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Weighing the Risks: Why Inflation Tips the Scales

Speech to the Atlanta Economics Club

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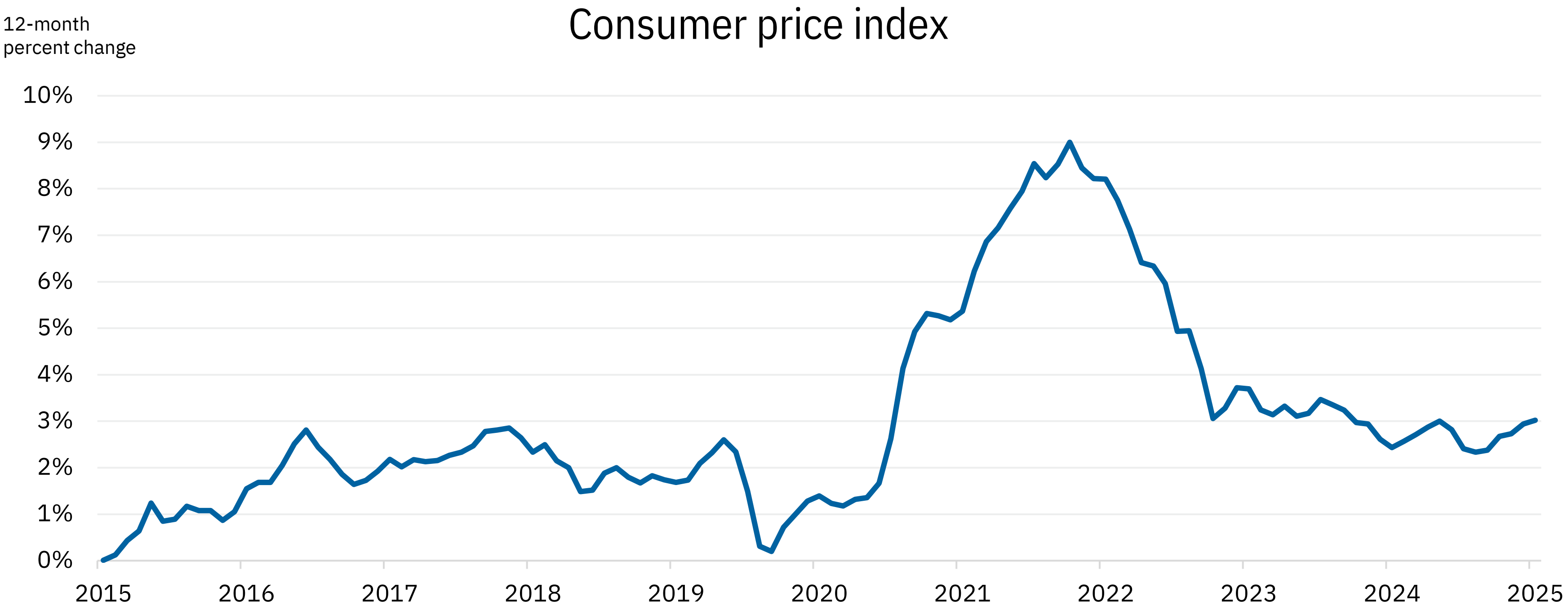
Note: The thoughts I share are my own and do not necessarily reflect the views of my colleagues at the Atlanta Fed, Federal Reserve System, or Federal Open Market Committee.

CPI inflation has remained above levels consistent with the longer run price stability target for almost five years.



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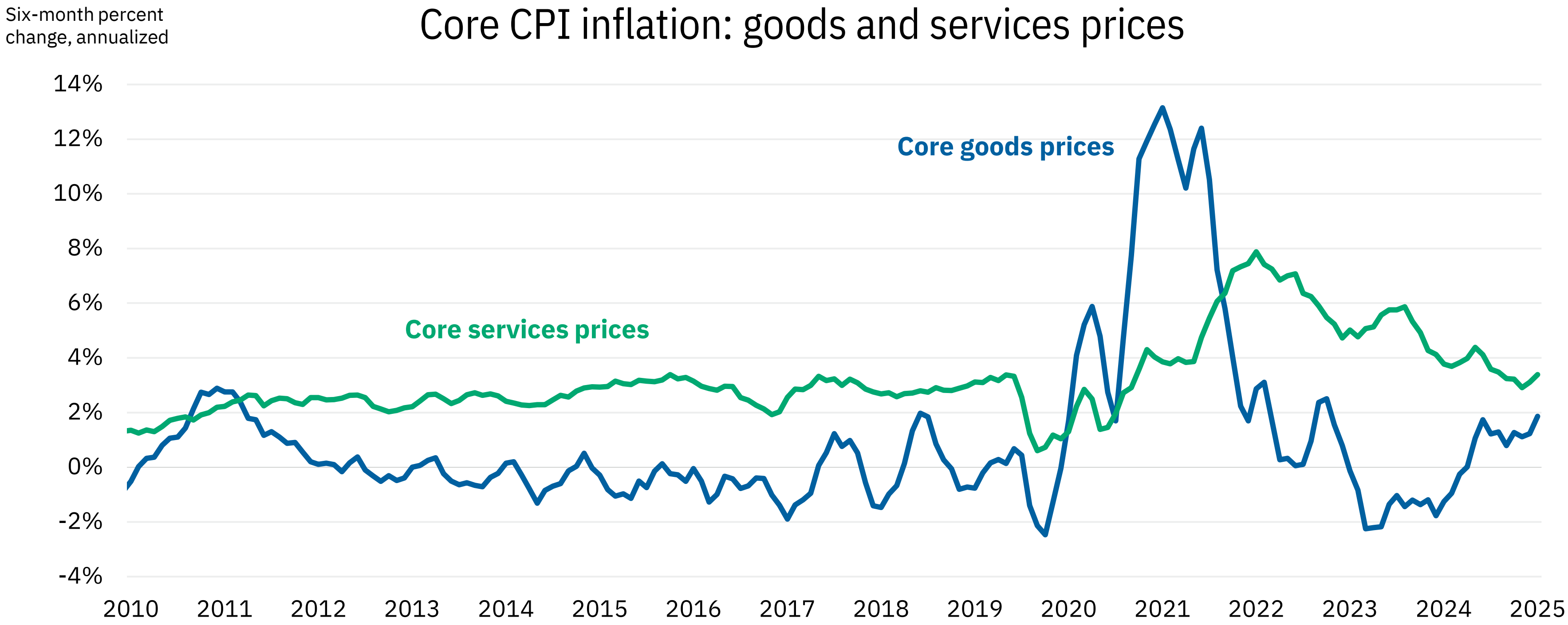
Source: US Bureau of Labor Statistics

Note: The Fed's preferred inflation measure, Personal Consumption Expenditures price index, is unavailable during the government shutdown.

Core goods prices climbed sharply as tariffs kicked in.



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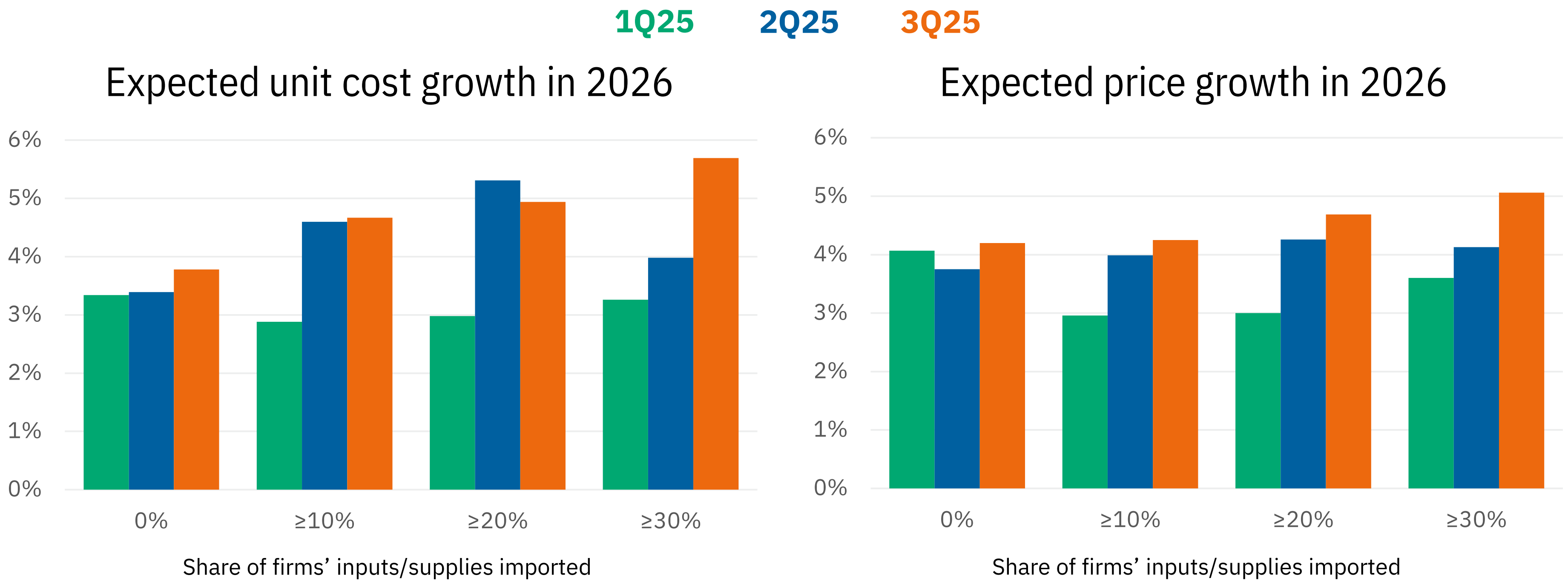
Source: US Bureau of Labor Statistics
Note: The Fed's preferred inflation measure, Personal Consumption Expenditures price index, is unavailable during the government shutdown.

Firms' expected unit cost and price growth for 2026 has increased.



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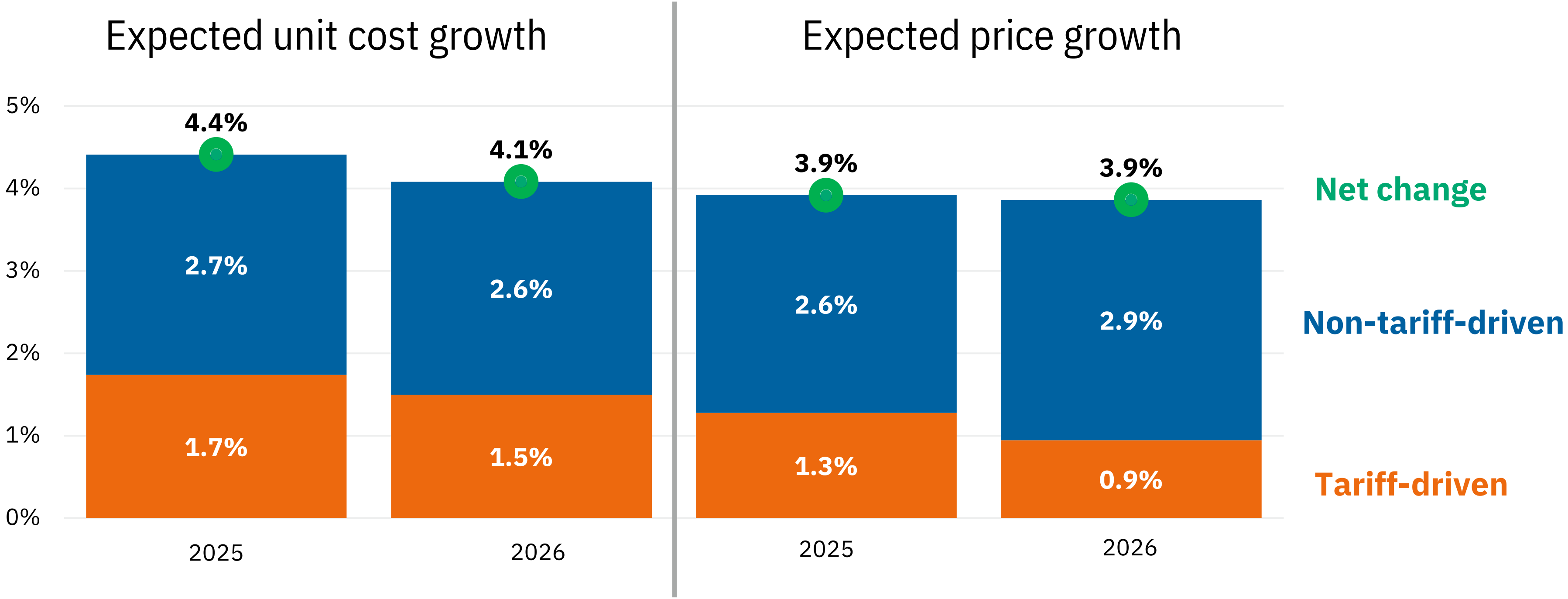
Source: The CFO Survey; Conditional on firms having responded with share of inputs/supplies sourced from abroad during first quarter or third quarter CFO Surveys and providing 2026-unit cost forecasts for a given quarter.

All firms expect price growth, not just those exposed to tariffs.



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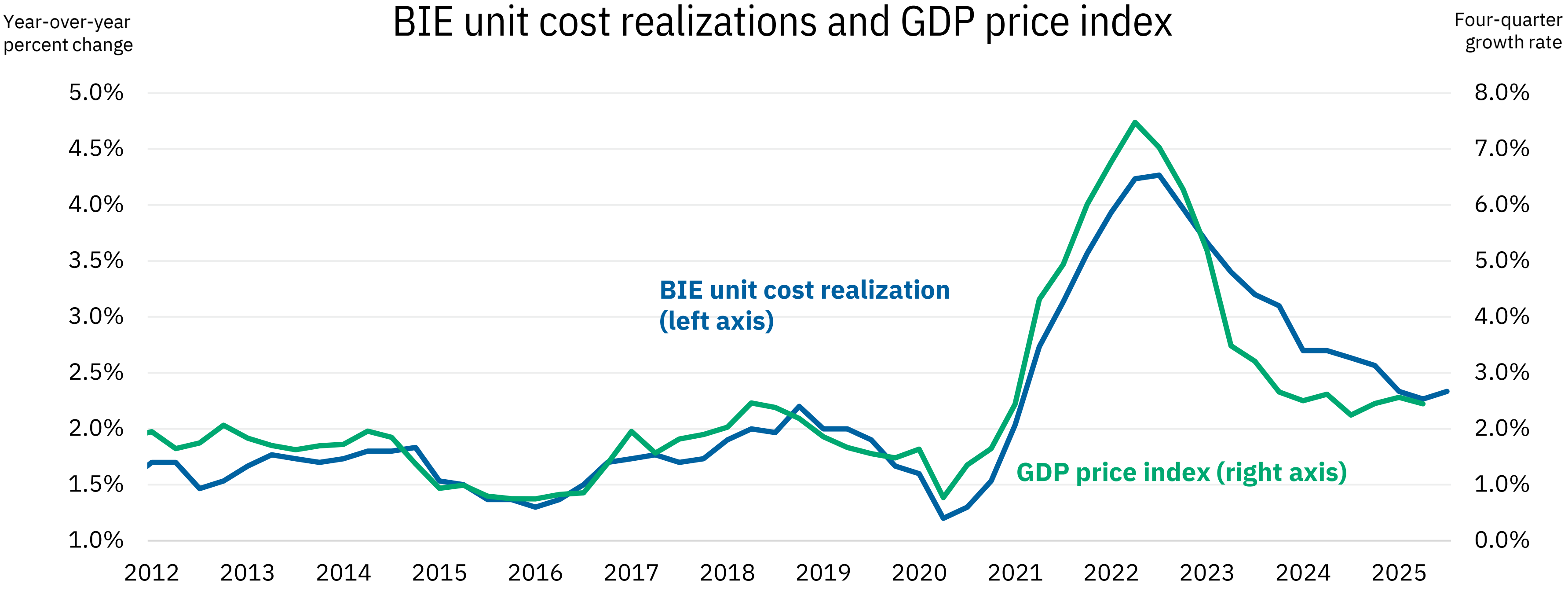
Source: The CFO Survey, 3Q 2025. Only includes responses that: i) sum to total unit cost/price growth forecasted for 2025 and 2026; or ii) sum to 100 percent, in which case responses were normalized to sum to total growth forecasted.

Business Inflation Expectations (BIE) survey unit cost realizations closely track aggregate price growth.



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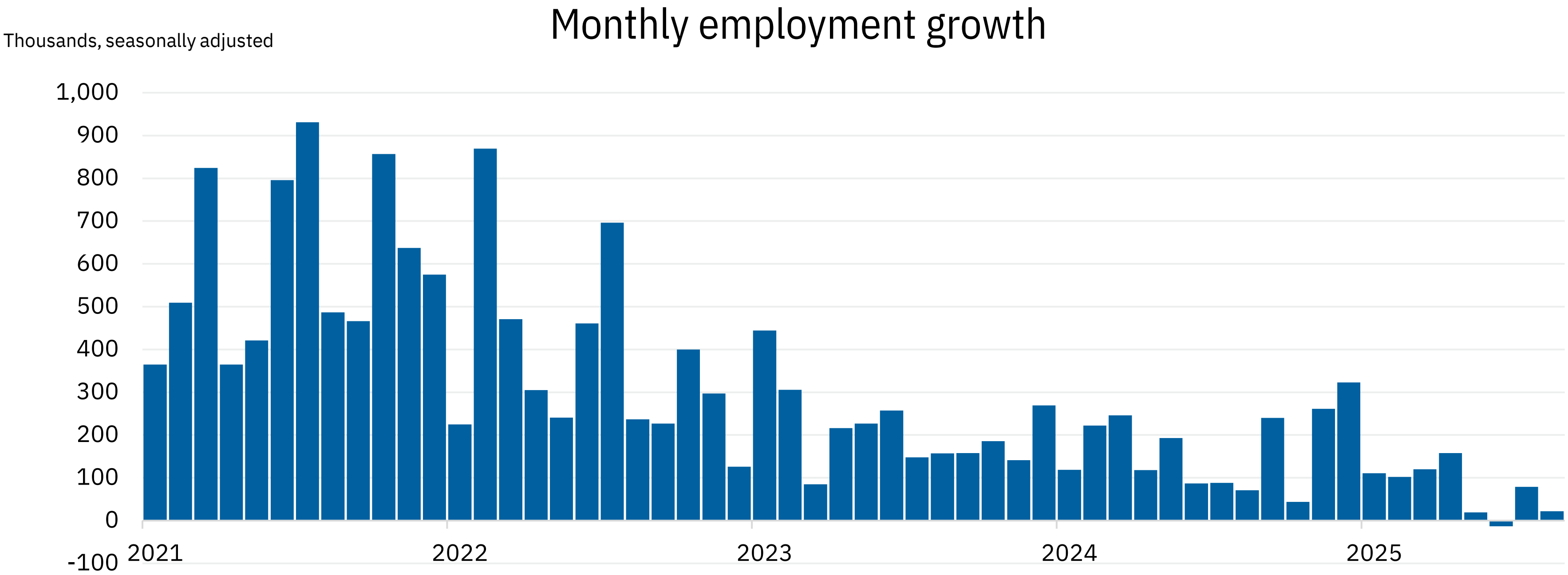
Sources: US Bureau of Economic Analysis, Atlanta Fed's Business Inflation Expectations survey

Monthly job creation has slowed.



Source: US Bureau of Labor Statistics

The unemployment rate hasn't risen much.

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Source: U.S. Bureau of Labor Statistics

Numerous inflation measures show elevated pricing pressure.

Measure of underlying inflation	12-month growth rate		Average difference Measure - Core PCE	Target based on 2% Core PCE	Stats for 1-mo growth rates (2009–2019)			
	Sep-24	Sep-25	2009–2019		Mean	Median	P25	P75
Core CPI	3.3	3.0	0.3	2.3	1.9	2.0	1.3	2.5
FRB Cleveland Median CPI	4.1	3.5	0.6	2.6	2.2	2.3	1.9	2.6
FRB Cleveland 16% Trimmed-Mean CPI	3.1	3.2	0.3	2.3	1.9	1.9	1.3	2.4
Atlanta Fed Sticky CPI	4.0	3.3	0.5	2.5	2.1	2.2	1.7	2.6
Core PCE	2.8	2.9	-	2.0	1.6	1.5	1.1	2.1
Market-Based Core PCE	2.5	2.6	-0.2	1.8	1.4	1.4	0.8	1.8
FRB Dallas Trimmed-Mean PCE	2.8	2.8	0.1	2.1	1.6	1.7	1.3	2.0
FRB San Francisco Cyclical Core PCE Inflation	4.4	3.8	0.7	2.7	2.2	2.4	2.0	2.8
Cyclically Sensitive Inflation (Stock and Watson (2019))	3.4	3.0	-0.1	1.9	1.5	1.5	0.9	2.1

Sources: US Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve Banks of Atlanta, Cleveland, Dallas, and San Francisco; Stock and Watson (2019); staff calculations

- Measure is within target range (-/+0.25 from target)
- Measure is between 0.25 and 0.50 ppt below target
- Measure is more than 0.50 ppt below target
- Measure is between 0.25 and 0.50 ppt above target
- Measure is more than 0.50 ppt above target

**CPI-based measures last updated on October 24, 2025, with data through September 2025. PCE-based measures last updated on September 26, 2025, with data through August 2025. Median, P25 and P75 statistics of FRB San Francisco Cyclical Core PCE Inflation are based on 12-month growth rates.*

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