

Inflation and the Consumer Price Index (CPI)

Inflation

- **Inflation is a general rise in the level of prices over time.** It is a sustained increase in the *price level* of goods and services. As a result, it takes more money to buy the same goods and services.
- **Inflation** means prices go up!



Deflation

- **Deflation is a general decline in the level of prices over time.** It is a sustained decrease in the *price level* of goods and services. As a result, it takes less money to buy the same goods and services.
- **Deflation means prices go down!**



Disinflation

- **Disinflation is a decrease in the rate of inflation.** Prices continue to rise over time but at a slower rate than before.
- **Disinflation means prices rise at a slower rate.**



History of United States Postage Rates

(Rate for first-class postage for letter –one ounce)

Date	Rate	Date	Rate
July 6, 1932	3 cents	April 3, 1988	25 cents
August 1, 1958	4 cents	February 3, 1991	29 cents
January 7, 1963	5 cents	January 1, 1995	32 cents
January 7, 1968	6 cents	January 10, 1999	33 cents
May 16, 1971	8 cents	January 7, 2001	34 cents
March 2, 1974	10 cents	June 30, 2002	37 cents
December 31, 1975	13 cents	January 8, 2006	39 cents
May 29, 1978	15 cents	May 14, 2007	41 cents
March 22, 1981	18 cents	May 12, 2008	42 cents
November 1, 1981	20 cents	May 11, 2009	44 cents
February 17, 1985	22 cents	January 22, 2012	45 cents

How Do We Measure Inflation?

- The most common instrument used to measure inflation is the **consumer price index**.
- The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
- The CPI measures changes on a monthly basis.

What Is Included In The CPI?

- Although it does not include all items, it includes a representative selection of consumer goods and services. Items are divided into more than 200 categories, arranged into 8 major groups, and consisting of more than 80,000 items.

The 8 Major Groups

Group

- Food and Beverages

Items

- Breakfast cereal
- Milk
- Coffee
- Chicken
- Wine
- Full-service meals
- Snacks



The 8 Major Groups

Group

- Housing



Items

- Rent of primary residence
- Owners' equivalent rent
- Fuel oil
- Bedroom furniture

The 8 Major Groups

Group

- Apparel

Items

- Men's shirts
- Women's sweaters
- Women's dresses
- Jewelry



The 8 Major Groups

Group

- Transportation

Items

- New vehicles
- Airline fares
- Gasoline
- Motor vehicle insurance



The 8 Major Groups

Group

- Medical care



Items

- Prescription drugs
- Medical supplies
- Eyeglasses
- Eye care
- Hospital services

The 8 Major Groups

Group

- Recreation

Items

- Televisions
- Toys
- Pets and pet products
- Sports equipment
- Admissions



The 8 Major Groups

Group

- Education and communication



Items

- College tuition
- Postage
- Telephone services
- Computer software
- Computer accessories

The 8 Major Groups

Group

- Other goods and services

Items

- Tobacco
- Smoking products
- Haircuts
- Manicures
- Funeral expenses



What Is Not Included In The CPI?

- **Taxes** (such as income and Social Security taxes) not directly associated with the purchase of consumer goods and services
- **Investment items**, such as stocks, bonds, real estate, and life insurance (these items relate to savings and not to day-to-day consumption expenses)

The Core CPI

The core CPI is the CPI excluding food and energy.

Food and energy prices tend to be more volatile and subject to more price variation- sharp and often short-term movements can obscure longer-term and underlying trends in other categories.