CPI vs PCE: which gauge fits?

Choose by purpose. One household can use different indexes for policy, benefit income, and future expenses.

POLICY

Interpreting Federal Reserve policy

The longer-run 2% objective uses total PCE inflation. Core PCE helps interpret underlying trends; it is not the target definition.

Use PCE for the policy question.

RULE

Calculating a payment governed by a rule

Follow the exact index, reference period, and formula named in the law, benefit rule, or contract. Social Security COLA uses CPI-W. A lease or pension may specify another series.

Use the specified series and formula.

PLAN

Estimating your own future expenses

State a base assumption and a higher-inflation stress rate. Compare both with major expenses such as housing and health care. Neither CPI nor PCE perfectly matches your budget.

Use an explicit range and your spending mix.

These are independent routes, not a first-match ranking. A longer horizon does not automatically make PCE the right personal deflator. A named income-adjustment index does not forecast your expenses.

Sources: Federal Reserve, Inflation (PCE); BLS, Chained CPI questions and answers; Social Security Administration, Cost-of-Living Adjustment. This reference supports the full article at thefinsense.io/cpi-vs-pce/.

Federal Reserve BLS CPI definitions SSA COLA