

Everyday Inflation Remains Tame

Low average fuel bills and stable food prices are keeping the lid on commonplace expenses.

by Julie Ni Zhu, Research Analyst

Consumers entered 2013 with good news about the cost of day-to-day living. According to AIER's proprietary Everyday Price Index (EPI), prices of frequently purchased goods and services dropped 0.8 percent in December. This marks the EPI's third consecutive monthly decrease, following a 0.6 percent dip in November and a 1.8 percent decline in October. (See Chart 1, right.) What's more, the EPI shows that everyday price inflation was subdued for the year 2012 as a whole.

While the EPI fell in December, the Consumer Price Index (CPI)—a broader price measurement created by the U.S. Bureau of Labor Statistics—did not change. (See Chart 2 below.) The EPI draws from the same survey data as the CPI, but excludes infrequent purchases like cars as well as fixed expenses like mortgages. The discrepancy between the two indices in December is likely because the

Chart 1: Prices Over the Long Term
EPI vs. seasonally adjusted CPI (Jan 1987=100)

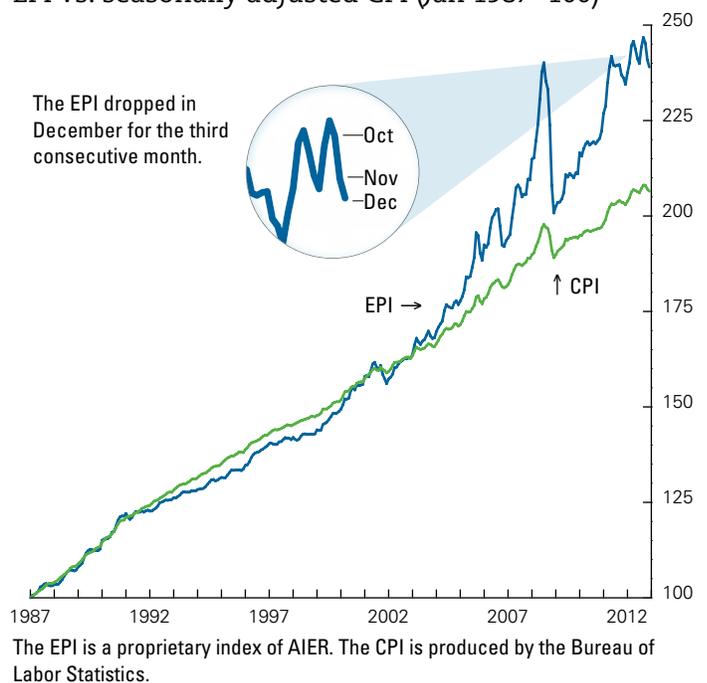
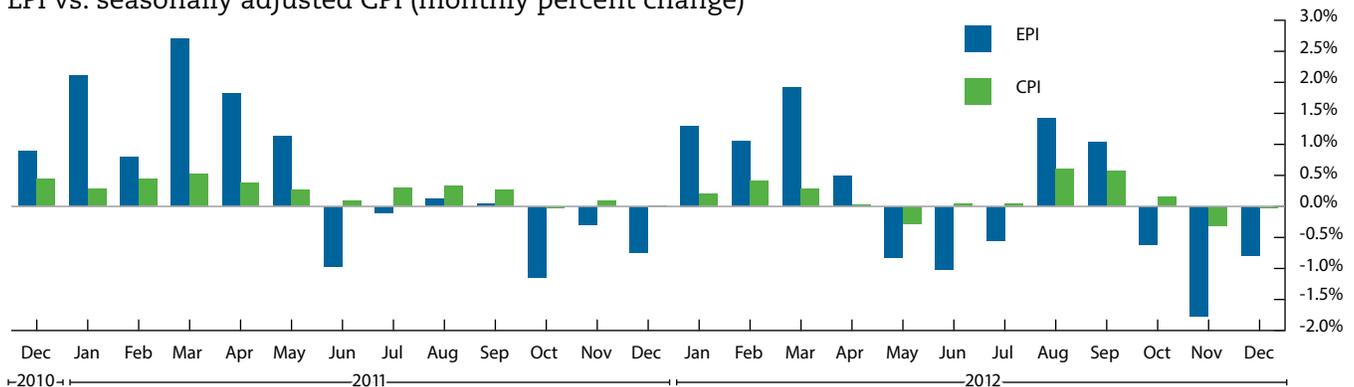


Chart 2: The Inflation We Feel vs. the Inflation Reported
EPI vs. seasonally adjusted CPI (monthly percent change)



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



EPI places more weight on oil prices, which tend to be volatile.

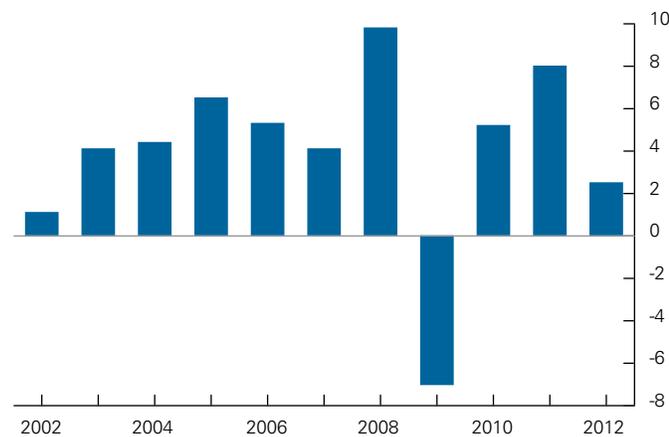
Motor fuel prices plunged 4.1 percent in December, making gas cheaper than at any other point in 2012. On average, a gallon of regular gasoline that month cost \$3.55. The U.S. Energy Information Administration projects that gas prices will continue to fall in coming months, with prices hovering below \$3.44 per gallon through 2014.

How Daily Prices Stack Up

(changes in the nine components of the EPI)

December 2012			
EPI	Monthly Change %		12-month Change %
Food and beverages	0.21	▲	1.78 ▲
Motor fuel and transportation	0.21	▲	0.5 ▲
Household fuel, utilities, and supplies	-3.08	▼	3.62 ▲
Recreation services (incl. cable TV)	0.03	▲	3.76 ▲
Communication (incl. telephone and internet)	0.05	▲	-0.86 ▼
Prescription drugs	-0.61	▼	1.88 ▲
Personal care products and services	0.08	▲	2.67 ▲
Tobacco and smoking products	0.52	▲	1.87 ▲
Child care and nursery school fees	-0.05	▼	1.16 ▲

Chart 3: EPI Average Annual Inflation Rate



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

Prescription drug prices, another EPI category, also helped lower the cost of day-to-day living in December. They fell 0.6 percent that month after dropping 0.7 percent in November.

Smokers, however, faced higher prices in December. The price of tobacco and smoking products climbed 0.5 percent that month. This was the category's second highest increase in 2012, trailing a 1.1 percent uptick in July. Rising state and federal taxes on cigarettes, meant to discourage smoking and thereby lower per capita spending on health care, pushed up prices in this category.

Overall, consumers experienced moderate inflation in December 2012 compared to 12 months before. Everyday prices were 1.9 percent higher than they were in December 2011—a result consistent with the CPI's 1.7 percent increase.

The EPI's 1.9 percent increase was largely driven by upswings in the price of car insurance and intracity public transportation. A spate of new automobile purchases propelled demand for car insurance, the price of which rose 4.7 percent year-to-year. (See AIER's December EPI, "The EPI Eases for the Holidays.") Meanwhile, prices for intracity public transportation like buses and subways rose 3.8 percent, putting a squeeze on commuters.

The higher cost of getting around town might seem surprising, given that motor fuel prices dove in the last quarter of 2012. But public transportation services do not regularly adjust ticket prices to reflect oil's price fluctuations. In general, ticket prices rise because of city and state budget issues.

Entertainment prices, which climbed 3.8 percent year-to-year, also contributed to the EPI's overall increase. (See table, upper left.) Tickets to movies, theaters, concerts, and sporting events rose 4.2 percent, while cable and satellite television and radio services increased 3.6 percent compared to December 2011. Offsetting these upturns were cheaper prices for video discs and other media, which fell 3.4 percent.

Not all price increases impact people the same way. Entertainment constitutes just 8 percent of

the average American's daily spending, so slightly steeper movie ticket prices don't have a huge impact on most consumers. But transportation makes up more than 20 percent of the average person's daily budget. Even small price increases in this category can put a dent in people's wallets over time.

Luckily, two other major consumer spending categories—food, and household fuel and utilities—stayed fairly steady. Food, which constitutes almost 38 percent of Americans' daily budgets, rose 1.8 percent from 12 months

earlier. Household fuel and utilities, which make up nearly 16 percent of daily spending, rose 0.5 percent. Relative stability in these categories helped Americans begin the new year with much of their purchasing power intact.

Better yet, as Chart 3 on page 2 shows, everyday price inflation was lower in 2012 than it has been since 2002, with the exception of 2009. That year, in the depths of the recession, prices actually fell. In 2012, the EPI's average annual inflation rate was 2.5 percent—well below the previous year's 8 percent increase, and a welcome change for consumers.

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.



Save the Date!

The AIER C. Lowell Harriss Summer Fellow Scholarship Dinner

Thursday April 18, 2013, 6:00 pm • Hosted by AIER

The Columbia Club
15 W. 43rd St
New York, NY 10036

Call (888)-528-1216 x0
for advance registration.

Featuring author
Ben Stein



Space is limited. As a loyal supporter of the American Institute for Economic Research, you get advance notice of this gala event.

All proceeds benefit the AIER C. Lowell Harriss Summer Fellow Scholarship Fund. Donation \$250 per person.