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What is the right way to measure inflation?

Central banks, particularly in the United States, have several measures of inflation at their disposal:

- The consumer price index, CPI – is a measure of headline inflation – or CPI excluding energy and food – is a measure of core inflation;
- The personal consumption expenditure deflator, PCE deflator – is a measure of headline inflation – or the PCE deflator excluding energy and food –is a measure of core inflation;
- "trimmed inflation", is a calculation which excludes the prices of the fastest-rising and slowest-rising items.

We will examine which measure of inflation is the most relevant.

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Several measures of inflation

Several measures of inflation are available, particularly in the United States.

In the United States, the first is **the consumer price index**, either total or excluding energy and food, measuring headline inflation and core inflation respectively.

The second is **the personal consumption expenditures deflator** (PCE), which measures headline inflation, whilst the PCE excluding energy and food measures core inflation. The personal consumption expenditures deflator assigns a significantly higher weight to healthcare expenditure (22%) than the consumer price index (9%), as it includes employer-borne expenditure, and a significantly lower weight to housing expenditure (14% versus 36%), as it excludes imputed housing costs for owner-occupiers.

Finally, **"trimmed inflation"** is calculated by the Federal Reserve Banks of Cleveland and Dallas. The Dallas Fed version excludes from the trimmed inflation calculation the 31% of goods and services with the largest price increases and the 24% with the largest price decreases. The incoming Federal Reserve Chair, Kevin Warsh, has indicated that he would prefer this last measure of inflation (**Charts 1 and 2**).

Chart 1
United States: Inflation, core inflation and trimmed mean inflation (as %)

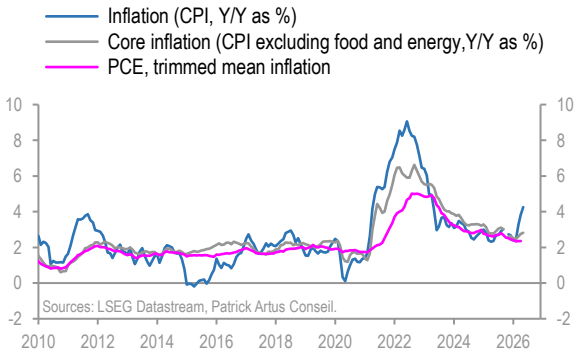
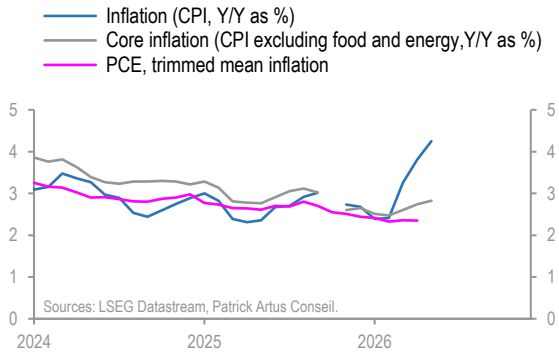


Chart 2
United States: Inflation, core inflation and trimmed mean inflation (as %)



In **the euro zone**, only **the consumer price index** is available to measure headline inflation, with the consumer price index excluding energy and food, or excluding energy and unprocessed food, used to measure core inflation.

Headline inflation measures changes in household purchasing power

Which measure of inflation should be preferred depends on the purpose and the type of analysis.

When the aim is to analyse **changes in household (workers) purchasing power**, the **headline inflation figure** must clearly be used. On this measure, workers purchasing power has declined year-on-year as of May 2026, both in the United States (headline inflation of 4.2%, wage growth of 3.4%) and in the euro zone (headline inflation of 3.2%, wage growth of 3%). The weakness of household consumption growth in volume terms is therefore unsurprising. In the first quarter of 2026, consumption growth stood, on an annualised basis, at 1.4% in the United States and at only 0.4% in the euro zone.

In the United States, the choice between the Consumer Price Index (CPI) and the Personal Consumption Expenditures deflator (PCE) is not straightforward. The PCE includes healthcare expenditure financed by employers, which does not represent actual household spending, whereas the CPI includes imputed rents for owner-occupiers, which are also not actual expenditure. Fortunately, the CPI and PCE figures are generally very close to one another.

Core inflation serves to calibrate monetary policy

Should headline inflation or core inflation (excluding energy and food) be preferred?

A rise in energy or food prices is not caused by a domestic macroeconomic imbalance, but by **a global rise in commodity prices** (oil, natural gas, food). Raising interest rates when headline inflation rises as a result of higher commodity prices is therefore pointless and wholly ineffective, since slowing the country's growth will in this case have no impact on inflation. It is therefore reasonable to consider that central banks should set **their monetary policy** by reference to **core inflation** rather than headline inflation. A rise in core inflation signals **an increase in production costs** and, consequently, **a macroeconomic imbalance**. If an inflationary shock occurs, as long as core inflation does not rise, it follows that the shock is not generating "second-round effects", i.e. a response from wages and production costs.

Central banks could also analyse **the trend in the price of services**, which reflects changes in labour costs, whereas manufactured goods prices are heavily dependent on global prices. At present, the price of services is rising rapidly, both in the United States (3.4% year-on-year in May 2026) and in the euro zone (3.5% year-on-year, also in May 2026).

It is dangerous to use "trimmed inflation"

The rationale behind using "trimmed inflation" is **to strip out prices that are excessively volatile** and that rise or fall sharply to obtain **a measure of underlying inflation.**

The risk, however, is that certain prices rise sharply and do not subsequently fall, which leads, when a central bank uses trimmed inflation, to **a chronic underestimation of inflation and the price level**.

This is the case, for example, with natural gas prices in Europe following the halt to natural gas imports from Russia, with the prices of certain commodities facing constrained supply (copper), and with the prices of all imported goods where tariffs have been introduced. The shift to trimmed inflation **therefore risks** being **interpreted as a manipulation** designed to **minimise the true rate of price increases** (**Chart 2**, above).

Summary

Overall, wage negotiations should use headline inflation; central banks should use core inflation. Using "trimmed inflation" is dangerous.

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