

Inflation, the Consumer Price Index, and You

Decades of Change

Over the past 25 years, the cost of living has increased by an average of 4.6%² a year. This chart shows how that change can be seen in the cost of everyday grocery items.

Item ¹	Cost in 1980	Cost in 2005
Bread	\$.50	\$1.05
Milk (per gallon)	\$1.01	\$3.30
Eggs (per dozen)	\$.88	\$1.35
Butter (per pound)	\$1.80	\$3.51
Ground Beef (per pound)	\$1.82	\$2.61
Chicken (whole, per pound)	\$.69	\$1.26
Orange Juice (frozen concentrate, 12oz.)	\$1.12	\$1.87
Apples (red delicious, per pound)	\$.50	\$.97

Inflation, the blanket term for an increase in the cost of living, is a persistent feature of the economy that can have dramatic effects on everyone, particularly in retirement. It can

- diminish your purchasing power,
- sap the adequacy of your income, and
- threaten your ability to maintain your lifestyle without outliving your money.

The Consumer Price Index (CPI)¹ is the most widely used measure of inflation over time. It compares the average price for many goods and services purchased by U.S. households in a month to those prices to the previous month—and previous year.

Each month, the U.S. Bureau of Labor and Statistics collects prices from 23,000 retail and service companies. Each item is assigned a percentage, based on how often that item is purchased in the average household. The sum total of these weighted prices determines the Consumer Price Index.

Both the government and businesses use the Consumer Price Index as an economic indicator to help guide government policies and help make economic decisions. The CPI is also used to adjust wages for millions of workers, federal employees, military personnel, Social Security and welfare recipients and others.

Protecting Yourself

The cost of living has risen persistently over the last few decades and will probably continue to increase. How do you keep it from adversely affecting your retirement? Planning.

¹ Source: US Department of Labor Bureau of Labor Statistics (www.us.gov/cpi.htm)

² The Consumer Price Index of CPI is the 40-year average from 1965 through 2005. An adjustment is made to floor the CPI at zero in any years where the CPI was negative.

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