

Are You Staying Ahead of the Cost of Living?

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Are you staying ahead of the Cost of Living? You probably are not, unless you are a County employee.

The Consumer Price Index (CPI) does not include the cost of food or fuel, so don't be surprised if your family expenses rise faster than the CPI. The Bureau of Labor Statistics includes food and fuel in its urban households report (CPI-U) and its report for lower-income urban and blue-collar workers (CPI-W). Sometime around 1999, the method of computing all CPI's was changed to incorporate the concept of substitution. Previously, the food index, for example, was computed on the basis that a family would buy the same proportions of beef, fish and fowl. Now, the index is computed on the basis that a family would substitute a lower-cost item for a higher-cost item. For example, if the price of beef rose relative to the price of fowl, a family would buy more fowl and less beef. Substitution makes the CPI rise less than would be computed by the previous method because food and energy prices have risen faster than the CPI's (Exhibit 1). Substitution is not as effective for the low-income worker (CPI-W) as for the average urban worker (CPI-U) because, if we continue our example, the low-income worker was not buying much beef previously.

Description	Increase
rice	-3.9%
CPI-U	2.9%
rent	3.0%
CPI-W	3.1%
all food	3.8%
milk	4.9%
eggs	5.3%
chicken	7.1%
sugar	8.2%
ground beef	10.8%
gasoline	12.8%
white bread	17.5%

Exhibit 1: U.S. City Average Price Increase from Feb 2011 to Feb 2012

In computing the CPI's, the Bureau of Labor Statistics uses a typical family budget for various items, with food being only 15.26% of the total costs (Exhibit 2).

Category	Percent
Housing	41.02%
Transportation	16.88%
Food and beverages	15.26%
Medical care	7.06%
Education and communication	6.80%
Recreation	6.04%
Apparel	3.56%
Other goods and services	3.39%

Exhibit 2: Distribution of Expenses for a Typical Family

You can compare the rates of increase in costs to the rate of increase in your income to determine if you are more (or less) wealthy than in the past (Exhibit 3). On average, professionals have kept ahead of the CPI. Fairfax County employees have kept well ahead, especially when benefits are included. The median-income worker has not. (In Exhibit 3, the CPI's listed under 2011-2013 are only for 2011-2012. The others are the two-year-average increases from the actual values in 2011 to the budget values in 2013.) The County data has been taken from the County approved-budget documents; the school data, from the proposed budget; and the other data, from the Bureau of Labor Statistics at the website: <http://data.bls.gov/pdq/querytool.jsp?survey=cu>. The salaries of County employees were between 4% and 11% lower than private-sector employees, depending on who is reporting the difference and what year is used. The benefits of County employees are much greater than those of private-sector employees, far more than offsetting the salary differences. See <http://www.fcta.org/data/fx-public-schools/are-salaries-of-fairfax-county-teachers-too-high-too-low-or-just-right>.

Description	Average annual increase (2000-2011)	Average annual increase (2011-2013)	Ratio, 2011 to 2000
Fringe benefits for County employees other than school employees	8.52%	10.47%	2.46
Fringe benefits for County school employees, including teachers	6.79%	16.36%	2.06
County school budget	4.77%	7.39%	1.67
County non-school budget	4.75%	4.74%	1.67
A typical teacher's salary	4.32%		1.59
Salaries for County employees other than school employees	4.25%	1.39%	1.58
A typical professional in private sector	3.23%		1.42
CPI-U in MD-WV-DC-VA area	2.90%	2.66%	1.37
CPI-W	2.48%	3.15%	1.31
CPI-U	2.45%	2.87%	1.31
County-wide median household income	2.21%		1.27
CPI	1.99%	2.17%	1.24
Number of school-system employees	1.40%	2.86%	1.16
Number of teachers	1.35%		1.16
County population	1.03%	0.41%	1.12
Public-school enrollment	0.89%	1.89%	1.10
Number of County employees other than school employees	0.41%	2.78%	1.05

a. The County budget values for 2013 were taken from the approved budget; school budget values for 2013 were taken from the proposed budget because the approved budget was not on-line as of the date of this report.

b. Salaries for County employees other than school employees was the S-scale, averaged from 2010 to 2013.

Exhibit 3: Average Annual Rates of Increase of Wages, CPI's, etc.