

All Consuming Pressure

The cost-of-living crisis facing younger generations

David Kingman

Intergenerational Foundation



We are grateful to Yorkshire Building Society for supporting the research undertaken in this report.



The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact while losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young and those to come.

For further information on IF's work please contact Liz Emerson:

Intergenerational Foundation
19 Half Moon Lane
London SE24 9JS
0044 (0)7971 228823
@inter_gen
www.if.org.uk
liz@if.org.uk

This work is licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported License

Foreword

As a building society, we're proud to be owned by almost three million members. By helping everyone from those in retirement looking to make the most of their savings through young people looking to get on the property ladder to children just starting out on the savings journey, we're acutely aware of the priorities and pressures faced by all generations.

Our Society exists fundamentally to help people save and have a place to call home. Better understanding the cost of living challenges gives us a chance to pinpoint solutions that will allow more people to improve their financial resilience and make the most of their money.

Therefore we're delighted to have supported the Intergenerational Foundation on this important piece of research.

It sets out in detail the crucial facts behind the debate on fairness between generations. And those facts are clear. Young people today are not the spendthrift, reckless consumers they are often cast as. In fact, they face substantial pressures to afford the essentials in life. So it's no surprise that young people are less likely to save.

We hope that this report, and the work which will follow it, stimulates evidence based conversations about the important compact between generations. Policy decisions which affect generations should be rooted in facts, rather than lazy stereotypes about overspending on avocados, coffee and clothes.

We know that each generation wants to get this right for society, not just improve things for themselves.

Therefore, just as we make decisions about our business which balance the long-term interests of all our members, policy makers should take heed of this research and come up with solutions which build fairness between generations and underpin the nation's financial resilience.

Mike Regnier is Chief Executive of Yorkshire Building Society.

Contents

	Page no:
Executive Summary	5
1. Introduction	7
2. What do we already know about differences in expenditure patterns between age groups?	8
3. Results	14
4. YouGov Survey Data	20
5. Conclusions and Policy Recommendations	25
Appendix 1 – Methodology	27
Appendix 2 – EFS/LCFS variables and COICOP codes	34
Appendix 3 – Full YouGov survey results	38

Executive summary

- Young adults are often accused of spending “too much” of their incomes on luxuries such as smartphones and foreign travel, rather than saving towards getting on the housing ladder or putting more money aside for the future. However, there is growing evidence that they are actually struggling because of stagnating incomes and the rising cost of affording life’s essentials – particularly housing – which is more burdensome for them than it was for previous generations.
- IF investigated how much households who belong to different age groups were spending on a basket of “essential” goods and services at different points in time, in order to study how the changing cost of living has affected different generations of young adults.
- We found that 63% of all the money spent by households in the under 35-age group in a typical week goes on essentials (£203 per week), which is the largest proportion among any age group.
- Overall, the proportion of their total weekly expenditure which is spent on essentials increased by 8% for households in the under-35 age group between 2001–02 and 2016–17, whereas it fell by almost 9% for households in the over-65 age group. This has put younger households’ ability to spend money on non-essential items (such as leisure) or save money for the future under increasing strain.
- The average household in the under-35 age group in the bottom income quintile devotes over 70% of its total weekly expenditure to essentials.
- Even relatively high-income households in the under-35 age group – those in the third and fourth income quintiles – are devoting over 65% of their total weekly expenditure to essentials, which is much more than equivalent households were in 2001–02.
- By contrast, households in the 51 to 65 age group now use a smaller proportion of their weekly expenditure for essentials than households in any other age group.
- Housing, utility bills and domestic transport between them account for 40% of all the money spent by the average household in the under-35 age group in a typical week, whereas among households aged 51 to 65 these items account for only 28% of total spending.
- The proportion of their total weekly expenditure that was taken up by housing and utility bills rose by 20% for households aged under 35 between 2001–02 and 2016–17, which suggests that the cost of these essentials is a bigger burden for the Millennial generation now than it was for Generation X at the same stage in life.
- In comparison, the proportion of their total weekly expenditure which is taken up by essentials fell by 14% among households in the 65+ age group between 2001–02 and 2016–17, which indicates how the increasing affluence of older households as a group contrasts with the fortunes of the young.
- Among households in the under-35 age group, there was a significant association between having higher expenditure on essentials and being a renter (either in the private rented sector or social housing), being unemployed, and living in one of the UK’s more expensive regions (particularly the South East, London, East of England or West Midlands).

- IF also commissioned an original quantitative survey of a nationally representative sample of 1,003 current over-50s from YouGov to investigate older people's attitudes towards financially supporting their younger relatives.
- 42% of over-50s surveyed underestimated how much the average young adult spends on essentials; only 13% got the correct answer.
- More than one-in-four (26%) of the over-50s said that being told the real figure would make them more likely to give a younger relative financial assistance, while 56% said it would make no difference.
- 65% of the over-50s who have a close relative aged 18 to 34 who has needed financial support said they have given them some level of financial assistance within the last three years.
- 44% of those who had given financial assistance said that it amounted to £2,000 or less in total over the last three years. However, 26% of this group said they had given their younger relatives more than £5,000 (and 13% said they'd given them more than £10,000).
- Only 27% of the over-50s surveyed knew that £3,000 per year was the maximum that they can give their younger relatives in cash gifts tax free. Altogether, 16% believed that either there was no tax-free allowance at all or that there is no maximum amount you can give away tax-free, while 21% thought there was an annual limit but didn't know what it was.
- 30% of respondents said that they would be more likely to give their younger relatives cash gifts if the tax-free allowance was increased, although the majority (58%) said that it would make no difference to them.
- IF believes that the inheritance tax annual gift exemption should be increased from £3,000 per year to at least £11,900, which is what would have happened if the amount had been uprated in line with inflation since 1981. There is a strong case for reforming Inheritance Tax more dramatically to encourage more intergenerational gift-giving.
- The lack of knowledge about inheritance tax among the general public needs to be countered with a public information campaign to help people make better decisions about passing on money between generations.

1. Introduction

There is now a large amount of evidence which demonstrates conclusively that Millennials¹ are struggling to enjoy the same material standard of living as their parents' and grandparents' generations did at the same stage in life. Millennials who are have already turned 30 appear to be doing worse across a wide range of different areas; on average, they are earning less (despite being more highly-qualified), owe more student debt, are far less likely to be home-owners, and have accumulated less overall wealth.²

One particularly concerning issue affecting Millennials who are currently in their 20s is that many of them appear to be saving very little – 53% of 22 to 29-year-olds have no readily accessible savings, and only 28% have over £1,000 to their name.³ Despite the widespread evidence that there are a large number of structural barriers which make it difficult for Millennials to save – including stagnating incomes, high housing costs and low interest rates – there persists a widespread narrative that Millennials are more spendthrift than previous generations. Millennials are frequently criticised in the media for spending too much money on luxuries like foreign travel, smartphones and eating out, rather than prioritising putting money aside for their pension pots or saving up the necessary deposit to purchase a home of their own.^{4,5}

Do Millennials spend “too much” money on “luxuries”? The goal of this research was to put this idea to the test by looking at the share of their total expenditure which members of the Millennial generation are allocating to “essential” categories of expenditure, and to compare the amount which Millennials are allocating to essentials with both that spent by other generations in the present and also with that spent by the members of Generation X when they were at the same stage in life. This report also investigates which socio-economic characteristics are associated with a Millennial household having high expenditure on essentials, in order to investigate why some Millennial households have higher expenditure than others. Finally, we also undertook an original piece of quantitative survey research that investigated how much older people are aware of the problems affecting young adults' living standards and how willing they are to offer them financial assistance.

The rest of this report has been divided into several distinct sections: Section 2 looks at the economic arguments surrounding why looking at households' expenditure patterns is worthwhile and investigates what we know already about how much different households spend on essentials; Section 3 presents the findings from our original analysis of the expenditure data and explains their significance; Section 4 then looks at what we found from our YouGov survey data, and Section 5 sets out our conclusions and policy recommendations. The methodology which explains how we undertook this research is explained in Appendix 1.

¹ The generation born between 1980 and 2000, who are now aged 18 to 38.

² Resolution Foundation (2018) *A new generational contract: the final report of the Intergenerational Commission* London: Resolution Foundation

³ Office for National Statistics (2018) *How well are you doing compared with other young people?* Newport: ONS

⁴ Shaw, V. (2019) “Millennials spend more than £3,000 a year on coffee, socialising, food and clothes, study finds – but social media users hit back” *Manchester Evening News*, 20 February 2019

⁵ Levin, S. (2017) “Millionaire tells millennials: if you want a house, stop buying avocado toast”, *The Guardian*, 15 May 2017

2. What do we already know about differences in expenditure patterns between age groups?

Introduction

Previous analyses of how much young adults are spending on different categories of goods have been carried out by both IF and other organisations. Our earlier research reports which looked at this topic, *Spending power across the generations* (2012) and *Young people and the cost of living crisis* (2014),⁶ found that, since the turn of the Millennium, there has been a general shift amongst younger households towards devoting more of their consumption to life's necessities – especially the cost of paying for housing – while older households have increased their expenditure on non-essential items of expenditure such as alcohol and tobacco, eating out, cinemas and restaurants and foreign travel.⁷ We argued that – as you would expect – this broad pattern reflects the different trajectories which incomes have followed over the same period, which has seen the average incomes of older households outstrip those of their younger counterparts for the first time in recent history.⁸ A similar analysis of differences in expenditure patterns between generations also concluded that most of the common societal stereotypes are inaccurate, as it is actually the Baby Boomers who have enjoyed the fastest increase since the Millennium in expenditure on goods whose popularity is widely associated with Millennial consumers, such as foreign holidays and eating out.⁹

Why is looking at expenditure important?

Examining differences in expenditure patterns between different age groups is important because there are strong arguments that this provides the most insight into their living standards, even though differences in income have traditionally received far more attention from economists and policy-makers than expenditure.¹⁰ Not only does examining differences in expenditure patterns between different age groups enable us to investigate whether widely-held societal stereotypes about how young adults spend their money are accurate; it also provides an additional lens through which to look at intergenerational inequalities in general.

First and foremost, measuring consumption should provide a more direct measure of economic wellbeing than measuring income because income's most useful function is to facilitate consumption.¹¹ Secondly, according to Friedman's (1957) "permanent income hypothesis", consumption is a more stable indicator of living standards than income because households can "smooth" their level of consumption over time; this means they can use their income to accumulate savings during periods when they have a surplus of income over expenditure, which they can then use as a cushion to preserve the same level of consumption if they suffer a temporary fall in income, such as during a spell of illness or unemployment (or they can borrow money to achieve

⁶ N.B. Both reports were based on IF's analysis of data from the ONS's annual *Family Spending* publications.

⁷ Kingman, D. (2012) *Spending power across the generations* London: Intergenerational Foundation

⁸ Kingman, D. (2014) *Young people and the cost of living crisis* London: Intergenerational Foundation

⁹ Hirsch, D. et al. (2017) *Consuming Forces: generational living standards measured through household consumption* London: Resolution Foundation

¹⁰ Brewer and O'Dea (2012) *Measuring living standards with income and consumption: evidence from the UK* London: Institute for Fiscal Studies

¹¹ Brozowski, M. and Crossley, T. (2011) "Viewpoint: measuring the wellbeing of the poor with income or consumption: a Canadian perspective" *Canadian Journal of Economics*, 44, 1, 88–106

the same effect). Therefore, measuring how much households of different generations consume may generate a more stable picture of their usual standard of living than measuring their incomes would, because you would expect a household's income to be significantly more volatile.¹² As Cutler and Katz (1992) argued, "*economic theory suggests that permanent income or consumption is a more accurate measure of the distribution of resources than is current income.*"¹³ It has also been demonstrated that household consumption has a stronger correlation with wellbeing than household income.¹⁴

Thirdly, it has also been suggested that measuring expenditure is especially useful for analysing the living standards of poorer households because consumption may suffer somewhat less from under-reporting, especially among households which have complicated incomes involving multiple sources.¹⁵ Fourthly, in theory looking at consumption data should also make a useful contribution to what we know about different generations' savings behaviour, because it can illuminate the effect which different households' consumption choices have on how much residual money they have left over once their regular expenditures have been taken care of (the difference between households' cash outlays and cash income should represent net savings (minus measurement error)).¹⁶ This means that investigating how much of their budgets younger households are spending on essentials could help to shed some light on why so many Millennials are saving so little.¹⁷

What are the problems with looking at expenditure?

Although it possesses the advantages summarised above, examining intergenerational inequalities through the lens of consumption does also present a number of challenges. Firstly, whereas higher income can automatically be assumed to increase someone's living standards, higher expenditure can't necessarily – it might simply reflect an increase in the cost of purchasing the same goods, if the demand for them is relatively inelastic. This can make interpreting expenditure data somewhat more subjective than interpreting income data. Secondly, interpreting inequalities in expenditure is also made more challenging by the fact that households can derive a flow of consumption benefits from the ownership of durable goods, such as homes, cars and televisions, which they purchase on a one-off basis; this means that a household which owns a lot of durable goods would be more likely to fall below an expenditure poverty threshold such as the one used by the ONS (see next section) than a household which spends more on these things each month because it doesn't own them outright, even though the former household would obviously be significantly wealthier in terms of physical goods.

A third issue with analysing inequality using expenditure data is that expenditure is almost always subject to at least some degree of elasticity, which means that households exercise a degree of choice over how much they spend on particular goods and services; if one household has higher expenditure than another on a necessity such as housing, that could mean that that household has made a conscious decision to spend more of its income on living in housing which is of a higher quality or in a more desirable location, rather than indicating that there are some kind of structural

¹² Brewer, C. et al. (2006) *Household spending in Britain: what can it teach us about poverty?* York: Joseph Rowntree Foundation

¹³ Cutler, D. and Katz, L. (1992): "Rising Inequality? Changes in the Distribution of Income and Consumption in the 1980s" *American Economic Review*, 82, 2, 546-561

¹⁴ ONS (2018) *An expenditure-based approach to poverty in the UK: financial year ending 2017* Newport: ONS

¹⁵ Meyer, B. and Sullivan, J. (2002) "Measuring the well-being of the poor using income and consumption" *The Journal of Human Resources*, 38, 1180-1220

¹⁶ Brewer et al. *op. cit.*

¹⁷ The data on how much adults in their twenties are saving which was quoted in the second paragraph on this report came from the ONS Wealth and Assets Survey, which captures data on household income, savings, assets and debt but not household expenditure, so an important piece of the puzzle which determines living standards is missing.

constraints which prevent that household from being able to reduce what it spends on housing (such as being unable to move to a cheaper area).

Household budgeting decisions are complex and influenced not only by budget limitations, but also by the available supply of goods, individual and familial preferences, shifting cultural norms and the desire for individuals to fit in with others, all of which may lead people to organise their consumption behaviour in different ways.¹⁸

Fourthly, many forms of expenditure are also substitutable, which means that market expenditure can be a poor proxy measure for how much of a particular good households are actually consuming; for example, households can spend less money on buying food but still obtain the same overall amount of calories (which represent the utility the food is providing) by either purchasing more cheap, high-calorie processed food, or buying more raw ingredients and substituting the money they would have spent on pre-prepared food for making a larger investment of their time in cooking. This issue has an influence upon intergenerational comparisons because older households often have more autonomy over how they spend their time than younger ones do; research has demonstrated that retired households tend to spend less money on food in order to obtain a given amount of calories than younger ones, because they can invest more of their time on preparing uncooked food within the home.¹⁹

Fifthly, expenditure patterns change over time because new types of goods become available which never previously existed and old ones become obsolete, which lead to people organising their consumption in different ways (for example, the invention of ride-sharing apps such as Uber has reconfigured how the people who use them consume transport).

These are some of the conceptual difficulties with using household expenditure as a lens through which to analyse intergenerational inequality; there are also a number of practical issues which relate to the specific vehicle through which household expenditure data are collected in the UK, the *Living Costs and Food Survey*, that will be explained in the next section.

How can we define “essential” expenditure?

There are a variety of ways of using consumption data to analyse inequality between different social groups. One of the most common approaches is to define an expenditure poverty threshold as a proportion of average household expenditure and then classify all households which fall below that line as being in expenditure poverty. For example, if the average household spent £100 per week, then you could define all households which have total spending of less than 60% of the average, i.e. £60 per week, as living in poverty.

The idea behind this approach is that expenditure facilitates consumption, which is what generates utility; therefore, the more someone spends the more utility they should be able to enjoy. This technique has been used by the ONS as a complementary alternative to using an income-based poverty threshold to measure the extent of poverty in the UK; their analysis found that in the 2016–17 financial year, 21.8% of the UK’s population was classed as being in expenditure poverty, compared with 22.8% who were in income poverty.²⁰ Interestingly, only 11.5% of the population was in both types of poverty, with the ONS analysts concluding that this was mainly because certain types of households had much lower expenditure than you would expect them to have in

¹⁸ Noll, H.H. (2007) “Household consumption, household incomes and living standards: a review of related recent research activities” *GESIS – Leibniz Institute for the Social Sciences*, available at www.gesis.org/fileadmin/upload/institut/wiss_arbeitsbereiche/soz_indikatoren/Publikationen/HouseholdExpenditures-Research-Report.pdf

¹⁹ Aguiar, M. and Hurst, E. (2005) “Consumption versus expenditure” *Journal of Political Economy*, 2005, 113, 5, 919–948

²⁰ ONS (2018) *An expenditure-based approach to poverty in the UK: financial year ending 2017* Newport: ONS

relation to their incomes (a group which disproportionately included pensioner households, who are more likely to own a stock of durable goods which might obviate the need for high current expenditure), while certain other types of household had much lower incomes than you would expect given their level of expenditure (which could be because this group included households containing people who were temporarily unemployed, or self-employed and in a period of low earnings, but who appear to be sustaining a higher level of expenditure through dissaving or debt accumulation, as Friedman predicted they would). However, there are some obvious drawbacks to using an arbitrary threshold to analyse inequalities in expenditure; for example, people may be choosing to spend less than they could afford to in order to accumulate savings, so classifying them as being in poverty would give a misleading picture of their real level of resources. It also takes no account of how people are actually organising their consumption – someone could be above the poverty threshold because they had high expenditure on alcohol and tobacco, for example, even though this probably isn't as beneficial for their overall living standards as spending a smaller amount of money on consuming a well-balanced diet.

In order to develop a more nuanced picture of the relationship between expenditure and living standards, several methods have been devised which look at the cost of affording life's essentials. These approaches rest on the idea put forward by the British sociologist Peter Townsend that: *"Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and the amenities which are customary, or at least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average family that they are in effect excluded from the ordinary living patterns, customs, and activities."*²¹ In other words, there is a minimally acceptable standard of living within a given society which is facilitated by consuming certain goods and services, and you can use expenditure data to analyse inequalities in terms of who has access to this standard of living and how economically burdensome different households find it to sustain. A very similar concept has also been adopted by the European Union, which *"defines persons at risk of poverty as 'individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the member state in which they live.'"*²²

This idea has given rise to the Minimum Budget Standards approach to measuring poverty, which revolves around attempting to calculate the minimum cost for which the goods and services that are deemed essential can be obtained and then treating this as a threshold minimum level of income that households need in order to be able to fully participate in society.²³ The same idea influenced both the design of Seebom Rowntree's famous study of poverty in York in 1899, and the proposed level of social security benefits under William Beveridge's plans for the UK's post-war welfare state. The obvious drawback of this approach is that defining which goods and services should be considered "essential" is highly subjective, and different approaches have been developed which use either expert judgement (e.g. defining what counts as "essential" food from a dietary perspective) or social consensus (surveying the general public to see if public opinion coalesces around a consensual view of what people define as "essential"). One of the most robust attempts to use Budget Standards to estimate how the cost of living affects poverty and inequality is the Joseph Rowntree Foundation's Minimum Income Standard, which actually uses both social consensus and expert judgement to define its basket of essential goods and services.²⁴ This is undertaken by holding a series of focus groups involving members of the general public who are asked to reach a social consensus on what they think different types of household (i.e. pensioners, families with children) would need to enjoy a minimally acceptable standard of living which is based on what

²¹ Townsend, P. (1979) *Poverty in the United Kingdom* London: Penguin

²² Pennet, T. et al. (2016) "Can reference budgets be used as a poverty line?" *ImPROVE Working Paper no. 16/05* Antwerp: University of Antwerp

²³ Saunders, P. et al. (2002) "Using household expenditure to develop an income poverty line" *Social Policy and Administration*, 36, 3, 217–234

²⁴ Davis, A. et al. (2018) *A Minimum Income Standard for the UK 2008–2018: continuity and change* York: Joseph Rowntree Foundation

people *need* rather than what they *want*, but they are advised by experts on technical subjects such as adequate nutrition. Once these focus groups have reached a consensus view, experts then estimate the present cost of obtaining this range of goods and services; the Minimum Income Standard is then calculated as the minimum amount of money which would be required to fund this minimally acceptable lifestyle. The JRF Minimum Income Standard has a wide range of practical applications, including being used as a cost-of-living benchmark to set the National Living Wage and the Scottish Government's fuel poverty threshold, and it was one of the sources which IF drew on for this piece of research.

Another alternative to the Budget Standards approach is the Budget Shares approach. This is different because it attempts to measure the relationship between the cost of living and poverty and inequality by analysing the share of either a household's total income or total consumption that is devoted to providing life's essentials. An advantage of this approach compared to the previous one is that it is more practical, because it is based on observed consumption data rather than attempting to estimate how much goods cost or what level of income would be necessary to afford a given theoretical level of consumption. Analysing the share of a household's total consumption budget that is taken up by essentials is a well-established methodology for measuring living standards.²⁵ It is also sometimes referred to as the "constrained expenditure" approach because it is premised on the assumption that as a household's income falls it will need to devote a larger share of its consumption budget to life's essentials. This in turn reduces the household's living standards because it means there are fewer resources left over to provide discretionary (or "luxury") goods and services. Of course, as with the Budget Standards approach this involves coming up with a selection of "essential" goods and services; different researchers have proposed a range of different ones (summarised in the table at the end of this section), which were used to inform how IF defined its basket of essentials (more detail on this is provided in the Methodology chapter).

It has been clearly demonstrated both theoretically²⁶ and in practice²⁷ that less affluent households devote a greater share of their consumption towards essentials than wealthier ones do, which makes this approach a useful way of measuring how the cost of living affects different households' living standards. Research by the charity Citizens Advice has suggested that almost one in ten (9%) UK households spend at least 80% of their total monthly income on essentials, while 21% spend over 60% (in comparison with an average of 40% across the population as a whole).²⁸ This phenomenon is driven particularly by expenditure on housing costs, which is the single largest component of household expenditure for most households, but particularly for renters – 47% of working-age adults who are in the bottom income quintile spent more than one third of their monthly income on housing in 2015/16 compared with 39% in 1994/95, with most of their increase being driven by the rising cost of renting.²⁹ How expenditure on essentials vary between different age groups is the key question which this research attempts to answer.

²⁵ Banks, L. and Leicester, A. "Expenditure and Consumption" in Banks et al. (eds) *Retirement, Health and Relationships of the Older Population in England* London: Institute for Fiscal Studies

²⁶ Bradshaw, J. and Finch, N. (2000) "Using household expenditure to establish poverty thresholds" in York Social Policy Research Unit (ed.) *The measure of absolute poverty: final report for Eurostat* York: University of York

²⁷ Corfe, S. and Keohane, N. (2018) *Measuring the poverty premium* London: Social Market Foundation

²⁸ Citizen's Advice (2018) *Walking on thin ice: the cost of financial insecurity* London: Citizen's Advice

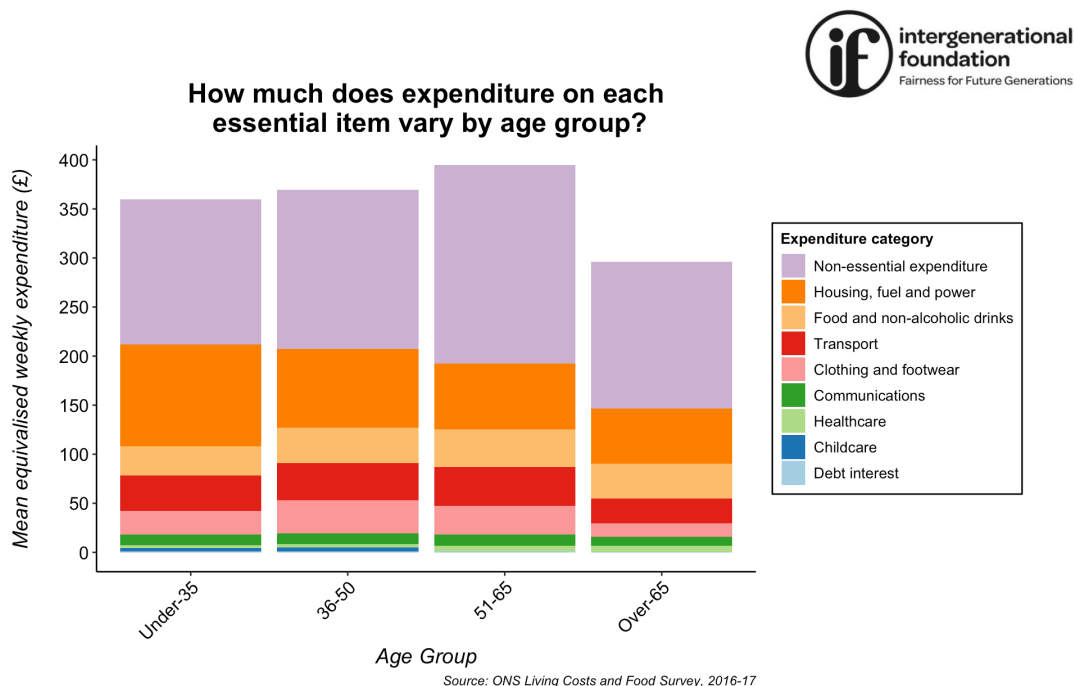
²⁹ Joseph Rowntree Foundation (2018) *UK Poverty 2017: A comprehensive analysis of poverty trends and figures* York: JRF

Table 1. What is “essential” expenditure?

Author(s)	Expenditure items considered “essential” or “unavoidable”	Author(s)	Expenditure items considered “essential” or “unavoidable”
Davis et al. (2018) <i>A Minimum Income Standard for the UK 2008–2018: continuity and change</i> York: Joseph Rowntree Foundation	<ul style="list-style-type: none"> • Housing • Domestic utilities (i.e. heating, electricity, water and sewerage) • Nutritional food • Clothing and shoes • Household goods (e.g. furniture, cutlery, crockery) • Personal goods and services (e.g. shaving foam, toothpaste) • Health-related spending (e.g. prescriptions, dentistry) • Childcare • Domestic transport • A mobile phone with internet access • A computer with internet access • At least one week’s holiday away from home within UK • Eating out on special occasions 	Bradshaw, J. and Finch, N. (2000) “Using household expenditure to establish poverty thresholds” in York Social Policy Research Unit (ed.) <i>The measure of absolute poverty: final report for Eurostat</i> York: University of York	<ul style="list-style-type: none"> • Food and non-alcoholic drinks • Clothing and shoes • Housing • Domestic utilities • Education-related expenditure (e.g. school lunches, school trips) • Health-related spending (e.g. prescriptions, dentistry)
Citizen’s Advice (2018) <i>Walking on thin ice: the cost of financial insecurity</i> London: Citizens Advice	<ul style="list-style-type: none"> • Housing • Water • Energy • Domestic transport • Food and non-alcoholic drinks • Telephone access • Internet access • Debt interest (e.g. credit card or payday loan debt) 	Social Metrics Commission (2018) <i>A new measure of poverty for the UK</i> London: Social Metrics Commission	<ul style="list-style-type: none"> • Debt interest • Housing costs • Childcare • The additional costs that are associated with having a disability (e.g. medical equipment, home adaptations)
Scott et al. (2018) <i>The Affordability of the UK’s Eatwell Guide</i> London: Food Foundation	<ul style="list-style-type: none"> • Food which meets the recommended criteria for a healthy diet proposed in the UK government’s <i>Eatwell Guide</i> • Housing • Domestic utilities • Household furnishings and other equipment • Health-related expenditure • Childcare • Domestic transport • Communications (e.g. phone, internet access) • Education-related expenditure (e.g. school lunches, school trips) 		

3. Results

This section presents the findings from our research into how much different generations are spending on essentials. The full methodology which underpinned these findings is set out in Appendix 1.



© Intergenerational Foundation 2019
www.if.org.uk

Fig. 1

We wanted to look at how much of their expenditure households of different ages are devoting towards meeting the costs of essential goods and services. Fig.1 displays mean equivalised weekly household expenditure on the different categories of goods and services which we deemed were essential, as well as the amount spent on non-essential expenditure. As is explained in more detail in the Methodology, there are some caveats regarding this data: there is a strong likelihood that expenditure is being under-reported (although this is likely to affect all age groups and most categories of goods fairly equally), and it's likely that not all the expenditure included in a large category such as "Food and non-alcoholic drinks" really is essential, but we can't make robust assumptions about what proportion of the expenditure in these categories really is essential.

However, Fig.1 does reveal some broad patterns which are interesting. Firstly, households where the Household Reference Person (HRP – see Appendix 1 for definition) is under 35 spent the most on essentials both in cash terms and as a proportion of their total expenditure budget. The average household where the HRP was in this age group spent £203 per week on essentials, compared with £142.72 among households where the HRP was over 65; this amounted to 63% of the younger households' total expenditure, compared with 57% for their older counterparts.

Secondly, although households where the HRP was over 65 spent less per week overall than the under-35s, they actually spent slightly more on non-essentials (£149.20 compared with £147.62).

Thirdly, it was households where the HRP was aged 51 to 65 (the age group which contained most of Britain's Baby Boomers in 2016–17) who had the highest weekly expenditure overall (£382.61), the highest expenditure on non-essentials (£202.63) and the lowest proportion of expenditure on essentials (55%) of any age group.

Fourthly, the budget share of essentials among all age groups was dominated by housing and domestic utilities and, to a lesser extent, transport, with clothing and footwear and food and non-alcoholic drinks accounting for most of the remainder, while the other essentials took up relatively little. This was especially true for households where the HRP was under 35, among whom almost 40% of total weekly expenditure went on just housing and domestic utilities and transport, whereas the equivalent figure for households where the HRP was aged 51 to 65 was just under 28%.

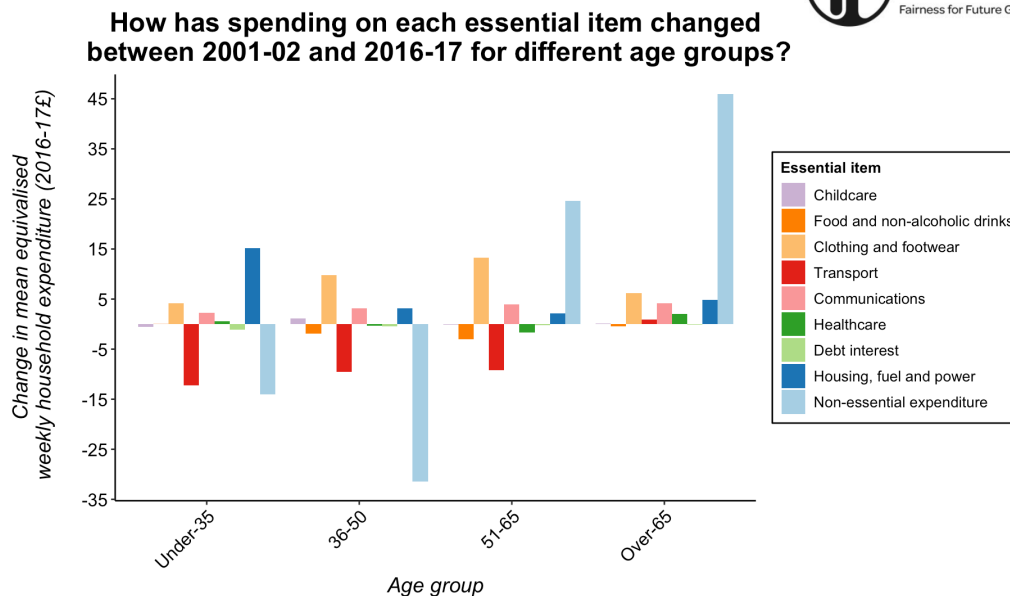
Importantly, these data did not include mortgage capital repayments for households who are owner-occupiers, which are also likely to weigh more heavily on younger households because more of them will have bought properties recently, when house prices are generally much higher than they were 20 or 30 years ago (so they would have incurred larger mortgages), and fewer of them will have completely paid off their mortgages than in the older age groups. Therefore, the gap between Millennial and Baby Boomer households may be even bigger than these figures suggest.

Although these findings do go some way towards demonstrating that younger people may currently be struggling more with the cost of living than older people, this is not altogether surprising – you would expect young adults to have accumulated fewer durable goods than older people, so their consumption expenditure on these essentials was always likely to be higher. Therefore, we also wanted to investigate the extent to which this pattern has changed since 2001–02 in order to see if Millennial young adults are devoting more of their resources towards essentials than households in Generation X were at roughly the same stage in life. Fig.2 displays the real terms change in mean equivalised weekly consumption expenditure in each category of essentials between 2001–02 and 2016–17. While it is possible that these figures are influenced by the apparent growth in underreporting in the Expenditure and Food Survey and Living Costs and Food Survey (see Appendix 1) between 2001–02 and 2016–17, there is little evidence to suggest that under-reporting varies by age, so relative changes in how much different age groups spend on the same categories of goods are likely to be significant.³⁰

Bearing these caveats in mind, there are two particularly striking patterns which stand out in Fig.2. Firstly, there was the increase in the amount spent on housing and domestic utilities, which affected all age groups to an extent but had by far the largest impact on households where the HRP was under 35. In 2001–02, households where the HRP was aged under 35 devoted an average of 24.8% of their total expenditure to housing and domestic utilities, whereas this had risen to 29.6% by 2016–17 (with large variation by income and housing tenure). By contrast, the share of total expenditure devoted to housing fell slightly during the same time period for both of the two oldest age groups, among whom it was already lower to begin with. Overall, the proportion of their total weekly expenditure which is spent on essentials increased by 8% for households in the under-35 age group between 2001–02 and 2016–17, whereas it fell by almost 9% for households in the over-65 age group.

Secondly, there appears to have been a large decline in spending on non-essentials among the two youngest groups of households, and a large increase in spending on non-essentials among the two oldest ones, particularly among households where the HRP was over 65. Total expenditure among households where the HRP was over 65 appears to have increased significantly compared with all other age groups, as has the share of their expenditure which is devoted to non-essentials, which rose from 44.8% in 2001–02 to 51% in 2016–17. By contrast, the share of consumption devoted to non-essentials fell slightly among households where the HRP was under 35, from 45% to 42%.

³⁰ Hirsch et al. *op. cit.*



© Intergenerational Foundation 2019
www.if.org.uk

Fig. 2

Thirdly, Fig.2 also suggests there was an increase in expenditure on clothing and footwear which occurred particularly among households where the HRP was aged 36–50 and 51–65. This could be because not all expenditure on this category of goods is genuinely essential, and consumers were choosing to spend more money than they needed to on either buying more of them or purchasing more exclusive brands, but it is interesting that it was mainly Generation X and the Baby Boomers whose expenditure on clothing and footwear saw the largest increase given that fashion tends to be stereotypically associated with younger age groups.

Taking these points together, it does seem reasonable to conclude that – despite the caveats about the accuracy of the more recent data – Millennial households are finding that the cost of affording life's essentials is weighing upon them more heavily than it was for Generation X at roughly the same stage in life (which is mainly because of housing costs), whereas older households are spending more overall and devoting a larger share of their consumption to non-essentials than they were in 2001–02. It's also worth noting that this may also understate the impact of housing costs on Millennial households' living standards because these data do not include mortgage capital repayments, and also they only include younger households who can afford to live independently in the first place, which is a smaller proportion of under 35s in 2016–17 than it was in 2001–02.

Returning to the point we made near the beginning about why they aren't able to save more money, this may help to explain why young adults are saving so little, because it suggests that their disposable incomes have come under greater pressure.

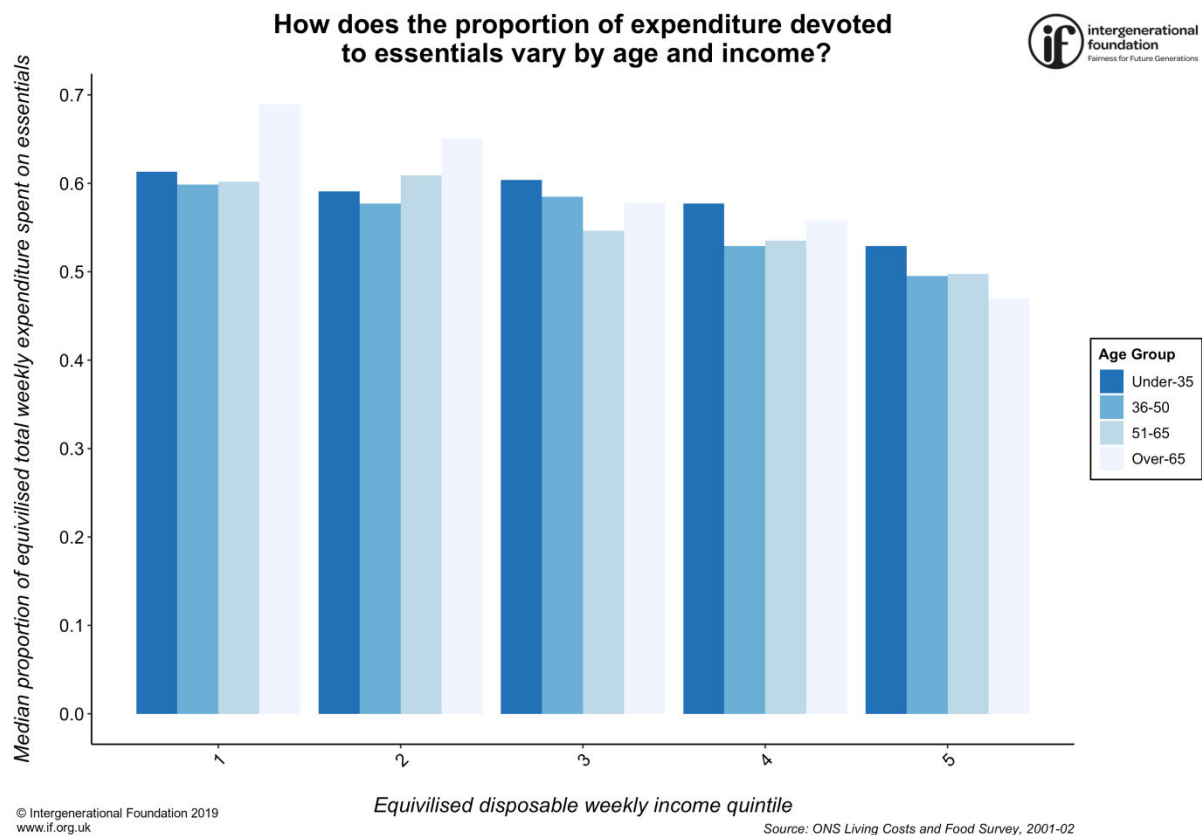


Fig. 3

Another interesting aspect of this question to look at is how the proportion of a household's total consumption expenditure devoted to essentials varied by both age and income at these two different points in time. Fig. 3 shows the mean proportion of equivalised weekly household expenditure that was devoted to essentials for members of each age group within each household income quintile in 2001–02; Fig. 4 displays the same information for 2016–17. As previously discussed, earlier research has shown that lower-income households devote more of their household budgets to essential goods and services. Fig. 3 shows that there were substantial variations within each age group by household income, and that the households in the oldest age group had a higher proportion of expenditure devoted to essential goods and services than any other age group in the two lowest income quintiles at this point in time.

However, Fig. 4 suggests that this pattern had changed by 2016–17, as in all five income quintiles it was the households in the youngest age group who were devoting the highest share of their total expenditure to essentials. Something which particularly stands out is that households where the HRP was under 35 in the bottom quintile were devoting over 70% of their total expenditure to essentials in 2016–17, which was about 16% higher than the equivalent figure in 2001–02. It is also notable that even in the top two income quintiles the youngest households were devoting significantly more of their total expenditure to essentials than older households were.

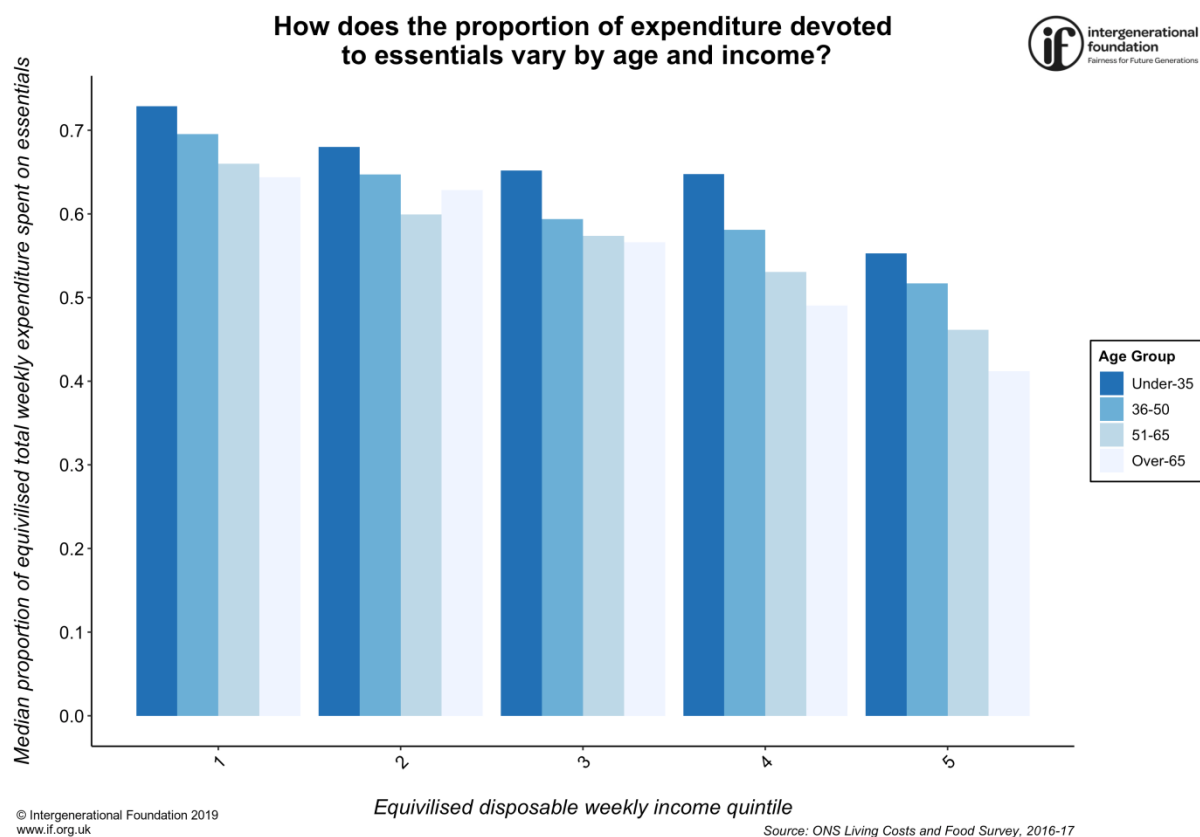


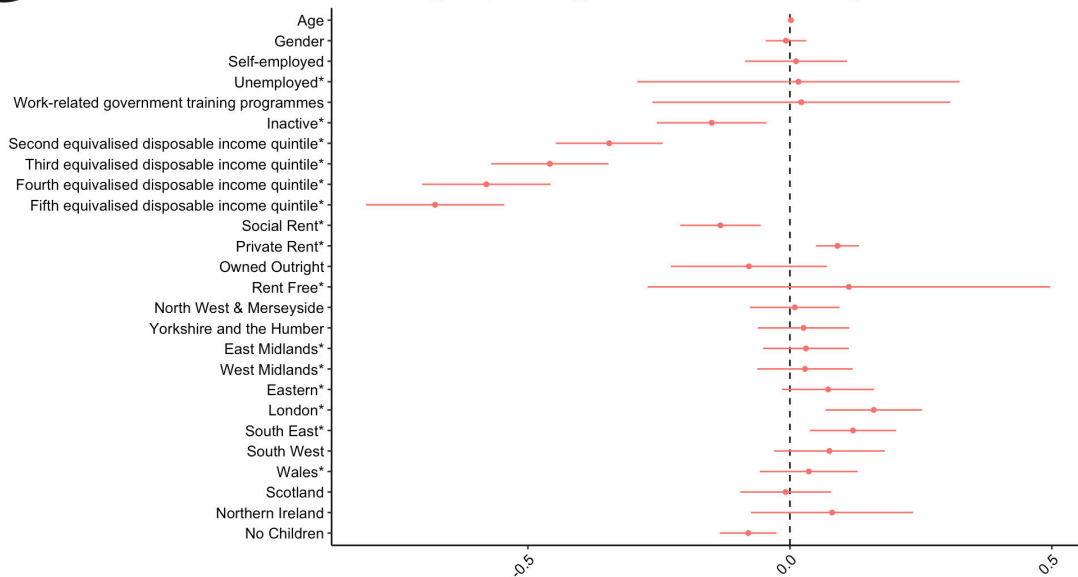
Fig. 4

The third and final aspect of this question which we were interested in investigating was whether there are particular characteristics that were associated with having high expenditure on essentials among the under 35s, in order to see what the driving forces are behind the pressure on their living standards.

Fig.5 displays the results of a multiple regression analysis which attempted to estimate the significance of different socio-demographic factors in determining how much of a household's expenditure was devoted to essentials. This was achieved by isolating the households where the HRP was under 35 in the 2016–17 data and creating a linear regression model which included the following parameters which we wanted to investigate: age, gender, employment status, income quintile, housing tenure, region and whether the household contained dependent children.

Fig. 5 visualises the output from this regression model: firstly, variables which have a star beside them on the y-axis had a statistically significant association with expenditure on essentials; secondly, the effect size associated with each variable and whether it is positive or negative is displayed on the x-axis; and thirdly the width of the bar indicates the 95% confidence interval for each regression coefficient. Statistically significant variables where the whole of the confidence interval was to the right of the dotted line which marks zero had a statistically significant association with a higher proportion of household expenditure being consumed by essentials, whereas variables where the whole of the confidence interval was to the left of the dotted line had a statistically significant association with it being lower.

Which factors are associated with high spending on essentials among under 35s?



© Intergenerational Foundation 2019
www.if.org.uk

Coefficient estimate (variables labelled '*' are statistically significant at the 95% c.i.)

Source: ONS Living Costs and Food Survey, 2016-17

Fig.5

The most important takeaways from Fig.7 are that being unemployed, renting in either the social rented sector or private rented sector and living in the West Midlands, East of England, London, the South East or Wales were all associated with higher expenditure on essentials, whereas being in the top income quintile was associated with lower expenditure on essentials.³¹ To some extent these findings are unsurprising, except that it does demonstrate the influence which housing has on young adults' living standards, as both social renters and households living in the private rented sector were associated with much higher expenditure on essentials than being an owner-occupier was. It also corroborates an interesting pattern displayed in Fig. 4, which is that members of this age group who are in the top income quintile spend significantly less on essentials than their counterparts in any of the four other ones; younger households in the bottom four income quintiles all devote above 65% of their total expenditure towards essentials, which is significantly more than their counterparts did in 2001-02, and suggests that a much higher real income is needed for young adults to afford a relatively comfortable standard of living than was the case among Generation X.

³¹ Coefficients which had very wide 95% confidence intervals, such as the "Rent Free" housing tenure, where generally associated with having very few respondents in the dataset belonging to them, so they should be treated with caution.

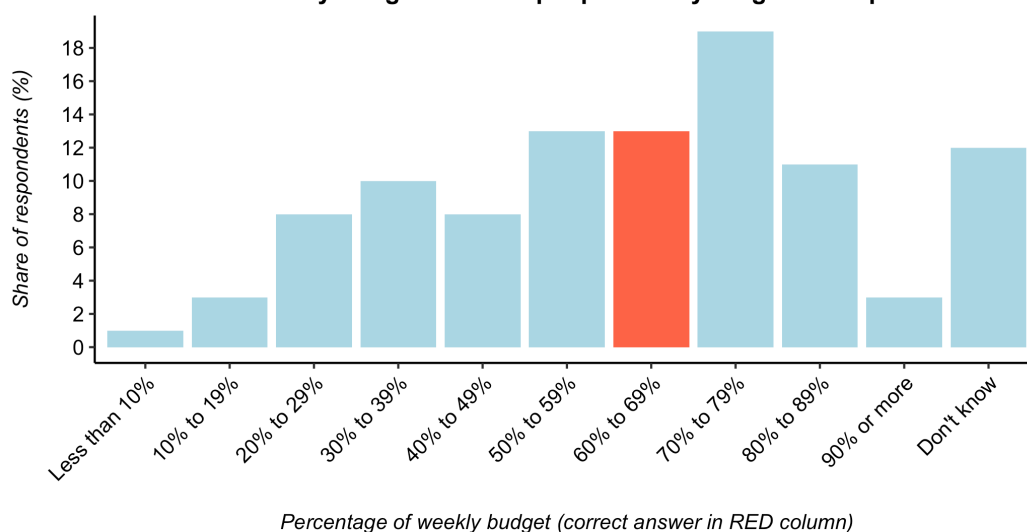
4. YouGov survey data

In addition to our analysis of the *Living Costs and Food Survey*, we also wanted to learn more about how much older people in the UK are aware of the economic challenges facing young people, and how learning about them influences their attitudes towards giving their younger relatives financial support.

To do this we commissioned the polling company YouGov to undertake an original quantitative survey analysis among a nationally representative sample of 1,003 GB adults aged 50 and above. Fieldwork took place between 20 and 22 August 2019; the precise wording of each of the questions and the full results are provided at the end of this report as Appendix 3.

Our first question asked the respondents how much of their weekly expenditure they thought young adults are devoting to essentials. To make the task easier, the question was designed to be singlechoice so that they only needed to pick the category containing the correct answer (60–69%) rather than guessing the precise amount (63%).

How much of their weekly budget do older people think young adults spend on essentials?



Source: YouGov survey of 1,003 GB adults aged 50 and over

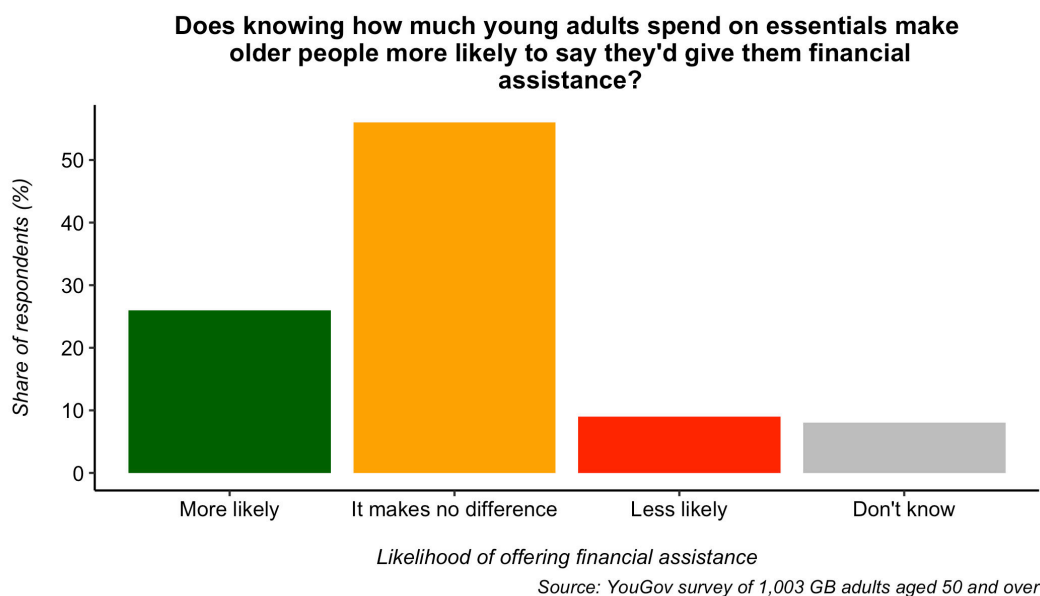
© Intergenerational Foundation 2019
www.if.org.uk

Fig. 6

As is evident from Fig. 6, only 13% of the respondents successfully chose the correct category, while over half of them (54%) either underestimated the total or chose the “Don’t Know” option. The fact that such a large proportion underestimated the total does suggest that many members of this age group are unaware of the high cost of living which is facing many of today’s young adults. Partly, this could be because the respondents to our survey would mostly have been young adults themselves during the 1970s and 1980s, when housing in particular was relatively cheaper.

Interestingly, a third of the respondents (33%) actually overestimated the share of their budgets which young adults are spending on essentials, which could possibly be because they were thinking about the experiences of their own younger relatives, who may not reflect the average experience of people within their age group..

Regardless of the answer they gave to Question 1, respondents to our survey were then told that the correct figure was 63%. Our second question asked the respondents whether finding this out made a difference to how likely they would be to offer a younger relative financial assistance, on the assumptions that they had a younger relative and could afford to do so.



© Intergenerational Foundation 2019
www.if.org.uk

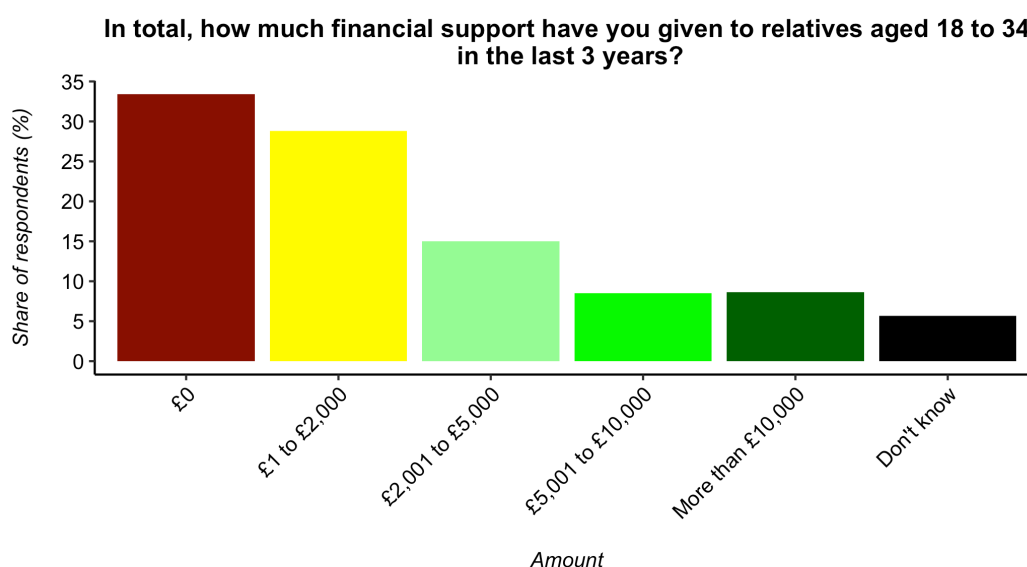
Fig.7³²

As shown in Fig.7, the results suggested that just over one in four (26%) of the respondents did think this would make them more likely to offer their younger relatives financial support. However, the majority (56%) said that it would make no difference. This indicates that knowing about the financial pressures affecting young adults made some older people more likely to say they would offer them financial support, but the majority were unaffected by it. There were a couple of possible reasons for this. Firstly, the information was presented to the respondents in a neutral way, without comparing young people today to either older people or young people in the past, which may have made it seem less impactful. Secondly, as with the previous question, although the respondents were asked to imagine that they had a younger relative who needed financial support, they may have been influenced by thinking about their own younger family members, whose financial situations won't necessarily be reflective of the average member of their age group.

³² The original question in the survey actually had six separate categories for respondents to choose between: "Much more likely", "A little more likely", "It makes no difference", "A little less likely", "A lot less likely" and "Don't know", but the various "More likely" and "Less likely" options were combined for clarity's sake.

We did find that there was a statistically significant relationship between how the respondents answered questions 1 and 2; 33% of people who *underestimated* the amount which young adults spend on essentials said that learning the true figure made them say they were more likely to give money to a younger relative, compared with 24% of respondents who got the correct answer and 22% of respondents who *overestimated*, which suggests that older people are more likely to give money to their younger relatives if they know they are under financial pressure.

We also wanted to look at the extent to which older people are currently giving cash gifts to their younger relatives to help them deal with the high cost of living. We know that lifetime gifts are an important way in which wealthier older people are assisting less well-off young people to deal with some of the economic challenges they face (as illustrated by the increasing amount of coverage being given to the role played by the “Bank of Mum and Dad” in Britain’s housing market), but we wanted to see to what extent older people are helping them meet the cost of daily living.



Source: YouGov survey of 670 GB adults aged 50 and over who have a close relative aged 18 to 34

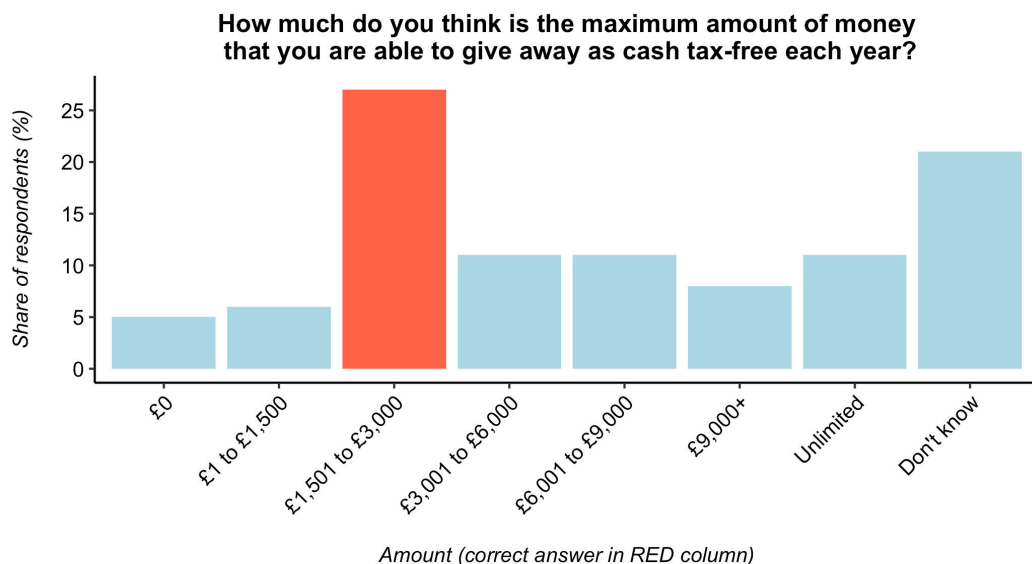
© Intergenerational Foundation 2019
www.if.org.uk

Fig.8

Within YouGov’s sample of respondents aged 50 and over, two-thirds (67%) said they have had at least one relative who is aged 18–34 who has needed financial support in the last 3 years. Three findings stand out. Firstly, gifting appears to be widespread: two-thirds of the respondents who had a younger relative said that they had given them some level of financial support during this time period. Secondly, the majority of gifts are not particularly large: almost half (44%) of the respondents said that their total gifting to their younger relatives over the past 3 years amounted to £2,000 or less. Thirdly, a relatively small proportion of the older respondents had made very large gifts: just over a quarter (26%) had given more than £5,000, and 13% had given more than £10,000.

This may reflect the tendency for older relatives to give large amounts for one-off events such as weddings or property purchases, but it also suggests that relatively few older people are helping to support their younger relatives' day-to-day living costs via frequent small gifts.³³

We also wanted to investigate how much impact the rules surrounding inheritance tax had on older people's gift-giving to their younger relatives. The current inheritance tax regime is extremely complicated, but small cash gifts are supposed to be covered by the "annual exemption" rule which allows people to give away a total of up to £3,000 worth of cash within a tax year that will be exempt from any inheritance tax. When we asked our respondents to choose the category which contained the maximum annual exemption allowance from among the ones given below in Fig.9, the vast majority of them gave a wrong answer.



Source: YouGov survey of 1,003 GB adults aged 50 and over

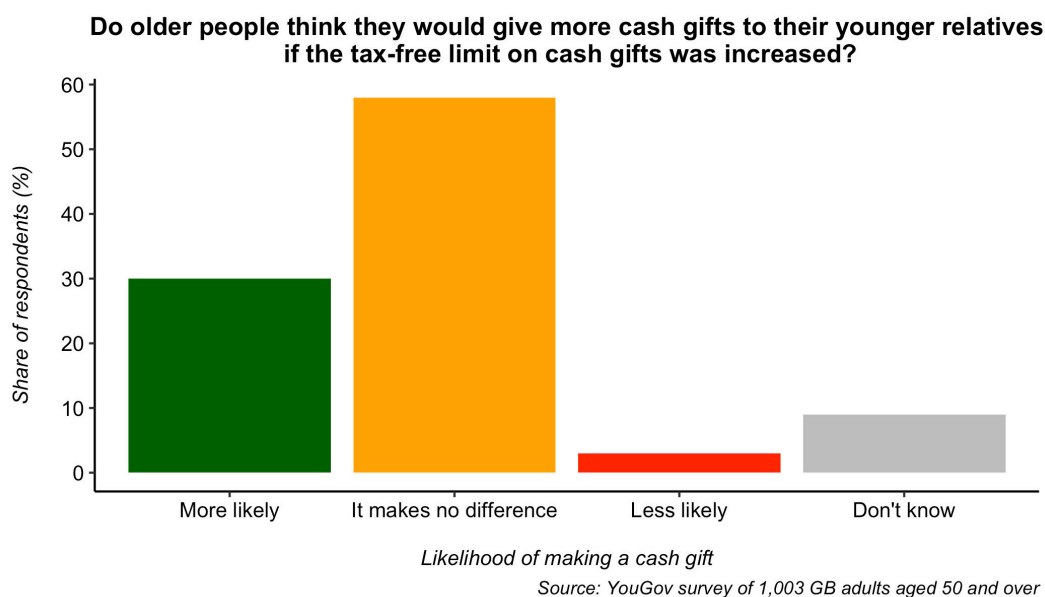
© Intergenerational Foundation 2019
www.if.org.uk

Fig. 9

Although just over a quarter (27%) of the respondents did choose the correct answer, over one in five (21%) selected "Don't Know", 11% said they thought there was no maximum limit on how much you could give away within a year tax-free, and another 5% said they thought that you couldn't give any money away tax-free. The fact that 73% of the respondents got this question wrong, and the extremely wide variety of answers which it generated, does suggest that the public's level of knowledge regarding the inheritance tax system is quite low.

³³ The results of this question haven't taken into account the value of in-kind gifts which have an obvious financial value, such as providing free childcare or providing accommodation for adult children.

Finally, we also asked the respondents whether they thought increasing the annual exemption would make them more likely to gift more money to their younger relatives, which could help them to deal with the high cost of living. Fig. 10 shows that while the majority of the respondents (58%) said that it would make no difference to them, just under one in three (30%) in total expressed the view that it would make them more likely to gift more money.



© Intergenerational Foundation 2019
www.if.org.uk

Fig. 10³⁴

Although any alterations to the inheritance tax regime would need to be designed and implemented very carefully, this finding does support the argument that was recently put forward by the Office of Tax Simplification (OTS) that the multiplicity of inheritance tax exemptions has become too complicated, and the annual exemption should be combined with several other exemptions to create a single higher threshold for small gifts which are given away each year.³⁵ Although further research is necessary to assess what overall impact a higher gift exemption would have on people's behaviour, our research suggests that it would incentivise a significant number of older people to give more money away to their younger relatives during their lifetimes, rather than leaving it until after they are deceased for these familial transfers of wealth to occur.

³⁴ Some of the multiple choice answers were combined for the sake of clarity, in exactly the same way as described for footnote 31.

³⁵ OTS (2019) *Inheritance Tax Review – Second Report: Simplifying the Design of Inheritance Tax* London: OTS

5. Conclusion and policy recommendations

The goal of this report was to investigate the pressures affecting young adults' living standards in relation to other age groups by looking at how much they are spending on different goods and services. In particular, we wanted to see whether certain media stereotypes about Millennials frittering away their money on "luxuries" had any validity, or whether they are more likely to be hard-pressed to put money away for the future and to get on the housing ladder because they are struggling with the high cost of living.

Our analysis suggests that the latter idea is much more accurate than the former: far from being over-enamoured by luxuries, today's young adults are devoting more of their expenditure to life's essentials than was the case when Generation X was at the same stage in life. By contrast, there is evidence to suggest that older age groups are both spending more overall than they used to and are able to devote more of their expenditure to non-essential items. This has clear implications for the ability of Millennials to save for the future, as it suggests that their household budgets are becoming increasingly stretched.

Although significant differences remain between higher- and lower-income households within each age group, there does appear to be a significant pattern of Millennial households having to spend more on essentials than people with a similar level of income within any other age group. The most plausible reason for this is that they are also more likely to be renting their homes than any other age group, which demonstrates the urgency of tackling the housing crisis if Millennials are going to enjoy the same standard of living that previous generations enjoyed.

Alongside this, our quantitative survey research undertaken with YouGov suggests that older people are not particularly aware of the challenges which many young adults are experiencing with the cost of living. This may help to explain why the amounts of money which the majority of older people are giving to their younger relatives as cash gifts are relatively small, even though a large amount of gift-giving does seem to be taking place overall. The amounts of money that are being gifted could also be low because, as our results suggest, the majority of older people are not aware of how much they are allowed to give away without their gift being liable for inheritance tax.

We think that the current annual gift exemption should be increased to significantly above its current level of £3,000 per year in order to encourage more intergenerational gift-giving. The Office of Tax Simplification (OTS) is currently analysing inheritance tax reforms, and has recently argued that the annual gift exemption would be worth £11,900 per year in today's money if it had been uprated in line with inflation since it was introduced in 1981.³⁶ The All-Party Parliamentary Group on Inheritance and Intergenerational Fairness has also recently recommended that the annual exemption should be increased to at least £10,000 per year if the other inheritance tax reliefs which exist under the current system were being retained, and could be increased to £30,000 per year under a reformed system where the other relatively small gifting allowances were combined into a single exemption for personal gifts.³⁷

Whether the annual exemption is reformed or stays the same, we also think that our finding that our finding that almost three-quarters of over-50s didn't know how much the annual exemption would enable them to give away tax-free strongly suggests that there needs to be a new public information campaign to educate people about how inheritance tax works, so that they are enabled to make better-informed decisions about how they manage their financial resources in later life.

³⁶ OTS (2019) *op cit*.

³⁷ All Party Parliamentary Group - Inheritance & Intergenerational Fairness (2019) *Interim Recommendations* London: House of Commons

We hope that this report will help to inform policy-makers about the economic pressures that are affecting young adults when it comes to setting policies on taxation and welfare benefits which affect this age group. More broadly, the evidence contained within this report shows that we need to challenge the generally negative perception of young people's spending habits which is held by wider society. As this report makes clear, younger adults are far more prudent than much of the rhetoric surrounding their spending would have us believe.

Appendix 1 – Methodology

What data source did we use?

We decided to approach this task by undertaking an original analysis of the ONS *Living Costs and Food Survey* (LCFS) (previously known as the *Expenditure and Food Survey* (EFS)), which is the UK's only major household survey that can provide detailed data on household expenditure. There has been an annual household expenditure survey recording the amounts that a representative sample of the UK population spends on different goods and services since 1957, although it has undergone various changes throughout that period. Currently, directly comparable data about household expenditure is available from this source for the period between 2001–02 and 2016–17.³⁸ Comparing the data from these two years enabled us to make a comparison between the expenditure patterns among today's young adults with those among the people who were young adults at the turn of the Millennium.

The EFS/LCFS surveyed a nationally representative sample of UK households which was selected through a stratified multi-stage random sampling procedure with clustering. Households who took part were then weighted to adjust for non-response bias and to gross the sample to population estimates. The ONS defines a household as:

“One person or a group of people who have the accommodation as their only or main residence AND (for a group) either share at least one meal per day or share the living accommodation, that is, a living room or sitting room.”³⁹

The EFS/LCFS gathers data from participating households via two sources: firstly, a questionnaire, which asks one household member a large number of questions pertaining to the household's income, expenditure on various goods and services and demographic information, and, secondly, an expenditure diary in which every member of a participating household who is over 16 has to record the details of all his or her expenditure during the following fortnight. Expenditure on infrequent purchases, such as cars and holidays (or items which the household has an annual subscription for, such as newspapers) is divided by 52 to give a weekly amount. Both surveys employed the Classification Of Individual Consumption by Purpose (COICOP) system that was developed by the United Nations Statistics Division, which classifies all items of consumption expenditure into 12 broad categories:

- Food and non-alcoholic beverages
- Alcoholic beverages, tobacco and narcotics
- Clothing and footwear
- Housing, fuel and power
- Household goods and services
- Health
- Transport
- Communication
- Recreation and culture
- Education
- Restaurants and hotels
- Miscellaneous goods and services

³⁸ The LCFS is currently organised around financial years rather than calendar ones, hence these dates. This survey was known as the *Expenditure and Food Survey* (EFS) from 2001 to 2008, when it was renamed to give it its current name and subjected to some minor methodical adjustments, but to all intents and purposes it was the same survey.

³⁹ Rafferty, A. and Walthery, P. (2014) *Introductory guide to the Living Costs and Food Survey* Manchester: UK Data Service

In accordance with this system, certain household outgoings are not treated as “expenditure”; for example, mortgage capital repayments are treated as a form of saving (because this expenditure is enabling the purchase of an investment which will accrue capital gains), whereas mortgage interest repayments are treated as expenditure because they enable the household to obtain the consumption benefit of occupying a dwelling.⁴⁰

The two surveys that we used for this research achieved a sample size of 7,473 households in 2001–02 and 5,041 households in 2016–17 respectively.

Drawbacks of using the EFS/LCFS

The main reason for using the EFS/LCFS for this piece of research is that it is the UK’s only household survey which captures highly detailed information about the expenditure of a representative sample of UK households. This enables us to produce the best possible estimates that we can come up with of how much different households spend on different things, and the relationship between household expenditure and household income. However, the EFS/LCFS also has a number of well-known limitations and caveats which need to be discussed in order to avoid misrepresenting the findings which we drew from it.

Firstly, a number of previous researchers have observed that there has been a growing discrepancy since the early 1990s between the level of household consumption expenditure which has been recorded at the individual household level in the UK’s household expenditure surveys and the per capita consumption expenditure which has been recorded in the UK’s National Accounts.⁴¹ This has been attributed to under recording of expenditure within the household expenditure surveys, which appears to be a problem shared by household expenditure surveys in many advanced countries that operate them.⁴² The reason why it matters with regard to this piece of research is because it means that the EFS/LCFS data are likely to underestimate total household consumption expenditure by a significant amount, and because the gap between the estimate derived from the National Accounts and the household surveys appeared to have widened over time there is a strong likelihood that the size of this underestimation was significantly larger in 2016–17 than it was 2001–02.⁴³ This places an important caveat around the findings from this piece of research, because it means that there is a high level of uncertainty regarding the accuracy of the EFS/LCFS estimates of household expenditure, particularly concerning the 2016–17 data. However, despite this limitation these data are still widely used in household expenditure research (including by the ONS itself in its annual *Family Spending* publication) because these are still the most accurate household expenditure data that exists. Other researchers have also argued that it appears that the extent of under reporting looks to be quite similar across different categories of expenditure, so comparisons between the proportion of the household consumption budget which is allocated to different items should still be accurate; there is also evidence which suggests that it is disproportionately very wealthy households whose expenditure is being under reported (the majority of whom are likely to be older), which could mean that estimates for younger households are likely to be more accurate.⁴⁴

Secondly, analysing expenditure on a given category of goods as a proportion of household income is also complicated in the EFS/LCFS by the appreciable share of households whose overall expenditure is greater than 100% of their income.

⁴⁰ ONS (2017) *Living Costs and Food Survey: Technical Report for Survey Year – April 2015 to March 2016* Newport: ONS

⁴¹ Hirsch et al. *op. cit.*

⁴² Brewer et al. *op. cit.*

⁴³ Page 14 in Hirsch et al. provides a much more detailed explanation of how and why the gap between the estimates derived from these two sources has widened.

⁴⁴ Hirsch et al. *op. cit.*

There are several possible reasons why a household's total expenditure could be greater than 100% of its income; for example, it could be because the household's income has been measured incorrectly (which is a problem that is thought to disproportionately affect low-income households); it could be because the household is dissaving (as the permanent income hypothesis would anticipate if people are temporarily unemployed or in low earnings); or it could be because the household is taking on debt (which is not recorded in these surveys).⁴⁵ The upshot is that dividing household expenditure by household income produces nonsensical (but not necessarily inaccurate) results for a significant proportion of the households which are within the dataset. For both this reason and the discrepancy that was mentioned in the first point, it makes more sense to look at expenditure on essentials as a proportion of a household's total expenditure rather than as a proportion of its income, because this should produce a more consistent estimate of the extent to which a household is being economically burdened by the cost of essentials.

Thirdly, household expenditure surveys can only capture a snapshot of a household's expenditure covering a limited period of time, which in the case of EFS/LCFS is the two-week period covered by the expenditure diary. This makes them poor instruments for recording large one-off expenditures, which the participants are asked to recall from memory. Other problems with recording expenditure using the expenditure diary are that participants adhere to it less as the fortnight goes on, leading to underreporting, and there are also problems with marrying-up all the individual expenditure diaries generated by each household to create household-level estimates.⁴⁶

How did we define young adults?

As mentioned at the beginning of this section, IF wanted to be able to make a comparison between how much young adults were spending on essentials in both 2001-02 and 2016-17. However, this meant that we needed to come up with a way of dividing the households within the datasets into different age groups which would both align with traditional sociological definitions of different generations and also enable each age group to have a large enough sample of respondents in both datasets. The UK's current adult population is normally divided into four distinct generations, which are categorised as follows:

- Millennials (or Generation Y) – born 1980 to 2000
- Generation X – born 1966 to 1979
- Baby Boomers – born 1945 to 1965
- Pre-War – born before 1945

To reiterate from above, data in the EFS/LCFS are aggregated to the household level; for each household within the dataset, one individual is selected as the Household Reference Person (HRP), and his or her age is used as a proxy to assign the whole of that household to a particular age group. The HRP is selected according to an established set of criteria – it is usually the person in whose name the dwelling occupied by the household is owned or rented; if there are joint owners the HRP is the one with the highest income, and if they have the same income it is the one who is oldest.⁴⁷ This created an obvious problem for this piece of analysis because almost a third of 18 to 34-year-olds in the UK still live with their parents, which means they are very unlikely to be enumerated as the HRP.⁴⁸ For example, a household where somebody who is in their twenties lives in a house which is owned by a parent who is in their fifties would be allocated to the latter's age group rather than the former's.

⁴⁵ Noll *op. cit.*

⁴⁶ Bradshaw and Finch *op. cit.*

⁴⁷ ONS (2017) *op. cit.*

⁴⁸ ONS (2019) *Milestones: journeying into adulthood* Newport: ONS

However, we thought it would give a more complete picture of young adults' living standards if we analysed these data at household level because expenditure on a large number of goods – such as food, drinks and domestic utilities – is likely to be being shared to some degree between different people who live in the same household. This meant that when looking at “young adults”, we were only able to look at the young adults who were categorised as the HRP of their particular household, which would have *excluded* the vast majority of those who were living in multi-generational households.

As we wanted to compare young adults in 2001–02 with their counterparts in 2016–17, we couldn't classify age groups precisely in accordance with the generations that we gave above because there were almost no Millennial HRPs in 2001–02, when the oldest Millennials were aged only 21–22. Therefore, we categorised every HRP in both datasets into the four age groups which are given in Fig.11 (Under-35s, 36–50, 51–65 and Over-65s), because this made it particularly straightforward to align the youngest generation at each of these two points in time (Generation X in 2001–02 and the Millennials in 2016–17) with the youngest age category (the Under-35s), which made it easier to draw comparisons between them when they at the same stage in life.

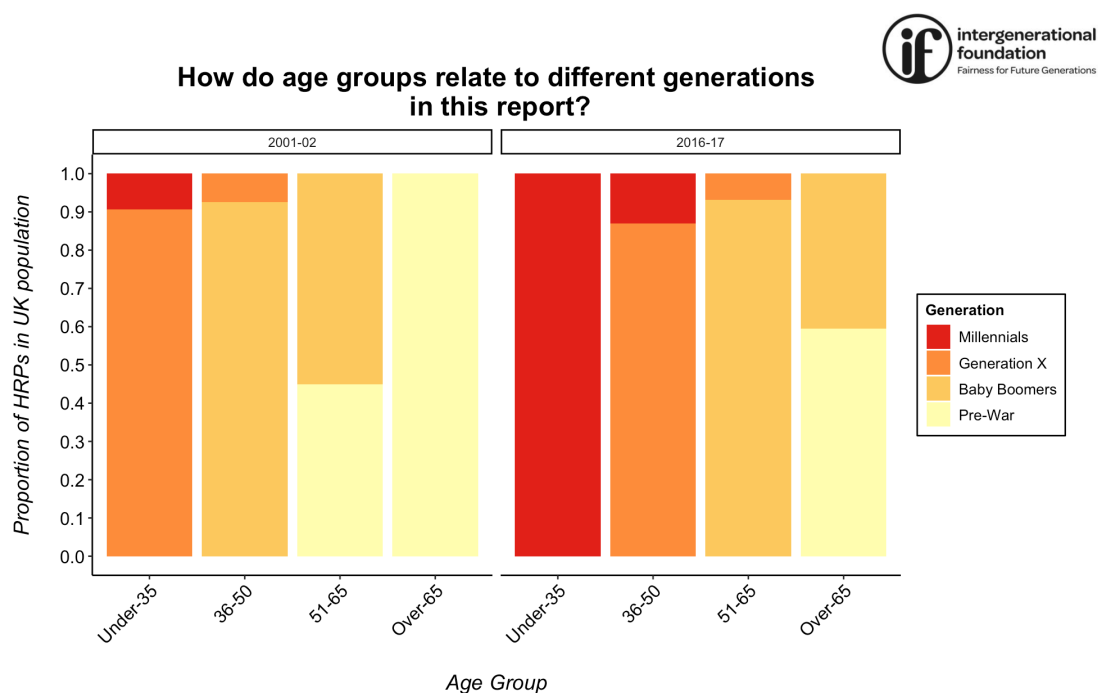


Fig.11

How did we define “essential” expenditure?

One of the biggest challenges with this piece of research was to come up with a robust definition of which goods and services should be regarded as “essential”, and then translate these into the appropriate categories within the COICOP classification system which is used in the EFS/LCFS.

As was demonstrated by Table 1 (at the end of Section 2), a number of other researchers have proposed their own definitions of “essential” expenditure, of which the JRF Minimum Income Standard is the most comprehensive. Whilst this is obviously somewhat subjective, all statistical attempts to measure poverty and inequality involve creating subjective classifications and thresholds of one kind or another.⁴⁹ Also, what’s interesting about the JRF Minimum Income Standard in particular is that the members of the public who have participated in it have managed to reach a relatively uncontroversial social consensus about what the basket of essential goods and services should contain, which has remained quite consistent over time. One of their researchers argued that “...a minimum is about more than survival alone. However, it covers needs, not wants, necessities, not luxuries: items that the public think people need in order to be part of society.”⁵⁰

However, although it reflects the public’s view of what counts as essentials, the JRF Minimum Income Standard list clearly goes beyond the basic necessities required for survival by including items such as being able to eat out on special occasions and taking a week’s holiday year; some of the alternative lists in that table are much more narrowly focused on the most basic necessities such as food, shelter and clothing. But, comparing the different definitions of “essentials” which these researchers have come up with leads to the conclusion that the similarities are far greater than the differences; bearing this in mind, we ultimately decided to classify the following items as “essentials” for the purposes of this piece of research:

- Food and non-alcoholic drinks
- Clothing and footwear
- Domestic transport⁵¹
- Communications (e.g. telephone and internet services)
- Healthcare expenditure (e.g. prescription fees and dentistry)
- Housing and domestic utilities⁵²
- Childcare
- Debt interest⁵³

An important caveat is that some of these broad expenditure categories, for example Food and non-alcoholic drinks, almost certainly include some discretionary expenditure alongside the expenditure which could be considered completely essential for survival. However, total precision is impossible because it would involve making a subjective judgement about every single individual item purchased by different households. The aim of using these categories is to give a broad indication of the extent to which different households are likely to be being burdened by the cost of providing essentials, even if some non-essentials are inevitably being counted alongside them.

Once we had chosen which items to include, it was then a question of matching specific variables from the EFS/LCFS datasets to each of these expenditure items using the COICOP system; a table that indicates which EFS/LCFS variables were included under each of these headings is given in Appendix 2.

⁴⁹ Bradshaw, J. (2001) “Methodologies to measure poverty – more than one is best!” Paper presented to the International Symposium on Poverty: Concepts and Methodologies in Mexico City, March 2001

⁵⁰ Davis et al. *op. cit.*

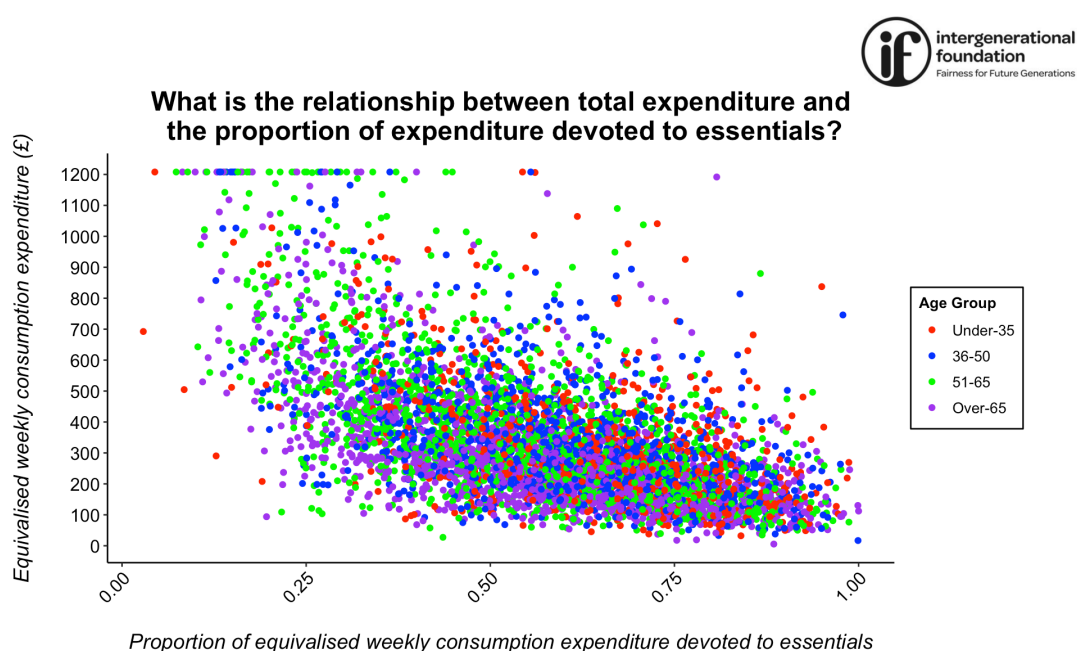
⁵¹ i.e. excluding expenditure on international travel, which is likely to be for recreational purposes.

⁵² “Housing” refers to the cost of either rent or mortgage interest payments, plus Council Tax/domestic rates, home insurance and mortgage protection premiums, but excluding mortgage capital repayments and the cost of home improvement works. Costs relating to second homes are also excluded. “Domestic utilities” includes electricity, water, gas, heating and any other domestic fuel bills, excluding those incurred on second homes.

⁵³ This category only relates to debt on credit card bills, as it was the only kind of debt interest included in the EFS/LCFS.

The older data from 2001-02 was adjusted for inflation using the relevant price indices from the Consumer Price Index, and expenditure data from both datasets were equivalised using the OECD-modified equivalence scale to compensate for differences in size between different households.

In order to demonstrate that these do represent a credible list of “essentials”, we compared the amount which each household in the dataset spends in a typical week with the proportion of that expenditure which is used to buy our list of essentials (Fig.12). It appears that the total amount which households spent on our list of essentials was negatively correlated with total weekly expenditure,⁵⁴ which is what you would expect to happen because economic theory suggests households will devote less of their consumption to essentials as their incomes rise and they can buy more luxury goods.



Source: ONS Living Costs and Food Survey, 2016-17

© Intergenerational Foundation 2019
www.if.org.uk

Fig. 12

One other point which requires clarification is that we were interested in *expenditure* rather than *consumption*, which are two subtly different concepts: consumption represents the value of the goods and services consumed by a household, whereas expenditure represents the cost of obtaining those goods and services in the market.⁵⁵

⁵⁴ The Pearson correlation coefficient between these two variables was -0.57, indicating that they have a strong inverse relationship, as you would expect (total weekly expenditure was top-coded at the 99th percentile to prevent outliers from distorting the data).

⁵⁵ Noll *op. cit.*

Differences between the two arise when a household owns a stock of durable goods which deliver an ongoing flow of consumption benefits without incurring any additional expenditure beyond their initial purchase price, which means that their actual living standards may be equal to those of a different household which has to pay for things at the point when it consumes them, even though it has lower recorded expenditure. Not having to finance this consumption out of current expenditure reduces pressure on the day-to-day living standards of wealthier households – most notably when comparing people who own their housing outright with people who rent – so although two households might be consuming similar levels of essentials overall, analysing expenditure can tell us more about which one is having to stretch its resources more in order to achieve that level of consumption.⁵⁶

⁵⁶ Corfe and Keohane *op. cit.*

Appendix 2 – EFS/LCFS variables and COICOP codes

Expenditure Category

2016-17 Codes

2001-02 Codes

Food and non-alcoholic drinks	P601t	Food & non-alcoholic drinks	P601T	Food & non-alcoholic drinks
Clothes and shoes	P603t	Clothing and footwear	P603T	Clothing and footwear
Communications	P608t	Communications	P608T	Communications
Health-related expenditure	P606t	Health	P606T	Health
Debt interest	B237	Interest on credit cards	B237	Interest on credit cards
Childcare	CC4121t	Nursery, crèche, playschools	CC4121T	Nursery, crèche, playschools
	CC4122t	Childcare payments	CC4122T	Childcare payments
Domestic transport	P607t	Transport	P607T	Transport
	<i>Plus</i>		<i>Plus</i>	
	B187	Vehicle road tax - amount paid last year	B187	Vehicle road tax - amount paid last year
	B188	Vehicle insurance - amount paid last year	B188	Vehicle insurance - amount paid last year
	<i>Minus</i>		<i>Minus</i>	
	B179	Vehicle road tax - amount refunded last year	B179	Vehicle road tax - amount refunded last year
	B244	Outright purchases of new car/van	B244	Outright purchases of new car/van
	C71111c	Outright purchase of new car/van	C71111C	Outright purchase of new car/van
	C71112t	Loan/HP purchase of new car/van	C71112T	Loan/HP purchase of new car/van
	B245	Vehicle - cost of s-hand car/van outright	B245	Vehicle - cost of s-hand car/van outright
	C71121c	Outright purchase of second-hand car/van	C71121C	Outright purchase of second-hand car/van
	C71122t	Loan/HP purchase	C71122T	Loan/HP purchase
	B247	Vehicle - cost of motorcycles outright	B247	Vehicle - cost of motorcycles outright
	C71211c	Outright purchase of new or second-hand motor cycles	C71211C	Outright purchase of new or second-hand motor cycles
	C71212t	Loan/HP purchase of new or second-hand motor cycles	C71212T	Loan/HP purchase of new or second-hand motor cycles
	C71311t	Purchase of bicycle	C71311T	Purchase of bicycle

Expenditure Category

2016-17 Codes

2001-02 Codes

	C71411t	Animal drawn vehicles	C71411T	Animal drawn vehicles
Housing and domestic utilities	P604t	Housing, fuel and power	P604T	Housing, fuel and power
	<i>Plus</i>		<i>Plus</i>	
	B130	Mortgage interest payments	B130	Mortgage interest payments
	B150	Mortgage intrst/prncpl - interest payment	B150	Mortgage intrst/prncpl - interest payment
	B2081	Mortgage protection premiums	B208	Mortgage protection pre April 1984
	B030	Domestic rates - last net payment	B213	Mortgage protection after April 1984
	B038u	Council tax - last payment wkly amt	B030	Domestic rates - last net payment
			B038P	Council tax - last payment wkly amt
	<i>Minus</i>		<i>Minus</i>	
	C41211t	Second dwelling-rent	C41211T	Second dwelling-rent
	B102	Central heating repairs - second dwelling	B102	Central heating repairs - second dwelling
	B108	House maintenance - second dwelling	B108	House maintenance - second dwelling
	c44112u	Water supply - second dwelling	C44112U	Water supply - second dwelling (missing data)
	C45112t	Second dwelling electricity account payment	C45112T	Second dwelling electricity account payment
	C45212t	Second dwelling gas account payment	C45212T	Second dwelling gas account payment
Total expenditure	P600t	ONS: Total spending	P600T	Total Consumption Expenditure
	<i>Plus</i>		<i>Plus</i>	
	B130	Mortgage interest payments	B130	Mortgage interest payments
	B150	Mortgage intrst/prncpl - interest payment	B150	Mortgage intrst/prncpl - interest payment
	B2081	Mortgage protection premiums	B208	Mortgage protection pre April 1984
			B213	Mortgage protection after April 1984
	B030	Domestic rates - last net payment	B030	Domestic rates - last net payment
	B038u	Council tax - last payment wkly amt	B038P	Council tax - last payment wkly amt
	CK3111t	Stamp duty, licences and fines (excluding motoring fines)	CK3111T	Stamp duty, licences and fines (excluding motoring fines)

Expenditure Category	2016-17 Codes	2001-02 Codes
	CK3112t Motoring Fines	CK3112T Motoring Fines
	B187 Vehicle road tax - amount paid last year	B187 Vehicle road tax - amount paid last year
	CK4111t Money spent abroad	CK4111T Money spent abroad
	CK4112t Duty free goods bought in UK	CK4112T Duty free goods bought in UK
	CK5212t Money given to children for specific purposes	CK5212T Money given to children for specific purposes
	CK5213t Money given to children for specific purposes: school dinner	CK5213T Money given to children for specific purposes: school dinner
	CK5214t Money given to children for specific purposes: school travel	CK5214T Money given to children for specific purposes: school travel
	CK5215t Money given to children for specific purposes: other	CK5215T Money given to children for specific purposes: other
	CK5216t Cash gifts to children (no specific purpose)	CK5216T Cash gifts to children (no specific purpose)
	CK5221t Money/presents given to those outside the household	CK5221T Money/presents given to those outside the household
	CK5222t Present - not specified	CK5222T Present - not specified
	CK5223t Charitable donations and subscriptions	CK5223T Charitable donations and subscriptions
	B334h Money sent abroad – household	B334H Money sent abroad - household
	CK5224c Money sent abroad	CK5224C Money sent abroad
	B265 Maintenance allowance expenditure	B265 Maintenance allowance expenditure
	CK5315c Club instalment payment	CK5315C Club instalment payment
	B237 Credit card interest payments	B237 Credit card interest payments
	<i>Minus</i>	<i>Minus</i>
	B179 Vehicle road tax - amount refunded last year	B179 Vehicle road tax - amount refunded last year
Total expenditure on essentials	Food and non-alcoholic drinks	Food and non-alcoholic drinks
	<i>Plus</i>	<i>Plus</i>
	Clothes and shoes	Clothes and shoes
	<i>Plus</i>	<i>Plus</i>

Expenditure Category

2016-17 Codes

2001-02 Codes

	Communications <i>Plus</i> Health-related expenditure <i>Plus</i> Debt interest <i>Plus</i> Childcare <i>Plus</i> Transport <i>Plus</i> Housing and domestic utilities	Communications <i>Plus</i> Health-related expenditure <i>Plus</i> Debt interest <i>Plus</i> Childcare <i>Plus</i> Transport <i>Plus</i> Housing and domestic utilities
Total expenditure on non-essentials	Total expenditure minus Total expenditure on essentials	Total expenditure minus Total expenditure on essentials

Appendix 3 – Full YouGov survey results

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1003 adults. Fieldwork was undertaken between 20th - 22nd August 2019. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 50+).

YouGov survey undertaken with a GB representative sample of 1,003 GB adults between 20–22 August 2019

Question 1. For the following question, by "essential goods and services", we mean household necessities (i.e. housing, fuel, power, food and non-alcoholic drinks, transport, essential clothing and footwear, communications (e.g. telephone, internet etc.), healthcare, childcare and debt interest). This does not include spending on non-essential items (e.g. alcoholic drinks, going out, technology gadgets etc.). Thinking about adults aged 18 to 34 in the UK...On average, approximately what percentage of their weekly spend do you estimate is spent on essential goods and services? (Please select the option that best applies)

Unweighted base	1003
Base: All GB adults aged 50+	1003
Less than 10%	1%
10% to 19%	3%
20% to 29%	8%
30% to 39%	10%
40% to 49%	8%
50% to 59%	13%
60% to 69%	13%
70% to 79%	19%
80% to 89%	11%
90% or more	3%
Don't know	12%

Question 2. Research has shown that 63% of what adults aged 18 to 34 spend on a weekly basis is on essential goods and services. For the following question, please imagine that you had a family member aged 18 to 34...Assuming you could afford it, how much more or less likely would you be to offer them financial support based on the information above, or does it make no difference?

Unweighted base	1003
Base: All GB adults aged 50+	1003
A lot more likely	7%
A little more likely	19%
It makes no difference	56%
A little less likely	5%
A lot less likely	4%
Don't know	8%
Net: More likely	26%
Net: Less likely	9%

Question 3. For the following question, by "financial support", we mean any type of financial assistance (e.g. lending them money, helping them to pay for expenses etc.).Thinking about the last 3 years (i.e. since August 2016)...Have you given financial support to ANY family members aged 18 to 34 in the last 3 years? (If you haven't had any family members aged 18 to 34 in the last 3 years who have needed financial support, please select the "Not applicable" option)

Unweighted base	1003
Base: All GB adults aged 50+	1003
Yes, I have	44%
No, I haven't	22%
Don't know/ can't recall	1%
Not applicable - I haven't had any family members aged 18 to 34 in the last 3 years who have needed financial support	33%

Question 4. For the following question, please think about all financial support that you have given to any family members aged 18 to 34 in the last 3 years (i.e. since August 2016). In total, approximately how much financial support have you given to family members aged 18 to 34 in the last 3 years? (Please select the option that best applies)

Unweighted base	443
Base: All GB adults aged 50+ who have given financial support to a family member	438
Less than £100	2%
£100 to £500	11%
£501 to £1,000	11%
£1,001 to £1,500	9%
£1,501 to £2,000	11%
£2,001 to £5,000	23%
£5,001 to £10,000	13%
More than £10,000	13%
Don't know	7%

Question 5. For the following question, by "tax free", we mean that you can transfer money, without the recipients having to pay a portion of it as tax. Thinking about giving money away to a friend or family member as a cash gift (not including in a will)...Which ONE of the following best describes how much you think is currently the MAXIMUM amount of money that you are able to give away tax free per year? (If you don't think that there is a maximum amount of money that you are able to give away as a gift tax free, please select the "Not applicable" option)

Unweighted base	1003
Base: All GB adults aged 50+	1003
£0 - I don't think you are able to give away any money tax free	5%
Up to £1,500	6%

More than £1,500, up to £3,000	27%
More than £3,000, up to £6,000	11%
More than £6,000, up to £9,000	11%
More than £9,000	8%
Don't know	21%
Not applicable - I don't think that there is a maximum amount of money that you are able to give away tax free	11%

Question 6. The maximum amount of money that you are able to give away as a cash gift to a friend or family member, tax free, is currently £3,000 per year in cash. For the following question, please imagine that you had a family member aged 18 to 34 and the amount of cash that you were able to give away as a cash gift to a friend or family member, tax free, was increased (i.e. more than £3,000)...If you could afford it, how much more or less likely would you be to offer them this financial support, or would it make no difference?

Unweighted base	1003
Base: All GB adults aged 50+	1003
A lot more likely	13%
A little more likely	17%
It makes no difference	58%
A little less likely	1%
A lot less likely	2%
Don't know	9%
Net: More likely	30%
Net: Less likely	3%