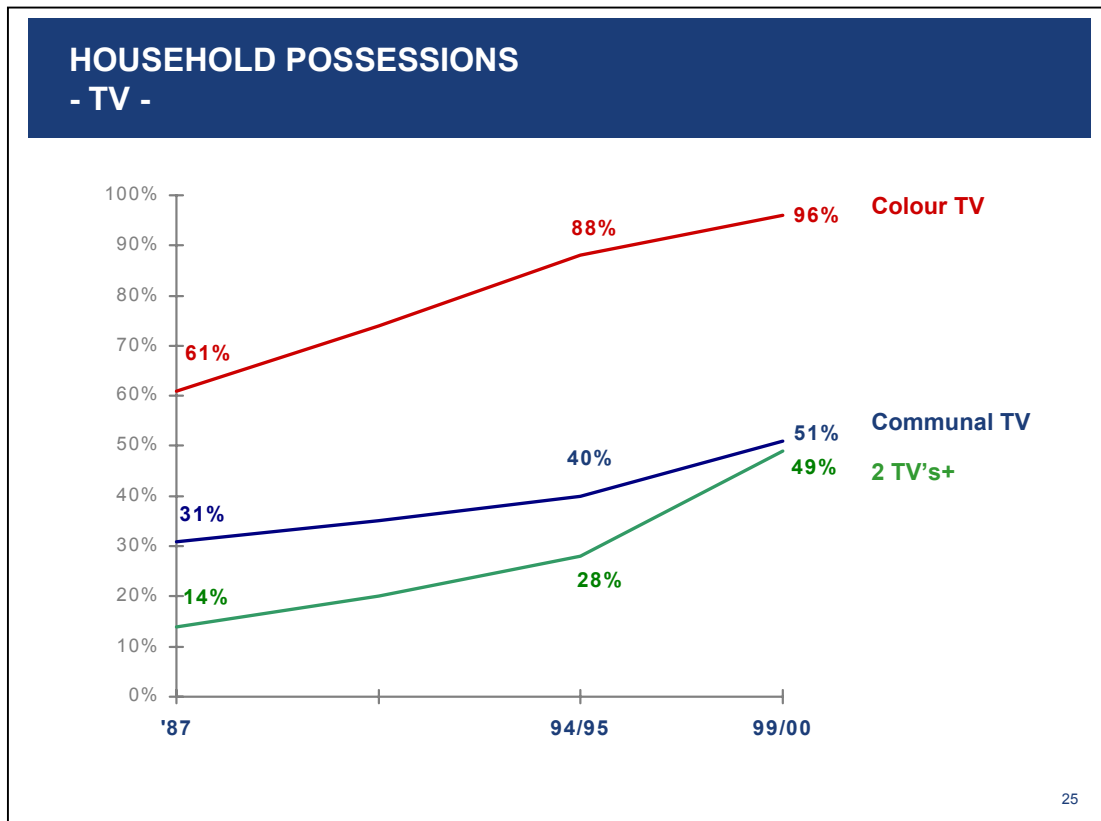
In thirteen years solid fuel has fallen from a very clear first position to third place behind oil and gas.

Ownership of a wide variety of electrical appliances has also increased very significantly.



Almost every home now has a vacuum cleaner and a washing machine. Two in three have a stereo and almost six in ten a CD player.

The position in relation to television ownership is as follows:

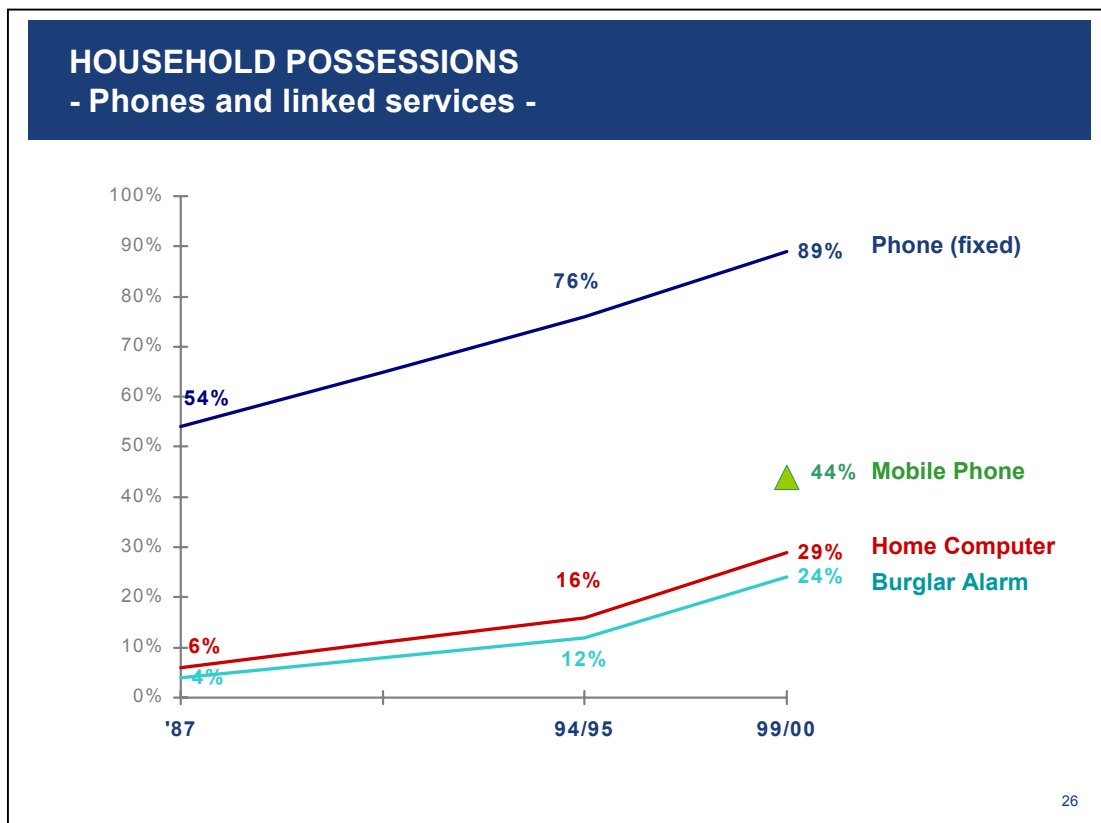


In 1987 just over 6 in 10 homes had a colour TV. Now almost 5 in 10 have *two or more* sets.

The penetration of communal TV has also increased dramatically, opening up a much wider range of choice in regard to stations, if not in quality viewing options.

It is rather staggering to realise that all of these changes in possession of electrical appliances have been accomplished during a period when the rate of growth in expenditure on home fuel and light has been less than the rate of inflation.

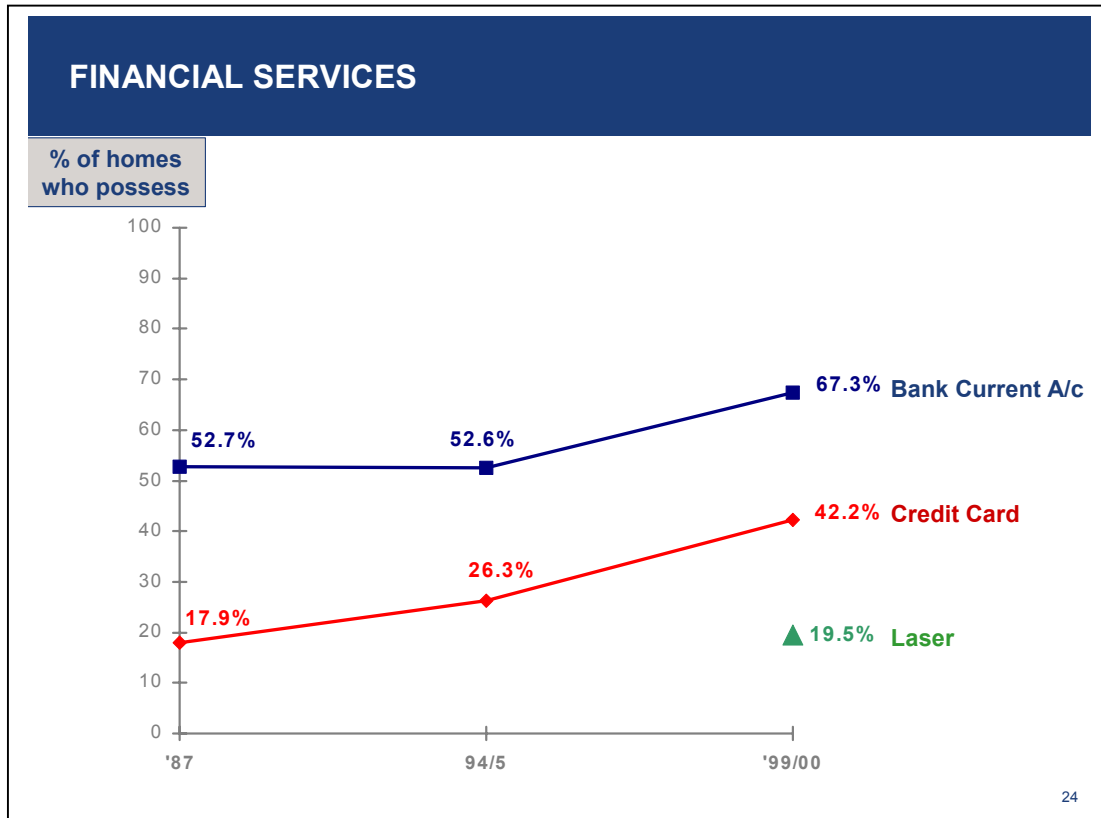
It comes as no surprise to see that telephone options have increased dramatically:



Almost 9 in 10 homes now have a fixed phone and about half that number have access to a mobile phone.

The growth in home computers and burglar alarms is also very significant.

Given the sort of patterns we have seen so far in this report, it is hardly surprising to see that there has been a dramatic increase in people's ownership of financial services designed to accommodate these changing lifestyles.



Ownership of bank current accounts remained relatively static during the early part of the period under review but has accelerated very significantly in recent times.

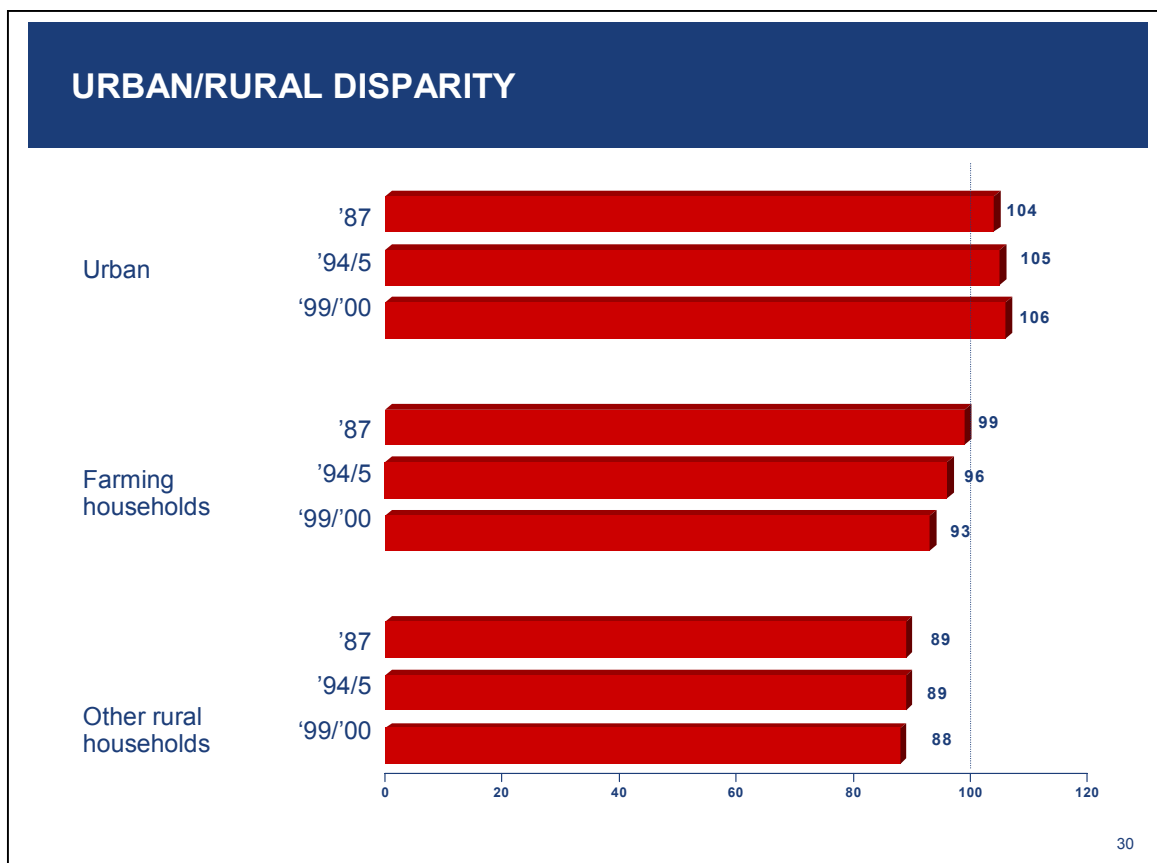
Household ownership of credit cards has accelerated very significantly while the recently introduced debit cards have already made a very significant impact.

11. RICH MAN POOR MAN

So far we have focussed on changes in income and expenditure patterns across the country as a whole. There are, of course, marked differences between different sectors of society.

Traditionally, people have spoken about major differences between urban and rural areas in Ireland. Very often one tends to see arguments that the farming sector, in particular, is disadvantaged.

Gaps in this regard are perhaps less marked than many people would imagine, as is evident here:



Households in urban areas do tend to have higher levels of expenditure than households in rural areas and, to some degree, the gap is widening. However the gap is not as marked as is sometimes supposed. It is also

clearly the case that farming households tend to be rather better off than are their non-farming neighbours in rural Ireland.

There are, of course, much more marked disparities that have nothing to do with the simple urban/rural divide.

The Household Budget Survey has traditionally segmented households into 10 equal sized groupings: ranging from the decile with the lowest household income at one extreme to that with the highest at the other. The gap between the bottom and the top 10 percent of society in terms of average weekly expenditure on items is really remarkable, as is evident below

RICH MAN - POOR MAN				
Disposable Income □ Household Data				
		Household		
		94/5	1999/2000	% Var
		£	£	%
Lowest	1	62.75	83.67	+33%
	2	98.25	137.37	+40%
	3	133.84	195.44	+47%
	4	173.72	261.24	+50%
	5	215.16	331.14	+54%
	6	264.04	406.17	+54%
	7	321.60	486.41	+51%
	8	384.41	585.51	+52%
	9	469.92	728.91	+55%
Highest	10	695.31	1152.22	+66%
Total		281.92	434.40	+54%

29

Currently, the top decile spends about 14 times as much per household as does the least well off 10% of the population.

More than that, the gap between the two groups is widening. Those in the lower income categories have had lower percentage increases in spending power. Indeed the percentage increase in spending among the

top decile has been double that of the bottom decile over the past five years.

This analysis however tends to exaggerate differences. The reality is that less well off households tend to be *smaller* on average (in number of people that is). If we take into account the average size of each of these households we can calculate the spending per individual rather than the spending per household and this shows a much less stark division:

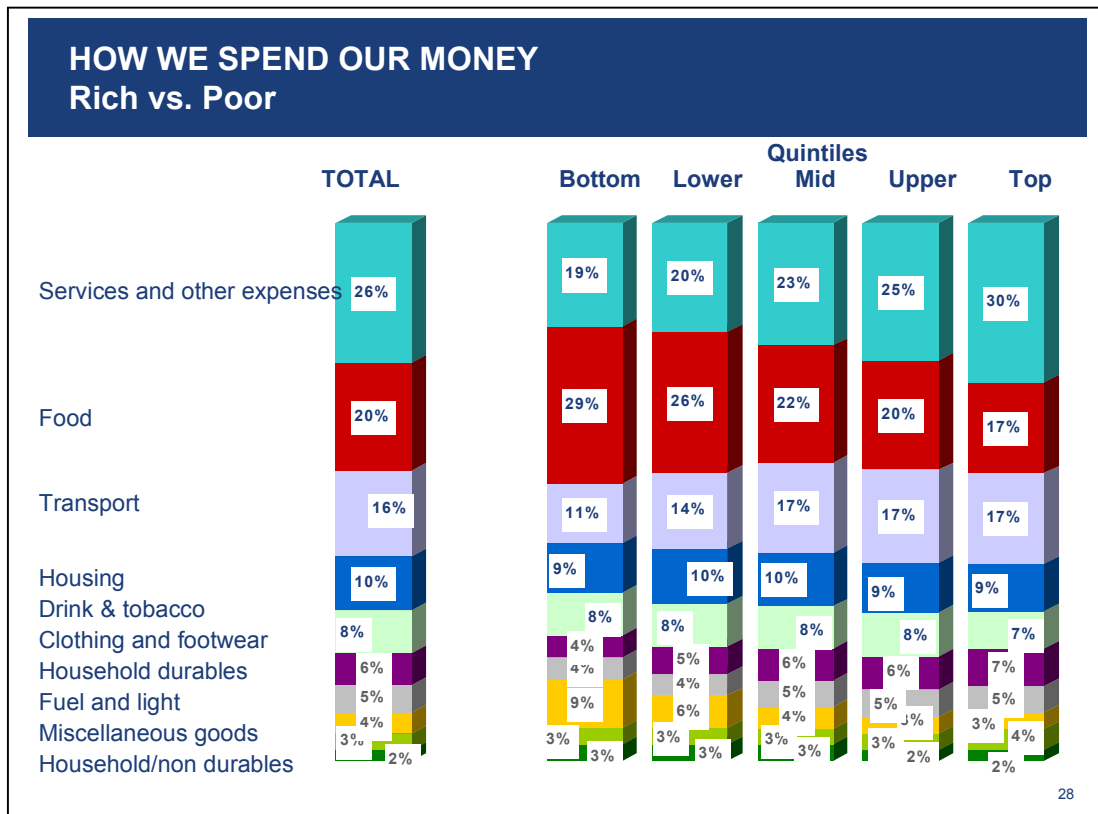
RICH MAN - POOR MAN				
Disposable Income – Individuals within household				
		Individual		
		'94/'95	'99/'00	
		£	£	
		% Var		
Lowest	1	52.29	74.04	+42%
	2	53.98	70.81	+31%
	3	50.88	78.89	+55%
	4	51.09	89.16	+75%
	5	58.79	102.20	+74%
	6	70.79	115.72	+63%
	7	80.20	133.63	+67%
	8	96.82	151.69	+57%
	9	115.18	186.42	+62%
Highest	10	161.70	266.64	+65%
Total		85.95	141.04	+64%

30

The gap is still very marked between those at the top and bottom ends of the scale. However if we take matters on an individual basis we find that each individual in the top decile spends about 3½ times as much as the person at the lowest end of the income spectrum.

The gaps in growth rates, when calculated on an individual basis are also slightly less variable than indicated earlier. Having said that, the gaps are still very marked.

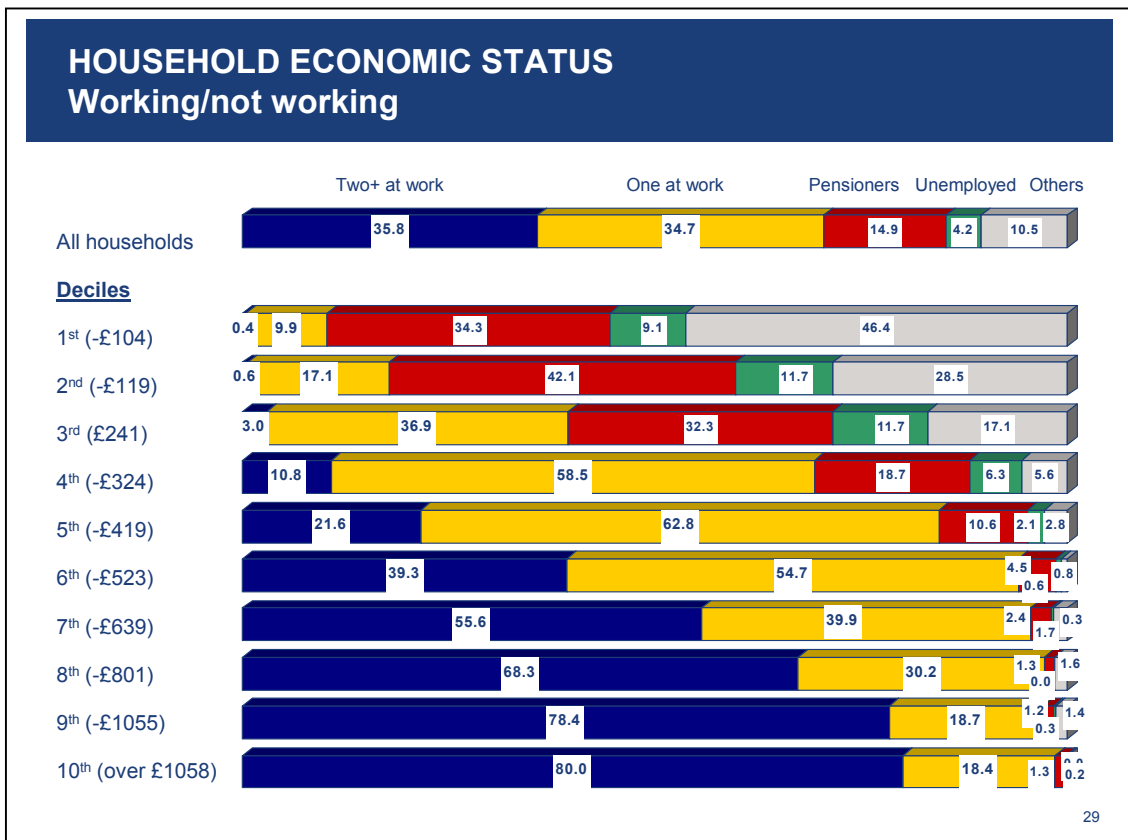
There are, as one would expect, differences between better off and less well off households in the manner in which they spend their available funds. Looking at ten separate groups would be rather cumbersome here so we have, in the following chart, presented results for five separate groups in society ranging from the bottom to the top 20%, on the basis of household income.



There is a very clear pattern evident in this analysis. Those who are less well off tend to focus a great deal more of the spending on the basic requirement for food. As one moves up the income scale there is a very clear swing towards a greater expenditure of funds on services and transport.

What distinguishes the well off from the less well off households?

There are, as one would expect, differences in terms of the composition of households: the number of household members, their ages and so on. The big differentiator is, of course, blindingly obvious:- the number of income earners in the household. The secret “driver” is the presence of a second income earner in a household. This is very clear from the following chart

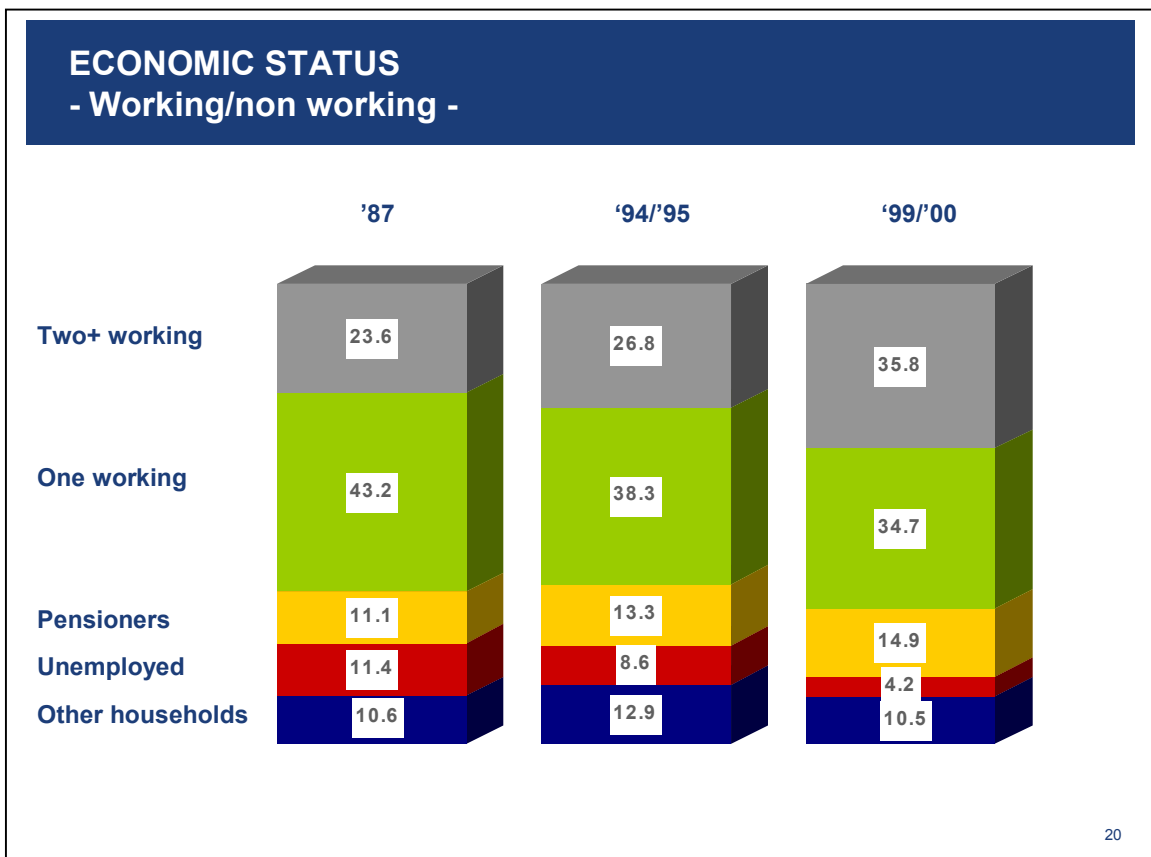


In the bottom three deciles of households there are relatively few income earners, and households with two income earners are almost non-existent.

In the top 30% of households (the top three deciles) seventy percent or more have two or more income earners.

This has been the real driver of the dramatic changes we have seen in the earlier part of this report. It is brought home in very stark fashion

when we look at how the income earning profile of households has changed over the years.



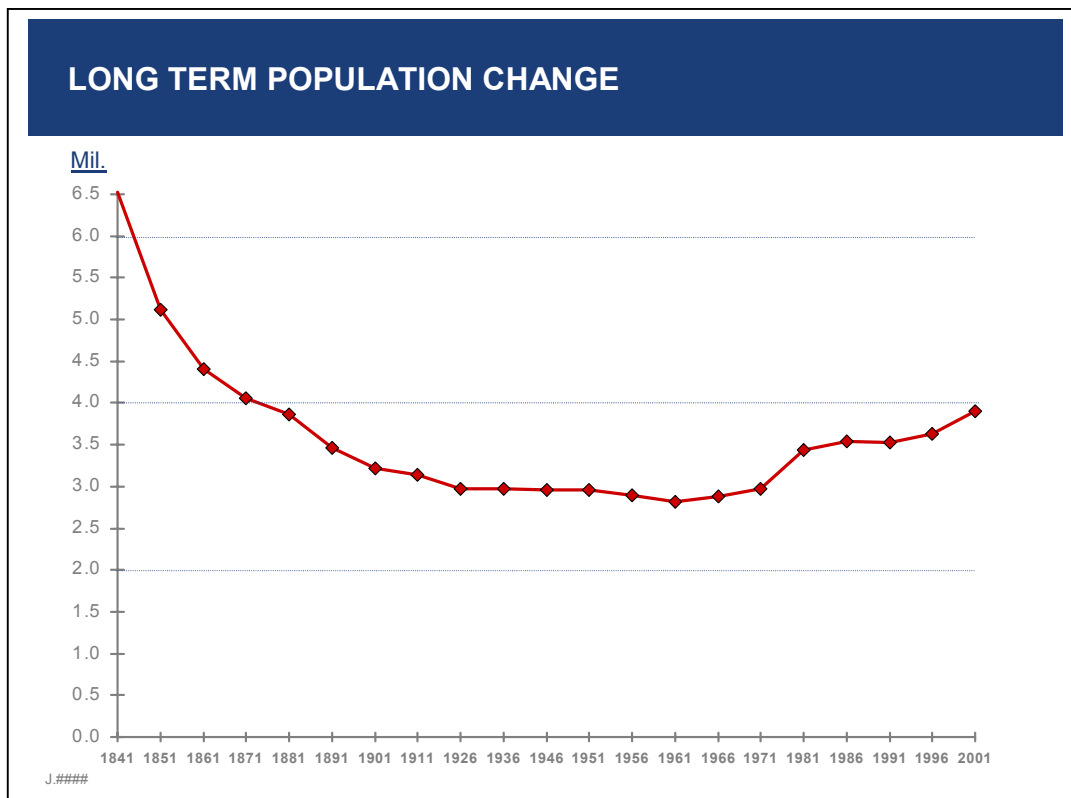
There has been a dramatic increase in the number of homes with two or more income earners in them: so much so that there are now more dual income than single income households in the country.

In a period when we were facing into increased uncertainty about job tenure this may prove to be one of our most important safety nets.

12. A THOUGHT FOR 2002

Any assessment of the Irish and their psyche must recognise the deep psychological scars left in the wake of the famine years in the early 1840's.

We all know the story so well. And yet, I still remember the shock of plotting the graph of population change in Ireland from 1841 to 1961. It is a real cause for satisfaction to see the graph slowly turn upward, since that time.



In 1841 there were 6.5 million people living in the area that has become the Republic. By 1961 that had fallen to just over 2.8 million people.

I can still remember wondering then whether our population would ever again get above the 3 million mark.

This year's Census was postponed because of the Foot and Mouth outbreak. The plan now is to complete the Census in April 2002.

Nobody quite knows what the current population is, but all of the indicators suggest that we are getting very close to a population of 4 million. The 3 million figure (which had been my original pre-occupation) was passed somewhere in the early '70's.

I don't know how the chart strikes you, but I find it quite cheering.

TABLE OF CONTENTS

1.	WELL SPENT?	2
2.	HOW WAS IT FOR YOU?	3
3.	SPENDING MORE THAN WE EARN?	4
4.	MEASURING AT THE MACRO	6
	AND THE MICRO SCALE	6
5.	WINNERS AND LOSERS	8
	(Product and service sectors)	8
6.	ARE YOU BEING SERVED?	11
7.	CAR LOVERS	13
8.	THOUGHT FOR FOOD	15
9.	HEALTHY MINDS IN HEALTHY BODIES	23
10.	CREATURE COMFORTS	25
11.	RICH MAN POOR MAN	31
12.	A THOUGHT FOR 2002	37
	TABLE OF CONTENTS	39