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Characteristics and Spending Patterns of Consumer Units in the Lowest 10 Percent of the Expenditure Distribution

Abstract

How do poor consumers differ from the average consumer? Typically, consumers' ability to purchase goods and services is measured by their income, and consumers are classified as "poor" if their income falls below some standard level, such as the poverty threshold. However, income is often mismeasured due to nonresponse or underreporting. Although the Consumer Expenditure Survey (CE) was designed primarily to collect expenditure data, it also collects income and assets data for participating consumer units (CUs). To utilize the strength of the CE—its expenditure data— and the positive correlation observed between income and expenditures, this study uses total expenditures instead of income as the classifying variable. This report highlights the characteristics and spending patterns of CUs in the lowest 10 percent of the expenditure distribution in 1999.

Keywords

spending patterns, consumers, poor, survey, expenditure

Comments

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Characteristics and spending patterns of consumer units in the lowest 10 percent of the expenditure distribution

How do poor consumers differ from the average consumer? Typically, consumers' ability to purchase goods and services is measured by their income, and consumers are classified as "poor" if their income falls below some standard level, such as the poverty threshold. However, income is often mismeasured due to nonresponse or underreporting. Although the Consumer Expenditure Survey (CE) was designed primarily to collect expenditure data, it also collects income and assets data for participating consumer units (CUs).¹ To utilize the strength of the CE—its expenditure data—and the positive correlation observed between income and expenditures, this study uses total expenditures instead of income as the classifying variable. This report highlights the characteristics and spending patterns of CUs in the lowest 10 percent of the expenditure distribution in 1999.²

¹ A *consumer unit* includes (1) members of a household related by blood, marriage, adoption, or other legal arrangement; (2) a person living alone or sharing a household with others, but who is responsible for at least 2 of the following 3 major types of expenses—food, housing, and other expenses; or (3) two or more persons living together who pool their income to make joint expenditure decisions.

² Data presented in this study are for CUs interviewed from January through December 1999. Due to the 3-month reference period of the quarterly interview component of the Consumer Expenditure Survey, the data for this report include data for October 1998 through November 1999; this effectively constitutes 12 months of data due to the rotating sample design of the survey.

³ The total outlays approach is believed to be a better measure of the regular out-of-pocket outlays of consumers than is the total expenditures measure. See John Rogers and Maureen Gray, "CE data: quintiles of income versus quintiles of outlays," *Monthly Labor Review*, December 1994, pp. 32-37.

⁴ CUs in the lowest outlay decile could include CUs who are wealthy, but choose to spend little, and exclude CUs who are poor but spend much using credit. Excluding homeowners without mortgage payments could also exclude CUs who are in fact poor.

⁵ A reference person is the first member 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."

Definitions

The measure of expenditures used in this study is total outlays, which measures regular out-of-pocket spending by consumers.³ Total outlays include the transaction costs of goods and services, excise and sales taxes, personal insurance, retirement and pension payments, and payments of principal and interest on financed vehicles and home mortgages. This measure excludes the net purchase price of financed vehicles, because it would have a large one-time effect on the expenditure distribution and therefore not be considered "regular" spending. Also excluded are cash contributions and occupation-related expense items, which are collected only in the fifth interview of the survey.

In this study, "poor" consumers are considered to be those with little income and negligible assets. To be consistent with this definition, the CU population analyzed in this study excludes full-time college students, whose economic circumstances might be expected to change in the near future, and homeowners

who no longer have mortgage payments.⁴ The remaining 69 percent of CUs in the population were then ranked by their total outlays and divided into two groups—one consisting of CUs in the lowest 10 percent of the total outlays distribution (henceforth referred to as the lowest "outlay decile"), and the other consisting of all other CUs.

Demographics

The average CU in the lowest outlay decile differs from other CUs in that it is smaller in size and has fewer members under age 18, fewer earners, and a higher proportion of reference persons who are older and are female.⁵ (See table.)

Husband-and-wife-type families (with and without children) comprise 11 percent of CUs in the lowest outlay decile, but 54 percent of other CUs. The most prevalent family types in the lowest outlay decile are single CUs (62 percent) and single-parent CUs (14 percent). The single CUs in the lowest outlay decile are

Average annual expenditures, expenditure shares, and characteristics of consumer units (CUs)¹ in the lowest outlay decile compared with those of other CUs, Consumer Expenditure Survey, 1999

Item	CUs in lowest outlay decile	CUs in all other deciles	Item	CUs in lowest outlay decile	CUs in all other deciles
Total number of CUs ¹ (000's)	7,530	67,806	Income before taxes	\$7,202	\$40,734
Sample size	2,024	19,191	Average total outlays ...	8,391	40,937
Average age of reference person	49.6	43.2	Major outlay categories:		
Average number in CU:			Housing	3,766	16,154
Persons	1.7	2.8	Shelter	2,665	11,394
Children under 18 .....	.4	.9	Utilities, fuels, and public services	957	2,592
Earners .....	.6	1.6	Food	2,127	5,620
Percent of reference persons:			Food at home	1,872	3,998
Female	60.3	42.5	Food away from home	255	1,622
Aged 65 and older	28.1	8.5	Transportation	654	6,984
Working	46.5	83.6	Vehicles	106	3,108
Percent distribution by family type:			Gasoline and motor oil	256	1,195
Husband and wife only	7.0	18.5	Public transportation .	65	446
Husband and wife with kids	3.9	35.0	Health care	470	1,713
Other husband and wife families .....	.9	4.8	Health insurance	303	861
Single parent	13.5	7.4	Clothing	279	1,611
Single	61.8	20.4	Personal insurance and pensions	333	4,398
Other families	13.0	13.9			

¹ Excluded are full-time college students and homeowners without mortgages.

also generally older—about 36 percent of the single CUs in the lowest outlay decile are aged 65 and older, compared with 20 percent of other single CUs. There also is a contrast in the marital status of single-parent CUs—60 percent of CUs in the lowest outlay decile were never married, compared with 26 percent of their counterparts outside the lowest decile.

Thirty-eight percent of reference persons in the lowest outlay decile were engaged in retail, service, or manual jobs, and about three percent in managerial/professional jobs. In contrast, the proportions for reference persons of other CUs were 54 percent and 18 percent, respectively. About 53 percent of the

reference persons in the lowest outlay decile had not worked in the past year, compared with 16 percent of their counterparts in other CUs.

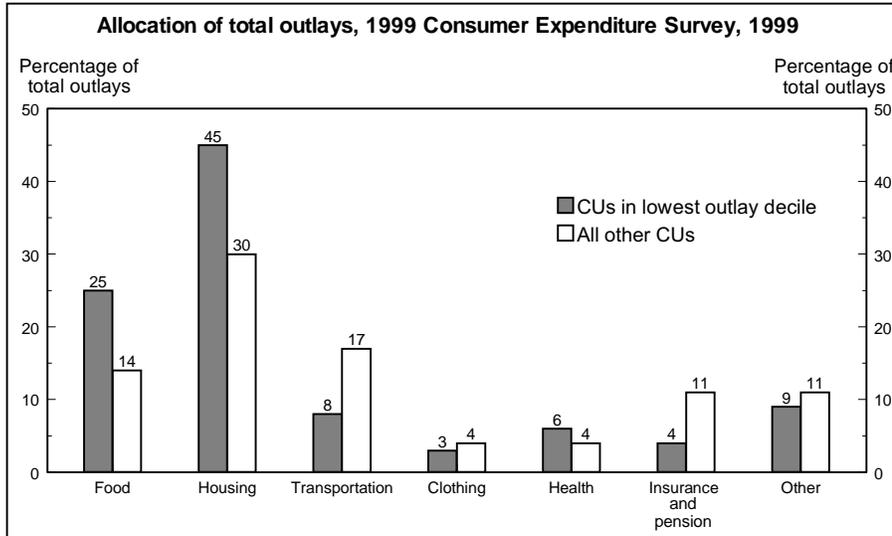
Spending patterns

The reported income before taxes for CUs in the lowest outlay decile averages \$7,202, about one-sixth the average reported for other CUs. For the lowest outlay decile, wages and salaries account for the largest share (46 percent) of income before taxes; Social Security and Railroad Retirement amount to 31 percent; and public assistance in the form of welfare, supplementary security income, and Food Stamps accounts for 16 percent. The distribution is sub-

stantially different for the other CUs, with the proportions being 86 percent, 3 percent, and 1 percent, respectively.

The average total outlays per CU in the lowest outlay decile is \$8,391, about one-fifth the total outlays of other CUs. Housing is the highest outlay category for both groups. (See chart.) Within the housing component, both groups allocate about the same proportion to shelter (71 percent); however, CUs in the lowest outlay decile allocate a larger proportion to utilities, fuel, and public services (25 percent, compared with 16 percent for other CUs). The second largest share of total outlays is food for CUs in the lowest outlay decile (25 percent) but transportation for other CUs (17 percent). While outlays on food and housing represent 70 percent of total outlays for the average CU in the lowest outlay decile, these categories make up 53 percent of total outlays for other CUs. CUs in the lowest decile allocated 5.6 percent of total outlays to health care, while other CUs allocated 4.2 percent. CUs in the lowest outlay decile allocated 4 percent to personal insurance and pensions, compared with 11 percent for other CUs.

For further information on the data presented here, contact Lucilla Tan at (202) 691-6900. For general information about the CE survey, send email to cexinfo@bls.gov. To find Consumer Expenditure Survey data on the Internet, access <http://stats.bls.gov/csxhome.htm>, the BLS Consumer Expenditure Survey homepage. Material in this publication is in the public domain and, with appropriate credit, may be reproduced without permission. This information is available to sensory impaired individuals upon request. Voice phone: (202) 691-5200; Federal Relay Service: 1-800-877-8339.



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