Minnesota Cost of Living 2022 – Release Notes

The Cost of Living data is designed to be a metric of what it takes to meet basic needs in Minnesota. Each year the data is released for various family compositions and regions, using a variety of inputs from other agencies. The pandemic and current inflationary pressures have had impacts on the cost of living outputs and have required some adjustments to methodology and interpretation.

CPI Generally
The data represents the previous year’s expenditures, and wherever possible is intended to be pinpointed to July of that year. In times of volatility, conditions that are present at publication may not have been at the reference point. In 2022, headlines about spikes in costs of food and gas have been everywhere, but in July of 2021, that was just beginning. Users will not see the full impact of inflationary pressures in the current cost of living data.

Consumer Expenditures
Because the cost of living is meant to represent the cost of broadly necessary expenditures, it does not require “skimping” or doing without even in categories where that is common. Most of our inputs reflect the base price of things rather than consumer behavior. The exception is the “Other Necessities” category, which is calculated using Consumer Expenditure Survey data as a ratio of needed categories such as cleaning supplies, apparel, and phone service to categories that are estimated elsewhere in our formula, such as housing and food at home. The Consumer Expenditure Survey asks consumers where they actually spent their money, and the most recent available data is for 2020. The result was a ratio
that was substantially lower than in previous years because consumer behavior in 2020 was dictated by
the pandemic. The expenses we include in our needs category (like apparel) fell over the year, while
housing and food at home both increased faster than the CPI, likely due to voluntary housing upgrades
and the closure of restaurants. The result was a substantial decline in other necessities expenditures in
our metric. Because the vintage of the data was an anomalous year, we used the previous year’s ratio
and will review the methodology next year.

Transportation
The transportation methodology is fairly complicated, taking base estimated costs from the AAA and
scaling them by ACS commute time and Vehicle Miles Traveled from the infrequent National Household
Transportation Survey. The AAA data comes from a report that the private company has been putting
out since the 1950s and, while consistent, doesn’t have documentation that’s as detailed as what
federal programs do. The gas prices used in that report track much better with winter than summer CPI
prices. The metric includes depreciation. They also make assumptions about new cars and which cars
are most popular amongst buyers when establishing fuel costs. Transportation costs went down from
the prior Cost of Living calculation. But despite a decline being at odds with indications from the CPI, we
did not make changes to our transportation methodology. While gas prices likely contributed to a
$30/month increase in costs by the middle of the year, those were volatile enough that the price
increase varied throughout the year. Some parts of the overall cost also either didn’t change or were
favorable – used car prices have increased significantly, so depreciation is reduced and insurance
and financing costs won’t be increasing at the same rate as gas prices. If the downward trend continues next
year, we’ll reconsider methodology, but in the current year the decline is adequately explained by
timing and details of the inputs.

Taxes
The methodology uses tax estimates for the previous year (for current calculation, benchmarked to July
2021, we’re using 2020 taxes) because those are payable in the reference year. In 2020 and 2021 there
were a number of substantial tax credits paid out to taxpayers well in advance of their tax bills. Those
stimulus payments, while technically a decline in tax liability, are not being included in the tax costs for
our purposes. First, because they were distributed to the population in advance in the tax year, they
were a part of 2020 taxes but not really applicable to 2021 expenses. Second, they were more like
income – the payments were used for immediate expenses and didn’t really impact April tax filing. We
have decided to treat them as income and not include them in the cost of living calculation, even though
they were officially tax credits.