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HOW RICH AND POOR SPEND (AND EARN) THEIR MONEY

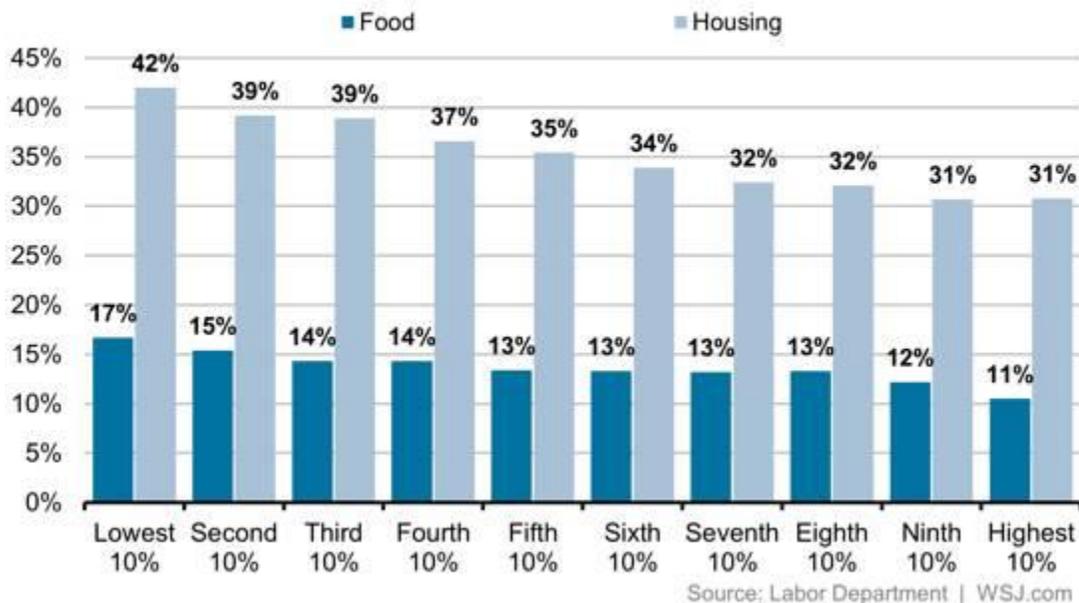
By Josh Zumbrun
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For many Americans, the rise in food and housing prices is a tough squeeze. That's because – even in an era with low overall inflation – low-income Americans spend a disproportionate share of their money on food and housing.

New data from the Labor Department show the extent of the discrepancy. The bottom 10% of Americans, by income, devote 42% of their spending to housing and an additional 17% to food – nearly 60% of their total spending, according to the Consumer Expenditures Survey. By contrast, the wealthiest 10% of Americans dedicate only 31% of their spending to housing and 11% to food – closer to 40% of total spending.

Bare Essentials

Share of expenditures on food and housing for different income groups

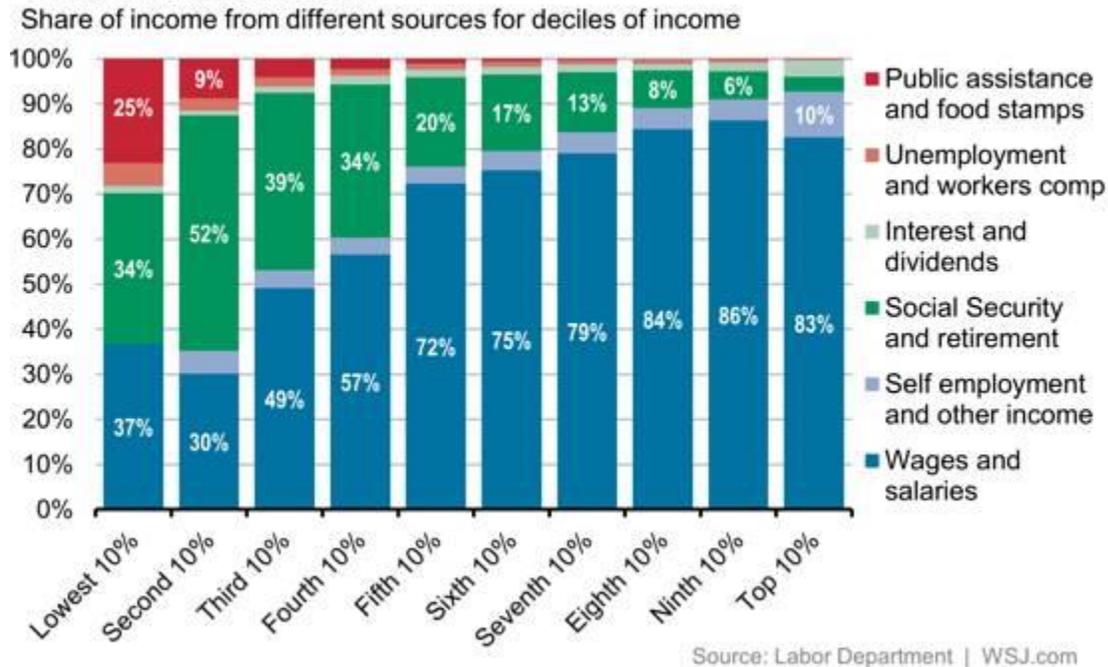


This underscores one reason that inflation feels different household to household: People spend their money in such different ways. A parent with children in college or daycare might scoff at the notion that inflation has been low for the last five years. Conversely, someone with no car payment and no mortgage but who does a lot of driving may be feeling flush from the plunge in gas prices.

This year, the expenditure survey added new data breaking down Americans into tenths. Approximately 12.5 million consumer units are in each tenth. In the bottom three brackets are individuals earning around \$20,000 a year or less, and spending more than they bring in.

The survey breaks out their sources of income. The poorest 10% receive more public assistance than any other group. The second 10% receive more than half their income from Social Security and retirement programs. The third and fourth 10% also receive large shares of their income from retirement programs, suggesting that retirees make up a large share of the lower-middle part of the income distribution.

Sources of Income



The top half of Americans receive at least three-quarters of their income from wages and salaries. (The complete definition of the income sources is available here. The chart above combines “regular contributions for support” with “public assistance, supplemental security income and food stamps.”)

The sixth through ninth decile in this survey earn between \$51,000 and \$112,000 a year. The top 10% earn an average of \$220,000. Even among this group, the vast majority of annual income comes from wages, although they also receive 10% of their income from other sources, primarily self-employment.

As consumers become wealthier, their spending patterns change, sometimes dramatically.

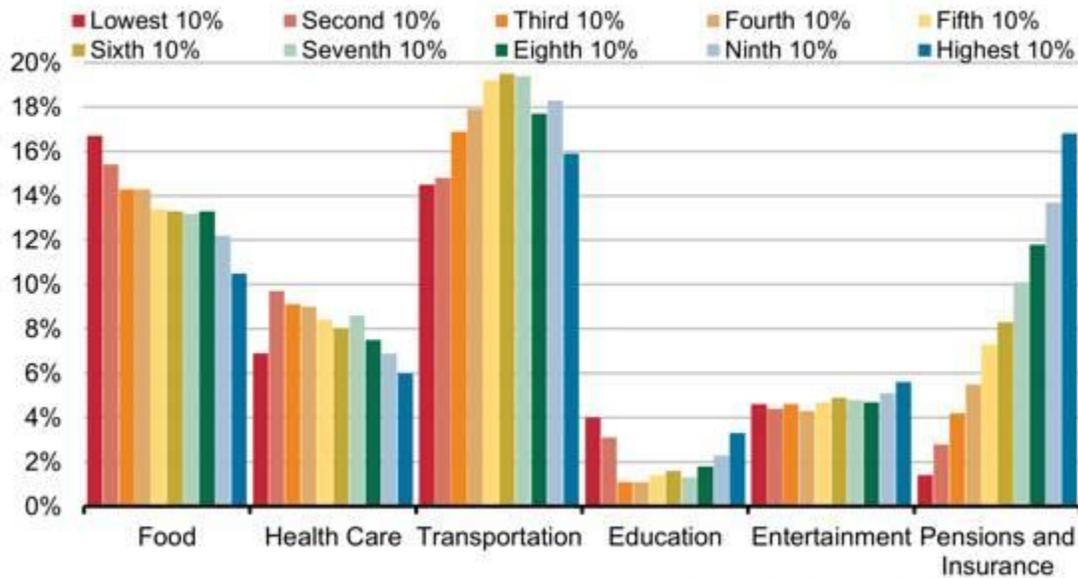
Higher-earning consumers spend less on housing, food and health care. (They spend more total dollars in these categories, but because of their higher incomes, such purchases are a smaller share of their expenditures.) Transportation, however, takes up a bigger share of expenditures for those in the middle, and less for the lowest-earning households. This group in the middle is the biggest beneficiary of falling gas prices. Education follows a U-shaped pattern, taking up the largest share of expenditures for those at the bottom and top of the distribution.

As families become richer, they spend a little bit more on entertainment, but significantly more on financial products such as insurance, annuities and retirement programs. The

bottom 10% contribute 1.4% of their funds to these sources, or about \$300. The top 10% allocate 17% to these sources, or a bit over \$20,000 a year.

Consumer Expenditures

Share of spending on major categories by income group



Source: Labor Department | WSJ.com

The Consumer Expenditures Survey is not perfect. Economists worry about how accurately people keep track of their expenses and they worry about people not responding to the survey. But it still provides one of the most detailed windows available into the spending habits of different Americans. The survey is a reminder that even when inflation is low, price increases in housing and food are much harder on some families than others.