

Chart of the Day



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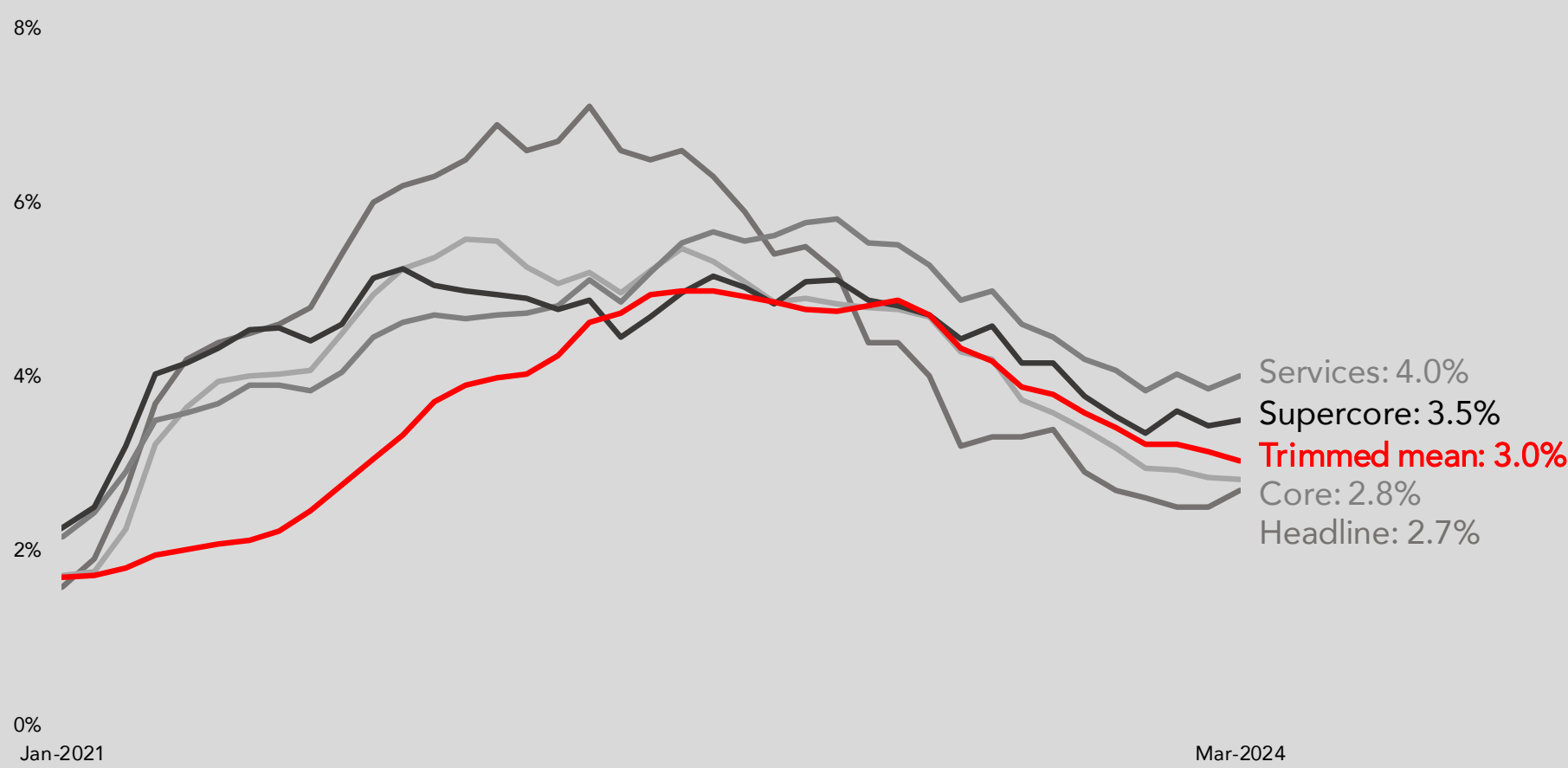
One of the challenges in evaluating inflation is that it can be both “sticky” and “volatile.” **US Core PCE inflation**, the Fed’s closely watched inflation metric, eliminates the traditionally more volatile “food and energy” components. The problem with this approach, however, which economic models have relied on heavily since the elevated oil price era of the 1970s, is that: (i) food and energy prices in a given period may actually be sending important messages on inflationary pressures; (ii) food and energy represent fairly important components of the consumer’s spending bucket; and (iii) core PCE also includes other potentially more volatile components that can skew an inflation assessment.

Headline inflation, which includes everything from more to less volatile components, can be misleading by virtue of including too much. **Super core inflation** (core services ex-housing) arguably excludes too much by capturing only about 25% of the economy. Comparatively, many economists today more closely track “**trimmed mean inflation**,” an alternative measure of inflation released monthly by the Dallas Fed using data from the Bureau of Economic Analysis (BEA).

First proposed by Fed analysts Bryan and Pike in 1991, **trimmed mean inflation** is calculated by removing the most volatile components of inflation (greatest outliers top and bottom, regardless of their origin) for the period of measurement, as opposed to pre-specified items like food and energy. In doing so, **trimmed mean inflation** more closely resembles the central components of the distribution in price changes, while muting the impact of excessively volatile items in the period - a more realistic and accurate portrayal.

Reported monthly by the Dallas Fed (most recently, on Friday, April 26), 12 month trimmed mean inflation (y/y) has made slow and steady progress toward the Fed’s 2% target in recent months, though has further to go. The measure excludes the most volatile buckets of inflation data over the measurement period, as opposed to pre-specified items such as food and energy. Notably, it has been running higher than both Core and Headline PCE metrics.

12 month US PCE inflation metrics, y/y



Source: (1) Bloomberg. Supercore PCE is core services ex-housing. The trimmed mean is the Dallas Fed Trimmed one year PCE inflation annual rate. Data as of April 29, 2024.

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“Macro stability isn’t everything, but without it, you have nothing.”