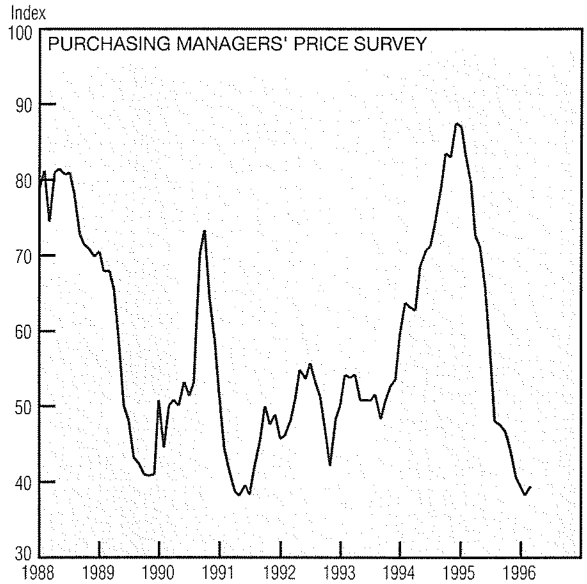
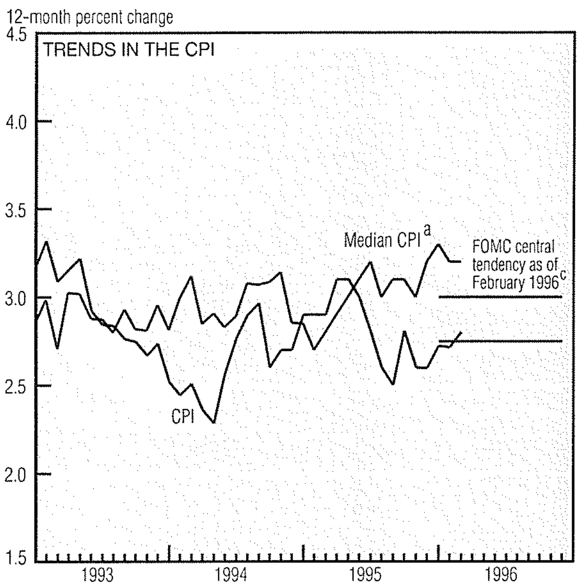
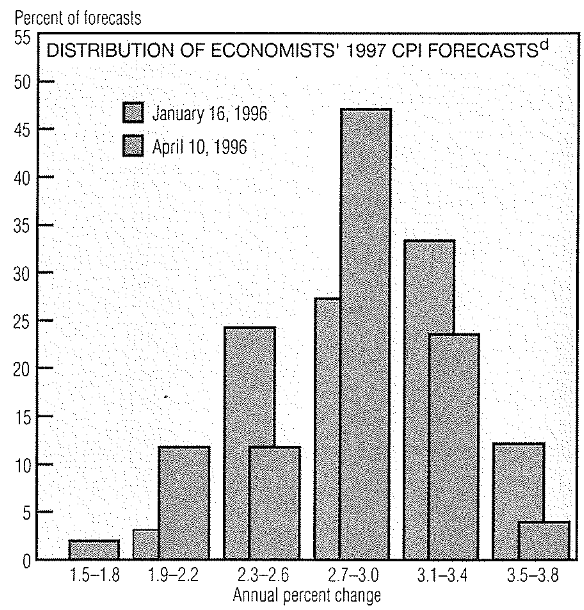
Inflation and Prices

March Price Statistics

	Annualized percent change, last: 1 mo.	3 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices					
All items	4.8	4.0	2.8	2.9	2.6
Less food and energy	3.7	3.5	2.9	3.2	3.0
Median[a]	2.9	3.1	3.2	3.1	3.2
Producer Prices					
Finished goods	6.7	2.8	2.4	1.5	2.1
Less food and energy	1.0	0.3	1.9	1.7	2.5
Commodity futures prices[b]	−1.3	6.9	6.2	2.5	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. 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.
d. Consensus forecast of the Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; the National Association of Purchasing Management; and *Blue Chip Economic Indicators,* January 16 and April 10, 1996.

After a string of small increases, consumer prices have risen more quickly in the past several months. During the first quarter of 1996, the Consumer Price Index (CPI) rose at an annualized rate of 4.0%, 1.4 percentage points above its 1995 average. Such large swings in price data are common, though, and do not necessarily mark the beginning of greater inflationary pressures. In fact, the median CPI—an estimate of the economy's underlying inflationary trend—rose an annualized 2.9% in March and 3.1% during the first three months of 1996, a pace virtually indistinguishable from its average of the past five years.

Price increases coming from the industrial sector, where production gains have been meager since last summer, have been more moderate. Excluding prices for food and energy (the latter commodity being particularly troublesome this year), producer prices showed essentially no change during the first quarter. Similarly, the share of purchasing managers reporting increasing price pressures remained at a five-year low.

The 12-month CPI trend, at 2.8%, is near the midpoint of the central-tendency range projected by Federal Reserve officials for 1996 (2.75% to 3%). While that view appeared somewhat optimistic earlier this year, an increasing number of economists now expect inflation to remain at, or very near, this range over the foreseeable future. In January, 45% of the Blue Chip panel thought that the rate of retail price increases would move above 3% in 1997; today, less than 30% hold that view.

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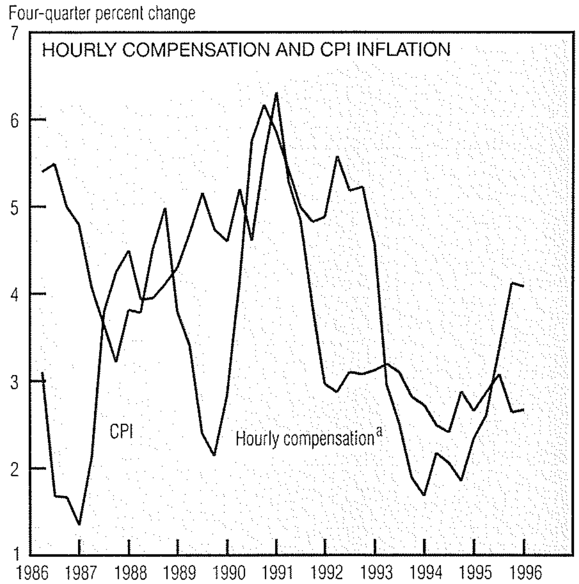
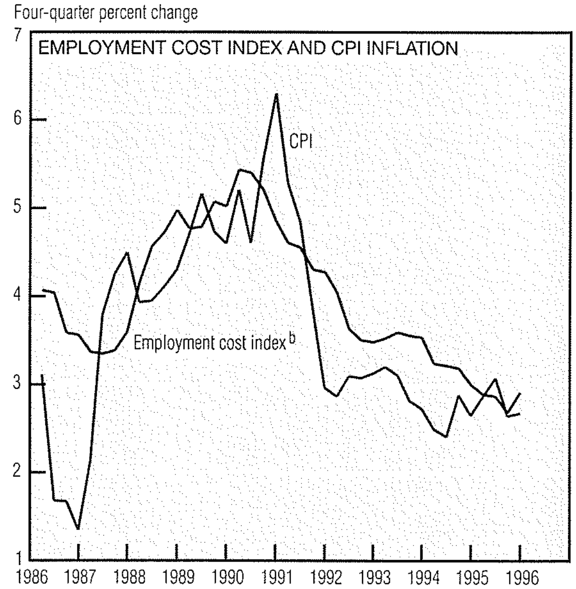
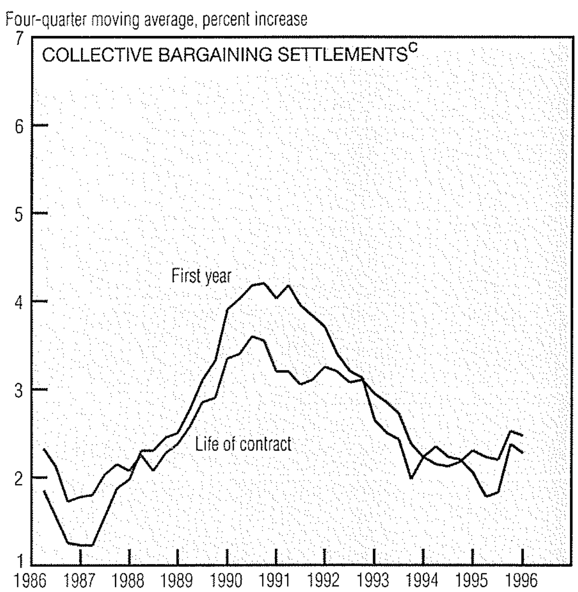
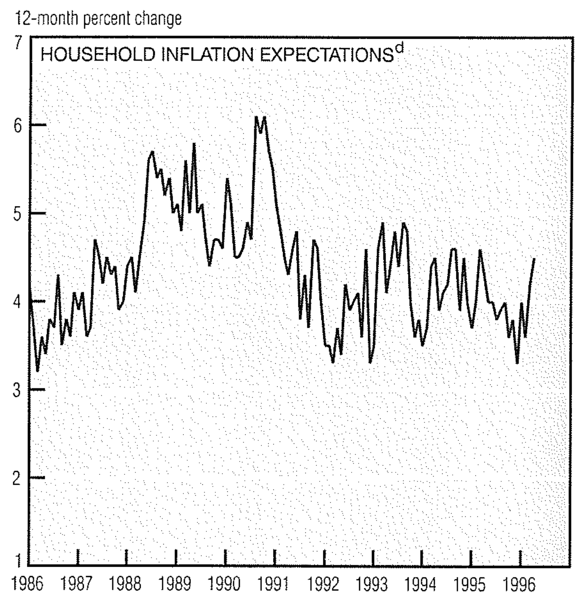
Inflation and Prices (cont.)









a. For all employees in nonfarm business.
b. Includes wages, salaries, and employer costs of employee benefits for all civilian workers.
c. Wage and benefit cost adjustments for collective bargaining settlements covering 1,000 or more workers.
d. 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; DRI/McGraw-Hill; and the University of Michigan.

Moreover, the expectation that inflation will be significantly reduced by next year seems to be gaining support. Compared with January, when only 3% of the economists surveyed saw 1997 retail inflation moving below 2.25%, April's results show 15% expecting this outcome.

The behavior of wage growth is sometimes presumed to indicate future inflationary pressure (although the evidence for such a belief is less than compelling). The theories linking wage increases to future inflation are among the most passionately debated by economists: Some view wage growth as a cost that ultimately "pushes" prices up, while others consider wages to be set by forward-looking workers, whose inflation forecasts tend to be fairly accurate. Regardless of cause, the recent growth pattern of wages provides little reason to anticipate substantial near-term inflation changes.

While hourly compensation has risen recently (up more than 4% during the past four quarters), compensation more broadly defined increased slightly less than 3% during that period (not much different from the recent CPI trend). Likewise, union-negotiated wage settlements, though marginally higher in the past few years, have been holding steady at around 2.5% in recent quarters, even for life-of-contract increases extending over three years. Indeed, one of the few indications of higher near-term inflation comes from households, which anticipate inflation of over 4% for the next 12 months. While this is up a bit from a few months ago, and is substantially higher than the current inflation trend, household survey data have been warning of an (unrealized) inflationary uptick for most of the past four years.