Visual 1: Key Facts about CPI

Inflation is a rise in the general or average price level of all the goods and services produced in an economy. Inflation can be calculated many ways depending on which "market basket" of prices is measured. A market basket is a selected group of consumer goods and services whose prices are tracked for calculating a consumer price index and measuring the cost of living.

The most common measure of inflation is the Consumer Price Index (CPI).

- CPI is a measure of the monthly change in the price of goods and services paid by urban consumers, which makes up about 88 percent of the total population.
- CPI data are based on prices for food, clothing, shelter, and fuels; transportation fares; service fees (e.g., water and sewer service); sales taxes.
- Prices are collected monthly from about 4,000 housing units and approximately 26,000 retail establishments across 87 urban areas.
- The BLS releases CPI data monthly.

The Federal Reserve uses the PCE measure of inflation to check whether it is achieving its 2 percent inflation goal. PCE and CPI are very similar but CPI tends to report a slightly higher inflation rate over time.

The main differences between CPI and PCE arise from differences in their market baskets – what is included in the basket, how contents are weighted, and how consumer substitution is accounted for.

Knowing the index level of CPI and PCE has value but knowing how quickly prices are rising – the inflation rate – is even more important for assessing the health of an economy.