

Why Inflation Figures Can Be Rear View Mirror Data - Statistical Review

Government data figures come in two categories, lagging and leading indicators. Economists interpret lagging data as something that has already passed, as though it's in the "rear view mirror". A leading economic indicator is considered forward looking, sort of the view through the front windshield. Leading indicators include Gross Domestic Product (GDP), Consumer Confidence, and the Purchasing Managers Index, which tend to be a prelude to other economic activities. Inflation, as measured by the Consumer Price Index (CPI) is known as a lagging indicator because it measures price changes that occurred in the past. When the CPI numbers are released each month by the Bureau of Labor Statistics, that data is already 45 days old on average. Food and energy are the two largest components of the CPI, which tend to be extremely volatile.

Inflation can be driven by various factors, such as economic expansion, wages, consumer consumption, and commodities. Rising wages allow consumers to spend more on products and services producing greater demand for raw materials also known as commodities. There are instances when geopolitical events tend to drive commodity prices higher even if wages are not rising. The concern is that some inflationary pressures tend to last longer while others recede quickly. Many economists currently believe that energy and food prices will remain elevated for an extended period relative to other goods and services.

Sources: Bureau of Labor Statistics

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