

A Macro Perspective on the Consumer Expenditure Survey Redesign

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Redesigning the Consumer Expenditures Surveys Meeting #3

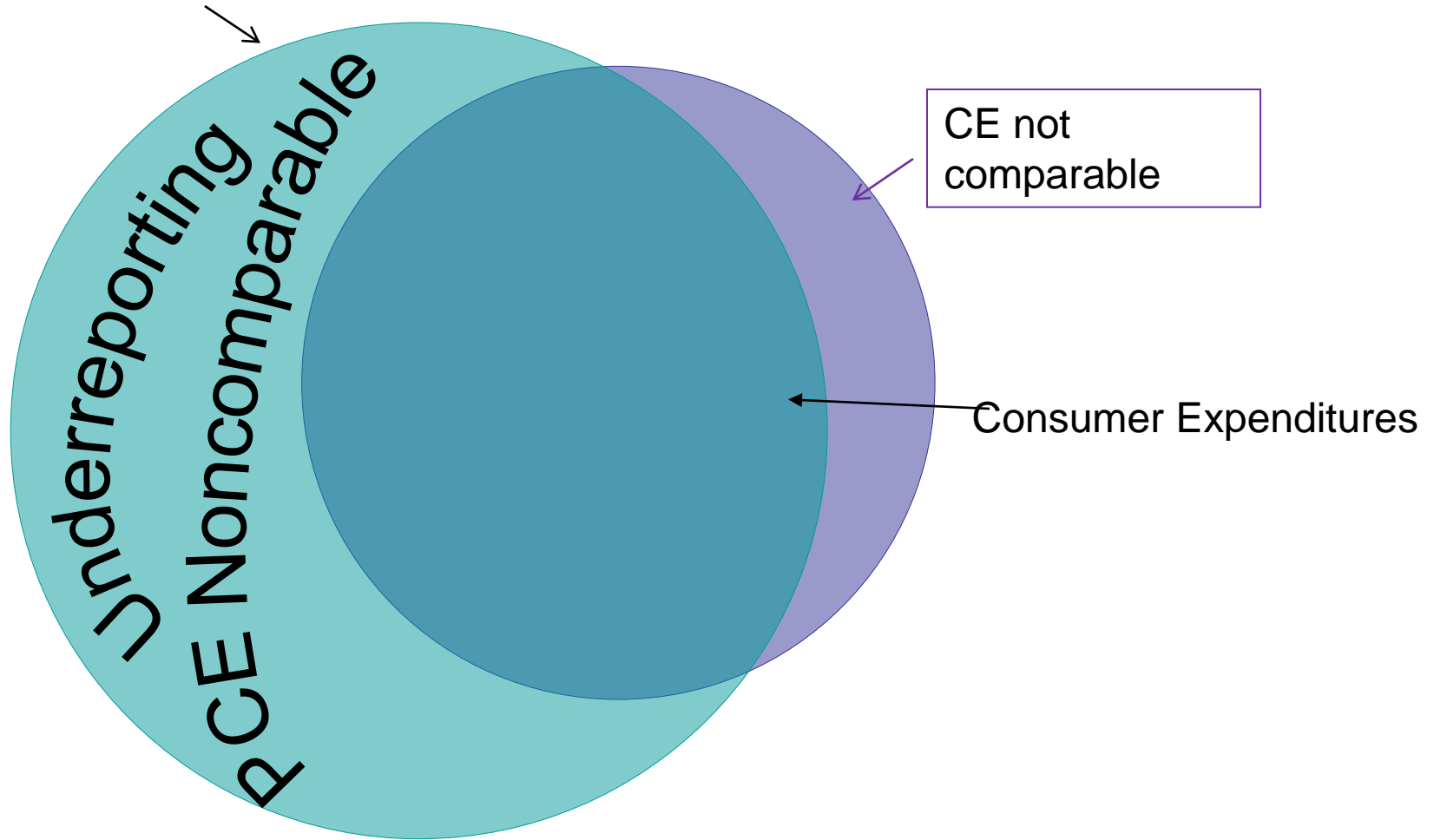
October 26, 2011

Measuring the Nation's Economy.



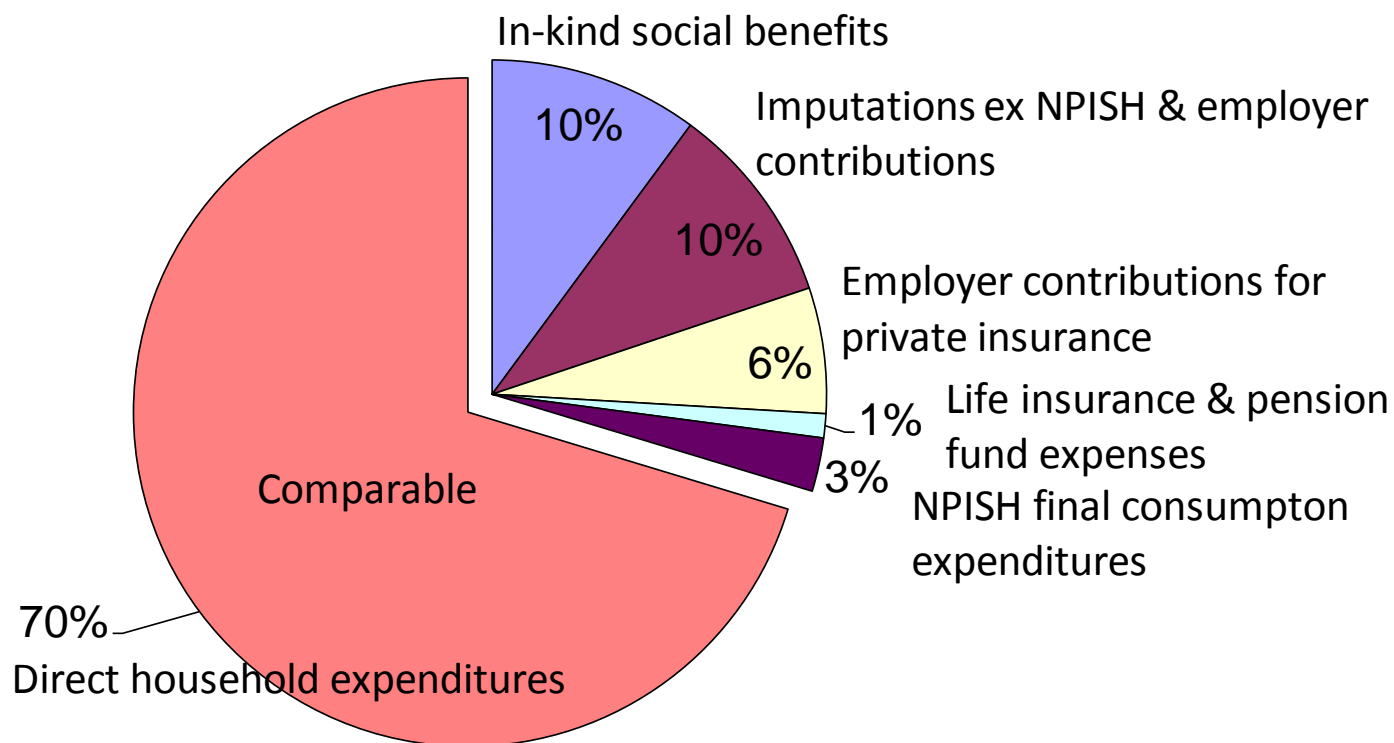
Personal Consumption Expenditures & CE

Personal consumption expenditures



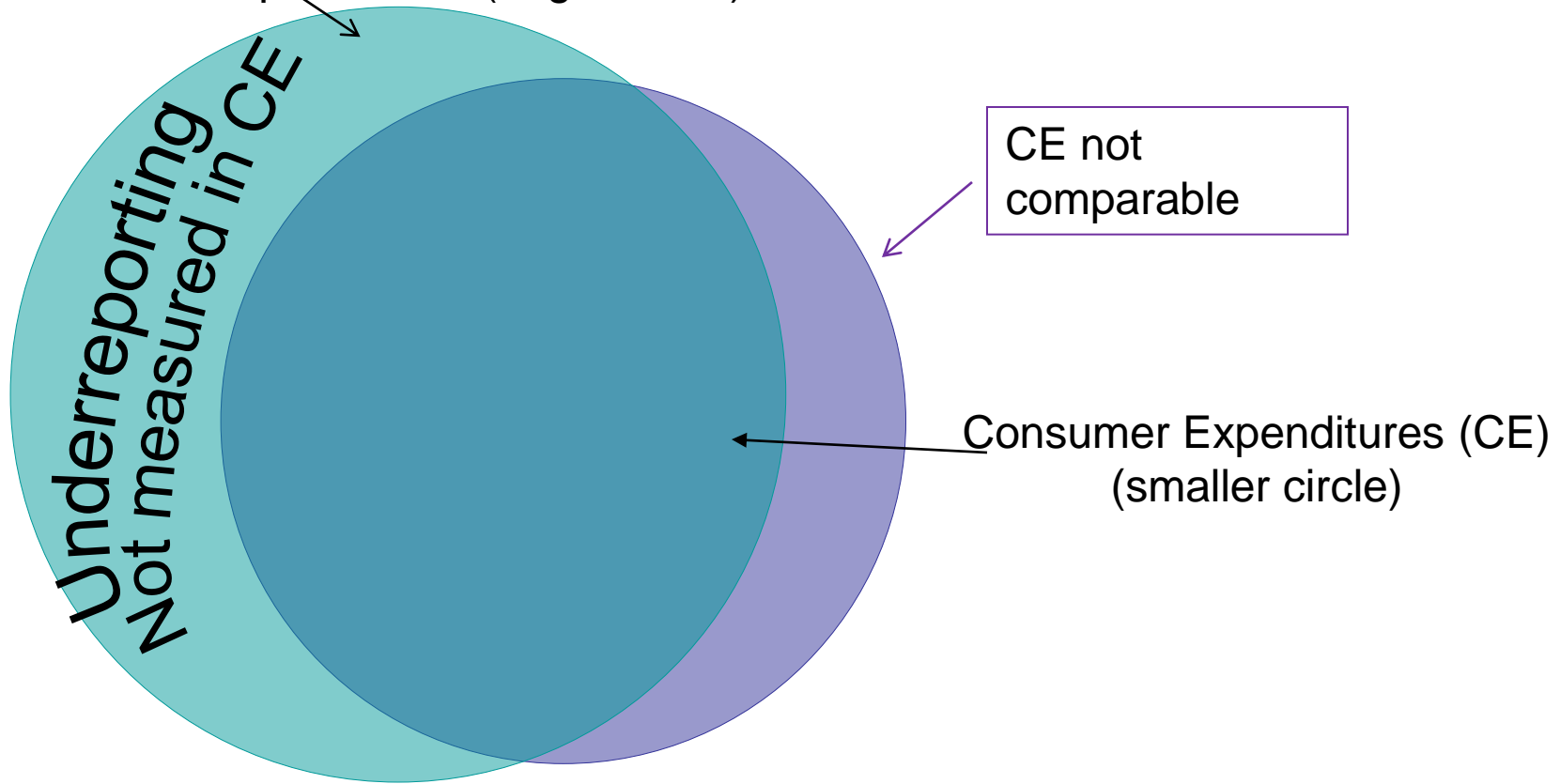
PCE: Taking Out the Noncomparable

**Personal Consumption Expenditures by Sources of Funds
2009**



Direct Household Expenditures & CE

Direct household expenditures (larger circle)



CE not
comparable

Consumer Expenditures (CE)
(smaller circle)

Underreporting
Not measured in CE

What should a CE redesign do?

- From National Economic Accounts point of view
 - Redesign should narrow the differences between PCE & CE
- Two aspects
 - Valuation differences
 - Almost entirely underreporting on CE
 - Definitional/conceptual/coverage differences

Sources of Underreporting

- Recall effects
- “Diary fatigue”
- Deliberate underreporting
 - “Sin” Commodities
 - Alcohol
 - Tobacco
 - Gambling
 - Penalty fees (?)
- Incomplete questions/prompts/examples
- Refusals (?)

Redesign Proposals to Address Underreporting

- Emphasis on the use of records over recall/diary
 - Use of electronic records wherever possible
- Use of incentives to promote participation
- Flexibility
 - Diary/interview as options if respondents do not want to provide records
- Phase-in/testing to see effects

Effect of Redesign Proposals on Underreporting

- Proposals address most of listed sources of underreporting
- Don't address possible effect of refusals
- Size of effect on underreporting remains to be seen—any way to measure effects?
- Effect of incentives
 - Will probably help response rates, but have more of an effect on low end than on high end.
 - Don't have any effect until you've “gotten in the door”

Recommended Use of Records

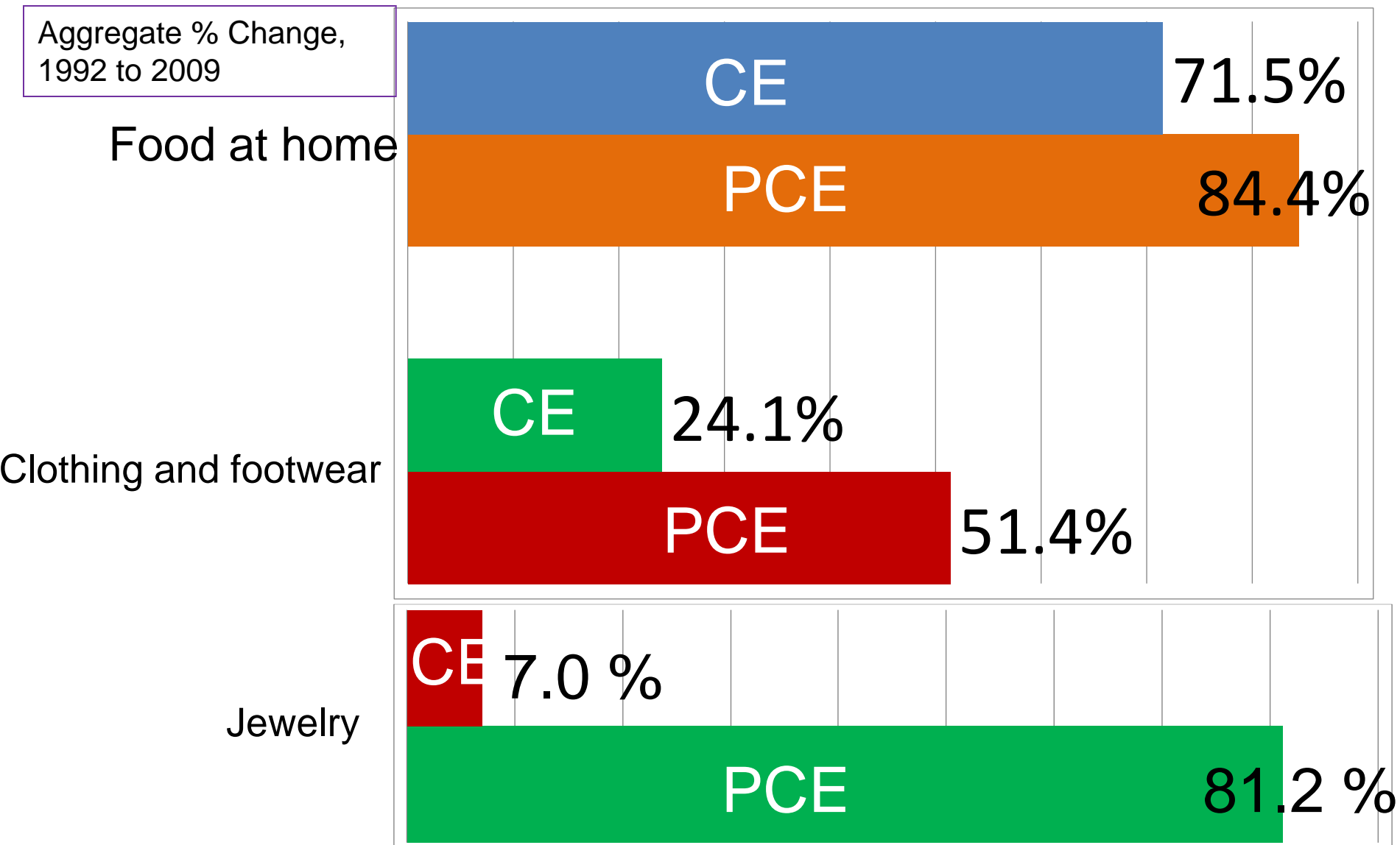
- Receipts, bank statements, credit card statements are among these records
 - Pay stubs would be an additional record which would be very useful
 - Information on deductions for health and life insurance, contributions to flexible spending accounts (child care and medical), pension contributions
 - Flexible spending account reimbursement records would also be helpful

Underreporting Over Time

- Gap for comparable PCE & CE categories has grown over time
- Growth in gap has varied considerably by commodity
- Largest differences are for those with the largest differences in per unit consumption between lowest and highest income quintiles
- Lower differences for those with lower ratios

Underreporting Over Time

Aggregate % Change,
1992 to 2009



Source of Differential Growth?

- Differences in PCE vs. CE growth by commodity
 - Something other than an increase in respondent underreporting may be at work
- Increases in rates of refusal
 - If disproportionately accounted for by higher income and consumption households, would be consistent with observed pattern of differences
 - Income & consumption of refusals not known (only a few geographic & demographic variables are known)
 - Any way to glean income and/or consumption info on refusals?

PCE Benchmarking?

- What if CE were benchmarked to PCE?
 - Would this improve the accuracy of the CE estimates?
 - PCE can be adjusted to remove noncomparable items
 - If PCE at (broad?) commodity level used to benchmark CE values, commodity aggregates would be accurate
 - Implicit assumption is that degree of underreporting same for each consumer unit
 - Would significantly affect CPI weighting
 - Shelter weight would be reduced from 32 % to 20%
 - Weights for most other commodities raised

Direct Household Expenditures and CE

- Direct household consumption expenditures (DHCE)
 - Direct *purchases of goods and services* by households
 - Economic definition of consumption
- Direct household outlays (DHO)
 - Adds interest paid by households & household transfer payments to DHCE
- DHO comparable to most CE components

Adjustments for Noncomparable CE Components

- Exclude the following from CE which are not part of DHO:
 - Pension/IRA contributions:
 - Part of savings (what is *not* spent)
 - Social Security contributions
 - Not purchases of goods/services
 - Subtracted from personal income, akin to taxes
 - Incorporate offsetting entries for alimony & child support outlays
 - Transfers are receipts of other households
 - In consolidated expenditures, have no effect
 - Used motor vehicles: Account for person-to-person purchases with offsetting sales & eliminate in consolidation; account for sales to dealers (subtraction)

Inclusions of DHO Not Captured in CE

- Brokerage charges on transactions in financial assets
- Fees for investment advice & management
- Penalty fees on bank and credit card accounts
- Tuition/room/board/fees financed through loans
- Employer contributions for health & life insurance
 - Possible inclusion if broaden CE concept beyond out-of-pocket expenditures
- *In CE, separately account for*
 - *Consumption expenditures*
 - *Transfers—both intra- and intersectoral*
 - *Interest paid—payment for use of money, not purchases of goods & services*