Cost-of-living index rose slightly in October; consumers still cautious

By Jackie Lam
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The cost of living in the U.S. edged up a slight 0.1 percent in October in another sign that inflation remains under control.

The rise in the Consumer Price Index, which tracks the price of everything from food and gasoline to airline fares, rose 2.2 percent on an annual basis, according to the Bureau of Labor Statistics.

The CPI excluding volatile food and energy prices rose a seasonally adjusted 0.2 percent, more than the 0.1 percent increase economists expected, but rose just 2.0 percent year-over-year, within the Federal Reserve’s inflation target.

Marc Hayford, professor of economics at Loyola University Chicago, said inflation remains subdued because the labor market is still weak.

“Unemployment is still relatively high,” Hayford said. “Workers don’t have a lot of bargaining power right now and so there isn’t a lot of upper pressure on wages. When productivity is low, inflation is not going to go up.”

But while the government’s numbers show that prices are rising only slightly, some Chicago consumers report a different experience.

Doris Evans, 43, an executive in a consulting business, said she noticed that prices of gasoline and dairy products like milk and eggs have gone up.

Evans, who spoke while waiting to board a Metra train in downtown Chicago, said she has cut her spending because she is supporting members of her family who have been out of work since the 2008-2009 recession.

“I stopped getting my nails done. Now I wait longer to get a haircut,” Evans said. “My travel has been way down. I don’t take trips that I normally would.”

Holiday spending may also suffer.

“I would say my holiday spending is 30 percent reduced,” Evans said. “I usually shop during the year. I try to conserve and space out my spending for the holidays.”

Hayford says it’s no coincidence that consumers might not feel happy amid stable or falling prices.
“The real question is why inflation is falling,” he said. The U.S. economy is operating well below its potential, meaning there is slack demand.

Jodie Taylor, 21, a college student who is relying on her parents for tuition and living expenses, said she is feeling the pressure of the weak economy through her parents.

“I got some sneakers, sweaters and sweat pants for my birthday this year,” Taylor said. “Usually they are more lavish. Since I went to Boston last week, my parents told me that I cannot go home for Thanksgiving so I have to spend the holiday at my friend’s place.”

The BLS said a rise in the shelter index in October, which measures rental and housing costs, accounted for most of the increase in the overall CPI. Increases in apparel and airline fares more than offset declines in new and used vehicles and recreation, the agency said.

Prices of all food items went up 0.2 percent in October after a 0.1 increase in September. Compared with 2011, the unadjusted percent change in beef and veal prices was 5.5 percent.

The drought this summer pushed up prices of grains, which farmers use to feed their cattle. The increase in the costs of raising and keeping animals was reflected in an increase in the prices of meat and dairy.

CPI measures the average change in prices over time of goods and services, including food, clothing, shelter and fuels. The BLS collects prices each month in 87 urban areas across the country from housing units as well as stores and service establishments.