

How Is Inflation Measured?

To measure inflation, government agencies go through a few steps.



WHOSE PRICES OR WHAT KIND OF PRICES?

Government statisticians first decide whose, or what kind of, prices they want to measure. For example, should they collect the prices that consumers pay for everyday items or the prices that businesses pay for the items that they buy?



WHICH ITEMS WILL GO IN THE BASKET?

Government statisticians select a set of items (and their quantities), called a “basket.” The prices of the items in the basket are measured and tracked over time.

Collect Prices

Government workers collect prices on many items all over the country.

Create Index

Statisticians combine the quantities and prices of the items into an “index,” which is a type of average.

Calculate Rate of Inflation

Comparing the index at different points in time, say from one month to another or from one year to another, shows how much prices in the basket have changed over the period – that is, the inflation rate.

The rate of inflation is expressed as a percentage change, for example, 2% annual inflation.