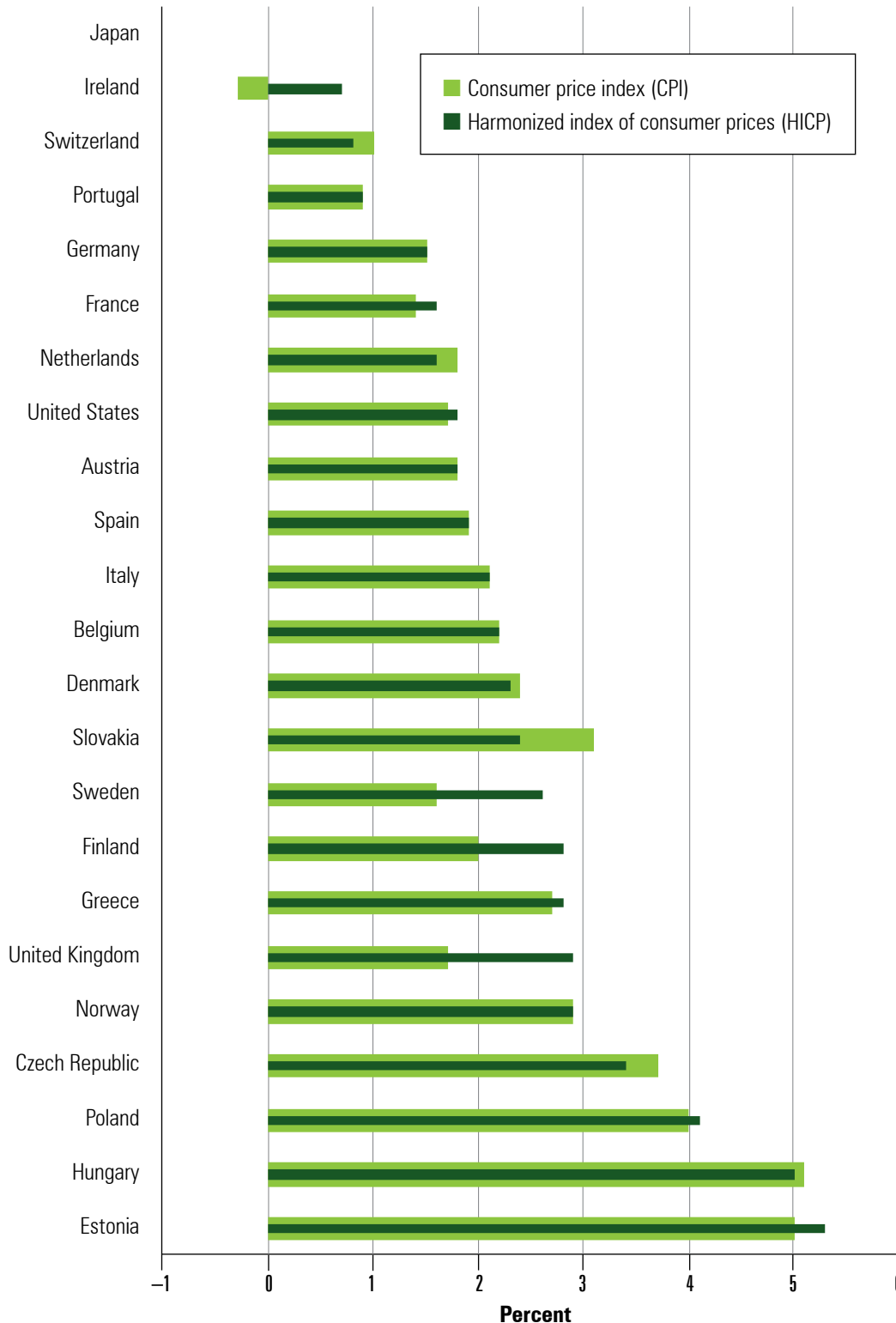


4 SECTION

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 percent changes, 2007–2009



NOTE: HICP and CPI are two measures of consumer price changes. HICP are adjusted for comparability across countries, whereas CPI are not adjusted. Values for Japan are zero, indicating no change.

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

CHART

4.1

The two inflation rates were identical in 8 countries, and the difference between the two rates was greater than half a percentage point in just 5 of the 23 countries.

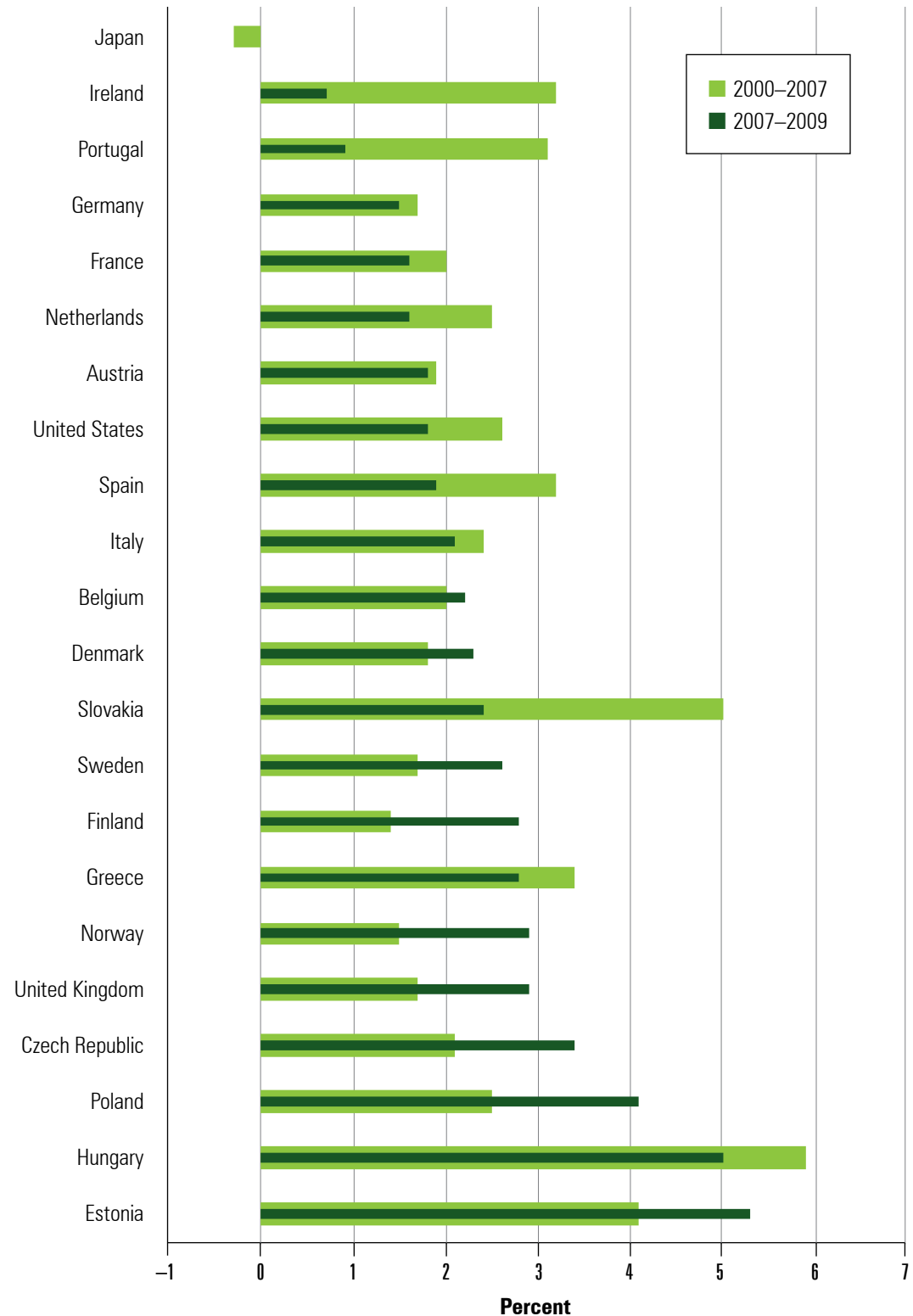
- Ireland was the only country showing opposite trends between the two inflation rates, and the largest difference between the two rates was in the United Kingdom. The differing trends reflect differences in the market basket that is covered by the HICP and CPI for these countries.

CHART 4.2

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

- For a majority of countries—particularly Slovakia, Ireland, and Portugal—inflation was slower during the 2007 to 2009 period, when economies worldwide experienced recessionary pressures.
- Eastern European countries generally had the highest rates of inflation during both periods, while prices changed the least in Japan.

Harmonized indexes of consumer prices, selected countries, average annual percent changes, 2000–2007 and 2007–2009



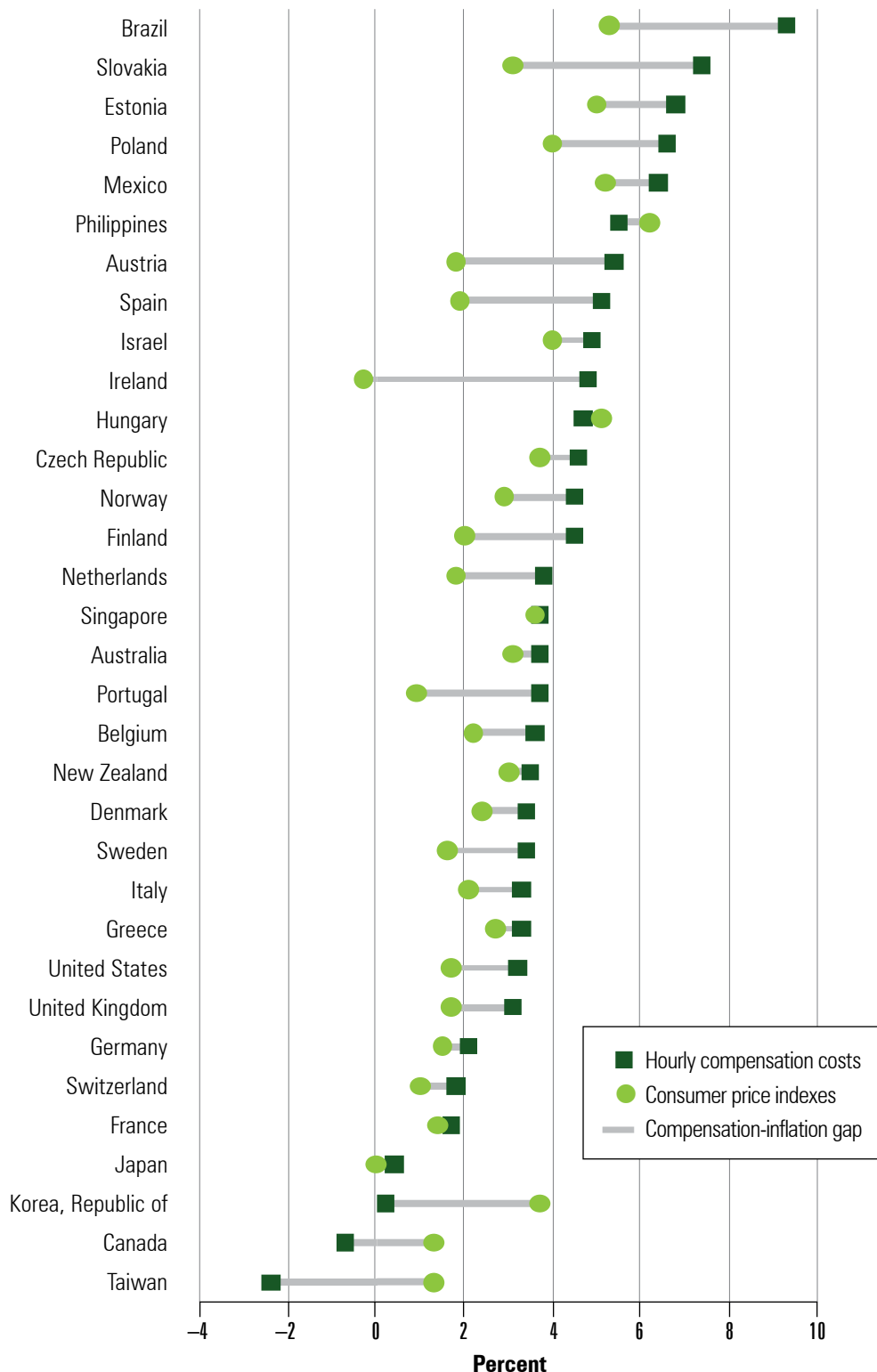
NOTE: 2007–2009 value for Japan is zero, indicating no change.

SOURCES: Bureau of Labor Statistics and Eurostat

Manufacturing compensation and consumer price indexes, selected countries, average annual growth rates, 2007–2009

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.



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

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

- Compensation growth outpaced inflation in most countries between 2007 and 2009. The compensation-inflation gap was largest in Ireland, Slovakia, and Brazil.

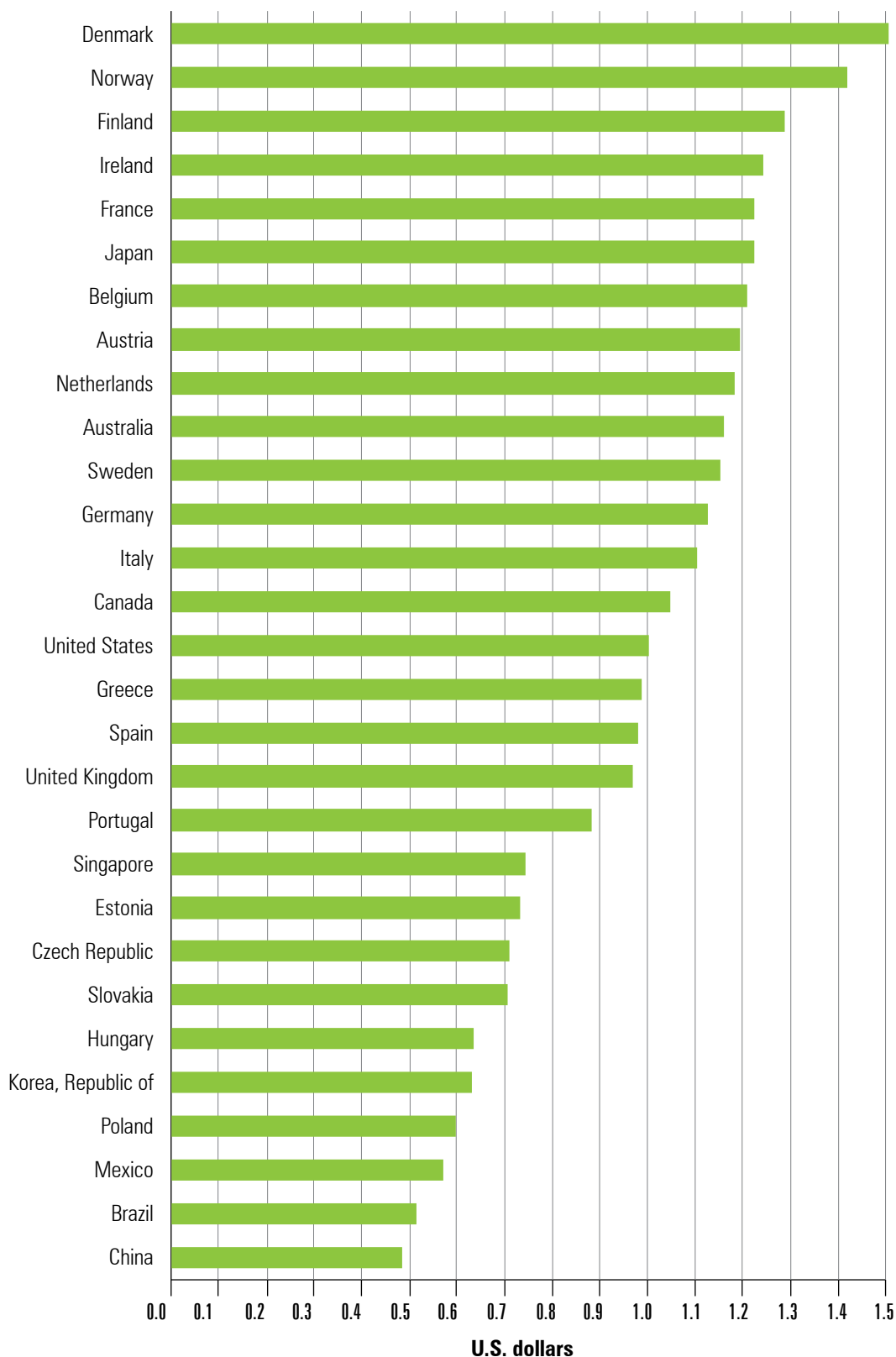
- Compensation growth rates lagged inflation in Taiwan, the Republic of Korea, Canada, the Philippines, and Hungary.

CHART 4.4

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. A value higher (lower) than 1 indicates that prices in a particular country are higher (lower) than prices in the United States.
- Countries with high relative prices included countries in Northern and Western Europe, as well as Japan, Canada, and Australia.

Price of a basket of goods that costs one dollar in the United States, selected countries, 2009



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

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, 1996-2009*](#). 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 an experimental BLS series. 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 for most countries are from the BLS report [*International Comparisons of GDP per Capita and per Hour, 1960-2009*](#). Data for the remaining countries 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. 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.

Definitions

Compensation costs refer to average hourly compensation costs for all employees in manufacturing. (See section 3 Notes.) **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 each respective country. ■