

U.S. Inflation Forecaster: 2020 Economic Barometer: Consumer Price Index

Consensus forecast:

CPI, December to March, annualized 2.0%

As a U.S. inflation forecaster, you must submit your first forecast on Tuesday, 2/11.

You may update your forecast, anytime, via email.

The forecast closest to correct, and presented the earliest, wins bragging rights.

In class, starting 2/12, you must be ready to speak about emerging developments that bear on Jan-March inflation:

Was the news signal or noise?

Are reactions to news sensible or do you have a unique interpretation?

Did the news change your forecast?

On April 17th the Bureau of Labor Statistics of the U.S. Labor Department (BLS) will issue its first estimate for the March consumer price index (CPI). With an estimate for January/February/March in hand, we will be able to calculate the quarterly performance for the CPI. At that time, we will assess the accuracy of all forecasters.

The CPI collects price levels for a long list of goods and services. It weights these prices based upon their size in an average consumer's budget. We can break the CPI down to sub-indices:

FOOD/ENERGY/CORE GOODS/CORE SERVICES/HOMEOWNER RENTS

Food prices can be affected by crop failures, freezes etc.

Energy prices are captive to the volatile swings in oil prices

Core goods prices, goods ex food and energy, are greatly influenced by China

Core services prices link to the labor markets

Homeowner rents are linked to housing.

Our inflation forecaster needs to have an opinion about all five sub-indices, and her opinion needs to add up—that is, combining each component's forecasted move, times its weight, needs to add up to the forecaster's overall forecast.

For Q1:2020, several things are important.

1. Oil prices have been falling as the coronavirus threatens China's GDP growth
2. Core goods prices might jump, if China shipments of goods falters.

CPI sub-indices, weights as of 12/2019

ALL ITEMS	100%
FOOD	13%
ENERGY	7%
CORE (EX-FOOD AND ENERGY)	80%
GOODS EX-FOOD AND ENERGY	20%
CORE SERVICES	36%
OWNER'S EQUIVALENT RENT	24%

CPI, 1995-2005, versus 12/2018 to 12/2019

U.S. INFLATION SNAPSHOT:	1995 to 2005	YEAR-ON-YEAR		
	ANNUALIZED	% CHANGE		
TOTAL	2.5%	1.7%		
CORE (EX-FOOD AND ENERGY)	2.2%	2.3%		
FOOD	2.5%	1.8%		
ENERGY	5.7%	3.4%		
GOODS EX-FOOD AND ENERGY	0.0%	0.1%		
SERVICES EX-ENERGY SERVICES	3.1%	3.0%		
OWNERS' EQUIVALENT RENT	3.0%	3.3%		
CORE SERVICES				