Beyond the CPI: Behavioral and Financial Markers as Real-Time Inflation Indicators in a Politically Volatile Economy

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Abstract

Despite the return of reported inflation to "normal" levels in many developed economies, households continue to experience financial strain that is not fully reflected in headline Consumer Price Index (CPI) metrics. In 2025, inflation officially sits near 2.7% in the U.S., yet many consumers feel that their purchasing power is significantly diminished. This proposal seeks to explore novel behavioral and financial indicators - such as Buy Now Pay Later (BNPL) usage, second job uptake, and subscription cancellations - as alternative proxies to better capture inflation's real-time impact on households.

The central hypothesis is that these markers, which reflect behavioral adjustments in consumption and labor supply, offer a more responsive and accurate picture of cost-of-living pressures, particularly during periods of economic or political volatility. Using these indicators, we propose the construction of a new exploratory "Alternative Inflation Index" and compare its performance to traditional CPI measures during key shocks such as the COVID-19 pandemic and the current 2025 political cycle.

Motivation

Inflation measurement is a cornerstone of economic policymaking. However, traditional tools such as the CPI are limited in capturing rapid or nonlinear shifts in household wellbeing. The recent COVID-19 crisis and the inflationary aftermath exposed several weaknesses in traditional measures, as shown in recent NBER research (Ball et al., 2023). Today, a similar disconnect appears to be emerging: even as CPI stabilizes, behavioral and financial signals indicate ongoing household distress.

Moreover, the current U.S. economic landscape is marked by atypical policy shocks: drastic fiscal restructuring (tax cuts, reduced SNAP/Medicaid spending), energy policy reversals, labor market disruptions due to immigration crackdowns, and volatile asset markets. These shocks are likely to create inflationary pressures that may be masked or delayed in the CPI, creating urgency for more responsive tools.

Research Questions

1. Can behavioral and financial markers provide earlier, or more accurate detection of inflationary stress compared to the CPI?
2. How do these alternative markers respond to economic and political shocks, such as the COVID-19 pandemic or the policy changes of 2025?
3. Can we combine these indicators into a real-time composite index of perceived inflation?
4. What are the implications of these alternative measures for monetary policy, fiscal planning, and household financial behavior?

Proposed Data and Indicators

We propose to assemble and analyze a panel of real-time behavioral and financial indicators from 2019 to 2025, including:

Indicator	Rationale	Source
BNPL Usage	Proxy for cash flow strain and affordability	Credit Karma, BIS, consumer surveys
Second Job Uptake	Indicator of declining real wages	CPS, BLS, Google Trends
Credit Card Delinquencies	Signal of overextension	NY Fed, Equifax
Insurance Costs	Inflation channel through premiums	BLS CPI microdata, NYT, Fortune
Subscription Cancellations	Budget adjustment behavior	Kantar, Morning Brew, Deloitte
Shrinkflation Reports	Undetected price increases	BLS BTN, web-scraped data
Online Search Trends	Real-time perception of inflation	Google Trends, ECB studies

Methodology

1. **Descriptive Time-Series Analysis:**
   Compare individual markers to CPI and PCE inflation, both contemporaneously and with lags, including volatility clustering around key political/economic events (e.g., COVID-19 onset, 2025 energy bill).

2. **Dimensionality Reduction and Index Construction:**
   Use Principal Component Analysis (PCA) or factor models to create a composite "Behavioral Inflation Index."

3. **Forecasting and Predictive Analysis:**
   Assess whether the alternative index improves short-term inflation forecasts compared to benchmark models (e.g., ARIMA, VAR with CPI).

4. **Event Study Framework:**
   Analyze response of markers to major political and economic events (e.g., policy announcements, stimulus withdrawals).

Expected Contributions

- Introduce a novel framework for measuring real-time inflation through alternative behavioral data.

- Extend existing literature on inflation expectations and household adaptation (e.g., Coibion, Gorodnichenko, and Weber, 2021).

- Offer actionable insights for policymakers on early detection of cost-of-living crises.

- Provide empirical evidence on the decoupling of inflation measurement from lived economic realities in volatile periods.

Funding Source

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