



The Daily Dish

It's CPI Day!

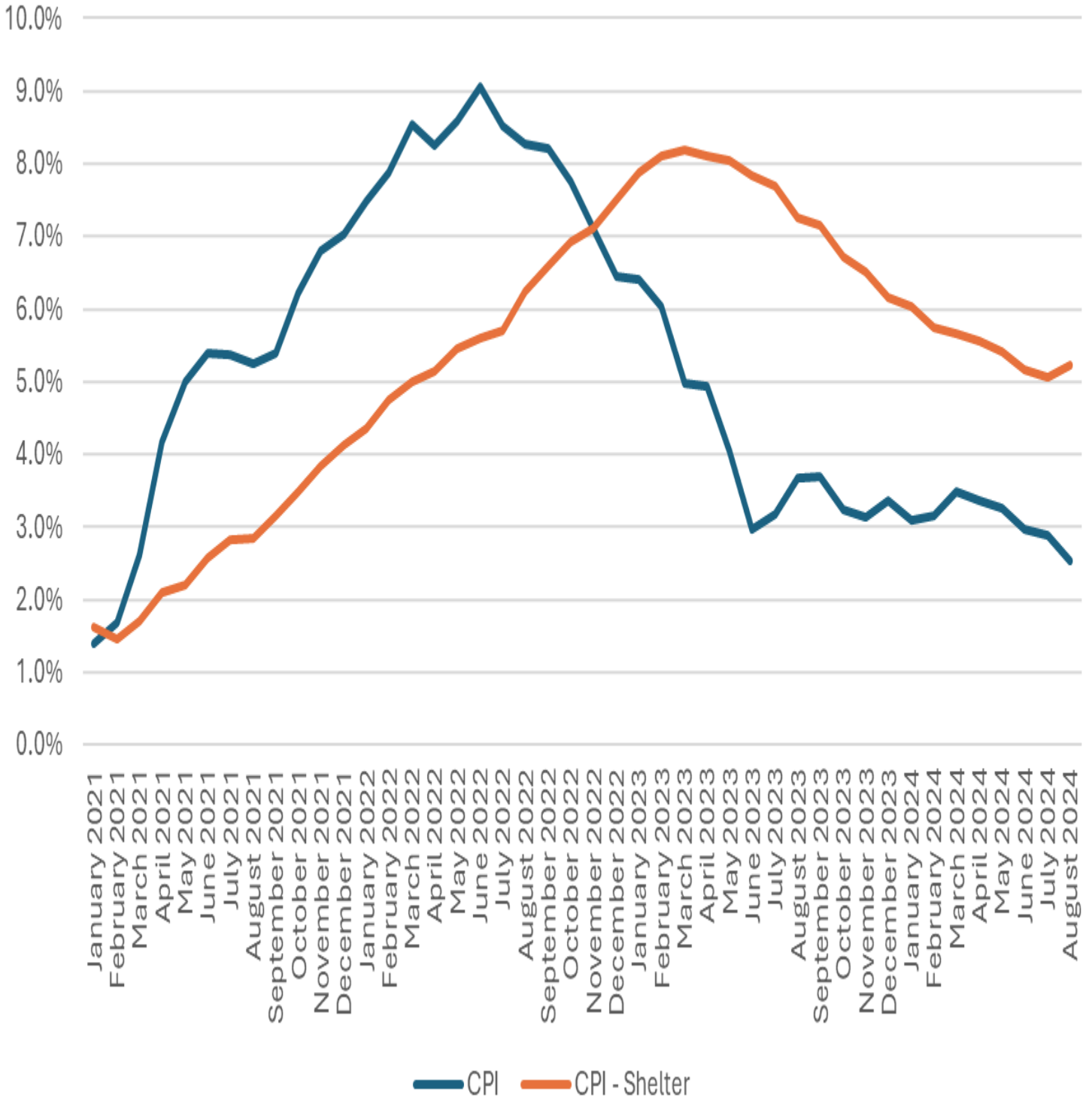
DOUGLAS HOLTZ-EAKIN | OCTOBER 10, 2024

Today the Bureau of Labor Statistics (BLS) will release the data for the September Consumer Price Index (CPI). This will be the first read on inflation that was not available to the Federal Reserve's Open Market Committee when it cut the target range for the federal funds rate by 50 basis points. Forecasters are [expecting](#) the year-over-year inflation to decline from 2.5 percent in August to 2.3 percent, while the core CPI inflation remains unchanged at 3.2 percent.

As regular readers of Eakinomics are aware (but probably sick of hearing about), the key issue beneath the top-line inflation (shown in blue below) is the behavior of shelter inflation (orange), which constitutes roughly one-third of the overall CPI. Shelter inflation has remained stubbornly high and last month even went in the wrong direction. That will be one focus of today's release.

CPI Inflation

Overall and Shelter



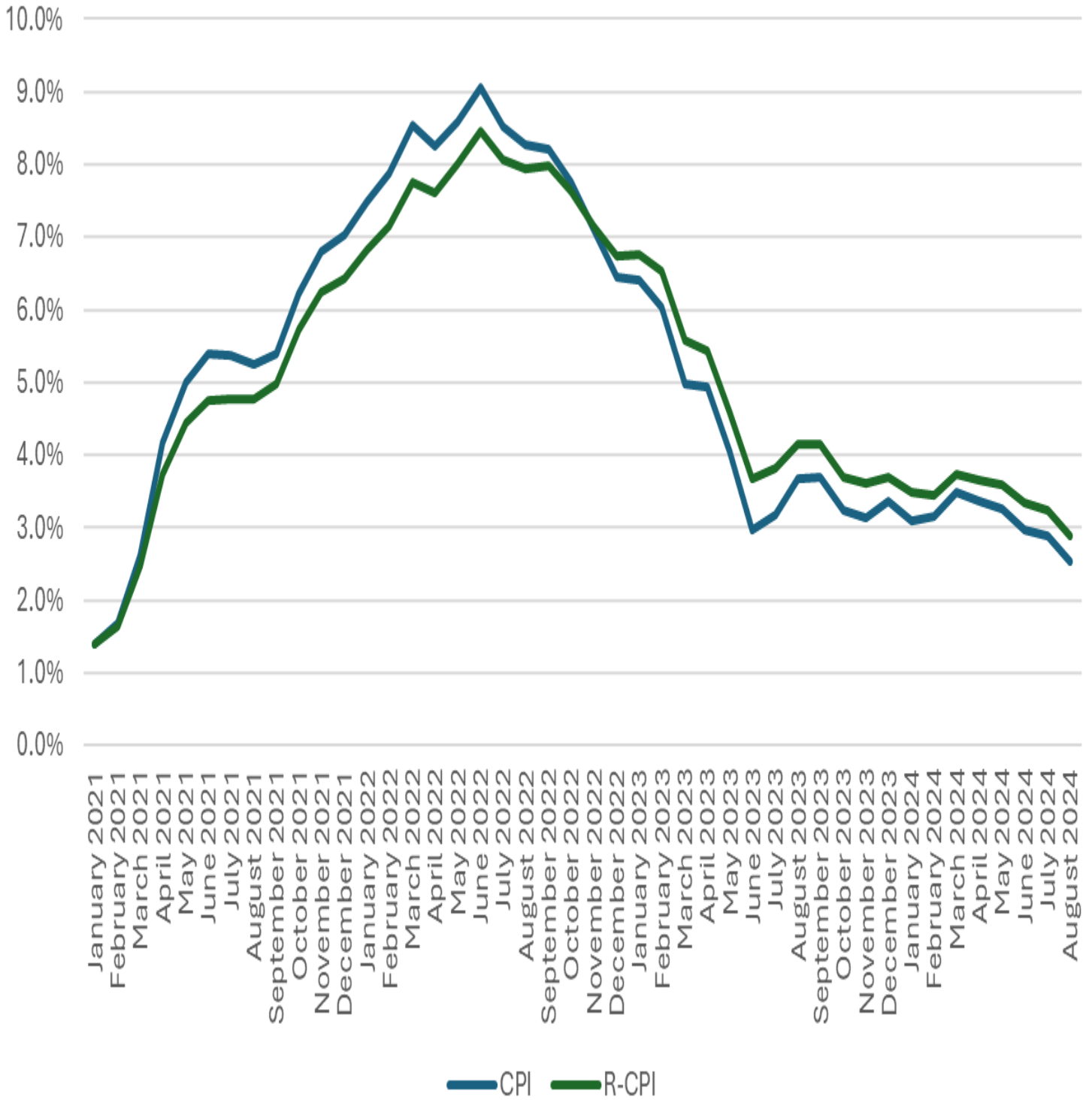
The other inflation-related action this week is the release of the cost-of-living adjustment for Social Security benefits. There will be a flurry of articles (see, for example, *The Washington Post*) about how the adjustment does not adequately reflect the budgets of seniors. Eakinomics has written on this issue [before](#).

The CPI measures the cost of a basket of goods and services. No two people have exactly the same basket, but seniors differ systematically from everyone else in their spending habits. Specifically, they spend a greater fraction of their budget than the rest of the adult population on medical services, transportation, and shelter services, but less, for example, on food and beverages. To get a handle on this, the BLS calculates a research consumer price index for those aged 62 and older – the [R-CPI-E](#). The data sources for the R-CPI-E are not as robust as those for the regular CPI, hence the “research” designation.

The CPI and the R-CPI are compared in the chart below. Inflation as measured by both indices was 1.4 percent (year over year) in January of 2021, but is currently running a bit higher in the R-CPI. It is interesting to note that inflation ramped up slightly more slowly than the CPI and reached a lower peak in mid-2022.

Inflation

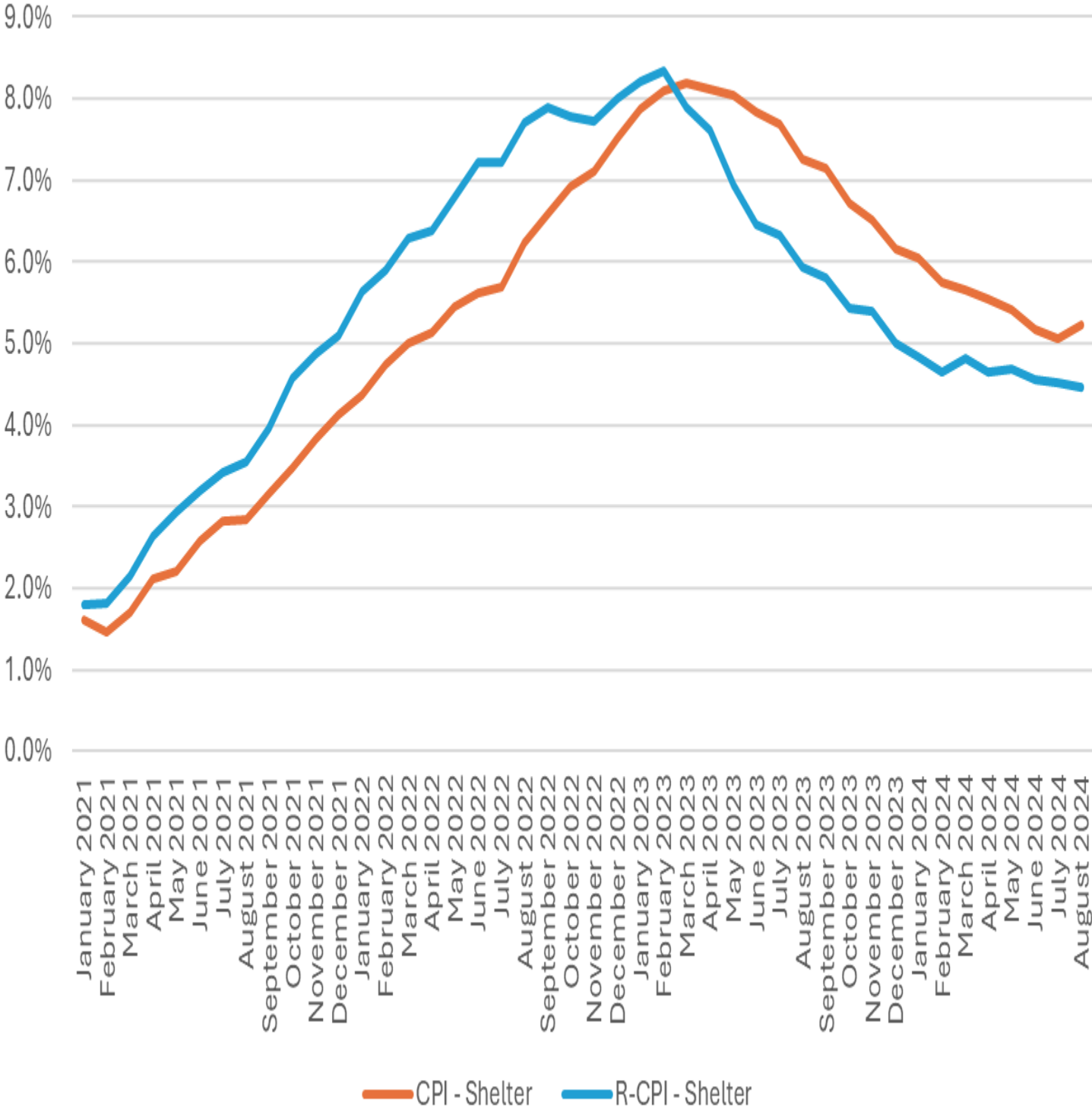
CPI and R-CPI



As noted earlier, a big part of the inflation story in the CPI has been shelter inflation, especially its stubborn resistance to approaching the 2 percent target. Looking below, one can see that housing costs for seniors ramped up much more quickly and reached a comparable peak to that in the CPI. But this inflation has abated more rapidly than in the younger population.

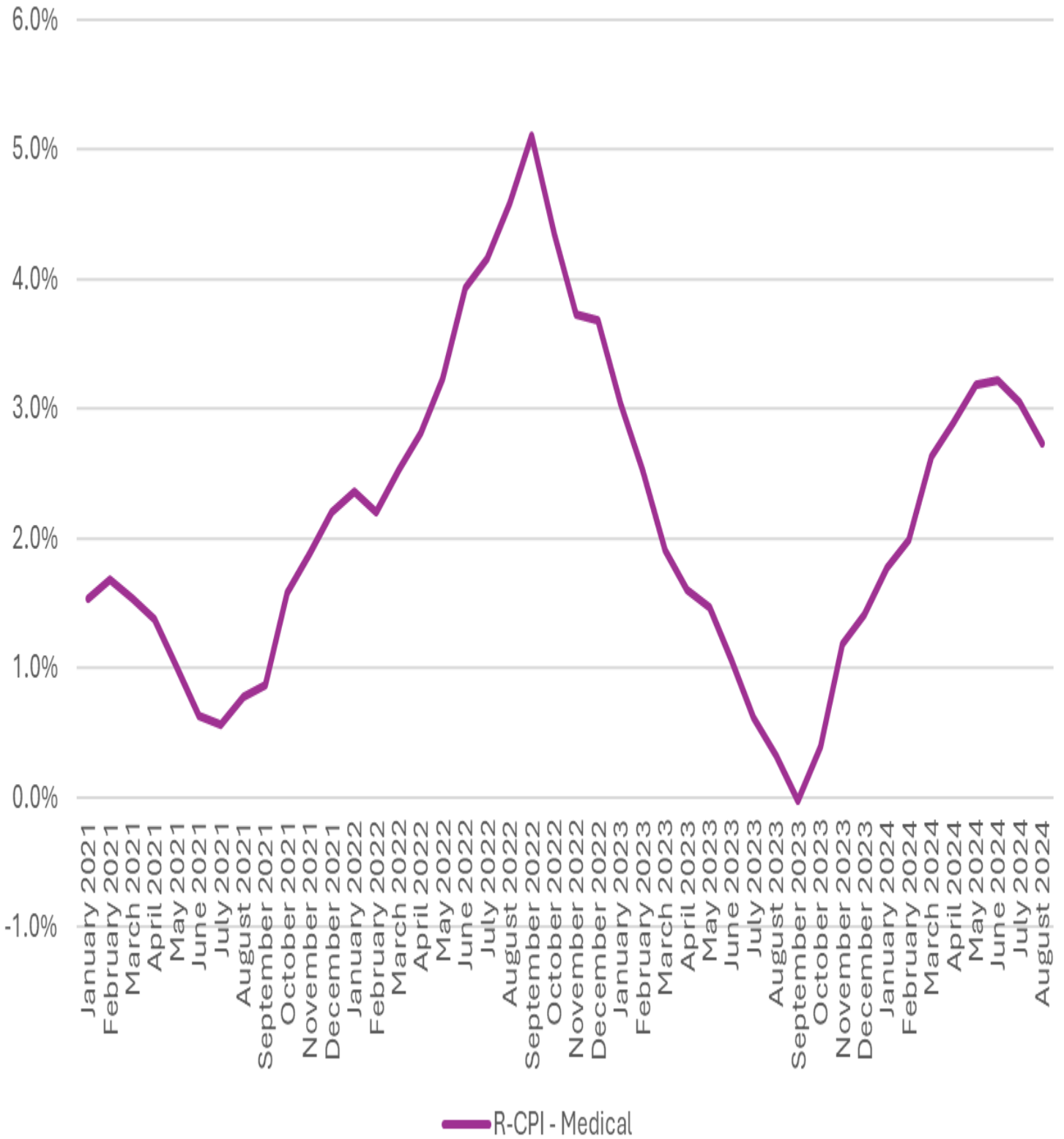
Shelter Inflation

CPI and R-CPI



Almost by process of elimination, this leads one to medical care as a source of the more rapid R-CPI inflation. While overall R-CPI medical inflation reached a peak of “only” 5.1 percent in 2022, and it receded quickly in 2023, there is something to this suspicion. As shown below, this category of inflation jumped sharply over the latter part of 2023 and the first half of 2024.

R-CPI Medical Inflation



This week will bring important inflation information. While the overall CPI focus will be on services, and especially, shelter services, the attention among seniors will be on the trajectory of prices for medical care.