THE RESEARCH ROOM
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DATA POINTS:
The Gap Between Numbers and Experience

There are certain official government figures that can impact public policy in significant ways. In the June 2025 Research Room column, we used the federal poverty measures as an example of how some of these figures are not always as simple or straightforward as they may seem.

In this column, we continue that discussion with a focus on another data point that commonly drives public policy — inflation calculated from the consumer price index. The December 2024 Research Room column went in depth about what the CPI is, and more importantly, what it is not. This article delves into why this inflation measure often seems out of sync with the "lived experience" of many people.

A CPI refresher

Every month, the federal Bureau of Labor Statistics publishes monthly CPI figures. At its base level, CPI is an index that measures the average prices of consumer goods and services. Thus, the fluctuation in CPI reflects the change in the price of consumer goods and services.

CPI inflation is frequently discussed in local, state and national media. It affects many policy decisions, including changes in the federal funds rate. Low inflation numbers allow the Federal Reserve to stimulate growth by lowering this rate, which in turn, would typically lower the cost of borrowing for individuals, businesses, and state and local governments. In periods of high inflation, that growth tool is effectively taken away.

The CPI is also used to adjust Social Security benefits, some pensions, federal income tax brackets and some state income tax brackets. In many cases, worker wages are tied directly or indirectly to inflation. With these factors in mind, and the frequency with which the CPI is discussed, one might think it is the best figure to measure rising costs faced by the typical consumer. That is true to some extent, but not all consumers are typical.

Differences by income and demographics

The CPI, as typically referenced in most forms of media, refers to the CPI-U, or the Consumer Price Index for All Urban Consumers. It measures prices of a "basket of goods and services," which is a representative sample of products used by most consumers. It is measured every month to determine how price levels are changing. The BLS assigns different weights to each product and category in the basket. While useful in examining trends, this figure has limitations.

Consumption patterns

The BLS assigns weights to goods and services in the "basket." These weights are indicators of relative importance. Food is given a weight of around 14%, meaning that changes in food prices will account for 14% of the change in the total CPI-U. Housing is responsible for 25-35%, depending on whether utilities and household services are included, and transportation is given a relative importance of around 16% if vehicle purchases, fuel, and maintenance are included. Medical care, such as hospital services and prescription costs, is given a weight of around 8-10%.

These relative weights, typically updated every December by the BLS, keep the CPI-U measurements consistent over time. However, individual consumers are impacted differently by

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price changes in each category based on their level of income, geographic location, and age groups, among other factors. Housing expenditure by level of income is a good example.

Income

A recent study by the Joint Center for Housing Studies of Harvard University showed that in 2023, the median renter spent 31% of their household income on rent and utilities, up from 29% in 2019, just prior to the onset of the COVID-19 pandemic. This figure matches the weights assigned by the BLS when measuring the CPI-U. Yet, lower-income households typically spend a greater share of their income on housing and utilities. According to the same study, in 2019, lower-income renters paid 68% of their household income toward rent and utilities. By 2023, this figure reached 80%.

While the BLS gives housing 25-35% relative importance when calculating the CPI-U, lower-income households pay more than double that percentage toward their rent. This means that an increase in housing costs will have a much greater impact on lower-income households compared to those earning the median income.

Urban vs. rural

In public discourse, the CPI-U is often used as the "default" measure of inflation because, according to the BLS, it applies to around 93% of all households in the country, which are mostly urban (hence, the "urban" in the "All Urban Consumers" denoted by the "U" in CPI-U). The 7% of households unaccounted for in this measure are mostly rural. The distinction is important because urban and rural consumers may pay different prices for the same goods and services.

While a measure that applies to most urban consumers is relevant, public policy driven by such a measure may disproportionally impact rural consumers. For example, mortgage rates for rural consumers are influenced, in part, by the federal funds rate, which is driven, in part, by the CPI-U. While the CPI-U may not measure price changes for rural households, they are still directly affected by public policy impacted by the same CPI-U.

The cost of food, as measured and weighted by the CPI-U, is a good example of this discrepancy. A recent study by the Rural Sociological Society showed that rural consumers pay as much as 10% more for food than urban households, not including the increased transportation costs to get to a grocery store. The BLS assigns a relative importance of around 14% to food when calculating the CPI-U, but any changes in prices will have a disproportionate impact on rural households because more of their income already goes toward food as compared to urban households.

Age

Spending patterns also vary with age. Younger households are more likely to have children, and therefore, will typically spend more on child care and food. Perhaps the biggest difference in household spending relative to age is spending on health care, such as doctor visits, prescriptions, and hospital services. This type of spending is given a weight of around 8-10% by the BLS when calculating the CPI-U.

The median household spent just over 7% of its household income on health care in 2022, which is consistent with the weights assigned by the BLS. Yet, on average, older households, specifically those on Medicare, require more, and thus, spend more on health care. In the same year, Medicare households spent nearly double the median (just under 14%) of their household income on health care. Indeed, about 30% of Medicare households spent more than 20% of their household income on health care (about four times the rate of non-Medicare households). Despite the weights assigned by the BLS, changes in prices of goods and services related to medical services and health care will disproportionally impact older households.

The CPI is limited

This article is not meant to paint the CPI-U as an unimportant or irrelevant figure. Indeed, the CPI-U is meticulously calculated by the BLS every month using tens of thousands of data points. The CPI-U applies to the vast majority of American households and is very useful in driving overall public and economic policy. Instead, this article highlights that, despite its importance, the CPI-U has limitations because it applies to the typical consumer, and by definition, not all consumers are typical. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.