Memo for the Luxembourg Consumption Study Workshop

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Based on work with

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Bravo!

- Terrific you are undertaking this project

- The plans seem sensible

Our Consumption Measures Defined

- Interview survey only

- Total consumption equals expenditures minus spending on health, education, and pensions

- Mortgage principal and interest, insurance, property taxes, repairs replaced by the rental equivalent of current owned housing as reported in survey

- Purchases of vehicles, vehicle repairs, insurance replaced by the rental equivalent of owned vehicles as calculated based on purchase prices of vehicles recorded in survey

- Expenditures collected at the quarterly level and annualized

Well-measured components

- For many analyses we also consider the subset of consumption that compares well to national accounts and for which the ratio to national account totals has not changed greatly over time

- Housing (rent, utilities, rental equivalent of owned housing)

- Food at home

- Transportation (gasoline and motor oil, rental equivalent of owned vehicles)

Comprehensive Income Dataset Project

Comparisons to National Accounts

- Latest results through 2024

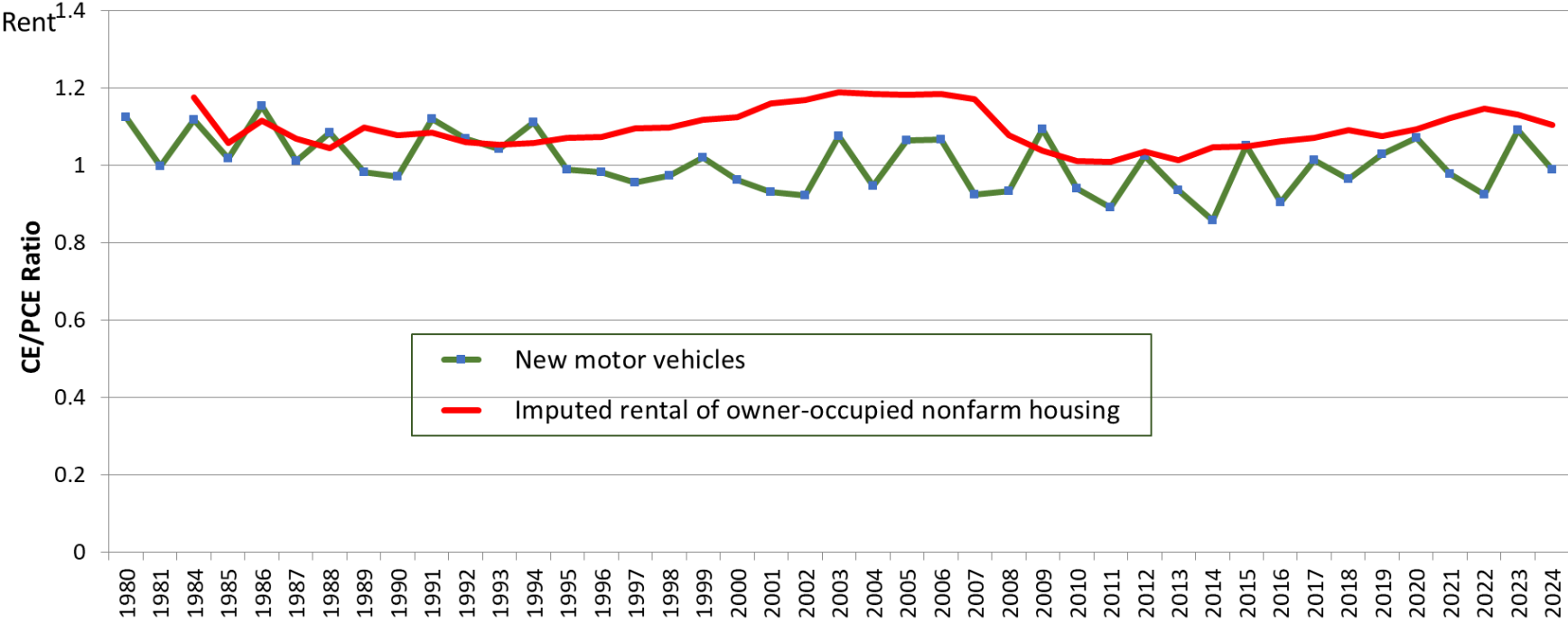Figure 1a: Comparisons of CE Interview Aggregates to PCE Aggregates, New Motor Vehicles and Imputed Rent

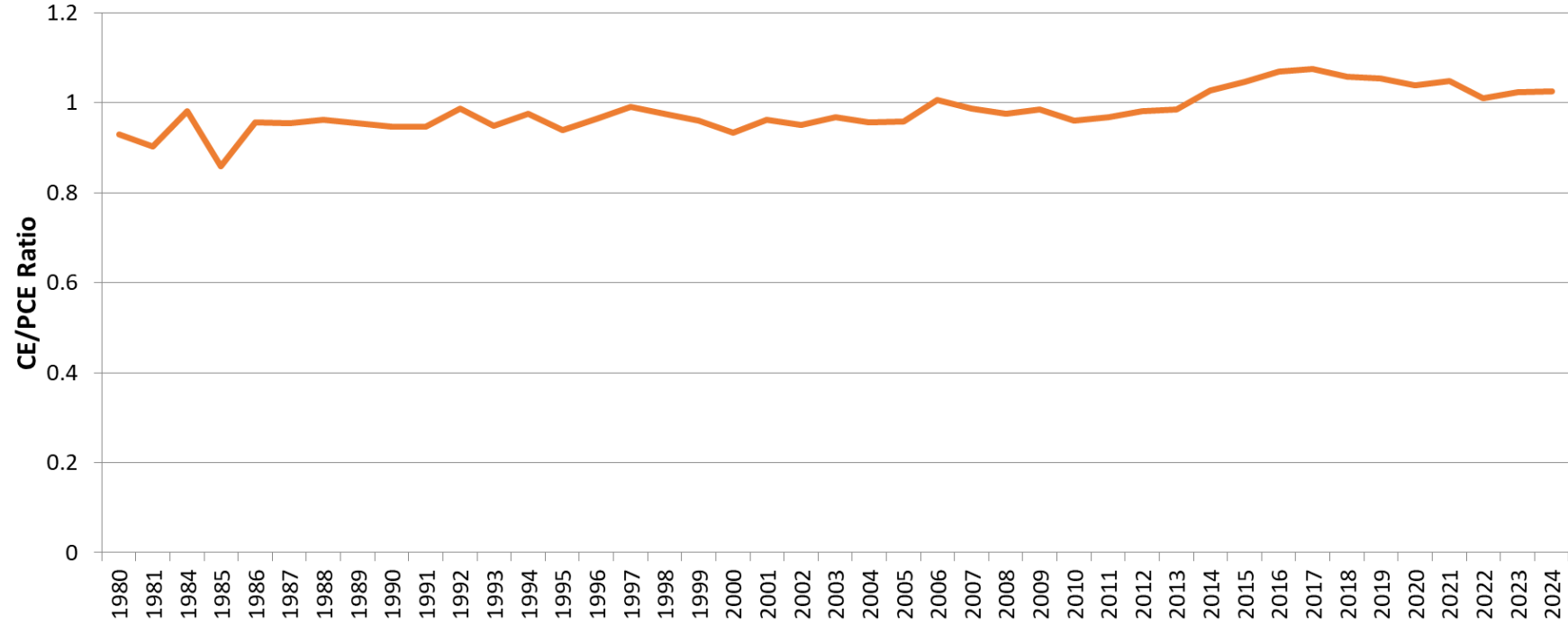Figure 1b: Comparisons of CE Interview Aggregates to PCE Aggregates, Rent and Utilities

Figure 1e: Comparisons of CE Interview Aggregates to PCE Aggregates, Gasoline and Other Energy Goods
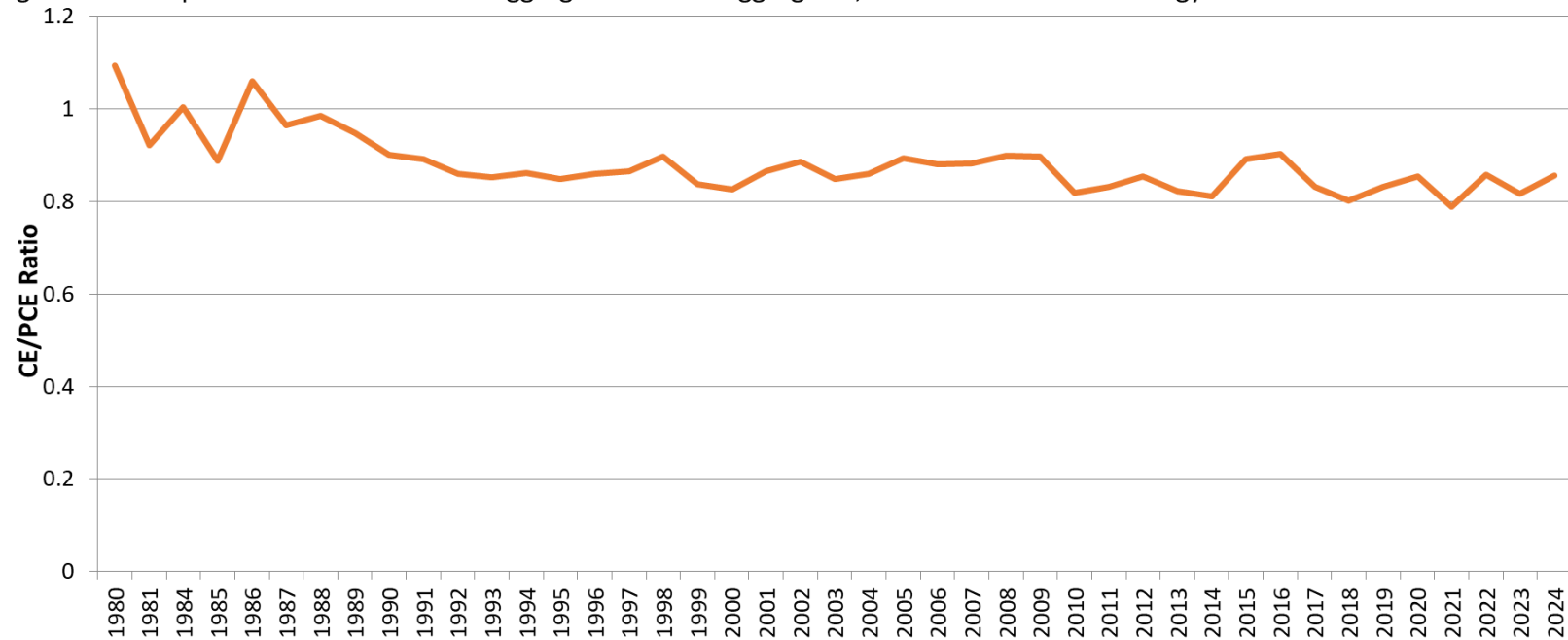
Figure 1c: Comparisons of CE Interview Aggregates to PCE Aggregates, Food at Home
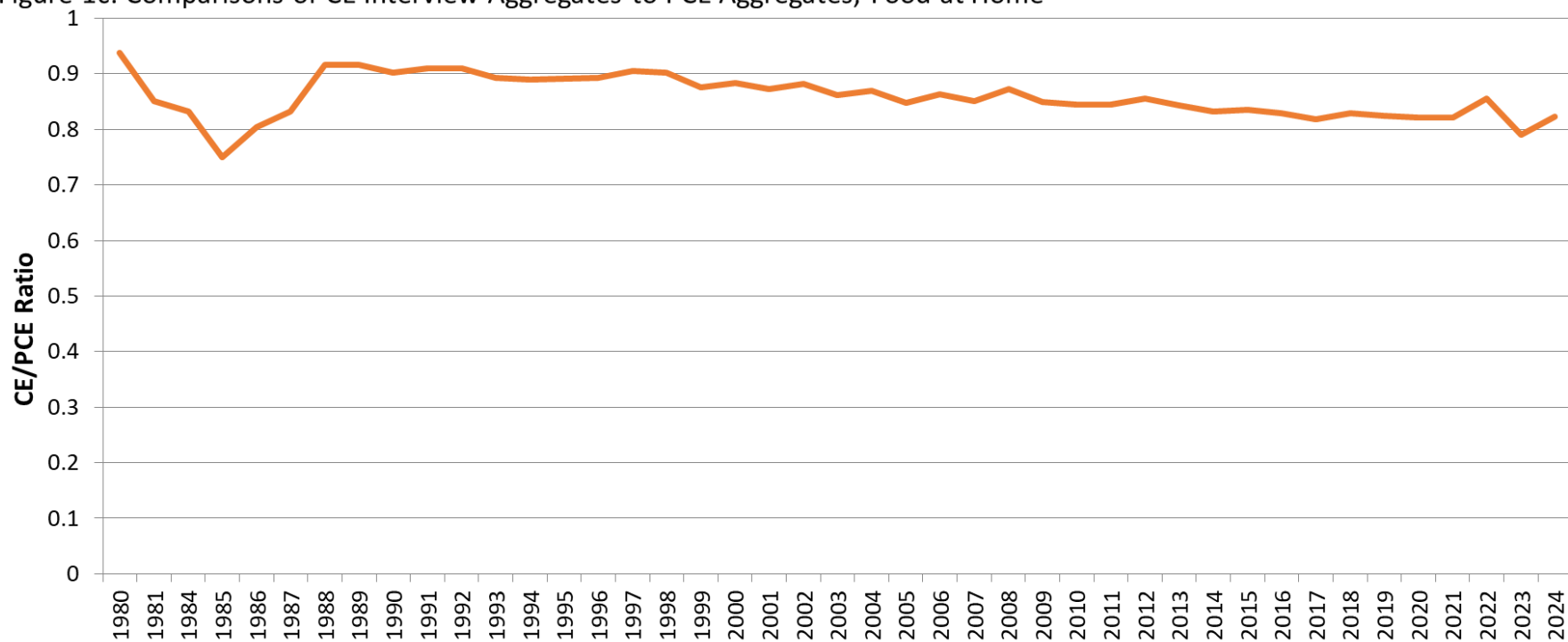
Figure 1g: Comparisons of CE Interview Aggregates to PCE Aggregates, Communication
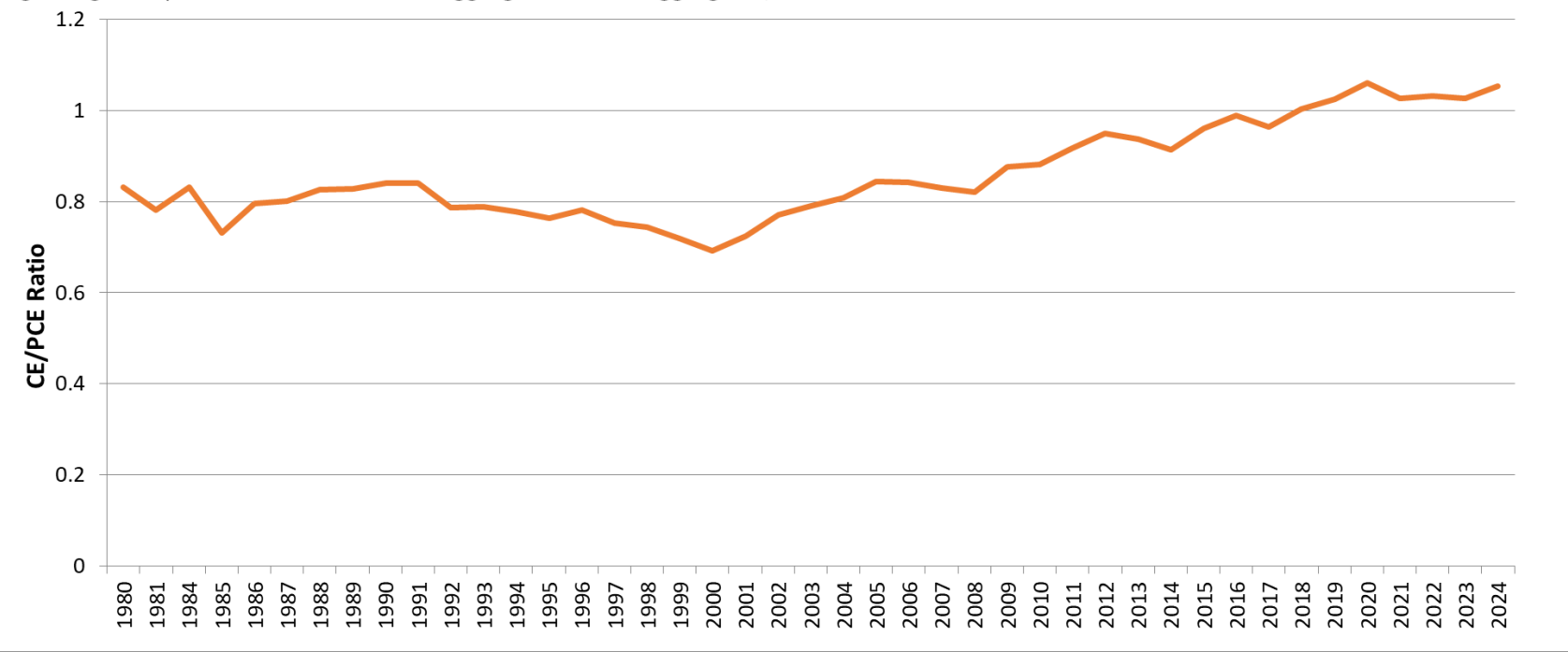
Figure 1h: Comparisons of CE Interview Aggregates to PCE Aggregates, Furniture and Furnishings
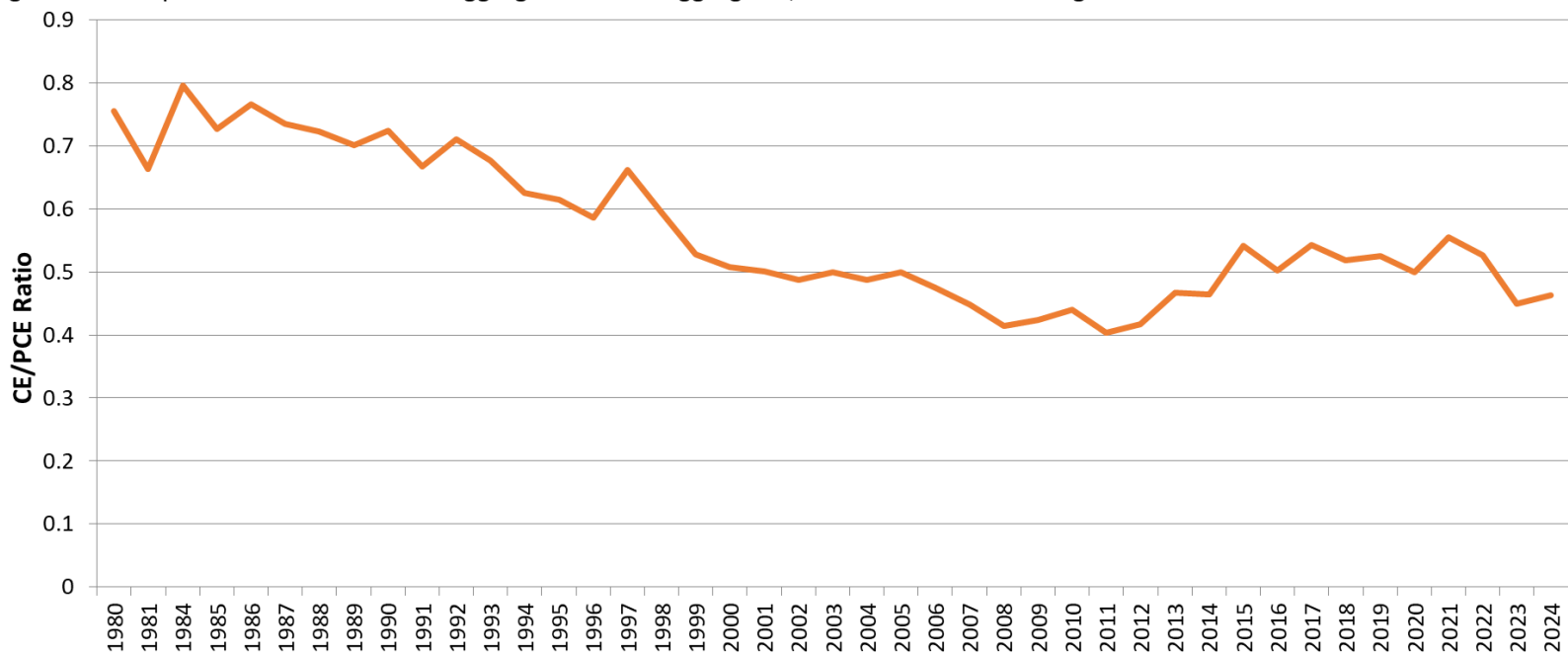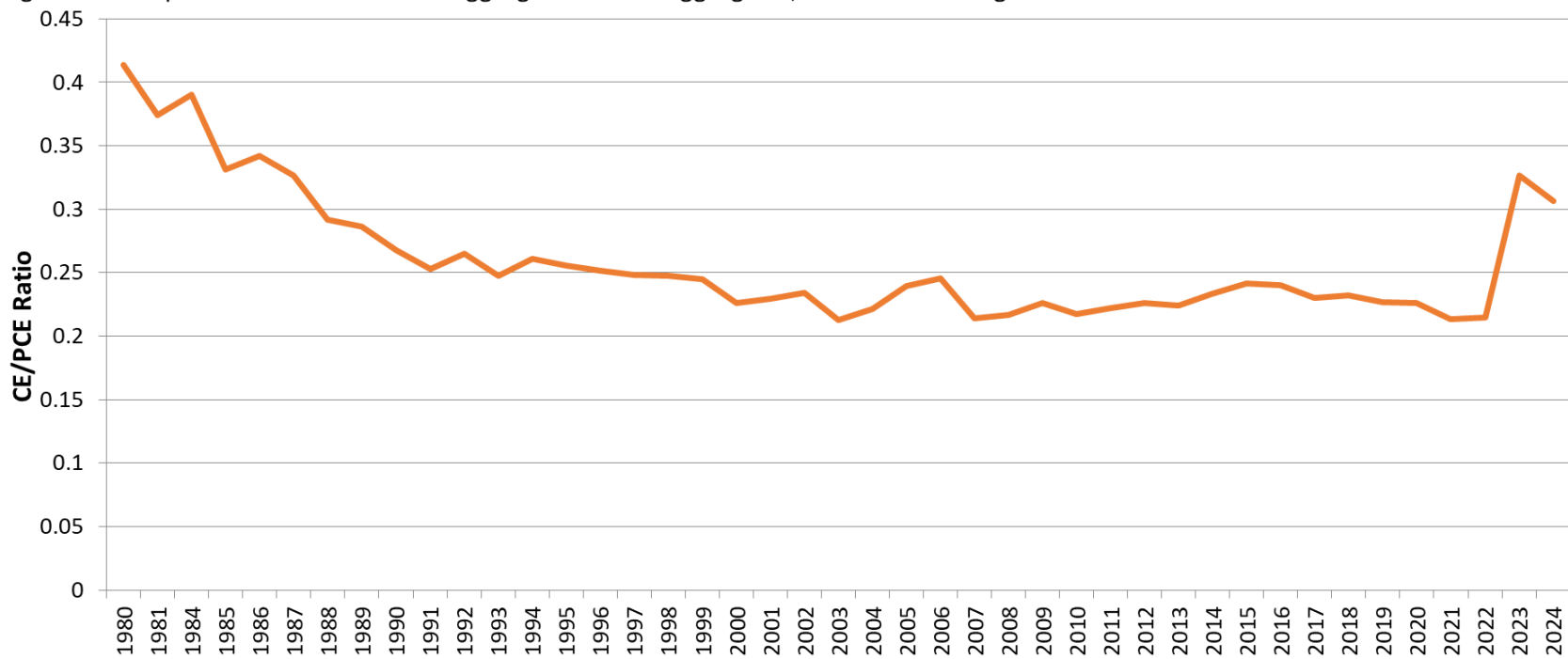
Figure 1i: Comparisons of CE Interview Aggregates to PCE Aggregates, Alcoholic Beverages [1]

Strengths (much of this focused on measurement of the bottom of the distribution)

- Direct measure of well-being; not as dependent on tax and benefit imputations that are poorly handled in income surveys

- More closely associated with well-being measures than income for bottom 5-10 percent of distribution

- Expenditures match the distribution of income in bottom ten percentiles more closely when income corrected for misreporting using linked administrative data

- Available on a timely basis (much more timely than linked income data)

- Much easier to use than linked survey and administrative income data

Weaknesses

- Quarterly consumption over-dispersed compared to annual consumption

- Substantial misreporting that leads to underreporting of mean expenditures
  - Worse for certain types of expenditures

- Some understatement of expenditures at the top of the distribution because of unit non-response
  - Based on address linked tax data

- When relying on components of consumption, need to pay attention to prices and income elasticity

Work on Data Quality

- Comparisons to national accounts
  - Diary doesn't do better, often worse
  - Also high frequency of no expenditures in a major category over one or both of the two weeks of the diary

- Comparisons of income (augmented with administrative data) to expenditures – indicate problems with income especially in bottom 5-10 percent

- Comparison of poverty using a consumption + net savings measure during the pandemic – savings explain substantial part of income-consumption differences

Cross-Country Comparability

- It would be desirable to include social transfers in kind (STIK) as food and housing assistance directly provide key components of consumption and are a large part of the U.S. safety net

Comments on Current LCS Choices

- Applaud most of the methodological choices
- Like including the rental equivalent of owned housing
  - Don't recall analyses on the importance of this choice
- Can understand the decision to not include durables
  - Would like to include vehicles if possible
- Adding harmonized income (from same dataset for the same households) would be a good addition
- Concerned that including own spending on health and education might increase cross-country noncomparabilities
  - Like BLS approach if including health
- Would be cautious in trying to account for variation in housing costs within a country (or other free migration area)
  - Attempts to do so in US do not validate well (measures of prices include amenities, reflect income differences)

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