

Introduction

How much do Americans spend in a year and how do they allocate those expenditures? In 2005, on average, consumer units¹ spent \$46,409, an increase of 6.9 percent from 2004. This followed a 6.3-percent increase in spending in 2004 and a 0.3-percent increase in 2003. (See text table 1). These spending increases occurred during a period of moderate inflation and strong economic growth. The Consumer Price Index (CPI) rose 2.7 percent in 2004 and 3.4 percent in 2005.² The civilian unemployment rate declined slightly from 5.5 percent in 2004 to 5.1 percent in 2005.³ Gross domestic product (GDP), measured in current dollars, rose 6.9 percent in 2004 and 6.3 percent in 2005. Disposable personal income, in current dollars, rose 6.4 percent in 2004 and 4.1 percent in 2005.⁴

The major components of spending—food, housing, apparel and services, transportation, health care, entertainment, and personal insurance and pensions—account for about 90 percent of consumer units' average annual expenditures. Per the Consumer Expenditure Survey (CE), in 2005, changes in expenditures varied among the major components, although all major components showed an increase in expenditures. These ranged from a 9.0-percent increase for housing, the largest increase, to a 2.6-percent increase for food, the smallest increase. The other major components of spending all showed increases in expenditures.

Expenditures on food increased 8.3 percent in 2004, and 2.6 percent in 2005. However, because of increased spending in other areas, the share of average annual expenditures spent on food fell from 13.3 percent in 2004 to 12.8 percent in 2005. (See text table 2.) Spending on food at home increased by 7.0 percent in 2004, but then decreased by 1.5 percent in 2005. In 2004, expenditures on cereals and bakery products increased 4.3 percent, those on meats, poultry, fish, and eggs increased 6.7 percent, and dairy products experienced the largest increase, 13.1 percent, of all the food at home subcomponents. The decrease in 2005 was largely due to a 3.5-percent decrease in expenditures on cereals and bakery

products and a 13.2-percent decrease in expenditures on meats, poultry, fish, and eggs. The share of expenditures spent on food at home also declined from 7.7 percent in 2004 to 7.1 percent in 2005. Expenditures on food away from home increased by 10.1 percent in 2004, and by 8.2 percent in 2005. The share of expenditures spent on food away from rose slightly from 5.6 percent in 2004 to 5.7 percent in 2005.

Housing expenditures in 2005 represented almost 33 percent of all expenditures, a slight increase over the 32 percent they represented in 2004. Expenditures on housing increased by 9.0 percent in 2005, after an increase of 3.6 percent in 2004. Expenditures in the housing subcomponents of shelter; utilities, fuels, and public services; household operations; housekeeping supplies; and household furnishings and equipment all increased in 2004 and 2005. Shelter expenditures increased by 10.1 percent in 2005, following a 1.4-percent increase in 2004. Shelter includes items such as mortgage interest, property taxes, maintenance and repair, insurance expenses, rent, and vacation homes. Spending on shelter accounted for almost 60 cents of every housing dollar. Expenditures on utilities, fuels, and public services increased 8.7 percent in 2005, about twice the increase of 4.1 percent a year earlier. The 2005 increase was driven by an 11.7-percent increase in expenditures on natural gas and an 8.5-percent increase in expenditures on electricity. Spending on utilities, fuels, and public services accounted for about 21 cents of every housing dollar. Household furnishings and equipment expenditures rose 7.4 percent in 2005, after rising 10.0 percent in 2004. This subcomponent includes such items as linens and draperies, furniture, floor coverings, small and major appliances, and other miscellaneous equipment. Expenditures on household operations increased 6.4 percent in 2005, close to the 6.5-percent increase in 2004.

Spending on apparel and services increased 3.9 percent in 2005, after increasing 10.7 percent in 2004. The subcomponent with the largest increase in 2005 was other apparel products and services, which rose 9.9 percent over 2004. This subcomponent includes items such as jewelry, watches, shoe repair, alterations, and dry cleaning. The subcomponent with the second largest expenditure increase was men's and boys' apparel, which rose 8.3 percent in 2005. Spending on apparel for children under 2 and on women's and girls' apparel both rose, by 4.8 and 2.0 percent respectively. Spending on footwear declined by 2.6 percent in 2005.

Transportation expenditures rose 7.0 percent in 2005, following just a 0.3-percent increase in 2004. In both 2004 and 2005, expenditures on gasoline and motor oil rose significantly, 19.9 percent and 26.0 percent respectively. This followed an increase of 7.9 percent in 2003, whereas in

¹A consumer unit comprises either: (1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two or more persons living together who use their income to make joint expenditure decisions. Financial independence is determined by the three major expense categories: Housing, food, and other living expenses. To be considered financially independent, at least two of the three major expense categories have to be provided entirely, or in part, by the respondent.

²U.S. Bureau of Labor Statistics, www.bls.gov/cpi/home, 2007

³U.S. Bureau of Labor Statistics, www.bls.gov/cps/home, 2007

⁴Bureau of Economic Analysis, www.bea.gov/national/index.htm#gdp, and www.bea.gov/national/nipaweb/TableView.asp#Mid, 2007

2002, gasoline and motor oil spending declined 3.4 percent. In 2004, gasoline and motor oil spending was 20.5 percent of total transportation spending, whereas in 2005 it rose to 24 percent of total transportation spending. Public transportation spending, which includes such items as airplane and train fares, as well as intra-city transit fares, rose by 14.5 percent from 2003 to 2004, but only 1.6 percent in 2005. Spending on vehicle purchases declined by 9.0 percent in 2004, but then rose 4.3 percent in 2005. However, the share of total annual expenditures spent on vehicle purchases has declined from a share of 9.1 percent in 2003, to 7.8 percent in 2004, and 7.6 percent in 2005.

Health care expenditures, out-of-pocket only, rose 3.5 percent in 2005 and 6.5 percent in 2004, after rising 2.8-percent in 2003. The drugs subcomponent of health care rose 8.5 percent in 2005, following a 2.8 percent increase in 2004. This subcomponent includes non-prescription drugs, non-prescription vitamins, and prescription drugs. The other subcomponents of health care showed smaller increases in 2005. Health insurance expenditures rose 2.2 percent in 2005, following a 6.4-percent increase in 2004. These expenditures include only what the consumer unit paid for health insurance, not any amount paid for by a third party, such as an employer. Health insurance expenditures represent just over half of total health care spending, a proportion that has been about the same since 2003. Spending on medical services, which includes such items as dental and eye-care services, lab tests and x-rays, and physician's services, rose 4.4 percent in 2005, after a rise of 9.6 percent in 2004. Expenditures on medical supplies declined 7.9 percent in 2005, after rising 6.5 percent in 2004. (Medical supplies represented about 4 percent of total health care spending in both 2004 and 2005.)

Entertainment expenditures rose by the same amount, 7.7 percent, in both 2004 and 2005. This followed a 0.9-percent decline in spending on entertainment in 2003. Expenditures on audio and visual equipment and services, which includes televisions, rose 12.7 percent in 2005, 7.9 percent in 2004, and 5.5 percent in 2003. This subcomponent represents about 35 to 37 percent of total entertainment spending. Fees and admissions, the second largest subcomponent, showed expenditure increases of 11.4 percent in 2005 and 6.9 percent in 2004. The subcomponent of other supplies, equipment, and services includes such items as recreational vehicles, boats,

campers, and sports and exercise equipment. Because some of these items tend to be large and are purchased infrequently, this category tends to show expenditure fluctuations across years. Thus, spending declined 5.7 percent in 2005, after rising 14.2 percent in 2004; it declined 4.0 percent in 2003. This subcomponent represents a little over a fifth of total entertainment expenditures.

Spending on personal insurance and pensions rose 7.9 percent in 2005, after rising 18.9 percent in 2004. Both increases were largely due to expenditure increases in pensions and Social Security, which rose 8.8 percent in 2005 and 21.2 percent in 2004. However, in 2004, the CE implemented multiple imputation of income, in which missing income data were replaced with estimated values. Consequently, previously missing Social Security deductions, from wages and salaries, can now be calculated, based on the estimated values that income imputation provides. A full explanation of income imputation can be found in the Changes to the 2004 and 2005 Consumer Expenditure Survey Published Tables and Selected Highlights section. This more robust data in the personal insurance and pensions category caused the large expenditure increase in 2004. In both 2005 and 2004, the rise in expenditures in pensions and Social Security was slightly offset by declines of 2.3 and 1.8 percent, respectively, in spending on life and other personal insurance. This continued a trend from 2002, when spending on life and other personal insurance declined 1.0 percent, and 2003, when spending declined 2.2 percent.

Expenditure shares, which show the percent distribution among components, do not fluctuate much over time and are more useful for identifying long-term spending trends than is examining percent changes in expenditures from one year to the next. Of the major components of spending, the shares for housing, apparel and services, health care, and personal insurance and pensions changed only slightly in 2005 from those in 2004. For example, the share for housing was 32.7 percent in 2005 and 32.1 percent in 2004, while the share for health care was 5.7 percent in 2005 and 5.9 percent in 2004. Shares for transportation and entertainment were the same in both years, 18.0 and 5.1 percent, respectively. Only the share for food, 12.8 percent, in 2005, seemed to diverge more than the long-term trend; shares for the years 2002–2004 were 13.2, 13.1, and 13.3 percent, respectively.

Text table 1. Average annual expenditures of all consumer units and percent changes, Consumer Expenditure Survey, 2003–2005

Item	2003	2004	2005	Percent change	
				2003–2004	2004–2005
Number of consumer units (in thousands).....	115,356	116,282	117,356		
Income before taxes ¹	\$51,128	\$54,453	\$58,712		
Income after taxes ¹	48,596	52,287	56,304		
Age of reference person	48.4	48.5	48.6		
Number in consumer unit:					
Persons	2.5	2.5	2.5		
Children under 18 .....	.6	.6	.6		
Persons 65 and over .....	.3	.3	.3		
Earners	1.3	1.3	1.3		
Vehicles	1.9	1.9	2.0		
Percent homeowner	67	68	67		
Annual expenditures	\$40,817	\$43,395	\$46,409	6.3	6.9
Food	5,340	5,781	5,931	8.3	2.6
At home	3,129	3,347	3,297	7.0	-1.5
Cereals and bakery products	442	461	445	4.3	-3.5
Meats, poultry, fish, and eggs	825	880	764	6.7	-13.2
Dairy products	328	371	378	13.1	1.9
Fruits and vegetables	535	561	552	4.9	1.6
Other food at home	999	1,075	1,158	7.6	7.7
Away from home	2,211	2,434	2,634	10.1	8.2
Alcoholic beverages	391	459	426	17.4	-7.2
Housing	13,432	13,918	15,167	3.6	9.0
Shelter	7,887	7,998	8,805	1.4	10.1
Utilities, fuels, and public services	2,811	2,927	3,183	4.1	8.7
Household operations	707	753	801	6.5	6.4
Housekeeping supplies	529	594	611	12.3	2.9
House furnishings and equipment	1,497	1,646	1,767	10.0	7.4
Apparel and services	1,640	1,816	1,886	10.7	3.9
Transportation	7,781	7,801	8,344	.3	7.0
Vehicle purchases (net outlay)	3,732	3,397	3,544	-9.0	4.3
Gasoline and motor oil	1,333	1,598	2,013	19.9	26.0
Other vehicle expenses	2,331	2,365	2,339	1.5	-1.1
Public transportation	385	441	448	14.5	1.6
Health care	2,416	2,574	2,664	6.5	3.5
Entertainment	2,060	2,218	2,388	7.7	7.7
Personal care products and services	527	581	541	10.2	-6.9
Reading	127	130	126	2.4	-3.1
Education	783	905	940	15.6	3.9
Tobacco products and smoking supplies	290	288	319	-7	10.8
Miscellaneous	606	690	808	13.9	17.1
Cash contributions	1,370	1,408	1,663	2.8	18.1
Personal insurance and pensions	4,055	4,823	5,204	18.9	7.9
Life and other personal insurance	397	390	381	-1.8	-2.3
Pensions and Social Security	3,658	4,433	4,823	21.2	8.8

¹In 2003, income values were derived from complete income reporters only. In 2004, income imputation was introduced, and incomes were estimated for all consumer units. (See "Changes to

the 2004 and 2005 Consumer Expenditure Survey published tables and selected highlights." p.15.)

Text table 2. Component shares of total annual expenditures, Consumer Expenditure Survey, 2002–2005

Item	2002	2003	2004	2005
Total expenditures	100.0	100.0	100.0	100.0
Food	13.2	13.1	13.3	12.8
At home	7.6	7.7	7.7	7.1
Away from home.....	5.6	5.4	5.6	5.7
Alcoholic beverages.....	.9	1.0	1.1	.9
Housing	32.7	32.9	32.1	32.7
Apparel and services	4.3	4.0	4.2	4.1
Transportation.....	19.1	19.1	18.0	18.0
Vehicle purchases	9.0	9.1	7.8	7.6
Gasoline and motor oil.....	3.0	3.3	3.7	4.3
Other vehicle expenses.....	6.1	5.7	5.5	5.0
Public transportation.....	1.0	.9	1.0	1.0
Health care	5.8	5.9	5.9	5.7
Entertainment	5.1	5.0	5.1	5.1
Personal care products and services	1.3	1.3	1.3	1.2
Reading .....	.3	.3	.3	.3
Education.....	1.8	1.9	2.1	2.0
Tobacco products and smoking supplies.....	.8	.7	.7	.7
Miscellaneous.....	1.9	1.5	1.6	1.7
Cash contributions.....	3.1	3.4	3.2	3.6
Personal insurance and pensions	9.6	9.9	11.1	11.2
Life and other personal insurance	1.0	1.0	.9	.8
Pensions and Social Security	8.6	9.0	10.2	10.4