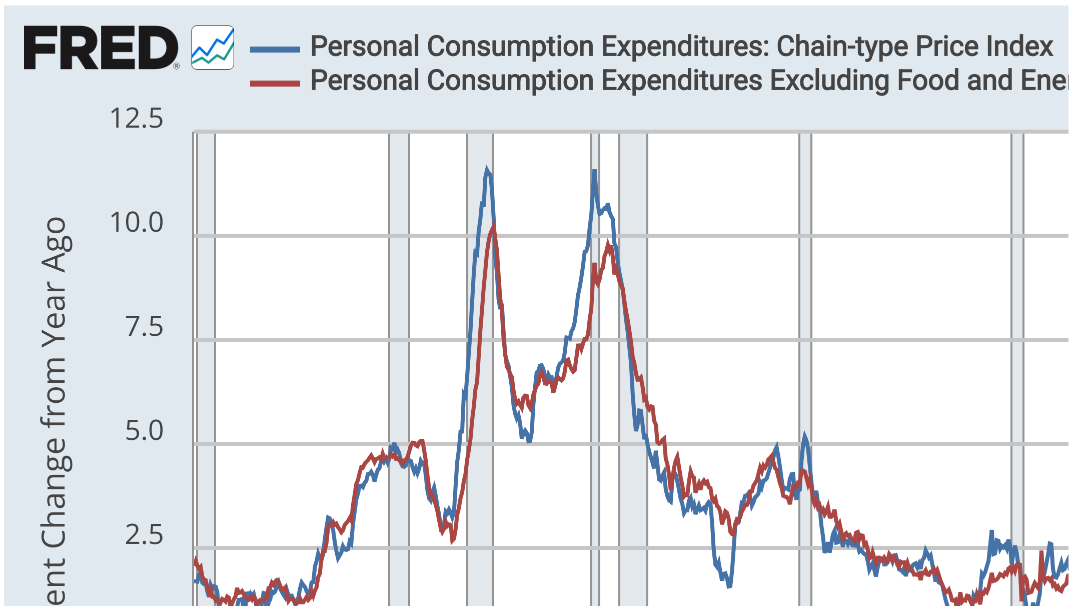
The FRED® Blog

The trouble with food and energy

Posted on February 29, 2016



There are many ways to measure inflation. One popular method used for monetary policy purposes is to look at the price index for personal consumption expenditures excluding food and energy. Why exclude food and energy? Aren't those important items that matter a great deal to households? The reason is straightforward: These price categories are considered to be *excessively* volatile, and including them would make it more difficult for policymakers to pin down the inflation trend. The graph above makes this point visually by comparing the PCE inflation rates with and without food and energy.

Usually when you add items to an index, you reduce the volatility of that index. This same premise is at work when you add assets to an investment portfolio—i.e., when you diversify to reduce volatility. But this does not happen when the item you add is excessively volatile. And, again, food and energy are excessively volatile. Food is subject to large price variations due to external shocks, mostly on the supply side, such as weather. Energy is subject to shocks as well: supply shocks such as discoveries, wars, political risk, and infrastructure issues and demand shocks such as climate events. This happens with food and energy much more than it does for other items included in personal consumption expenditures.

How this graph was created: Search for “PCE.” Then go to the “Filter Series by Tags” box to the left and enter “price index.” Select the first two monthly series that appear and add them to the graph. Change the units for both series to “Percent Change From Year Ago.”

Suggested by Christian Zimmermann

View on FRED, series used in this post: PCEPI, PCEPILFE

Recent St. Louis Fed research

- US manufacturing employment is down, but each state has its own story
- Real GDP growth by state: First quarter 2026
- Primary deficits: a short history
- What US assets are held overseas?

- Durable goods inflation and effective tariffs

Archives

- August 2023
- July 2023
- June 2023
- May 2023
- April 2023
- March 2023
- February 2023
- January 2023
- December 2022
- November 2022
- October 2022
- September 2022
- August 2022
- July 2022
- June 2022
- May 2022
- April 2022
- March 2022
- February 2022
- January 2022
- December 2021
- November 2021
- October 2021
- September 2021
- August 2021
- July 2021
- June 2021
- May 2021
- April 2021
- March 2021
- February 2021
- January 2021
- December 2020
- November 2020
- October 2020
- September 2020
- August 2020
- July 2020
- June 2020
- May 2020

- April 2020
- March 2020
- February 2020
- January 2020
- December 2019
- November 2019
- October 2019
- September 2019
- August 2019
- July 2019
- June 2019
- May 2019
- April 2019
- March 2019
- February 2019
- January 2019
- December 2018
- November 2018
- October 2018
- September 2018
- August 2018
- July 2018
- June 2018
- May 2018
- April 2018
- March 2018
- February 2018
- January 2018
- December 2017
- November 2017
- October 2017
- September 2017
- August 2017
- July 2017
- June 2017
- May 2017
- April 2017
- March 2017
- February 2017
- January 2017