Home > Insights > Market views

# Market View
# How inflation is tracked and why it matters for investors

from Jeremy Sterngold Deputy Chief Investment Officer

Date 10 October 2025

Reading time 5 minutes

## At a glance

- US government shutdown stalls key economic data releases
- Major inflation indicators offer insights into how price changes are tracked and how they influence policy
- Understanding how inflation is measured helps inform investment decisions

The US government shutdown began over a week ago and is showing no signs of a breakthrough. Although President Donald Trump mentioned the possibility of negotiating with Democrats, he pulled back several hours later, insisting that Democrats must end the standoff before he would be willing to make a deal on health care.

As a result, many federal agencies have halted or delayed the release of official economic and statistical reports, including retail sales, employment data, and GDP estimates. This comes as market participants are already questioning the reliability of some of these statistics, following the Bureau of Labor Statistics' recent downward revision of nearly 1 million jobs for the year ending March 2025.

With policymakers and investors effectively "flying blind", we thought it best to take a step back and discuss a topic that has been at the forefront of investors' minds for some time – inflation.

# What is inflation?

As wealth managers and custodians of client capital, we spend a substantial amount of time tracking and analysing inflation data. Inflation – the general increase in prices over time – means that goods and services such as groceries, rent and transportation tend to cost more as time goes on. This gradual rise in prices affects everyone's cost of living and purchasing power. Put simply, when inflation is high, your money doesn't go as far as it used to.

The reason we spend so much time tracking inflation is straightforward: not only does it directly affects the real value of client portfolios, but it is also a key component towards setting interest rates. High inflation erodes purchasing power and impacts the returns needed to meet client objectives. Inflation is most widely used central bank benchmark and therefore influences monetary policy and asset prices. This makes it a critical factor in asset allocation, risk management, and long-term wealth preservation.

There are multiple ways to track inflation, and we closely study all of the various data points to understand how price changes impact global markets – and by extension, our clients' portfolios. But why are there so many ways to measure inflation?

Prices change at different rates for different products, services and parts of the economy, hence the existence of various data points and indexes that focus on different baskets of goods, services or stages in the production process. These data points are designed for a variety of different users, such as the government, central banks or businesses. Taken together, all these data points help capture a fuller, more accurate picture of how prices are changing overall.

This week, we take a closer look at key inflation points and share brief explanations for each.

## 1. CPI- Consumer Price Index- headline vs core

One of the more common ways to track inflation is the CPI, which tracks the prices across numerous everyday goods and services – such as food, housing, clothing and transport – over time. The composition of the CPI is updated each year to reflect changing consumer preferences and spending habits. For example, in recent years, the UK updated the basket to include more streaming services (Netflix, Spotify, etc.) to better capture modern consumption patterns. By comparing how much this basket costs now versus how much it cost in the past, CPI helps show how the cost of living is changing for ordinary people. CPI is further split into headline and core:

- Headline CPI measures inflation based on the prices of all goods and services, including food and energy, which can fluctuate substantially due to various factors, such as extreme weather or global events.
- Core CPI removes food and energy from the calculation. This is meant to provide a more accurate picture of longer-term price trends.

## 2. PPI – Producer Price Index

The PPI measures the average change over time in what domestic producers charge for their goods and services. The PPI covers thousands of specific products and service categories across nearly every major sector of the economy, providing a detailed picture of wholesale price trends. It tracks the sellers' price changes, making it an important indicator of inflation at the wholesale level. Businesses, policymakers and investors use PPI to assess cost pressures in the supply chain, anticipate potential consumer price trends and make informed decisions on pricing, budgeting and investment strategies.

## 3. PCE Price Index – Personal Consumption Expenditures Price Index

Compiled by the US Bureau of Economic Analysis, the PCE Price Index measures the average change in prices for goods and services consumed by households in the US. It tracks a wide range of spending, from food, housing, healthcare and other household items. Given it tracks a broader range of expenditures compared to the CPI – such as healthcare costs paid on behalf of consumers by employers and the government – it provides a more comprehensive picture of consumers' spending behaviour and therefore is the Federal Reserve (Fed)'s preferred method for measuring inflation.

## 4. RPI – Retail Price Index

The RPI Index is a measure of inflation in the UK, tracking the change in the cost of a fixed basket of goods and services purchased by households over time. It has been used since 1947 and is a longstanding benchmark for measuring price changes. Unlike some other inflation trackers, the RPI includes mortgage interest payments and council tax, making it useful for understanding the impact of inflation on household budgets in the UK. However, due to methodological shortcomings, RPI is being phased out in favour of CPIH – a newer measure that improves accuracy and includes owner-occupiers' housing costs.

## 5. HICP – Harmonised Index of Consumer Prices

The HICP Index is a standard measured of inflation across European Union countries, tracking changes in the prices of a consistent basket of goods and services consumed by households. This is a useful measure for countries in the EU because it allows for direct comparison of inflation rates across EU member states with its harmonised methodology. The European Central Bank (ECB) uses HICP as the primary inflation gauge to set monetary policy and assess price stability in the Euro area.

## Staying prepared amid inflation uncertainty

Understanding inflation and the different ways it is measured is essential for managing and preserving wealth over time. Each inflation indicator provides unique insights and helps us build a comprehensive picture of global price trends, enabling us to make well-informed decisions for your portfolio. By closely tracking these data points, we remain agile and proactive in protecting your purchasing power and achieving your long-term financial goals as the economic landscape evolves.

*This communication is provided for information purposes only. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. The subject of the communication is not a regulated investment. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on*

*which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document.*

*LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

## About the author

**Jeremy Sterngold**
Deputy Chief Investment Officer

Jeremy is our Deputy Chief Investment Officer. He sits on the Investment Committee and chairs the Fixed Income Committee. His coverage encompasses both rate and credit products and works closely with the funds team.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority (FCA). Registered in England and Wales: OC329392. Registered office: Fourteen Cornhill, London, EC3V 3NR.