

The True CPI Just Jumped

I recently voiced fear of coming inflation. Yet on reflection, high inflation is already here. While measured inflation remains low, I've been arguing for years that CPI bias heavily distorts official measures. My point has always been that official measures of inflation are too high, because official measures fail to properly account for rising quality and variety of goods. In the last month, however, all this has suddenly reversed. Due to the coronavirus, official measures of inflation are now much too low.

How so? Most obviously, the *variety* of available goods has sharply fallen. Roughly half the products I normally buy are no longer on the shelves. I'm hardly starving, but I've had to fill my shopping basket with a lot of goods I would not buy under ordinary conditions. After many years of claiming that product variety is a great unmeasured gift, consistently compels me to admit that the *loss* of product variety is a great unmeasured shock in the other direction.

Variety aside, the quality of goods has also plummeted. Most notably, shopping convenience is way down. Back in February, I could pop into any store, swiftly pinpoint what I wanted, and buy as much as I liked without worrying about infection. No longer. Today's best-case scenario is that I pay the same amount as last month for a greatly degraded shopping experience. The actual physical quality of the goods has fallen too; I now have to settle for half-crushed bread, worse cuts of salmon, and so on.

Can't I solve some of these problems by switching to delivery? Yes, but that highlights yet another source of hidden inflation: *outlet bias*. During the last few decades, consumers have heavily switched to innovative stores like Costco that provide high-quality products for low prices. Official CPI measures have failed to properly account for this transformation. In the last few weeks, however, we've had outlet bias in reverse. Stores like Costco have been so congested (and rationed!) that many people have switched over to higher-cost, lower-quality stores they would normally avoid.

This includes delivery services like Instacart. While I'm grateful they're in business, Wegmans food delivered via Instacart easily costs 30% more than I'd normally pay. The list prices are higher, there's a delivery fee, and don't forget the tip. True, I don't have to go to the store, but back in the good old days of February, I *liked* going to the store. (I enjoy getting out on weekend mornings, and waiting around the house for deliveries is a drag). Upshot: I really am paying 30% more to shop at an outlet that is inferior to what used to be available. And I'm hardly alone.

The optimist in me says that this drastic sign-flip for CPI bias is temporary. Yet since supply chains - especially international chains - have been seriously disrupted, much of the

degradation in the quality and variety of goods that I've described will soon be replaced with other degradations. You can hardly wax rhapsodic about the cheap and handy products China sells us without lamenting the many months we will have to go without.

I am well-aware that gasoline and a few other goods have suddenly gotten cheaper. Yet overall, we have endured a rude shock. In normal times, CPI bias means that we fail to appreciate our high and rising prosperity. During this crisis, CPI bias means that we fail to appreciate how much we've lost.

Here's to better times!