

Bart Hobijn
Discussion of
**Inflation at the
Household Level**

Greg Kaplan and Sam Schulhofer-Wohl

Stylized facts rediscovered using KNCP

Price level differences

- **Outlet bias:** Households buy at different outlets
Faber and Fally (2017)
- **Regional price differences are substantial**
Moretti (2013)

Inflation rates

- **Regional variation and Phillips curves**
Hurst, Beraja, Fuster, Vavra (2016)
- **Household level inflation rates**

Outlet bias only focuses on price!



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Inflation rates

- **Regional variation and Phillips curves**
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Confirm and extend set of facts

- **Very large variation in household level inflation rates.**
- **Variation mainly due to inflation differences within expenditure categories (strata)**
- **Distribution of inflation rates moves in lockstep with overall inflation**
- **Little persistence in household level inflation rates**
- **Substantial substitution across strata**
- **Poor have 1 percent higher inflation**

Hobijn Lagakos (2005)

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Hobijn Lagakos (2005)

Four relevant spending categories

t

$t+4$

I

Spending on same UPC



II

New goods / cross-UPC substitution



III

Infrequent purchases
(durable goods)



IV



Not included

Four relevant spending categories

t

$t+4$

I

Spending on same UPC



II

New outlet



Slight difference from CPI

III

In CPI item is defined as an outlet-ELI combination



IV



Not included

Four relevant spending categories

Present fraction of spending that is matched over 4 quarters. Does it depend on demographics or income?

I



the UPC

$t+4$



II



New goods / cross-UPC substitution



III



Infrequent purchases (durable goods)

IV



Not included

Four relevant spending categories

t

$t+4$

I

Spending on same UPC



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New goods / cross-UPC substitution



III

Infrequent (dur



Fashion

Liegey (1994)

IV



Four relevant spending categories

t

$t+4$

I Spending on same UPC



II New goods / cross-UPC substitution



III New goods bias

purchases
(goods)

Bils (2009)

cluded

Four relevant spending categories

t

$t+4$

I

Spending on same UPC



II

New goods / cross-UPC substitution



III

Cross-UPC substitution

that is not captured in household level inflation

IV

Broda and Romalis (2008)

Four relevant spending categories

Price index theory really not applicable to intertemporal optimization problem

Bils and Klenow (2001), Reis (2010)

I

II

III

IV



New goods
Mass-UPC
Substitution



**Infrequent purchases
(durable goods)**



Not included

Four relevant spending categories

t

$t+4$

I

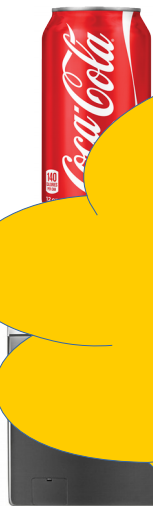
Spending on same UPC



II

External validity?

Could inflation differentials
documented be offset by
ones in other categories?



III

IV



Not included

Policy implications...

Monetary policy

- *Aggregate index of inflation representative of broad changes in price level*
 - Cross sectional distribution of prices moves in lockstep with published inflation measure.

Other policies

- *Demographics and income-dependent indexation of benefits and tax brackets*
 - Persistent differences across groups suggest different COLAs.
 - However, not much persistence at the individual household level.