June 2008

Feature/Economics

Personal vs. public

Why the inflation you pay seems higher than the inflation you hear about.

by Bob Fisher

We've all experienced it. The government reports inflation every month, and most months we grumble to ourselves that there's no way inflation is only 1.3%. Where's the disconnect?

Well, there are plenty of disconnects, unfortunately.

What gets reported in the media is the average national inflation rate. The number that's usually emphasized is the Core Inflation Rate. Why the Core Rate? It's a lower and more attractive number, for one thing. But it also ignores some items that can be very volatile from one month to the next and one season to the next. Food and energy are the biggest two items that get taken out of the core number.

But food and energy are important and expensive aspects of everyday life, right?

They are, but the conventional thinking is that, if these highly volatile items are taken out of the equation, then the policy makers and central bankers can get a better overall sense of the true rate of inflation in the economy. Still, food and energy are important and expensive aspects of everyday life, so what kind of picture do they get?

That's one disconnect. But even within that one, there are others. Even including food and energy – what's called All Items Inflation – we still see our personal inflation rate as being higher than the published number. Why? Let's look at some examples.

Take two families: One family eats nothing but prime rib roast (lucky them) and the other family eats nothing but macaroni (buy Kraft stock). In October the price of 1 kg of prime rib roast falls 4.3% compared to the previous month, but the price of 500g of macaroni rises by 5.9% from the previous month. The All Items CPI rises 2.4% in October. The CPI is a year-over-year comparison and these prices are month over month, but the idea still holds that the prime-rib family's personal inflation rate in this case is lower than the published number (lucky them) and the macaroni family's personal inflation rate is higher. A disconnect.

Where you live plays a part too. The number that gets published is a national average. Some media outlets publish regional numbers, as well, which are important. Let's have a look at them: The rate of inflation in Alberta in October was 5% year over year, whereas the rate in Manitoba was only 1.3%. In general, then, people in Alberta are going to have a higher personal inflation rate than elsewhere in the country and much higher than people in Manitoba.

What you live in is another disconnect. Depending on whether you own or rent your home, your cost structure will be different. Where you own makes a difference too. Property taxes rose 8.8% in

Newfoundland & Labrador in October but dropped 1.8% in Manitoba (I'm beginning to think Manitoba is the place to be, to hell with Alberta). It follows then that this part of home-ownership costs is going to contribute to a higher personal inflation rate in Newfoundland & Labrador and a lower personal rate in Manitoba. The national average increase in property taxes was 3.8%.

These are but a few of the disconnects between personal inflation and published inflation. It's also part of the reason why some of us feel as if we're getting screwed when we get an annual raise that's tied to inflation. (We know you're out there somewhere.) Such a raise is tied to the national inflation rate, not the regional rate and not our personal rate. As the saying goes, "That's life in the big city."