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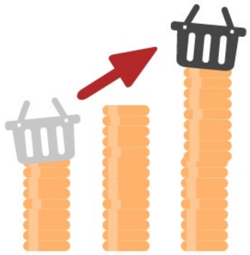
INDICATORS EXPLAINED #5

CONSUMER PRICE INDEX

What does this indicator tell us?

The **Consumer Price Index** (**CPI**) is an index representing the current price level of things that consumers typically use. It compares the price of a fixed, representative, "basket" of consumer goods/services (includes food, clothing, shelter, and transportation) to the price of that same basket in an arbitrary base period. A high CPI indicates a high general level of prices.



Inflation can be defined as the rise in a country or region's price level or the decline of a given currency's purchasing power over time. A rise in the general level of prices means that a unit of currency buys less than it did in a previous period. Thus, we can use CPI as a measure of price level to calculate inflation.

Why measure inflation?

When inflation is high, it is also often unstable and unpredictable. Businesses become uncertain about what their costs will be in the near future, creating distortions in economic decision-making. High inflation especially impacts those whose incomes are relatively fixed and cannot keep up with rising prices, such as retired people and minimum wage employees. All else equal, high inflation means that their incomes and savings will be able to buy fewer goods and services over time. Meanwhile, too-low inflation signals low consumer demand and subsequently slow economic growth. Attempts to control or steer inflation are usually undertaken by an economy's **central bank**, a government-independent financial institution responsible for distributing money and governing commercial banks. National statistical offices (NSOs) are often responsible for measuring inflation. Central banks generally work to keep inflation low, stable and predictable by controlling the total volume of money available to the public (the **money supply**) using a set of tools called a **monetary policy framework**.

In 2020, Least Developed Countries (LDCs) made up 4 of the 10 economies with the highest CPIs

This table shows the ten economies with the highest CPIs during 2020, meaning they have shown the largest increase since 2010, the year to which all CPIs are scaled.

Economy	Index
1. Venezuela (Bolivarian Rep. of)	47 421 947 586
2. South Sudan	17 493
3. Sudan	3 539
4. Zimbabwe	2 725
5. Syrian Arab Republic	1 914
6. Argentina	952
7. Iran (Islamic Republic of)	791
8. Yemen	539
9. Belarus	536
10. Angola	463

In 2020, island economies made up 5 of the 10 economies with the lowest CPIs

This table shows the ten economies with the lowest CPIs during 2020.

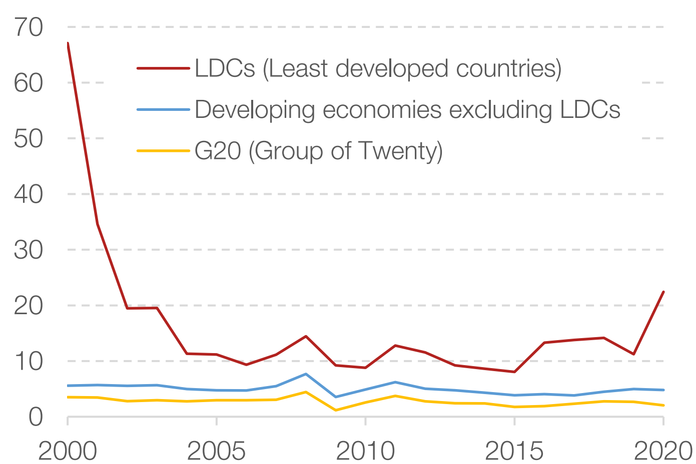
Economy	Index
1. Bermuda	93.0
2. Switzerland, Liechtenstein	98.8
3. Brunei Darussalam	101.0
4. Greece	102.0
5. Eritrea	102.1
6. Kiribati	103.0
7. Saint Kitts and Nevis	103.6
8. French Polynesia	104.0
9. Bosnia and Herzegovina	104.6
10. Cyprus	104.8

Historical inflation patterns often indicate incidences of economic shock or uncertainty

Inflation patterns have notably diverged between LDCs and others during the COVID-19 pandemic. In some economies, the contractionary impact of the pandemic joined the effects of existing critical political and humanitarian events.

Note: all aggregates exclude Venezuela due to its uniquely high inflation.

Inflation rates for select groups
(Percentage)



Hyperinflation

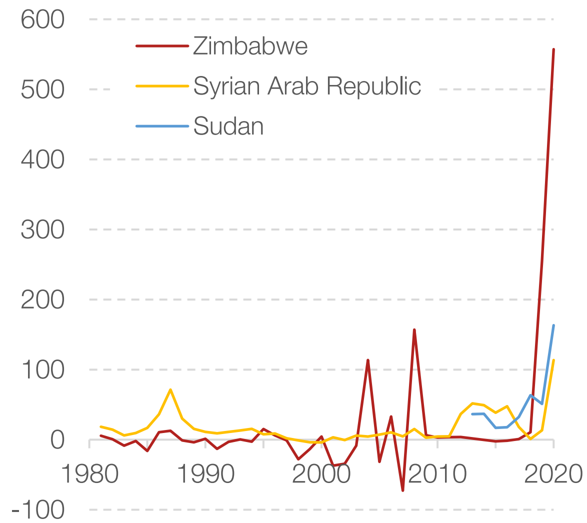
Hyperinflation is exceedingly high inflation, often accompanied by accelerating rates of growth in inflation rate.

Zimbabwe has experienced several economic shocks since the late 1990s. Zimbabwe ceased printing the Zimbabwean Dollar in 2009, but hyperinflation returned in 2019 after attempts to convert back to a national currency.

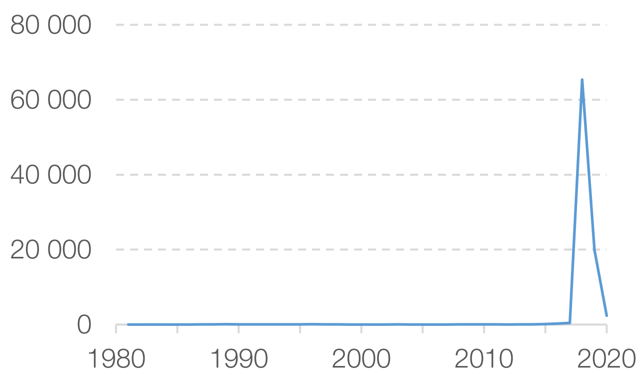
In Syria, conflict-related hyperinflation was exacerbated by the effects of the Lebanese banking system collapse.

Currency depreciation and deficit monetization have caused hyperinflation in Sudan. Ongoing economic reforms have included measures to gradually remove petrol and diesel subsidies, resulting in increasing fuel prices throughout 2020.

Economies with recent hyperinflation (Percentage)



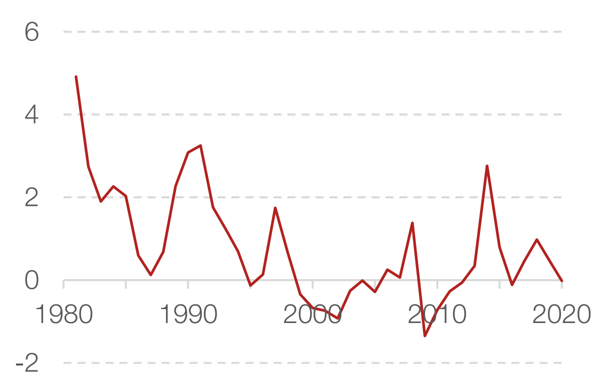
Hyperinflation in Venezuela (Percentage)



The Venezuelan economy is highly dependent on the export of oil, with oil price plunges in the mid-2010s and declining oil production causing sharp economic contractions. Money supply growth then accelerated to fund social program spending.

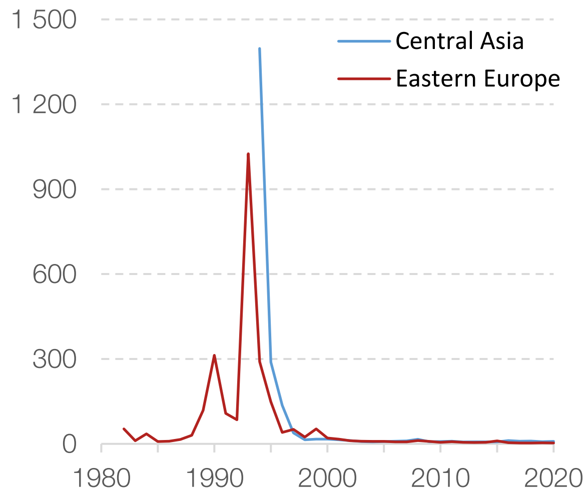
Meanwhile, Japan has had a relatively unique experience with routinely low inflation since a recession in the 1990s, and the persistence of this trend has caused worries for economists. Expectations of near-stable prices are speculated to perpetuate slow growth.

Inflation in Japan (Percentage)



Inflation experienced by economies following the collapse of the Soviet Union

Inflation rates for Eastern Europe and Central Asia (Percentage)



In the early 1990s, inflation among economies of the former Soviet Union was generally high as economic integration liberalized prices, released pent-up consumer demand, and previously artificial exchange rates depreciated.

The responsibility for tackling inflation shifted to new and inexperienced central banks, but most economies have succeeded in lowering inflation as economic restructuring continued and monetary policy objectives evolved.

Methodology

The CPI is calculated by taking a weighted average of price changes for each item in the pre-determined basket of goods and services during a month. Annual CPI is the arithmetic mean of the 12 individual monthly indices.

$$CPI_t = \frac{C_t}{C_0} * 100,$$

where

CPI_t = consumer price index at period t,

C_t = cost of market basket in current period,

C_0 = cost of market basket in base period,

CPI market baskets are developed at the economy level from expenditure information provided by consumers. The index base year is 2010.

Note

All visualizations were created using the consumer price index serie available at UNCTADstat.
For additional details and data download, see http://unctadstat.unctad.org.

Disclaimer: The publication has not been formally edited.