Taking Account...

Geographic adjustments to a key poverty measure

In 2011, the Census Bureau began issuing Supplemental Poverty Measure reports, following up on interagency recommendations to create an additional indicator of economic well-being. One major benefit of the supplemental measure is that it adjusts the official poverty threshold to account for geographic price-level differences.

In a recent paper, Trudi Renwick, of the Census Bureau, and Bettina Aten, Eric Figueroa and Troy Martin, all of the Bureau of Economic Analysis (BEA), compared two types of geographic adjustments to the supplemental measure:

- One adjustment was based on America Community Service (ACS) data to adjust the housing portion of the poverty thresholds for differences in housing costs. This geographic cost index uses median outlays of renters for rent and utilities for two-bedroom housing units. It is referred to as the median rent index (MRI).
- The other adjustment was based on state and metropolitan regional price parities (RPPs) from BEA. There are two types of RPPs: an all-item index that includes a broad group of expenditure classes and another index that is focused on just food, clothing, and rents.

The differences between the MRI and the all-item RPP are significant for most states. The use of the all-item RPP resulted in higher poverty rates for 15 states and lower rates for 26 states. When the item-specific RPPs were used, poverty estimates were higher in 20 states, lower in 22 states and not statistically different in 9 states.

In metropolitan areas, the all-item RPPs lowered the poverty rates when compared to the MRI rates, because differences in the combined price level of goods and services are generally not as large as differences in rents. However, when the RPPs are constrained to food, clothing, and rents, the poverty rates in metropolitan areas were greater than the MRI poverty rates.

Unlike the RPPs, the MRI carries an implicit assumption that there are no differences in the cost of goods and services other than housing in the Supplemental Poverty Measure threshold. So if the costs of other goods and services vary directly with the cost of housing, the MRI adjustments will be too mild.

On the other hand, if the costs of other goods and services vary inversely with housing costs, the MRI adjustments would be too strong.

In general, however, the differences between the poverty rates using the MRI and those using the all-item RPPs were mainly driven by the different implicit weights given to shelter costs.

The MRI poverty rates use the percent of the Supplemental Poverty Measure threshold associated with shelter costs for each of three tenure types. This ranged for 2011 from 50.7 percent of the threshold for owners with a mortgage to 40.1 percent for owners without a mortgage. The share for renters was 49.7 percent. On the other hand, the national average share of shelter costs in the overall RPP index was 20.6 percent for all tenure types.

The item-specific RPP index also allows for a meaningful comparison to the MRI poverty rates. The item-specific RPP index uses the same weight for housing as the MRI and provides a mechanism to examine the importance of adjusting for the differences in the cost of food and clothing as well as housing costs without including expenditure categories that are not included in the Supplemental Poverty Measure thresholds. Comparing the differences between the item-specific RPP poverty rates and the MRI poverty rates, there were significant differences in 26 states and the District of Columbia.

There were only 3 states in which the MRI adjustments were stronger than the item-specific RPP adjustments.

BEA news release schedule for 2015 released

BEA has relsased its 2015 news release schedule. Users of electronic calendars may be able to use the BEA Online Calendar available on its Web site.