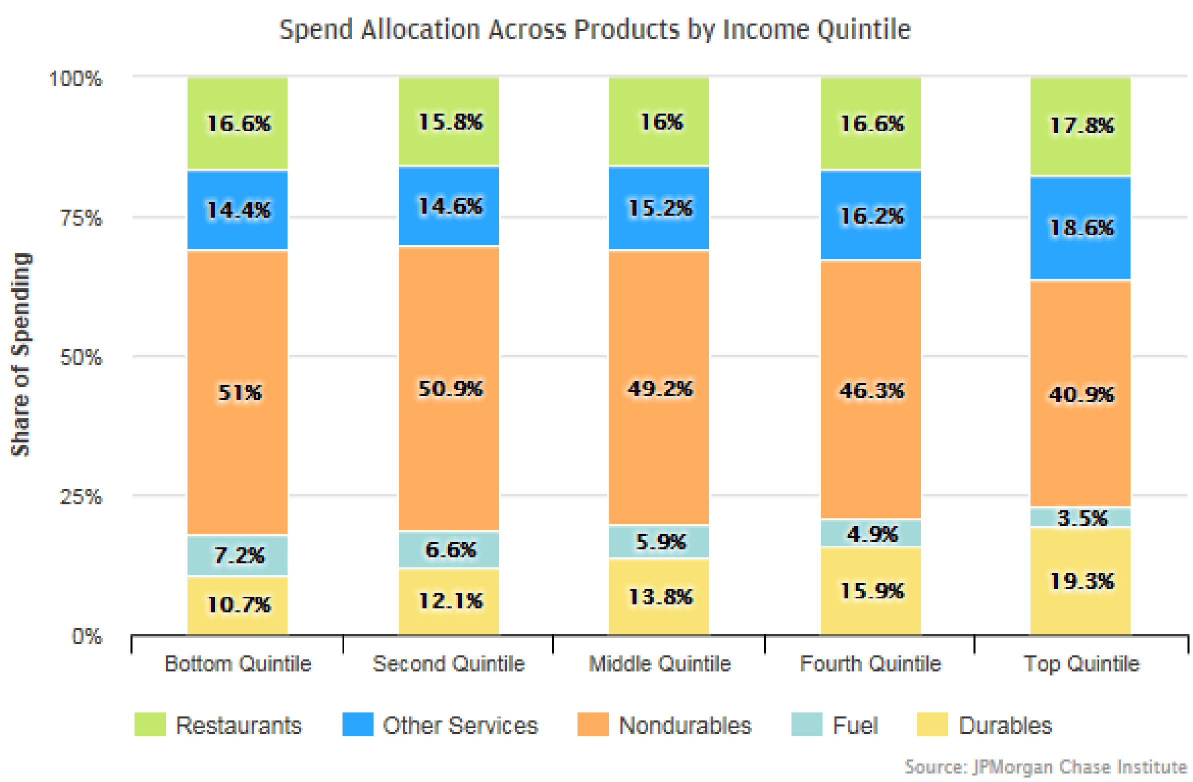
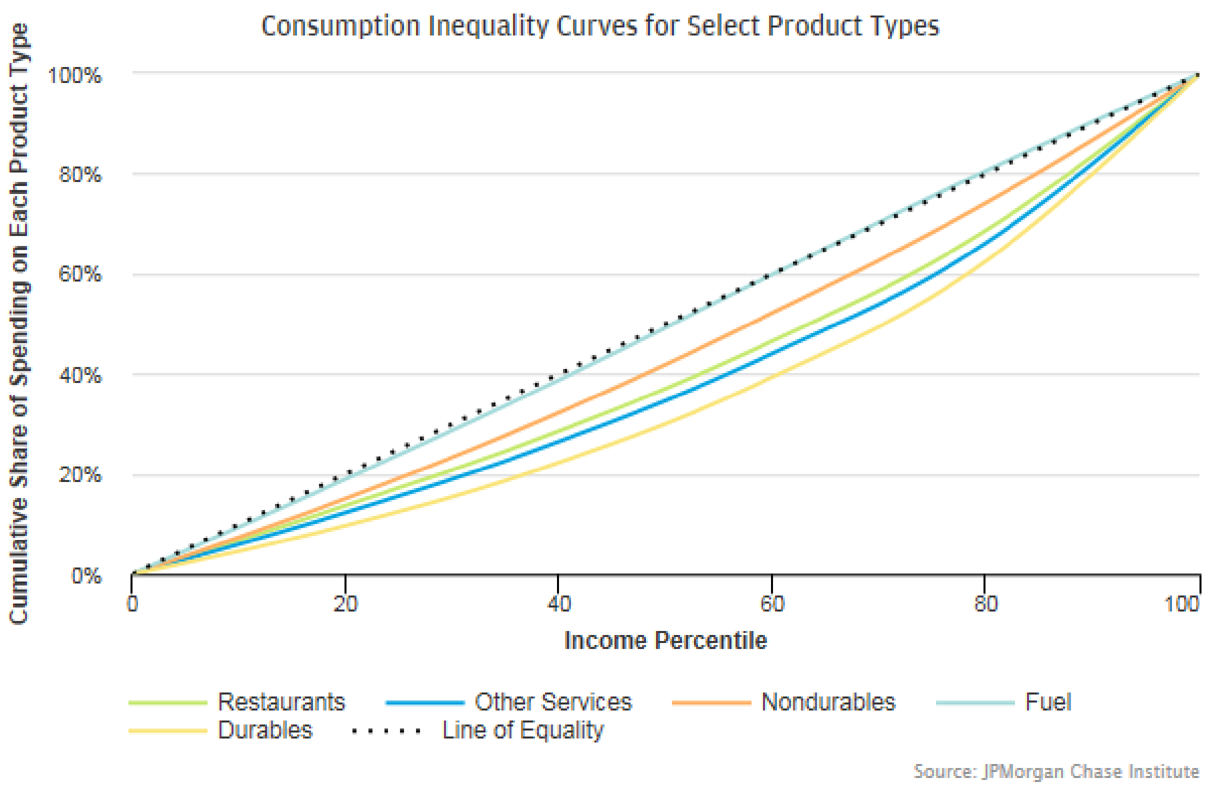
Consumption Inequality: What's in Your Shopping Basket?

How different are the economic lives of high and low income Americans, really? While wealth and income inequality play an important role in shaping economic opportunities, many people experience inequality most directly through the goods and services they purchase. The challenge for economists seeking to measure inequality in consumption has been access to data that provide breakdowns across products, demographic attributes, and geographic location. These data slices allow us to understand the welfare implications for US consumers, because they provide context around their purchasing decisions. In short, detailed consumption data are needed for a more robust understanding of what inequality means for the population. The JPMorgan Chase Institute's unique [Local Consumer Commerce] data comprise over 15 billion anonymized credit and debit card transactions in 15 metropolitan areas, allowing us to examine spending patterns and how they vary by income.



The figure above shows how consumers' allocation of everyday spending across different product categories varies across income groups.[1] Spending at restaurants is very similar across income quintiles, falling in a narrow range of 15.8 percent to 17.8 percent of total spend. All income quintiles spend between 40.9 and 51.0 percent of their income on nondurable goods (e.g., groceries, clothing), which is the largest category of spending for each quintile. There is an 8.6 percentage point spread between the top and bottom quintiles for spending on durables (e.g., televisions, refrigerators, home improvements), which is a considerable difference given that the bottom income quintile allocates just 10.7 percent of their everyday spending to durables.

In general, higher earners are responsible for more spending than lower earners. However, LCC data allow us to not only examine consumption inequality in broad terms, but also to understand how inequality differs across product categories. When looking at spending within each product category, we see that there are considerable differences between which income quintile is driving demand for different types of products. Spending on fuel is relatively equal across income quintiles, for example, while demand for durable goods is concentrated amongst the highest earners. The chart below shows the consumption inequality curves for five different product types.



[1] Note that spending allocation is for Local Consumer Commerce spending, which is a subset of spending on debit and credit cards. For full details of the data construction, see our report Profiles of Local Consumer Commerce.

Fuel spending is notably even across income quintiles, almost perfectly overlaying the line of equality where each income quintile spends the same amount. Nondurables, restaurants, and other services (e.g., beauty salons, veterinarians, movie theaters) are increasingly unequal. Durable goods are the most unequal with bottom income quintile consumers comprising less than 10 percent of all durable purchases and top income quintile consumers consuming over 37 percent. This adds up to a gap of 27.7 percentage points between the top and bottom quintiles, in contrast to the mere 0.4 percentage point gap for fuel (shown in the table below).

Difference Between Spending on Products by the Top and Bottom Income Quintiles

Category	Difference (percentage points)
Fuel	0.4
Nondurables	10.8
Restaurants	17.6
Other Services	21.5
Durables	27.7

Source: JPMorgan Chase Institute

The degree of inequality broadly follows the elasticity of demand for the product. Many consumers must use a fixed quantity of gas to travel to work, and consumers must allocate a share of their budgets to food—either as groceries or restaurants. Discretionary spending is left at the wayside, which contributes to higher inequality in durables, restaurants, and other services.

The disparities in consumption inequality promote a more nuanced view of economic inequality. Inequality is most concerning when it limits the consumption of basic needs. Future analysis from the JPMorgan Chase Institute will further elucidate the nature of consumption inequality among American consumers.

The JPMorgan Chase Institute is committed to delivering data-rich analyses and expert insights for the public good. Our regularly updated [Local Consumer Commerce Index] measures the monthly year-over-year growth rate of everyday debit and credit card spending by over 50 million anonymized Chase customers across 15 cities in the U.S.