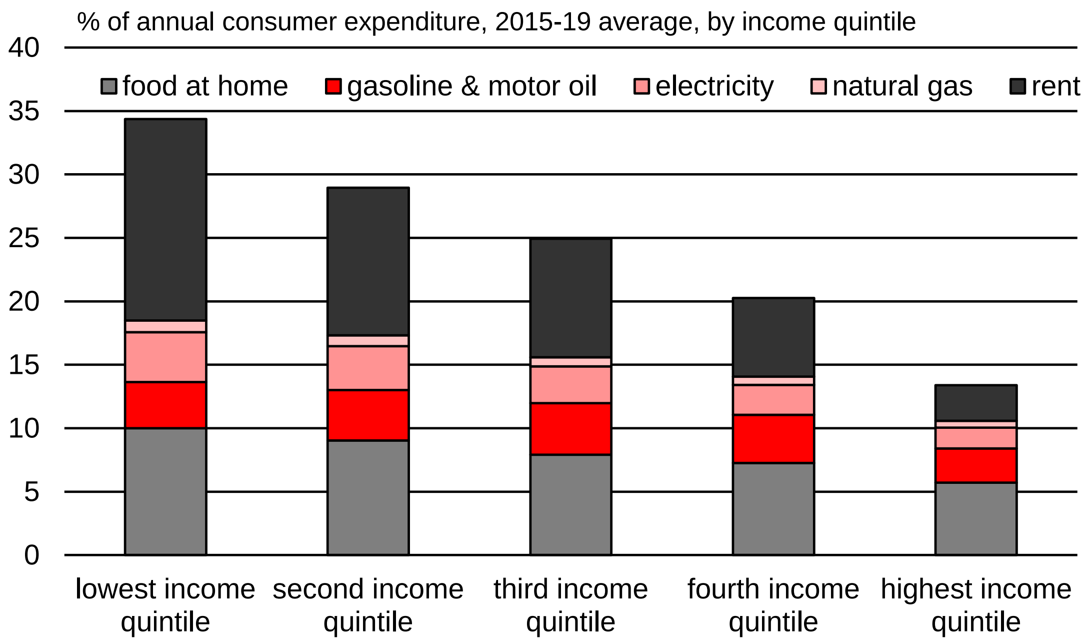
US: Surging inflation hurts those who can least afford it



Source: BLS Consumer Expenditure Survey, UniCredit Research

- The necessities in life – energy, food and rent – are costing a lot more. The February US CPI report showed that these items have seen some of the largest price rises over the last 12 months, with gasoline prices up 38%, household energy prices up 13%, food at home prices up 9%, and rent up more than 4%. On top of this, the Russia-Ukraine conflict has substantially pushed up wholesale energy and food prices, meaning further large price rises are in the pipeline.
- Our *Chart of the Week* shows that the lowest income quintile spends a much larger share of their total spending on food, energy and rent. Taken together, these items account for more than one-third of total expenditure for the lowest income quintile, but less than 15% for the top income quintile. This means that the CPI inflation rate for those in the lowest income quintile is significantly higher than the headline 7.9% yoy rate, which is for the CPI basket of the average consumer.
- Lower income groups also have little or no savings to cushion the impact of the squeeze in real disposable income coming from higher inflation and a reduction in government transfers. The good news is that average hourly earnings for production and non-supervisory workers are growing faster in below-average wage sectors, such as in hospitality and leisure (14% yoy) and retail trade (8% yoy), than for the whole economy (5.1% yoy). But this will only mitigate the squeeze in real disposable income for the lowest income group.
- The variation in inflation rates across income groups has important macroeconomic implications. First, the marginal propensity to consume is higher for those on lower incomes, simply because they are at or close to their budget constraints. One implication is that fiscal support to ease the rising cost of living should be targeted at the lowest income groups, not only for reasons of fairness but also for economic reasons. Second, the Fed’s maximum employment goal is a “broad-based and inclusive” goal, which views disparities between groups, including income groups, as something to be reduced. In the same light, the Fed’s recent hawkish pivot could be seen as a response to high inflation disproportionately falling on the shoulders of those Americans who can least afford it.

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