



Why does the reported inflation differ from my personal experience?

The Consumer Price Index (CPI) measures the **average price changes** of a **fixed** basket of consumption goods and services commonly purchased by resident households over time

- The CPI reflects the **collective experience of inflation** for all households.
- It does not correspond to the inflation experience of any particular household as **spending patterns differ across households**.

Example

Household A comprises an elderly retired couple whose main household expenses are on health care, food and transport. **Household B** comprises a couple with young children whose main household expenses are food, transport, and education.

Hence, a change in health care cost will impact the price experience for **Household A** more than **Household B**. Conversely, a change in the cost of education will have a greater impact on the price experience for **Household B** than **Household A**.

The CPI represents the average price changes **across various items and outlets**

- Prices used for compilation of the CPI are gathered from a **large number** of outlets for a **wide variety** of items.
- Outlets **revise their prices at different times and in differing magnitude**.

Example

Suppose there are 4 stalls that sell coffee. Each charges \$1.00 per cup of coffee. In Feb 2023, 2 stalls raised their prices.

	Stall 1	Stall 2	Stall 3	Stall 4	
Feb 2023	\$1.20 (↑ 20%)	\$1.05 (↑ 5%)	\$1.00 (-)	\$1.00 (-)	The average price increase for coffee in Feb 2023 was 6%

Hence, for consumers who frequent Stall 1 in Feb 2023, the price change they faced was 20%. However, the change in the **average** price of coffee as measured by the CPI in this example was smaller at 6%.

Price increases **tend to be more keenly felt** than price declines

- When the price increases experienced by consumers are higher than the average price changes, their perceived inflation will be higher than the changes in CPI.
- However, while prices of some items may have increased, there are other items whose **prices were stable or may have even declined**.

Price increases in 2022 compared to 2021 ↑	Price declines in 2022 compared to 2021 ↓	Prices stable in 2022 compared to 2021 —
Food Electricity Petrol Bus & Train Fares	Mobile phone subscription services Men's Footwear Drugs at public hospitals Laptops	Water supply Residential seasonal parking fees Primary & secondary school and miscellaneous fees Newspapers

Annual inflation reflects price changes over the **previous year**

- Over a longer period of time, prices tend to rise more substantially compared with a year ago. For example, while the CPI has risen 6% in 2022 compared with 2021, it was almost **10%** higher than five years ago.
- For consumers making comparisons with price levels **several years ago**, the perceived inflation will likely be higher than the annual inflation.



Watch the [video](#) on Price Changes and the Consumer Price Index (CPI)