About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

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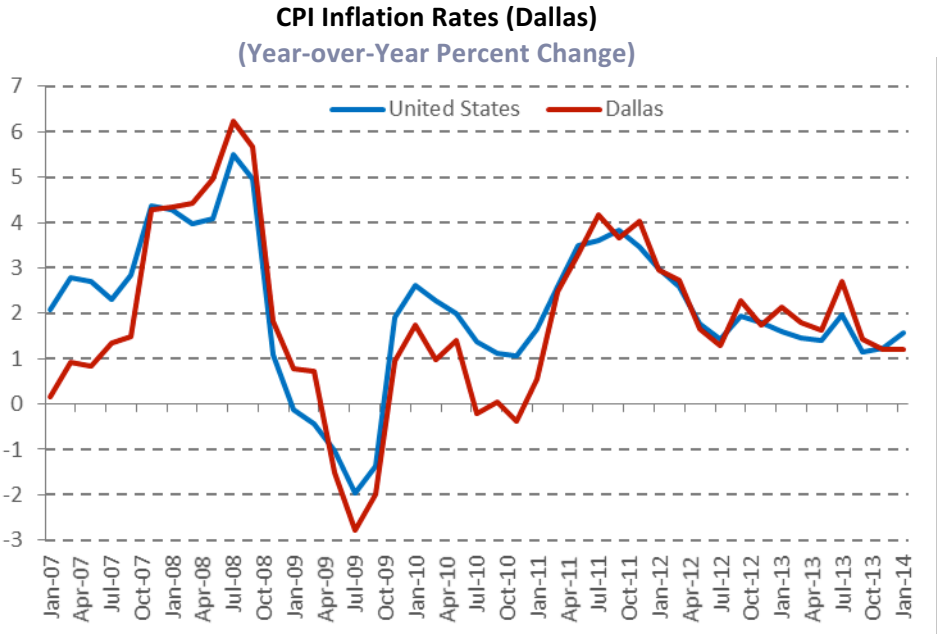
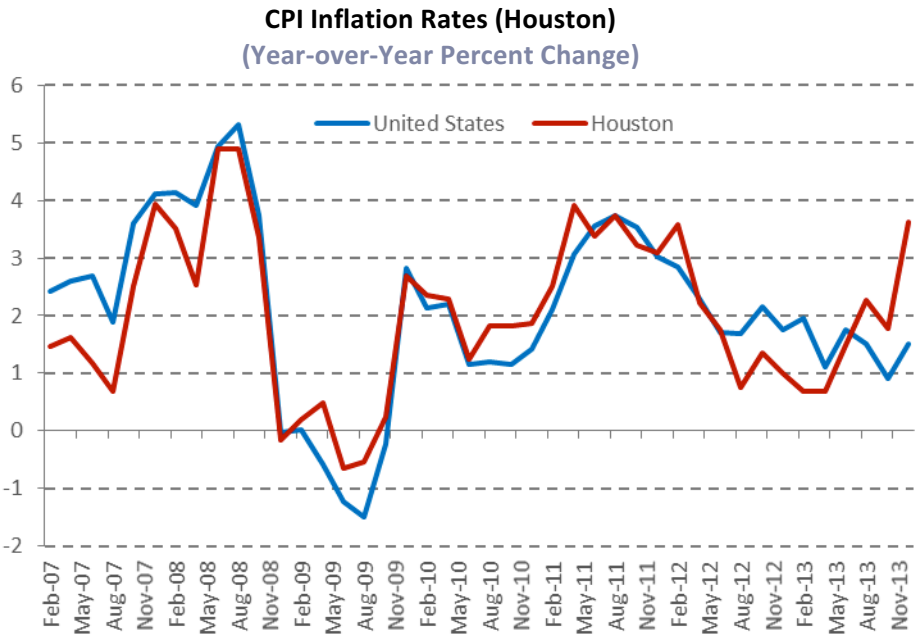
Prices



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

The Bureau of Labor Statistics (BLS) estimates and publishes the Consumer Price Index (CPI) with monthly data on changes in prices paid by urban consumers for a representative "basket" of goods and services. The CPI reflects spending patterns for all urban consumers. The all-urban consumer group represents about 87 percent of the total U.S. population. It is based on the expenditures of almost all residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and the retired, as well as urban wage earners and clerical workers. Not included in the CPI are the spending patterns of people living in rural nonmetropolitan areas, farm families, people in the armed forces and those in institutions such as prisons and mental hospitals.

The CPI market basket is developed from detailed expenditure information provided by families and individuals on what they actually bought. For the current CPI, the information was collected from Consumer Expenditure Surveys in 2009 and 2010. In each of those years, about 7,000 families from around the country provided information each quarter on their spending habits.

To collect information on frequently purchased items, such as food and personal-care products, another 7,000 families in each of these years kept diaries listing everything they bought during a two-week period. Over the two years, expenditure information came from approximately 28,000 weekly diaries and 60,000 quarterly interviews used to determine the importance (or weight).

The BLS classifies all expenditures into more than 200 categories, arranged into eight major groups. Major groups and examples of categories in each are:

- food and beverages (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks);

- housing (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture);
- apparel (men's shirts and sweaters, women's dresses, jewelry);
- transportation (new vehicles, airline fares, gasoline, motor vehicle insurance);
- medical care (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services);
- recreation (televisions, toys, pets and pet products, sports equipment, admissions);
- education and communication (college tuition, postage, telephone services, computer software and accessories); and
- other goods and services (tobacco and smoking products, haircuts and other personal services, funeral expenses).

Also included within these major groups are various government-charged user fees, such as water and sewerage charges, auto registration fees and vehicle tolls. In addition, the CPI includes taxes (such as sales and excise taxes) that are directly associated with the prices of specific goods and services. However, the CPI excludes taxes (such as income and Social Security taxes) not directly associated with the purchase of consumer goods and services. The CPI does not include investment items, such as stocks, bonds, real estate and life insurance; these items relate to savings and not to day-to-day consumption expenses.

Each month, BLS data collectors (called economic assistants) visit or call thousands of retail stores, service establishments, rental units and doctors' offices all over the United States to obtain information on the prices of the thousands of items used to track and measure price changes in the CPI. These economic assistants record the prices of about 80,000 items each month, representing a scientifically selected sample of the prices paid by consumers for goods and services.

An index is a tool that simplifies the measurement of movements in a numerical series. Most of the specific CPI indexes have a 1982-84 reference base. That is, BLS sets the average index level (representing the average price level) for the 36-month period covering the years 1982, 1983 and 1984 equal to 100. BLS then measures changes in relation to that figure. An index of 110, for example, means there has been a 10 percent increase in price since the reference period. Similarly, an index of 90 means a 10 percent decrease. Movements of the index from one date to another can be expressed as changes in index points (the difference between index levels), but it is more useful to express the movements as percent changes. This is because index points are affected by the level of the index in relation to its reference period, while percent changes are not, and they would represent an increase in prices, that is, “inflation.”

It is important to understand that BLS bases the market baskets and pricing procedures for the CPI populations on the experience of the relevant average household, not on any specific family or individual. It is unlikely that your experience will correspond precisely with either the national indexes or the indexes for specific cities or regions.

The BLS estimates an every-other-month CPI for the metropolitan areas of Dallas-Fort Worth (odd months, i.e. January, March, etc.) and Houston-Galveston-Brazoria (even months,

February, April, etc.). An individual area index measures how much prices have changed over a specific period in that particular area; it does not show whether prices or living costs are higher or lower in that area relative to another.

In general, the composition of the market basket and the relative prices of goods and services in the market basket during the expenditure base period vary substantially across areas. Because the sample size of a local area is smaller, the local area index is subject to substantially more sampling and other measurement errors than the national index. In addition, local indexes are not adjusted for seasonal influences. As a result, local area indexes show greater volatility than the national index, although their long-term trends are quite similar.

In the case of the Dallas-Fort Worth area, prices fluctuated between the 2 percent and 1 percent annual levels in 2013. While in Houston, prices registered an upswing at the end of 2013, surpassing the 3 percent level after fluctuating closer to the 1 percent between the middle of 2012 through the first half of 2013 and later around the 2 percent annual level.

Source: Bureau of Labor Statistics
http://www.bls.gov/cpi/