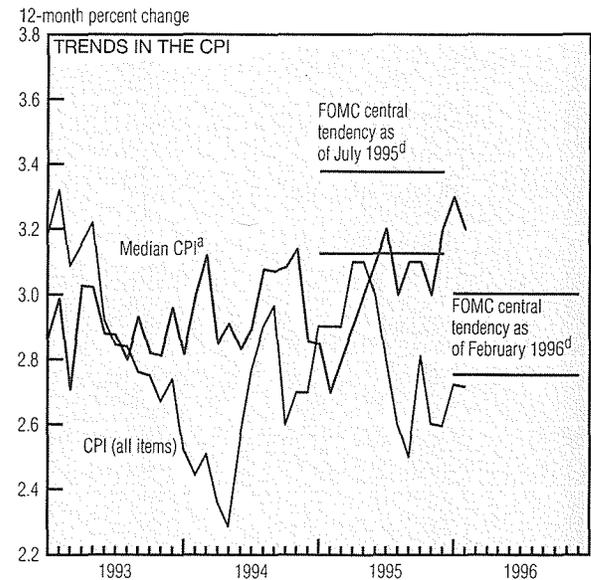
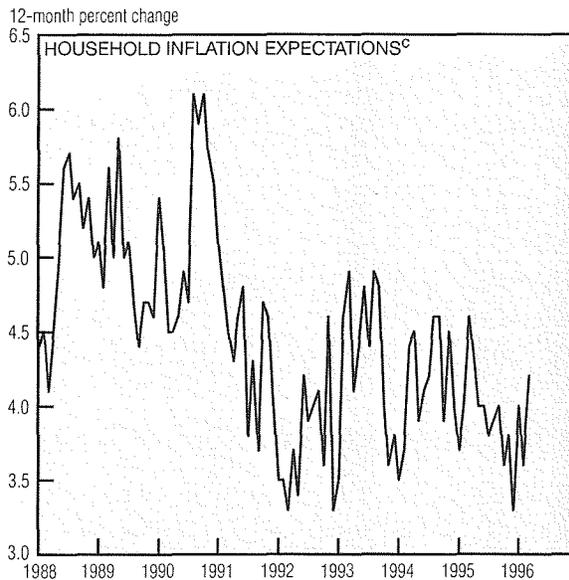
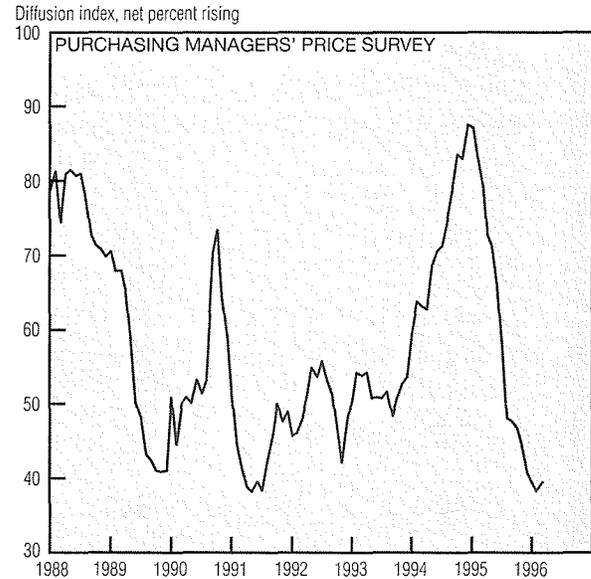


Inflation and Prices

	Annualized percent change, last:			1995 average
	1 mo.	12 mo.	5 yr.	
February Price Statistics				
Consumer Prices				
All items	2.4	2.7	2.8	2.6
Less food and energy	3.0	2.9	3.2	3.0
Median ^a	2.2	3.2	3.1	3.2
Producer Prices				
Finished goods	-1.8	2.0	1.3	2.1
Less food and energy	0.9	2.0	1.7	2.5
Commodity futures prices^b				
	30.3	6.3	3.1	5.4



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

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.

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

Taken as a whole, the inflation indicators were fairly benign in February. Producer prices for finished goods actually fell at an annualized rate of 1.8%. Even after factoring out declining food and energy prices, the Producer Price Index advanced just 0.9% at an annualized rate. Indeed, survey data from purchasing managers continue to suggest only slight price pressure from industry: Just 10% of respondents reported higher prices in March.

At the retail level, the Consumer

Price Index (CPI) rose 2.4% in February. Its core measures, the CPI less food and energy and the median CPI, increased 3.0% and 2.2%, respectively, both under their five-year trend growth rates.

One negative sign in recent months has been a small upturn in household inflation expectations. According to the University of Michigan's Survey of Consumers, the public's outlook for inflation over the next 12 months is back above 4%—its highest reading in about a year.

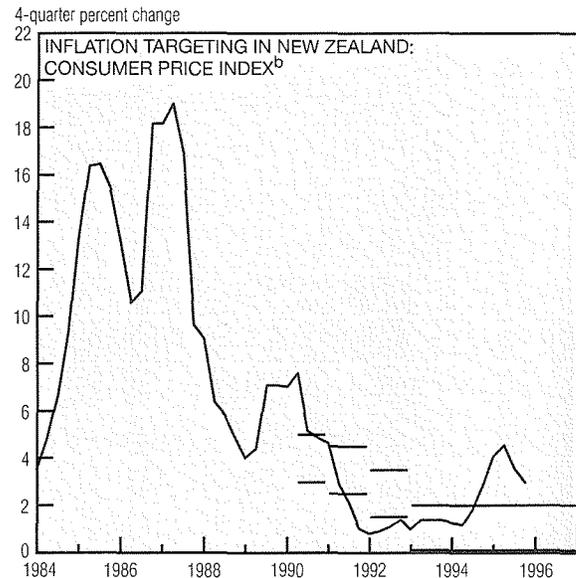
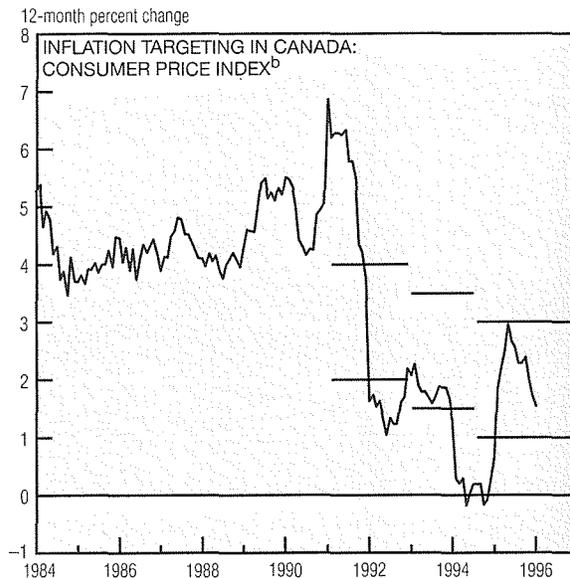
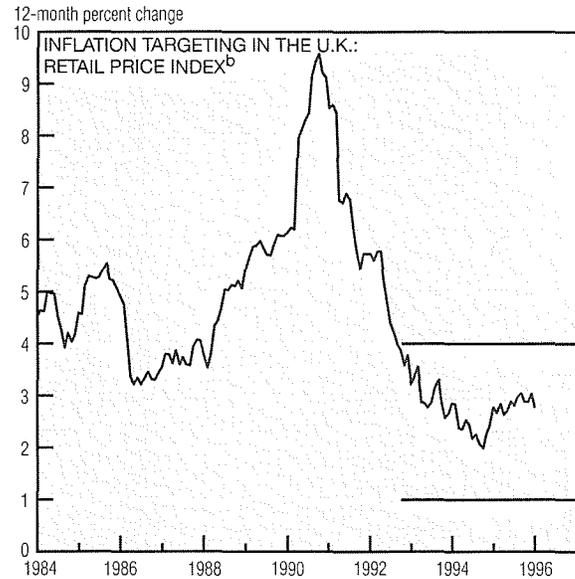
However, according to the Federal Open Market Committee (FOMC), the chief policymaking arm of the Federal Reserve, consumer price increases are expected to hold in the 2¾% to 3% range, a bit below the inflation rate indicated by the core consumer price measures in 1995.

Economists generally concur that monetary authorities ultimately determine the purchasing power of their nations' money stock—the inflation trend. In a very rough sense,

(continued on next page)

Inflation and Prices (cont.)

Inflation Objectives in Selected Countries		
Country	Objective ^a	Exemption
Australia	2% to 3%	Mortgage interest, government controlled prices, energy prices
Canada	1% to 3%	Indirect taxes, food, energy
Finland	About 2%	Housing prices, indirect taxes, government subsidies
Israel	8% to 11%	None
New Zealand	0% to 2%	Interest and credit charges, commodity prices, government controlled prices
Sweden	1% to 3%	None
U.K.	1% to 4%	Mortgage interest



a. Objectives are based on CPI-measured inflation with the exception of the United Kingdom, which uses a retail price index.

b. Bars represent upper and lower bounds of each country's stated inflation objective.

SOURCES: International Monetary Fund; and J. Ammer and R.T. Freeman, "Inflation Targeting in the 1990s: The Experiences of New Zealand, Canada, and the United Kingdom," *Journal of Economics and Business*, vol. 47, no. 2 (May 1995), pp. 165-92.

then, the FOMC's annual inflation projections might be considered the inflation *objectives* of the U.S. central bank. However, lags in the transmission between monetary policy and inflation are presumed to be considerably longer than the Committee's year-ahead projections. Moreover, in establishing its policies, the Federal Reserve now considers multiple goals. Perhaps chief among them is the state of the economy, as revealed by such indicators as the growth rate of real GDP or the un-

employment rate. The FOMC's inflation projections are thus considerably less than a commitment by the Federal Reserve to achieve a particular inflation outcome.

Recently, however, a number of foreign central banks have begun to establish *specific* inflation objectives for their monetary authorities. For example, Canada, Finland, New Zealand, Sweden, and the U.K. have all instituted official inflation targets in the past five years. In each case, the central bank has chosen to target the trend growth in core consumer

prices within a specified range. The U.K. has established one of the least ambitious targets, holding the trend in retail prices less mortgage interest within a fairly wide 1% to 4% band. The Bank of Canada targets its CPI less food, energy, and indirect taxes. Currently, the Canadian inflation target is between 1% and 3%, down from a 2% to 4% range in the early 1990s. Perhaps most rigorous is New Zealand's objective, which hopes to hold core consumer prices within a tight 0% to 2% range.