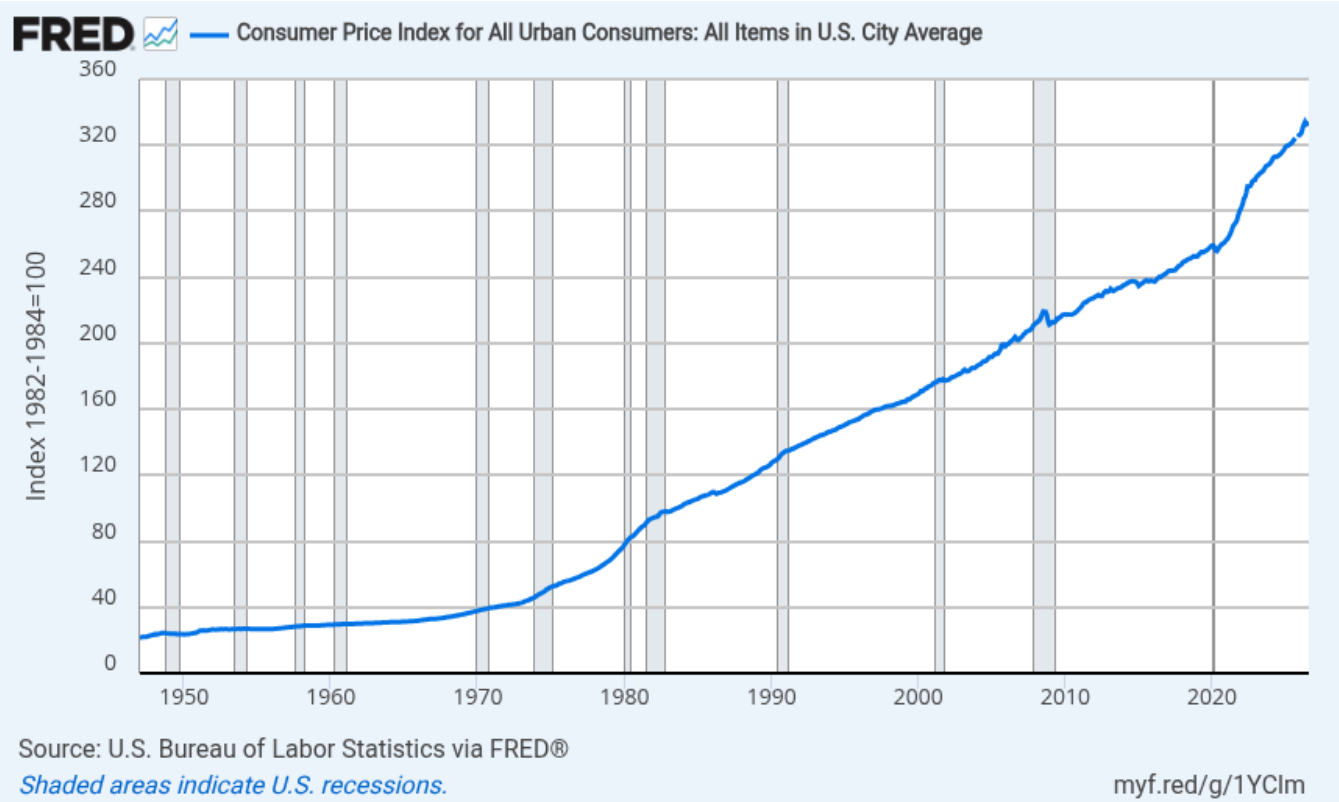
Inflation, Affordability and the States

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The Consumer Price Index

- The CPI measures, admittedly imperfectly, the cost of living for a typical American family.
- An increase in the CPI is what we call inflation.



What is Inflation?

- Economists would say the CPI could increase for two distinct reasons.
  - A change in relative prices
  - True inflation

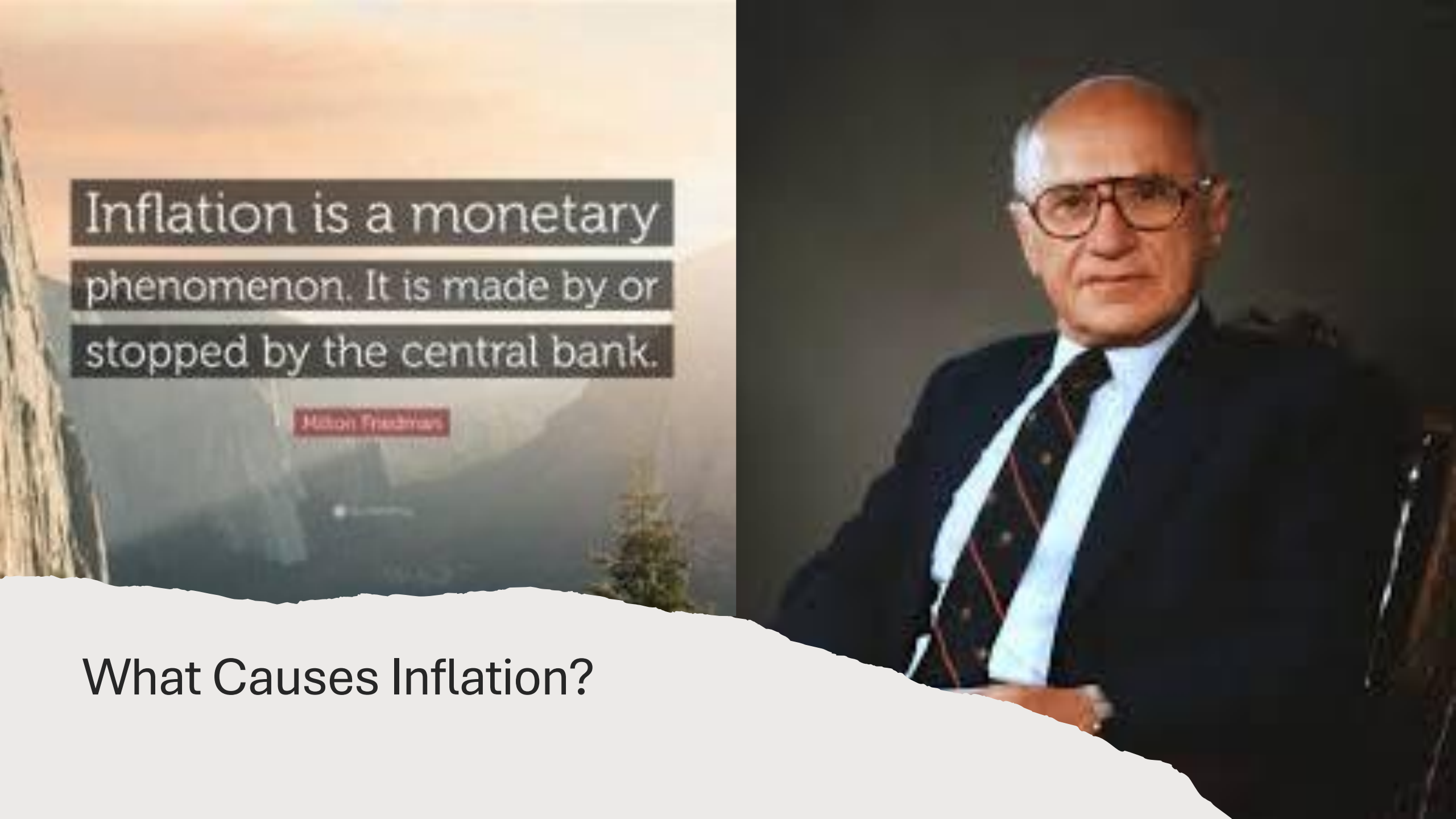
Changes in relative prices

- Increases or decreases in prices reflect changes in supply and demand.
- The increase in oil prices since February constitutes a change in relative prices.
- These are real factors in the economy.



Inflation

- A rise in all or most all prices
- A “pure” 5% inflation is a 5% increase in all prices, including wages and salaries
- A pure inflation should not negatively impact families’ real (inflation-adjusted) cost of living



What Causes Inflation?

Affordability

- Less clear what exactly this means
- Real or inflation-adjusted income is how economists would measure ability to purchase goods and services
- The CPI is imperfect and reflects a representative or average household. Lower income families spend a higher portion of their income on housing and energy, so high prices in these sectors impact them more than the inflation rate indicates.

State polices do impact prices

Source: Committee to Unleash Prosperity

- Energy and housing prices are particularly impacted

STATE	COST OF LIVING INDEX 2025 ↓
Hawaii	185.0
California	142.3
Massachusetts	141.2
District of Columbia	138.8
New York	125.1
Alaska	124.9
Maryland	115.4
New Jersey	115.1
Washington	114.1
Vermont	113.6

STATE	COST OF LIVING INDEX 2025 ↓
Tennessee	90.3
Michigan	90.1
Iowa	89.7
Arkansas	89.6
Missouri	89.0
Kansas	88.8
Alabama	88.6
West Virginia	88.3
Mississippi	87.3
Oklahoma	86.0

What To Do?

- Do not try to soften the blow on consumers by giving away money or free stuff
- To help with gas and diesel prices, consider a moratorium on state taxes
- And remind people that real income, economists' preferred measure of affordability, rose 2.5% in 2025. Things are getting better!