

WAYS AND MEANS COMMITTEE DEMOCRATS

What is the Chained CPI?

The standard Bureau of Labor Statistics (BLS) CPI calculation tracks prices for a “market basket” of goods an average person buys. Many economists believe the standard CPI overstates inflation by not fully taking into account the fact that people sometimes change what they buy when prices rise. Because of that concern, BLS began an additional index, called the chain-weighted or chained CPI. The chained CPI assumes that when the price of one item rises, people buy something else. That could mean substituting apples for oranges, but it could also mean buying something unrelated (like a TV) because the orange price rises, or could mean lowering their standard of living (like buying sweaters because the price of heating oil rises).

In addition to being lower, the chained CPI is more technically complicated to use for federal programs. Unlike the standard CPI, which are available for use almost immediately, the chained CPI requires data on changing purchasing patterns and takes 2 years to finalize. BLS can calculate a preliminary chained CPI after only a year, but it consistently shows even lower inflation than the final chained CPI.