

# Geospatial Heterogeneity in Inflation: A Market Concentration Story\*

Seula Kim<sup>†</sup>  
Penn State and IZA

Michael A. Navarrete<sup>‡</sup>  
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## Abstract

We study how spatial variation in inflation affects real income inequality and the role of retailer market structure in driving disparities. Using the NielsenIQ Retail Scanner dataset and the Business Dynamic Statistics, we document new stylized facts of spatial heterogeneity in inflation and retailer market structure. We find that from 2006 to 2020 poorer MSAs experienced higher food inflation than richer ones, with an annualized gap of 0.46 percentage points (10 p.p. in total over the period). Poorer areas also had fewer goods, fewer retailers, and higher market concentration. Using a triple-difference estimator during the 2014-2015 bird flu outbreak, we identify the causal link between retailer concentration and inflation disparities. We build a model with a nested CES structure and Bertrand competition, suggesting that retailer market power is a potential source behind the linkage, and provide data evidence ruling out alternative cost-driven explanations.

**JEL Code:** E31, I31, L11, L81

**Keywords:** inflation, spatial inequality, market concentration, retailer market structure

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<sup>†</sup>Email: [seulakim@psu.edu](mailto:seulakim@psu.edu). Address: 614 Kern Building, University Park, PA 16802.

<sup>‡</sup>Email: [navarrem@nber.org](mailto:navarrem@nber.org). Address: National Bureau of Economic Research Cambridge, MA 02138.

# 1 Introduction

Inflation is a key economic indicator with significant implications for growth, stability, and the cost of living. However, it is often measured and studied at the aggregate level, particularly within disaggregated food categories. Literature and policymakers tend to overlook the heterogeneity in inflation rates across regions, which may mask important regional disparities.

Understanding local variations in food inflation is important for various reasons. Households in different regions experience varying price changes and adjust their consumption patterns based on local prices.<sup>1</sup> In particular, food markets are segmented and localized compared to other products, such as consumer technology, where local market structures can have a significant impact on price variation.<sup>2</sup> Also, food is a necessity and constitutes a substantial portion of household budgets, especially for lower-income and vulnerable households that spend a larger share of their income on food.<sup>3</sup> Therefore, spatial variations in food inflation gives important implications for consumer welfare and spatial inequality, as well as for policymakers to design more effective place-based policies. However, this has been underexplored in literature.

In this paper, we aim to address this gap by documenting spatial heterogeneity in food inflation rates and exploring the role of retailer market structure and its aggregate implications. We use NielsenIQ Retail Scanner data, which provides granular details of 12-digit universal product codes (UPCs), to construct price indexes for disaggregated personal consumption expenditure (PCE) food items at the metropolitan statistical area (MSA) level.<sup>4</sup>

In the data, we reveal several new stylized facts. First, food inflation rates vary across regions with different income levels. Poor MSAs show higher inflation rates than wealthier MSAs on average from 2006 to 2020, with a cumulative difference of about 10 percentage points between the bottom and top deciles. This pattern holds for both disaggregated and aggregated food items, and even when restricting the sample to common UPCs sold across all 10 deciles, referred to as the

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<sup>1</sup>This is partly because moving is costly with migration rates declining since the 1980s ([Kristin Kerns-D’Amore and McKenzie, 2022](#)).

<sup>2</sup>In the Nielsen Consumer Panel, we find that 92% of households purchase food items exclusively within their residential MSAs. More details are provided in [Appendix A](#).

<sup>3</sup>[Schanzenbach et al. \(2016\)](#) find in the Consumer Expenditure Survey that low-income households allocate a larger share of their budget to food than middle- or high-income households. Specifically, low-income households spend nearly 20% of their expenditures on food, compared to 13% for middle-income households and an even smaller share for high-income households.

<sup>4</sup>For example, two cans of Campbell’s tomato soup in different sizes would be classified as two different UPCs.

“common goods rule.” This restriction helps eliminate the effect of varying consumption baskets across MSAs with different income levels.

Second, we find that product and store varieties vary across regions. Richer areas have more varieties of goods (UPCs) and a greater number of stores and chains. Typically, the UPCs available in poorer deciles are a subset of those in wealthier deciles. This suggests that imposing the common goods rule across MSA deciles limits the UPCs in wealthier areas but has minimal impact on the basket of goods available in poorer areas.

Third, we show that regions with different income levels exhibit heterogeneous retailer market structures. In the NielsenIQ Retail Scanner data, we define large and small retailers by the top and bottom deciles based on the number of stores nationally. We find that in poorer areas, the share of large retailers is higher, while the share of small retailers is smaller. The opposite pattern is observed in richer areas. Alternatively, we use the Business Dynamic Statistics (BDS) and define large and small retailers with employment size.<sup>5</sup> The results are robust with this alternative definition. Additionally, retailer sales are lower and more concentrated in poorer areas.

Next, we investigate the relationship between inflation and retailer market structure. Using OLS regression, we find that market concentration is associated with higher inflation rates at the MSA level. However, this does not establish causal relationship. In order to identify causality, we use a quasi-experiment of the 2014-2015 bird flu episode as an exogenous supply shock to study its effect on egg price inflation. In particular, we apply a triple difference-in-difference estimation and examine the effect on inflation in MSAs impacted by the outbreak with higher market concentration. We find that the treated MSAs with higher market concentration (measured by sales HHI) experience higher inflation rates than those with lower market concentration. This identifies the causal impact of higher market concentration on regional inflation rates. Our findings suggest that concentrated retail markets exacerbate regional disparities in inflation, particularly during supply shocks.

Lastly, we investigate potential mechanisms behind the causal link between retailer market concentration and inflation rates. One hypothesis is through retailer market power. We build a simple model with a nested CES structure and Bertrand competition, where retailer markups depend on market share. The model suggests that retailer markups are higher in regions with higher market concentration, which contributes to higher inflation rates in these areas. Alternatively, inflation

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<sup>5</sup>Large retailers are those with 500 or more employees, while small retailers have 19 or fewer employees.

disparities could stem from cost differentials across regions. If retailer marginal costs grow faster in poorer areas, this could also drive inflation. However, we find suggestive evidence from local wage growth patterns that can rule out this cost-driven explanation.

These findings have important implications for policymakers in multiple dimensions. First, the regional variation in inflation suggests that real income inequality, when assuming uniform inflation across the U.S, underestimates the actual disparity. Specifically, the real income gap between the top and bottom deciles would widen if regional price deflators are used, with 2006 real income as the baseline. This underscores the need for policymakers to adopt localized approaches to measuring inflation and assess regional disparities when designing policies to address income inequality more accurately and effectively.

In addition, comparing our index to the official PCE price index from the Bureau of Economic Analysis (BEA), we find that the official index closely mirrors our index for the top MSA decile. This is because the official indexes are aggregated at the national level using expenditure weights, which are disproportionately accounted for by rich areas. As a result, relying on aggregate indexes may underrepresent inflation experienced in poorer regions while overrepresenting inflation in wealthier areas. This can potentially misinform inflation measurements in low-income regions and lead to less accurate policy assessments.

Furthermore, our spatial focus highlights food market segmentation and retailer market structure as important sources of policy implications. Given the localized nature of food markets, with a large share of purchases made locally, higher food inflation can directly impact the welfare of consumers in local markets. In particular, it can disproportionately affect vulnerable and immobile individuals in low-income areas, who spend a higher share of their income on food. Additionally, this issue is exacerbated by the local retailer market structure, as individuals in poorer areas have fewer alternatives and limited varieties of goods to substitute. Consequently, the combination of market segmentation and retailer market power creates a disproportionate burden on consumers in these regions. Therefore, policymakers should consider regional variations in inflation and market structure to alleviate the unequal impacts on economically disadvantaged areas.

**Related Literature.** This paper contributes to several major strands of the literature. First, our work relates to the literature on inflation heterogeneity across different groups. [Hobijn and Lagakos \(2005\)](#) and [Hobijn et al. \(2009\)](#) use Consumption Expenditure Survey (CEX) data to explore

inflation differences between poor and nonpoor individuals. However, their analysis assumes that individuals have the same mix of goods within a category and face identical prices for a given good, varying only the expenditure shares of broad categories across people. [Kaplan and Menzio \(2015\)](#) and [Kaplan and Schulhofer-Wohl \(2017\)](#), using Nielsen Consumer Panel and Retail Scanner data, confirm inflation disparities across households with different income levels for the same bundle of goods and find that low-income and older households experience higher inflation on average. [Jaravel \(2018\)](#) finds similar results with the same data but emphasizes the role of product innovation and segmented consumption goods. He argues that increases in the relative demand for products consumed by high-income households led firms to introduce more new products and reduce the prices of continuing goods consumed by these households. [Argente and Lee \(2021\)](#) find that high-income households had lower inflation rates during the recession, as they were more able to substitute toward lower-quality goods. [Handbury \(2021\)](#) documents that welfare differences between rich and poor households may depend on the set of goods available in each region, with disparities growing in wealthy cities that offer the largest amenities. Outside of food inflation, [Molloy \(2024\)](#) documents heterogeneity in shelter inflation across income distributions. These studies primarily focus on inflation heterogeneity at the individual level or attribute it to consumer-related factors, such as differences in consumption baskets, price sensitivity, preferences, or search efforts. Our paper contributes to this body of work by offering new evidence of spatial heterogeneity in inflation across regions with different income level and identify retailer market structure as a novel source of this variation.

Another important strand of literature closely related to our paper is the growing body of work on retailer market concentration and market power. Pioneered by [Autor et al. \(2020\)](#) and [De Loecker et al. \(2020\)](#), numerous studies have documented the rising trends in market concentration and markups. [Haltiwanger \(2012\)](#) and [Smith and Ocampo \(2025\)](#) document that retailer market concentration has increased over time. In particular, [Smith and Ocampo \(2025\)](#) show that both national and local retail concentration levels have risen significantly, and the pattern is widespread. The expansion of multi-market retailers into new regions has been a key driver of this national concentration increase. [Cao et al. \(2024\)](#) find a similar trend of increasing concentration and highlight the rise of national chains, particularly dollar stores. Other studies, including [Hottman \(2017\)](#) and [Stroebel and Vavra \(2019\)](#), estimate retailer markups and explore their interaction with local characteristics.

Hottman (2017) finds that retailer markups are lower in large cities compared to smaller cities, while Stroebl and Vavra (2019) observe a positive correlation between retailer markups and local housing prices, suggesting that higher housing prices increase consumer wealth and lower the elasticity of consumption. On the other hand, Sangani (2022) documents that rich households pay significantly higher retail markups due to differences in search behavior. Our paper contributes to this literature by providing new evidence of retailer market concentration varying across regions with different income level. In particular, we document a novel finding that retailer market concentration is higher in lower-income areas and establish a causal relationship in which market concentration contributes to higher inflation rates in these areas.

Lastly, our study contributes to a broad set of studies examining the association between income inequality and price indexes. Contrary to our results, Moretti (2013) finds that real wage inequality is lower than nominal income inequality. This discrepancy may be due to differences across the studies in what goods are being measured and which areas are being considered.<sup>6</sup> Recent work (Martin, 2024) has also investigated the use of alternative price indexes that are not expenditure weighted. One concern with expenditure weighting is that the price indexes could be unrepresentative. Specifically, poor areas may contribute relatively less than rich areas to official price indexes given that poor areas consume less (even after adjusting for population). The poor areas further get down-weighted since we find that uniform pricing does not hold. The poorer areas are experiencing higher inflation, but the price of a given UPC is lower. This evidence runs contrary to some previous work by DellaVigna and Gentzkow (2019) that found uniform pricing within certain narrow categories within food.

The rest of the paper is organized as follows. Section 2 describes the data and key measures. Section 3 presents stylized facts on spatial heterogeneity in food inflation and retailer market structure. Section 4 outlines the empirical strategy to identify causality and presents the main findings. Section 5 discusses a potential mechanism through retailer market power and alternative hypotheses. Section 6 concludes the paper.

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<sup>6</sup>We use a narrower set of goods but are broader in the areas considered, particularly in using more granular data.

## 2 Data and Measures

We use two main sources of data to analyze heterogeneous inflation rates across regions: the NielsenIQ Retail Scanner (RMS) dataset and Business Dynamic Statistics (BDS). The RMS dataset enables us to measure inflation rates and retailer market structure across regions by analyzing sales, price, and store distribution data from retailers for food products. The BDS dataset allows us to test the robustness of our findings by using alternative definitions of retailer size based on the number of employees.

### 2.1 NielsenIQ Retail Scanner

Our analysis uses the RMS dataset provided by the Kilts Center at Chicago Booth. This dataset includes weekly pricing, volume, and store merchandising data from over 100 retail chains across U.S. markets, covering more than 40,000 individual stores. Total sales in the NielsenIQ RMS sample exceed \$200 billion annually, representing 50% of grocery store sales, 55% of drug store sales, 32% of mass merchandiser sales, and 2% of convenience store sales.

A key advantage of this dataset is that it contains detailed information at the finest product level, 12-digit universal product codes (UPCs) that uniquely identify specific goods. The dataset contains over 2.6 million UPCs. Furthermore, NielsenIQ classifies UPC-level goods by 10 departments, 110 product groups, and over 1,000 product modules. We further use a concordance provided by the U.S. Bureau of Labor Statistics (BLS) that maps NielsenIQ product modules to entry level items (ELIs).<sup>7</sup> These ELIs then map to Personal Consumption Expenditure (PCE) disaggregated categories.

Our analysis focuses on the food sector, which is identified as the aggregation of 21 PCE food categories, spanning from 2006Q1 to 2020Q4. Table 1 lists these 21 categories. The concordance between the PCE categories (based on the ELIs) and NielsenIQ product modules is derived from a mapping provided by the BLS, which links the ELIs to NielsenIQ product modules.

To construct our main dataset from NielsenIQ, we start with the weekly store-UPC-level raw data and link it to personal income data at the MSA level from the U.S. Bureau of Economic Analysis based on store location information in NielsenIQ.<sup>8</sup> We then define income deciles by the

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<sup>7</sup>ELIs are the most granular complete mutually exclusive classification of CPI items produced by the BLS. We were provided this concordance as part of the Re-Engineering Statistics using Economic Transactions (RESET) project.

<sup>8</sup>Note that our baseline analysis relies on the MSA location of retailer stores in NielsenIQ. Potential concerns



Table 1: 21 PCE Food Categories

1	Bakery	12	Milk
2	Beef and Veal	13	Other Foods
3	Beer	14	Other Meats
4	Cereal	15	Pork
5	Coffee	16	Poultry
6	Dairy	17	Processed Fruits and Vegetables
7	Eggs	18	Soda
8	Fats and Oil	19	Spirits
9	Fish	20	Sugar and Sweets
10	Fruits	21	Vegetables
11	Wine		

*Notes:* The table represents the 21 PCE disaggregated Food categories. These disaggregated categories are mutually exclusive. The PCE category Food and Beverages is composed of these 21 categories.

Table 2: Examples of MSA Deciles

Decile 1	El Paso (TX), Albany (GA), Yuma (AZ), Terre Haute (IN), etc.
Decile 5	Knoxville (TN), Panama City (FL), Binghamton (NY), Wilmington (NC), etc.
Decile 10	New York (NY), Washington (DC), Boston (MA), San Francisco (CA), etc.

*Note:* The table provides some examples of MSAs located in the decile 1, 5, and 10. These deciles are time invariant in our setting and are based on income per capita data from the BEA.

cross-time average of MSA-level income per capita. See examples of the income deciles in Table 2. The data is aggregated to monthly frequency using the National Retail Federation (NRF) calendar and then up to the quarterly level.<sup>9</sup> Using the concordance between product modules and PCE food categories, we identify the food sector in NielsenIQ. Finally, to measure retailer market structure and the degree of competition, we link store identifiers to retail chain identifiers using the crosswalk provided by Nielsen.

Our main analysis is at the MSA (or MSA income decile), food category, and quarter level. We generate price indexes, the Herfindahl-Hirschman index, the share of top retailers, and other statistics associated with market power and structure for each pairing of MSA (or MSA income

about this measure arise if an MSA is broad enough to encompass consumers who move across MSAs, potentially creating a gap between consumer income and that of residents. To address this, we leverage the Nielsen Consumer Panel data to examine the fraction of households shopping outside their residential MSAs and explore their characteristics. Additionally, we compare two definitions of income deciles, one based on consumer MSAs and the other based on household MSAs. More details are provided in Appendix A, which help address potential concerns.

<sup>9</sup>The NRF calendar typically starts in early February and ends around the end of January in the following year.



Table 3: Summary Statistics of MSA-quarter level Sample

	Mean (SD)		Mean (SD)
Income per capita (\$ thousands)	42.49 (9.29)	Share of Large Chains (top sales decile)	0.357 (0.11)
Sales (\$ millions)	207.23 (366.62)	Share of Small Chains (bottom sales decile)	0.016 (0.04)
Population Share	0.005 (0.01)	Share of Large Chains (top store# decile)	0.619 (0.16)
Number of Chains	9.74 (3.71)	Share of Small Chains (bottom store# decile)	0.008 (0.03)
Number of Stores	193.84 (251.38)	Market Concentration (HHI)	0.416 (0.18)
Number of UPCs	49180.16 (18954.19)	Market Concentration (CR1)	0.534 (0.19)
		Market Concentration (CR3)	0.817 (0.12)
Observations	11,100	Observations	11,100
Number of MSAs	185	Number of MSAs	185
Number of quarters	60	Number of quarters	60

*Note:* The table provides the summary statistics of the main MSA-level sample for the aggregate food and beverages. Large (small) chains are defined by those in the top (bottom) decile based on total sales or the count of stores of that chain at the national level in a given quarter. We compute the share of these large or small chains within an MSA-quarter. Market concentration is measured using either the Herfindahl-Hirschman Index (HHI) of chain-level sales or the sales share of the top one or three retailers within an MSA (CR1 or CR3).

decile) and food category-quarter. We use HHI as our main measure of market concentration by relying on data from the NielsenIQ Retailer Scanner dataset. Alternatively, we use the sales share of top one or three retailers within an MSA as a measure of market concentration. Table 3 provides summary statistics for the main sample.

## 2.2 Business Dynamic Statistics

The Business Dynamic Statistics (BDS, henceforth) is a public version of administrative Census firm-level data, the Longitudinal Business Dynamics. The data provide annual measures of business dynamics in the U.S., such as job creation and destruction, establishment births and deaths, and firm entry and exit. These data are provided for the economy overall as well as aggregated by

establishment or firm characteristics such as firm size and age. Furthermore, the data provide sectoral- and geographic-level information, which allows us to track the business dynamics at the sector, state, county, and MSA levels.<sup>10</sup> In the BDS, we use retailers' information (based on NAICS code 44-45) and construct alternative measures for retailer size and market structure at the MSA level. We define large firms as those with 500 or more employees.

## 2.3 Main Measures

### 2.3.1 Price Indexes

To measure and compare the cost of living across income deciles, we construct price indexes from the UPC-level data in NielsenIQ. As a starting point, we use traditional price indexes, focusing on the log geometric Laspeyres price index, which is calculated as follows:

$$\ln \Psi_{mt}^G = \sum_{k \in \mathbb{C}_{mt-1,mt}} \omega_{mkt} \ln \frac{p_{mkt}}{p_{mkt-1}}, \quad (1)$$

where  $\omega_{mkt}$  represents the weight assigned to product  $k$  in quarter  $t$  for MSA  $m$ , and we use lagged expenditure shares as weights ( $\omega_{mkt} = s_{mkt-1}$ ) for the Laspeyres index. The set  $\mathbb{C}_{mt-1,mt}$  consists of all “continuing” goods that are sold in both periods  $t$  and  $t - 1$  in MSA  $m$ .

Although our default measure is the geometric Laspeyres index, we also use the geometric Paasche index, which replaces the weights with current expenditure share ( $\omega_{mkt} = s_{mkt}$ ). Additionally, we conduct a robustness test using alternative demand-based indexes based on the constant elasticity of substitution (CES) preference assumption, to account for potential substitution bias inherent in the traditional indexes.<sup>11</sup> One is the Sato-Vartia index, where we replace the above weight with

$$\omega_{kt} = \frac{\frac{(s_{kt} - s_{kt-1})}{(\ln s_{kt} - \ln s_{kt-1})}}{\sum_{k \in \mathbb{C}_{t-1,t}} \frac{(s_{kt} - s_{kt-1})}{(\ln s_{kt} - \ln s_{kt-1})}},$$

which accounts for product entry and exit, in addition to the demand effects for common goods appearing between periods  $(t - 1)$  and  $t$ . Another index we use is the Feenstra-adjusted Sato-Vartia

<sup>10</sup>See more details in <https://www.census.gov/programs-surveys/bds.html>.

<sup>11</sup>The traditional indexes do not account for demand effects that may arise from consumers substituting between differentiated goods.

index, which incorporates the effects of product entry and exit. It is constructed using the following formula:

$$\ln \Psi_{mt}^{Feenstra-SV} = \ln \Psi_{mt}^{SV} + \frac{1}{\sigma - 1} \ln \frac{\lambda_{mt,t-1}}{\lambda_{mt-1,t}},$$

where  $\lambda_{mt,t-1} = \frac{\sum_{k \in C_{mt-1,t}} p_{mkt} q_{mkt}}{\sum_{k \in \Omega_{mt}} p_{mkt} q_{mkt}}$ ,  $\lambda_{mt-1,t} = \frac{\sum_{k \in C_{mt-1,t}} p_{mkt-1} q_{mkt-1}}{\sum_{k \in \Omega_{mt-1}} p_{mkt-1} q_{mkt-1}}$ .

Lastly, we also construct the price indexes by restricting our sample to UPCs sold in all ten income deciles in a given quarter. Consumption baskets vary across different income groups, as indicated in [Jaravel \(2018\)](#), and potentially across regions with different income levels. Therefore, we use this price index, based only on the set of common goods, to assess whether regional inflation disparities stem from the differences in consumption baskets. Our findings show that applying the common goods restriction reduces the inflation gap between regions, but it does not fully explain the difference in inflation between the top and bottom income deciles.

### 2.3.2 Retailer Market Structure

In the Nielsen IQ data, we define large and small chains based on the distribution of store counts at the national level. Using store and retailer codes along with geographic information for each store, we identify stores, retailers, and their ownership structures across regions and time. We define the size of retailers based on the number of stores they own at the national level. We classify large chains as those in the top decile and small chains as those in the bottom decile of the size distribution. We then calculate the number and share of large and small chains in each MSA.

Alternatively, using the BDS, we define large and small retailers based on their number of employees. Large retailers are those with 500 or more employees, while small retailers have 19 or fewer employees. We then calculate the share and employment share of large and small firms within each MSA and compare these across different regions.

Finally, we use the sales share of retailers to construct the Herfindahl-Hirschman index (HHI) to measure the degree of market concentration among retailers in each region.

### 3 Spatial Heterogeneity in Inflation and Retailer Market Structure

#### 3.1 Price and Inflation Patterns

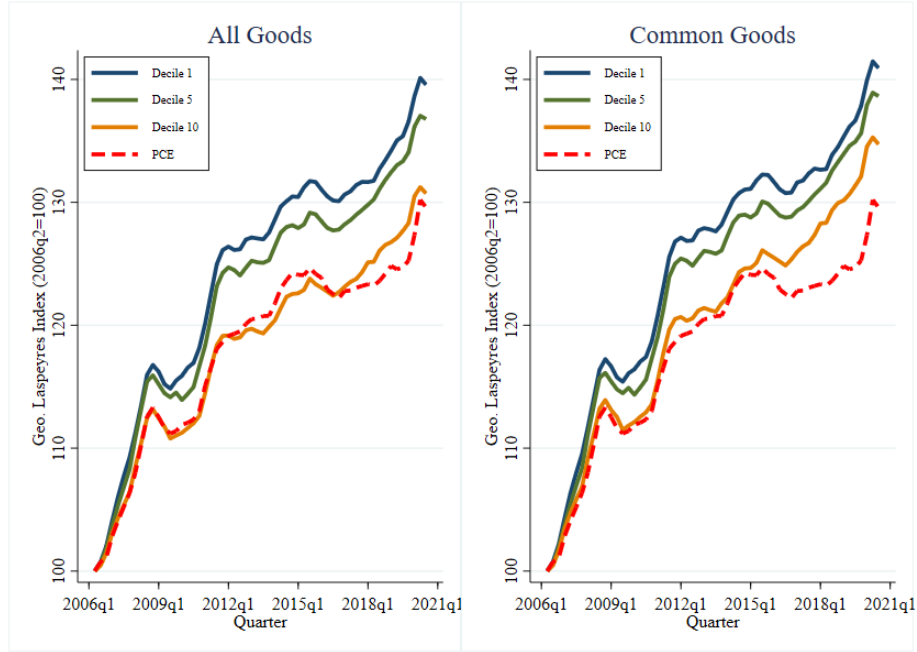


Figure 1: Price Index for Aggregated Food

*Notes:* This figure represents relative prices for the aggregated food market with four series, where each series is normalized to 100 at the start of the sample. The sample period begins in 2006Q2 and ends in 2020Q4. The data for the three solid lines come from the NielsenIQ Retail Scanner dataset, represented by geometric Laspeyres price indexes, while the dashed line is the official measure of personal consumption expenditures (PCEs) from the U.S. Bureau of Economic Analysis (official measure). Each solid line corresponds to a decile of the income per capita ranking of MSAs, with decile 1 containing the MSAs with the lowest income per capita and decile 10 containing the MSAs with the highest income per capita. The left panel shows results for the set of goods sold by retailers in quarters  $t$  and  $t-1$ . The right panel corresponds to the set of goods present across all 10 deciles in quarters  $t$  and  $t-1$ . We map the NielsenIQ UPCs to the PCE definition of food purchased for off-premises consumption by using a product module concordance provided by the U.S. Bureau of Labor Statistics.

Figure 1 presents the geometric Laspeyres index constructed from the NielsenIQ Scanner data, alongside the official PCE price index for the first (poorest), fifth, and tenth (richest) income deciles. The analysis focuses on aggregated food. The left panel shows the price index including all UPCs, while the right panel includes only common goods—those UPCs present across all deciles. The

base quarter is set to 2006Q2.<sup>12</sup>

The general trend captured by Figure 1 indicates that the poorest decile (“Decile 1”) exhibits higher price growth compared to the richer deciles (“Decile 5” and “Decile 10”). This pattern holds even when restricting the sample to the set of common goods for the price index construction. These results suggest that the variation in price growth across deciles is not primarily driven by different consumption baskets or preferences among consumers in different regions. This trend is generally consistent across the 21 PCE food categories as well as for other aggregated food series. Furthermore, these patterns remain robust even after using demand-based price indexes. See Appendix B for further details.

Lastly, note that the official PCE series is closer to the series for the highest income decile than it is to any other decile. This demonstrates that the official PCE price index series understates inflation to the largest extent for individuals living in the poorest areas. This discrepancy in inflation has significant macroeconomic implications. For example, if we assumed uniform nominal wage growth across the United States, the official real wage growth would appear higher than the actual real wage growth experienced in the poorest areas.

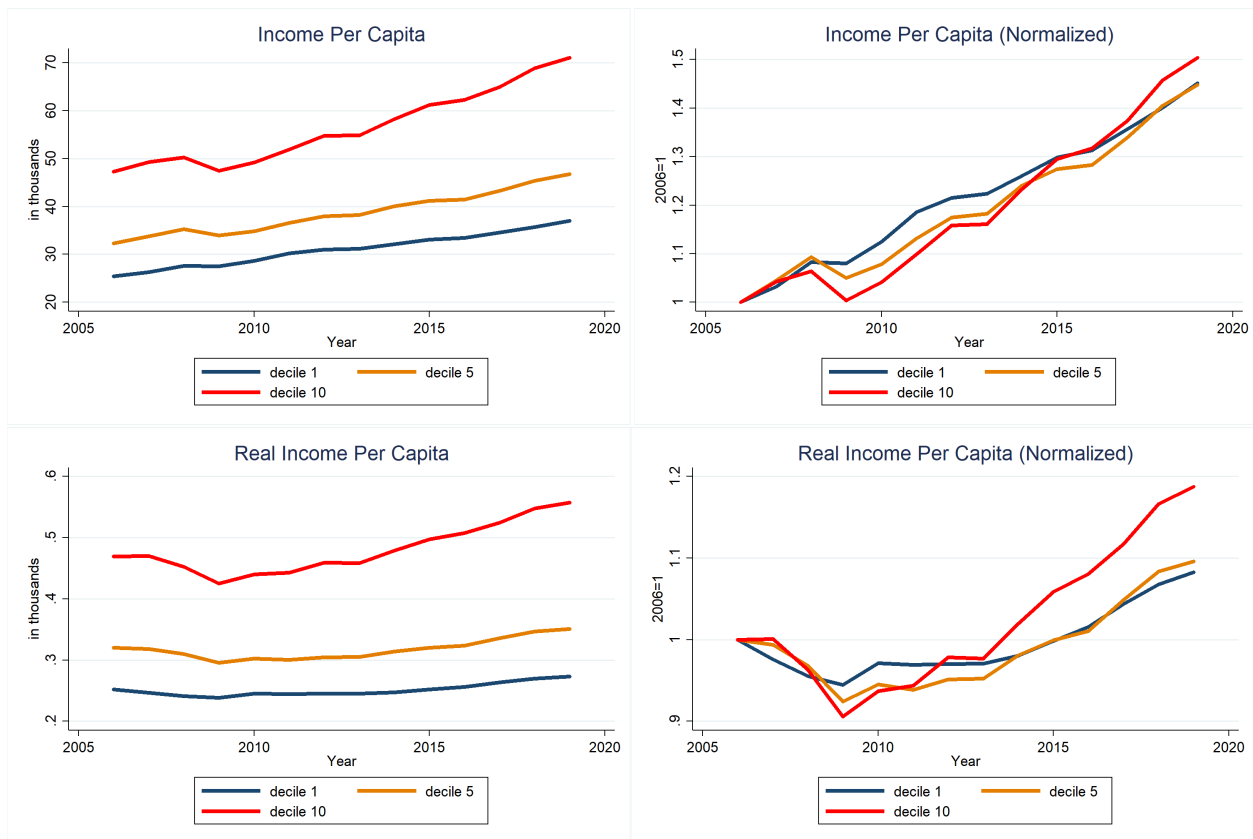
### 3.2 Nominal and Real Income Inequality

We further look into nominal and real income per capita across income deciles. We use the MSA-level nominal income per capita from the BEA and take the average for each decile. We construct real income per capita by dividing nominal income per capita by the food price index from the NielsenIQ Retail Scanner data.

Figure 2 illustrates the patterns of nominal and real income per capita across the three income deciles. The data shows that both nominal and real income per capita have been increasing across all three deciles, with the exception of the Great Recession, during which both the top and bottom deciles experienced a decline in income. However, the gap between the top and bottom deciles is widening for both measures, particularly for real income per capita, due to cumulative inflation disparities across these regions. This gap may become even more pronounced if we account for differences in the expenditure share of food across the deciles, especially considering that poorer

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<sup>12</sup>Note that price indices are constructed using information from both periods  $t$  and  $t-1$ . Thus, 2006Q2 is the first quarter in which we are able to estimate a price index.



**Figure 2: Nominal and Real Income per Capita**

*Notes:* This figure represents nominal and real income per capita (in thousands) for top, median, and bottom income deciles. The top two panels show the decile-level nominal income per capita, averaging across MSAs, where the data is sourced from the U.S. Bureau of Economic Analysis (BEA). The bottom two panels present the decile-level real income per capita, which is constructed by the nominal income per capita divided by the aggregate food price index constructed in NielsenIQ Retail Scanner dataset. The sample period begins in 2006Q1 (2006Q2 for the real series) and ends in 2020Q4. Each line corresponds to a decile of the income per capita ranking of MSAs, with decile 1 containing the MSAs with the lowest income per capita and decile 10 containing the MSAs with the highest income per capita. The left panels show the raw series, and the right panels are normalized series at the initial quarter.

households allocate a larger proportion of their expenditure to necessities, such as food, compared to wealthier households. This suggests that understanding inflation heterogeneity across regions is important to capture the real income gap properly.

### 3.3 Retailer Market Structure

To examine retailer market structure across different regions, we compute summary statistics for our main sample from NielsenIQ by income-per-capita decile. See Table 4. The table shows that richer income areas have a greater number of retailers and stores as well as higher sales. Also, poorer areas

Table 4: Summary Statistics of MSA-quarter level Sample by Income Deciles

	Decile 1	Decile 5	Decile 10
	Mean (SD)	Mean (SD)	Mean (SD)
Income per capita (\$ thousands)	31.615 (4.876)	39.010 (4.994)	56.733 (11.793)
Sales (\$ millions)	24.639 (18.431)	73.501 (74.623)	773.676 (748.232)
Population Share	0.001 (0.001)	0.002 (0.001)	0.019 (0.022)
Number of Chains	7.267 (2.440)	8.261 (2.447)	13.291 (4.901)
Number of Stores	58.788 (41.002)	91.243 (75.342)	535.664 (490.807)
Number of UPCs (thousands)	32.368 (12.131)	40.419 (13.292)	70.980 (22.167)

*Note:* The table provides the summary statistics of the main MSA-level sample for the aggregate food and beverages for the five income-per-capita deciles 1, 5, 10. Large (small) chains are defined by those in the top (bottom) decile based on total sales or the count of stores of that chain at the national level in a given quarter. We compute the share of these large or small chains within an MSA-quarter.

have fewer UPCs and have higher quantity and expenditure shares of total consumption allocated to the set of common goods.

We next run the following regressions to examine the cross-sectional variation in retailer market structure across MSAs with different income levels:

$$Y_{mt} = \beta_0 + \beta_1 Income_{mt} + \delta_t + \varepsilon_{mt}, \quad (2)$$

where  $Y_{mt}$  is either the sales, total count of chains or stores, or the share of large retailers in MSA  $m$  in quarter  $t$ .  $Income_{mt}$  is income per capita in MSA  $m$ , and  $\delta_t$  is a quarter fixed effect. The results, presented in Table 5, confirm the cross-sectional patterns that richer areas have higher sales, more retailers and stores, and a lower fraction of large retailers.

We observe consistent patterns in the BDS data as well. See Appendix C for further details.<sup>13</sup> These figures indicate that poorer income areas have a larger share of large retailers, while richer

<sup>13</sup>Figure C.1 shows that more retail chains are located in richer areas, and Figure C.2 shows that these retailers create more jobs in those areas. Furthermore, we find a clear pattern between firm size and income decile. Figures C.3 and C.4 present the share of large and small retailers, respectively, within each income decile.



Table 5: Retailer Dynamics in NielsenIQ

	Sales (in \$1mil.)	Chain counts	Store counts	Large firm share (sales)	Large firm share (store#)
Income	26.37*** (5.876)	0.192*** (0.039)	16.43*** (3.928)	-0.002*** (0.001)	-0.009*** (0.002)
Quarter FE	Yes	Yes	Yes	Yes	Yes
Observations	11,100	11,100	11,100	11,100	11,100

*Note:* The table represents regression results from our two-way fixed effects estimator. The coefficient of interest is the coefficient on income per capita (in \$1000) in an MSA for a given quarter. The dependent variable is total sales in Column 1, total counts of chains and stores in Column 2, 3, and an unweighted share (%) of large firms in Column 4 and Column 5, where large retailers are defined by the top decile of total sales (Column 4) or the number of store counted (Column 5) at the national level in NielsenIQ. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 6: Market Concentration across Different Income Deciles

	HHI	CR1	CR3
Decile	-0.004*** (0.001)	-0.004** (0.001)	-0.003*** (0.001)
Quarter FE	Yes	Yes	Yes
Observations	11,100	11,100	11,100

*Note:* The table represents the regression result for market concentration across different deciles. Market concentration is measured by either the Herfindahl-Hirschman index (HHI) of retail chain's sales or the sales share of top 1 or 2 or 3 firms in an MSA in a given quarter. The coefficient of interest is the coefficient on income per capita decile. This independent variable is a discrete categorical variable that takes the value 1 (poorest) to 10 (richest). Each column show shows the result for each of the market concentration measures, respectively. Data is collected from the NielsenIQ scanner database and the BEA. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

areas tend to have a smaller share of large retailers. Conversely, the fraction of small retailers is higher in wealthier areas.<sup>14</sup>

We next explore retailer market concentration at the decile level using the following regression:

$$HHI_{mt} \text{ (or } CR_{mt}) = \beta_0 + \beta_1 Income_{mt} + \delta_t + \varepsilon_{mt}, \quad \text{where } i = 1, 3 \quad (3)$$

where  $HHI_{mt}$  is the Herfindahl–Hirschman index of retailer sales, and  $CR_{mt}$  is the sales share of top firms in MSA  $m$ , quarter  $t$ . Note that we take either top 1 or 3 firms to construct  $CR_{mt}$ .  $\delta_t$

<sup>14</sup>Note that the size of retailers is measured by firm-level employment, and the share is calculated based on the number of firms operating retail stores in each MSA. This analysis is robust to using the number of establishments instead. Additionally, these patterns hold consistently across the entire sample period.

represents a time fixed effect. The results in Table 6 show that market concentration, measured in both HHI and the sales share of top firms, is higher in poor income areas.<sup>15</sup>

These results suggest that retailer market structure varies across regions with different income levels. In particular, retailer market concentration is higher in poorer areas, where a larger share of sales is dominated by larger firms.

## 4 Retailer Market Concentration and Inflation Disparities

To explore the potential link between higher inflation and retailer market concentration in poorer MSAs compared to richer ones, we conduct further analyses using the Herfindahl-Hirschman Index (HHI) as our measure of market concentration. First, we examine the relationship between inflation rates and HHI. To assess a causal relationship, we exploit a quasi-experiment based on the 2015 bird flu outbreak and apply a triple-difference estimator. Consequently, this section focuses on egg price inflation.

### 4.1 Standard OLS Estimator

First, we test how the inflation rate at the MSA level is associated with the degree of market concentration using the following simple OLS regression:

$$P_{mt} = \beta_0 + \beta_1 HHI_{mt} + \delta_m + \delta_t + \varepsilon_{mt}, \quad (4)$$

where  $P_{mt}$  is the (geometric) Laspeyres inflation rate of eggs in MSA  $m$  in quarter  $t$ .  $HHI_{mt}$  is the HHI of retailer sales in MSA  $m$  in quarter  $t$ .  $\delta_m$  and  $\delta_t$  are the MSA and quarter fixed effects, respectively.

The results are presented in Table 7, where we find a positive and statistically significant relationship between HHI and inflation.<sup>16</sup> However, it is important to note that we cannot establish a causal relationship here, as this analysis may be subject to endogeneity bias. For instance, the observed relationship could be demand-driven, where consumers in MSAs with higher HHI are more

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<sup>15</sup>Note that these results are robust to another specification where we take out MSA fixed effects only. See Appendix D.

<sup>16</sup>In this specification, and all other specifications with MSA-level data, we cluster standard errors at the MSA level.

Table 7: Market Concentration in Eggs Market

	Inflation
HHI	0.022*** (0.005)
Constant	-0.003 (0.003)
Observations	9,484

*Note:* The table represents regression results from our two-way fixed effects estimator. The coefficient of interest is the coefficient on our measure of market concentration: HHI. HHI is the Herfindahl-Hirschman index (HHI) of retail chain's sales of eggs within an MSA. HHI is a continuous variable that can range from 0 to 1. The dependent variable is inflation at the MSA-quarter level. Inflation is measured using the geometric Laspeyres price index. HHI and inflation measures are based on NielsenIQ Retail Scanner data.  
\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

likely to purchase goods that are experiencing relatively higher inflation. Alternatively, consumers in richer MSAs may differ significantly from those in poorer MSAs, with greater sensitivity to price changes. Such heterogeneity in consumer behavior may have led retailers in wealthier areas to increase prices at slower rates. Another potential explanation is a supply-side story, where poorer MSAs have fewer stores, which weakens competition and allows retailers to raise prices.

To isolate whether the effect we observe is driven by the supply side or the demand side, we use the 2014–2015 bird flu outbreak as a quasi-experiment. In the following section, we apply a triple-difference estimator to investigate this relationship in greater detail.

## 4.2 Triple-Difference Estimator

We use the 2014–2015 highly pathogenic avian influenza outbreak as an exogenous supply shock to the egg market. The 2014–2015 bird flu episode affected the price and quantities of eggs sold, as evidenced in Figure B.1 and started in 2014Q4 to affect egg prices. Based on U.S. Department of

Agriculture (USDA) reports, 36 million layers (birds that lay eggs) were lost due to the bird flu by June 2015.<sup>17</sup>

Importantly, reports from the USDA and the Government Accountability Office (GAO) indicate that the impact of the bird flu shock exhibited geospatial variation, primarily affecting the central and western parts of the U.S. Farmers in these parts of the country were more affected than farmers in other parts of the countries in terms of their bird layers potentially catching the disease. We have access to official data from the USDA on the timing, locations, and number of bird layers that were culled.<sup>18</sup> By identifying the MSAs where these layers were culled, we can pinpoint areas disproportionately affected by the bird flu, which may have experienced higher inflation in egg prices early in the outbreak during the inflationary period.

Leveraging this information, we can construct a difference-in-differences identification strategy by grouping treated and control MSAs by comparing the effect of the bird flu outbreak on them. Additionally, we extend this approach by using a triple difference-in-differences estimator, which interacts MSA-level market concentration with the standard diff-in-diff term. This allows us to examine how the effect of the outbreak on the inflation of eggs varies based on the degree of retailer market concentration.

First, to measure whether the MSAs where farmers culled their layers were disproportionately affected by the bird flu, we use a two-year window around the start of the bird flu episode, 2014Q4, and run the following traditional two-way fixed effects regression over the sample from 2012Q4 to 2016Q4:

$$P_{mt} = \beta_0 + \beta_1(Treated_m \times Post_t) + \delta_m + \delta_t + \varepsilon_{st}, \quad (5)$$

where  $P_{mt}$  is the (geometric) Laspeyres inflation rate for eggs in MSA  $m$  in quarter  $t$ .  $Treated_m$  is an indicator variable that takes the value of one if farmers in MSA  $m$  had to cull their layers during the 2014-2015 bird flu outbreak, according to the USDA.  $Post_t$  is a binary variable that takes the value of one after 2014Q4, and zero otherwise. As before,  $\delta_m$  and  $\delta_t$  are the MSA fixed effects and quarter fixed effects, respectively. The coefficient on  $\beta_1$  should be positive, at least during the inflationary period of the bird flu, given that these MSAs experienced a relatively larger cost shock.

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<sup>17</sup>The USDA also compensated producers that had to cull their layers. Payment was based on "fair market" values as determined by USDA appraisers.

<sup>18</sup><https://crsreports.congress.gov/product/pdf/R/R44114>

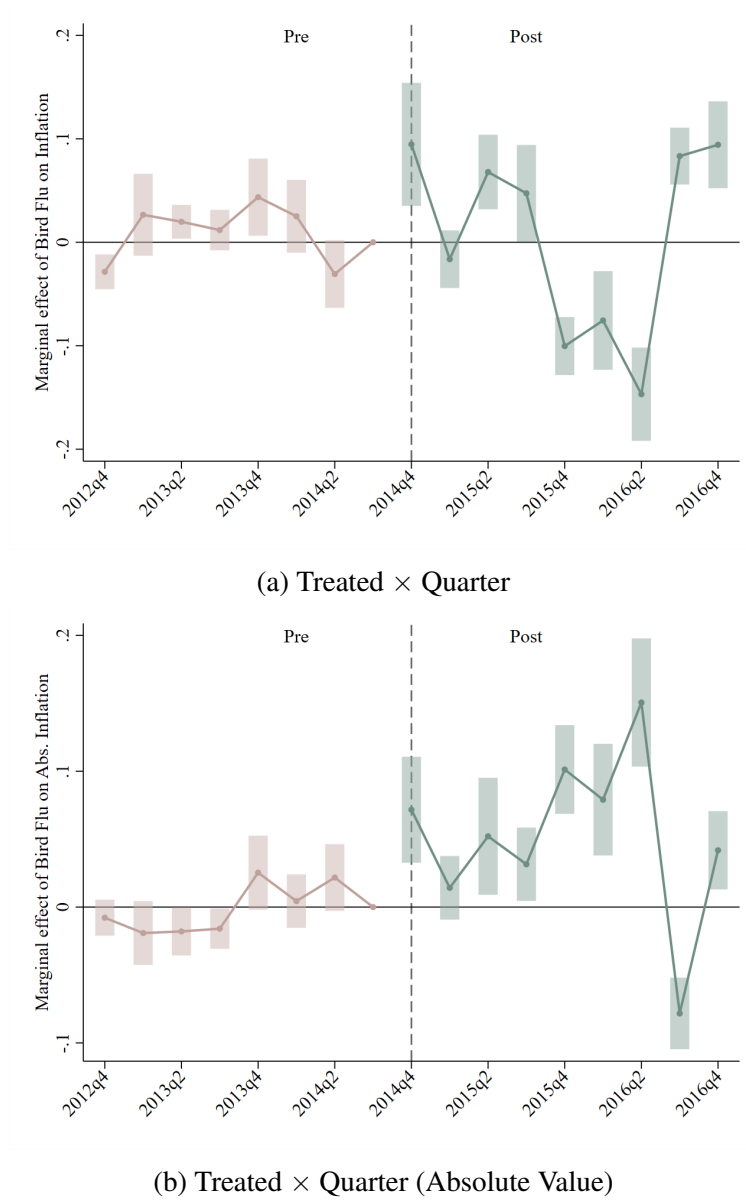
Table 8: TWFE Estimator (Bird Flu Episode)

	Inflation	Inflation	Inflation	Abs. Inflation
Bird Flu $\times$ Post	-0.003 (0.004)	0.039*** (0.008)	-0.035*** (0.007)	0.053*** (0.006)
Sample	All	Inflation	Deflation	All
Quarter FE	Yes	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes	Yes
Quarters	17	10	7	17
MSAs	185	185	185	185
Observations	3,145	1,850	1,295	3,145

*Note:* The table represents regression results from our two-way fixed effects estimator. The coefficient of interest is the interaction of Post and Bird Flu. Post is a binary variable that takes the value 1 after 2014q4. Bird Flu is a binary variable that takes the value 1 if an MSA culled its layers during the 2014-2015 bird flu episode. Column 1 pools all periods together and has the inflation rate as the outcome variable. Column 2 only looks at the inflationary period and has the inflation rate as the outcome variable. Column 3 only looks at the deflationary period and has the inflation rate as the outcome variable. Column 4 pools all periods together and has the absolute value of the inflation rate as the outcome variable. Inflationary and deflationary periods are determined by the national price index of eggs. The sample period ranges from 2012q4 to 2016q4. MSA and quarter fixed effects are included. Standard errors are clustered at the state-level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

The results are shown in Table 8. In column 1, we estimate an effect of zero, which may suggest that these MSAs were not disproportionately affected by the 2014-2015 bird flu. However, this null effect masks heterogeneity in the effects during this period. When we separate the sample into inflationary and deflationary periods, we observe opposing effects in the MSAs where layers were culled. In column 2, we restrict the sample to the inflationary period when the national egg inflation rate was above zero. Here, we estimate a 0.04 coefficient on the interaction of Bird Flu and Post, which corresponds to a 3.9 percentage point higher inflation rate in MSAs affected by the bird flu after 2014Q4 during the inflationary period. This point estimate is significant at the 1% level. In column 3, we restrict the sample to the deflationary period and find that MSAs that culled their layers experienced a 3.5 percentage point lower inflation rate after 2014Q4 during the deflationary period. This point estimate is also significant at the 1% level. In column 4, we pool all quarters and take the absolute value of the dependent variable (the inflation rate). We find that MSAs that culled their layers experienced larger changes in the inflation rate after 2014Q4 of 5.3 percentage points. This coefficient is significant at the 1 percent level.

These heterogeneous inflation effects during the bird flu outbreak are reflected in Figure 3.



**Figure 3: Event Study Difference-in-Differences (Bird Flu)**

*Notes:* The figure represents the event study difference-in-differences analysis examining the dynamic effect of MSAs disproportionately affected by the 2014-2015 bird flu episode on inflation. The outcome variables in subfigure A and subfigure B are, respectively, the inflation rate and the absolute value of the inflation rate. MSAs are assigned to the treatment group based on a USDA report detailing which farms culled their layers. The post-period starts in 2014q4, and 2014q3 is the reference quarter. Effects are measured from 2012q4 to 2016q4. Standard errors are clustered at the MSA level.

The left panel plots the standard event study difference-in-differences coefficients. The dashed vertical line corresponds to 2014Q4, marking the start of the post-period. We observe no systematic difference in inflation rates between MSAs that culled their layers (the treated MSAs) and MSAs that did not cull their layers (the control MSAs) prior to 2014Q4. There appears to be no pre-trend

difference between the treated MSAs and the control MSAs . However, after 2014Q4, the treated MSAs experienced relatively higher inflation in some quarters and relatively lower inflation in others, suggesting a mixed but significant effect of the bird flu shock.

These opposing inflation effects can be explained by heterogeneous impacts depending on whether the egg market is in an inflationary or deflationary period. This dependency on the inflationary or deflationary phase is reflected in the panel B of Figure 3, where we replace the dependent variable with the absolute value of the inflation rate. We find that the impacted MSAs were consistently more affected after 2014Q4. Additionally, we continue to observe no significant difference between these two groups of MSAs prior to 2014Q4, further supporting the notion that the bird flu shock had a heterogeneous effect depending on market conditions. This pattern of higher inflation in the inflationary period and lower inflation in the deflationary periods holds for every quarter in the post period except 2016Q3.

Next, we use a triple-difference estimator to measure how the impact varies across the treated MSAs (where farmers culled their layers) with different degrees of market concentration (HHI). The following regression outlines the identification strategy:

$$\begin{aligned}
P_{mt} = & \beta_0 + \beta_1 HHI_{mt} + \beta_2 (\text{Treated}_m \times \text{Post}_t) \\
& + \beta_3 (\text{Treated}_m \times HHI_{mt}) + \beta_4 (\text{Post}_t \times HHI_{mt}) \\
& + \beta_5 (\text{Treated}_m \times \text{Post}_t \times HHI_{mt}) + \delta_m + \delta_t + \varepsilon_{mt},
\end{aligned} \tag{6}$$

where the subscript  $m$  corresponds to MSA  $m$  and  $t$  is quarter  $t$ .  $\text{Treated}_s$  is a binary variable indicating whether MSA  $s$  is near to where layers were culled during the 2014-2015 bird flu episode according to the USDA report.  $\text{Post}_t$  is a binary variable that takes the value 1 if quarter  $t$  is after 2014Q4, and zero otherwise.  $HHI_{mt}$  is the HHI of retailer concentration of sales in MSA  $m$  for quarter  $t$ .  $P_{mt}$  is the geometric Laspeyres inflation rate in MSA  $m$  in quarter  $t$ . The fixed effect terms,  $\delta_m$  and  $\delta_t$ , are the same as before, and  $\varepsilon_{st}$  is the error term. For this analysis we fix HHI values to 2014Q3 during the Post period to isolate the effect of how MSAs with differences in existing market concentrations

The results from our triple difference estimator are presented in Table 9. In column 1, we restrict our sample to the inflationary period and find that MSAs with higher market concentration



Table 9: Triple Difference Estimator (Market Concentration)

	(1) Inflation	(2) Inflation	(3) Inflation
Bird Flu $\times$ Post $\times$ HHI	0.084*** (0.019)	0.040* (0.023)	0.050*** (0.010)
Bird Flu $\times$ Post	-0.006 (0.010)	-0.056*** (0.012)	-0.030*** (0.007)
HHI $\times$ Post	-0.008 (0.008)	-0.008 (0.011)	-0.010** (0.005)
Bird Flu $\times$ HHI	-0.254 (0.156)	-0.075 (0.074)	-0.165 (0.107)
HHI	0.056* (0.029)	0.026 (0.041)	0.037 (0.025)
Sample	Inflation	Deflation	All
Quarter FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Quarters	10	7	17
MSAs	185	185	185
Observations	1,850	1,295	3,145

*Note:* The table represents regression results from our triple difference-in-differences. The coefficient of interest is the interaction of Post, HHI, and Bird Flu. Post is a binary variable that takes the value 1 after 2014q4. HHI is the Herfindahl-Hirschman index (HHI) of retail chain's sales of eggs within an MSA. HHI is a continuous variable than can range from 0 to 1. Note that we fix HHI values to 2014q3 values for all quarters in the post period. Bird Flu is a binary variable that takes the value 1 if an MSA culled its layers during the 2014-2105 bird flu episode. Column 1 only considers the inflationary period. Column 2 only considers the deflationary period. Columns 3 pools all periods together. Inflationary and deflationary periods are determined by the national price index of eggs. The sample period ranges from 2012q4 to 20164. MSA and quarter fixed effects are included across all specifications. Standard errors are clustered at the MSA-level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

experienced faster price increases in the egg market after the bird flu episode. This point estimate is significant at the 1% level. One concern is that these MSAs with higher market concentration might potentially lower prices by larger amounts during the deflationary period. We find no support for this hypothesis when we restrict our sample to the deflationary period in column 2. In fact, we find some suggestive evidence that these MSAs are slower to decrease prices in the deflationary period, as indicated by the positive coefficient on the triple interaction term in column 2, which restricts to the deflationary sample. This coefficient is significant at the 10% level. In column 3, we pool all

quarters from the two-year window together and continue to find that MSAs with higher market concentration exhibit higher inflation than those with lower market concentration. This coefficient is significant at the 1% level. This regression is also consistent with using an alternative measure of market concentration, the sales share of the top retailers in the eggs market, as shown in Appendix E.

Our results indicate that retailer market concentration contributes to the heterogeneous inflation rates between poor and rich MSAs in the egg market. A potential mechanism behind the role of retailer market concentration is their market power. In particular, the triple difference-in-differences results suggest that these differences may stem from variations in markups rather than marginal costs with high cost pass-through. If differences in marginal costs were the primary driver behind the heterogeneous inflation rates, we would expect to observe greater deflation in the deflationary period in MSAs with higher market concentration. To explore this connection, we develop a simple model in Section 5.1, where retailer markups are determined by their market share. Furthermore, we plan to expand on these analyses by estimating markups and directly testing this hypothesis to disentangle the sources of the observed effect.

### 4.3 Product-level Analysis

Thus far, we have focused on price indices to examine differences in inflation across regions. However, a potential concern is that the observed higher inflation in poorer regions with greater market concentration may be driven entirely by differences in consumption baskets. In particular, we find in the previous section that consumption baskets differ across regions with poorer regions having substantially fewer products available than the richer regions.

To assess whether our triple-difference results hold at the product level, we shift our focus to price relatives as the outcome variable. Specifically, we employ a triple-difference estimator to examine how the effect of the bird flu on product-level price relatives varies across treated MSAs (where farmers culled their layers) with different levels of market concentration (HHI). Our identification strategy is outlined in the following regression:

$$\begin{aligned}
\Delta \ln(\text{price}_{umt}) = & \beta_0 + \beta_2 HHI_{mt} + \beta_4 (\text{Treated}_m \times \text{Post}_t) \\
& + \beta_5 (\text{Treated}_m \times HHI_{mt}) + \beta_6 (\text{Post}_t \times HHI_{mt}) \\
& + \beta_7 (\text{Treated}_m \times \text{Post}_t \times HHI_{mt}) + \delta_m + \delta_t + \delta_u + \varepsilon_{umt}.
\end{aligned} \tag{7}$$

In this more disaggregated analysis, we include product-level fixed effects,  $\delta_u$ , which control for regional differences in consumption baskets. The dependent variable,  $\Delta \ln(\text{price}_{umt})$ , is the log difference in the price of product  $u$  in MSA  $m$  between quarter  $t$  and quarter  $t - 1$ .<sup>19</sup> The error term is  $\varepsilon_{umt}$ . All other terms are defined as in Equation 6.

In Table 10, we show our triple difference-in-differences results from (7). This analysis corresponds to the products within eggs and the sample period is 2012Q4 to 2016Q4. In column 1, we restrict our sample to the inflationary period of the 2014-2015 bird flu episode and find that MSAs affected by the bird flu with higher market concentration experienced a 2.7 percent increase in prices of egg products relative to MSAs affected by the bird flu with lower market concentration. This coefficient is significant at the 1 percent level. In column 2, we restrict our analysis to the deflationary period of the bird flu and find a null effect. In column 3, we pool all the quarters in this sample period together and find that MSAs affected by the bird flu with higher market concentration experienced a 1.8 percent increase in prices of egg products relative to MSAs affected by the bird flu with lower market concentration. This coefficient is significant at the 1 percent level.

The disaggregated results in Table 10 are consistent with the aggregate findings from Table 9. The stronger price increases in MSAs with higher market concentration align with the broader inflation patterns observed in these areas. Additionally, both analyses reveal asymmetry: during the inflationary period, concentrated MSAs experience larger price increases, but there is no corresponding decline in the deflationary period. The product-level analysis further supports the argument that inflationary increases stem from retailers' market concentration rather than alternative explanations, such as differences in consumption baskets.

#### 4.3.1 Back-of-the-Envelope

In order to understand whether the magnitudes estimated in Table 9 are of economic significance, we perform a back-of-the-envelope exercise where we decompose how much of the gap in inflation

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<sup>19</sup>This log difference is equivalent to the log of the price relative.

Table 10: Triple Difference Estimator (Product-level)

	(1) Price	(2) Price	(3) Price
Bird Flu $\times$ Post $\times$ HHI	0.027*** (0.009)	-0.005 (0.013)	0.018*** (0.006)
Bird Flu $\times$ Post	0.003 (0.005)	-0.016** (0.007)	-0.012*** (0.004)
HHI $\times$ Post	-0.005 (0.006)	-0.002 (0.007)	-0.007** (0.003)
Bird Flu $\times$ HHI	-0.027 (0.080)	-0.027 (0.064)	0.009 (0.065)
HHI	0.059** (0.024)	-0.021 (0.026)	0.026 (0.016)
Sample	Inflation	Deflation	All
Quarter FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Product FE	Yes	Yes	Yes
Quarters	10	7	17
MSAs	185	185	185
Observations	84,525	61,578	146,103

*Note:* The table represents regression results from our triple difference-in-differences. The coefficient of interest is the interaction of Post, HHI, and Bird Flu. Post is a binary variable that takes the value 1 after 2014q4. HHI is the Herfindahl-Hirschman index (HHI) of retail chain's sales of eggs within an MSA. HHI is a continuous variable than can range from 0 to 1. Note that we fix HHI values to 2014q3 values for all quarters in the post period. Bird Flu is a binary variable that takes the value 1 if an MSA culled its layers during the 2014-2105 bird flu episode. Column 1 only considers the inflationary period. Column 2 only considers the deflationary period. Columns 3 pools all periods together. Inflationary and deflationary periods are determined by the national price index of eggs. The sample period ranges from 2012q4 to 20164. MSA, product, and quarter fixed effects are included across all specifications. Standard errors are clustered at the MSA-level. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

between the poorest and the richest decile can be accounted for via our mechanism of market concentration. To measure the contribution of market concentration we perform the following calculation:

$$\pi_{contribution} = \frac{(1 + \beta * HHI_{diff})^q - 1}{\pi_{d1} - \pi_{d10}} \quad (8)$$

where  $\pi_{contribution}$  denotes the contribution of market concentration to the inflation gap in the eggs market during the inflationary period of the 2014-2015 bird flu episode. Given that we are only considering the inflationary period, this corresponds to 2014q4 to 2015q3.  $\pi_{d1}$  denotes inflation in eggs for the poorest decile during this inflationary period, and  $\pi_{d10}$  denotes inflation in eggs for the richest decile during the same inflationary period.  $\beta$  corresponds to the coefficient on the triple interaction of Bird Flu  $\times$  Post  $\times$  HHI from Table 9 column 1.  $HHI_{diff}$  corresponds to the difference in HHI values in the eggs market between the poorest and richest decile, and  $q$  refers to the number of quarters in the 2014-2015 Bird Flu inflationary period, 4.

We calculate a value of 21 percent for  $\pi_{contribution}$ . Even though the numerator, the inflation explained by our mechanism, is small, the denominator, the gap in eggs inflation is also small. Specifically, we estimate that our market concentration narrative accounts for approximately a 1.6 percentage point increase in egg inflation. Note that the overall inflation gap is about 7.5 percentage points. While we do not aim to explain the overall surge in egg inflation—largely driven by the supply-side shock of the Bird Flu—we focus instead on the inflation gap during the Bird Flu period between the poorest and richest deciles. Our back-of-the-envelope calculation suggests that a substantial portion of this gap can be attributed to our market concentration mechanism.

## 5 Potential Mechanism through Market Power

A potential mechanism behind the role of retailer market concentration is the market power held by retailers. To explore this connection, we develop a model based on the nested CES structure and Bertrand competition among retailers. In this framework, retailer markups are determined by their market share, which is influenced by the degree of concentration in the market. Specifically, higher market concentration can lead to reduced competitive pressure, allowing retailers to raise their markups. This model helps to explain why MSAs with higher market concentration may experience more pronounced inflationary effects during periods of shock.

## 5.1 Theoretical Framework

### 5.1.1 Consumer Preferences

Suppose that consumers consume a variety of goods from multiple stores. In the first stage, they choose which retail store to shop from based on the retailer price indices. In the second stage, once a store is selected, consumers decide which food categories (e.g., eggs, milk, etc.) to purchase, guided by the price indices of these food items. In the final stage, within a chosen store and food category, consumers select a specific UPC (barcode item, e.g., 8 oz. Almond Milk) based on its price. The demand of the representative consumer follows a standard nested CES demand structure.

Given this, the utility of the presentative consumer in MSA  $m$  at time  $t$  is assumed to be:

$$U_{mt} = \left[ \sum_{s \in S_{mt}} (\varphi_{smt} C_{smt})^{\frac{\sigma_S - 1}{\sigma_S}} \right]^{\frac{\sigma_S}{\sigma_S - 1}}, \quad (9)$$

where  $C_{smt}$  is the consumption index of store  $s$  in MSA  $m$  at time  $t$ ;  $\varphi_{smt}$  is the quality of store  $s$  at time  $t$ ;  $S_{mt}$  is the set of stores in MSA  $m$  at time  $t$ ; and  $\sigma_S$  is the constant elasticity of substitution across stores within the MSA.

The consumption index  $C_{smt}$  is itself a CES aggregator of the consumption indices for food item  $i$  (among the 21 PCE food items) from store  $s$  at time  $t$ , as follows:

$$C_{smt} = \left[ \sum_{i \in I_{smt}} (\varphi_{ismt} C_{ismt})^{\frac{\sigma_I - 1}{\sigma_I}} \right]^{\frac{\sigma_I}{\sigma_I - 1}}, \quad (10)$$

where  $\varphi_{ismt}$  is the quality of food item  $i$  at store  $s$  at time  $t$ ;  $I_{smt}$  is the set of food items sold by store  $s$  at time  $t$ ; and  $\sigma_I$  is the constant elasticity of substitution across food items within the store.

The consumption index for each food item,  $C_{ismt}$ , is also a CES aggregator and is given by:

$$C_{ismt} = \left[ \sum_{u \in U_{ismt}} (\varphi_{usmt} C_{usmt})^{\frac{\sigma_U - 1}{\sigma_U}} \right]^{\frac{\sigma_U}{\sigma_U - 1}}, \quad (11)$$

where  $C_{usmt}$  is the consumption of UPC  $u$  from store  $s$  at time  $t$ ;  $\varphi_{usmt}$  is the quality of UPC  $u$  at store  $s$  at time  $t$ ;  $U_{ismt}$  is the set of UPCs within food item  $i$  at store  $s$  at time  $t$ ; and  $\sigma_U$  is the constant elasticity of substitution across UPCs within food item  $i$  in the store.

We normalize the quality given that the utility is homogeneous of degree one in quality. Following the literature, we normalize it as follows:

$$\left( \prod_{u \in U_{ismt}} \varphi_{usmt} \right)^{\frac{1}{N_{ismt}}} = 1 \quad (12)$$

$$\left( \prod_{i \in I_{smt}} \varphi_{ismt} \right)^{\frac{1}{N_{smt}}} = 1, \quad (13)$$

where  $N_{ismt}$  is the number of barcodes in food item  $i$  in store  $s$  at time  $t$ , and  $N_{smt}$  is the number of food items sold in store  $s$  at time  $t$ . Thus, we normalize the geometric mean of barcode quality as well as the geometric mean of item quality to be equal to one for each store and period.

With the utility function defined, we now proceed to address the lowest-tier problem: allocating expenditure across UPCs within a given food item, store, and MSA.

### 5.1.2 Allocating Expenditure across UPCs within Food Items

In the lowest tier of demand, the representative consumer allocates expenditure across barcodes within a given food category in a given retailer. Barcode  $u$  has the sales share  $S_{usmt}$  in item  $i$  at store  $s$  at time  $t$  as follows:

$$S_{usmt} = \frac{(P_{usmt}/\varphi_{usmt})^{1-\sigma_U}}{\sum_{k \in U_{ismt}} (P_{kist}/\varphi_{kist})^{1-\sigma_U}}, \quad (14)$$

where  $P_{usmt}$  is the price and  $\varphi_{usmt}$  is the quality of UPC  $u$  at store  $s$  at time  $t$ .

The corresponding price index for food item at store  $s$  at time  $t$  is as follows:

$$P_{ismt} = \left[ \sum_{k \in U_{ismt}} \left( \frac{P_{ksmt}}{\rho_{ksmt}} \right)^{1-\sigma_U} \right]^{\frac{1}{1-\sigma_U}}. \quad (15)$$



### 5.1.3 Allocating Expenditure across Food Items within Stores

Next, we allocate expenditure across food items in a given store. The sales share of food item  $i$  in store  $s$  at time  $t$  is given by:

$$S_{ismt} = \frac{(P_{ismt}/\varphi_{ismt})^{1-\sigma_I}}{\sum_{k \in I_{smt}} (P_{ksmt}/\varphi_{ksmt})^{1-\sigma_I}}, \quad (16)$$

where  $P_{ismt}$  is the price and  $\varphi_{ismt}$  is the food item  $i$  sold by store  $s$  at time  $t$ .

Again, the corresponding price index for store  $s$  at time  $t$  is as follows:

$$P_{smt} = \left[ \sum_{k \in G_{smt}} \left( \frac{P_{ksmt}}{\rho_{ksmt}} \right)^{1-\sigma_I} \right]^{\frac{1}{1-\sigma_I}}. \quad (17)$$

### 5.1.4 Allocating Expenditure across Stores within an MSA

Lastly, we solve the allocation of expenditure across stores within a given MSA. The sales share of store  $s$  within an MSA at time  $t$  is given by:

$$S_{smt} = \frac{(P_{smt}/\varphi_{smt})^{1-\sigma_S}}{\sum_{k \in S_{mt}} (P_{kt}/\varphi_{kt})^{1-\sigma_S}}, \quad (18)$$

where  $P_{smt}$  is the price and  $\varphi_{smt}$  is quality of store  $s$  at time  $t$ .

Again, the corresponding price index for store  $s$  at time  $t$  is as follows:

$$P_{mt} = \left[ \sum_{k \in S_{mt}} \left( \frac{P_{kmt}}{\rho_{kmt}} \right)^{1-\sigma_S} \right]^{\frac{1}{1-\sigma_S}}. \quad (19)$$

### 5.1.5 Barcode Demand

Lastly, defining the sales for barcode  $u$  at store  $s$  in MSA  $m$  at time  $t$  as  $E_{usmt}$  and the retail sales in MSA  $m$  at time  $t$  as  $E_{mt}$ , it is given by:

$$E_{usmt} = S_{usmt} S_{ismt} S_{smt} E_{mt}. \quad (20)$$

Then, the quantities sold for barcode  $u$  can be written as

$$Q_{usmt} = \frac{E_{usmt}}{P_{usmt}} \quad (21)$$

Rephrasing it with (14), (16), (18), and (20), we have the following:

$$Q_{usmt} = \varphi_{usmt}^{\sigma_U-1} \varphi_{ismt}^{\sigma_I-1} \varphi_{smt}^{\sigma_s-1} P_{usmt}^{-\sigma_U} P_{ismt}^{\sigma_U-\sigma_I} P_{smt}^{\sigma_I-\sigma_s} P_{smt}^{\sigma_s-1} E_{mt}. \quad (22)$$

### 5.1.6 Retailer Problem

Let's define the retail chain as the parent company that owns local stores and suppose that they decide optimal prices in each unit of stores by taking into account substitutability across all the stores it owns. Furthermore, let's allow them to be large enough to internalize their effects on the MSA price index, but small relative to the overall MSA economy to take the MSA-level expenditure and factor prices as given. Note that the internalization of the impact on the MSA price index depends on the retailers' market share, despite assuming CES demand. Therefore, this makes the retail chains face the elasticities of demand varying across the chain market share.

Let  $V_{usmt}$  denote the total variable cost for supplying barcode  $u$  in store  $s$ . Then it follows:

$$V_{usmt}(Q_{usmt}) = z_{usmt} Q_{usmt}^{1+\delta_i}, \quad (23)$$

where  $Q_{usmt}$  is the total quantity of barcode  $u$  in store  $s$  at  $t$ ;  $\delta_i$  determines the convexity of marginal cost with respect to output for barcodes in product item  $i$ ; and  $z_{usmt}$  is a store-barcode-specific cost shifter. Costs are incurred in terms of a composite factor input that is assumed as a numeraire. This structure is consistent with Broda and Weinstein (2010), Burstein and Hellwig (2007), and Hottman (2017).

Suppose that each retailer store in MSA  $m$  needs to pay a fixed operating cost of  $F_{mt}$ . The profit of retail chain  $r$  in MSA  $m$  at time  $t$  is as follows:

$$\pi_{rmt} = \sum_{u \in U_{rmt}} P_{urmt} Q_{urmt} - V_{urmt}(Q_{urmt}) - F_{mt}, \quad (24)$$

where  $U_{rmt}$  is the set of barcodes sold in MSA  $m$  at time  $t$  at stores owned by retail chain  $r$ .

In the case of Bertrand competition, each retail chain chooses their prices  $\{P_{urmt}\}$  to maximize profits. The first-order conditions take the following form:

$$Q_{usmt} + \sum_{k \in U_{rmt}} \left( P_{ksmt} \frac{\partial Q_{ksmt}}{\partial P_{ksmt}} - \frac{\partial V_{ksmt}(Q_{ksmt})}{\partial Q_{ksmt}} \frac{\partial Q_{ksmt}}{\partial P_{ksmt}} \right) = 0. \quad (25)$$

The optimal price is then given by

$$P_{usmt} = \mu_{rmt} m_{usmt}, \quad (26)$$

where  $\mu_{rmt}$  is a markup, which is common across all products within retail chain  $r$  in MSA  $m$  at time  $t$ , over the marginal cost  $m_{usmt}$  of selling UPC  $u$  in store  $s$  in time  $t$  as follows:

$$m_{usmt} = z_{usmt}(1 + \delta_i)Q_{usmt}^{\delta_i}.$$

This markup is characterized by

$$\mu_{rmt} = \frac{\epsilon_{rmt}}{\epsilon_{rmt} - 1}, \quad (27)$$

where  $\epsilon_{rmt}$  is the perceived elasticity of demand for retailer  $r$  in MSA  $m$  at time  $t$ . This is given by

$$\epsilon_{rmt} = \sigma_s - (\sigma_s - 1)S_{rmt}, \quad (28)$$

where  $\sigma_s$  is the constant elasticity of substitution across stores in MSA  $m$  and  $S_{rmt}$  is the market share of retail chain  $r$  in MSA  $m$  in time  $t$ .<sup>20</sup> Therefore, retailers with a higher sales share have higher markups, allowing them to increase prices more than retailers in less concentrated markets.

## 5.2 Alternative Hypothesis

An alternative hypothesis for spatial disparities in inflation revolves around cost differentials. If marginal costs in lower-income areas rise faster than in higher-income areas, this can contribute to higher inflation in those regions, irrespective of the market structure of retailers. To test this hypothesis, we use wage data for retail workers from the American Community Survey (ACS) and

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<sup>20</sup>Note that if assuming Cournot competition, the elasticity of substitution  $\epsilon_{rmt}$  becomes  $\epsilon_{rmt} = \frac{1}{\frac{1}{\sigma_s} - (\frac{1}{\sigma_s} - 1)S_{rmt}}$ , and if the sales share of retail chain approaches zero, the markup becomes the standard CES markup of  $\frac{\sigma_s}{\sigma_s - 1}$ .

Table 11: Average Wage and Growth in Retail Sector across MSAs

	Retail Wage	Retail Wage	Retail Wage
Income	0.400*** (0.078)	0.395*** (0.075)	0.413*** (0.075)
College Share		0.711*** (0.048)	0.713*** (0.048)
Large Firm Share			-15.52*** (5.747)
Constant	8.934*** (0.284)	8.837*** (0.273)	8.775*** (0.273)
MSA FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	2,868	2,868	2,868
	$\Delta$ Retail Wage	$\Delta$ Retail Wage	$\Delta$ Retail Wage
Income	- 0.032 (0.123)	-0.037 (0.121)	-0.026 (0.121)
College Share		0.679*** (0.074)	0.681*** (0.074)
Large Firm Share			-11.64 (10.14)
Constant	0.128 (0.451)	0.033 (0.443)	-0.004 (0.444)
MSA FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	2,580	2,580	2,580

*Note:* The table presents MSA-level wage regression results. The dependent variable in the top panel is the average log wage, while the bottom panel shows the log difference in wages within the retail sector. The sample period spans from 2006 to 2016, with MSA and quarter fixed effects included. In the second and third columns, the share of college-educated workers is included as a control, and in the third column, the share of large firms (those with 500 employees or more) is additionally controlled.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

compare wage level and growth across MSAs with varying income levels.

We estimate the following two regressions to examine wage variations and growth across MSAs with different income levels:

$$\ln w_{mt} = \beta_0 + \beta_1 \text{Income}_{mt} + \delta_m + X'_{mt} \gamma + \delta_t + \varepsilon_{mt}$$

$$\Delta \ln w_{mt} = \beta_0 + \beta_1 \text{Income}_{mt} + \delta_m + X'_{mt} \gamma + \delta_t + \varepsilon_{mt},$$

where  $\ln w_{mt}$  ( $\Delta \ln w_{mt}$ ) is log wage (or the growth of wage) in retail sector in MSA  $m$  and year  $t$ ,  $Income_{mt}$  is the income per capita of MSA  $m$  in year  $t$ , and  $X_{mt}$  is a vector of MSA-level characteristics, including the share of college workers in retailers, the number of large retailers (with 500 or more employees), and  $\delta_m$  and  $\delta_t$  is the MSA and year fixed effects, respectively.

Table 11 displays the results. The top panel shows the results for the average wage, and the bottom panel presents the findings for wage growth. These results reveal that the average wage is generally lower in lower-income areas, even after controlling for the composition of skills and the share of large firms. However, the second panel suggests there are no significant patterns in wage growth across MSAs. While the data remains aggregated, it provides suggestive evidence that retailer wages are neither higher nor growing faster in lower-income areas, which helps rule out the cost-related channel to account for inflation heterogeneity.

## 6 Concluding Remarks

In this paper, we investigate spatial variation in inflation and the role of retailer market structure in explaining these disparities. Using data from the NielsenIQ Retail Scanner and the Business Dynamic Statistics, we find that poorer MSAs experienced higher food inflation than wealthier areas. These regions are also characterized by fewer goods, fewer retailers, and greater market concentration. Using a difference-in-differences identification strategy, we provide causal evidence that retailer concentration contributes to regional inflation disparities. This suggests that market concentration plays a key role when retailers face cost shocks, allowing them to pass on higher prices to consumers. Additionally, through a model incorporating nested CES preferences and Bertrand competition, we demonstrate that higher retailer market power, as a result of increased market concentration, is a likely driver of these inflationary trends through higher markups. Our findings have important policy implications for real income inequality and highlight the limitations of official inflation indexes.

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# Appendix

## A Robustness with Nielsen Consumer Panel

Table A.1: Fraction of Households Shopping Outside of their Residential MSAs

Indicator	Observation	Percent
1	780,500	92.32
0	64,932	7.68
Total	845,432	100

*Notes:* The table shows the fraction of households that consume outside their residential MSAs (with an indicator value of 1) in each given year. The data covers household-year observations from 2006 to 2020.

In this section, we use the Consumer Panel data, which contains individual-level demographic and purchase information from Nielsen. The analysis utilizes the household-year level sample from 2006 to 2020 and identifies households that make purchases outside their residential MSAs in a given year. The results in Table A.1 show that, on average, 92% of households made purchases exclusively within their residential MSAs.

Furthermore, when examining household characteristics and shopping patterns by each category, Table A.2 shows that their properties (such as income levels, the average number of stores households purchase from, and total amount of spending) are similar across groups. For households that shop outside of their MSAs, they visit an average of 1.75 stores, spend approximately 50% of their total expenditure outside their residential MSAs, and the average number of these outside MSAs they purchase from is 1.05.

In addition, we compute income deciles using two different MSA definitions in Nielsen. One is based on the MSA information of households in the Consumer Panel, and the other is based on the MSA information of consumers, derived by linking the locations of stores from which households make purchases in the Scanner data with household income data in the Consumer Panel. Table A.3 shows the gap between these two definitions, revealing that most MSAs (75.27%) align with the same income decile definitions, and only a very small fraction (0.54%) exhibit a gap of three deciles. This confirms that our baseline measures of income deciles based on store locations and

Table A.2: Characteristics of Households by Shopping Types

Variable	Mean (Std.)	Mean (Std.)
Indicator	0	1
Income	20.46 (5.98)	19.94 (5.87)
Store #	3.32 (1.90)	3.77 (2.08)
Spending Amount	1812.05 (1985.68)	1659.12 (1811.08)
Store # (out)		3.77 (2.08)
Spending Amount (out)		714.78 (1226.29)
MSA # (out)		1.05 (0.23)
Obs	780,500	64,932

*Notes:* The table provides the shopping characteristics of households by their types based on whether they shop outside of their residential MSAs (indicator=1) or not (indicator=0). The second column indicates the households only shopping inside their MSAs, and the last column shows those shopping outside of their MSAs. Store # is the number of stores the households purchase from, Spending Amount is the total amount of spending, Store # (out) is the number of stores outside of the household's living MSAs, Spending Amount (out) is the amount of spending made outside of their living MSAs, and MSA # (out) is the number of MSAs the shop, outside of their living MSAs. This is the household-year level sample over 2006-2020.

Table A.3: Gaps in Two Income Decile Definitions: Household vs. Consumer MSAs

Gap	Observation	Percent
-3	1	0.54
-1	20	10.75
0	140	75.27
1	25	13.44
Total	186	100

*Notes:* The table computes the gap in income deciles when defined by consumer income and household income, using an MSA-level sample.

BEA income per capita data are not mismeasured.

## B Robustness for Other Food Items and Indexes

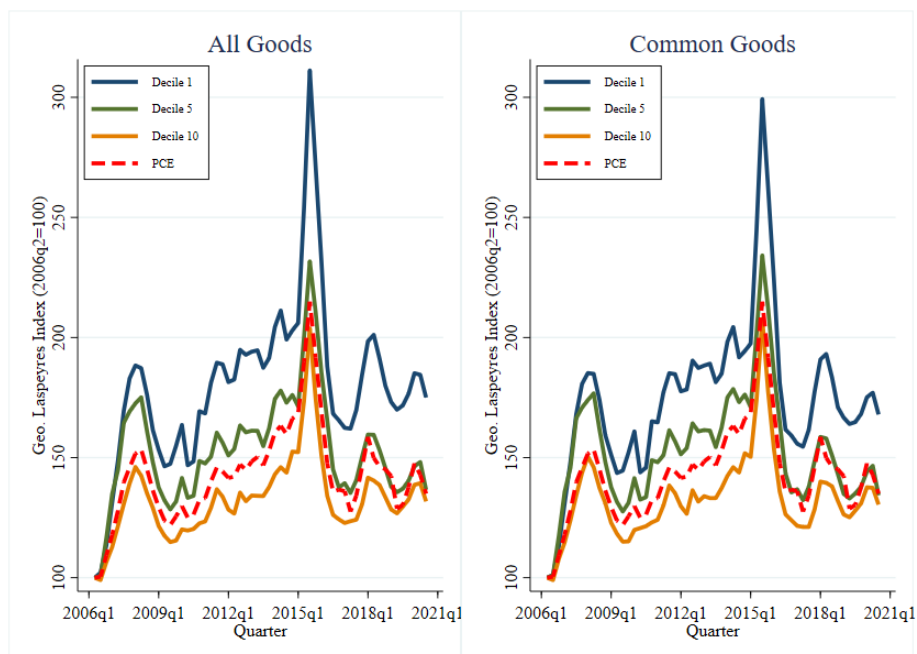


Figure B.1: Laspeyres Price Index for Eggs

*Notes:* The figure represents relative prices in the aggregated egg market with five series, where each series is normalized to 100 at the start of the sample. The sample period begins in 2006Q2 and ends in 2020Q4. The data come from NielsenIQ Retail Scanner dataset represented by geometric Laspeyres price indexes. Each solid line corresponds to a decile of the income per capita ranking of MSAs with decile 1 containing the MSAs with the lowest income per capita and decile 10 containing the MSAs with the highest income per capita. The red dashed line corresponds to the official PCE price index from the U.S. Bureau of Economic Analysis. The left panel is the set of goods sold at retailers in quarters  $t$  and  $t-1$ . The right panel corresponds to the set of goods present across all 10 deciles in quarters  $t$  and  $t-1$ . We map the NielsenIQ UPCs to the PCE definition of eggs by using a product module concordance provided by the BLS.

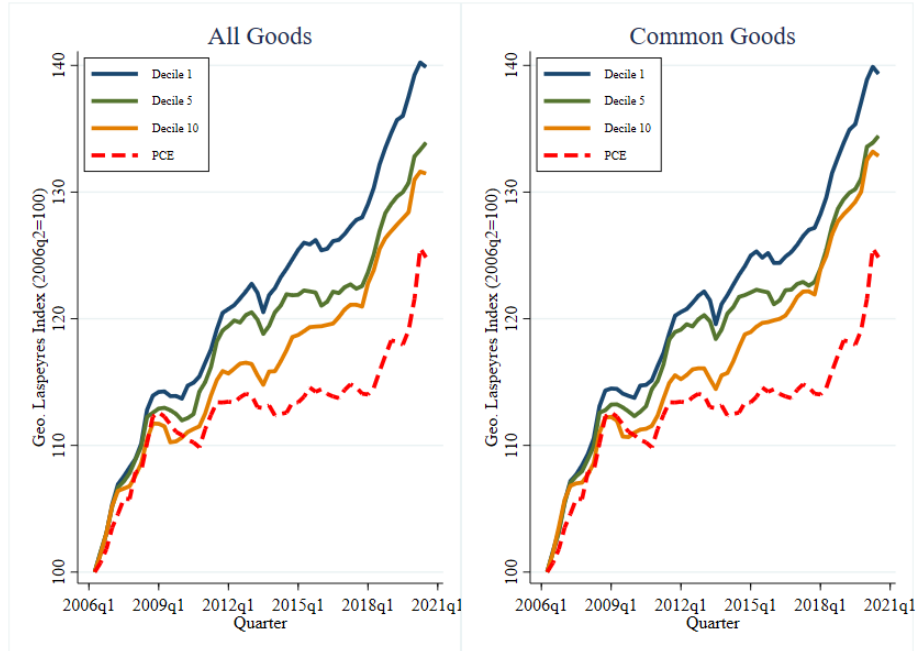


Figure B.2: Laspeyres Price Index for Soda and Juices

*Notes:* The figure represents relative prices for the soda and juices market with five series, where each series is normalized to 100 at the start of the sample. The sample period begins in 2006Q2 and ends in 2020Q4. The data come from NielsenIQ Retail Scanner dataset represented by geometric Laspeyres price indexes. Each solid line corresponds to a decile of the income per capita ranking of MSAs with decile 1 containing the MSAs with the lowest income per capita and decile 10 containing the MSAs with the highest income per capita. The red dashed line corresponds to the official PCE price index from the U.S. Bureau of Economic Analysis. The left panel is the set of goods sold at retailers in quarters  $t$  and  $t-1$ . The right panel corresponds to the set of goods present across all 10 deciles in quarters  $t$  and  $t-1$ . We map the NielsenIQ UPCs to the PCE definition of soda and juices by using a product module concordance provided by the BLS.

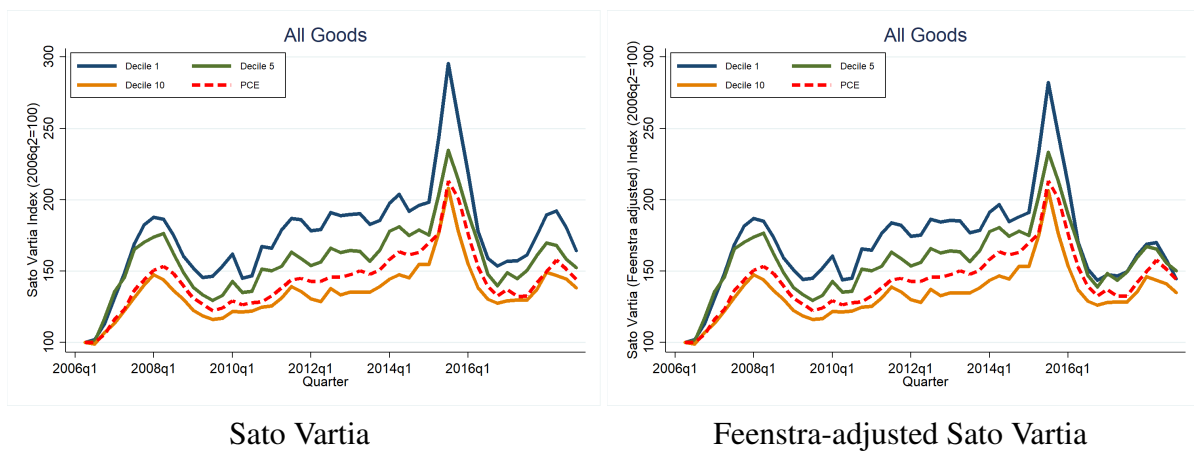


Figure B.3: Demand-based Price Indexes for Eggs

*Notes:* The figure represents relative prices for the aggregated egg market with five series, where each series is normalized to 100 at the start of the sample. The sample period begins in 2006Q2 and ends in 2016Q4. The data come from NielsenIQ Retail Scanner dataset represented by Sato-Vartia and Feenstra-adjusted Sato-Vartia price indexes. Each solid line corresponds to a decile of the income per capita ranking of MSAs with decile 1 containing the MSAs with the lowest income per capita and decile 10 containing the MSAs with the highest income per capita. The red dashed line corresponds to the official PCE price index from the U.S. Bureau of Economic Analysis. We map the NielsenIQ UPCs to the PCE definition of eggs by using a product module concordance provided by the BLS.

## C Robustness with BDS

Table C.1: Retailer Market Structure (BDS)

	Firm counts	Estab counts	Employment	Large firm share	Large estab. share
Income	143796.5*** (4824.88)	210859.9*** (6730.17)	3323.94 (97.40)	-3.190*** (0.084)	-0.867*** (0.077)
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	8,001	8,001	8,001	8,001	8,001

*Notes:* The table represents regression results from our two-way fixed effects estimator. The coefficient of interest is the coefficient on income per capita (in \$1000) in an MSA for a given year. The dependent variable is the total number of firms in column 1, total number of establishments in column 2, total employment size (in thousands) in Column 3, the unweighted share (%) of large firms in column 4, and the unweighted share of large establishments in column 5. Large firms are defined by those with 500 or more employees. Data is collected from the Business Dynamics Statistics and retailers are gathered from retail trade sector (NAICS 44-45) for 2000-2020. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

We run the following regression using the BDS dataset to confirm the cross-sectional pattern:

$$Y_{mt} = \beta_0 + \beta_1 Income_{mt} + \delta_t + \varepsilon_{mt},$$

where  $Y_{mt}$  is the number of firms, establishments, total employment (in thousands), the share of large firms, and the share of large firm establishments in MSA  $m$  in year  $t$ . As before,  $Income_{mt}$  represents the income per capita in MSA  $m$ , and  $\delta_t$  denotes a year fixed effect. The results, presented in Table C.1, show that wealthier areas tend to have a greater number of firms, establishments, as well as higher total employment. However, the share of large firms and establishments is higher in lower income deciles.

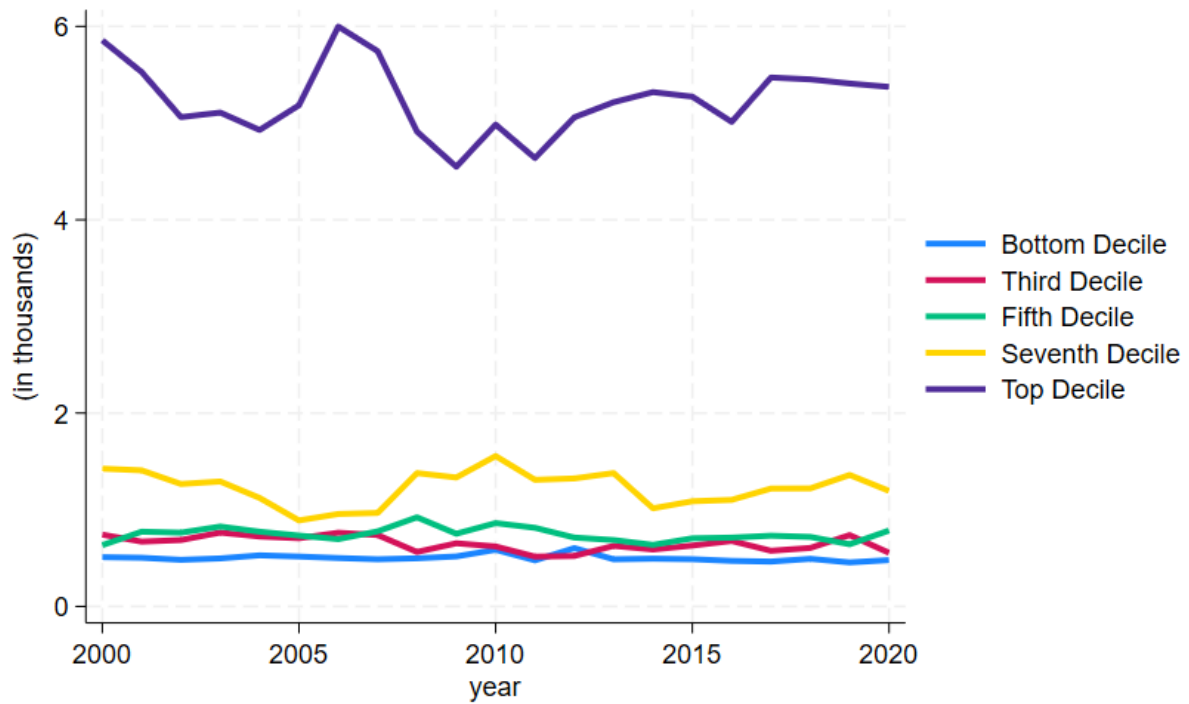


Figure C.1: Number of Retail Chains by Income Decile

*Notes:* The figure represents the number of retail chains present from 2000 to 2020 in deciles 1, 3, 5, 7, and 10. The data on the number of retail chains come from the Business Dynamics Statistics (BDS). We specifically only use data on chains from the BDS for the retail trade sector (NAICS codes 44-45).

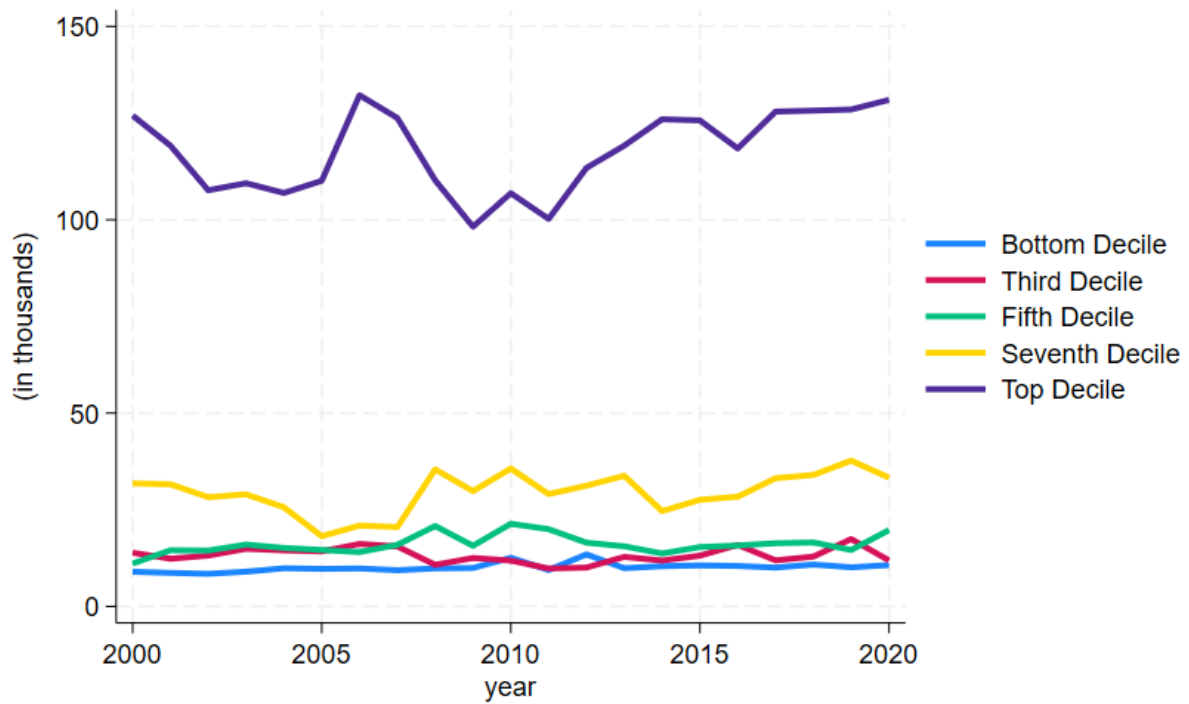


Figure C.2: Employment of Retail Chains by Income Decile

*Notes:* The figure represents the employment of retail chains present from 2000 to 2020 in deciles 1, 3, 5, 7, and 10. The data on the number of retail chains come from the Business Dynamics Statistics (BDS). We specifically only use data on chains from the BDS for the retail trade sector (NAICS codes 44-45).



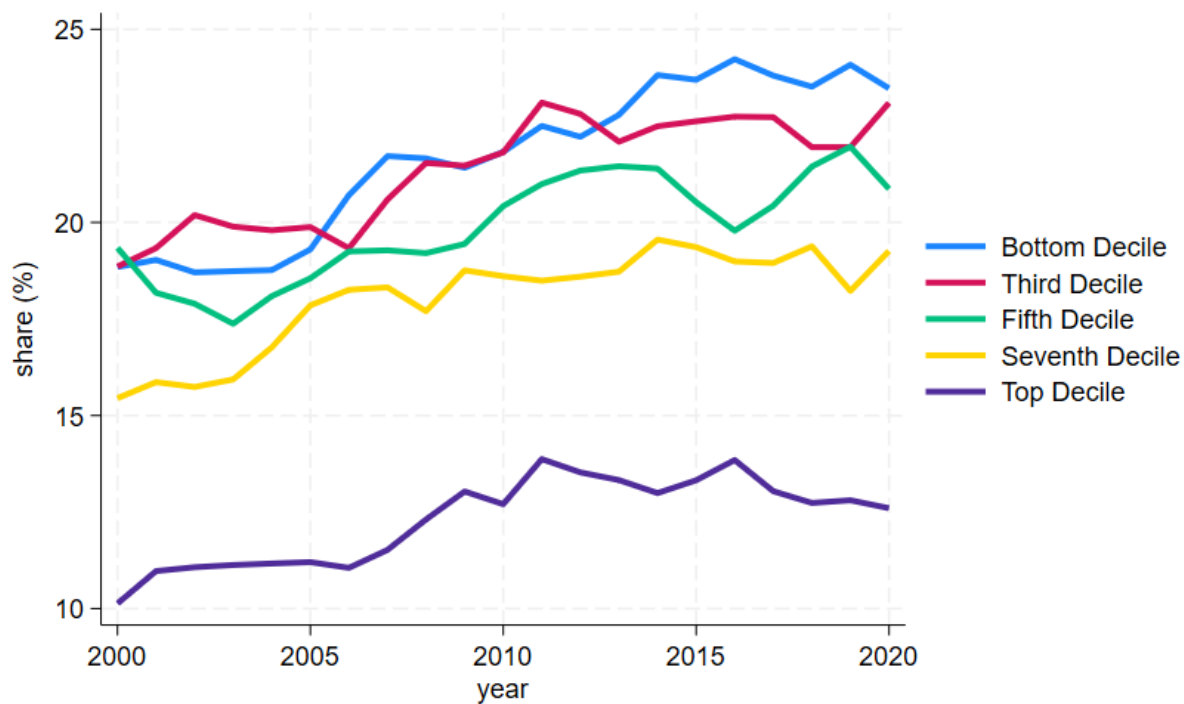


Figure C.3: Share of Large Retailers

*Notes:* The figure represents the share of establishments from large retail chains present from 2006 to 2019 in deciles 1, 3, 5, 7, and 10. A large retail chain is defined as having (at the firm level) more than 500 employees. The data on the number of retail chains come from the Business Dynamics Statistics (BDS). Note that the firm-level definition of large retailers is based on the number of employees at the firm level (national), while the share of large retailers is defined using information at the establishment level (MSA), specifically, only using data on chains from the BDS for the retail trade sector (NAICS codes 44-45).

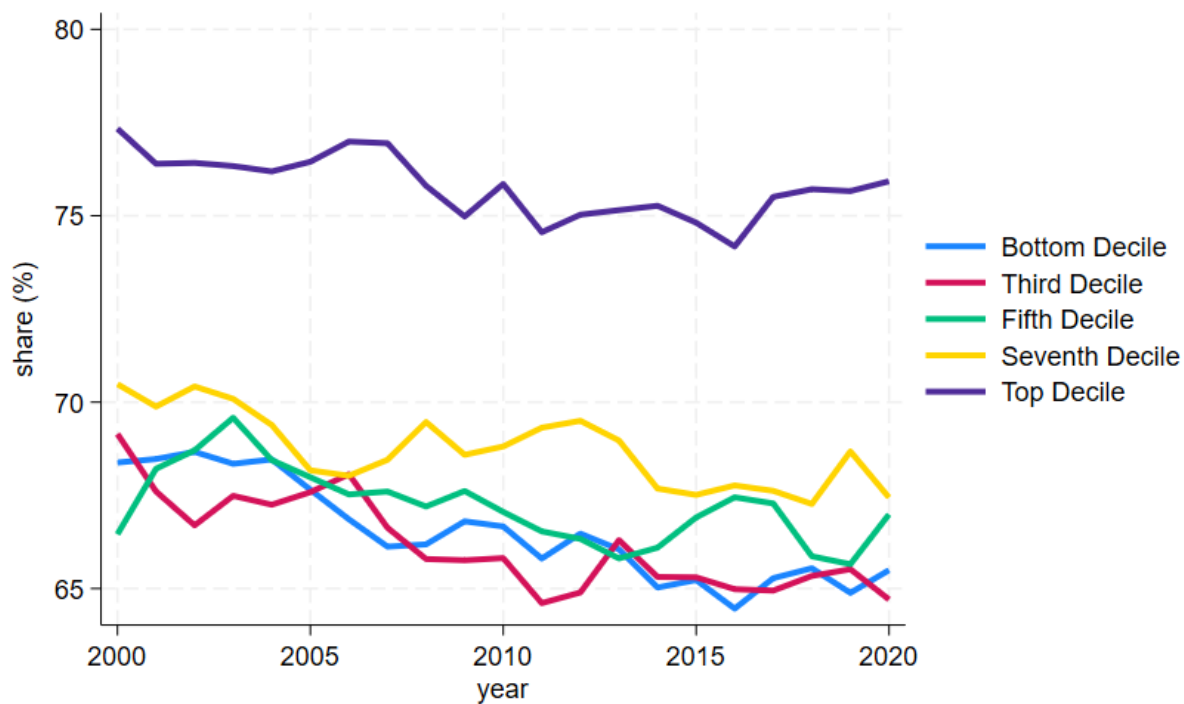


Figure C.4: Share of Small Retailers

*Notes:* The figure represents the share of establishments from small retail chains present from 2006 to 2019 in deciles 1, 3, 5, 7, and 10. A small retail chain is defined as a retail chain (firm level) that has fewer than 20 employees. The data on the number of retail chains come from the Business Dynamics Statistics (BDS). Note that the firm-level definition of small retailers is based on the number of employees at the firm level (national), while the share of small retailers uses information at the establishment level (MSA). We specifically only use data on chains from the BDS for the retail trade sector (NAICS codes 44-45).

## D Robustness of the MSA-level Regression

Table D.1: Retailer Dynamics in NielsenIQ

	Sales (in \$1mil.)	Chain counts	Store counts	Large firm share (sales)	Large firm share (store#)
Income	8.71*** (1.267)	0.290*** (0.017)	3.790*** (0.444)	-0.002*** (0.001)	0.001 (0.001)
MSA FE	Yes	Yes	Yes	Yes	Yes
Observations	11,100	11,100	11,100	11,100	11,100

*Note:* The table represents regression results from our two-way fixed effects estimator. The coefficient of interest is the coefficient on income per capita (in \$1000) in an MSA for a given quarter. The dependent variable is total sales in Column 1, total counts of chains and stores in Column 2, 3, and an unweighted share (%) of large firms in Column 4 and Column 5, where large retailers are defined by the top decile of total sales (Column 4) or the number of store counted (Column 5) at the national level in NielsenIQ. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table D.2: Market Concentration across Different Income Deciles

	HHI	CR1	CR3
Decile	-0.007*** (0.001)	-0.003*** (0.001)	-0.002*** (0.001)
MSA FE	Yes	Yes	Yes
Observations	11,100	11,100	11,100

*Note:* The table represents the regression result for market concentration across different deciles. Market concentration is measured by either the Herfindahl-Hirschman index (HHI) of retail chain's sales or the sales share of top 1 or 2 or 3 firms in an MSA in a given quarter. The coefficient of interest is the coefficient on income per capita decile. This independent variable is a discrete categorical variable that takes the value 1 (poorest) to 10 (richest). Each column show shows the result for each of the market concentration measures, respectively. Data is collected from the NielsenIQ scanner database and the BEA. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Alternatively, we replace the quarter fixed effect by MSA fixed effect in both (2) and (3) to confirm if the observed association between retailer market dynamics and income holds within an MSA over time.

We use the following alternative regression:

$$Y_{mt} = \beta_0 + \beta_1 Income_{mt} + \delta_m + \varepsilon_{mt},$$

$$HHI_{mt} \text{ (or } CR_{mt}) = \beta_0 + \beta_1 Income_{mt} + \delta_m + \varepsilon_{mt}, \quad \text{where } i = 1, 3$$

Table E.1: Triple Difference Estimator (Top 1 Concentration Ratio)

	(1) Inflation	(2) Inflation	(3) Inflation
Bird Flu $\times$ Post $\times$ CR1	0.093*** (0.022)	0.044* (0.024)	0.052*** (0.010)
Bird Flu $\times$ Post	-0.021 (0.013)	-0.064*** (0.015)	-0.037*** (0.008)
CR1 $\times$ Post	-0.008 (0.008)	-0.007 (0.013)	-0.010* (0.005)
Bird Flu $\times$ CR1	-0.204* (0.110)	-0.092 (0.056)	-0.139 (0.090)
CR1	0.060** (0.027)	0.045 (0.028)	0.046** (0.022)
Sample	Inflation	Deflation	All
Quarter FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Quarters	10	7	17
MSAs	185	185	185
Observations	1,850	1,295	3,145

*Note:* The table represents regression results from our triple difference-in-differences. The coefficient of interest is the interaction of Post, CR1, and Bird Flu. Post is a binary variable that takes the value 1 after 2014q4. CR1 is the concentration ratio of the top retail chain's sales of eggs within an MSA. CR1 is a continuous variable than can range from 0 to 1. Note that we fix CR1 values to 2014q3 values for all quarters in the post period. Bird Flu is a binary variable that takes the value 1 if an MSA culled its layers during the 2014-2105 bird flu episode. Column 1 only considers the inflationary period. Column 2 only considers the deflationary period. Columns 3 pools all periods together. Inflationary and deflationary periods are determined by the national price index of eggs. The sample period ranges from 2012q4 to 20164. MSA and quarter fixed effects are included across all specifications. Standard errors are clustered at the MSA-level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

where  $\delta_m$  is an MSA fixed effect. Both Table 5 and Table D.2 confirm the robustness of the main results except for the share of large firms based on the national counts of store.

## E Robustness of the Triple-Difference Regression

To test the robustness of the triple-difference regression, we adopt an alternative measure of market concentration: the sales share of the top one or top two retailers in the eggs market. Using these

Table E.2: Triple Difference Estimator (Top 2 Concentration Ratio)

	(1) Inflation	(2) Inflation	(3) Inflation
Bird Flu $\times$ Post $\times$ CR2	0.134*** (0.034)	0.054 (0.034)	0.072*** (0.016)
Bird Flu $\times$ Post	-0.071*** (0.027)	-0.080*** (0.027)	-0.062*** (0.014)
CR2 $\times$ Post	-0.015 (0.014)	-0.008 (0.019)	-0.017** (0.008)
Bird Flu $\times$ CR2	-0.065 (0.095)	-0.059 (0.073)	-0.038 (0.048)
CR2	0.047 (0.041)	0.008 (0.058)	0.029 (0.031)
Sample	Inflation	Deflation	All
Quarter FE	Yes	Yes	Yes
MSA FE	Yes	Yes	Yes
Quarters	10	7	17
MSAs	185	185	185
Observations	1,850	1,295	3,145

*Note:* The table represents regression results from our triple difference-in-differences. The coefficient of interest is the interaction of Post, CR2, and Bird Flu. Post is a binary variable that takes the value 1 after 2014q4. CR2 is the concentration ratio of the top 2 retail chains' sales of eggs within an MSA. CR2 is a continuous variable than can range from 0 to 1. Note that we fix CR2 values to 2014q3 values for all quarters in the post period. Bird Flu is a binary variable that takes the value 1 if an MSA culled its layers during the 2014-2105 bird flu episode. Column 1 only considers the inflationary period. Column 2 only considers the deflationary period. Columns 3 pools all periods together. Inflationary and deflationary periods are determined by the national price index of eggs. The sample period ranges from 2012q4 to 2016q4. MSA and quarter fixed effects are included across all specifications. Standard errors are clustered at the MSA-level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

alternative measures we employ a triple difference estimator similar to Equation 6. The results are shown in Table E.1 and Table E.2, which are consistent with our baseline regressions.