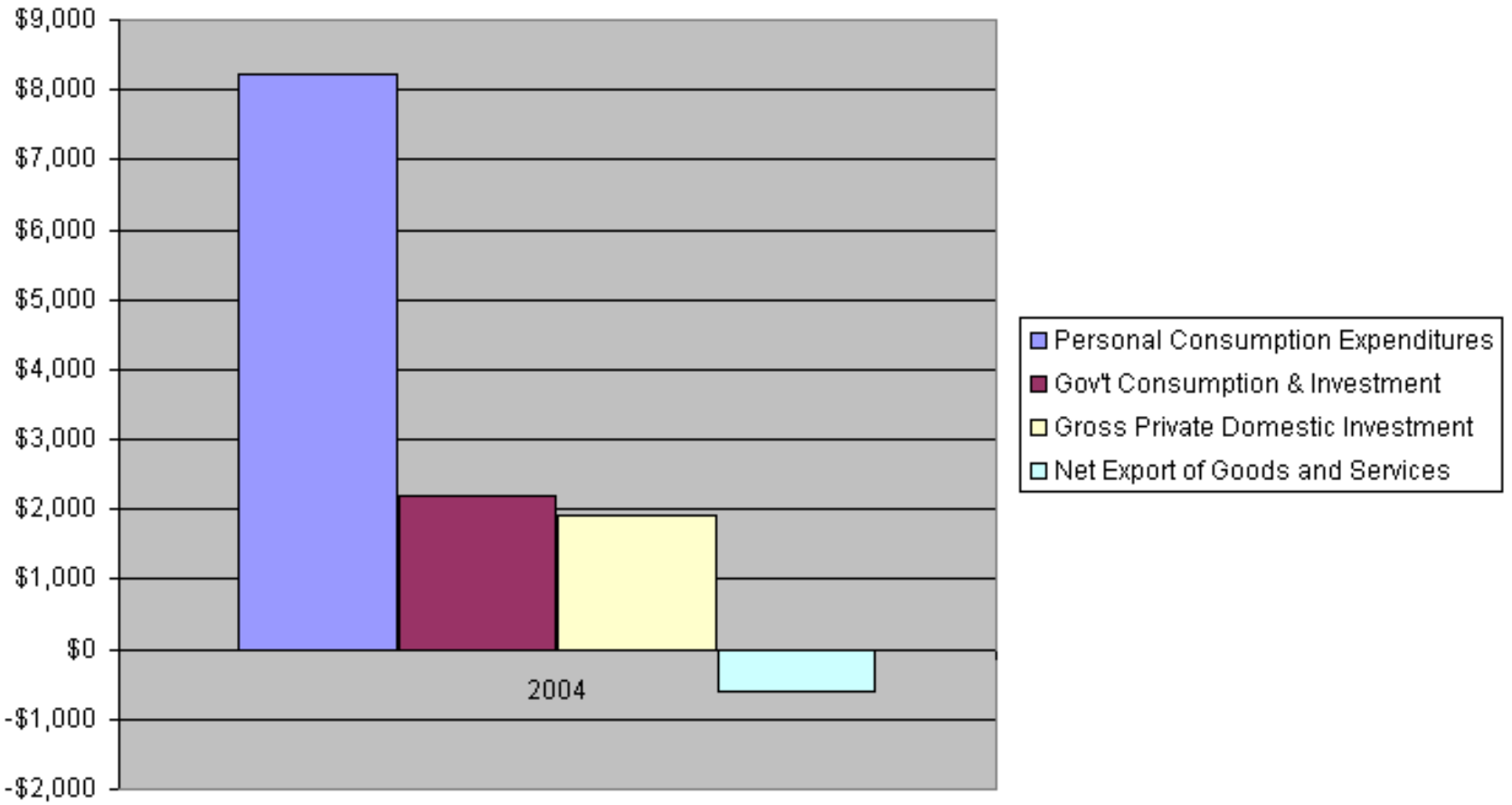
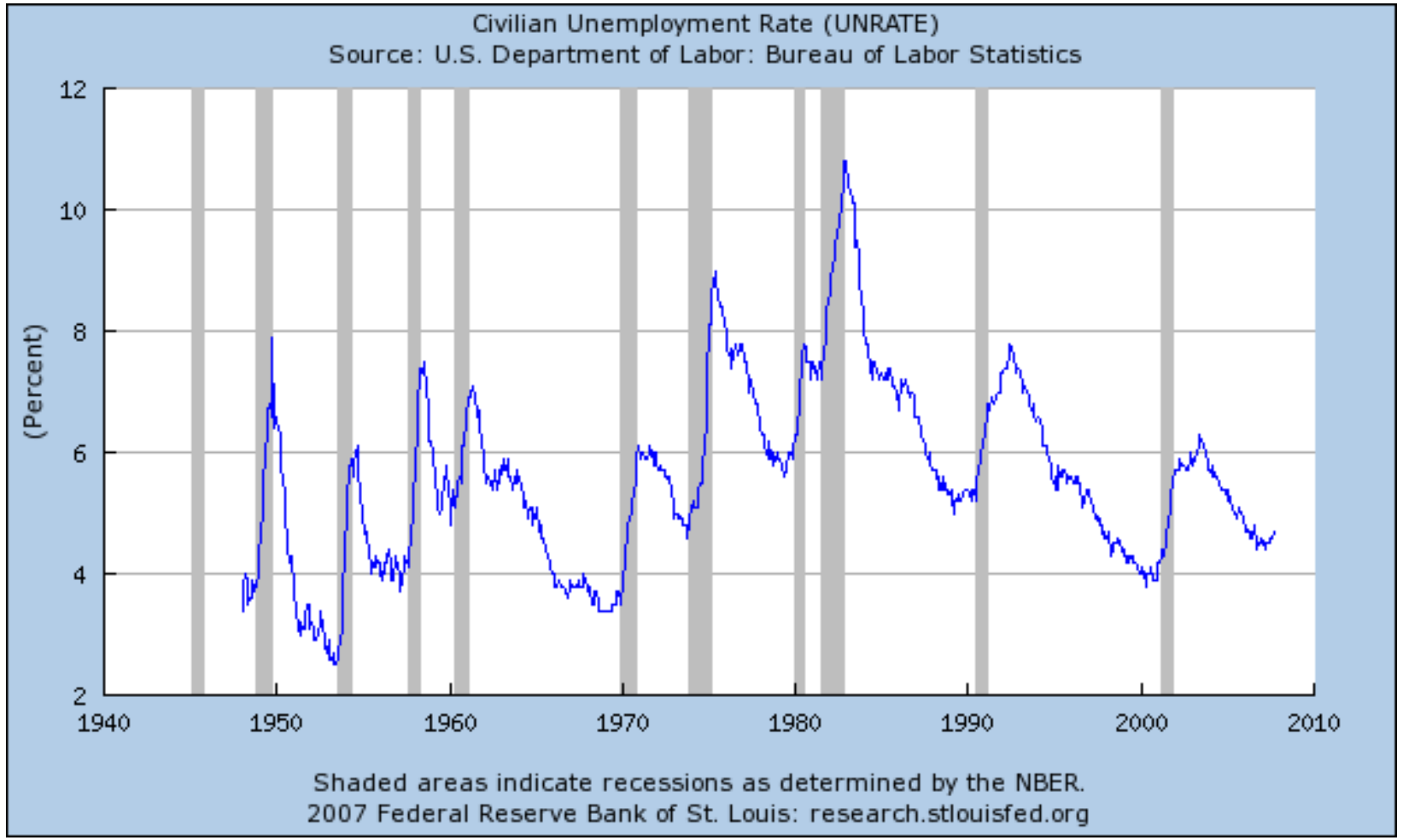
Components of US GDP (varies across countries).



This is why there is so much worry about consumers!

US unemployment rates.



- Unemployment rate is a lagging indicator. Seems to spike during recessions (shaded), not a smooth response to slowing growth. Productive resources become idle and fairly quickly. So recessions do matter, despite the long-term trend of growth.

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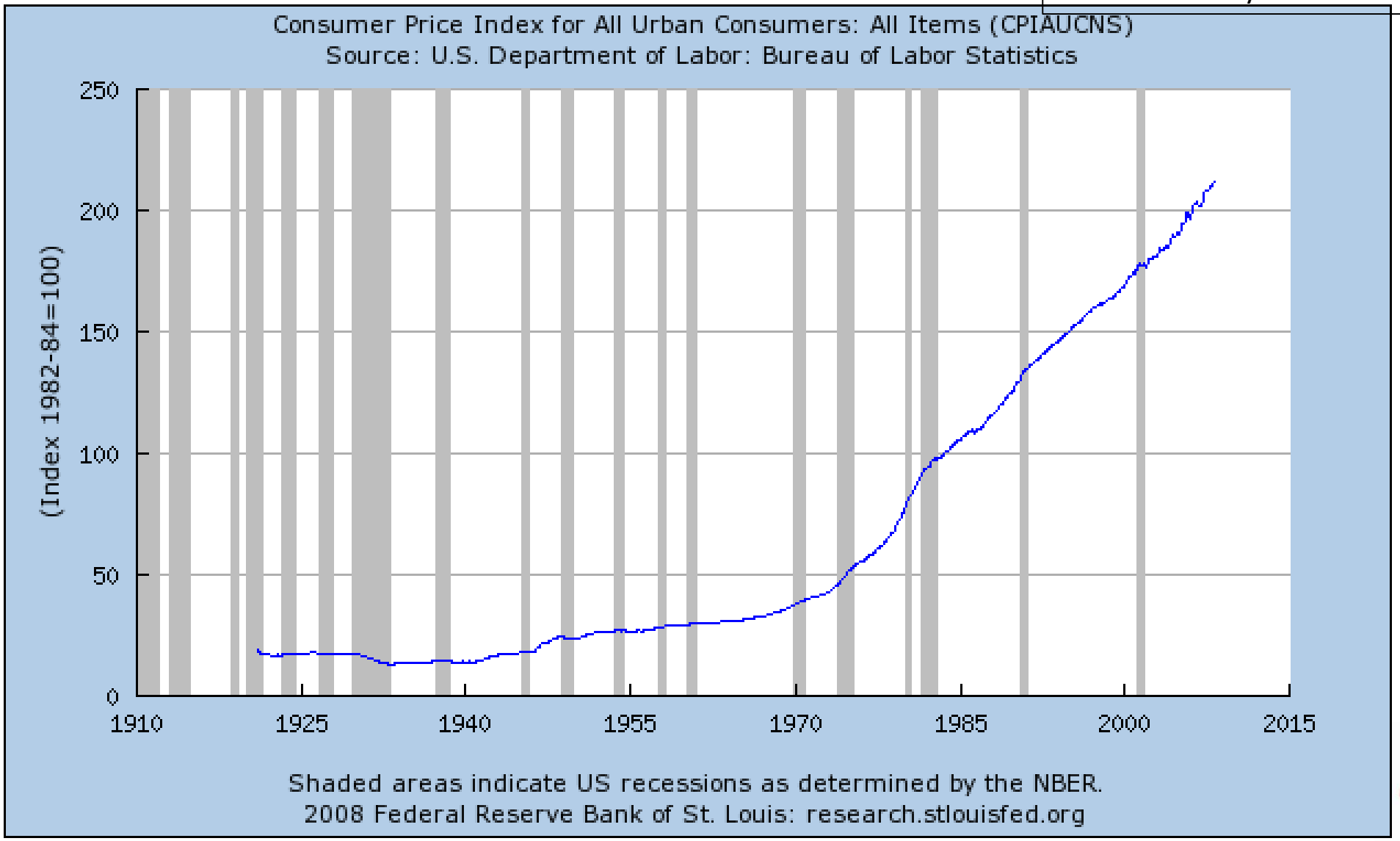
Inflation.



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US Consumer Price Index components.

Component	Weight In CPI Calculation
Housing	38.0%
Food	17.2
Transportation	12.9
Energy	8.7
Medical	6.3
Education/Communication	6.0
Recreation	5.5

- CPI is an index of a basket of goods and services that are ordinarily consumed by the public.

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- Is it right to consider a number (fuel prices) that is very volatile in calculations of CPI?

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- Core rate excludes food and energy (hangover of 70's oil crisis). Long run, these are more likely to be transitory, why should the Fed be heavy handed if that is the case?

Other considerations.

- Hedonic adjustments take out the value of quality improvements to goods and services to more "accurately" capture a price change. Compounded by a heavier weighting attached to items dropping in price as people will substitute? Together understate inflation.

- Some efforts at using median or mean CPI, trimmed to eliminate outliers. PCE (personal consumption expenditure deflator). Updated more frequently than Core CPI, very popular with the Fed.

- Housing prices are measured as rent equivalents. In the 2000's as people bought houses, rents were low so measuring housing costs as rent equivalents kept inflation numbers down. Today, the reverse is true perhaps even distorting upwards !!!

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