The Distribution of Inflation among Austrian Households

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"Any attempt to strike an average for the amount by which purchasing power has changed for a community as a whole necessarily involves equating the purchasing power of money for one class to its purchasing power for a different class, which cannot be done except by an arbitrary assumption. […] I see no meaning in an assumption to the effect that the purchasing power of money is equal for different classes of the community."

John Maynard Keynes

Starting Point: Inflation and Inflation Measurement

- Defined as an increase in the general price level, implying a loss in the real value of money
- In practice measured as change in observed prices of an average basket corrected for quality
- Major Problems:
  - New goods emerge, others disappear
  - Quality can not be accounted for perfectly
  - Observing all real transactions is hard for many goods (e.g. housing)

Practical approaches to measure heterogeneity of inflation try to identify inflation for certain subgroups of consumers such as senior citizens (Kopp and Schimak 2006; BLS), urban consumers (BLS), urban wage earners and clerical workers (BLS) or subsets of goods such as weekly or daily consumption baskets which include only more regular expenses.

This Paper matches consumer expenditure data (6534 households) with price developments at the COICOP 4-digit level to calculate household-level inflation rates and investigates their joint distribution with other socio-economic household characteristics.

Main Findings (2009-2012)

- Negative relationship between income and inflation
- Negative relationship between education and inflation
- Higher inflation for the elderly, the unemployed and blue-collar workers
- Lower inflation for civil servants and farmers
- Lower inflation for larger households

Conclusions

- In times of diverging prices not only mean inflation but also variance and skewness might be worthwhile to investigate in order to understand representativeness of conventional CPI measures
- Especially in times when interest rates are close to the zero lower bound and real interest rates are therefore negative for a large class of assets, monitoring heterogeneity of diverging asset prices might reveal wealth and income effects which might otherwise be overlooked.
- Using the CPI as a reference for inflation compensation in wage negotiations might be misleading. Even wage increases above the mean inflation rate might produce real income losses for low-income households.
- Analyses of wage and income developments might understate real income divergence by not taking into account diverging inflation patterns for different income levels.