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The Federal Reserve Bank of St. Louis
St. Louis   Little Rock   Louisville   Memphis

For release:
October 17, 1997

Contact:
Charles B. Henderson (314) 444-8311

St. Louis Fed's *Review*: Measuring Inflation and Real Growth

ST. LOUIS — Economists from around the nation who attended the St. Louis Fed's annual economic policy conference agreed on several points regarding the link between measuring inflation and growth:

- The U.S. economy's output of services is poorly measured.
- Accurately measuring a change in quality is difficult.
- Adopting a formula for a superlative index number (one using updated information on both prices and quantities) could reduce the upward bias in the Consumer Price Index (CPI) by one quarter of a percentage point.

The latest edition of ***Review***, the Federal Reserve Bank of St. Louis' bimonthly journal of economic and business issues, features presentations and commentaries from "Measuring Inflation and Real Growth," the Reserve Bank's twenty-first annual economic policy conference.

Noting that more research is needed to develop better measures of inflation and output growth, William T. Gavin, vice president and research coordinator for the St. Louis Fed, said

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that conference participants also agreed on several other important issues. For example, more time-series data on individual firms and households are needed to explain aggregate dynamics. Also, the choice of what price index is best — CPI, PPI (Producer Price Index), GDP (gross domestic price) fixed or chain-weight indexes — depends on how it is used.

"Identifying a better measure of inflation is the key to comparing whether households are better or worse off than they used to be," said Thomas C. Melzer, president of the Federal Reserve Bank of St. Louis. "Another important issue that the conference participants sought to shed light on is the question of which inflation measure should be used to guide monetary policy. For many years here at the St. Louis Fed, we have argued that monetary policy ought to focus on a single, long-run goal: lowering inflation toward price-level stability. In our view, policies directed at such a goal would provide an environment within which our market economy could function efficiently."

Articles and authors in this issue of ***Review***:

• **"Measuring Consumption: The Post-1973 Slowdown and the Research Issues,"** by Jack E. Triplett, chief economist at the Bureau of Economic Analysis.

• **"On Defining Real Consumption,"** by Edward C. Prescott, professor of economics at the University of Minnesota and an advisor at the Federal Reserve Bank of Minneapolis.

• **"Measuring and Analyzing Aggregate Fluctuations: The Importance of Building from Microeconomic Evidence,"** by John C. Haltiwanger, professor of economics at the University of Maryland and chief economist at the Bureau of the Census.

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• **"Quality Change in the CPI,"** by Charles R. Hutten, professor of economics at the University of Maryland and a research associate of the National Bureau of Economic Research.

• **"Alternative Strategies for Aggregating Prices in the CPI,"** by Matthew D. Shapiro and David W. Wilcox. Shapiro is professor of economics at the University of Michigan and research associate at the National Bureau of Economic Research. Wilcox is senior economist at the Board of Governors of the Federal Reserve System.

• **"Measuring Short-Run Inflation for Central Bankers,"** by Stephen G. Cecchetti, director of research at the Federal Reserve Bank of New York.

• **"The Commission Report on the Consumer Price Index,"** by Zvi Griliches, Paul M. Warburg professor of economics at Harvard University.

• **"A Bureau of Labor Statistics Perspective on Bias in the Consumer Price Index,"** by John S. Greenlees, assistant commissioner for consumer prices and price indexes at the U.S. Bureau of Labor Statistics.

• **"Inflation Measurement and Inflation Targets: The UK Experience,"** by William A. Allen, deputy director of the Bank of England.

Providing commentaries in the issue are: Peter J. Klenow, associate professor of economics in the Graduate School of Business at the University of Chicago; Alan Heston, professor of economics at the University of Pennsylvania; Robert J. Gordon, Stanley G. Harris professor of

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the social sciences at Northwestern University; Per Krusell, associate professor of economics at the University of Rochester; Jeffrey Campbell, assistant professor of economics at the University of Rochester; W. Erwin Diewert, professor at the University of British Columbia; Peter Howitt, professor of economics at The Ohio State University; Alan S. Blinder, professor in the Department of Economics at Princeton University; and Mark A. Wynne, senior economist and policy advisor at the Federal Reserve Bank of Dallas;

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