



The cost of transport and its impact on UK households

An analysis of the ONS (2007) Family Spending Report

March 2008

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1.0 Executive summary

The RAC Foundation is urging the Government to fully consider the consequences of the planned fuel duty increases. The Foundation has analysed the figures contained within the most recent ONS (2007) Family Spending Report and has concluded that the planned duty increase will put a significant proportion of UK households under increased financial pressure at a time when energy and other household bills are at an all time high. Fuel should not be priced as a luxury or be considered an undesirable purchase, as car travel is essential for facilitating accessibility to employment, education and health services, general mobility and quality of life amongst the car owning population, amounting to 33.3 million motorists (RAC Report on Motoring, 2007).

14% of household spending already goes on transport and 79% of this spending itself on private motoring. Fuel purchasing takes 4% of the average weekly household expenditure, the second most costly weekly product or service after the cost of housing (mortgage interest - 7.1% - and gross rents - 6.1%).

The average household spends £62 per week on transport. £18.20 is spent on fuel. Working-age couples, the traditional family unit and retired couples (who are not completely dependent on the state) spend the most of their weekly budget on transport. Single households and retired couples dependent on the state also spend a high proportion of their outgoings on transport.

Households in rural areas spend 20% more on transport than those living in urban areas and will therefore be hit the hardest by a fuel duty increase. The South-West and the South-East regions spend the most on transport and those in Wales and the Midlands commit the greatest proportion of their weekly expenditure to running personal transport. The East, the South-West and the East Midlands are the most reliant on cars and so increases will hit these areas hard. Households in Wales, Northern Ireland, the South West and the Midlands spend the largest proportion of weekly income on fuel.

The Foundation remains unconvinced by the argument that an increase in fuel prices will reduce the demand for motoring. A recent study has found that prices would have to reach £1.83 per litre before demand reduces (Esure Research, 2007). Without supporting research on the environmental and/or congestion consequences of fuel duty increases it is not possible to ascertain whether the policy measure is cost-effective. The Foundation is currently conducting research into the 'costs of adjustment', which result from fuel duty and other financial and fiscal measures that affect motorists.

In the short to medium term the increase in fuel duty is contributing to the financial hardship presently being experienced by UK residents. Rural households, working age couples, the traditional family unit, retired couples and single person households are at particular risk from the squeeze. Motorists living in the South (West and East), the Midlands, East England, Wales and Northern Ireland will also feel the effects of this increase.

2.0 Key findings

This paper illustrates the impact that increasing fuel prices in the UK are having on the spending in UK households.

The key findings include;

- Motoring is taking up a greater proportion of weekly household expenditure than it did in the 1950s, where it accounted for only 4.5% of all expenditure.
- Spending on transport, as well as housing and leisure has increased consistently since the 1950s.
- 14% of household spending per week goes on transport. 12% goes towards motoring and 2% goes on fares and other transport costs.
- Purchase of petroleum products including diesel and motor oils takes 4% of average weekly household expenditure, and is the third most expensive product or service brought, after mortgage interest (7.1%) and gross rents (6.1%).
- The average weekly household expenditure in the UK is £455.90 per week. £62 of which is spent on transport.
- Spending on transport increases to £80.40 if the head of the household is in employment and reduces to £45.50 per week when the head of the household is unemployed.
- Almost half of the money spent on transport goes towards operating personal transport (£28.60 per week), £18.20 of which is spent on petrol, diesel or other motor oils. Just £10 per week is spent on other transport services such as rail, tube and bus fares.
- UK households spend £1,538 million on transport every week, which is more than any other spending group.
- £452 million per week is spent on petrol, diesel and other motor oils.
- The highest income group in the UK spends 16% of their weekly budget on transport. The lowest income group spends 9%, but is still susceptible to price changes. All income groups spent a similar proportion of their outgoings funding personal transport.
- Working age couples, the traditional family unit and retired couples (who not completely dependent on the state) spend the greatest proportion of their weekly budget on transport. In the lowest income categories single households and retired couples dependent on the state also spent a high proportion of their outgoings on transport.

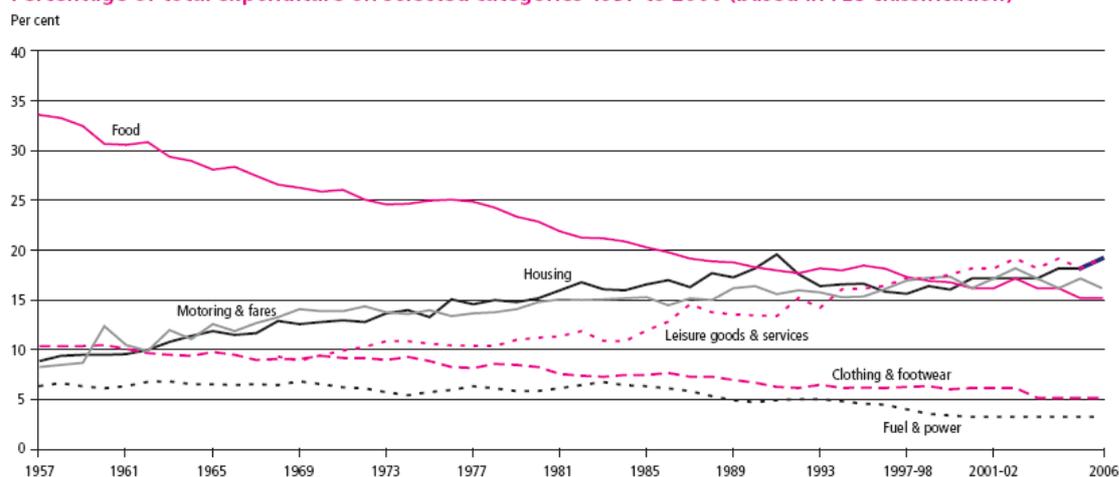
- Households in rural areas spend 20% more on transport per week than those in urban areas.
- Rural areas spend proportionally more on transport, health, home goods and services whereas urban households spend more on restaurants and hotels, clothing and footwear as well as housing fuel and power.
- The South-West and the South-East regions spend the most on transport whilst those in Wales and the Midlands commit the most to running personal transport.
- The East, South-West and the East Midlands have the largest numbers of car owners and so will be most affected by changes to the cost of motoring.
- Wales, Northern Ireland, South West and the Midlands pay the most towards fuel per week and so would be hardest hit by increases in fuel duty.

3.0 Change in the cost of motoring over time

Motoring has continued to take up a greater proportion of household spending since car ownership first became affordable for many working class families in the mid 1950s. Figure 1 below illustrates how expenditure on motoring and other forms of transport has risen in line with spending on housing and leisure categories.

Figure 1:

Percentage of total expenditure on selected categories 1957 to 2006 (based in FES classification)



Source: ONS (2007) Family Spending Report, Figure A, p.4

Transport in general also takes a higher proportion of the weekly expenditure than in the 1950s. Fuelling vehicles is now the third most expensive weekly household activity (See: Table 1). In the 1950s the whole maintenance and running of motor vehicles took less of the weekly budget than fuel does today (See: Table 2).

Table 1: Household expenditure top five commodities or services in 1957 and 2006

1957		2006	
Commodity/service	% of weekly expenditure	Commodity/service	% of weekly expenditure
1. Housing	8.7%	1. Mortgage interest payments	7.1%
2. Cigarettes	5.6%	2. Gross rent	6.1%
3. Meals brought away from home	3.1%	3. Petrol, diesel and other motor oils	4.0%
4. Maintenance and running of motor vehicles	2.8%	4. Council tax and domestic rates	3.8%
5. Milk (Fresh)	2.7%	5. Purchase of second hand cars or vans	3.2%

Source: ONS (2007) Family Spending Report, Table B and C, p.5-6

Table 2: Overall cost of motoring in 1957 in comparison to 2006

Year	Commodity/service	% of weekly expenditure	Total % of weekly expenditure on motoring
1957	Net purchase of motor vehicles and accessories	1.7%	4.5%
	Maintenance and running of motor vehicles	2.8%	
2006	Petrol, diesel and other motor oils	4.0%	11.8%
	Purchase of new cars and vans	1.8%	
	Vehicle insurance (Including boat insurance)	1.7%	
	Motor vehicle road tax payments less refunds	0.6%	
	Other motoring costs	0.5%	

Source: ONS (2007) *Family Spending Report*, Table B and C, p.5-6

Motoring in the main now accounts for 14% of total household weekly expenditure in comparison to 13% in 1997. Motoring is one of only four commodities and services (including housing, household services and leisure goods), which have increased their take of weekly household expenditure since 1997.

4.0 Expenditure on transport today

In 2006, 14% of the average UK weekly household expenditure went on transport (12% on motoring and 2% on fares and other transport costs). The cost of motoring has fluctuated around the 14% mark since the mid 1980s and is the fourth most expensive activity after housing (19%), food and non-alcoholic drinks (15%) and leisure services (15%).

The average weekly household expenditure in the UK is £455.90 per week, the highest amount, £62 is spent on transport. Almost half of this money goes towards operating personal transport (£28.60 per week), £18.20 of which is spent on petrol, diesel or other motor oils. Just £10 per week is spent on other transport services such as rail, tube and bus fares.

Overall, households in the UK spend £1,538 million on transport every week, which is more than any group of commodities or service (See: Table 3)

Table 3: UK total weekly expenditure in UK 2006

Service / commodity	UK total weekly expenditure
Other expenditure items*	1,923 million
Transport	1,538 million
Housing: Fuel and power	1,179 million
Food and non-alcoholic drinks	1,162 million
Recreation and culture	1,449 million
Restaurants and hotels	939 million
Miscellaneous goods and services	893 million
Household goods and services	750 million
Clothing and footwear	576 million

Service / commodity	UK total weekly expenditure
Communication	291 million
Alcoholic drink, tobacco and narcotics	276 million
Education	179 million
Health:	145 million

* Other expenditure items includes holiday spending, money transfers and credit, mortgage interest payments, council payments etc

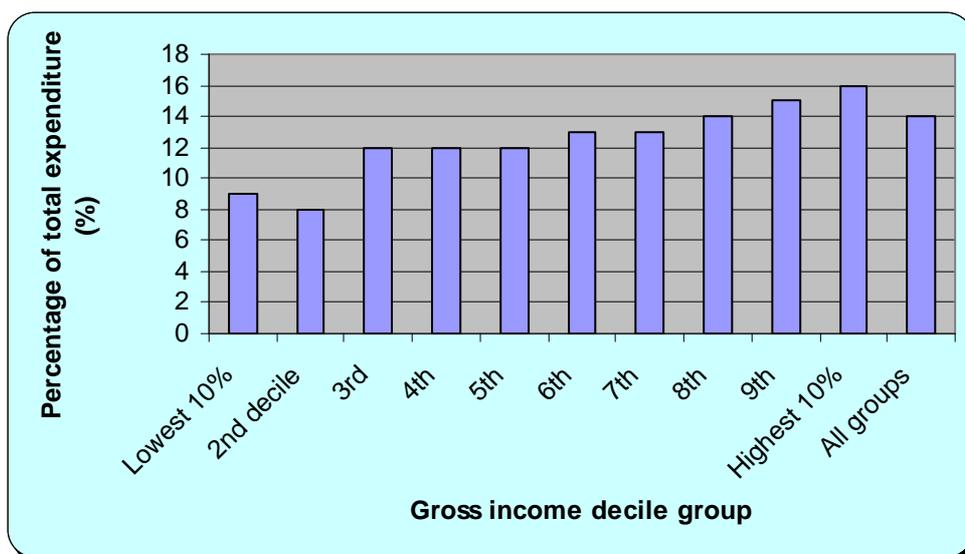
Source: ONS (2007) Family Spending Report, Table A1, p.79

£709 million of the UK's weekly expenditure on transport goes towards operating personal transport and £452 million of this is spent by UK households on petrol, diesel and motor oils.

4.1 Expenditure by income group

Households in the highest income group spend a larger proportion of money on transport than those in the lowest income group, 16% compared with 9%. Figure 2 shows how overall expenditure on transport increases as income increases, but even within the lowest income group transport expenditure is a main consideration within the weekly budget (See: Figure 3).

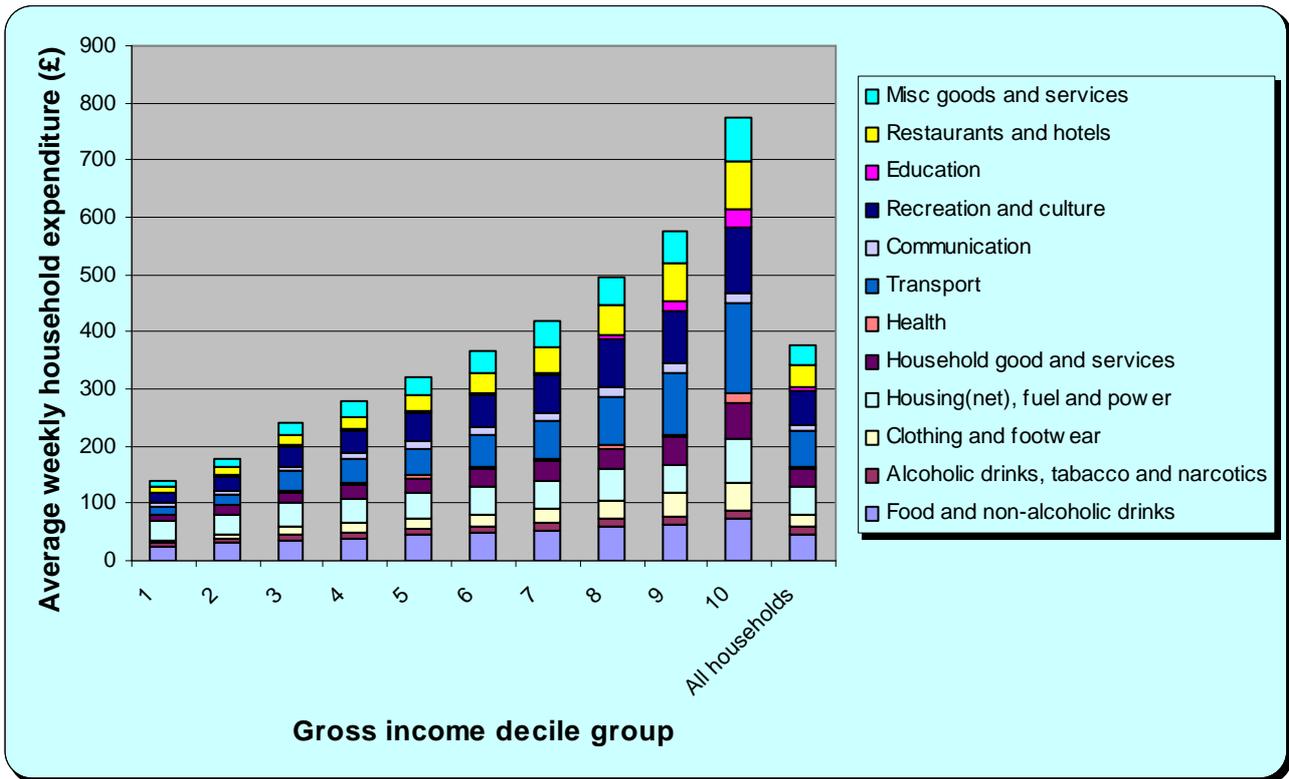
Figure 2: Percentage of weekly expenditure on transport by income group



Source: ONS (2007) Family Expenditure Survey, Table A7, p.92-93

Where the head of the household is in employment, expenditure is greatest on transport (£80.40 per week), followed by spending on culture and leisure. Where the head of the house is unemployed the proportion of spending is highest on housing, fuel and power (£45.50 per week) followed by transport (£33 per week).

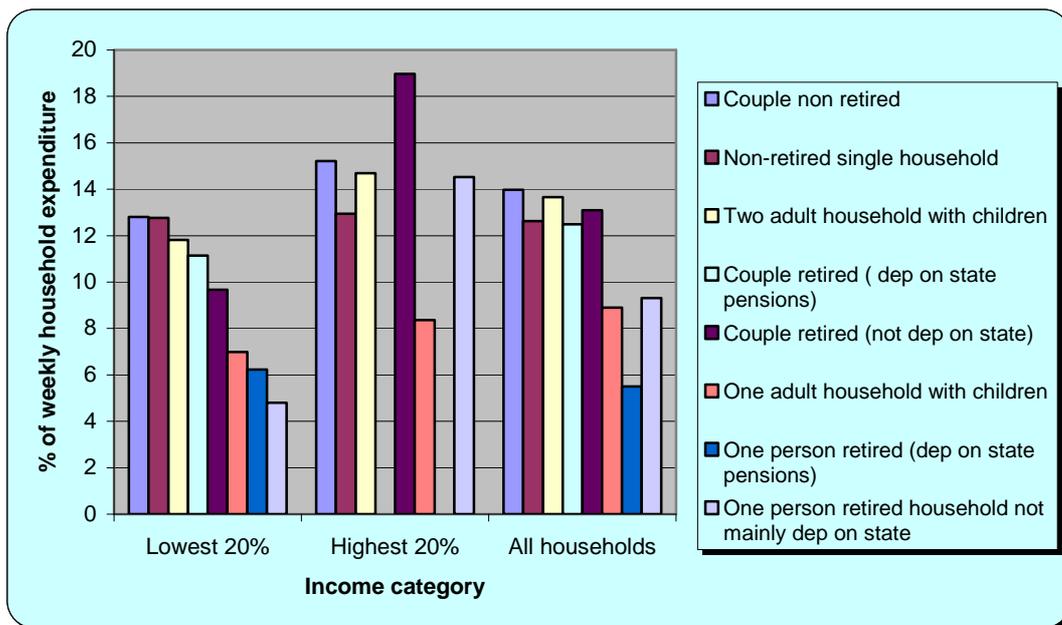
Figure 3: Average weekly household expenditure by gross income decile group



Source: Family Expenditure Survey 2007, Table A6, p.91-92

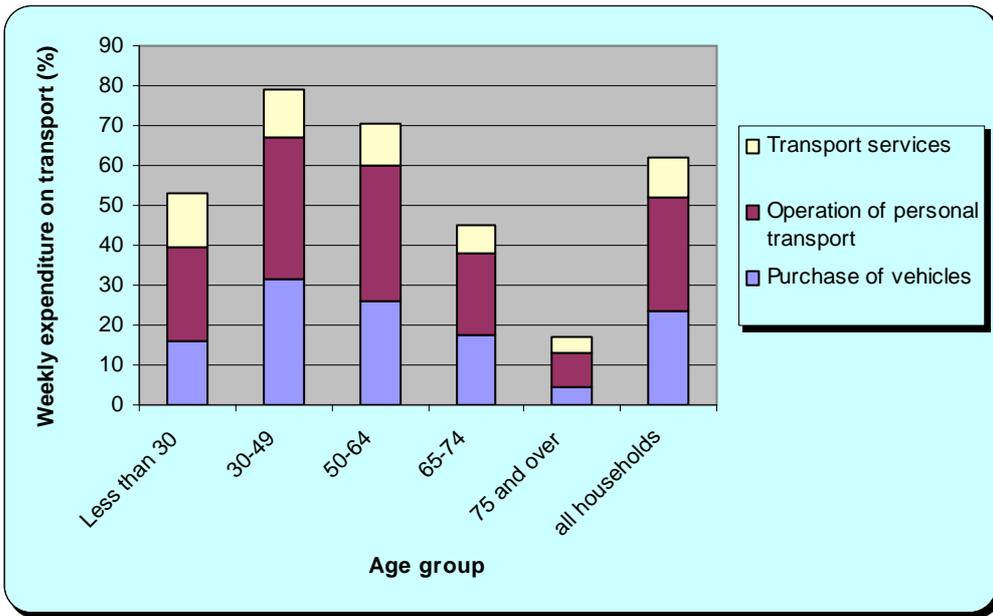
Transport expenditure takes up a higher proportion of weekly expenditure in certain household structures and age groups. (See: Figures 4 and 5)

Figure 4: Expenditure on transport by income category and household structure



Source: Family Expenditure Survey 2007, Section 3 equivalised income p.37-62

Figure 5: Spending on transport by age group

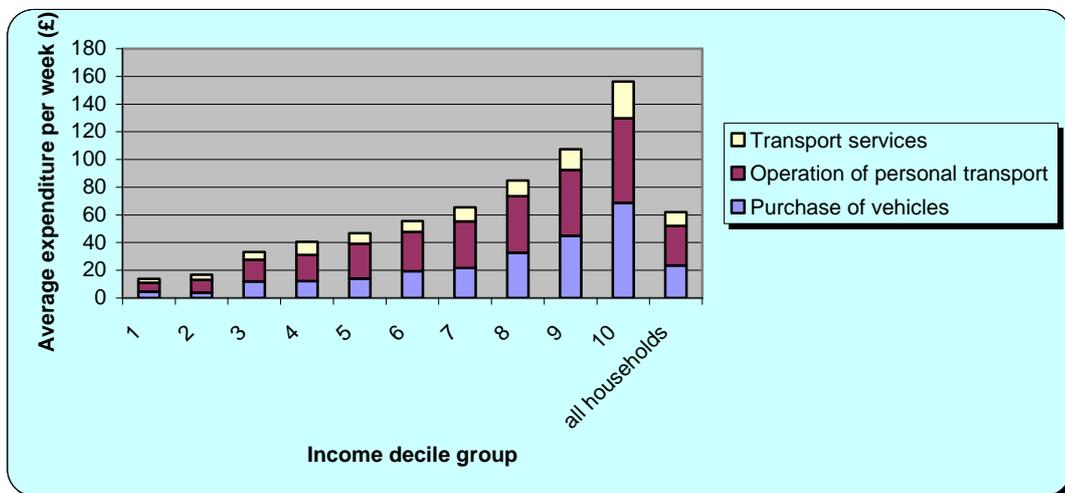


Source: Family Expenditure Survey 2007, Table A13 p.112

Overall, working age couples, the traditional family unit, and retired couples not completely dependent on the state spend more of their income on transport and will therefore be more sensitive to increased costs. The same is true across the lowest 20% of income groups, where single households and retired couples dependent on the state are equally susceptible to increased transport costs. Spending on transport also differs with age, peaking during the 30-49 age group and remaining high until 65+. Spending on operating personal transport does however remain relatively constant regardless of age.

When transport costs are broken down it is clear that lower income groups are spending an equivalent proportion of money running personal transport, which illustrates the potential impacts that rising costs would also have on lower income groups (See: Figure 6).

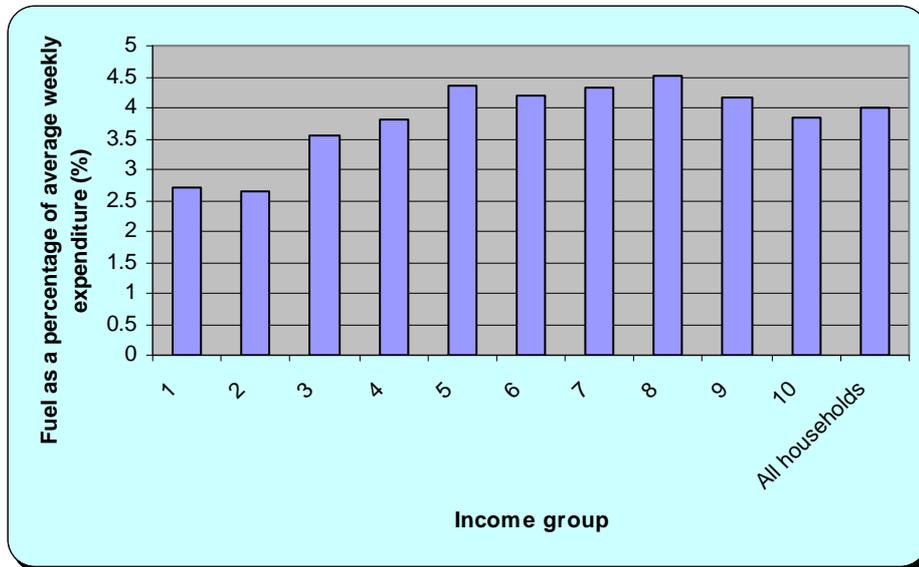
Figure 6: Break down of average weekly expenditure on transport by income group



Source: Family Expenditure Survey 2007, Table A8 p.99

The price of fuel is the single largest personal transport cost in households where transport is concerned as it takes up 4% of weekly expenditure for the average household. This increases as income increases (See: Figure 7), but the cost of fuel has a significant impact on all households. Car travel is often considered to be the preserve of the wealthy, but it is worth noting that 60% of rail travel is completed by the top two income groups (DfT, 2007, National Travel Survey)

Figure 7: Fuel cost as a percentage of weekly expenditure by income group



Source: Family Expenditure Survey 2007, Table A8 p.99

4.2 Expenditure by geographical area

Those living in rural areas of the UK spend proportionately more of their weekly budget on transport than those living in urban areas (See: Table 4).

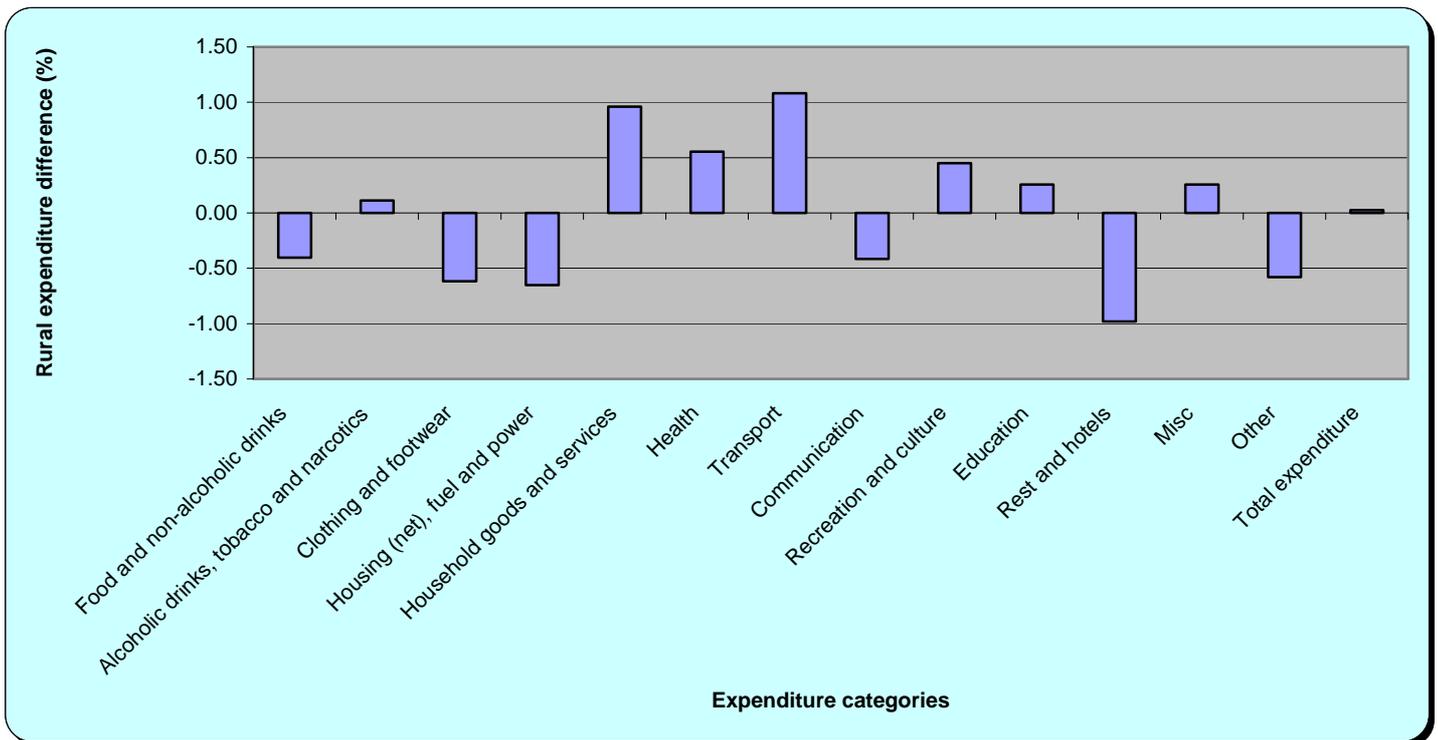
Table 4: Rural and Urban spending on Transport, 2006

Area	Spending per week	Total weekly expenditure	Percentage of weekly expenditure
Rural	£71.40	£494.20	14%
Urban	£59.70	£446.70	13%

Source: Family Expenditure Survey 2007, Table A38 p. 154

Rural residents spend 20% more on transport than those living in urban areas, which amounts to 1% more of the overall weekly expenditure. Transport is the expenditure item where there is most difference between rural and urban areas. Rural areas spend proportionally more on transport, health, home goods and services whereas urban households spend more on restaurants and hotels, clothing and footwear as well as housing fuel and power (See: Figure 8).

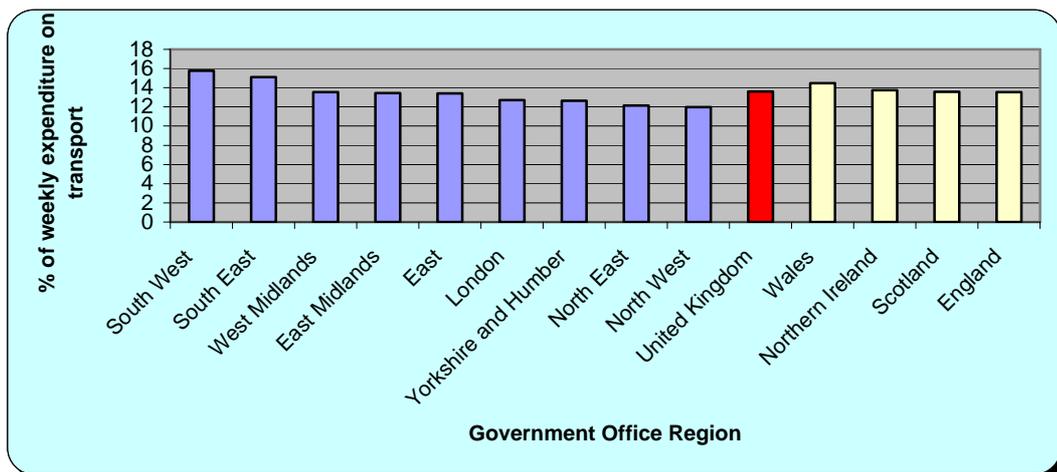
Figure 8: Rural expenditure in comparison to urban households (2006)



Source: Family Expenditure Survey 2007, Table A38 p. 154

There is also a difference between how much each of the UK regions are spending on transport (See: Figure 9). The South-West and the South-East in particular are paying more of their weekly expenditure on transport (See: Figure 9 below).

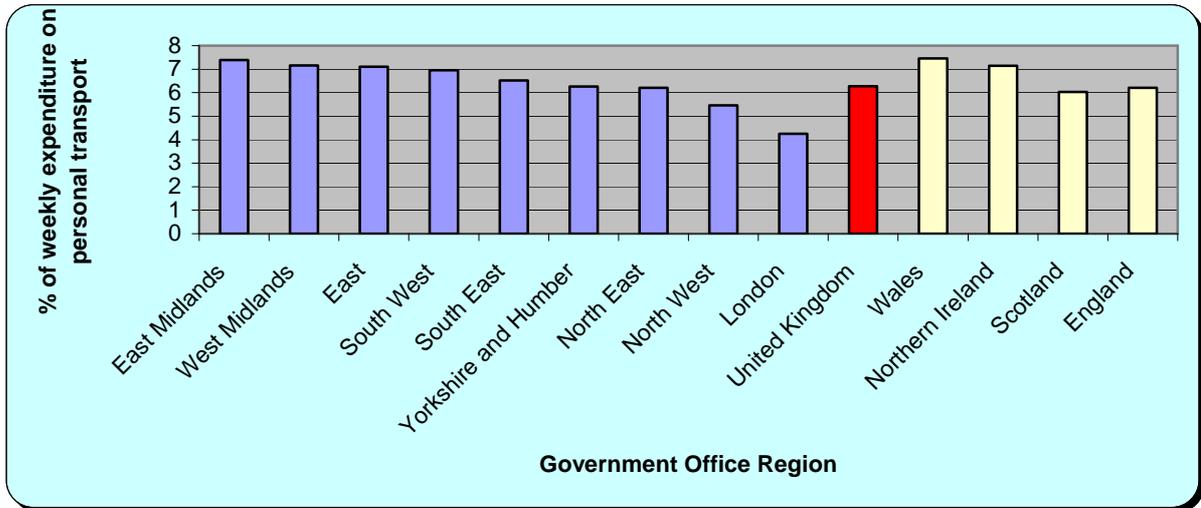
Figure 9: Transport as a percentage of total weekly expenditure by region



Source: Family Expenditure Survey 2007, Table A37 p. 148

When this figure is broken down further it is clear that some regions of the UK are committing more of their weekly expenditure to operating personal transport than others (See: Figure 10). In particular Wales and the Midlands fall into this category.

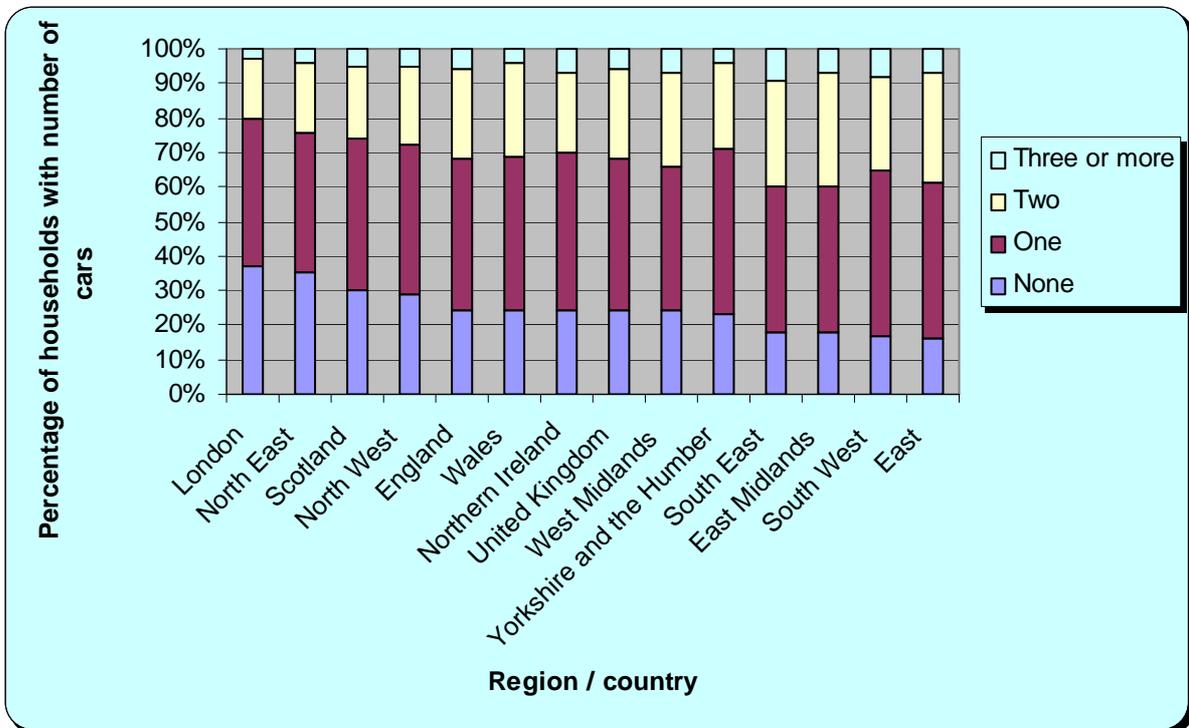
Figure 10: Operating personal transport as a percentage of total weekly expenditure by region



Source: Family Expenditure Survey 2007, Table A37 p.148-149

All the regions have significant levels of car ownership, but there are some areas, which are more susceptible to changes in motoring costs due to higher ownership and multiple car ownership rates (See: Figure 11). In particular residents in the East, South West and East Midlands show particularly high levels of ownership.

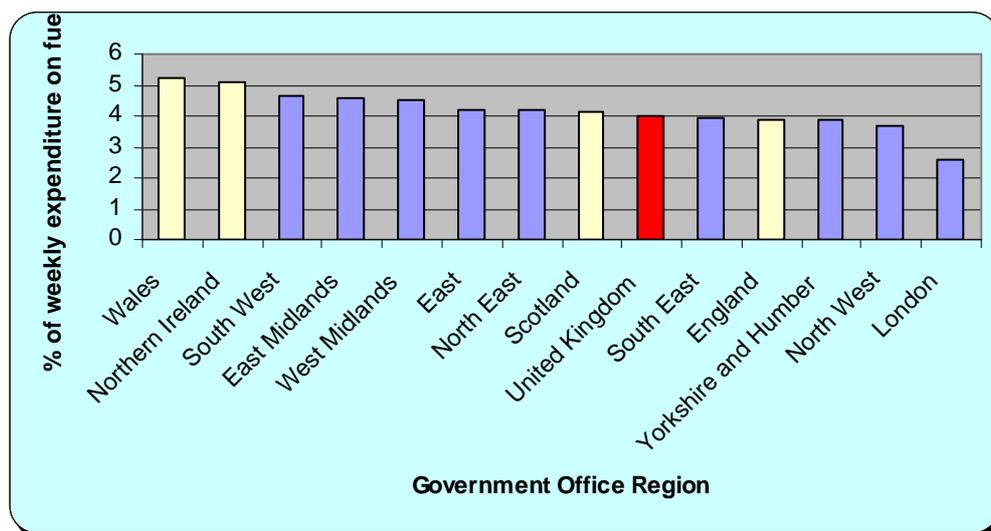
Figure 11: Car ownership and multiple car ownership by region



Source: Family Expenditure Survey 2007, Table A53 p.166

High car ownership levels mean that all regions are vulnerable to an increase in any fiscal measures affecting motoring. The regions which pay the highest proportion of their weekly budget on fuel - Wales, Northern Ireland, South West and the Midlands would be hit the hardest. (See: Figure 12). A more detailed breakdown of what proportion of household weekly income is spent on transport and its real term (£) costs is given in Annex A

Figure 12: Petrol, diesel and motor oils as a percentage of total weekly expenditure by region



Source: Family Expenditure Survey 2007, Table A37 p.148-149

5.0 Conclusions

If the Government goes ahead with the planned 2p duty increase in the forthcoming Budget, large numbers of the public who rely on the car to access work, education and health services will be placed under increased hardship. Transport, and motoring specifically, already accounts for 16% of households weekly expenditure, and in the light of the current economic climate, increasing costs unnecessarily in such a key consumer spending area would be unwise.

Fuel duty increases will undoubtedly affect the 75% of the UK population who own cars, but individuals meeting the following characteristics will be hit the hardest by any fuel duty increase and the Government should think very carefully about disadvantaging such a large and important group (See: Table 5).

Table 5: Households in the UK most likely to be effected by increases in fuel duty increases

Characteristics	Parties affected by fuel duty increase
Geographical area	Rural households Northern Ireland East South-East Midlands South-West Wales
Individual characteristics	Retired (state and non state dependent) Working couples Couples with children Single households (no children) Aged 30-64 Households earning between £387 and £840 per week

6.0 References

DfT (2007) National Travel Survey

Esure (2007) Survey Research on cost of fuel

RAC (2007) Annual Report on Motoring

Road User Alliance (2007) Road File 2007/08

ONS (2008) Family Spending 2007 edition

Annex A: Detailed break down of weekly household expenditure on transport

Table A: Detailed weekly household expenditure on transport (£) by UK countries and Government office regions 2006 (Source: Table A37 p.149)

<i>Total expenditure (£)</i>	South East	South West	England	Wales	Scotland	Northern Ireland	United Kingdom	North East	North West	Yorkshire and Humber	East Midlands	West Midlands	East	London
Transport	77.30	70.30	62.40	58.60	60.20	61.50	62.00	43.60	50.50	53.60	59.00	55.80	65.40	68.30
Purchase of vehicles	32.90	30.30	23.30	21.90	26.30	20.30	23.40	15.30	18.00	19.10	18.70	18.20	23.80	23.80
New cars and vans	11.80	12.10	8.30	12.00	6.50	7.60	8.30	4.60	9.40	5.50	5.10	8.00	8.80	5.50
Second hand cars and vans	20.60	17.90	14.40	9.40	19.00	12.50	14.50	10.10	8.30	12.50	13.40	9.80	14.30	17.40
Purchase of motorcycles and other vehicles	0.60	0.30	0.60	0.60	0.70	0.20	0.60	0.70	0.30	1.10	0.30	0.40	0.70	0.90
Operation of personal transport	33.40	31.00	28.60	30.20	26.80	32.00	28.60	22.30	23.00	26.60	32.40	29.50	34.60	22.90
Spares and accessories	2.20	2.10	2.10	2.30	1.20	1.70	2.10	1.60	1.10	2.80	3.20	2.70	2.90	1.20
Petrol, diesel and other motor oils	20.30	20.60	17.90	21.20	18.30	22.90	18.20	15.10	15.40	16.30	20.00	18.70	20.50	13.90
Repairs and servicing	8.40	6.10	6.10	4.90	5.30	5.80	5.90	4.00	4.10	5.00	6.50	5.50	7.60	5.60
Other motoring costs	2.40	2.40	2.50	1.80	2.00	1.70	2.40	1.60	2.40	2.50	2.70	2.50	3.60	2.20
Transport services	11.00	8.90	10.50	6.40	7.10	9.20	10.00	6.00	9.50	7.80	7.90	8.20	7.00	21.60
Rail and tube fares	4.40	1.60	2.40	0.60	1.60	0.60	2.20	1.20	1.30	1.10	1.10	1.30	3.40	3.60
Bus and coach fares	0.80	1.00	1.30	1.00	1.70	1.00	1.30	1.60	1.10	1.80	1.30	1.60	0.80	2.00
Combined fares	0.60	0.00	1.20	0.00	0.10	0.10	1.00	0.10	0.00	0.20	0.10	0.10	0.50	6.70
Other travel and transport	5.20	6.20	5.70	4.80	3.70	7.60	5.50	3.10	7.10	4.70	5.40	5.20	2.20	9.20
Total expenditure (£)	511.80	446.20	460.30	404.70	444.00	447.50	455.90	359.50	421.70	424.40	438.50	412.30	487.20	538.00

Table B: Detailed weekly household expenditure on transport (%) by UK countries and Government Office regions 2006

<i>Total Expenditure (%)</i>	South East	South West	England	Wales	Scotland	Northern Ireland	United Kingdom	North East	North West	Yorkshire and Humber	East Midlands	West Midlands	East	London
Transport	15.10	15.76	13.56	14.48	13.56	13.74	13.60	12.13	11.98	12.63	13.45	13.53	13.42	12.70
Purchase of vehicles	6.43	6.79	5.06	5.41	5.92	4.54	5.13	4.26	4.27	4.50	4.26	4.41	4.89	4.42
New cars and vans	2.31	2.71	1.80	2.97	1.46	1.70	1.82	1.28	2.23	1.30	1.16	1.94	1.81	1.02
Second hand cars and vans	4.03	4.01	3.13	2.32	4.28	2.79	3.18	2.81	1.97	2.95	3.06	2.38	2.94	3.23
Purchase of motorcycles and other vehicles	0.12	0.07	0.13	0.15	0.16	0.04	0.13	0.19	0.07	0.26	0.07	0.10	0.14	0.17
Operation of personal transport	6.53	6.95	6.21	7.46	6.04	7.15	6.27	6.20	5.45	6.27	7.39	7.15	7.10	4.26
Spares and accessories	0.43	0.47	0.46	0.57	0.27	0.38	0.46	0.45	0.26	0.66	0.73	0.65	0.60	0.22
Petrol, diesel and other motor oils	3.97	4.62	3.89	5.24	4.12	5.12	3.99	4.20	3.65	3.84	4.56	4.54	4.21	2.58
Repairs and servicing	1.64	1.37	1.33	1.21	1.19	1.30	1.29	1.11	0.97	1.18	1.48	1.33	1.56	1.04
Other motoring costs	0.47	0.54	0.54	0.44	0.45	0.38	0.53	0.45	0.57	0.59	0.62	0.61	0.74	0.41
Transport services	2.15	1.99	2.28	1.58	1.60	2.06	2.19	1.67	2.25	1.84	1.80	1.99	1.44	4.01
Rail and tube fares	0.86	0.36	0.52	0.15	0.36	0.13	0.48	0.33	0.31	0.26	0.25	0.32	0.70	0.67
Bus and coach fares	0.16	0.22	0.28	0.25	0.38	0.22	0.29	0.45	0.26	0.42	0.30	0.39	0.16	0.37
Combined fares	0.12	0.00	0.26	0.00	0.02	0.02	0.22	0.03	0.00	0.05	0.02	0.02	0.10	1.25
Other travel and transport	1.02	1.39	1.24	1.19	0.83	1.70	1.21	0.86	1.68	1.11	1.23	1.26	0.45	1.71