

What is the Consumer Price Index?

October 18, 2016

The Consumer Price Index is published on a monthly basis by the Bureau of Labor Statistics (BLS). September's Index information will be released today at 8:30 AM EST. The index is a measure of the average change in prices paid by consumers for a broad market basket of goods and services. The CPI is published not only on a national level, but separate indices for NY, Chicago and LA are also reported each month. Other urban areas indices are published less often, either bi-monthly or semi-annually.

So Who's Buying Habits Are Reflected in the CPI?

The CPI measures the spending patterns of all urban consumers, urban wage earners and urban clerical workers. The group sampled aims to cover all those living in metropolitan areas; this includes professionals, the self-employed, the poor, the unemployed, and even retired people. The spending patterns of people living in rural nonmetropolitan areas, farm families, people in the Armed Forces and institutions are not included in the CPI data. Although this approach may appear to miss a lot of non-urban spending data, the "all urban" group sampled actually represents roughly 89% of the total US population.

Is the CPI a "Cost-of-Living" Index?

The CPI is often referred to as a "cost-of-living" index, but it differs from a complete cost-of-living measure as it does not include certain governmental or environmental factors that affect consumers' well-being such as price changes in public goods, safety, health and education. Nonetheless, changes in CPI can be effective indicators of changes in the "cost of living" in various metropolitan areas or the US as a whole. With that said, CPI indices are not to be used to compare the "cost of living" among or between different areas. This is because each index measures how much prices have changed over a specific period in a specific area; the indices do not show whether prices or living costs are higher or lower in any area relative to another.

Is the CPI a Good Measure of Inflation?

The BLS's Consumer Price Index is arguably the most widely used measure of inflation and is often viewed and analyzed as an indicator of the effectiveness of monetary policy. The CPI provides information about price changes in the Nation's economy to those in government, business, labor, as well as private citizens and is used by them as a guide to making economic decisions. The President, Congress, and most especially the Federal Reserve will utilize trends in the CPI to aid in formulating fiscal and monetary policy. In fact, it is not unusual to hear a Federal Reserve President or Governor cite an inflation target in terms of a specific reading or level of CPI or PCE (Personal Consumption Expenditure Index).

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Link to the September CPI Release:

<http://www.bls.gov/cpi/news.htm>

Sources:

http://www.bls.gov/cpi/cpifaq.htm#Question_1

http://www.bls.gov/cpi/cpiadd.htm#2_1