

Spending on Telephone Service

Brett Creech

In recent years, the use of cellular phones has increased compared with that of residential landline telephones. This trend can be attributed to the wider availability and greater flexibility that cellular phones offer. Indeed, spending on cell phones has risen to the point that it nearly matches spending on traditional landline phones. Monthly cellular phone rate packages are now quite comparable to residential telephone rates and can include many features, such as free long-distance calling and text messaging, which are not included in most residential phone packages. Because of the flexibility and mobility of cellular phones, more households are using them as their main telephone source, thereby eliminating the need for residential landline telephone services. Data from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CE) show that cellular phone expenditures increased rapidly from 2001 through 2006. In comparison, average expenditures on residential telephones decreased during the same period.

In the CE, telephone service expenditures are divided into four major categories: residential telephone/pay phone, cellular phone service, pager services, and phone cards. This report focuses on comparing total expenditures on residential telephone and cellular phone services overall and by age

group. The residential telephone and cellular phone service data presented are from unpublished CE estimates that show more detail than the published annual tables provided on the BLS public Web site.

In 1991, the CE began data collection on mobile car phones. The CE questionnaire asked respondents about their expenditures on telephone services in their home city (excluding mobile car phones) and their expenditures on telephone services for mobile car phones. In 2001, as these devices became more portable, the CE broadened the question about mobile phones to generally include all cellular phone services. Also in 2001, the survey began to include questions aimed at capturing data on expenditures for phone cards and pager services.

Average Annual Telephone Expenditures

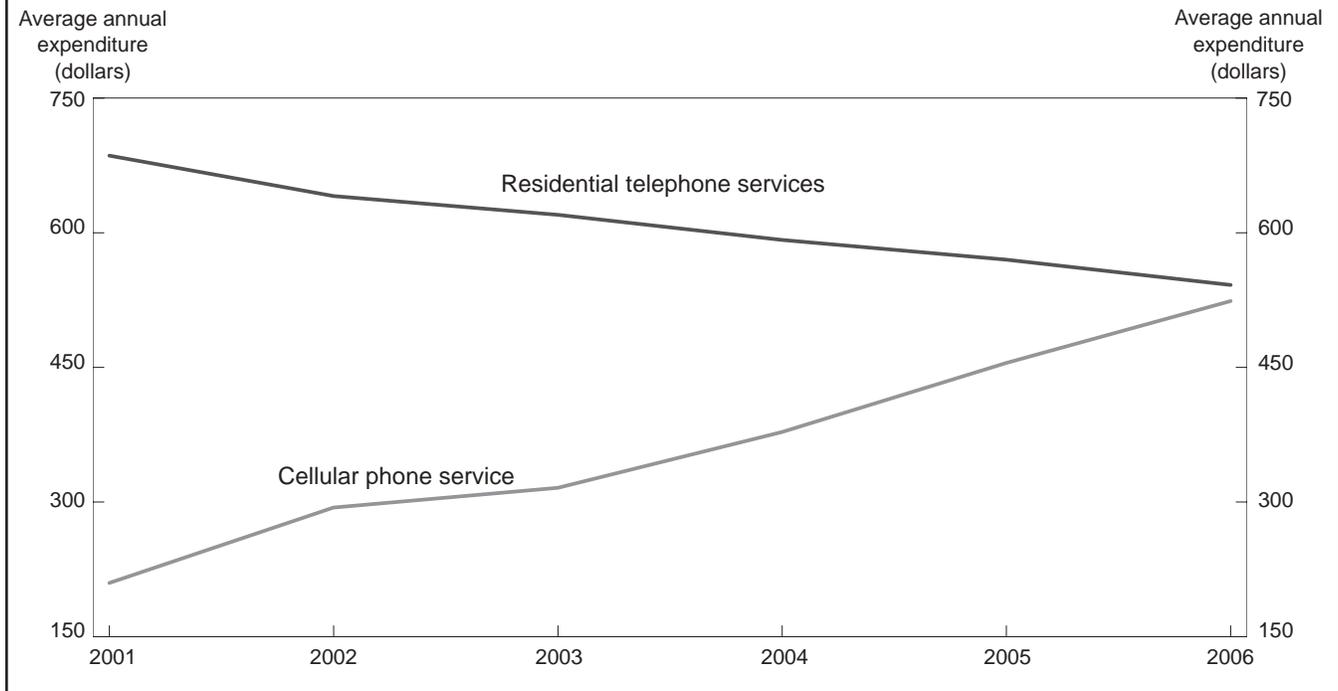
From 2001 to 2006, increases in telephone expenditures kept pace with the increase in total annual expenditures, so that the share of telephone expenditures out of total annual expenditures remained fairly constant over that period; interestingly, the increase in expenditures on telephone services is due almost exclusively to higher expenditures on cellular phone service. Table 1 shows that average annual telephone service expenditures for all consumer

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Table 1. Average annual expenditures (AAE) and percent distribution of telephone service expenditures for all consumer units, by age group, consumer expenditure survey, 2001–06

	2001	2001	2002	2002	2003	2003	2004	2004	2005	2005	2006	2006
	AAE	Per- cent distrib- ution										
All consumer units.....	\$39,518		\$40,677		\$40,817		\$43,395		\$46,409		\$48,398	
Telephone services.....	914	100.0	957	100.0	956	100.0	990	100.0	1,048	100.0	1,087	100.0
Residential telephone/ pay phone.....	686	75.0	641	67.0	620	64.8	592	59.8	570	54.4	542	49.9
Cellular phone service.....	210	23.0	294	30.7	316	33.1	378	38.2	455	43.4	524	48.2
Other services.....	19	2.0	22	2.3	20	2.1	20	2.0	23	2.2	21	2.0
Age												
Under 25 years.....	23,526		24,229		22,396		24,535		27,776		28,181	
Telephone services.....	629	100.0	641	100.0	616	100.0	642	100.0	744	100.0	722	100.0
Residential telephone/ pay phone.....	423	67.2	346	54.0	278	45.1	245	38.2	247	33.2	195	27.0
Cellular phone service.....	165	26.3	259	40.4	313	50.9	371	57.8	472	63.4	502	69.5
Other services.....	41	6.5	36	5.7	25	4.0	26	4.0	25	3.4	26	3.6
25–34 years.....	39,451		40,318		40,525		42,701		45,068		47,582	
Telephone services.....	1,001	100.0	1,032	100.0	1,001	100.0	1,028	100.0	1,099	100.0	1,129	100.0
Residential telephone/ pay phone.....	712	71.1	642	62.2	592	59.1	537	52.2	495	45.0	434	38.4
Cellular phone service.....	263	26.3	360	34.9	377	37.6	465	45.2	572	52.0	658	58.3
Other services.....	26	2.6	31	3.0	33	3.3	26	2.6	32	3.0	38	3.3
35–44 years.....	46,908		48,330		47,175		50,402		55,190		57,546	
Telephone services.....	1,035	100.0	1,096	100.0	1,097	100.0	1,145	100.0	1,208	100.0	1,271	100.0
Residential telephone/ pay phone.....	761	73.5	713	65.0	696	63.4	665	58.0	633	52.4	599	47.2
Cellular phone service.....	254	24.6	358	32.7	379	34.6	451	39.4	545	45.1	649	51.1
Other services.....	20	1.9	25	2.3	22	2.0	29	2.5	30	2.5	22	1.8
45–54 years.....	47,930		48,748		50,101		52,764		55,854		57,563	
Telephone services.....	1,072	100.0	1,109	100.0	1,156	100.0	1,178	100.0	1,229	100.0	1,269	100.0
Residential telephone/ pay phone.....	786	73.3	723	65.2	724	62.7	682	57.9	660	53.7	621	48.9
Cellular phone service.....	268	25.0	365	32.9	413	35.7	479	40.7	548	44.6	627	49.4
Other services.....	18	1.6	21	1.9	19	1.6	17	1.4	21	1.7	21	1.7
55–64 years.....	41,462		44,330		44,191		47,299		49,592		50,789	
Telephone services.....	926	100.0	981	100.0	981	100.0	1,040	100.0	1,077	100.0	1,115	100.0
Residential telephone/ pay phone.....	718	77.5	697	71.0	680	69.3	673	64.7	638	59.2	623	55.9
Cellular phone service.....	194	21.0	266	27.1	285	29.0	353	34.0	422	39.2	476	42.7
Other services.....	14	1.5	19	1.9	16	1.6	13	1.3	17	1.6	16	1.4
65 Years and Older.....	27,714		28,105		29,376		31,104		32,866		35,058	
Telephone services.....	652	100.0	689	100.0	673	100.0	695	100.0	733	100.0	770	100.0
Residential telephone/ pay phone.....	560	85.9	555	80.6	541	80.4	542	78.0	541	73.8	548	71.2
Cellular phone service.....	85	13.1	125	18.2	122	18.2	144	20.8	180	24.6	213	27.7
Other services.....	7	1.0	9	1.2	10	1.5	9	1.2	12	1.6	9	1.2

Chart 1. Residential and Cellular Phone Expenditures, 2001–06



units¹ increased by 18.9 percent from 2001 through 2006, compared with an increase of 22.5 percent for total annual expenditures during the same period. In 2006, total annual expenditures averaged \$48,398 per consumer unit, of which 2.2 percent (\$1,087) was allocated to telephone expenditures. In comparison, total expenditures in 2001 averaged \$39,518 per consumer unit, of which 2.3 percent (\$914) went to telephone expenditures.

Chart 1 displays the change in average annual residential telephone/pay phone expenditures and cellular phone service expenditures from 2001 through 2006. Expenditures for cellular phone services per consumer unit grew from \$210 in 2001 to \$524 in 2006, an increase of 149.2 percent. Expenditures for residential telephones/pay phones per consumer unit decreased from \$686

in 2001 to \$542 in 2006, a decline of 21 percent.

Put another way, table 1 shows that the expenditure share of cellular phone services out of total telephone expenditures has increased. In 2001, the ratio of spending on residential telephone/pay phone expenditures to spending on cellular phone expenditures was greater than 3 to 1. In 2006, the shares of these two components were almost equal, with residential telephone/pay phone expenditures accounting for 49.9 percent of total telephone expenditures and cellular phone expenditures² constituting 48.2 percent. In addition, the percentage of households reporting cellular phone expenditures, increased from 34.1 percent in 2001 to 52.8 percent in 2006.³ Also, the percentage of

² Expenditures on phone cards and pager services accounted for 2.0 percent of total telephone expenditures in 2006. Due to the small size of these expenditures, this report focuses on the comparison of cellular phone services with residential telephone services. Table 1 refers to expenditures on phone cards and pager services as “other services.”

³ All percentages cited in this report were derived from average quarterly percent reporting totals for 2001 and 2006.

people who reported having cellular phone expenditures but no residential telephone expenditures increased: In 2006, 12.3 percent of respondents reported having cellular phone expenditures, but no residential telephone expenditures, compared with only 1.5 percent in 2001.

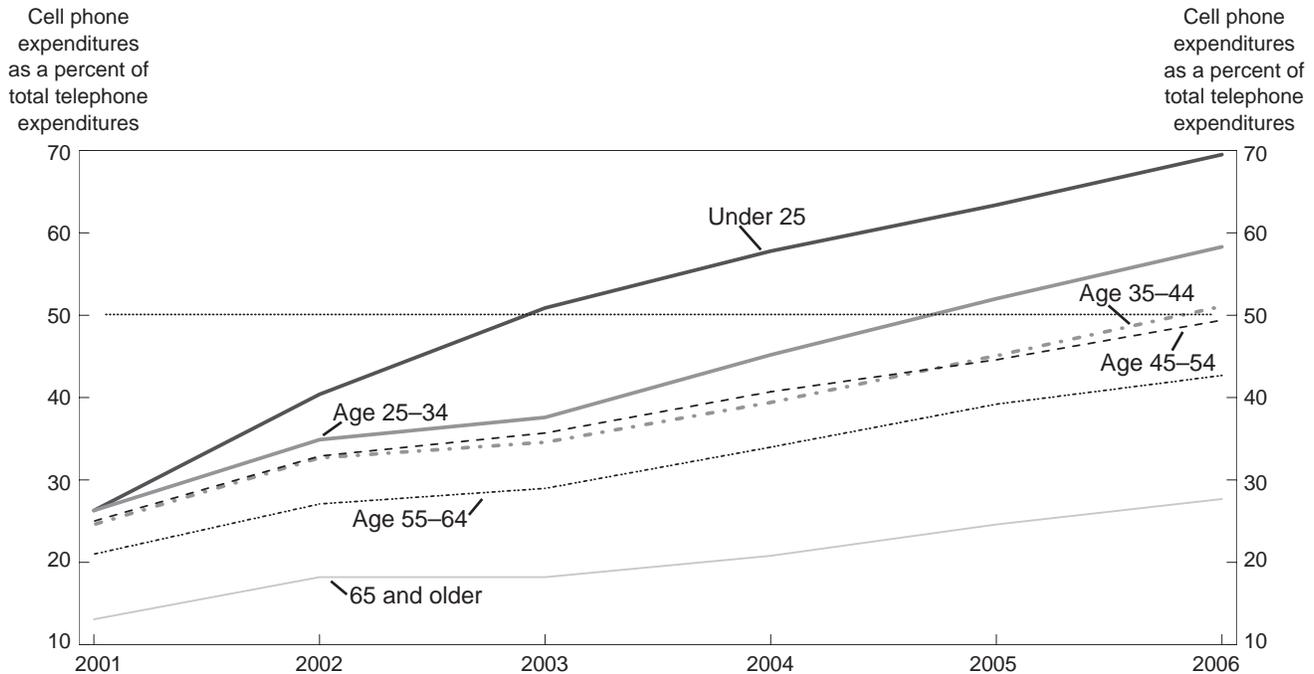
Age

One interesting way to analyze the shift of expenditures from residential telephones to cellular phones is by age group. Table 1 shows expenditures on telephone services and its components by six age⁴ groups. From 2001 through 2006, consumer units whose reference person was 25 through 64 years spent about the same amount annually for telephone services. In 2006, that amount was about \$1,200. Similarly, consumer units whose reference per-

¹ A consumer unit is defined as all the members of a household related by blood, marriage, adoption, or other legal arrangement; a single person living alone or sharing a household with others, but who is financially independent; or two or more persons living together who share responsibility for at least 2 out of 3 major types of expenses—food, housing, and other expenses.

⁴ Age groups are determined by the age of the reference person—the first person mentioned by the respondent when asked to “start with the name of the person or one of the persons who owns or rents the home.” It is with respect to this person that the relationship of the other CU members is determined.

Chart 2. Distribution of cell phone expenditures, by age group, 2001–06



son was under 25 years or 65 years and older reported comparable levels of telephone service expenditures (\$722 for those under 25 years, and \$770 for those 65 years and older, in 2006).

However, since 2001, the distribution of telephone service expenditures between residential telephone/pay phone services and cellular phone services changed significantly in all age groups. For example, in 2001, the share of cellular phone services out of total telephone services for consumer units whose reference person was under 25 years was 26.3 percent. By 2006, the share had risen sharply, to 69.5 percent. Similar, but less dramatic, shifts occurred in all age groups from 25 through 64 years. This change in the distribution of expenditures has been so widespread that the majority of consumer units are now spending more on cellular phone service than on residential telephone/pay phone services. Although the shift in expenditures

was not as great for consumer units with reference person aged 65 years or older, even that age group saw a significant increase in its cellular phone service expenditures. In 2001, cellular phone expenditures accounted for 13.1 percent of total telephone expenditures for those consumer units. By 2006, the group's cellular phone expenditures had increased to 27.7 percent of its total telephone service expenditures.

Chart 2 demonstrates how the shift in expenditures toward cellular phones has occurred. In 2006, for all age groups under age 45, cellular phone expenditures constituted the majority of total telephone expenditures. The situation differed from that of 2001, when the majority of total telephone expenditures for all age groups were residential telephone/pay phone service expenditures. The under-25 age group was the first age group for whom spending on cellular phones accounted for the majority of total telephone expenditures,

in 2003. Those aged 25 to 34 years followed suit in 2005, while those aged 35 to 44 years shifted in 2006.

Summary

This article has presented cellular phone service and residential telephone service spending patterns for all consumer units and by age group from 2001 through 2006. The CE data show that cellular phone expenditures increased, while residential telephone service expenditures decreased, over that period. Wider availability and price packages that are comparable to residential telephone packages have been the main sources of this increase. Also, cellular phone expenditures are now the majority of total telephone expenditures in three of the six age groups researched in this article. The CE will continue to analyze the data to see if cellular phone expenditures eventually become the majority of total telephone service expenditures for all age groups. ■