## Why does the reported inflation differ from my personal experience?

The Consumer Price Index (CPI) measures the *average price changes* of a *fixed* basket of consumption goods and services commonly purchased by resident households over time

- The CPI reflects the collective experience of inflation for all resident households.
- It may not correspond to the inflation experience of any particular individual or household, as spending patterns are unique.

## Example

Household A comprises an elderly retired couple whose main household expenses are on health, food and transport. Household B comprises a couple with young children whose main household expenses are food, transport, and education.

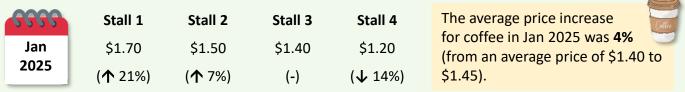
Hence, a change in cost of healthcare will impact the price experience for Household A more than Household B. Conversely, a change in the cost of education will have a greater impact on the price experience for Household B than Household A.

## The CPI represents the average price changes across various items and outlets

- Prices used in the computation of the CPI are collected for a wide variety of items from a large number of retail outlets.
- These retail outlets revise their prices for varying items at different times and by different amounts.

## Example

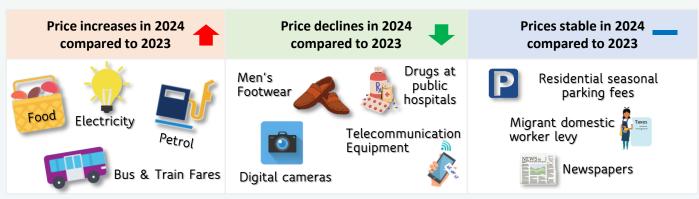
There are 4 stalls that sell coffee. Each charges \$1.40 per cup of coffee. In Jan 2025, 2 stalls raised their prices and 1 stall lowered their price.



Hence, consumers frequenting Stall 1 faced a price change of 21%. However, the change in the <u>average</u> price of coffee as measured by the CPI was smaller at 4%.

Price increases tend to be more keenly felt than price declines

- When the price increases experienced by consumers are higher than the average price changes, their perceived inflation will be higher than the changes in CPI.
- However, while prices of some items may have increased, there are other items whose prices remain stable or may have even declined.



Annual inflation reflects the change in average prices in the reference year over the *previous year* 

• A lower inflation rate does not imply that prices have fallen. It simply means that the rate of price change has slowed.

	Average price Annual inflation rate	\$3.77	\$4.13 <b>(个)</b>	\$4.18 <b>(个)</b>
	Annual inflation rate		9.5%	1.2% <b>(↓)</b>

In 2024, though the annual inflation rate for fishball noodles has slowed, its price level is still higher compared to previous years.

- Prices tend to rise more substantially over a longer period of time. For example, while the CPI All-Items rose 2.4% in 2024 compared with 2023, it rose 16.3% compared with 2019, i.e., five years ago.
- For consumers making comparisons with price levels five years ago or a decade ago, their perceived inflation will likely be higher than the annual inflation.



Watch the video on

Price Changes and the Consumer Price Index (CPI)

