

June 18, 2009

CPI: The left and the right of it

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We got a good reading of May's inflation numbers this week. On both the producer and the consumer sides, price measures for the month came in well short of market expectations. The prospect of deflation has been getting a good deal of coverage in the blogosphere; see [Andy Harless' blog](#), [Economist's View](#), and [Paul Krugman's column](#).

[Greg Mankiw](#), however, points out that a trimmed mean estimate of the consumer price index (CPI), which removes the large relative price changes in each month, makes the deflation story seem a bit, uh, exaggerated.

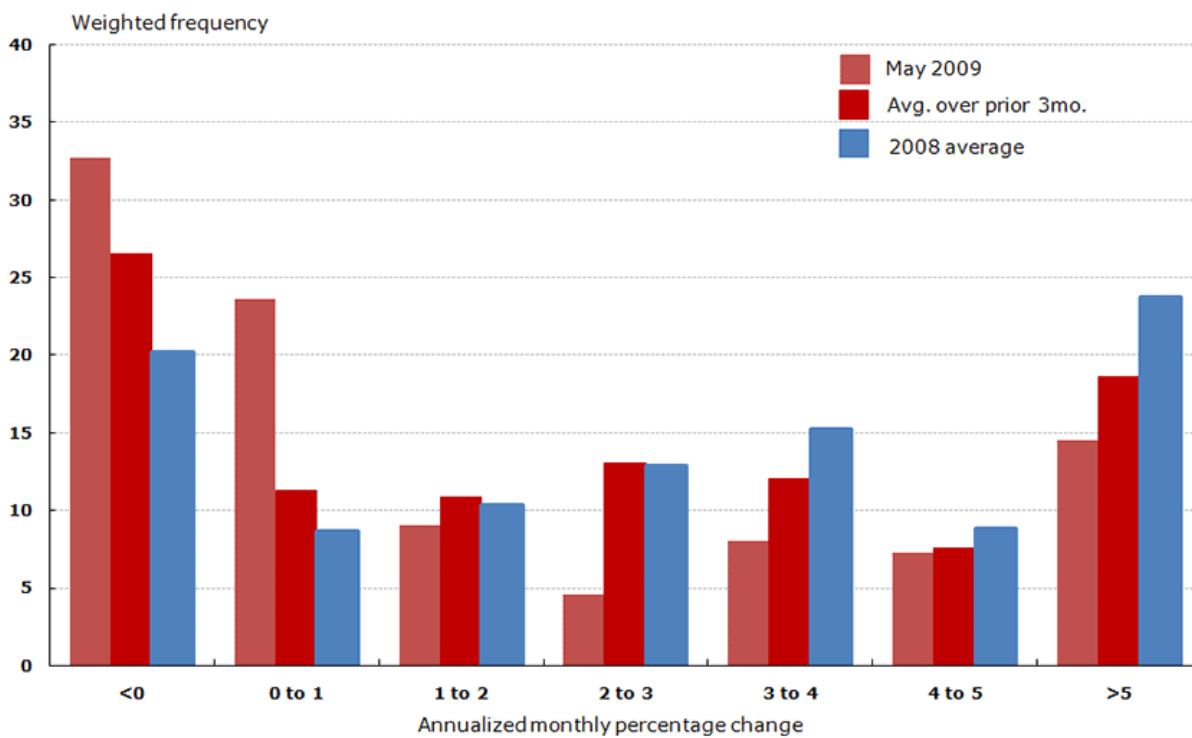
"As every grade school student learns when the teacher reports results of the latest test, the average of any data set can be thrown off by a few extreme outliers; the median is a more robust statistic to estimate the central tendency in the data.

"Right now, the two measures of inflation are diverging substantially. The standard CPI shows deflation over the past year, but that average is due to a few anomalous sectors, such as energy. If you look at the median CPI, which shows what a more typical price is doing, the inflation rate does not look very unusual."

While the median is certainly a valuable way to look at inflation, there is also some interesting information that can be gleaned from breaking down the whole distribution of prices.

The chart below (hat tip to Brent Meyer at the Cleveland Fed) shows another interesting feature of yesterday's CPI release. Notice the clear downward shift in the distribution of CPI component price changes. Over half of the prices within the CPI market basket posted growth at or below 1 percent last month, up from an average of 29 percent in 2008, with a whopping one-third of the price index posting declines in May.

CPI Component Price Change Distribution



Source: Bureau of Labor Statistics, Cleveland Fed

Of course, one month does not a trend make, but the month's price numbers were nonetheless noteworthy.

By Laurel Graefe, economic research analyst at the Atlanta Fed