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The Consumer Price Index...What's It all about?

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Food Prices & You

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What it means
The present base is the price level of 1967. Thus, with 1967 prices representing 100, the index in October, 1973, stood at 136.6. That means that you would have spent $13.66 in October to buy the same goods and services as $10.00 could have purchased in 1967.

Does the CPI take into account how families spend?
Yes, the 400 items are weighted in the index by their importance in your budget. For instance, food is given a weight of 23 per cent of the total "market basket," on the estimation that most families spend that much of their income for food. Clothing gets 10 per cent of the index, housing 34 per cent, transportation 12 per cent, new cars 2 per cent, health and recreation 20 per cent. Thus, a $1 increase in food cost counts more in the CPI than the same increase in clothing cost.

Is the CPI changed with spending habits?
Keeping a yardstick like the CPI flexible and fresh is an endless job. Families are buying items today that did not exist 15 or 20 years ago such as microwave ovens, stereos, video cassettes, TV dinners, and polyester knits. The index is updated periodically to show these product changes.

What use is the index?
Families see how others divide their money make ends meet.
Legislators use the CPI to determine welfare payments and to locate financial gaps where legislation is needed. Welfare agencies ask for additional funds when cost of living increases.
Employers and employees tie wage agreements and pension plans to the CPI for automatic boosts in pay and pensions. Retired persons may get automatic pension increases reflecting changes in the CPI.
Renters often find their rent increases when the CPI changes.
Bankers link the CPI to mortgage payments.
Insurance companies raise premium payments to reflect increases in the index.
Economists project income needs for the population, shifts in the American standard of living, and use the CPI as a benchmark to show the buying power of the dollar.

And so...
While the Consumer Price Index has many uses, it also has limitations. But so far it is the best measure America has to monitor change in living costs.

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Consumer Price Index Up in April! $$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$ 
Cost of Living Spurts Upward! 
Food Prices Jumped Last Month to an All-Time High! 
CPI Up 6% Since Last Year! 

When you see these newspaper headlines, you ever stop and wonder what they mean? You are not alone. Most of us see them only as taking a bigger bite out of the paycheck. But the Consumer Price Index is an official "yardstick" showing what is happening to your dollar's buying power.

Just what does the Consumer Price Index measure? 
It is a monthly tally of the retail prices of goods and services bought by families and single persons living in 56 cities across the country. Logansport is one of the smaller cities used as a check point, and Chicago and Cincinnati are two other cities surveyed in our area.

What the Index tells 
The CPI measures the average changes in retail prices of goods and services purchased by urban wage earners and clerical workers. The items priced include food, housing, transportation, medical care, clothing, fuel and other important items that consumers buy. The CPI is an average measure of price changes for a certain bunch of consumers. If you buy a different set of products, you may experience quite different price changes.

What it does not tell 
Although it is called the "cost-of-living" index, this is not strictly accurate, for several reasons:
- Not everything that goes into the cost of living is covered. For instance, two important items not covered are income and Social Security taxes. Sales and property taxes are included.
- The group of items priced may not exactly match those purchased by farm families.
- The list of items checked each month stays the same for long periods. It is not changed often enough to be a true measure of buying habits.
- The CPI does not measure all prices—it simply measures the average change in prices for a typical group of products and services. In one month, some prices rise and others fall—the index does not show these price drops.
- Food prices are collected on the first Tuesday, Wednesday, and Thursday of each month. Weekend specials may not show in the price checks.
- Price levels vary from city to city. The CPI should not be used to compare the cost of living in different cities. It may be used to show price changes over time for an area or particular city.

What makes up the Index? 
The CPI is based on changes in retail prices of about 400 different items. Among the diverse products covered are bread, meat, eggs, dresses, shirts, new cars, house paint and baby cribs. The range of services priced each month includes haircuts, shoe repairs, doctor's fees, dry-cleaning and the cost of having a lawyer draw a will.

How are prices obtained? 
About 250 "price agents" employed by the Bureau of Labor Statistics fan out in 56 cities where prices are checked. The agents shop in 18,000 retail stores and service establishments of all sizes. Prices are taken directly from goods on shelves in food stores. To get fees for doctors and dentists, the agents visit their offices. Rent information is gathered by talking to some 40,000 tenants.

Each item priced has a strict description of quality and quantity to insure that the exact same item is checked each month. Quality changes can be shown over time.

by Jan Armstrong  Consumer Affairs Specialist