

Inflation Trends in Personal Consumption Expenditures (PCE), 2001-2014

By: Courtney Cady

Advisor: Dr. Robert Dean and Dr. Trevor Collier

- Study Purpose:
Determine long and intermediate trends in PCE inflation

- The model
 $PCE = a + b(T)$

Where:

-PCE = Personal Consumption Expenditures

-T=time

-a,b=equation parameters

- Periods of analysis:

(1) 2001-2007

(2) 2009-2014

(3) 2001-2014

- Target inflation rate
Policy Objective=2%

- Data analysis:
Determine if PCE inflation trends meet policy objectives

PCE Inflation Trend Equations			
Inflation Category	2001-2007		
	Rsquared	X Variable	Tstat
PCE	0.9840	2.1249	18.1895
PCE excluding food and energy	0.9918	1.7638	24.8784
Goods	0.7405	0.9396	4.0170
Durable goods	0.9592	-2.2896	-11.0110
Nondurable goods	0.9333	2.4709	8.7711
Services	0.9960	2.7043	37.7755
Food 1	0.9753	1.9405	14.9026
Energy goods and services 2	0.8806	8.0881	6.8263

PCE Inflation Trend Equations			
Inflation Category	2009-2014		
	Rsquared	X Variable	Tstat
PCE	0.9883	1.8670	19.4450
PCE excluding food and energy	0.9959	1.6302	34.0470
Goods	0.6713	1.2597	3.0652
Durable goods	0.9715	-1.4488	-12.0862
Nondurable goods	0.8412	2.6552	4.8561
Services	0.9927	2.1800	24.6976
Food 1	0.9361	2.1070	8.3290
Energy goods and services 2	0.6277	5.5347	2.8803

PCE Inflation Trend Equations			
Inflation Category	2001-2014		
	Rsquared	X Variable	Tstat
PCE	0.9902	1.9517	35.8948
PCE excluding food and energy	0.9971	1.6986	64.1943
Goods	0.8982	1.1037	10.3604
Durable goods	0.9769	-1.8217	-22.6278
Nondurable goods	0.9625	2.5452	17.7871
Services	0.9925	2.3768	39.9770
Food 1	0.9809	2.3574	25.3000
Energy goods and services 2	0.8337	5.5209	7.9927

- Analysis 2001-2007
 - PCE Inflation Trend > 2%
 - PCE ex. Food and Energy < 2%
 - Services > 2%
- Analysis 2009-2014
 - PCE Inflation Trend < 2%
 - PCE ex. Food and Energy < 2%
 - Services > 2%
- Analysis 2001-2014
 - PCE Inflation Trend < 2%
 - PCE ex. Food and Energy < 2%
 - Services > 2%
- Conclusions: Long term PCE trend is below the target rate
- Long term PCE ex Food and Energy is below the target rate
- Certain subsectors like Services are above the target rate