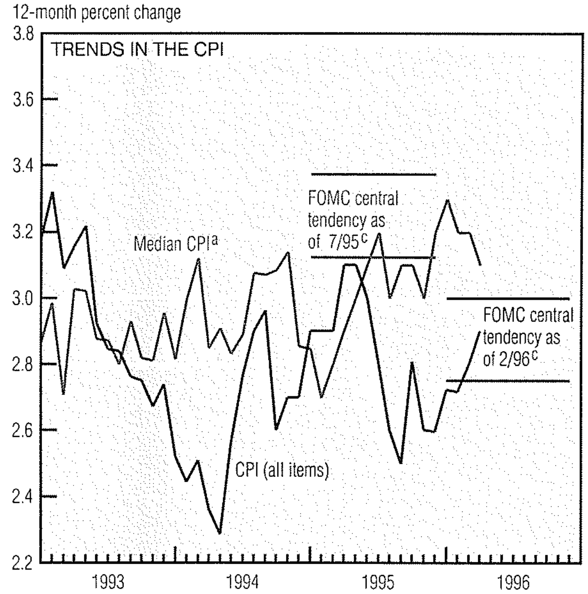
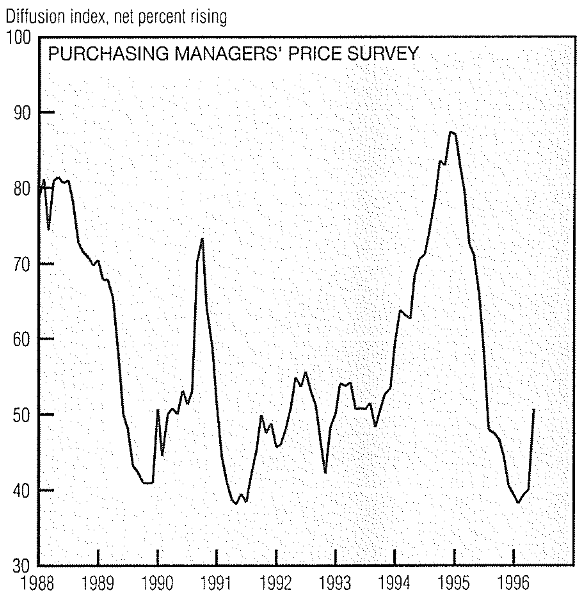
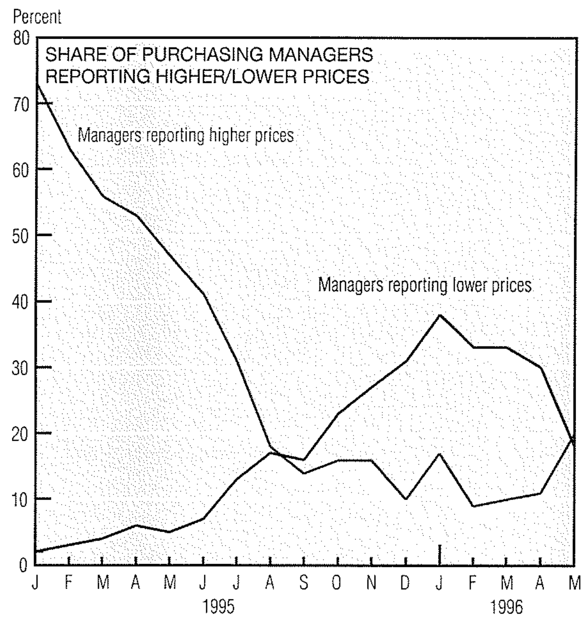
Inflation and Prices

April Price Statistics

	Annualized percent change, last: 1 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices				
All items	4.7	2.9	2.9	2.6
Less food and energy	1.5	2.7	3.2	3.0
Median[a]	2.9	3.1	3.1	3.2
Producer Prices				
Finished goods	4.7	2.6	1.5	2.1
Less food and energy	0.9	1.8	1.7	2.6
Commodity futures prices[b]	56.6	9.2	3.3	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.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; and National Association of Purchasing Management.

Retail prices continued to climb sharply in April, rising at an annualized rate of 4.7%. Since last December, the Consumer Price Index (CPI) has averaged about a 4% pace. This year's firm-level price rises have also been on the increase, leading analysts to wonder whether the new data presage a higher inflationary trend.

At the moment, those concerns seem premature. The median CPI (the core inflation estimate) is still running in the neighborhood of 3%, as it has for about three years. The 12-month trend in the core retail price measures, which was 3.1% in April, slightly exceeds the Federal Reserve's central tendency projection for the CPI this year.

Purchasing managers' data indicate some increased cost pressure from industry, although this mostly represents a dissipation of the downward price pressures seen since December. The overall purchasing managers' price index of about 50 in May (up from about 40 in January) is a sign of generally balanced price movements.

One major influence on this year's price climb was the unexpected surge in gasoline prices. Rising at an annualized rate of over 40% since December, gas has added roughly ½% to the average household budget. A jump in crude oil prices contributed to higher gas costs: Between early January and mid-April,

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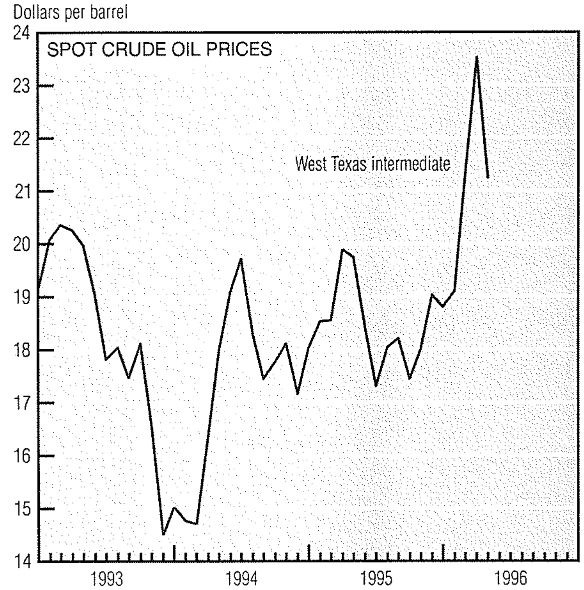
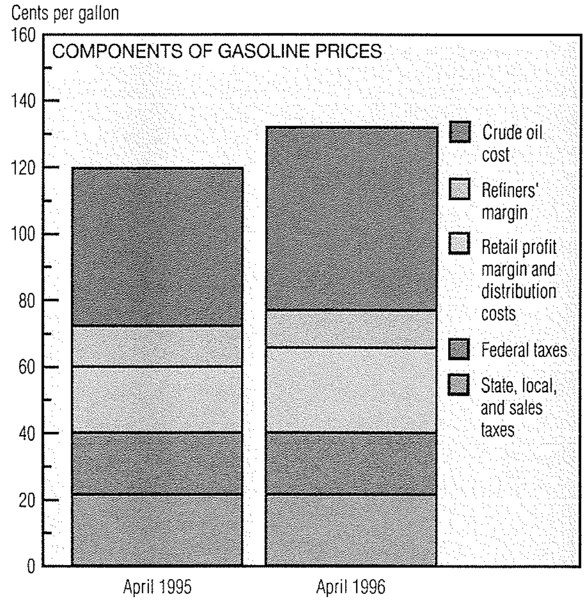
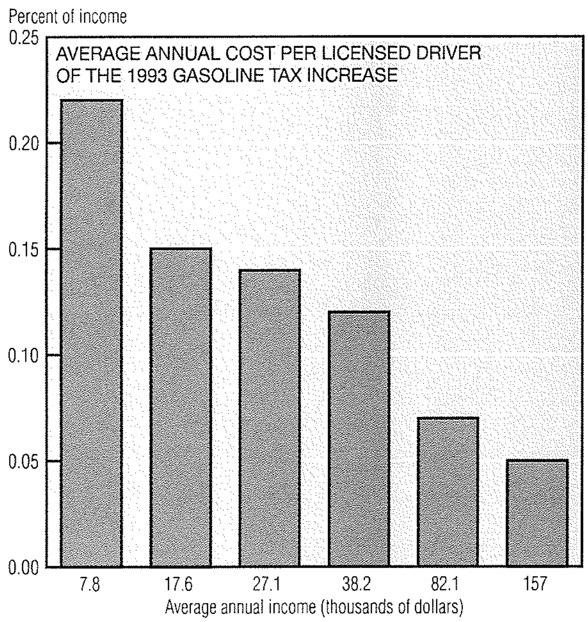
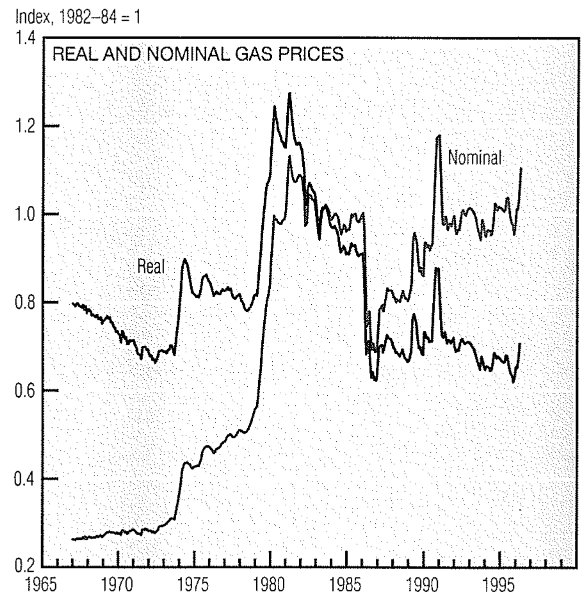
Inflation and Prices (cont.)









SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Congressional Budget Office; Platt's *Oilgram Price Report*; and *The New York Times*, May 13, 1996.

crude oil went from about $19.50 to more than $23 a barrel. But that is not the whole story. Though a gallon of gas cost 12.3 cents more in April 1996 than in April 1995, higher crude oil prices account for only 7.5 cents of that increase. Retailing and distribution costs (which are profit margins for gas stations and wholesalers) represent the remainder. Gasoline inventories are reportedly low, perhaps because of refiners' slowness in shifting production from heating oil to gasoline.

The rise in gasoline costs has inspired some members of Congress to call for gasoline tax rollbacks. However, a number of economists have criticized this proposal, observing that environmental and health issues, the deteriorating national infrastructure, and U.S. dependence on foreign oil all argue for higher—not lower—gas taxes. Indeed, other nations have used tax disincentives much more aggressively to curtail gas consumption. In western Europe, a gallon of gas costs $3 to $4.50, of which roughly 65% to 80% represents taxes.

However compelling, such arguments often overlook gasoline taxes' regressive nature. In 1993, gas taxes accounted for 0.22% of poor Americans' annual income ($7,800), and 0.12% of middle-income people's earnings ($38,200), but only 0.05% of the incomes of those making $157,000 a year.

Finally, we should note that gasoline remains cheap compared to other goods in the U.S. Adjusted for inflation, the real price of a gallon of gas is about the same now as it was 10 years ago, and about 30% below its 1970s average.