Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a market basket of goods and services. The Bureau of Labor Statistics publishes CPIs for two population groups: (1) a CPI for All Urban Consumers (CPI-U) which covers approximately 87 percent of the total population and (2) a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 32 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 doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected in 87 urban areas across the country from about 50,000 housing units and approximately 23,000 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 fuels 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 geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits or telephone calls of the Bureau's trained representatives.

In calculating the index, price changes for the various items in each location are averaged together with weights, which 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 26 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 index measures price change from a designed reference date-1982-84 which equals 100.0. An increase of16.5 percent, for example, is shown as 116.5. 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 $10 in 1982-84 to $11.65.

For further details visit the CPI home page at http://stats.bls.gov/cpihome.htm or contact the CPI Information and Analysis Section on (202) 691-7000.

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 below illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change

CPI	115.7
Less previous index	111.2
Equals index point change	4.5

Percent Change

Index point difference	4.5
Divided by the previous index	111.2
Equals	0.040
Results multiplied by one hundred	0.040 x 100
Equals percent change	4.0