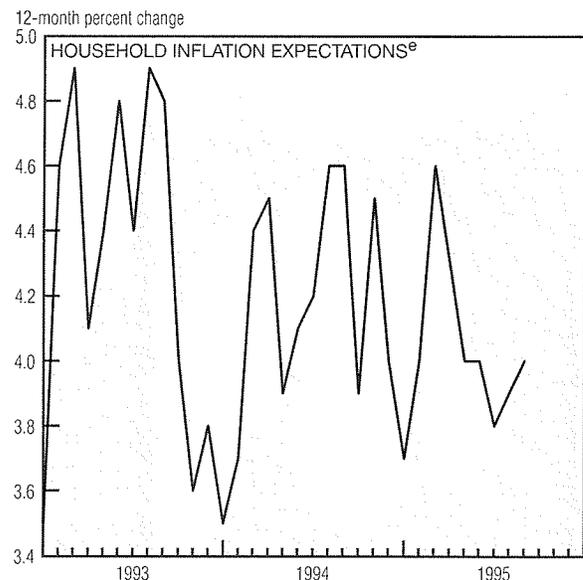
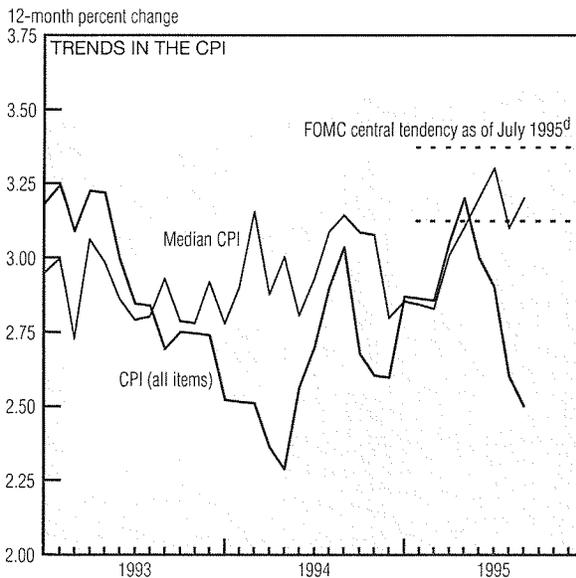
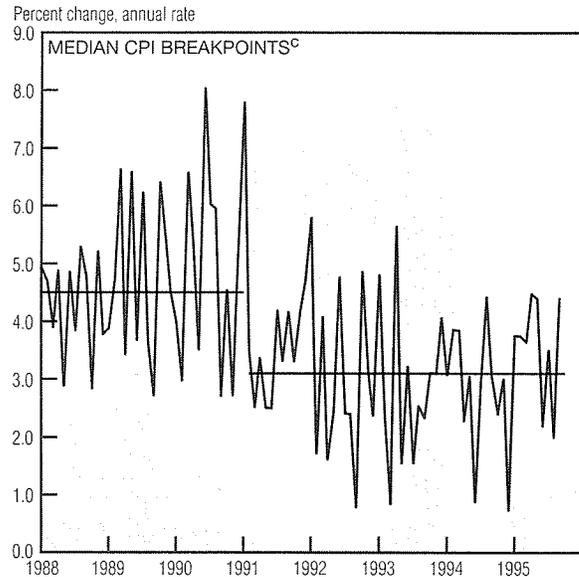


Inflation and Prices

September Price Statistics	Annualized percent change, last:			1994 average
	1 mo. 9 mo. 5 yr.			
	1 mo.	9 mo.	5 yr.	
Consumer Prices				
All items	1.6	2.8	2.9	2.6
Less food and energy	3.0	3.3	3.4	2.7
Median ^a	4.4	3.6	3.3	2.8
Producer Prices				
Finished goods	3.8	1.7	1.2	1.8
Less food and energy	2.6	2.6	1.9	1.6
Commodity futures prices^b				
	32.6	5.7	0.4	3.5



a. Calculated by the Federal Reserve Bank of Cleveland.

b. As measured by the KR-CRB composite futures index, all commodities. Data reprinted with permission of the Commodity Research Bureau, a Knight-Ridder Business Information Service.

c. Horizontal lines represent trends.

d. Upper and lower bounds for CPI inflation path as implied by the central tendency growth ranges issued by the FOMC and nonvoting Reserve Bank presidents. As of July, the stated range (fourth-quarter to fourth-quarter percent change) is 3.125 to 3.375 for 1995 and 2.875 to 3.250 for 1996.

e. Mean expected 12-month change in consumer prices as measured by the University of Michigan's Survey of Consumers.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; Board of Governors of the Federal Reserve System; the Commodity Research Bureau; and the University of Michigan.

The inflation indicators were mixed in September. The Consumer Price Index (CPI) continued to rise at August's meager 1.6% annualized rate, contributing to its best five-year performance since the late 1960s. Other inflation measures were not quite as encouraging, however. The Producer Price Index rose at an annual rate of 3.8% during the month, and the median CPI—a measure of core inflation—climbed 4.4%, somewhat higher than the 3% level it has aver-

aged over the last three years.

The 12-month rate for the median CPI remains within this year's CPI central tendency range projected by the Federal Open Market Committee (FOMC) last July, while the 12-month change in the standard CPI is well below the FOMC's projections.

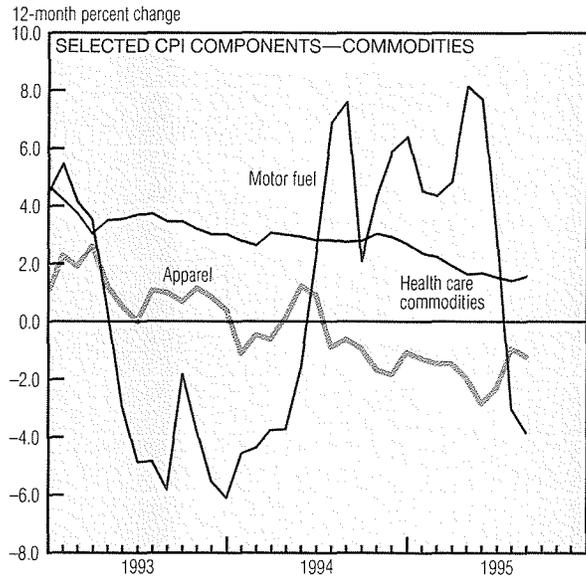
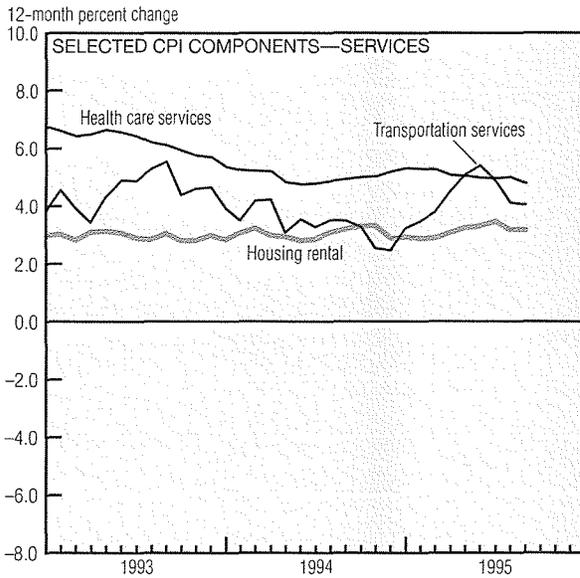
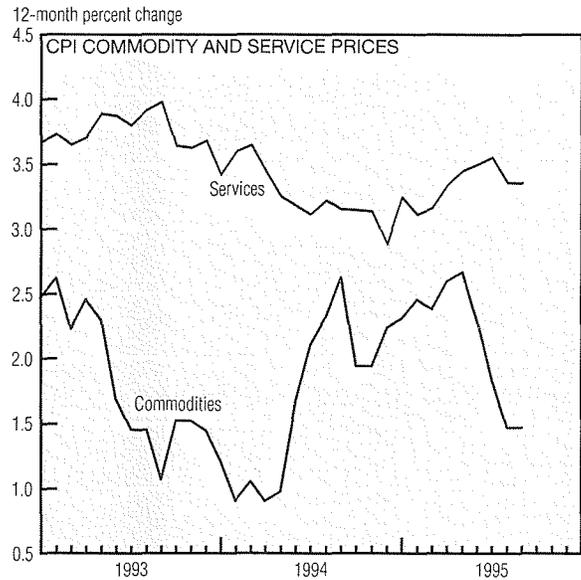
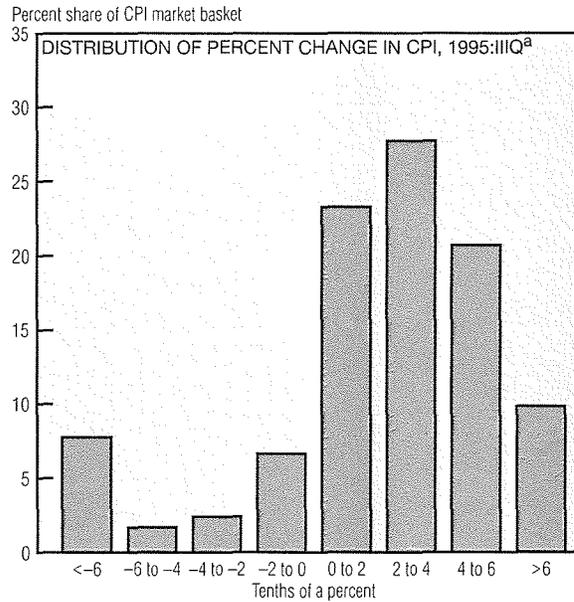
Households are on the more pessimistic end of the spectrum. According to survey data, the average U.S. household expects inflation to rise 4% over the next 12 months,

more than 1% above the CPI's average since 1990 (2.9%).

Commodity prices, as measured by the Commodity Research Bureau's composite futures index, increased at an annualized rate of 32.6% in September, spurred by wheat, corn, and soybean prices. Still, the year's cumulative gain of 5.7% is far less ominous. During the 1970s, increases in commodity prices tended to be followed by higher

(continued on next page)

Inflation and Prices (cont.)



a. Weighted distribution of percent change across goods, using the same 36 CPI components and respective CPI weights employed in the Federal Reserve Bank of Cleveland's median CPI computation.
 SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

consumer prices. Recent statistical tests, however, show little evidence of this relationship after 1985.

Much of the downward pressure on the CPI came from the motor fuel and energy services components. Motor fuel prices declined at an annual rate of nearly 20% in September, while energy services prices dropped 19%. This explains much of the disparity between the CPI and the median CPI. The median measures core inflation by focusing on the center of the weighted distribution of price changes. Unlike a weighted average, such as the stan-

dard CPI, the median is not influenced by large changes at either end of the distribution. On the other hand, the median may fail to account for the tangible impact of such an increase or decrease on consumers' budgets and on the cost of living.

Substantial differences in price changes are observed not just between individual CPI components, but also between component groups. For example, there is a wide and persistent difference in the growth rate of goods and services prices — a disparity that remains an important

point of contention among economists attempting to define price stability. Many believe that the price differential simply reflects the mis-measurement of services. For example, neither the quality of a service nor the productivity of the service sector is easily measured, and to the extent that either is underestimated, we will necessarily overestimate its rate of price increase. But it may be that the "maturing" U.S. economy simply demands more services than it does goods, and that the steeper rise in services prices merely reflects this relative change.