



# 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 resident households.
- It may not correspond to the inflation experience of any particular individual or household, as **spending patterns are unique**.

## Example

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

Hence, a change in cost of healthcare 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 in the computation of the CPI are collected for a **wide variety of items** from a **large number of retail outlets**.
- These retail outlets **revise their prices for varying items at different times and by different amounts**.

## Example

There are 4 stalls that sell coffee. Each charges \$1.40 per cup of coffee. In Jan 2025, 2 stalls raised their prices and 1 stall lowered their price.

	Stall 1	Stall 2	Stall 3	Stall 4	
Jan 2025	\$1.70	\$1.50	\$1.40	\$1.20	The average price increase for coffee in Jan 2025 was <b>4%</b> (from an average price of \$1.40 to \$1.45).
	(↑ 21%)	(↑ 7%)	(-)	(↓ 14%)	

Hence, consumers frequenting Stall 1 faced a price change of 21%. However, the change in the **average** price of coffee as measured by the CPI was smaller at 4%.

## 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 remain stable or may have even declined**.

Price increases in 2024 compared to 2023 ↑	Price declines in 2024 compared to 2023 ↓	Prices stable in 2024 compared to 2023 —

## Annual inflation reflects the change in average prices in the reference year over the **previous year**

- A lower inflation rate does not imply that prices have fallen. It simply means that the rate of price change has slowed.

## Example



Fishball Noodles (Per Bowl)	2022	2023	2024
Average price	\$3.77	\$4.13 (↑)	\$4.18 (↑)
Annual inflation rate		9.5%	1.2% (↓)

In 2024, though the annual inflation rate for fishball noodles has **slowed**, its price level is still **higher** compared to previous years.

- Prices tend to rise more substantially over a longer period of time. For example, while the CPI All-Items rose 2.4% in 2024 compared with 2023, it **rose 16.3% compared with 2019, i.e., five years ago**.
- For consumers making comparisons with price levels **five years ago or a decade ago**, their perceived inflation will likely be higher than the annual inflation.

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