President's Perspective

In 1748, when we were an agrarian society and the crown the colonies' currency, Benjamin Franklin said, "He that kills a breeding sow destroys all her offspring to the thousandth generation. He that murders a crown"—today, a dollar—"destroys all that it might have produced."

Franklin's words offer a warning against debasing our currency's value, and I carry them in my pocket as a reminder of my obligation as an inflation fighter.

Of course, we can't control inflation unless we can measure it. The Dallas Fed has developed a tool to gauge the direction and speed of approaching inflationary winds and given it the somewhat unwieldy name of Trimmed-Mean PCE Deflator.

Developed last year by senior economist Jim Dolmas, this measure takes the Commerce Department's monthly Personal Consumption Expenditures deflator and strips away both the highest and lowest price increases for categories of goods and services. The idea is to focus on underlying inflationary pressures, while avoiding temporary volatility that might lead to faulty conclusions on the economy.

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The latest trimmed-mean readings—which excluded a big price increase for owner-occupied housing and big price declines for trucks, used cars and airline tickets—suggest a base inflation rate of 2.5 percent for the past 12 months.

The trimmed mean provides a useful refinement to the PCE deflator, which since 2000 has been the Federal Reserve's main guide for tracking inflationary trends. To reveal core inflation, analysts usually set aside food and energy prices, which are often volatile due to weather and other transient conditions. The PCE deflator, excluding food and energy, was up 2.1 percent in the past year.

The Trimmed-Mean PCE Deflator has become a key component of my economic tool kit. Each month, we post updated trimmed-mean data on the Dallas Fed's web site. I encourage you to join me in using this yardstick to measure inflation.

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