

What is the Consumer Price Index (CPI)?

by Mark Walter, CCIM

In last weeks article we talked about the Consumer Price Index (CPI) and how it can assist when adjusting leases for inflation. But, you may ask, what is this CPI and what other information does it measure?

Let me first define the Consumer Price Index **as a program that produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.** The CPI represents changes in prices of all goods and services purchased for consumption by urban households. Prices for the goods and services used to calculate the CPI are collected in 87 urban areas throughout the country and from about 23,000 retail and service establishments. Data on rents are collected from about 50,000 landlords or tenants. All of this information is compiled and maintained by the Bureau of Labor Statistics, a division of the Department of Labor.

Some of the uses for the CPI are as follows:

1. The Consumer Price Index is used as an economic indicator. As the most widely used measure of inflation, the CPI is an indicator of the effectiveness of government policy. In addition, business executives, labor leaders and other private citizens use the index as a guide in making economic decisions.

2. It is also used as a deflator of other economic series. The CPI and its components are used to adjust other economic series for price change and to translate these series into inflation-free dollars.

3. Another use of the CPI is as a means for adjusting income payments. Over 2 million workers are covered by collective bargaining agreements which tie wages to the CPI. The index affects the income of almost 80 million people as a result of statutory action: 47.8 million Social Security beneficiaries, about 4.1 million military and Federal Civil Service retirees and survivors, and about 22.4 million food stamp recipients. Changes in the CPI also affect the cost of lunches for the 26.7 million children who eat lunch at school. Some private firms and individuals use the CPI to keep rents, royalties, alimony payments and child support payments in line with changing prices. Since 1985, the CPI has been used to adjust the Federal income tax structure to prevent inflation-induced increases in taxes.

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