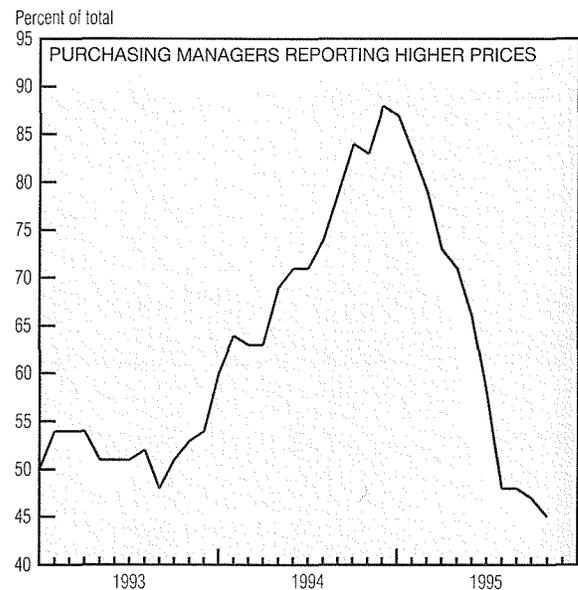
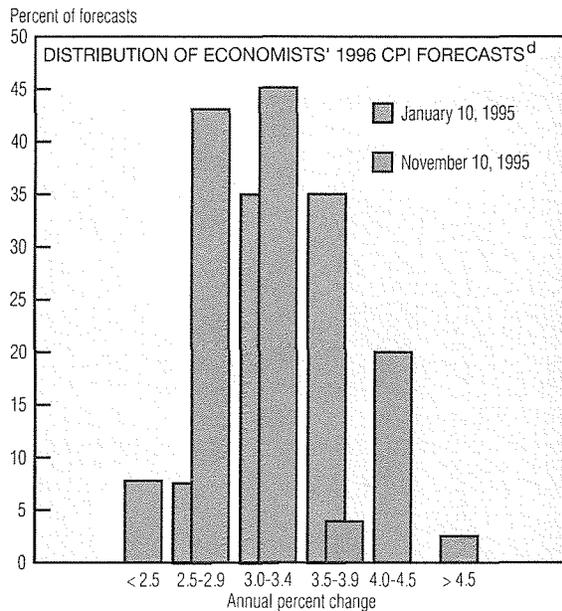
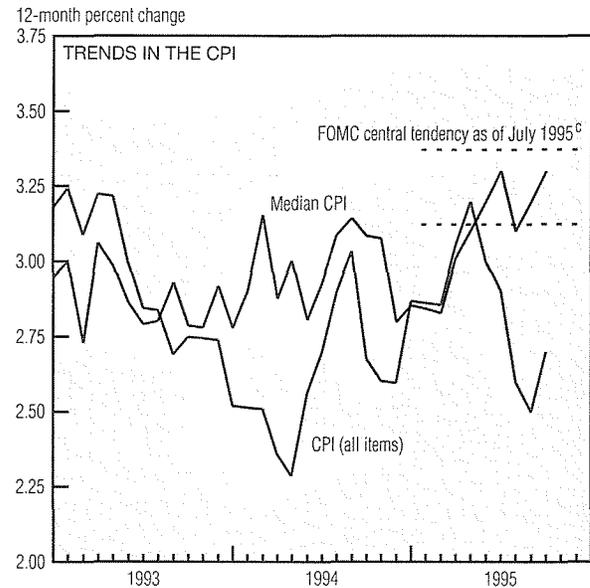


Inflation and Prices

	Annualized percent change, last:			1994 average
	1 mo.	10 mo.	5 yr.	
October Price Statistics				
Consumer Prices				
All items	4.0	2.9	2.9	2.6
Less food and energy	3.8	3.3	3.4	2.7
Median ^a	3.3	3.5	3.2	2.8
Producer Prices				
Finished goods	-0.9	1.4	1.0	1.8
Less food and energy	0.0	2.4	1.9	1.6
Commodity futures prices^b				
	-3.0	4.8	0.6	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. 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 3.25 for 1996.

d. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; National Association of Purchasing Management; and *Blue Chip Economic Indicators*, January 10 and November 10, 1995.

The latest inflation indicators are showing surprising volatility. After a four-month gain of only 1.8%, the Consumer Price Index (CPI) accelerated to a 4.0% annualized rate in October. Much of the upturn was centered in the index's housing and energy components. The rise in CPI inflation stands in stark contrast to the decline in the Producer Price Index, which switched from a 3.8% advance in September to a 0.9% contraction in October.

The median CPI — a measure of

core inflation — slowed to 3.3%, hovering between its year-to-date and five-year rates.

Taking a longer perspective, the 12-month change in the CPI and the median CPI rose to 2.7% and 3.3%, respectively. Both are higher than 1994 rates, but are still within or below the central tendency range projected by the Federal Open Market Committee last July.

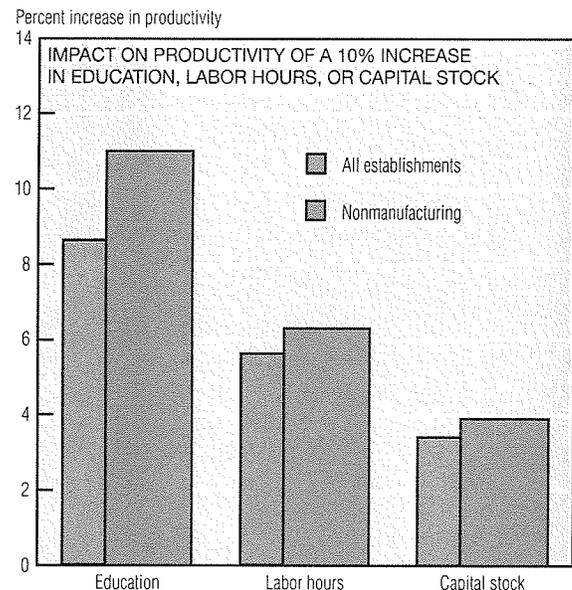
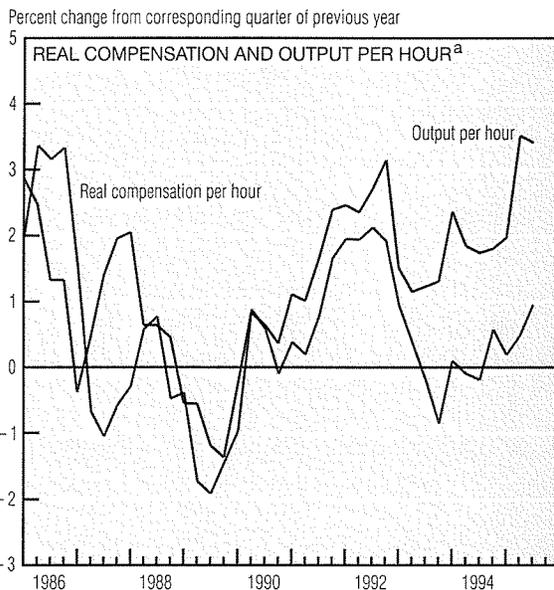
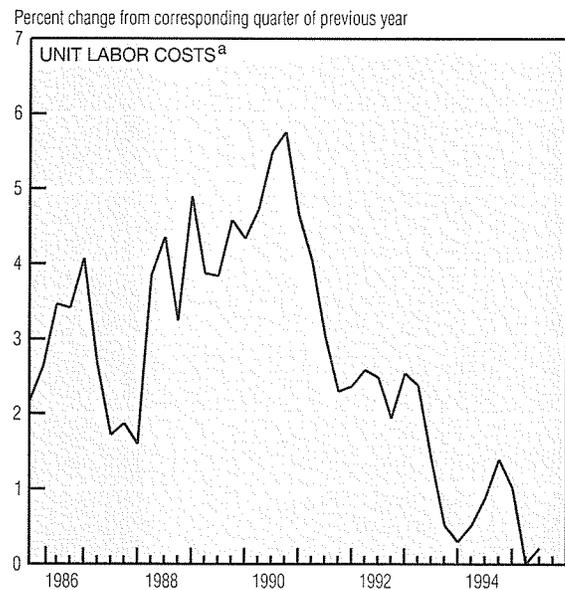
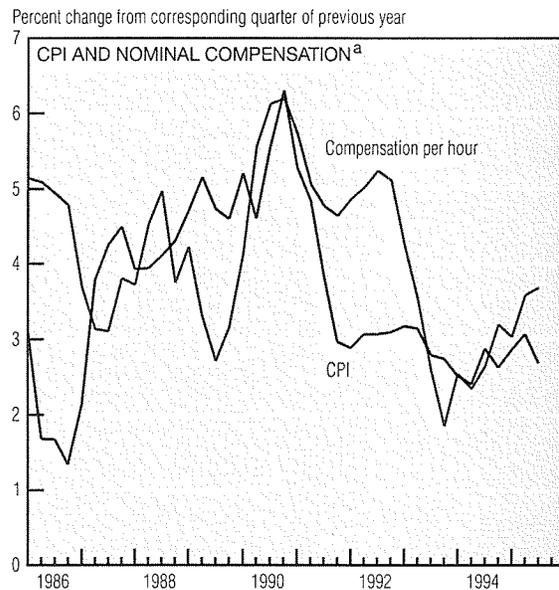
The Blue Chip forecast paints a far more favorable picture of expected inflation. The November 10

projection shows significant improvement over forecasts made at the beginning of the year. In January, over 57% of economists were predicting that inflation would reach 3.5% or more. In November, that share fell to less than 5%.

Purchasing managers at manufacturing firms provide additional encouraging news. The National Association of Purchasing Management's price index has dropped dramatically since the end of last year.

(continued on next page)

Inflation and Prices (cont.)



a. Nonfarm business.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and EQW National Employer Survey, National Center on the Educational Quality of the Workforce, University of Pennsylvania (administered by the U.S. Census Bureau).

Hourly compensation in the U.S. grew about 3¾% over the past four quarters, exceeding the rise in CPI-measured inflation. This should come as no surprise, since, in theory at least, workers are compensated for expected inflation plus any improvement in productivity. However, the growth in labor productivity has risen markedly in the past several years. This implies that the economy's underlying inflationary thrust (measured by unit labor costs, or compensation growth less productivity) has been essentially zero

over the last year—a seemingly implausible conclusion.

Business analysts are puzzled by this recent lack of conformity between productivity growth and real (inflation-adjusted) wage growth. Some have concluded that our current indicators of output, which suffer from a host of measurement problems, overstate the economy's actual growth rate and thereby overestimate the growth in labor productivity. Others believe that the inflation measures used to determine real wages are calculated incorrectly and thus cause us to underestimate

the growth of real wages.

A third consideration is a reported rise in worker training, which may be a significant impetus to productivity growth, but is not necessarily computed in a worker's hourly cost. Certainly, training and education benefits have the potential to affect worker productivity dramatically. Recent research shows that increased worker education has a greater impact on productivity growth than do proportionate increases in either work effort or the capital stock.