

Inflation by Income:

Differential Spending Patterns and Low-income Disadvantage

Research Brief Prepared by the Canadian Poverty Institute. January 2023



Introduction

Recent increases in the rate of inflation have caused concern about the financial resilience of Canadian households. Of particular concern are significant increases in the cost of basic necessities such as food, shelter and transportation. The impact of price increases in these goods and services, however, will affect households differently depending on the share of the household budget allocated to those items. This report examines the impact of inflation on different income groups based on their differential household spending patterns.

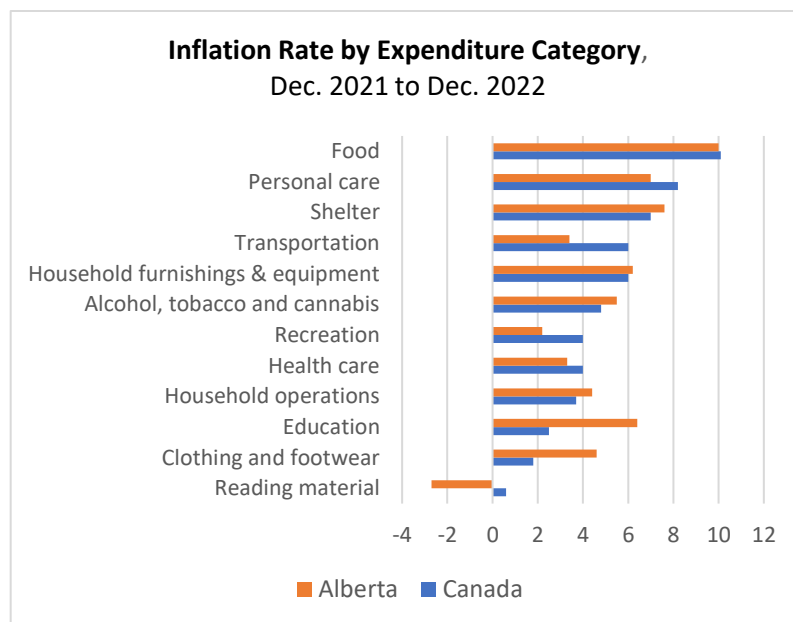
Method

This report analyzes the spending patterns of Canadian households broken down into income quintiles. Using the Survey of Household Spending, average expenditures for each of the main expenditure categories of the Consumer Price Index for the year 2019 (the most recent available) were established. The seasonally adjusted rate of inflation for each expenditure category for the December 2021 to December 2022 period was then applied to the expenditures for each category to produce an estimated present average cost for each category. The total adjusted costs were then summed to produce an estimated total present household expenditure for each income quintile. The percentage difference between the original and adjusted total household expenditure was taken to represent an estimated rate of inflation for each quintile.

Results

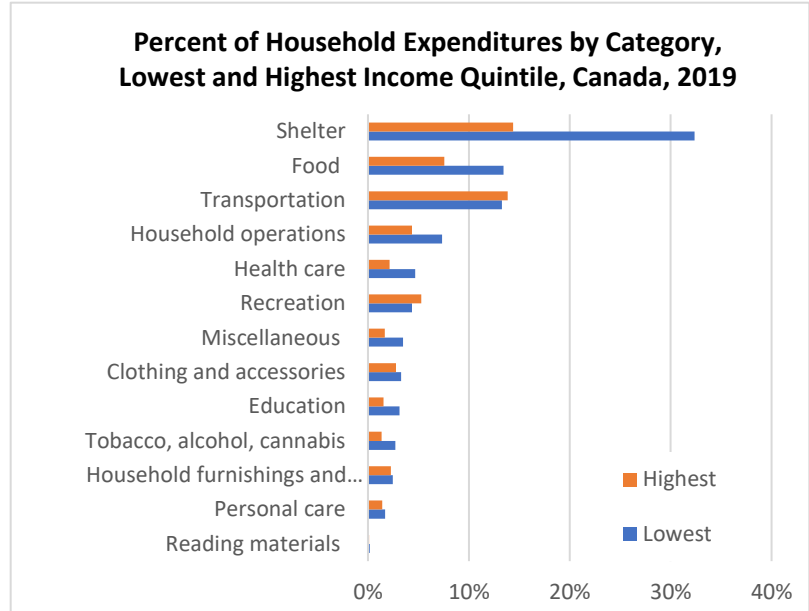
The overall rate of inflation is an average of shifts in the cost of an array of goods and services. Steep increases in one category may be offset by more modest increases in other categories.

Recent changes in the Consumer Price Index have been driven by sharp increases in the cost of food, transportation, household furnishings, and shelter. These have been offset by lower increases in the cost of other items such as recreation, health care and clothing (See Table 1).

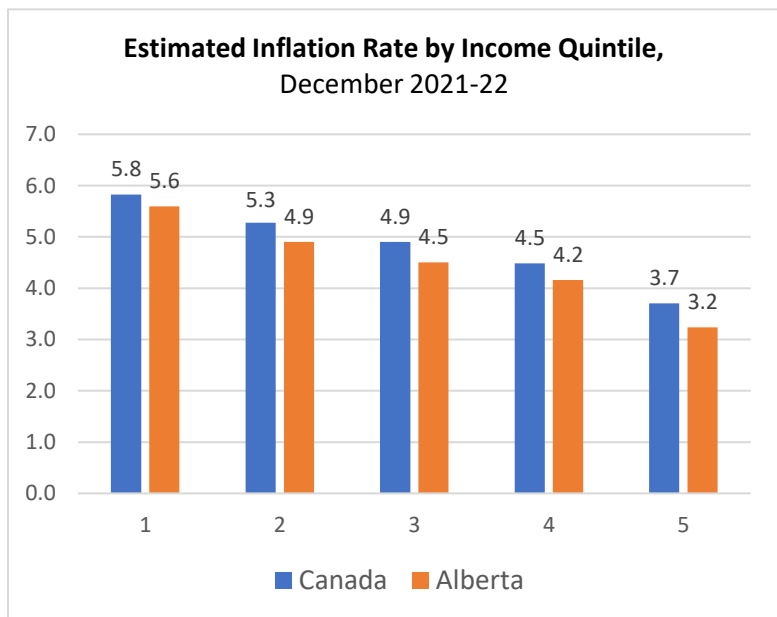


Different households allocate different proportions of their income to these broad expenditure categories. As a result, steep price increases in particular categories will have a greater impact on households who devote a greater share of their income to those items. In general, lower-income households allocate a greater share of their income to expenditure categories that have seen the sharpest increase in price.

Of particular note is the differential impact of the cost of food on households in the lowest income quintile compared to those in the highest income quintile. Whereas, nationally, food expenditures accounted for 14.8% of the income of households in the lowest quintile, it accounted for just 8.4% of expenditures among households in the highest income quintile. Food was also the expenditure category that had the sharpest price increase. Similarly, shelter costs, the expenditure category with the third highest rate of increase, accounted for roughly one-third of household expenditures among the lowest income quintile, but only 17.8% of the incomes of households in the highest income quintile.



As a result of these differences in expenditure patterns, lower-income households experience a higher overall rate of inflation relative to higher income households. Nationally, applying the current rates of inflation to the 2019 average expenditures for each category resulted in an overall increase in total expenditures of 5.8% among the lowest income households, compared to a rate of only 3.7% among the highest income households (See Table 4). A similar gradient was observed in Alberta (See Table 5).



Discussion

Differential rates of inflation that disproportionately impact lower income households have important socio-economic and policy implications. First, a higher rate of inflation for lower-income households reduces the already constrained ability of those households to save or

acquire assets relative to higher income households. This will in turn exacerbate the trend to growing inequality. Further, due to the socio-demographic profile of lower income households, growing social inequality will accompany increasing economic inequality. As lower-income households are more likely to be made up of racialized or indigenous persons, recent immigrants, female headed single parent families, youth and persons with disabilities, these population groups will disproportionately experience the challenges of inflation.

From a policy perspective, the fact that inflation disproportionately impacts lower-income households, policies aimed at curbing inflation will provide greatest benefit to the lowest income households. However, to be most effective, such policies should not aim at reducing inflation in general, but be targeted at curbing inflation of high inflation expenditure categories that comprise the greatest share of low-income household expenditures (i.e. food and shelter). Finally, it is important to consider differential inflation rates when indexing benefits to the inflation rate. Pegging benefit increases to the overall rate of inflation underestimates the inflationary impact on low-income households and will lead to continued erosion in the value of benefits despite indexing. Rather, benefits should be indexed to the actual rate of inflation experienced by lower-income households.

Report Prepared by

The Canadian Poverty Institute
Ambrose University
150 Ambrose Circle SW
Calgary, Alberta
T3H 0L5

www.povertyinstitute.ca

povertyinstitute@ambrose.edu



Table 1: Rate of Inflation (seasonally adjusted) by Expenditure Category, December 2021 to December 2022

| | Canada | Alberta |
|---|--------|---------|
| Food | 10.1 | 10.0 |
| Shelter | 7.0 | 7.6 |
| Household operations | 3.7 | 4.4 |
| Household furnishings and equipment | 6.0 | 6.2 |
| Clothing and footwear | 1.8 | 4.6 |
| Transportation | 6.0 | 3.4 |
| Health care | 4.0 | 3.3 |
| Personal care | 8.2 | 7.0 |
| Recreation | 4.0 | 2.2 |
| Education | 2.5 | 6.4 |
| Reading material (excluding textbooks) | 0.6 | -2.7 |
| Alcoholic beverages, tobacco products and recreational cannabis | 4.8 | 5.5 |
| Statistics Canada. Table 18-10-0004-02 Consumer Price Index by geography, all-items, monthly, percentage change, not seasonally adjusted, Canada, provinces | | |

Table 2: Share of Total Household Expenditure by Expenditure Category (Current Consumption), Canada, 2019

| | Income Quintile | | | | |
|--|-----------------|--------|-------|--------|---------|
| | Lowest | Second | Third | Fourth | Highest |
| Food expenditures | 14.8% | 14.0% | 12.4% | 11.5% | 8.4% |
| Shelter | 32.2% | 26.1% | 23.3% | 20.7% | 17.8% |
| Household operations | 7.2% | 6.9% | 6.3% | 5.9% | 5.0% |
| Household furnishings and equipment | 2.8% | 2.9% | 3.0% | 2.8% | 2.3% |
| Clothing and accessories | 4.1% | 4.2% | 3.8% | 3.8% | 3.0% |
| Transportation | 14.1% | 14.3% | 15.6% | 14.2% | 12.1% |
| Health care | 4.2% | 4.3% | 3.4% | 2.8% | 2.2% |
| Personal care | 1.9% | 1.6% | 1.6% | 1.6% | 1.2% |
| Recreation | 4.1% | 4.8% | 4.8% | 4.9% | 5.2% |
| Education | 3.3% | 2.0% | 1.4% | 1.5% | 1.8% |
| Reading materials and other printed matter | 0.4% | 0.2% | 0.2% | 0.2% | 0.1% |
| Tobacco products, alcoholic beverages and cannabis for non-medical use | 3.0% | 2.7% | 2.2% | 1.9% | 1.3% |
| Statistics Canada. Table 11-10-0223-01. Household spending by household income quintile, Canada, regions and provinces | | | | | |

Table 3: Share of Total Household Expenditure by Expenditure Category (Current Consumption), Alberta, 2019

| | Income Quintile | | | | |
|--|-----------------|--------|-------|--------|---------|
| | Lowest | Second | Third | Fourth | Highest |
| Food expenditures | 13.4% | 12.3% | 12.1% | 10.4% | 7.6% |
| Shelter | 32.4% | 25.1% | 22.6% | 20.9% | 14.4% |
| Household operations | 7.3% | 7.3% | 6.3% | 6.5% | 4.4% |
| Household furnishings and equipment | 2.5% | 2.6% | 2.3% | 2.1% | 2.3% |
| Clothing and accessories | 3.3% | 4.2% | 3.8% | 2.9% | 2.8% |
| Transportation | 13.3% | 14.2% | 14.8% | 13.4% | 13.8% |
| Health care | 4.7% | 3.7% | 2.9% | 2.7% | 2.1% |
| Personal care | 1.7% | 1.7% | 1.3% | 1.4% | 1.4% |
| Recreation | 4.4% | 5.8% | 5.6% | 6.4% | 5.3% |
| Education | 3.1% | 1.4% | 1.0% | 1.4% | 1.5% |
| Reading materials and other printed matter | NA | NA | 0.2% | 0.2% | 0.1% |
| Tobacco products, alcoholic beverages and cannabis for non-medical use | 2.7% | 2.6% | 1.9% | 2.1% | 1.4% |

Statistics Canada. Table 11-10-0223-01. Household spending by household income quintile, Canada, regions and provinces

Table 4: Average Household Expenditure by Category, Canada, 2019

| | Income Quintile | | | | |
|--|-----------------|--------|--------|---------|---------|
| | Lowest | Second | Third | Fourth | Highest |
| Total expenditure | 37,534 | 55,487 | 79,357 | 110,542 | 185,422 |
| Total current consumption | 35,512 | 47,960 | 63,713 | 81,731 | 115,757 |
| Food expenditures | 5,560 | 7,758 | 9,877 | 12,695 | 15,570 |
| Shelter | 12,093 | 14,484 | 18,477 | 22,915 | 33,013 |
| Household operations | 2,716 | 3,829 | 4,981 | 6,503 | 9,199 |
| Household furnishings and equipment | 1,067 | 1,592 | 2,348 | 3,146 | 4,262 |
| Clothing and accessories | 1,522 | 2,347 | 2,977 | 4,228 | 5,643 |
| Transportation | 5,290 | 7,949 | 12,341 | 15,674 | 22,385 |
| Health care | 1,566 | 2,377 | 2,713 | 3,082 | 4,163 |
| Personal care | 713 | 891 | 1,268 | 1,735 | 2,306 |
| Recreation | 1,530 | 2,667 | 3,824 | 5,379 | 9,711 |
| Education | 1,238 | 1,097 | 1,129 | 1,622 | 3,367 |
| Reading materials and other printed matter | 135 | 116 | 133 | 202 | 241 |
| Tobacco products, alcoholic beverages and cannabis (non-medical use) | 1,139 | 1,512 | 1,744 | 2,108 | 2,407 |

Statistics Canada. Table 11-10-0223-01 Household spending by household income quintile, Canada, regions and provinces

| Estimated (\$) Increase in Average Expenditure based on December 2021 – December 2022 Inflation Rates | | | | | |
|--|-------|-------|-------|-------|-------|
| Food expenditures | 562 | 784 | 998 | 1,282 | 1,573 |
| Shelter | 847 | 1,014 | 1,293 | 1,604 | 2,311 |
| Household operations | 100 | 142 | 184 | 241 | 340 |
| Household furnishings and equipment | 64 | 96 | 141 | 189 | 256 |
| Clothing and accessories | 27 | 42 | 54 | 76 | 102 |
| Transportation | 317 | 477 | 740 | 940 | 1,343 |
| Health care | 63 | 95 | 109 | 123 | 167 |
| Personal care | 58 | 73 | 104 | 142 | 189 |
| Recreation | 61 | 107 | 153 | 215 | 388 |
| Education | 31 | 27 | 28 | 41 | 84 |
| Reading materials and other printed matter | 1 | 1 | 1 | 1 | 1 |
| Tobacco products, alcoholic beverages and cannabis (non-medical use) | 55 | 73 | 84 | 101 | 116 |
| Estimated Total Increase in Expenditures | 2,186 | 2,929 | 3,888 | 4,956 | 6,869 |
| Percentage Increase in Total Expenditures | 5.8 | 5.3 | 4.9 | 4.5 | 3.7 |

| Table 5: Average Household Expenditure by Category, Alberta, 2019 | | | | | |
|--|------------------------|---------------|--------------|---------------|----------------|
| | Income Quintile | | | | |
| | Lowest | Second | Third | Fourth | Highest |
| Total expenditure | 48,633 | 69,147 | 96,253 | 125,637 | 221,396 |
| Total current consumption | 45,119 | 57,929 | 74,576 | 91,139 | 130,222 |
| Food expenditures | 6,527 | 8,486 | 11,682 | 13,101 | 16,783 |
| Shelter | 15,738 | 17,370 | 21,722 | 26,203 | 31,870 |
| Household operations | 3,573 | 5,071 | 6,111 | 8,158 | 9,673 |
| Household furnishings and equipment | 1,204 | 1,795 | 2,214 | 2,616 | 5,030 |
| Clothing and accessories | 1,591 | 2,913 | 3,697 | 3,627 | 6,121 |
| Transportation | 6,456 | 9,835 | 14,288 | 16,872 | 30,639 |
| Health care | 2,269 | 2,584 | 2,778 | 3,355 | 4,753 |
| Personal care | 821 | 1,150 | 1,286 | 1,793 | 3,105 |
| Recreation | 2,127 | 3,984 | 5,356 | 8,051 | 11,687 |
| Education | 1,516 | 989 | 936 | 1,719 | 3,407 |
| Reading materials and other printed matter | NA | NA | 181 | 219 | 262 |
| Tobacco products, alcoholic beverages and cannabis (non-medical use) | 1,320 | 1,823 | 1,801 | 2,614 | 2,995 |

Statistics Canada. Table 11-10-0223-01 Household spending by household income quintile, Canada, regions and provinces

| Estimated (\$) Increase in Average Expenditure based on December 2021 – December 2022 Inflation Rates | | | | | |
|--|-------|-------|-------|-------|-------|
| Food expenditures | 653 | 849 | 1,168 | 1,310 | 1,678 |
| Shelter | 1,196 | 1,320 | 1,651 | 1,991 | 2,422 |
| Household operations | 157 | 223 | 269 | 359 | 426 |
| Household furnishings and equipment | 75 | 111 | 137 | 162 | 312 |
| Clothing and accessories | 73 | 134 | 170 | 167 | 282 |
| Transportation | 220 | 334 | 486 | 574 | 1,042 |
| Health care | 75 | 85 | 92 | 111 | 157 |
| Personal care | 57 | 81 | 90 | 126 | 217 |
| Recreation | 47 | 88 | 118 | 177 | 257 |
| Education | 97 | 63 | 60 | 110 | 218 |
| Reading materials and other printed matter | | | - 5 | - 6 | - 7 |
| Tobacco products, alcoholic beverages and cannabis (non-medical use) | 73 | 100 | 99 | 144 | 165 |
| Estimated Total Increase in Expenditures | 2,722 | 3,389 | 4,335 | 5,224 | 7,168 |
| Percentage Increase in Total Expenditures | 5.6 | 4.9 | 4.5 | 4.2 | 3.2 |