Price stability occurs when the Rate Of Inflation is kept low and stable over an extended time period. The Price Level is the average of the Current Prices of Everything Sold in our Economy.

Understanding Price Stability

How does inflation affect your purchasing power?

Who gains and who loses from unanticipated inflation?

What inflation indices are used?

Inflation Indices are measures of the prices paid by consumers for goods and services.

CPI

Consumer Price Index from the U.S. Bureau of Labor Statistics

Average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Reflects expenditures of urban consumers only

Derived from household surveys

Bases a food basket of goods and services

PCE

Personal Consumer Expenditures Index from the U.S. Bureau of Economic Analysis

Captures the changes in the prices for the personal consumption component of gross domestic product.

The Federal Open Market Committee ties its explicit target rate of 2% inflation to the PCE index.

Core vs. Headline Inflation Rates

Excludes volatile prices of Food and Energy

Includes volatile prices of Food and Energy

Calculating the Inflation Rate

Inflation rate example

243 - 237 = 6

\[
\text{Inflation rate} = \frac{6}{237} \times 100 = 2.5\%
\]

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