How to Measure Household Expenditure
Using Understanding Society and its Innovation Panel to test quick expenditure questions
Knowing how much people spend matters in many ways. At a macro level expenditure figures are used to calculate measures of inflation and national accounts whilst at a micro level, surveys like Understanding Society, can offer an insight into the distribution of living standards and the underlying factors driving change over time.

Major issues like living standards can be examined through the lens of household income or expenditure – or both. The subject of household spending has been making the headlines on a daily basis and accurate data on what households spend is important for research and policy making.

The Innovation Panel (IP) is used by researchers as a test-bed for innovative ways of collecting data and for developing new areas of research. It is designed around a sample of 1,500 households. Led by Research Director, Annette Jäckle, it helps develop leading edge survey methods and content that will ensure the ongoing success of Understanding Society and to generate important new knowledge for improving social science.

The experiment
One experiment in the latest wave of the Innovation Panel tested “Quick Expenditure Questions”.

The traditional source of data on what households spend is an intensive budget survey, such as the ‘Living Cost and Food Survey’ in the UK. Participants in these studies keep a detailed diary of their spending for a specified period. Because this is very time consuming, respondents are only asked to complete the survey once, and they are asked very few questions about other aspects of their lives. Thus such surveys do not record changes in a household’s spending over time, and do not allow researchers to relate observed spending to other things that may be happening to the household.

Collecting household spending data in a longitudinal, multi-dimensional study such as Understanding Society would be particularly valuable because it would allow researchers to study how households change their spending behaviour in response to normal life events (aging, retirement, children leaving home), in response to individual shocks (such as job loss or the onset of disability) and in response to macroeconomic events (like the financial crisis.) To do this though, we needed to collect reliable spending information with a small number of questions, rather than with intensive diaries.

The “Quick Expenditure Questions” experiment tested two different ways of collecting spending information from households with a short sequence of questions. One strategy for collecting the data was based on a simple “one-shot” question: “how much did you spend in the last month,” where subjects were given reminders as to what they should include in the total.

Alternatively, in a “breakdown” approach, respondents were asked how much they spent in the last month in various categories (food, transportation, etc.) and then these responses were added up. The experiment also tested whether these sequences worked in face-to-face interviews or when administered through a web-based survey. Thus subjects were randomly divided into four groups, depending on question strategy (one-shot or breakdown) and survey type (web-based or face-to-face interview).

Key findings
- The experiment demonstrated that subjects are willing and able to answer these types of questions.

This experiment demonstrates that researchers can collect reliable spending information with a small number of questions. This would allow us to study how individual households adjust their spending in response to events like a job loss, retirement or the birth of a child.

Prof. Thomas Crossley, University of Essex and Institute for Fiscal Studies
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Traditionally, it has been felt that household expenditure can only be measured by intrusive methods, such as spending diaries, which are not suitable for a longitudinal survey, like Understanding Society.

HOW BEST TO RECALL HOUSEHOLD EXPENDITURE?

Quick Expenditure Questions

‘Breakdown’ Approach

The one-shot approach seemed to suffer from significant under-reporting in the face-to-face interviews. That is, respondents seemed to fail to recall a considerable fraction of their spending.

Interestingly, this did not happen when the questions were administered over the web. Follow up questions indicated that subjects that answered the questions over the web were much more likely to consult bank statements and other records, and to use a variety of strategies to work out their spending in the preview month. This is probably the reason for the better quality of responses.

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Thus this experiment demonstrated that high quality data on household spending could be collected with a short sequence of questions, making it feasible to collect such data in a longitudinal, multi-dimensional study such as Understanding Society. It also demonstrated that such data might best be collected over the internet, allowing people time to consult records and to take time to work out their spending over the last month.

Improving policy making and social sciences

Household expenditure data can be used to measure how the well-being of the poor evolves over time, how consumption and saving respond to interest rates and how well insured households are against job loss. These are just some of the areas where the data could give decision-makers and researchers a better understanding of the circumstances and spending behaviour of UK households.

In terms of progressing survey design, this research has established that a short-sequence of questions can be used to collect useful expenditure data from households, particularly if delivered in web mode. A breakdown approach with (critically) a reconciliation follow-up may deliver the best data, though a one-shot approach delivers quite good data with fewer questions. This insight could mean that more surveys are web-based in the future.
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This case study is part of a series aimed at potential users of Understanding Society data, including: policy makers, researchers and people in a position to influence social policy. If you are using data from Understanding Society and would like to profile your work, please email info@understandingsociety.ac.uk

If you would like a more detailed briefing on this research or to discuss commissioning research using Understanding Society email info@understandingsociety.ac.uk

Further information
For all of Understanding Society’s working papers including the findings from the “Quick Expenditure Questions” experiment and other studies carried in wave 6 of the Innovation Panel, please see www.understandingsociety.ac.uk/research/publications/working-papers