
The Consumer Price Index (CPI) measures the average change over time in the prices paid by urban consumers for a representative market basket of consumer goods and services. The Bureau of Labor Statistics (BLS) publishes measures of price change for two official population groups. The Consumer Price Index for All Urban Consumers (CPI-U) represents the spending habits of about 87 percent of the population of the United States,1 and the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a subset of the CPI-U population, represents about 32 percent of the U.S. population.

As the U.S. population ages, policymakers have become increasingly interested in issues facing older Americans.2 In 1987, Congress directed BLS to begin calculating a consumer price index for the elderly. In response, BLS developed an experimental consumer price index for Americans 62 years of age and older. Commonly called the CPI-E, the index was reconstructed to 1982; hence, CPI-E data are now available for 25 years, from December 1982 through December 2007.3

The experimental CPI-E has moved somewhat differently than the CPI-U and the CPI-W over the last quarter century. From December 1982 to December 2007, the experimental CPI-E rose 126.5 percent, compared with increases of 115.2 percent for the CPI-U and 110.0 percent for the CPI-W. That translates into average annual increases of 3.3 percent, 3.1 percent, and 3.0 percent for the CPI-E, CPI-U, and CPI-W, respectively.

Endnotes
1 The Chained CPI for All Urban Consumers (C-CPI-U), which the BLS began publishing in August 2002 with data back to January 2000, also represents the urban population. The prices used in the C-CPI-U are the same as those used to produce the CPI-U and CPI-W, but the C-CPI-U uses a different formula and different weights to combine basic indexes.
2 In 1987, about 12 percent of Americans were 65 years of age and older. By 2050, that number is expected to climb to more than 20 percent. See 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivor Insurance and Federal Disability Insurance Trust Funds (Government Printing Office, May 1, 2007), table V.A2, pp. 78–80.

Kenneth J. Stewart is an economist in the Division of Consumer Prices and Price Indexes, Bureau of Labor Statistics. Contact him at stewart.ken@bls.gov.

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Expected real returns are calculated as annualized cumulative compounded monthly real returns for January 1926 through December 2007 (82 years). As a result the 60/40 real return is not exactly 60 percent of the stock real return plus 40 percent of the bond real return. Similarly, standard deviations are annualized monthly deviations, so the 60/40 standard deviation is not a weighted average of the stock and bond standard deviations. Stocks are represented by the S&P 500 and bonds by the Citigroup High Grade Corporate Bond Index.