

Recession-Related Research: Recounting Recent Results from the Consumer Expenditure Survey

Bill Passero, Bureau of Labor Statistics (BLS)¹

Ann C. Foster, BLS²

Laura Paszkiewicz, BLS³

Geoffrey Paulin, BLS⁴

Note: The following pages describe works in progress by members of staff of the Bureau of Labor Statistics Division of Consumer Expenditure Surveys. The views expressed in these works do not necessarily represent the views of the Bureau of Labor Statistics or the United States.

According to the National Bureau of Economic Research, the U.S. entered a recession in December 2007, in which it remained through 2008.⁵ Media coverage during this period suggests that in large part, the economic crisis was caused by an overextension of credit in housing markets, which led to the collapse or near-collapse of many large financial firms in September 2008. At the same time, gasoline prices rose dramatically in 2008, peaking at \$4.14 per gallon in July.⁶ This was an increase of more than 37 percent over the price in July 2007⁷—comparable to those experienced in the oil shocks in the mid- and late 1970's, when oil prices rose more than 35 percent each year.⁸ As unemployment started to rise, many consumers who lost jobs also lost health insurance coverage that was provided in part or in whole by their employers. To countermand these problems, aggressive action was taken on the part of the Federal government, including passage of legislation allowing economic stimulus payments to be mailed to tax filers in 2008, and serious consideration of major health care reform in 2009.

In each of these aspects of recent economic history, the consumer was directly affected. In each presentation in this session, how the consumer was affected is assessed. For example, one presentation compares results from two major U.S. government sources of consumer expenditure data to find out how, if at all, their measures of level of, and change in, total consumer spending differ during this critical time. Another presentation examines health care spending patterns by age group in the last 10 years to see in part how they have changed given the current economic situation. A third presentation examines expenditures of families who were at least somewhat “housing constrained”—i.e., basic housing expenditures accounted for more than 30 percent of their total incomes—both to see how their expenditures differ from non-constrained consumers, and whether their numbers have increased in recent times. A fourth presentation examines consumers who received the economic stimulus payments in 2008, and describes their characteristics, as well as investigating which types of consumers were most likely to use the payments for spending, saving, or paying off debt.

Each of these presentations uses data from the Consumer Expenditure Interview Survey, which is the most detailed source of consumer expenditures, income, and demographics collected from households by the Federal government. The session will commence with a brief introduction to these data, as well as a short overview of changes in major expenditures from 2007 (when the business cycle peaked) to 2008.

About the data: The Interview Survey is collected in five consecutive quarterly visits to households. Each eligible household contains at least one consumer unit (similar to a family), from which a respondent is selected. In each case, respondents are asked to recall expenditures made by their consumer unit for a variety of goods and services over the last three months. In addition, the Diary Survey collects information from participants for two consecutive weeks. On each day of the collection period, respondents document expenditures for the consumer unit. The data from both surveys are integrated and published in standard tables, which are available on the Internet. In addition, CD-ROMS containing microdata files from each source are made available for purchase each year. The 2008 Interview Survey microdata files, released in October 2009, include a special file containing information about recipients and their usage of the 2008 economic stimulus payments.

Comparison of Estimates from the U.S. Consumer Expenditure Survey with New 2002 Benchmark Personal Consumption Expenditures from the National Income and Product Accounts: Bill Passero

The Federal government publishes information on consumer expenditures from two major sources: the Consumer Expenditure Survey (CE), sponsored by the Bureau of Labor Statistics, and the Personal Consumption Expenditures (PCE) of the National Income and Product Accounts, produced by the Bureau of Economic Analysis (BEA). Each of these sources collects information in different ways (the CE directly from consumers and the PCE from secondary sources, such as the Economic Census and the Annual Trade Survey) and serves different purposes,

as described subsequently. Having accurate measures of consumer spending is crucial at any time, but gains new urgency during times of sharp, sustained economic difficulty. Among the analyses described in this presentation is a comparison of relative measures obtained from these sources. That is, if the sources estimate different levels of aggregate consumer spending in any given time period, is the percent change in expenditures from year to year substantially different across these sources?

Health Care Spending Patterns and Age, 1998, 2003, and 2008: Ann C. Foster (Presenter) and Craig Kreisler

Research has shown that those over 65 have higher out-of-pocket health care expenses than younger individuals. However, it is unclear whether recent increases in health care costs have affected older individuals more than those who are younger. While workers with group coverage have experienced higher premiums and increased cost sharing requirements, increases in Medicare Part B premiums and Medigap premiums have also increased costs for those 65 and over.

Data from the 1998, 2003, and 2008 Consumer Expenditure Interview Surveys will be used to examine out-of-pocket health care spending changes among households by age of the reference person. The study will examine change in total health care spending in dollars as well as a percent of total consumption expenditures. Change in the distribution of health care spending by health care commodities and services will also be examined. Only households making one or more health care expenditures will be included in the sample in order to get a better picture of the health care spending burden, particularly premium increases that may have resulted from recession strapped businesses requiring employees to shoulder a greater proportion of health care coverage costs.

Expenditure Patterns of Housing Constrained Consumers: Laura Paszkiewicz

Housing prices continued to rise through 2005, but then declined beginning in 2006. Over the past 10 years, despite the differing prices in the housing market, the rate of homeownership rose from 64 percent in 1998 to 68 percent in 2004 and then fell to 66 percent in 2008. Over the same time period, different mortgage lending programs became popular for those purchasing houses, including interest-only loans and adjustable rate mortgages, allowing people with lower incomes and less money available for a down payment to buy homes. With the higher housing prices, and the introduction into the market of homeowners with lower incomes, the number of owners allocating a larger share of their income to housing increased over the time period. This paper divides homeowners into three groups based on the portion of income spent on housing costs. Homeowners spending more than two-thirds (66 percent) of their income on housing costs (i.e., mortgage principal and interest, and property taxes) are considered to be “highly housing-constrained;” homeowners spending between one-third (33 percent) and two-thirds of their income on housing are considered to be “somewhat housing-constrained;” and homeowners spending less than one-third of their income are considered to be “not housing-constrained.”

First, the changes in the proportions in each of these groups will be analyzed from 2005 to 2008 data. Then, grouping the data together for 2005-2008, a comparison of expenditure shares and average expenditures will be made between the groups that spend a large portion of their income on ownership costs and groups that spend a smaller portion of their income on ownership costs.

How Consumers Used the 2008 Economic Stimulus Payments (Tax Rebates): Geoffrey Paulin

In May 2008, the Internal Revenue Service started mailing Economic Stimulus Payments (also called tax rebates) to qualified income tax filers. Amounts of these payments were based on filing status, income, and number of children under 18. The payments were phased out once certain income levels were reached (\$75,000 for single filers and \$150,000 for married couples filing jointly) at a rate of 5 cents for every dollar of income over the critical amount.

To allow for the study of the effect of these payments on consumers, special questions were included in the Interview Survey from June 2008 through March 2009. These questions collected information on the amount and primary use of these payments: that is, whether the payments were used mostly for spending, saving, or paying off debt. In addition, questions about the form in which the payments were received (check or electronic funds transfer), month of receipt of the payment, and other information were asked.

This research in progress is composed of several parts. In the first section, demographics of families receiving the rebates are analyzed. In the second section, characteristics of the payments themselves, such as amount and number received, are analyzed. In the third section, the main use of the payments (that is, using the tax rebates mostly for spending, saving, or paying off debt) is analyzed. In the final section, logistic regression is used

to predict which consumers were more likely to receive their rebate by check (the most popular method of payment) than by electronic funds transfer (EFT), and also to analyze relationships between demographic characteristics (including income, family size, and amount of payment) and predicted probability of using the payments mostly for spending, saving, or paying off debt.

¹ Senior Economist, Bureau of Labor Statistics, Division of Consumer Expenditure Surveys, 2 Massachusetts Avenue NE #3985, Washington, DC 20212; (202) 691-5126; (202) 691-7006 (fax); Passero.Bill@bls.gov.

² Economist, Bureau of Labor Statistics, Division of Consumer Expenditure Surveys, 2 Massachusetts Avenue NE #3985, Washington, DC 20212; (202) 691-5174; (202) 691-7006 (fax); Foster.Ann@bls.gov. Presentation was coauthored with Craig Kreisler, Economist, Bureau of Labor Statistics, Division of Consumer Expenditure Surveys.

³ Senior Economist, Bureau of Labor Statistics, Division of Consumer Expenditure Surveys, 2 Massachusetts Avenue NE #3985, Washington, DC 20212; (202) 691-5119; (202) 691-7006 (fax); Paszkiewicz.Laura@bls.gov.

⁴ Senior Economist, Bureau of Labor Statistics, Division of Consumer Expenditure Surveys, 2 Massachusetts Avenue NE #3985, Washington, DC 20212; (202) 691-5132; (202) 691-7006 (fax); Paulin.Geoffrey@bls.gov.

⁵ "Determination of the December 2007 Peak in Economic Activity," National Bureau of Economic Research, version of December 11, 2008, <http://wwwdev.nber.org/cycles/dec2008.html> and <http://wwwdev.nber.org/dec2008.pdf>; both visited October 15, 2009.

⁶ Source: Consumer Price Index – Average Price Data, U.S. city average, for gasoline, all types, per gallon/3.785 liters gasoline (all types), available using <http://data.bls.gov/PDQ/outside.jsp?survey=li>, accessed 10/20/2009.

⁷ Ibid.

⁸ Based on the annual percent change in Consumer Price Index for all urban consumers, gasoline (all types), 1974, 1979, and 1980, obtained using <http://data.bls.gov/PDQ/outside.jsp?survey=cu>, accessed 10/20/2009.