

12-Month Average Change in CPI-U

Prepared by Postal Regulatory Commission

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Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	2.2%	2.1%	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.4%	2.6%	2.7%
2005	2.8%	2.9%	3.0%	3.1%	3.1%	3.0%	3.0%	3.1%	3.3%	3.4%	3.4%	3.4%
2006	3.5%	3.5%	3.5%	3.5%	3.7%	3.8%	3.9%	3.9%	3.7%	3.4%	3.3%	3.2%
2007	3.1%	3.0%	2.9%	2.8%	2.7%	2.6%	2.4%	2.3%	2.3%	2.5%	2.7%	2.9%
2008	3.0%	3.2%	3.3%	3.4%	3.5%	3.7%	4.0%	4.3%	4.4%	4.5%	4.2%	3.8%
2009	3.5%	3.2%	2.8%	2.4%	1.9%	1.4%	0.8%	0.2%	-0.324%	-0.634%	-0.570%	-0.356%
2010	-0.143%	0.013%										

1/

2/

1/ Price cap for Docket No. R2008-1

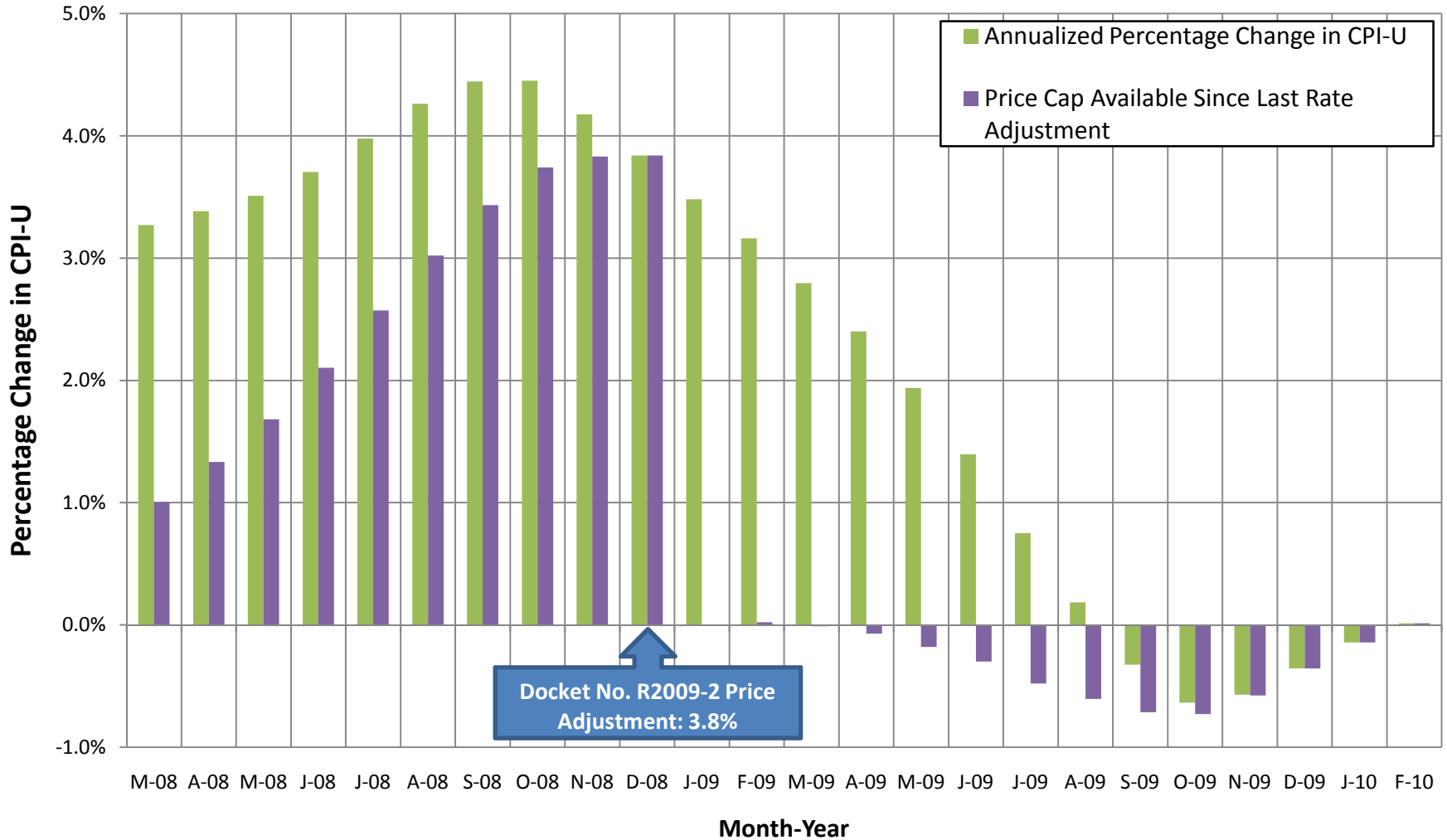
2/ Price cap for Docket No. R2009-2

Explanation of How "Change in CPI-U" is Calculated:

The Commission determines the price cap for any 12-month period by calculating the ratio of two 12-month CPI-U averages that are 12 months apart, subtracting one, and expressing the value as a percentage. For a more detailed explanation of the calculation of the price cap please see 39 CFR §3010.21, or the Commission's Final Rules at <http://www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf>.

Annualized Percentage Change in CPI-U and Available Price Cap

March 2008- February 2010



CPI-U annualized using a 12-month moving average. For a more detailed explanation of the calculation of the price cap, including partial year cap calculations, please see 39 CFR §3010.21-22, or the Commission's Final Rules at <<http://www.prc.gov/prc-docs/home/PAEA/FinalRulesWeb.pdf>>.

Explanation of Bar Graph:

Generally, the Postal Service changes market dominant prices annually. To calculate the applicable annual percentage change in rates, the Commission first creates an annualized index that is the average of twelve monthly CPI-U figures. For example, to calculate the annualized index for December 2009, the Commission sums the CPI-U figures for each month beginning with January 2009 and ending with December 2009, and divides that sum by 12 to produce an annualized index for that 12-month period. To calculate the annualized percentage change, the Commission takes the ratio of two annualized indices twelve months apart and subtracts one from the quotient. The remaining amount is the annualized percentage change. The Postal Service's last annual price adjustment used the ratio of the annualized December 2008 index and the annualized December 2007 index. The **green bars** on the graph depict the trend of the ratio of two indices, i.e., the annualized percentage change, exactly twelve months apart throughout 2008 and 2009.

On occasion, the Postal Service may decide to change market dominant prices less than annually. In this circumstance the Commission takes the ratio of two annualized indices less than twelve months apart using the annualized index at the time of the last rate adjustment as a base. For example, if the Postal Service were to file a market dominant rate change using the September 2009 index, the Commission would take the ratio of the annualized September 2009 index to the annualized December 2008 index. Simply, it is a ratio of two indices nine months apart. The closer the Postal Service's interim price change is to the most recent annual price change the smaller the allowable increase is compared with the annualized percentage change. For this reason, the allowable percentage price change is very small in the first month after an annual price change, but increases month by month, except under deflation. The **purple bars** on the graph depict the "build up" of the price cap, i.e., the allowable percentage price change, throughout the year. In January 2008, the two bars are far apart, but continue to grow closer throughout the ensuing months until the bars are the same height in December 2008 when both bars reflect the same full 12-month period.

The Postal Service may also decide to change market dominant prices more than twelve months apart. When this happens, the two bars will continue to be of equal height until the Postal Service changes market dominant rates.

The section of the chart where the bars extend below the 0.0 percent line reflects the effect of deflation. Nevertheless, the mathematical relationships remain the same. No matter what happens inflation-wise, the length of both bars must be the same for December 2009, as the annualized change in CPI-U is, by definition, the annualized price cap.