AIER | Everyday Price Index, December 2012

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The EPI Eases for the Holidays

Declining prices for gas and prescription drugs give consumers reason to be of good cheer.

by Julie Ni Zhu, Research Analyst

Prices of frequently purchased goods and services dropped 1.8 percent in November, according to AIER's proprietary Everyday Price Index (EPI). This news follows the EPI's 0.6 percent drop in October.

Falling gasoline prices helped push down everyday price inflation, giving consumers a little more room in their budgets just in time for the holiday season. Nationally, the average price of regular gasoline dropped from $3.85 in September to $3.75 in October. It dove even more steeply in November, falling by 8.7 percent to $3.45. The broader EPI category of motor fuel and transportation prices also declined 5.8 percent in November.

Since the average American spends about 20 percent of his or her daily expenditures on transportation costs, these declines came as a relief. And there's more good news for consumers: Low gasoline prices should last through the beginning of 2013. Oil supplies are high, the weaker world economy has slowed oil demand, and Brent crude oil futures prices continue to drop from their September peak.

Prescription drug prices also fell 0.7 percent in November, declining for the first time since May. While drug prices are still higher than they were at the beginning of 2012, this drop helped slow their climb. Prices in all other EPI categories were relatively stable in November.

But the long-term outlook for everyday price inflation is less merry. Prices of regularly purchased items are 2 percent higher than they were 12 months ago.

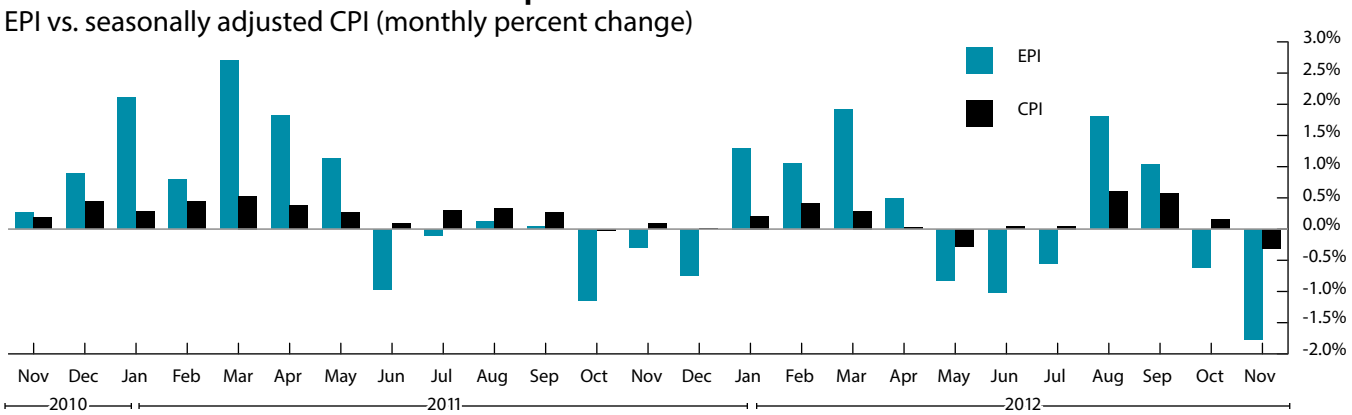
This finding is consistent with broader indexes like the Consumer Price Index (CPI), which is up 1.8 percent year-to-year. The EPI draws from the same survey data that the U.S. Bureau of Labor Statistics uses to create the CPI. But unlike the CPI, the EPI basket includes only day-to-day goods and services like groceries and electric bills, excluding major purchases like cars.

The EPI's annual increase can be explained by climbing prices in three daily expense groups. Motor fuel and transportation and prescription drug prices are significantly higher than they were a year ago, despite declines in these categories in recent months. Recreation prices have also risen.

Most of the 3.8 percent increase in motor vehicle and transportation prices over the past year can be attributed to the rising price of car insurance. It rose 4.4 percent in the last 12 months. Robust sales of new cars, trucks, and SUVs this year have increased demand for car insurance, driving up average prices. Inter-city public transportation prices also climbed 3.8 percent year to year. Americans cherish their mobility, and they will pay what they need to in order to get from one city to another.

The Inflation We Feel vs. The Inflation Reported

EPI vs. seasonally adjusted CPI (monthly percent change)



The EPI is a proprietary index of AIER. The CPI is produced by the Bureau of Labor Statistics.

The general upward trend of prescription medication prices is likely to continue into 2013. Despite November's downward adjustment, prescription drug prices have gone up 2.8 percent in the past 12 months. This can have a big impact on the average person's budget, either through direct expenses, co-pays, or insurance premiums. According to the Agency for Healthcare and Quality, in 2010, 90 percent of seniors and 57 percent of non-elderly adults had prescription drug expenses.

Recreation prices, the third category driving the EPI's annual increase, are up 4.3 percent from 12 months ago. Americans are paying more for cable and satellite television and radio service; tickets to movies, plays, concerts, and sporting events; and lessons and instructions. But there is an upside to these price increases. Since our recreational needs are largely met by the service sector, rising recreation prices reflect the ever-growing strength of the service industry in our recovering economy.

About the EPI

AIER's Everyday Price Index (EPI) measures the changing prices of frequently purchased items like food and utilities. We do this by selecting the prices of goods and services from the thousands collected monthly by the Bureau of Labor Statistics in computing its Consumer Price Index. The EPI basket contains only prices of goods and services that Americans typically buy at least once a month, excluding contractually fixed purchases such as mortgages. Our staff economists weight each EPI category in proportion to its share of Americans' average monthly expenditures. In order to better reflect the out-of-pocket prices that consumers experience on a daily basis, the EPI does not seasonally adjust prices.

To learn more about our methodology, view the weights assigned to each component, and browse past EPI updates, visit AIER's EPI Methodology page at www.aier.org/epi-methodology.

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