

Brief History of the Index

The Bureau of Labor Statistics has been calculating the Consumer Price Index nearly five decades. The weighting factors, the list of items included in the market basket, and the cities in which price data were collected for calculating the index have been updated several times during that period. Initially, they were based on a survey of expenditures by wage earners and clerical workers in 1917-19. Because people's buying habits changed substantially by the mid-1930's, a new study was made covering expenditures in the years 1934-36 which provided the basis for a comprehensively revised index introduced in 1940 with retroactive calculations back to 1935.

During World War II, when many commodities were scarce and goods were rationed, the index weights were adjusted to reflect these shortages. Again in 1950, the Bureau made interim adjustments, based on surveys of consumer expenditures in seven cities between 1947 and 1949, to reflect the most important effects of immediate postwar changes in buying patterns. This adjustment was followed by the first comprehensive postwar revision of the index, which was completed in January 1953. At that time, not only were the weighting factors, list of items, and sources of price data updated, but many improvements in pricing and calculation methods also were introduced.

The index has just undergone another comprehensive revision, beginning with the index for January 1964. To determine the current pattern of expenditures for goods and services by wage earners and clerical workers, the Bureau made a Consumer Expenditure Survey (CES) covering the period 1960-61.³ The sample of cities in the survey included 66 urban areas which were chosen to represent all urban places in the United States, including Alaska and Hawaii.⁴ Only 50 of the 66 areas comprise the list of cities in which price quotations are obtained for the index. (A list of the areas and cities is given in table 1.)⁵ In this most recent survey, as in those conducted earlier, a detailed record was obtained of the kind, qualities, and amounts of all goods and services bought by each consumer unit (family or single person living alone), and of the annual amount spent for each item. A total of 4,344 urban wage-earner and clerical-worker families and 517 single workers provided such records.

The Market Basket

It is not feasible or necessary to obtain current price quotations on everything that consumers buy in order to calculate a valid index of changes in consumer prices. About 400 items have been selected objectively to compose the "market basket" for current pricing, beginning with the January 1964 "new series" indexes. Not all items are priced in every city. In order to make possible estimates of sampling error, two subsamples of items have been set up. These are priced in different cities and in different outlet samples, as indicated in table 1. The list includes the most important goods and services and a sample of the less important ones.⁶ In combination, these represent all items purchased. The content of this market basket in terms of items, quantities, and qualities is kept essentially unchanged in the index calculation between major revisions so that any movement of the index from one month to the next is due solely to changes in prices. A comparison of the total cost of the market basket from period to period yields the measure of average price change.

³The Survey for Anchorage, Alaska, covered expenditures in 1959.

⁴The selection of the city sample is described in "The Revised City Sample for the Consumer Price Index," Reprint No. 2352 from the October 1960 Monthly Labor Review.

⁵Six additional Standard Metropolitan Statistical Areas are being added to the national index in January 1966.

⁶The complete list is available on request.