Inflation for U.S. higher education institutions

rises 2.5% in fiscal 2019

WILTON, CT, December 23, 2019 – Data from the annual Commonfund Higher Education Price Index (HEPI) show that inflation for U.S. colleges and universities rose 2.5 percent in fiscal year 2019, a decline from last fiscal year’s 2.9\(^1\) percent rate and in line with the five-year average of 2.4 percent. Price increases have been higher over the past three fiscal years, however, averaging 2.9 percent, compared with the first two years of the five-year period, when they rose at an average rate of 1.7 percent. (Fiscal year 2019 covers the period from July 1, 2018, to June 30, 2019, and coincides with the budget year of most institutions of higher education.)

FY2019 costs rose in three of the eight components tracked by HEPI, declined in four and were unchanged in one. By comparison, costs rose in four components and decreased in the other four in FY2018. The second-largest component of the index, clerical costs at an 18 percent weight, rose 3.5 percent in FY2019, up from 2.9 percent in FY2018. Administrative salaries, representing 11 percent of the index, rose 2.4 percent, once again a modest change compared with last year’s 2.2

\(^1\) In 2015, the American Association of University Professors (AAUP) began using a new methodology that was not directly comparable with the past; therefore, data on faculty salaries and fringe benefits, was excluded from the 2016 and 2017 HEPI reports. The conversion has been completed and data on faculty salaries and fringe benefits is now included. Additionally, due to this modification, the FY2018 HEPI number has been restated to 2.9 percent (from 2.8 percent).
percent. After that in weighting, service employee costs at 8 percent showed the highest increase of the eight HEPI components, tied with clerical costs of 60 basis points, rising 4.0 percent after a 3.4 percent increase in FY2018.

Faculty salaries—the most heavily-weighted HEPI component at 35 percent of the index—showed the second largest reduction in its inflation rate, rising 2.0 percent in FY2019 versus 2.8 percent in FY2018; utilities tied with faculty salaries, rising 0.9 percent in FY2019 and 1.7 percent in FY2018. The other component to decline in its rate of inflation was supplies and materials, which rose 4.1 percent in FY2019 compared with 4.3 percent in FY2018. Fringe benefits showed the greatest reduction in its inflation rate, rising 2.4 percent in FY2019 versus 3.5 percent in FY2018. The miscellaneous services component was unchanged, rising 2.4 percent in both fiscal years.

Over the three earlier fiscal years just cited, annual costs increased as much as 14.5 percent or decreased as much as -20.2 percent.

FY2017’s 3.4 percent was the highest rate of inflation in recent years and the highest since 5.0 percent in FY2008. FY2018’s 2.9 percent was, nevertheless, considerably higher than the 1.4 percent reported for FY2016 and FY2015’s 2.0 percent. Looking at specific components of the index, utility costs have been highly volatile in recent years, as they declined 20.2 percent in FY2016 and 13.2 percent in FY2015 before rising 14.5 percent in FY2017. Service employee costs, tied for the largest increase this year, decreased from 3.7 percent in FY2017 to 3.4 percent in FY2018. The increase in costs for supplies and materials was the third time in the past six years that this component has risen. Figure 1 tracks annual changes in HEPI over the last five fiscal years.

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2 In 2015, the American Association of University Professors (AAUP) began using a new methodology that was not directly comparable with the past; therefore, data on faculty salaries and fringe benefits, as well as information by region and type of institution, was excluded from the 2016 and 2017 HEPI reports. The conversion has been completed and data on faculty salaries and fringe benefits is now included. Additionally, due to this modification, the FY2018 HEPI number has been restated to 2.9 percent (from 2.8 percent).
FIGURE 1: THE HIGHER EDUCATION PRICE INDEX, FISCAL YEARS 2015 – 2019

HEPI is an inflation index designed specifically for use by institutions of higher education. Compiled from data reported by government agencies and industry sources, HEPI measures the average relative level in the price of a fixed market basket of goods and services purchased by colleges and universities each year through current fund educational and general expenditures, excluding research. A more accurate indicator of cost changes for colleges and universities than the Consumer Price Index (CPI), HEPI is used primarily to project future budget increases required to preserve purchasing power. With compilations dating back to 1961, HEPI offers more than 50 continuous years of higher education inflation data. It is an essential tool enabling schools to determine increases in funding necessary to maintain both real purchasing power and investment. In 2005, Commonfund Institute assumed responsibility for the index and the proprietary model used to calculate HEPI’s values from Research Associates of Washington, D.C. To access a copy of the complete report, please click on this link [www.commonfund.org/HEPI](http://www.commonfund.org/HEPI).
HEPI for FY2019 versus a 5-year average

Figure 2 compares reported rates of change for FY2019 against their historical five-year averages. The principal observations follow:

- Of the eight cost factors, five were above their five-year average in FY2019 while three were below.

- Of the three most heavily-weighted HEPI components, cost increases in FY2019 were below their five-year average for two: faculty salaries (2.0 percent versus 2.6 percent) and fringe benefits (2.4 percent versus 3.1 percent). The third, clerical salaries, was above its five-year average, rising 3.5 percent in FY2019 versus its five-year average of 2.9 percent.

- For FY2019, the greatest deviation from the five-year average was in the supplies and materials component, which rose 4.1 percent compared with its five-year average of -0.4 percent.

- The second-highest deviation occurred in utilities, which showed a 0.9 percent inflation rate for FY2019 versus a five-year average of -3.2 percent.

- The component showing the least deviation was miscellaneous services, which rose 2.4 percent in FY2019 compared to a five-year average of 2.1 percent. Last year, this was the category showing the second-least deviation from its five-year average.

The two factors exhibiting the greatest volatility over the five-year period were utilities and supplies and materials. The most dramatic year-over-year changes occurred in utilities, which had an inflation rate of 14.5 percent for FY2017 versus -20.2 percent for FY2016 and -13.2 percent for FY2015. As noted, this fiscal year utilities showed the least rate of change in the five-year period, rising 0.9 percent following a 1.7 percent increase a year ago. Just before the five-year period began, in FY2014 costs for supplies and materials jumped 11.2 percent. Then, for the next three fiscal years, costs for this component declined by an average of -3.4 percent annually. Costs changed direction last year, rising 4.3 percent, and this year rose 4.1 percent.
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