Institute of Alcohol Studies

BRIEFING

The rising affordability of alcohol

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Briefing: The rising affordability of alcohol

Summary

- The affordability of beer in supermarket and off-licences has risen by 188% since 1987, while the affordability of wine and spirits has gone up by 131%
- Affordability growth has been more modest in the on-trade (pubs, bars, hotels and restaurants)
- Increases in alcohol tax between 2008 and 2012 briefly halted this trend and limited the price differential between pubs and supermarkets
- Subsequent tax cuts have seen affordability rise steeply again in the off-trade, with beer 22% more affordable than in 2012
- A minimum unit price is a targeted way to address the harms associated with cheap supermarket alcohol

It is increasingly recognised that the affordability of alcohol has risen dramatically over the last 30 years. What is less widely appreciated is that this trend has been overwhelmingly driven by cheap alcohol in the off-trade (primarily supermarkets) – the very products that would be affected by a minimum unit price.

Affordability has risen far more dramatically in supermarkets than in pubs

The overall affordability of alcohol has increased by 60% since 1987, as NHS Digital have shown.[1] However, existing affordability measures do not differentiate between the off-trade (supermarkets, off-licences and other retailers where alcohol is purchased but not consumed) and the on-trade (places where alcohol is consumed on the premises, such as pubs, bars, restaurants and hotels).

[1] NHS Digital (2017), Statistics on Alcohol, England, 2017. Available from: <http://digital.nhs.uk/catalogue/PUB23940> [Accessed 23 February 2018].

Figure 1: Affordability Index by Beverage Type and Location, 1987–2016[2] (1987=100)

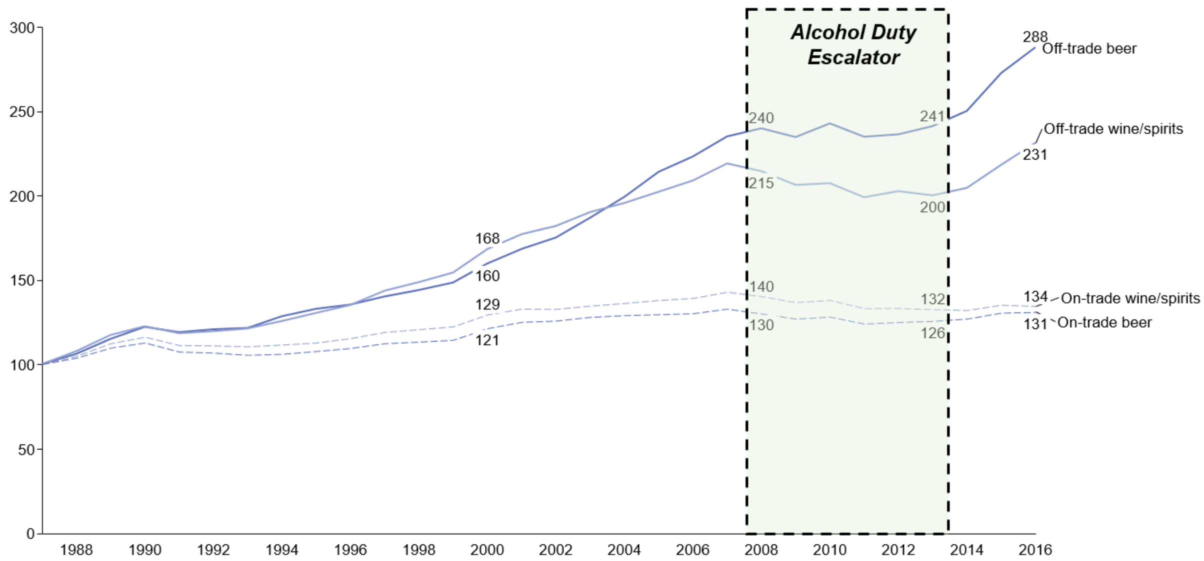

Figure 1 shows that the affordability of beer in the off-trade has skyrocketed, with beer in supermarkets and off-licences 188% more affordable than in 1987. Off-trade wine and spirits are also significantly more affordable, up 131% (more than double) over the period. By contrast, on-trade affordability has increased more modestly, up 34% for wine and spirits and 31% for beer.

The alcohol duty escalator briefly halted this rise and limited the price differential between pubs and supermarkets

Having gone up dramatically between 2000 and 2008, the affordability of alcohol briefly went into reverse between 2008 and 2012. In part, this was due to the recession squeezing household incomes. However, the government's alcohol duty escalator, which ensured that alcohol taxes rose by 2% above inflation, also played a central role in curbing affordability. Off-trade beer became much more affordable immediately following the end of the beer duty escalator in 2012, but wine and spirits affordability did not rise until taxes were cut for those products the following year.

It is also notable from figure 1 that the widening gap in affordability between on-trade and off-trade alcohol remained fairly constant between 2008 and 2013. This suggests that measures that raise overall prices, like higher alcohol taxes, may reduce the price differential between pubs and supermarkets.

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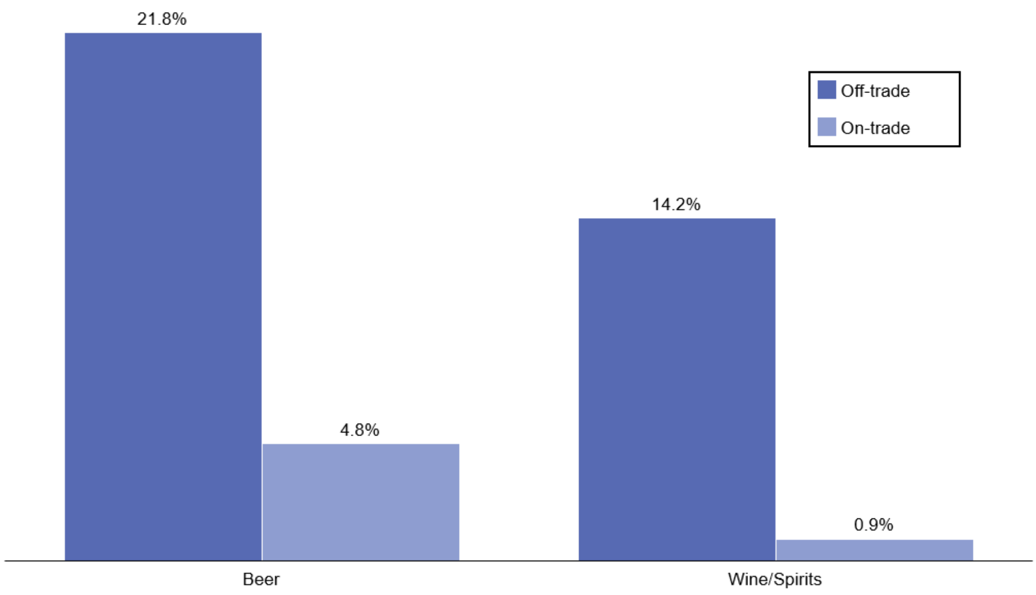
[2] The affordability index is calculated by dividing indexed per capita 18+ household income by the real price index of alcohol (the alcohol price index divided by the all-items price index). The methodology is outlined in NHS Digital (2017), op. cit. Inflation data comes from ONS (2018), Consumer Price Inflation time series dataset; Household income data from NHS Digital (2017), op. cit.

Duty cuts since 2012 have resulted in steep rises in off-trade, but not on-trade, affordability

Recent trends in affordability are deeply worrying. As figure 2 shows, affordability has increased significantly in the off-trade since 2012, but growth in the on-trade has been more modest.

Figure 2: Increase in Affordability Index, 2012–2016



Again, while this is partly due to macroeconomic recovery, changes in tax policy have been significant. Between 2012 and 2016, beer duty was cut by 14% in real terms, with spirits duty reduced by 6%.[3] With alcohol duty frozen until February 2019, inflation will further erode the impact of the tax, and so affordability is likely to continue to rise.

What can be done?

This briefing has shown that the increasing affordability of alcohol in the past 30 years has been driven primarily by low prices in the off-trade. The affordability of beer in supermarkets and off-licences has almost tripled, and the affordability of wine and spirits has more than doubled. The irresponsible selling practices of such retailers have long been recognised. A 2007 Competition Commission inquiry found that major supermarkets regularly use alcohol as a 'loss leader', selling it at unprofitable discounts 'to tempt customers into the store'.[4] A recent IAS survey of publicans found that 83% believe supermarket alcohol is too cheap, with almost half rating it among the top three causes of pub closures.[5]

[3] Institute of Alcohol Studies (2016), Budget 2016 analysis.
[4] Freeman P et al (2008)., 'The supply of groceries in the UK market investigation', Competition Commission, pp. 94–5.
[5] Bhattacharya, A. (2017), Pubs Quizzed: What publicans think about policy, public health and the changing trade. London: Institute of Alcohol Studies.

We have seen that increasing alcohol tax can be effective in slowing affordability growth and limiting the ability of supermarkets to undercut pubs. However, dramatic increases in duty would be necessary to unwind these changes. Moreover, supermarkets do not always pass tax increases onto consumers, particularly for cheaper drinks.[6]

A more targeted approach, zeroing in on the cheapest alcohol driving this increase in affordability would be to introduce a minimum unit price (MUP). This measure would outlaw sales below a 'floor price' per unit of alcohol. The Scottish Government, which will introduce an MUP in May, has set its level at 50p per unit. Around half of the alcohol sold in supermarkets would be affected by such a regulation.[7] However, since prices in the on-trade generally exceed the level of a proposed MUP, less than 1% of on-trade sales would be affected.[8]

[6] Ally, A.K. et al (2014), Alcohol tax pass-through across the product and price range: do retailers treat cheap alcohol differently?, *Addiction* 109:12, pp. 1,994–2,002.
[7] NHS Health Scotland (2017), Nielsen Price Band Dataset – alcohol price and affordability. Available from: <http://www.healthscotland.scot/publications/mesas-monitoring-report-2017> [Accessed 23 February 2018].
[8] Meng, Y. et al (2013), Modelled income group-specific impacts of alcohol minimum unit pricing in England 2014/15: Policy appraisals using new developments to the Sheffield Alcohol Policy Model (v2.5). Sheffield: ScHARR, University of Sheffield.

Our core aim is to serve the public interest on public policy issues linked to alcohol. We do this by advocating for the use of scientific evidence in policy-making to reduce alcohol-related harm.

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