



# U.S. Inflation Data

## How Good is the Quality of U.S. Inflation Data?

*Questions rise about the accuracy of recent and upcoming inflation numbers*

As a financial planner, one of the most critical pieces of information I rely on to make informed investment decisions is the U.S. inflation rate. This metric, published by the Bureau of Labor Statistics (BLS), is a cornerstone of economic analysis and policy-making. However, recent developments have raised concerns about the accuracy and reliability of this data. The BLS has reported that staffing shortages have hampered its ability to conduct its massive monthly survey, leading economists to question the quality of recent and upcoming inflation reports.

### The Role of the Bureau of Labor Statistics

The BLS is responsible for calculating the Consumer Price Index (CPI), which measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. This index is a key indicator of inflation and is used by policymakers, businesses, and investors to make critical decisions. The process involves hundreds of government workers, known as **enumerators** (government workers who visit businesses to check prices), who visit businesses and check prices for a wide range of products and services, from blue jeans to accounting services.

### The Impact of Staffing Shortages

Recently, the BLS has faced significant staffing challenges. A hiring freeze at the agency has forced the survey to cut back on the number of businesses where it checks prices.

This reduction in the workforce means that the BLS has had to rely more heavily on less precise methods to estimate price changes.

In the April inflation report, for example, government statisticians had to use a process called **different-cell imputation** (a method where statisticians use data from other regions or less comparable products to estimate price changes when specific data is unavailable) more extensively than usual. While this is a standard practice when specific data is unavailable, the increased reliance on it due to staffing shortages has raised eyebrows among economists.

### Why Accuracy Matters

The accuracy of inflation data is crucial for several reasons:

- **Economic Policy:** The Federal Reserve and other policymakers use inflation data to set monetary policy. If the data is inaccurate, it could lead to misguided decisions, such as raising interest rates too soon or too late, which can have significant implications for economic growth and stability.
- **Investment Decisions:** Investors rely on inflation data to make informed decisions about asset allocation. Inflation can erode the purchasing power of fixed-income investments and affect the performance of stocks and other assets. Accurate data helps investors adjust their strategies to protect their wealth.

- **Consumer Confidence:** Inflation data influences consumer confidence and spending behavior. If consumers believe inflation is higher or lower than it actually is, it can affect their purchasing decisions and overall economic activity.
- **Contractual Agreements:** Many contracts, such as those for wages, rents, and pensions, are indexed to inflation. Inaccurate data can lead to unfair adjustments in these agreements, affecting the financial well-being of individuals and businesses.

## The Concerns of Economists

Economists are beginning to question the quality of recent U.S. inflation data due to the staffing shortages. While there is no evidence of intentional efforts to publish false or misleading statistics, the increased use of imputation methods can introduce errors and biases into the data. These concerns are not trivial, as even small inaccuracies can have major implications for the economy.

- **Data Reliability:** The more the BLS relies on imputation, the less reliable the data becomes. Imputation is a necessary tool when specific data is missing, but it is not as precise as direct price checks. This can lead to an overestimation or underestimation of inflation.
- **Regional Disparities:** The BLS may have to use data from other regions to estimate prices in areas where enumerators are scarce. This can mask regional differences in price changes, leading to a less accurate national inflation rate.
- **Product Substitution:** When using less comparable products to estimate price changes, the BLS may not capture the true cost of living accurately. For example, using cargo pants instead of slacks might not reflect the same price trends, leading to potential inaccuracies in the CPI.

## What Investors Can Do

Given the potential issues with the quality of inflation data, investors should take a few steps to protect their financial interests:

- **Diversify Investments:** Diversification is always a good strategy, but it becomes even more important when economic data is uncertain. Consider spreading your investments across different asset classes to mitigate the impact of inflation on your portfolio.
- **Monitor Multiple Indicators:** Relying on a single measure of inflation can be risky. Investors should monitor multiple economic indicators, such as the Personal Consumption Expenditures (PCE) index, which is another measure of inflation used by the Federal Reserve. This can provide a more comprehensive view of price changes.
- **Stay Informed:** Keep an eye on news and updates from the BLS and other economic agencies. Understanding the context and limitations of the data can help you make more informed decisions.
- **Consult Financial Professionals:** If you are concerned about the impact of inflation on your investments, consult with a financial planner or economist. They can provide insights and help you navigate the uncertainties in the data.

The stakes are high, and the quality of the data you rely on can make all the difference in your financial well-being.