

# A Macro Perspective on the Consumer Expenditure Survey Redesign

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*Redesigning the Consumer Expenditures Surveys Meeting #3*

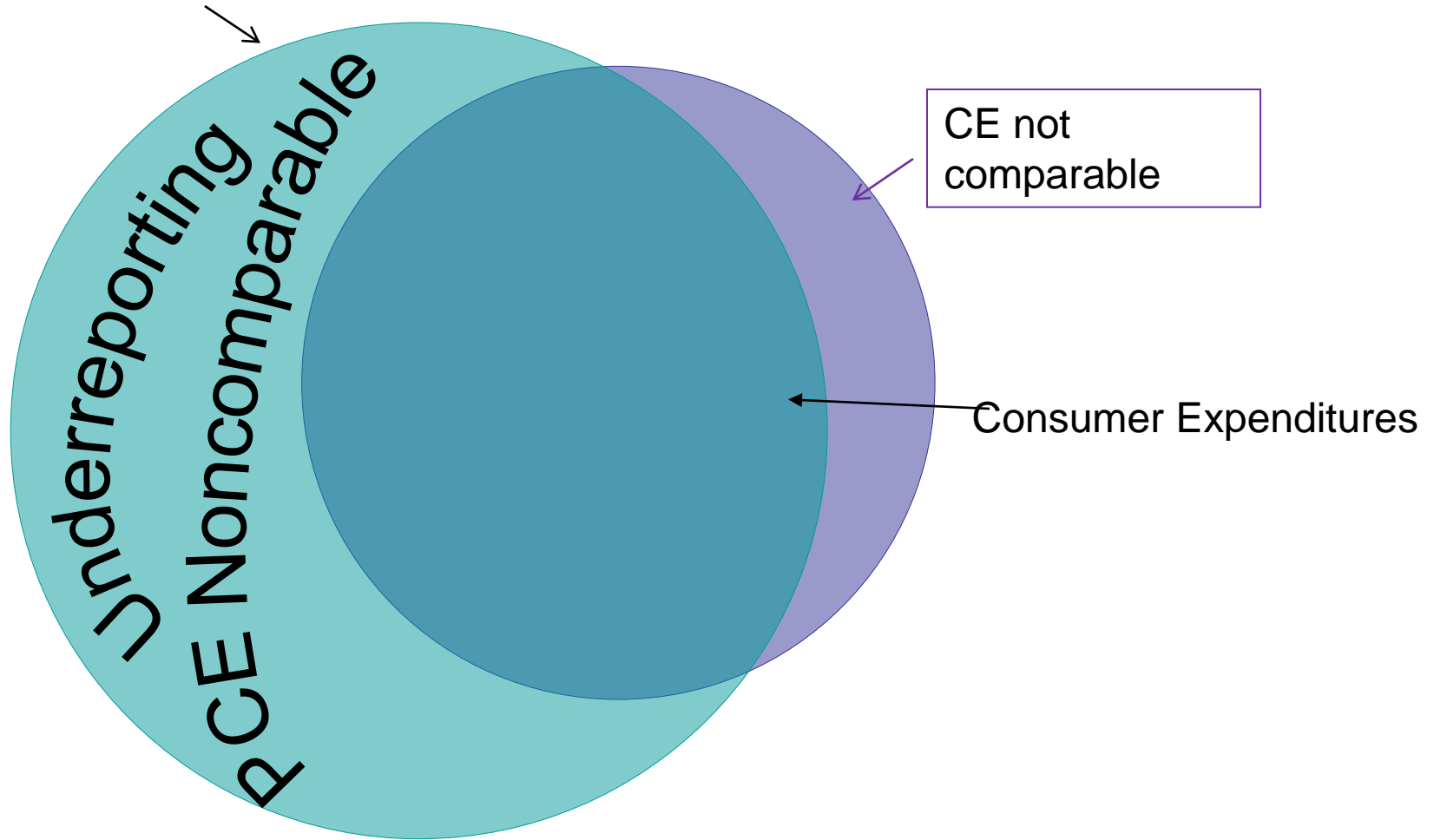
October 26, 2011

*Measuring the Nation's Economy.*



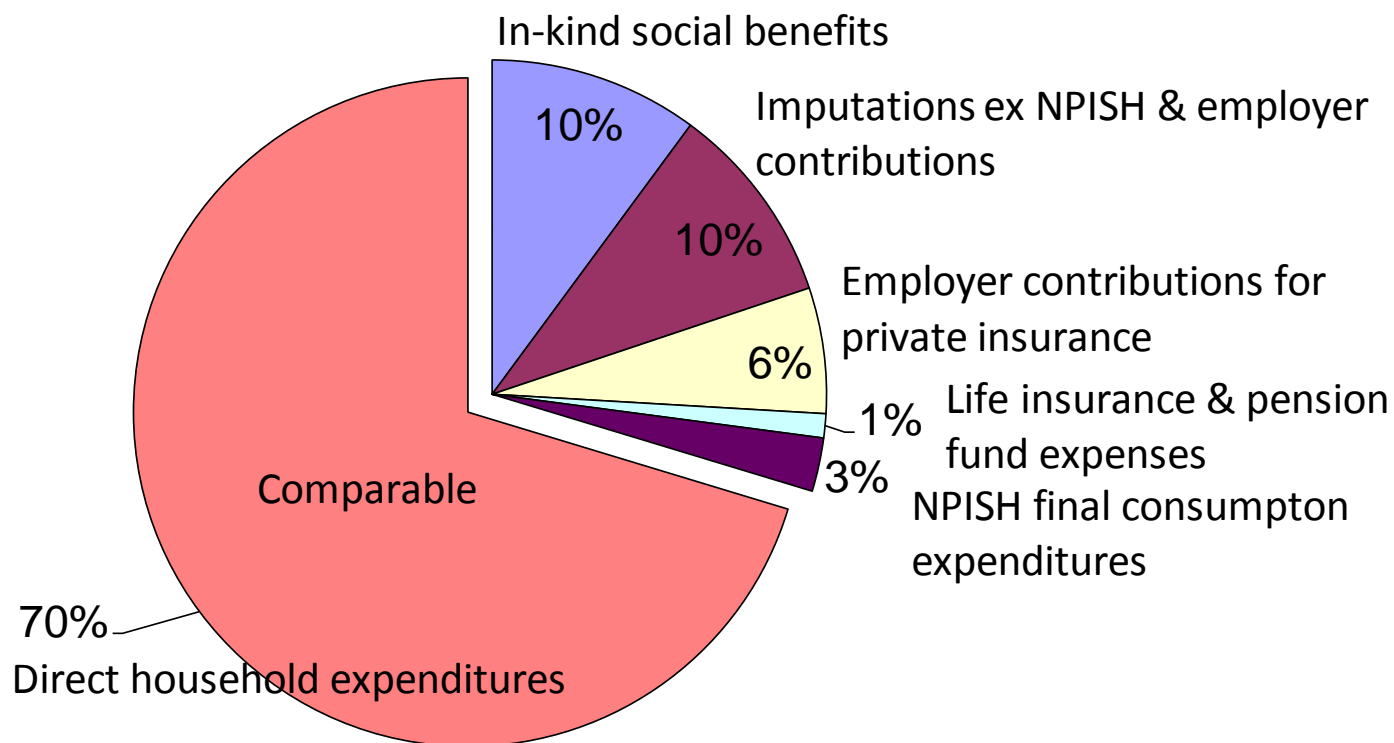
# Personal Consumption Expenditures & CE

Personal consumption expenditures



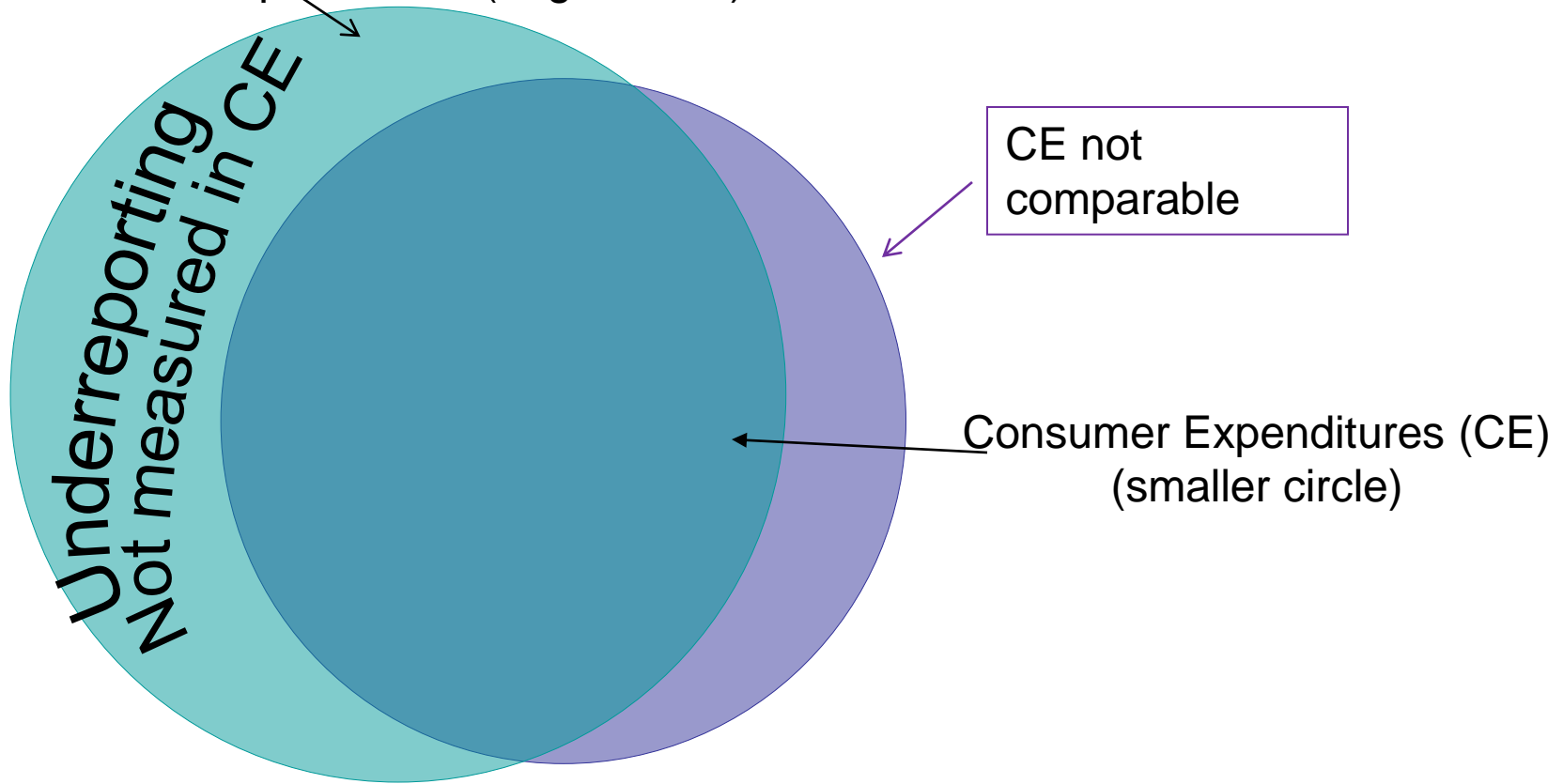
# PCE: Taking Out the Noncomparable

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



# Direct Household Expenditures & CE

Direct household expenditures (larger circle)



Underreporting  
Not measured in CE

CE not  
comparable

Consumer Expenditures (CE)  
(smaller circle)

# 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

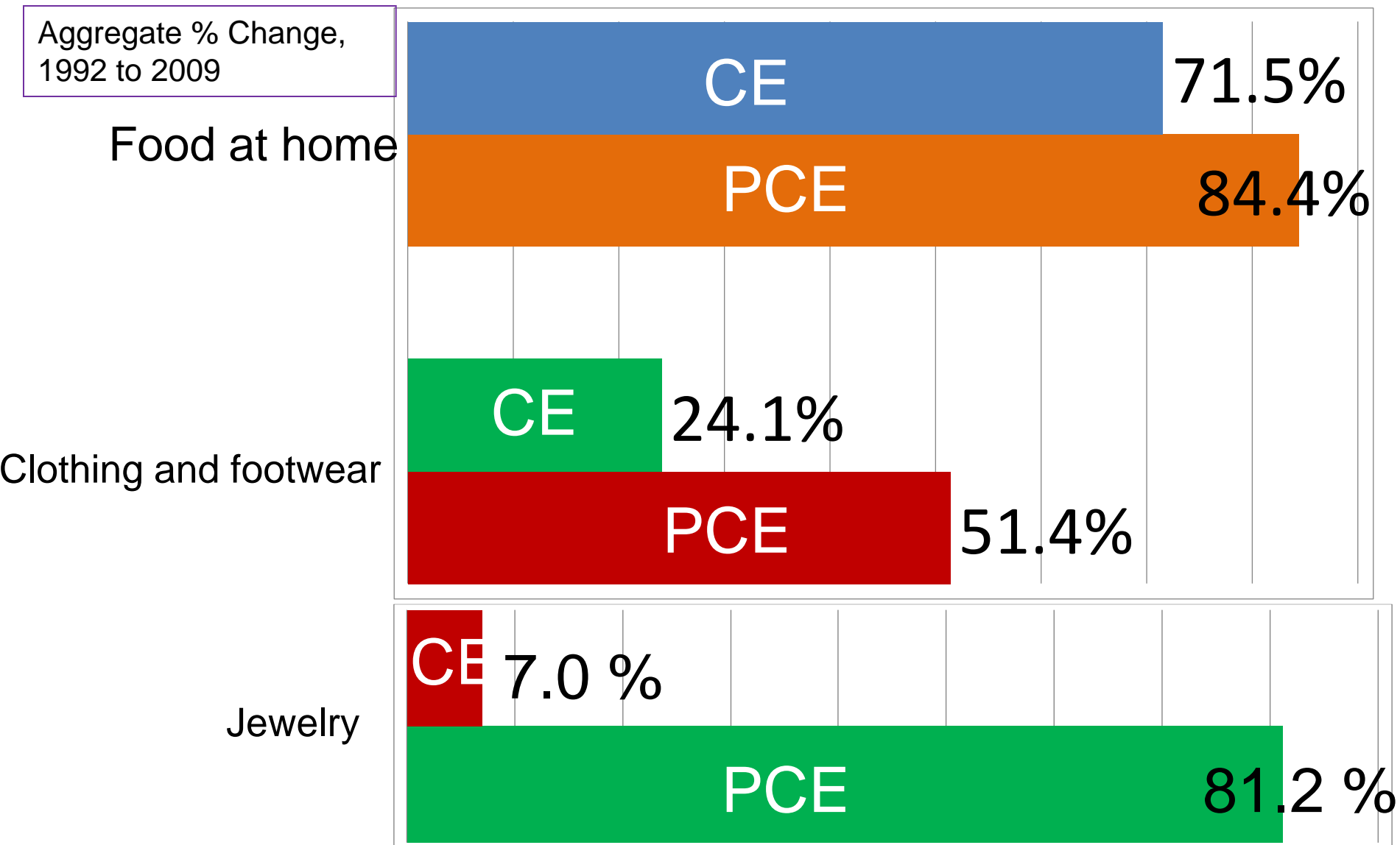
- Receipts, bank statements, credit card statements are among these records
  - Pay stubs would be an additional record which would be very useful
    - Information on deductions for health and life insurance, contributions to flexible spending accounts (child care and medical), pension contributions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