Welcome to Money for the Rest of Us. This is a personal finance show on money, how it works, how to invest it, and how to live without worrying about it. I'm your host, David Stein.

Today is episode 560. It's titled, "Is Inflation Manipulated? And if So, What Do We Do About It?"

A Change to the Inflation Gauge

I recently got an email from one of our Plus Members, and he wanted to know whether the upcoming revamp of the inflation gauge by the Bureau of Economic Analysis - is that legit, or is it a political move to massage the numbers? Now, I hadn't heard of the change. Apparently, it was announced last month, in June 2026, just a couple of paragraphs. And they talk about improvements to the Personal Consumption Expenditure Index, the PCE. Now, that's different than the Consumer Price Index.

The Consumer Price Index, it's a cost of living index. We'll get to more of that. But the Personal Consumption Expenditure is what is used to take GDP, gross domestic product, the monetary value of what is produced, and to deflate it, the nominal numbers, into a real number. And they're making a change. The BEA announced the changes, what they call improvements to their methodology... And there wasn't a whole lot of information about it. They talked about changing how they measured portfolio management services. If you pay an asset manager, they typically have used revenue of asset managers.

So if you're paying 1% of your portfolio value to an asset manager, a financial advisor, then if the stock market goes up, you're paying them more money. They're not providing more services. It's a price increase because your assets went up.

I used to be an asset manager. We loved when the market went up, because we made more money and we didn't have to do more work. We didn't have to go to more meetings because a client had more money... And so this is one of the changes.

The Miran Connection

Now, here's what's curious. Back in December, Federal Reserve Governor Stephen Miran, appointed by President Trump - he used to be Trump's economic advisor - he pointed out what he didn't like about how portfolio management services were incorporated into the personal consumption expenditure, because it had added almost 0.2%, a little bit more, to the PCE, because the stock market had gone up over that year. This was in December 2025. He saw that as a problem, which is fine; it's his opinion.

But lo and behold, six months later the BEA is changing the methodology... And here's their description of the change. I don't even know what it means. It says that BEA will improve the deflation methodology for consumer spending on portfolio management and investment advice services to better reflect the timing and quantity of services consumed. Fair enough. They're shifting to a CES - consumer employment statistic - quantity extrapolator from the portfolio management and investment advisory industry. So some type of quantity extrapolator.

Now, there is no other details on this. They say they're going to provide more details this fall, but the numbers are already being incorporated. Now, they're also changing some things regarding computers and legal services and how that's measured, which is fine. But here's some of the criticisms from

economists. One is the lack of transparency. And two, it turned out the changes only reflect some areas where inflation has been pretty high, because the stock market went up in the case of asset management services.

But there are other areas within the PCE and the consumer price index where there's some measurement challenges, including those that perhaps artificially lower inflation. Those were untouched.

And so given the lack of information and the fact that the changes impact areas that have had higher inflation, and one of the sort of niche changes they've made in terms of portfolio management services was a specific area that Stephen Miran criticized in a speech he gave last December, it's a little suspicious.

Is Inflation Manipulated?

And so yes, is inflation manipulated? Well, of course it is, because it's so highly subjective. Within the consumer price index there are over 200 categories, thousands of items. There are individuals, statisticians that work for the government that are going to the grocery store and they're choosing which item they want to use to measure inflation... It's incredibly subjective.

We like to think it's not manipulated in the sense that the government is trying to keep inflation lower so that the government looks better, so people aren't as upset, so that the cost of living adjustments for social security are lower, so that the interest or the principal adjustment for treasury inflation securities is lower, TIPS are lower... I mean, there is some pressure to understate inflation. Do I think it's massively manipulated? No. Do I think that changes are made to make inflation lower?

I do. Now, that's not new. Back in 1996 there was an advisory commission to the Senate Finance Committee to study the consumer price index. And in December 1996 they released their final report. And at the time, CPI was a pretty straightforward measure. It was a fixed basket of securities consisting of goods and services. The basket didn't change very much, and it just measured what did that basket cost, that representative basket of a household in the U.S. - what did it cost, the changes from month to month? And that was inflation.

Measurement Biases

Now, in the report they pointed out some problems with this methodology. One, a substitution bias. When prices of things go up, we as consumers will often substitute. I'm eating fewer berries now than I used to, because the prices are much higher, partially due to tariffs on berries, since the bulk of berries, at least that I consume, part of the year they come from Mexico. Now we're in the season where they're coming from the U.S. But I'm eating cherries now, because cherries are in season. My fruit costs are less in my personal basket, because I've made a substitution. And we all do that.

And so the idea is, well, the consumer price index is a cost of living index. They sort of changed it. No longer is it just -- it's not measuring changes in prices, it's measuring changes in the cost of living for a typical household. And so substitutions occur.

Another bias is what's called outlet bias. When prices go up, people start shopping at lower price things. Instead of going to Whole Foods, maybe they go to Walmart, maybe they go to Aldi, because prices are lower. That wasn't captured previously in the consumer price index. Now it is.

There's also the quality change bias. Things get better over time. Computers get more powerful. Phones get better. We'll turn to the phone here in a minute. That's good for us, but if the prices of devices aren't adjusted for improvement and quality, then it looks like inflation is higher than it otherwise is. Maybe the price went up, but you're getting a better product now. There's judgment regarding that.

Maybe it's a bias, but I prefer inflation to measure a cost of living rather than pure prices, because the other bias is new product bias. Things change over time. So it isn't just substitutions because something went up in price, there are substitutions because our lifestyle has changed. We stream video rather than pay cable, many of us. We don't have landlines anymore. I haven't had a landline for decades now. We use a mobile phone. So all of these things change, and that impacts that basket of goods.

So that came out in 1996. It was a major change in methodology and there was criticism, "Well, they're doing this so that social security increases aren't as high." Well, yeah, they are, because people were substituting things, and there were quality improvements, and they would shop at cheaper outlets. And that should be reflected, I think, in inflation.

When there is a methodology change, I think we should get lots of detail regarding it, so that we're not sitting back and say "Well, are they making that change just to keep inflation lower?" Because if they sort of cherry picked the items that they're going to adjust, such as portfolio management fees... I'll wait to see what the details are, but to me, it made sense to use asset advisory firm revenue changes for the inflation portfolio management, because we were paying more for it. It was a price increase, because - yeah, the stock market went up.

What Causes Inflation

So let's step back and think about what causes inflation. We're going to make it personal. When you think about how you navigate your personal finances, what matters is how much money do you have? If you're going to go buy something, how much money do you have? Second, how fast do you want to spend it? Do you get paid and you spend it all at the beginning of the month? Or do you spread it out? Are you saving some? That's something we navigate.

And then the third thing is, what do we want to buy, and how badly do we want it? How much are we willing to pay for it? How scarce is it? We all make those - they're making those decisions all the time. Should we buy a new phone? Well, the latest and greatest - how much more is it? Maybe we should buy the new ultra foldable iPhone when it comes out... It's going to be $2,500, apparently. Or maybe we hold off. Inflation measures the same thing. What causes it?

How much money is there, and how fast is that money supply increasing? How does the money supply increase? Well, primarily through bank lending, as banks issue loans that create new money.

The money supply also increases through what some would call central bank manipulation, quantitative easing. They buy bonds in the marketplace. They create money. It ends up as additional reserves on bank balance sheets. But effectively, as a federal government runs a budget deficit, if a central bank is doing QE, that leads to greater money in the economy, what's called the money supply; how much cash is out there, how much do people have in their checking and savings accounts and money market mutual funds. Liquid cash that could be spent. It's caused by bank lending, it's caused by QE, and it leads to more money in the economy.

Now, the other issue is - well, yeah, there's more money and there's been a 40% increase in the money supply since the pandemic. That's why we have inflation, or a primary reason, way more money. Now, it didn't all go into consumer prices. It went into houses, it went into watches, it went into stocks... Asset price inflation. But the other thing then was how quickly is money being spent? What is the demand, the intensity of purchasing? Is more money going into savings, or are people actually buying goods and services and putting price pressures? And then the third thing is how much is there to buy? Are there capacity constraints?

In our monthly investment strategy report that we just released - and if you want a free copy of that, you can just email us at report at moneyfortherestofus.com. But I talk a lot about inflation and how the AI infrastructure build-out is leading to price pressures. The Federal Reserve admits that in the recent minutes that they released, that there is inflationary pressure. There is demand to buy things related to building out data centers that is impacting inflation.

And there's a desire by these hyperscalers to spend. They want to spend it quickly, because the demand for compute is greater than the supply. But underlying it, how much money is there, and how fast is it increasing? And that's why there's quotes like "Inflation is a monetary phenomenon. It's a factor of how much money it is." But it isn't just that. It's how quickly is it being spent, and then how much is there to buy.

And if there are capacity constraints, like we saw following the pandemic, coupled with a great deal more money and people willing to spend it, that's why we had higher levels of inflation. And we still do. The annual U.S. inflation rate, the consumer price index is still over 3%. There was a new inflation report released this morning, I haven't studied it yet, but it still shows elevated inflation; down a little bit because gasoline prices fell. But that's what causes inflation.

Outpacing Inflation With Income

Now, we had a period of high inflation back in the late '70s and early '80s. And in the early '80s I was in high school, and I admit, I was somewhat oblivious to inflation. I knew that gas prices had gone up, and I was just starting to drive, and we didn't have much money. And so we would buy gas in $10, or $20... That's just what you do. You'd go in, "$20, please", and you'd go pay cash, and then you would fill it up. I would also occasionally go to McDonald's, order a Big Mac.

I knew prices were going up, but I didn't spend a whole lot of money in high school. I did not have an inflation problem. I had an income problem. I didn't make enough income. But then as I got older, I got into the investment advisory business, I was improving my skills, I got an MBA, and I was working for an

advisory firm, and I became a partner, my income kept going up, more than inflation. And as a result, I didn't pay any attention to what I paid for gasoline or other things.

In some regards, I still don't pay that much attention, because when you have enough income, every single purchase doesn't make as much difference than when you have lower income. And so one way to outpace inflation is to generate more income. And we do that by improving our skills.

Now, we know what causes inflation, but what's important to recognize, to just completely change your mindset regarding inflation, is inflation is currency debasement. Each dollar buys less of goods and services. It buys fewer goods and services, each dollar. That's why wealth is not money. Wealth is abundance. It's our entire reservoir of assets. It's our skills. It's our community. It's our connections. Yeah, it includes our savings.

If a currency is being debased, which means that each dollar is worth less, it also means that our time and our skills are worth more. That's why wages keep up with inflation. And if your skills are improving, your wages and salary outpaces inflation, often meaningfully.

Things Get Cheaper and Better

One of the things that's going on with the economy, we talk about these quality improvements... Over time, things get better. If the money supply didn't increase, most things are getting cheaper because of innovation, of technology; companies are just better at making it. They can make it cheaper, and what we actually get is just a better product. Let's take an example, the iPhone. My son and I, when the first iPhone came out, we went, drove down from Idaho to Utah, we waited in line for six hours, and I got the first iPhone.

And then I would upgrade it every year or two, because it was a better product. And I was making money, and I was like "Wow, I'll just get a new phone. That's kind of cool." But then the last iPhone I bought was in 2020. It's the iPhone 12 Pro. It's the iPhone I'm using to record this podcast. And I haven't upgraded it because it's good enough. The technology is great. The camera works. Everything's fine. I like the fact it's kind of retro looking... And so it's been six years.

The longer I wait, I thought about "Maybe I'll get this iPhone Ultra. Probably not. I'll probably wait a year or two." Once you factor in phone improvements, the phone's getting cheaper. And the longer you wait, the cheaper it is.

Now, another example is lighting. I wrote about this in our Insider's Guide email last month... The amount of time it takes to purchase lighting for a home is so much cheaper than it was a hundred years ago, 150 years ago, when they used candles. The candles didn't last very long. So if you wanted the equivalent of 60 watt light bulb of candles, you'd have to burn 60 at a time. And it took thousands of hours to do that. But as the incandescent bulb improved, and now LED bulbs, it's way, way cheaper.

It takes us minutes to earn enough to light your house, to light a bedroom. And what do we do as things get cheaper? Well, many of us, including me, we just buy more of them. Think about how many light bulbs you have in your house. The average home has 40 to 50 light bulbs. We light up everything,

because LED bulbs are so cheap, and they last so much longer. Same for an automobile. Gasoline over time - right now it's expensive, but on a real basis it hasn't really changed much over the decades.

It does kind of fluctuate. But the efficiency of automobiles has increased, the efficiency of discovering oil, there's horizontal drilling, processing oil - all of it is way less expensive, combined with more efficient vehicles. And so what have consumers done, at least in the US? They've bought more powerful vehicles. The horsepower is tremendously faster. The ability to go zero to 60, so much faster. The vehicles are heavier because we bought more as prices have fallen.

Your Personal Inflation Rate

The way to think about inflation - yeah, it's manipulated, and we should do our best to make sure we understand how that manipulation could be occurring, and what's so egregious that we should be writing our representatives... But what we care about is our personal inflation rate. We're not the representative basket of goods and services that make up the PCE or the consumer price index. What we buy is different. I've thought about this a lot recently, because we're getting ready to launch our next live portfolio cohort...

This is for those that are about to retire in the next year or newly retired; you can get all the information you want on that at moneyfortherestofus.com/cohort. But we sent out an email to the wait list... I was talking about the 4% spending rule in retirement. And in retirement, that rule is you spend 4% your first year of retirement, and then you adjust it for the rate of inflation. And so inflation is pretty important. But in this case, it's your personal rate of inflation.

Bill Bengen, the financial advisor that came up with the rule, he had a quote that I included in the email that it said that we often ignore the inflationary impact. But you think about that - if your personal inflation rate's going up 4% to 5% a year, you do that over 10 years, you're spending a lot greater percentage of your portfolio in retirement, and so that personal inflation rate matters. And so that's why substitutions - if we can find something cheaper, if we can grow our income perhaps with part-time if we're retired.

But more importantly, we can wait for things, because over time things are getting cheaper, because they're getting better.

Doing It Yourself

Another way we can do that is we can do things ourselves. In Tucson we have a tankless water heater. I paid $350 to have somebody come and descale the water heater by running this mixture of white vinegar through the hot water heater. And he was standing around while this thing ran for 45 minutes, and now we're at the cabin for the summer, we have a tankless water heater. I've never descaled it, and I thought, "I should do that." Looked around, see if I could find somebody...

It's like, "I can't get anybody up here. Too far away." So I thought, "Well, I could do it. I could figure it out on YouTube. I could ask Claude." I already had a pump... I did it. And now I'm satisfied. Like, I did this. Wasn't that hard. I got the satisfaction of that. And it saved me money.

So the fact that -- yes, vinegar inflation, I guess, would impact me, but the services to have a plumber in this case, I've saved, because my skills increased now. My reservoir of capital, which includes some additional plumbing scales... I'm wealthier now because I now have this additional skill, and I saved money.

So if we can take money, in some regards -- when we can, we try to take it out of the equation. We don't want to get so hung up with inflation and money, because it's such a narrow aspect of our life. The money will come as we improve our skills, as we improve our capability. And we save money, because it's being debased over time, but the goods and services are improving. They're getting better, just because that's how the economy works. There is constant innovation and improvement, and we can ride that curve and benefit from it.

Are the U.S. Numbers Made Up?

No doubt there are countries where inflation has been manipulated by politicians; like, truly just numbers made up. That's not what's going on in the US. The numbers are fabricated. There are so many underlying assumptions. And yeah, you could make a case for why portfolio management, we can adjust the methodology... A third of inflation in terms of the weighting is homes, and a big portion of that I've talked about is what homeowners think they could rent their home for, owner's equivalent rent...

Maybe I'm an optimist. I like to think that the US inflation numbers are just not blatantly made up; that the statisticians at the BEA care about their work, about doing the best job. There are independent economists that are also monitoring it... I don't spend a whole lot of time worrying about inflation, because what I control is my income, and I control my mindset, because the currency is being debased. My time is not being debased. My time is worth more. My skills are improving. I can continue to improve those skills.

I can delay purchasing things and wait for them to get cheaper and better. I have more control, and so I don't have to sit here and worry about inflation. Now, some people do. If you don't own your own home, or if you don't have the means to own your own home, then you're subject to inflationary rent increases. And I've talked about that. Now, if you have a mortgage, the mortgage on an inflation-adjusted basis is getting less, because you're earning more money, you're paying it with a debased currency, so debt can be helpful in that regard...

But don't get so hung up on inflation. Figure out a way that you can outsmart inflation by improving your skills, and widening, deepening your capital reservoir. Investing in a way that outpaces inflation. There's a whole investment guide on our website on ways to invest to outpace inflation. We talk a lot about how to do that. But to me, the most important thing is changing our mindset.

Understand what causes inflation, which we have talked about. How much money is there? How fast is it being created? How quickly is it being spent? And how much is there to buy? There's way, way more stuff to buy than you get prices falling. If the supply of things is growing faster than the money supply, that deflates it. But be aware of how it works and then take back the power and control by changing your mindset, recognizing every tick of inflation means your time is worth more when measured in that

fiat currency that's being debased, but the goods and services are getting better, and we're benefiting from that.

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