

How the CPI measures price change of *Owners' equivalent rent of primary residence (OER)* and *Rent of primary residence (Rent)*

Shelter, the service that housing units provide their occupants, is a major part of the CPI *market basket* – the goods and services that people need for day-to-day living. Two CPI indexes, *Owners' equivalent rent of primary residence (OER)* and *Rent of primary residence (Rent)*, measure the change in the shelter cost consumers receive from their primary residences.

Housing units are not in the CPI market basket. Like most other economic series, the CPI views housing units as capital (or investment) goods and not as consumption items. Spending to purchase and improve houses and other housing units is investment and not consumption. *Shelter*, the service the housing units provide, is the relevant consumption item for the CPI. The cost of shelter for renter-occupied housing is rent. For an owner-occupied unit, the cost of shelter is the implicit rent that owner occupants would have to pay if they were renting their homes.

Weights for *OER* and *Rent*

The expenditure weight in the CPI market basket for *Owners' equivalent rent of primary residence (OER)* is based on the following question that the Consumer Expenditure Survey asks of consumers who own their primary residence:

“If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?”

The following questions, asked of consumers who rent their primary residence, are the basis of the weight for *Rent*:

“What is the rental charge to your [household] for this unit including any extra charges for garage and parking facilities? Do not include direct payments by local, state or federal agencies. What period of time does this cover?”

From the responses to these questions, the CPI estimates the total shelter cost to all consumers living in each index area of the urban United States. (The weights of CPI item categories are consumers' spending on them during the weighting period, 2005-06 as of January 2008.) The *OER* and *Rent* indexes have the largest weights of

