

What is the USVI Consumer Price Index?

The USVI Consumer Price Index (CPI), is a measure of price change in a basket of common consumer goods and services, as calculated by the Division of Economic Research (DER) of the Office of Management and Budget (OMB). For December 2018 to December 2019 CPI, all items showed a 3 percent rise. DER collects prices on a basket of selected items covering the following categories: Food, Alcohol, Recreation, Apparel, Housing, Transport, Medical Care, Education, and Other Goods and Services, on a monthly basis.

Why is Consumer Price Index and Inflation Important?

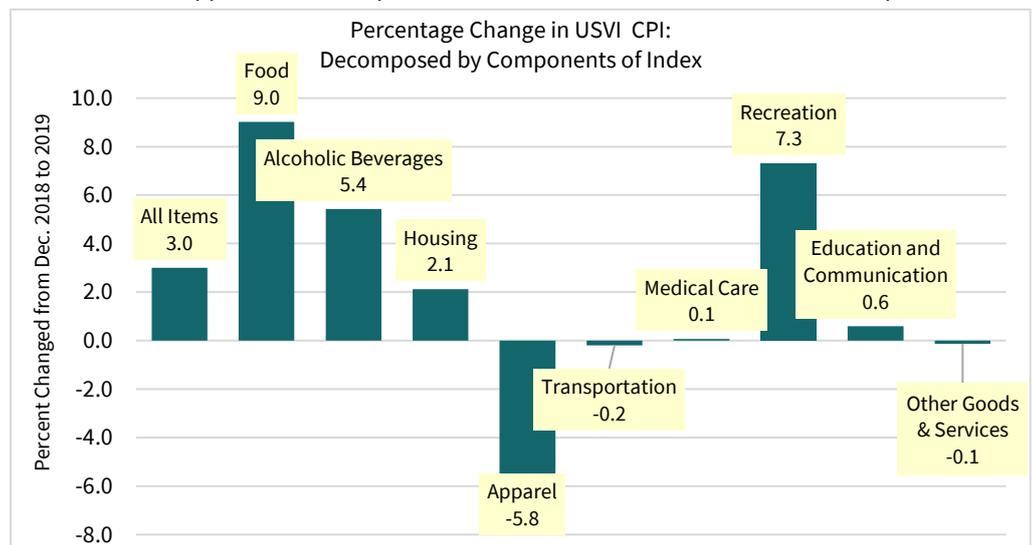
Monthly inflation indexes are then constructed following US Bureau of Labor Statistics methodology. Measuring inflation is important because sustained and persistent increases in prices erodes purchasing power of incomes which in turns tends to lower welfare if income gains are not equal at the household level and affects trade, lending, investment decisions and salary/wage negotiations at the aggregate level. Inflation is a key macroeconomic variable. to be monitored and reported.

Consumer Prices in the USVI as of December 2019

The December 2019 CPI for all three islands in the USVI reflected a 3.0 percent rise from December 2018 to December 2019. This increase was due mainly to the higher prices for food, up 9.0 percent over the year, as well as higher prices for recreation, up 7.3 percent and Alcoholic beverages, up 5.4 percent. Lower prices were recorded for Apparel, down 5.8 percent as well as fractional decreases for Transportation and Other goods and services (See Figure 1).

Of the 3 main islands in the CPI, St. Thomas showed the largest increase over the year, rising 4.8 percent, followed by St. Croix, up 3.2 percent. St. John showed a very moderate annual increase, up only 0.9 percent, although Food prices on St. John showed a large increase by sub index, up 13.5 percent.

The revised CPI for the USVI follows the U.S. Bureau of Labor Statistics classification system of Goods and Services which has 9 major groups previously mentioned. With the CPI revision in 2019, one important change was made to the calculation process of the CPI. The relative populations of each of the islands was used to reflect a weighted CPI. The All Islands CPI now more accurately reflects the price changes for three combined inflation rates of all three islands.



USVI and US CPIs Compared

When the annual changes in the consumer price indices for the US mainland are compared to the US Virgin Islands, the USVI index is consistently above the mainland, except for one year of out of the last five. The USVI showed a spike in 2017 and 2018 and now seems to be regressing back to trend. The underlying factors explaining larger price increases in the territory compared to the mainland are high import dependence in the territory, the high cost of shipping, the high cost of electricity, and less competition and more concentration among retail businesses allowing for greater exercise of market power. In the immediate period after the hurricane, prices spiked due to the disruptions in normal shipping and trading arrangements, high demand for certain items, shortages, and exercise of market power.

