

# Definitions and conventions for UK household final consumption expenditure

The statistical presentation of household final consumption expenditure (HHFCE) in consumer trends, including the concepts, coverage and definitions used. More detail is available in National Accounts Concepts, Sources and Methods, particularly Chapter 22 and the related annex.

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# 1 . A to F

## Actual final consumption

Household final consumption expenditure (HHFCE) includes only the direct spending of resident households.

Some of this spending is on goods and services, such as health and education, which are provided by both the market and the State. Household consumption only includes goods and services provided by or purchased from the market. However, spending by government (and non-profit institutions serving households (NPISH)) on such goods and services is part of the provision of individual (as opposed to collective) goods and services by these sectors. This spending is included in final consumption expenditure of the providing sector, for example, government final consumption. For these and other “individual” components of spending, changes in the pattern of provision will influence the level of household final consumption.

Therefore, an alternative, wider concept of consumption has been established. This is called actual final consumption. For households, it is defined as HHFCE plus government and NPISH individual consumption expenditure. Figures of actual final consumption are not affected by arrangements for who provides the good or service; they are of use for comparative analyses of spending over time and between countries.

More detailed information is available in the [UK National Accounts, The Blue Book: 2020](#).

## Business expenditure and expenses

Household final consumption excludes any business expenditure incurred by the household as part of the economic activity of unincorporated businesses. This expenditure is included in household intermediate consumption. Also excluded from household final consumption is any business expenditure that might otherwise be claimed for tax purposes, for example, on cars.

HHFCE does not cover the whole of expenditure on consumer type goods and services. Where methods of estimation rely on total supplies or sales, for example, the Office for National Statistics’ (ONS’) Annual Business and Retail Sales Inquiries, purchases by businesses must be excluded.

## Capital expenditure on dwellings

Expenditure on the purchase of dwellings, including any transfer costs, or on major improvements to existing dwellings is not part of household consumption. This type of expenditure is included in gross fixed capital formation (GFCF).

## Classification of individual consumption

For presentation purposes, HHFCE is broken down according to classification of individual consumption by purpose (COICOP). However, the underlying data series are assembled by a variety of methods and routes, depending on the data sources used. As a result, some of the historical details in the COICOP presentation are derived from older presentations used for UK purposes. Direct collection of data using the COICOP framework was introduced during 2001, and historical COICOP estimates continue to be reviewed as necessary in light of recent data and in accordance with the [revisions policy for the national accounts](#).

## **Durable, semi-durable and non-durable goods**

Durable goods are goods that can be repeatedly or continuously used over a period of more than a year, for example, a washing machine. With the exception of GFCF on dwellings, household consumption covers spending on the majority of durable goods.

In certain circumstances, expenditure on durable goods could be defined as GFCF and not as final consumption. However, this would require the imputation of an annual amount representing the value of the benefit derived by the household from the goods. This would be similar to the process for owner-occupied dwellings. Given the challenges associated with this method, durable goods are mostly categorised as final consumption.

Non-durable goods and services can only be consumed or used once, a good example being food. Semi-durable is used to describe those goods that are used continuously or repeatedly over a period of a year but tend to have a shorter lifespan and a significantly lower purchaser price than durable goods. An example of a semi-durable good is an item of clothing.

## **Fees paid to general government**

Households make payments to government to obtain licences to own or use vehicles, boats or aircraft (which are not used for business purposes) or for licences to hunt, shoot or fish. The borderline between taxes and purchases of services from government is defined according to the same criteria as those used in the case of payments made by enterprises: if the licences are granted automatically on payment of the amounts due, their payment is treated as taxes. But if the government uses the issue of licences to organise some proper regulatory function (such as checking the competence or qualifications of the person concerned), the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the cost of providing the services.

Fines paid direct to general government are regarded as transfers and are outside the scope of household consumption.

## **Final consumption expenditure of non-profit institutions serving households**

The final consumption expenditure of NPISH is separated from expenditure of households on goods and services, and it is therefore not included in consumer trends.

As NPISH are considered non-market bodies, the final consumption expenditure of NPISH is calculated on a sum of costs basis and is therefore defined as the value of goods and services produced by the NPISH other than own-account capital formation and expenditure made by households and other units that have paid for NPISH goods and services or purchased by the NPISH to be transferred to households. In other words, NPISH final consumption expenditure is equal to NPISH non-market output.

NPISH includes charities, higher and further education institutions, political parties, and trade unions.

## **2 . G to K**

### **Games of chance (betting and gaming)**

Household expenditure on games of chance, including the national lottery, is defined as the amount staked less the amount returned in winnings, representing, essentially, the cost of the service. In the case of the National Lottery, this is ticket sales less prizes.

## Household consumption overseas and spending in the UK by non-residents

The UK national aggregate of household consumption in the accounts includes spending overseas by UK residents and excludes spending in the UK by non-residents. However, the data collected to estimate the UK domestic aggregate do the reverse: they include expenditure in the UK by non-residents and exclude expenditure outside the UK by UK residents. At present, these series are identified separately in the TOUR tables of this publication. There is no single classification of individual consumption by purpose (COICOP) division encompassing tourist expenditure.

## Household final consumption expenditure

Household final consumption expenditure (HHFCE) predominantly covers traditional consumer spending on goods and services. However, national accounting concepts require the inclusion of income in kind, imputed rent for owner-occupied housing services and the consumption of own production (for example, food).

For national accounting purposes, households are individuals or groups of people sharing living accommodation and possibly other aspects of daily life such as meals. The household sector thus includes not only those living in traditional households but also those people living in institutions, such as retirement homes, boarding houses or prisons. HHFCE covers the purchase of all goods and services, including housing services, to meet their requirements for day-to-day living. It does not include the purchase of dwellings or expenditure on valuables (antiques and some jewellery), which are part of capital formation, nor does it include any expenditure on goods or services for use in a business.

Household consumption includes goods and services received by households as income in kind, in lieu of cash. The same estimates are also included, for consistency, as part of output for the production measure and within compensation of employees in the income estimates of gross domestic product (GDP).

The accounts relate to consumption expenditure by UK resident households, which can take place either in the UK or the rest of the world. Spending by non-residents in the UK is excluded from the national total. The UK consumption expenditure that takes place in the rest of the world is regarded as an import of services to the UK. Correspondingly, consumption expenditure in the UK by households resident in the rest of the world is regarded as a UK export of services in the national accounts. Therefore, total HHFCE in the UK by all households has to have imports of services added and exports deducted to arrive at UK HHFCE for the national accounts.

Historically, UK household expenditure data have been compiled by this route, starting with the domestic concept and moving to the national concept (see Household consumption overseas and spending in the UK by non-residents).

## Imputed rentals for owner-occupied dwellings

One particular feature of the household sector is that owner-occupiers are deemed to be unincorporated businesses producing housing services, which they then consume. This requires imputing a rental payment to the owner-occupied sector, analogous to the activity of payment of market or public sector rentals. The main reason for this approach is to minimise distortions to the consumption and GDP figures that would otherwise arise when there were changes in housing tenure, for example, from rented to owner-occupied.

In the UK national accounts, as required by a European Commission Decision, rentals for owner-occupied dwellings are imputed from actual rents charged (plus housing subsidies where appropriate) for tenanted dwellings. However, imputed rentals are then shown in the accounts after deduction of maintenance, repair and structural insurance expenditure incurred by owner-occupiers. Expenditure on those items is recorded separately under the relevant COICOP headings (04.3 and 12.5.2).

## **Income in kind**

Household consumption includes a wide range of goods and services received by households as income in kind, in lieu of cash. The main items are the use of company cars for private purposes as well as free or subsidised accommodation or meals. Where estimates are available, these are incorporated into HHFCE.

## **Insurance**

Insurance premiums are composite payments that consist of a charge for the service of insuring, a payment covering the risk insured and, in the case of life assurance and pension schemes, a substantial element of saving. Only the first of these elements is included in household expenditure.

For non-life insurance, an imputed premium supplement must be added to the gross premiums actually paid so as to calculate the service charge. This supplement represents all property income received from investing any reserves held by the insurance company but deemed to belong to policy holders. Without this income, the company would have to charge higher premiums to cover its charges.

## **Interest payments**

Interest payments in general, though part of a household's spending, are treated as distributive transactions of property income in the economic accounts and not part of household consumption. This applies to all interest payments on loans or credit purchase arrangements except where the credit is extended by the retailer and is included in the amount charged for the goods.

## **3 . L to P**

### **Other imputed rentals**

In the same way as for owner-occupied dwellings, rentals are also imputed for dwellings occupied by tenant households paying very little or no rent. An example is dwellings provided free or in part compensation for employment.

### **Own-account production**

Household production of goods and certain services for own consumption is included in household consumption. The main items are owner-occupied housing services, domestic service and agricultural produce. Consumption of own-account agricultural production is included within the food items. The employment of paid domestic staff, such as servants and gardeners, is regarded as part of household consumption. However, where such work is undertaken by members of the household for the household, the activity is not part of consumption.

## **4 . Q to U**

## Recording when expenditure takes place

Expenditure is defined as the acquisition of goods and services, rather than actual disbursement of cash in the period of account. It relates to the total value of goods acquired, whether paid for outright or not. A good example of where acquisition and payment differ is when consumers buy on hire purchase or other forms of credit. This is because the majority of the payment may occur after the transaction is recorded. Similarly, contributions to Christmas or holiday funds are not in principle regarded as expenditure until goods or services are actually acquired. Payments in advance are, in effect, regarded as saving and payments in arrears, dis-saving.

## Second-hand goods

The estimates of household consumption are net of sales of second-hand goods. Where the sale of second-hand goods is between households, neither the sale nor the purchase is recorded in household consumption (since they cancel each other out). However, where purchases are made from dealers, the household final consumption expenditure (HHFCE) estimates include the net value of the dealers' margins. Where transactions are with other sectors, such as the purchase of a second-hand company car, the full value of the purchase is recorded in household consumption (while the sale value would have been included as negative capital formation). See also [Valuables](#).

## 5 . V to Z

### Valuables

Antiques and jewellery are examples of valuables. They are primarily held as a store of value and tend not to decline in value over time. They are not consumed. A proportion of sales by antiques dealers are deemed to represent the transfer costs of valuables. Subsequently, they are excluded from household consumption and included in gross capital formation (GCF).

### Volume series and annual chain-linking

Consumer trends provides volume measures of household final consumption expenditure (HHFCE) estimates. These chained volume measures (CVMs) allow users to identify changes in expenditure on a good (or service) resulting from a change in the volume, rather than a change in the price of that good (or service).

Since the Quarter 2 (Apr to June) 2003 edition of consumer trends, volume measure estimates (.KN and .KS tables) have been produced by a process called annual chain-linking. This method is used to ensure changes in the structure of the economy are reflected in statistics of growth as early as possible. This is done by taking account of relative expenditure and prices on an annual basis, hence annual chain-linking.

Before 2003, a fixed base methodology was used. This meant expenditure on goods and services were valued at prices of a particular base year, for example, 1995. This meant that growth in expenditure after 1995 was measured in the same terms, with the relative importance of individual goods and services in the total being a reflection of expenditure on them in 1995.

The base year had been changed roughly every five years in a process known as re-basing. Earlier time periods used expenditure shares from 1990, 1985 and so on to weight together the various goods and services purchased, and these estimates were linked to the 1995 price structures.

Under [annual chain-linking](#), re-basing is carried out every year, with growth being measured by re-valuing current period expenditure at average prices prevailing in the previous year. This is then compared with the actual expenditure in the previous year. The weight given to individual goods and services within the total is updated every year. In this way, changes in the structure of the economy are reflected in statistics of growth at a much earlier stage than pre-2003.

The move to annual chain-linking involved a change in the reference year used for volume series. The reference year is where the current price series and the corresponding volume measures equal each other in pounds sterling (or take the value 100 in index number form).

Although the use of chain-linking produces more accurate growth rates, there is a loss of additivity (components no longer sum to totals) for annual estimates before the reference year. For quarterly estimates, non-additivity also extends into all quarters of the reference year.

HHFCE volume series are now referred to as CVMs in pounds sterling million and not constant prices.