United States Inflation Experience across the Income Distribution

Anya Stockburger
Bureau of Labor Statistics
stockburger.anya@bls.gov

Joshua Klick
Bureau of Labor Statistics

The Bureau of Labor Statistics (BLS) produces the Consumer Price Index (CPI) as a measure of price change (or inflation) faced by consumers. The headline CPI is designed to target the inflation experience of all urban consumers (CPI-U) which may not reflect the inflation experience of an individual household or demographic group. In June 2021, an Interagency Technical Working Group convened by the Office of Management and Budget issued a report recommending the BLS produce a CPI designed to capture the inflation experience of low-income consumers, which in turn should be used in the calculation of the U.S. Official Poverty Measure.

In the spirit of that report, this paper presents consumer price indexes for groups of individuals at the lowest and highest end of the income distribution. An analysis of market basket shares reveals different spending patterns across the income distribution. Even under strong assumptions that individuals in different income groups are faced with the same set of prices, this re-weighting of households produces significantly different measures of inflation. Historically, inflation estimates for lower income households are generally higher than higher income households. This paper also explores data through 2021 to demonstrate time periods (particular recently) when that historical pattern is no longer true, and higher income households experience higher inflation than lower income households. A decomposition by item explains this result. Finally, calculation of both fixed quantity (Lowe) and monthly updated (Tornqvist) indexes reveal lower levels of consumer substitution behavior at the lower end of the income distribution. This finding reveals insights into other assumptions typically made for price index calculation, such as aggregation choices to proxy a “representative consumer.