

4 SECTION

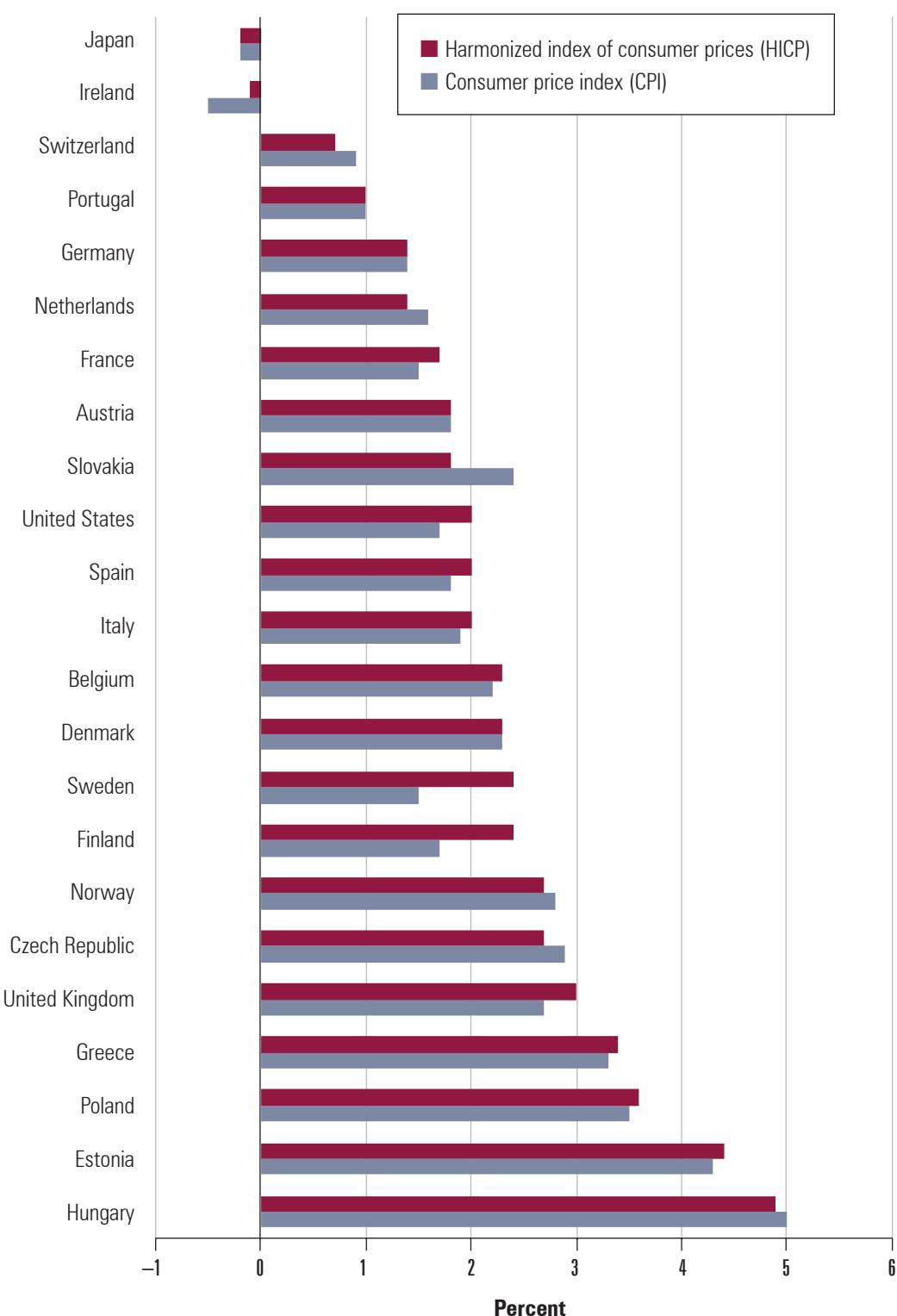
Consumer Prices

Consumer price indexes (CPI) and harmonized indexes of consumer prices (HICP) measure the change over time in the prices paid by consumers for a fixed selection, or market basket, of goods and services. Price indexes are used primarily to adjust income payments for changes in the cost of living and to compute inflation-adjusted measures of other economic series.

Measures of consumer price inflation, selected countries, average annual growth rates, 2007–2010

CHART **4.1**

The two inflation rates were identical in 5 countries, and the difference between the two rates was greater than half a percentage point in just 3 out of 23 selected countries.



NOTE: HICP and CPI are two measures of consumer price changes. HICP are adjusted for comparability across countries, whereas CPI are not adjusted.

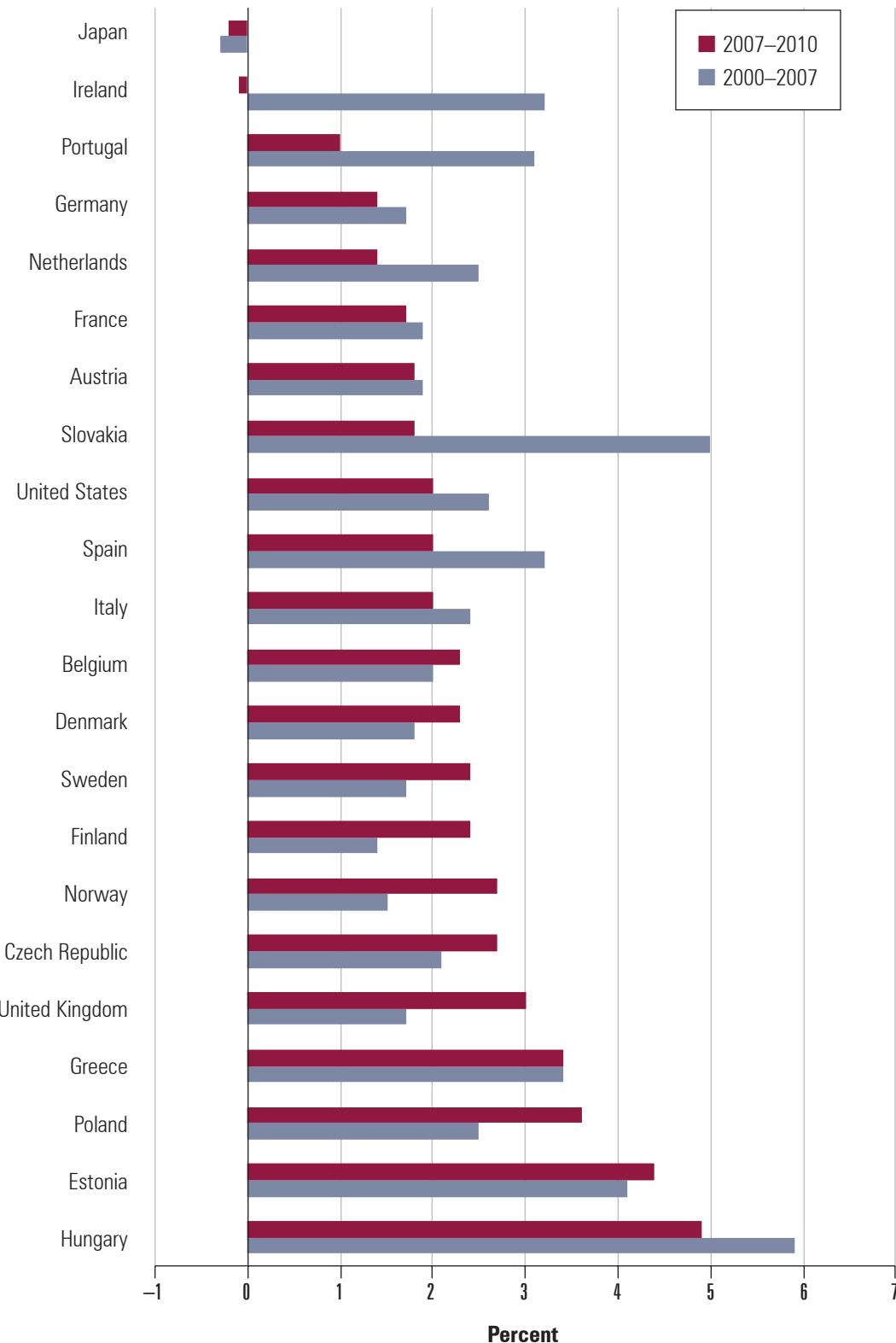
SOURCES: U.S. Bureau of Labor Statistics, Eurostat, and Organisation for Economic Co-operation and Development.

CHART 4.2

Harmonized indexes of consumer prices (HICP) are an internationally comparable measure of consumer price inflation.

- For half the countries shown—particularly Ireland, Slovakia, and Portugal— inflation was slower during the 2007 to 2010 period, when economies worldwide experienced recessionary pressures.
- Eastern European countries generally had the highest rates of inflation during both periods, while prices decreased slightly in Japan.

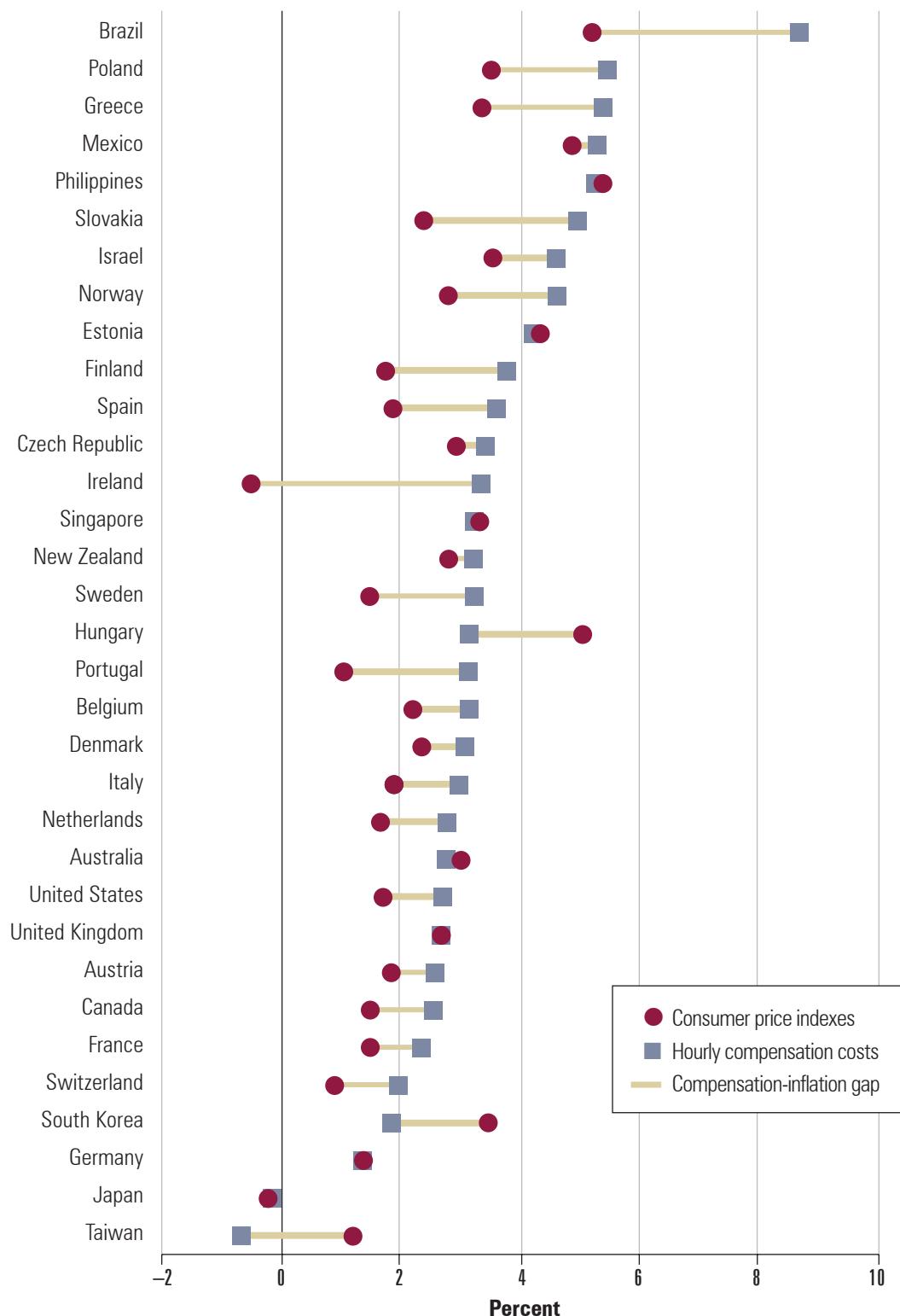
Harmonized indexes of consumer prices, selected countries, average annual growth rates, 2000–2007 and 2007–2010



SOURCES: U.S. Bureau of Labor Statistics and Eurostat.

Gap between manufacturing compensation and consumer price indexes, selected countries, average annual growth rates, 2007–2010

CHART 4.3



The gap between the growth rates for hourly compensation costs and the consumer price indexes (CPI) indicates the degree to which manufacturing worker compensation has kept up with inflation.

- Compensation growth outpaced inflation in most countries between 2007 and 2010. The compensation-inflation gap was largest in Ireland, Brazil, and Slovakia.
- Compensation growth rates lagged inflation most notably in Hungary, Taiwan, and South Korea.

NOTE: Hourly compensation growth rates are based on national currency-denominated costs.

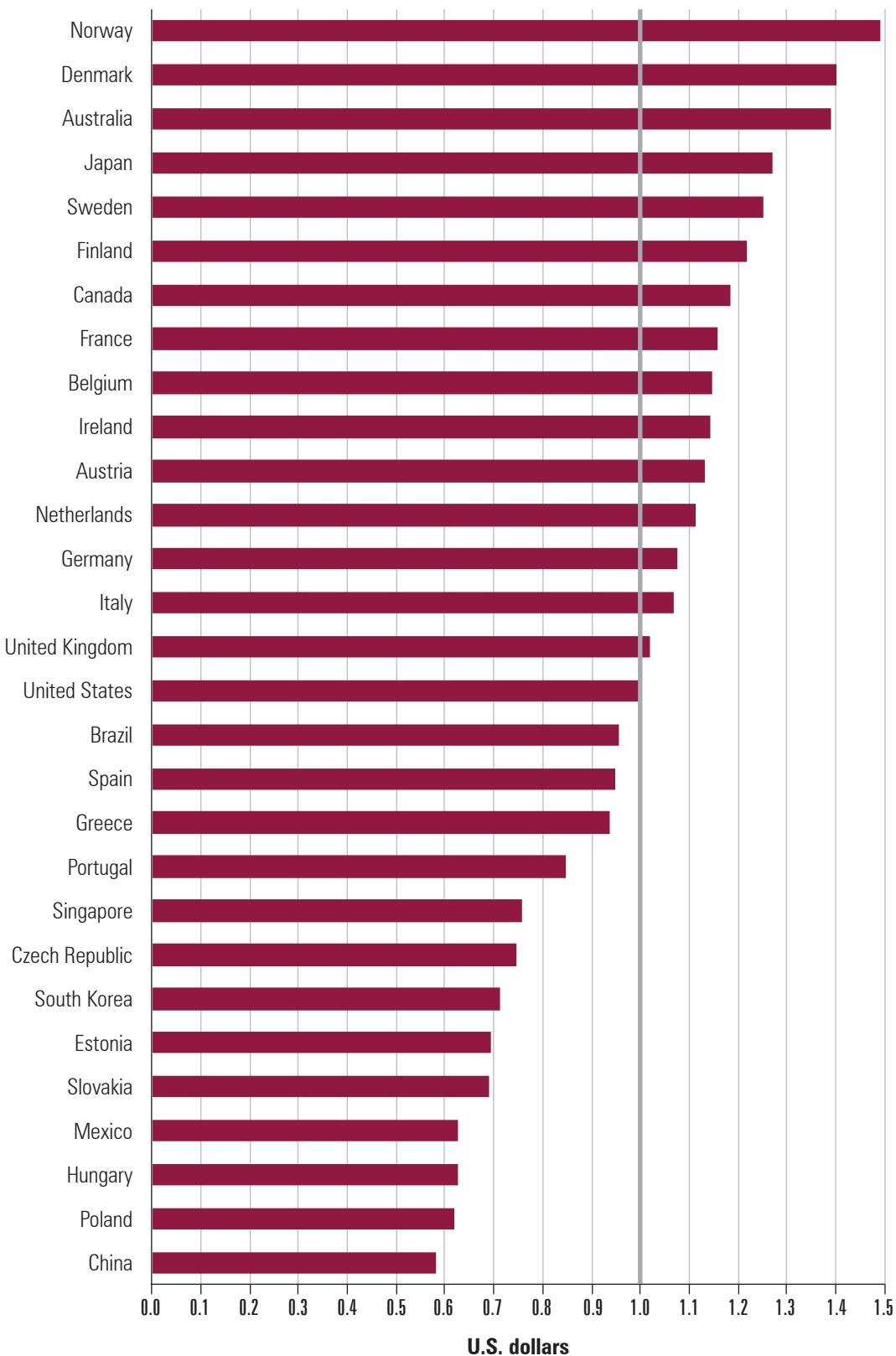
SOURCES: U.S. Bureau of Labor Statistics, Organisation for Economic Co-operation and Development, and the national statistical offices of the Philippines, Singapore, and Taiwan.

Low prices relative to the United States were found in Southern and Eastern Europe, Latin America, and East Asia. The cheapest basket of goods was in China.

- The price of foreign goods and services compared with their price in the United States is known as the relative price. Values less (higher) than 1 indicate that prices in that country are relatively low (high), compared with the United States.

- Countries with high relative prices included those in Northern Europe and Western Europe, as well as Australia, Japan, and Canada.

Price of a basket of goods that costs one dollar in the United States, selected countries, 2010



SOURCES: International Monetary Fund, U.S. Federal Reserve, Organisation for Economic Co-operation and Development, and The World Bank.

Section 4 Notes

CONSUMER PRICES

Sources

Consumer price indexes (CPI) and harmonized indexes of consumer prices (HICP) for most countries are from the BLS report *International Indexes of Consumer Prices, 18 countries and areas*. Data for the remaining countries are based on data from the Organisation for Economic Co-operation and Development (OECD) database **OECD.Stat**, the European Commission database **Eurostat**, and national statistical offices (for the Philippines, Singapore, and Taiwan).

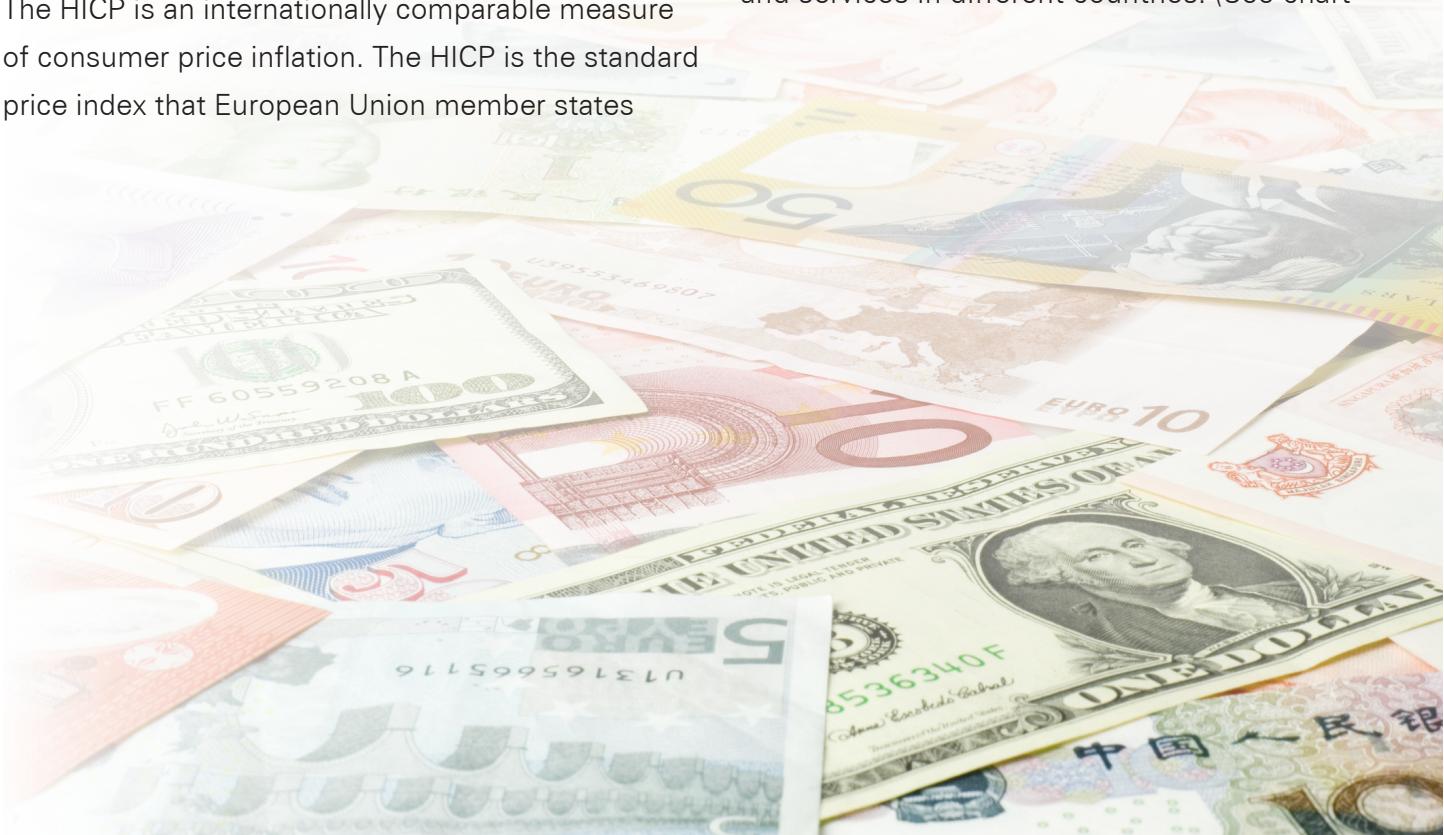
Each country produces its own consumer price index using unique methods and concepts. For this reason, CPI data are not fully comparable across countries. Differences exist mainly in population coverage, frequency of market basket weight changes, and treatment of homeowner costs.

The HICP is an internationally comparable measure of consumer price inflation. The HICP is the standard price index that European Union member states

must produce for comparisons across countries. HICP data for the United States are experimental. Although the HICP series for the United States broadly follows the European Union definitions, some differences remain in the frequency of market basket weight changes, aggregation methods, and quality adjustments.

Relative prices are based on PPP from **OECD.Stat** and the World Bank database **World Development Indicators**, and on market exchange rates from the U.S. Federal Reserve, the International Monetary Fund's *International Financial Statistics* publication, and **OECD.Stat**.

The relationship between purchasing power parities (PPP) and market exchange rates can be used to estimate comparative, or relative, prices of goods and services in different countries. (See chart



4.4.) Relative prices are calculated by dividing PPP by market exchange rates. The resulting values indicate the domestic price, expressed in U.S. dollars, of a basket of goods that would cost exactly one dollar in the United States. Consequently, values less than 1 indicate that prices in that country are relatively low, compared with the United States. Values greater than 1 indicate that prices in a particular country are relatively high, compared with the United States.

In chart 4.2, the periods 2000–2007 and 2007–2010 are selected to compare a time of global recession (2007–2010) against a prerecessionary time (2000–2007). The chart shows the average annual growth rate during each period. Although 2007 is included in both, it represents two different annual changes that do not overlap: 2006–2007 in the first period and 2007–2008 in the second period.

Definitions

Consumer price indexes (CPI) are a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods

and services. CPI and annual percent changes are based on national CPI as published by each country. They have not been adjusted for comparability.

Harmonized indexes of consumer prices (HICP) are an internationally comparable measure of consumer price inflation based on European Union definitions. The index represents urban and rural households in each country and excludes the component for owner-occupied housing costs. **Purchasing power parities** (PPP) are currency conversion rates that allow output in different currency units to be expressed in a common unit of value. A PPP is the ratio between the number of units of a country's currency and the number of U.S. dollars required to purchase an equivalent market basket of goods and services within that country. **Compensation costs** refer to average hourly compensation costs for all employees in manufacturing. See section 3 notes. The price of a basket of goods that costs one dollar in the United States is known as the **relative price**. **Relative prices** are calculated by dividing PPP by market exchange rates. See the discussion of relative prices in Sources above. ■

