Consumer Price Index

Common Misconceptions about the Consumer Price Index: Questions and Answers

An August 2008 Monthly Labor Review article by BLS economists John Greenlees and Robert McClelland reviews and analyzes some common misconceptions about the Consumer Price Index (CPI.) Those analyses are summarized here:

Has the BLS removed food or energy prices in its official measure of inflation?

No. The BLS publishes thousands of CPI indexes each month, including the headline All Items CPI for All Urban Consumers (CPI-U) and the CPI-U for All Items Less Food and Energy. The latter series, widely referred to as the "core" CPI, is closely watched by many economic analysts and policymakers under the belief that food and energy prices are volatile and are subject to price shocks that cannot be damped through monetary policy. However, all consumer goods and services, including food and energy, are represented in the headline CPI.

Most importantly, none of the prominent legislated uses of the CPI excludes food and energy. Social security and federal retirement benefits are updated each year for inflation by the All Items CPI for Urban Wage Earners and Clerical Workers (CPI-W). Individual income tax parameters and Treasury Inflation-Protected Securities (TIPS) returns are based on the All Items CPI-U.

The CPI used to include the value of a house in calculating inflation and now they use an estimate of what each house would rent for -- doesn't this switch simply lower the official inflation rate?

No. Until 1983, the CPI measure of homeowner cost was based largely on house prices. The long-recognized flaw of that approach was that owner-occupied housing combines both consumption and investment elements, and the CPI is designed to exclude investment items. The approach now used in the CPI, called rental equivalence, measures the value of shelter to owner-occupants as the amount they forgo by not renting out their homes.