

New Hampshire ECONOMIC CONDITIONS

Spring Growth on Tree (image by Kaboompics on Pexels)

Making Maple Syrup (image by NH DTTD on flickr)

Flowers in Snow (image by Екатерина Куселёва on Pixabay)

March 2022

Consumer Price Index

Over the 12 months from February 2021 to February 2022, the Consumer Price Index (CPI) increased 7.8 percent, the highest increase since the early 1980s. The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.¹ The CPI is produced every month by the U.S. Bureau of Labor Statistics (BLS). The CPI indicates the change in price for the basket of goods and services as a whole, on a monthly basis, as well as year-over-year.

BLS classifies goods and services into eight major groups: **food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services.** For each category, BLS selects sample items and tracks the prices of those items, which represent the many products within each category. They also track actual purchases by a sample group of consumers.

When item prices change, the changes are weighted by the importance of the item in the spending patterns of the sample consumer group.

BLS does not provide a price index specifically for New Hampshire, but does release the Northeast Urban Region Consumer Price Index, an index for urban consumers in the northeastern US, which covers New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont) and the Mid-Atlantic (New Jersey, New York and Pennsylvania). Although there are large differences between living expenses in, for example, southern New Hampshire compared to New York City or Boston, there are a lot of factors that all parts of the Northeast region have in common, which make the Northeast Region Urban CPI a better indicator of the prices of goods in New Hampshire than the national CPI. The Northeast region has a similar climate, which has a

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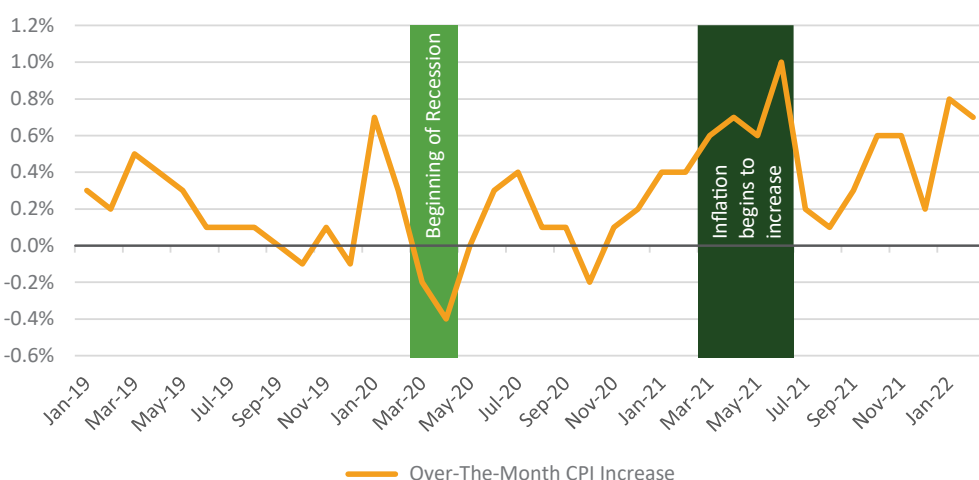
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large impact on energy expenditure quantities and other seasonal patterns. Climate also affects demand for seasonal items such as winter clothing and recreational activities, as well as the price and availability of different types of fresh produce.

Over the past year, the CPI increase for the Northeast has been slightly lower than the nationwide CPI increase. Nationwide, CPI increased 7.8 percent year-over-year in February 2022, while in the Northeast, the increase was 6.6 percent. While more than one percentage point lower than the national average, this was still the highest year-over-year increase in the Northeast Region CPI since 1990. For several years before the pandemic, the Northeast Region CPI had increased by approximately two percent annually, and the annual increase in 2020 was just 1.3 percent.

The price of goods and services began to increase at a faster rate in March 2021, when it increased 0.6 percent over-the-month. The CPI increased 1.0 percent from May 2021 to June 2021, almost as much as the total CPI increase from the previous year.

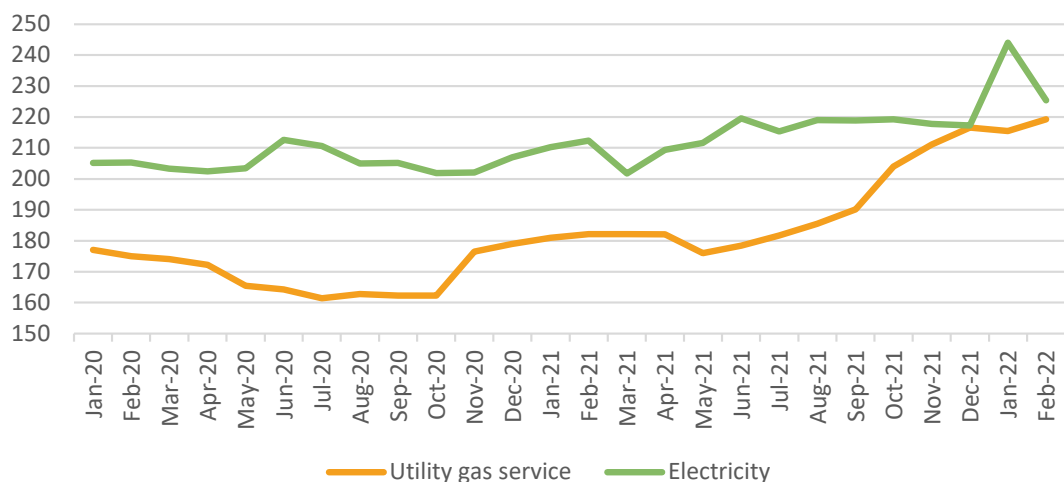
Over-The-Month Increase in Northeast Region Urban CPI



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

1 U.S. Bureau of Labor Statistics, Consumer Price Index Frequently Asked Questions. <https://www.bls.gov/cpi/questions-and-answers.htm>.

Price Index for Utility Gas and Electricity



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

Price increases for several groups of goods and services have been well above the overall CPI increase. Prices for food increased 7.5 percent between February 2021 and February 2022. Electricity prices, which had increased 12.3 percent between December 2021 and January 2022, were 6.1 percent higher over-the-year. In February 2022, the price of housing fuels and utilities had increased 12.6 percent since the previous February, and the price of utility (piped) gas service had increased 20.3 percent. This likely does not fully account for the increase in fossil fuel prices caused by the Russian invasion of Ukraine, which began in late February 2022. Post-invasion utility gas prices have not yet been released, but U.S. Energy Information Administration (EIA) data show that heating oil prices increased from \$3.951 per gallon during the week ending February 21st to \$4.718 per gallon for the week ending March 7th, a 19.4 percent increase in just two weeks.²

Energy and food goods have volatile prices and can skew overall inflation rates. BLS publishes a “core CPI,” which measures price increases without the impact of these goods. With food and energy excluded, the CPI increased 5.0 percent over-the-year in February 2022, 1.6 percentage points less than total CPI. While this shows the effect increasing food and energy

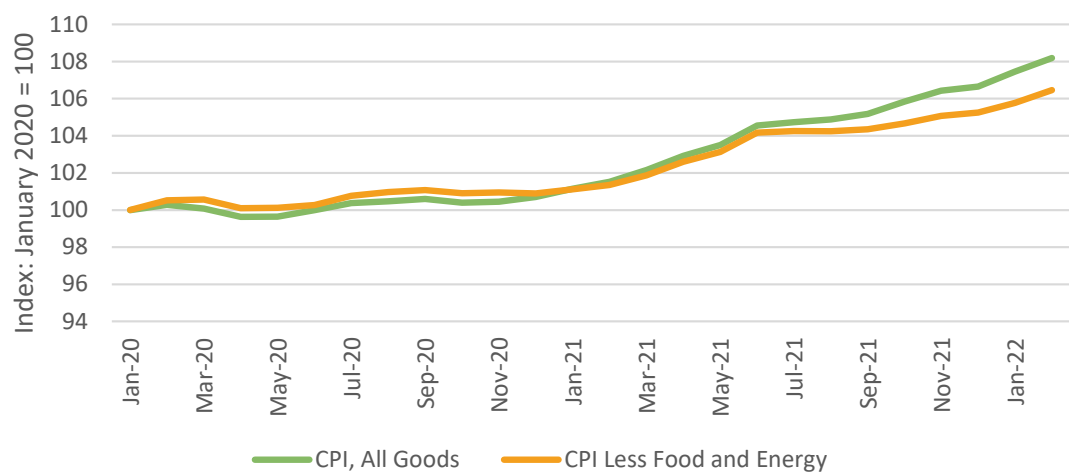
prices have on the overall cost of goods, it also indicates that prices for other goods have increased as well.

Over-the-year price increases for recreation (5.2 percent), household furnishings and supplies (9.9 percent), other goods and services³ (6.4 percent) all exceeded the core CPI increase. Transportation prices increased 18.6 percent over-the-year. This included a 13.1 percent increase in new car prices, a 42.5 percent increase in used car prices, and a 36.4 percent increase

in motor fuels (an energy good). According to the EIA, gasoline prices in New England increased from \$3.539 per gallon on February 21st, just before the Russian invasion of Ukraine, to \$4.187 per gallon on March 7th, an 18.3 percent increase in two weeks.⁴

Over the 12 months from February 2021 to February 2022, prices for medical care and tuition, other school fees, and childcare increased by approximately two percent. It is unusual for the prices of these services to increase at a lower rate than overall inflation; since 1982, prices for medical care have increased nearly twice as fast as overall inflation, while prices for tuition, other school fees, and childcare have increased more than four times faster.

Food and Energy Goods Have Been a Major Contributor to Overall Price Increase in 2021 and 2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

² U.S. Energy Information Administration, Weekly New Hampshire No. 2 Heating Oil Residential Price, https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=W_EPD2F_PRS_SNH_DPG&f=W.

³ Other goods and services include tobacco and smoking products, haircuts and other personal services, and funeral expenses.

⁴ U.S. Energy Information Administration, Weekly Retail Gasoline and Diesel Prices, https://www.eia.gov/dnav/pet/pet_pri_gnd_a_epmr_pte_dpgal_w.htm.

Comparing CPI to the Personal Consumption Expenditures Index

The Consumer Price Index is not the only measure of inflation. The U.S. Bureau of Economic Analysis publishes the Personal Consumption Expenditures (PCE) Index, which measures the changing prices of goods and services purchased by U.S. residents.

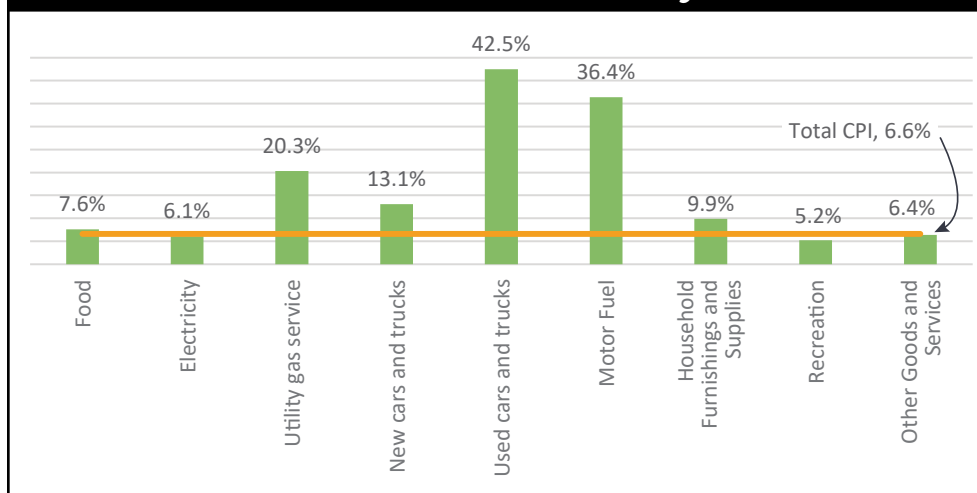
While the CPI and PCE Index both measure the change of price for goods or services, the PCE index also reflects changes in consumer behaviors on a monthly basis. If the price of a good, such as ground beef, increases (ground beef prices increased from \$4.31/lb. in January 2021 to \$4.77/lb. in January 2022, a 10.7 percent increase), consumers may substitute a different good, such as buying chicken instead of beef (chicken prices increased just 1.3 percent, from \$1.60 in January 2021 to \$1.62 in January 2022). Since the PCE Index accounts for this substitution of goods in response to price changes, the PCE Index generally produces a slightly lower estimate of price inflation than the CPI.⁵

Both indexes declined during early months of the pandemic, although the CPI declined further.⁶ In June 2020, as both indexes began to increase again, CPI increased at a faster rate. The difference between the two indexes began to widen in May 2021, as the overall rate of inflation accelerated.

The CPI estimated inflation of 3.1 percent between January 2020 and April 2021. The PCE index measured inflation over that period at 2.8 percent, a difference of just 0.3 percentage points. By January 2022, just nine months later, the gap between the two inflation indexes had increased to 2.1 percentage points.

The gap between the two measures indicates that consumers have responded to price increases by substituting goods and

Year-Over-Year Price Increase for Components of the Northeast CPI, February 2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

Price Inflation, 2020 to Present



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

services to offset price increases. While this indicates a lower rate of inflation than the CPI, the PCE index still indicated a 6.1 percent increase in inflation from January 2021 to January 2022. This was the largest over-the-year increase in the PCE index since 1982.

— Greg David, Economist

⁵ CPI also accounts for changes in consumer spending patterns, but this process occurs every two years, not monthly. As a result, the CPI is not as sensitive to short-term changes in consumer behavior.

⁶ The PCE Index measures spending nationwide and is seasonally adjusted. When comparing these rates, seasonally adjusted national CPI is used.