**Consumer Price Index**

The prices of commodities in an economy fluctuate from time to time. While the prices of some commodities are more volatile than others, they all lead to the ultimate effect of reducing the purchasing power of consumers. The Consumer Price Index (CPI) is a technique that economists, among other experts, use to determine the aggregate change in prices of commodities in the economy (Ou et al., 2021). It measures the purchasing power of an economy's currency by detecting the changes in the acquisition power of consumers through changes in the prices of a basket of commodities. The basket of commodities used to compute the CPI represents consumption expenditure in the economy and the weighted average cost of those commodities.

Additionally, it tracks the periodic changes in the price of a fixed set of consumer commodities of the same quantity and characteristics paid for by the reference population. To enable international comparability, institutions such as the International Conference on Labor Statistics (ICLS) have been rolling out different standards that would guide the construction of CPI. The latest recommendations issued in 1989 were designed for a global audience (Graf, 2020). They covered essential aspects, including scope, the definition of elementary aggregates, sampling, derivations, substitution problems, and procedure. The CPI is a critical macroeconomic indicator because it enables economists, governments, among other stakeholders to measure the inflation or deflation in a given economy.

**Computation of CPI**

The CPI is computed annually and quarterly to allow comparison between different periods. While it is possible to compare two consecutive periods, many a time, the CPI index data series compares with 1982-1984 because the United States Bureau of Labor Statistics (BLS) set the index level during that period at 100 (Murthy & Okunade, 2018). Therefore, when computations of CPI indices diverge from the above figure, for example, at 110, it means there has been a 10% increase in the aggregate price of the commodities basket. On the other hand, a figure of 95 would translate to a 5% decline in the aggregate price of the commodities basket.

An essential aspect of computing the CPI of an economy is the determination of the market basket or the representative basket. The government develops such statistics from detailed expenditure information through various institutions such as the Bureau of Labor Statistics. They have to invest considerable resources in the form of money and time to ensure that they generate accurate and reliable expenditure information. The data is collected through surveys designed to collect the desired information from specific households and businesses. For example, in a market, there are several varieties of bread, but a particular variety has more sales than the rest. However, this only lasts for a period as reevaluation is done periodically.

**Influence of CPI on the Economy**

The CPI serves different purposes for different players in the economy. For example, participants in the financial market use the CPI to gauge inflation levels and make informed financial decisions. Inflation tends to have negative implications on investment portfolios because they have to produce returns that are way higher than the inflation level, which may not always be possible. Therefore, investors must know the current and projected inflation levels to make informed investment decisions. For example, they can use that information to make investments that benefit from inflation which may include evading fixed-income investments because the value of future payments is eroded by inflation and seeking other investments like Treasury Inflation-Protected Securities (TIPS).

Furthermore, the Federal Reserve (Fed) needs to be aware of the inflation levels to influence monetary policies. For example, when inflation is high, so much money is in the economy chasing so few goods. In that case, the Fed has to respond with contractionary monetary and fiscal policies, including increasing the federal funds rate to make credit acquisition difficult for households and businesses.

The inflation rate in the United States has been rising in the last year, reaching a high of 8.5%, the highest since 1989. The Russia-Ukraine war, coupled with the shocks of the Covid-19 pandemic, has put significant pressure on supply chains, according to Economists, accounts for the current inflation in the US. However, The Fed has moved quickly to use various monetary policies to bring down inflation and stabilize the economy. Recently, the Fed increased the federal funds rate from 1.5% to 2.5% (Siegel, 2022). As such, the inflation rate is expected to go down by 2022.

**Conclusion**

In conclusion, CPI measures the aggregate change in prices of commodities in the economy. A basket of items representing consumer expenditure in the economy is selected to compute these values. It is used by various economic players, including investors and policymakers, to make informed financial decisions. Based on the current policy actions by the Federal Reserve, the inflation rate is expected to decline.

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