

CPI Update; Historic Deflation Continues

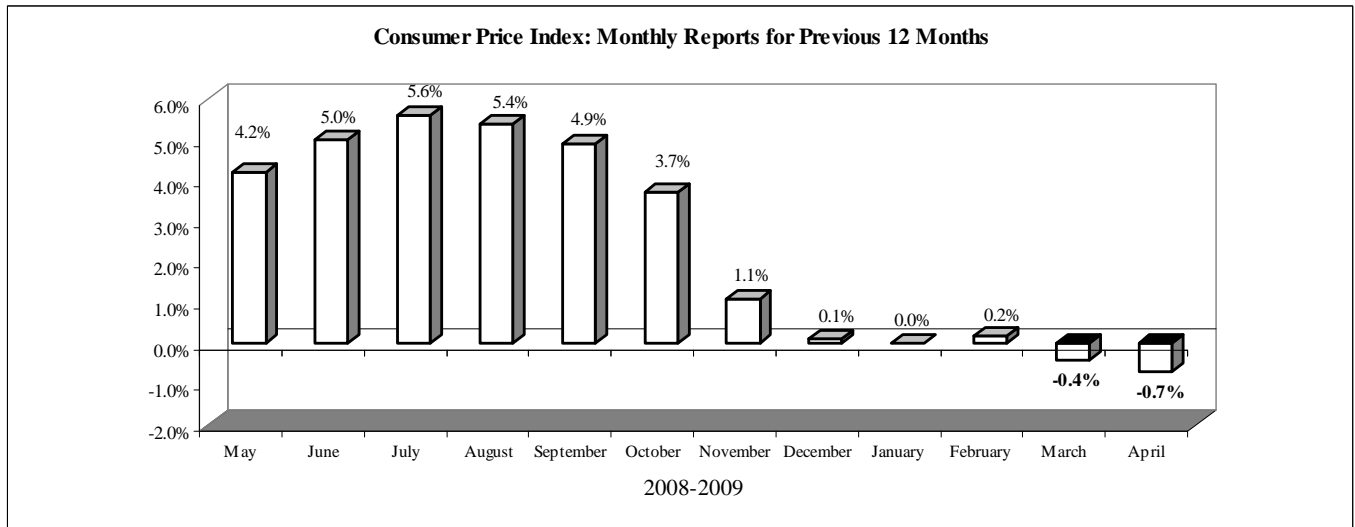
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A common question about increases in salary or budgets for the next school year usually revolves around increases in the “cost of living.” When most people use that phrase, they are acknowledging one of the most common statistics in use in America today; the Consumer Price Index (CPI).

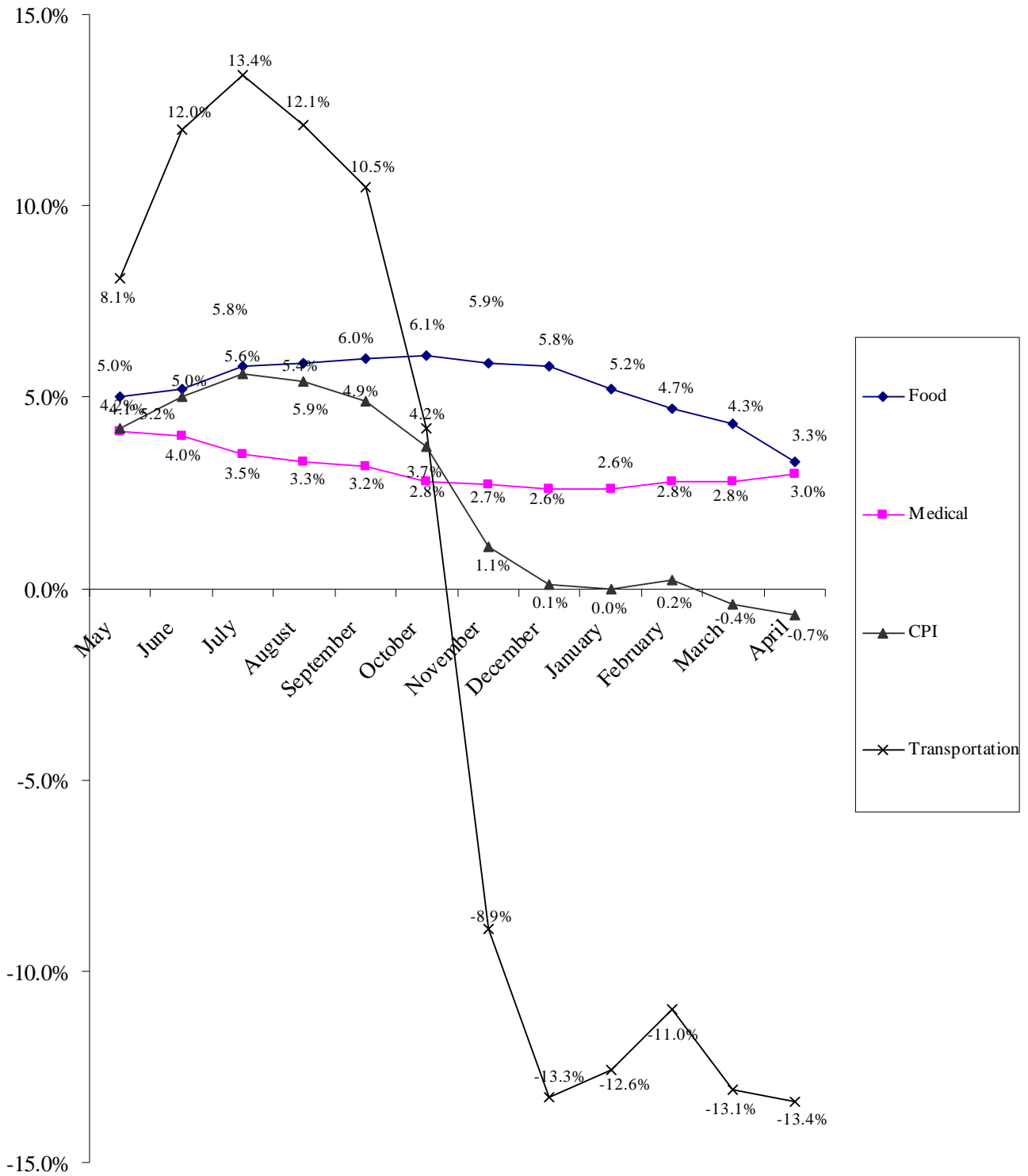
The CPI is a monthly measure, published by the federal government, of the average change in the price of a pre-determined “typical” set of purchases by the average urban consumer, over what those purchases would have cost one year ago. Each month is a percentage index and is compared to the past 12 months. So, each report is a “year” and if you want to know “inflation” or, in this month’s report “deflation”, for a calendar year you’d look at the December report, or for a Kansas fiscal year, the June report. The latest report released today covers the “year” that began on May 1, 2008 and ended on April 30, 2009. Over the past 12 months, consumer prices overall have declined -0.7 percent. As the chart below indicates, this is the second month of annual “deflation” during this historic recession. It has been more than half a century since “deflation” actually occurred for a twelve month period in the United States.

The Labor Department said today that the Consumer Price Index was flat last month after dipping 0.1 percent in March, meeting economists' expectations. The docile inflation performance reflected a second monthly drop in energy costs and a third straight decline in food prices. The components chart below illustrates the key indicators. Over the past year, consumer prices have fallen 0.7 percent, **the largest 12-month decline since a similar drop for the 12 months ending in June 1955.**

A destabilizing period of falling prices has not been seen in the U.S. since the Great Depression of the 1930s, although Japan suffered through a period of deflation in the 1990s.



Components of the CPI Index



2008-2009