Elevate's
Center for the
New Middle Class

Americans Feeling the Sting of Inflation in Gas, Healthcare Costs

BY JONATHAN WALKER

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Summary

IN THE FOURTH QUARTER OF 2021, a sharp increase in the number of households reported that normal expenses were causing "a lot" of strain on their month-to-month finances. Non-prime Americans feel the impact in nearly every category, but most acutely by gas prices and the cost of health care. While less affected overall, prime households have also been impacted by rising gasoline prices and—from a relative standpoint—the increase in the cost of utilities and housing.

Introduction

In September 2021, the Consumer Price Index (published by the Bureau of Labor Statistics) took a decidedly sharp turn upward signaling a meaningful acceleration of inflation.[1] The annual inflation rate of 4.7% in 2021 marked a forty year high.[2] From a macroeconomic standpoint, inflation is clearly measured, but how is it affecting American households?

Measuring the Effects of Inflation on the Household

Inflation is more easily measured at the macroeconomic rather than the household level. It is much more difficult for economists and researchers to construct a research instrument of enough sensitivity to measure the impact of inflation on household finances. For one thing, shadow inflation (when firms reduce product quality or quantity rather than raise prices) is often invisible to the consumer.[3] Consequently, it can be difficult to determine whether consumers truly feel the pinch of higher prices or are reacting to the ubiquity of the message in the press.

Our research instrument solves this problem through the longitudinal tracking of all aspects of a household's finances. We ask respondents to report whether a diverse set of regular household costs are causing "a lot of strain," "a little strain," or "no strain" to their month-to-month finances. In doing so, respondents are never primed to find macroeconomic forces affecting their finances because the specter of inflation is never raised. This methodology allows us to see more clearly which spending categories sap resources and whether it is causing more or less strain compared to past measures.

The "strain" metric in our study can be impacted by changes in other financial measures (i.e., changes in income), but none of those other measures could easily explain the increase we saw in the data.

We also solve for an often-ignored challenge of measuring inflation: controlling for general household financial resilience. One of the most important measures of individuals' financial resilience is whether or not they have access to credit instruments that allow them to manage the normal ups and downs of financial life. When individuals lack the flexibility of credit cards, short-term financing, and other basic financial instruments, the full weight of generalized inflation is felt on the day-to-day level. We divide our analysis between those Americans who have prime credit scores (FICO or VantageScores above 700 and therefore have access to all credit instruments) and those who have non-prime scores (scores below 700 and therefore don't always have access to credit when they need it).

Strain of Normal Expenses before the Pandemic

Even during the healthy economy of 2018-2019, a meaningful percentage of households said they experienced financial strain under the pressure of normal expenses. When asked about the cost of utilities, thirty-seven percent of non-prime respondents before the pandemic said that they caused "a lot" of strain on their household finances.[4] The second highest category was housing (34%); third, groceries (29%); and fourth, gasoline (25%).

Unsurprisingly, fewer prime households reported feeling "a lot" of strain due to these expenses. Their top category was housing (24%). Their second and third categories were utilities and out-of-pocket healthcare costs (both at 20%).

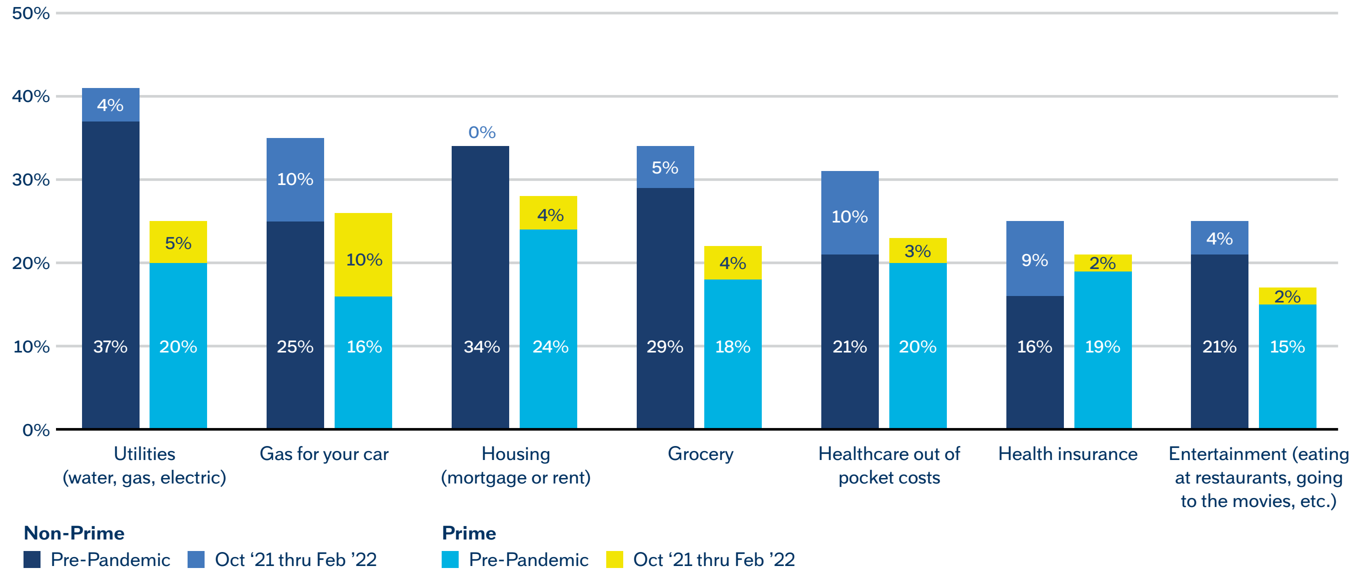
> **It is unclear how much more the new middle class can be squeezed without a significant impact across the economy.**

Prime, Non-Prime Households Feeling Inflation Effects in Different Ways

Non-prime households, due to their lower wealth and lower access to credit, have experienced the impact of inflation on these everyday expenses in a much more dramatic way than prime households.

Perhaps the most dramatic finding has been the ten percentage-point increase in the number of non-prime households who are experiencing "a lot" of strain due to healthcare costs, both the cost of insurance as well as out-of-pocket expenses. While this number went up during the pandemic, it has continued to accelerate after Q3 2021, when most of the economic pandemic effects have dissipated. Non-prime households have felt the brunt of the pandemic and inflation. Grocery, utilities, healthcare, entertainment, and gas are also all putting pressure on non-prime households. It is unclear how much more the new middle class can be squeezed without further destabilizing these households.

There are two exceptions to this general rule. Housing has not caused more non-prime respondents to suffer "a lot" of strain, but four percentage points more prime households have felt the pinch post Q3 2021 than pre-pandemic. The other exception is in gas. Both the number of prime and the number of non-prime households strained by rising gas prices increased ten percentage points since pre-pandemic times. The only category of spend that did not see a significant increase in the number of non-prime households who admitted to a lot of strain was housing.



n.b. "Pre-pandemic" represents the time period from September 2018 through February 2020; n = 6,043. October 1, 2021 through February 2022; n = 2,067.

Conclusion

While economists and economic journalists highlight the data that indicate that inflation has accelerated throughout the economy, American households are hearing the message with their ears and feeling it in their wallet. An increasing number of non-prime households report that nearly every category of spend is straining their month-to-month finances.

Footnotes

1 https://ycharts.com/indicators/us_consumer_price_index

2 https://www.macrotrends.net/2497/historical-inflation-rate-by-year

3 https://www.nytimes.com/2021/10/10/upshot/shadow-inflation-analysis.html

4 The question: "How much strain do the following costs place on your month-to-month finances?"

The tracker index is a longitudinal study measuring all aspects of American household finances. It collects responses from prime and non-prime consumers every month and has been running since September 2018. This analysis included 20,370 completed surveys of a questionnaire which measures over 50 variables related to personal and household finances.

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Elevate's Center for the New Middle Class (CNMC) is a non-profit research group sponsored by Elevate Credit (ELVT). The CNMC's mission is to research the challenges, behaviors, and attitudes of American household finances, especially the impact of credit constraint on households' financial resilience. Our studies can be accessed on our website NewMiddleClass.org or you can contact us directly with the email address NewMiddleClass@elevate.com.