Comments on New Classification System for PCE

David Lebow
Federal Reserve Board
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Summary: The new classification system, and the other accompanying changes, are sensible.

I will comment on:
- Separation of households from nonprofits

- New definition of PCE ex. food and energy

- Changes to market-based and nonmarket prices

- More precise deflation

Separation of households from nonprofits

Household spending and spending of nonprofit institutions are entirely different things!
(C + I + G + N?)

Economists studying consumption will probably want to work with household portion only

- Making PCE divisible between the two is a useful step

(I presume the "household" aggregate will be available at monthly and quarterly frequency?)

Separation of households from nonprofits (cont.)

Prices:

As with real expenditures, economists studying consumer prices probably don't want to include nonprofits

Recommendation #1: Publish a price index for "household" expenditures less food and energy.

- This would make three XFE indexes: total, household, and market-based

New Definition of PCE ex. food and energy

Core inflation: Underlying inflation, free from transitory influences.

- Ex. food and energy is a simple, useful measure of core inflation

Change: Move restaurant meals out of "food" and into core

This makes sense because restaurant prices are not erratic

- Clev. Fed trimmed mean CPIs almost never trim out FAFH
- Alan Kackmeister work in progress – restaurants *very last* item want to exclude!

New classification structure happens to lead to improved measure of core inflation? Not a coincidence.

Changes to Market-based and Nonmarket Prices

Much or most of expenditures on

- Nonprofit hospitals

- Nursing homes

- Higher education

will have prices measured by CPIs or PPIs rather than imputed (nonmarket).

This will significantly reduce the portion of PCE with nonmarket prices

Changes to Market-based and Nonmarket Prices (cont.)

Another (slightly off topic) issue with the market-based/nonmarket split: Insurance

- Premiums received (market-based) less benefits paid (nonmarket)

Recommendation #2:

Treat insurance consistently as market-based or (more likely) nonmarket

More Precise Deflation

- The PCE detail is being changed so that the categories correspond more precisely to CPIs used in deflation
  - Could make real PCE more accurate. (Importance?)
  - Give example in article

- Be careful of seasonality in prices
  - CPI seasonal adjustment is less careful at the most disaggregated level
  - Macro Advisers results