



Focus on Prices and Spending



Consumer Price Index: First Quarter 2010

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Current Price Topics

The Use of the CPI in Poverty Measurement

The Consumer Price Index (CPI) plays a critical role in adjusting the Nation's measurement of poverty every year. Poverty thresholds are used by the Census Bureau to determine which families are poor. Poverty guidelines are used by the Department of Health and Human Services to determine eligibility for Federal assistance. The poverty figures are adjusted by the changes in the CPI to keep the real income levels associated with these thresholds and guidelines constant.¹ Specifically, these annual poverty measures are tied to changes in the annual average all items Consumer Price Index for All Urban Consumers (CPI-U).

To illustrate an annual adjustment, the poverty guideline for a family of four in the 48 contiguous States in 2008 was \$21,200. Since the annual average CPI-U rose 3.8 percent in 2008, the poverty guideline for a family of four in 2009 was then adjusted upward to \$22,050. Similar adjustments were made to the poverty thresholds.²

Although the annual average CPI-U typically increases from year to year, as in the previous

example, this measure of inflation actually fell 0.4 percent in 2009. This represented the first decline in the annual average CPI-U since 1955, and the first decline since these poverty measures were tied to the all items CPI-U. This meant that, unless there was a change in the law underlying the adjustment rules, the poverty guidelines would have been adjusted downward. Said another way, without Congressional action, if the poverty guidelines would be adjusted downward for 2010, some families making the same amount of income would no longer be eligible for financial assistance, and others would have had their level of aid reduced. As a result, Congress took action to keep the 2010 poverty guidelines at 2009 levels until at least May 31, 2010.³

The poverty thresholds, on the other hand, were adjusted lower in 2010, in line with the small decrease in the annual average CPI-U. For example, the weighted average poverty threshold for a family of four in 2008 was \$22,025. In 2009, reflecting the slight drop in the CPI-U, the preliminary average poverty threshold was adjusted downward to \$21,947.⁴

The use of the CPI in adjusting poverty values is mandated by law. This is only one example of myriad programmatic and contractual uses for this prominent statistic. Its influence extends far beyond simply being a measure of price changes paid by consumers. Future editions of this *Focus* series for the CPI will examine some of these other applications.

Current Price Trends

Recent Modest Inflation Caused Primarily by Higher Gasoline Prices

All Items

The all items Consumer Price Index for All Urban Consumers (CPI-U) rose at a 0.9-percent seasonally adjusted annual rate during the first quarter of 2010. (See chart 1)⁵ In 2009, this index had increased 2.7 percent, not seasonally adjusted.

Energy

The modest increase in the all items index for the first quarter of 2010 was due primarily to a 9.2-percent annual rate of growth in the index for energy. Within energy, gasoline prices continued to increase in the first quarter of 2010, up at an 8.6-percent annual rate after increasing 53.5 percent in 2009. Natural gas prices were up at a

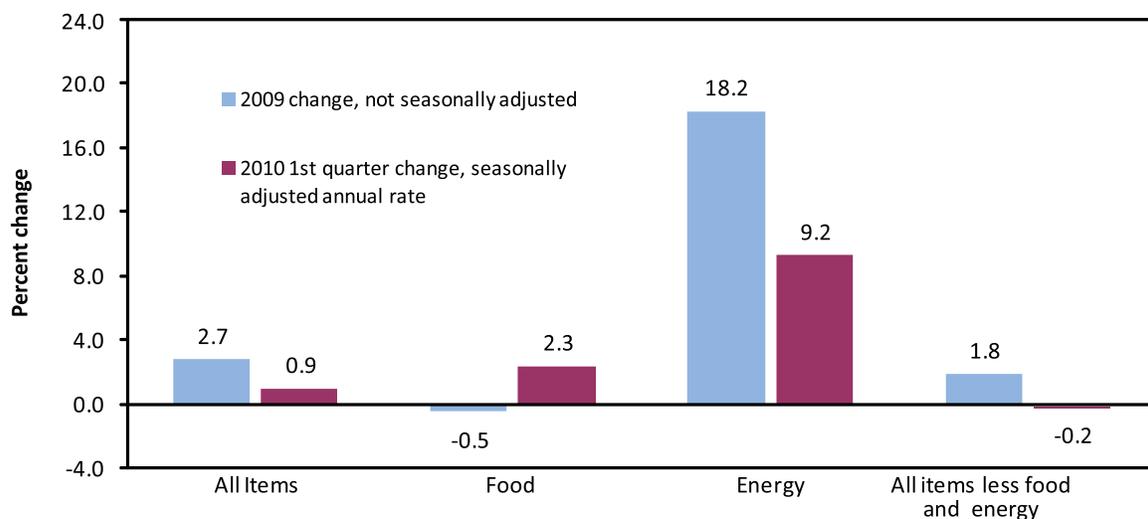
29.8-percent annual rate in the first quarter of 2010 after falling 18.1 percent in 2009, and fuel oil prices rose at an annual rate of 18.2 percent.

Over the past few years, crude oil prices—and subsequently retail gasoline prices—have been quite volatile. From July 2007 to July 2008, gasoline prices rose sharply, increasing 37.9 percent (not seasonally adjusted); crude oil prices peaked in July 2008 at more than \$134 a barrel. During the last 5 months of 2008, as crude oil prices collapsed to under \$32 a barrel, retail gasoline prices fell by more than 50 percent. In 2009, pump prices turned sharply higher again, increasing more than 50 percent, with crude oil prices increasing to around \$70 a barrel by the end of 2009.⁶

Food

Food prices rose at a 2.3-percent annual

Chart 1. CPI-U percent changes for all items, food, energy, and all items less food and energy for 2009, and first quarter 2010



SOURCE: U.S. Bureau of Labor Statistics

rate in the first quarter of 2010, with grocery store prices increasing 3.7 percent. Significant increases were seen in 3 of the 6 major grocery store food groups. The index for fruits and vegetables was up at a 19.7-percent rate, with fresh vegetable prices up at a 32.5-percent rate. Unusually cold weather early in the year in Florida significantly affected tomato prices, which rose at a 40.5-percent annual rate in the first quarter of 2010. Dairy products rose at an 8.5-percent rate in the first quarter, with milk at 9.9 percent. Meats, poultry, fish, and eggs increased at an annual rate of 4.1 percent in the first quarter of 2010 after falling 3.8 percent in 2009. Within this group, egg prices have risen at a 12.7-percent annual rate so far in 2010.

Small or modest price declines were noted for the other three grocery store food groups. The index for cereals and bakery products fell 2.8 percent. Nonalcoholic beverages fell 0.7 percent, and other food at home declined 1.0 percent.

Grocery store price changes in the first quarter of 2010 were more modest than in recent years. Grocery store inflation was relatively high during most of 2008; for example, these prices rose 7.0 percent from November 2007 to November 2008. In the next 12 months, however, grocery store food prices turned down, falling 2.9 percent, its sharpest annual drop since June 1959.

All items less food and energy

The index for all items less food and energy fell at a 0.2-percent annual rate in the first quarter of 2010, the first quarterly decrease since September 1960. The decrease in the first quarter of

2010 was due primarily to a 2.2-percent annual rate of decline in shelter costs. Within shelter, owners' equivalent rent fell at a 0.8-percent rate, and lodging away from home declined at a rate of 6.7 percent. In addition, some transportation components fell in the first quarter of 2010 after increasing in 2009. Airline fares fell at a 10.9 percent rate in the first quarter of 2010 after rising 4.3 percent in 2009. The index for new vehicles also fell in the first quarter of 2010, dropping at a 1.2-percent annual rate after increasing 4.9 percent in 2009.

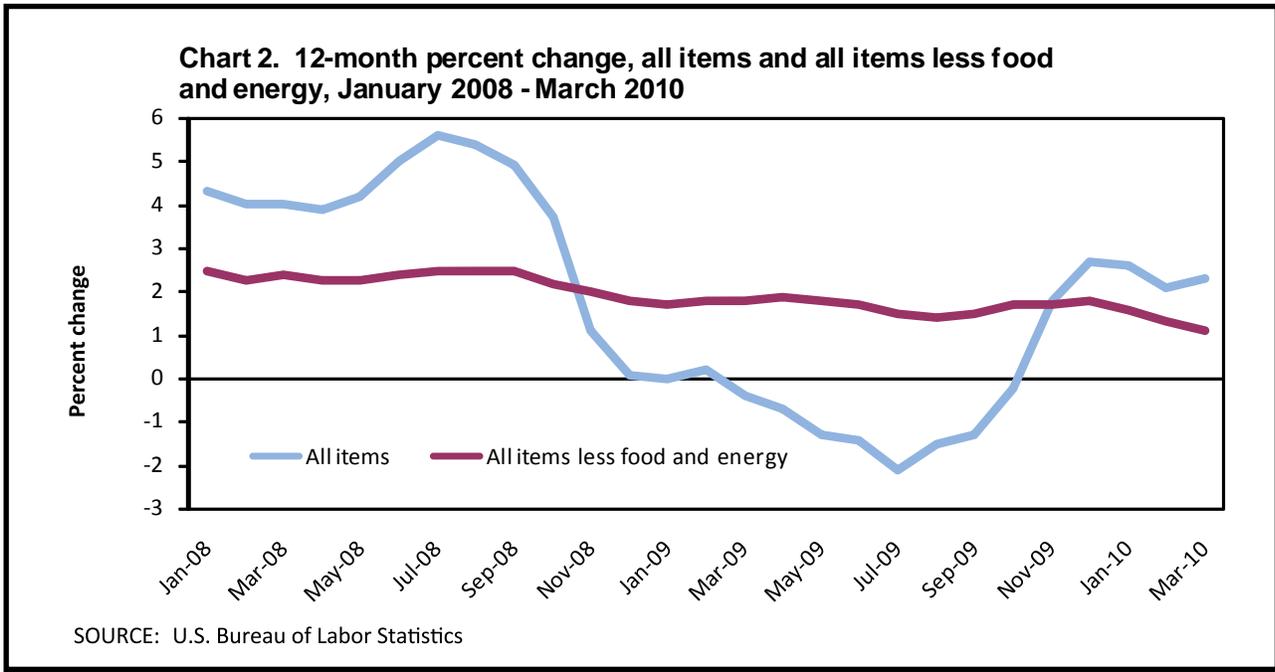
The first quarter 2010 decreases within all items less food and energy were partially offset by increases in other items. Medical care prices were up at a rate of 5.7 percent in the first quarter, with medical care commodities increasing at a 7.7-percent pace. Prices for used cars and trucks continued to increase in the first quarter of 2010, up at an 11.4-percent rate after increasing 9.2 percent in 2009. Tobacco prices, which had increased 30.1 percent in 2009 due in part to Federal and State tax increases, were up at an annual rate of 1.8 percent in the first quarter of 2010.

The rate of inflation for all items less food and energy has slowed somewhat in recent years, and has increased only 1.1 percent over the past 12 months. (See chart 2.) This is the lowest 12-month change in this broad expenditure category since an equivalent increase in January 2004, and the annual rate of inflation for this index has not been lower since a 0.9-percent increase in January 1966. The recent deceleration in this so-called "core" rate of inflation can largely be attributed to a similar deceleration in shelter

inflation. Shelter prices, which had increased at a 3.1-percent average annual rate from 1992 to 2007, rose only 1.9 percent in 2008, and increased only 0.3 percent in 2009. This deceleration for shelter continued into 2010,

with shelter prices down 2.2 percent in the first quarter.

Further information is available from the CPI Information and Analysis section, at cpi_info@bls.gov or (202) 691-7000.



Notes

¹ A more detailed list of differences between poverty thresholds and poverty guidelines can be found at <http://aspe.hhs.gov/POVERTY/faq.shtml> (visited May 6, 2010).
² The figure resulting from this adjustment is rounded upward to the next multiple of \$50; see <http://aspe.hhs.gov/poverty/09computations.shtml> (visited May 6, 2010).
³ See <http://aspe.hhs.gov/POVERTY/09extension.shtml> for more details (visited May 6, 2010).
⁴ See <http://www.census.gov/hhes/www/poverty/threshld/09prelim.html> (visited May 6, 2010). These threshold numbers are also subject to rounding.
⁵ Price movements described in this text reflect data as released on April 14, 2010. All 12-month and longer percent changes reflect not seasonally adjusted data, and all hyperlinks show 12-month unadjusted changes for the last 10 years. Percent changes covering less than a year are based on seasonally adjusted annual rates, unless otherwise noted. CPI seasonally adjusted indexes and percent changes are subject to annual revision.
⁶ Energy Information Administration; see http://tonto.eia.doe.gov/dnav/pet/pet_pri_wco_k_w.htm (visited May 6, 2010).