

BRIEF EXPLANATION OF CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. The Bureau of Labor Statistics publishes CPI's for two population groups: (1) a CPI for All Urban Consumers (CPI-U) which covers approximately 89 percent of the total population and (2) a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 28 percent of the total population. The CPI-U includes, in addition to wage earners and clerical workers, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for physicians' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 87 urban areas across the country from about 6,000 housing units and approximately 24,000 retail establishments - department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of fuel, and a few other items are obtained every month in all 87 locations. Prices of most other commodities and services are collected every month in the three largest metropolitan areas and every other month in other areas. Prices of most goods and services are obtained by personal visits or telephone calls by the Bureau's trained representatives.

In calculating this index, price changes for the various items in each location are averaged together with weights that represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 27 local areas. Area indexes do not measure differences in the level of prices among cities, they only measure the average change in prices for each area since the base period.

The indexes measure price change from a designated reference date, 1982-84, which equals 100.0. An increase of 7 percent, for example, is shown as 107.0. This change can also be expressed in dollars as follows: the price of a base period market basket of goods and services in the CPI has risen from \$100 in 1982-84 to \$107.

For further details, see the BLS Handbook of Methods, Chapter 17, Consumer Price Index. <http://www.bls.gov/opub/hom/pdf/homch17.pdf>

Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points, because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index points and percent changes.

Index Point Change

Current CPI	112.5
Minus previous CPI	<u>-108.5</u>
Equals index point change	4.0

Percent Change

Index point change	4.0
Divided by previous CPI	4.0÷108.5
Equals	0.037
Multiply by 100	0.037 x 100
Equals percent change	3.7

**WESTERN REGION
CPI 24 HOUR HOTLINE**

(415) 625-2270

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