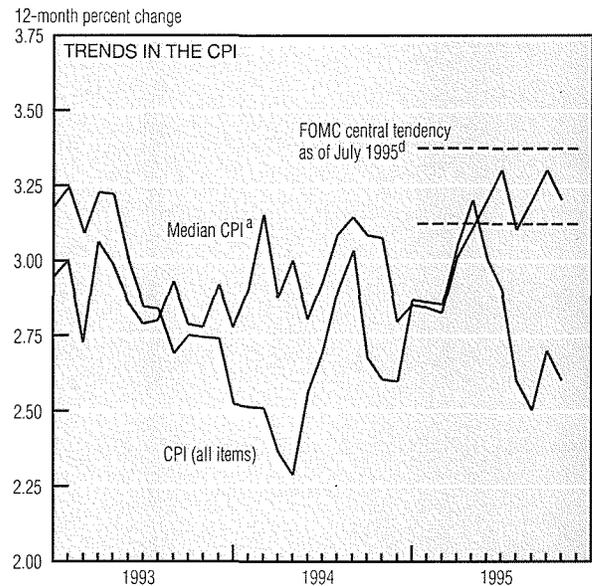
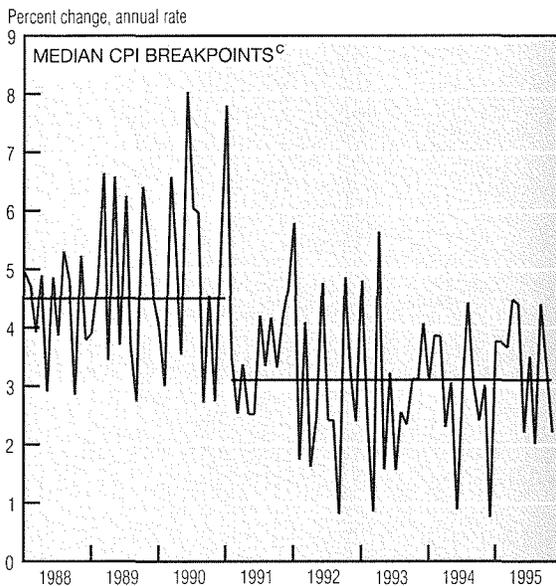
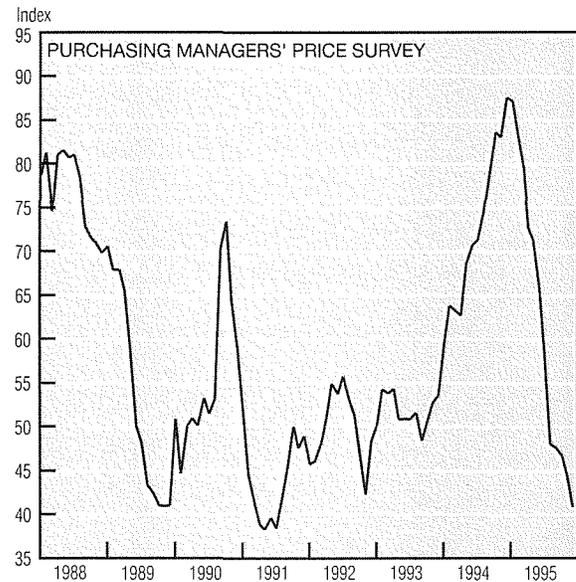


Inflation and Prices

November Price Statistics

	Annualized percent change, last:			1994 average
	1 mo.	11 mo.	5 yr.	
Consumer Prices				
All items	0.0	2.6	2.8	2.6
Less food and energy	0.7	3.1	3.4	2.7
Median ^a	2.2	3.4	3.2	2.8
Producer Prices				
Finished goods	5.8	1.8	1.0	1.8
Less food and energy	5.2	2.6	1.9	1.6
Commodity futures prices^b				
	8.6	5.1	1.4	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 3.25 for 1996.

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 National Association of Purchasing Management.

The Consumer Price Index (CPI) showed no change in November, contributing to the measure's lowest six-month growth rate in nearly 10 years. The core inflation indexes, which include the CPI less food and energy and the median CPI, both posted only slight increases for the month—an annualized 0.7% and 2.2%, respectively.

As measured by the behavior of producer prices, the inflation indicators were less encouraging in November. The annualized one-month

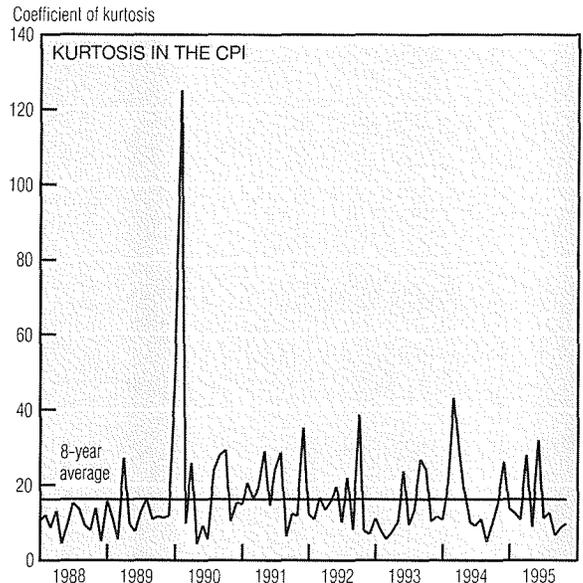
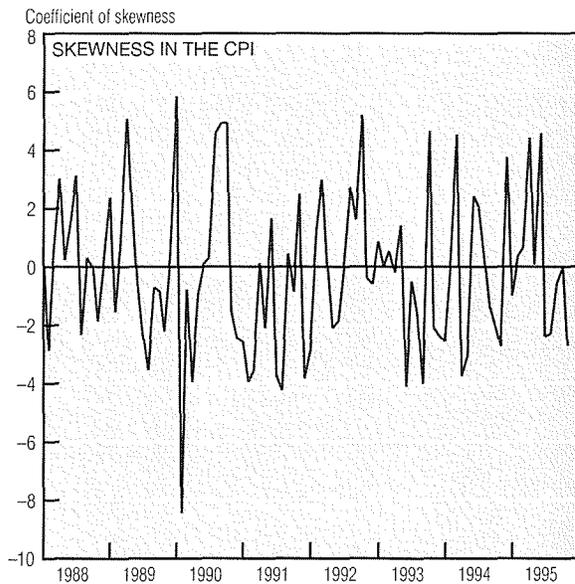
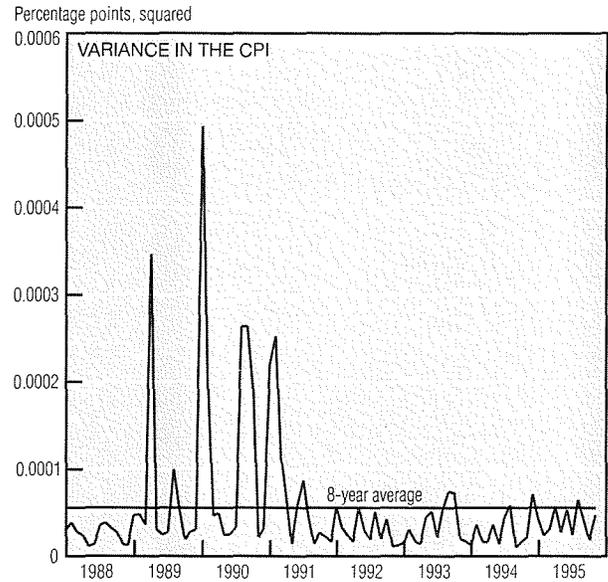
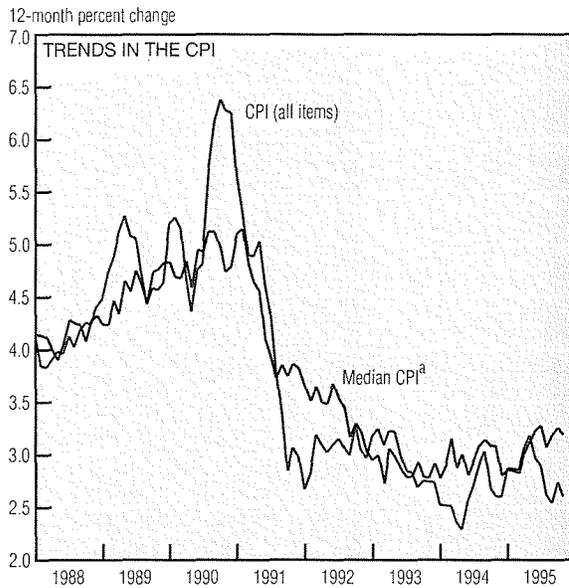
changes in the Producer Price Index (PPI) and the PPI less food and energy were 5.8% and 5.2%, respectively. Motor vehicles accounted for three-fourths of this increase. Still, data from the National Association of Purchasing Management suggests that better producer price reports may be on the way. The purchasing managers' price index dropped from 44.5 in November to 40.8 in December—its lowest level since July 1991. Only 10% of those polled reported facing higher supply prices,

down from 16% in November.

The recent 12-month trend in the CPI stood at only 2.6%, identical to the relatively low inflation recorded in 1994. However, as measured by the median CPI, inflation reached 3.2% over the last 12 months, prompting the question: "Which is the 'true' inflation rate?"

Measuring monetary inflation represents an enormous challenge to economists. Some of the difficulty stems from the fact that transient
(continued on next page)

Inflation and Prices (cont.)



a. Calculated by the Federal Reserve Bank of Cleveland.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Federal Reserve Bank of Cleveland.

events, such as a drought that reduces the supply of crops, can temporarily skew the price data and substantially alter a weighted-average index like the CPI. Such price-index movements are generally not considered "inflationary," a phenomenon most economists attribute to monetary causes.

For a time, then, the price aggregate may falsely indicate a change in inflation as it reacts to a transitory shock; that is, a majority of price movements will be markedly above or below the rate recorded by the

CPI. One method of eliminating the influence of these transitory events is to trim the outlying portions of the cross-sectional distribution of the CPI's components. What remains is the center of the price change distribution, or the median change. Indeed, research at the Federal Reserve Bank of Cleveland indicates that when the trend in the CPI is below the trend in the median CPI (as it has been over the past several quarters), we would generally expect the CPI to rise rather than the median to fall.

Skewness is one of several measures that can help us judge whether the CPI is being influenced by any unusual price disturbances. Another, CPI variance, measures the dispersion of consumer price changes and kurtosis, which is an indicator of how "peaked" the distribution of price changes is. Neither of these measures suggests any unusual underlying behavior in the recent price data: CPI variance is slightly narrower, and distribution is slightly less peaked, than their eight-year averages.