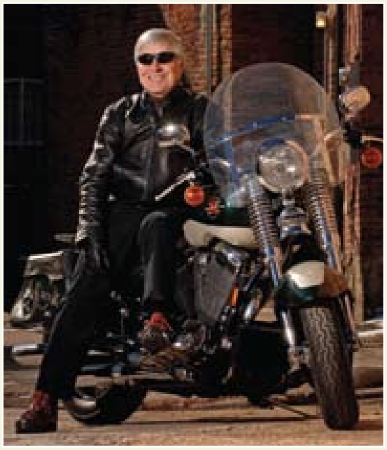
ASK AN ECONOMIST



William T. Gavin joined the St. Louis Fed in 1994; before that, he worked for the Cleveland Fed. His areas of interest are macroeconomic dynamics and monetary policy rules. He is also the editor of the *Review*, the St. Louis Fed's academic journal. When he wants to have even more fun, he rides his 1999 Excelsior-Henderson motorcycle. For more on his research, see http://research.stlouisfed.org/econ/gavin/index.html.

Why are there so many price indexes?

Various measures of prices and inflation have been constructed for different purposes and, therefore, reflect differing emphases. For example, the Consumer Price Index (CPI) was designed to adjust pensions for WW I veterans. It measures changes in prices for a fixed basket of goods that is intended to reflect the typical urban consumer. Although the market basket is periodically adjusted, the fixed shares make it possible to leave past data unrevised. These properties make the CPI useful for indexing items like Social Security payments, wage contracts and inflation-adjusted bonds.

The Personal Consumption Expenditures Price Index (PCEPI) was designed to measure the real, inflation-adjusted consumption component in the National Income and Product Accounts. Therefore, the PCEPI is a more comprehensive measure than the CPI. The PCEPI also differs from the CPI by using expenditure shares that change over time as consumers adjust their purchases in response to relative price changes—buying more apples when orange prices rise, for example.

Other price indexes are designed to measure prices of specific economic activities. The Producer Price Index (PPI) tracks the prices of materials as they move through the production process toward finished-good status. The Import Price Index, as the name implies, measures changes in the prices of imported goods.

For both the CPI and PCEPI, it is common to consider "core" measures, for which the food and energy components are eliminated. Because these two components tend to be more volatile than others, their omission leaves a measure that is thought to more accurately reflect long-term trends in inflation. A similar motivation lies behind the construction of the "median" and "trimmed mean" measures of the CPI that are published by the Federal Reserve Bank of Cleveland.

The Federal Open Market Committee (FOMC) has, in recent years, cast its inflation forecasts in terms of the core PCEPI. On Nov. 14, 2007, Fed Chairman Ben Bernanke announced that the FOMC would begin making quarterly projections for headline PCEPI inflation (which includes food and energy—important items in the consumer's budget) and for core inflation (because it is a better short-run indicator of where headline inflation is likely to end up in the long run).

Submit your question in a letter to the editor. (See Page 2.)
One question will be answered by the appropriate economist in each issue.

LETTERS TO THE EDITOR

This is in response to October's article titled "Trading Barbs: A Primer on the Globalization Debate." To read the entire letter, as well as other letters, go to www.stlouisfed.org/publications/re.

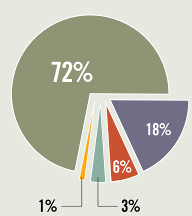
Dear Editor:
I particularly liked this article's noting of the need for labor mobility equal to that of capital but also of the probable impossibility of achieving labor mobility for a variety of reasons. I agree fully that we are unlikely to ever generate the required level of labor mobility, meaning there is a structural and permanent advantage associated with mobile capital that, absent policy fixes, leads to high inequality or a breakdown in globalization that ultimately hurts everyone. ... What is good for the people of the U.S. and the world can be the same only if policy causes a more equitable distribution of the benefits and costs within our own country. Otherwise, I am quite certain the outcome of this globalization episode will be similar in some fashion to the previous one, where a very few got the benefits and most got the costs. The previous globalization episode terminated in World War I.

Steve DeHoff, a staff consultant at the Cincinnati office of Stress Engineering Services Inc.

FED FLASH POLL RESULTS

Whenever a new issue of *The Regional Economist* is published, a new poll is posted on the Bank's home page, www.stlouisfed.org. The poll question is always pegged to an article in that quarter's issue. Here are the results of the poll that went with the October issue. The question stemmed from the article "Trading Barbs: A Primer on the Globalization Debate."

HOW FAR WOULD YOU GO ON GLOBALIZATION?



- **All the way—in reverse.** We need to put restrictions in place to protect the jobs we have left.
- **All the way.** Get rid of all barriers to free trade as quickly as possible.
- **Globalization is moving too quickly.** We need to slow down and re-evaluate.
- **Accelerate the pace.** Move toward removing barriers on goods and services—except those deemed in the national interest.
- **Stick with the status quo.** The current pace of globalization is just fine.

1,139 RESPONSES AS OF 12/17/2007

THIS ISSUE'S POLL QUESTION:

What Should Be the No. 1 Goal of Monetary Policymakers?

1. Price stability.
2. Maximum employment.
3. Moderate long-term interest rates.
4. Stability of the financial system.
5. A strong dollar exchange rate.

To vote, go to www.stlouisfed.org. Anyone can vote, but please do so only once. (This is not a scientific poll.)

HEAR! HEAR!

Periodically, we conduct short interviews with economists on a topic that we think has wide interest. Then, we post these 10-20 minute audiocasts on our web site. Go to www.stlouisfed.org/publications/re and follow the links to hear about:

- Payday lending: Is it predatory?
- Tracking livestock with RFID tags: What's the fuss?
- Wal-Mart's efforts to open banks