

Statistical bulletin

Household Costs Indices, UK: fourth preliminary estimates, 2005 to 2021

UK households' experience of changing prices and costs. These are 2005 to 2021 estimates of the Household Costs Indices, a set of measures currently in development.

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1 . Main points

- Household Costs Indices (HCIs) are a set of measures currently in development that aim to measure UK households' experience of changing prices and costs, broken down by different types of households.
- High-income households experienced a higher rate of inflation than low-income households in the latter half of 2021, driven by transport costs and changes to taxes paid on property transactions; housing and food account for a bigger share of expenditure for low-income households than high-income households.
- Owner occupiers have experienced higher inflation than renter households towards the end of 2021, driven by changes to taxes paid on property transactions.
- Retired and non-retired households have experienced similar inflation throughout 2020 and 2021.

2 . Households of varying tenure types

Households of varying tenure types include:

- subsidised renters
- private renters
- owner occupiers

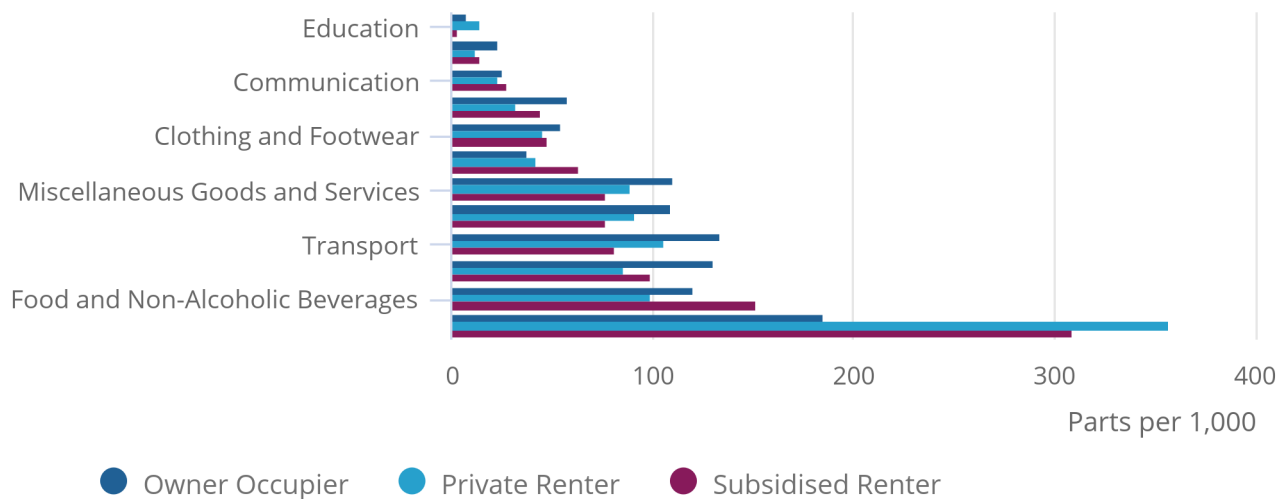
Expenditure shares

Figure 1: Both types of renter spend higher proportions of their expenditure on housing costs than owner occupiers

Household Costs Indices, average expenditure share by tenure type, UK, 2005 to 2021

Figure 1: Both types of renter spend higher proportions of their expenditure on housing costs than owner occupiers

Household Costs Indices, average expenditure share by tenure type, UK, 2005 to 2021



Source: Source: Office for National Statistics – Household Costs Indices

Notes:

1. Expenditure shares may not sum to 1,000 due to rounding.
2. Weights for each category of spending are averaged across the period of 2005 to 2021.
3. For more information on the data used for this analysis, you can refer to [Section 4 of the Household Costs Indices Methodology](#).

Housing costs for private and subsidised renters dominate the chart, with both spending a higher proportion of their expenditure on this than owner occupiers. This affects the rest of the expenditure distribution, in that there are only two other categories where private renters spend a greater share of expenditure than owner-occupiers. These are education, and alcoholic beverages and tobacco, and the differences are small.

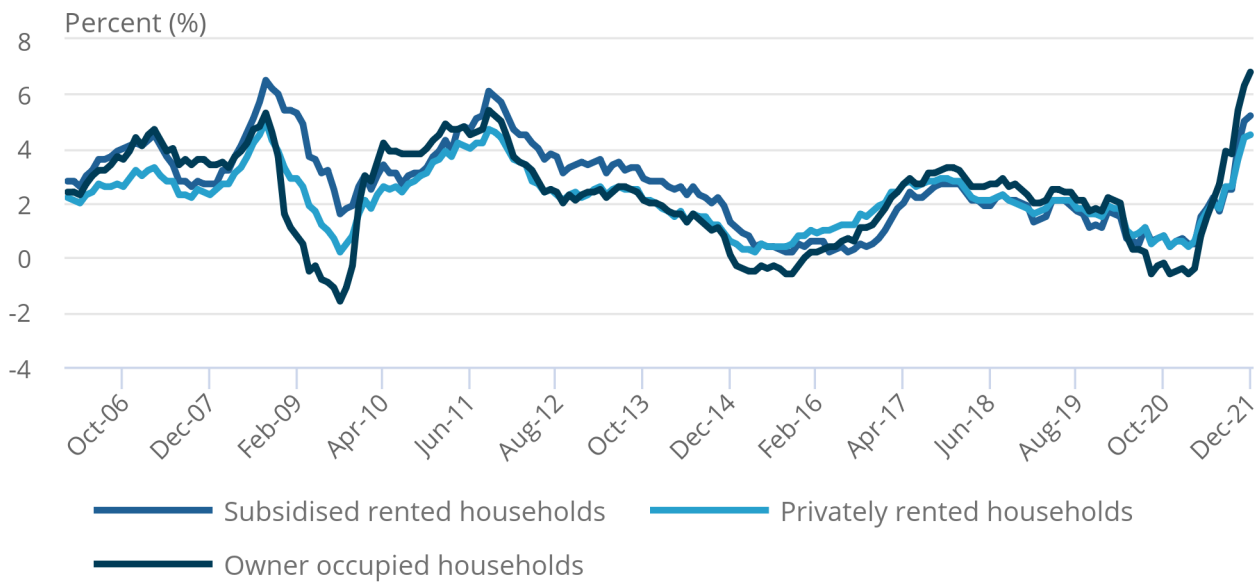
Inflation experience

Figure 2: Owner occupiers' inflation rate in the latter half of 2021 has been higher than that of renters

Inflation experienced by households separated by tenure type, UK, 2005 to 2021

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Inflation experienced by households separated by tenure type, UK, 2005 to 2021



Source: Office for National Statistics – Household Costs Indices

From May 2020, owner occupiers experienced the slowest inflation of all tenure types, and between August 2020 and March 2021, they experienced negative inflation. This was driven by owner occupiers' housing costs. These fell because of changes to the tax paid [note 1] on housing transactions in July 2020 and because of mortgage interest payments decreasing. This followed the Bank of England's cut to the UK's interest rate from 0.75% to 0.25% on 11 March 2020, which was then further cut to 0.1% on 19 March 2020.

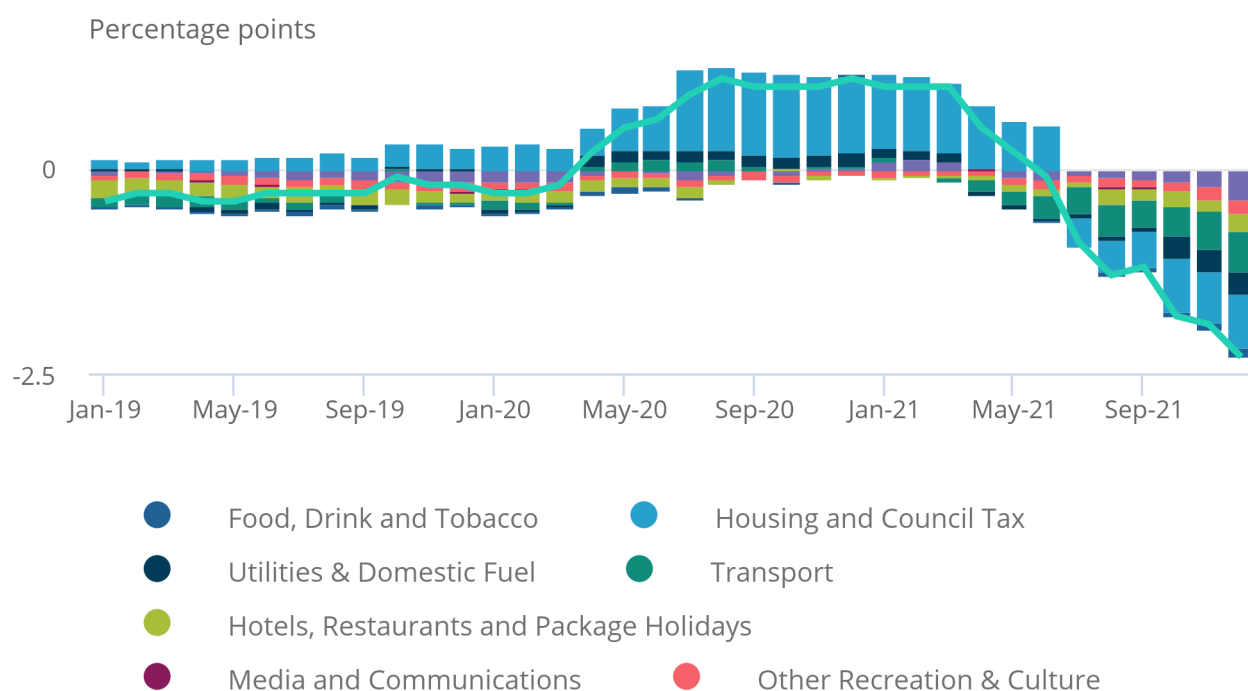
Subsequently, from July 2021 onwards, owner occupiers have witnessed higher inflation than other tenure types. This is partly driven by the slowdown and eventual removal of the changes in the tax paid on property transactions. However, this is slightly offset by increases in actual rentals for housing. The difference between owner occupiers' and private renters' inflation rate is also partly driven by increases in transport costs, which owner-occupier households spend a larger proportion of their expenditure on.

Figure 3: Housing and transport costs have driven owner occupiers' inflation rate above private renters' in the second half of 2021

Difference in contributions to 12-month inflation rate experienced by households, separated by subsidised renter and owner occupiers, UK, December 2019 to December 2021

Figure 3: Housing and transport costs have driven owner occupiers' inflation rate above private renters' in the second half of 2021

Difference in contributions to 12-month inflation rate experienced by households, separated by subsidised renter and owner occupiers, UK, December 2019 to December 2021



Source: Office for National Statistics – Household Costs Indices

Notes:

1. To improve the readability of the charts in this article, the expenditure classes have been grouped into fewer groups than the 12 top-level classification of individual consumption by purpose (COICOP) divisions. Contributions data grouped at the COICOP divisional level is available in the dataset that accompanies this release.
2. Categories of spending below zero indicate greater contributions by owner occupiers' households to the difference in the annual growth rate.

Income

Care should be taken when interpreting income charts; please see [Section 7: Measuring the data](#) for more information.

Comparing income changes to inflation changes for tenure groups results in a mixed picture. Owner occupiers saw a 10.7% increase to their income between the financial year ending (FYE) 2020 and FYE 2021, while they saw a negative 0.1% growth to inflation. In comparison, private renters saw a spike to their income in FYE 2020 (growth of 11.6%) before falling in FYE 2021 (decrease of 7.1%).

Figure 4 : Private renters are the only tenure group to see their income fall in FYE 2021

Mean equivalised household disposable income (nominal) and Household Costs Indices cumulative growth for subsidised renters, private renters and owner-occupiers, UK, financial years ending 2006 to 2021

Download the data

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Between FYE 2006 and FYE 2021, subsidised renters have seen a 48.6% increase in their incomes from a base of £15,424 in FYE 2006, alongside a 47.3% increase in their costs. Private renters' incomes have grown by 52.6% from a base of £22,202 compared with a 37.8% increase in costs. Owner occupiers' incomes have grown by 52.5% from a base of £29,058 against cost increases of 38.7%.

Notes for: Households of varying tenure types

On 8 July 2020, changes to the tax paid on property purchases were announced with immediate effect in England and Northern Ireland. Similar changes came into effect slightly later in Scotland and Wales (15 July 2020 and 27 July 2020, respectively). In England and Northern Ireland, properties up to the value of £500,000 would incur no tax, while the thresholds for Scotland and Wales were £250,000. These changes in the tax paid on housing transactions meant buyers' overall costs were reduced.

On 3 March 2021, an extension to the Stamp Duty holiday in England and Northern Ireland was announced. This meant that the tax holiday was extended until 30 June 2021, after which the threshold decreased to £250,000 until 30 September 2021. From 1 October 2021, the Stamp Duty thresholds have reverted to what they were before 8 July 2020. The tax holiday for Scotland ended on 31 March 2021. The tax holiday for Wales ended on 30 June 2021.

3 . Low-income and high-income households

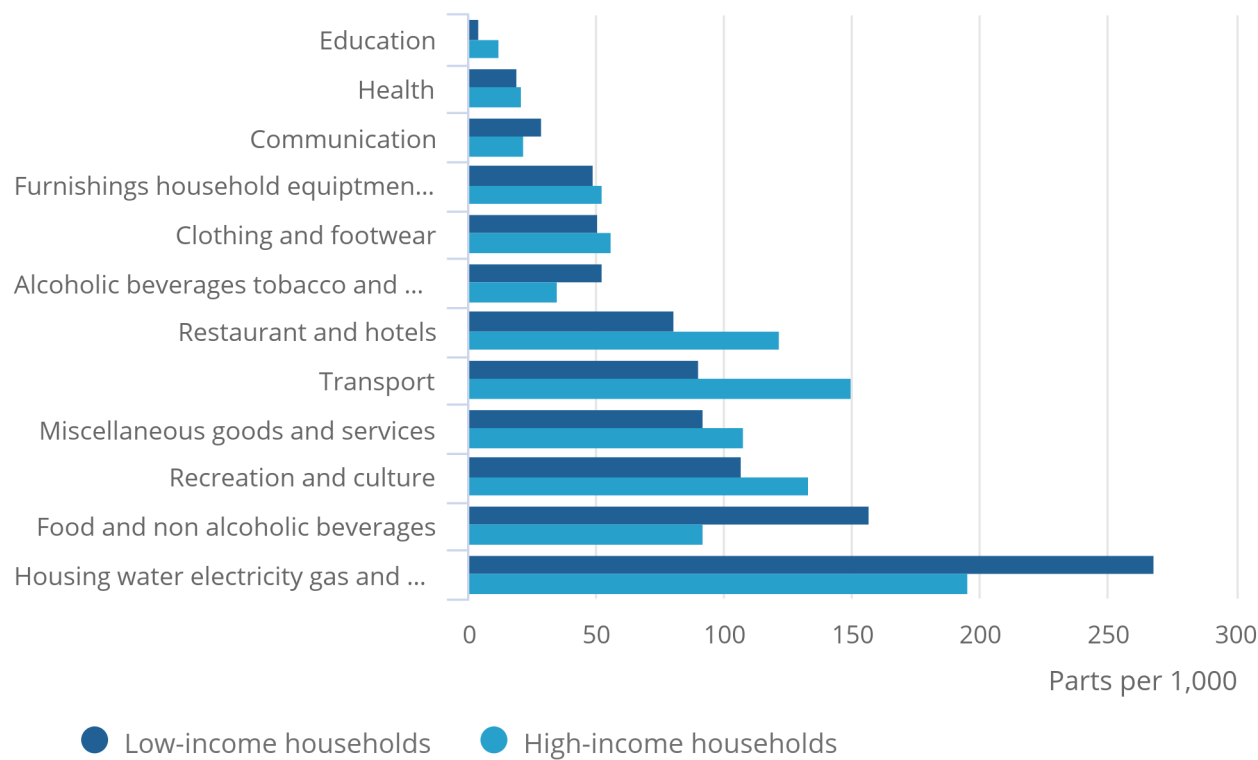
We describe low-income households as those within the second income decile, and high-income households as those within the ninth income decile. Data on all other income deciles can be found within our [accompanying data tables](#).

Figure 5: Housing and food account for a larger share of expenditure for low-income households than high-income households

Average expenditure share for low-income and high-income households, UK, 2005 to 2021

Figure 5: Housing and food account for a larger share of expenditure for low-income households than high-income households

Average expenditure share for low-income and high-income households, UK, 2005 to 2021



Source: Source: Office for National Statistics – Household Costs Indices

Notes:

1. Expenditure shares may not sum to 1,000 due to rounding
2. Weights for each category of spending are averaged across the period of 2005 to 2021.
3. For more information on the data used for this analysis, you can refer to [Section 4 of the Household Costs Indices Methodology](#).

Although both low-income and high-income households spend the largest proportion of their expenditure on housing costs, low-income households have a greater expenditure share on housing costs, and food and non-alcoholic beverages. High-income households have a higher expenditure share on transport, and restaurants and hotels.

Inflation experience

Figure 6: High-income households have experienced higher inflation towards the end of 2021

Inflation experienced by households separated by retirement status, UK, 2005 to 2021

Figure 6: High-income households have experienced higher inflation towards the end of 2021

Inflation experienced by households separated by retirement status, UK, 2005 to 2021



Source: Source: Office for National Statistics – Household Costs Indices

Around the time of the economic downturn in 2008 and early 2009, low-income households experienced higher inflation rates than high-income households. Annual inflation rates for low-income and high-income households have tracked each other closely since 2014.

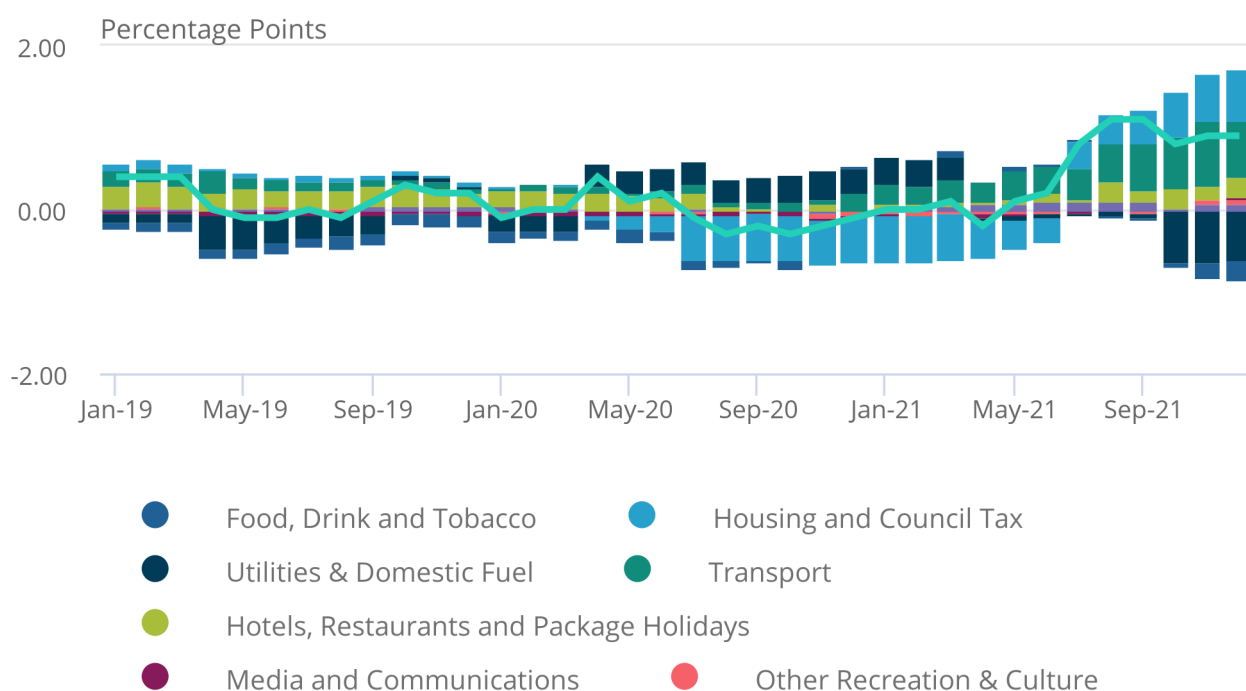
After a slowdown in inflation following the initial coronavirus (COVID-19) pandemic lockdown in March 2020, both low-income and high-income households experienced periods of negative inflation. Towards the end of 2021, both low-income and high-income households have experienced rises in inflation, with high-income households at 6.5% and low-income households at 5.6% in December 2021.

Figure 7: Housing and transport costs have driven high-income households' inflation rate above low-income households' in the second half of 2021

Contributions to inflation experienced by households separated by low-income and high-income household status, UK, 2005 to 2021

Figure 7: Housing and transport costs have driven high-income households' inflation rate above low-income households' in the second half of 2021

Contributions to inflation experienced by households separated by low-income and high-income household status, UK, 2005 to 2021



Source: Office for National Statistics – Household Costs Indices

Notes:

- Categories of spending below zero indicate greater contributions by low-income households to the difference in the annual growth rate.

The difference in inflation between low-income and high-income households in the latter half of 2021 is predominantly being driven by price increases in transport, and housing and Council Tax. Higher-income households spend a greater proportion of their expenditure on transport, and so increases in transport costs have had a greater impact on this household group. Hotels, restaurants and package holidays have also contributed to the difference in inflation rate between high-income and low-income households.

Low-income households' experience of inflation in the latter half of 2021 has been driven by rising prices in food, drinks and tobacco, and utilities and domestic fuel (electricity and gas prices), which low-income households spend a higher proportion of their expenditure on.

Housing and Council Tax costs contributed towards low-income households seeing a slightly higher inflation rate in the latter half of 2020. It also contributes to high-income households experiencing higher growth rates in the latter half of 2021. This is being driven by changes to the tax paid on property transactions.

Income

In the financial year ending (FYE) 2021, both low-income and high-income households are experiencing a faster growth in income in comparison to costs. Low-income households have experienced a 6.0% increase in their income between FYE 2020 and FYE 2021, while high-income households experienced a 2.3% increase. This is roughly a £1,000 increase in income for low-income households and a £1200 increase in income for high-income households.

Figure 8: For both low- and high-income households, income has grown faster than household costs in FYE 2021

Mean equivalised household disposable income (nominal) and Household Costs Indices cumulative growth for low- and high-income households, UK, financial years ending 2006 to 2021

Download the data

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4 . Retired and non-retired households

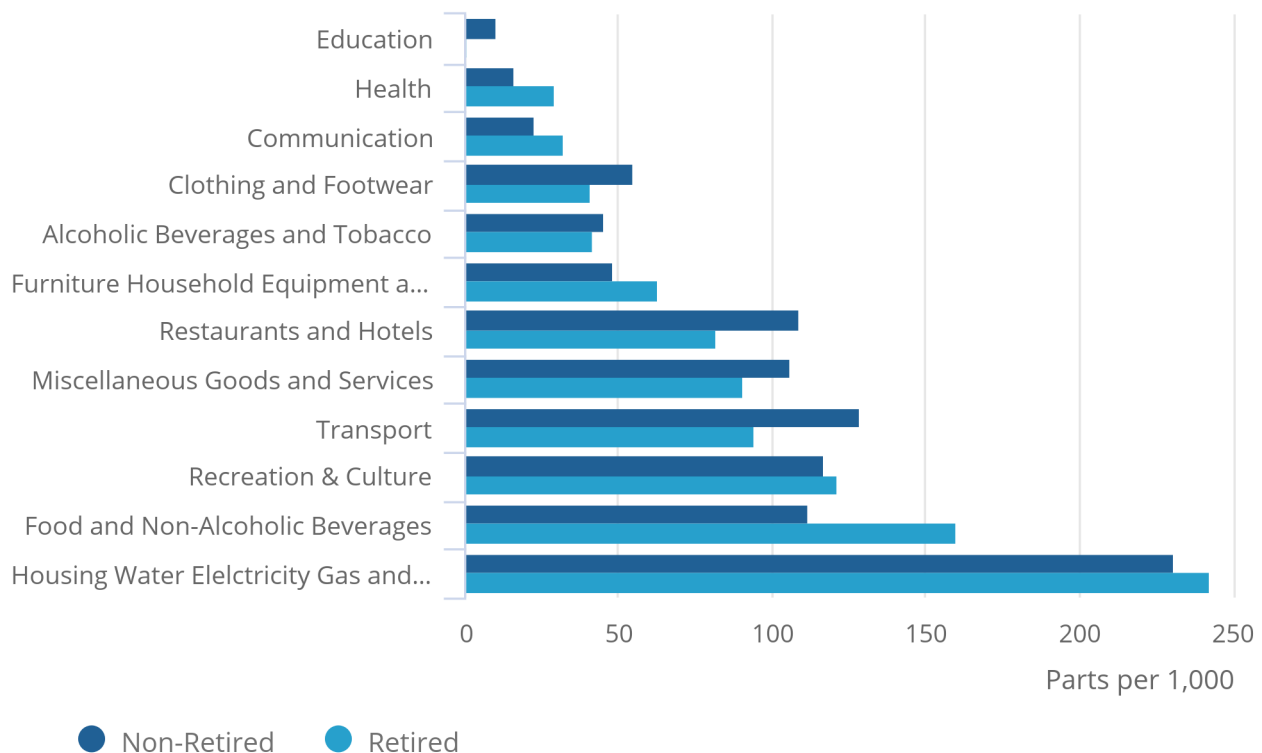
Expenditure shares

Figure 9: Housing is the largest share of expenditure for both retired and non-retired households

Average expenditure share for retired and non-retired households, UK, 2005 to 2021

Figure 9: Housing is the largest share of expenditure for both retired and non-retired households

Average expenditure share for retired and non-retired households, UK, 2005 to 2021



Source: Office for National Statistics – Household Costs Indices

Notes:

1. Expenditure shares may not sum to 1,000 due to rounding.
2. Weights for each category of spending are averaged across the period of 2005 to 2021.
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Housing costs are the largest expenditure category for both retired and non-retired households. While many retired households are either in subsidised rented accommodation or in owner-occupied housing with no outstanding mortgage, the combined effects of Council Tax and utility bills almost offset this in expenditure share terms.

There are six divisions in the Household Costs Indices (HCIs) basket where retired households' expenditure shares are larger than those for non-retired households. The largest such difference is in food and drink. By contrast, the largest difference in the opposite direction (where non-retired households expenditure share is greater than retired households) is in transport.

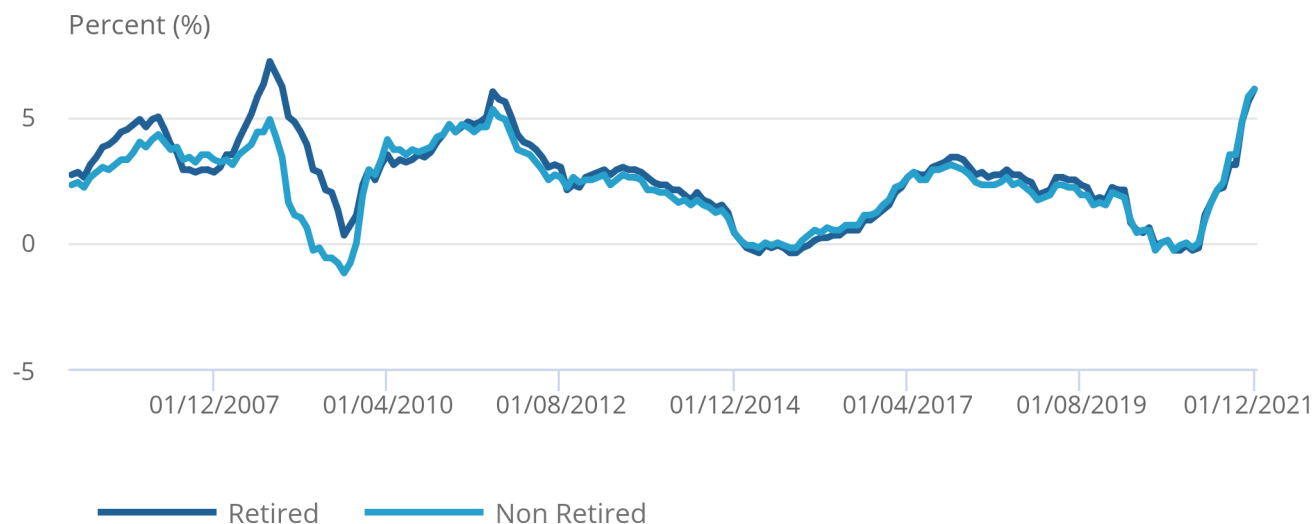
Inflation experience

Figure 10: Retired and non-retired households have experienced a similar rate of inflation since 2010

Inflation experienced by households separated by retirement status, UK, 2005 to 2021

Figure 10: Retired and non-retired households have experienced a similar rate of inflation since 2010

Inflation experienced by households separated by retirement status, UK, 2005 to 2021



Source: Source: Office for National Statistics – Household Costs Indices

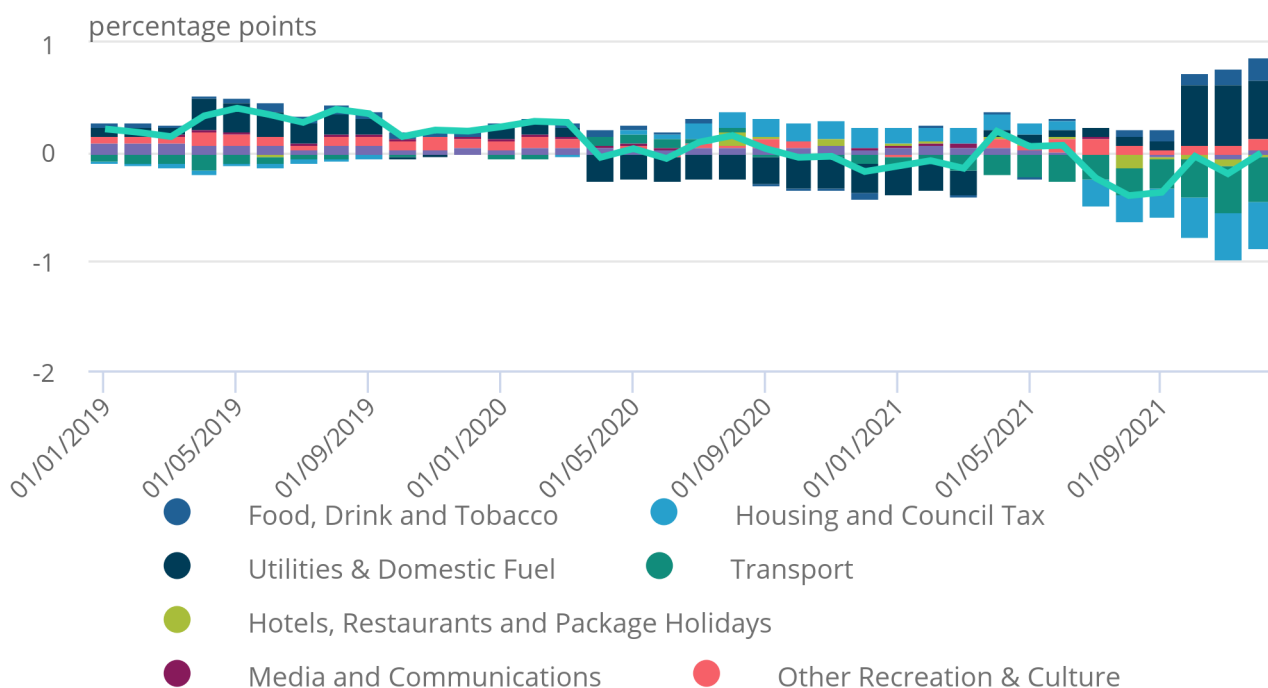
Growth rates for retired and non-retired households have been relatively similar since 2010 and have followed the same trend throughout the coronavirus (COVID-19) pandemic. However, this hides differences at the lower level.

Figure 11: Housing and transport costs have driven high-income households' inflation rate above low-income households' in the second half of 2021

Contributions to inflation experienced by households separated by low-income and high-income households, UK, 2019 to 2021

Figure 11: Housing and transport costs have driven high-income households' inflation rate above low-income households' in the second half of 2021

Contributions to inflation experienced by households separated by low-income and high-income households, UK, 2019 to 2021



Source: Office for National Statistics – Household Costs Indices

Notes:

1. Categories of spending below zero indicate greater contributions by low-income households to the difference in the annual growth rate.

Transport costs are one of the main drivers of recent inflation rates in the two groups. However, transport costs are more heavily driving the inflation rate of non-retired households than retired households. Housing and Council Tax costs are also more heavily driving the inflation rate of non-retired households; this is primarily being driven by owner-occupied housing costs.

Since October 2021, price changes in utilities and domestic fuel, driven by gas and electricity prices, have been contributing more greatly to the inflation rate of retired households.

Income

While prices for retired and non-retired households have grown at a similar pace in FYE 2021, income growth for non-retired households has outpaced that of retired households.

Figure 12: Income growth for non-retired households outpaced cost increases in FYE 2021

Mean equivalized household disposable income (nominal) and Household Costs Indices cumulative growth, UK, financial years ending 2005 to 2021

Download the data

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Household income for retired households increased by 68.0% between FYE 2006 and FYE 2021, from a base of £17,931; household income for non-retired households increased by 49.8% over this same period. This divergence began in 2014, and our article suggests that [private pensions are the main reason for the rising disposable income of retired households](#).

Non-retired households have not seen such a rapid increase in incomes from their FYE 2006 base of £28,512. However, the large gap between cost and income growth seen between 2010 and 2016 has closed, and in FYE 2021, income for non-retired households has grown.

5 . Household Costs Indices, UK: fourth preliminary estimates data

Household Costs Indices preliminary estimates Dataset | Released 4 May 2021 Household Costs Indices (HCIs), 12-month growth rates, expenditure shares and contributions for UK household groups and all households.

6 . Glossary

Retired and non-retired households

A retired person is defined as anyone who describes themselves in the Living Costs and Food Survey (LCF) as "retired" or anyone over minimum National Insurance pension age describing themselves as "unoccupied" or "sick or injured but not intending to seek work". A retired household is defined as one where the combined income of retired members amounts to at least half the total gross income of the household.

Low-income and high-income households

For the purpose of our analysis, low-income households are those within the second income decile and high-income households are those within the ninth income decile. The reasons for choosing the second and ninth deciles are described in our article, [CPIH-consistent inflation rate estimates for UK household groups](#).

Households classified by tenure type

We categorise households into three tenure types:

- subsidised rented
- privately rented
- owner-occupied

Subsidised renter households are defined as any household that either rents their property from a council, is a registered social landlord, or lives in their property rent-free. Privately rented households are defined as any household that rents their property from a private sector landlord. It excludes households who live in their property rent-free.

Owner-occupier households are defined as any household in which the residents own the property outright or are buying the property with a mortgage.

Disabled and non-disabled households

Households are categorised as disabled if they report any physical or mental health conditions that have lasted or are expected to last 12 months or more, and their condition reduces their ability to carry out day-to-day activities. This is consistent with the definition in the Equality Act 2010.

Disposable income

Disposable income is that which is available for consumption and is equal to all income from wages and salaries, self-employment, private pensions and investments, plus cash benefits less direct taxes.

Equivalised

Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members. This analysis uses the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.

7 . Measuring the data

Household Costs Indices

The Household Costs Indices (HCIs) are a set of experimental measures, currently in development, that aim to reflect UK households' experience of changing prices and costs.

The HCIs complement our other measures of price change, including:

- the Consumer Prices Index, including owner occupiers' housing costs (CPIH), which is our most comprehensive measure of inflation and is based on economic principles
- the Consumer Prices Index (CPI)
- the Retail Prices Index (RPI), which is a legacy measure

Further information on the HCIs, including how they differ from the CPIH can be found in our previous Household Costs Indices bulletin and [our article about developing the HCIs](#).

Methodology

The HCIs are still in development, and future estimates of the HCIs are expected to have different, or additional, items in scope. Furthermore, some of the aspects of methodology presented in this bulletin may be improved. Therefore, the aim of this bulletin is to update users on progress towards development of the HCIs.

More information on the methodology used to calculate the HCIs can be found in our [Household Costs Indices: methodology article](#).

Owner-occupied Housing

The HCIs directly measure the payments that owner occupiers make to consume housing services (including mortgage interest payments, dwelling insurance, ground rent and Stamp Duty Land Tax).

Upcoming changes

Later this year, we will be publishing an options article for how to measure mortgage interest payments within the HCIs.

8 . Strengths and limitations

Price index data

Differences in inflation rates between household subgroups are driven by differing spending patterns, rather than differing items, price increases, or substitutions.

While the calculation of household subgroup measures is straightforward analytically, a range of data constraints make their estimation challenging in practice. For instance, an analysis of household group specific rates would ideally use price indices and expenditure weights specific to each household group. This would reflect the fact that different households will purchase goods and services from different outlets and therefore face different prices.

However, data are not available on household group specific price indices, and therefore this bulletin uses national price indices as an approximation. There are also challenges that arise from the data sources that are available to calculate the expenditure shares. For more information, please see our [Methodology to calculate CPIH-consistent inflation rates for UK household groups article](#).

Income data

Comparing the cost and income measures should be undertaken with caution, as there are elements within the two measures that mean they are not coherent. For example, the HCIs include changes in the cost of Council Tax, while the disposable income measure provided in this bulletin deducts direct taxes (including Council Tax). This means that any changes in the cost of Council Tax will be counted in both measures. [The measurement of real income in the UK: options for a coherent approach article](#) provides details of how measures of income and measures of changing prices and costs should be produced so that they are coherent.

Spending patterns

The spending patterns used in this analysis are at a two-year lag. For example, the 2021 data uses spending pattern information from 2019. Spending patterns have changed throughout the coronavirus (COVID-19) pandemic, so this is a limitation of the analysis.

9 . Related links

[CPI-consistent inflation rate estimates for UK household groups: 2005 to 2021](#)

Article | Released 28 January 2022

Estimates of Consumer Prices Index (CPI) inflation rates for different types of households in the UK 2005 to 2021

[Developing the Household Costs Indices \(HCIs\)](#)

Article | Released 14 October 2020

The development of a set of measures that aim to reflect UK households' experience of changing prices and costs.