

Fed FAQ: What is Inflation?

Inflation is the change in the cost of the overall package of things that you buy in the course of your normal daily living: the cost of gasoline, the cost of your housing expenses, the cost of your medical care, the cost of a new motor vehicle, the cost of education that you may purchase. All of those things are included, and that's important to know, because inflation isn't tied to any one specific price change. So, if the price of gasoline goes up, that's something that each and every one of us experiences, but that in and of itself isn't inflation. Inflation instead, refers to the change in the overall cost of the market basket-- the complete market basket of everything that you purchase. My market basket-- the items that I purchase on a regular basis-- will be different from yours or from anybody else's. In order to deal with that fact, what we at the Federal Reserve pay closest attention to is a measure of price change that is determined according to the overall buying habits of American consumers all across the country.