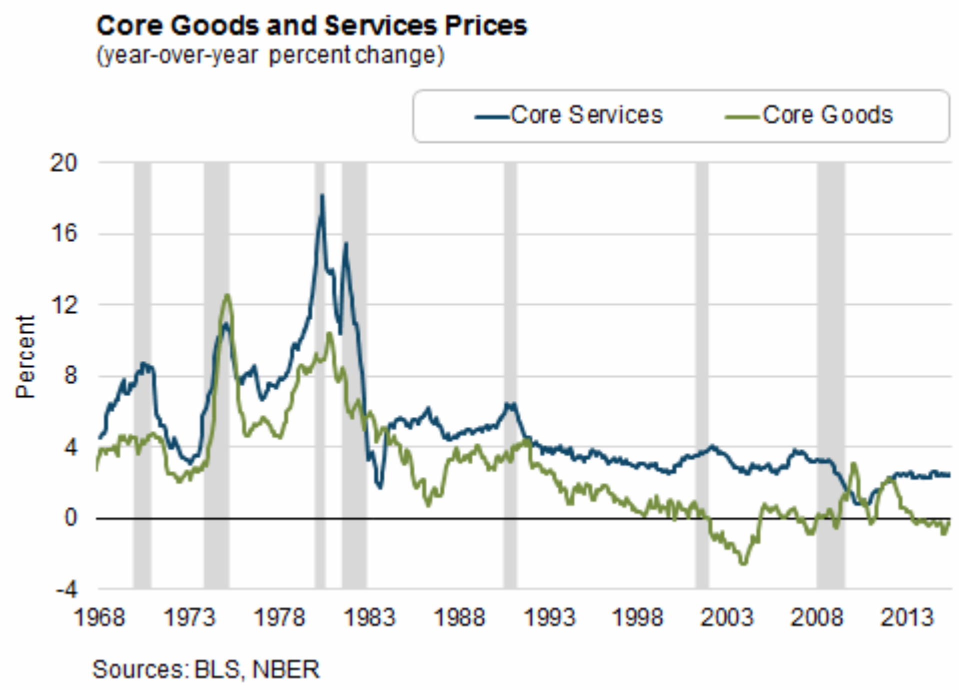
July 17, 2015

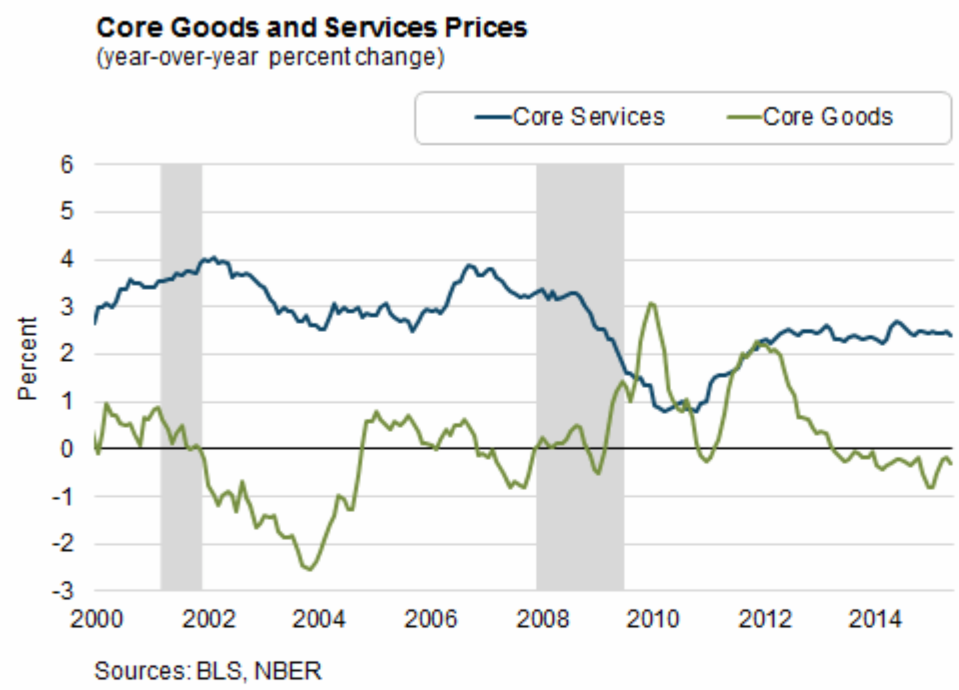
Getting to the Core of Goods and Services Prices

In yesterday's *macroblog* post, I highlighted an aspect of a recent *Wall Street Journal* article that concerns how households perceive inflation. Today, I'm going back to the same well to comment on another aspect of that story, which correctly notes that service-sector prices are rising at a faster clip than the price of goods.

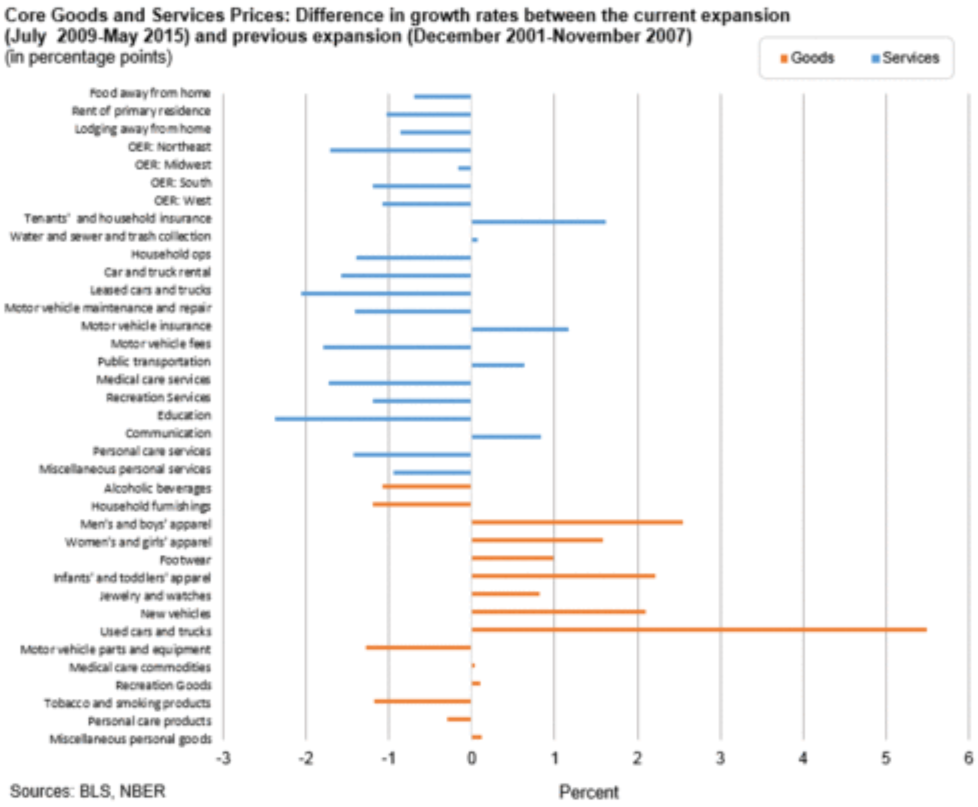
Of course, this isn't just a recent event. Core services prices have outpaced core goods prices over the past 50 years, save a few short-lived deviations. What's unusual about the current recovery, as the chart below shows, is *how low* services inflation has been.



In the nearly six years since the end of the 2007–09 recession, core services prices have risen at an annualized pace of 2.1 percent, a full percentage point below their average during the last expansion. Conversely, the annualized growth rate in core goods prices during the recovery has been 0.5 percent, compared to a decline of 0.6 percent during the last expansion (see the chart below).



To see how broad-based the slowdown across core services prices has been relative to that of core goods prices, let's take a deeper dive into the components. The chart below compares the difference between a particular component's annualized growth rate during the current expansion and its growth rate during the previous expansion. A negative number here means that a component's price is growing more slowly now than it did prior to the recession.



(enlarge)

It's evident that the slowdown in core services prices is fairly broad-based (17 of 22 components are exhibiting disinflation relative to their growth rate over the previous expansion). For core goods components, that number is just five of 15 components. So, if we accept the premise of the *WSJ* article—that trends in services prices more closely reflect "unused domestic capacity"—then it's possible we could be farther away than we think.

By Brent Meyer, an economist in the research department of the Atlanta Fed

July 17, 2015 in Inflation | Permalink