

## Brown Bag Seminar

Anti-poor and anti-rich: Product-downgrading and the  
distributional effects of UK inflation in the wake of the Brexit vote

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# Anti-poor and anti-rich: Product-downgrading and the distributional effects of UK inflation in the wake of the Brexit vote

## Abstract:

Following the 2016 Brexit referendum, British households faced a marked increase in retail prices largely due to a substantial depreciation of the British pound. This study investigates how different income groups experienced and responded to this inflationary shock, with a particular focus on households' capacity to mitigate the impact by adjusting their purchasing behavior within narrowly defined product categories.

Employing a granular scanner dataset on consumer purchases, we analyze how "product downgrading"—the substitution of higher-priced product varieties for lower-priced alternatives—served as a key mechanism for middle-income households to limit the effects of inflation. For these households, transitioning to lower-priced alternatives provided an effective cushion against rising costs. In contrast, lower-income households had limited opportunity to employ this strategy, as they were already purchasing the least expensive varieties and therefore experienced higher effective inflation rates. Higher-income households, meanwhile, showed minimal adjustment in their purchasing patterns, likely due to a greater tolerance for price increases enabled by their higher income levels.