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Focus on FINANCE

Beyond Inflation Numbers: Shrinkflation and Skimpflation

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> "Education is not the learning of facts but the training of the mind to think."
> —Albert Einstein

Have you seen this month's inflation numbers? Each time new numbers are released, the words *inflation* and ***inflation rate*** receive attention and trend in the news. Inflation is a general, sustained upward movement of prices for goods and services in an economy. It affects purchasing power, or the amount of goods and services that a unit of currency can buy; more specifically, inflation *reduces* purchasing power.

The most well-known measure of inflation is the consumer price index (often listed as "CPI"). This is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. These data are collected by a federal agency, the **Bureau of Labor Statistics (BLS)**, and released every month.

Inflation numbers are important when assessing the health of the economy and, in one way or another, affect everyone; they affect consumer and business decisionmaking. But it can also be helpful to think beyond inflation numbers, as business practices such as shrinkflation and skimpflation are looming—and worthy of considering.

Inflation's Effects on Consumers

You may not know the recent inflation numbers, but you've likely experienced their results. You don't have to be an economist to understand that **spending** more to buy the same cart of groceries means inflation is a concern. You don't have to read the BLS's monthly report to understand that inflation erodes the purchasing power of money. You experience inflation each time you spend more money to buy the same cart of groceries.

Inflation affects consumers' **budgets** and spending decisions. If consumers' personal **incomes** do not increase, or they increase at a slower rate than the inflation rate, then consumers aren't able to buy the same amount of goods and services they could previously. When consumers are faced with spending more to get the same amount of goods and services, they may purchase fewer items or substitute less-expensive goods and services.

GLOSSARY

Budget: An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending, and saving during a given period of time.

Bureau of Labor Statistics (BLS): A research agency of the U.S. Department of Labor that compiles statistics on employment, unemployment, and other economic data.

Cost-push inflation: Inflation that occurs when the costs of production (including wages and raw materials) increase, and those higher costs are passed on to consumers.

Costs of production: The amount producers pay for the resources used to produce a product.

Income: The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the forms of rent, profit, and interest.

Inflation rate: The percentage increase in the average price level of goods and services over a period of time.

Profit: The amount of revenue that remains after a business pays the costs of producing a good or service.

Spending: Using some or all of your income to buy things you want now.

Inflation's Effects on Businesses

Inflation also affects businesses. Businesses understand the reality of inflation when the **costs of production** increase and they must adjust to continue to earn a **profit**. Often businesses pass the higher costs of production on to consumers through higher prices. When this leads to inflation, it is referred to as **cost-push inflation**. For example, if the cost of transporting lettuce from California to Maine increases because fuel prices have increased, and the seller believes they can pass the extra cost along to the buyer, then the price consumers pay for lettuce at the grocery store will increase.

Business Reactions to Inflation

Businesses can raise prices to remain profitable when production costs increase. But they know that consumers are very conscious of price changes and may choose to buy a cheaper brand or stop buying the item completely. Businesses do not want to lose sales. For example, after increasing prices, one coffee shop owner lost nearly half their regular customers and posted the following on social media:

> Some have traded down and are buying coffee for $1 at the McDonald's. If [customers] can get it for a dollar for not that notable of a difference, they're going next door. One customer who had been coming in for years said he was going to start making coffee at home, so he won't be coming in here every day.[1]

Shrinkflation

How can businesses cope with inflation and their desire to keep their customers? Businesses know that for some goods and services, consumers are more sensitive to changes in price[2] than to changes in quantity, and this tendency often allows businesses to benefit from shrinkflation.

Originally known as downsizing, the term *shrinkflation* comes from the combination of the two words *shrink* and *inflation*. Shrinkflation is when businesses reduce the size or quantity of their products while charging the same or an even higher price.[3] For example:

- A package of bacon may look the same and sell for the same price, but instead of being 16 ounces it is only 12 ounces.

Examples of Shrinkflation

Item	Older package	Newer package
Roll of paper towels	165 sheets	147 sheets
Bag of chips	9.75 oz.	9.25 oz.
"Party size" bag of chips	18 oz.	15.5 oz.
Box of crackers	16 oz.	14 oz.
Box of facial tissues	65 tissues	60 tissues
Roll of toilet tissue	340 sheets	312 sheets

NOTE: Shrinkflation varies by product and brand.

SOURCE: Associated Press, 2022 (see footnote 5); Diaz, Clarissa, 2022 (see footnote 8).

- Similarly, a box of cereal that used to contain 18 ounces may look the same but contain only 16 ounces of cereal.
- Or, a box of tissues may have fewer tissues than before when sold at the same price.

The BLS treats shrinkflation as a price increase when calculating inflation numbers. It makes adjustments for changes in the size or quantity of a packaged item to ensure consumers can accurately compare prices despite the changes in size or quantity.[4]

Although inflation numbers take shrinkflation into account, consumers have the responsibility to notice the changes in the size or quantity of a packaged item. Consumers can easily find examples of shrinkflation at the grocery store (table).

Shrinkflation varies by product and brand, which means it's important for consumers to compare products and prices in order to make wise spending decisions. Consumers can compare product prices by considering unit prices. A unit price changes when the ounces, pounds, or quantity of a product changes but its price remains the same or increases.

For example, if a roll of paper towels is priced at $3 and has 165 sheets per roll, the unit price is $0.018 per sheet. If the package is downsized to only 147 sheets and the price remains the same, the unit price increases to $0.02 per sheet. In this instance, buying the downsized product means getting less product for the same money.

Shrinkflation History

Shrinkflation is not new and is not limited to times of inflation. However, when inflation is rising and businesses face rising costs, the practice increases.[5] Often, changes happen over time and go unnoticed by the average consumer.

For example, consumers used to buy coffee in a 1-pound can. But a 1988 report shows that the brand Chock full o'Nuts® reduced the amount of their coffee in a 1-pound can to 13 ounces; by 2003, the brand had further reduced it to 11 ounces of coffee.[6] Similarly, ice cream businesses used to sell their ice cream in 64-ounce containers. Then, beginning around 2008, they shrunk their containers to 48 ounces.[7]

Smaller-sized packages don't always mean reduced prices. Consumers usually end up paying the same for less product. Of course, the labels on packages have the weight listed, but consumers don't always read the labels or notice the changes, which become accepted.

In some cases, the size and shape of containers are changed, which camouflages any reduction in the amount of a product. For example, a business might use a taller and thinner container that looks similar but holds less product: The 32-ounce Gatorade® bottle was redesigned to a more aerodynamic 28-ounce size, but the price remained the same.[8] Or have you noticed that little dimple on the bottom of jars of peanut butter? A slightly larger dimple means slightly less peanut butter in the jar, but most consumers do not notice the change.[9]

Is Shrinkflation Legal?

In 1967, the Fair Packaging and Labeling Act (FPLA) was enacted to ensure that consumers had enough information to make an informed choice between competing products. The Act requires each package of household "consumer commodities" included in the FPLA's coverage to have a label that includes the net quantity of contents in terms of weight, measure, or numerical count (measurement must be in both metric and inch/pound units).[10]

The FPLA also states that "Packages and their labels should enable consumers to obtain accurate information as to the quantity of the contents and should facilitate value comparisons."[11] So, shrinkflation is legal—if businesses clearly mark their products with an accurate weight that allows consumers to compare prices.

Skimpflation

Instead of increasing prices, businesses might decide to do something called skimpflation. *Skimpflation* is defined as businesses "skimping" on the quality of a product or service. Businesses skimp by spending less on services or materials to remain profitable. From NPR's Planet Money newsletter: "Skimpflation is a form of inflation…. It means we're getting less for our money."[12]

One example of skimpflation is when customers do more of the work. When customers do more of the work, the business provides less service. This practice is seen with the first self-service supermarket—Piggly Wiggly®. The first Piggly Wiggly® opened in 1916 in Memphis, Tennessee. Instead of clerks behind a counter gathering products for customers, Piggly Wiggly® provided carts for shoppers to go up and down the aisles to select their own items and then pay at a register—doing more of the work that was once done by clerks.

Later, starting in 1986 and as the technology developed and became cost-effective, self-checkout machines were introduced in many stores to lower stores' labor expenses. With customers doing the work at the self-checkout line, businesses skimp on service. When the cost of the technology became less than the cost of labor, this newer mode of operation took root. From this beginning, some stores such as Walmart, Kroger, and Dollar General are now piloting exclusively self-checkout stores.[13] Businesses with self-checkout lines create a faster process for the customers, which allows the stores to have fewer workers for this process.[14]

Skimpflation means skimping on service by cutting costs. For example, hotels may make changes in their housekeeping services. Instead of workers cleaning guest rooms daily, their service may be reduced to every other day or when a guest checks out. This change reduces labor costs.[15]

There can be skimping on quality, too. Those hot, complimentary hotel breakfast buffets that include fresh fruit, waffles, eggs, and bacon may be replaced by prepackaged sweet rolls and cereal. Replacing more-expensive foods with cheaper foods is a way to cut costs.

And businesses may change their formulas for food products to use cheaper ingredients in these products. For example, artificial sweeteners and cheaper oils may be substituted for more expensive ingredients. Unless consumers compare the ingredients label from an older product with the new one, they won't be aware of the change when making a purchase. But businesses take a risk when switching a formula to use cheaper ingredients. If the change is noticeable to consumers and they don't like the change in taste, they may stop buying the product.

Consumers may notice a change in a food's taste, but skimping on quality is harder to detect in some other products. For example, toilet tissue may be packaged the same and have the same number of sheets per roll, but it may have thinner sheets. Looking at the package, a consumer wouldn't know of that change in quality.[16]

Conclusion

Inflation numbers are economic indicators collected and released monthly by the BLS to assess the health of the economy. But inflation is more than numbers. Consumers and businesses alike face decisions when dealing with the reality of inflation. Consumers may have to choose to spend more for necessities and less for non-essentials. Businesses may use shrinkflation or skimpflation to cover rising costs and remain profitable.

With shrinkflation, it's a consumer's responsibility to read product labels and think about the unit price of products they purchase. It's the law for businesses to have information on labels about the contents of their packages, but this won't matter unless consumers read what the labels says. Skimpflation is another way that businesses deal with the reality of inflation. Consumers must consider paying the same prices for reduced quality or service when deciding what to purchase. Shrinkflation and skimpflation are a reality of inflation. Inflation numbers provide the facts, and those numbers give consumers and businesses something worth thinking about. ■

Notes

[1] Anderson, Mae. "As Small Businesses Raise Prices, Some Customers Push Back." *AP News*, September 11, 2022; https://apnews.com/article/inflation-new-york-small-business-d4204d27e692fe9673175f9cb2f03796.

[2] Greenwood, Veronique. "The Food You Buy Really Is Shrinking." BBC *Worklife*, May 13, 2018; https://www.bbc.com/worklife/article/20180510-the-food-you-buy-really-is-shrinking.

[3] Rosalsky, Greg. "Beware Of 'Shrinkflation,' Inflation's Devious Cousin." NPR *Planet Money*, July 6, 2021. https://www.npr.org/sections/money/2021/07/06/1012409112/beware-of-shrinkflation-inflations-devious-cousin.

[4] U.S. Bureau of Labor Statistics. "Consumer Price Index Frequently Asked Questions: How and When Are CPI Prices Collected and Reviewed?" March 23, 2022; https://www.bls.gov/cpi/questions-and-answers.htm#Question_11.

[5] Associated Press. "'Shrinkflation' Accelerates Globally as Manufacturers Quietly Shrink Package Sizes." NPR *Your Money*, June 8, 2022; https://www.npr.org/2022/06/08/1103766334/shrinkflation-globally-manufacturers-shrink-package-sizes.

[6] McDermott, Tricia. "A Pound of Coffee?" *CBS News*, March 7, 2003; https://www.cbsnews.com/news/a-pound-of-coffee-07-03-2003/.

[7] Greenwood, Veronique (2018). See footnote 2.

[8] Diaz, Clarissa. "Shrinkflation: How Inflation Is Downsizing Some of Your Favorite Foods." *World Economic Forum*, March 22, 2022; https://www.weforum.org/agenda/2022/03/how-companies-are-hiding-inflation-without-charging-you-more/.

[9] Greenwood, Veronique (2018). See footnote 2.

[10] United States Code. "Chapter 39—Fair Packaging and Labeling Program," in U.S. House of Representatives Office of the Law Revision Counsel, *Title 15—Commerce and Trade*. Washington, DC, 1967; http://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title15-chapter39&edition=prelim.

[11] United States Code (1967). See footnote 10.

[12] Rosalsky, Greg. "Meet Skimpflation: A Reason Inflation Is Worse than the Government Says it Is." NPR *Planet Money*, October 26, 2021; https://www.npr.org/sections/money/2021/10/26/1048892388/meet-skimpflation-a-reason-inflation-is-worse-than-the-government-says-it-isz.

[13] Meyersohn, Nathaniel. "Nobody Likes Self-Checkout. Here's Why It's Everywhere." *CNN Business*, July 10, 2022; https://www.cnn.com/2022/07/09/business/self-checkout-retail/index.html.

[14] Rosalsky, Greg (October 2021). See footnote 12.

[15] Picchi, Aimee. "The Flip Side of Inflation: 'Skimpflation' Is Hitting Everything from Food to Hotels." CBS *Money Watch*, October 4, 2022; https://www.cbsnews.com/news/skimpflation-inflation-reducing-food-service-quality/.

[16] Picchi, Aimee (2022). See footnote 15.

Name____ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics*®:

"Beyond Inflation Numbers: Shrinkflation and Skimpflation"

After reading the article, select the best answer to each question.

1. Which of the following is an example of shrinkflation?
   a. The label on a bag of candy lists the weight of the candy as 11.5 ounces, as required by law.
   b. The average price level of many things you buy decreases over time, which causes the prices to shrink.
   c. The price of a gallon of milk increases by $0.50 in one week and is on sale the next week for $0.75 less.
   d. A box of facial tissues that contains 65 tissues is replaced with a box that contains 60 tissues for the same price.

2. The self-checkout machine can be considered a skimpflation practice because
   a. customers do more of the work and businesses provide less service.
   b. businesses can train customers to use the machines to increase their skills.
   c. businesses increase the number of employees to increase their profit.
   d. more conflicts between customers and checkout employees can be avoided.

3. Hotels practice skimpflation when they
   a. add more complimentary amenities to encourage travelers to choose their hotel.
   b. replace more-expensive foods in the breakfast buffet with cheaper food items.
   c. make reservations in advance with a lower cost than same-day reservations.
   d. replace cheaper foods on the breakfast buffet with more-expensive food items.

4. Inflation
   a. is not a concern for consumers and businesses.
   b. causes the purchasing power of the dollar to decrease.
   c. causes the purchasing power of the dollar to increase.
   d. trends when the numbers are released once a year.

5. Which statement is true?
   a. Shrinkflation is a new practice that businesses first started to use in the past year.
   b. Skimpflation is when consumers buy fewer items and "skimp" on buying non-essentials.
   c. Skimpflation is when businesses "skimp" on the quality of a product or service.
   d. Businesses never practice skimpflation or shrinkflation to market products.

6. Shrinkflation is legal if businesses
   a. clearly label their products with an accurate weight of the contents.
   b. provide a notice of any change in package size or quantity to display in stores.
   c. post a notice of any change in package size or quantity online for at least 30 days.
   d. get approval from the BLS before making the change in packaging.

7. Which statement is true?
   a. Consumers don't need to think about shrinkflation or skimpflation.
   b. Consumers are more sensitive to changes in quantity than to changes in price.
   c. The BLS does not consider shrinkflation when calculating inflation numbers.
   d. Consumers are more sensitive to changes in price than to changes in quantity.

8. Cost-push inflation
   a. is caused by a decrease in production costs.
   b. is the same as shrinkflation.
   c. does not affect the individual consumer.
   d. is caused by an increase in production costs.

9. The Bureau of Labor Statistics (BLS) enacted a law that requires the contents of a package to be included on a label.
   a. True
   b. False

10. Consumers are affected by skimpflation because businesses put less content in the same-size package.
    a. True
    b. False

11. The BLS collects and releases inflation numbers monthly.
    a. True
    b. False

12. To make smart decisions, consumers should think about the unit price of a product when comparing products.
    a. True
    b. False

13. After reviewing the monthly inflation numbers, consumers and businesses alike make decisions on the reality of the numbers.
    a. True
    b. False

14. When packaging is designed to hold less content, or less content is in a package, consumers always notice the change.
    a. True
    b. False

15. Smaller-sized packages always mean a reduction in prices.
    a. True
    b. False