



Focus on Prices and Spending



Consumer Price Index: Third Quarter 2010

U.S. Bureau of Labor Statistics November 2010 Volume 1, Number 10

Current Price Topics

The Use of the CPI in Social Security Cost-of-Living

Adjustments (COLAs) More than 50 million people currently receive Social Security benefits.¹ In 1972, Congress passed legislation tying Social Security cost-of-living adjustments (COLAs) to changes in the Consumer Price Index. Specifically, these COLAs are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), All Items, from the third quarter of one year to the third quarter of the next year.

COLA effective for 2009. The third-quarter average 2007 CPI-W, All Items index stood at 203.596. The CPI-W average for the third quarter of 2008 was 215.495, an increase of 5.8 percent. (See table 1.) This 5.8-percent cost-of-living increase, which became effective in 2009, was the highest COLA in more than 25 years. The steep rise was due to both sharply higher gasoline prices, which climbed 35.2 percent from the third quarter of 2007 to the third quarter of 2008, and higher

prices for food, which increased 6.2 percent over the same period.

COLA effective for 2010. From the third quarter of 2008 to the third quarter of 2009, the CPI-W actually fell 2.1 percent, due in large part to gasoline prices, which dropped 32.5 percent over that period. This was the first time the CPI-W, All Items index had fallen since Social Security COLAs were tied to the CPI. When the CPI-W falls, Social Security benefits do not fall. Instead, they remain unchanged.² For this reason, there was no COLA for 2010.

COLA effective for 2011. In the third quarter of 2010, the CPI-W stood at 214.136. Although this was higher than the 2009 third-quarter CPI-W average of 211.001, Social Security recipients will not receive a COLA in 2011. This is because, by legislation, the CPI-W must exceed its previous third-quarter peak, recorded in 2008, in order for there to be a positive COLA the next year. Put another way, because the third-quarter 2010 CPI-W level of 214.136 did not exceed its previous peak of 215.495 in 2008, there will be no automatic COLA in 2011.³

Table 1: CPI-W, All Items, third-quarter averages, 2007–10

Year	July	August	September	Third-quarter average	Percent change from previous third quarter	Cost-of-living adjustment (percent)
2007	203.700	203.199	203.889	203.596
2008	216.304	215.247	214.935	215.495	5.8	5.8
2009	210.526	211.156	211.322	211.001	-2.1	0
2010	213.898	214.205	214.306	214.136	1.5	0

Current Price Trends
Rise in Energy Prices
Drives Third-Quarter Retail
Inflation Picture

All Items

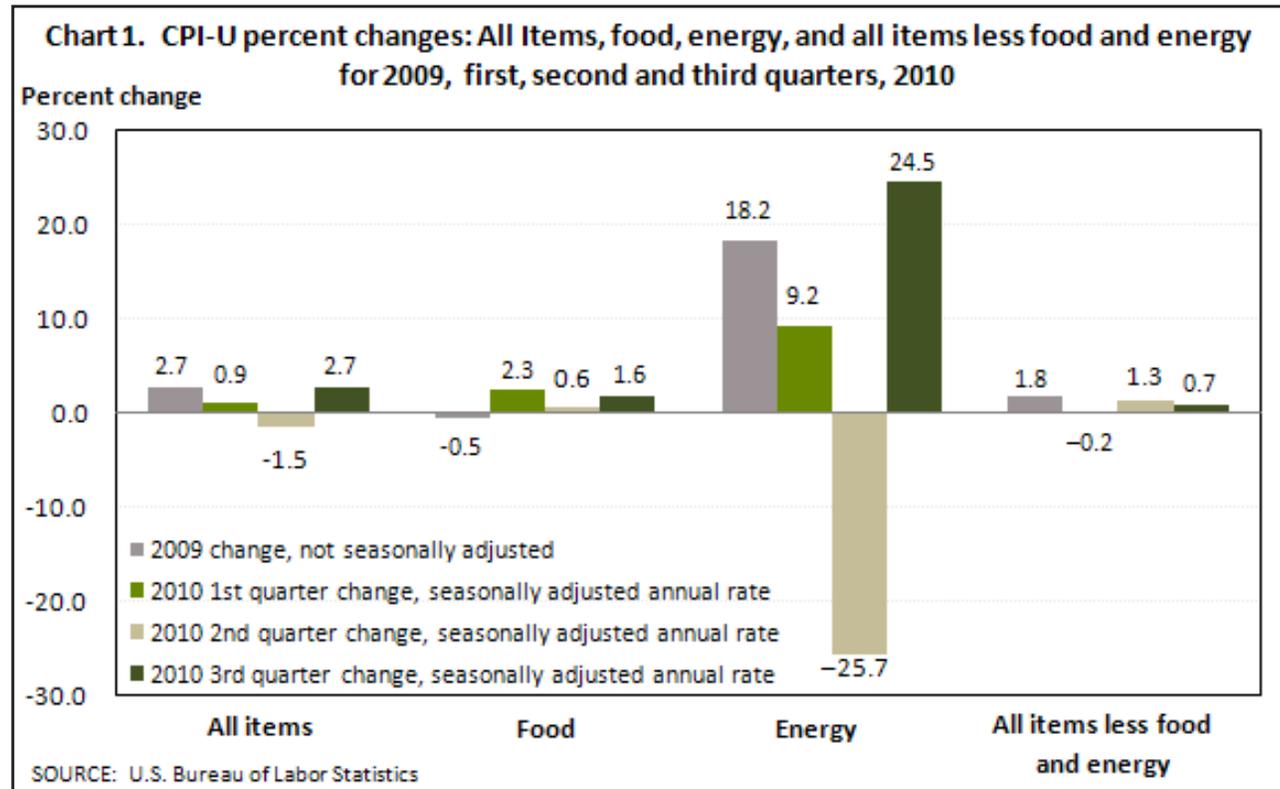
The Consumer Price Index for All Urban Consumers (CPI-U), All Items, increased at a 2.7-percent seasonally adjusted annual rate (SAAR) during the third quarter of 2010. For the first 9 months of 2010, the index has increased at a 0.7-percent SAAR, compared with a rise of 2.7 percent in 2009.

A turnaround in the energy index was the main cause of the third-quarter upturn in the all-items index. The energy index increased at a 24.5-percent annual rate in the third quarter,

after falling sharply in the second quarter. The index, which rose significantly in 2009, continued to climb in the first 9 months of 2010, but at a more modest pace. Inflation for the index for all items less food and energy continued to decelerate, with the increase for 2010 rising at one-third the rate posted in 2009. In contrast, the food index has risen modestly in 2010 after declining in 2009.

Energy

Energy remained the most volatile major CPI component. After climbing at a 9.2-percent SAAR in the first quarter of 2010 and declining at a 25.7-percent SAAR in the second quarter, the energy index jumped 24.5 percent in the third quarter. (See chart 1.) For the first 9 months of 2010, the energy index has risen



at a 0.4-percent SAAR, after increasing 18.2 percent in all of 2009.

Within the energy component, the gasoline index increased at a 48.8-percent SAAR in the third quarter of 2010, after falling at a 38.9-percent SAAR in the second quarter. This trend continues the sharp changes seen in gasoline prices over the past few years. From July 2007 to July 2008, gasoline prices rose 37.9 percent. After crude oil prices peaked in July 2008 at more than \$134 a barrel, they plummeted during the last 5 months of that year, to under \$32 a barrel. At the retail level, gasoline prices fell by more than 50 percent. In 2009, pump prices turned sharply higher again, increasing more than 50 percent, with crude oil prices increasing to around \$70 a barrel by the end of 2009.

The household energy index rose at a 1.9-percent SAAR in the third quarter of 2010, after falling 10.1 percent in the second quarter. All the major components of household energy rose in the third quarter. The natural gas index rose at a 1.8-percent SAAR in the third quarter, after declining at a 17.7-percent SAAR in the second quarter. For the first three quarters of 2010, the natural gas index increased at a 2.9-percent annual rate, after falling 18.1 percent in 2009. The electricity index rose 2.0 percent in the third quarter of 2010, identical to its first-quarter performance, but was down 7.1 percent in the second quarter. Electricity prices had declined 0.5 percent in 2009. The fuel oil index increased 0.1 percent in the third quarter of 2010, after falling at an 8.9-percent rate in the second quarter.

Food

Food prices rose at a 1.6-percent SAAR in the third quarter of 2010, after rising 0.6 percent in the second quarter. The food index has increased 1.5 percent so far in 2010, after slipping 0.5 percent in 2009. Grocery store food prices rose at a 1.2-percent SAAR in the third quarter, after a flat second quarter and an increase of 3.7 percent in the first quarter. Of the six major grocery store food groups, the meats, poultry, fish, and eggs group increased the most in the third quarter, 3.2 percent. Prices for a variety of breakfast items climbed significantly in the third quarter, with coffee and egg prices up at SAARs of 13.0 percent and 32.8 percent, respectively. In addition, prices for bacon and breakfast sausage rose 29.6 percent. Most of the other food at home groups posted modest increases in the third quarter of 2010. Cereals and bakery products rose 2.3 percent, dairy products increased 2.2 percent, nonalcoholic beverages were up 2.1 percent, and other food at home increased 1.8 percent. In contrast, fruits and vegetables fell at a 5.7-percent SAAR in the third quarter, with fresh fruits falling 10.7 percent. Within fresh fruits, apple prices were down 21.2 percent and oranges fell 21.3 percent. These decreases more than offset an 8.6-percent increase in the banana index. The index for fresh vegetables decreased at a 2.5-percent SAAR in the third quarter, with lettuce falling 13.5 percent.

Prices for food away from home rose at a 2.3-percent SAAR in the third quarter, after rising at a 1.4-percent rate in the second quarter.

Food at employee sites and schools jumped 9.2 percent in the third quarter of 2010, after more modest increases earlier in the year.

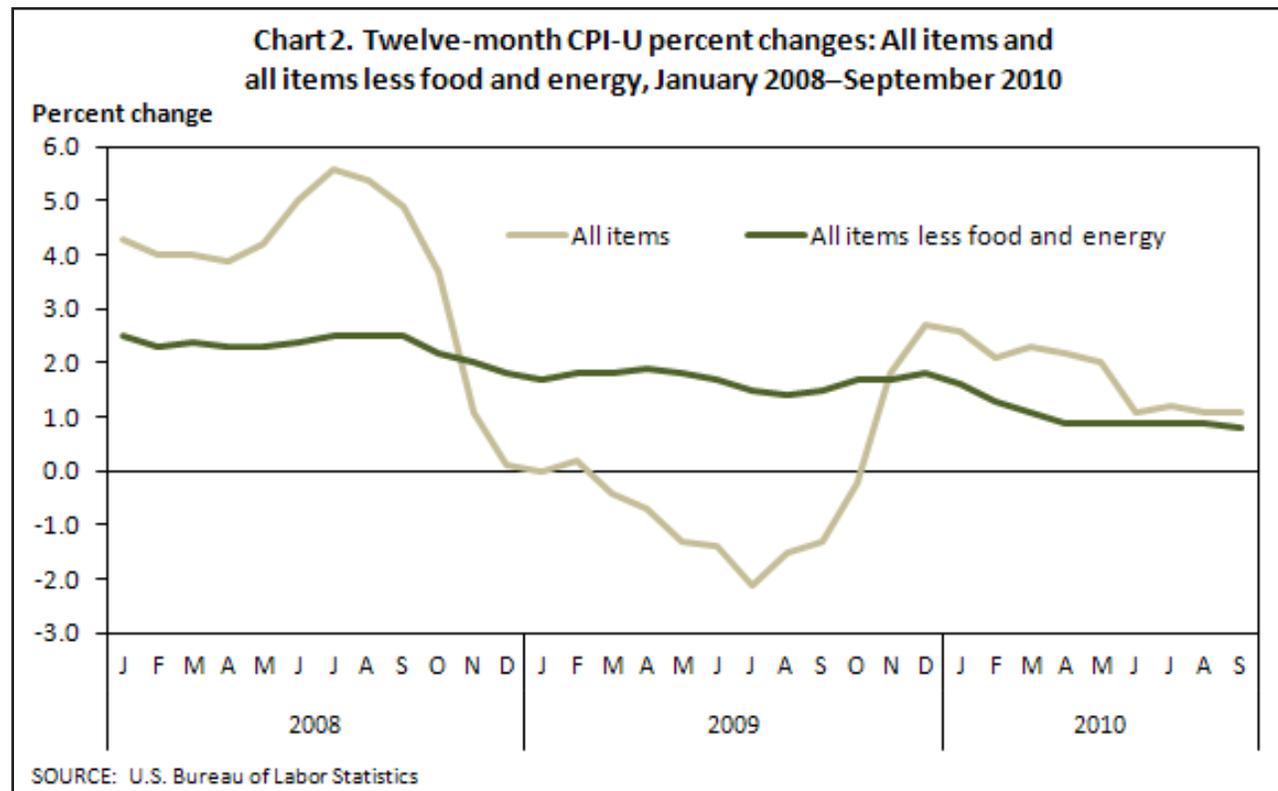
Both grocery store prices and the index for food away from home were up 1.4 percent over the past 12 months.

All items less food and energy

The index for all items less food and energy rose at a 0.7-percent SAAR in the third quarter of 2010, nearly half the 1.3-percent rate of increase recorded in the second quarter. This index had fallen at a 0.2-percent annual rate in the first quarter. The shelter index decelerated as well, increasing 0.4 percent in the third quarter after a 0.9-percent increase in the second quarter. Shelter prices had fallen 2.2 percent in the first quarter of 2010. Within

shelter, owner’s equivalent rent and rent of primary residence each rose at a 0.5-percent SAAR in the third quarter. Lodging away from home declined 5.1 percent in the third quarter, after a 23.1-percent spike in the second quarter.

The index for other goods and services rose at a 3.6-percent SAAR in the third quarter of 2010. Other significant components with increases included the medical care index, which grew 3.2 percent, and the index for new and used motor vehicles, which rose 1.8 percent. By contrast, declines in the third quarter were noted in apparel, which fell 0.9 percent, and recreation, which fell 2.3 percent. For the first time in many years, educational books and supplies fell; the drop in the third-quarter, 2010, SAAR was 3.8 percent.



The index had increased 6.2 percent in the second quarter.

Household furnishings and operations declined 1.5 percent in the third quarter of 2010, compared with a 3.7-percent rate of increase in each of the previous two quarters. The index for airline fares reversed in the third quarter, falling 4.6 percent after a 14.3-percent increase in the second quarter. The communication index was unchanged in the third quarter, after falling at a 1.3-percent rate in the second quarter.

The annual rate of inflation for all items less food and energy continued its deceleration in 2010. (See chart 2.) The 12-month percent change ending September 2010 was 0.8 percent, the smallest increase since March 1961. For the 5-year period from September 2004 to September 2009, this index had increased at a 2.2-percent annual rate.

The shelter index also has decelerated in recent years. The 12-month percent changes in shelter ending September 2006, 2007, 2008,

and 2009 were 4.2 percent, 3.5 percent, 2.4 percent, and 0.7 percent, respectively. In 2010, shelter continues to pull down the index for all items less food and energy, with the current 12-month percent change for shelter standing at -0.4 percent. Other indexes contributing downward pressure on the annual index for all items less food and energy included household furnishings and operations, apparel, recreation, and communication. In contrast to prices for shelter, prices for used cars and trucks have increased 12.9 percent over the past 12 months.

Price movements described in this text reflect data released on October 15, 2010. Except as noted, all 12-month-and-longer percent changes reflect data that were not seasonally adjusted. Percent changes covering less than a year are based on seasonally adjusted annual rates, unless otherwise noted. CPI seasonally adjusted indexes and percent changes are subject to annual revision.

Further information is available from the **CPI Information and Analysis section**, at **cpi_info@bls.gov** or (202) 691-7000. 

Notes

¹ See *Press Office Fact Sheet: Social Security Basic Facts* (U.S. Social Security Administration, Aug. 10, 2010), on the Internet at www.ssa.gov/pressoffice/basicfact.htm (visited Nov. 1, 2010).

² That said, changes in Social Security benefits are potentially affected by factors other than COLAs, such as changes in Medicare premiums.

³ More information on how the Social Security Administration uses the CPI to adjust benefits can be found in *Automatic Increases: Latest Cost-of-Living Adjustments* (U.S. Social Security Administration, Oct. 15, 2010), on the Internet at www.ssa.gov/OACT/COLA/latestCOLA.html (visited Nov. 1, 2010).