

ALICE ESSENTIALS INDEX

MEASURING INFLATION FOR **BASIC NEEDS**



UNITED FOR ALICE

United For ALICE is a U.S. research organization driving solutions to financial hardship. Through the development of the **ALICE** (**A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed) measures, a comprehensive, unbiased picture of financial hardship has emerged. Harnessing this data and research on the mismatch between low-paying jobs and the cost of survival, ALICE partners convene, advocate, and collaborate on solutions that promote financial stability at local, state, and national levels. This grassroots ALICE movement, led by United Way of Northern New Jersey, has spread to 27 states and Washington, D.C. and includes corporations, nonprofits, foundations, and United Ways.

For more information, visit: UnitedForALICE.org.

ALICE RESEARCH AND METHODOLOGY

United For ALICE conducts timely, high-quality research to better understand the nature and scope of financial hardship in the U.S. – from a national perspective down to the local level. To develop and update the ALICE metrics, ALICE researchers collaborated with a Methodology Advisory Committee composed of experts from across the country, drawn from the Research Advisory Committees in ALICE partner states. This collaborative model ensures that all ALICE products and tools are based on unbiased data that is transparent, replicable, current, and sensitive to local context.

Research Team

To create this Report, [our team of researchers](#) consulted with a Research Advisory Committee composed of experts from our partner states. This work is guided by our rigorous methodology, which is updated biennially with experts from the ALICE Methodology Advisory Committee.

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KEY TERMS

- **ALICE: Asset Limited, Income Constrained, Employed** – households that earn above the Federal Poverty Level (FPL) but cannot afford the basic cost of living in their county. ALICE households and households in poverty are **below the ALICE Threshold**.
- **ALICE Essentials Index:** A measure of the change over time in the cost of basics needed to live and work in the modern economy, including housing, child care, food, transportation, health care, and a smartphone plan.
- **Household Survival Budget:** Estimates the minimum costs of household necessities (housing, child care, food, transportation, health care, and a basic smartphone plan, plus taxes), adjusted for different counties and household types.
- **ALICE Threshold:** The minimum average income that a household needs to afford the basics included in the Household Survival Budget. Calculated for all U.S. states and counties.

Learn more about our methodology at UnitedForALICE.org/Methodology



ALICE Essentials Index			
	Budget Item Descriptions and Sources	% of Basket	2007–2021 % Increase
Housing 	Fair Market Rent (40 th percentile, utilities included) for an efficiency apartment (single senior), one-bedroom apartment (two adults), or two-bedroom apartment (two adults, two children), adjusted in metro areas using the American Community Survey (ACS) Sources: ACS metro housing costs and U.S. Department of Housing and Urban Development	33%	53% total 3.1% annual
Child Care 	Cost for registered Family Child Care Homes for one preschool-age child (3–4 years), representing the midpoint of cost between infant and afterschool care Source: State agency responsible for child care reporting (e.g., Child Care Aware of Washington, Maryland Family Network)	8%	46% total 2.8% annual
Food 	USDA Thrifty Food Plan (by age with county variation) from Feeding America for the following household compositions (corresponding to USDA age brackets): <ul style="list-style-type: none"> • Two adults: Family of two adults, 20–50 years (average of the male and female costs) • Two adults, two children: A family of four with two adults and two children (2–3 and 4–5 years) • One senior adult: A single senior, 71 years (average of the male and female costs) Sources: Feeding America; U.S. Department of Agriculture (USDA)	23%	23% total 1.5% annual
Transportation 	Operating costs for a car (average daily miles by age, cost per mile, license, fees, and insurance) for the following households: <ul style="list-style-type: none"> • Two adults: Two adults 36–65 years; small sedan • Two adults, two children: Two adults 36–65 years and two children under 16; medium sedan • One senior adult: Adult 65 and older; small sedan Sources: AAA; Federal Highway Administration; The Zebra	15%	27% total 1.7% annual
Health Care 	Health insurance premiums based on employer-sponsored plans, plus out-of-pocket costs for households with \$40,000–\$69,000 annual income, by age, weighted with the poor-health multiplier. For the senior budget, cost of Medicare Part A and B, out-of-pocket costs, plus average out-of-pocket spending for the top five chronic diseases as reported by CMS. Specifically, this Index uses the following items by household composition: <ul style="list-style-type: none"> • Two adults: Employee contributions to “employee-plus-one” employer-sponsored health care and out-of-pocket costs • Two adults, two children: Employee contributions to “family” employer-sponsored health care and out-of-pocket costs • One senior adult: Medicare Part A and B and out-of-pocket costs in addition to out-of-pocket costs for a chronic disease Sources: Centers for Medicare and Medicaid Services (CMS); Consumer Expenditure Survey (health); Medical Expenditure Panel Survey (MEPS)	18%	59% total 3.3% annual
Technology 	Smartphone plan with 10GB of data for each adult in a household (two plans for households with two adults; two plans for households with two adults, two children; one plan for single senior) Source: Consumer Reports	3%	44% (2016–2021) 7.6% annual

OVERVIEW: WHY ALICE INFLATION MATTERS

Inflation is one of the most widely utilized indicators of the health of the U.S. economy. When prices increase faster than wages, the stock market, and other sources of income, people’s purchasing power decreases and economies struggle. This is especially challenging for families on a tight budget or a fixed income, including households that are **ALICE** – **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed, with income above the Federal Poverty Level (FPL) but below the cost of basics included in the **ALICE Household Survival Budget**.

ALICE households, combined with those living in poverty, make up the population of struggling U.S. households with income **below the ALICE Threshold**. Across the U.S. in 2021, [41% of households had income below the ALICE Threshold](#): 13% were in poverty, and another 29% were ALICE.

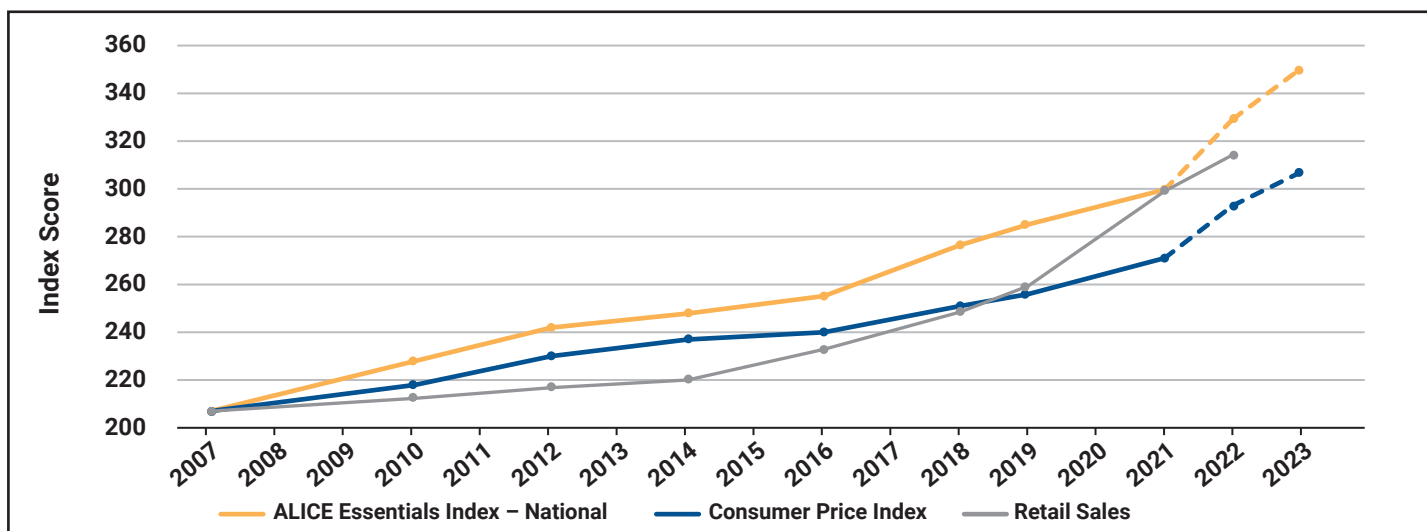
The standard measure of inflation in the U.S., the Bureau of Labor Statistics’ **Consumer Price Index (CPI)**, tracks the retail price of [more than 200 categories](#) of goods and services purchased by consumers at all income levels in [75 urban areas](#). The CPI is often used as the North Star to guide economic policies, including monetary policy, setting the FPL, benchmark increases for Social Security and retirement benefits (for veterans and Federal Civil Service retirees), and determining eligibility for government assistance programs.

Yet despite being used to guide policy for low-income households, the CPI conceals the changes in prices of the goods and services that are essential to meeting basic needs for households below the ALICE Threshold.

The **ALICE Essentials Index** aims to fill this gap and bring the reality of ALICE household costs to the forefront. The Index tracks only the cost of six categories of basic goods and services essential to living and working in the modern economy: housing, child care, food, transportation, health care, and a basic smartphone plan. And it shows that **the rise in the cost of household basics – 3.3% annually from 2007 to 2023 – outpaces the 2.5% annual rate of increase of the CPI’s larger basket of goods and services** (Figure 1).

At the same time, wages are not increasing as fast as the cost of basics. The median wage for the most common occupation in the U.S., a retail salesperson, increased at a rate of 2.8% annually from 2007 to 2022 (the latest data available), with the rate catching up to CPI in 2019, but below the ALICE Essentials Index throughout the period. The impact of inflation is cumulative: That retail salesperson’s buying power eroded by 4.5% from 2007 to 2022 – which equates to a loss of more than \$26,000 over 15 years, more than a year’s full-time earnings.

Figure 1. ALICE Essentials Index and CPI, with Retail Sales Wage, United States, 2007–2023



Note: In this figure, the ALICE Essentials Index was adjusted to the CPI base value of 207 in 2007. As shown by the dotted lines, ALICE Essentials Index rates for 2022 and 2023 are projections; for details, see Appendix. CPI 2023 is preliminary (based on data through March 2023).

Sources: ALICE Essentials Index, 2007–2023; Bureau of Labor Statistics, 2007–2023—CPI; Bureau of Labor Statistics, 2007–2022—Occupational Employment and Wage Statistics

The rate of inflation varies across the U.S. as well as over time. To better understand these differences, the ALICE Essentials Index includes variations by urban and rural counties, states, and U.S. regions (Figure 2). And because the CPI is based on [75 urban areas](#), there is also an ALICE Essentials Index–75

Urban Areas rate to facilitate a direct comparison. In all cases, the ALICE Essentials Index increases faster than the CPI. Note that there are more Census urban counties than are covered by the CPI metro areas (and most, but not all, of the CPI counties are considered urban by the Census).

Figure 2. Comparison of Inflation Indices, United States, 2021–2023

Average Annual Rate of Change			
	2021	2022	2023
ALICE Essentials Index All counties	2.5%	9.9%	6.4%
Consumer Price Index–CPI-U 75 urban areas	2.9%	8.0%	5.0%
ALICE Essentials Index–75 Urban Areas CPI-U urban areas	2.7%	9.1%	6.7%
ALICE Essentials Index–Urban Census urban counties	2.8%	9.7%	6.6%
ALICE Essentials Index–Rural Census rural counties	1.7%	11.2%	5.4%
ALICE Essentials Index–Midwest Census region	1.8%	10.3%	5.8%
ALICE Essentials Index–Northeast Census region	3.1%	9.3%	6.1%
ALICE Essentials Index–South Census region	1.3%	10.2%	6.7%
ALICE Essentials Index–West Census region	4.3%	9.4%	6.8%
ALICE Essentials Index–Idaho State with the highest rate in 2022	4.1%	12.5%	7.1%
ALICE Essentials Index–New Jersey State with the lowest rate in 2022	3.0%	6.0%	5.5%

Note: ALICE Essentials Index rates for 2022 and 2023 are projections; for details, see Appendix. CPI is preliminary (based on data through March 2023). Counties for the ALICE Essentials Index are defined as rural or urban based on the [Census Bureau's classification](#).

Sources: ALICE Essentials Index, 2007–2023; Bureau of Labor Statistics, 2007–2023–CPI

FOCUSING ON BASIC COSTS: POLICY IMPLICATIONS

The CPI is used to benchmark changes in eligibility for means-tested entitlement programs, increases to many benefit programs, and even income tax brackets. Because of the gap between the CPI and the true cost of living, the reach and effectiveness of social insurance programs are diminished, leading to greater hardship for households in need. This is especially true for those programs most relevant to ALICE households, including:

Inflation policy: The Federal Reserve Bank's [statutory mandate](#) from Congress is to promote maximum employment, stable prices, and moderate long-term interest rates. The conventional wisdom is that there are trade-offs between unemployment and inflation. The reality, especially when considering low-income households, is more nuanced. Maximum employment as measured by the official [Bureau of Labor Statistics \(BLS\) unemployment rate](#) does not convey whether a worker is earning enough to support their family. And stable prices, as measured by CPI, have obscured the substantial inflation of essential goods.

In an effort to dampen inflation, the Federal Reserve has been [raising interest rates since March 2022](#) with the aim of slowing wage growth and tamping down the labor market.

But it is precisely the workers who have been struggling to afford household basics who are most hurt by this strategy. According to the Federal Reserve Board's Survey of Household Economics and Decisionmaking (SHED), respondents below the ALICE Threshold reported that because of increases in prices over the prior 12 months, they were more likely than those above the Threshold to have switched to cheaper products, used less, or stopped using products (82% vs. 71%), reduced their savings (59% vs. 47%), delayed a major purchase (57% vs. 45%), worked more or gotten another job (24% vs. 14%), or increased borrowing (20% vs. 12%). Their wages have lagged behind the cost of living for the past decade. If wages are curtailed, these workers may never catch up.

Social Security: Each year, Social Security and Supplemental Security Income (SSI) make a [Cost of Living Adjustment \(COLA\)](#), which is based on the CPI. But the costs of many of the essential goods and services purchased by typical retirees increase faster than the cost-of-living adjustments to Social Security and SSI benefits. The loss is cumulative, so that a retiree in January 2000 has seen their benefits erode by 40%, according to the nonpartisan [Senior Citizens League](#). Even government cost increases, especially [rising Medicare Part B premiums](#), eat into cost-of-living adjustments.



Social Security is now able to lift most seniors out of poverty – only 12% of households headed by a senior are in poverty – but it is increasingly not enough to reach financial stability. The number of senior households facing financial hardship continues to grow, with the percentage below the ALICE Threshold increasing during the pandemic, from 48% in 2019 to 51% in 2021, as reported in our 2023 Report, [ALICE in the Crosscurrents](#).

Retirement benefits for veterans and civil servants: [Veterans'](#) and [civil servants'](#) retirement benefits are adjusted annually according to CPI with the stated goal of protecting them from inflation. Yet these increases in benefits are not enough to cover increases in the household essentials seniors rely on. For many state and local employees, increases to their public pensions are typically [capped at 2% or 3%](#) per year.

Federal Poverty Level: The CPI has been used to [adjust the FPL](#) since it was first developed in the mid-1960s. Yet because the CPI underestimates the cost increase of goods for the lowest-income Americans, the poverty measure today is no longer adequate. Recent studies have found that changes in household income after adjusting for inflation vary by quintile. When the loss of ground for the lowest quintile is taken into account, [rates of poverty are noticeably higher](#). The FPL is so artificially low that eligibility for many key benefit programs is now based on multiples of it:

- **SNAP:** Eligibility thresholds used by the U.S. Department of Agriculture for the Supplemental Nutrition Assistance Program (SNAP) vary by state and range from [130% to 200% of the FPL](#). Limiting the increase in the FPL means that millions of struggling households are not eligible for SNAP benefits. In addition to that erosion of eligibility levels, many struggling households do not participate in SNAP due to stigma, lack of awareness, and difficulties with the

application process. As a result, only 40% of households in poverty and a mere 19% of ALICE households participated in SNAP in 2021, as reported in our 2023 Report, [ALICE in the Crosscurrents](#).

- **CHIP and Medicaid:** Eligibility thresholds used by the U.S. Department of Health and Human Services for CHIP and Medicaid vary by state and range from [170% to 400% of the FPL](#). In 2021, only 46% of all households below the ALICE Threshold in the U.S. participated in CHIP or Medicaid.

MORE SENIORS STRUGGLING

Social Security helps lift seniors out of poverty, but it's increasingly not enough to reach financial stability. The costs of many essential goods seniors purchase increase faster than the cost-of-living adjustments to Social Security based on the CPI. This has contributed to a growing share of senior households below the ALICE Threshold, from 48% in 2019 to 51% in 2021.

Tax brackets and credits: The IRS uses the Chained Consumer Price Index (C-CPI) to adjust income tax brackets and credits like the Child Tax Credit and the Earned Income Tax Credit (EITC), with the goal of having tax brackets keep pace with inflation. But because Chained CPI grows even more slowly than the CPI and the actual cost of basics, ["bracket creep"](#) occurs: People are pushed into income tax brackets with higher tax rates, but without any increase in real income. This also impacts the value of child tax credits and EITC, in effect [diminishing their value over time](#).

ALICE INFLATION OVER TIME

The cost of essential goods and services measured by the ALICE Essentials Index increased at an annual rate of 3.3% from 2007 to 2023, much faster than the cost of the wider basket of goods and services reported by the CPI. There are two key explanations for this difference:

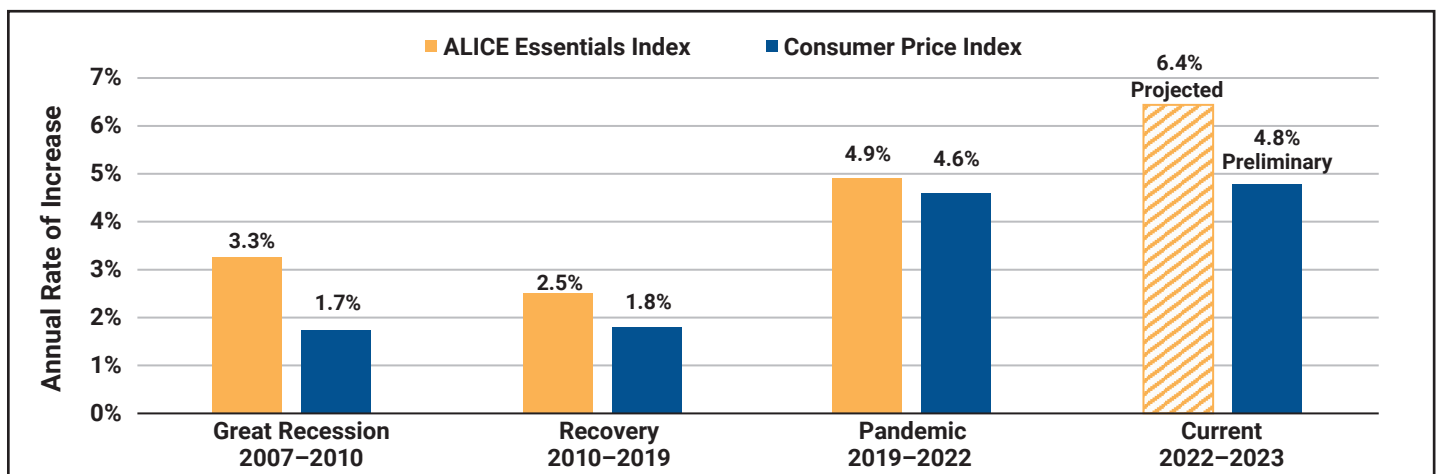
- Many non-essential goods were increasingly mass-produced in the decades leading up to the pandemic. Some of the resulting lower labor and manufacturing costs were passed on to consumers through lower prices, especially for [apparel](#), [vehicles](#), and [electronics](#) before 2020. This changed with the pandemic and [supply chain disruptions](#).
- Even within the categories that are common across indices (such as housing and food), the ALICE Essentials Index includes a narrower range of items, many of which had very different price trajectories than their higher-end counterparts. For example:
 - » Housing accounts for a similar portion of both the CPI (38%) and the ALICE Essentials Index (33%). Yet the CPI includes the cost of [high-end rental and owner accommodation](#), both of which stagnated during the housing crisis of [2008 through 2013](#). By comparison, the costs of the efficiency and one- and two-bedroom rental apartments at the 40th rent percentile in the ALICE Essentials Index [increased steadily](#), and [continued to increase through the pandemic](#). According to SHED, 40% of renters below the ALICE Threshold reported in

2022 that the prices they paid for rent had increased in the prior 12 months, compared to only 17% of renters above the Threshold.

- » Food accounts for a smaller portion of the CPI (14%) than the ALICE Essentials Index (23%). Both include food at home, such as breakfast cereal, milk, coffee, and chicken, but the [CPI includes higher-end products](#) that would not be affordable in the Thrifty Food Plan, such as wine. The CPI also includes food away from home, such as full-service meals and snacks.

During the COVID-19 pandemic, the CPI annual rate of increase reached 8.0% in 2022, its highest [level since the 1970s](#), and inflation moved to the center of media and policy conversations. Yet ALICE has been struggling with high inflation over the last decade and a half, with the ALICE Essentials Index outpacing inflation during every time period since the Great Recession (Figure 3). The largest gap was during the Recession (2007–2010), when the annual ALICE Essentials Index rate was 3.3% compared to 1.7% for the CPI. There was a narrow gap during the high inflationary period of the pandemic (2019–2022), when the ALICE Essentials Index reached 4.9% while the CPI was 4.6%. But even during the Recovery (2010–2019), the ALICE Essentials Index increased at an annual rate of 2.5%. For the current period (2022–March 2023), the CPI increased at a rate of 4.8% annually, while the ALICE Essentials Index projects a rate of 6.4%.

Figure 3. Annual Rate of Inflation by Time Period, United States, 2007–2023



Note: ALICE Essentials Index rates for 2022 and 2023 are projections, as shown with the crosshatched columns; for details, see Appendix. CPI 2023 is preliminary (based on data through March 2023).

Sources: ALICE Essentials Index, 2007–2023; Bureau of Labor Statistics, 2007–2023–CPI

Inflation By Geography

The cost of basic household goods and their rate of change over time varies substantially by geography. The basic household costs calculated in the ALICE Household Survival Budget increase at different rates depending on location, household size, and household composition. For example, in 2021, the Household Survival Budget for a family of four ranged from \$50,664 in Obion County, TN, to \$173,136 in Marin County, CA. In contrast, the FPL was \$26,500 for a family of four everywhere in the continental U.S. in 2021. (To learn more about ALICE in the U.S., read our latest Report, [ALICE in the Crosscurrents](#).)

The following variations of the ALICE Essentials Index have been indexed to 100 to compare relative differences in costs as well as change over time.

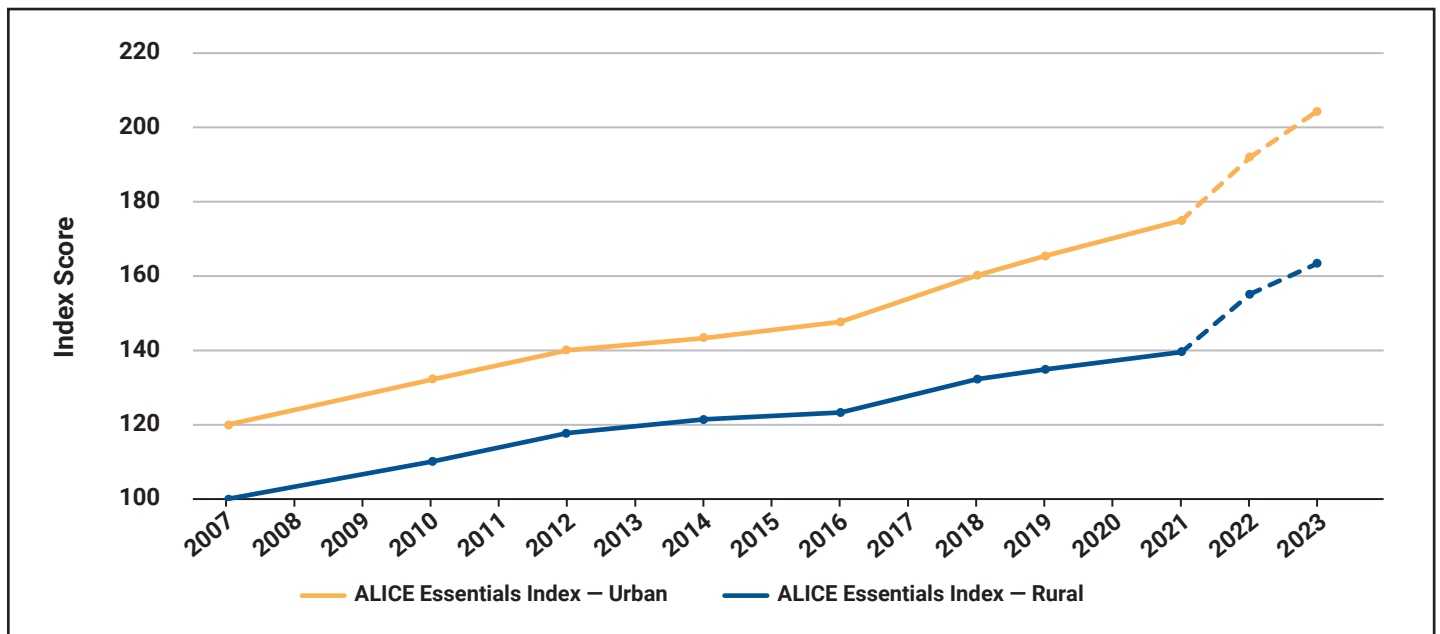
Urban – Rural: Most inflation indices focus on urban areas. But with 20% of the U.S. population [living in rural areas](#), better

measures are needed to capture the [different economic conditions](#) in urban and rural areas — a result of differing migration patterns, access to economic opportunities, public policy priorities, and investments in infrastructure.

Until now, there was only [limited evidence](#) to suggest that prices and rates of increase differ between urban and rural areas. The ALICE Essentials Index is the first inflation index to systematically demonstrate this distinction. Using the U.S. Census [classification](#) and weighting each county according to its total household population, the Index variations provide comparable measures of inflation for both urban and rural areas.

Comparing the rural and urban ALICE Essentials Indices from 2007 to 2023 shows that basic household goods were 18% to 25% more expensive in urban areas than in rural areas (Figure 4). However, those costs increased at nearly the same rate during this period — 3.1% annually in rural areas and 3.4% annually in urban areas.

Figure 4. Comparison of Urban and Rural Inflation, ALICE Essentials Index, United States, 2007–2023



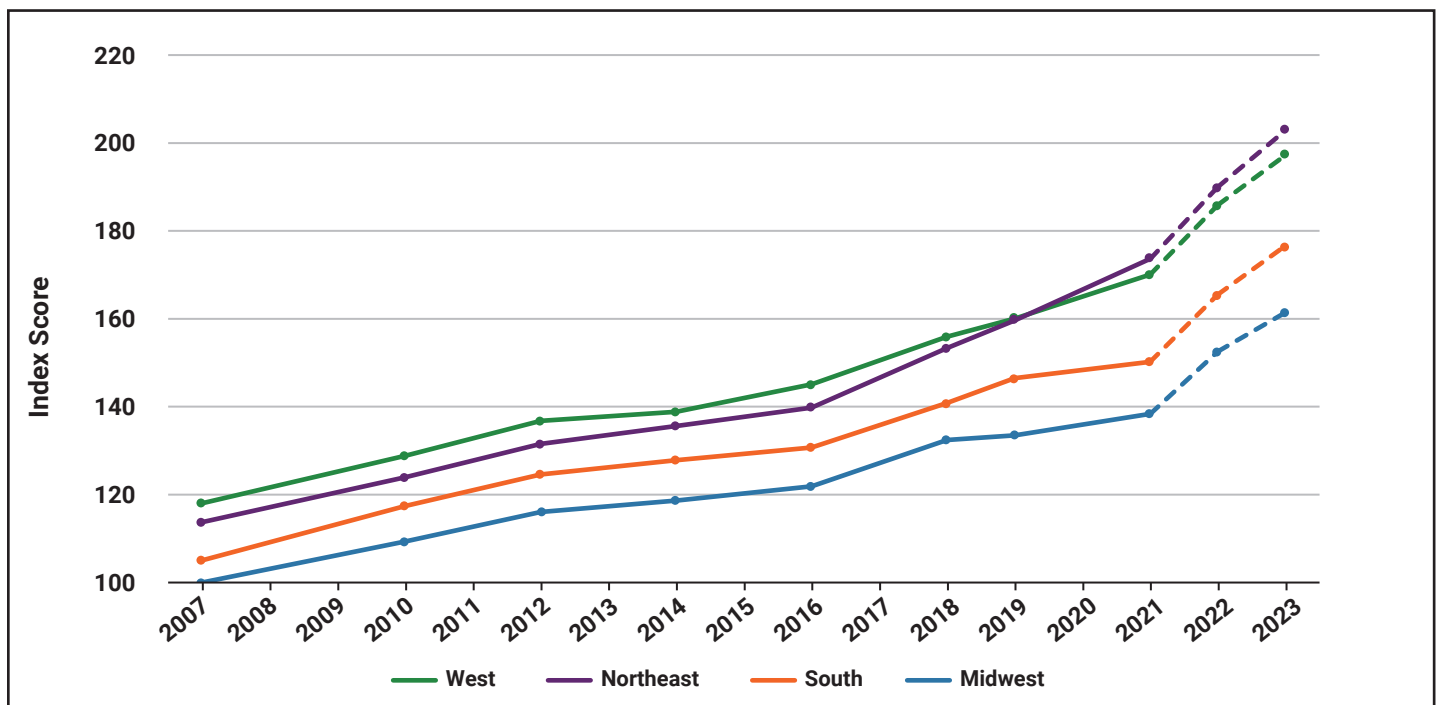
Note: For ease of comparison, ALICE Essentials Index – Rural is set to start at 100. As shown by the dotted lines, ALICE Essentials Index rates for 2022 and 2023 are projections; for details, see Appendix.

Source: ALICE Essentials Index, 2007–2023

While there was variation in the rate of the ALICE Essentials Index across U.S. states from 2007 to 2023, all were above the CPI. Regional variations of the ALICE Essentials Index have been indexed, with the Midwest set to 100, to provide comparable measures of the relative difference in costs for the [four regions in the U.S.](#) as well as change over time from 2007 to 2023 (Figure 5). By 2023, basic household goods were most expensive in the West and Northeast, less expensive in the South, and least expensive in the Midwest.

Over time, the rate of inflation was fairly similar across U.S. regions, with a few exceptions. For example, during the Great Recession (2007–2010), the rate in the South surged higher than in the other areas, and during the pandemic (2019–2022), the rate of inflation was highest in the West and lowest in the South. During the Great Recession and the Recovery, the highest rate of increase for the ALICE Essentials Index was in the West. In 2019, rates began increasing slightly more in the Northeast and even faster in the West. The Midwest consistently experienced the lowest or near-lowest rates of basic cost inflation throughout the time period.

Figure 5. ALICE Essentials Index by Region, United States, 2007–2023



Note: For ease of comparison, regional ALICE Essentials Indices are set to start at 100. As shown by the dotted lines, ALICE Essentials Index rates for 2022 and 2023 are projections; for details, see Appendix.

Source: ALICE Essentials Index, 2007–2021

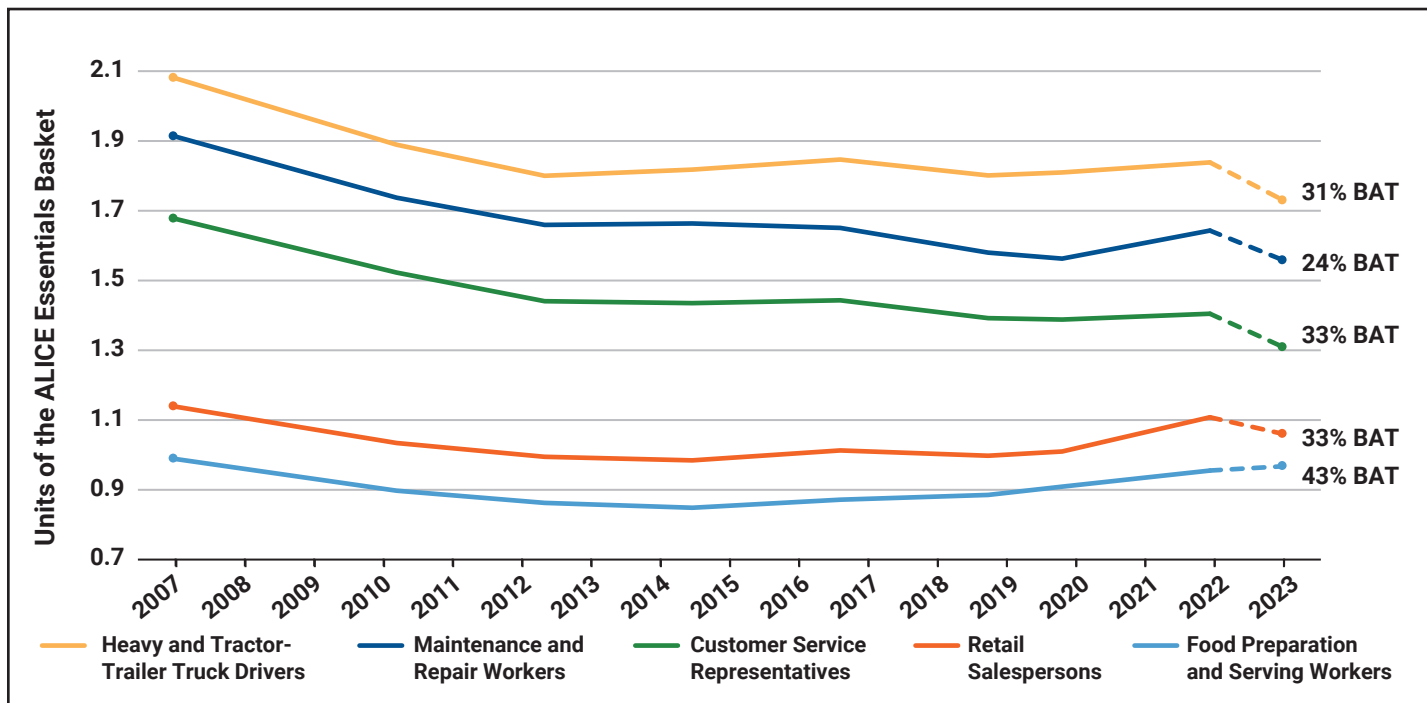
INFLATION AND WAGES

Of the 46 million workers in the 20 most common occupations in the U.S. in 2021, nearly one-third (32%) were below the ALICE Threshold, meaning that their wages did not afford them enough income to support their families' basic needs. Most of these jobs saw an increase in the median wage during the pandemic, but given that wages had stagnated for the previous decade, it was not enough to reach financial stability.

For the most common occupation in the U.S., a retail salesperson, the median wage increased from \$9.69 per hour in 2007 to \$14.71 in 2022. But with the cost of essentials increasing at the same time, the retail salesperson could not afford the same ALICE Essentials Index basket of goods over the time period: Their 2022 wages covered 4.5% less than what was covered 2007. **The sustained lag behind actual costs of basic goods translates to a loss of more than \$26,000 over the past 15 years for a retail salesperson — more than a full year's earnings.**

The story was similar across the top occupations. With different wage levels, some occupations could afford more, but all experienced a decline in buying power — dramatically from 2007 to 2012, then less so from 2012 to 2016. There was a slight improvement from 2016 to 2019 for a few occupations, including food preparation and serving workers, and then a sharp improvement for most occupations during the pandemic from 2019 to 2021. But projections show that most, if not all, of those gains were lost from 2021 to 2022 (Figure 6). The lowest-paid occupations, such as food preparation and serving workers and cashiers, were the exception, maintaining modest gains, but with low wages, they had the highest percentage of workers below the ALICE Threshold — 43% and 49%, respectively, in 2021.

Figure 6. Buying Power of Common Occupations, United States, 2007–2022



Note: The ALICE Essentials Index rate for 2022 is a projection; for details, see Appendix. BAT = Below ALICE Threshold.

Source: ALICE Essentials Index, 2007–2022; ALICE Threshold, 2007–2022; American Community Survey, Public Use Microdata Sample (PUMS), 2007–2022; Bureau of Labor Statistics, 2007–2022—Occupational Employment and Wage Statistics.

Even the highest-paid occupations experienced a decline in their buying power for household basics from 2007 to 2022. For example, registered nurses, with a median wage of \$39.05

in 2022, saw their buying power erode by 15%, and general and operations managers, with a median wage of \$47.16 in 2022, by 30% (Figure 7).

Figure 7. Most Common Occupations, Employment, Percentage Below ALICE Threshold, Wages, and Buying Power, United States, 2021 and 2022

Occupation	Total Employment, 2021 (BLS)	Percent Workers Below ALICE Threshold, 2021 (ACS PUMS)	Median Hourly Wage, 2022 (BLS)	Percent Change in Buying Power, 2007-2022 (BLS)
Retail Salespersons	3,693,490	33%	\$14.71	-5%
Home Health and Personal Care Aides	3,366,480	52%	\$14.51	-5%
Cashiers	3,318,020	49%	\$13.58	4%
Fast Food and Counter Workers	3,095,120	43%	\$13.43	9%
Registered Nurses	3,047,530	9%	\$39.05	-15%
General and Operations Managers	2,984,920	11%	\$47.16	-30%
Customer Service Representatives	2,787,070	33%	\$18.16	-18%
Laborers and Material Movers, Hand	2,729,010	38%	\$17.36	4%
Office Clerks, General	2,578,180	29%	\$18.29	-2%
Stockers and Order Fillers	2,451,430	40%	\$16.45	5%
Janitors and Cleaners	2,036,680	61%	\$15.38	-3%
Heavy and Tractor-Trailer Truck Drivers	1,903,420	31%	\$24.00	-13%
Secretaries and Administrative Assistants	1,825,980	22%	\$19.71	-9%
Waiters and Waitresses	1,804,030	45%	\$14.00	16%
Bookkeeping and Auditing Clerks	1,509,370	21%	\$22.05	-9%
Administrative Support Supervisors	1,443,630	15%	\$29.51	-14%
Maintenance and Repair Workers	1,416,740	24%	\$21.62	-13%
Software Developers	1,364,180	5%	\$61.18	N/A
Elementary School Teachers	1,329,280	12%	\$29.66	-18%
Assemblers and Fabricators	1,328,550	33%	\$17.93	-5%

Note: The latest data for the ALICE Threshold is from 2021.

Source: ALICE Essentials Index, 2007–2022; ALICE Threshold, 2007–2022; American Community Survey, Public Use Microdata Sample (PUMS), 2007–2022; Bureau of Labor Statistics, 2007–2022—Occupational Employment and Wage Statistics

CONCLUSION

As the CPI reached its highest level in decades during the pandemic, inflation took center stage in media and policy conversations. The spike in inflation – in both the ALICE Essentials Index and the CPI – impacted all U.S. households. However, the 52.5 million households – 41% – that lived below the ALICE Threshold in 2021 had been facing high rates of inflation well before the pandemic hit. For these families, the new increases added to years of their wages falling behind the rising cost of basics. According to the Census Bureau’s Household Pulse Survey, from December 2022 to February 2023, 59% of respondents below the ALICE Threshold reported that the increase in prices in the prior two months had been very stressful, compared to 31% of respondents above the Threshold.

As income increases, spending shifts from basic goods to include more luxury items, as reflected in the broad CPI basket. But households below the ALICE Threshold don’t have enough income to afford even the basics, so most of the items in the CPI basket are beyond their budget. Because the CPI covers all the goods and services that households of all incomes purchase, it conceals the changing costs of household basics. And because the wages for most low-wage workers have not kept pace with the increase in the cost of basics, these workers and their families have fallen further behind.

For these reasons, the CPI is not well-equipped to guide economic policy for low-income households, especially when determining increases to benefits for Social Security, SNAP, Medicaid and CHIP, and veterans’ and civil servants’ retirement; increases to the Federal Poverty Level; unemployment and inflation policy; and tax brackets and credits. The gaps between the CPI and the basic cost of living diminish the reach and effectiveness of social insurance programs. And, in turn, the tangible hardship this causes for low-wage workers, retirees, rural residents, and those receiving public assistance holds back the potential of the U.S. economy.

That 41% percent of households nationwide have trouble affording a basic household budget is a challenge to the U.S. economy, limiting widespread prosperity and sustainable growth. Inflation in the U.S. has long contributed to a structural economic problem: Wages for jobs essential to the running of the economy are not sufficient to allow workers to support their families. The ALICE Essentials Index provides a much needed tool to track costs for the foundational basket of essential goods, and the ALICE Threshold provides a measure to track progress in better aligning wages and the basic cost of living. By increasing the accuracy of data on hardship, these ALICE measures are designed to help lift all boats: Improving conditions for ALICE families will in turn fuel economic growth, benefiting all households, communities, and businesses.

“The spike in inflation – both in the ALICE Essentials Index and the CPI – impacted all U.S. households. However, the 52.5 million households – 41% – that lived below the ALICE Threshold in 2021 had been facing high rates of inflation well before the pandemic hit. For these families, the new increases added to years of their wages falling behind the rising cost of basics.”

NATIONAL COMPARISON:

Inflation and Households Below the ALICE Threshold

State	ALICE Essentials Index		Household Income Status	
	Annual Rate of Change, 2007-2023*	Annual Rate of Change, 2021-2023*	Number of Households (2021)	% Households Below ALICE Threshold (2021)
United States	3.3%	8.1%	126,903,920	41%
Alabama	3.3%	8.2%	1,951,995	48%
Alaska	2.9%	7.6%	266,391	32%
Arizona	3.5%	11.2%	2,813,110	40%
Arkansas	3.3%	8.1%	1,176,614	47%
California	3.7%	7.2%	13,420,382	43%
Colorado	3.9%	8.5%	2,297,529	37%
Connecticut	3.1%	8.8%	1,428,313	39%
Delaware	3.0%	8.4%	395,656	41%
D.C. Metro Area	3.0%	4.7%	319,565	42%
Florida	3.3%	9.6%	8,533,422	45%
Georgia	3.7%	10.4%	3,954,813	47%
Hawaii	3.4%	5.7%	490,101	41%
Idaho	3.6%	9.8%	681,926	43%
Illinois	3.0%	7.2%	4,981,919	36%
Indiana	3.1%	8.4%	2,656,794	39%
Iowa	3.3%	8.5%	1,293,028	36%
Kansas	3.1%	8.1%	1,153,270	39%
Kentucky	3.2%	8.2%	1,767,504	44%
Louisiana	2.9%	7.2%	1,776,260	51%
Maine	3.0%	8.3%	583,562	42%
Maryland	3.1%	6.3%	2,352,331	38%
Massachusetts	3.4%	7.6%	2,756,295	40%
Michigan	2.8%	8.6%	4,029,761	39%
Minnesota	3.2%	7.8%	2,254,997	35%
Mississippi	3.2%	8.3%	1,116,509	52%
Missouri	3.2%	7.8%	2,459,987	43%
Montana	3.2%	7.7%	443,529	41%
Nebraska	3.4%	8.1%	781,693	39%
Nevada	3.4%	10.4%	1,189,085	45%
New Hampshire	3.0%	8.6%	548,727	33%
New Jersey	2.9%	5.7%	3,495,628	37%
New Mexico	3.4%	8.3%	821,310	47%
New York	3.5%	7.8%	7,635,201	44%
North Carolina	3.5%	8.5%	4,150,059	44%
North Dakota	3.4%	8.7%	322,588	34%
Ohio	3.0%	8.4%	4,820,453	38%
Oklahoma	3.4%	7.9%	1,536,903	45%
Oregon	4.1%	8.8%	1,697,608	44%
Pennsylvania	3.1%	8.5%	5,229,253	39%
Rhode Island	2.7%	9.5%	435,782	39%
South Carolina	3.1%	8.9%	2,037,203	43%
South Dakota	3.3%	8.2%	352,363	36%
Tennessee	3.6%	9.0%	2,740,302	44%
Texas	3.3%	8.2%	10,705,476	43%
Utah	3.7%	9.6%	1,087,978	34%
Vermont	3.1%	7.3%	265,098	40%
Virginia	3.0%	6.9%	3,300,111	38%
Washington	3.9%	9.3%	3,013,644	34%
West Virginia	3.4%	8.0%	711,392	48%
Wisconsin	2.9%	8.2%	2,436,961	34%
Wyoming	3.1%	7.4%	233,539	34%

* ALICE Essentials Index rates for 2022 and 2023 are projections; for details, see Appendix.

APPENDIX

ALICE ESSENTIALS INDEX METHODOLOGY

The ALICE Essentials Index provides a national, standardized measure of the change over time in the cost of six categories of essential household items. In accordance with our Research Methodology, the Household Survival Budget costs are derived from the lowest cost of household basics that ALICE households need to live and work in the modern economy: housing, child care, food, transportation, health care, and a smartphone plan. To account for different combinations and sizes of households, the ALICE Essentials Index tracks these items for three of the most common household compositions: two adults, a family with two children, and a single senior (age 65 and over). The costs of basics for these households are added together to create the basket; there is no weighting.

There is one adjustment for food: Since a [change in legislation](#) required the USDA Thrifty Food Plans to reflect the cost for resource-constrained households to purchase a healthy, practical diet starting in 2021, the cost of food increased significantly from prior years. To incorporate the new methodology consistently for the time period (2007–2023), we adjust prior years using the percent change in the cost of food for the USDA’s reference family (two adults and two children).

Unlike the CPI, which includes only a sample of metropolitan areas, the ALICE Essentials Index tracks costs in all 3,143 U.S. counties and provides an index for all counties combined, as well as separate urban and rural inflation indices. The Household Survival Budget and this Index use publicly available, official sources to calculate the cost of household essentials, as outlined on page 3. For further information on the Household Survival Budget, please visit www.UnitedForALICE.org/Methodology.

Counties for the ALICE Essentials Index are defined as rural or urban based on the [Census Bureau’s classification](#). Counties with 50% or more of the population in census tracts with a population of at least 2,500 are designated as urban.

Projections

Complete data for all items in the Household Survival Budget is available through 2021; we estimate 2022 and 2023 inflation rates with a mix of actual and extrapolated costs. For 2022, housing, food (Mid-year, June), and transportation costs were available, approximately 71% of the ALICE Essentials Index basket. For 2023, only housing and food (March) were available, approximately 56% of the ALICE Essentials Index basket.

For 2023, the CPI is actual data for January through March.

For the remaining budget items, where 2022 and 2023 data was not available (child care, health care, and technology) the [Consumer Price Index](#) was used to inflate the budget item from the previous year. For example, the change in the CPI-U from 2021 to 2022 was 8.0%, and from March 2022 to March 2023 was 5.0%. Therefore, health care costs for 2022 reflect the 2021 costs multiplied by 1.08; for 2023, the 2022 costs were multiplied by 1.05. Because the ALICE Essentials Index has increased at a faster pace than CPI, we expect the ALICE Essentials Index projections will underestimate the actual rates of increase of included items.

COMPARISON OF INFLATION INDICES

To better understand the ALICE Essentials Index, it is helpful to see how it compares to other inflation measures. The primary measure of inflation in the U.S. since 1913 has been **the Consumer Price Index** (CPI-U). Developed by the BLS, the CPI-U tracks the retail price of select goods and services purchased by consumers in [75 urban areas](#) and is composed of [more than 200 categories](#) including food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication services. The cost of all these goods purchased by urban consumers increased at an annual rate of 1.9% from 2007 to 2021.

Variations of the CPI

The BLS and the U.S. Commerce Department's Bureau of Economic Analysis have developed variations of the CPI over time. While these variations address different technical collection methods, the differences among them are minimal on an annual basis.

The Chained Consumer Price Index for All Urban Consumers (C-CPI-U) uses the same data as CPI-U but [reflects the effect of substitution](#) that consumers make across item categories in response to changes in relative prices.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is the predecessor to CPI-U, used from 1921 to 1978 as the primary indicator of inflation. It is based on the expenditures of households where more than one-half of income is from clerical or wage occupations, and at least one of the household's earners was employed for at least 37 weeks during the previous 12 months. The CPI-W population represents about 29% of the total U.S. population.

The Personal Consumption Expenditures Price Index (PCEPI) adds [more goods and services](#) to those covered by the Consumer Price Index for All Urban Consumers (CPI-U) and allows for changes in the basket over time, while the CPI is largely fixed.

Core inflation, or Headline Index, focuses on items that [impact long-term inflation trends](#). It is most commonly measured with CPI-U or PCEPI, less food and energy prices.

Underlying Inflation Gauge (UIG) reflects [trend inflation](#) from price series in the CPI and macroeconomic and financial variables.

The Experimental CPI for Lower and Higher Income Households by economists in the Office of Price and Living Conditions, BLS, is a notable exception to the variations above. This analysis of inflation by [groups of respondents based on their reported income quartile](#) shows that costs for the lowest income quartile population rose faster than the index for all urban consumers. The Experimental Price Index increased at an annual rate between 2.1% and 2.3% for the lowest income quartile and between 1.8% and 2% for the highest income quartile from 2003 to 2018. This index has not been

maintained over time and income quartiles are not as precise as the ALICE Threshold, but these general findings reinforce the importance of differentiating the costs of goods and services for consumers by income.

Non-Government Indices

The need for different perspectives is reinforced by the development of additional indices by non-government organizations. These provide additional insight into the economy since 2007, but all report lower levels of inflation than the ALICE Essentials Index.

The Everyday Price Index: Developed by the [American Institute for Economic Research](#), the Everyday Price Index measures changes in the price of the goods and services purchased by the average American once a month or more, such as groceries. It also includes non-necessities such as food away from home, domestic services, gardening and lawn care, cable, entertainment, pets and supplies, tobacco, and personal care products and services. It excludes prices of infrequently purchased, big-ticket items (such as cars, computers, and appliances) and prices contractually fixed for prolonged periods (such as housing). The Everyday Price Index increased at an annual rate of 1.8% from 2007 to 2021.

The Cost-of-Thriving Index: [American Compass](#) "tracks the nominal cost of five major expenses (Food, Housing, Health Care, Transportation, Higher Education) and compares it to nominal weekly wages for a typical male worker, showing how many weeks it would take to afford that same basket over time." The Cost-of-Thriving Index increased at an annual rate of 0.5% from 2007 to 2021.

The Alternative Inflation Index: In this measure, [Penn State/ACY](#) incorporates their Marginal Rent Index, which captures a measure of house price changes based on marginal rents. The Alternative Inflation Index increased at an annual rate of 2.6% from 2007 to 2021.

Each index was developed for different purposes and therefore provides different economic insights. All are useful tools for policymakers.

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